

# **Zanzibar – Public Financial Management Performance Report**

Evaluation

NORAD COLLECTED REVIEWS 7/2010

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Commissioned by the Royal Norwegian Embassy in Dar es Salaam

### **Norad collected reviews**

The report is presented in a series, compiled by Norad to disseminate and share analyses of development cooperation. The views and interpretations are those of the authors and do not necessarily represent those of the Norwegian Agency for Development Cooperation.

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# Zanzibar

## Public Financial Management Performance Report

Final Report

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# Abbreviations and Acronyms

AAG	Assistant Accountant General
AC	Audit Committee
ADB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Centre
AGAs	autonomous government agencies
BOT	Bank of Tanzania
CAG	Controller and Auditor General
CEMB	Commissioner, Economic Management and Budget (MOFEA)
CFAA	Country Financial Accountability Assessment
CIA	Chief Internal Auditor
CPAR	Country Procurement Assessment Report
CPO	Central Payment Office (MOFEA)
CPS	Central Payment System
CSD	Civil Service Department
CS-DRMS	Commonwealth Secretariat – Debt Recording and Management System
CSVPI	Commissioner, Stock Verification and Public Investment (MOFEA)
DFID	Department for International Development (United Kingdom)
DPs	development partners
DPS	Deputy Principal Secretary
EFD	External Finance Department
GAAP	generally accepted accounting practices
GBS	general budget support
GFS	Government Finance Statistics (IMF system)
GoT	Government of Tanzania
HBS	Household Budget Survey
HLG	higher level government
HoR	House of Representatives
IAD	Internal Audit Department (MOFEA)
IAU	Internal Audit Unit
IFMS	Integrated Financial Management System
IMTC	Inter Ministerial Technical Committee
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
JAST	Joint Assistance Strategy Tanzania
JFC	Joint Finance Commission
LGAs	local government authority
MDAs	ministries, departments, and agencies
MDG	Millennium Development Goal
MDRI	multi-donor relief initiative
MEVT	Ministry of Education and Vocational Training
MHSW	Ministry of Health and Social Welfare
MOFEA	Ministry of Finance and Economic Affairs (Zanzibar)
MKUKUTA	Tanzania's national development strategy
MKUZA	Mkakati wa Kupunguza Umaskini Zanzibar (Zanzibar Strategy for Growth and Reduction of Poverty)
MTEF	medium-term expenditure framework
OCAG	Office of the Controller and Auditor General
PAC	Public Accounts Committee (HoR)
PAF	Performance Appraisal Framework (for budget support)
PBZ	People's Bank of Zanzibar
PE	public enterprise
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFMP	Public Financial Management Programme
PFM-PR	Public Financial Management – Performance Report (PEFA report)
PFMRP	Public Financial Management Reform Programme
PSRP	Public Sector Reform Programme
RGZ	Revolutionary Government of Zanzibar

RNE	Royal Norwegian Embassy
SNAO	Swedish National Audit Office
TAB	Tax Appeals Board
TAP	Tax Administration Project
TIN	taxpayer identification number
TRA	Tanzania Revenue Authority
TZS	Tanzania shilling
UNDP	United Nations Development Programme
URT	United Republic of Tanzania
VAT	Value Added Tax
VRN	VAT registration number
ZBAS	Zanzibar Budget Allocation System
ZIFA	Zanzibar Institute of Financial Administration
ZIPA	Zanzibar Investment Promotion Agency
ZPRP	Zanzibar Poverty Reduction Plan
ZRB	Zanzibar Revenue Board
ZSSF	Zanzibar Social Security Fund
ZSTC	Zanzibar State Trading Corporation

Financial year in Zanzibar = July to June

Currency = Tanzanian shillings (TZS)

Exchange rate = US\$1 = TZS 1,375; TZS 212.53 = 1 Norway Krone, at 31 May 2010

# Summary Assessment

## Introduction

The assessment took place in May 2010 and was carried out by an external assessment team at the request of the Revolutionary Government of Zanzibar (RGZ) and with their strong support. The scores reflect the existing situation so they form a basis against which ongoing reforms can be monitored. The findings are based on a review of a wide range of internal and external documents and meetings with a large number of stakeholders. The overall results of the analysis are set out in table 1 below with more detailed justification and information sources provided in section 3 and Annex A.

Table 1: Overall Results							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
<b>A. PFM-OUT-TURNS: Credibility of the budget</b>							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B				<b>B</b>
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	A				<b>A</b>
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				<b>B</b>
PI-4	Stock and monitoring of expenditure payment arrears	M1	B	B			<b>B</b>
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>							
PI-5	Classification of the budget	M1	D				<b>D</b>
PI-6	Comprehensiveness of information included in budget documentation	M1	C				<b>C</b>
PI-7	Extent of unreported government operations	M1	B	D			<b>D+</b>
PI-8	Transparency of inter-governmental fiscal relations	M2	-	-	-		<b>NU</b>
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	NU			<b>D</b>
PI-10	Public access to key fiscal information	M1	C				<b>C</b>
<b>C. BUDGET CYCLE</b>							
<b>C(i) Policy-Based Budgeting</b>							
PI-11	Orderliness and participation in the annual budget process	M2	B	C	C		<b>C+</b>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	B	C	C	<b>C+</b>
<b>C(ii) Predictability and Control in Budget Execution</b>							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	C	C		<b>C+</b>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	B		<b>B</b>
PI-15	Effectiveness in collection of tax payments	M1	NR	B	A		<b>NR</b>
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C	C	A		<b>C+</b>
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	B	D		<b>C+</b>
PI-18	Effectiveness of payroll controls	M1	D	NR	C	C	<b>D+</b>
PI-19	Competition, value for money and controls in procurement	M2	D	C	B		<b>C</b>
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	B	D	C		<b>D+</b>
PI-21	Effectiveness of internal audit	M1	A	B	D		<b>D+</b>
<b>C (iii) Accounting, Recording and Reporting</b>							
PI-22	Timeliness and regularity of accounts reconciliation	M2	A	B			<b>B+</b>
PI-23	Availability of information on resources received by service delivery units	M1	D				<b>D</b>

Table 1: Overall Results							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
PI-24	Quality and timeliness of in-year budget reports	M1	C	A	B		C+
PI-25	Quality and timeliness of annual financial statements	M1	C	B	B		C+
<b>C(iv) External Scrutiny and Audit</b>							
PI-26	Scope, nature and follow-up of external audit	M1	C	B	D		D+
PI-27	Legislative scrutiny of the annual budget law	M1	B	B	D	A	D+
PI-28	Legislative scrutiny of external audit reports	M1	D	B	C		D+
<b>D. DONOR PRACTICES</b>							
HLG-1	Predictability of Direct Budget Support	M1	A	NA	A		A
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3	Proportion of aid that is managed by use of national procedures	M1	D				D

NU = not used NR -= not rated

## Overall assessment

### Credibility of the budget

At both aggregate level and ministry level, the budget appears to have been a reasonably credible indicator of actual expenditure and of aggregate revenue. Comparison with the three years reported in the 2006 PFM review (2002/03 – 2004/05) shows a major improvement in the credibility of expenditure budgets. In addition, expenditure arrears have been reduced, so there is less understatement of expenditure. Over-estimation of revenue in 2006/07 and 2007/08 and correspondingly inflated expenditure budgets caused some of the variances. However, there was also significant under-spending on both recurrent and development budgets. Reasons for under-spending are not clear.

### Comprehensiveness and transparency

The budget and accounts include only part of the externally funded development expenditure, so financial statements provide only a partial picture of resource utilisation. It should also be kept in mind that the Consolidated Accounts reflect only the Exchequer account: other central government funds and bodies are not included. The classification of expenditure does not facilitate a standard GFS economic or functional classification.

There is limited transparency in the budget documentation provided to the House of Representatives, and in the fiscal data made available to the public. Information on public enterprises and local government authorities is scarce and out of date. This prevents any regular comprehensive appraisal of fiscal risk to the central government of loan defaults or expenditure arrears by these bodies.

### Policy-based budgeting

The budget process combines the estimation of available resources and setting of sector (or MKUZA cluster) ceilings with the detailed estimating by MDAs and their subordinate units. There is insufficient political direction on the former before MDAs proceed to the latter. The tightness of the latter stages of the budget process leaves insufficient time for considered legislative review and approval before the budget year starts.

The alignment of annual budgets with MKUZA and sectoral strategy statements on the one hand and limited resources on the other hand remains a challenge. The dual budgeting system limits planning to investment projects and creates an array of ceilings – for salaries, for other recurrent expenditures, for subventions, for domestic development expenditure – that hinders rational allocation of resources to priority sectors and programmes.



### *Predictability and control in budget execution*

Revenue administration has improved in the two revenue agencies, and there is tighter control over non-tax revenues collected by MDAs. TRA and ZRB registration databases are not linked with each other nor with other government databases, which makes it more likely that potential taxpayers can escape the net.

The major challenge facing the Government is the instability and unpredictability of receipts and the lack of reliable cash flow forecasts. This has forced MOFEA to limit releases to MDAs to one month's expenditure at a time. This short rein and fiscal discipline have prevented arrears and excess expenditures, but prevent programme managers planning for results – they can only plan to spend each month's ceiling. Procurement contracts have to be divided to get within available resources, thus reducing the number subject to competitive bidding, losing bulk purchase discounts and reducing value for money.

Payroll and procurement controls are weak. This is where the bulk of public funds are spent. There is insufficient monitoring and audit in these areas. Internal audit units and audit committees have been established, but they are not yet respected and used by Accounting Officers to improve transparency and accountability.

### *Accounting, recording and reporting*

The centralisation of payments in MOFEA and rollout of IFMS to all MDAs has enabled up-to-date reporting of revenues and expenditures. Bank reconciliations are also up to date. Flash reports and quarterly reports monitor revenue and expenditure (other than donor-funded project expenditure, which has no effect on government cash flows), but do not show outstanding commitments and uncommitted balances of votes and releases.

The annual financial statements are being progressively converted to the international cash-IPSAS standard, and are currently suffering some delay in submission for audit.

### *External scrutiny and audit*

External audit has reduced the backlog of audits, though without greater orientation to system audits and practical management recommendations. There is little evidence of response, despite the penalties available in the Audit Act.

The Public Accounts Committee of the House of Representatives also complains of a lack of response to its reports.

### *Donor practices*

The Zanzibar share of general budget support to the Union Government is received in full early in the year in accordance with donor forecasts. Project support is a different story: several donors remain unable to meet their commitments to provide forecasts and reports of disbursements in compliance with the Paris Declaration, Accra Agenda and Joint Assistance Strategy Tanzania..

### *Assessment of the current strengths and weaknesses and their impact on PFM*

Strengths and weaknesses in PFM have a direct impact on the budgetary outcomes of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

**Aggregate fiscal discipline** is fair, but there are dangerous gaps, particularly with regard to public enterprises and subvented bodies that are not routinely monitored on the fiscal risks they pose to the central government budget. Risks apply wherever political pressures or bad executive management run up expenditures that cannot be sustainably funded. There is insufficient central control over the issue of public debt and guarantees. Even without explicit central government guarantee, the central government may have to bail out failing bodies.

The medium-term expenditure framework (MTEF) is intended to ensure **strategic allocation of resources** over a three-year period in accordance with national and sectoral priorities. However, it is not yet working. Effectively, the planning process remains on an annual cycle, and there is little

relationship between the forward indicative estimates in one year and the budget ceilings in the next year.

**Efficient service delivery** is pushed into third place. There is little data on efficiency at service delivery level, which is itself an indication of low priority. Planning for improved delivery is severely limited by resource constraints, and by the unpredictability of their amount and timing. The short time horizon of releases (one month) is long recognised as a challenge, but reform requires greater predictability and reliability of resource projections. The Ceiling Committee system is working and has solved the former problem of arrears, but longer term releases, eg. a quarter at a time, would allow better planning of programmes and greater efficiency in service delivery.

### *Prospects for reform planning and implementation*

There are several major ongoing reforms and an impressive record of achievement since 2006. Lagging behind are reforms in procurement (the implementation of the Act, Regulations and standard bidding documents) and in external audit. Payroll reforms now have good prospects of being achieved under the Public Service Reform Programme.

The PFM Programme (PFMP) and its Steering Committee is the main instrument for coordination of PFM reform and is government owned and managed. The PFMP is about to be subject to a mid-term review. This will provide an input to the dialogue between RGZ and donor partners and an opportunity for changes in direction, content and funding. If the current leadership and enthusiasm for reform continues, and given sufficient political support, prospects for sustained improvement appear good.

# 1. Introduction

## Objective

The overall objective of the report is to provide all stakeholders with the first assessment of public financial management (PFM) in Zanzibar using the Public Expenditure and Financial Accountability (PEFA) methodology. This methodology allows measurement of the status of Zanzibar's PFM performance at a point of time (May 2010) and is an important element of the strengthened approach to PFM reform, which recognises the need for strong government ownership. It assesses the effectiveness of current systems and procedures but does not assess national policy or capacity. The scores reflect the existing situation and therefore act as a baseline against which future reforms can be monitored. MOFEA intends to use the PEFA indicators as a framework for monitoring future PFM reforms.

An assessment was carried out in 2006 by an external consultant team<sup>1</sup> but covered only some of the indicators relating to government performance, without actual rating. This assessment includes retrospective ratings of the budget credibility indicators based on information in the 2006 report and compares them with present ratings.

## Process of preparing the PFM-PR

### *Methodology*

The assessment is an external assessment carried out by an Assessment Team (one international consultant funded by the Royal Norwegian Embassy in Dar es Salaam and one World Bank staff<sup>2</sup>) with continuous participation by senior officers of the Ministry of Finance and Economic Affairs (MOFEA). Following a desk study of available documents and a launch workshop, the field work took 14 days. Oversight was provided by a PFM Steering Committee, chaired by the Principal Secretary, MOFEA, and including representatives from the oversight institutions, Controller and Auditor General and the House of Representatives. The concept note, as updated at inception, is attached as Annex B. Resident donors in Dar es Salaam (World Bank, EC, DFID, IMF/East AFRITAC, Sweden, Denmark, Canada, Germany, Japan) were consulted at an initial briefing meeting and/or a debriefing following the field work. Quality assurance was provided by peer reviewers arranged by the donors, by the Government, and by the PEFA Secretariat.

A launch workshop took place on 8 May 2010 (one full day). It was attended by 39 participants from the executive and legislative branches of RGZ, including the MOFEA Principal Secretary (chairperson), two Deputy Principal Secretaries, Commissioners, Department Heads and Accountant General, two other Principal Secretaries, the Secretary to the Cabinet, the Auditor General, and six Members of the House of Representatives. The MOFEA Principal Secretary explained the status of ongoing reforms and the lead consultant explained the assessment process and methodology and what information would be required for the scoring of each indicator. A case study was used to familiarize the participants with the scoring process.

The team then held individual or group discussions with officials and advisers in the government, Office of the Controller and Auditor General (OCAG), House of Representatives (HOR), revenue agencies and other parastatals and the private sector. A complete list of persons interviewed is included as Annex C.

In addition to the interviews, the team reviewed various laws, regulations, internal documents and external reports. A list of the documents consulted is attached as Annex D. The budget credibility

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<sup>1</sup> Norad (2006) Public Financial Management Review, Final Report by Jens Claussen and others.

<sup>2</sup> Lead Consultant Tony Bennett and World Bank Senior Procurement Specialist Donald Mneney.

indicators were based on the last three completed financial years 2006/07 to 2008/09 (Annex G). Other indicators were scored on the present practices. On the basis of the evidence obtained, the team scored the individual dimensions and determined the overall indicator scores. A presentation of their findings and preliminary scores was made to the MOFEA PFM Steering Committee on 22 May 2010 and to the Mainland PFM Working Group of Donors on 24 May 2010. A draft report was issued on 31 May 2010, and comments were received from the Government of Zanzibar, PEFA Secretariat, IMF East AFRITAC, Canadian Cooperation Office, African Development Bank, NORAD and a UNDP Adviser in the External Finance Department. Comments were addressed in a table of responses by the lead consultant and a draft final report was issued on 31 July. At a validation workshop on 4 August 2010, Zanzibar officers and the Norwegian Embassy made further inputs and the report was finalised.

The team express their sincere appreciation to everyone who participated in the assessment for their unfailing welcome, availability and assistance, even during a critical stage of the budget process in May.

### *Scope of the assessment*

This assessment covers central government revenue and expenditure. The government's oversight of fiscal risk with respect to public bodies is covered in performance indicator PI-9. There is sub-national government in Zanzibar but it was treated as decentralised operations of the central government (see discussion at PI-8). Central government expenditure includes recurrent expenditure and development expenditure. Revenue includes both tax and non-tax revenues, but not grants from mainland Tanzania. The latter were assessed by the indicator HLG-1 drawn from the PEFA Guidelines for Sub-National Government.

## 2. Country background information

### 2.1 Description of country economic situation

#### *Country context*

Zanzibar consists of two main islands, Unguja and Pemba, and several smaller islands. They are located in the Indian Ocean, 25-50 kilometres off the East Coast of Africa between 5 and 7 degrees south of the Equator. The Islands have a total area of 2,654 square kilometres, of which Unguja has 1,666 square kilometres while Pemba has 988 square kilometres. The capital is Zanzibar City, of which the historic centre is Stone Town, on Unguja. According to the latest Population and Housing Census (2002) Zanzibar had a population of 981,754 with a growth rate of 3.1 percent. The population in 2010 is estimated to be 1.1 - 1.25 million, which is about 2.7 percent of the total population of Tanzania.

Zanzibar was once a separate state with a long trading history within the Arab world. Following revolution in January 1964, it united with Tanganyika to form Tanzania in April 1964 and still enjoys a high degree of autonomy within the union. Zanzibar has its own Constitution, drafted in 1984, and its own government, known as the Revolutionary Government of Zanzibar (RGZ). The system is a hybrid of the presidential and Westminster systems. The Executive is headed by the President of Zanzibar and the Revolutionary Council (Cabinet). Zanzibar has its own judicial system. The country is divided into five administrative regions (three in Unguja and two in Pemba), 10 districts - two in each region, 50 constituencies and 296 Shehias (sub-districts).

The legislature is the House of Representatives (HoR), which has 81 members. The main political parties, the CCM (which is presently in power) and the CUF, agreed that a referendum would be held on electoral reform (a government of national unity) before the next election, due in October 2010. The referendum was held on 31 July and a majority voted 'Yes'. It is hoped that coalition government will provide a lasting solution to the political instability of the past.

There is a complicated relationship between mainland Tanzania and the RGZ on the internal and external status of Zanzibar. Since the Union of 1964, Zanzibar is part of the United Republic of Tanzania (URT), but is autonomous of the mainland except in respect of defined Union matters – basically foreign affairs, defence and security, police, emergency powers, citizenship, immigration, external borrowing and trade, income tax, customs duty, ports, posts and telecommunications, currency, banking, foreign exchange, industrial licensing and statistics, higher education, oil, national examinations, civil aviation, research, meteorology, and registration of political parties. Mainland legislation does not apply in Zanzibar except on Union matters.

