

Expected versus Actual Output of Public Sector Financial Management Reforms in Tanzania: Evidence from Mbeya – Sub Treasury

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Abstract

Since 1996, the government of Tanzania initiated Public sector financial management reforms (PFMRs) assisted by Swedish Government and other donor countries, the aim being to control public spending, establishing strong national wide budgetary control and help in achieving economy, efficiency and effectiveness on public spending through the national treasury. Series of reports by external reviewer of public sector financial management in United Republic of Tanzania (URT), put forward serious shortcomings in the whole system of managing public fund; overspending of about 10% of GDP, the accumulation of government debt of about \$10.1 billion in 1995. The government need to initiate Public Sector Financial Management Reforms was visible and vital, the intention was clear and the expected output of the reform was set.

The paper collected the evidence Mbeya Sub treasury in Tanzania, to pin point the actual output of the Public Sector Financial Management Reforms Measuring to what extent expected output were achieved.

The researchers collected and used both secondary and primary data; primary data were gathered from a sample of sixty (60) respondents including 20 Mbeya Sub treasury workers and 40 customers who were obtained through simple random sampling. interviews and questionnaires were used to gather primary data and documentary review to gather secondary data.

Measuring expected against actual output, Tanzania experience on PFMRs, is of average success by 57.92 percent achievement. Despite of couple of setbacks, progress has been made toward what the Tanzania government has intended to achieve by implementing financial management reform.

Keywords: Public Sector Financial Management Reforms, expected output, actual output

1. Introduction

This paper presents the discussion on the actual output of the Public Sector Financial Management Reforms Measuring to what extent expected output were achieved in Tanzania. The discussion begins by providing the background of the study. The background is followed by statement of the research problem, objectives of the study, significance of the study, literature review, and the research methodology. The later section presents and discusses the major findings of the study. The last section provides the conclusion and recommendation of the study.

2. Background to the Study

Public Sector Financial Management Reforms has become a priority for Most of developing countries in recent years; this is due to the inefficiency and poor financial performance of the public sector (Joel, 2008; Jack and Pokar, 2006 and URT, 2012; 2016). In last decade, Couples of reports and studies in Most of developing countries were reporting serious inefficiency, ineffectiveness, unaccountability and unethical behavior in Public Sector Financial Management; as a result, severe losses of public money, adverse business culture, overspending and wasteful spending, (World Bank, 2001, 2005; CFAA, 2001, URT, 2005 AND Gambia, 2010). The demand in many countries around the world, developing countries in particular to strengthen their Public Sector Financial Management was clear (World Bank, 2002). Integrated Financial Management System (IFMS) was implemented in Most of developing countries as part of Public Sector Financial Management form, countries like Ethiopia, Malawi, Gambia, Rwanda and Tanzania are among of many decided to implement (IFMS) (Jack and Pokar, 2006; Gambia, 2010). The success of is not well reported in many countries, though, already there were signs of positive impact of the of financial reforms programme in developing countries, expenditure control is restored and transparency levels is improving and accountability is achieved (Jack and Pokar, 2006 and Abdu 2014).

In Tanzania, reports by external reviewer of public sector financial management in United Republic of Tanzania, put forward serious shortcomings in the whole system of managing public fund; overspending of about 10% of GDP, the accumulation of government debt of about \$10.1 billion in 1995 (CFAA, 2001 and World Bank,1990,

2001, 2002). The Government implemented structural changes aimed at achieving economy, efficiency and effectiveness on public expenditure (World Bank 2001, URT 2005, 2012, 2016). The reforms were affected with a focus to cut down public overspending, establish strong budget discipline national wide through the national treasury, and bringing about effectiveness and efficiency in public services to the citizens (Lufunyo, 2013; World Bank, 2001; & CFAA, 2001 URT 2005, 2012 and 2016). Also, to increasing transparency and accountability for the government resources (World Bank, 2001 and URT, 2004).

Since 1996, the government of Tanzania started making reforms and adopted EPICOR BASESD -IFMS in all of its ministries, departments, and local authorities; the system is now used by the entire government (Jack D and Pokar K, 2006). EPICOR is an accounting information systems (AIS) selected by United Republic Tanzania to cater financial management purposes (URT, 2005; World Bank, 2001).

