THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE

PUBLIC EXPENDITURE REVIEW
ANNUAL CONSULTATIVE MEETING

MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)
CROSS-SECTOR STRATEGY

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I DEVELOPMENTS IN IMPLEMENTING THE MTEF

1. The strategy in Tanzania’s Medium Term Expenditure Framework continues to be guided to a large extent by the Public Expenditure Review participative process. In 2003/04, sector reports have been prepared to guide policy and resource allocation and draft submissions were available in time for the Budget Guidelines preparation. This is a positive improvement compared to previous years. Realistic costings of sector activities in the MTEF remains a key challenge in order that the Ministry of Finance can balance sector requirements with resource availability. This year, sector coverage has improved as other strategic sectors such as lands and energy have prepared their reports. Cross-cutting issues such as regional administration and local government and the environment have also been covered. This is an encouraging development and it is hoped that the PER process can cover other strategic sectors in the future.

2. Implementation of the MTEF is carried out with a key focus on allocations to the seven PRS priority sectors as guided by the priority sector approach of the original Poverty Reduction Strategy Paper (PRSP). This approach will continue to inform resource allocation policy in the 2004/05 budget, until the PRS is revised in late 2004. As can be seen in Table 1, there have been steady increases in priority sector expenditures, both year on year, as well as a share of the total expenditure budget. The trend in relative shares was affected in 2003/04 due to expenditure cuts of only non-priority items made in all Ministries, Departments and Agencies (MDAs) in the 2003/04 supplementary budget. This was necessitated by the drought, food shortage and power rationing crisis. There was nevertheless a net increase to priority sectors, particularly to the agricultural sector due to the need to replenish food supplies. In the 2004/05, the budget is provisionally providing for yet more increases to these sectors.

3. Recent developments in more strategic preparation of budgets by the MDAs and regions, includes the submission of budgets in an MTEF format for the 2004/05 fiscal year. This is an indication of the MTEF process becoming more institutionalized in the budget formulation process of spending units.

4. At the local government level, the recurrent and development budgets have been prepared using GFS classification. This is a positive move towards using international budgeting standards at all levels of Government. In addition, a formula-based recurrent grant transfer system has been adopted in order to facilitate greater strategic resource allocation of intergovernmental grants to LGAs. From January 2004, council basket funds have been made to the health and education sectors according to the formula and from 2004/05, the formula will be used for block grants. By fiscal year 2005/06 the formula will be implemented for all
sectors. The harmonization of fiscal years between central and local governments from 2004/05 is also an important step forward in implementing the MTEF in a more coherent way.

Table 1: Central Government expenditure and priority sectors 1999/00 – 2004/05

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<th>1998/99</th>
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<td>480.2</td>
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</tbody>
</table>

Source: Ministry of Finance

1/ Basket funds (education and health) are not reflected in development expenditure, but in recurrent expenditure.

2/ TACAIDS is a Government agency formed in 2001 to coordinate AIDS related priority interventions.

For fiscal years 1998/99 - 2002/03, HIV/AIDS expenditure is shown as expenditure made by the TACAIDS agency, while other HIV/AIDS expenditure was shown under the health sector. However for fiscal year 2003/04, all HIV/AIDS expenditure is shown as expenditure made by TACAIDS, the Ministry of Health as well as Other Ministries, Depts, Regions and L. Govts.

3/ Revisions include supplementary budget approval in February 2004 and reallocation warrants to date. High amounts to the agriculture sector include allocations to the Strategic Grain Reserve in order to replenish food supplies following the drought in 2003/04.

Priority items in PRS sectors remain protected from any expenditure cuts.

4/ Work is ongoing to firm up the final allocations to PRS sectors in 2004/05. Allocations here are indicative. Transfers to TANESCO are also in the process of being firmed up.
5. Tracking of expenditures in order to monitor effective use of expenditure allocations is a crucial part of implementing the MTEF. The Integrated Financial Management System (IFMS) continues to track expenditure execution and since 2003/04, tracking is undertaken at PRS priority item level. The Budget Execution Report of the second quarter of 2003/04 shows effective expenditure utilization, even at item level. This indicates that initial problems with understanding of the procedures in the Procurement Act are lessening. Capturing of expenditure from foreign projects remains a challenge. However, MDAs have been instructed to report quarterly on expenditures from foreign projects, and Ministry of Finance monitors these reports so that capturing and accountability can be improved. In this effort, it is important to note that disbursement of project funds by development partners through the Government exchequer system can assist in this process. Better capturing of actual expenditures in all categories can assist Government to analyse trends and resource requirements within a longer time frame.

6. The PER for 2003/04 has seen the continuation of the extensive exercise to collect aid data projections for the 2004/05 – 2006/07 MTEF period. Based on the data collected for the period, it can be noted that the modalities of external financing in Tanzania consists of direct budget support, basket funding, project financing and debt relief. Although the trend shows increased direct budget support and joint (basket) funding mechanisms, project funding remains to be a major modality of external financing over the period of the MTEF in most sectors.

