BRIEF REPORT ON THE 7:30 BREAKFAST DEBATE – JUNE 26TH 2009

TANZANIA BUDGET 2009/2010: WHAT DID IT NOT SAY?

The national budget is a major policy document which spells out the nations plans of anticipated revenue and expenditure to meet national targets. Through the budget speech, the Minister of Finance articulates the nation's vision for the future.

This explains why the National budget plays a vital role in shaping the Country's development path and livelihoods of ordinary people. In analyzing the budget speech and tracking the budget we are able to determine whether the Country is on track to meeting the major national development targets for the next financial year. Thursday, 11th June 2009 was budget day and all focus was on Dodoma in wait for the budget speech with the slogan of "Kilimo kwanza". After critical reading and internalization of its contents reveals a lot that the budget does not say.

As it is known every year in June, Policy Forum dedicates this monthly Debate to the issue of budget. The presentations debate was done By Mr. Gregory Smith, Economic Advisor to Irish Aid presented on Tanzania National Budget 2009/10: Trends in Expenditure and Mr. Moses Kulaba, Executive Secretary, Agenda Participation 2000, presented on What the Budget did not say
Mr. Alex Ruchyahinduru facilitated the debate.

Mr. Smith started by giving out the outline of the area is going to cover which was Budget has got bigger, Wage bill growth slowed, Cars-allowances-travel; under control, Agriculture is first, Aid dependency/ golden rule and not much investment.

He said that earlier this year we debated whether or not IMF tied developing country hands; there are certainly no ropes in this stimulus budget, the budget headline was that there was a 30% increase in expenditure, but 1/3 of the increase is rolled-over debt (amortization) while if you remember inflation (= prices going up 12%), i.e. the <u>real</u> increase is less. But still there is new money to plan & budget this means Gov't as a proportion of the economy has grown.

International NGOs often argue wage bills should be bigger while there is more expenditure on them but salaries / wages fall as proportion of the budget. Go't is aiming at 6% of GDP (low by regional standards) and other charges budget is set to grow 16.8%, it is estimated that (figures not confirmed):- Cars-allowances-travel: to grow at 11.1%**,** Allowances growing from 171 bn to 216 bn (up 26%), External travel up 30.9 bn to 43.2 bn (up 40.3%) and Modest fuel & vehicle growth (up 10.1 & 14.2 %).

Agriculture first is a political agenda towards green revolution but *poverty* reduction is slower than expected, 80% of people derive livelihoods from agriculture while Mkukuta focus on the social sector. There is good positive politics but we need to understand the investments (await figures/ policy documents) since proof will be in what is specifically planned & how it is implemented, money alone does not equal results.

There still much dependence on foreign Aid for instance in 2008 Mkulo presented his golden rule and you can find that the 09/10 recurrent budget is Tsh 6,700 billion & domestic revenue sources total Tsh 5,250 billion. Golden rule 78.5% complete in a tough year, so 16.2% by domestic borrowing & small amount (5.3%) covered by foreign aid such as budget support. This shows that the recurrent budget (wages + OC) should be funded by domestic sources but is that the case? And after wages & other recurrent paid, there is not much left for investment investment needed to increase growth and reduce poverty, there are big plans, Kenya is accelerating infrastructure expenditure. Domestic development budget Tsh 968 billion*,* Donor projects Tsh 1,857 billion. But capital as a proportion estimated at 85% for domestic development & donor projects are just 22% capital, budget estimated at just 13.2% capital expenditure.

The second presentation was done by Moses Kulaba, he started by giving out the assumption of the gov't and projection a quick look at the budget speech indicates that the budget is premised on questionable and doubtful macro economic assumptions and projections, that can not be achieved and thus this budget is in trouble right from the start. The government assumptions are: Stable Macro-economic stability, Increase growth of agricultural sector, Domestic revenue enhanced, and foreign inflows will stay on course

