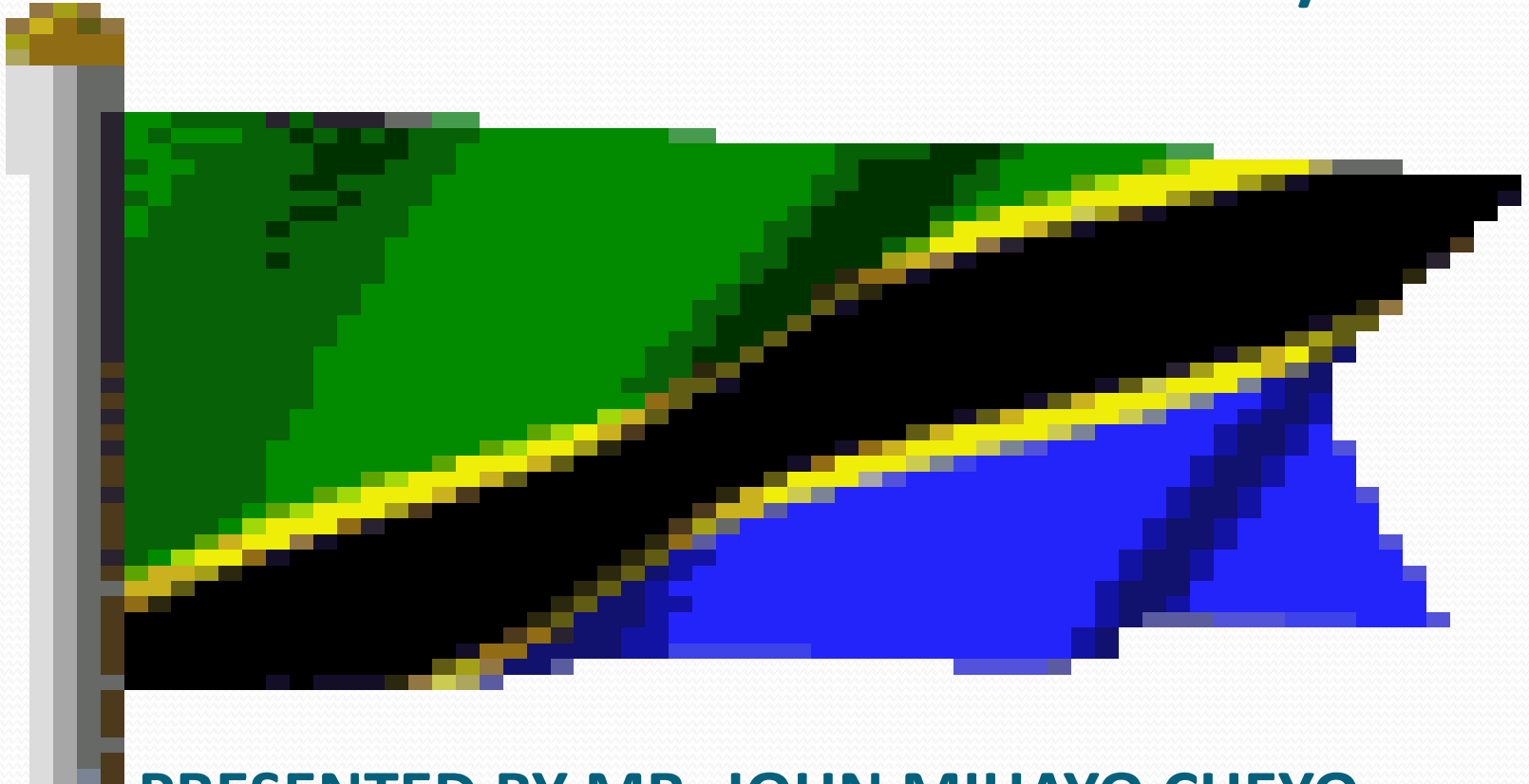


COMMENT ON THE SYNOPTIC NOTE ON RAPID BUDGET ANALYSIS FOR THE FY 2010/11



**PRESENTED BY MR. JOHN MIHAYO CHEYO
AG. COMMISSIONER FOR BUDGET – 03RD DEC. 2010**

GENERAL COMMENT ON THE NOTE

- *We appreciate the fact that the synoptic note contains key observations which are indeed challenges to the Government in improving preparation and execution of the budget cycle.*
- *We have noted the positive acknowledgement on areas where the Government has performed well or better.*

