March 2002
IMF Country Report No. 02/59

Tanzania: Report on the Observance of Standards and Codes—Fiscal Transparency Module

This Report on the Observance of Standards and Codes on Fiscal Transparency for **Tanzania** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **February 1, 2002**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Tanzania** or the Executive Board of the IMF.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

TANZANIA

Report on the Observance of Standards and Codes (ROSC) Fiscal Transparency Module

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February 1, 2002

Executive Summary

This report provides an assessment of fiscal transparency practices in Tanzania in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on the authorities' response to the IMF fiscal transparency questionnaire and other documents provided by the authorities.

Tanzania has implemented a number of reforms in recent years to enhance fiscal transparency. The most notable reforms in fiscal management are: implementation of a comprehensive Integrated Financial Management System; institution of a public expenditure review process on a continuous basis in the context of a medium-term expenditure framework; enactment of a new legal framework for fiscal management and procurement; enhanced controls on commitments and expenditures; and quarterly publication of the amounts and timing of budget transfers to spending agencies and local governments.

Many new initiatives are in the process of being implemented to further enhance fiscal transparency and good governance. The government has taken steps to institute quarterly reporting of revenue and expenditures by subnational governments and to make these reports public; a new quarterly budget execution report was just published by the authorities. For enhancing accountability of the civil service, a new Public Service Bill is being enacted. In the context of the government's anti-corruption strategy, each ministry is required to report and publish corruption cases.

The authorities concurred with the staff assessment of fiscal transparency practices, and discussed with the mission new measures for promoting transparency. The focus would be on establishing a sound legal framework, rules, and regulations governing the relationship between different levels of the government for fiscal management in light of the increasing devolution of political, financial, and administrative authority to subnational governments. Information should also be provided on public debt, financial assets, contingent liabilities, and tax expenditures in budget documents. A preannouced calendar of release of fiscal data would help the public gain regular access to critical fiscal information.

Further, many aspects of budget preparation, execution, and reporting need strengthening. GFS-based economic and functional classification needs to be extended to all components of the budgets. Operations of all central government entities—as well as those of subnational governments—need to be consolidated with those of the central administration and regions for a comprehensive assessment of fiscal policy. The accounting of all donor assistance needs to be improved, and internal and statutory audits require strengthening.

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Abbreviations and Acronyms

ACGEN	Accountant General
BoT	Bank of Tanzania
C&AG	Controller and Auditor General
CSD	Civil Service Department
GDDS	General Data Dissemination Standards
GFS	Government Finance Statistics
IFMS	Integrated Financial Management System
LPO	Local Purchase Order
MDAs	Ministries, Departments, and Agencies
MoF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
NBS	National Bureau of Statistics
PER	Public Expenditure Review
PORALG	President's Office for Regional Administration and Local Governments
PRS	Poverty Reduction Strategy
PSRC	Public Sector Reform Commission
TRA	Tanzania Revenue Authority

I. Introduction[1]

1. This report covers fiscal transparency practices in Tanzania. It is based on responses provided by the authorities on the fiscal transparency questionnaire and subsequent discussions with them. The report has two parts. The first part is a description of practices against the requirements of the IMF *Code of Good Practices of Fiscal Transparency*. The second part contains comments and recommendations on fiscal transparency in Tanzania.

II. Description of Practice

A. Clarity of Roles and Responsibilities

2. **The definition of general government is not comprehensive, in part because the relationship between different levels of government is evolving due to increasing devolution of fiscal responsibilities to subnational governments.** The authorities define central government as comprising the central administration and regions (Box 1); these are covered by the central government budget. The budget also includes subventions to local authorities. The role and responsibilities of the various organs of the central government are defined in the Constitution. The political, administrative and financial mandates of subnational governments are being further developed in the context of the Local Government Reform Program.

3. **Fiscal management responsibilities are defined on the basis of a clear separation of roles between the executive, legislative, and judicial branches.** The Constitution assigns the responsibility for fiscal matters to the executive and legislature; it also provides the legal basis for appropriating and spending public funds. The National Assembly approves the state budget (Article 137), as well as enacts laws for the imposition of taxes (Article 138) and authorizes expenditure out of the Consolidated Fund (Article 139). The cabinet of ministers—on the basis of authority conferred by the President—is responsible for formulating the budget, and submitting it to the National Assembly for approval. The judiciary process and procedures, including the composition of the courts, are defined in the Constitution. The role of the judiciary is being strengthened; this has been identified as one of the priority sectors in the authorities' Poverty Reduction Strategy (PRS).

