

# MAIR

## MKUKUTA Annual Implementation Report (MAIR) - 2006/07



## Funding and Budgeting Arrangements

MKUKUTA is implemented and funded not only by government but also by non state actors. This means that MKUKUTA has to feature in all stakeholder budgets to ensure the predictable and timely transfer of funds.

The earlier Poverty Reduction Strategy (PRS) budget system provided resources to a limited number of priority sectors. MKUKUTA recognises that all sectors contribute to economic growth and poverty reduction efforts. This has led to an outcomes-based approach which is shared by many stakeholders.

### **MKUKUTA and the National Budget:**

The approved budget to implement MKUKUTA in 2006/07 was 48 percent of the total budget. The remaining 52% was for projects and programs that do not have a direct link to MKUKUTA. In the budget for MKUKUTA the allocations were Cluster one (46%), Cluster two (36%) and Cluster three (18%). This matches the objective of scaling up growth and increasing the income of the poorest people.

In the medium term, the focus will remain on prioritising and sequencing those MKUKUTA interventions that have multiple effects. To maintain stability in the key economic variables, the budget will provide more resources for pro-poor, growth-enhancing expenditures with relatively high import content. We can therefore expect more spending on infrastructure development relative to increases in social services. We can also expect strategies that address regional imbalances and which bring various cross-cutting issues into the mainstream.

### **Improving the Budgeting and Funding Processes:**

It is important to allocate and release funds in good time. This means improving the budgeting and disbursement processes

There are still some challenges in how funds are released during the year. The pattern differs from one Ministry to another depending on their needs, and the availability of resources. Two main problems are with poor cash flow planning and with poor inflow of resources to the Treasury.

Most of the Development Budget is financed by Development Partners. Estimates are approved in advance but a challenge remains in overcoming delays and unpredictability in the timing of disbursements.

There is also the challenge of estimating the link between the use of funds and the actual results on the ground. This is particularly difficult when it takes more than a year for the results to show. This is a problem with several of the MKUKUTA indicators and this fact needs to be born in mind.

### **Budget Reporting Mechanisms:**

The national budget is based on international Government Finance Statistics (GFS) standards while MKUKUTA uses a Strategic Budget Allocation System (SBAS) to outline how it uses its resources. This means that MKUKUTA budget data has to be transformed to fit with the GFS system. The reverse is true for MKUKUTA-based analysis of budget execution results. To make things easier, the Government is developing a framework for MKUKUTA-based analysis of budget execution results. This will be reported through Budget Execution Reviews (BER).

Presently the link between policy and budget execution is measured (a) by comparing SBAS based allocations and actual expenditures and (b) by noting the impacts on poverty as measured through the MKUKUTA Monitoring System.

The Budget Execution Reviews (BER) cover Government finances on a cash basis but (a) they do not include direct-to-project funding by Development Partners, and (b) they treat transfers to Local Government Authorities as expenditure.

The existing system fails to capture the complexities due to multiple channels for funding programs at the district levels. These complexities in the budget process call for ways to rationalize the flow of funds and to ensure that the systems remains transparent.

Thus, in the next year of MKUKUTA implementation, classification and reporting systems will be introduced which make it easier to gather and report on comprehensive financial information. To facilitate the process, stakeholders, particularly the development partners and beneficiary institutions, will need to adopt integrated approaches to funding and reporting.

The Government adopted the Joint Assistance Strategy for Tanzania (JAST) in December 2006. The JAST is a result of a broad government led consultation process with development partners and non-state actors. It reflects the government position on rationalization and harmonization of donor support. The overriding objectives are to (a) further reduce the transaction costs associated with different strategies and (b) enhance national ownership and government leadership of the development agenda.

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