



## policy forum

### Budget Working Group

## 2019/20 Pre-Budget Position Statement

### Preamble

The Policy Forum (PF), a network of 79 civil society organisations brought together in their interest in public money accountability, has prepared this position statement to stimulate and inform ongoing discussions on the 2019/20 budget. The submission, with inputs from member organisations coordinated by the network's Budget Working Group (BWG), focuses on the implementation of the Five-Year Development Plan (FYDP II 2016/17 to 2020/21) whose theme is 'Nurturing Industrialisation for Economic Transformation and Human Development' will culminate in the next financial year (2020/21). Soon thereafter, the longer-term National Development Vision 2025 whose aspiration was that of transforming the economy into middle income and semi-industrialised state, will also have concluded.

This brief analysis, therefore, takes stock of what has been accomplished since the inception of the FYDP II in 2016/17 and tries to capture information on priority areas addressed in the annual plans, allocations and disbursements based on both domestic revenue and external sources and implementation progress in some selected sectors. The submission puts forwards some key policy recommendations that warrant policy makers' attention if some desired objectives of the current plans are to be realised.

### An Overview of the Budget at the National Level

From 2016/17 to 2019/20, the national budget has been gradually increasing between the range of 2% to 7% with the highest increase of 6.8% observed in 2017/18 (TZS 31.7 trillion from TZS 29.5 trillion in 2016/17) and the lowest increase of 1.9% observed in the proposed 2019/20 budget (TZS 33.1 trillion from TZS 32.5 trillion in 2018/19). A similar gradual trend is observed when the budget is further broken down into development and recurrent expenditures. See figure 1 for these allocations.

Year	Tax Revenue (bil)	Non tax Revenue (bil)	Domestic & External Borrowing	Grants and Concessional loans (bil)	Total Budget (bil)
2016/17	15,105.1	3,358.4	5,374.3	5,701.8	29,539.6
2017/18	17,106.3	2,870.7	7,763.9	3,967.1	31,708.0
2018/19	18,737.0	2,158.8	8,904.7	2,676.6	32,477.1
2019/20	19,866.4	3,178.9	7,276.4	2,783.7	33,105.4