3. Problem Statement

Financial management Challenges like, overspending of about 10% of GDP, the accumulation of government debt of about \$10.1 billion in 1995 (World Bank, 2001, 2002); other concerns like cost ineffectiveness, inefficiency services delivery, lack of accountability and poor project management (World Bank, 2001 & CFAA, 2001). Also, the pressure from donor countries necessitate the financial management reforms in United Republic Tanzania (World Bank, 2001 & CFAA, 2001). In 1996, the government of Tanzania adopted financial management reform as solution to tackle these key challenges (Lufunyo, 2013; Jack and Poker, 2006; World Bank, 2001; & CFAA, 2001). Putting forward expected outputs as targets to be achieved by the financial management reform, by 2016 the United Republic Tanzania has implemented EPICOR BASESD -Integrated Financial Management (IFMS) System in all of its ministries, departments, and local authorities (URT, 2016)

The objective of this paper was to collected evidence based explanations at Mbeya Sub treasury in Tanzania, pinpointing the actual output of the Public Sector Financial Management Reforms and Measuring the extent expected output were achieved.

Though, already there were signs of positive impact of the of financial reforms programme in developing countries, expenditure control is restored and transparency levels is improving and accountability is achieved (Jack and Pokar, 2006; Abdu 2014).

The evidence based explanations Measuring to what extent expected output financial management reforms Programmes were achieved is still vital to drive conclusion

The paper was guided by two questions in achievement of its findings. The first was to identify the expected output of Government financial management reforms at Mbeya Sub Treasury to its customers, the second to what extent expected output of financial reforms Programmes were achieved

4. Objectives of the Study

4.1 General Research Objective

The study generally measured the extent expected output of financial reforms programmes were achieved in Tanzania.

4.2 Specific Research Objectives

- i. To examine the implementation of IFMS as financial management reforms at Mbeya Sub Treasury.
- ii. To identify the expected output of financial management reforms at Mbeya Sub Treasury
- iii. To assess the performance financial management reforms in terms of actual output at Mbeya Sub Treasury.
- iv. To Measure the extent expected output were achieved at Mbeya Sub Treasury.

5. Significance of the Study

The paper has provided a clear view on the performance of Public Sector Financial Management Reforms by highlighting key output of the reform with their achievement measure for improvement or success. Also, it has provided input required by Tanzania government and other government intending to introduce similar reform, on how financial managers in Public Sector Financial Management and their customer has responded to the reform. Generally, the study is very significant to the workers of different ministries, departments, and other government institutions in united republic of Tanzania, African countries, and other interested parties in many ways. Practical based evidence will improve service delivery, the measure of achievement pinpointing areas of success and

failure is vital for financial managers in Public Sector Financial Management and it may initiate other similar study for more evidence.

6. Literature Review

6.1 The Concept Financial Management

Financial management includes all efforts processes and procedures the firms or organization uses in management of pecuniary resources (Fung, 2012; Atrill and McLaney, 2006). It emphasizes on the responsibility of Financial manager to acquiring all necessary resources making sure the organization yield is the best out of utilization of the financial resources (Fung, 2012). Also, includes how financial manager under takes financing decision and cash management to ensure short run and long run profitably of the firm (Seigel, G., et al, 1999).

In extended way, financial management includes capital budgeting, management of net working capital, knowledge of various sources of funds including their costs, cash budget preparation, deciding optimal capital structure, cash conversion cycle, and reporting decision made in relation to financial resources (Atrill and McLaney, 2006). The being to maintain and monitor the financial stability of the company (solvency), making sure performance level and quality is achieved in company while avoiding financial risks (Seigel, G., et al, 1999).

6.2 The need of sound financial management in Public Sector

The narrow concept of public sector financial management is referring to the process of budget preparation, execution, budgetary control, accounting, reporting results, supervision and evaluation (Allen, et al, 2004). In extended way, public sector financial management is defined as the whole process of collecting tax, government spending and public debt management used as a tool for resource allocation and income redistribution (Rosen, 2002). Public sector spending part covers the budget cycle which includes preparation of spending budget, budgetary execution and control, monitoring, evaluation and reporting arrangements, auditing and procurement (Anders, 2007 and Murphy, 2002).

