

# **PUBLIC EXPENDITURE REVIEW**

## **RBA 2010 - Key Findings and Recommendations**

**Presentation for the**

### **ANNUAL NATIONAL POLICY DIALOGUE (ANPD)**

**03/12/2010**

**Joint work of DPs**



# Coverage of Rapid Budget Analysis 2010

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## □ **3 Thematic areas:**

- Aggregate Analysis Note
- Local Government Analysis Note
- Wage Bill Analysis

## □ **6 Major sectors:**

- Education Sector Analysis
- Health Sector Analysis
- Water Sector Analysis
- Agriculture Sector Analysis
- Transport (Roads) Sector Analysis
- Energy Sector Analysis

- All these background notes synthesized into one report called **“RBA 2010 SYNOPTIC NOTE”**

# Presentation Outline

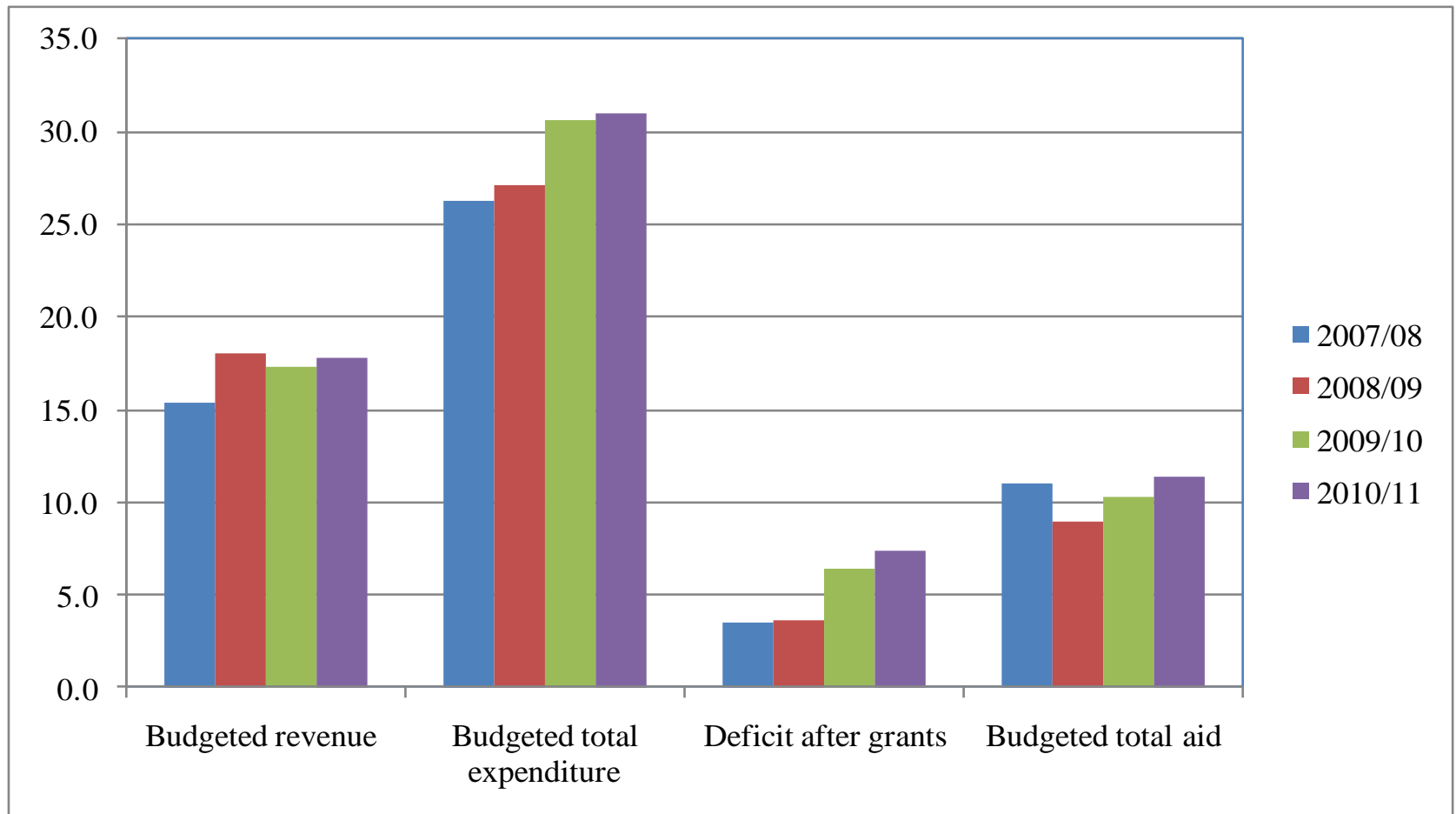
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- Macro-Fiscal Framework 2010/11
  - Budget Allocation 2010/11
  - Budget Execution 2009/10

# Key challenges on Macro-fiscal policy – 2010/11

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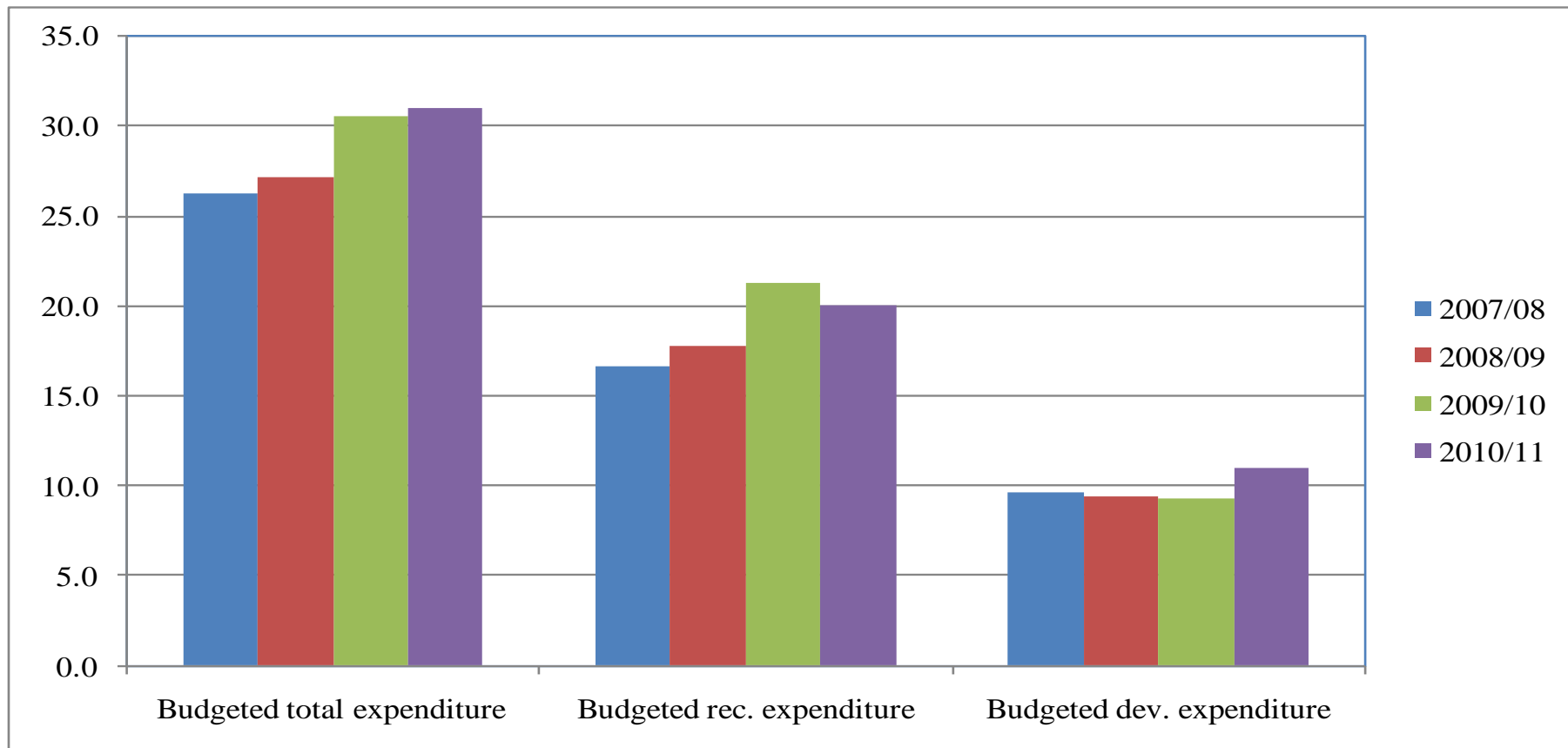
Increase in total spending, financed by more and more by concessional and non concessional borrowing as domestic revenue and aid decline/stagnate