Table 1: Sources of Funding from 2016/17 to 2019/20

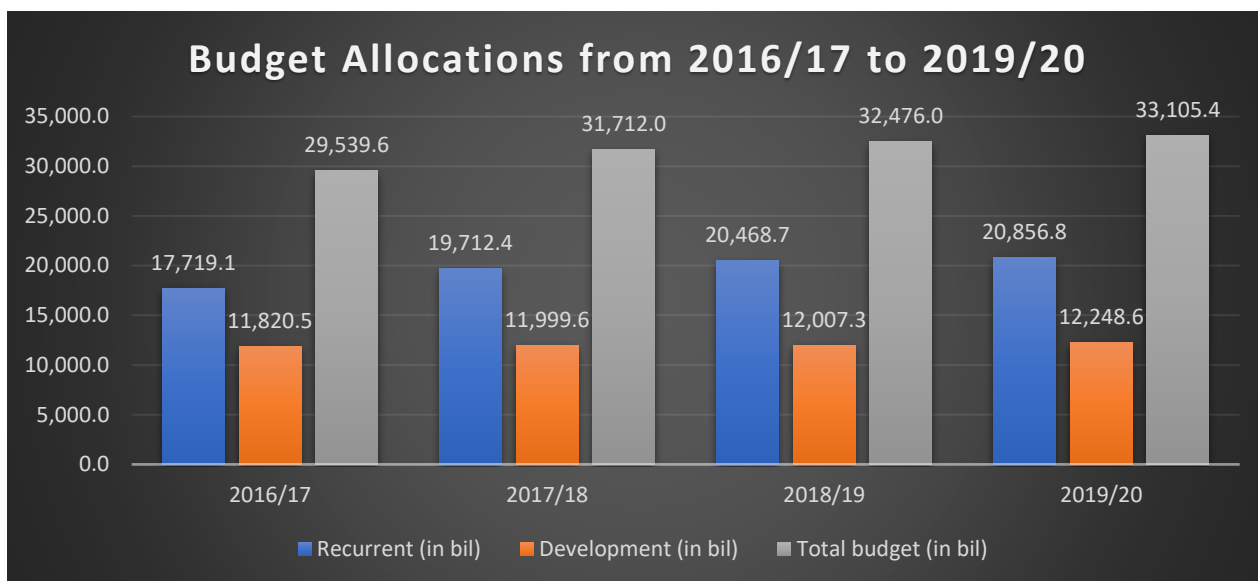


Figure 1: Budget Allocation trend from 2016/17 to 2019/20

### Revenue Collection and Disbursement Trend

During this period (2016/17 to 2018/19), tax revenue has remained the only source of funding that has been performing well compared to others. External borrowing, assistance and General Budget Support have, on the other hand been inadequate, calling for strategic measures of improving domestic resource mobilisation. In the 2016/17 budget of TZS 29.5 trillion, for instance, the government managed to collect TZS 25.3 trillion with tax revenue collecting over 90% of the target and external borrowing, assistance and General Budget Support contributing 53.5% of the target.

Tax revenue has over the years seen consistent growth both as share in the budget and in collection. Generally, tax revenue constitutes over 50% of the funding. Other sources of funding (non-tax revenue, domestic and foreign borrowing and grants and concessional loans) to the budget show an inconsistent pattern. Table 1 shows the contribution of different sources to the budget over the period under review.

Despite the continuous increase in the budget from 2016/17 to 2019/20, levels of disbursements have not been encouraging. This to a large extent is attributed to missing revenue collection targets from both domestic sources and foreign ones. The development side of the budget has been the mostly affected expenditure category in terms of disbursement.

While the 2016/17 budget for development expenditure almost doubled from TZS 5.9 trillion in 2015/16 to TZS 11.5 trillion, actual expenditure by the end of the year was only TZS 4.2 trillion representing 52% of the targeted expenditure<sup>1</sup>.

According to the report by the Controller and Auditor General for the year ending June 2018, the government managed to collect TZS 27,696 billion for its 2017/18 budget. This represents 87% revenue collection performance from both domestic and foreign sources. This revenue collection was realised from tax revenue, non-tax revenue, domestic borrowing, grants, external concessional loans and external non concessional loans at the rate of 89%, 55%, 92%, 88% 89% and 109%, respectively.

While the government had planned to collect TZS 20,894.6 billion as domestic revenue in its 2018/19 budget, until January 2019 it had collected over 50% of the target (TZS 11,005.6 billion). On the other hand, during the same period grants and concessional loans had been received to the tune of TZS 125.4 billion, which is only 5% of the target (TZS 2,676.6 billion).

<sup>1</sup> Report of the Controller and Auditor General for the year ending June 2017.

In terms of disbursement during the financial year 2018/19, until January 2019 the government had released TZS 1,034.8 billion. Out of this, TZS 10,962.1 billion was for recurrent expenses (which is 53.6% of the target) while development expenditure had received TZS 2,788.5 billion which is only 23% of the allocation (TZS 12,007.3 billion).

The recent report by the Controller and Auditor General for the financial year ending June 2018 continue to manifest serious problems in the use of public resources. It is also noted that in terms of working on the recommendations to improve financial discipline, there are inadequate improvements compared to last year owing to the inadequate management follow-up to address the outstanding audit recommendations.

Based on previous years budget allocations and disbursements, the estimates for 2019/20 seem to be a bit realistic. It is high time that our government plans based on resources it can potentially and realistically collect. An increase of a merely 2% of the budget can be realised if we keep enhancing mobilisation of domestic resources by closing all revenue leakage loopholes.