A Joint Finance Commission (JFC) was established in 2003 to advise the two governments on the sharing of revenues and expenditures, and fiscal relations generally. On revenue, since 1994 the Bank of Tanzania (BOT) dividend has been shared 95.5 percent to the mainland, 4.5 percent to Zanzibar on a five-year agreement that has been continued. Other revenues are shared in accordance with the URT Constitution and individual laws. Balance of payments and general budget support have followed the same formula, with 4.5 percent of all budget support grants coming to Zanzibar. For this purpose, budget support includes multi-donor debt relief (MDRI). From 2009/10, budget support loans are shared the same way. Project support is shared in accordance with each project agreement: some projects, such as the Public Financial Management Reform Programme (PFMRP), use the same 4.5 percent formula, while others are negotiated with ministries of the two governments on the basis of their respective needs and national priorities. Joint expenditures are not yet shared. Discussions on this sensitive and complex subject have been going on since 2008. The JFC has made a proposal but the Chief Ministers are not yet agreed. It is said to be unlikely that agreement will be reached before 2011.

As in mainland Tanzania, the Zanzibar economy has been liberalized from 1984. Notable landmarks include the Free Economic Zones Act of 1992, the Investment and Protection Act of 2004 and the protocol to establish a common market and monetary union with other members of the East African

Community. However, the average annual per capita income of just US\$327 (2005) hides the fact that about half the population lives below the basic needs poverty line. There has been economic growth of 5 to 7 percent per annum in recent years (less than mainland Tanzania at 6-9 percent). The Gini coefficient of inequality (0.28 in 2004/05) shows that there is greater equality in Zanzibar than in mainland Tanzania or in other countries of east and south Africa, though there has been no apparent improvement in recent years. Headline inflation in 2009 was 8.9 percent, down from 20.6 percent in 2008. Electricity generation is a constraint: there were prolonged cuts in 2008 and again from December 2009 to March 2010. Zanzibar's main industries are spices, raffia, and tourism. In particular, the islands produce cloves, nutmeg, cinnamon, pepper and seaweed. Tourism is growing as a foreign exchange earner, while export of cloves is declining.

Adult literacy was 76 percent (HBS 2005) and is now around 81 percent. Despite a relatively high standard of primary health care and education, infant mortality is still 61 in 1,000 live births, and it is estimated that malnutrition affects one in three of the islands' people. Life expectancy at birth has risen to almost 60. While the incidence of HIV/AIDS is considerably less in Zanzibar than in Tanzania as a whole (0.9 percent of the population, as against the national average of around 8 percent), it is a growing problem.<sup>3</sup>

With regard to corruption, Transparency International does not provide reports that are specific to the island. However, it is reasonable to assume that the problem is as severe as in the mainland as many of the factors that contribute to the development of corruption exist in Zanzibar. These include poverty; low institutional capacity of enforcement and regulatory agencies; political interference; low public awareness; greed and abuse of power; incompetence; poor discipline; conflicting, outdated or incomplete legislation and lack of adequate systems, procedures and guidelines (ADB 2005 report on Country Governance). In the Corruption Perception Index 2009 table, Tanzania was 126<sup>th</sup> country out of 180.

### *Overall government reform programme*

The 2006-2010 Zanzibar Strategy for Growth and Reduction of Poverty, known by its Kiswahili acronym as MKUZA, is the second national development framework. It is founded on Vision 2020, and is in line with the Millennium Development Goals (MDGs) and other international agreed commitments and targets. To support implementation of the first plan, a number of diagnostic studies were undertaken. These were the Public Expenditure Review (2003), the Country Financial Accountability Assessment (CFAA, 2003), Analysis of Zanzibar's Economic Situation, Study on the Clove Industry, and Study on Local Government Reform and Strategic Plan of Good Governance. The studies identified strengths and weaknesses in financial accountability, public expenditure management and procurement arrangements in the public sector. They provided a common point of reference for the RGZ and donors in understanding the current situation and planning future actions. On the basis of these studies, economic and financial reforms, institutional and human resource reforms and good governance reforms were undertaken. In the course of implementing MKUZA, efforts were made to harmonize policies within Zanzibar, between Zanzibar and mainland Tanzania and between Tanzania and international commitments. MKUZA is already aligned with the mainland MKUKUTA in terms of adopting a common strategic approach and a common five-year time frame. The draft MKUZA II (2011-2015) was expected to go for Cabinet and House of Representatives approval in June 2010, but has been delayed.

The implementation of MKUZA depends on core reforms in the areas of financial and economic management, good governance, institutional and human resources and relevant reforms which have already been introduced in mainland Tanzania such as the annual Public Expenditure Review (PER), Public Financial Management Reform Programme (PFMRP), and Legal Sector Reform. In addition, the Government and donors are committed to implement the Joint Assistance Strategy for Tanzania (JAST).

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<sup>3</sup> Data from the Socioeconomic Survey 2009, Preliminary Results, the Zanzibar Budget Framework and Guideline for the Preparation of Medium Term Plan for 2010/11 – 2012/13, and newspaper reports, such as The Citizen of 6 March and 6 May 2010 (see [www.allafrica.com](http://www.allafrica.com)). A Human Development Report 2009 has been prepared, but is not yet released.

MKUZA cluster one, Growth and Reduction of Poverty, includes the goal of maintaining a stable macroeconomic environment. The only fiscal goal is to increase revenue collections to 18.5 percent of GDP by 2010. Cluster 3, Good Governance and National Unity, includes goal 6 to reduce corruption through enforcing the PPDPA Act, and by strengthening the OCAg. Goal 8 is also to strengthen oversight institutions, and enable greater public access to information. Development partners are to follow JAST principles and align their interventions with the MKUZA framework.

Since 2009, RGZ has been developing a comprehensive public sector reform programme for the period 2010/11 to 2014/15. This is about to be launched (May 2010). It covers four key areas: strengthening institutions, structures and systems for service delivery; managing public servants; information and records management; and reforming local government. The total budget over five years is TZS 33.6 billion. These reforms are closely related to the PFM reform programme. For instance, procurement and payroll reforms will depend on the complementary reforms in human resource management and records management.

### *Rationale for PFM reforms*

The core reforms outlined in the MKUZA are expected to facilitate the achievement of the targeted outcomes. It is recognised that growth depends to a large extent on implementation of the reforms in financial management. This is a key assumption in the macroeconomic projections and policy targets set out in the Budget Framework.

## 2.2 Description of budgetary outcomes

### *Fiscal performance*

Table 2 below shows that revenue collections have grown rapidly, but so has recurrent expenditure. The big increase in the deficit in 2008/09 is due to a change in the financing of development expenditure: the Revolutionary Government of Zanzibar (RGZ) has funded an increasing share of project expenditure, while donors are switching from grant financing (that reduces the deficit) to loan financing (that funds the deficit).

*Table 2: Financial Operations of the Central Government*

<b>Revenue and Expenditure (TZS Millions)</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Total Revenue and Grants</b>	<b>162,308</b>	<b>183,748</b>	<b>182,478</b>
<b>Revenue</b>	<b>89,466</b>	<b>108,690</b>	<b>138,902</b>
Tax	84,871	102,867	130,257
Non Tax	4,595	5,823	8,645
<b>Grants</b>	<b>72,842</b>	<b>75,058</b>	<b>43,576</b>
General budget support	19,506	28,491	26,793
Project grants	53,336	46,567	16,783
<b>Total Expenditure &amp; Lending minus Repayment</b>	<b>174,038</b>	<b>194,812</b>	<b>217,988</b>
<b>Recurrent Expenditure</b>	<b>95,227</b>	<b>119,488</b>	<b>139,615</b>
Personal emoluments	58,041	70,528	73,800
Goods, services & transfers	37,186	48,960	65,815
<b>Interest</b>	<b>2,249</b>	<b>1,380</b>	<b>1,645</b>
External	-	-	-
Domestic	2,249	1,380	1,645
<b>Development Expenditure</b>	<b>76,562</b>	<b>73,944</b>	<b>76,228</b>
External	69,465	63,775	60,683
Domestic	7,097	10,169	15,545
<b>Net Lending</b>	<b>-</b>	<b>-</b>	<b>500</b>
<b>Overall Surplus/Deficit (-)</b>	<b>-11,730</b>	<b>-11,064</b>	<b>-35,510</b>

<b>Financing</b>	<b>11,730</b>	<b>11,064</b>	<b>35,510</b>
External Financing (net)	16,355	17,208	43,900
Disbursement	16,355	17,208	43,900
Amortization	-	-	-
Domestic Financing (net)	-4,625	-3,121	-8,390
From banks	-894	-525	-5,742
From non-bank	-3,731	-2,596	-2,648
Difference	-	-3,023	-

Source: AGD Consolidated Statements  
(Exchequer Summary)

### Allocation of resources

No functional analysis of expenditure is currently possible.

## 2.3 Description of the legal and institutional framework for PFM

### The legal framework for PFM

The current legal framework for PFM is set out in table 3 below.

Table 3 Legal framework for PFM	
Area	Description
<b>Public Finance</b>	The Constitution, 1984, sets the basis for PFM in Zanzibar. The Public Finance Act, 2005 and Regulations of 2005 define in great detail the roles, functions and responsibilities in management of government revenue and expenditure (the Minister of Finance, the Paymaster General, the Accountant General, the Accounting Officers and Warrant Holders in ministries, departments and agencies, as well as the Controller and Auditor General). They also define the accounting, control and reporting systems. The Government Loans, Stocks, Grants and Guarantees Decree, 1978, provides authority to the Minister of Finance to raise loans.
<b>Audit</b>	The Constitution, article 112 and 113 establish the position, appointment and removal, and basic mandate of the Controller and Auditor General (CAG). The Establishment of the Office of Controller and Auditor General Act, No.11 of 2003 established the Audit Service Board to manage audit personnel, and elaborated the duties of the CAG.
<b>Procurement</b>	The Public Procurement and Disposal of Public Assets Act, No. 9 of 2005...
<b>Public Bodies</b>	Public Investment Act 2002 and amendments 2005, which empowered the President to set up public corporations and established a Public Investment Department within the Ministry for Finance. Also individual acts establishing the Zanzibar Social Security Fund, Road Fund, etc.
<b>Revenue</b>	Income tax and customs duty are legislated partly by mainland Acts: the Income Tax Act; Tax Revenue Appeals Act; Gaming Act; Vocational Educational and Training Act; Road and Fuel Tolls Act; Airport Service Charges Act; the Tanzania Revenue Authority Act and the East African Customs Management Act (2005). Zanzibar laws include Entertainment Tax Decree, 1962; Hotel Levy Act, No.1 of 1995; Stamp Duty Act, No. 6 of 1996; Value Added Tax Act, No. 4 of 1998, as amended by the Finance (Public Revenue Management) Act, No. 4 of 2009 [reducing VAT from 20 to 18%]; Port Service Charge Act, No. 2 of 1999; Petroleum Levy Act, No. 7 of 2001; Property Tax Act, October 2009 [not yet in operation].
<b>Other</b>	There is an Anti-Money Laundering Act, but no Anti-Corruption Act nor Freedom of Information Act



## *The institutional framework for PFM*

### *Structure of Government*

The Revolutionary Government of Zanzibar is a parliamentary democracy and comprises 34 ministries, independent departments and agencies, 5 statutory bodies, and 8 public enterprises, as shown in Annex E.

### *Legislature*

The legislature is the House of Representatives (HoR). It has a similar composition to the National Assembly of Tanzania: There are 50 members from the electoral constituencies, directly elected by universal suffrage to serve five-year terms, 10 members are appointed by the President of Zanzibar, 15 are special seats for women; 5 ex officio seats for the Regional Commissioners, and one for the Attorney General. Five of these 81 members are then elected to represent Zanzibar in the National Assembly of Tanzania.

### *Executive*

The Executive consists of the President and the Revolutionary Council (Cabinet), which he chairs. Members of the Cabinet are the Chief Minister and other ministers who are appointed by the President from the HoR. An Inter-Ministerial Technical Committee of Principal Secretaries (IMTC) acts as a coordinating body below the Cabinet.

### *Judiciary*

Zanzibar has a distinct and separate legal system. The High Court of Zanzibar is not a Union matter. Similarly, the Attorney General's Chambers is a department of RGZ, part of the portfolio of the Minister of State in the Ministry of Constitutional Affairs and Good Governance. The court system in Zanzibar has a High Court, Kadhi Courts and the Magistrates Courts. Appeals may be made to the Appeal Court in Tanzania except on constitutional and religious court issues. There are no specialised commercial courts.

### *Office of the Controller and Auditor General*

The Office of the Controller and Auditor General (OCAG) is mandated to carry out its functions and responsibilities by section 112 of the Constitution and section 25 of the Public Finance Act, 2005. The agency presently has 142 professional and/or technical staff and 49 support staff, apart from the Controller and Auditor General, who is a statutory appointee. The structure reflects its core functions of auditing government departments, including public accounts and public bodies, audit of donor-funded projects, and pre-audit of pension and gratuity payments to retired public servants.

### *Bank of Tanzania*

The Bank of Tanzania (BOT) is the central bank to both mainland Tanzania and the RGZ and, as such, acts as banker to the governments and the commercial banks and regulator of financial institutions. Pursuant to its mandate under the Bank of Tanzania Act, No.5 of 2006, the BOT's main functions include regulating the issue, supply, availability and international exchange of money; advising the governments on banking and monetary matters; and promoting a sound financial structure.

### *Ministry of Finance and Economic Affairs*

As shown in Annex F, the Ministry of Finance and Economic Affairs (MOFEA) is responsible for all aspects of financial management. It is headed by a Principal Secretary, who is also the Paymaster General, and is divided into two departments, each headed by a Deputy Principal Secretary (DPS).

### *Zanzibar Revenue Board*

The Zanzibar Revenue Board (ZRB) was established under the ZRB Act No. 7 of 1996 as an agency of the Government of Zanzibar for collection and administration of all domestic taxes other than customs, excise and income taxes that are administered by the Tanzania Revenue Authority (TRA). ZRB became operational since July 1998.

### *Tanzania Revenue Authority, Zanzibar Branch*

The Tanzania Revenue Authority (TRA) Act, 1995 established the Authority as a semi-autonomous agency of the Government of Tanzania, under the general supervision of the Union Minister for Finance. The Zanzibar Branch collects customs, excise and income taxes arising in Zanzibar.

### *Line ministries*

Principal Secretaries of individual ministries are appointed as administrative heads with specific responsibilities including compliance with the Public Finance Act as well as sound economic and financial management of the ministry's affairs. Each ministry has a Planning and Budget Committee, a Tender Board and Procurement Management Unit, a Chief Accountant and Chief Internal Auditor.

### *The key features of the PFM system*

The Ministry of Finance leads the annual budget process, which is set in a three-year rolling medium-term expenditure framework.

Zanzibar has a centralised payments office and payroll system located in MOFEA. The mainland government integrated financial management system (IFMS), based on the Epicor package, has been rolled out to Zanzibar and now covers all MDAs.

Procurement is decentralised to 54 procuring entities.

### 3. Assessment of the PFM systems, processes and institutions

This chapter provides the detailed evidence and justification for rating each of the indicators. Where an indicator has more than one dimension, each dimension is rated and the separate ratings are combined into an overall indicator rating. The method of combining indicator ratings is either M1 or M2. In accordance with the PEFA Framework, M1 is used where the indicator depends on all dimensions and is therefore rated on the lowest rating (the weakest link). M2 is used where dimensions are separate and independent, and the overall rating is an average of the individual dimension ratings.

#### 3.1 Budget Credibility

The indicators in this group assess to what extent the budget is realistic and implemented as intended, firstly by comparing the actual revenues and expenditures with the original approved budgets, and then by analysing the composition of actual expenditures. “Hidden” expenditure is also assessed by reviewing expenditure arrears. The following paragraphs provide the detailed information to support the 2010 scores, to compare with assessments in 2006 and to provide a brief overview of any ongoing reforms designed to address some of the identified weaknesses.

##### *PI-1 Aggregate expenditure out-turn compared to original approved budget*

PI-1 Dimension	2006	2010 Assessment
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure)	<b>D</b>	<b>B</b> In the last three financial years (2006/07, 2007/08 and 2008/09) the deviation between actual expenditure and original budget at an aggregate level has been 7.7%, 21.1% and 3.3% respectively. A B score has therefore been assigned.

##### *Assessment 2010*

The budget is the central mechanism for controlling expenditure in accordance with amounts appropriated by the House of Representatives. The ability to implement the budgeted expenditure is an important factor in supporting the government’s ability to deliver agreed public services as expressed in policy statements.

The deviation for central government expenditure has been calculated based on the information provided in the audited consolidated financial statements for 2006/07 and 2007/08 and the unaudited statements for 2008/09. The figure for total actual expenditure includes all recurrent and development expenditure other than externally funded project expenditure as the government does not have full control over this. A vote called Consolidated Fund Services is a mixture of various special expenditures, statutory expenditures such as pensions and interest on public debt, and financing items such as redemption of Treasury bills and bonds. Interest is excluded from the calculation because the government does not have full control over it. The financing items have also been excluded. As RGZ uses a cash basis for its accounts, no accrued expenditures are included.

The resulting analysis summarised in the table below shows that at the aggregate level, actual primary expenditure deviated from original budgeted primary expenditure by 7.7%, 21.1% and 3.3% respectively. Though the last year is not yet audited, it is not expected that there will be any significant changes affecting the rating. The deviation (under-spending) in 2007/08 is exceptionally high. This was not due to any major shortfall of revenue or grants that year. According to MOFEA, it was due to under-expenditure on projects. Annex G shows that it was also due to under-expenditure (or over-estimation of budgets) in two major heads, MOFEA itself and Consolidated Fund Services.

Table 4 Summary of aggregate primary expenditure deviations						
Expenditure	2006/07		2007/08		2008/09	
	Original budget TZS million	Actual expenditure TZS million	Original budget TZ million	Actual expenditure TZS million	Original budget TZS million	Actual expenditure TZS million
Total primary expenditure	107,183	98,883	154,360	121,803	163,665	158,199
Deviation (%)	7.7%		21.1%		3.3%	

### Comparison 2006 - 2010

The review of PFM in 2006 did not rate PEFA indicators. However the data provided (Table 4) show that there were deviations of 36%, 53% and 47% in the years 2002/03, 2003/04 and 2004/05. These would result in a D rating. There has evidently been a major improvement in the credibility of the aggregate budget. This appears to be due to tighter expenditure controls and expenditure budgets being based on more realistic revenue projections.

### PI-2 Composition of expenditure out-turn compared to original approved budget

PI-2 Dimension	2006	2010 Assessment
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI 1) during the last three years.	C	A In the last three financial years (2006/07, 2007/08 and 2008/09) the deviation between actual expenditure and original budget at a disaggregated level has been 0.1%, nil and 3.1% respectively. An A score has therefore been assigned.

### Assessment 2010

Where the composition of the budget varies considerably from the original budget, the budget will not be a useful indicator of intent. This indicator aims to assess the extent to which there is a re-allocation of resources between administrative heads (MDAs) above the deviation in aggregate expenditure as defined in PI-1. As shown in Annex G, at a disaggregated (MDA) level, variances are very small, even nil in 2007/08.

