Analysis of 2017/18 National Budget on Industry, Trade and Investment with a Responsive and Gender Lens

policy forum

According to the 2017/18 Budget Speech, the Government has managed to mobilize and spend Tshs 31,712.0 billion from June 2016 to June 2017. Domestic Revenues including Local Government Agencies' (LGAs) own sources is estimated to be Tshs 19,977.0 billion, which is 63% of the total resources envelope. Out of this amount, tax revenue is estimated to be Tshs 17,106.3 billion which is equivalent to 85.6% of the Domestic Revenue; Non-tax Revenue is Tshs 2,183.4 billion; and Revenue from LGAs own sources is Tshs 687.3 billion.

According to the 2017/18 Annual Development Plan, which is part of the implementation of the National Five Year Development Plan 2016/17 – 2020/21 and as spelt out in the Minister of Finance's speech on the State of the Economy for 2016, priority areas reflected in the Plan include:

1. Interventions for fostering economic growth and industrialization;
2. Interventions for fostering human development;
3. Interventions to create a conducive environment for enterprises and businesses to thrive; and
4. Interventions to strengthen implementation effectiveness.

Revenue Policies priorities to improve Domestic Resource Mobilization

Currently, the Government has placed a lot of resources and collective efforts to increase and strengthen domestic revenue collections through a number of priorities embedded with the strategic revenue policy. The revenue policy's priorities include the following;

- **Increasing domestic resource mobilization.**
  According to the National Budget 2017/18, the policy focus highlights the emphasis on effective use of electronic devices and systems in revenue collection to contain revenue leakages; widening the tax base including formalization of the informal sector to capture it into the tax net; Improve collection and strengthen management of non-tax revenue; Continue with mass valuation of properties to increase property tax revenue; Formalizing land ownership with a view of increasing revenue; and Continue with control measures to minimize abuse of tax exemptions.

  However, the policy hasn't progressively dealt with most pressing issues, formalization could not necessarily widen tax base, and it could not however bring more people into the tax net. Additionally, the budget has limited itself within the box of tax exemption only as a means of addressing revenue leakage. Other harmful tax incentives should also be considered such as import duty exemption.

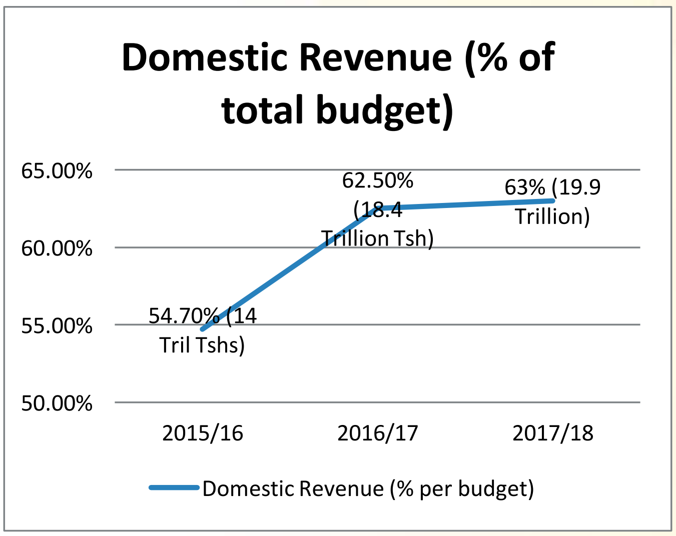
Trends

- According to the approved budget 2017/18, the Ministry of Industry, Trade and Investment has budgeted an estimate of Tshs 73.8 Billion for development expenditure. However, Only Tshs.50 Million was budgeted for support of Gender Mainstreaming which an estimate of 0.07% of the whole budget, which clearly demonstrates the level of priority given to issues related to gender.

- The 2017/18 budget estimates as presented have shown a percentage change of 7.4% from Tshs 29.5 Trillion in fiscal year 2016/17 to approved budget of Tshs 31.7 Trillion in financial year 2017/18.
- This is a substantial percentage increase, however if compared to 23% of the National Budget estimates between preceding financial years 2015/16 and 2016/17, it appears to have decreased from 23% to 7.4%.
- This means that the Government has mobilized fewer resources in the fiscal year 2017/2018 compared to the preceding financial 2016/17. It is partly due to the inefficiency in revenue collection systems and low property tax collection compared to available potentials, especially before the last quarter.

- During the fiscal Year 2017/18, the Government intended to collect Tshs 19.9 Trillion from Domestic Revenue sources, equivalent to 63% of the total revenue estimates which is Tshs 31.7 Trillion for financial year 2017/2018.
- Tax revenues are expected to be Tshs 17.1 Trillion while the Non Tax revenues estimates are at 2 Trillion. The Local Government Authority intends to contribute Tshs 0.8 Trillion only from its own sources. The remaining 39% is to be collected from other sources such Domestic Borrowing, MCC Basket Support Loans and Grants as well as non-concessional borrowing.