The government is a large service organization, it is complex in both structure and geographical area; the amount of data handled in daily bases for decision making also are urge and complex (Godfrey, et al,1996). This makes the work of public sector financial manager not only tough but also complex, to tackle the problem the government must come up with an efficient tool to aid handling of data for decision making (Anders, et al 2007; Shang and Seddon, 2002). The must be an integrated system to facilitate multiple - decision at different level of a urge organization structure like the government (Nicolaou, 2000).

Therefore, the budget process, through a sound public financial management system, serves as tool to improve public service (Olander, 2007 and URT, 2012). It will provide the best mechanism for resources allocating among different needs of the society by prioritizing the best need; also, will bringing about economic stability and growth (URT, 2012).

6.3 Financial Management Reform in Public Sector

It was bilateral and multilateral donors' aid agenda to implement public sector financial management reforms for country to qualify for grants or loans to propel development projects in in most African countries (Murphy, 2002); though the review of Tanzanian government finances in 1993 already had indicated the demand for PFMRs (World Bank, 2001). This is a reason last decade trend, of government in Africa to develop and implementing public sector financial management reform (World Bank, 2001, 2002, 2007; CFAA, 2001, URT, 2005, 2016 and Gambia, 2010).

To achieve this, in 1996 the Government adopted the Epicor Based Integrated Financial Management System as part of financial management reforms (World Bank, 2001; CFAA, 2001 and URT, 2005). In 1998, the Tanzania government through Accountant General's Department with aid from the Swedish government started the reforms to curb expenditure, financial control, and establishment of strong budgetary control throughout the whole nation (URT, 2005; World Bank, 2001; & CFAA, 2001).

7. Research Methodology

The researchers collected and used both secondary and primary data; primary data were gathered from a sample of sixty (60) respondents including 20 Mbeya Sub treasury workers and 40 customers who were obtained through simple random sampling. interviews and questionnaires were used to gather primary data and

documentary review to gather secondary data. Interviews were conducted to Mbeya Sub Treasury staff and customers so as to supplement the information collected through questionnaires and documents. In data analysis, qualitative data analysis techniques were used. The Statistical Package for Social Science Research (SPSS) software was used to assist data analysis. Descriptive statistics was used in the analysis, tables and graphs were used in the presentation of the findings.

8. Presentation and Discussion of the Findings

8.1 Demographic Characteristics of the Mbeya -Sub Treasury Workers

Category of Employment: Administrators were 4 (10%) of the respondents, teaching staff were 14 (35%), Finance and Accounting staff were 3 (7.5%), and other staff were 19 (47.5%).

Gender: 22 (55.5%) of the respondents were male and 18 (45.5%) of the respondents were female.

Age: 20 (50%) of the respondents were between the age of 29 to 40 years, 7 (17.5%) between 41 to 50 years, 6 (15%) between 18 to 28 years and 51 to 60 years respectively, and 1 (2.5 %) was more than 60 years.

Education Level: 3 (7.5%) of the respondents were having doctorate degrees, 15 (37.5%) were masters' degree holders, 13 (32.5%) were Advanced diploma and first degree holders, 8 (20%) were Ordinary diploma and Certificate holders, and 1 (2.5%) completed form four. Generally, 31 (77.5%) of workers were degree holders.

Working Experience: 7 (17.5%) of the respondents worked at the university for less than one year, 12 (30%) between 1 to 3 years and more than 5 years respectively, and 9 (22.5%) worked between 3 to 5 years.

8.2 The Implementation of IFMS as Part of Financial Management Reforms

Public Sector Financial Management Reforms in united republic of Tanzania is at fourth phase, the reform was implemented in phases because urge financial resources required and for administration and control purposes (URT 2012, 2016). For every phase target to be achieved with the given milestone were set.

