

**GOVERNANCE WORKSHOP FOR MINISTERS AND PRINCIPAL SECRETARIES IN THE NEW
GOVERNMENT OF TANZANIA**

PAPER: " FINANCIAL MANAGEMNT AND DECISION MAKING FOR GOOD GOVERNANCE "

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I. INTRODUCTION

1. Public Financial Management and Control has its genesis in the fact that resources are scarce and that, there are no such things as free goods or services in an economy . Whatever services that the government provides to society , these must be paid for .The need to finance public expenditure programmes arises from the concern with the responsibility of government to provide goods and services to the public , the absence of which would cause significant sections of society to be excluded from consuming them . For the said goods and services to be paid for (expenditure) , revenues must be raised and allocated efficiently and effectively , in both cases .

2. But without an appropriate control and accountability framework , it would be very difficult - almost impossible to determine whether or not Government revenues were raised and allocated efficiently and effectively . This situation would invariably lead to undue waste of scarce resources . Government budgets are the principle administrative instruments through which public expenditure programmes are transformed into measurable tangible achievements , and , evaluated as to their level of effectiveness and efficiency .

3. This paper attempts to address the above conceptual framework with a view to developing some practical and useful insights for future directions in improving Government financial management and control , that facilitates productive ' good governance ' decision-making . In

addition , other pertinent issues of concern are also enumerated and each briefly discussed below .

II. THE ISSUES

Adoption and Implementation of a common ' strategic vision ' by Government.

4. Do all members of the Cabinet and their immediate lieutenants know where Tanzania should be , come December , 1998 ? What is the Tanzania we want come that date ? In other words , what is the strategic vision of the present Government ? I believe that there is one . If there isn't one , then there is need to adopt and implement one as a matter of urgency. For example , the following phrase could summarise the vision of the current Government for the next three years : " Poverty Alleviation and Self Sufficiency " . Over the three years, as elements of the strategic vision are achieved , it could be revisited , reviewed , and modified as appropriate- say to something like , ' Doubling of the National Per Capita Income by June, 2002'.The implementation strategy , (e.g. creating an enabling environment that encourages income generating activities on a sustained basis), will be driven invariably , by the adopted strategy . In simpler terms , vision drives strategy and related implementation . In any event , an implementation strategy devoid of a common vision , (short term / medium term / longer term) about the country's future , is at best wasteful of scarce resources and uselessly scatters effort .

5. Tightening of Government expenditure control , for example , could be an aspect of strategy implementation , with a view to minimising resource waste . But this must be supplemented by implementation initiatives that improve the capacities of spending ministries to precisely manage expenditures , consistent with known and agreed socio-political and economic objectives . In turn this demands that measurable objectives and appropriate evaluation systems be developed and implemented . All this is contingent upon adoption (for implementation) of a

commonly agreed upon future strategic vision . It goes without saying, therefore , that it is socially , politically and economically suicidal for Government to allow a situation where each ministry , for example , adopts and implements its own programmes without recourse to the 'strategic vision' . With twenty ministries this means twenty visions , and you can imagine the kind of pace and direction that the country would go , if it could move at all , that is .

The Political and Institutional Dimension of Public Spending

6. Effective public expenditure management makes pretty heavy demands on Government institutions . Each of its main components (e.g. formulating an appropriate macro-economic framework;project preparation and investment programming; linking the plan to budgeting; budget implementation and control) has an institutional and a political , as well as , a technical or economic dimension . These dimensions must be taken into account in devising an appropriate public financial management framework . In other words , the budgeting exercise is actually a political exercise in that it is a campaign for scarce resources . Those that campaign loudest tend to obtain more resources than those who don't . Restructuring the budget usually calls for institutional repositioning that may require some form of training and running-in . If these dimensions are allowed to influence public expenditure programming unduly , then serious distortions are likely to occur in especially , the allocation of national resources . With a common vision these dimensions are likely to be tamed positively in the interests of good governance .