It has been observed that where all variances are in the same direction, eg. all MDAs spending less than their budgets, and none spending more than budget, PI-2 variance is nil. This may occur even if individual MDAs spend very different percentages of their original budgets due to uneven cuts in releases, as in Zanzibar. A new method of calculating PI-2 is under consideration by the PEFA Programme.<sup>4</sup>

Table 5 Deviations and Variations			
Year	Total exp. deviation (PI-1)	Total expenditure. variance	Variance in excess of total deviation (PI-2)
2006/07	7.7%	7.8%	0.1%
2007/08	21.1%	21.1%	nil
2008/09	3.3%	6.4%	3.1%

### Comparison 2006 - 2010

A calculation from data in the 2006 Review, Table 5, shows that the PI-2 deviations were 17.8% in 2002/03 (due to a massive overspend by MOFEA), 0.5% in 2003/04 and 1.1% in 2004/05. This would give a rating at that time of C. This indicator has improved though the interpretation of the change is problematic. It does not signify remarkable budget discipline. Apart from reallocations of the budget, it may be affected by changes in accounting policies.

### PI-3 Aggregate revenue out-turn compared to original approved budget

PI-3 Dimension	2006	2010 Assessment
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<sup>4</sup> See exposure draft at <http://blog-pfm.imf.org/pfmblog/2010/06/request-for-comments-revisions-to-pi-2-3-and19.htm>

(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget.	<b>D</b>	<b>B</b> Total revenue received compared to forecasts has been 92%, 96% and 105% for FYs 2006/07 to 2008/09 respectively. As revenue below 94% of forecast was received in only one year, a B has therefore been assigned
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### Assessment 2010

This indicator assesses the quality of revenue forecasting by comparing domestic revenue estimates in the original approved budget to actual domestic revenue collection based on tax and non tax revenues collected by TRA, ZRB and Zanzibar government departments.

As revenue was less than 95% of budget in only one of the last three years, this is rated B.

Table 6 Comparison of Budgeted and Actual Revenues Received									
Ministries/Departments	2006/07			2007/08			2008/09		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Total Revenue (TZS million)	100,687	92,553	91.9	114,108	109,225	95.7	132,755	138,903	104.6

Source: Consolidated Financial Accounts

### Comparison 2006 – 2010 / Ongoing reforms

Revenue collections in the years 2002/03, 2003/04 and 2004/05 were 77.1%, 78.5% and 93.2% of the respective budgets. Though there was a trend of improvement, in 2006 this would be rated D. The improvement has continued and in 2008/09 revenue collections actually exceeded budget. Though revenue collections show a nominal growth rate of 25 percent, the revenue to GDP ratio (13%) is well below the sub-Saharan average (18%).

There is an ongoing reform in the MOFEA Economic Management and Budget Department to develop and refine a revenue forecasting model based on macro-economic projections, and to build departmental capacity.

### PI-4 Stock and monitoring of expenditure payment arrears

PI-4 Dimensions	2006	2010 Assessment
Method M1	<b>D+</b>	<b>B</b>
(i) Stock of expenditure payment arrears (as a percentage of total expenditure for the corresponding fiscal year) and any recent change in stock	<b>D</b>	<b>B</b> The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	<b>C</b>	<b>B</b> Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions

### Assessment 2010

**Dimension (i) 'Arrears'** in Zanzibar means contractual debts that have fallen due, but have not been paid to the creditor. They may include arrears to suppliers, to public servants, to retirees, or to creditors in respect of debt interest. RGZ does not have a policy with respect to the timely payment of its suppliers (e.g. within 30 days).

The Annual Consolidated Accounts show arrears to domestic suppliers as part of the domestic debt. This is the outstanding balance of arrears that had accumulated up to 2004, since when all payments have been centralised. The arrears at that time were verified by 2007 and have been mostly paid off, with TZS 5.5 bn outstanding at 30 June 2009. No further arrears have been created (see PI-20 (i)).

Also as part of domestic debt, the RGZ owed TZS 1,446 million to retired civil servants as unpaid pensions and gratuity (now mostly paid), and TZS 804 million to the Social Security Fund in respect of its own contributions (now paid). Salary arrears are not included: these consist of payments due to public servants recruited in June 2009 who might not have got into the June payroll due to the processing time required. Unclaimed salaries are included in expenditure and placed on deposit until

they can be paid. There are no arrears of interest, or other known arrears. Known arrears at 30 June 2009 were therefore TZS 7.8 billion, which is 4.9 percent of total expenditure that year. This is a significant reduction since 30 June 2007, when arrears amounted to TZS 18.4 billion, 18.6 percent of expenditure.

**Dimension (ii)** Arrears are listed on an Excel spreadsheet by the Debt Management Unit, and adjusted as they are paid off. The gross total includes inter-ministry debt. The balances are not analysed by age.

#### *Comparison 2006 – 2010/Ongoing Reforms*

At the end of 2004/05, arrears to suppliers and retired civil servants were TZS 31.7 billion, which represented over 40 percent of expenditure that year. The improvement in performance since then has been the result of tighter control of commitments through the Public Finance Act, 2005, and the rollout of the IFMS to all MDAs.

## 3.2 Comprehensiveness and transparency

The indicators in this group assess to what extent the budget and the fiscal risk oversight are comprehensive, and to what extent fiscal and budget information is accessible to the public. The following paragraphs provide the detailed information to support the 2010 scores, to compare with the situation in 2006 and to reference changes to reforms since then.

#### *PI-5 Classification of the budget*

PI-5 Dimension	2010 Assessment
(i) The classification system used for formulation, execution and reporting of the central government's budget.	<b>D</b> The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

#### *Assessment 2010*

The existing budget classification is described in the table below. Budget formulation and execution is based on administrative classification. Though individual MDA Estimates show planned outputs, these are not costed, nor shown in the consolidated Estimates. At present the 5-digit item codes cannot be bridged to the IMF government finance statistics (GFS) economic classification codes.

The Public Finance Act prohibits “indefinite items such as unforeseen expenditures, contingencies or miscellaneous”. However a vote called Consolidated Fund Services includes unspecified Special Expenditure. In 2008/09, this amounted to TZS 10 billion, or 6.3 percent of total expenditure. The IMF convention is that provision for disasters and unforeseen emergencies should not normally exceed 3 percent of budgeted expenditure.

Table 7 Classification System		
Budget Classification		
<b>RECURRENT</b>		
xx	<i>Ministry, department or agency</i>	
xx	<i>Department (sub-vote)</i>	
xxxxx	<i>Item</i>	Can partially meet standard GFS economic classification
<b>DEVELOPMENT</b>		
xx	<i>Ministry, department or agency</i>	
xx	<i>Department (sub-vote)</i>	
xxxxx	<i>Project</i>	MDA Vote also show the donor code and the type of finance (loan, grant, government contribution)

Source: Estimates of Recurrent and Capital Expenditure for Year 2009/10

### Comparison 2006 – 2010/Ongoing reforms

The budget classification and chart of accounts have not materially changed since the previous assessment.

Mapping tables are being prepared with technical assistance from IMF-East AFRITAC, and it is expected that the 2011/12 budget will be compliant with GFS on both economic and functional classification.

### PI-6 Comprehensiveness of information included in budget documentation

PI-6 Dimension	2010 Assessment
(i) Listed information (see below) available in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met.	<b>C</b> Four out of nine items are shown in the 2010/11 Budget documentation.

### Assessment 2010

The annual budget documentation, which is submitted to the legislature for their approval and scrutiny, is assessed by this indicator. Annual budget documentation should provide a clear picture of the central government fiscal forecasts, budget proposals and out-turn of previous years. In addition to information on receipts and payments this documentation should include all the information listed in the table below.

Budget documentation consists of the Budget Speech by the Minister, a review of the economy for the current year, a volume on economic projections for the budget year, and the detailed Estimates, showing actual revenues and expenditures for the previous two years (budget year minus 2 and 3), approved Estimates for the current year (budget year minus 1), and the Estimates for the budget year.

Table 8 Comprehensiveness of budget documentation		
Elements of budget documentation	Availability	Notes
1. <b>Macro-economic assumptions</b> , incl. at least estimates of aggregate growth, inflation and exchange rate	<b>No</b>	<i>Macro-economic assumptions are described except for the exchange rate used. There are no standard rates for estimating foreign expenditures.</i>
2. <b>Fiscal deficit</b> , defined according to GFS or other internationally recognised standard	<b>No</b>	<i>The Budget Frame does not follow a GFS standard, showing a deficit, and financing of the deficit by means of project loans, domestic treasury bills, etc.</i>
3. <b>Deficit financing</b> , describing anticipated composition	<b>No</b>	
4. <b>Debt stock</b> , incl. details at least for the beginning of the current year	<b>Yes</b>	<i>The Budget Guideline states debt stock at end December in the current year</i>
5. <b>Financial assets</b> , incl. details at least for the beginning of the current year	<b>No</b>	
6. <b>Prior year's budget out-turn</b> , presented in the same format as the budget proposal	<b>Yes</b>	<i>Detailed Estimates</i>
7. <b>Current year's budget</b> (revised budget or estimated out-turn), presented in the same format as the budget proposal	<b>Yes</b>	<i>Detailed Estimates</i>
8. <b>Summarised budget data</b> for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	<b>Yes</b>	<i>Detailed Estimates and Summaries</i>
9. <b>Explanation of budget implications</b> of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to exp programs	<b>Partially</b>	<i>The 2009/10 budget speech estimated the loss in revenue resulting from a proposed cut in VAT. No other policy initiatives were costed.</i>

### Comparison 2006 - 2010

This indicator was not assessed in 2006.

### PI-7 Extent of unreported government operations

PI-7 Dimensions	2010 Assessment
Method M1	D+
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports	<b>B</b> The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure.
(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.	<b>D</b> Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations

### Assessment 2010

**Dimension (i)** There are a few special purpose funds e.g. Zanzibar Higher Education Fund and Road Fund that are outside the Exchequer, but their revenues and expenditures are effectively included in the Consolidated Financial Accounts.<sup>5</sup>

There are also extra-budgetary activities by separate legal bodies, which are defined by IMF-GFS and the PEFA Framework as part of central government if they are not public enterprises and if they carry out government functions. They may be funded from an annual subvention, earmarked revenues or external aid. These include the Zanzibar Social Security Fund (ZSSF), Zanzibar Municipality and District Councils (treated here as part of central government), Office of the Central Government Statistician, Zanzibar Revenue Board, Zanzibar Investment Promotion Authority, Zanzibar Institute of Financial Administration, Audit Services Board, State University of Zanzibar, Karume Institute of Technology, Zanzibar Tourist Board, Library Service Corporation, Wakf Commission, Information and Broadcasting Commission, National Sports Council. Any subventions to these bodies are included in the Consolidated Accounts, but not their actual expenditures, which may be greater than the subventions where they have other sources of revenue. The difference is “unreported expenditure”, which has to be assessed for the last completed year, even roughly, for rating this dimension. Any revenue retained by departments and not deposited into the Exchequer account, is also within this assessment. This is now negligible.

The largest extra-budgetary bodies with significant outside revenue are believed to be the ZSSF,<sup>6</sup> State University of Zanzibar, Zanzibar Municipality and Zanzibar Institute of Financial Administration. Data from their accounts suggests that these agencies were responsible for TZS 6–7 bn expenditure above their subventions for 2008/09. This is equivalent to 4 percent of total government expenditure that year.

**Dimension (ii)** In principle, all donor project funding is included in the Authorised Budget and in the Consolidated Accounts, in accordance with the Public Finance Act. The Estimates of Development Expenditure for 2009/10 show details of 118 projects for a total of TZS 239.9 billion on which donors were expected to grant TZS 96.9 billion, and lend TZS 102.3 bn. Despite intensive efforts by External Finance Department to capture data on all donor-funded projects for the 2009/10 and 2010/11 budgets, the data is not yet reliable. Similarly, the Consolidated Accounts for 2008/09 showed TZS 60.7 billion as a contra entry, as loans and grants received and as project expenditure, but not the sectoral breakdown. The Accountant General’s statement warns that the amount is incomplete. The TZS 60.7 billion project aid is 28 percent of total expenditure.

<sup>5</sup> A sinking fund for redemption of Treasury bills and bonds, and another for repayment of PBZ overdraft, have separate bank accounts within the Exchequer and are integrated into the Consolidated Accounts. The fuel levy collected by ZRB and passed, via the Exchequer, to the Road Fund appears to be included in the Statement of Revenue and the corresponding transfers to the Road Fund in the recurrent expenditure.

<sup>6</sup> This is the only social security fund. It collects 15 percent of all salaries and provides various social benefits. On the IMF-GFS sectorisation of the economy it is part of central government.



### *Comparison 2006 – 2010/Ongoing reforms*

A similar calculation on the 2004/05 accounts shows that at least 32 percent of total expenditure was project aid and not captured. The indicator was not rated, but would have been a D. The introduction of the Aid Management Platform database in 2009 is expected to improve the coverage of the Consolidated Accounts in future.

### *PI-8 Transparency of inter-governmental fiscal relations*

<b>PI-8 Dimensions</b>	<b>2010 Assessment</b>
<b>Method M2</b>	<b>Not used</b>
(i) Transparency and objectivity in the horizontal allocation among SN governments	<b>Not used</b>
(ii) Timeliness of reliable information to SN governments on their allocations	<b>Not used</b>
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	<b>Not used</b>

As stated in the introduction, it was decided by the PEFA Steering Committee to count local government authorities (LGAs) as deconcentrated units of central government. Thus LGAs were not treated as a separate level of government and this indicator was not applied.

Local government is established by the Zanzibar Municipal Council Act, the District and Town Council Act and the Regional Administration Authority Act. The functions of the rural and urban councils include planning and supervising implementation of economic, commercial, industrial and social development. The staffing needs of all LGAs are determined centrally. Appointments at all levels are made by central government, and their salaries are paid by central government. Although councils are mandated to recruit junior levels of staff, in practice all appointments are made centrally. The RGZ has adopted a policy of decentralization by devolution (D-by-D), but the LGAs have control only over their own revenues.

The PEFA Guidelines for Assessment at Sub-National Level define sub-national government as all government entities below central government level which are involved in government activities, have their own budget, can be sued in their own right and have some form of elected/appointed body. These criteria are met by the Zanzibar Municipality and District Councils. In mainland Tanzania, the corresponding bodies are classified as sub-national government entities, and have been subject to separate PEFA assessments. In this assessment, therefore, indicator PI-8 is Not Used, rather than Not Applicable.

### *PI-9 Oversight of aggregate fiscal risk from other public sector entities*

<b>PI-9 Dimensions</b>	<b>2010 Assessment</b>
<b>Method M1</b>	<b>D</b>
(i) Extent of central government monitoring of AGAs and PEs	<b>D</b> No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete.
(ii) Extent of central government monitoring of SN government's fiscal position	<b>NU</b>

### *Assessment 2010*

Central government usually has a formal oversight role in relation to other public sector entities. It should monitor and manage fiscal risks arising from activities of LGAs, autonomous government agencies (AGAs) and public enterprises (PEs) including state-owned banks, but may also for political reasons be obliged to assume responsibility for financial default of other public sector entities, where no formal oversight role exists. Fiscal risks to the central government can arise from debt service

default (with or without guarantees issued by central government), operational losses, expenditure payment arrears and unfunded pension obligations.

**Dimension (i)** The Finance Act and Regulations require that public corporations be audited by the OCAG or professional auditors appointed by him or by the Board. The Public Investment Act, 2002, requires public corporations to submit their corporate strategy statements, half yearly and annual financial statements and audited accounts to the respective line ministry and to MOFEA. In MOFEA, the Commissioner for Stock Verification and Public Investments receives annual reports of the public enterprises (now reduced to eight), but reports are late (none for 2008/09 had been received at May 2010), and there is no programme of monitoring all parastatals, nor reporting on the fiscal risk that they pose for central government. The Country Financial Accountability Assessment, 2003, expressed doubts about the financial position of the Zanzibar Insurance Corporation, Zanzibar Ports Corporation, Zanzibar State Fuel and Power Corporation, Zanzibar State Trading Corporation and People's Bank of Zanzibar.

The Consolidated Public Accounts for 2008/09 do not include a statement of the amounts guaranteed by RGZ in respect of public loans and other contingent liabilities as required by the Public Finance Act.

**Dimension (ii)** Not used.

### Comparison 2006 – 2010/Ongoing reforms

The status of the public bodies' audited financial statements was not mentioned in the 2006 Report.

### PI-10 Public access to key fiscal information

PI-10 Dimension	2010 Assessment
(i) Number of the listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification must be met.	C The government makes available to the public 1-2 of the 6 listed types of information

### Assessment 2010

Table 9 Public Access to Information		
Required documentation	Availability	Comments
Annual budget documentation when submitted to the legislature	<b>Partial</b>	The budget address and the Parliamentary session is broadcast live. The budget is available when it is approved and also the draft estimates are available to the media when they are tabled in the House of Representatives. Budget documentation (complete) is only available after approval of the estimates by legislature.
In-year budget execution reports within one month of their completion	<b>No</b>	Monthly flash reports of expenditure are received promptly from MDAs, and the Accountant General prepares monthly and quarterly reports of receipts and issues of the Exchequer, but these are not published.
Year-end financial statements within six months of completed audit	<b>No</b>	Year end financial statements are not available within six months of their completed audit.
External audit reports within six months of completed audit	<b>Yes</b>	The annual audit report is a public document when it is tabled in the House of Representatives, as soon as it is in session after the report is completed.
Contract awards over USD 100,000 equivalent published at least quarterly	<b>No</b>	Contract awards are not published.
Resources available to primary service unit at least annually	<b>No</b>	No Public Expenditure Tracking Studies carried out, and no published surveys at the service unit level.

## Comparison 2006 – 2010/Ongoing reforms

This indicator was not assessed in 2006.

### 3.3 Policy-based budgeting

#### PI-11 Orderliness and participation in the annual budget process

PI-11 Dimensions	2010 Assessment
<b>Method M2</b>	<b>C+</b>
<b>(i)</b> Existence of and adherence to a fixed budget calendar	<b>B</b> A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.
<b>(ii)</b> Clarity/comprehensiveness of and political involvement in the guidance and preparation of budget submissions (budget circular or equivalent)	<b>C</b> A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments.
<b>(iii)</b> Timely budget approval by the legislature or similar mandated body (within the last three years)	<b>C</b> The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.

#### Assessment 2010

**Dimension (i)** The Zanzibar Constitution requires the Minister of Finance to prepare annual estimates and present them to the House before the beginning of the financial year (1 July). The PS and Deputy PS (Economic Affairs), MOFEA, lead the process. An elaborate structure of committees and technical teams provide coordination. Starting in December, a National Technical Team draws up broad terms of reference for sectoral policy papers and draft budget guidelines, including an estimate of resources from revenue, budget support and project support, and ceilings for each MDA, separately for salaries, other recurrent charges, subventions, and government contributions to development projects, and the timetable. The draft Budget Framework and Guideline is approved by the Inter-Ministerial Technical Committee of all the principal secretaries, and issued to all MDAs, to the National Planning Commission and to the Cabinet. The Guideline is normally issued in January/February, and MDAs have two months to complete their detailed estimates. The Guideline for the 2010/11 budget was issued only on 30 March 2010, due to delays in firming up the estimate of budget support. Heads of departments and directorates prepare their Estimates with assistance from ministry Budget and Planning Committees. MDAs and Regional Administrations were required to submit their detailed Estimates by 16 April 2010, which gave them under three weeks. Estimates are then scrutinised by MOFEA. In practice, ceilings can be negotiated. The budget went to the Cabinet for approval on 12 May. The timetable aims for the budget presentation to the House on 9 June (usually after the mainland budget) and approval by 30 June. The procedure in the House is covered at PI-27.