4. **Operations of central administration and regions are consolidated.** These operations can be identified by budgetary appropriations. Specific fiscal operations are also undertaken by various institutional funds (such as the Road Fund, to which the road toll—an earmarked revenue—is channeled; provident and pension funds; and the Education Fund) as well as other government agencies (Box 1). Their operations are not consolidated with those of the central administration and regions, but are subject to external audit and their audit reports are submitted to the National Assembly. Executive agencies and government

[1] This report has been drafted by Messrs. Sanjeev Gupta, Toshihide Endo, Pokar D. Khemani, and Ms. Annalisa Fedelino (FAD). Discussions on fiscal transparency were held with officials from the Ministry of Finance during an October 2001 mission to Dar-es-Salaam.

Box 1. Structure of General Government

The general government can be broadly classified into central government and local authorities.

Central Government. It includes the central administration; regions; executive agencies; government institutions, and other funds.

- *Central administration*. It is composed of the Presidency and Ministries. Detailed information on its structure and mandate is available on the government of Tanzania's website. [1]
- *Regions*. 20 regional administrations have been established to assist local authorities.
- *Executive and Other Agencies*. These government organizations perform essential public functions not carried out by ministries, such as the Civil Aviation Authority and the National Bureau of Statistics (NBS). They are governed by the Executive Agencies Law (1997) and its regulations (1999). There are currently 10 Executive Agencies. Their accounts are subject to external audit; audited accounts are presented to the National Assembly. The Tanzania Revenue Authority was established in 1995 as a semi-autonomous agency of the government, under the general supervision of the Ministry of Finance.
- *Other Government Institutions*. These bodies have a semi-autonomous status, and include research, training, and academic institutions, such as the University of Dar-es-Salaam. Many were established by Acts of Parliament.
- *Other funds*. These include the Road Fund and the Education Fund. [2]

Local authorities. There are currently 114 local authorities (primarily district and urban councils) created under the 1982 Local Government Act, which provided for the devolution of political, administrative, and financial powers to them. Elected councils were empowered, among others, to enact by-laws, collect revenue, and formulate and execute local budgets. Following the establishment of the President's Office for Regional Administration and Local Governments (PORALG) in the Presidency in 1998, a revamped Local Government Reform Program began to be implemented in 1999.

[1] The website is www.Tanzania.go.tz.

[2] Pension funds are managed by self-financed public corporations; their fiduciary responsibilities are clearly defined in the law. Smaller pension schemes for defense forces and elected officials are covered by the Consolidated Fund.

institutions are allowed to retain their own revenues; shortfalls in meeting their expenditures, if any, are met by transfers from the central budget.

5. **The accounts of the central government are not consolidated with those of the local authorities.** The consolidation is in part impeded by differences in the fiscal year at central and local levels.[2] Steps are being undertaken to promote such consolidation—for example, the PORALG has asked all regional administration secretariats to start collecting information from local governments in the prescribed format; this is particularly important to promote accountability on the use of public funds, given that local authorities are increasingly participating in poverty reductions efforts.

[2] The fiscal year of local governments runs from January to December, while that of the central government runs from July to June.

6. **The relationship between the central government and the central bank is clearly defined by the law.**[3] Under the 1995 Bank of Tanzania (BoT) Act, the central bank enjoys administrative and policy independence; it acts solely as the fiscal agent for the government. Even though an overdraft facility is permitted under the law, the government is not taking recourse to central bank credit—the overdraft has not been activated in recent years.[4] Profits are transferred to the budget on an annual basis.

7. **Following extensive financial liberalization in the 1990s, the government is no longer involved in public financial institutions.** Public financial institutions were privatized and, as a result, the BoT no longer carries out quasi-fiscal activities.

8. **Quasi-fiscal activities are not identified in the budget.** During the 1990s, prices were liberalized; government's holdings in nonfinancial public enterprises were mostly divested; and the government disengaged itself from the oil sector—a source of quasi-fiscal activities in the past. However, the government's continued involvement in the utility sector as well as its participation in the marketing of some agricultural products, might result in some quasi-fiscal activities. The extent of these activities—including their financial implications—has not been assessed by the government.