7. Apart from the Primary Education Development Programme (PEDP) basket in the education sector, baskets for the health sector, Local Government Reform Programme (LGRP), the Public Expenditure Review (PER), and the Poverty Monitoring Master Plan (PMMP) Basket, this year has also witnessed the launch of the Public Sector Reform Programme (PSRP) and Business Environment Strengthening for Tanzania (BEST) Programme Baskets. Proposals are at advanced stage for Public Financial Management Reform Programme (PFMRP) and Agricultural Sector Development Programme (ASDP) baskets. Continued and strengthened dialogue between Government and donors is needed to ensure that lessons learnt in the implementation of existing baskets are applied in other sectors.
II. KEY SECTOR SPECIFIC ISSUES

8. This section summarises some of the key sector objectives, strategies, challenges and possible steps forward that have emerged from the PER sector reports of fiscal year 2003/04. These are issues that need to be considered in the Ministry of Finance’s overall financing strategy for the expenditure framework in the medium term.

Education

9. The objective of providing education in Tanzania is to impart the desired knowledge in order to improve the quality of human resources for increased productivity and hence increasing economic growth as well as increasing social mobility and equality of opportunities. With increased economic integration with neighbouring countries, a competitive labour force is also crucial.

10. The PER sector report of 2002/03 identified 20 recommendations. Since then progress has been achieved in 14, leaving the following six objectives to be achieved:

- Development of more education indicators in line with PRS and indicators for Secondary and Higher education levels as well as for Non formal and continuing education.
- Establishment of more centres for Integrated Community Based Education and Complementary Basic Education;
- Preparation of Micro-plans by all schools;
- Extension of coverage of school mapping to all districts;
- Extension of Education Management Information System to all districts; and
- Establishment of Education Database Unit within Ministry of Science Technology and Higher Education (MSTHE).

11. Challenges

- There are still large variations in the pupil teacher ratio (PTR) a situation that was compounded by the 22% shortfall teach recruitment in the 2002/03. However, the 2003/04 PER notes that this gap is likely to be met in 2003/04 by the increase in Grade A teachers’ enrolment.
- Net enrolment in secondary education remains disappointing, increasing only marginally between 2001 and 2003 from 5.5% to 6.3% respectively. Additionally, the targets set with regard to reducing the drop out rate from secondary education are unlikely to be met.
Due to budgetary constraints, it has remained difficult for the Sector to finance the Government’s Medium Term Strategy and Action Plans for Non-Formal Education (NFE). The main areas of concern for NFE delivery include the training of the instructors, payment of honoraria to teachers, inadequate facilities and teaching materials.

Adequately capturing the total amount of financial resources being spent within the sector is still proving difficult. This is due to certain NGO’s and donors disbursing directly to the beneficiaries thus bypassing the central pool of funds.

The management of PEDP funds still face both systemic and non-systemic problems. The systemic problems are related to the institutional arrangements, whereas the non-systemic problems include both low actual disbursement and misappropriation of funds.

The Ministry of Education and Culture (MOEC) and the Ministry of Science, Technology and Higher Education (MSTHE) have HIV/AIDS education programmes, however, it has become apparent that these programmes need to be consolidated as they are currently overly fragmented.

12. Steps forward

- Implementation of remaining 6 actions recommended in the PER sector report 2002/03.
- Issues regarding PTR variations, recruitment of teachers, procurement of textbooks, drop out rates, low grades and better predictability of resource funds need to be addressed.
- Better indicators of the quality of education need to be designed, over and above current indicator which employs the availability of textbooks. These may include indicators related to the inspectorate system, curriculum, attendance of teachers and pupils and school enrolment.
- Improve the ability to capture resources flowing onto the sector, through further engagement with the Ministry of Finance with regard to its programme of Expenditure Tracking, as well as further employment of the Integrated Financial Management System (IFMS).
- MOEC and MSTHE should fully implement the recommendations of the Controller and Auditor General (CAG) in order to increase the effectiveness of funds utilised and to enhance accountability and transparency.
- Software should be employed to speed up the crediting of school accounts to eliminate the delays reported between the councils and schools.
- Cases of misappropriation of funds should be prosecuted with speed in order to pre-empt other would be offenders.
Health

13. The main objectives in the health sector are to increase life expectancy through reducing infant, under-five and maternal mortality, focusing on tackling malaria related fatality, contributing to the fight against HIV/AIDS and increasing accessibility to a clean water supply.

14. The sector prepared a comprehensive Health Sector Strategic Plan (HSSP) in order to coordinate and achieve these objectives. Key interventions include the delivery of the Essential Health Care package, addressing the human resource crisis, strengthening immunization and nutrition services, and improving the availability of drugs supplies. To enhance the efficiency of service delivery at health facilities, the sector is advancing with a series of reforms, including decentralization of primary care and district hospitals to the council level. The aim is to have an efficient referral system throughout primary, secondary and tertiary levels.

15. Challenges

- The health sector PER report highlights that costs in provision of health care services is increasing with new demands such as malaria control, routine immunization, voluntary counseling and testing, and increased costs of inputs and technology. These are on top of the health sector’s other core priorities.
- The level of funding from Government relative to foreign funding is raised as the key concern in the PER health sector report, particularly the signal of Government’s commitment to health sector objectives.
- Despite successes in the health SWAP, the over reliance on foreign financing of health activities exposes risks to the health sector plans if foreign funding phases out.

