

WHAT WILL THE 2007/08 BUDGET SAY?

Tanzania Budget 2007/2008: Pre-Budget Brief 1.07

Introduction

This brief highlights key features of the budget for the financial year beginning 1 July 2007 (FY2007/08) and compares it with the past two financial years. Information about the FY07/08 budget is taken from the Budget Guidelines, which show the relative priorities that the Government has outlined for the upcoming budget year. Below we discuss the main components of Government resources, as well as how the Government plans to divide those resources (main components of expenditure). We examine expenditure in terms of the allocations to different levels of Government and the amounts given to different central Government ministries. We also note allocations to key social services sectors, and finally examine the budget in terms of MKUKUTA priorities.

COMPOSITION OF REVENUE

The FY2007/08 budget is concerned with over 5 trillion shillings. The Government gets this money from domes-

COMPOSITION OF EXPENDITURE

The Shs 5.1 trillion that Government plans to spend in 2007/08 is divided between central government ministries, departments and agencies (MDAs), regional secretariats, local government authorities (LGAs), debt servicing and "special expenditure" or "designated items." According to the guidelines, in 2007/08, the central government MDAs are set to receive over two-thirds of total Government resources. However, the 2007/08 budget guidelines continue to show a trend of decreasing resources to central government, and increasing resources to regions and LGAs. This can be attributed to the increased commitment by government to decentralize by devolving more powers to the local level. A major challenge facing LGAs will be how they intend to improve on issues of financial mismanagement noted in recent Controller and Auditor General's reports, in order to make sure that resources are actually reaching people.

The Budget Guidelines reveal that the Government expects to devote significantly more money to "designated items" in 2007/08. The Guidelines explain that these items include proposed salary increases, PSPF contribution, cooperatives debts and constituency development fund (CDF). It is unclear how these salaries increases will be implemented and allocated across various sectors. Also, the proposed creation of a Constituency Development Fund raises some concerns.²

tic revenue (money that we all pay in taxes, as well as revenue from harvesting of natural resources, such as timber or minerals), donor funds, debt relief and other resources (such as borrowing from local banks). According to the Budget Guidelines, the Government does not intend to rely on domestic borrowing at all in 2007/08. In addition, the Government is expected to receive much less from debt relief¹.

At the same time, domestic revenue is expected to increase from Shs 2.5 trillion to Shs 3.0 trillion. This will account for 60% of total government revenue, a significant increase from the previous year. The increase in domestic revenue is a good indicator to show that the government will be better able to support itself for the upcoming fiscal year. However, how does the government plan to raise additional domestic revenue? For example, does the Government plan to raise corporate taxes and enforce stricter regulations on extractive industries such as mining, or will the increase in domestic revenue mainly come from higher taxes on citizens? Are there plans to reintroduce the 'head tax'?