9. **Institutional arrangements for carrying out privatization are well defined.** The Parastatal Sector Reform Commission (PSRC), under the President's Office, is entrusted with the divestiture of government assets.[5] While privatization proceeds accrue to a special fund, they can only be released with the specific permission of the Minister of Finance and—as established under the 2001 Public Finance Act—with parliamentary approval. PSRC accounts are audited by an independent auditor, and sent to the Controller and Auditor General (C&AG) as well as to the National Assembly. The use of privatization proceeds—which in the past included bank recapitalization—is not divulged to the public at large. The PSRC publishes an annual report and a bi-monthly bulletin, containing information of its operations; however, a comprehensive list of government remaining holdings is not reported to the public.

10. **At the central government level, fiscal management is guided by a clear legal and administrative framework.** A new Public Finance Act and Regulations, which became effective in July 2001, defines financial and accounting responsibilities between the Ministry of Finance and spending units.

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[3] The website of the BoT is www.bot-tz.org.

[4] In the last few years, there was either negative or zero bank financing of the budget.

[5] The PSRC was established in 1993, with an original mandate of five years, later extended to 2003. As of June 2000, 333 of the about 400 parastatals targeted for divestiture had been divested, mostly through privatizations and liquidations.

11. **The legislative basis for taxation, regulation, and administrative procedures are clear.**[6] Central government taxes are collected by the autonomous Tanzania Revenue Authority (TRA). The TRA has published pamphlets and organized workshops to explain the tax system to the public. Tax compliance and enforcement are being enhanced through measures to curb tax evasion and smuggling. The TRA has introduced a Code of Conduct for tax officials; and a new unified tax appeal mechanism was activated in October 2001.

12. **As indicated earlier, steps are being taken to strengthen fiscal management at the subnational level of government.** Local authorities have the primary responsibility for the delivery of social services in the area of primary education, primary health, rural water supply, rural roads, and agriculture extension. The Local Government Finance Act identifies sources of revenue of local authorities at various levels; it also requires consultation by PORALG with the Minister of Finance before levies and fees can be imposed by local governments. However, this approval has been granted quite freely by PORALG, leading to a proliferation of taxes and levies at the local government level. According to the Act, local authorities can borrow subject to ministerial approval (in this case, from PORALG); however, to date they have not borrowed from financial institutions, nor has a municipal credit market ever emerged. A local government loan board has provided very limited financing (less than US$1 million since its creation in 1986).

13. **The government has recently stepped up its efforts to promote ethical standards for public servants.** In addition to a number of laws enacted over the years to promote integrity, a Minister of State for Good Governance was appointed in 2000; a Good Governance Unit was formally constituted in the President's Office in late 2001; and the Ethics Inspectorate of the Civil Service Department (CSD) has distributed more than 30,000 copies of the Code of Ethics and Conduct for the public service, in both English and Swahili. In addition, each ministry has crafted its own anti-corruption strategy. It is envisaged that ministries submit quarterly reports on the implementation of their anti-corruption plans, including information on corruption cases.

B. Public Availability of Information

14. **The budget documents provide an adequate coverage of fiscal operations of the central government.**[7] As required by the 2001 Public Finance Act, the budget contains

[6] The main tax laws include: the Income Tax Act (1973), the VAT Act (1997), the Customs Tariff Act (1976); the Excise Tariff Ordinance (Cap 332); the Road Toll Act (1985); and The Training Levy Act (1972). Various amendments have been effected—primarily in the context of Finance Bills attached to the annual budget—which are approved by the National Assembly and published in the Gazette.

[7] The budget documents include: (1) the budget speech; (2) the budget books in four volumes (Volume I: Financial Statement and Revenue Estimates; Volume II: Estimates of Public Expenditure—for Ministries, Departments and Agencies (MDAs); Volume III: Estimates of Public Expenditure—for Regions; and Volume IV: Estimates of Public Expenditure—for all development expenditure); (3) Statements of Reallocations and Excesses of Warrants; (4) the Appropriation Bill; and (5) the Finance Bill. In addition, individual ministers give a budget speech to facilitate parliamentary discussion on estimates of their ministries.

annual estimates of revenues, expenditure, and financing requirements. Effective FY2001/02 fiscal year, the government budget has been consolidated into four volumes. Ministries, Departments, and Agencies (MDAs) and Regions carry separate votes and provisions. The budget also includes details of subvention estimates to Urban and District Councils. Defense expenditures are adequately identified in the budget.[8]

15. **The budget documents cover three years—the relevant fiscal year and two previous ones; no forward projections are included.** Draft revenue and expenditure estimates are presented for the relevant fiscal year, along with the approved estimates for the previous fiscal year and actual results for the fiscal year prior to the previous one. While not covered in the budget documents, broad resource allocations for two forward fiscal years are derived from the Public Expenditure Review (PER) process, which provides the medium-term plan and framework for the budget.[9] The PER studies—prepared by the government, donors, and civil society organizations—are published.