# Key challenges on Macro-fiscal policy – 2010/11

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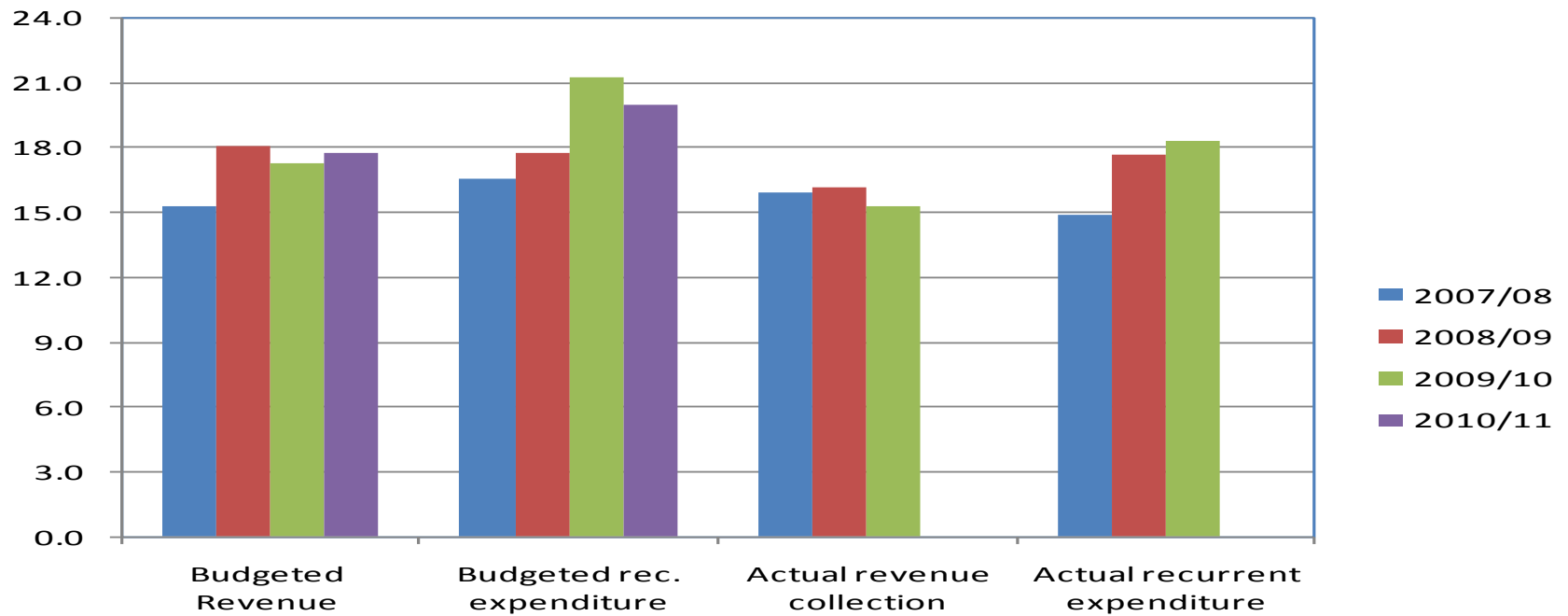
Increased total spending driven by increased dev spending in 2010/11; **BUT** over recent past increased recurrent spending has been driving increased total spending



# Key challenges on Macro-fiscal policy – 2010/11

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Domestic revenue can no longer cover recurrent spending; but also actual domestic revenue collection consistently remains lower than forecasted revenue collections, **HENCE** covering recurrent spending by borrowing or through aid.



# Key challenges on Macro-fiscal policy – 2010/11

## □ Key findings

- Increased total spending driven by increased development spending in 2010/11 ... though over recent past recurrent spending has been driving the process
- Domestic revenue can't cover recurrent spending which also continues to grow over time
- Domestic revenue forecasting continue to be over-optimistically high
- Increased deficit being financed by increased non-concessional borrowing for development projects in infrastructure