Figure 1: Composition of Revenue

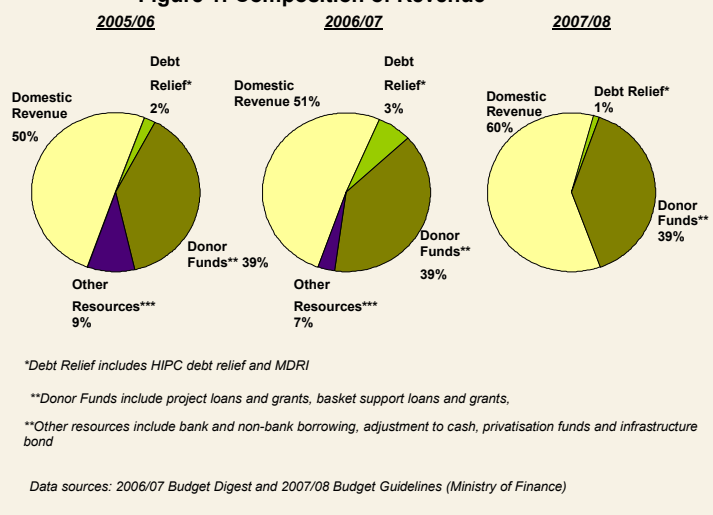
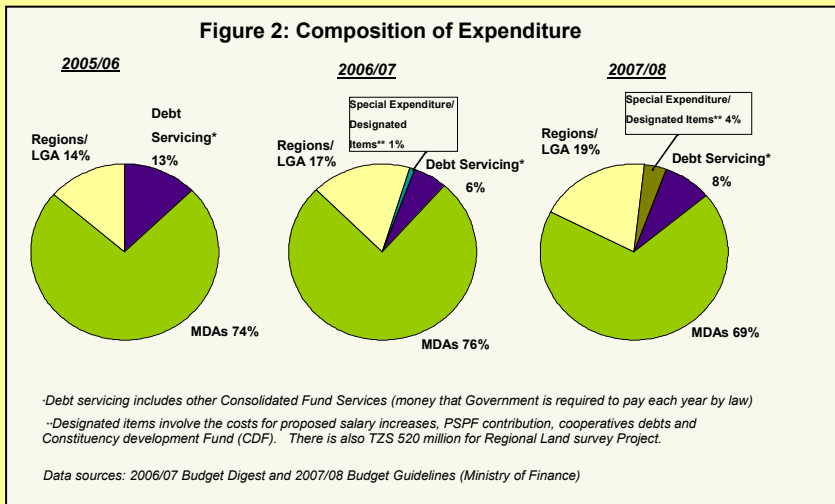


Figure 2: Composition of Expenditure



NOTE: All of the data in this brief should be treated with caution, as the Budget Guidelines provide only preliminary indications of what is expected.

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Vote	MDA	% of total Govt. expenditure			% Change: 06/07- 07/08
		05/06	06/07	07/08	
22	Public Debt and General Services	12.54%	5.82%	8.25%	47.8%
98	Ministry of Infrastructure Development	N/A	9.56%	8.17%	-10.9%
46	Ministry of Education and Vocational Training	4.20%	4.94%	6.56%	38.4%
68	Ministry of Higher Education, Science and Technology	3.31%	4.33%	6.28%	51.3%
38, 39, 57	Defense and National Service	5.85%	5.93%	5.73%	0.8%
52	Ministry of Health and Social Welfare	6.49%	5.91%	5.34%	-6.0%
58	Ministry of Energy and Minerals	3.16%	9.59%	4.84%	-47.4%
56	Prime Minister's Office -Regional Admin. & Local Government	4.95%	3.89%	3.66%	-2.0%
50	Ministry of Finance	6.34%	3.51%	3.12%	-7.4%
49	Ministry of Water	1.30%	3.51%	2.98%	-11.5%
30	President's Office and Cabinet Secretariat	3.28%	2.59%	2.72%	9.2%
28	Ministry of Public Security and Safety	2.45%	2.95%	2.65%	-6.1%
43	Ministry of Agriculture, Food Security and Cooperatives	2.83%	2.54%	2.22%	-9.0%
23	Accountant General's Department	2.06%	1.96%	2.08%	11.0%
29, 51, 93	Home affairs and associated departments	1.69%	1.98%	1.64%	-13.6%
32	President's Office- Public Service Management	1.32%	1.20%	1.26%	8.7%
66	Ministry of Planning, Economy and Empowerment	0.80%	1.48%	1.24%	-12.6%
34	Ministry of Foreign Affairs and International Co-operation	1.18%	1.09%	1.14%	9.1%
69	Ministry of Natural Resources and Tourism	1.33%	1.23%	1.02%	-13.8%
96	Ministry of Information, Culture and Sports	N/A	1.09%	0.92%	-12.4%
31	Vice President's Office	1.38%	0.85%	0.79%	-3.7%
40, 60, 64, 90	Judiciary and courts	0.81%	0.92%	0.76%	-14.5%
42	Office of the Speaker (Parliament)	0.73%	0.72%	0.65%	-6.2%
92	Tanzania Commission for AIDS	0.89%	0.63%	0.57%	-5.1%
99	Ministry of Livestock Development	N/A	0.46%	0.54%	20.0%
37	Prime Minister's Office	0.72%	0.61%	0.48%	-17.3%
61	Electoral Commission	0.75%	0.10%	0.40%	312.3%
41	Ministry of Justice and Constitutional Affairs	0.33%	0.40%	0.39%	0.2%
44	Ministry of Industries, Trade and Marketing	0.39%	0.38%	0.34%	-6.7%
48	Ministry of Lands and Human Settlements Development	0.33%	0.38%	0.31%	-14.8%
27	Registrar of Political Parties	0.23%	0.31%	0.30%	-1.7%
53	Ministry of Community Development , Gender and Children	0.20%	0.21%	0.18%	-14.2%
65	Ministry of Labour and Youth Development	0.91%	0.24%	0.17%	-27.0%
45	National Audit Office	0.23%	0.24%	0.16%	-31.2%
97	Ministry for East African Cooperation	N/A	0.15%	0.14%	-3.2%
94	Public Service Commission	0.16%	0.17%	0.11%	-31.0%
25	Prime Minister	0.04%	0.08%	0.06%	-18.7%
55	Commission for Human Rights and Good Governance	0.06%	0.07%	0.05%	-23.8%
26	Vice President	0.04%	0.04%	0.03%	-17.5%
91	Anti- Drug Commission	0.02%	0.03%	0.02%	-17.1%
33	Ethics Secretariat	0.03%	0.03%	0.02%	-17.8%
59	Law Reform Commission	0.02%	0.02%	0.01%	-13.2%

