policy forum

Budget 2017/2018

POSITION STATEMENT

Overview
The current financial year is soon ending and discussions on the 2017/18 budget to be concluded in June 2017 are already underway. As usual, we, the members of the Policy Forum (PF) Budget Working Group would like to take this opportunity to share our views regarding the performance of the 2016/17 fiscal year to inform the ongoing deliberations on the national budget, the second under the administration of President John Magufuli.

The 2017/18 budget, also aiming to finance the second year of the ambitious Five Year Development Plan II (FYDP II 2016/17 – 2020/21), adopted in June 2016 which is geared towards heavy investments in infrastructure, to transform Tanzania from an economy reliant mainly on agriculture to an industry-based economy and aims a fiscal deficit of 4.5 percent of GDP, is being faced with almost the same challenges that were encountered during the 2016/17 fiscal year.

Although revenue collection during the first half of the year was promising, attributed mostly to a robust anti-corruption drive, an intense push to curb tax evasion and the collection of several debts from several entities and individuals, mobilization of external finances (which were mostly meant to contribute to the development budget) during this fiscal year has not been impressive mainly due to low and late donor disbursements resulting in development projects stalling. A report by the Minister of Finance and Planning released last month indicates that of the TZS 11.8 Trillion budgeted for development budget in 2016/17, only TZS 3,975.4 billion (about 4 trillion) was released as of February this year, representing a mere 34% of the development budget. The Budget Working Group counsels the government to endeavor addressing the financial shortfall if the already ambitious FYDP II is to be attainable in the stated period given its development agenda massively relies on infrastructure investments.

Despite these revenue constraints, according to the preliminary budget estimate projections for the year 2017/18 presented by the Minister of Finance and Planning, Hon. Philip Mpango, the national budget estimates stand at TZS 32,945.8 billion (TZS 32.9 Trillion), a nominal percentage increase of 10.3 from TZS 29.5 Trillion in the fiscal year 2016/17. The Government intends to spend TZS 19,782,291 Billion on recurrent cost which is equivalent to 60% of the overall budget and spend TZS 13,163,516 billion which is equivalent to 40% of the total budget on development expenditure.

The guidelines for the estimates, however, stipulate that these are subject to change and in this regard the final budget approximations will be established after implementation assessments, policy reviews and final commitment by Development Partners.

Domestic Resource mobilization
Though the 2017/18 revenue projections are preliminary, PF members nonetheless continue to caution for more realistic targets given the financial year 2015/16 saw external financing shortfalls, the fiscal period 2016/17 so far seems to manifest the same trend and the current outlook is one of uncertainty. These shortfalls have impacted budget execution and we would like to recommend that our decision makers carefully consider these and other long existing challenges as they discuss the 2017/18 national budget. Most important of these is realigning development expenditures with actual donor commitments and taking measures to firm up any pledges previously made.

Of the ambitious TZS 32.9 trillion the government intends to collect during the 2017/18 fiscal year, TZS 20.8 trillion is expected to come from domestic revenue sources which is equivalent to 61%. Tax revenues are expected to be TZS 18 Trillion while the non-tax revenues are estimated to be TZS 2 Trillion, implying our revenue authority should collect on average about TZS 1.5 trillion per month to meet the 2017/18 revenue target. In furthering the collection of resources at the subnational levels, the Local Government Authorities (LGAs) intend to contribute only about TZS 0.8 Trillion from its own sources. The remaining 39% is to be collected from other sources such Domestic Borrowing, MCC Basket Support Loans and Grants and non-concessional borrowing. It is important to note that such sources may not be sustainable in the longer term because they leave burden on the taxpayers given some are offered at high interest rates.