**Dimension (ii)** The Budget Guideline provides a clear and comprehensive set of instructions, templates and information to assist MDAs in preparing their budget and MTEF bids. It also includes expenditure ceilings and lower limits for departmental revenues. The ceilings are set within MOFEA and approved by the Inter-Ministerial Technical Committee. The Cabinet receives and approves the budget only after MDAs have prepared their detailed Estimates.

**Dimension (iii)** In the last three years, the Legislature has approved the budget in the first or second month of the financial year.<sup>7</sup> A vote on account allows the Government to continue incurring expenditure pending the passing of the Appropriation Act.

<sup>7</sup> 2007/08 was passed on 12 August 2007, 2008/09 on 4 August 2009.

### Comparison 2006 – 2010/Ongoing reforms

Not assessed in the 2006 report.

### PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

PI-12 Dimensions	2010 Assessment
<b>Method M2</b>	<b>C+</b>
(i) Preparation of multi-year fiscal forecasts and functional allocations	<b>C</b> Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis
(ii) Scope and frequency of debt sustainability analysis	<b>B</b> DSA for external and domestic debt is undertaken at least once during the last three years.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	<b>C</b> Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts.
(iv) Linkages between investment budgets and forward expenditure estimates.	<b>C</b> Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.

#### Assessment 2010

**Dimension (i)** From 2007/08, Zanzibar moved from annual based budgeting to a medium-term expenditure framework (MTEF), which includes budget figures for the first year and indicative figures for the two forward years. Forward estimates are included in the main estimates.

The fiscal forecasts are prepared on a rolling annual basis (three years). MOFEA currently forecasts tax and non-tax revenue on past experience of collections and macroeconomic aggregates. Macroeconomic indicators are forecast using a moving average approach. The past relationships of revenues with macroeconomic aggregates are assumed to remain in the future. The Zanzibar share of general budget support and the BOT dividend depend on estimates from the mainland MOFEA. This is very unpredictable.<sup>8</sup>

The links between the estimate for 2009/10 prepared in 2008/09 and its subsequent budget ‘ceiling’ are not clear to the MDAs.

**Dimension (ii)** Almost 60 percent of the debt portfolio is external debt on concessional terms. External loans are taken by mainland Tanzania on behalf of Zanzibar, and on-lent to ZRG. Debt sustainability analyses (DSA) on external debt have been carried out by the IMF in consultation with the mainland MOFEA. Zanzibar has recently prepared a Debt Policy and Strategy statement which includes a DSA on both external and domestic debt, and intends undertaking annual DSAs with mainland MOFEA.

**Dimension (iii)** Sector strategies exist for all major sectors with indicative budgets to meet MDGs, but they bear no relation to available resources. Strategies are not costed within aggregate fiscal forecasts.

**Dimension (iv)** The recurrent budget and development budget are treated as two separate processes. Their integration within the MTEF has not been adopted. Recurrent cost estimates are not part of the development budget requirements. However, investments are based on sector strategies and their recurrent costs are included in the budget.

#### Comparison 2006 – 2010

Not rated in 2006.

<sup>8</sup> At mid-May 2010, it appeared that the estimate of GBS to Zanzibar in 2010/11 might be cut by TZS 18 billion, or 15 percent of total non-salary expenditure.

## Ongoing reforms

The PFM Programme includes the development of a macroeconomic and fiscal forecasting model and an aid management system, which will support fiscal planning and budgeting. The Zanzibar Budget Allocation System (ZBAS) has been developed by the University of Dar, and training has been given. ZBAS is not integrated with the IFMS. Further training in MTEF monitoring has been given in MOFEA and the MDAs.

## 3.4 Predictability and control in budget execution

### PI-13 Transparency of taxpayer obligations and liabilities

PI-13 Dimensions	2010 Assessment
<b>Method M2</b>	<b>C+</b>
<b>(i)</b> Clarity and comprehensiveness of tax liabilities	<b>B</b> Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.
<b>(ii)</b> Taxpayers' access to information on tax liabilities and administrative procedures	<b>C</b> Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due to coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date.
<b>(iii)</b> Existence and functioning of a tax appeals mechanism	<b>C</b> A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.

### Assessment 2010

**Dimension (i)** Tax revenues are collected by two authorities – the Zanzibar office of the Tanzania Revenue Authority (TRA), headed by a Deputy Commissioner, and the Zanzibar Revenue Board (ZRB), headed by a Commissioner.<sup>9</sup> The TRA Domestic Revenue Department collects income tax and a Skill Development Levy, while the Customs Department collects import duty and VAT on imports into Zanzibar, an excise duty on petrol and a trade levy. The ZRB collects VAT, local excise duty, stamp duty and a petroleum levy from Zanzibar businesses. All collections in Zanzibar go to the Zanzibar Government.

The Zanzibar laws are as follows:

- Entertainment Tax Decree, 1962
- Hotel Levy Act, No.1 of 1995
- Stamp Duty Act, No. 6 of 1996
- Value Added Tax Act, No. 4 of 1998, as amended by the Finance (Public Revenue Management) Act, No. 4 of 2009 [reducing VAT from 20 to 18%]
- Port Service Charge Act, No. 2 of 1999
- Petroleum Levy Act, No. 7 of 2001
- Property Tax Act, October 2009 [not yet in operation]

Laws and regulations are clear and comprehensive, though taxpayer representatives complain of their multiplicity and cumbersome procedures. Movements of goods from Zanzibar to the mainland are sometimes re-assessed to import duty and a surcharge applied, though both assessments are made by the TRA. Discretion in their application arises in practice: (1) on the valuation of imports, where the TRA does not accept (possibly undervalued) invoices, (2) in the choice between paying VAT or

<sup>9</sup> Non-tax revenues, which are not covered by this indicator, are collected by the ZRB and several MDAs.

stamp duty (see PI-14 below), and (3) on the setting of penalties. For instance, the penalty for most defaults ranges from TZS 1.3 million up to a maximum of TZS 13 million: the actual penalty is decided by the Commissioner.

**Dimension (ii)** The laws and regulations and notifications of recent changes are available on the respective websites ([www.tra.go.tz](http://www.tra.go.tz) and [www.zrb.go.tz](http://www.zrb.go.tz)). However, all laws are in English, and no Kiswahili translations are available, except for a few leaflets on particular aspects. This is a challenge for small entrepreneurs who may not be able to afford tax consultants, and for the revenue authorities who are trying to combat the culture of tax evasion and promote compliance. Taxpayer education is an important part of the strategic plans of both authorities. Seminars are held, and radio and TV programmes broadcast, though more on the mainland channels than the Zanzibar channels. The TRA has a Taxpayer Education Officer in Zanzibar and one in Pemba, who can be met or telephoned by taxpayers with queries. However, this is not a full-fledged customer service centre, nor is there provision for advance rulings.

**Dimension (iii)** TRA and ZRB have separate appeals procedures, the latter established only one year ago. On assessments made by TRA or ZRB, a taxpayer can raise an objection within 30 days. The appeal has to be in the proper form, stating the grounds for objection and depositing one third of the tax assessed, or the tax not in dispute, whichever is greater. Appeal is to the ZRB Commissioner, TRA Domestic Revenue Manager or the TRA Customs Manager, as appropriate. In the past three years, only 24 appeals have been made against TRA assessments, and all decisions went against the taxpayer. The taxpayer can appeal further to the Tax Appeals Board (TAB), which became functional in 2009. The TAB is headed by a High Court judge, and is based on the mainland. It is not yet well known. No appeals have been made from Zanzibar.

#### *Ongoing reforms*

ZRB is receiving technical assistance from East AFRITAC. TRA shares in the mainland Tax Modernisation Programme.

#### *PI-14 Effectiveness of measures for taxpayer registration and tax assessment*

PI-14 Dimensions	2010 Assessment
<b>Method M2</b>	<b>B</b>
(i) Controls in taxpayer registration	<b>C.</b> Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration.	<b>B.</b> Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration
(iii) Planning and monitoring of tax audit programmes.	<b>B.</b> Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.

#### *Assessment 2010*

**Dimension (i)** The ZRB receives applications for VAT registration, which should show the Taxpayer Identification Number (TIN) given by TRA. If turnover is below TZS 15 million, the trader has to pay 1.5 percent stamp duty on all sales, and is not registered for VAT. If turnover is above the threshold, the trader is given a VAT registration number (VRN). This is not the same as the TIN and there is no electronic link between the two databases. Nor are TIN or VRN linked to any other RGZ registration system, such as the Registration and Identity Card Office. Out of an estimated 800 traders liable to VAT, there are 537 registered. There are occasional surveys of block areas to identify potential taxpayers, eg. in 2009.

**Dimension (ii)** Penalties are prescribed for various defaults. The penalty for non-registration within 15 days of commencement of business is not imposed as it is difficult to prove dates of commencement of business. The TRA penalty for non-submission of an income tax return is TZS

100,000/month or 2.5 percent of the amount payable, whichever is greater. This is a reasonable level of penalty, and is enforced. The ZRB penalty for not submitting a tax declaration is variable (as mentioned under PI-13), and may be imposed, but not consistently, eg. 5 to 8 cases a year on import duty.

**Dimension (iii)** Tax audits and investigations are planned and implemented annually by each TRA department on a zone basis with a focus on current high-risk areas such as hotels and warehouse operations. ZRB also carries out tax audits. The audit of VAT, which is self-assessed, is based on a risk profile involving size, nil returns, special information etc. Four to six audits are done per month by 13 auditors. ZRB has an incentive: it is supposed to receive 5 percent of collections, though not all of this is received.

### *PI-15 Effectiveness in collection of tax payments*

PI-15 Dimensions	2010 Assessment
<b>Method M1</b>	<b>NR</b>
<b>(i)</b> Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two years).	<b>NR</b>
<b>(ii)</b> Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	<b>B.</b> Revenue collections are transferred to the Treasury at least weekly.
<b>(iii)</b> Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	<b>A.</b> Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.

#### *Assessment 2010*

**Dimension (i)** Revenue arrears at June 2009 were 2.1 percent of collections in that year. This is not insignificant. However, no information was available from the tax authorities on the collections of arrears in 2007/08 and 2008/09.

**Dimension (ii)** Tax revenue is deposited directly to the Treasury or Sub-Treasury, or in a commercial bank from which it is transferred twice a week to the Recurrent Exchequer account with BOT.

**Dimension (iii)** Tax Collection Summaries from TRA and ZRB are reconciled monthly with BOT confirmations of cash received.

Tax collections, assessments and arrears are reconciled monthly by TRA and ZRB. Reconciliations are done within the following month and are up to date.

### *PI-16 Predictability in the availability of funds for commitment of expenditures*

PI-16 Dimensions	2010 Assessment
<b>Method M1</b>	<b>C+</b>
<b>(i)</b> Extent to which cash flows are forecast and monitored.	<b>C</b> A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated
<b>(ii)</b> Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	<b>C</b> MDAs are provided reliable information for one or two months in advance.
<b>(iii)</b> Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	<b>A</b> Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.

### Assessment 2010

**Dimension (i)** The authorised budget for the year is broken down by MDAs into quarters and months. There is no re-forecasting of MDA expenditures during the year. A Ceiling Committee meets monthly and transparently decides and approves MDA releases. MDAs requisition payments on line, and get cheques the next day from the Central Payment Office.

**Dimension (ii)** Warrants (authority to commit or spend out of the budget) are released to MDAs only monthly by MOFEA. These are reliable, but restrict the planning horizon to one month.

**Dimension (iii)** Supplementary estimates are rarely used. The executive can authorise re-allocations within an MDA's vote on application by an MDA. These virements are normally allowed by MOFEA if the MDA can show genuine savings.

### Comparison 2006 – 2010/ Ongoing reforms

Not rated in 2006. No ongoing reforms.

### PI-17 Recording and management of cash balances, debt and guarantees

PI-17 Dimensions	2010 Assessment
<b>Method M2</b>	<b>C+</b>
<b>(i)</b> Quality of debt data recording and reporting	<b>B</b> Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually.
<b>(ii)</b> Extent of consolidation of the government's cash balances	<b>B.</b> Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.
<b>(iii)</b> Systems for contracting loans and issue of guarantees	<b>D</b> Central government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism.

### Assessment 2010<sup>10</sup>

**Dimension (i)** External debt is all contracted through Tanzania and on-lent to Zanzibar. The MOFEA External Finance Department maintains records of external debt on a spreadsheet, which are reconciled half-yearly with the database kept by the Bank of Tanzania which is shared with the mainland Accountant General. Reconciliations with creditors are performed monthly by the mainland Accountant General.

Domestic debt on treasury bills and bonds and government stocks is maintained by MOFEA Debt Management Unit using Excel spreadsheets. Domestic debt also includes arrears to domestic suppliers, and balances owing to People's Bank of Zanzibar, the social security fund, old loans from the Union Government and corporations, and pension and gratuity owing to former civil servants. Arrears to domestic suppliers are listed in spreadsheets, and are gradually being paid off. No new arrears arose in 2008/09. Most of the other balances are static. It is possible that some old loans have been written off by the creditors.

Comprehensive debt management reports are included in the annual financial statements. There are no issues on the quality of data.

**Dimension (ii)** RGZ maintains eight bank accounts for regular revenue and expenditure operations and one for deposits, plus accounts for special funds and donor projects. All the Treasury accounts are

<sup>10</sup> A more detailed assessment of debt management is provided in the DeMPA report.



kept with BOT and MOFEA gets daily consolidated information on balances. Donor accounts are kept with BOT or commercial banks. For balances with commercial banks, MOFEA gets only quarterly information.

**Dimension (iii)** All external loans and guarantees have to be approved, first, by the Zanzibar MOFEA, then by the Technical Debt Management Committee and National Debt Management Committee in the mainland Government. The Committees include Zanzibar members. So far there is no overall debt policy, but a Debt Policy and Strategy has recently been prepared and is expected to come into operation from July 2010.

### *Comparison 2006 – 2010/ Ongoing reforms*

A Debt Strategy and Policy document has been prepared and awaits Cabinet and HoR approval. The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) is being installed in mainland Tanzania, and may be extended to cover Zanzibar.

### *PI-18 Effectiveness of payroll controls*

PI-18 Dimensions	2010
<b>Method M1</b>	<b>D+</b>
(i) Degree of integration and reconciliation between personnel records and payroll data	<b>D</b> Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists.
(ii) Timeliness of changes to personnel records and the payroll	<b>NR</b>
(iii) Internal controls of changes to personnel records and the payroll	<b>C</b> Controls exist, but are not adequate to ensure full integrity of data.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	<b>C</b> Partial payroll audits or staff surveys have been undertaken within the last 3 years.

### *Assessment 2010*

**Dimension (i)** All 29,000 public servants are paid monthly salaries through the Government Payroll System owned and operated by the MOFEA Payroll Unit. This is a LAN system developed in 2006 purely for the payroll function. It does not support other HRM functions which are the responsibility of the Civil Service Department (CSD). New recruits, transfers, promotions, separations and other payroll-impacting events are notified by MDAs to the Payroll Unit and CSD and later confirmed (authorised) by CSD. This is a manual process and there is no integration of personnel records at CSD with the payroll.

**Dimension (ii)** There is no information on late payments of salary. All payroll changes received by the 20<sup>th</sup> of a month are entered into that month's payroll, but there is no information on the preceding processes. Nevertheless, it is not perceived as a problem.

**Dimension (iii)** Payroll changes come on different formats from MDAs throughout the month. They may be entered even before CSD authorisation. There is no consolidation of the changes for a month (by which a payroll could be reconciled with the previous month's payroll). Nor is there any formal validation of the payroll by MDAs. Internal audit is weak. 70 percent of the employees are paid in cash.

**Dimension (iv)** A comprehensive census of public servants was conducted in 2007. This identified some 'ghost' workers, but the payroll database was not updated

### *Comparison 2006 - 2010*

Not assessed in 2006.

### Ongoing reforms

A consultancy report on payroll/HRM system has been produced. The Public Service Reform Programme includes creation of an integrated payroll/HRM system over the next two years.

### PI-19 Competition, value for money and controls in procurement

PI-19 Dimensions	2010 Assessment
Method M2	C
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (% of the no' of contract awards that are above the threshold)	D Insufficient data to assess the method used to award public contracts
(ii) Extent of justification for use of less competitive methods	C Justification for use of less competitive methods is weak or missing.
(iii) Existence and operations of a procurement complaints mechanism	B A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority

### Assessment 2010

The Public Procurement Act was enacted in July 2005 and the associated Regulations issued in August 2006. Procurement policy and regulation falls under MOFEA, with day to day implementation by the Commissioner of Stock Verification, Procurement Services and Public Investment. The department does not appear to be fully staffed.

**Dimension (i)** No figures were available centrally to indicate the number of contracts under open competition. In some of the ministries visited including the Ministry of Water, Construction, Energy and Lands there were procurement plans indicating various packages and procurement methods but none of the proposed packages had the procurement process initiated despite being towards the end of the financial year.

**Dimension (ii)** The use of less competitive methods (single source and direct contracting) is allowed where circumstances prevent the use of competition and certain conditions are met. However, there is no procedure laid down for the approval of the methods used at the implementation level and this could not be verified in the ministries visited.

**Dimension (iii)** The procurement complaints mechanism is defined in the Act and Regulations. It consists of an administrative review by the Department of Stock Verification, Procurement Services and Public Investment; then arbitration; then Trade Tribunal. It was observed that no complaints had been received by the Department and it was not clear if the bidders are always satisfied with the processing of tenders or afraid of being victimised if they lodge complaints.

### Comparison 2006 – 2010/Ongoing reforms

Not assessed in 2006. Following the passing of the Procurement Act, 2005, and Procurement Regulations, standard bidding documents have been prepared and first dissemination training given.

### PI-20 Effectiveness of internal controls for non-salary expenditure

PI-20 Dimensions	2010 Assessment
Method M1	D+
(i) Effectiveness of expenditure commitment controls	B Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure,

	with minor areas of exception.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	<b>D</b> Clear, comprehensive control rules/procedures are lacking in other important areas.
(iii) Degree of compliance with rules for processing and recording transactions	<b>C</b> Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.

### Assessment 2010

**Dimension (i)** This indicator covers the effectiveness of expenditure commitment controls, the comprehensiveness of controls over procurement and assets,<sup>11</sup> and the level of understanding and commitment to them.

Expenditure commitment controls are in place for the majority of expenditure. Controls over commitment and payment have been enforced by the Central Payment Office and IFMS system since June 2005 (Audit Report on 2008/09). The IFMS system blocks any commitment or payment unless there is sufficient budget and Exchequer release (expenditure authority).

