HakiElimu
Leaflet 11.2E

# The End of Development?
## Five Years of CAG Reports

What would help you in your life right now? Books for your children's education? A clinic that not only is nearby but also has the medicine you need? A tractor to plough your fields? Wouldn't it be nice if we could organize ourselves to bring about these improvements for the common good? Well, we have—village, district, regional, and central governments are all forms of organization in which citizens can work together for the greater good to achieve the kind of development we want to see.

One of the key ways in which citizens work together in structures of governance to bring about positive change for the collective good is through effective budget formulation and implementation. Simply put, the primary goal of a government budget is to turn money into improved goods and services for citizens, and there are financial management laws and regulations in place to help this happen more efficiently.

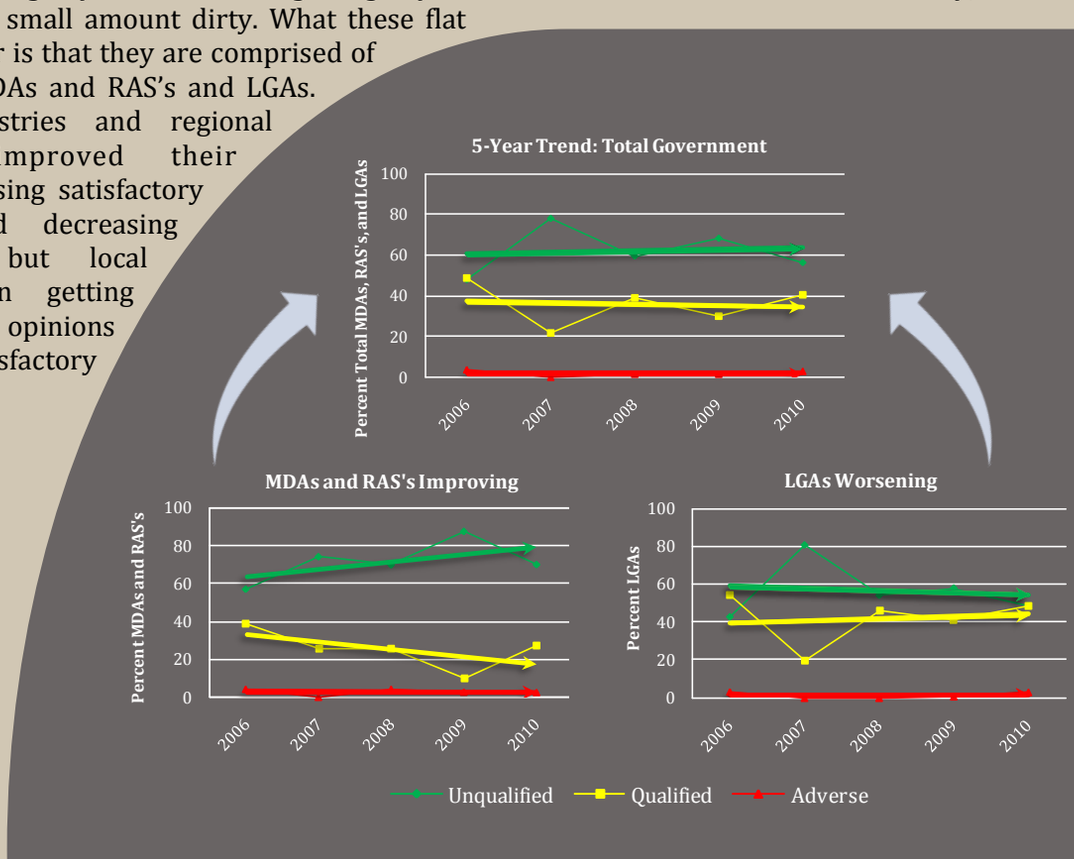
This is where the Controller and Auditor General (CAG) comes in. The CAG's core task is to monitor the use of public funds to ensure that they are indeed being used effectively. The stated mission of the CAG is:

> *To provide efficient audit services, in order to enhance accountability and value for money in the collection and usage of public resources.*

Each year the CAG provides these audits, with the latest year under review being fiscal year 2009/10 (July 2009 to June 2010), but it doesn't typically look over long periods of time to see if the government's financial management is overall improving or not. This leaflet highlights some of the matters surrounding 2009/10 as well as longer trends on some major issues over the past five years.