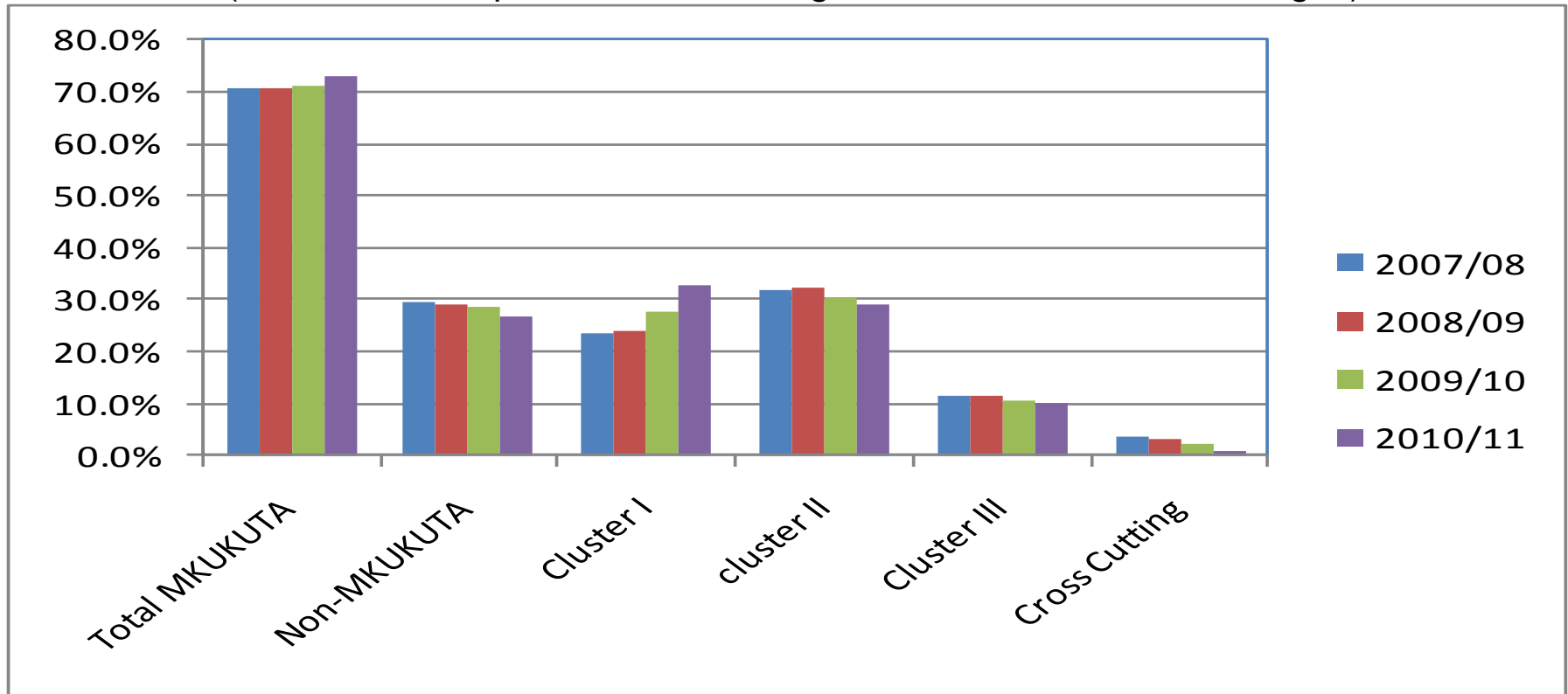
## □ Key recommendations

- Limit overall spending (as share of GDP) to sustainable levels in line with available sustainable resource envelope [domestic revenue, aid, borrowing]
- Reduce recurrent spending to sustainable levels while increasing development spending consistent with MKUKUTA objectives
- Enhance domestic revenue collection by implementing a comprehensive reduction of tax exemptions; also try to realize foregone revenue potential to enable increase needs in public spending (infrastructure investment needs)
- More prudent and grounded forecasting of revenue (both domestic and foreign resources)
- Ensure non-concessional borrowing finances development projects especially in infrastructure

# Key challenges on Budget Allocation – 2010/11

More and more resources continue to be allocated to MKUKUTA; with cluster 1 (economic growth and reduction of income poverty) now being the top priority

MKUKUTA cluster allocations  
(as % of total expenditure - including LGA transfers and MDA wages)

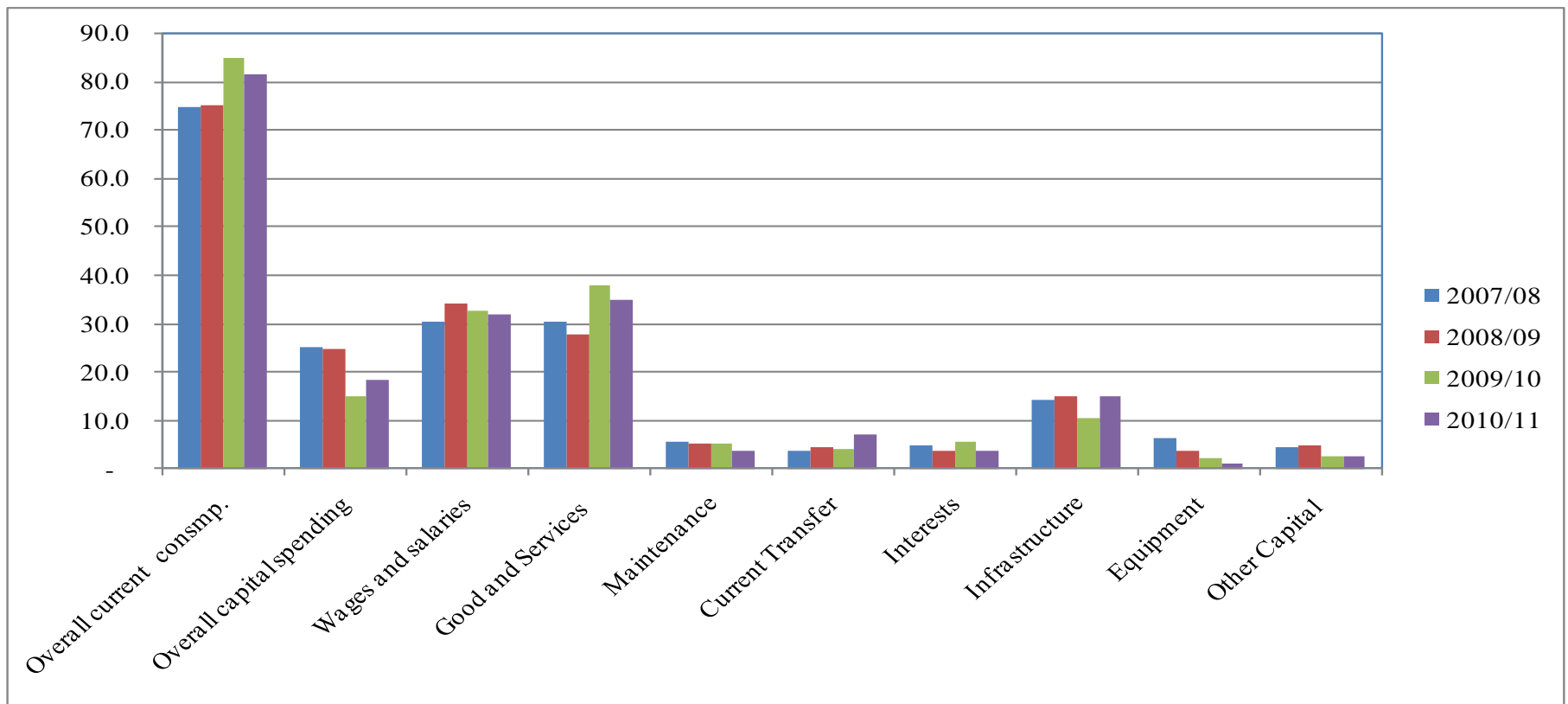


# Key challenges on Budget Allocation – 2010/11

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Increased allocations for capital spending driven by increased allocation for infrastructure rehab and construction; however shares of G&G and WB remains high

Budget composition by economic categories (as % of total budget)