No signs of many new Mining Development Agreements to be signed after July 2009 and yet Government is upbeat to raise more revenue from new Mining Companies. The revenue collected from some of the exemptions on fuel and other petroleum products can not be comparable to the revenue already lost over the last ten years and social costs arising from this tax revenue loss, there is attempts to address exemptions but no attempts to address revenue loss due to Trade Mispricing of Tanzanian products abroad. Based on available estimated calculations, the government is foregoing at least **Tsh128.8billion** a year in tax revenue lost to foreign Countries and multinational companies. According to international trade statistics Eurostat and US Census board, Tanzania lost approximately **Tsh 52billion** in revenue due to illicit means and trade mispricing of Tanzanian products sold to foreign Countries between 2005 and 2007. No clear indication of how new Tax payers will be identified and the narrow tax base expanded. What is **new** in the TRA Corporate plan that has not been their before? Where was this corporate plan when the government ran into a deficit this financial year? It is already evident that from the new tax regime, government will obviously generate very little revenue.

It also doesn't mention how much was saved from decision not to purchase luxury vehicles, paying per diems and conducting workshops in expensive hotels this financial year. The Government's agricultural stimulus package sounds good on paper but we are not very clear how this will be implemented to turn around the sector. The seemingly increased pumping of funds into the agricultural sector sounds like a wise idea however, the assurance that these funds will trickle down to the poor is largely clouded and doubtful. The package does not clearly show how domestic processing and consumption of the produced agricultural products will be addressed /robustly improved to counter balance the decline exports and consumption abroad due to the **GFC**. The funding for agriculture appears to be hinged on borrowed Money from the World Bank (USD200 Million) and India (Tsh59bln). How sustainable can this be given the unpredictable GFC that may affect large economies like India?

Although the government says its priority for this year is **agriculture**, from the speech it is evident the **Education sector** has received the largest share of the budget after being allocated **Tsh1.7Trillion and** followed by agriculture at **Tsh1.1trillion**-Including funds from WB and India). Going by these figures it appears government is contradicting itself?

On his recommendation he said that despite our serious concerns, we commend government to Improved quality of budget information, The decision to include the projected revenue resources from the Local government Authorities (**Tsh138,052 million**) own sources into the national budget is a welcome development as it makes it easy for one to have a comprehensive view of the total national budget, however more revenue can still be collected at the local government level to address the critical revenue shortage the nation is bound to face this year and next year.

Further more government commended for migrating the budget presentation format to a new internationally recognized format based on the **CFS 2001 coding system.** This will fairly make the budget simpler to read and understand.

Mr. Ngowi who was the discussant from Mzumbe University commented on the two presentations, he said that additional budget which is regarded as stimulus does not goes to demanding side rather supplying side of the production this does not reflect the policy of Kilimo kwanza and it put in place the mechanism of exporting goods rather than raw materials. The budget also still dependence more on Aids and does not show the mechanism of stimulating the local production so as to create the room for local borrowing. Finally he commented that, it does not say where it is going to get the money to fill the gape of tax exemption which is given to religious institution and NGO's and in order to attain the policy of Kilimo Kwanza more money should be allocated to infrastructure.

Comments and Questions:-

- Private sector need to grow and become a driving force of the economy, the question is how much does it contribute to the economy?
- There is a very poor link between the private sector especially the local industries and agriculture sector, this makes Kilimo Kwanza to be impossible
- The budget allocates more money on Education sector and it has the policy of Kilimo Kwanza, but it is silent on the investment
- Budget speech is about numbers but we need to see it reflected or translated in policies
- If it is agriculture first, how do we invest on environmental conservation since our agriculture dependence on rainfall since people will continue to depend on firewood as a source of energy then Kilimo Kwanza will be a dream
- There is slow increase of money allocation to agriculture sector over a period of time how then doe we regard this budget is of Agriculture first?
- How is the status of interest rate of foreign exchange in the country?

Responds and Comments:-

- On exchange rate the bank are well calculated so nothing to worry about it.
- Infrastructure is a problem for the development of the economy, eg. How much is Kibaigwa market linked to other part of the country?
- Tax system needs to be improved especially on the revenue side, since poor people are the one who pay tax more but get poor services
- Agriculture is first in terms of priority rank and budget policy but not in term of budget allocation, since most of the developing countries agriculture is more than 10%.

Mr. Semkae Kilonzo from policy forum closed the discussion and welcomed the participants to the other next month brake fast debate.