Allocations to Central Government MDAs³

As noted above, central government MDAs; are set to receive 69 percent of all government resources in 2007/08 - over two-thirds of total "cake." The table⁴ on the opposite page shows how that portion will be divided among the different MDAs, which are listed in the order of their 2007/08 budget allocation as a percentage of total Government expenditure.

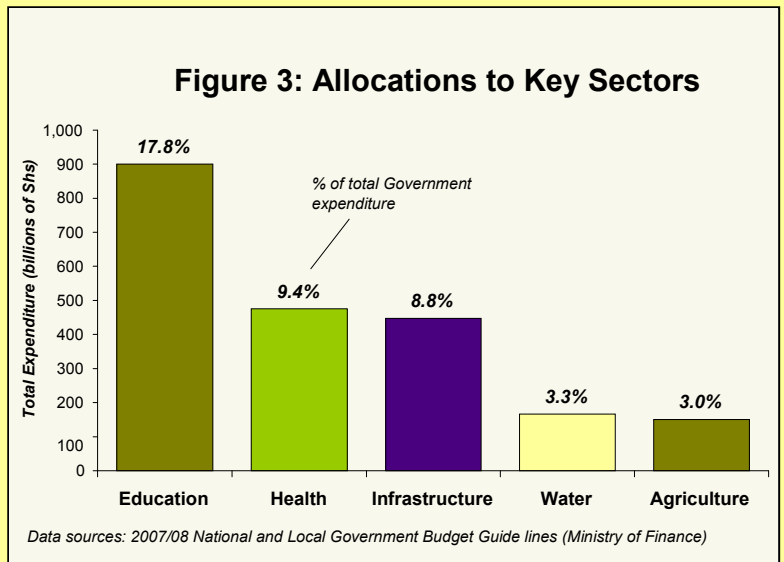
We can see that only six MDAs will see significantly higher budget allocations: Public Debt and General Services, Ministry of Education and Vocational Training, Ministry of Higher Education, Science and Technology, Accountant General's Department, Ministry of Livestock Development and the Electoral Commission.