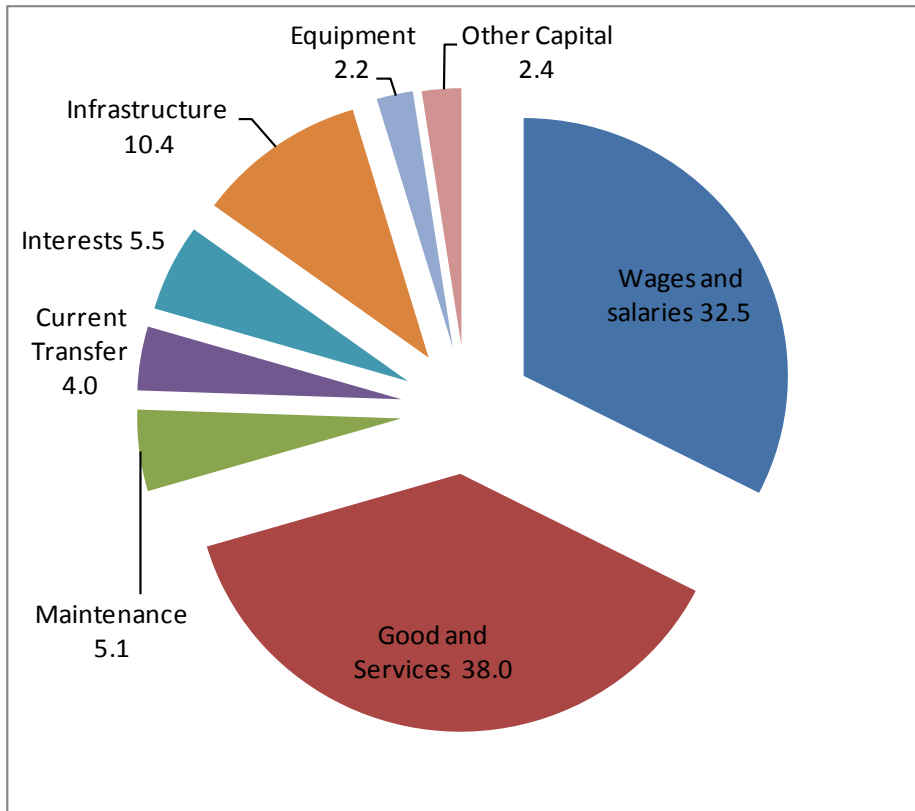


# Key challenges on Budget Allocation – 2010/11

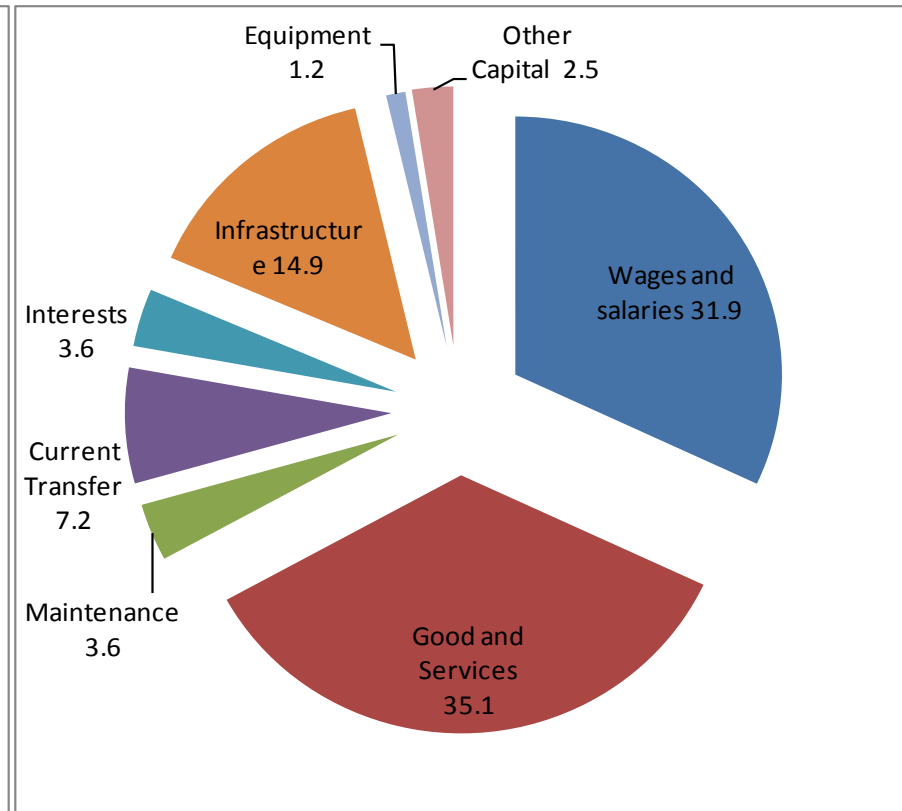
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### 2009/10 Overall budget



### 2010/11 Overall budget

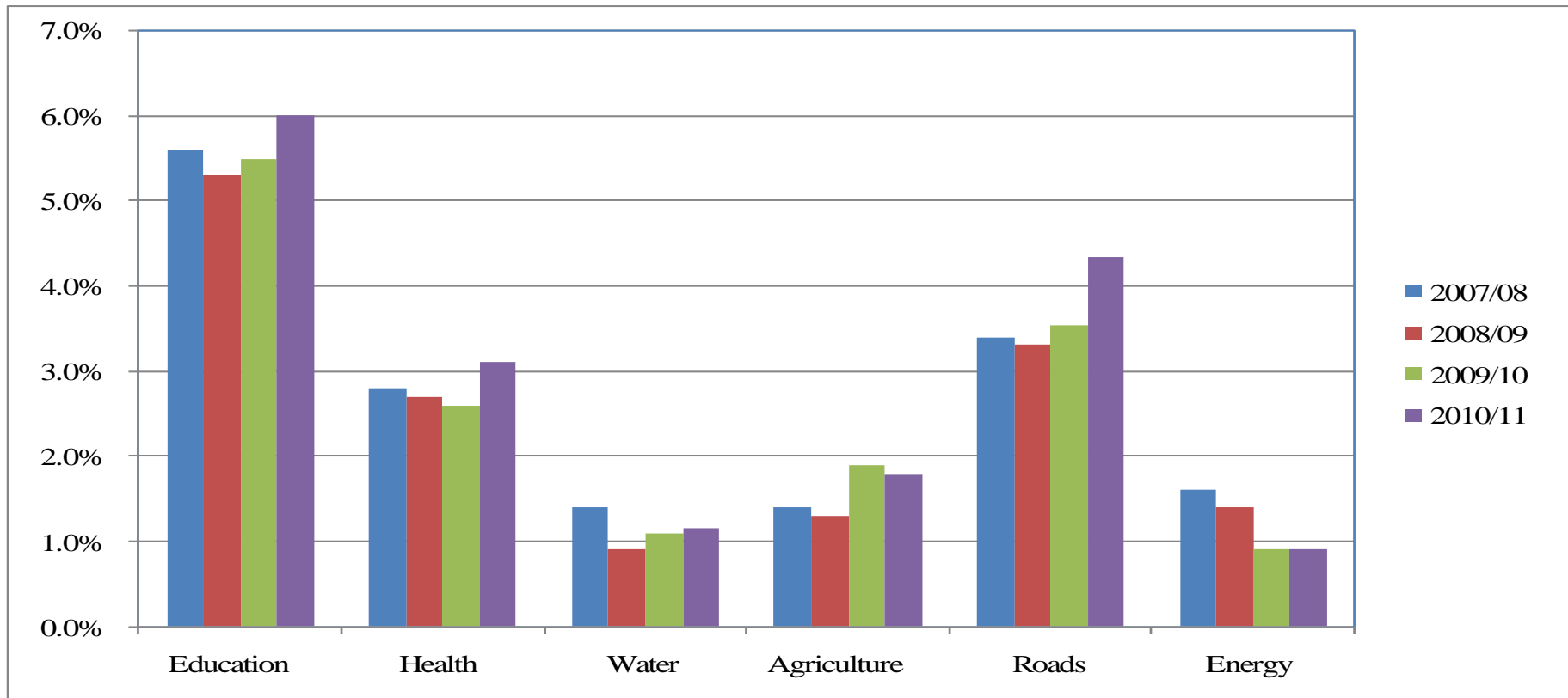


# Key challenges on Budget Allocation – 2010/11

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Key sectors continue to be prioritized in budget allocation (more than 60% of the budget goes to these sectors); education and roads claims the highest shares; BUT