16. **While the budget coverage is quite comprehensive, reporting on certain expenditures is not complete**. The coverage of externally-financed projects is quite comprehensive in the formulation of the budget, but disbursements by donors through the Exchequer is still inadequate. Cash disbursements by donors not made through the exchequer remain unaccounted for.[10] Direct payments made to projects and programs in the form of grants provided in kind—such as drugs, vehicles, and services are also not accounted for.

17. **Contingent liabilities are not reported in the budget documents; nor is this a requirement under the 2001 Public Finance Act.** However, the Act requires the Accountant General (ACGEN) to prepare and transmit to the C&AG annual accounts including a statement of the amounts guaranteed by the government and a list of other contingent liabilities; the C&AG's audit report is then presented by the Finance Minister to the National Assembly. The latest available Audit Report (for FY 1998/99) does not include a statement on guarantees and contingent liabilities.[11]

18. **Tax expenditures are not included in the budget documents.** Most tax laws make provisions for statutory exemptions. Discretionary exemptions may also be granted by the Minister of Finance, although none have been granted in the last two years. A monthly statement detailing tax exemptions from customs duties and VAT—but excluding exemptions

[8] The defense expenditure estimates are included in Vote 38 (Ministry of Defense),Vote 39 (The National Service), and Vote 57 (Ministry of Defense and National Service).

[9] The PER process is conducted on a continuous basis by the MoF with wide participation of stakeholders.

[10] In October 2001, the Accountant General sent a circular requesting donors to channel project funds through the exchequer system in order to facilitate recording of all expenditures. The circular also suggested alternative procedures for accounting for all project transactions.

[11] The MoF has recently started to identify contingent liabilities arising from debt guarantees provided by the government. This will form the basis for formulating a comprehensive domestic debt strategy.

from income tax—is submitted by TRA to the MoF. This information is also available in the tax reports published by TRA on a monthly basis.

19. **Information on the domestic debt is published.** A monthly report provides details of domestic debt by category; however, it does not include information on obligations arising from overdue payments on the supply of goods and services to the MDAs. It also excludes information on other government domestic liabilities; for example, the debt report did not cover the settlement of debt arrears and debt swaps between the government and the electricity and water companies last year, although these transactions were mentioned in the FY2001/02 budget speech.

20. **An up-to-date database on external debt data is maintained, jointly by the MoF and the BoT**. Information on loan agreements, disbursements, and debt service is shared between these two institutions on a weekly basis. However, the current system cannot produce debt data in an analytical form.

21. **A balance sheet of assets and liabilities of the consolidated fund is a requirement under the 2001 Public Finance Act.** This is to be prepared by the ACGEN on the basis of statements of assets and liabilities provided by accounting officers at the end of the financial year 2001/02. The consolidated report is required to be submitted to the C&AG.

22. **Periodicity and coverage of fiscal reports are being improved.** Several initiatives have been launched to improve the fiscal database. An Integrated Financial Management System (IFMS)—a computerized accounting system—has been introduced for all MDAs. Its implementation has greatly improved the capacity to record, monitor, and control expenditures. However, IFMS-generated reports are being used in a limited way for expenditure management. A new chart of accounts has been introduced. Following the rationalization of bank accounts, the reconciliation of government accounts—on the basis of computerized records—is now performed on a continuous basis. In addition, the MoF has started a dialogue with various data providers, including the BoT and the National Bureau of Statistics, to improve the quality and timeliness of economic data for reporting and assessing fiscal developments and prospects. Tanzania is subscribing to the GDDS initiative—its metadata were recently posted on the IMF external website.

