

A Simple Guide to Working with Finances and Education



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WIZARA YA ELIMU NA UTAMADUNI

HOTUBA YA BAJETI YA MWAKA 2003/2004

Halmashauri na Shule wanawajibika kutoa matangazo kuhusu fedha zilizopokelewa, na matumizi yake, katika mbao za matangazo za Halmashauri, Shule na sehemu za mikusanyiko ya Wananchi. Lazima sasa kila Mwananchi ajue ni kiasi gani cha fedha kimepokelewa katika Halmashauri au Shule yake, na jinsi zilivyotumika.

Rais Benjamin William Mkapa, wakati wa kuzindua ufunguzi wa Kitaifa wa Madarasa yaliyojengwa chini ya Mpango wa Maendeleo ya Elimu ya Msingi Septemba 20, 2002. Mtopwa, Newala.

MINISTRY OF EDUCATION AND CULTURE

BUDGET SPEECH FOR THE YEAR 2003/2004

Councils and Schools are obliged to give publicity about the money they receive and the use of this money on notice boards of Councils, Schools and Meeting Places in the community. Every citizen from now on must know how much money has been received in his / her Council or School and how that money has been used.

President Benjamin William Mkapa when he was launching the National Ceremony of Classroom construction built under the Primary Education Development Programme (PEDP) September 20th, 2002, Mtopwa, Newala, Mtwara Region.

A Simple Guide to Working with Finances and Education

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Acknowledgements

1. Achieving Education for All - where is the money going to come from?

In many countries there is a problem with a 'finance gap' in education. This is the difference between the actual money available and what is needed to obtain a reasonable quality and quantity of education.

There is a limited range of things which can be done to obtain the money to pay for Education for All (EFA). Not all of them are feasible or desirable, but it is necessary to know what the options are if we are going to be part of the discussions about prioritising what can be done. The options chosen need to be appropriate to the social, economic, political and cultural context of the country.

The options include:

1.1 Getting more money...

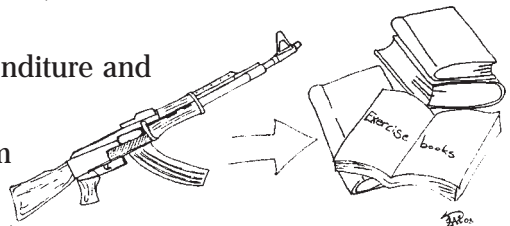
This can be done through:

- expanding tax income, including through new taxes
- promoting private schools. These could be 'for profit' or 'not for profit' such as those run by NGOs
- increasing household and community contributions
- donor aid and debt relief

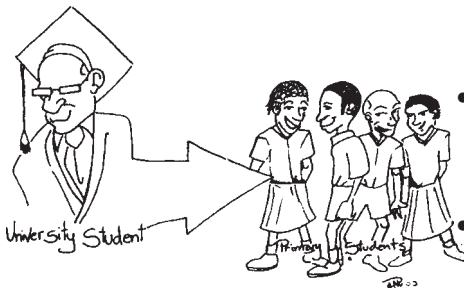
1.2 Redistributing the money that is there....

In many countries, expenditure on primary or basic education accounts for a relatively small proportion of total expenditure. In this situation, redistribution is often advocated:

- between sector (eg. reducing military expenditure and increasing education spending)
- between sub-sectors of education (eg. from post-primary to primary, as more children access primary education than higher levels)



'How do you choose between guns and books?'



- within the primary level (e.g. from formal to non-formal education, where non-formal programmes are cheaper or more efficient than ordinary schools)
- between different types of institution (e.g. allowing more private schools to open)

'Higher education is much more expensive than primary: which has the greater impact on poverty eradication?'

- between types of expenditure (such as between capital spending (e.g. classroom building), salary recurrent (e.g. teachers salaries) and non-salary recurrent (e.g. exercise books and chalk))

1.3 Reducing the cost of providing primary education...

This is also known as ‘reducing unit costs’ – or lowering the cost of providing education to a single child, so that you can get more children into school without increasing the overall costs.

- changing pupil: teacher ratios
- double/triple shifting of classes
- reducing teachers’ average earnings
- stopping children from repeating some years of education if, for example, they don’t pass the end of year exam.
- changing the length of the school cycle - if for example some non-formal education programmes can get a child to pass the primary school in about 4 years, in which case why do most children spend 7 years in primary school
- simplifying the curriculum by having fewer subjects and teaching only one language
- creating income earning schemes at the school level
- promoting day schools rather than boarding
- introducing cost-sharing, and formalizing community participation
- reducing capital costs, such as the average cost of classroom construction

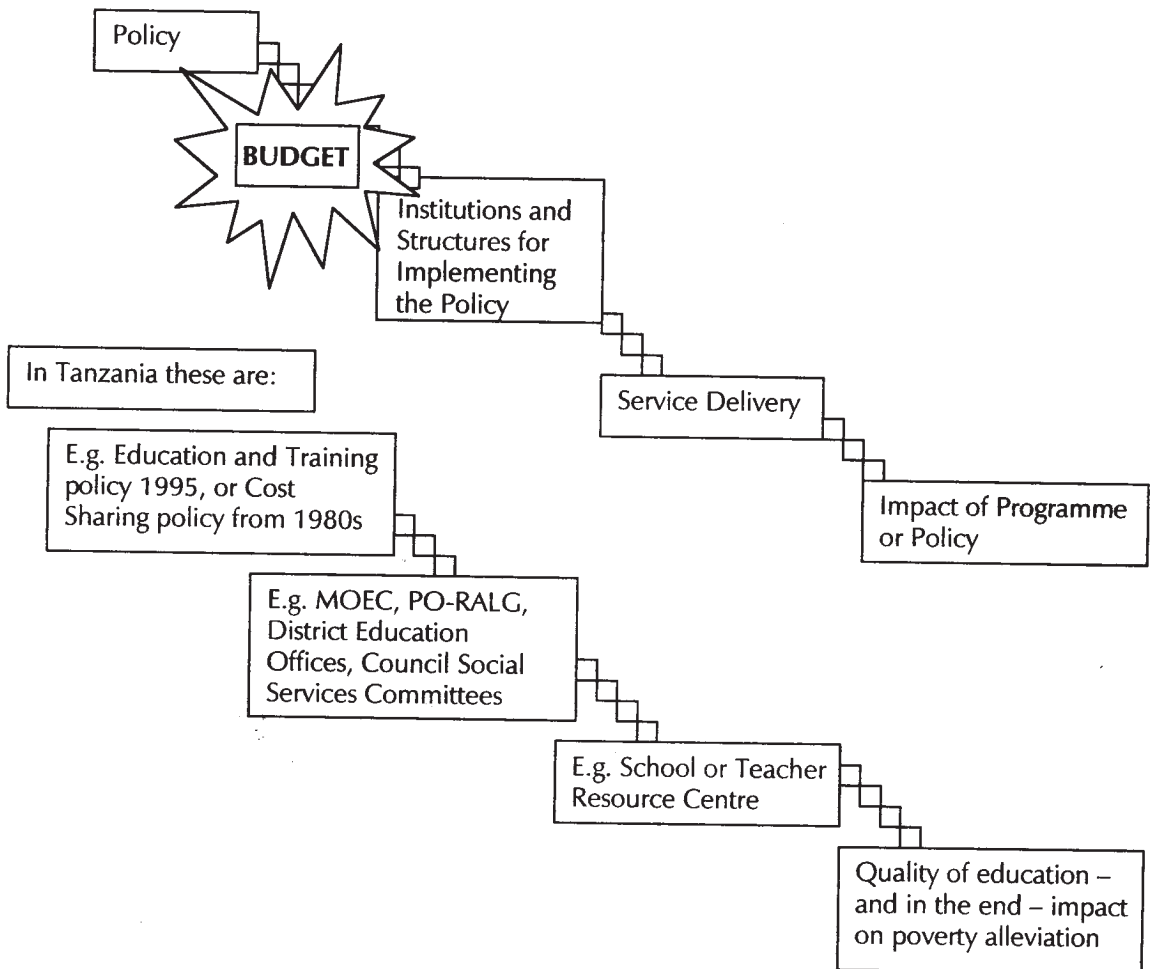
1.4 Spending the money there is, according to plans...

