TANZANIA TAX JUSTICE COALITION POSITION STATEMENT ON THE 2020/2021 NATIONAL BUDGET

'Stability in Revenue Collection During the COVID-19 Pandemic'

1. Preamble:

We, the members of the Tanzania Tax Justice Coalition (TTJC), a Civil Society Coalition advocating for fairness in taxation, having done a series of review sessions and consultations on Domestic Resource Mobilization (DRM) in relation to the National budget during the COVID-19 pandemic, have considered the proposals presented in March 2020 by the Minister of Finance and Planning for 2020/21 which emphasized raising domestic revenue collection from TZS 23.05 trillion in 2019/20 to TZS 24.07 trillion in 2020/21. We:

a) *appreciate* the call and constant emphasis by Dr. John Pombe Magufuli, the President of URT on the importance of strengthening efforts in Domestic Resource Mobilisation (DRM) as well as reducing reliance on foreign aid,
b) *are cognizant* of the obvious fact that public revenues are essential for funding basic public services and national development goals which is the heart of the social contract,
c) *acknowledge* the effort by the Tanzania Government in clamping down all forms of actions and behaviours that cause revenue leakages, widening the tax base, tackling corruption, modernising revenue collection methods to enhance timely revenue collection and management,
d) *are solemnly aware* of many countries around the world including Tanzania have been hit by COVID-19 which is likely to have a substantial impact on the fiscal accounts of African economies,
e) *are mindful* of 254 COVID-19 cases with 8 fatalities by 20th April 2020, and the potential negative effects it will have on our economy,
f) *are aware* that the economy will not perform as normal and therefore urge the Tanzania policy makers to think ahead about coping mechanisms amidst COVID-19 and prepare economic policies geared towards building a resilient national economy for achieving sustainable growth, economic diversification, social security and inclusion.

Together as a community of civil society and practitioners engaging in Tax policy matters, we would like to share our views on the current and potential future economic trend and domestic revenue mobilization in light of the COVID-19 pandemic.

We suggest a few policy and programmatic recommendations which could be taken by the government to sustain a realistic pace of economic growth and pace of domestic resource mobilisation, retaining investments amid COVID-19 and maximizing efforts to curb revenue leakage and misuse of public resources.

2. Current Situation:

The Government of Tanzania through the Minister of Finance and Planning has presented to the National Assembly its 2020/21 budget proposal for implementation of the final year of the Five-Years National Development Plan (FYDP II) 2016/17-2020/21.

Budget is both an economic and a social policy tool for addressing inequality, marginalization and vulnerability of specific groups of people with the understanding that it is supposed to demonstrate the Government's commitment to addressing citizens' rights including the right to education, health, security, clean water, etc.

The International Covenant on Economic, Social and Cultural Rights to which Tanzania is a signatory, in its article 2(1) requires each member state to take steps individually and through international assistance and co-operation to the maximum of its available resources, with a view to achieving progressively the full realization of the rights recognized in the covenant.

It is appreciated that the country has a legal framework to implement the said obligation through Article 9 (1) (c) of the Constitution of the United Republic of Tanzania of 1977 which places an obligation on the part of the state and its agencies to ensure that the national resources and heritage are harnessed, preserved and applied toward the common good.

Amid the ongoing session of the 2020/21 budget debating and approval in the National Assembly in Tanzania, the country has been hit by the outbreak of COVID-19 pandemic. The outbreak of COVID-19 has negatively impacted both businesses and livelihoods through halt of gatherings causing close of businesses and uncertainty of whether they are to return in the near future which in turn, creates insecurities for employees.

This has effects on the economy. The cancellation of international flights automatically affects the transport and tourism sectors, which the minister of Finance and Planning has commended for being among the contributing growth factors of the GDP.