Furthermore, we urge the government to seriously consider progressively mobilizing resources domestically to finance national development projects. Increased borrowing to finance development projects increases the fiscal deficit with reference to the Gross Domestic Product (GDP) of the country and tends to divert future revenues to non-prioritized areas such as servicing the ever-ballooning national debt including the exorbitant interest rate payments. In the fiscal year 2015/16, out of domestic debt services, TZS 3,005.8 billion Shillings were for rolling over maturing obligations and TZS 1,009.6 Billion Shillings were for interest payments.

Budget deliberations would also merit from focusing on other aspects such as the notable narrow tax base where taxes disproportionally rely on VAT increasing the burden on the consumers and that despite the new VAT and Tax Administration Laws, there exist implementation challenges and incentives are still being granted especially in the Economic Processing Zones (EPZ) and Special Economic Zones (SEZ) without regular disclosures that report on their impact to the economy and contribution to poverty reduction.

Highlights in Key Sectors
The education sector has remained a top government priority sector as it takes the biggest share in the overall government budget which is around 17% of the total. The lamentable learning environment, however, is still an issue and its impact is visible on the quality of learning and drop-outs rates for primary schools in Tanzania.

The environment and infrastructure in schools have a big stake for quality education in Tanzania including adequacy of latrines and classrooms in primary schools. Pupil Classroom Ratio is 1:77 against the Standard of 1:45. The average male Pit Latrine Ratio (PLR) is 1:57 against the Standard of 1:25, and that of females is 1:56 against the standard of 1:20. In Geita Region, the PLR is very high (1:104) and in an extreme case recorded at Lushoto District, one pit latrine is serving 169 boys and 241 girls.

On the introduction of the fee-free education policy, our call to our government is that in its 2017/18 budget, considerations should be given to increasing the enrolment rate in both pre-primary and primary schools because the move has mobilized parents to send their children to school. According to a study by BEST in 2016, the enrolment rate for pre-primary school has increased by 46% which is an increase of 492,947 pupils while for primary school it increased by 41% which is 552,289 pupils compared to 2015.

On average, this represents about 1 million new pupils in schools. Using the average of 1 classroom for 45 pupils, the increase will require 23,000 new classrooms which cost about TZS 267 billion (with 1 classroom costing TZS 12 million). It should be noted, however, that public schools are already faced with a critical shortage of classrooms, according to a 2016 statement by HakiElimu, the shortfall stood at 95,945 classrooms.

The expenditure for some agricultural activities in the first five months of the year 2016/17 indicates that the subsidy for agricultural inputs was TZS 10 billion, equivalent of 40 percent of TZS 25 billion budgeted for the year 2016/17; purchasing and storing of food, TZS 9 billion was disbursed, equivalent to 33.96 percent of TZS 26.9 billion planned for purchasing, storing and distribution of food; and rural electrification, out of TZS 587.6 billion budged for the year 2016/17, about TZS 266.493 billion was released by Treasury for first five months, equivalent to 45.35 percent. Based on these statistics, the budget execution is promising, anticipating the government continues to implement the development projects as planned and maintain discretionary expenditure.

Agricultural production and productivity have been decreasing partly due to adverse effects of climate change, as many parts of Tanzania engaging in agricultural activities rely on rainfalls. In 2017/18 budget planning, however, the directives from central government to Regional Secretariats and LGAs in implementing the climate change adaptability and mitigation measures are missing.

The 2017/18 budget has mentioned the mega infrastructure development but the rural infrastructure (roads and electrification), which promote the rural industrialization, especially agro-processing were not as significant. It is important that the emphasis be put in the strategic areas where the agricultural investment intends to take place.

Gender
Gender is an important cross-cutting issue during planning and budgeting. This aspect has for many years now been advocated and this statement acknowledges the progress registered thus far in addressing it. In the current financial year for example, there are specific budget lines that are allocated to address the needs of several marginalized groups in the society like pregnant women, children and the disabled.