8.2.1 Table 1: Phase One (1998 to June 2004): Expected Output versus Actual Output

Expected Output (Targets)	Output (Performance) Indicators	Actual Output
<ul style="list-style-type: none"> a. Strengthening financial control b. Minimizing the leakage of resources c. Enhancing accountability d. Fiscal discipline 	<ul style="list-style-type: none"> a. Connecting five (5) computers to (IFMS) in nineteen (19) pilot sub treasuries b. CITRIX server, a switch mechanism that connects to the system over 100 Ministry of Finance personal computers. c. Changed from manual to electronics or computerized accounting system in all nineteen (19) pilot sub treasuries d. Minimizing the leakage of resources in all nineteen (19) pilot sub treasuries through enhancing accountability and fiscal discipline e. Training of all financial managers and accountants (users) resources in all nineteen (19) pilot sub treasuries 	<ul style="list-style-type: none"> a. 80 PCs in various were linked to the central servers provided access via telephone lines to 19 sub-treasuries b. All accounts at sub treasury were operating through computerized accounting system, similar to all nineteen (19) pilot sub treasuries c. All nineteen (19) pilot sub treasuries Changed from manual to electronics or computerized accounting system in d. An average of 5 out of 10 Noncompliance in expenditure codes, overspending and inadequate monitoring e. About five staffs from each nineteen (19) pilot sub treasuries were trained

Source: (Ministry of Finance, 2016)

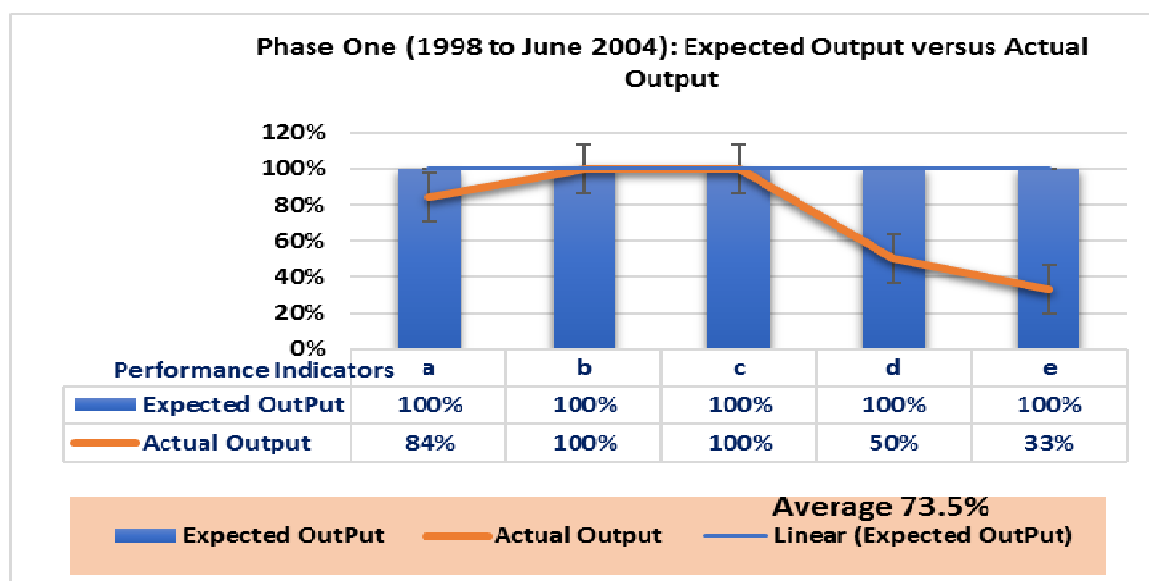


Figure 1. Expected Output versus Actual Output in phase one

Despite of some setback, the implementation stage at Mbeya Sub treasury and some other few key institutions considered critical in the first phase for improving public sector financial management appears to successful by 73.5 percent in average.