**Dimension (ii)** Other internal controls and procedures are not up-to-date and therefore in some cases not relevant, excessive (leading to significant delays) and not well understood. There are weaknesses in procurement and there is no effective supervision from the centre. MOFEA relies on Accounting Officers who are primarily responsible and accountable directly to the legislature (Public Accounts Committee).

The CAG documents missing payment vouchers, discrepancies in supporting documents, imprests not accounted for, inadequate controls over purchases and accounting for stores, and lack of receipt signatures. These amounted to less than 0.3 percent of total expenditure in 2008/09. However, she points out a general lack of asset registers and asset management controls. Only a few top officers have copies of the Public Finance Act and Regulations. These are well understood by accountants, internal auditors and some Accounting Officers, but not by others.

**Dimension (iii)** Given the low proportion of expenditure queried by the CAG, compliance with rules for transactions appears reasonable, but there are concerns about misposting, commitments outside the system, and security of assets.

### Comparison 2006 - 2010

Not assessed in 2006.

### Ongoing reforms

None, apart from general professional training for accountants and internal auditors.

### PI-21 Effectiveness of internal audit

PI-21 Dimensions	2010 Assessment
<b>Method M1</b>	<b>D+</b>
(i) Coverage and quality of the internal audit function	<b>A</b> Internal audit is operational for the majority of central government entities, and substantially meets professional standards. It is focused on systemic issues at least 50 percent of staff time.
(ii) Frequency and distribution of the reports.	<b>B</b> Reports are issued regularly for most audited entities and distributed to the audited entity, the Accountant General and the Auditor General
(iii) Extent of management response to internal audit findings	<b>D</b> Internal audit recommendations are usually ignored (with few exceptions).

<sup>11</sup> Controls over debt are covered by PI-17 and over payroll are covered by PI-18.

### Assessment 2010

**Dimension (i)** In each MDA, there is an Internal Audit Office (IAO), headed by a Chief Internal Auditor (CIA) who reports directly to the Principal Secretary, but is also professionally responsible to the Accountant General. CIAs and their staff are part of the Accountant General's Department and are seconded to MDAs. They provide assistance to the respective Principal Secretaries in discharging their responsibilities for internal control and audit. All CIAs have at least a post-graduate diploma in accounting and finance. However, the number of trained internal auditors is insufficient to cover all departments. Total staff is 95, including 35 currently undergoing training.

To promote standards across the MDAs, an Internal Audit Service Unit, headed by the Assistant Accountant General (Systems and Audit) has issued an Internal Audit Manual (2009) based on international professional standards, and supervises internal audit operations to ensure that the Manual is followed and that the IAO is able to operate independently of MDA management. Annual audit plans are made for each department and project. They are not yet risk-based, but particular areas of operations such as procurement are recognised as crucial. Audits are comprehensive, combining financial (regularity) audit and management audit. The AAG estimates that over 60 percent of internal audit staff time focuses on systems, rather than transactions.

In each MDA there is also an Audit Committee (AC), set up by the Principal Secretary in his capacity as Accounting Officer. The Audit Committee has three to five members, including a member from outside the MDA appointed by the Principal Secretary MOFEA. The Chief Accountant is not a member, but may be asked to attend meetings. The AC approves annual internal audit plans, reviews all audit reports by the IAO and CAG, and advises the Principal Secretary on remedial actions that should be taken. ACs should meet quarterly, but some fail to do so.

**Dimension (ii)** Reports are supposed to be quarterly, but are often delayed. They are sent to the Auditor General, the respective Principal Secretary and Audit Committee chairperson, and the Accountant General.

**Dimension (iii)** The weak link is management response. No examples could be found of active response, even where Audit Committees are functioning.

### Comparison 2006 - 2010

Not assessed in 2006.

### Ongoing reforms

15 accountants and auditors have been through a three-month training course in internal audit.

## 3.5 Accounting, recording and reporting

### PI-22 Timeliness and regularity of accounts reconciliation

PI-22 Dimensions	2010 Assessment
Method M2	B+
(i) Regularity of bank reconciliations	A Bank reconciliations are performed daily within the day.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	B Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.

### Assessment 2010

**Dimension (i)** With the establishment of a Central Payment Office (CPO) in the Accountant General's Department, the number of bank accounts has been greatly reduced. There are three holding accounts for revenue (TRA revenue, ZRB revenue, and departmental non-tax revenues), from which transfers are made to a Recurrent Exchequer account. Two Development Exchequer accounts are maintained, one multi-currency and one in TZS. From the TZS Exchequer accounts, releases are made

to CPO Accounts, one for recurrent and one for development expenditures. There are also CPO accounts for deposits plus project bank accounts ('special accounts') where these are specified in the project agreements. All donor project disbursements<sup>12</sup> are supposed to pass first into the Development Exchequer Accounts and then into the respective special accounts, but only a few donors have so far complied. All bank accounts except for some project accounts are held with the central bank (BOT).

All payments across central government are made from the CPO accounts. BOT provides a daily listing (soft copy) of all transactions on each account, and these are reconciled electronically through the reconciliation module of IFMS. The volume of cheques is not high, and reconciliations are completed daily.

**Dimension (ii)** Salary advances and motor vehicle advances are made and recovered from salary over an appropriate period. Travel advances are treated as expenditure at the time advances are made. Air fares, etc have to be documented on return from travel. Suspense accounts may arise where amounts are received for which there is no budget line, but budget lines are then created and balances transferred to revenue or deposit before the annual accounts are closed. The Auditor General reports small amounts of imprest that are not accounted for (Report on 2007/08, p.9)

#### *Comparison 2006 – 2010/ Ongoing reforms*

Significant improvements in the timeliness of bank reconciliations have been made since the previous assessment. Efforts are ongoing to improve the efficiency of the accounting services division, and discussions have taken place with the ANZ bank.

#### *PI-23 Availability of information on resources received by service delivery units*

PI-23 Dimension	2010 Assessment
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units.	<b>D</b> No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years

#### *Assessment 2010*

**Dimension (i)** In discussions and review of documentation, no evidence was found that routine data collection exercises take place on an annual basis to identify resources received (cash and in kind from all sources including donors) at the service delivery level, in either education or health. No evidence was found that any special exercise or survey has been done to identify the resources received in the last three years.

#### *Comparison 2006 – 2010/Ongoing reforms*

Not assessed in 2006. No ongoing reforms.

#### *PI-24 Quality and timeliness of in-year budget reports*

PI-24 Dimensions	2010 Assessment
<b>Method M1</b>	<b>C+</b>
(i) Scope of reports in terms of coverage and compatibility with budget estimates	<b>C</b> Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both).
(ii) Timeliness of the issue of reports	<b>A</b> Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.
(iii) Quality of information	<b>B</b> There are some concerns about accuracy, but data issues are

<sup>12</sup> These are in-country disbursements only. Offshore disbursements by donors directly to suppliers, contractors and consultants are not brought into the system and remain a problem.

	generally highlighted in the reports and do not compromise overall consistency/ usefulness.
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### Assessment 2010

**Dimension (i)** MDAs submit monthly flash reports on their recurrent expenditure to MOFEA, covering expenditure during the month and cumulatively for the year, including imprests paid and recovered. There is no reporting of outstanding commitments. They also submit quarterly reports covering releases, expenditure and revenue collections, which are consolidated by AGD for internal information.

**Dimension (ii)** Flash reports are issued within eight days of the end of each month.

**Dimension (iii)** The monthly and quarterly reports do not include offshore project expenditure, so cannot be used for monitoring sectoral allocations, but they are used for cash management, which is their main purpose. Apart from this omission, there are no concerns about data accuracy.

### Comparison 2006 – 2010/ Ongoing reforms

Not assessed in 2006. The centralisation of all payments in MOFEA and the rollout of IFMS to bring all MDAs on line have transformed the reliability and timeliness of accounting data.

### PI-25 Quality and timeliness of annual financial statements

PI-25 Dimensions	2010 Assessment
<b>Method M1</b>	<b>C+</b>
<b>(i)</b> Completeness of the financial statements	<b>C</b> A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.
<b>(ii)</b> Timeliness of submission of the financial statements	<b>B</b> The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.
<b>(iii)</b> Accounting standards used	<b>B</b> IPSAS or corresponding national standards are applied.

### Assessment 2010

**Dimension (i)** The government's annual financial statements are prepared by the AGD after consolidating annual financial statements from the MDAs (Vote Accounts). The latter show revenues, expenditures, activity achievements, deposits received and repaid, and physical assets (property, plant and equipment). The latter are shown in some detail, with valuations in many cases.

The Accountant General consolidates departmental revenues, expenditures and deposits, but only in summary, eg. by MDA, and by economic category. He includes statements of loans made to civil servants (which are managed centrally) and public debt, but not public investments. Public debt includes expenditure arrears to domestic suppliers, pension and gratuity arrears, and arrears of contributions to the pension fund. Though there is no balance sheet or overall Statement of Assets and Liabilities, supporting statements cover some financial assets (staff loans outstanding, revenue arrears) and most liabilities, omitting only deposits by third parties and contingent liabilities. Imprest and advance balances are not shown as they are all cleared to expenditure, if necessary in advance of supporting documentation. An AGD team is progressively listing and valuing physical assets but the exercise is incomplete and the latest statements (for 2008/09) do not include them. The Exchequer statements include domestically funded project expenditure, but not foreign-funded project expenditure since this does not pass through the Exchequer account. However, AGD obtains annual data from External Finance Department (admittedly incomplete), and includes block totals of estimated and actual foreign expenditure in an integrated Summary Statement Development Account – Local and Donors, broken down by MDA.

**Dimension (ii)** MDAs should submit their Vote Accounts to the AGD and CAG within three months. For 2007/08, the CAG received only seven within this time limit; 29 out of 30 were received within six months, ie. by 31 December. Consolidated Summary Statements should be submitted by AGD by 31 December to the Auditor General. In practice, they are usually submitted by the following March. The 2008/09 Accounts, which involved new formats, were submitted to the CAG on 13 May 2010.

**Dimension (iii)** The Public Finance Act requires the Accounts to be prepared in accordance with ‘generally accepted accounting practices’ (GAAP). At present, the Tanzanian National Board of Accountants and Auditors has not defined GAAP in the public sector.<sup>13</sup>

Accounts are said to be prepared in accordance with the Public Finance Act, section 24 (1), and in a manner consistent with the cash-IPSAS international standard. An Accounting Manual was issued by AGD in 2009, showing the required disclosures and formats. In addition to the requirements of the Act, additional statements are required by Public Finance Regulation 55 (4) (a). Taking MDA Vote Accounts and the Consolidated Summary Statement together, not all the requirements of the Act and Regulations are met, specifically listings of: commitments outstanding, stores and assets, guarantees given by the Government and other contingent liabilities, investments (original cost and current value), losses of public monies and stores and claims abandoned.

There has been significant progress towards the international cash-IPSAS standard. Most of the mandatory disclosures are made, and comparative information is provided on the original budget and the previous year. However, the statements for 2008/09 do not show the beginning and closing cash balances (with balances correctly carried forward from year to year); and the notes to the statements do not state the basis of preparation, some accounting policies (eg. on correction of errors), or the coverage of the statements (what MDAs and other controlled entities are included – or why they are omitted).

#### *Comparison 2006 – 2010/ Ongoing reforms*

The centralisation of payments through the IFMS system has facilitated annual reporting. In addition, the decision to adopt the cash basis IPSAS standard, though still ongoing, has improved the quality and timeliness of financial reporting.

### **3.6 External Scrutiny and Audit**

#### *PI-26 Scope, nature and follow-up of external audit*

<b>PI-26 Dimensions</b>	<b>2010 Assessment</b>
<b>Method M1</b>	<b>D+</b>
<b>(i)</b> Scope/nature of audit performed	<b>C</b> Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.
<b>(ii)</b> Timeliness of audit reports to legislature	<b>B</b> Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.
<b>(iii)</b> Evidence of follow up on audit recommendations	<b>D</b> There is little evidence of response or follow up.

<sup>13</sup> According to the IMF/World Bank Report on Observance of Standards and Codes (2006), the NBAA has focused exclusively on the private sector. Government business enterprises (ie. those selling goods or services at full cost or for profit) should use International Financial Reporting Standards as for the private sector, but other public enterprises (selling below cost) and non-profit government owned bodies should use the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants.

### *Assessment 2010*

**Dimension (i)** The supreme audit institution in Zanzibar is the Office of the Controller and Auditor General (OCAG), whose mandate, powers and responsibilities are set out in the Zanzibar Constitution, Establishment of the Office of Controller and Auditor General Act No. 11 of 2003, and the Public Finance Act, 2005. The CAG audits all ministries, departments, public enterprises and other public authorities. Her audit report for 2008/09 covered virtually all the above, excepting only her own office which is audited under arrangements made by the Minister of Constitutional Affairs and Good Governance.

The CAG faces several challenges: political interference, lack of autonomy over finance, loss of trained staff, delayed responses to audit reports, and accommodation of auditors in the premises of audited agencies (OCAG Strategic Plan 2007-2011). Under the Act of 2003, an Audit Services Board was established to manage human resources, including the setting of salary scales of audit staff. However, this part of the law has not been activated. The Board functions, but OCAG staff members (142 auditors and 49 support staff) remain a part of the civil service.

The main constraint is still finance. Though OCAG is constitutionally an agent of the House of Representatives with an irreducible mandate, it is treated by MOFEA much the same as the MDAs, with severe cuts to its budget requests, quarterly releases and payments through IFMS. The approach is still based on 100 percent examination of transactions, without the use of risk-based sampling.

The CAG is mandated by the 2003 Act to undertake value for money audits, and a start has been made, integrating VFM elements into the regular financial and regularity audits. The annual reports include an opinion on the annual accounts for each vote (MDA). For 2007/08, 25 MDAs' Accounts were said to show a true and fair view (ie. unqualified opinions with 'emphasis matter' paragraphs pointing out matters requiring attention), while five Accounts got a disclaimer of opinion because there was insufficient audit evidence. The focus of the reports is almost entirely on transactional irregularities: there are few observations or recommendations on systemic issues except a recurring comment on the lack of fixed asset registers. Reports do not meet INTOSAI audit standards.

**Dimension (ii)** The Constitution requires the CAG to present her report within nine months of the end of the year to the President, Minister of Constitutional Affairs and Ministers responsible for each MDA. The Ministers responsible should table their reports in the HOR. In practice, the CAG transmits her reports direct to the HoR Speaker. The CAG report on 2007/08 is not dated. The 2008/09 report is being printed (May 2010), and is expected to be received by the PAC in July 2010. On the basis that all Vote accounts are received by CAG within six months of the end of the year, this implies a six month audit period.

**Dimension (iii)** Audit reports show no evidence of response or follow-up to earlier audit reports, and the same criticisms are repeated each year.

### *Comparison 2006 – 2010/Ongoing reforms*

The 2004/05 Report was not issued until August 2007 (over 25 months after the end of the year): the OCAG has since then got itself almost up to date. However, an examination of CAG reports since then shows no material change in their structure or content.

OCAG has received technical assistance from the mainland National Audit Office, and from the Swedish National Audit Office (SNAO) since 2008. The latter support is programmed over a period 2008/09 to 2010/11, which is the same period as the PFM Programme (Norwegian support to MOFEA). The two projects are coordinated through OCAG representation on the PFM Programme Steering Committee. Proposals to amend the legal framework are under discussion.

OCAG has also received some support from the PFMRP basket on finalising its first two annual audit reports (for 2004/05 and 2005/06) and its strategic plan for 2007-11. Some of this comes through the Zanzibar component and some through the Tanzania National Audit Office component.



## PI-27 Legislative scrutiny of the annual budget law

PI-27 Dimensions	2010 Assessment
Method M1	D+
(i) Scope of the legislature's scrutiny	<b>B</b> The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.
(ii) Extent to which the legislature's procedure are well established and respected	<b>B</b> Simple procedures exist for the legislature's budget review and are respected
(iii) Adequacy of time for the legislature to provide a response to budget proposals and, where applicable, on macro-fiscal aggregates earlier in the budget preparation cycle.	<b>D</b> The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	<b>A</b> Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.

### Assessment 2010

**Dimension (i)** The House of Representatives (HoR) scrutiny of the budget covers fiscal policies and aggregates for the year, based on information provided in the Budget Framework paper, as well as detailed revenue and expenditure estimates.

**Dimension (ii)** The HoR has a well-established procedure in its Standing Orders with specialised committees that examine the strategic plans and budgets of the respective MDAs (see (iii) below). However, its examination is compressed into a short period, and no changes are allowed to the budget.

**Dimension (iii)** The HoR scrutinizes the annual budget only in the last month of the year. The schedule for the 2010/11 budget, which is much the same as in other years, is as follows:

- 26 May MDAs present their budgets to the Committee of Chairpersons (Chairpersons of the Public Accounts Committee and four Standing Sectoral Committees, including the Finance and Economic Affairs Committee)
- 27 May Committee deliberates
- 31 May – 3 June Detailed presentations by each MDA (no changes made to executive proposals)
- 9 June Minister of Finance presents the budget to the full House
- 14 June House approves the budget framework (MDA ceilings only)
- 14 June – 13 July Detailed estimates reviewed by the House, and Appropriation Act sent to President for his assent.

**Dimension (iv)** No Supplementary Estimates have been presented in recent years, and the executive has no authority to exceed the authorised budget for each Vote. MOFEA examines requests for reallocations among sub-votes and within sub-votes and allows these if there is assurance of real savings on other sub-votes or items.

### Comparison 2006 - 2010

Not assessed in 2006. No ongoing reforms.

## PI-28 Legislative scrutiny of external audit reports

PI-28 Dimensions	2010 Assessment
Method M1	D+
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years)	<b>D</b> Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete.
(ii) Extent of hearings on key findings	<b>B</b>

undertaken by legislature	In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities that received a qualified or adverse audit opinion.
(iii) Issuance of recommended actions by legislature and implementation by the executive	C Actions are recommended, but are rarely acted upon by the executive.

### Assessment 2010

**Dimension (i)** The Public Accounts Committee has 10 members, of whom seven, including the chairperson, are from the opposition party. It benefits from two clerks, and attendance of a senior representative from OCAG. The main constraint is the lack of technical knowledge, especially after a change of membership.

The latest report by the Public Accounts Committee of the HoR is on the Accounts and Audit Report for 2007/08 (undated). This was approved by the full House in April 2010, which is 13 months after the date the Audit Report should have been tabled (March 2009). The CAG Report on 2008/09 is expected in July 2010 and the PAC expects to complete their report by April 2011.

**Dimension (ii)** In-depth hearings are held with Accounting Officers and their senior managers from Votes under examination. Hearings are held also in Pemba. Hitherto, hearings have been held in camera but the Committee can decide to open hearings to the public, and this is under consideration.

**Dimension (iii)** The PAC expects its recommendations to be respected and implemented, but it has no machinery for follow up except through subsequent hearings. OCAG does not follow up either. In the last two years, the PAC members could not see any action taken on their reports.

### Comparison 2006 - 2010

The HoR has received support from UNDP, but this has been general and not specifically oriented to financial accountability.