Key priority sectors allocation as % of GDP



# Key challenges on Budget Allocation – 2010/11

There are some weakness in alignment sector budgets and sector priority of objectives despite increased share of key sectors in budget allocation

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## Agriculture sector

### Priorities are:

- (1) Supporting physical infrastructure;
- (2) Water and irrigation infrastructure;
- (3) Financial and extension services;
- (4) Knowledge and information;
- (5) Value addition activities (crop production, livestock, fish processing, and mechanization);
- (6) Trade and export development services

### Budget allocation:

- (1) Supporting physical infrastructure - LOW
- (2) Water and irrigation infrastructure - LOW
- (3) Financial and extension services – HIGH
- (4) Inputs (seeds & fertilizer) – HIGH
- (5) Value addition activities - LOW
- (6) Research and extension - LOW

## Transport sector (incl. roads)

### Priorities are:

- (1) Roads rehabilitation in accordance with TSIP prioritization;
- (2) Roads construction in accordance to TSIP prioritization;
- (3) Local Government Transport Program (LGTP);
- (4) Roads maintenance;
- (5) Railways rehabilitation and extension of network;

### Budget allocation:

- (1) Roads rehabilitation – INADEQUATE
- (2) Roads construction – INADEQUATE & PRIORITIZATION
- (3) Local Government Transport Program (LGTP) - INADEQUATE
- (4) Roads maintenance – INADEQUATE & DECLINING
- (5) Railways rehabilitation and extension of network – LOW & NEEDS A CLEAR STRATEGY

# Key challenges on Budget Allocation – 2010/11

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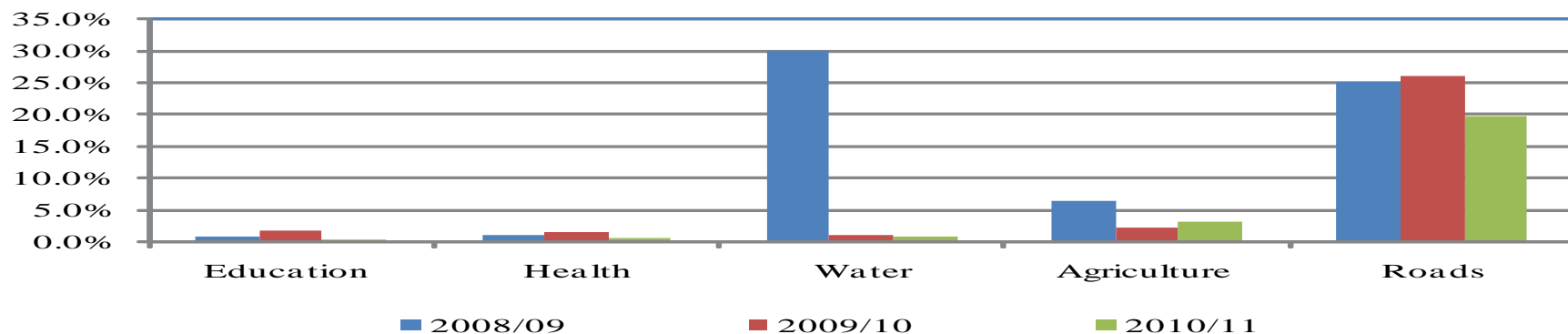
Despite decline in share of overall allowances in the budget, allowances still remains high in some key MKUKUTA sectors; but also a new feature in LGAs budgets

2009/10					2010/11				
Rank	Vote	Allow. (in bill. Tsh.)	as a share of total allow.	Allowance as the share of PE of associated ministry	Rank	Vote	Allow. (in bill. Tsh.)	as a share of total allow.	Allowance as the share of PE of associated ministry
1	Ministry of Education and Vocational Training	39.7	7.5	157.4	1	Ministry of Home Affairs - Police Force	54.6	9.7%	49.05
2	The National Assembly Fund	39.6	7.5	549.5	2	Electoral Commission	33.6	6.0%	4203.81
3	Ministry of Home Affairs - Police Force	33.7	6.4	36.3	3	National Service	31.7	5.7%	63.13
4	Ministry of Agriculture, Food Security and Cooperat	31.0	5.9	209.4	4	The National Assembly Fund	29.0	5.2%	371.22
5	National Service	28.9	5.5	103.5	5	Ministry of Foreign Affairs and International Co-op	25.2	4.5%	261.47
6	Ministry of Foreign Affairs and International Co-op	24.4	4.6	258.1	6	Ministry of Education and Vocational Training	22.5	4.0%	82.88
7	Ministry of Home Affairs - Prison Services	18.0	3.4	37.3	7	Ministry of Home Affairs - Prison Services	18.6	3.3%	41.68
8	Accountant General's Department	17.6	3.3	50.5	8	Ministry of Health and Social Welfare	13.6	2.4%	41.62
9	Ministry of Health and Social Welfare	16.6	3.2	71.8	9	National Audit Office	13.5	2.4%	418.30
10	Prime Minister's Office - Regional Administration a	15.3	2.9	100.8	10	Prime Minister's Office - Regional Adm. and Local C	12.5	2.2%	66.57
11	Ministry of Finance and Economic Affairs	12.1	2.3	393.0	11	Dar es Salaam	12.3	2.2%	13.54
12	The Treasury	11.1	2.1	15.8	12	Mwanza	11.7	2.1%	11.76
13	Ministry of Natural Resources and Tourism	10.7	2.0	86.7	13	Accountant General's Department	10.9	1.9%	390.55
14	Defence	10.5	2.0	6.0	14	Ministry of Agriculture, Food Security and Cooperati	10.4	1.9%	73.25
15	National Audit Office	10.2	1.9	315.9	15	Shinyanga	10.1	1.8%	13.85
16	Ministry of Energy and Minerals	9.9	1.9	178.6	16	Defence	9.9	1.8%	4.41
17	President's Office - Public Service Management	8.8	1.7	388.1	17	Ministry of Natural Resources and Tourism	9.6	1.7%	75.13

# Key challenges on Budget Allocation – 2010/11

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Less and less allocations for infrastructure maintenance; even more worrisome is decline in share of roads maintenance, which also declines in real terms