Integrating Recurrent and Development Budgets

7. The current practice that tends to overemphasize the differences between the above two , and treating them as if they were mutually exclusive is to some extent undesirable . An implementation activity under the development budget often breeds 'recurrent' expenditures currently or in the near future . A rigid compartmentalisation of the two will often lead to

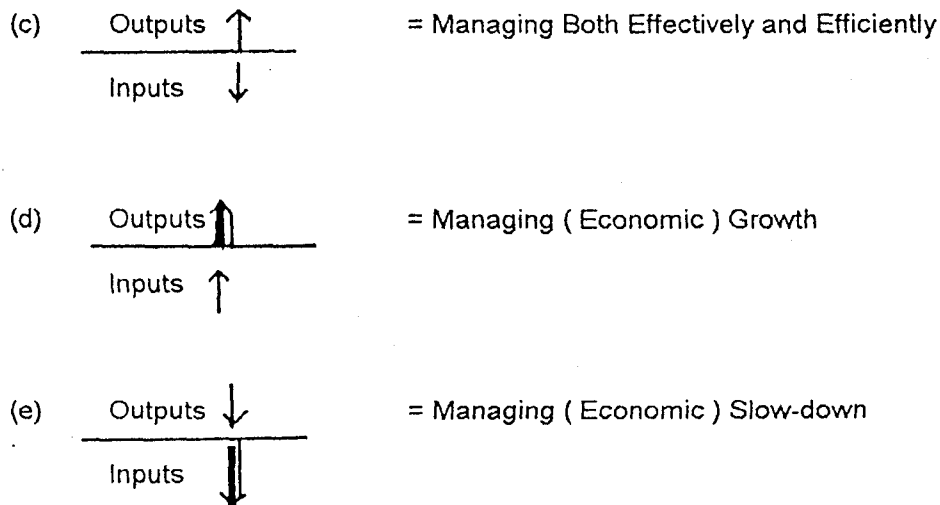
disjointedness of budgetary plans and their related implementation . If the two have to be handled by two different departments then the two have to be adequately coordinated . As has already stated , there are no free things . Coordination has a price , which must be paid .

Low Public Sector Productivity

8. A positive movement in the ratio of outputs to inputs generally denotes productivity enhancement or improvement . To justify their continued support from public funds , public sector institutions must continually improve their productivity . This improvement must be consistent with the resources made available to them . In principle there are five generic productivity improvement approaches that can be adopted and implemented by Government, in order to improve upon the present situation . Unfortunately , in practice the five are often treated as though , again , they were mutually exclusive . The fact is , they are not . Any attempt to implement one across Government , to the exclusion of the rest misses the benefits that would otherwise accrue from some or all of the the rest . When you smell food , you do not block off all the rest of your four remaining senses . You could be able to locate, for , example the kind of food that you are smelling . You could be able to feel it , or touch it, grab it and taste it , and eventually satisfy your hunger . In simpler terms , the five cooperant senses working together as a disciplined team usually produce a satisfying performance . The five generic productivity improvement approaches are ;

$$(a) \quad \frac{\text{Outputs} \rightarrow}{\text{Inputs} \downarrow} \quad = \text{Managing Efficiently}$$

$$(b) \quad \frac{\text{Outputs} \uparrow}{\text{Inputs} \rightarrow} \quad = \text{Managing Effectively}$$



Government could thus be implementing approach (a) in the Ministry of Works , for example , while it could , at the same time be implementing approaches (c) , (d) , (b) and (e) to , Defence , Education , Agriculture and Natural Resources , respectively . You might start asking yourself , "(d) and (e)? ". Yes , it is quite possible . In fact the Natural Resources/Mining Ministry could implement both (d) and (e) , at the same time , quite legitimately , for instance , where an important mining activity is declining in one area , calling for a slow-down , while in another area new finds may necessitate a growth strategy . Depending upon the selected "vision" , combinations of implementation strategy can be simultaneously acted upon to achieve desired policy objectives .

Inefficient Tax/Tarrif Structures

9. Since 1973 , Tanzania's tax and tarrif structures have tended to increase in complexity and multiplicity , it is argued . While this may or may not have been the case , the inelasticity of the tax/tarrif bases and numeracy of exemptions have not made things any comfortable for both the tax payers and the cllectors alike . This has tended to encourage tax evasion propensities . Simplifying the tax/tarrif structures and broadening the bases are likely to result into more

productive revenue sources , as propensities for evasion are reduced , and the budget becomes more balanced (reduced budget deficit) .