8.2.2 Table 2: Phase Two and Three (July 2004, to May, 2012): Expected Output versus Actual Output

Expected Output (Targets)	Output (Performance) Indicators	Actual Output
a. To improve the Government's accountability and transparency b. To improve expenditure tracking system, budgeting preparation and implementation process for better expenditure control outcomes c. Building staff capacity to meet IFMS computerized environment and extend the use of IFMS across government. d. Maintain aggregate strong fiscal discipline e. To enhance efficient delivery of public services	a. Timely report production and publication. b. Budget Deviation (Overs and under spend trend) c. Staff training versus capacity building needs d. Expenditure codes Compliance levels e. Technical efficiency of staff and IFMS	a. Bank reconciliation are not up-to-date for three months' verses one month target. b. The MDAs' recurrent budget deviation index ² is. In 13. % 2008/09, 12.9% in 2009/10 and 13% in 2010/11 c. Five out of fifteen staff working with IFMS were trained d. Four out of ten sub warrant comply to expenditure codes e. Delay taking two to three day usually happen due system slow down and luck of training

Source: (Ministry of Finance, 2016)

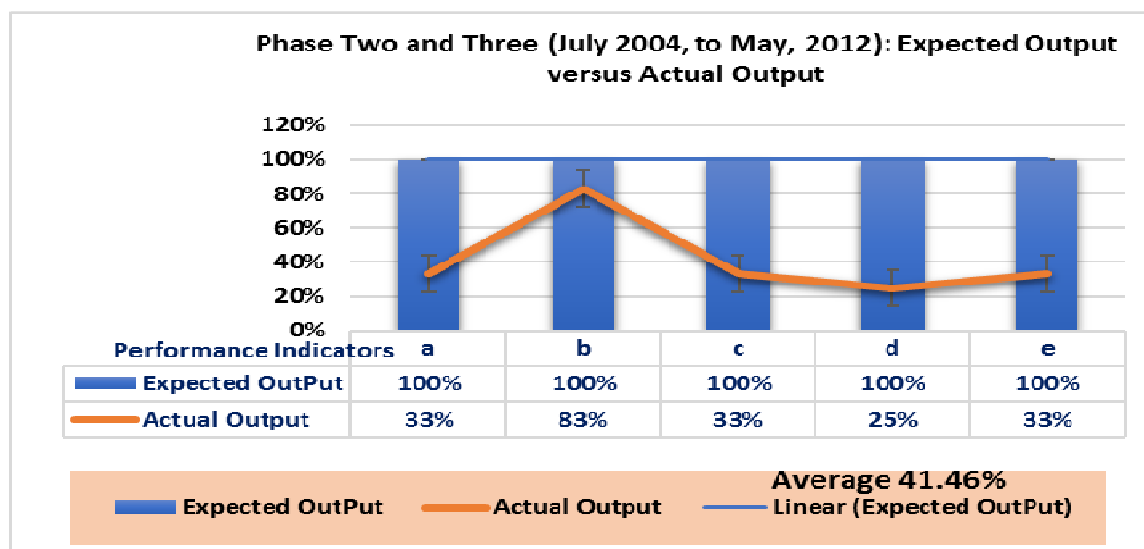


Figure 2. Expected Output versus Actual Output in phase two and three

Quite deferent from what was reported in “PEFA report 2006” on of World Bank paper ranking Tanzania as one of the two top performing countries in twenty-six countries, this paper grades Tanzania with an average of 41.46 % general performance in second and third phase.

8.2.3 Table 3: Phase Four: (July 2012 to 2016) Expected Output versus Actual Output

Expected Output (Targets)	Output (Performance) Indicators	Actual Output
a. To Strengthen capacity of planning and budget management b. To promote the utilization of Planning and budgeting tools c. Transparency and Accountability d. Budget Oversight and Control e. immediate capture of exchequer and budget sent to RAS and LGAs	a. Development of chart of account to accommodate Program Based Budgeting and to implement (PBB) Program Based Budgeting action plan. b. Staff Training on budgeting and planning c. Improved accountability in management of Government Assets for supporting migration to IPSAS Accrual d. All LGAs and MDAs to be covered by the internal audit functions by 2016 e. 45 accounting sections from both (RAS and LGAs) to reached by 2016	a. milestones equal to (60%) were in progress b. on milestone of staff training, only (55%) were achieved c. on milestone (68%) were achieved, only head office is partly practicing IPSAS Accrual d. only 53% units were covered by the internal audit functions by 2016 e. Satisfactory progress of 27 (59%) were achieved.