Sometimes the amount of money available is not as big a problem as blockages and leakages which stop the money getting to the right place. To understand about these problems you need to know more about budget systems and processes. These will be covered in chapters 3 and 4.

2. Introducing Budget Work

2.1 Budget work is often an extension of existing policy and advocacy work

NGOs involved in advocacy work have for many years been working to point out to decision makers when the impact of a programme or policy is not in line with the original policy statement. The diagram below shows a chain from policy statement, through institutions and structures of implementation, through to service delivery, and ultimately to impact. Many NGOs are now seeing the importance of budgets as a critical 'missing link' in our understanding of how policy gets translated down to the level of impact.



2.2 What we can learn from a budget

Studying budgets can help to answer the following questions:

- **Adequacy** – how much is budgeted? Is it enough to cover the cost of carrying out the policy?
- **Priority** – how does the budget for education compare to resources spent in other areas? A government could make promises (policy commitments) towards a particular policy, but if this is not reflected in the budget it is not keeping its promises. Looking at what receives the most and the least amounts of money in an overall budget show you where the priorities really lie.

When you are looking just at the amount recorded in a budget in shillings or dollars it is called “*Nominal terms*”. If you are looking at a budget which compares several years, it is important to know if what you are looking at has been adjusted to take inflation into account. If it hasn't, you might think that the numbers are growing up and up, but in fact what you can buy with a certain amount of money has gone down. If the numbers you are looking at have taken inflation into account they are called ‘*Real terms*’.



- **Progress** – is the government's response to meeting education needs improving? It is not always possible to make change happen very fast, but by looking at this year's budget in comparison with last year's or the one from five years ago, you can tell if changes are being made.
- **Equity** – are resources being allocated fairly? For example, schooling in some parts of the country is much in advance of provision in other parts. Is funding being used to even up these historic differences, or is it being allocated in a way which maintains these differences or even makes them worse?
- **Efficiency** – is the money being spent efficiently. Is there a big difference between allocation and actual expenditure? - If so money is not being spent and put to good use. There are also different means of getting money down to district and school level, such as block grants or tied grants. Block grants would give freedom to districts to decide how to spend resources in order to meet local needs. Tied grants direct exactly how money must be spent. Capitation and development grants at school level are tied, as they come with strict directions about how money can be allocated.
- **Effectiveness** – is the money being spent on the right things? For example, if the objective is improved levels of education achievement, where do you allocate spending to have the biggest impact on learning achievements? Classrooms, teachers, teacher training...?

To be able to answer these questions, though, it's necessary to understand how budgets should work.

2.3 Basic Budget Principles: How the budget should work.

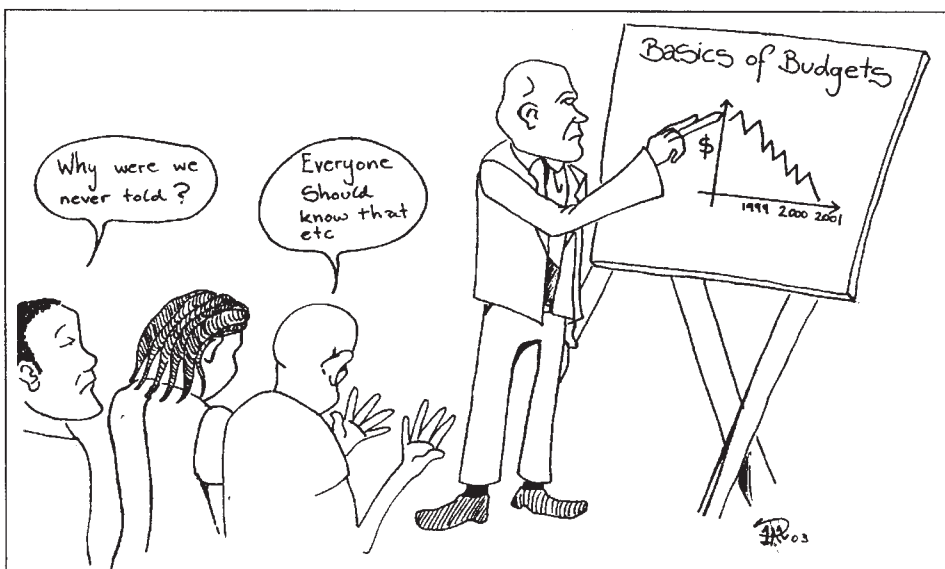
As a **tool of economic policy**, the budget is the means by which the government seeks to achieve three key economic policy goals:

- a) 'Fiscal discipline', which means controlling overall government spending so it doesn't go beyond what money has been raised.
- b) Allocation of resources in line with the government's policy goals. Good budgets should start with an assessment of what needs have to be met, followed by plans of how to meet those needs, followed by a budget.
- c) The economic, efficient and effective use of resources in achieving its policy goals

In addition, the budget tells public institutions, such as ministries or schools, what the policy priorities are by informing them how much may be spent for what purpose, thereby **guiding policy implementation**.