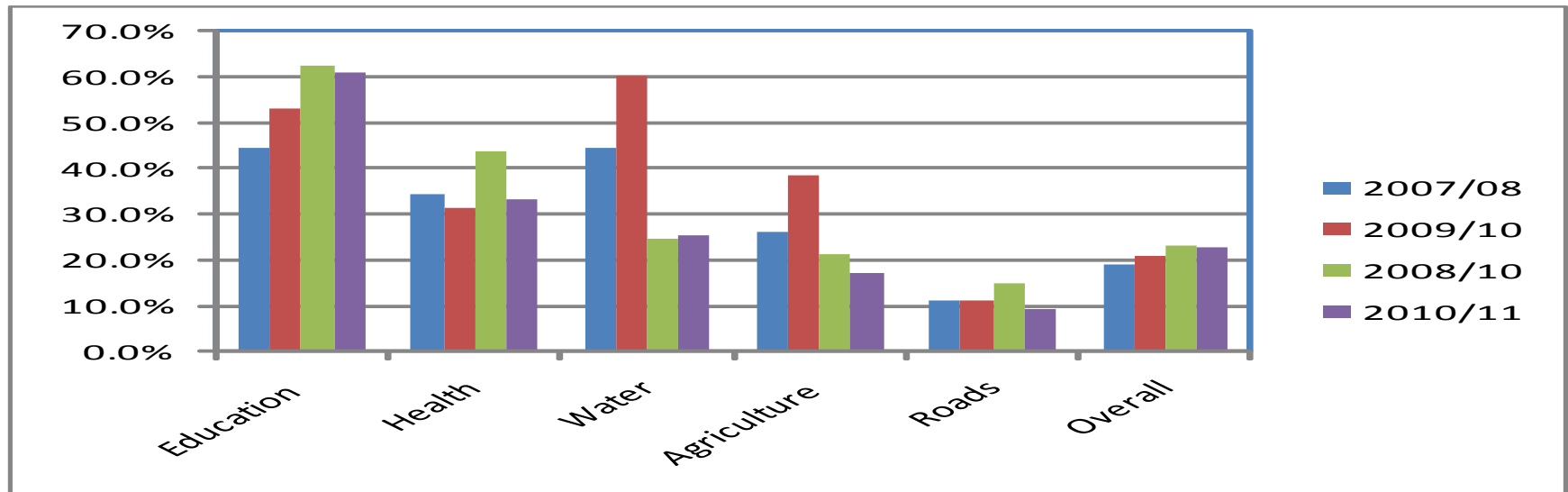
	Education	Health	Water	Agriculture	Roads
<b>2008/09</b>					
Ratio of Sector Maintenance Budget to Sector Infrastructure Budget	22.7%	14.1%	110.9%	33.6%	46.2%
Sector Maintenance Budget as a share of total Sector Budget	0.9%	1.1%	30.1%	6.3%	25.2%
<b>2009/10</b>					
Ratio of Sector Maintenance Budget to Sector Infrastructure Budget	38.8%	31.2%	1.6%	85.0%	52.1%
Sector Maintenance Budget as a share of total Sector Budget	1.7%	1.5%	1.0%	2.2%	26.1%
<b>2010/11</b>					
Ratio of Sector Maintenance Budget to Sector Infrastructure Budget	12%	18%	7%	160%	34%
share of total Sector Budget	0%	1%	1%	3%	20%

# Key challenges on Budget Allocation – 2010/11

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Slight decline in share of the budget allocated to LGAs spending programs; does this point to reverse in implementation of D by D policy?

**Overall share of LGA spending**



**LGA spending as a share of total sector spending**

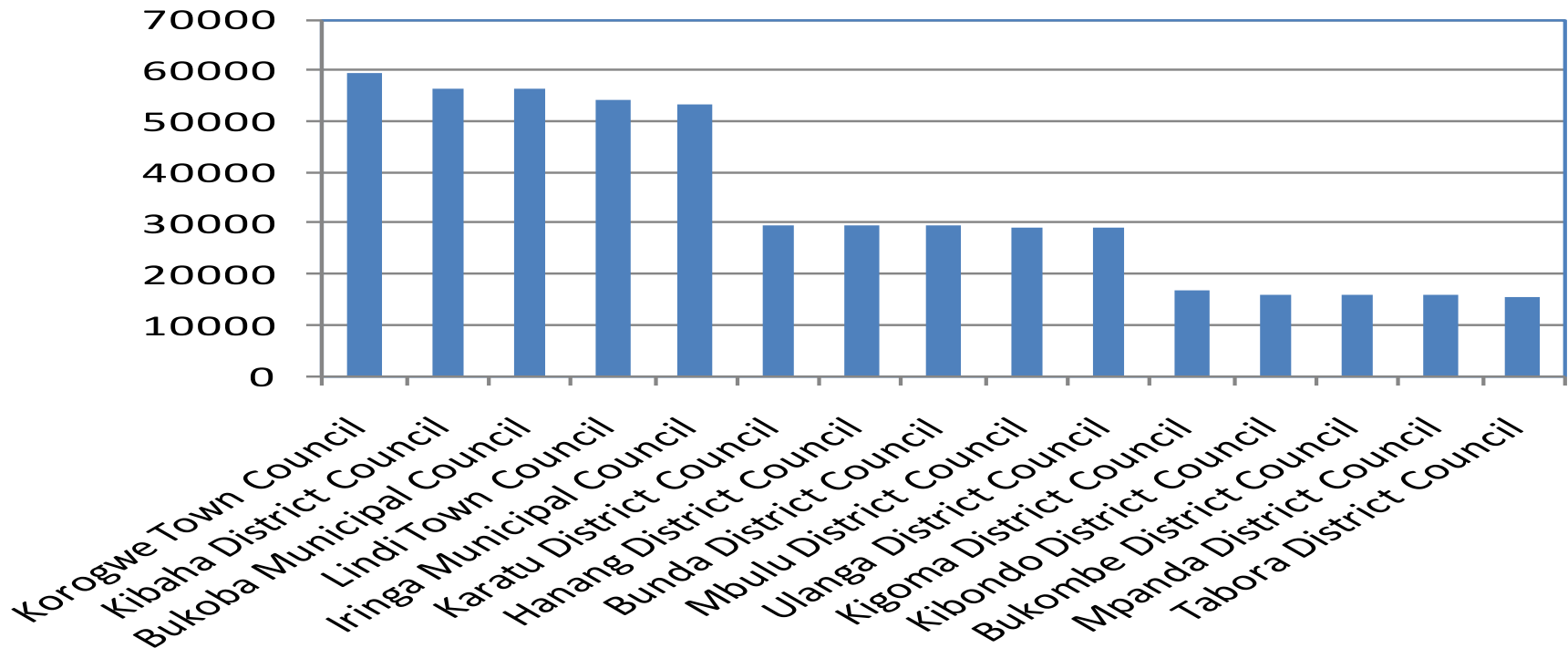
	Education	Health	Water	Agriculture	Roads	Overall
2007/08	44.5%	34.3%	44.6%	25.9%	11.0%	18.9%
2009/10	53.1%	31.3%	60.4%	38.4%	11.1%	21.0%
2008/10	62.6%	43.8%	24.8%	21.3%	14.8%	23.0%
2010/11	60.9%	33.3%	25.4%	17.3%	9.2%	22.8%

# Key challenges on Budget Allocation – 2010/11

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Inequality in budget allocation among districts continue; this is mostly driven by allocation human resources among districts; does this affect quality of service delivered?