Source: (Ministry of Finance, 2016)

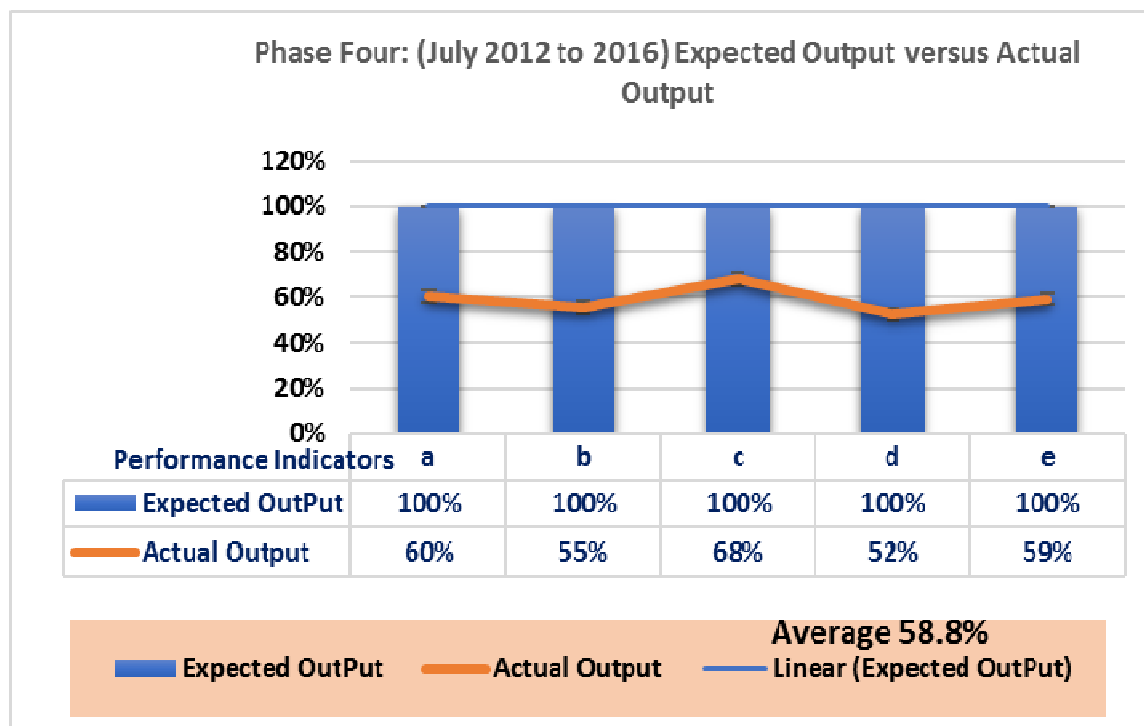


Figure 2. Expected Output versus Actual Output in phase four

The general performance under this phase stands at average (58.8%), with many activities in progress at end of the year 2016.

9. Conclusion

This paper considers Tanzania experience on PFMRs, by measuring expected against actual output, is of average success by 57.92 percent achievement. Despite of some setbacks, progress has been made toward what the government has intended on improvements of financial management in the public sector.

Budget execution and accountability has achieved above average by 2016; capacity of planning and budget management has strengthened; Transparency and Accountability also is above average; The Government capacity to produce timely is enhanced above average, budget reports are publicly available in ministry finance website, commitment control has been greatly enhanced and payments generally disbursed in a timely manner to suppliers of goods or services to the government by 2016. The Overall financial management Reforms in Tanzanian is considered as a success.

10. Recommendations

Among of the serious setback is the slowness of the system (Epicor based integrated financial management system) accessed through internet by regional Sub Treasuries (up country stations) and other MDAs from the central servers from located in Dar as salaam; Also, the finds recommend action to take quickly when there is system broken-down. Because of possibility of dummy voucher receipt to increase account balance for sub warrant and out of which it can payed out of pull account at Sub Treasuries, creates a chance for fraud. Otherwise additional effort is needed to achieve in full all expected targets (output) in order to benefit from the reform. Other countries, developing countries in particular has a lot to learn on the steps made by Tanzania and challenges faced to achieve PFMRs expected output.

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