16. Steps forward

- The Budget Guidelines in the future needs to assess resource availability more carefully and ensure that Government funding is maintained year on year, with clear disaggregations of the relative share of foreign funding in order to demonstrate Government’s continued commitment to the health sector.
- Effective implementation of the formula-based recurrent grant transfer system for the health sector of council basket funds from January 2004 and for block grants from 2004/05. Improvements are required in the Health Management System and the Poverty Monitoring System data to enable more equitable resource allocation between regions and councils in the future. The balance
between urban and rural allocations needs to be addressed and rural councils need to be given higher priority in accordance with PRS objectives.

- The importance of drug and supply availability in ensuring quality of health service delivery and the lack of detailed information thereof, warrants the need to conduct an in-depth study on allocations between institutions and geographical areas. In addition, a Health Sector Tracking Study is also recommended to be carried out. Moreover, it is expected that the Education Sector Expenditure Tracking Study will, to some extent, provide a general assessment of the accountability of the infrastructure to deliver funds to councils for the intended purposes, from which lessons can also be learned for sectors such as health.

- Realistic costings of priority and other activities in the health sector in future sector reports can assist in guiding allocations of Government funding. The health sector PER report highlighted that better organization of the Task Team is required to ensure data collection at an earlier stage. For the next PER cycle, this recommendation needs to be taken up.

- Cost sharing systems need to be explored in more detail in terms of ability to raise finance and equity impacts. Such analysis can also be used to guide Government funding to the sector.

**HIV/AIDS**

17. Objectives

- HIV/AIDS is a national concern and continues to be the Government’s highest priority. There is a pressing need to protect individuals from the disease and to maintain a health workforce. This needs to be done through increased awareness and containment of the spread of HIV/AIDS, as well as adequate care and treatment for the infected.

18. Strategies

- Focus on prevention compared to treatment due to the high costs of the latter.

19. Challenges
The PER sector report estimates that an effective, mainstreamed response to the HIV/AIDS epidemic will require Tanzania to spend in excess of USD 100 million a year. Funding therefore remains a key challenge.

Much external support is being directed to HIV/AIDS. However, funding through a coordinated channel, for example use of the Government’s system through the budget support instrument, can be a key way of achieving more streamlined support.

Funding to LGAs needs to be increased, as they are responsible for the majority of activities required to mainstream HIV/AIDS. The funding needs to be allocated across regions and councils in balanced way. Donor and NGO support tends to be concentrated in some districts and councils leaving others under funded.

20. Steps forward

- Government is increasing its support to the NMSF through TACAIDS, Ministry of Health and the MDAs, as shown in Table 1.
- Mobilisation of resources from the Clinton Foundation, Global Fund and other sources, for the Care and Treatment Plan, particularly for anti-retroviral drugs planned for up to 400,000 AIDS patients.
- TACAIDS needs to be adequately resourced in order to lead a more coordinated approach, drawing together Government support and MDA activities, donor support and NGO projects.
- Alternative financing methods need to be considered as suggested by the PER report, including: conditional central government transfers (possibly supported with earmarked budget support); an HIV/AIDS basket fund; scaling up of the World Bank TMAP which aims at a district and community response using Regional Facilitating Agents who develop strategies and manage district and community funding in all regions.
- Further mainstreaming of HIV/AIDS into MDA budgets is needed, with additional resources so that interventions across the civil service are scaled up.

Roads

21. One of the main objectives in the roads sector as outlined in the PRSP is the rehabilitation of 4,500 kilometres of regional roads in twelve poorest identified regions.

22. Strategies

- Several institutions are responsible for delivering the objective. Therefore, a crucial strategy is preparation of the Road Act in order to define institutional
responsibilities between different roads sector stakeholders in order to promote coordinated and effective participation.

- Training of local consultants and contractors through Ministry of Works, TANROADS and LGAs.
- Acquisition of more road construction equipment.
- Finalisation of the management information systems in TANROADS and PO-RALG in order to provide a basis for assigning strategic sections of the network.
- Tracking by PO-RALG of ongoing road rehabilitation and maintenance in order to monitor and assess conditions and requirements of the road network.

23. Challenges

- Estimation of the true road length for construction, maintenance and rehabilitation remains. For activities under TANROADS’ jurisdiction, there has been an improvement in estimation of the total length of trunk roads compared to the previous PER report. The current estimate is 28,940 kilometres. At local government level, the length of the network remains to be estimated more concretely. In order to provide adequate financing in the medium term, Government needs to work to improve costings of requirements.
- While TANROADS’ actual expenditure and coverage of roads is high compared to plans, LGA expenditure and actual road coverage remains low. The majority of expenditure at LGA level in maintenance went to periodic and spot/emergency works compared to routine maintenance. This highlights significant problems in capacity to absorb funds at LG levels. Training in procurement expertise is needed at all levels.
- Procurement delays and tendering thresholds are identified as key problems of sector execution plans in the roads sector report.

24. Steps forward:

- Government funding for roads is expected to increase. For example, in the 2004/05 budget, collections in fuel levy are expected to increase in line with economic growth projections. This will add to the allocations earmarked for the Road Fund, 30 percent of which goes to PO-RALG and the remaining amount facilitates expenditure at the Ministry of Works and TANROADS.
- Funding for road maintenance at LG levels needs to be made in line with capacity to absorb funds and increased over the medium term as capacity increases.
It is noteworthy that the Government is taking measures to improve the tendering process through decentralization of powers for procurement of goods and services to the spending units. At the same time, the Central Tender Board will be transformed into a Public Procurement Regulatory Authority.