Aid Procurement and Coordination

10. It is not the amount / quantity of aid that matters to a country's (investment) development programme , rather the efficiency and effectiveness with which the (little) aid is managed, that truly matters . This area , admittedly still has plenty of room for further improvement , as is apparent , year - in year - out , from the Auditor General's Annual Reports . Commonly ignored during scanning for (external) project funding , is the requirement to match "viable" finance to an equally viable "project" / "programme" .. Does it matter? Oh yes , it does ; for it is conceivably possible for a viable project/programme to be ' let-down ' by an unviable (foreign) finance . Yet it is extremely difficult , sometimes almost impossible , in addition to being costly as well , to renegotiate project finance terms once the project/programme implementation is already underway . It is cheaper , and much more convenient to rigorously evaluate a few selected alternate sources of external finance and determine their propriety for application to selected projects, in advance of the actual procurement . The matching of projects to finance , and finance to projects , would be done taking into consideration the project-finance conceptual and their characteristics . In simpler terms , for example , do not borrow 'short' and invest 'long' and hope for bridging finance from some other highly probabilistic finance source . Or , for that matter , do not necessarily go for a loan with a lower interest rate than the others short-listed , because its debt-service period may be so much shorter than the project life , yet so much higher than the cash surpluses in the initial years , as to practically choke the project . Finance , like any project , can be evaluated as to its viability or lack of such . The disbursements represent the inflows , while the periodic repayments represent the outflows . Both can thus be discounted at an appropriate return rate , and the loan's NPV determined .

11. Each of the above have a bearing on the nature and scope of public financial management and related decision-making for Government . We now attempt in the following sections to suggest a fairly practical framework for enhancing the financial management function of Tanzania Government .

III. TOWARD AN ENHANCED PUBLIC FINANCIAL MANAGEMENT FRAMEWORK

12. As has been mentioned earlier , government budgets are the main instruments through which public expenditure programmes are transformed into measurable achievements . Budgets highlight what is to be accomplished , in what period , with what kind of resources and what level of accountability . A chain , however , is as strong as its weakest link . Government's budget thus is as good as the assumptions behind it , the agreed/adopted strategic vision , capacity and capability of implementers and the effectiveness of related budgetary controls . The last of these sounds simplistic , but is extremely important . Budgetary controls tend to be weak for two main reasons :

- general inadequacy of existing rules and regulations concerning budget planning and budget implementation ; and ;

- though adequate , the rules and regulations may be regularly and frequently circumvented .

In the later case , this could be an ominous precedence which may evolve into a tendency throughout Government , to ignore or interpret loosely budgetary laws , rules , and regulations . It is absolutely important that Government should encourage to recognise that once the budget has been decided upon and formerly approved , its aims and objectives are defeated as soon as agreed allocations of resources can be altered and spending limits ignored with impunity .

13. Once approved and implementation is underway , the budget continues to be used as a frame work of reference in evaluating subsequent budgeted operating performance and related expectations . To this end periodic reports (daily , weekly ; monthly , quarterly , six-monthly and annually) , must be made available to policy and other decision makers to enable them flex implementation to encountered circumstances and realities . Any significant absence of such periodic feed-back reports on budgetary performance would ordinarily force decision-makers to formulate and implement decisions without the benefit of required information input . Such are the hallmarks of a good beginning for poor governance . Generally , all things equal , an uninformed decision is many times inferior to an informed one .

14. There is , however , another significant quality to these periodic reports , namely , 'timeliness' . Such reports prepared and made available long after they were due and required are as good as non-existent since their utility by then would have been greatly diminished . The appropriate opportunity for corrective/ facilitative action would be long gone and wasted . How would you take it , for example , if while on vacation in your own village , you wake up one sombre morning to discover that several houses have been burned down (by a fire, of course) , and that you are one of the fifteen unfortunate victims who have died bravely fighting the inferno ? You would be hard pressed to take any evasive or defensive manoeuvre , to put it lightly . At that material time , the availability of this information is of no practical use , as indeed you would be truly dead . So , why do we seem to put up so well with reports that are so long overdue almost routinely ? In simpler terms , it is important to encourage a financial management system that provides the Government in total , (President , Cabinet ministers , Principal Secretaries , etc;) with timely , accurate , regular , sufficiently detailed and relevant financial and budget information . Concomitant decisions are likely to be well informed , leading generally to good government .

15. An information system that facilitates the above is unlikely to be manually oriented . It would find it hard to cope with the size and specific complexity of a 21st century modern Government accounting machinery. So an EDP oriented framework is more likely to effectively deal with the job . The following hints are likely to enhance the successful implementation of such a system :

(a) Reclassification of major revenue and expenditure items , consistent with a streamlined EDP oriented accounting structure . Current classification of budget items is still bogged down with tradition (or is it heritage ?) . This results into a budget that does not easily lend itself to the provision of information regarding the effectiveness with which budgeted objectives are being met using the allocated resources . For example , present classification is usually into items like salaries , equipment , supplies and services , etc' showing what each spending unit/department is authorised to spend under each heading . Such classification yields almost no information on the objectives of such spending . As a consequence the present way in which the budget is formulated and organised may not effectively facilitate a policy or objectives-oriented approach needed for an efficient public expenditure planning process and good governance .