23. **Regular publication of fiscal data is being promoted.** Quarterly budget execution reports are being published, starting with the first quarter of the current financial year; these will provide the basis for intra-year review of budget performance that will also be subject to public scrutiny. The amounts and timing of budget transfers to MDAs and local governments are being publicized every quarter. Local authorities have been requested to submit to the central government quarterly reports of revenue and expenditure and post these reports at a public location. However, a calendar for the release of either these or existing reports has not yet been made public.

24. **Not all fiscal reforms are fully disseminated to the public.** For example, understanding of the new Public Procurement Law and Regulations seems to be lacking. Channels to address public grievances have not been activated.

C. Open Budget Preparation, Execution, and Reporting

25. **While the budget process is open and well-structured, it is more focused on financial compliance rather than performance**. The budget process starts with the PER and issuance of budget guidelines (Box 2).[12] These guidelines provide the macro-economic framework for the medium term; the key spending priorities and programs; the proposed allocation of resources; and instructions for budget formulation. The resource envelope prepared under the Medium-Term Expenditure Framework (MTEF) is used as a basis for setting sectoral budget allocations. Performance budgeting was introduced in FY 1998/99 on a pilot basis in eight ministries to reorient resource allocation from an input-based approach to an output-based one. MDAs are required to report their performance against output targets and set such targets for the year ahead.

26. **Participation of and oversight by the National Assembly over the budget process is being strengthened**. As of January 2001, sectoral Budget Committees were introduced; these are now supplementing the role of the Finance and Economic Affairs Committee, which used to have an exclusive oversight role in budget matters.

27. **The budget speech is fairly comprehensive.** It includes: (1) a review of implementation of budgetary policies for the previous financial year; (2) a strategy for economic growth and poverty reduction; (3) objectives of the budget along with revenue and expenditure policies; and (4) new revenue proposals. The speech document also contains data on selected economic indicators, including on fiscal performance for the past ten years.

28. **The budget and accounts classifications have improved significantly and have been made consistent with the GFS economic classification.** A GFS-based economic classification was developed and implemented for the 2000/01 recurrent budget; this classification is also used by the IFMS. The GFS-based functional classification has been developed, along with a bridge table linking the IFMS codes with the GFS codes. The development budget is scheduled to be formulated in line with the GFS economic classification starting FY2003/04.

[12] The budget guidelines are prepared by the Budget Technical Committee comprising representatives of the MoF, Planning Commission, PORALG and Central Establishment Department. Each MDA has a Budget Committee—chaired by the relevant Permanent Secretary and including heads of key divisions—to oversee the preparation of budget proposals. Budget guidelines for FY2001/02 were made available in December 2000—some four months earlier than in previous years.

Box 2. Budget Process

The overall budget process is guided by the PER process, The Medium-Term Expenditure Framework (MTEF) projections, and budget guidelines. The key components of the annual budget process are:

September–December

- Determination of the resource envelope based on projections for revenues and external financing;
- Formulation of the broad expenditure allocations between sectors and components of expenditure;
- Formulation of detailed sectoral programs by the sectoral working groups; and
- Issuance of comprehensive budget guidelines informing MDAs of the proposed allocation of resources and budget ceilings and operational instructions for budget formulation.

January–March

- Preparation of budget proposals by MDAs—each MDA has a Budget Committee to oversee the preparation of budget proposals; and
- Submission of draft budget estimates by MDAs to the MoF.

March–June

- Scrutiny of draft estimates by the MoF budget division, and negotiations with MDAs for changes;
- Consolidation of budget estimates and presentation to the Cabinet for approval; and
- Presentation of budget documents to National Assembly, including the general budget speech by the Minister of Finance, the Economic Review prepared by the Planning Commission and ministerial budget speeches for discussion of respective draft estimates.

July–August

- Discussion of budget estimates in the National Assembly (in various sectoral committees and in general session);
- Approval of expenditure estimates by National Assembly through Appropriation Bill; and
- Approval of Finance Bill, enabling the government to raise money and finance the budget.

29. **The overall deficit of the central government is the key indicator of the fiscal position of the government**. As noted earlier, fiscal data on general government and the broader public sector is not compiled. The FY2001/02 budget documents provide broad details of the overall operations of the central government, as defined by the authorities (Box 1). No other indicators of the fiscal position—such as primary balance and operational balance—are currently available.