## Central Government BETTER Local Governments WORSE

The CAG audits almost the entire government, including 57 Ministries, Departments, and Agencies (MDAs), 21 Regional Administrative Secretariats (RAS's), and 134 Local Government Authorities (LGAs). Depending on their adherence to financial laws and regulations, these government bodies are issued audit opinions. From best to worst, these are **unqualified** (clean), **unqualified with emphasis on matters** (satisfactory), **qualified** (unsatisfactory). and **adverse** (dirty). The charts below present how well the government has been cleaning up its financial management over the last five years. For the total government, though there are rises and falls each year, the general trend has remained relatively flat, with fiscal performance not getting any better but not getting any worse: about 60% is clean or satisfactory, 40% unsatisfactory, and a small amount dirty. What these flat trends don't show however is that they are comprised of different trends within MDAs and RAS's and LGAs. As can be seen, ministries and regional governments have improved their performances with increasing satisfactory and clean results and decreasing unsatisfactory results, but local governments have been getting worse, with satisfactory opinions dropping and unsatisfactory opinions rising.




All facts and figures in this leaflet are taken from the Annual General Reports of the Controller and Auditor General: On the Audit of the Financial Statements of Central Government for the Year Ended 30th June, 2006-2010 and the Annual General Reports of the Controller and Auditor General: On the Financial Statements of Local Government Authorities for the Financial Year Ended 30th June, 2006-2010 produced by the Controller and Auditor General of the National Audit Office of Tanzania. See www.nao.go.tz for more information.

# National Tax Collection

As mentioned, the audit opinions depend on that Ministry's or Council's financial management. This can be broadly divided into two areas: revenue and expenditure. In terms of national revenue collection, despite huge undercollections in recent years, the Tanzania Revenue Authority (TRA) is collecting more money than ever. Though it still lost Tsh 681 billion through tax exemptions last year, this amount of tax exemptions was 10% less than the year before.

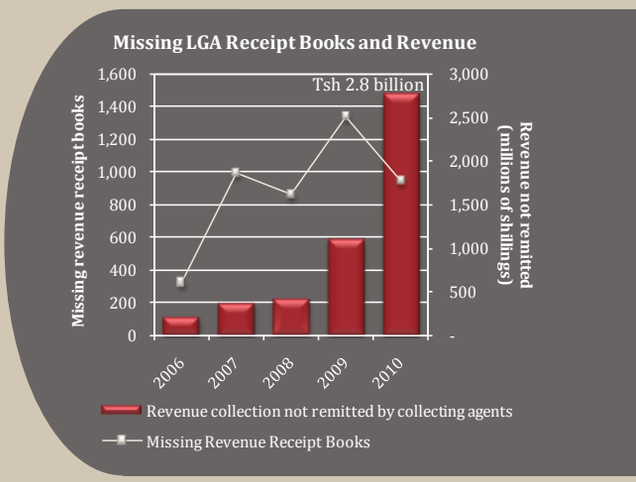
**Mining**

On top of environmental damage that pollutes water sources, kills livestock, and causes incurable skin disease as well as the routine conflicts between citizens and police often resulting in the killing of citizens living in the surrounding area, foreign-owned mines are also continually under public scrutiny for tax evasion. While making up only 7% of all tax exemptions, the mining sector has nevertheless earned its own category as a type of tax exemption the CAG notes, exempted from paying the government **Tsh 49 billion** in 2010.