As CSOs, we strongly believe that gender could be integrated more strategically in the budget rather than simply relying on special budget lines to cater for special groups in society. For this to be addressed and sustained, the Plan and Budget Guidelines need to state this clearly and be consistent throughout which is not always the case. For example, while the guidelines clearly state *'...all MDAs, RSs, LGAs and Public Entities are urged to make budgetary allocations for implementation of cross cutting interventions. These include gender issues, physically challenged people, nutrition, environment and climate change as well as combating new HIV infections. In addition, Accounting Officers should give priority on the issues pertaining to people with special needs particularly employment, health, education and construction of user friendly infrastructure for physically challenged people.'* The same guidelines, however, carry statements that are not in line with this. In the guideline capitation grant for primary schools will continue to be TZS 10,000 per enrolled pupil per annum, including pre-primary pupils and those in special schools. In this case therefore, capitation grant does not take into consideration of pupils with special needs although it seems to be aware of their existence.

It is in our belief that given the government's indicated readiness to address the concerns of special needs groups and the marginalized in society, future plans and budgets can be more explicit in this regard.

Conclusion
It has been noted that the Government has substantially prioritized collecting more taxes though there is still room to improve and perk up domestic revenue in the country, reduce donor dependency and external financial support as per Tanzania's Development Vision 2025.
We therefore urge:

i. The government should enhance its external revenue collection strategy by seeking greater clarity on donor commitments which will help set realistic capital spending commitments to enable smooth implementation of the development budget and protecting the integrity of the budget process despite the FYDP II infrastructure targets.
ii. On pending infrastructure projects (roads, railways, port, energy) and agriculture sector (irrigation infrastructure and agro-industries), government should consider using the Public-Private Partnership (PPP) framework as an innovative option to financing stalled projects and reduce harmful borrowing. Opening dialogues with international financial institutions can also be considered as a means of helping forge links with the private sector in this regard.
iii. Modernize the productive sectors such as agriculture so that they can generate more revenue while creating employment.
iv. The government should not confine itself to addressing tax leakages through dealing with tax exemptions but also strengthen its strategies to counter transfer mispricing and harmful Double Taxation Agreements (DTAs).
v. It is imperative that the government reviews its policies governing tax relief and to seal all tax loopholes. In critical areas such as investment, granting of incentives is subject to abuse and may lead to increased loss of revenue. Instead, more focus should go towards strategies that improve the investment environment through enhanced infrastructure, provision of guaranteed energy (power) and a skilled labor force and prompt legal processes in resolving commercial disputes as a long-term approach to attracting investors.
vi. The government should consider widening the tax base in the following ways:
   a. Harvesting the potential of property tax instead of raising more taxes from simple-to-catch sources such as Pay-as-you-earn (PAYE). This has to be done strategically so as decrease the burden on citizens.
   b. Strengthening of the compliance enforcement: It is important to ensure maximum enforcement of tax payment in accordance with the law. Closing revenue leakages (i.e. controlling corruption at all levels) and setting reasonably affordable tax rates, can be a good incentive to the tax payers to remit their due amounts to the government.
   c. The government should continue with its strategy to formalize to formalize and tax the informal sector. Additionally, it is the role of all stakeholders with the support of the government to promote perceived fairness which is important in inducing formalization and inducing informal operators to see taxation as state-building. Moreover, enhancing the taxability of the informal sector reduces the burden on Micro Small and Medium Enterprise (MSMEs) taxpayers within the informal sectors to make formalizing attractive could be a more promising strategy.
   d. Strengthen the institutional capacity of Tanzania Revenue Authority in collecting taxes through providing financial resource and technical support including the introduction and operationalisation of a new Tax Administration System (IDRAS). Further, TRA together with Government and other stakeholders should work together in establishing and supporting taxpayer assistance and educational programmes (with advanced users electronic filing and the use of Electronic Fiscal Device (EFD) for the SMEs).
vii. The government should explore the potential in mobilizing resources from non-traditional financing options, especially Initial Public Offerings (IPOs), Public Partnership Programs and Build Operate Transfer Rights which are not yet widely used in Tanzania and Local loans syndications for development projects.