## 3.8 Donor practices

### D-1 Predictability of direct budget support

Not applicable, as Zanzibar receives no direct budget support (see indicator HLG-1 below)

### D-2 Financial information provided by donors for budgeting and reporting on project and program aid

D-2 Dimensions	2010 Assessment
<b>Method M1</b>	<b>D</b>
(i) Completeness and timeliness of budget estimates by donors for project support.	<b>D</b> Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	<b>D</b> Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

### Assessment 2010

**Dimension (i)** External project and basket funds to Zanzibar are also within the JAST framework. This requires that all such funding be integrated into the budget process and be subject to the same project criteria and process as domestically funded projects. Donors are expected to inform the RGZ of the amount of commitments over the rolling three-year period. All disbursements should be made

through the Exchequer system and released in a timely manner to the spending agencies. Donors are also expected to report their actual disbursements quarterly to RGZ.

Some donor country offices provide annual projections of their disbursements, but they are not reliable,<sup>14</sup> nor are they broken down by quarter.

**Dimension (ii)** At present, some donors, including the UN group, ADB and Norway, use the Exchequer system: others continue to disburse advances and replenishments direct to project accounts, which adds to the difficulty of complete accounting.

There are no regular donor reports on project disbursements. For donors not using the Exchequer system, the only information comes from monthly meetings of the External Finance Department with MDAs. However, the URT Aid Management System has been extended to MOFEA Zanzibar and the Zanzibar workspace in the database (called Aid Management Platform) is being populated. All MDAs are being encouraged to report their receipts of donor disbursements and actual expenditures on line. These should include offshore payments to suppliers, contractors and consultants (called ‘D funds’), which is the most difficult category of aid to record and manage.

### D-3 Proportion of aid that is managed by use of national procedures

D-3 Dimension	2010 Assessment
(i) Overall proportion of aid funds to central government that are managed through national procedures.	<b>D</b> An analysis of current donor use of government systems and procedures indicates that less than 50% of donor expenditure is managed and reported on through government’s own systems.

#### Assessment 2010

The JAST Framework expects that donors will increasingly use government procurement, accounting, auditing and reporting procedures in line with the Public Finance Act, 2005, and the Paris Declaration.

The 2008 Survey of Compliance with the Paris Declaration showed that *no* project aid used government procedures. Only the Zanzibar share of general budget support, which goes straight into the Exchequer account, is administered according to RGZ procurement, payment/accounting, audit and reporting procedures. In 2008/09, the last complete financial year, general budget support (including MDRI) was TZS 31,407 million, which represented only 15.3 percent of all aid. Some recently agreed projects are using some government procedures. It is believed that the share is rising.

### HLG-1 Predictability of Budget Support from the Mainland Government

HLG-1 Dimensions	2010 Assessment
<b>Method M1</b>	<b>A</b>
(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter’s budget	<b>A</b> In no more than one out of the last three years has HLG transfers fallen short of the estimate by more than 5%.
(ii) Annual variance in the earmarking of grants between actual and estimated transfers	Not applicable.
(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year	<b>A</b> A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded

<sup>14</sup> There is a confusion of the RGZ financial year (July-June) with the calendar year, some donors provide commitment data rather than disbursement data, and some provide only the total commitment without a breakdown by year.

	25% in more than one of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in all of the last three years.
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**Dimension (i).** Zanzibar, as a semi-autonomous government within the United Republic of Tanzania, does not receive general budget support (GBS). Instead, the Union Government receives GBS from its development partners, and by agreement with RGZ, 4.5 percent of the amount received is paid over to RGZ. In 2008/09, GBS was about 11 percent of all RGZ revenue.

In accordance with the Joint Assistance Strategy for Tanzania (JAST, 2006), the amount and timing of general budget support is generally reliable, as it is based mainly on the PAF review in November of the preceding financial year. Late notification of the amount, provided it is notified in time for the completion of the Estimates, does not affect this indicator, as rating is based on the reliability of the amount and timing notified. All Tanzania donors make their pledges by January/February, which is in time for the setting of annual budget ceilings in Zanzibar. Most donors provide their annual GBS in the first quarter of the fiscal year (July – September) and in one instalment, and have done so in the last three years.<sup>15</sup> Transfers to Zanzibar are made by the mainland government within one month of receipt. In the last three years GBS transfers have exceeded mainland estimates by 1.3 percent, 1.2 percent and 7.1 percent.<sup>16</sup>

**Dimension (ii)** This relates to transfers of grants that are earmarked to particular purposes. There are no earmarked grants from the Union Government.

**Dimension (iii)** A disbursement timetable forms part of the agreement between the governments and this is agreed before the beginning of the fiscal year. The weighted disbursement delay was 17 percent in 2006/07, nil in 2007/08 and 20 percent in 2008/09.<sup>17</sup>

#### *Ongoing reforms*

Reforms depend on mainland/Zanzibar agreement on joint financing, which is under discussion.

<sup>15</sup> The direct budget support for fiscal year 2008/09, exceptionally, was released in the second fiscal quarter due to the external audit issues in the BOT. The BS for 2010/11 is still uncertain at mid-May 2010. Note that Zanzibar has not received 4.5 percent of GBS given as loans: till 2009/10, the percentage share was applied to the grant component only. The sharing of all GBS is expected to start only in 2010/11.

<sup>16</sup> Draft PEFA report on mainland Tanzania, May 2010

<sup>17</sup> Ibid.

## 4. Government PFM reform process

### 4.1 Description of recent and on-going reforms

#### *PFM reform and related programmes*

There are ten major ongoing reforms in financial management:

(1) The harmonization of financial relations with United Republic of Tanzania (URT). The formation of the Joint Finance Commission (JFC) is intended to resolve impediments in the current financial relations between Zanzibar and the URT.

(2) The Tax Administration Programme has been rolled out to Zanzibar from Tanzania. The programme is intended to enhance efficiency in tax administration and the capacity of the Zanzibar Revenue Board (ZRB). A Memorandum of Understanding for a working collaboration between Tanzania Revenue Authority and ZRB has been signed and is enforced. A revenue forecasting model has been developed.

(3) The Public Expenditure Review (PER) and Medium Term Expenditure Framework (MTEF). The implementation of the PER and MTEF processes within Government and public enterprises has improved financial planning and budgeting processes. An institutional framework for annual sectoral PERs has been instituted involving the key stakeholders, namely, the Central Bank, the TRA, the ZRB, the Chief Government Statistician, MOFEA, the private sector and civil society. The remaining challenge is to align MDA budgets with key strategic interventions outlined in MKUZA.

(4) Financial accounting and reporting. This has improved as a result of the finalisation and publication of the Financial Regulations and the rollout of IFMS and other computerised systems in accounting and reporting.

(5) The Central Payment Office (CPO). The CPO has been instituted to facilitate centralisation of all Government accounts. Through the CPO, RGZ operates four accounts with the Bank of Tanzania. This system has improved the management of Government financial operations. MDAs now make their expenditure requests on the basis of a monthly cash ceiling approved by the Ceiling Committee. This has enhanced the quality of cash management.

(6) The Central Payroll System (CPS). The payroll has been centralized and housed in MOFEA. The CPS unit prepares payment vouchers for all Government employees. These changes together with the ongoing civil service reform initiative will inform future policy on the structure, size and quality of the civil service.

(7) Procurement. The Procurement Act and Regulations of 2005 have been followed by preparation and dissemination of standard bidding documents.

(8) Management of the national debt. The establishment of a Debt Management Unit in MOFEA has improved management of Zanzibar's public debt. The Unit has finalised a debt strategy and policy that will guide the Government on issues like the limits to borrowing, on types of loans and their maturities, and regular debt sustainability analyses. The strategy will ensure that debt service is in line with budget operations.

(8) Aid management. The URT Aid Management System has been rolled out to Zanzibar and its functionality increased to provide Zanzibar data and analysis.

(10) The Controller and Auditor General and Public Accounts Committee have mostly cleared the backlog of audits and reviews.

## 4.2 Institutional factors affecting reform planning and implementation

### *Government leadership and ownership*

The major PFM reform programme in Zanzibar is the Norwegian-funded PFM Programme (PFMP). This has from the start (July 2008) been managed by RGZ through a Steering Committee chaired by the Principal Secretary, MOFEA, who is the champion of PFM reform. Steering Committee members include representatives of MOFEA, OCAG and HoR. An Assistant Accountant General, as Coordinator of the PFMP, acts as Secretary.

### *Coordination across government*

In addition to the PFMP, Zanzibar is in receipt of technical assistance to OCAG and HoR from the Swedish National Audit Office (Zanzibar Audit Development Project, from June 2008), and a small Zanzibar component of the ongoing national PFM Reform Programme (PFMRP, not to be confused with the PFMP), which is also limited to the OCAG and HoR. All these PFM interventions are coordinated through the Steering Committee for the PFMP. The Steering Committee meets quarterly and reviews progress reports prepared by the Programme Coordinator.

With regard to the wider set of MKUZA reforms, the RGZ has a unit for coordination of core reforms, located in MOFEA.

### *Sustainability of the reform process*

The reform process is led by the Government and has the support of a number of senior managers. Its sustainability will depend on the Government's ability to retain those hard working and motivated staff and to recruit specialist staff in certain areas. A key to the sustainability of the reforms will be the development of a change management strategy and plan, which goes beyond purely technical changes, and gains broad political and administrative support.

## Annex A Summary Table of Performance Indicators

No.	Indicator	Scoring	Brief Explanation and Sources used
<b>A.</b>			
<b>PFM-OUT-TURNS: Credibility of the budget</b>			
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	In the last three financial years (2006/07, 2007/08 and 2008/09) the deviation between actual expenditure and original budget at an aggregate level has been 7.7%, 21.1% and 3.3% respectively. A B score has therefore been assigned. <i>Source: Accountant General Department, Consolidated Accounts.</i>
PI-2	Composition of expenditure out-turn compared to original approved budget	A	In the last three financial years (2006/07, 2007/08 and 2008/09) the deviation between actual expenditure and original budget at a disaggregated level has been 0.1%, nil and 3.1% respectively. An A score has therefore been assigned. <i>Source: Accountant General Department, Consolidated Accounts.</i>
PI-3	Aggregate revenue out-turn compared to original approved budget	B	Total revenue received compared to forecasts has been 92%, 96% and 105% for FYs 2006/07 to 2008/09 respectively. As revenue below 94% of forecast was received in only one year, a B has therefore been assigned. <i>Source: Accountant General Department, Consolidated Accounts</i>
PI-4	Stock and monitoring of expenditure payment arrears	B	Arrears to domestic suppliers, retirees in respect of pensions and gratuities and contributions to the ZSSF at 30 June 2009 amounted to 4.9 percent of total expenditure for that year. No new arrears are being created and the arrears are being paid off. <i>Sources: AGD Consolidated Accounts, CAG Reports, Interviews with DPS, AAG.</i>
<b>B.</b>			
<b>KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>			
PI-5	Classification of the budget	D	Budget formulation and execution is based on administrative classification. At present the 5-digit item codes cannot be bridged to the IMF government finance statistics (GFS) economic classification codes, nor to COFOG functional codes. <i>Sources: Detailed Estimates, Zanzibar Budget Framework and Guideline for 2010/11-2012/13. Interview with CEMB.</i>
PI-6	Comprehensiveness of information included in budget documentation	C	The budget documentation shows four out of nine prescribed items of information. <i>Source: Detailed Estimates, Zanzibar Budget Framework and Guideline for 2010/11-2012/13. Interview with CEMB.</i>
PI-7	Extent of unreported government operations	D+	Extra-budgetary bodies with significant outside revenue such as the ZSSF, State University of Zanzibar, Zanzibar Municipality and Zanzibar Institute of Financial Administration were responsible for TZS 6–7 billion expenditure above their subventions for 2008/09. This is equivalent to 4 percent of total government expenditure that year. Estimates and Consolidated Accounts include some externally financed project expenditure, but not all, and the full amount is not yet known. <i>Sources: Detailed Estimates, Consolidated Accounts, MOFEA paper (Aid to Zanzibar 2006/07-2008/09), Annual Accounts and Reports of large extra-budgetary bodies.</i>
PI-8	Transparency of inter-governmental fiscal relations	NU	Indicator not used in this assessment.
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D	Public corporations are audited and their accounts published, but most are late, and there is no MOFEA formal assessment of the fiscal risk that they pose. Consolidated Accounts do not list contingent liabilities arising from government guarantees given. <i>Sources: Consolidated Accounts 2008/09. Interviews with CSVPI and staff.</i>

No.	Indicator	Scoring	Brief Explanation and Sources used
PI-10	Public access to key fiscal information	C	The government makes available to the public only 2 of the 6 listed types of information. The public does not have access to financial statements, contract awards, or information on resources provided to service delivery units such as primary schools and health centres. <i>Source: MOFEA staff, RGZ websites.</i>
<b>C.</b>	<b>BUDGET CYCLE</b>		
<b>C(i)</b>	<b>Policy-Based Budgeting</b>		
PI-11	Orderliness and participation in the annual budget process	C+	The budget calendar is clear but experiences occasional delays. There is no Cabinet input before detailed Estimates are prepared, and legislative approval comes only after the start of the financial year. <i>Sources: Budget Framework and Guideline 2010/11. Interviews with CEMB, CNPSDPR, MEVT, MHSW</i>
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	Ceilings are not linked to forward estimates in previous years, and sector strategies are not within available resources. <i>Sources: Budget Framework and Guideline 2010/11. Interviews with CEMB, CNPSDPR, MEVT, MHSW</i>
<b>C(ii)</b>	<b>Predictability and Control in Budget Execution</b>		
PI-13	Transparency of taxpayer obligations and liabilities	C+	Tax authorities have limited discretionary powers. There is taxpayer education but no full-fledged customer service centre. The tax appeal procedure is not yet used. <i>Sources: TRA and ZRB Corporate Plans, Interviews with TRA and ZRB managers, Zanzibar National Chamber of Commerce, Industry and Agriculture</i>
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	No link between ZRB and TRA registration databases, nor with other RGZ databases. Some inconsistency in the imposition of penalties. <i>Sources: TRA and ZRB Corporate Plans, Interviews with TRA and ZRB managers, Zanzibar National Chamber of Commerce, Industry and Agriculture</i>
PI-15	Effectiveness in collection of tax payments	NR	Insufficient information to calculate tax collection ratios. Prompt banking of collections and regular reconciliations. <i>Sources: Interviews with TRA and ZRB managers.</i>
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	Cash forecasts not updated during the year. Planning horizon only one month. <i>Sources: Interviews with AAG, CEMB, MEVT, MHSW</i>
PI-17	Recording and management of cash balances, debt and guarantees	C+	Comprehensive debt reporting, most cash balances calculated and consolidated at least weekly, not all loan and guarantee contracts approved by MOFEA. <i>Sources: AAG, Debt Management Unit, MOFEA document (Debt Strategy and Policy)</i>
PI-18	Effectiveness of payroll controls	D+	No regular reconciliation between personnel records and payroll database, inadequate controls, no comprehensive payroll audit in last 3 years. <i>Sources: DPS President's Office, PSRP document(Review of Payroll System)</i>
PI-19	Competition, value for money and controls in procurement	C	Lack of information at the centre level and Ministry Procurement Management Unit level of the number of contracts given and the methods used, or whether regulations are being followed. <i>Sources: CSVPI and staff, MEVT, MHSW, MWCEL, Zanzibar National Chamber of Commerce, Industry and Agriculture</i>
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	Commitment control does not cover all payments. Controls over procurement inadequate. <i>Sources: CAG reports, interviews with IA Department, MOFEA CIA,</i>
PI-21	Effectiveness of internal audit	D+	Internal audit operational, but not all IA Committees. Audit recommendations ignored.



No.	Indicator	Scoring	Brief Explanation and Sources used
			<i>Sources: IA Plans, CAG reports, interviews with IA Department, MOFEA CIA, MHSW.</i>
<b>C(iii)</b>	<b>Accounting, Recording and Reporting</b>		
PI-22	Timeliness and regularity of accounts reconciliation	B+	Bank reconciliations up to date. Some imprests not accounted for, and some carry forward of suspense accounts. <i>Sources: CAG reports, interviews with AAG, and Exchequer Management.</i>
PI-23	Availability of information on resources received by service delivery units	D	No comprehensive data collection exercise in last 3 years. <i>Sources: interviews with AAG, MEVT, MHSW</i>
PI-24	Quality and timeliness of in-year budget reports	C+	Reports timely, no reporting of outstanding commitments <i>Sources: Sample flash reports, interviews with AAG, IAD</i>
PI-25	Quality and timeliness of annual financial statements	C+	Consolidated Accounts converted to meet cash-IPSAS standard, no statement of assets and liabilities/some assets omitted, submission for audit 10 months after end of year. <i>Sources: Consolidated Accounts last 3 years, interviews with AAG</i>
<b>C(iv)</b>	<b>External Scrutiny and Audit</b>		
PI-26	Scope, nature and follow-up of external audit	D+	Audits are predominantly transaction oriented. Reports are submitted to PAC within 8 months, but little evidence of response. <i>Sources: CAG reports interviews with CAG managers, members of PAC and Clerk to HoR.</i>
PI-27	Legislative scrutiny of the annual budget law	D+	Insufficient time for legislative review. <i>Source: interviews with PS members of PAC and Clerk to HoR.</i>
PI-28	Legislative scrutiny of external audit reports	D+	Some delay in past reports, and little response seen. <i>Source: interviews with members of PAC and Clerk to HoR</i>
<b>D.</b>	<b>Donor practices</b>		
HLG-1	Predictability of transfers of GOT Direct Budget Support to Zanzibar	A	GBS transfers over last 3 years have met forecasts, and received in a timely manner. <i>Source: MOFEA paper (Aid to Zanzibar), interviews with PS, EFD</i>
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	Lack of reliable project disbursement forecasts or reports <i>Source: : MOFEA paper (Aid to Zanzibar), interviews with EFD</i>
D-3	Proportion of aid that is managed by use of national procedures	D	Little use of national procedures except with respect to GBS <i>Source: MOFEA paper (Aid to Zanzibar), interviews with EFD</i>

# Annex B Terms of Reference

## Zanzibar: Review of the Performance of Public Finance Management Public Expenditure Financial Accountability 2010

Concept Note. 8/2/2010

### *Background*

Despite average annual economic growth above 5% since the beginning of the decade, Zanzibar remains among the poorest areas of Tanzania. The 2004/05 household budget survey reported that 49% of the population live below the basic need poverty line. Annual gross domestic product per capita was US\$ 534 in 2008, which is below the national average for Tanzania.

The long-term national development plan Vision 2020 aspires to transform Zanzibar from a least developed country (LDC) to a middle income country with a high level of human development free from abject poverty. The long-term development targets and goals have been translated into short-term programs to ease implementation and monitoring. The first round of implementation began with the first-generation of the Zanzibar Poverty Reduction Plan (ZPRP) which lasted for three years (2002/03-2004/05).

Zanzibar, which is part of the United Republic of Tanzania, continues to make good progress in aligning internationally agreed commitments with its national growth and poverty reduction strategy, known by its Kiswahili acronym MKUZA. The MDGs have been mainstreamed into the MKUZA whose strategies motivate the implementation of various government programmes towards the various goals and targets embedded the Vision 2020 documents.

Following the recommendations of the review of the first PRS, a second-generation four-year PRS was launched in FY 2006/07 and will end in 2009/10. The RGOZ is currently reviewing the MKUZA with the goal of launching the next generation MKUZA in 2010.