The fact that allocations to most of the remaining MDAs are set to fall significantly can be accounted for by the ongoing trend of decentralization by devolution, discussed in the section above. In addition, the Budget Guidelines explain that the 2007/08 budget includes a "deliberate decision to direct more resources to few strategic programmes which will provide quick wins that will in turn accelerate economic growth in the short to medium term." Concentrating resources on a few programmes means that fewer resources are available for those MDAs which have not been designated a priority under this "quick wins" strategy. It is questionable how strategic the "quick wins" really are, and whether such a strategy is a shift away from the broad-based, equitable growth strategy outlined in MKUKUTA.⁵ The shifts in allocations to certain ministries also raise further questions about Government priorities. For instance, the fact that the allocations to the National Audit and the courts are set to fall significantly raises questions about Government's commitment to strengthening these key governance institutions. The dramatic increase to the Electoral Commission also merits further explanation. (See Pre-Budget Brief #3 for more on these issues.)

Key Sector Allocations

Allocations to central government MDAs do not capture the whole picture in terms of the key social services sectors, since a lot of money for these sectors flows directly to local government authorities (e.g. grants to support primary education), rather than passing through the relevant line Ministry (i.e. the Ministry of Education and Vocational Training). The graph on left provides an overview of allocations to the key social service sectors.⁶

The graph shows allocations to key social service sectors in terms of total budget allocation and as a percentage of total Government expenditure. Education is clearly a top priority, receiving nearly twice as much as the health sector, and also significantly more than the infrastructure, water, and agriculture sectors.



Are the budget allocations to these key social sectors sufficient to support a broad-based, equitable approach to poverty reduction? Pre-budget brief #4 discusses the allocations to key sectors in greater detail.

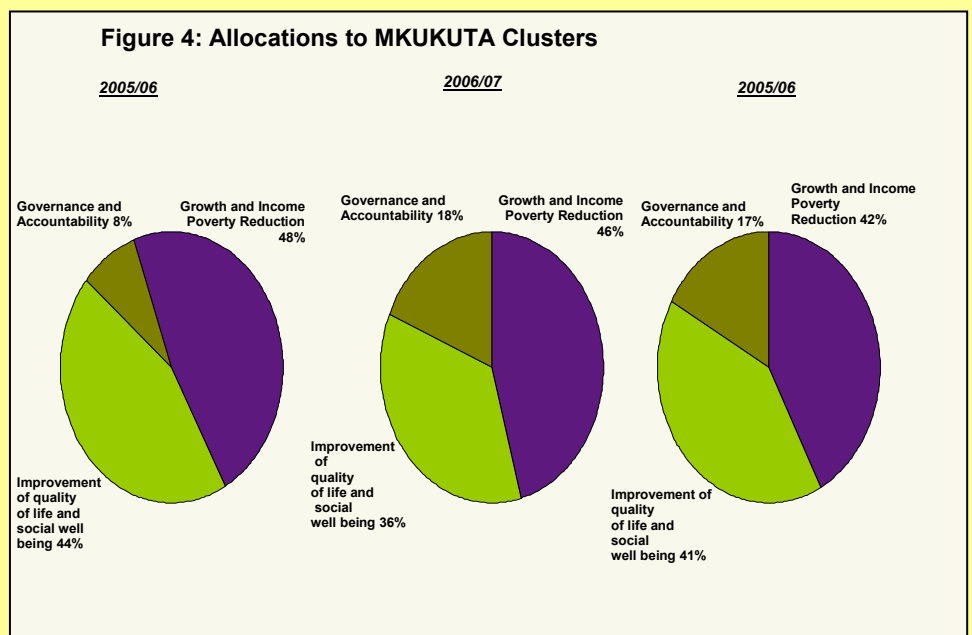
MKUKUTA Allocations

MKUKUTA provides the strategic policy framework for the 2005-10 period and is supposed to provide the priorities for the budget. MKUKUTA is divided into three clusters:

- Economic growth and income poverty reduction
- Improvement of life and social wellbeing
- Governance and accountability

The guideline projections show that priority in resource allocation will continue to be given first to the economic growth and income poverty reduction cluster, then the improvement of life and social wellbeing cluster followed by the governance and accountability cluster.