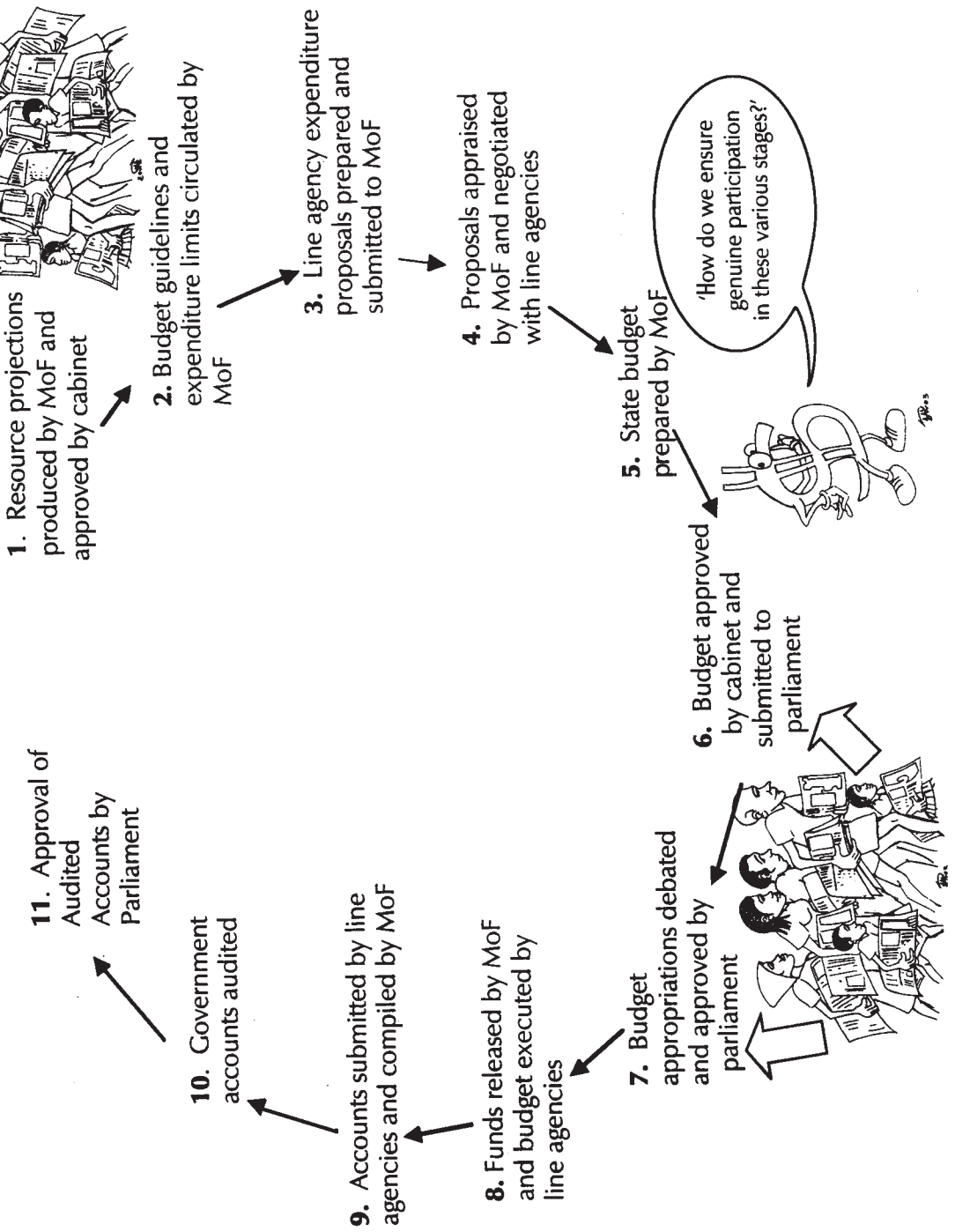
Finally, the budget process should mean that **the government is accountable to the elected representatives of the people**. Government may not raise taxes that have not been approved by parliament and may not raise more money than parliament has said they can. If they do, it is called 'exceeding expenditure appropriations.'

Budget work in cycles, and the diagram on the following page shows what is in the cycle. It should take about three years to complete a cycle, in the first year the budget is being prepared and approved, in the second it is being implemented and in the third year accounts for it are submitted and approved.



This is how the budget cycle works. It is broadly the same in all countries with a democratic parliament.

The Budget Cycle at National Level



The timetable for this as it works in Tanzania, is:

| Month | National level – financial year runs from July to June | District level – financial year runs from January to December |
|--------------|---|--|
| May | Preparation of national budget | |
| June | Presentation of budget to parliament | |
| July | Discussion of budget in parliament | |
| August | | |
| September | | |
| October | | Plans developed at district level about spending for coming financial year, including use of locally raised taxes. |
| November | Work on budget guidelines, by the guidelines committee. | Discussed first with District Management Team, then Finance Committee |
| December | | Full council meeting at which plans/ budgets for following financial year at district level are approved |
| January | Issuing of budget guideline through PO-RALG to local government Authorities | Budget guidelines arrive for PO-RALG resources for finance year starting the following July |
| February | preparation of budget submissions by individual sectors (and also MTEFs – about which there is more in chapter 4) | Local government authorities learn of what money will be available direct from MOEC; sometimes arrives late |
| March | | Districts produce budgets which are brought together through Regional Consolidation Committee. Last quarter of previous year’s finance also reported at this time. |
| April | | Regional Administrative Secretary takes this to PO-RALG |
| May | Preparation of National budget | |
| June | Presentation of budget to parliament | |
| July | Discussion of budget in parliament | |
| August | | |
| September | | |

Budgets, gender and meeting the needs of the marginalised

The budget on the face of it appears to be gender neutral - in other words it doesn't affect women more than men (or the other way around). Usually there is no particular mention of women or men. However the way in which national budgets are usually formulated ignores the different roles, responsibilities and capabilities of men and women. Gender budget monitoring looks at this factors to see if the budget is gender-sensitive. In Tanzania TGNP (Tanzania Gender Network Programme) have a gender budget initiative in which they consider how government money is being allocated and spent and who is benefitting from it. They use the information they find in their lobbying and advocacy activities. There is also the possibility to do a budget analysis to show if spending is meeting the interests of other groups in society such as children or the disabled.

2.4 Why doesn't this system deliver on pro-poor budgets?

There is gap between stated policy and practice, which in general comes out of tensions between government and donor priorities, national and local priorities and between different political parties. In particular the following specific problems can be seen.

- 1) **Lack of good information and accurate diagnosis of the problems and priorities of the poor**, and how government action may help to move them out of poverty. The National Poverty Monitoring Strategy should help with this, in particular the Tanzania Participatory Poverty Assessment¹. Sector studies can contribute to understanding connections between education and poverty eradication.
- 2) **Failure to direct government expenditure towards the priorities** that are consistent with the diagnosis of problems and solutions. This is an issue of budget systems and how they work, and will be return to shortly. Sometimes its is due to donor pressure not coinciding with government priorities. Sometimes its is due to internal problems like always building on the previous year's budget rather than working on the basis of needs.
- 3) **Lack of good feedback mechanisms** of monitoring the effect of government policies and programmes and for corrective action where necessary. Again the National Poverty Monitoring Strategy should be of assistance with this.

¹ For further information see <http://www.esrftz.org/ppa>

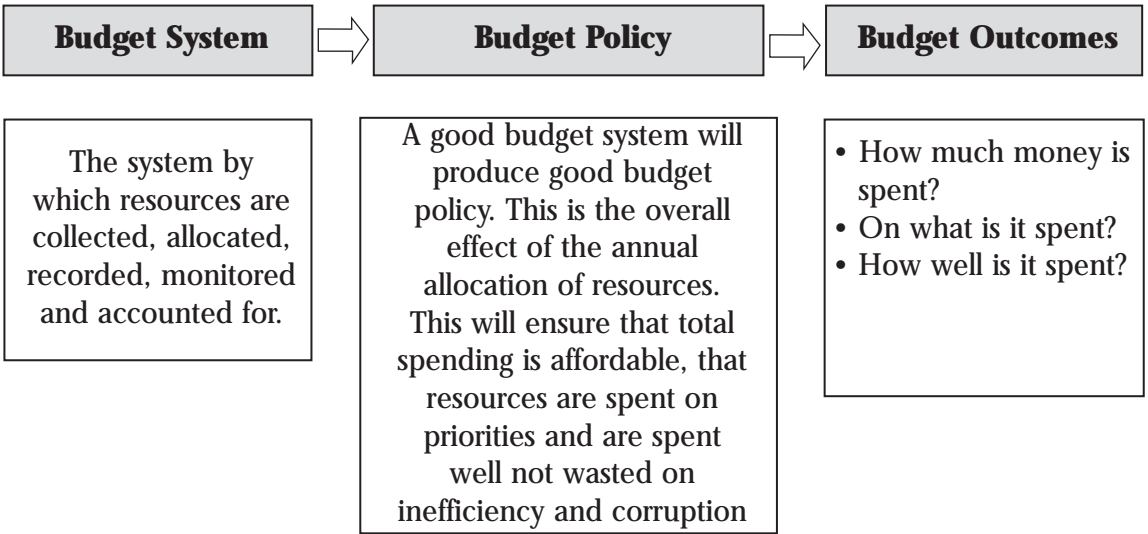
- 4) **Lack of accountability;** weak or ineffective pressure on government to deliver on stated policies and/or to change policies. This is to do with the strength of democratic structures and the capacity of key players like councillors at district level and of civil society.