1 The increase of resources envelope for 2010/11 and non-concessional borrowing might be hard to mobilize.

	TShs. Million	
	2009/10	2010/11
	Actual	Budget
I. TOTAL RESOURCES	8,965,856	11,609,557
Domestic revenue	4,661,540	6,003,590
LGAs Own Sources		172,582
Programme loans and grants	1,224,096	821,645
Project loans and grants	1,134,708	1,706,370
Basket support Loans	194,071	256,219
Basket support Grants	258,067	221,569
MDRI (IMF)	22,403	0
MCA (T) USA	19,930	268,750
Non-Bank Borrowing/ Roll-over	714,315	797,620
Bank Borrowing	568,269	600,000
Adjustment to Cash	158,798	0
Privatisation Funds	9,659	30,000
Non-Concessional borrowing	0	731,212

Resources Projection

Overall budget preparation is consistent with the following assumptions

- sustaining macroeconomic stability (GDP growth, inflation, exports, imports, exchange rate)
- continued recovery in economic activities
- continue benefitting from foreign aids – based on Pledges
- Concessional and non-concessional borrowing in line with debt sustainability framework, without crowding out private sector credit and pushing interest rates.

1 The increase of resources envelope for 2010/11 and non-concessional borrowing might be hard to mobilize.

- Domestic revenue collections for 2008/09 and 2009/10 suffered significantly from the slowdown in economic activities due to the impact of the global financial crisis.
- The postponement of implementation of some revenue measures in fiscal year 2009/10 also contributed to the shortfall.
- Such measures were postponed to avoid adversely affecting some economic activities that were hit by global financial crisis such as tourism.

1 .The increase of resources envelope for 2010/11

- based on the performance of revenue collections during the first quarter of 2010/11 there are signs of underperformance.
- However, the Govt is implementing the following measures that will reduce the likely shortfalls:
 - strengthening block management;
 - implementation of electronic fiscal devices for VAT registered taxpayer;
 - strengthening and intensifying audit; strengthen large taxpayers' units in the Domestic Revenue Department;
 - managing performance in order to improve operational efficiency.

1 .The increase of resources envelope for 2010/11

- Over the medium term, measures will be taken with the objective of broadening tax base, controlling exemptions and limiting revenue leakages.

Other measures will include:

- harmonization of taxpayers' registration database;
- implementation of the properties and businesses formalization programme (MKURABITA);
- implementation of the national identity cards project;
- implementation of the physical postal codes in the block management system (BMS); and
- strengthening non-tax measures to increase collections.

1 .The increase of resources envelope for 2010/11

Non-concessional borrowing

- The budget for 2010/11 includes estimates for non-concessional borrowing whose processes are at advanced stages to raise the budgeted amount on reasonable terms.
- Such funds from borrowing will be used to finance infrastructure projects which were approved in the development budget by the Parliament.

2. Delays in release of budgeted development funds remained a major problem in 2009/2010.

- Experience has shown that about half of the budgeted funds are released in the second quarter depending on the pace of project implementation at MDAs level;
- There were delays in the release of both local and foreign funds due to non-availability of fund consistent with cash budget system, slow implementation of projects and programs, and delays in procurement processes;
- The release of local dev. funds is based on monthly revenue collections, submission of progress reports and receipt and verification of certificates for contractual projects; and
- The release of Foreign Dev. Fund is based on the availability of fund and approval by the steering committee eg. Agriculture, Water and Health Basket Steering Committees.

3. Sectors with higher share of capital investment continued to experience low execution rates

- The Government continues to strengthen the capacity of MDAs, Regions and LGAs in planning and execution of budgets.
- The Government is calling upon all stakeholders to assist in developing strategies for improving budget execution.

4. AGRICULTURE: The expenditure is biased towards agricultural inputs and recently rural finance.

- According to MKUKUTA II objectives, Kilimo Kwanza is mainstreamed at all levels with the ultimate goal of *ensuring food security*.
- Implementation of Kilimo Kwanza is phased in line with resource availability.
- With the objective of raising production and productivity in food crop production, the Govt is implementing the Agricultural Inputs Support Programme through the National Agricultural Inputs Voucher Scheme (NAIVS).

4. AGRICULTURE: The expenditure is biased towards agricultural inputs and recently rural finance.....

- Rural finance is an important aspect of agriculture in Tanzania because many *farmers cannot afford to acquire improved farming techniques* due to lack of finance.
- There are a lot of improved agricultural technologies apart from the use of improved seeds and fertilizers e.g. the use of planters, combine harvesters, grain and oil milling machines.
- Despite their importance in enhancing production, productivity and value addition, most farmers cannot afford to acquire them for lack of requisite financing.
- The Govt. has decided to establish an Agricultural window at the *TIB* as an interim measure before the establishment of a *National Agricultural Development Bank*.

5. More agricultural sector expenditure goes into current spending, not into capital expenditure to create a precondition for long-term growth.