However while the governance and accountability cluster and the economic growth and income poverty reduction cluster will see a decrease of about 7 per-



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centage allocation; the improvement of life and social wellbeing cluster is set to have an approximate increase of 13 per cent. According to the NSGRP this strategy will be guided by two broad outcomes:

- improved quality of life and social well being, with particular focus on the poorest and most vulnerable groups
- Reduced inequalities (e.g. education, survival, health) across geographical, income, age, gender and other groups.

The link between MKUKUTA priorities and budget allocations is often not entirely clear. Indeed, as discussed above, the 2007/08 budget guideline indicates a potential shift away from MKUKUTA's broad-based approach to poverty reduction. In addition, the apparent decreased allocation to a number of social sectors does not seem in line with the increased allocation to the social well-being cluster. This raises questions about how budget allocations are classified in terms of MKUKUTA priorities.

SO, WHAT WILL THE BUDGET SAY?

FY 2007/08 expects to see the government :

- Depend more on domestic sources to raise revenue.
- Spend less on MDAs and more on Regions and LGAs as well as specific strategic priorities ("quick wins")
- Spend less on a number of key social services sectors
- Focus more on improvement of life and social wellbeing cluster of MKUKUTA

WHAT DOES THIS MEAN?

- Will the increase in domestic revenue come from higher corporate taxes and tighter control of natural resource extraction, or from higher taxes on citizens?
- Who will benefit from the "quick wins"?
- What will spending less on key social services sectors mean for the welfare and livelihoods of ordinary Tanzanians?
- How strong is the link between budget allocations and MKUKUTA priorities?

HOW HAS OUR GOVERNMENT MANAGED OUR MONEY IN THE PAST?

Along with analyzing how government raises its money and where it intends to spend that money it is important to assess how the government manages its money. Findings from recent national audit reports show a number of problems. According to the most recent Controller and

Auditor General's (CAG) report for financial year 2005/06, the government was unable to account for 273 billion shillings. In addition, twenty six MDAs, responsible for 50% of government expenditure, received 'qualified'⁷ or 'adverse'⁸ reports. All the ministries in the 'Key Sector' section mentioned above received qualified reports (with the exception of the Ministry of Agriculture, which received a 'clean' report with an 'emphasis on matters').

1. It should be noted that the 2006/07 budget included a one-time-only debt relief from the Heavily Indebted Poor Countries initiative (HIPC relief) which forgives a portion of debt that is considered to be unsustainable.
2. See Pre-Budget Brief #3 for a deeper discussion of the issues surrounding the Constituency Development Fund and other key governance issues.
3. Those receiving a significant increase (more than 10 percent) compared with last year are shaded in olive green, whereas those getting significantly less are shaded in violet. The MDAs' 2005/06 budgetary allocations are listed as well for the sake of comparison.
4. Some MDAs have been combined or were excluded from the table for the sake of comprehension. Also note that in January 2006, a number of new ministries were created, some by splitting or merging former ministries.
5. See Pre-Budget Brief #2 for a deeper discussion of the "quick wins" strategy.
6. The estimates in the graph may not capture the entire contribution by the Government to these sectors, due to off-budget expenditure or expenditure that is not appropriately or clearly classified in the Budget documents.
7. According to the CAG "A qualified opinion is issued when the CAG concludes that an unqualified opinion cannot be issued but due to the disagreement with management or limitation of scope is not so material and pervasive and except for the effect of the matter giving rise to the modification of audit opinion; the financial statements were prepared in accordance with the applicable financial reporting framework and not misleading thus they do not require an adverse opinion."
8. According to the CAG "An adverse opinion is issued when the effect of a disagreement with Management has a material and pervasive effect on the financial statement such that the financial statements are not prepared in accordance with the applicable financial reporting framework or are misleading as a whole. In this case, a qualified opinion is not adequate to disclose the misleading nature of the financial statements."

This leaflet was prepared and edited by the Budget Working Group of Policy Forum.



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