### *State of the Zanzibari Public Finances*

Zanzibar is a part of the United Republic of Tanzania (URT), but has its own constitution and fully functioning government structure including President, Council of Ministers, House of Representatives, and judiciary. Only certain functions including (but not limited to) foreign affairs, defence, external borrowing and trade, and central banking are the responsibilities of the Union Government. All government functions not explicitly transferred to the URT remain the responsibility of the RGOZ.

The public financial relationship between the two Governments is not always clearly defined, and a Joint Finance Commission has been established to scrutinize the fiscal relationship between the two Governments and to make recommendations on the net contributions to the Union Government through the joint financing account.

Zanzibar has two main revenue collecting agencies, the Zanzibar Revenue Board (ZRB) and the Tanzania Revenue Authority (TRA). ZRB collects non-union taxes, while the TRA is responsible for collection of union taxes. In addition, some MDAs and LGAs collect relatively small amounts of revenue. All revenue collected in Zanzibar accrue to RGOZ. Moreover, RGOZ has the authority to set tax rates on non-union taxes, but nevertheless the two regimes are substantially harmonized.

Zanzibar receives 4.5 percent of external aid on programme aid and budget support (grant component only), and Zanzibar may be included in projects on an ad-hoc basis. Furthermore, Zanzibar is authorized to negotiate directly with development partners on its own projects, which it does frequently.

The executive part of the RGOZ consists of four levels: the ministries, departments and agencies (MDAs); the regions; the districts; and at the lowest level the shehias. Zanzibar remains a centralized government, with limited transfers from the ministries to the lower levels of Government. Moreover, there are quite a few parastatals that operate on the islands, including the Zanzibar State Trading Corporation, which has monopoly over the export of cloves, the main agricultural commodity.

Effective fiscal and public expenditure management in Zanzibar is curtailed by a number of weaknesses leading to poor mobilization and utilization of national resources, thus undermining the achievement of the national objectives of reducing absolute poverty and raising the standard of living of the people of Zanzibar. Specific weaknesses have been identified in the areas of budget credibility, the process of budget preparation, comprehensiveness of the budget and accounts, budget execution procedures, accounting systems, procurement procedures, management of foreign inflows, and internal audit system.

The RGOZ has undertaken a comprehensive public financial management reform program for a number of years, partly financed by the government's own resources, by Norwegian support, UNDP, through the public financial management reform program (PFMRP) and through a cooperation with the Swedish National Audit Office. The capacity building arm of the IMF for East Africa (East Afritac), also has been providing support to Zanzibar, especially on taxation and budget issues.

Among achievements, the following three important ones should be especially mentioned:

- 1) Introduction of IFMS. The RGOZ has been rolling out the implementation of an Integrated Financial Management Information System (IFMS) since 2007. The system brought Zanzibar a giant leap forward in terms introducing modern information technology into the Government Financial Management.
- 2) Public Procurement. The RGOZ introduced a new procurement act in 2005 in order to move towards international best practice on procurement. New procurement regulations were introduced the following year. Gradual roll-out of procurement documentation and training in the compliance with the Procurement Act continues.
- 3) Clearing of External Audit back-log. The Office of the Controller and Auditor General have cleared the back-log of audits, and the Public Accounts Committee (PAC) of the House of Representatives (HOR) cleared the back-log of audits in the House.

However, because of the limited time several of the reform programs have been implemented, the full impact of the reforms on the whole public finance management system still is several years away.

Still, several challenges remain in addition to the ones mentioned above. The quality of the external audit reports need to be enhanced as does the scrutiny of the report by the Public Accounts Committee in the House of Representatives, and the legal independence of the institutions should be strengthened. The accuracy of the budget figures for donor financed projects remains poor, and there are challenges to capturing the actual expenditure on these projects. And finally, the procurement act and regulations are not fully implemented across government.

Zanzibar has never before undertaken a PEFA assessment, but there was a comprehensive Zanzibar Public Expenditure Review conducted in 2003, and this was followed up with a Zanzibar Public Financial Management Review in 2006. Finally, the Swedish National Audit Office prepared a comprehensive feasibility study on the Office of the Controller and Auditor General in 2008.

#### *Objectives and Rationale for the PEFA review*

PEFA is a partnership between the World Bank, the European Commission, the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary

Fund. PEFA aims to support integrated and harmonized approaches to assessment and reform in the field of public expenditure, procurement and financial accountability.

The PEFA framework includes (i) a set of 31 high level indicators, which measures and monitors the performance of PFM systems, processes and institutions at the outcome level, and (ii) a PFM Performance Report which provides a framework to report on the PFM performance. It acts as a framework for identifying strengths and weaknesses in financial accountability arrangements in the public sector in the country. It provides some assistance in helping the government and other stakeholders to identify priorities for reform and supports both the exercise of the donors' fiduciary responsibilities and the achievement of broader development objectives.

The PEFA exercise also facilitates harmonization of the dialogue between government and the donor community around a common framework in line with the Paris Declaration. It measures the PFM performance and contributes to reduce transaction costs for donors.

The RGOZ has been successful in rolling out several Public Financial Management (PFM) reform programs for the Ministry of Finance and Economic Affairs, the Office of the Controller and Auditor General, and the House of Representatives. However, for none of these reform programs there is a comprehensive baseline study, and Zanzibar never before has undertaken a full PEFA study. This PEFA study would establish a common comprehensive PFM performance baseline for the reform programs.

Moreover, the PEFA 2010 review would serve as an input to fiduciary risk assessment for the Development Partners that are active in Zanzibar. Currently, roughly 4.5 percent of the budget support that is provided to Tanzania is transferred to Zanzibar, and the DPs are interested in having a tool to assess the risk associated with this part of the GBS.

Furthermore, several DPs are considering scaling up the use of Zanzibari PFM systems. Zanzibar specifically has asked DPs to increase the use of its PFM systems, but several DPs are uncertain about the risk associated with this use. The PEFA assessment would contribute to providing a way of assessing this risk.

Finally, but perhaps most importantly, the PEFA assessment would serve to identify weak areas for further reform action. The RGOZ would use the outcome of the assessment to inform and refine the focus of their reform programs. Depending on the outcome, the RGOZ will consider the need for further assessment(s) in specific areas.

#### *Scope and Methodology of the Review*

The PEFA review will consist of performing an evaluation of the public finances management system in Zanzibar following the standard PEFA methodology (see [www.pefa.org](http://www.pefa.org) for details). The review will assess the following six critical dimensions of the performance of Public Financial Management System:

1. Credibility of the budget: The budget is realistic and is implemented as intended.
2. Comprehensiveness and transparency. The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public.
3. Policy-based budgeting. The budget prepared is with due regard to the government policy.
4. Predictability and control in budget execution. The budget is implemented in an orderly and predictable manner, and there are arrangements for the exercise of controls and stewardship in the use of public funds.
5. Accounting, recording and reporting. Adequate records and information are produced, maintained, and disseminated to meet decision-making control, management and reporting purposes.
6. External scrutiny and audit. Arrangements for scrutiny of public finances and follow-up by executive are operating.

Moreover, since Zanzibar is a part of the URT, some changes will have to be made to the standardized PEFA framework. Guidance on how to do so can be found in the Guidelines for Application of the PEFA Performance Measurement Framework at Sub National Government Level, Volumes 1 and 2. The focus of this PEFA study will be on Zanzibari PFM systems, and not on Union PFM systems.

For these purposes, an Assessment Team (AT) of experts will perform the substance of work, including conducting a work shop and conduct fieldwork to collect and analyze documents. The leader of the AT will be responsible for coordinating the work of the AT. The AT will interview the main people responsible for public finances in Zanzibar. The team will meet relevant staff at the Ministry of Finance and Economic Affairs, the Zanzibar Revenue Board (ZRB) and the Tanzania Revenue Authority (TRA), in addition to other relevant government institutions. Moreover, the team will meet with the Office of the Controller and Auditor General, the House of Representatives, and they will meet relevant representatives for the Development Partners and other government and non-government stakeholders. Representatives for Civil Society and the Private Sector will be invited to relevant Workshops and Consultations.

The AT will liaise closely with the PEFA Oversight Team (OT). The AT will (i) conduct a training session for the OT and other relevant stakeholders prior to the actual field work in order to inform stakeholders of the process and build capacity for the RGOZ to conduct a self assesment; (ii) conduct the actual field work including a debriefing workshop for the OT and RGOZ at the end of the field work; and (iii) conduct a follow-up work shop after the finalization of the actual PEFA report.

#### *The stake holders of the review*

The main stake holders of this review and their respective roles during the process are as follows:

#### The Government:

The Government will designate representatives to an Oversight Team (OT) responsible governing the assessment process. The Ministry of Finance and Economic Affairs (MOFEA) will designate a higher level staff member to lead and coordinate the PEFA Assessment Team. The Accountant General, Mr. Omar Omar will lead the Government representatives on the OT. The OT will:

- organize the process and monitoring of field mission in cooperation with the main consultant
- provide the expert team all needed documents to allow the AT to work effectively;
- set appointments and visits with the RGOZ staff; and
- inform donors about the review process.

To facilitate the field mission, the RGOZ will provide the experts of the AT with the complete set of legal texts on public finances management and control system, as well as all documents describing the reforms being performed or that are under way.

Importantly to this review process will be a self assessment process. The RGOZ will conduct this self assessment during the two weeks following the introductory workshop and prior to the arrival of the AT for the field work in Zanzibar.

#### The Development Partners

The Development Partners (DP) jointly with the RGOZ will assist the whole review process through a team led by Norway. The International Monetary Fund (IMF) including its capacity building arm East Afritac, and the World Bank will be involved in the review process.

As the leader for the DPs, Norway will:

- hire a team of experts;
- assure in advance contacts with other DPs;
- consolidate the comments from DPs and communicate government comments to the AT;
- ensure the quality of the report in consultation other DPs and disseminate the draft and final reports.

### The Assessment Team

Norway, through the Embassy of Norway in Dar es Salaam and Norad, will hire an Assessment Team who will collect and analyze the data for the PEFA report. In cooperation with the RGOZ, the AT will organize a training workshop to explain to RGOZ and other relevant stakeholders the PEFA process and methodology. The AT will issue a PEFA report and integrate any comments received into the final report.

### *Schedule, reporting and deliverables*

The final product expected from this evaluation is a comprehensive report edited according to the PEFA standard, which provide RGOZ and Development Partners a diagnosis and an analysis of the overall performance of the public finances management system in Zanzibar.

Apart from the main PEFA report, the final report will include an appendix summarizing (if possible) a comparison of the non-PEFA PFM assessment reports from 2003 and 2006.

Work will be performed between February and June 2010. It will consist of (i) a two day PEFA training workshop, (ii) two weeks of self assessment by the RGOZ, (iii) two-three weeks of field mission including a debriefing for RGOZ and DPs with the initial findings of the mission. The AT will issue an Aide memoire (maximum 20 pages) summarizing the preliminary diagnosis and the main issues, and which will be developed into the draft report.

The AT will issue a draft report in line the specifications in appendixes 1 and 2 of the PEFA document and send it to the Embassy of Norway in Dar es Salaam, who will be responsible for disseminating it to the stakeholders (RGOZ and DPs). Upon receipt of the report, the RGOZ and DPs will have a two-week deadline to provide comments to the Embassy of Norway, who will communicate them to the lead consultant of the AT.

The AT will provide a draft final report integrating comments received from RGOZ and DPs. A one week field mission will be undertaken to organize a workshop where the draft final report will be discussed. The workshop will validate the draft final report. The final report will be disseminated by Norway upon integration of the final comments from the RGOZ and the DPs. The report will indicate the sources of information and the documents being used for the analysis. Moreover, the AT might point out any difficulties been encountered during review process and the approach adopted to resolve these difficulties.

All reports will be written in English, and an electronic version (MS WORD) will be provided.

The Table below sums up the review schedule. **This is a tentative schedule that will be revised.**

<b>Activity</b>	<b>Date</b>
Training Workshop	March 1-2
Self Assessment	March 3-15
Field Mission	March 15-31
Debriefing of Field Mission of the Primary Findings	March 31
Draft Report	April 15
Draft Final Report	May 5
Validation Workshop	May 14
Official Final Report	June 30

### *Dissemination of the final report*

RGOZ commits itself to disseminate to the public at large the main findings of the final report. The report also will be subject to discussions between MOFEA, the line ministries, OCAG, and HOR.

The findings for the report will be used to inform future revisions of the various public financial management reform program.

### *Budget*

The total budget for the review is estimated at US dollars 100,000. **Final details to be finalized.**

Norway through the Embassy in Dar es Salaam and Norad in Oslo will cover the majority of this cost, which will cover the lead consultant's work. RGOZ will cover the other costs for the work shops.

Moreover, the IMF (including East Afritac) and the World Bank will dedicate substantial resources for the assessment. They will provide technical expertise to the assessment. Specifically, the WB will be providing the manpower and cover the cost of assessing the procurement aspect of PEFA, and East Afritac will cover the indicators on budget and accounting. IMF HQ will assist in providing quality assurance.

Additionally, the World Bank will be providing substantial input into the process. The WB also will be providing quality assurance of the final PEFA report. Moreover, the World Bank will be providing comments on the various draft reports that will be produced in the process.

#### *Human Resources:*

The following persons will be part team: **Final details to be agreed with the main consultant.**

Assessment Team. **This remains to be finalized:** Lead consultant: TBA. Additional budget/accounting consultant: TBA. Procurement indicators: Donald Mnenay, (WB, Dar es Salaam). Tax indicators: Michael Schaeffer (East Afritac) Local consultant: TBA.

Development Partners: Trond H. Augdal (Embassy of Norway/Task Team Leader), Parminder Brar (WB), David Robinson (IMF).

Quality Assurance Team: Trond Augdal will coordinate the Quality Assurance. The various drafts will be circulated to the IMF, Norad Oslo, PEFA secretariat, the World Bank as well as the relevant institutions of the RGOZ for comments and Quality Assurance. Parminder Brar, WB will coordinate QA from the WB.

PEFA Secretariat: The PEFA secretariat at the World Bank in Washington DC will be consulted on the various stages of the PEFA assessment, including commenting on this concept note. They will also be vital for providing Quality Assurance for the process and final report.

### **INCEPTION REPORT, 5 MAY 2010**

This Inception Report is provided through the Royal Norwegian Embassy (RNE) to all stakeholders in public financial management in the Revolutionary Government of Zanzibar (RGZ) in accordance with the agreed timetable. It records the changes made to the Concept Note/TOR of 8 February 2010.

#### Objective and rationale for the PEFA review

No change to TOR. Objectives were explained to the donors at a PFM Working Group meeting in Dar on 4 May, and to senior officers of RGZ at a meeting chaired by the Deputy Principal Secretary, Ministry of Finance and Economic Affairs, in Zanzibar on 5 May. (The Hon. Minister of Finance and Principal Secretary were in Dar that day).

#### Scope and methodology

The review will follow the standard methodology for a central government (31 indicators), but excluding PI-8 on the basis that there are no sub-national governments. After discussion with RGZ officers, it was agreed that regional administrations, districts and sub-district (shehia) units in Zanzibar are not political entities in their own right with accountability to elected bodies, but rather deconcentrated entities of central government, to be treated the same way as other MDAs.

D-1 will also not apply, as Zanzibar is not in receipt of direct budget support. D2 and D-3 will apply, as Zanzibar is in receipt of project support directly from donors.

On the other hand, RGZ receives an annual grant from the Union Government in the same way as a sub-national government. In 2006/07 it amounted to 17 percent of total revenue. In accordance with the PEFA Secretariat's Guidelines for Application of PEFA at Sub-National Government Level, an additional indicator, HLG-1 (Predictability of Transfers from Higher Level Government) will be assessed.

This results in a total of 30 indicators.

#### Oversight Team

It was decided by the DPS, MOFEA that the Oversight Team would be the same as the present Steering Committee that steers the Zanzibar component of the PFMRP and Norwegian support programme.

#### Assessment Team

The Assessment Team is not yet fully mobilised. At present it comprises the Lead Consultant and two senior officers from the Accountant General's Department, Mr Simai and Mr Shadhil. It is expected that a World Bank procurement specialist, Donald Mneney, will join later to assist with the assessment of PI-19. Additional support may be provided on Norwegian funding. The Assessment Team is being facilitated by the PFMP Project Coordinator and Assistant Accountant General, Mrs Mwanahija Ali.

The Assessment Team has started interviews.

#### Training workshop

The CN had envisaged a 2-day workshop to enable RGZ officers to do a self-assessment. By request to RNE, the RGZ preferred to have an external assessment with strong RGZ participation. For this, it was agreed that a one day workshop would be the right length. The objective of this workshop would be to familiarise all affected officers with the information and evidence that would be required by the Assessment Team, and the significance of the indicators.

Ideally, the workshop would precede the interviews, but DPS asked that it be delayed until next week, possibly Thursday 13 May, as MOFEA is heavily involved in budget preparation.