30. **Budget preparation is not an integrated process.** Preparation of separate recurrent and development budgets continues to inhibit rational allocations between current and capital expenditures in a given sector; this is further compounded by a large share of the development budget being funded by donors. It also hinders the identification of the ongoing costs of capital projects. The recurrent budget is further split into "personnel emoluments" and "other charges," for which MDA estimates are prepared. The application of the GFS-based economic classification only to the recurrent budget has prevented a consolidation of the development and recurrent budgets.

31. **Fiscal policy is set in the context of a medium-term expenditure framework.** Targets for a number of fiscal variables are set as a share of GDP in the context of MTEF; these are also included in the budget guidelines. However, as indicated earlier, the budget focuses primarily on annual estimates and does not include medium-term projections.

32. **Estimates of ongoing costs of government policies are not distinguished from the new policies.** The budget speech lists new expenditure proposals, but these are not systematically identified in the budget estimates. Existing policy commitments and new policy proposals are not clearly distinguished in the budget process, although costs of new major projects are reflected in estimates of the development budget.

33. **Significant improvements have been made in formulating a macroeconomic framework.** This reflects forecasts of key macro-economic variables prepared by the Planning Commission in the context of the PER process, in consultation with donors and civil society organizations. However, no sensitivity analysis of budget estimates to changes in macroeconomic variables is carried out.

34. **Reliability of budget estimates has been enhanced.** Revenues are projected in consultation with TRA on the basis of the state of the economy, changes in tax policy, and improvements in tax administration. Projections of external financing are derived from current financing agreements and information provided by donors. Efforts have been made by the government to align budgetary allocations with spending needs in areas that in the past have been prone to accumulation of arrears, such as utilities, and provision of food for prisoners, schools, and hospitals. Costing of programs and activities in priority sectors has been refined in the context of the PRS, and allocations to these sectors have increased substantially. However, donor-funded projects continue to be affected by large discrepancies between budget estimates and outturns.

35. **The budget also provides for contingencies; there are no clear rules and guidelines for their use.** The 2001/02 budget estimates include a substantial provision for contingencies.[13] In the past, most of the budgeted amount for the contingency has not been allocated for genuine contingencies or emergency expenditures. Instead, it has often included items known at the time of the budget presentation, but for which precise estimation had not yet been made. Such amounts have been subsequently channeled to their intended purposes through issuance of warrant reallocations.

36. **Expenditure control procedures have been strengthened**. Authorization procedures for incurring expenditures and making payments have been tightened as a result of the introduction of IFMS. A commitment control system has been introduced effective July 1, 2001; the issuance of a local purchase order (LPO) generated by the IFMS is now

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[13] The 2001/02 expenditure estimates for Vote 50, Ministry of Finance includes a provision of TSh 232 billion for contingencies (about 32 percent of total provision for other charges, or almost 3 percent of GDP). The budget speech identifies a few specific expenditure items included under contingencies; about 40 percent of it, however, remain unspecified.

required for purchasing goods and services. The inspectorate function in the office of the ACGEN has been strengthened; inspection groups, headed by a financial controller, have been entrusted with financial oversight functions for a portfolio of spending agencies. IFMS is not being fully exploited for controlling expenditure commitments and expenditure management.

37. **Internal audit is yet to be established as an important management tool.** Internal audit function exists throughout MDAs, but is concentrated on voucher audit, without any focus on procedures and controls. It does not make sufficient use of IFMS, due to lack of training. In general, internal audit has remained weak due to: (1) inadequate technical skills and weak managerial capacity in the finance arm of MDAs; (2) lack of accountability until recently of Accounting Officers in MDAs; and (3) insufficient enforcement of punitive measures.

38. **Procurement procedures are being improved**. Until recently, procurements were based on Part III of the Financial Orders (1965 edition). A Public Procurement Act and Regulations were enacted on July 2, 2001. The new act has streamlined the process of tendering and procurement—previously based on the Central Tender Board—and introduced a ministry-based approach. Effective implementation of new procurement regulations is likely to require considerable efforts in building capacity of MDAs.

39. **Civil service pay scales have been made more transparent.** Allowances have been consolidated in the pay scale. The implementation of a medium-term pay policy was started in 1999 in order to reduce pay disparity between public and private sectors. Meanwhile, a Selective Accelerated Salary —with donor assistance—has been introduced to top up salaries of selected key staff.