- 5) **Difficulties in building the budget from the bottom up and to ensure that grassroots priorities and resources are taken into account.** Most budget at district level use district and national level resources, they are not built from village and ward level upwards. Some parts of the county have been trying to implement a system which would enable local level planning to be taken into account at district level. More details of this are given on page 24.

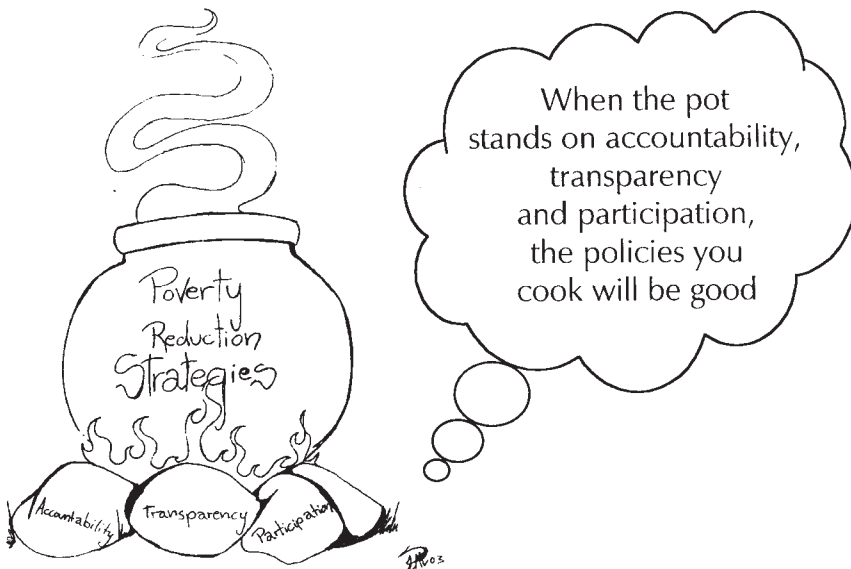


3. Introduction to Budget Systems

The overall budget is made up of the system, the policy and the outcomes. They can be thought of like this:



The budget system is like the rules of the game. Transparency and accountability can be the way to check that the rules are being followed. They only work if people participate in budget processes, but people cannot participate unless they know the system and the rules and what is meant to be happening. If this is achieved you have an 'open budget'. It is like a cooking pot resting on three strong stones, and the three stones are participation, transparency and accountability.



3.1 Transparency

Why does it matter?

- In a democracy, citizens have the right to information on the affairs of their elected government.
- Transparency helps to create better decision making in government as everything is done in the open.
- Without transparency and access to information, there can't be effective participation by parliament and civil society.

How does it happen?

You need the right institutional arrangements – such as publishing of information which:

- covers everything people need to know – in other words it is **comprehensive**,
- is provided early enough for organizations to study it and work out its implications – in other words it is **timely**,
- is **accurate** and,
- is in an easily understood format – in other words it is **useful**.

3.2 Accountability

Why is it important?

It helps promote better decision-making which responds to the needs of the electorate

How do you make accountability happen?

- Strong financial management systems – for example, in some countries it takes years to get information on what money was actually spent and on what, which means if anything has been spent not in line with allocations, it is often too late to follow it up.
- Strong financial management legislation – so that anyone who doesn't follow correct systems and procedures can be prosecuted.
- An independent Auditor General. Only if they are properly independent can they follow up any evidence that money was improperly allocated or spent.
- Strong well-informed parliament, civil society and media.
- Aware electorate.

3.3 Participation

Better participation promotes better budget outcomes, because it:

- promotes public debate;
- promote accountability;
- promotes the building of consensus around policy choices. (Always there are trade-offs to be made, such as in selecting the priority sectors for the Poverty Reduction Strategy);
- promotes stability as opposed to swings in policy, which might be damaging or destabilising.

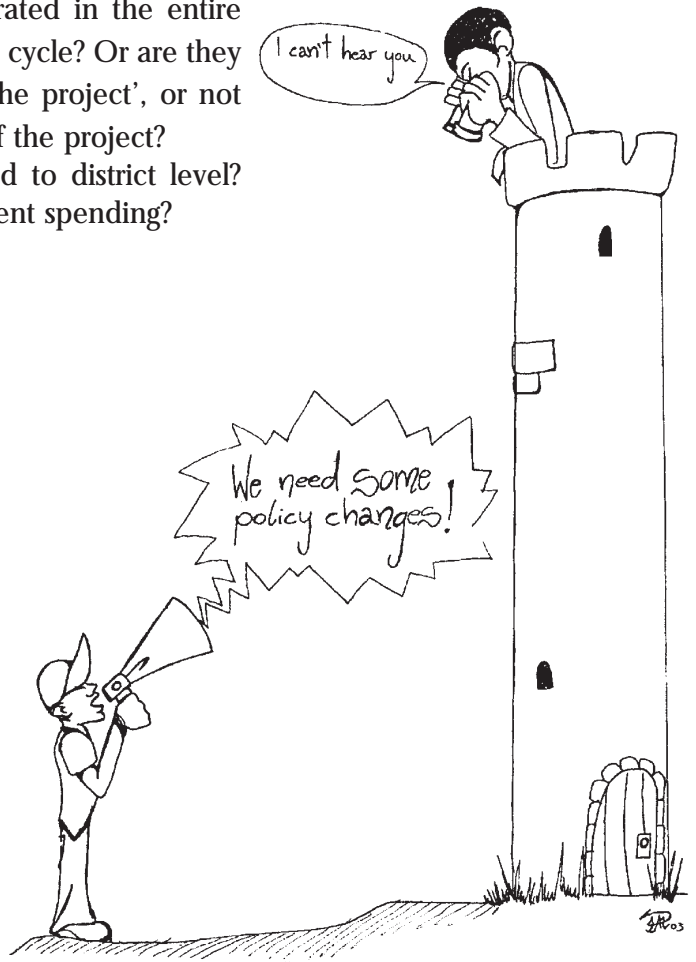
3.4 Characteristics of a good budget system

- **Transparency** and **accountability** (see above).
- Everything should be covered in the budget agreed by parliament. In other words, the budget needs to be **comprehensive**. If some expenditure is not covered, for example because there is a big donor project in one part of the country, it can change the overall budget outcome, but the reason will not be clear from studying the budget as the project is not part of it.
- Planners need to know what resources are going to be available and when they will be released. This is called **predictability**. If resources and policies are not predictable, then it is impossible to plan effectively.
- There needs to be some room for implementers to use resources to respond to localised needs, or emergencies which arise during the course of the year. In other words the budget should have **flexibility**.
- Different stakeholders need to be able to discuss and attempt to change the spending allocations to ensure that they meet the needs of particular groups. This is called the **contestability** of the budget system
- **Existence and sharing of information**. Sharing needs to be upwards and downwards and sideways – for example,
 - NGOs need to be able to share relevant information with other stakeholders to show the effect of spending allocations on vulnerable groups.
 - Government needs to publish information in a timely and relevant way, so that other groups can understand its implications.
 - Donors need to provide accurate information about what funding will be available, when and for which purposes, so that government plans can be take this into account.