#### Timetable

<b>Activity</b>	<b>Timing</b>
Desk review of all available materials	April 2010
Lead consultant arrives Dar	3 May
Briefing meeting with PFM donors in Dar	4 May
Arrival in Zanzibar and meeting with key RGZ officers	5 May
Inception report to all stakeholders through RNE	6 May
Inception workshop	13 May?
Data gathering and analysis in Zanzibar	6-22 May
Debriefing RGZ officers	22 May
Debriefing PFM donors in Dar, Lead Consultant departure	24 May
Draft report to all stakeholders and PEFA Secretariat through RNE for quality assurance and comments	31 May
Comments taken into account in draft final report	31 July
Second mission by Lead Consultant to Dar/Zanzibar to discuss draft final report, and hold workshop	4 days in August
Final report to RNE for distribution	Mid August 2010



## Annex C Interviewees

Name	Institution/division	Position
<b>Ministry of Finance and Economic Affairs</b>		
Khamis M. Omar	MOFEA	Principal Secretary
Amina Shabhani	MOFEA	DPS (Economic Affairs)
Abdi Faki	MOFEA	DPS (Admin and Financial Sector)
Omar H. Omar	AGD	Accountant General
Said Mohd Hussein	Stock Verification and Public Investment	Commissioner
Mwita Mgeni	Economic Management and Budget	Commissioner
Ameir H. Sheha	External Finance	Commissioner
Dr. Hamed R.H. Hikmany	National Planning, Sector Development and Poverty Reduction	Commissioner
Ramadhan Singh	Policy and Planning	Director
Safia Zubeir	Internal Audit Unit	Chief Internal Auditor
Rashid Kibao		Coordinator Core Reform
Mohd Rejab	Office of Chief Government Statistician	Chief Government Statistician
Mwanahija Ali	Financial Management and Debt Management	Assistant Accountant General (FM&DM)
Simai About Simai	Financial Systems and Internal Audit	Assistant Accountant General (FS&IA)
Faki	Expenditure Management	Assistant Accountant General (EM)
Khamis Jumar	Consolidation Final Accounts	Accountant
Saumu Khatib	Exchequer Revenue	Accountant
Hamza Ibrahim	Exchequer Expenditure	Accountant
Ali Mabrouk	Internal Audit Unit	Assistant Internal Auditor
Sheriff Mussa	Economic Management and Budget	Budget Officer
Sabra Machano	External Finance	Aid Coordination Officer
Ranil Dissanayake	External Finance	UNDP Adviser on Aid Management
Foum	Debt Management Unit	Accountant
Bakari	Stock Verification and Public Investment	Deputy Commissioner
<b>Office of the Controller and Auditor General</b>		
Fatma Mohamed Said		Controller and Auditor General
Khaija Nassib Ramadhan		HRM Director
Muhidin Talib Abdalla		Director of Audit
Ahmed Kombo Bakar		Director of Audit
<b>President's Office Zanzibar</b>		
Salum M. Salum	Revolutionary Council	Deputy Principal Secretary
Ali Vuai	Civil Service Department	Director
Rukiya A. Wadoud	Public Service Management	Lead Adviser. PS Reform Programme
<b>House of Representatives</b>		
Ibrahim Mzee Ibrahim		Clerk to the House
Fatma Hareji	Public Accounts Committee	Chairperson
<b>Ministry of Education and Vocational Training</b>		
M.S. Abdallah		Deputy Principal Secretary
Hussein Mussa	IFMS Unit	Director
Hilali Makamba	Internal Audit Unit	Chief Internal Auditor
Islam		Assistant Chief Accountant
<b>Ministry of Health and Social Welfare</b>		
Mohamed Saleh Jiddawi		Principal Secretary
Khadija Shaban		Planning Officer
Said Salim	Procurement Management Unit	Procurement Officer
Makame Ali	ADB Project Management Unit	Procurement Officer
<b>Ministry of Water, Construction, Energy and Lands</b>		
Thabit Ussi		Procurement Officer
<b>Zanzibar Municipal Council</b>		
Mahboub Juma Issa		Hon. Mayor
Rashid Ali Jumar		Director

Name	Institution/division	Position
<b>Zanzibar Revenue Board</b>		
Ismail Mohamed		Commissioner
Seif S. Seif		Deputy Commissioner
Haji Kal Haji	Policy, Research and Development	Manager
Mohammed Amour Mohammed	Finance	Manager
Ahmed Hahi Saadat	Administration	Manager
Haji Ali Issa	ICT	Manager
<b>Tanzania Revenue Authority</b>		
Mcha Hassan		Deputy Commissioner
<b>Joint Finance Commission</b>		
Jonas H. Nduttu	Technical Affairs Department	Senior Financial Management Officer
<b>Zanzibar Social Security Fund</b>		
Halima Mh'd Addalla	Finance	Manager
<b>Zanzibar Roads Fund Board</b>		
Abdi Khamis Abdalla		Executive Director
Rajb O. Rajab		Chief Accountant
<b>Zanzibar Institute of Financial Administration</b>		
Kamal Kombo Bakari		Principal
<b>Zanzibar National Chamber of Commerce, Industry and Agriculture</b>		
Msellem KH. Msellem		Executive Director
<b>Norwegian Embassy</b>		
Morten Heide	Norwegian Agency for Development Cooperation	Counsellor
Håkon Mundal	Dar es Salaam Country Office	Senior adviser
Olav Lundstol	Dar es Salaam Country Office	Country Economist (from 30 July 2010)
Trond H. Augdal	Dar es Salaam Country Office	Country Economist (to 26 May 2010)
<b>IMF</b>		
David Robinson	Dar es Salaam Country Office	Director
<b>World Bank</b>		
Parminder Brar	Dar es Salaam Country Office	Lead Financial Management Specialist
<b>DFID</b>		
Simon Gill	Dar es Salaam Country Office	Deputy Head
<b>Swedish Embassy</b>		
Wiveca Holmgren		First Secretary, Controller
<b>Japan International Cooperation Agency</b>		
Retsu Hagiwara	Dar es Salaam Country Office	Programme Adviser

## Annex D List of documents consulted

Title	Author	Date
Public Finance Act		2005
Public Finance Regulations		2005
Public Procurement and Disposal of Assets Act		2005
Procurement Regulations		
Establishment of the Office of Controller and Auditor General Act		2003
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Government Loans, Stocks, Grants and Guarantees Decree		1978
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Zanzibar Economic Bulletin	Chief Government Statistician	July-Sep 2009
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Tanzania Country Procurement Assessment Review, Vol. 2, pp. 107-116	World Bank	April 2003
Corporate Plan 2005/06 – 2009/10	Zanzibar Revenue Board	February 2006
Public Accounts Committee Report (in Kiswahili)		
Report on Standards and Codes	World Bank	2006
Review of Payroll System, Final Report	Africa Dev't Professional Group and RGZ	August 2009
Public Sector Reform Programme	Civil Service Department	2010
Final accounts for 2006/07	State University of Zanzibar	
Final Accounts for 2008/09	Zanzibar Municipality	
Strategic Plan	Zanzibar Institute of Financial Administration	
Final Accounts 2006/07	Zanzibar Social Security Fund	
Audit Report for 2008/09	Zanzibar Roads Fund	February 2010
Consulting Services for a Comprehensive Review of Public Sector Employment and Wage Bill Issues	DAI (Europe) Ltd	January 2007

## Annex E Structure of the Public Sector

Central Government		Local Government	Public Enterprise
Budgetary Central Government	Autonomous Gov't Agencies		
7. Pres.Office-Econ Coord'n & Int Rel's	Zanzibar Revenue Board	2 Municipality Councils	Zanzibar Ports Corporation
8. Revolutionary Council	State University of Zanzibar	3 Town Councils	Zanzibar Shipping Corporation
9. Pres.Office-Regional Administration	Road Fund	9 District Councils	Zanzibar State Trading Corporation
10. Pres. Office – State House	Zanzibar Social Security Fund	249 Shehias	Zanzibar Electricity Corporation
11 Auditor General's Office – Zanzibar	Water Authority		Zanzibar Tourism Corporation
12. Zanzibar Comm'n for AIDS	Zanzibar Investment Promotion Authority		Zanzibar Insurance Corporation
13. Chief Minister's Office	Zanzibar Institute of Financial Administration		Motor Trade Corporation
14. High Court Zanzibar	Audit Services Board		People's Bank of Zanzibar
15. Attorney General's Office	Karume Institute of Technology		
16. House of Representatives	Zanzibar Tourist Board		
17. Economic Brigade	Wakf Commission		
18. Prison Department	Information and Broadcasting Commission		
19. Ministry of Finance & Economic Affairs	National Sports Council		
20. Ministry of Agriculture, Livestock & Env.			
21. Min. of Tourism, Trade & Investments			
23. Min of Education & Vocational Training			
24. Min. of Health & Social Welfare			
25. Min of Water, Const'n, Land & Energy			
26. Min. of Communication & Transport			
28 Min of Labour, Youth, W/Children			
29. Anti-Smuggling Unit			
30. Zanzibar Electoral Commission			
31. Tourism Commission			
32. Fire and Rescue Force Unit			
33. Pres. Office -Min. of Good Governance			
34. People's Militia Unit			
35 Office of Dir. of Public Prosecutions			
37. Urban West Region			
38. South Region, Unguja			
39. North Region, Unguja			
40. South Region, Pemba			
41.North Region, Pemba			

42.Min. of Information, Culture & Sports			
43. Zanzibar Reg'n & Identity Card Office			
45. Consolidated Fund Services			

Sources: Consolidated Accounts, Dept of Public Investment. No consolidated expenditure data are available except for budgetary central government..

## Annex F Organisation Structure – Ministry of Finance and Economic Affairs

The Ministry of Finance and Economic Affairs consists of different Departments that work together to achieve the Ministry's common goals. These Departments are as follows:

- [PLANNING AND POLICY](#)
- [ECONOMIC MANAGEMENT AND BUDGET](#)
- [ACCOUNTANT GENERAL](#)
- [EXTERNAL FINANCE](#)
- [HUMAN RESOURCES DEVELOPMENT](#)
- [ADMINISTRATION AND SERVICES](#)
- [PUBLIC INVESTMENT AND STOCKS VERIFICATION](#)
- [NATIONAL PLANNING SECTOR DEVELOPMENT AND POVERTY REDUCTION](#)
- [OFFICER INCHARGE MINISTRY OF FINANCE AND ECONOMIC AFFAIRS \(PEMBA\)](#)
- [SMZ COODINATING OFFICE DAR ES SALAAM](#)

Moreover, the following autonomous body/Institutions are working under Ministry of Finance and Economic Affairs:

- OFFICE OF CHIEF GOVERNMENT STATISTICIAN (OCGS)
- ZANZIBAR INSTITUTE OF FINANCIAL ADMINISTRATION (ZIFA)
- ZANZIBAR SOCIAL SECURITY FUND (ZSSF)
- ZANZIBAR REVENUE BOARD (ZRB)
- ZANZIBAR ROAD FUND (ZRF)
- ZANZIBAR INSURANCE COPORATION (BIMA)
- THE PEOPLE'S BANK OF ZANZIBAR (PBZ)
- TANZANIA REVENUE AUTHORITY (TRA)

## Annex G Budget Credibility Calculations (TZS millions)

2006/07

Vote	MDA	Approved Estimates- Recurrent	Approved Estimates- Dev't- Domestic	Approved Estimates- Total	Actual Expenditure- Recurrent	Actual Expenditure- Dev't- Domestic	Actual Expenditure- Total	Absolute Variance- Current Meth'y	% variance
9	Regional Admin (P.O.)	1,168.1	72.3	1,240.4	1,168.1	46.8	1,214.9	25.5	-2.1%
10	President's Office	1,102.2	14.1	1,116.3	1,102.2	14.0	1,116.2	0.1	0.0%
13	Chief Minister's Office	1,597.5		1,597.5	1,045.4		1,045.4	552.1	-34.6%
14	High Court, Zanzibar	849.0		849.0	770.7		770.7	78.3	-9.2%
16	House of Representatives	4,972.1	150.0	5,122.1	4,159.3	122.3	4,281.6	840.5	-16.4%
17	Economic Brigade	3,301.1		3,301.1	2,763.2		2,763.2	537.9	-16.3%
18	Prison Department	2,680.0		2,680.0	2,510.2		2,510.2	169.8	-6.3%
19	Min of Finance & Econ Affairs	8,951.0	771.4	9,722.4	8,951.0	612.8	9,563.8	158.6	-1.6%
20	Min of Agric, Livestock & Env	4,940.0	270.2	5,210.2	4,162.1	258.1	4,420.2	790.0	-15.2%
21	Min of Tourism, Trade & Invs	911.0	215.0	1,126.0	883.1	183.0	1,066.1	59.9	-5.3%
23	Min of Education & Voc Trg	19,493.5	853.0	20,346.5	19,064.3	853.0	19,917.3	429.2	-2.1%
24	Min of Health & Soc Welfare	6,488.8	270.0	6,758.8	6,488.8	238.7	6,727.5	31.3	-0.5%
25	Min of Water, Constn, Land & Energy	2,470.0	1,485.3	3,955.3	2,194.8	1,387.5	3,582.3	373.0	-9.4%
26	Min of Communication & Tpt	3,900.0	4,109.9	8,009.9	2,670.5	2,828.9	5,499.4	2,510.5	-31.3%
29	Anti-Smuggling Unit	4,045.0		4,045.0	3,826.5		3,826.5	218.5	-5.4%
32	Fire & Rescue Force Unit	1,385.1		1,385.1	1,047.5		1,047.5	337.6	-24.4%
33	Ministry (P.O) of Good Governance	1,098.0	30.0	1,128.0	1,052.1	26.7	1,078.8	49.2	-4.4%
34	People's Militia Unit	1,418.0		1,418.0	1,157.6		1,157.6	260.4	-18.4%
42	Min of Information, Culture & Sports	2,404.9	40.0	2,444.9	2,258.3	38.0	2,296.3	148.6	-6.1%
45	Cons Fund Services (excl.debt service & rep.of T-bills/bonds)	18,871.6		18,871.6	18,915.2		18,915.2	43.6	0.2%
	All other votes	6,278.1	576.8	6,854.9	5,595.5	487.2	6,082.7	772.2	-11.3%
	Total excl. debt service & rep. of T-bills/bonds	98,325.0	8,858.0	107,183.0	91,786.4	7,097.0	98,883.4	8,386.8	-7.7%
	PI-1 Variance						7.7%		
	PI-2 Variance							0.1%	
	Domestic revenue - Estimate	100,687.3							



- Actual 92,550.9  
 % of Estimate collected 91.9%

**2007/08**

9	Regional Admin (P.O.)	1,873.6	116.0	1,989.6	1,566.0	89.0	1,655.0	334.6	-16.8%
10	President's Office	1,439.9	20.0	1,459.9	1,093.2	20.0	1,113.2	346.7	-23.7%
13	Chief Minister's Office	2,085.0	450.0	2,535.0	1,238.3	261.2	1,499.5	1,035.5	-40.8%
14	High Court, Zanzibar	1,169.7	50.0	1,219.7	987.0	10.0	997.0	222.7	-18.3%
16	House of Representatives	5,632.6	100.0	5,732.6	5,379.9	23.9	5,403.8	328.8	-5.7%
17	Economic Brigade	3,636.4	100.0	3,736.4	3,358.0	50.0	3,408.0	328.4	-8.8%
18	Prison Department	3,042.0	200.0	3,242.0	2,766.9	25.0	2,791.9	450.1	-13.9%
19	Min of Finance & Econ Affairs	11,602.9	2,737.1	14,340.0	9,873.9	1,244.8	11,118.7	3,221.3	-22.5%
20	Min of Agric, Livestock & Env	5,941.2	997.3	6,938.5	5,185.8	645.3	5,831.1	1,107.4	-16.0%
21	Min of Tourism, Trade & Invs	1,117.9	623.0	1,740.9	974.0	300.7	1,274.7	466.2	-26.8%
23	Min of Education & Voc Trg	28,006.2	1,340.0	29,346.2	25,362.8	1,290.0	26,652.8	2,693.4	-9.2%
24	Min of Health & Soc Welfare	8,305.1	800.0	9,105.1	7,562.0	441.5	8,003.5	1,101.6	-12.1%
25	Min of Water, Constn, Land & Energy	3,673.8	2,315.0	5,988.8	3,317.1	2,188.8	5,505.9	482.9	-8.1%
26	Min of Communication & Tpt	5,146.6	4,600.0	9,746.6	4,336.0	2,350.0	6,686.0	3,060.6	-31.4%
29	Anti-Smuggling Unit	4,770.6	150.0	4,920.6	4,687.7	150.0	4,837.7	82.9	-1.7%
32	Fire & Rescue Force Unit	2,185.4		2,185.4	1,280.2		1,280.2	905.2	-41.4%
33	Ministry (P.O) of Good Governance	1,389.7	100.0	1,489.7	1,339.4	86.0	1,425.4	64.3	-4.3%
34	People's Militia Unit	2,163.8	200.0	2,363.8	1,528.6	60.0	1,588.6	775.2	-32.8%
42	Min of Information, Culture & Sports	3,009.0	340.0	3,349.0	2,672.1	295.0	2,967.1	381.9	-11.4%
45	Cons Fund Services (excl. debt service)	31,412.9		31,412.9	19,808.6		19,808.6	11,604.3	-36.9%
	All other votes	8,411.0	3,106.0	11,517.0	7,100.0	854.4	7,954.4	3,562.6	-30.9%
	Total excl.debt service & rep.of T-bills/bonds	136,015.3	18,344.4	154,359.7	111,417.1	10,385.6	121,802.7	32,556.6	-21.1%
	PI-1 Variance						21.1%		
	PI-2 Variance							0.0%	
	Domestic revenue - Estimate	114,108.2							
	- Actual	109,225.0							
	% of Estimate collected			95.7%					

<b>2008/09</b>										
9	Regional Admin (P.O.)	1,780.0	550.0	2,330.0	1,705.0	255.0	1,960.0	370.0	-15.9%	
10	President's Office	1,690.0	20.0	1,710.0	1,673.8	20.0	1,693.8	16.2	-0.9%	
13	Chief Minister's Office	2,176.9	190.0	2,366.9	1,566.7	189.5	1,756.2	610.7	-25.8%	
14	High Court, Zanzibar	1,134.0	83.0	1,217.0	1,081.4	75.0	1,156.4	60.6	-5.0%	
16	House of Representatives	5,931.0	60.0	5,991.0	5,930.8	60.0	5,990.8	0.2	0.0%	
17	Economic Brigade	3,787.2		3,787.2	3,719.6		3,719.6	67.6	-1.8%	
18	Prison Department	3,120.5		3,120.5	3,120.4		3,120.4	0.1	0.0%	
19	Min of Finance & Econ Affairs	12,456.5	2,504.0	14,960.5	12,186.5	2,103.5	14,290.0	670.5	-4.5%	
20	Min of Agric, Livestock & Env	6,447.3	1,300.0	7,747.3	5,619.5	755.8	6,375.3	1,372.0	-17.7%	
21	Min of Tourism, Trade & Invs	1,526.5	400.0	1,926.5	1,461.3	365.0	1,826.3	100.2	-5.2%	
23	Min of Education & Voc Trg	28,874.5	2,100.0	30,974.5	27,875.9	1,947.0	29,822.9	1,151.6	-3.7%	
24	Min of Health & Soc Welfare	9,479.0	1,550.0	11,029.0	9,361.9	572.2	9,934.1	1,094.9	-9.9%	
25	Min of Water, Constn, Land & Energy	4,019.3	2,000.0	6,019.3	3,452.9	1,813.6	5,266.5	752.8	-12.5%	
26	Min of Communication & Tpt	7,267.2	6,000.0	13,267.2	6,975.5	5,771.7	12,747.2	520.0	-3.9%	
29	Anti-Smuggling Unit	5,363.0		5,363.0	5,346.4		5,346.4	16.6	-0.3%	
32	Fire & Rescue Force Unit	1,977.9		1,977.9	1,619.9		1,619.9	358.0	-18.1%	
33	Ministry (P.O) of Good Governance	1,491.0	100.0	1,591.0	1,445.6	100.0	1,545.6	45.4	-2.9%	
34	People's Militia Unit	1,947.8	160.0	2,107.8	1,797.8	70.0	1,867.8	240.0	-11.4%	
42	Min of Information, Culture & Sports	3,498.9	170.0	3,668.9	3,334.0	160.0	3,494.0	174.9	-4.8%	
45	Cons Fund Services (excl. debt service)	30,814.0		30,814.0	30,463.1		30,463.1	350.9	-1.1%	
	All other votes	10,360.0	1,335.0	11,695.0	9,938.5	4,263.7	14,202.2	2,507.2	21.4%	
	Total excl.debt service & rep.of T-bills/bonds	145,142.5	18,522.0	163,664.5	139,676.5	18,522.0	158,198.5	10,480.4	-3.3%	
	PI-1 Variance						3.3%			
	PI-2 Variance									3.1%
	Domestic revenue - Estimate	132,755.2								
	- Actual	138,902.8								
	% of Estimate collected			104.6%						

	2006/07	2007/08	2008/09	Rating
PI-1	7.7%	21.1%	3.3%	B
PI-2	0.1%	0.0%	3.1%	A
PI-3	91.9%	95.7%	104.6%	B

Source: AGD Consolidated Summary Statements for each year.