- According to the preceding fiscal years, the percentage change of the domestic revenue collected between fiscal year 2015/16 (Tshs 14,048,034 Billion) and 2016/17 (Tshs 18,463,533 Billion) was 23.9%. Likewise, domestic revenue collected in financial year 2017/18 is Tshs 19.9 Trillion. This gives a percentage change of 11.5% between the preceding financial year (2016/17) and the financial year (2017/2018). Reading between the lines, the percentage change of Domestic Revenues collected has actually decreased if we study the trend of the percentage change of Domestic Revenue versus the fiscal year. The percentage change of 11.5% between financial year 2016/17 and 2017/18 is quite lower compared to the percentage change of 23.9% between financial year 2015/16 and 2016/17, which means that the aggregate increase in Domestic Revenue is not sustainable and the Government has to move with caution in order to improve Domestic Resource Mobilization.



As illustrated in figure 1 and Figure 2

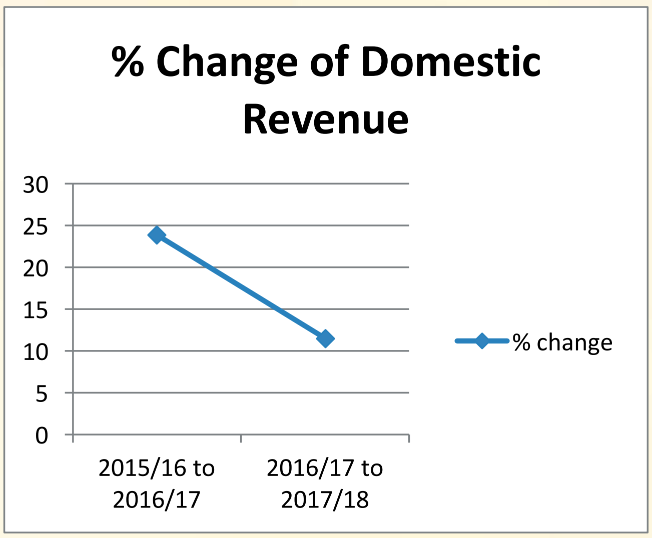


Figure 2: Showing percentage change of Domestic Revenue Vs the fiscal year.

We applaud the Government's adoption, commitment and motivation towards the full implementation of the Agenda 2030 of the United Nations themed "Transforming our World: Agenda 2030 for Sustainable Development" and the efforts that have already been done to integrate them in prevailing National Medium Term Development Plan, the second Five Year Development Plan (FYDP II) 2016/17-2020/21.

It has been noted that the Government has substantially prioritized on collecting more taxes and harvesting the potential areas which were not yet covered, however there are still ways to improve and perk up Domestic Revenue in the country and reduce donor dependency and external financial support as per Tanzania's Development Vision 2025 and these are as follows;

i. It is imperative that the Government reviews its policies governing tax relief and tax relief schemes in order to seal all tax loop holes. In critical areas such as Investment, more incentives is subject to discussion and could lead to the abuse of these incentives and more loss of revenue, however strategies such as improvement in the aspects of investment climate like the time one takes to open or close the business, the extent of license bureaucracy, promptness of legal processes in resolving commercial disputes, and so forth could later improve revenue collection.

ii. The Government ought to widen the tax base the following ways:
   a. Taxing the informal sector through sustainable and efficient formalization strategy of the informal sector. It is evident that expanding non-tax paying informal economy undermines Domestic Revenue collection. 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 reduce the burden on SME Taxpayers to make formalizing attractive could be a more promising strategy.
   b. The Government has the role to capacitate the Local Government Authority (LGA) in order to increase efficiency, transparency and accountability in collecting taxes which would help in counteracting unfairness and seal loopholes for corruption.

iii. The Government prioritizing in research and study so as to explore the potential of mobilizing resources from non-traditional financing options (approaches), 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.

Financing of the National Budget: Industry, Trade and Investment

- Generally, the sources of finance for National Budget are retrieved from domestically mobilized resources. The current approved figure is 63% from domestic resources (Tax and Non-tax Revenue with the inclusion of the Revenue from Local Government Authorities (LGAs)).

- According to the approved budgets of preceding 3 years, development partners have been financing development projects in the Ministry of Industry, Trade and Investment. For example, World Bank, Poland and financial resources from Basket Fund for previous fiscal year 2016/17. Additionally, more development partners have been pulling out from the basket fund and the general budget support. Alternatively, they finance the National Budget "on project by project" basis and providing more concessional project loans.

- Moreover, the Government has been progressively borrowing from external sources such as Financial Institutions like IMF and World Bank. In this current fiscal year 2017/18, the Government is looking forward to an estimate of Tshs 3.9 Billion as external loans and grants of which Tshs 2.5 Billion has been set for project financing through concessional loan and grant to finance development projects. Only 26.4% is the grant and the rest (73.6%) is the concessional loan.