**Per Capita Education Recurrent Budget FY 2010/11**

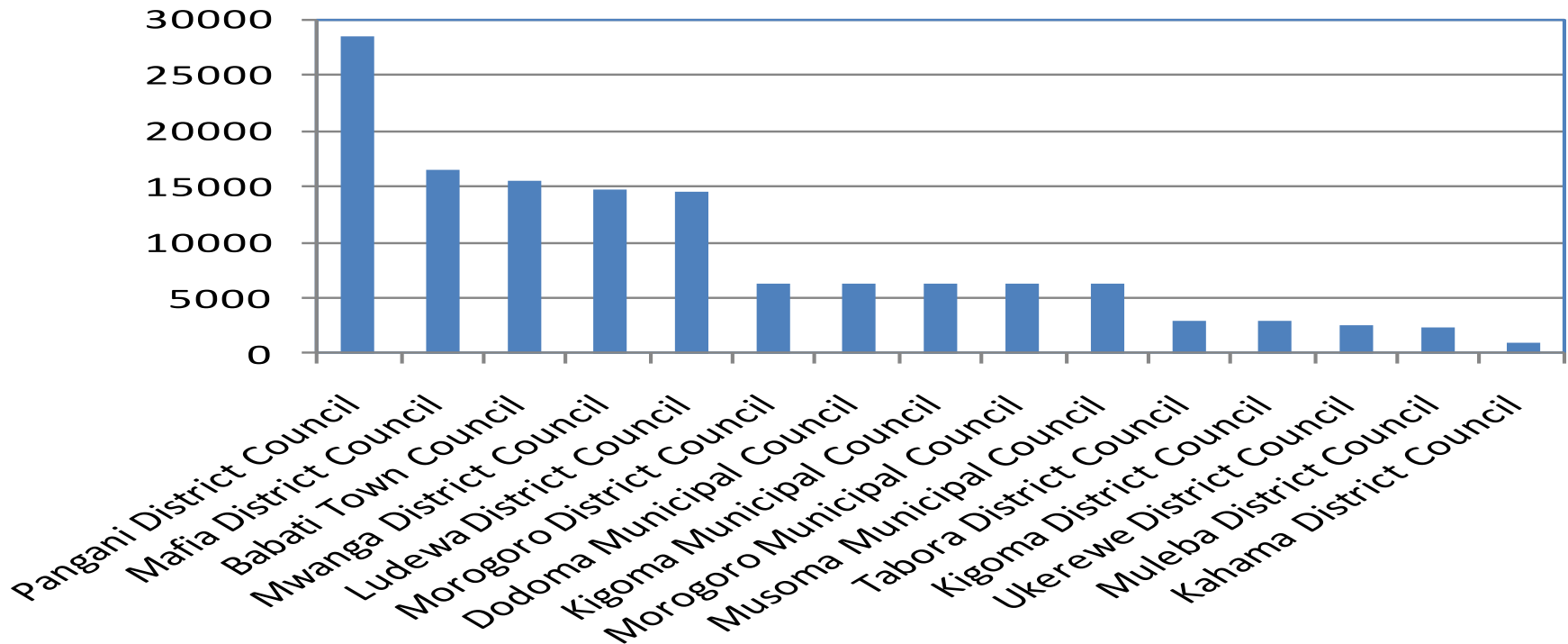


# Key challenges on Budget Allocation – 2010/11

17

Inequality in budget allocation among districts continue; this is mostly driven by allocation human resources among districts; does this affect quality of service delivered?

**Per Capita Health Recurrent Budget FY 2010/11**



# Key challenges on Budget Allocation – 2010/11

## Key findings

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- More the 70% of the budget is allocated to MKUKUTA cluster strategies; with cluster 1 receiving the highest allocation among the clusters.
- Increase in share of capital spending driven by increased allocations infrastructure rehabilitation and construction; this comes after huge decline in 2009/10
- Key priority sectors consume more than 60% of the total budget; with education and roads consuming the highest share; BUT still some weakness in alignment of the budget and sectors priority objectives.
- Slight decline in share of overall allowances; but large share of allowances are new feature in budgets of LGA, and wage bill remains significantly high as % of GDP
- Less and less allocations for infrastructure maintenance, with more concern on decline in share of allocations for roads maintenance; but decline in allocation for road maintenance in real terms.
- Slight decline in share of the budget allocated to LGAs spending programs; or slight reverse in implementation of D by D policy
- Inequality in budget allocation among districts continue to be a major challenge.

# Key challenges on Budget Allocation – 2010/11

## Key recommendations

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- Protect MKUKUTA allocations but also prioritize additional resources towards MKUKUTA; but also review the relevance of cluster strategies in achieving MKUKUTA objectives
- Continue to restore balance between current consumption and capital investment
- Continue to increase allocations to key sectors (education, health, water, agriculture, roads, and energy) while paying attention to sector expenditure composition/prioritization and quality of expenditures
- Continue to control proliferation of allowances, especially in MKUKUTA Sectors and LGAs;
- Pay attention to allocate enough funds for infrastructure maintenance in key sectors (such as health, education, roads/transport, agriculture, water and energy).
- Continue to implement D by D policy by ensuring 25% of the budget is allocated to LGAs (direct transfers) using formula allocation; but also pay attention to quality of spending in LGAs.
- Need to continue addressing the inequality in budget allocation among districts

# Key challenges in Budget execution – 2009/10

Reallocation among votes remained significant pointing to weak link between plans and the budget.

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## MDAs Recurrent budget

2008/9

Under-spenders			Over-spenders		
Vote	MDA	Amount (Bill Tsh.)	Vote	MDA	Amount (Bill Tsh.)
21	Treasury	(457.8)	46	Min of Education and Vocational Training	76.6
56	Regional Admin. and Local Govt.	(16.6)	30	President's Office and Cabinet	22.4
43	Agriculture ,Coop And Food Security	(5.5)	38	Defence	21.1
69	Tourism and Natural Resources	(4.5)	28	Home Affairs - Police	11.7
40	Judiciary	(3.1)	34	Min of Foreign Affairs & International Coop	10.1
98	Ministry of Infrastructure	(2.5)	22	Public Debt and General Services	6.3
66	President Office Planning Commission	(2.2)	23	Accountant General's Department	6.1
41	Justice and Constitutional Affairs	(1.8)	52	Health and Social Welfare	6.0
97	Min of East African Cooperation	(1.3)	32	President's Office-Public Service Mang.	4.9
99	Ministry of Livestock Development	(1.1)	39	The National Service	4.2
48	Lands and Human Settlements Dev.	(1.1)	44	Industries, Trade and marketing	3.3