# Local Tax Collection

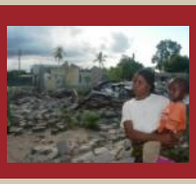
At the local level, "missing" and "lost" revenue receipt books as well as stolen revenue have been issues for years. In 2010, 48 Councils lost **948 revenue receipt books**. Revenue that was collected on behalf of Councils but not remitted by collecting agents grew last year to an all-time high of **Tsh 2.8 billion**. In total over the last five years, collecting agents have absconded with almost **Tsh 5 billion** in taxpayers' money. As the CAG puts it,

> *There is great likelihood of outright theft of Councils' revenues by the revenues collectors and it ends up distorting the planned target of the Councils.*




# Payment Evidence

As mentioned, the audit opinions depend on that Ministry's or Council's financial management. This includes such things as properly accounting for expenditures. A Ministry or Council is not meant to pay out money haphazardly; each payment voucher is to be accompanied by supporting documents such as contracts, invoices, acknowledgement receipts, or signed pay lists. When these supporting documents are missing, the CAG can't verify that the money has been used appropriately. Over the last five years, MDAs/RAS's and LGAs show a worsening trend in being able to appropriately account for their expenditures. Though MDAs/RAS's made great progress in properly supporting their payments, dropping them from Tsh 37 billion in 2006 to Tsh 4 billion in 2009, the CAG declares MDAs/RAS's to have **Tsh 362 billion in expenditures without proper supporting documents in 2010**. Meanwhile, LGAs continue their steady climb in not providing enough evidence for their payments, **doubling the amount from Tsh 2.4 billion in 2006 to Tsh 5.5 billion in 2010**.



**Mbagala Bomb Victims...Victimized Further?**

**Tsh 8 billion** that the Dar es Salaam RAS says went to compensate the Mbagala bomb victims lacked adequate supporting documents, leaving the CAG to confess, "the correctness of the compensations made could not be confirmed."

**Economy Stimulated?**

In July 2009, President Jakaya Kikwete announced a Tsh 1.7 trillion stimulus package to help rescue the Tanzanian economy from the effects of the global financial crisis. Part of this money was given to the Bank of Tanzania to help individuals through loss compensation and loan rescheduling. Contrary to procedure, a list of individuals who benefitted from **Tsh 48 billion** of this money could not be produced. Thus the CAG concludes, "As such, I was unable to satisfy myself that, the amount paid could stand as a proper charge against public funds."

# The End of

## Budget vs. Reality

In years past, the national budget passed by Parliament at the beginning of the year has looked very little like what the government has done financially by the end of the year. This was particularly true of development expenditures. Government expenditures can be divided into two categories: recurrent and development. Recurrent expenditures are the routine costs, such as salaries, equipment, and building maintenance, that are needed to simply keep the government running. Development expenditures are the improvements made to social services, such as getting books into classrooms, medicines into clinics, and pavement onto roads. Similarly, government revenue can be divided into the same two categories. Recurrent revenue is comprised mostly of tax collected by TRA, which then mostly goes toward funding recurrent expenditures. Development revenue consists of foreign aid and loans (as well as domestic loans) and funds development expenditures.

Despite recent undercollection of taxes by TRA impacting recurrent revenue, the bigger source of budget instability comes from development revenue. For example, while TRA missed its collection target last year by Tsh 391 billion (or 8% of its target), **foreign aid fell short by Tsh 1.5 trillion** (or 39% of the budget estimates). As the CAG suggests, this may be due to Tanzania not meeting aid conditions, donors failing to provide aid as agreed, or the government calculating foreign aid which has not been fully secured into its revenue estimates. Revenue shortfalls in total have become a bigger and bigger problem over recent years (see first chart below). In 2007, actual revenue was 9% below the approved estimate while in 2010 it was **21% below the estimate**!