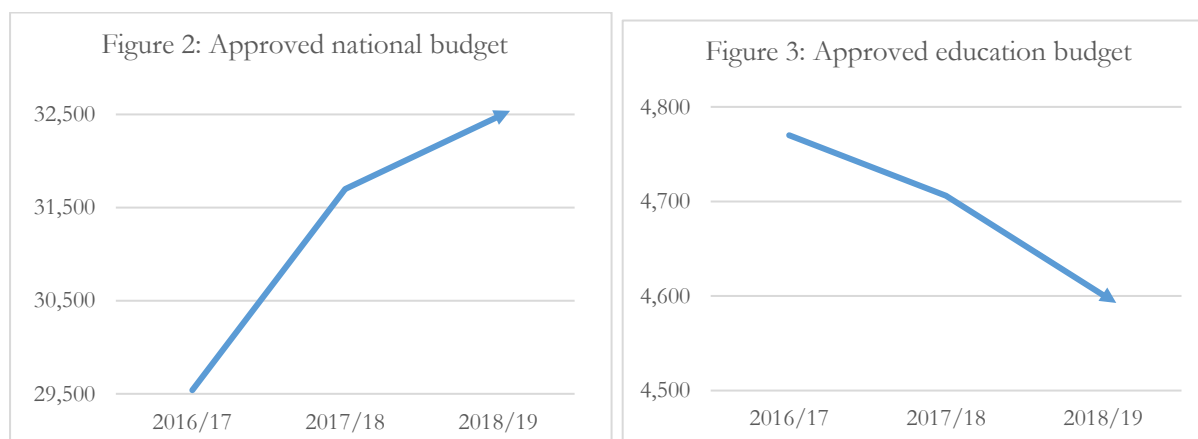
## Trend in some selected sectors

### 1. The Allocation Trend of Education Sector Budget

The government has for a while now taken the sole responsibility of financing basic education in the country through fee-free policy. By this decision, stakeholders and the general public would expect the budget for the sector to increase significantly. Surprisingly, for the past three financial years, the trend of allocation in the education sector has declined.

The education sector budget in the last three FYs has dropped from TZS 4,770 billion in 2016/17 to TZS 4,706 billion in 2017/18 and now to TZS 4,628 billion in this (2018/19) FY. This drop is equivalent to TZS 142 billion (equivalent to 3%) from TZS 4770 billion allocated in FY 2016/17 to TZS 4628 billion allocated and approved for FY 2018/19 expenditures.

Further, the proportion of education sector budget has declined from 17% in 2015/16 to 14% in 2018/19. This decline has not only lessened education sector's position in government's sectors priority lists but has also been short of regional and international commitments such as the Dakar commitment to allocate at least 20% (inclusive of the national debt) of the national budget to education sector.



(Source: Budget books & citizen budget for 2016/17 – 2018/19)

It is important to note that during the financial year 2016/17 and 2017/18 Science, Technology and Innovation (STI) was not amongst the government priorities in the education sector, and as such no specific allocations were made toward this area. In the 2018/19 budget however, there was 0.6% of the budget for the education sector set for STI. Although it is a small amount, but we commend the government for this step; hoping that it will attract more resources in the future.

### Budgeting for fee-free effect

Fee free policy has led to increased enrolment in both primary and secondary schools by 17% and 12.6% respectively. With an increasing enrolment and decreasing budget, the education sector is haunted by several challenges including but not limited to shortage of classrooms, latrines and teachers' houses.

According to the Controller and Auditor General (CAG)'s Audit Report for FY 2016/17, Primary schools have 85% classrooms shortages, 83% pit latrines shortage, 66% teachers' houses and 14% students' desks shortages. Further, secondary schools have 52% shortage of classrooms, 84% laboratories, 86% desks, 85% teachers' houses, 88% dormitories and 53% pit latrines shortage. Therefore, with these challenges, it is indeed imperative that the government consider proper and adequate financing for the sustainability of the sector.

**Key recommendations to the government:**

- 1) On the employment of Teachers: A teacher is a fundamental pre-requisite for students' learning. The government in FY 2018/19 employed 4,840 for primary and secondary schools and in February 2019 announced to employ around 4,549 at different levels. The government is reminded to implement a promise of employing 10,140 primary teachers as stated in 2018 in the upcoming FY.
- 2) While applauding the government's decision of removing Value Added Tax (VAT) for disposable female's sanitary pads made during the 2018/19 budget, we strongly recommend setting a mechanism of implementing such decision. We further suggest that the VAT deduction shouldn't not only be in disposable pads but to reusable pads that are widely used too.
- 3) There is a need to visibly stipulate innovation fund in the budget, instead of indirectly reflecting it in another ministries' budgets. Also, the fund should be used to accumulate internal sciences, technology and innovation (STI) capabilities through investing in human capital and institutions as well as strengthening innovation system.