Agriculture

25. Objectives

- To promote the sector in terms of production for domestic use and exportation, as well as profitability of farmers. This is in order that poverty which is primarily in rural areas, can be addressed, and growth of the sector can contribute to national GDP.

26. Strategies

- Rural Development Strategy which aims at improving living standards of rural people. The strategy is critical for coordinating cross cutting issues.
- Agricultural Sector Development Strategy (ASDS) which focuses on a sector wide approach.
- Operationalisation of the ASDS is done through the Agricultural Sector Development Program (ASDP) by prioritizing and coordinating activities.
- The majority of the agriculture sector budget (75%) is to be utilized by LGAs through the District’s Agricultural Development Plans (DADPs) and the remaining (25%) by the Agriculture Sector Lead Ministries (ASLMs) and for cross cutting issues.
- For 2004/05, the targeted activities will include increasing the capacity of the ASLMs to support services such as: extension; research; disease and pest outbreaks; irrigation; promotion of access to inputs, farm implements and agricultural credit, particularly for women farmers; and private sector involvement.

27. Challenges

- The private sector has not yet shown keen interest in providing public services delivery in the agricultural sector.
- Growth in the sector has been adversely affected by the drought situation and the shortage of food supplies. The challenge is to focus on recovery and to continue increasing productivity, profitability and export potential and diversification in the sector.
- With the majority of the sector budget aimed to be spent by LGAs, capacity building at local levels remains key to achieving outcomes.
A large majority of people produce for subsistence farming which reduces the domestic market share.

28. Steps Forward

- Funding for public service delivery to be increased to enable technology transfer and adoption.
- Reducing the cost of agricultural inputs and providing incentive packages.
- Increasing the irrigation budget and linking existing irrigation schemes with extension, inputs, environmental protection, land use plan and enforcement of scheme by-laws. Other steps to be taken by the sector are promotion of diversification of crops and planting of drought-tolerant crops.
- Together with existing capacity building funds in LGAs, the ASLMs have also planned 20 percent of the DADPs to cater for LGA capacity building, especially in agricultural planning and monitoring and evaluation.
- The ASLMs have realized that all the efforts in improving extension and research services will only be realized if market demand is increased and prices stabilized. Therefore, the proposed way forward is to enter into agricultural trade agreements with other countries to sell grains and other agricultural products. This will increase market size and stabilized prices.
- Increased budgetary support for agriculture to reinforce Government commitment to address rural poverty.

Water

29. Objectives

- Sustainable provision of affordable, adequate, safe and clean water for different social groups in rural, urban and peri-urban areas.
- Greater participation of men and women in the planning and management of water systems especially in the rural areas.
- Sustainable and equitable development of urban and peri-urban sewerage and sanitation facilities.
- Integrated water resources development for social-economic development in the country and coordinating protection of water sources in order to control pollution levels.

30. Strategies

- Ensuring effective provision of services, the sector will focus on key priority interventions, efficient utilization of resources allocated in the medium term as well as in sub-sectors.

31. Challenges
- The financing gap is still significantly big when compared to the requirement from the sector to implement PRS priority interventions. In addition, a large percent of water sector financing is donor funded.
- The coverage of people supplied with safe and clean water is not even across the country. Some regions and districts have experienced a better access to safe and clean water while others are lagging behind adequate water supply and service coverage.
- The sanitation services is less known or covered and there is no budget line for sanitation activities. In addition there is no coordination between Ministries or sectors involved in sanitation issues, such as Ministries of Water, Health and Local Government.
- There is a problem of integrating water sector resource requirements from regions and LGAs into the Ministry’s input of the water sector to the budget guidelines.
- Low participation and little financial contributions to the sector by communities.

32. Steps forward

- The Government will continue to provide adequate funds to water sector to facilitate effective implementation of PRS activities. In addition, the Ministry of Finance will improve the process of coordinating open discussions between the budget committee and sectors to ensure that key priorities get adequate funding over others. In particular the focus will be to increase resource allocation for sanitation and sewerage services. Timely disbursement of funds to sectors particularly those funds within the Ministry of Finance’s mandate will also be ensured.
- It is expected that private sector participation will enhance the performance in water sector by establishing more water distribution points.
- The Government will ensure effective implementation of the central payment system for utility bills to avoid accumulation of new arrears. In addition the government will establish a proper mechanism for payment of water bills by government institutions.
- The completion of the review of water legislation will lay a legal framework to govern the operations and management of the Village Water Funds. This will facilitate increased transparency and hence better management of community water funds.
- It is also expected that the formula based system of transfers to Local Government will ensure the curtailment of existing resource disparities which contribute to the unequal service coverage at the regional and district level. Likewise, the Government also expects to introduce a Sector Wide Approach (SWAP) in the water sector with anticipation of capturing district plans and resource requirements.
Judiciary

33. Objectives

- The main objectives of the judicial sector are maintenance of law and order, and provision of equitable, effective and efficient judicial services to all citizens and residents of Tanzania.

34. Strategies

- Reduction of the backlog of outstanding cases; enhancing supervision; continued updating of the legal framework; promotion of research; and improvement of the working environment through construction and rehabilitation of court buildings. In addition, preparation and implementation of short and long term training programmes.

