

# REPOA Brief



## A better budget process in Tanzania: A strategy for Public Financial Management & Accountability

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### Key messages

There are substantial and varied informal/political influences on the budget management cycle that overpowers formal systems and structures for Public Financial Management & Accountability (PFMA).

The budget process that ranges from formulation, implementation and monitoring remains one of the crucial platforms for promoting effective PFMA.

Non-state actors (NSAs) need to be better organized/coordinated in a way that allows them undertake performance audits of the State side in delivering PFMA reforms and effective budget processes in the country.

### Introduction and Background

This study examines the political economy in which informal power, political structures, and incentives influence public financial management and accountability (PFMA) reforms, the budget process, and public expenditure in Tanzania. A number of challenges face the current traditional revenue collection process in Tanzania and to underscore opportunities that can enhance revenue collection. Among the major challenges are: tax avoidance as an act of using legal loopholes to minimize one's tax liability; transfer pricing which refers to price manipulation in trading between related or associated parties, with no reflection of the market conditions regardless of whether the parties to a transaction are related; inadequate taxation of the common categories of passive incomes (rent, royalties, dividends and interest including capital gains on the underlying assets); and lack of a comprehensive data base of tangible properties rent income, and failure of tenants to withhold income tax on rental payment.

Despite the challenges surrounding traditional revenue collection process in Tanzania, there are several opportunities that can be harnessed to raise revenue collection, including inter alia: broadening the tax base by formalization of the country's large informal sector; harnessing Tanzania's unique geographical position which is a major advantage, infrastructure (ports, roads, railway and complementary services) investments which can make the country a competitive regional hub; creating a favourable environment for the businesses to operate and grow to expand the tax base; and leveraging the relationship between the public and private sector by reducing uncertainty attributed to the changing government stance on private sector development and the role of the public sector and the private sector. In addition to these opportunities, the use of innovative

financing instruments is imperative as a modern approach to development financing.

### ✧ Methodology and Data

The analytical approach of this study dwelt on desk review of the literature including reports and technical papers on resource mobilization and innovative development financing; and the estimation of potential funds that could be mobilized by the analysed instruments. With regard to the review process, we focused on Policies, Acts, Laws and Regulations guiding financing for development in Tanzania. In addition, the budget speeches, financing reports from Ministry of Finance and Planning (MoFP), development interventions' monitoring and evaluation reports were also reviewed. Furthermore, the review involved documents and reports from development partners (DPs), UN agencies, the World Bank, and IMF, among others. Reports documenting best practice among nations across the globe, and technical papers discussing the instruments were accordingly reviewed.

The rationale behind this approach was to take stock of existing information and to analyse with a view to deductively establish opinion on how the innovative financing instruments can practically be utilized in financing development in Tanzania. In order to get specific insights, some consultations with key stakeholders were done, including officers from the Ministry of Finance and Planning, selected Development Partners, Commercial Banks, and the private sector. A standard checklist of questions was developed for this purpose to ensure systematic capturing of both quantitative and qualitative information.

Tanzania has implemented and achieved a lot in reforming PFMA since the official inception of the reform programme in 1988 and currently the reform programme is in its fifth phase. Surprisingly, there was not a tightly developed and implemented comprehensive monitoring and evaluation framework for the programme that would have assisted in the measurements of cumulative impacts of the reforms in making Government institutions more accountable for how they spend public funds for improved service delivery and impact, and preventing the theft and abuse of the funds.

The budget process that ranges from formulation, implementation and monitoring remains one of the crucial platforms for promoting effective PFMA. The consulted stakeholders propose that both the Government and development partners come-up with a new generation of conditions that peg the extent to which the governments deliver results for the citizens while complying well with regulatory framework with budget execution. This essentially means calling for ramping up the introduction of performance-based budgets.

The consultations indicated existence of substantial and varied informal/political influences on the budget management cycle. To some extent the influence is quite overpowering to the formal systems and structures. In a way, there is game-playing designed to protect vested interests. In the context of such trend, the consultations proposed to expand, capacitate and ensure the critical but constructive and well-formalized oversight role of non-state actors (NSAs) – particularly the media, civil society organizations, academic and research institutions, political parties, private sector apex and other organizations in all major phases of the budget process. On the other hand, the NSAs should be better organized/coordinated in a way that allows them to undertake performance audits of the State side in delivering PFMA reforms and effective budget processes in the country. There a significant room for capacitating and restructuring the Parliament and Committee system for more independent, objective, transparent, critical assessment and reviews of the budgets.

Glaringly, there remain some significant shortcomings in Tanzania's budget process, execution, and monitoring of economic accountability. Formal institutions in Tanzania are found to be technically sound, while informal institutions undermine them. Given their entrenched interests, some players will claim to be eager to make beneficial changes yet have little motivation to do so. Positive reform in the budget process can only occur over the long run by strengthening players outside the executive branch and generating opposing forces to boost the demand for economic responsibility.

## Conclusions

Our analysis suggests that existing donor assistance for economic accountability has been ad hoc, with insufficient focus placed on enabling interaction between the Government and the corporate sector. In addition, donor initiatives have occasionally circumvented democratic procedures and institutions in order to get things done. The majority of bilateral donors have had sustained, long-term governance strengthening programmes over the past decade. However, the projects have largely concentrated on concerns of political governance, electoral democracy, rule of law, etc. While there are a variety of somewhat ad hoc measures in place to promote economic accountability, the report recommends that donors and other interested parties must adopt a long-term, consistent programme to strengthen public financial management and accountability. In Tanzania, there is also a need to build a programme on economic accountability.

## Policy Recommendations

1. The Government in collaboration with stakeholders needs to develop a long-term vision, strategy and mechanism for steering the PFMA and budget reforms. This will address the current challenge of inconsistency and gaps in the results of the series of reform programmes. The reforms will need to integrate measures to address the influences of political and other nontechnical factors.
2. The Government should develop innovative ways of expanding the tax base to enable more reliable and predictable availability of funding for public services, without constraining economic efficiency and productivity. This will reduce the intensity of political influences, which tend to occur when funding is insufficient and unpredictable.
3. The Government needs to strengthen the legal capacity, independence, and involvement of oversight agencies, including Parliament, CAG and NSAs, in all the major budget processes and PFMA reforms. It is necessary to ensure an environment for CAG to be independent, capable and able to take solid measures against those that breach public financial regulations.
4. The Government needs to open a public data system on PFMA and budget. This will facilitate all key stakeholders to have easy access to relevant information and therefore enhance transparency and accountability which will help to reduce the negative impact of political influences.
5. The Government needs a better-institutionalized system that effectively and objectively brings all those who mismanage public funds to book. The system should not be influenced by politicians and/or Government officials. In the long-term, there is a need to work on enhancing the independence and power balance of the three pillars of Government.
6. Transparency in the handling of PFMA and budget processes can be improved by active and productive involvement of NSAs; and mechanisms to ensure budget performance and compliance and more balanced political environment.

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This study is part of a broader research and policy advocacy programme 'Evidence Based Policy Making on Economic Governance in Tanzania', implemented by REPOA and Funded by the United Kingdom's Foreign and Commonwealth Development Office (FCDO). Its contents are sole responsibility of REPOA.