- Furthermore, other sources of funding Industry, Trade and Investment are derived from economic service provided by the Ministry which comprises of fines, fees, penalties and forfeitures. For instance, in the fiscal year 2016/17, the Ministry of Industry, Trade and Investment collected an estimate of Tshs 20 Billion.

Allocation/spending of resources

- According to the National Budget 2017/18, the increment in percentage change between the two fiscal years (2016/17 and 2017/18) is quite small compared to other preceding fiscal years. The amount of revenue accumulated determines the amount to be allocated to different sectors.

- The estimate of the amount required in the year ending 30th June, 2018, for the development projects in the Ministry of Industry, Trade and Investment amounts to Tshs 74 Billion.

- According to the FYDP II, the key interventions include among other things promoting value addition through processing and manufacturing, Utilizing abundant and diverse resources including agricultural and mineral resources, Increasing volume and value of exportable items, Fostering effective trade-induced industrialization and Increasing exports of services and Reducing both volume and value of imports.

- The Government plans to spend Tshs 11.5 Billion in the implementation of the Tanzania Mini Tiger Plan 2020, Tshs 1.2 Billion which focuses on employment creation by attracting Foreign Direct Investment (FDI) and promoting exports by developing Special Economic Zone (SEZ).

- Furthermore, the National Budget has allocated finances to support Gender Mainstreaming in Trade and Institutional capacity which is a prerequisite for better implementation of key intervention of the FYDP II.

- The Government plans to spend an estimate of Tshs 2.4 Billion to finance development projects under the Ministry of Industry, Trade and Investments.

- This however focuses on a few development projects which includes KAIZEN, Lake Natron, Revival of General Tyre & Rubber plant, Integrated Industrial development, Mchuchuma Coal to electricity project and Liganga Vanadium Titanium solely from the FYDP II.

- Other development projects Such as Kurasini Trade and Logistics Centers, other trade facilitation projects and industrial development projects are to be financed by development partners or are currently in the pipeline.

Gender Issues

- **Access to credit and loans.**
  The budget has put emphasis on commercial banks so that they allow private sector and general public to lend at low interest rates, the Bank of Tanzania (BOT) reduced the discount rate from 16.0% as applied since November 2013 to 12.0% from March 2017. However, most of the marginalized have been pushed out of the scope due to the fact that they do not meet the requirements.

  According to the 2017/18 Budget of Speech of the Ministry of Industry, Trade and Investment, out of the 2,593 loan recipients, only 48% of loan recipients were women and 51% were men. Total value of the loan was Tshs 3.92 Billion, which shows that less priority was given to women.

  In theory, more people are expected to have access to soft loans, but it has not been the case. Accessing the loans has been a major challenge for most women entrepreneurs, and other marginalized group, this is partly because of the "criterion" for provision of the loans such as submission of collaterals such as title deeds or any other property with an equivalent value to the loan.

- **Access to employment and economic opportunities**
  According to the FYDP II 2015 -2020, one of the national priority areas is Interventions for fostering human development; additionally, the National Budget has made a number of adjustments in order to promote economic growth, industrial development and employment opportunities. However, in practice, the ratio between men and women accessing these economic opportunities in different areas such as investment in industries is quite disproportional, accelerating the Gender gap.

  According to the 2017/18 Budget of Speech of the Ministry of Industries, Trade and Investment, research conducted by the Ministry together with UN Women in the area of special investment in industries such as the Export Processing Zones or Special Economic Zones in Dar es Salaam, Morogoro, Tanga and Shinyanga have demonstrated that there is an increasing Gender gap together with the challenges that most women entrepreneurs face in this specific areas.

- **Access and availability of gender disaggregated economic/trade data.**
  According to the approved budget 2017/18, more emphasis of role of good data in implementation of development plans and budgeting has been clearly displayed, however the approved budget has not considered the importance of gender disaggregated economic/trade data such as measuring women's unpaid work. Moreover, disaggregated economic data in Trade is critical for instance in cross border trade, where more women and young girls are involved and encounter more challenges compared to men involved in the same economic activities.

- **Access to factors of production**

  According to the Five Years Development Plan II (FYDP II), achieving the twin goals of Tanzania's FYDP – economic transformation and inclusive growth – requires a focus on women's economic empowerment as part of the plan; increasing labour productivity and earning is in the epicenter of it.

  This is only possible when access to factors of production is provided with the support and prioritization it deserves. This includes issues such as access and ownership of land as resources and factor of production. The Government as stated in the 2017/18 budget speech clearly emphasizes on collecting more Domestic Resource through improving formalization of land ownership. It should factor in the Gender aspect of it and assess the opportunities therein in terms of ownership of land between men and women in the country.

Key messages and conclusion

General:
The Government should improve Domestic Resource Mobilization by focusing on fixing the Revenue leakage to secure financing/revenue for development plans within Trade and Industrial sector and ultimately improve public service delivery for marginalized community.

Specific:
The Government should improve financing for participation, involvement and realizing the contribution of women and marginalized communities in the National Budget and the implementation of development plans and programmes.

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