35. Challenges

- Low morale attributed to low remuneration and poor working environment.
- Existence of out-dated laws in the legal framework.
- Large gap between the sector’s budgetary requirements (both recurrent and development) and allocation from the Treasury which severely affects the performance of the sector.
- The existing PRS framework does not consider the Ministry of Home Affairs, Police force and the Prison Services as priority votes.
- Ineffective and unfair delivery of judicial services across the country.
- The sector seems to have revenue potential which is not exploited to date.

36. Steps forward

- Efforts are underway to update old laws, for example the anti-corruption law. This will ensure that the legal framework is implantable without unnecessary obstruction.
- The Government will continue supporting the judicial sector, taking into account the scarcity of public resources and the competing needs among spending units. It is also expected that foreign development projects will enhance the resource envelope for the sector.
- A study will be commissioned to research on the potentials of increasing collections under the Ministry of Justice and Constitutional Affairs (MJCA), the Ministry of Home Affairs (MHA) and any other area(s) that can help boost the revenue base for the sector and the Government at large.
- The Government will review the recommendation to institute a formal reform programme for MHA.
- Other general recommendations include: the need to generate a formal assessment of the training institutions’ capacities and relevance in the sector,
including the required restructuring of curricula, nature of awards and the capacities, scope and coverage for each institution (JJA, CCP, Police Staff College, and Prisons Colleges). Study and rationalize training programmes with those of related academic institutions, public and private programmes, and related international initiatives (with follow up on possible roles of INTERPOL, SADC Protocols on peace and security, EAC Memoranda on peace and security and human rights) and the possible role of Development Partners, especially in the skills relevant for dealing with international terrorism and ‘e-commerce’.

Land

37. Objectives

- Equitable distribution of land which facilitates shelter provision; production of goods and services; use as security and access to credit.
- Promotion of sustainable human settlement development through planned settlements with adequate access to infrastructural facilities.

38. Strategies

- Overseeing of plot allocation, issuance of title deeds, registration of titles, mapping and surveying of land.
- Effective collection of revenues through land sales, land rent collections, property tax and other fees levied on land transactions.

39. The main challenges are to increase funding to the following core priorities:

- Land delivery and security of ownership;
- Village and urban land mapping;
- Promotion of participatory land use plans in rural and urban areas;
- Promotion of the computerization process of land related records;
- Enhancing land and housing disputes settlement machinery;
- Mortgage financing facility;
- Capacity building and formulation of legislation for enforcement of the Human and Settlements Development Policy.

40. Steps forward

- The Dar Es Salaam plots development project needs to be enhanced with basic infrastructural services including: provision of water, electricity, sewerage and telephones, and upgrading of roads and drainage systems.

Raise collection of land rents through regularization of unplanned areas, which are part of the national housing stock, but from which limited rents are collected compared to planned areas. The Dar Es Salaam plot project and plans to regularize squatter areas will be key to achieving this goal. Recommendations also include upgrading the Land Rent Collection Unit into a fully fledged and autonomous department.

Development of action plans for equitable growth in towns, constituting the strategic urban and regional development framework.

Promotion of local ownership by the urban poor, civil society and private sector.

Energy and Minerals

41. Objectives

Better and smooth as well as cheap access to energy supplies in both rural and urban areas.

The objectives for the mineral sector are to fully exploit the available opportunities in order to increase mineral output and export earnings and to create and expand employment in the entire economy. Specifically, the aim is to attract investment in mineral exploration (for precious metals, gemstones and industrial minerals), extraction and processing.

42. Strategies

Following a severe drought in 2003/04, the Government has had to earmark a substantial amount of resources for power generation so as to avoid power shortages which would have severe economic consequences. There are indications that the same problem will recur in 2004/05 due to insufficient rainfall. In order to mitigate the problem, adequate resources will be earmarked for that purpose in the 2004/05 budget. The Government has also taken measures to deal with this problem by initiating an Emergency Power Project with the support of the World Bank.

Establishment of a system of production transmission and distribution of reliable supply of electricity for both, rural and urban areas. Priority will be given to implementation of programmes related to rural electrification, development of the petroleum sub-sector, as well as support to the energy sector reforms on petroleum and electricity.

Promotion of an effective and sustainable mining industry by effectively exploiting its existing potential for growth, employment creation and expansion, foreign exchange earnings and environmental preservation.
43. Challenges

- There is limited participation of private investors in certain mining projects for strategic and promotional purposes leaving potential mines unexploited.
- Inadequate or lack of implementation of planned activities and strategies due to lack of sufficient funds

44. Steps forward

- The Government will consider taking an interest in some mining ventures to foster mine developments. This will depend on the study to establish the net social benefits which will be derived from such undertakings.
- There is a need to improve the capacity to collect revenue from energy and minerals by setting revenue targets which will provide efficiency and motivation to exceed targets. The sector report’s recommendation to increase the retention from 32 percent to 60 percent will be reviewed over the medium term. More resources are also necessary to facilitate capacity building and setting up the necessary infrastructure for mineral value-added activities, as well as to conduct basic exploration and dissemination of the findings.
- Actions are required to ensure that energy reaches the poor rural population in order to facilitate and ease access to clean water through solar and/or wind energy. In this regard a wind speed survey and solar market survey are in progress and will inform the policy strategy to be pursued over the medium term to gradually enable the rural population of the country to access clean water at minimum possible time/distance through support and encouragement of alternative energy supplies. The government recognises that successful implementation of this strategy will ultimately reduce the burden of the rural population, especially women, who spend a long time in fetching water.
- Recognising that industrial minerals have potential for generating government revenues and for developing the local industry, the government will consider the recommendation to take industrial minerals on board and promote them the same way precious metals and gemstones are promoted. For example, clay-based products such as china ware, earthen ware, bricks and tiles, can be produced under rural or urban cottage or factory settings, thus importantly assisting women and youths to obtain gainful employment, incomes and therefore alleviate poverty.