3.5 What kinds of questions can you then ask?

- Are stakeholder (citizen, line ministry, expert etc) ideas looked for and used in deciding budget priorities at national, ministry and local government levels?
- Is the budget process given any form of publicity?
- Is there a good mechanism for integrating proposals from village level into local government level?
- Are stakeholders sufficiently represented at local government levels and in other grassroots planning organs? Or are the decisions only made by government?
- Do projects at grassroots level have management committees with appropriate gender representation? Are these working effectively?

- Are these committees integrated in the entire project management and life cycle? Or are they only there for 'agreeing to the project', or not given information on parts of the project?
- How are resources disbursed to district level? Who controls local government spending?



Summary to show how transparency, participation and accountability combine...

Budgetary Outcomes

- How much money is spent
- On what it is spent
- How well it is spent

Transparency

Institutional arrangements – such as to ensure comprehensive, accurate, useful information is published in good time.



Public Debate



Participation

This means there needs to be people with the capacity, and time, as well as access to information with which to participate.

Budget Process

- Drafting
- Approval
- Implementation
- Audit/evaluation



Accountability

This means there needs to be a strong financial management system as well as laws to enforce it. There needs to be an independent Auditor General and a strong voice of civil society

4. Introduction to Budget Processes

Section 2.3 explained what the budget cycle is like. It is an ideal pattern, but the problem is that it doesn't create budgets which are in favour of the poor. Section 2.4 explained some of the reasons for this. All of the reasons have a strong political dimension, but they can be made worse by technical problems with budget systems and processes. Some of these are 'internal' and some of them are 'external', meaning they are related to the activities of donors. They are explained below.

4.1 Internal Problems

4.1.1 Annual bidding system

Government budgets are prepared using a bidding system, in which each ministry and department 'bids' for how much money they would like to have, and then this gets cut back to fit with the amount of resources available or in line with priorities. This way of making budgets can make it difficult to relate inputs to activities or performance as measured by the services provided (outputs) or their impact on the public (outcomes). This leads to inefficient and wasteful use of available resources.

4.1.2 Base budget is not reviewed, but used for automatic “add-ons”

Ministries and Departments' bids generally take the previous year's budget as the base and request additional funding. Ideally this would be on the basis of an expansion of the services to be provided, but more often it is just a percentage increase. With this approach there is little scope to review the relevance, efficiency and effectiveness of existing programmes or the level of administrative overheads.

4.1.3 Expenditure isn't related to resource availability

Since base expenditures are taken as fixed, they can become the starting point for the whole budget process rather than determining expenditures on the basis of resource availability.

4.1.4 Strange spending incentives (spending in order to spend, or arbitrary cuts)

Ministries and Departments' will tend to bid high because they expect their proposals to be cut back. As a result,

- The Ministry of Finance will be faced with overall spending proposals that greatly exceed the overall resources, and they impose cuts. They have to work to a tight time deadline and don't always understand the needs and priorities of the spending ministry or department, so what they cut may not be what the Ministry would choose.

- Since the ministry or department, does not feel directly responsible for the final budget figures it has little commitment to the limits imposed.
- Spending ministries and departments will tend to commit funds as quickly as possible, for fear that later cuts will be imposed. They may even commit beyond their official spending limits. The recently introduced computerized system of government Local Purchase Orders in Tanzania is meant to put an end to this, as it is not possible to order something if there isn't the money to pay for it.
- Ministries and departments have no incentive to make savings. Each agency needs to fully spend its budget by any means necessary. To avoid under-spending, there is often a surge in agency spending in the last quarter, often on items which are not very high priority.

4.1.5 Unrealistic revenue projections

These may make the problem worse, because the amount that finally is available to spending ministries or departments is not in line with what they expected and planned for.

4.1.6 Departmental rather than programme or output orientation

Budgets are prepared by, and for, administrative units rather than on the basis of the government's objectives, programmes and activities. The first priority is keeping the administrative machinery running smoothly, and often not enough is left for activities. This results in schools without books, or inspection services without fuel for their vehicles so they cannot visit schools.

4.1.7 Budget does not capture all spending

It was said above (3.4) that a good budget is 'comprehensive' meaning that everything on which government spends money is included. If the budget does not give a full picture it is very difficult to see whether spending allocations are being made in line with stated policy priorities. Commitments to parastatals are often not covered in the budget. Until recently most donor support came in the form of projects, which meant that government didn't actually know how much was being spent. There is more about this below.

4.2 The impact of external aid

Implementation of government priorities may be held back by the way donors or development partners work.



How many of these problems are also true of NGOs?
What can be done about it?

4.2.1 Differences over priorities and how resources are allocated

If government and donor priorities do not coincide, donors can be funding an aspect of education which government is not prioritising. In this way, the impact of donor aid can distort overall spending in the sector.

- Few bilateral donor or development partners² fund recurrent costs, aid often produces a bias towards infrastructure projects with inadequate support for ongoing running costs (e.g.. lots of classrooms, but not enough teachers or books)
- Sometimes donors have a preference for funding certain parts of the country and this can result in uneven (or duplicate) provision of services, projects that are expensive to manage, and a lack of sustainability. In the worst cases, governments may not know how much donors spend, on what, or the time frame for support.

4.2.2 The way donors operate: “The donor circus”

These are examples of problems which have been experienced, or are still being experienced.

- The erratic and unpredictable nature of donor disbursements can cause budget instability and can lead to the bunching of expenditure at the wrong times. In addition donors are often unwilling to make commitments beyond the short term. For example in the global Fast Track Initiative donors failed to give details of the aid flows they will deliver over 3 years to the first 7 qualifying Fast Track countries.
- If one donor sees itself as having special expertise in a particular area, they sometimes implement and fund according to their own procedures. And then another sees itself as having special expertise in another area and does the same...and so on. The overall impact may not add up to coherent improvements in the sector. This was the situation in the Ministry of Education in Tanzania for much of the 1990s when there were so many projects being run in the Ministry there was almost a ‘parallel structure’ of donor support.
- Sometimes, ministries may undertake their own negotiations with donors without the knowledge of the Ministry of Finance, and receive project funding that is not captured in the budget.
- Perhaps most serious of all, some donor projects have tended to be set up outside core government systems, often employing their own staff This can result in draining capacity from government when the need is to build it. Senior government personnel spend time dealing with accounting and reporting requirements which are different for each donor, rather than managing the development of the whole sector.



²Bilateral just means the relations between two countries, the donor (such as Sweden, Britain, Japan etc) and government of Tanzania. UN agencies such as Unicef, UNDP, etc are usually referred to as ‘development partners’.

4.3 Examples of Reform

Government and donors are aware of these problems, and a number of different processes are meant to solve the problem.



Unfortunately, not everyone is aware of the process and their implications. Sometimes they have been introduced without enough support for capacity development. Most of the processes create new opportunities for civil society to be involved but we need also to understand how they work. Everything is not as neat, tidy and well understood by all players as it might seem!

4.3.1 Public Expenditure Management

The overall approach is called Public Expenditure Management (PEM). The overall idea is that government and donors should work together to implement a single expenditure programme which prioritises the use of all sources of funding for public expenditure, across all sectors. This aims to be medium term (3-5 years), cover all sources of funding and link the money allocated in the budget to the objectives which have been agreed upon. Donors on their side are meant to offer flexible budgetary support to an agreed programme of policy reforms, rather than to individual 'pet projects'.