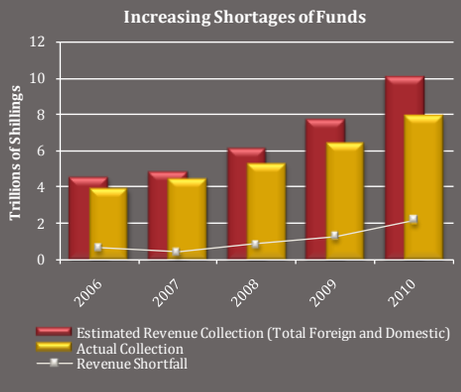
**CDCF**

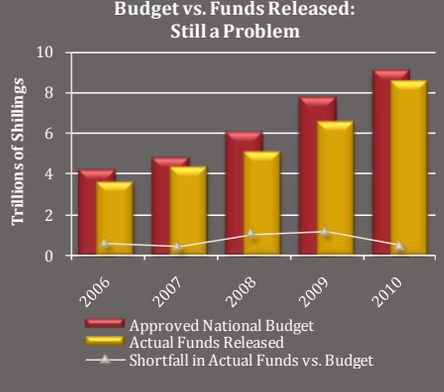
Despite civil society protest, Parliament passed the Constituency Development Catalyst Fund Act in 2009 directly providing MPs with funds to implement development projects in their constituencies. By the end of its first year, it resulted in **Tsh 1.3 billion** sitting unused, mainly due to Councils not establishing separate accounts for the funds as required and late release of the money. In a few cases in which CDCF funds were spent, the Constituency Development Catalyst Committees and their respective Councils did not report the amount of money received and spent to the Minister responsible for Local Government Authorities.

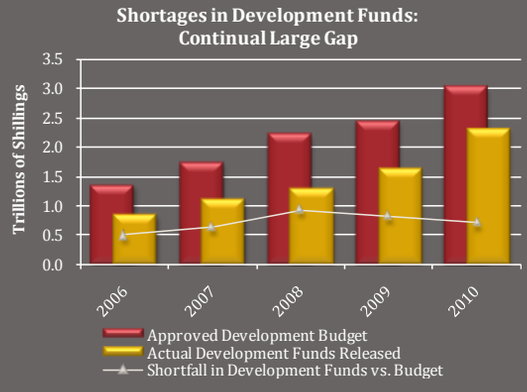
Such revenue shortfalls have a ripple effect on the Tanzanian national budget: aid cuts and other revenue shortfalls contribute to the growing trend in shortage of funds, less funds means the approved national budget will not be implemented as planned, and expenditures are cut (see second chart below). Because revenue shortages are mostly due to shortfalls in development revenue and because recurrent expenditures are typically justified as absolutely necessary (even though they are filled with many unnecessary expenses such as foreign travel, excessive allowances, and notorious seminars/workshops/trainings that deliver less-than-desired results), development expenditures bear most of the burden in the face of revenue shortages. For example, in 2008/09, development funds were cut 34% while recurrent funds were only cut 6% (see third chart below).

In the end, the national budget approved by Parliament hardly resembles what happens financially throughout the year, leading the CAG to conclude,

> *...the government should budget for what it can reliably expect to receive to avoid embarrassment during budget implementation. On the other hand, ISA [International Standards on Auditing] 20 requires that foreign assistance should only be recognized in the financial statements upon gaining sufficient assurance that such assistance will be realised. Greater efforts should be exerted to reduce the government's dependency on foreign aid.*