- It should be noted that the classification of current expenditure versus capital expenditures is fairly subjective or depending on whether adopts economic accounting frameworks.
- Expenditure on training of extension workers could be considered current expenditure but in the long term the benefits that will accrue from these officers are a huge investment capital.
- Currently, the country is in short supply of extension workers and inadequate use of mechanization in agriculture, therefore the Government is spending on training and recruitment of extension staff, which in nature are current spending

5. More agricultural sector expenditure goes into current spending.....

- Procurement of tractors and power-tillers through the District Agricultural Development Plans (DADPs) is a necessary capital investment although it is accounted for current expenditure.
- Over 75 percent of funding in DADPs is for irrigation which is capital expenditure however it includes fuel and surveying costs which are also classified as current expenditure items.

6. EDUCATION: Decreasing spending on Primary Education as a percentage of Education Budget

- The actual amount spent in primary education has continued to increase, despite the decline in the percentage share of total primary education budget.
- Following the completion of heavy investments in primary education, which involved construction of educational infrastructures (i.e. classrooms, teachers' houses, desks, pit latrines, etc) to cope with the increased enrolment in PEDP I.
- In PEDP II, the Government is focusing on ensuring quality teaching and learning resources and the necessary support for maintaining educational standards.

6. Decreasing spending on Primary Education

- The increased enrolment resulted in to increased transition rate from primary to secondary education, hence increased enrolment in higher education.
- The need arose for construction of various infrastructure (new classrooms, schools, laboratories, libraries, teachers' houses, hostels, lecture rooms, provision of loans to higher education students etc.) at these levels to accommodate increased enrolment in secondary schools through SEDP and in higher education through HEDP, as the product from primary education is the input to secondary education and thereafter to higher education.

7. HEALTH: The 2010/11 budget is partially aligned with HSSP III including declining real resources for staffing and underserved districts.

- Budget of the Health Sector is aligned with the HSSP III as it is one of the key policy documents from which health priorities are identified from.
- Implementation of health priority areas is directly linked to the strategies under HSSP III which include:
 - Strengthening Regional and District Health and Social Welfare Services
 - Improving Human Resource capacity at all levels; and
 - Construction, rehabilitation and equipping health facilities with basic equipment and medicines.

7. The 2010/11 budget is partially aligned with HSSP III

- Through the D by D policy, more resources have continued to be shifted from the Centre to Regions and LGAs' level so as to improve service delivery.
- Recruitment and posting of the health personnel remains vital towards implementation of the Health Sector Dev. Programme (MMAM).
- For the past 5 years (2005-2010), a total of 14,892 health personnel were posted to work in RSs and LGAs, including the underserved areas.
- For FY 2010/11, the MoHSW expects to post 7,471 new employees to RSs and LGAs.
- The Government has continued to allocate funds for construction of health infrastructure, including staff quarters in underserved areas.

8. ROADS: Road maintenance needs more funding and better prioritization

- The Government has continued to strengthen and expand road networks to facilitate trade.
- Funds for maintaining roads are secured from the Road and Fuel Tolls Act which provide 70% to Ministry of Infrastructure and 30% to PMO-RALG and LGAs.
- Maintenance of infrastructure is not only for roads but also other socio-economic infrastructures, such as water infrastructures.
- The Government will continue to put emphasis on allocating adequate funds for maintenance of social economic infrastructure.

9. Slight decline in share of budget allocated to LGAs despite D by D policy implementation.

- The budget allocation for 2009/10 was slightly higher to LGAs because they had a one-time expenditure for financing Local Government Election.
- In general the budget allocated to LGAs has increased by 20.95 percent from Tsh. 2,025.84 billion in 2009/10 to Tsh. 2,450.21 billion in 2010/11.
- The Government has continued to allocate 25 percent of the total budget excluding CFS, to LGAs in order to implement the D by D policy effectively and efficiently.

10. There is inequality in budget allocation among LGAs.

- Budget allocation for LGAs is formula based which takes into account among other things, population, poverty level, length of road network, number of villages and approved establishment.
- Nonetheless, to improve equity in resource allocation to LGAs, the Government is reviewing the resource allocation formula.
- The Govt. is allocating resources to cover some requirements which cannot be accommodated by the existing formula in place (eg. purchase of boats and construction of council building in newly established LGAs) as well as creation of conducive working environment in underserved areas.

11. Decrease in execution of LGAs dev. budget

The execution of LGAs' budget in 2009/10 decreased due to the following reasons:

- Late and incomplete release of development funds,
- Lack of qualified procurement officers to comply with procurement regulations on time,
- Delayed community contributions in development projects,
- Inadequate staffing especially in underserved areas, and
- Lack of qualified contractors and suppliers in some LGAs.

11. Decrease in execution of LGAs dev. Budget

- The Government in collaboration with various stakeholders is committed to mobilize and transfer funds to LGAs timely in order to speed-up budget execution.
- The Government will continue to allocate qualified staff to underserved LGAs as well as building capacity on budget execution, including procurement management and community mobilization for early implementation of development projects.

END OF PRESENTATION