This is how it is supposed to work.

4.3.2 Poverty Reduction Strategy

Government develops an overall strategy or vision for sustainable development, such as the Poverty Reduction Strategy. This

- ❑ establishes sectoral priorities for government and donor spending.
- ❑ may also redefine the roles which government will play within each sector (e.g. privatisation of parastatals).
- ❑ should be based on good diagnostic information (e.g. Poverty Assessments), and is supposed to develop from a participatory process, within which poor and vulnerable groups have been represented.

How good was that participation?



The idea is to reach consensus on a set of achievable longer-term priorities, which have enough support to enable government to shift resources into areas that will have an impact on those priorities, such as basic social services, or basic infrastructure.

In theory, PRSPs are just one way of developing such a strategy. In practice they have become a condition for access to debt relief under HIPC2, and for further IMF and World Bank budgetary support such as the Fund's PRGF (Poverty Reduction and Growth Facility). A PRSP has to be approved in Washington by the IMF and the World Bank.

Because an agreement with the Fund also acts as a “stamp of approval” for bilateral donors, PRSPs are increasingly important in negotiating access to bilateral aid grants. The specific features of PRSPs include a strong link to the 2015 Millennium Development Goals (including UPE by 2015); emphasis on reducing or cutting what the Bank and Fund see as unproductive state intervention through liberalization, deregulation and decentralization. The idea is to focus the remaining areas of government involvement on activities where state intervention is clearly necessary to improve poor people’s livelihoods, rather than areas which some would say the private sector can do better.

In Tanzania education was identified as a priority sector for spending, because of its well-documented linkages with poverty alleviation.

For education the targets are:

- reduce illiteracy by 100% by 2010
- raise gross primary school enrolment to 85% by 2003
- increase the proportion of school age children completing primary education by 2003
- expand adult education programmes
- increase the number of students passing the standard 7 examination at a reasonably high standard (to be specified) from 20% to 50% by 2003
- achieve gender equality in primary to secondary education by 2005
- increase the transition rate from primary to secondary from 15% to 21%
- reduce the drop out rate from primary from 6.6% to 3% by 2003

Monitoring of the PRS in Tanzania specifies the role of civil society in monitoring the impact of spending in the priority sectors³. Meetings such as the Poverty Policy Week and the Consultative Group Informal Meeting, as well as processes such as the Public Expenditure Review gain very positively from grassroots experience being aired before wider groups of stakeholders, and there are NGOs represented on all of the working groups of the National Poverty Monitoring System. A diagram of this system is included at the back of this booklet, and TEN/MET can be contacted for a current list of the represented on the various committee and technical working groups.

4.3.3 Cross-cutting institutional and structural reforms

These put in place the “necessary” framework to support sector development. This includes reforms in macro-economic and budget management (e.g. the introduction of performance targets), civil service reform, and changes in legal and regulatory structures. These reforms often appear as conditions attached to IMF and World Bank lending. They are then also attached to IMF benchmarks/performance criteria related to foreign exchange regimes, fiscal management, tax and customs reform, trade liberalisation etc.

³ See for example, HakiKazi Catalyst (2001) Tanzania Without Poverty; and Institutional Framework for Poverty Monitoring - included at the back of this booklet.

4.3.4 Public Expenditure Reviews (PERs)

These are carried out as a way of providing the analytical basis for budget reform. PERs are based on the same basic assumptions as PRSPs. PERs look at the previous year's spending, to evaluate whether poor people benefit from existing spending patterns and what outcomes are being achieved. They make recommendations on cutting or shifting spending within sectors. There is also concern to ensure that spending is cost effective, is equitable, and doesn't spend government money where the private sector could operate. PER recommendations may re-appear as conditions/benchmarks in Bank and Fund loans. Each sector has a PER which contributes to the overall national PER.

The purpose of the education PER is to evaluate the previous year's spending in the education sector - whether it was in line with plans, and whether by keeping to the plans, the desired outcomes are likely to be achieved. This means looking at the inputs (such as for education, principally money from government and donor resources), the processes (whether the money was properly spent and accounted for), the outputs (teachers employed, classrooms built), and, ultimately, outcomes (such as a more conducive learning environment for pupils). With a focus on poverty, the interest is not just on the learning environment as an end in itself, but beyond that to whether the education system as a whole is playing its part in breaking the cycle of poverty and vulnerability.

The PER process specifically looks for CSO input in assessing the effectiveness of spending, and there is CSO involvement in the relevant working groups to this end. An up-to-date list of the NGOs involved in Tanzania can be obtained from TEN/MET.

4.3.5 The Medium Term Expenditure Framework (MTEF)

This process allocates government and donor resources between competing priorities. MTEF establishes a 3 years rolling budget focused on activities and outputs in line with priorities emerging from the Poverty Reduction Strategy (and PER), Rolling means that each year it is adjusted to take account of what happened in the first year of the previous MTEF, creating a new three year plan.

The MTEF tries to bring together the amount of resources, which are likely to be available (without causing macro-economics problems, like high inflation) with a bottom up estimate of the current and medium term costs of carrying out national priorities as defined in the PRS. Each year there is a back and forth process of agreeing the budget by looking at the resource constraints and the spending needs, through the issuing of budget guidelines (see the information on the budget cycle).

The MTEF and PER are meant to help the Ministry of Finance get away from making arbitrary cuts on, for example, the education budget, by making the education planners look very carefully at how they are spending the resources, and close down any areas of work which are not in line with priorities.

The MTEF and PER can both be part of a process of promoting accountability, if civil society organisations and parliament have access to information and are part of the process of evaluating the pro-poor impact of spending. The following calendar shows when the different processes are taking place. At national level the financial year runs from the July to June, so that the budget session of parliament is discussing details of sector budgets from July onwards, after the main budget has been presented to parliament by the Minister of Finance in June of each year.

| Month | PER Activities | Budget Process |
|--------------|--|--|
| July | PER Working Group (all sectors) develops work plan for year Education Sector PER group develops terms of reference for the review | Discussion of budget in parliament |
| August | | |
| September | Education PER takes place in time to feed findings into budget guidelines Poverty Policy Week is usually October | Work on national budget guidelines for the following year, by the Guidelines Committee |
| October | | |
| November | Some PER work still being finalized | Finalisation of guidelines |
| December | | |
| January | PER studies reviewed | Issuing of guidelines to Municipal and District Authorities |
| February | | Preparation of budget for each sector (eg education, health etc) and preparation of MTEF |
| March | | |
| April | This is meant to be a 'quiet time' so government can get on with budget preparations. | Finalisation of budget |
| May | | Presentation of budget to parliament |
| June | | |

The PER and the budget process should not be parallel processes, the PER is designed to try and make the budget reflect policy priorities more strongly.

4.3.6 Sector Wide Approach (SWAP)

In Tanzania this is the Sector Development Programme (EdSDP) and the Primary Education Development Programme (PEDP) is a component of it. Sector reform in education in Tanzania has been under discussion since 1995, but the first real fruits were seen with the development of PEDP in 2001/2.

Sector reform is also a component of public expenditure management, as the idea is that the whole sector is governed by one budget with clear priorities, rather than a number of different donor funded projects. Past experience has shown these do not necessarily add up to improved sector performance.