**2. Water Sector**

Tanzania, being a member of the United Nations signed and thus has accountability to the **Sustainable Development Goals (SDGs)** which cover a wide range of drivers across the three pillars of sustainable development, and include a dedicated goal on water and sanitation (SDG 6) that sets out to ensure availability and sustainable management of water and sanitation for all. SDG 6 expands the MDG 7 focus on drinking water and basic sanitation to now cover the entire water cycle, including the management of water, wastewater and ecosystem resources, with water at the very core of sustainable development.

**Trend of Funding for the past three years (2016/17-2018/19)**

While the development budget for the water sector during the last three years has largely depended on internal sources, the development budget for the irrigation sector has on the other hand depended largely on external sources. See table 2 below.

**Table 2: Development Budget sources of funding:**

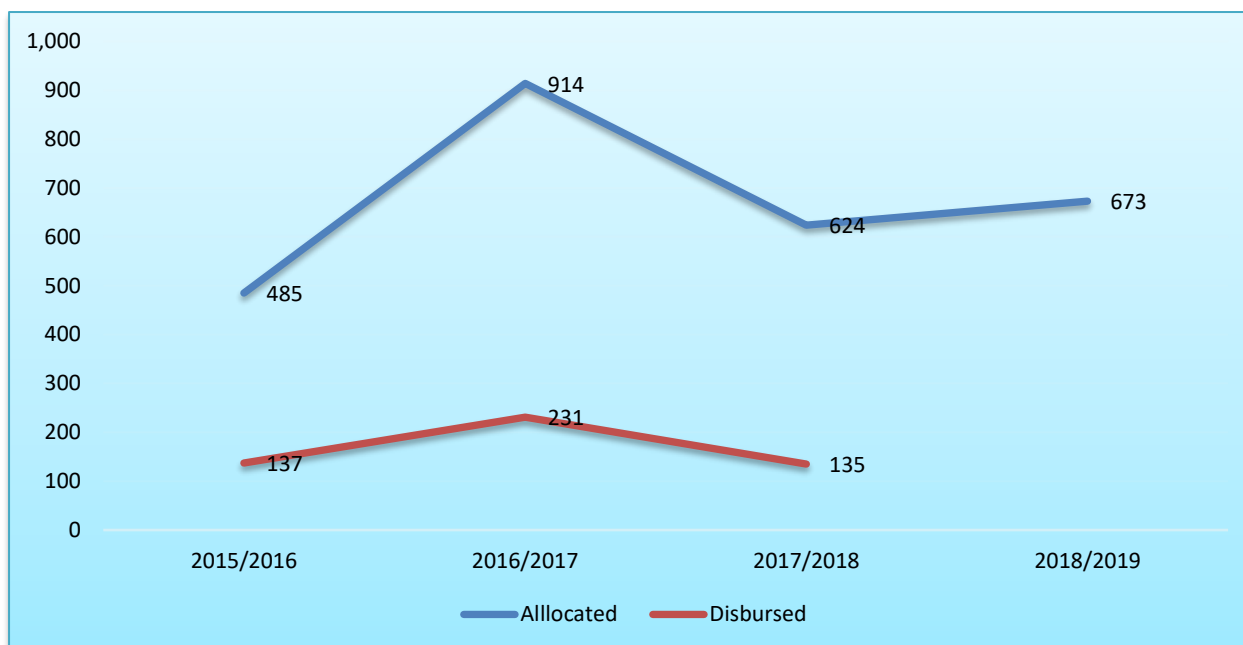
Year	Total Development Budget (Water sector exclusion of irrigation)	Internal sources	Percentage	External sources	Percentage
2016/17	915,193,937,771	690,155,000,000	75.41	255,038,937,000	24.59
2017/18	623,606,748,000	408,617,643,000	66	214,989,105,000	34
2018/19	673,214,033,677	443,214,034,677	66	229,999,999,000	34

**Source: 2016/17-2018/19 Water and Irrigation budget speech**

## Budget disbursement in the sector

Based on the implementation of the 2016/17, 2017/2018 and 2018/19 budgets, the gap between allocations and actual disbursement potentially affect aspirations of addressing key gender sensitive challenges in the sector. For instance, only 56% of the total development budget for the 2017/18 fiscal year had been released by March 2018.