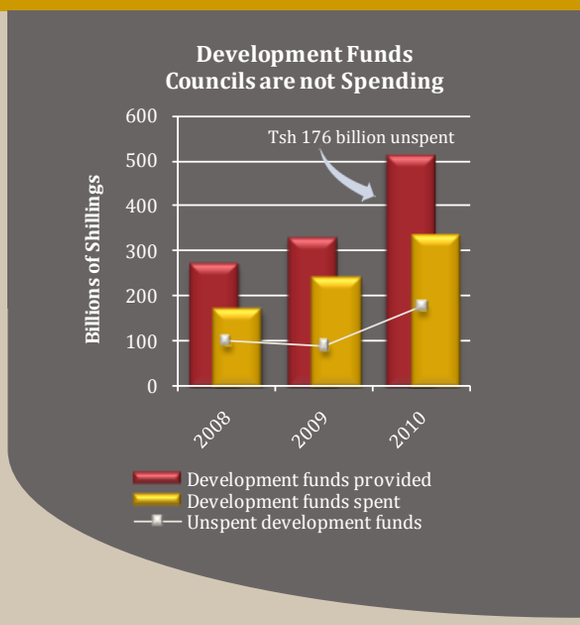



# Development?

## Council Development Spending

Even when development funds are available, Councils don't seem to be able to use them. While the central government spends almost all of the money with which it is provided, local Councils display a growing tendency of not using development funds, a trend more closely watched by the CAG over the last three years. On average over the last five years, **Councils have failed to utilize 33% (an entire third) of the development grants with which they were provided**. Last year they hit a new low by not using **Tsh 176 billion** in development funds. In total, over the last three years, Councils have failed to utilize **Tsh 364 billion** worth of development grants!




**Kilimo Kwanza au Umimi Kwanza?**

Stories of stolen agricultural input vouchers have continued to crop up in the media. According to the CAG, vouchers worth over **Tsh 200 million** were stolen or "lost" by Councils in 2010 while another **Tsh 163 million** in vouchers was left unused, totaling over **33,000 vouchers** stolen, lost, or unused. In total, Kilimo Kwanza activities worth **Tsh 977** million went unimplemented in 2010.

## Councils Hurting Wards and Villages

In 2004, the central government abolished a set of taxes Councils were levying against wards and villages. To make up for the revenue gap that this would create in Council budgets, the central government began sending compensation grants to Councils, with the specific stipulation that 20% of these funds must be directly sent to wards and villages to fund development activities. A number of Councils, however, like to keep this money for themselves. In 2009, 23 Councils withheld over **Tsh 3 billion** from wards and villages. In 2010, there was some noted improvement, but 22 Councils still refused to turn over **Tsh 1.2 billion** to ward and village governments.

**Community Health Fund**

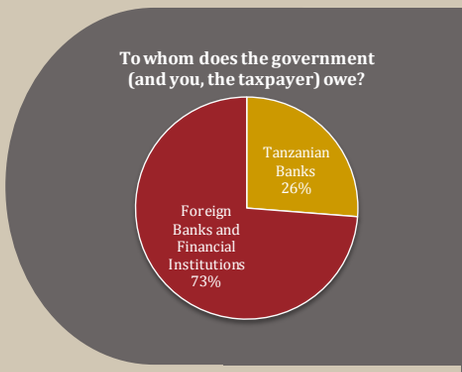
Through various test checks over recent years, the CAG is uncovering Councils' habits of not spending money from the Community Health Fund (CHF), a fund to be used for medicine, hospital equipment, and building repairs. In 2009, a test check on three Councils revealed that **Tsh 184 million** of the fund had gone unutilized, while in 2010, a test check on ten Councils showed **Tsh 383 million** unused. When the fund was used, there were times when it went toward unintended purposes such as salaries. Most Councils audited don't have a separate account for the CHF and don't prepare annual financial statements for the fund.

## Making sense of these huge numbers...
## ...What could this money have done over the last five years?

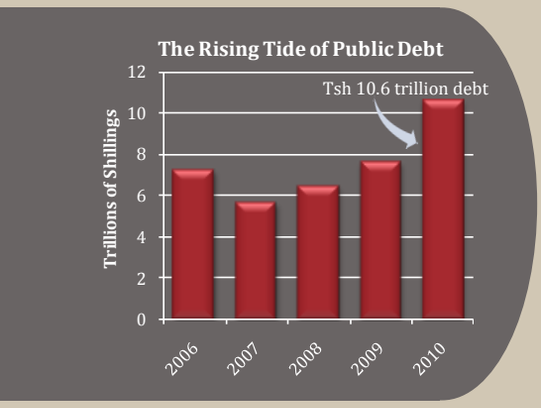
| | | |
|---|---|---|
| **Tsh 363 million** in unused or stolen Kilimo Kwanza vouchers | = | Fertilizer for over 20,000 acres, almost all the farmland in Singida Region...twice! |
| **Tsh 650 million** in MDA/RAS furniture allowances | = | 21,667 desks, or enough to provide new desks for all Standard I pupils in Lindi and Mtwara regions combined |
| **Tsh 10.5 billion** in revenue money not remitted by local government collecting agents (Tsh 5 bil), funds withheld from villages by Councils (Tsh 4.2 bil), and unused CDCF (Tsh 1.3 bil) | = | 15,000 latrines, or a new latrine at almost every primary school in the country |
| **Tsh 10.6 billion** in ghost worker salary and loan payments | = | Annual salaries for almost 3,000 primary school teachers, or for about half of all primary school teachers in Kigoma region |
| **Tsh 48 billion** in unverified money given to Bank of Tanzania for economic stimulus | = | Loans of Tsh 10 million each for 36 businesses in every district of Tanzania |
| **Tsh 108 billion** in mining sector tax exemptions | = | 12,000 houses for teachers, or enough for a new teacher's house at 3/4 of Tanzania's primary schools |
| **Tsh 374 billion** in total underspending by Councils | = | 9 new textbooks for every primary school student in the country |