The idea is that PEDP and EdSDP should be consistent with the PRS, the PER and the MTEF, and should ensure that any relevant IMF and World Bank conditionalities are met. Both government and donor resources are then allocated in line with the programme.

Sector Wide Approaches also usually aim to improve the efficiency and poverty targeting of spending in the sector, and to establish shared donor-government policy priorities (including the Millennium Development Goals/EFA goals). These are then meant to be financed through a common pool of donor funding. There is a group of donors who are contributing to the education sector in this way – the ‘pooled fund donors’ including Sweden, the Netherlands, Ireland and others.



4.3.7 Local Government Reform

The Local Government Reform Programme is part of the process of making government more efficient by addressing possible problems of inflexibility in national budgets. If spending decisions are made closer to the level where the impact is felt then they are more likely to reflect local needs. The idea of making decisions closer to where the impact will be felt is also behind giving individual schools some power to allocate spending from capitation and development grants.



When local government bodies such as the District Council Social Services Committee make decisions about funding allocations, it creates more opportunities for civil society involvement. Local government budgeting processes follow the same broad pattern as the budget cycle, but the financial year is the same as the calendar year – see the table on page 7.

In some parts of Tanzania, there are efforts to try to insure that even village level plans are incorporated into district plans. A timetable for how this could work is given below:

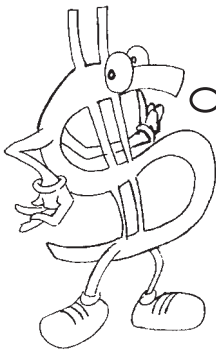
| Month | District Level – Financial Year runs from January to December | How local level planning could fit with district level |
|--------------|--|--|
| July | | Kitongoji (sub-village) and village level meetings to decide priorities and make plans which include all available resources from NGOs/CBOs etc. Village assembly meets and approves |
| August | | Ward Development Committee consolidates plans from villages and approves |
| September | Plans developed at district level about spending for coming financial year, including use of locally raised taxes. Discussed first with District Management Team, then Finance Committee | |
| October | | |
| November | | |
| December | Full council meeting at which plans / budgets for following financial year at district level are approved, and they incorporate ward and village level plans | |

5. Introduction to Understanding Budget Outcomes

5.1 Budget Analysis

A budget is made up of:

- Budget **inputs**. This is usually funding. However when communities contribute their time (labour) or material into classroom contraction, it should be recognised, as it is a cost that has been met.
- Budget **outputs**. These are usually things that are bought with the inputs, such as teachers (through payment of their salaries) or textbooks.
- Budget **outcomes**. These are the effect or impact of the output. In education they should be 'improved learning environment' or 'higher levels of literacy'. The overall outcome intended out of the PRS is reduced poverty.



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With budget analysis there is an important issue of indicators. How do we measure the inputs, outputs and outcomes. For example, how do we calculate the value of community contributions. How do we decide which are the outputs which we are going to count, in order to assess if policies are working? Who has the power to make these decisions? On what are they based?

This raises many of the issues of participation and accountability which were discussed in Chapter 3. It was said that a good budget system (the system by which resources are collected, allocated, recorded, monitored and accounted for) will ensure that total spending is affordable and that resources are spent on priorities and not wasted in inefficiency or corruption.

Section 2.2 explained some of the things that can be learned from a budget: whether the amount allocated is adequate, whether the amount reflects stated priorities, whether there is progress in meeting objectives, whether resources are being allocated fairly, whether money is being efficiently spent on the right things.

The basic tools for budget analysis are these:

- Share of Gross Domestic Product
- Percentage change between one year and another
- Annual Average Growth rates for expenditure on education or other sectors
- Real growth rates (in other words adjusted to take inflation into account)
- Per capita spending
- Comparisons with previous years' spending.

The following pages show the kinds of calculation that can be used, using data from Tanzania's Poverty Reduction Strategy. You can try out these calculations, and the answers are given at the back of this booklet.

Look at the following data for education spending in Tanzania, measured in billion Tshillings:

| | A | B | C | D | E | F | G |
|---|-----------------------|----------|----------|----------|----------|----------|--|
| 1 | | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | Av. Growth rate: 2001/02 - 2003/04 |
| 2 | Nominal | 162 | 248 | 348 | 433 | 487 | |
| 3 | Real | | | | | | |
| 4 | Real Growth rate | | | | | | |
| 5 | Total * | 292 | 468 | 737 | 953 | 1062 | |
| 6 | Total Real* | | | | | | |
| | Deflator ⁴ | 0.943 | 1 | 1.05 | 1.09515 | 1.141146 | |

*This refers to total spending on the priority sectors identified by Tanzania's Poverty Reduction Strategy: education, health, agriculture, water, roads, HIV/AIDS

⁴ Deflators are derived figures related to inflation. For example if there is a general increase in prices of 4.5% from 2002 to 2003, and it takes TZS 200 to buy a loaf of bread in 2002, then in 2003 it will cost 4.5% more or (TZS 200 x 1.045 = TZS 209) – the deflator is 1.045. When deflators are derived, it is first necessary to choose a base year to which we will compare with all other years. In economics and budget analysis, it is customary to choose the previous fiscal year as the base year. The deflator for the base year is defined as 1. In practice, you do not need to calculate the deflators as they are normally provided by the government, specifically the Ministry of Finance. Deflators can also be obtained from PER documents and the World Bank. When doing budget analysis, it is recommended to use the deflator provided by the government of the respective country. Whichever deflator figures you use, it is important to state the source.

01. **Convert nominal allocations to real allocations.** Real allocations just means adjusted inflation. Use the deflator for this – the deflator for the base year is always 1. In this example 2000/01 is the base year.

Nominal / deflator = real



2. **Calculate Real Growth Rate:**

$\frac{(\text{Year 2} - \text{Year 1})}{\text{Year 1}} \times 100$ or $(C3 - B3)/B3$

3. **Annual Average real growth rates for education over the medium term**

Gives a big picture of what is happening over the medium term
 Average annual real growth rate = average of the 3 annual growth rates

Annual Average real growth rate for education over the medium term = $\frac{((D4) + (E4) + (F4))}{3}$ or = $\frac{\text{sum}(D4:F4)}{3}$

What is the overall picture that you see for education?

4. **Share of the Total Budget**

How much of the priority sector total budget goes to education over the five spending years? In other word, calculate the share of the education budget as a percentage of the total budget for the priority sector for the five spending years.

Use real amounts

Percentages measure how much a government prioritises a certain item in the budget. So what is happening to the prioritisation of education within the priority sector total budget?

- 1999/2000 =
- 2000/01 =
- 2001/02 =
- 2002/03 =
- 2003/04 =

In 1999/2000..... % of the priority sector total budget went to education
 In 2001/2002.....% of the priority sector total budget went to education

Is government prioritizing education more or less?

6. Getting Started on Budget Work

6.1 Decide on a Research Issue

There are different possible starting points:

- By population group – eg people with disabilities, girl children, by geographic area
- By government programme – eg Early Childhood Programmes, Non-formal Education
- By issue – eg HIV / AIDS
- By using policy documents as a benchmark – eg Poverty Reduction Strategy Papers.

What you decide to do depends on what information is available:

For example, if information on budget allocations and expenditure priorities is available, and the budget is reasonably comprehensive, and the budget breaks down into line items in a transparent and useful way, you can do calculations like the ones above to show, for example:

- Are spending patterns in line with stated policy priorities?
- How does government spending on debt servicing compare with spending on development needs?
- What proportion of resource is going to the poor, women, children etc?
- Have spending patterns changed over time?
- Is there equity by region and district in how resources are allocated?