**Figure 4: Trend of budget disbursement in the past four years (2014/15-2018/19)**



**Source: Ministry's Speech complied by the analysis**

In 2015/2016 and 2016/17 only 28% and 27.7% of the budgeted money was disbursed, respectively. In the last financial year only 22% of the budget was disbursed by March 2018. This confirms that despite an increase of about 5% in the 2018/2019 FY, the challenge remains on the release of this budget to address challenges on the ground even though the increment may suggest the commitment of the government to address challenges in this sub sector.

Dependence on foreign funding sources comes with its challenges. In many occasions, there are experiences of delays in disbursement. A typical example is in the construction, rehabilitation and extension of water projects in district headquarters, towns and national level projects. In 2016/17 a total of TZS 47 billion were set from internal sources and TZS 33 billion from external sources. While up until March 2017, TZS 13 billion of internal funds were disbursed and nothing was disbursed from external sources during the same period. (See Sub vote 3001 of FY17/18 Budget).

## General observations in the water and irrigations sector budget for the past three years (2016/17-2018/19)

- 1) There is lack of strategic gender mainstreaming and sex-disaggregated data in most budget speeches and reports which limit the integration of gender into budgeting documents.
- 2) The water sector budget is broadly aligned to sector policy priorities but the delays in disbursement of development funds to LGA are set to persist.
- 3) There is no doubt that the budget set for water sector for 2017/18 is too low as compared to the magnitude of the problem. On the other hand, there is no reason to come up with an unrealistic budget that cannot be realized. It is far better to plan and implement small than being overambitious beyond what the country can afford.

## Our key recommendations:

- 1) The government must establish timely and sufficiently allocation and disbursement of water sector budget particularly for development projects in order to meet policy targets by 2020 and 2025 as well as the Global Agenda by 2030.
- 2) The government needs to establish separate budget lines and allocate enough funds for scaling-up investments on sanitation and hygiene for households/community, schools and health.
- 3) The government to improve and harmonise gender disaggregated data on water and sanitation sector with a very strong and real database informed by a Monitoring and Evaluation Framework to inform evidence during planning and budgeting process.

### 3. Health Sector

#### Share of the health sector in national budget

For the FY 2018/2019, the Government of Tanzania has allocated TZS 2,054 billion for the health Sector, which is 8.9% of the National budget exclusive of Consolidated Funds (CFS) or 6.1 inclusive of CFS<sup>2</sup>. The overall allocation for Health Sector has gone down by 8% (TZS 2,222 billion in 2017/18 to TZS 2,054 billion in 2018/19) and is almost even with the allocation for 2016/17 of TZS 2,055 billion.