# Public Debt

To facilitate increased planned activities, the government seeks out more money. It does so by securing both domestic and foreign funds. Domestically, these take the form of taxes and loans from domestic banks. Foreign funds come in the form of grants (aid) and loans from foreign banks and financial institutions. All loans, whether domestic or foreign, need to be repaid, and when money from loans typically makes up about 20% of the Tanzanian national budget each year, this adds up to a lot of debt. Each year when the country applauds a bigger and bigger budget, it needs to be realized that much of this money is a burden of debt that will be carried by the next generation.




As of the latest year under review by the CAG, public debt stood at a total of Tsh 10.6 trillion, or roughly the size of the entire national budget in recent years. **The majority of this, about 73%, is from foreign loans**.




While the size of Tanzania's debt is a concern, the more alarming issue is the rate at which Tanzania's public debt is growing. As in the chart, while Tanzania reduced its debt in 2007 and gradually took on more in 2008 and 2009, **public debt drastically increased by almost 40% between 2009 and 2010**! A 40% rate of debt increase is clearly problematic and leads the CAG to conclude,

> *This trend if not properly monitored may lead the Government into unbearable burden of servicing it. The increase is very alarming such that the debt stock is likely to be unsustainable….*

The public debt is serviced, or partially repaid, each year, but this process is likewise exposed to the ill effects of poor financial management. In 2009/10, the department of **Public Debt and General Services** had almost **Tsh 280 billion** in expenditures without proper supporting documents. **Tsh 1.8 trillion** that it reports to have transferred to foreign creditors didn't have acknowledgement receipts. Naturally, the national public debt will not be abated if this money perhaps didn't reach foreign creditors and wound up somewhere else.

# Following CAG Recommendations?

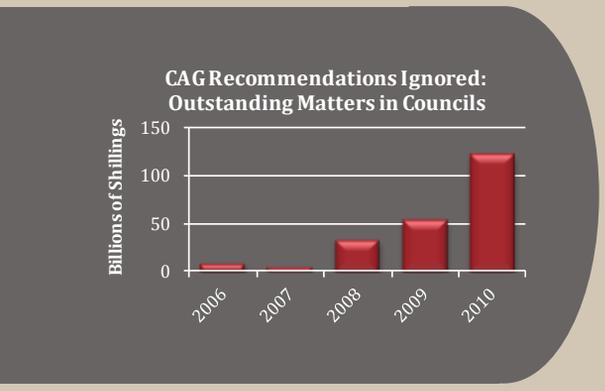
As stated at the beginning of this leaflet, the mandate of the CAG is to provide government audit services. It conducts these audits and tables its findings and recommendations on the floor of Parliament annually, whereby the CAG's authority on the matter ends. The CAG has the power to audit the government and provide recommendations; it does not have the power to enforce its recommendations or even to pursue illegal behavior. While its efforts may be aided by all Members of Parliament, particularly the Public Accounts Committee (PAC) and the Local Authorities Accounts Committee (LAAC), the Public Procurement Regulatory Authority (PPRA), and the Prevention and Control of Corruption Bureau (PCCB), the CAG's operations are limited to the audits. The CAG is careful to note that,