Environment

45. Objectives

- Environment is a cross-cutting issue which is important for sustainable development. The objectives therefore, are to ensure its mainstreaming in
sectors, strengthen linkages between environment and poverty eradication, and enhance government’s coordination capacity.

46. Strategies

There are several existing cross-cutting and sectoral development strategies that support the implementation of the above-mentioned objective, such as:

- Agricultural Sector Development Programme (2000).
- Health Sector Reform (1999).
- Education Sector Reform and Development Programme (1999).
- Vice-President’s Office (VPO) Medium Term Strategic Plan and that of the National Environment Management Council (NEMC).

47. Challenges

- Heavy dependence on external support and inadequate funding of the VPO and the NEMC as well as environmental sectors at national, district and lower levels.
- Inadequate environmental revenue collection and under-pricing of environmental resources leading to low revenue collections.
- Under-pricing of environmental products and inadequate investment in environmental management.
- Weak poverty-environment linkages both at national and local levels.
- Inequitable allocation of revenue and environmental resources among stakeholders.
- Inadequate implementation of multilateral environmental agreements due to inadequate funding.
- Unavailability of comparable data on levels of environmental expenditure and revenue.

48. Steps Forward

- Finalise and implement the new Environmental Management Act.
- Support capacity building for environmental management.
- Support environmental assessments, monitoring and enforcement.
- Support environmental awareness-raising campaigns.
- Support the implementation of multilateral and regional environmental agreements, which have been ratified or acceded to by Tanzania.
- Support initiatives to address emerging environmental issues.
- Mainstream environment in all relevant sector PERs.
- Establish the Environmental Fund for environmental management.
- Strengthen environmental databases.
- Introduce and enforce economic instruments for environmental management.
- Undertake economic valuation of environmental resources.

Regional Administration and Local Government

49. Objectives include effective coordination of regional and local government administration and funds, promotion of service delivery at local government levels through monitoring and evaluation of LGA projects.

50. A key new strategy for fulfilling the above objectives is the formula-based system for more equitable resource allocation among regions and LGAs.

51. Challenges
  - Shortage of staff at all levels, particularly accountants, auditors, engineers and medical professionals.
  - Development of education in some LGAs is constrained by several institutional problems including teacher qualifications, poor teaching facilities and the distant location of schools.
  - Road rehabilitation at LGA level is constrained by lack of capacity, for example capacity of engineers.
  - The abolition of nuisance taxes at LGA levels requires continued support from central Government in order to facilitate execution of LGA expenditure plans.
  - With increasing roles of councils, their share of funding needs to be increased.
  - Reporting of actual expenditure at LGA levels needs to be improved, particularly data collection, processing and recording.
  - Balance in resource allocation among sectors at council level needs to be addressed.
  - Promotion of community centres to enhance delivery of services.
  - Cross-cutting issues such as environment and gender need to be better mainstreamed in PO-RALG, the regions and councils, particularly in terms of budgeting.

52. Steps forward
  - Development of incentive packages and higher remunerations at LGA level.
  - Design and implementation of training programmes for finance and accounting staff.
  - Extension of the formula-based system for allocation of resources to all sectors by 2005/06.
- Improvement of delivery and quality of education by LGAs, particularly through specific programmes to raise teachers’ morale, raise awareness among parents on benefits of education especially girls, and improve living and working conditions of teachers.
- Strengthening of accounting procedures and internal audit at council levels to improve financial management.
- Increased efforts by LGAs to collect revenue from remaining sources of revenue.
- Consolidation of plans to establish a unit in PO-RALG for dealing with management of financial data of the councils and making the Directorate of Policy and Planning the one-stop centre for PO-RALG statistics.
- Increased channeling of donor funding through the exchequer system to allow for capturing of funds.
- Development of harmonised reporting formats for LGAs.
III. GOVERNMENT BUDGET AND CHALLENGES IN FINANCING OF THE MTEF

53. The Government’s budget frame is presented below, with a provisional frame for fiscal year 2004/05.

Table 2: Budget frame 2002/03 – 2004/05 (provisional)