2009/10

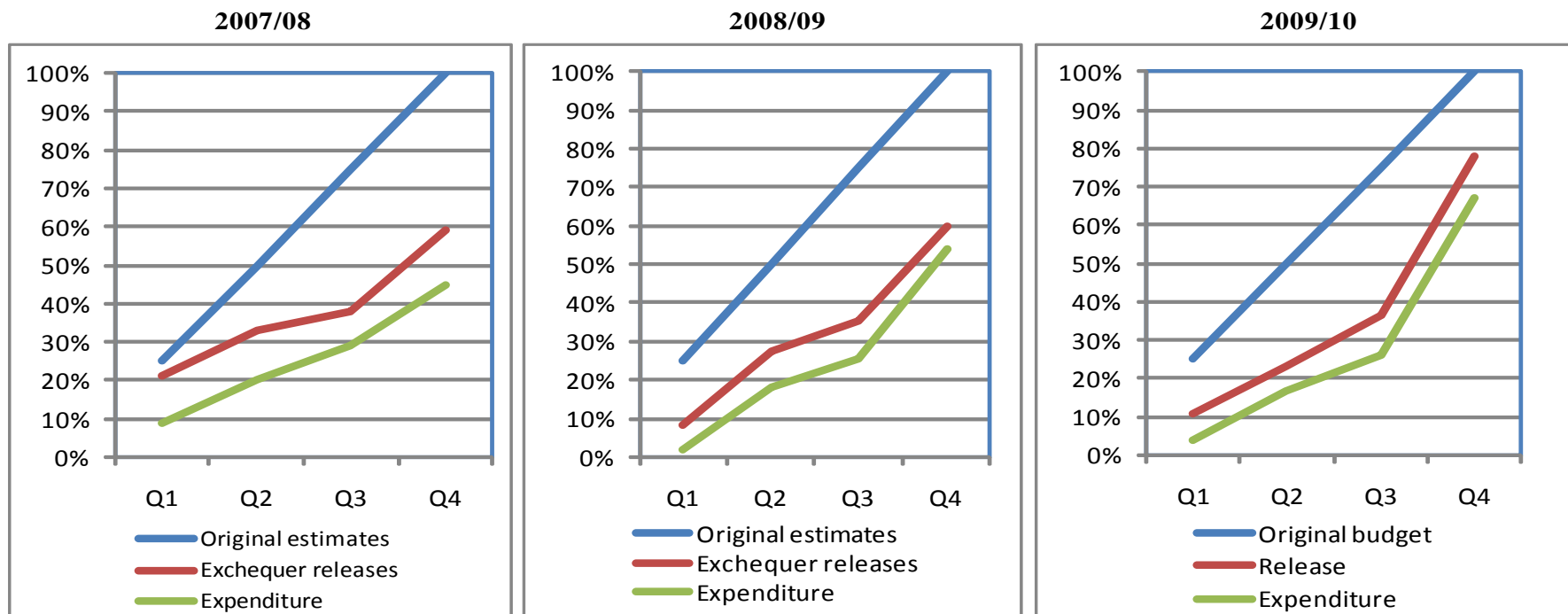
Under-spenders			Over-spenders		
Vote	MDA	Amount (Bill Tsh.)	Vote	MDA	Amount (Bill Tsh.)
21	Treasury	(369.1)	43	Ministry of Agr . and Food Security	29.6
22	Public Debt and General Services	(220.2)	50	Ministry of Finance	26.8
29	Ministry of Home Affairs - Prison Services	(25.3)	58	Ministry of Energy and Minerals	21.5
28	Ministry of Home Affairs - Police Force	(21.3)	61	Electoral Commission	16.4
46	Min of Education and Vocational Training	(17.7)	30	President's Office and Cabinet Secretariat	6.2
38	Defence	(13.2)	37	Prime Minister's Office	5.2
52	Ministry of Health and Social Welfare	(12.2)	40	Judiciary	3.8
69	Ministry of Natural Resources and Tourism	(9.0)	39	National Service	3.3
99	Min of Livestock Dev. and Fisheries	(7.7)	19	District and Primary Courts	1.1
18	High Court	(7.4)	34	Min of Foreign Affairs & International Coop	1.1
23	Accountant General's Department	(5.5)	97	Ministry of East Africn Cooperation	0.7

# Key challenges in Budget execution – 2009/10

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Significant improvement in MDAs dev budget execution driven by completeness of releases; **BUT** significantly released late in the year (mostly Q 4). Hurried spending during the last month of FY impairs the quality of that spending

MDAs development budget, release and expenditure



# Key challenges in Budget execution – 2009/10

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Locally funded component of dev budget perform better than foreign in execution.  
Regardless source of funding execution of dev budget where the share of capital invest is high is a huge challenge (e.g energy)

## 2009/10 MDAs Dev. budget execution - By Funding source and Economic Nature

Sector	Item	Shares of total			Execution rates		
		Foreign	Local	Total	Foreign	Local	Total
<b>Overall</b>	<b>Current</b>	<b>36.6</b>	<b>9.5</b>	<b>46.2</b>	<b>60.8</b>	<b>143.8</b>	<b>77.9</b>
	<b>Capital</b>	<b>27.5</b>	<b>26.3</b>	<b>53.8</b>	40.2	<b>105.8</b>	<b>72.3</b>
	<b>Total</b>	<b>64.2</b>	<b>35.8</b>	<b>100.0</b>	<b>52.0</b>	<b>115.9</b>	<b>74.9</b>
<b>Agriculture</b>	Current	67.2	7.0	74.2	80.5	61.9	78.8
	Capital	17.7	8.1	25.8	79.9	65.0	75.2
	<b>Total</b>	<b>84.9</b>	<b>15.1</b>	<b>100.0</b>	<b>80.4</b>	<b>63.6</b>	<b>77.8</b>
<b>Education</b>	Current	17.8	21.8	39.6	94.6	71.4	81.9
	Capital	29.5	31.0	60.4	25.0	97.7	62.3
	<b>Total</b>	<b>47.2</b>	<b>52.8</b>	<b>100.0</b>	<b>51.2</b>	<b>86.9</b>	<b>70.0</b>
<b>Health</b>	Current	76.4	1.4	77.8	126.4	79.2	125.5
	Capital	15.3	6.9	22.2	50.2	65.4	54.9
	<b>Total</b>	<b>91.6</b>	<b>8.4</b>	<b>100.0</b>	<b>113.7</b>	<b>67.8</b>	<b>109.8</b>
<b>Energy</b>	Current	5.1	22.6	27.7	1.3	58.9	48.2
	Capital	38.6	33.7	72.3	9.6	38.0	22.8
	<b>Total</b>	<b>43.7</b>	<b>56.3</b>	<b>100.0</b>	<b>8.6</b>	<b>46.4</b>	<b>29.9</b>
<b>Roads</b>	Current	5.0	7.0	12.0	62.3	288.9	194.0
	Capital	42.5	45.5	88.0	46.1	129.5	89.2
	<b>Total</b>	<b>47.5</b>	<b>52.5</b>	<b>100.0</b>	<b>47.8</b>	<b>150.6</b>	<b>101.8</b>
<b>Water</b>	Current	69.4	14.7	84.1	62.7	67.1	63.4
	Capital	13.2	2.6	15.9	74.2	121.1	82.0
	<b>Total</b>	<b>82.7</b>	<b>17.3</b>	<b>100.0</b>	<b>64.5</b>	<b>75.3</b>	<b>66.4</b>

# Key challenges in Budget execution – 2009/10

## Key findings

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- Decline in overall deviations (12 % ?) in MDAs recurrent budget and actual spending; but deviations increases a lot as level of disaggregation increases (-61% to 139%).
- Significant improvement in execution of MDAs development budget but decline in execution of LGAs development budget.
- Increased completeness of releases responsible for improvement in execution of MDAs development budget.
- Continue delays in release of development funds (both for MDAs & LGAs); with most of the funds released in Q4.
- Locally funded component of development budget continued to perform significantly better than foreign funded component.
- Sectors with higher share of capital investment continued to experience low execution rates signaling weakness in capacity plan and implement (energy)

# Key challenges in Budget execution – 2009/10

## Key recommendations

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- Continue to improve planning and budgeting/MTEF in all spending units MDAs and LGAs; but also try to limit the size of the contingency.
- Continue to improve execution of development budget in both the MDAs and LGAs by improving credibility of cash flow and procurement plans.
- Improve capacity to plan and implement large capital investment projects in all key sectors (but starting with energy sector).
- Improve timeliness and completeness of release of development funds (both local and foreign) by ensuring adherence to credible cash flow and procurement plans.
- Ensure aid projection data provided by DPs during the BGs exercise are credible (significantly accurate and reliable)

# ASANTE SANA