In the 2020/21 budget speech, the Minister of Finance and Planning has also highlighted that Growth Domestic Product (GDP) has shown the trend of increase of 6.9% per annum for the period between 2016-2019, however the Tax to GDP ratio is still low which is 11.5% below the recommended 20% international benchmark needed to meet the SDGs. With a less than 20% Tax to GDP ratio, the government falls short of the amounts of revenue generation needed to fund basic social services. This tells that a lot needs to be done to enable the government to have enough funds for delivering societal and developmental commitments.

In the aforesaid economic and social effects of the COVID-19 pandemic, the likelihood of mobilizing enough resources (the TZS 34 trillion budget estimates) to meet the implementation of matters laid down in the FYDP II on one hand and curbing the spread of COVID-19 pandemic on the other is challenging. Less is stated in the budget on how the government plans to deal with the pandemic - meaning that fewer resources will be devoted to this while the problem is escalating and claiming people's lives and economic wellbeing.

The pandemic affects both the producers/investors and collectors of revenue which is a big challenge to the realization of the set budget collection objectives.

A study by ActionAid International *'Who cares for the future?: Transform the Financing of Gender Responsive Public Services'* shows that Tanzania is spending 19.54% of its revenue in debt servicing, which is beyond the IMF recommended debt servicing standard which ranges between 9% to 15%. This compromises the government's capacity to deliver its obligations.

Under the context of less revenue collection and the outbreak of COVID-19; expenditures on salaries and essentials for government functioning are likely to be prioritized at the expense of the most essential public services like health, education, water and infrastructure.

ActionAid International report further notes that effects of poor service delivery have varied effects gender wise where women, children and girls are highly affected. The effects may be exacerbated by COVID-19 pandemic as a result of global recession foreseen by the World Bank's Report- *Africa's Pulse (2020).*

3. Current Government Efforts and Plans on Revenue Collection Amid COVID-19.

In recent years, there have been plausible efforts in enhancing the mobilisation of domestic resources. This has largely been a result of improved infrastructures including the use of electronic fiscal devices that facilitate friendly payment of taxes.

The first half of the 2019/20 budget performed quite well in terms of revenue collection. According to the Minister of Finance and Planning budget speech of 2020/21, the government planned to collect 23.05 trillion in 2019/20 from DRM and the performance was 96.9 percent as of January 2020 which is good progress.

The FYDP II indicates the government commitment to raise annual tax revenue collection from TZS 15,105,100 million during the FY 2016/17 to TZS 25,592,631 million during FY 2020/21, which translates into an increase in tax revenue to GDP ratio of 15.9 percent by 2020.

At the national level, the government of Tanzania has established a national taskforce on covid-19 response for ensuring coordination for the war against the pandemic. The government has ensured participation of CSO's, Private companies and Individuals in support of the Taskforce and resource mobilization.

To finance the COVID-19 response, the government has committed own resources and is working with development partners to finance a plan amounting to US$77 million.

According to the PMO budget speech (2020/21) by Hon. Majaliwa Kassim Majaliwa the Prime Minister of Tanzania, the government has also increased testing facilities across the country, new laboratories set up in several regions and allocated free dormitories for quarantine.

Despite all the efforts by the government on the fight against COVID-19, maximization of revenue collection and sealing of revenue leakage yet more needs to be done.

4. Gap Analysis

Despite the notable efforts that have been put in place by the government, it is imperative to highlight some of the areas which need strategic interventions amid COVID-19.

i) Domestic Resource Mobilisation

With the COVID-19 pandemic, it is obvious that revenue collection during the second half of the year will be highly affected.

Although the period between July 2019 and January 2020 witnessed revenue collection targets hitting high levels with TZS 10.62 trillion, which is about 97% of the target for that period which was TZS 10.96 trillion, It is anticipated that revenue collection starting the fourth quarter of 2019/20 will experience significant decrease as a result of COVID-19 impact in the economy.

The budget ceilings for the financial year 2020/21 indicate a 5% increase of the national budget from TZS 33,105.4 billion in 2019/20 to TZS 34,879.8 billion in 2020/21. This is despite the clear indications that the 2020/21 budget will experience serious shortfalls never experienced before.