40. **Significant improvements in fiscal reporting have been made; however, some weaknesses continue to persist.** As indicated above, recurrent and development expenditures are not based on the same accounting system, and comprehensive information on the execution of donor-financed projects is not available. Recurrent expenditure in five budgetary votes (covering the State House and Defense), although recorded in the IFMS, is not integrated online with the central system; data are made available to the ACGEN in a diskette, and then consolidated in a separate spreadsheet with data for other votes.

41. **Fiscal reporting to the legislature is based on clear rules.** Quarterly reports on budget execution are presented to the National Assembly. The 2001 Public Finance Act has reaffirmed the principle that audited annual reports be presented to the National Assembly within nine months from the end of the relevant financial year. However, long delays have been experienced in the past, although in recent years these delays have been shortened; the last Audit Report, for FY1998/99, was published in October 2000.

D. Assurances of Integrity

42. **Budget data have become increasingly reliable; albeit declining, differences between the budget estimates and the outturn continue to persist**. In the past, actual budget outturns differed significantly from original estimates.[14] Significant progress has been made in reducing these differences, especially since the adoption of MTEF and the ongoing PER process. Supplementary budgets have not been presented in recent years. However, reappropriations within approved votes during a fiscal year have been presented to the National Assembly together with draft budget estimates for the next fiscal year.

43. **Statements of accounting policy are not included in the budget and final account documents.** The basis of accounting is cash. Expenses are recorded in the accounts when checks are issued, and revenues recorded when amounts are deposited in the treasury account at the central bank. Information on commitments could be generated by IFMS, as intended by the authorities.

44. **The quality of fiscal data has improved as a result of regular account reconciliation.** As indicated earlier, the reconciliation of bank accounts with ledger accounts—which was subject to long delays in the past—is now performed on a routine basis, and via computerized records maintained under IFMS.

45. **External audit is legally independent of the executive branch**. The mandate and rules for the appointment and removal of the C&AG are set out in Sections 143 and 144 of the Constitution. The 2001 Public Finance Act has considerably strengthened the autonomy and authority of the C&AG. The C&AG—appointed by the President—audits the accounts submitted by the ACGEN on behalf of the National Assembly. All audit reports are submitted to the Minister of Finance, who in turn submits them to the National Assembly. The C&AG is also empowered to undertake value-for-money audits and propose recommendations to the Minister of Finance for improving management of funds. However, such reports, including the recommendations made by the Public Accounts Committee, are not typically acted upon and the ability of the C&AG to ensure compliance is limited. Finally, the quality of external audit is yet to benefit from the implementation of IFMS.

46. **The capacity to carry out and enforce audits is limited.** While the office of the C&AG receives budget allocations on a priority basis, it remains substantially understaffed to carry out its functions effectively. Lack of technical expertise and computer skills are a major hindrance—for example, few auditors know how to operate the IFMS, which would allow them to undertake audits swiftly based on computerized records, and reduce the delays in completing audits experienced in the past.

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[14] During the period FY1996/97–FY1999/00, both revenues and expenditures remained below budgeted levels by an average of 4.1 percent and 17.1 percent, respectively. In FY2000/01, revenues overperformed by 3.6 percent, while total expenditures remained 4.4 percent below the budgeted amount.

47. **Scrutiny of macroeconomic assumptions has been increasingly encouraged, especially in the context of the PER process.** PER Working Groups comprising government officials, the World Bank, other donors, and civil society organizations meet on a regular basis to discuss and update budgetary projections and assumptions underlying them.

48. **NBS operates independently.** It was established in 1999 as an Executive Agency (Box 1), and has become increasingly autonomous from the government, with the Planning Commission delegating the daily running of the NBS to its Director General. A new Statistics Law to be enacted in early 2002 would further safeguard its independence.

III. IMF Staff Commentary

49. **A number of reforms have been implemented in recent years to enhance transparency in Tanzania.** These have included:

- Strengthened budget management through: (1) PER process; (2) implementation and use of IFMS by all MDAs and subtreasuries; (3) use of MTEF; and (4) enhanced controls over commitments and expenditures.
- Increased consultation with various stakeholders in the context of in-country Consultative Group Meetings.
- Institution of a new legal framework for fiscal management.
- Strengthened procurement operations.

50. **Many new initiatives are currently underway for further enhancing fiscal transparency and good governance.** The government has announced its intention to: (1) institute a requirement of quarterly reports of revenue and expenditures by subnational governments and to make them public; and (2) submit a new Public Service Bill for the consideration of the National Assembly with the objective of enhancing accountability of the civil service. Quarterly budget execution reports on central government operations are being published.

