

## BUDGET SUPPORT FOR TANZANIA

Direct budget support is paid to the cooperation country's state budget, where it is used to implement the policies decided by the country's government. In addition to Finland, 13 other donors provide funding for Tanzania's growth and poverty reduction programme. In 2005 budget support totalled nearly 400 million US dollars. Finland's share was 4 million euros. The objective of the Ministry for Foreign Affairs is to raise Finland's annual support to at least 10 million euros.

The key objective of the audit was to determine whether the harmonized monitoring mechanism for budget support produces correct and adequate information on the use of support for the agreed purpose.

The audit was performed partly in cooperation with the National Audit Office of the United Kingdom and the European Court of Auditors.

The joint audit was divided into a financial audit and an evaluation of the state of public procurement and its development. The financial audit focused on payments of budget support, the use of budget funds on the basis of auditing by the National Audit Office of Tanzania and the monitoring of the use of budget support. Public procurement was evaluated in order to determine what development has taken place in procurement and how well procurements are monitored. The national part of the audit focused on the activities of the Ministry for Foreign Affairs in granting, paying and monitoring budget support.

The audit also sought to evaluate the achievement of the objectives set for budget support.

## **Joint audit**

In spite of shortcomings in Tanzania's public financial administration, it is the opinion of the National Audit Office of the United Kingdom and the State Audit Office of Finland that the payment of budget support to Tanzania for the purpose of reducing poverty in fiscal year 2004/2005 was regular.

Satisfactory progress has been made in implementing the Joint Financing Arrangement between the Government of Tanzania and donors.

Significant improvements have been made in Tanzania's procurement legislation.

So far there is little proof that new legislation has been put into practice, however. The lack of procurement experts slows the implementation of reforms. More attention should be paid to monitoring the effectiveness of reforms.

## **National part**

Over half of donors' budget payments were paid to a non-interest account, resulting in the loss of about 200,000 US dollars in interest that could have been used to implement Tanzania's poverty reduction programme. If the use of a non-interest account is considered justified, the matter should be agreed in the Joint Financing Arrangement.

The Ministry for Foreign Affairs should consider the payment of budget support in instalments according to real spending needs.

The Joint Financing Arrangement should include a condition that budget support payments can only be invested in a risk-free way.

In transferring budget support funds to the state treasury the Bank of Tanzania should systematically apply the exchange rate specified in the Joint Financing Arrangement.

Shortcomings were observed in the administration of budget support in the Bank of Tanzania and in the external audit of payment traffic. Audit reports were not passed on to Finland as agreed.

The resources of the Finnish Embassy in Tanzania for participating in budget support cooperation are quite good. The preconditions for effectiveness are increased by a more global approach and

tighter cooperation among donors. The Embassy has taken care of its budget support tasks in a regular manner. Cooperation among donors in monitoring budget support appears to work well in practice.

So far there is no clear-cut proof that poverty has been reduced, which is the key objective of budget support for Tanzania. In particular the position of the rural population has not improved. The objectives of the poverty reduction programme can only be achieved if the rural population's income level rises sharply. A report that was published in March 2006 on poverty and development in Tanzania shows that there is a clear need for a regional policy that takes into account the needs of special regions. Transferring resources to remote regions is a big challenge, however, and the measures that have been taken by the Government of Tanzania up to now have not been adequate.

Changes in poverty are difficult to monitor, since the country's statistics systems cannot meet monitoring needs satisfactorily.

The first stage of the poverty reduction programme has also achieved significant results, which create preconditions for reducing poverty in future. The Government of Tanzania has also demonstrated its commitment to reducing poverty by allocating increasing funds in the state budget to sectors that have been given priority in this respect. From the viewpoint of achieving the basic principles of budget support cooperation it is important that the proposal for a new Prevention of Corruption Act, which has been under preparation for several years, is finally being submitted to Parliament. The commissioning of a study by the Government of Tanzania to determine the current state of corruption is also a welcome measure.

The criteria that the Finnish Government has set for budget support cooperation appear to have been met for the most part in the case of Tanzania. Therefore the preconditions for increasing budget support for Tanzania exist at least on this basis.

The results that have been achieved in reducing poverty at least over the long run should also be used as a criterion in considering the level of budget support financing that Finland grants to Tanzania.