> *…while my office reports on any noncompliance with various laws, regulations and rules and weaknesses in financial reporting and internal control systems across the public sector entities..., the ultimate responsibility for the maintenance of an effective and adequate system of internal control and a compliant framework lies with the management of each Accounting Officer…[and] each Local Government Authority.*

**Ministerial Couch Allowances**

Despite a 2006 circular from the President's Office specifically addressing the wrongful practice of providing ineligible officers with furniture allowances, 10 MDAs continued to do so, doling out over **Tsh 650 million** (an equivalent to about 6,500 couches) to furnish ineligible officers' private homes in 2010.

While ultimately the responsibility to implement the CAG's recommendations lies on Accounting Officers and Local Government Authorities, they have little incentive to do so if other oversight bodies are not doing their jobs. It is clear that this system for improving government financial management isn't working when one of the CAG's primary recommendations year after year is to implement its recommendations from the previous year.




Another indicator that the government isn't implementing the CAG's recommendations is outstanding matters. Simply put, outstanding matters are those which the CAG noted as problematic the previous year but which have still not been addressed. MDAs/RAS's succeeded in cutting outstanding matters almost in half last year from Tsh 1.1 trillion to Tsh 591 billion. Councils moved in the opposite direction however: instead of working on CAG recommendations and reducing their outstanding matters, they ignored the recommendations and actually doubled their outstanding matters to over Tsh 122 billion.

In an attempt to strengthen the "toothless bite" of the CAG recommendations, the Public Audit Act, 2008 introduced the requirement for MDAs, RAS's, and LGAs to report on how they've responded to CAG recommendations or to submit action plans on how they plan to respond to the recommendations. Last year, both MDAs/RAS's and LGAs created such reports though they did not respond to many CAG recommendations (and were submitted a month late). The CAG has nearly identical admonishments for the central and local governments:

> *Most of the recommendations issued in the previous year's General Report of the Central Government were not responded to, which is an indicator of the Government lacking seriousness in implementing those recommendations. ... The consequences of not acting upon the auditors' observations and recommendations leads to the recurrence of the anomalies observed by the auditors in subsequent financial reporting years. This can also reflect lack of seriousness and non-commitment on the part of the Accounting Officers and management of the entities concerned.*
>
> ...
>
> *Most of the recommendations issued in the previous year's Individual Report of Local Government Authorities were not responded to, which is an indicator of the LGAs lacking seriousness in implementing those recommendations. ... The attitude or habit of not responding to the auditors' observations and recommendations may lead to the recurrence of anomalies observed by the auditors in subsequent financial reporting years. This can also, reflect lack of seriousness and non-commitment on the part of the management of the respective Councils.*

**Ghost Workers**

When LGAs, RAS's, and MDAs don't update their payroll to reflect employees who have retired, resigned, been fired, or died, they continue to receive salaries of these ex-employees from the central government Treasury. If this happens, they are to return the unclaimed salaries to the Treasury, but, as the CAG shows, oftentimes they just keep the money, even omitting it from their balance sheets, and other times they actually continue to pay the ex-employees. Over the last five years, Councils have kept **Tsh 4.7 billion** in unclaimed salaries that they were meant to remit to the Treasury. Over the last three years, Councils have paid **Tsh 1.6 billion** to ex-employees who have either retired, resigned, been fired, or died. Last year alone, MDAs and RAS's paid **Tsh 1.8 billion** to ghost workers.

Cleaning up government financial management won't be possible if unseen by the public eye. Open this leaflet further to find out what is going on in your district. Visit www.nao.go.tz to read the full CAG reports and learn more about the issues in your area. Share this information with your Village Executive Officer and demand Council accountability. Speak to your MP and insist that he or she plays his or her role in Parliament to provide effective oversight to other government institutions. Only through improving government management of public funds will we achieve the kind of development we want to see.

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HakiElimu enables citizens to make a difference in education and democracy.

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