Both the formal and the informal sector have been massively hit by this global pandemic. The economy will undoubtedly shrink Substantially and therefore this should be reflected in the 2020/21 national budget.

ii) Retaining Investments amid COVID-19

While the first case of COVID-19 was reported just last month, the effects of the pandemic have spread so quickly and virulently such that a number of businesses especially in the tourism sector have been compelled to shut down. Several hotels have suspended business, and most likely this will be adopted by other businesses as well. The level of purchasing power is also quickly going down as a result of increasing cases of unemployment in the country.

iii) Inadequate Effort to Collect Revenue from the Extractive Industry

According to the United Nations Economic Commission for Africa (UNECA), between 2000 and 2010, 56.2% of the funds flowing illicitly from Africa came from the extractive sector, which also includes the mining sector. And for the most mineral-rich continent, the situation is at the core for the need to mobilize resources domestically to fund the Sustainable Development Goals (SDGs) and provide quality public services to its citizens. This is coupled with the fact that the mining sector has failed to drive economic development and wealth creation in many countries in Africa, and Tanzania is no exception.

As stated above that chances for the economy to shrink and domestic revenue mobilisation will adversely be impacted. Investment and revenues from the extractive sector will likely be affected. It is therefore important that measures are put in place to ensure sustained pace in domestic resource mobilisation from the extractive sector, financial discipline in the use of extractive public resources, retaining investments and maximizing efforts to curb extractive revenue leakage. TTJC therefore recommends the following:

5. Key Recommendations

Immediate/Short term recommendations

I. Revise the previous and current budget projections to take care of the negative effects that COVID 19 will have on the economy and revenue mobilisation. (The World Bank and IMF both project that the African economy will shrink between 1.9% -3%). The new budget projections should factor this into their models to avoid a serious shortfall.

II. Reduce VAT from the current 18% to 16% for the year 2020/21 to encourage production, tax rebates for manufacturers producing products for fighting Covid19, such as sanitisers, soap, masks and a well reduced price for products hence increasing the purchasing power by consumers.

III. The government should suspend all debt payments and re-negotiate future debt servicing in the context of COVID-19.

IV. Businesses and self-employed individuals in sectors hard-hit by the crisis or with serious repayment difficulties related to it should be allowed to reschedule their loan repayments or defer payments for a limited period (2 months). This will enable businesses and self-employed individuals in sectors hard-hit by the COVID-19 crisis or with serious repayment difficulties to remain in control.

V. Halt or pause or stagger large expenditure on some large ongoing and proposed strategic projects such as infrastructure projects this year and reschedule the respective fund to short-term productive sectors for the economy and saving people's lives.

VI. Set up an emergency fund or reserve fund at the Central bank capable of shielding the economy from the longer effects of COVID-19 and the CB increase more liquidity into the banks to facilitate cheap lending.

VII. Businesses adversely affected by the COVID-19 should be given temporary tax payment relief in this regard.

VIII. The governments need to earmark existing or additional funds to reinforce all mechanisms to fight COVID-19.

IX. Protect the public and consumers from hoarding, price hikes and disruptions in the supply chain of vital goods and services.

X. Consider pay cuts for highly paid public servants and transfer some of these savings towards the national fund to finance COVID 19 response mechanisms.

XI. Take measures that shield the private sector from collapse, protect jobs and hence protect the government's vital tax base.

Long term recommendations

XII. Government to continuously set up an emergence fund to take care of vagaries such as these in the future.

XIII. Each year, the Government should publish a list of tax agreements in force including an estimation of the benefits to the companies (revenue lost to the State) and the benefits to the country (actions the companies promised in return for the tax break).

XIV. The Parliament should review all existing and future statutory tax incentives through a cost-benefit analysis and remove those that are not beneficial to the country. This review should cover future proposals or contracts. The government should strive to raise the Tax to GDP ratio of 20% or above through fair and progressive domestic resource mobilisation measure that do not disproportionally affect the poor/small-medium enterprise.