Take the Fire Department , for example . Their 1995/6 budget might be based on some of the following objectives : to conduct twelve fire-drills ; to carry out first aid training to four main areas; to conduct quarterly fire-safety awareness campaigns to so many localities , etc. These objectives would be accompanied by statements indicating how much resources (human , financial and equipment) , would be required in order to accomplish the stated goals and objectives for the budget period . At the end of the period it would be much easier to carry out a performance evaluation exercise that is goal/objectives-oriented . What you get now from our traditional Government budget would be a listing of budget lines and the financial amounts approved for each . Objectives /goals , reflecting the broader vision take on

palpable insignificance , making effective public financial management and good governance difficult to achieve .

(b) Detailed budgets for all departments and institutions

(c) Implementation of an effective expenditure reporting and monitoring system for all government departments and institutions that are dependent upon central government budget .

(d) Existence of up-to-date files on existing personnel and detailed organograms for each department, or institution.

(e) The existent of clearly delineated areas of responsibility among government departments , institutions and agencies .

(f) Adequately trained staff with sufficient motivation to remain in Government service .

19 . It is also important to note that complex problems are not necessarily solved by complex systems . Thus it is important for practical purposes to keep the new systems as simple as is feasibly possible . This would be greatly facilitated if all the key players in the government departments understand the building blocks of the system and have an effective input in designing and improving it . More importantly , there is always the temptation to implement the new system all at once. This should be avoided under any circumstances . While this is no warrant for a 'slow-march' implementation , the new system should be applied flexibly , to enable the learning process to be taken advantage of . As for staff training , the focus should primarily be on substance and not technology . Technology is likely to change more frequently than the substance . For example since time imemorial , man has always required food shelter and

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clothing , but the technology for providing all the three has changed from time to time . Thus staff training that focuses on technology alone is bound to be short-lived in its effectiveness and usefulness .

20 . One other consideration remains to be mentioned - " uncertainty ". Firstly there appears to be a persistent shortage of finances , and there is the changing role of government . all these have combined to undermine the perceived usefulness of comprehensive long term planning (comprehensive) as a development tool . Secondly , the fiscal constraints have accentuated the management problem through their devastating effect on real wages for many public servants at managerial level . Uncertainties of the above type and many others are inherent in all planning and budgeting exercises . Unfortunately many of the budgeting techniques in use today have not been well designed to cope with the practical problem of uncertainty .

21 . For Tanzania whose fiscal revenues rely to a significant extent on export/import and other formal sector taxes , and whose public sector investments are largely dependent upon uncertain external finances uncertainty is a key variable that cannot be taken lightly in budgetary planning and financial management . Because of it , resources allocations may require frequent adjustments (mini- budgets) during the course of the fiscal year . Over the longer-term Government may be better able to cope with budgetary uncertainties through the application of some or any combination of the following elements :

(a) Judicious use of sensitivity analysis and alternate revenue / expenditure scenarios .

(b) Placing greater reliance on some form of medium-term financial programming that would enable

- review and implementation of on-going programmes in the development plan , ensuring that their execution remains consistent with agreed national priorities.
- provision of revised financial ceilings for the current fiscal year and tentative budget ceilings ,for the next two years.
- integration of planning and budgeting on a continuous basis and a closer linkage between revenues and expenditure planning .

(c) Making fuller use of EDP for Government financial management system

(revenues/expenditures) , with a view to achieving greater accountability on the part of spending ministries on a timely basis .

CONCLUDING REMARKS

22. In conclusion , to stand a credible chance of successfully addressing the rather complex institutional and technical issues concerning public financial management and decision making , Government requires two major operative frameworks

(a) A commonly perceived and agreed strategic vision for Government that would serve the purpose of focussing all planning , budgeting and implementation efforts in the same general direction would be absolutely essential . The absence of such a "vision" would foster inconsistencies in objectives/ goals attainment with related evaluations , in addition to greatly scattering efforts /resources used in budgetary implementation .

(b) An analytical framework that enables Government to forecast and programme its spending over, say , a three year period , up-dated annually , in order to take into account likely resources constraints and the desired link with the macro- economy . It

would link public expenditures and revenue and other economic variables, projections , a multi-year phased public investment programmes distinguishing between high and low priority areas /projects , and projections of revenue from both tax and non-tax sources , as well as borrowing needs .Alternate revenue /expenditure policy strategies corresponding with different economic and financial scenarios , could be formulated in order to enable policy makers and legislators to cope with uncertainty and implement good governance , supported by a common strategic vision .

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