If not all the relevant information is available, other activities may be relevant:

- Case Studies (such as to show the impact of particular policy, or the quality of a service or distribution/equity implication of a funding mechanism)
- Trackings Studies (for example, to trace any blockages or leakages as money is transferred out of Ministry of Finance down to district or school level)
- Advocacy to promote Public Expenditure Management and wider governance reforms towards greater transparency, consultation, participation or capacity building, or technical reforms (such as to improve audit processes, or financial management)

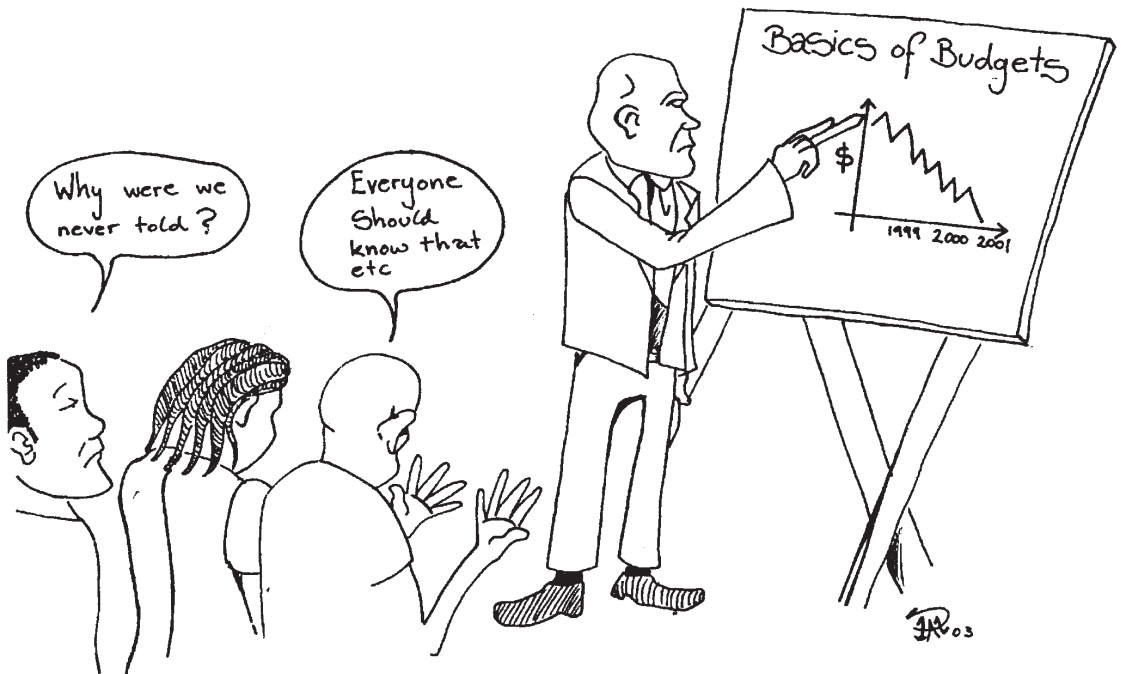
6.2 Assemble the Relevant Documents

Budget documents can be obtained from the Office of the Commissioner for Budgets in the Ministry of Finance. However, budget documents alone are not enough. You need all the other relevant policy document, both from education and from other cross-sectoral initiatives such as to do with health or HIV/AIDS, PRS and so on.

Document from local, national and international levels may also be relevant. These might include district plans, PRS papers and updates, or international conventions, such as the Convention on the Right of the Child.

6.3 Conduct the Analysis and Disseminate the Findings

- Make them accessible to policy makers and the media. This implies they should be short in length, avoid technical language, and make use of graphs and charts.
- Dissemination of findings should be timely. For example releasing an analysis of the impact of last year's budget at a time when its findings could influence discussions about this year's budgets. The charts under sections 2.3 and 4.3.5 record the timings some national level processes, at which you may want to target your findings. For each year you would need to find out the actual dates of relevant meetings, both for local and national level work. The timing of the release of the findings is crucial if the work is to have maximum impact. Therefore, the national level process that the findings are going to be targeting needs to be taken into account from the beginning of the work including allowing enough time for analysis, dissemination to the government and for structured media strategy.



6.4 Work with Partnerships

There are lots of relevant kinds of budget work that NGOs can be involved in and they involve many different kinds of skills:

- Obtaining data
- Conducting analysis at different levels; local, national, international
- Capacity development of other organisations to undertake work
- Capacity development of decision makers and media to understand the findings
- Dissemination of the findings in an accessible way.

Very few organizations have all these skills. Working in partnerships and in networks can be an ideal way of ensuring effectiveness.

6.5 Still Hesitating?

Getting involved in budget work can be a very big undertaking. For some individuals and organizations there are hurdles which have to be overcome before the work can be started. It is best to be clear where these obstacles are so that we can tackle them.

- Do the problems lie with the budget system? – so that the problems are with transparency of information, accountability of the budget systems and processes and with participation in these
- Do the problems lie in ourselves and in our organisations? Is there a lack of skills, support or authority to prioritise this work?

7. Other Resources and Related Readings

Magnus Lindelow (2002) Holding Governments to Account: Public Expenditure Analysis for Advocacy Save the Children, London

REPOA and ESRF (2001) Pro-Poor Expenditure Tracking - Report Submitted to the PER Working Group

Useful Websites:

The official government website gives details of relevant policies, speeches and budget documents (often in English and Kiswahili): <http://www.tanzania.go.tz>

Tanzania on Line provides information on development issues, where you can get copies (often in English and Kiswahili) of relevant material, including Development Vision 2025, the Poverty Reduction Strategy Paper, the Poverty Monitoring Master Plan. <http://www.tzonline.org>

Some of these documents have been made easy to read through simple language versions, again in English and Kiswahili, produced by HakiKazi Catalyst: <http://www.hakikazi.org>

Other International material includes:

The International Budget Project: <http://www.internationalbudget.org/>

World Bank: <http://www.worldbank.org>

IMF: <http://www.imf.org>

Institute for a Democratic Alternative in South Africa (IDASA) <http://www.idasa.org>

Keep a note of other documents and resources you find, to share with others.

Answers to Budget Analysis Calculations

Note: for simplicity, whole numbers only have been used.

| | A | B | C | D | E | F | G |
|---|---------------------|---------|---------|---------|---------|----------|------------------------------------|
| 1 | | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | Av. Growth Rate: 2001/02 - 2003/04 |
| 2 | Nominal | 162 | 248 | 348 | 433 | 487 | |
| 3 | Real | 172 | 248 | 331 | 395 | 426 | |
| 4 | Real growth rate(%) | | 44 | 33 | 19 | 7 | 19.6 |
| 5 | Total* | 292 | 468 | 737 | 953 | 1062 | |
| 6 | Total real* | 309 | 468 | 702 | 870 | 930 | |
| | Deflator | 0.943 | 1 | 1.05 | 1.09515 | 1.141146 | |

Share of the total budget

1999/2000 = 55% 2000/01 = 53% 2001/02 = 47%
 2002/03 = 45% 2003/04 = 46%

In 1999/2000 55% of the budget went to education

In 2001/2002 47% of the budget went to education

Hence government is prioritising education less, but it still has the largest share of the spending on the priority sectors.

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Cartoons provided by Patrick Lockow (lockow@eoltz.com)