<table>
<thead>
<tr>
<th></th>
<th>2002/03</th>
<th>2003/04</th>
<th>2003/04</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget</td>
<td>Revised</td>
<td>Provisional</td>
</tr>
<tr>
<td>I. TOTAL RESOURCES</td>
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<td>Domestic revenue</td>
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<td>472,772</td>
<td>472,772</td>
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<td>70,982</td>
<td>123,595</td>
<td>109,956</td>
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<td>123,595</td>
<td>70,982</td>
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<td>82,695</td>
<td>231,111</td>
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<td>0</td>
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<td>Privatisation Funds</td>
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<td>17,000</td>
<td>17,000</td>
<td>10,000</td>
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<td>II. TOTAL EXPENDITURE</td>
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<td>2,607,206</td>
<td>2,694,455</td>
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<td>1,799,766</td>
<td>1,891,035</td>
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<td>303,675</td>
<td>408,600</td>
<td>368,086</td>
<td>480,175</td>
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<td>Debt service</td>
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<td>323,674</td>
<td>270,170</td>
<td>317,825</td>
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<td>Interest</td>
<td>99,780</td>
<td>134,807</td>
<td>134,807</td>
<td>168,438</td>
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<td>Amortization</td>
<td>101,576</td>
<td>188,867</td>
<td>135,363</td>
<td>149,387</td>
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<td>Others</td>
<td>102,319</td>
<td>84,926</td>
<td>97,916</td>
<td>162,350</td>
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<td>Recurrent Exp.(excl. CFS)</td>
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<td>1,391,165</td>
<td>1,522,948</td>
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<td>464,061</td>
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<td>908,861</td>
<td>1,040,644</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Contingency</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>DEVELOPMENT EXPENDITURE</td>
<td>664,007</td>
<td>807,440</td>
<td>803,420</td>
<td>968,652</td>
</tr>
<tr>
<td>Local</td>
<td>95,662</td>
<td>140,091</td>
<td>136,071</td>
<td>128,924</td>
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<tr>
<td>Foreign</td>
<td>568,345</td>
<td>667,349</td>
<td>667,349</td>
<td>839,728</td>
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</tbody>
</table>

1/ For 2004/05 includes items such as parastatal wage increases, expansion of the treasury voucher system to capture donor funded projects, topping up of LGA revenues, Songo Songo capacity charges, buying down the Allowances for Funds Used During Construction (AFUDC) of the Songo Songo project, and other contingent items.
**Table 3: Budget frame 2002/03 – 2004/05 (provisional) (as percent of GDP)**

<table>
<thead>
<tr>
<th></th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
</tr>
</thead>
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<tr>
<td><strong>Actual</strong></td>
<td>22.0%</td>
<td>24.9%</td>
<td>25.7%</td>
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<tr>
<td><strong>Budget</strong></td>
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<td></td>
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</tr>
<tr>
<td><strong>Budget Revised</strong></td>
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<tr>
<td><strong>Budget Provisional</strong></td>
<td></td>
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### I. TOTAL RESOURCES

<table>
<thead>
<tr>
<th>Description</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic revenue</td>
<td>12.8%</td>
<td>13.3%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Programme loan and grants</td>
<td>3.0%</td>
<td>3.9%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Project loans and grants</td>
<td>4.2%</td>
<td>4.5%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Basket Support Loans</td>
<td>0.7%</td>
<td>0.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Basket Support Grants</td>
<td>1.0%</td>
<td>1.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>HIPC relief IDA, IMF and ADB</td>
<td>0.8%</td>
<td>1.0%</td>
<td>0.8%</td>
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<tr>
<td>Non Bank Borrowing</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
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<tr>
<td>Bank Borrowing</td>
<td>-0.4%</td>
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<td>0.8%</td>
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<td>Adjustment to cash</td>
<td>0.0%</td>
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<td>0.0%</td>
</tr>
<tr>
<td>Privatisation Funds</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.2%</td>
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</tbody>
</table>

### II. TOTAL EXPENDITURE

<table>
<thead>
<tr>
<th>Description</th>
<th>2002/03</th>
<th>2003/04</th>
<th>2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent expenditure</td>
<td>15.1%</td>
<td>17.2%</td>
<td>18.0%</td>
</tr>
<tr>
<td>CFS</td>
<td>3.2%</td>
<td>3.9%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Debt service</td>
<td>2.1%</td>
<td>3.1%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Interest</td>
<td>1.0%</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Amortization</td>
<td>1.1%</td>
<td>1.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Others</td>
<td>1.1%</td>
<td>0.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Recurrent Exp.(excl. CFS)</td>
<td>11.8%</td>
<td>13.3%</td>
<td>14.5%</td>
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<tr>
<td>o/w Salaries &amp; wages</td>
<td>4.2%</td>
<td>4.4%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Other Charges</td>
<td>7.6%</td>
<td>8.7%</td>
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<tr>
<td>Designated Items</td>
<td>0.0%</td>
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<tr>
<td>Expenditure Float &amp; Adj.</td>
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<tr>
<td>Payment of Arrears</td>
<td>0.0%</td>
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<tr>
<td>Contingency</td>
<td>0.0%</td>
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<td>-</td>
</tr>
<tr>
<td>Development expenditure</td>
<td>7.0%</td>
<td>7.7%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Local</td>
<td>1.0%</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Foreign</td>
<td>6.0%</td>
<td>6.4%</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

54. The main challenge for improving the Government’s budget is firstly the resource challenge. In order to finance implementation of the PRS and poverty reduction outcomes, Tanzania needs to increase its resource envelope. This needs to be done with an outlook of maintaining investment incentives for the private sector, coordinating Government and donor support, as well as reducing dependency on foreign aid in the medium term. The strategies for tackling the resource challenge are formulated on two fronts:

i. Domestic revenue increases will be facilitated by continued macroeconomic growth and tax policy measures that will broaden the tax base and facilitate higher yields. Trends in revenue to GDP in the past have been on the rise from 11.3 percent in 1999/00 to 13.3 percent budgeted in 2003/04. The 2004/05 provisional budget projects a relatively higher revenue yield of 15
While these are modest increases, revenue mobilization is moving in the desired direction without harming private sector development. The approved Income Tax Act of February 2004 is an important step forward in strengthening the buoyancy of the revenue structure. In addition, proposals are being considered in the 2004/05 budget for providing more incentives to the agriculture sector which provides livelihood for the majority of Tanzanians.