51. **The momentum toward promoting transparency should be maintained.** Priority should be assigned to strengthening various aspects of budget preparation, execution and reporting. In particular:

- The budget process would benefit from: (1) strengthening of the MTEF process and including forward estimates in budget documents; (2) extension of GFS-based economic classification to the development budget; (3) application of GFS-based functional classification to recurrent and development budgets to facilitate a consolidated view of the budget; (4) unification of recurrent and development budgets; and (5) refinement of the process of performance budgeting, particularly the definition of activities and their costing in relation to specific outputs, and formulation of meaningful and quantifiable output targets as well as mechanisms for their monitoring.

- The budget estimates should be made more realistic by: (1) improving the predictability of revenues and other inflows, particularly disbursements by donors through enhanced consultation with them; (2) assessing expenditure requirements based on proper costing; and (3) limiting the use of contingencies and disclosing anticipated use of contingency provision. The use of contingencies should be subject to clearly defined rules and guidelines.

- IFMS could be made more effective by: (1) transferring electronically accounting data for the remaining five votes to the central data base maintained by the ACGEN's office; (2) designing a reporting system that meets the requirements of various stakeholders, especially departments of MOF, ACGEN, C&AG, BOT, TRA, Accounting Officers and key officials of spending agencies; (3) promoting maximum use of IFMS-generated reports for budget management; and (4) submitting annual accounts including financial statements to the C&AG on a timely basis.

- The accounting of external disbursements could be improved by channeling project funds through the exchequer system and reconciling donor disbursements with project expenditures, building upon the recent initiative of the ACGEN.

- The internal audit units in MDAs and Financial Management unit in ACGEN should be strengthened by: (1) defining more clearly their roles and the relationship among them; (2) requiring internal auditors to authorize payments within IFMS; (3) training internal auditors in use of computer-assisted audit techniques; and (4) following-up on reports of internal auditors and financial controllers.

- The Local Government Reform Program should also address the PEM weaknesses at the subnational level. An important first step will be to adopt the same financial year for both central and local governments. Over time, standard budget and accounts classification should be introduced at the subnational level.

- The effectiveness of new legislation and regulation for financial management and procurement would be enhanced by imposing prescribed penalties.

52. **Further initiatives to enhance transparency should focus on the following:**

Clarity of roles and responsibilities

- With increasing devolution of political, financial, and administrative authority to subnational governments, the government should seek to establish a sound legal framework, rules and regulations that define: (1) the relationship between different levels of the government for fiscal management; in particular, levies and taxes at local government level should be rationalized and harmonized with taxes collected by the central government; (2) fiscal rules designed to ensure medium-term fiscal sustainability; and (3) transparency requirements to underpin the effectiveness and credibility of such rules.

- Legislative scrutiny and oversight of the budget process could be further improved by: (1) presenting fiscal policies and the medium-term budget framework at the onset of the budget process; and (2) conducting mid-year review of the economic and budget performance; and (3) complying with recommendations of various recently established parliamentary committees involved in the budget discussion.

- The operations of the local governments and institutional funds should be consolidated with those of the central government. This will allow preparation of fiscal reports covering the entire general government.

Public availability of information

- The budget document should incorporate details on: (1) financial projections; and (2) public debt, financial assets, and contingent liabilities. Over time, it is desirable to include information on performance of major agencies receiving significant budget transfers.

- The recent initiatives on dissemination of fiscal data would receive further impetus through: (1) publication of a calendar for release of fiscal data and adherence to this calendar; (2) dissemination to the public of various fiscal reforms that impinge on the delivery of services; and (3) establishment of channels between the public and government for redressal of grievances. Similar channels would need to be established at local levels.

Open Budget Preparation, Execution, and Reporting

Independent Assurance of Integrity

- The statutory audit needs strengthening by: (1) developing a separate audit module for IFMS for statutory audit performed by C&AG; (2) training officials in computer-assisted audit techniques; (3) improving the timeliness and quality of audit reports, as well as of value-for-money reports presented to the National Assembly; (4) implementing the recommendations made by the Public Accounts Committee and initiating disciplinary proceedings against those responsible for noncompliance and financial misconduct; and (5) providing resources to the C&AG for building skills and capacity.