ii. Government will work towards improving foreign aid projections with the assistance of development partners’ commitments. It is recognized that improved accuracy is needed in order to ensure a credible resource framework in the future. For the 2004/05 budget, the Ministry of Finance has confirmed all projections with development partners. In addition, project aid projections have been thoroughly reviewed and only those which are disbursed through exchequer system have been included to allow better capturing. This data has been confirmed with sectors, which are direct recipients of this aid. Government and development partners also need to work on promoting the use of the budget support instrument as the main foreign aid instrument compared to project support, as the use of the Government systems facilitates a more coordinated financing strategy of sector MTEFs and streamlined procurement and accounting processes for MDAs. Almost all PER sector reports identified the reliability on project support and disbursement delays experienced as a limiting factor to achieving sector plans.

55. Human resources capacity is identified as a key problem in all PER sector reports. It is recognized that public service delivery can be improved through increased professionalism in the civil service and increased motivation and incentives. Therefore a key expenditure category for the MTEF period will continue to be Government wages. Given resource constraints and the need to back up wage reform with complementary policies, significant efforts are being made under the Public Service Reform Programme (PSRP) to promote a more results-orientated civil service. This is being done through instituting a Performance Monitoring and Evaluation system in all MDAs and carrying out Service Delivery Surveys to assess client satisfaction.

56. Government will aim to maintain Other Charges expenditure and local development expenditure at least at previous years’ levels. Given resource constraints, this is a key challenge. In this light, it is important that MTEF sector reports provide realistic costings of all key activities (priority and other) for the Ministry of Finance to consider allocative efficiency among and within sectors in the future.

57. Monitoring at Local Government level of service delivery, budget allocations, capacity to absorb funds, actual expenditures and reporting are issues
identified in all PER sector reports. Implementation of the Planning and Reporting tool for Local Governments, under the joint PO-RALG and PO-Public Service Management project, will be key for authorities to make better decisions of expenditure allocations and management at that level.

58. General expenditure management is expected to improve once the amendments to the Procurement Act are approved. The amendments involve decentralizing procurement and tendering functions from the Central Tender Board to spending units. The thresholds for tendering activities are also under review. This has been identified in several of the PER sector reports as a constraining factor. Ministry of Finance’s challenge will be to ensure the new Public Procurement Regulatory Authority, which will replace the Central Tender Board, is facilitated quickly such that there can be greater focus on procurement reforms. Appointment has already been made of the Secretary and Members of the Authority. Training of procurement processes is important and an important initiative in this respect is the recent workshops that have been conducted for Permanent Secretaries and Regional Administration Secretaries.

59. During the medium term, Government continues to ensure debt sustainability in both domestic and foreign debt. This is important in order to sustain a stable macroeconomic environment, and to allow expenditure to be directed to poverty-reducing areas in the budget. Government continues to maintain low domestic financing of the budget and also continues in its efforts to negotiate debt relief from non-Paris Club members on Paris Club comparable terms.

60. General growth in the economy is also paramount to achieving budgetary goals of channeling greater national wealth to poverty reducing areas. Given the drought in 2003/04, the achievement of a 5.5 percent real growth in 2003 compared to 6.2 percent at end 2002, and the slow recovery due to insufficient rainfall, projections for 2004/05 also remain conservative at 5.6 percent. Therefore, pursuit of growth-related policies, continue to be on the national agenda.
IV. CONCLUSION – MTEF STRATEGY OUTLOOK

61. Government has numerous policy commitments and competing expenditure requirements, all primarily aimed at poverty reduction. Through the MTEF strategy, Government needs to work on ensuring that implementation of the policies is adequately financed and through improved expenditure management, outcomes are achieved.

62. Government needs to work on improving the quality and use of the Budget Guidelines which is the main document for outlining the MTEF strategy. Weaknesses of the document have been acknowledged and will be addressed in the next MTEF cycle. PER sector reports can be built on and refined, and the sector issues and challenges summarized in this cross-sector paper can be considered carefully in a more holistic picture in the continued PER process. Recommendations from the PER External Evaluation of 2003/04, will also be considered in order to guide resource allocation in the medium term.

63. The revised PRS expected in the latter half of 2004 has crucial implications for strategic resource allocation in the future. The original PRSP focused on the seven priority sector approach as a way of reducing poverty. Expenditure allocations have been directed to these sectors accordingly as shown in Section I, with a rising share of Tanzania’s expenditure budget. The second cycle of the PRS, however, will focus on outcomes and quality. There have been some important successes. Taking the example of the education sector, introduction of primary Education For All has led to increases in enrollment rates in primary education which have surpassed targets in the PRS. However quality needs to be improved in terms of ensuring teacher training, promoting the primary school pass rates and improving secondary and higher education. These will be crucial steps towards improving Tanzania’s labour force and competitiveness, especially in the face of regional integration in the East African Community. The revised PRS will also focus on employment creation, realistic targets and integration of the Millennium Development Goals into the national development agenda. With improvements in the Poverty Monitoring System and the quality of data to facilitate analysis, it is hoped that budgetary allocations in the future can be better guided with the aim of reaching the vision of poverty reduction.