#### Percentage of Tanzania National Budget Allocation to health:

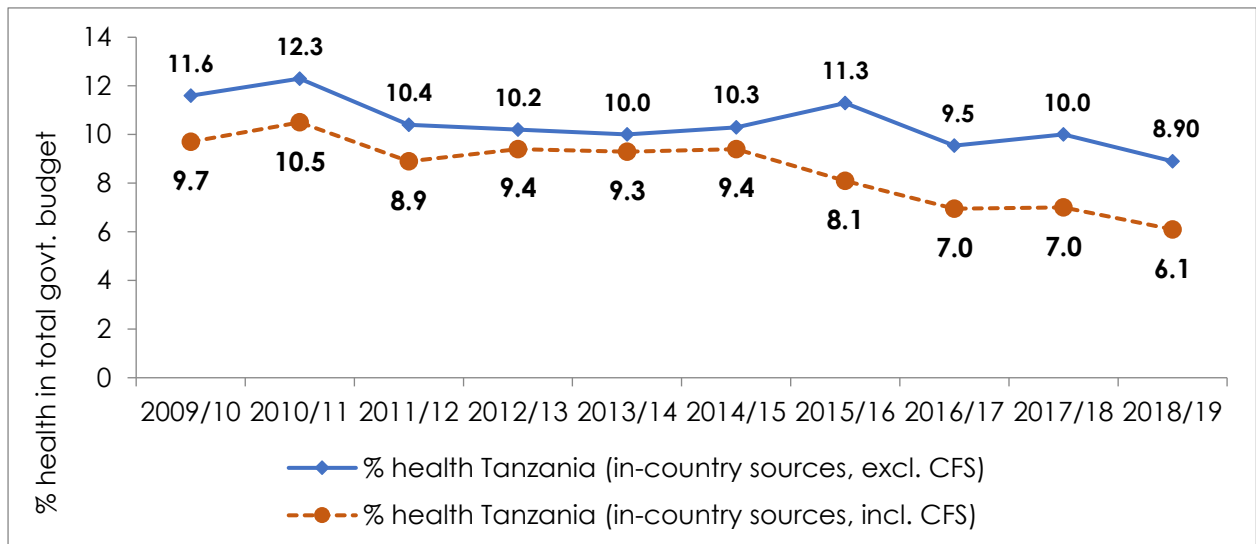


Figure 5: Percentage of Tanzania National Budget Allocation to health

Source: MOFP, 2008-2017; MOFP, 2017. Note: Values are inclusive of on-budget external support

**The Health Sector Budget allocation trend has not been in line with the increasing demand based on population growth and high disease burden.** Figure 5 shows a declining trend, which is far from attaining the Abuja target (15%) of which the Government is a signatory.

#### Budget Allocation vs. Strategic Plans

The fourth Health Sector Strategic Plan (HSSP IV) has estimated financial resources required to enable its implementation in improving health and wellbeing of citizens. However, there is a notable financing gap as the trend of fiscal budget allocation to the health sector has been lower than the annual targets by about 50% as shown in figure 6. This financial gap directly affects the public per

<sup>2</sup> Calculations of health as a percentage of total government budget are made using total government budget figures inclusive of consolidated funds services, which includes mandatory debt repayments, government contribution to pension funds, and other non-discretionary expenditures.

capita allocation; therefore, significant policy and systemic implementation measures need to be undertaken to cover this gap.

### Health Sector Budget Allocation vs. HSSP IV estimates

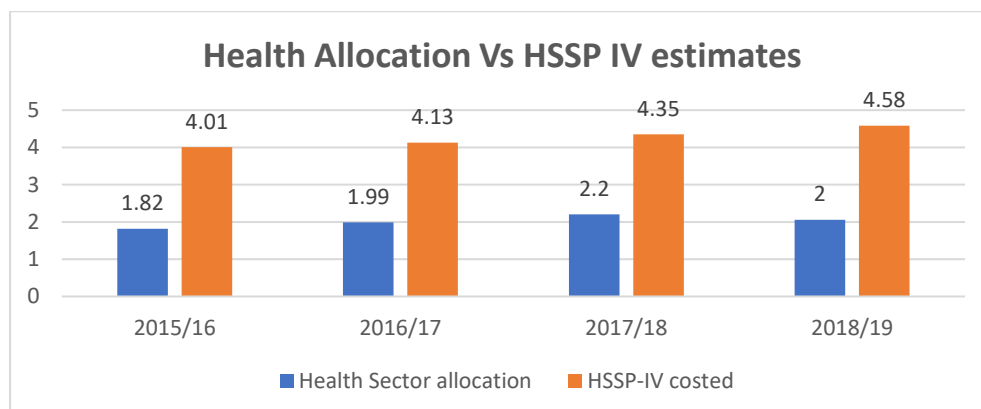


Figure 6: Health Sector Budget Allocation VS. HSSP IV estimates

Source: Budget books, Health Sector Strategic Plan IV

### Compositions of Health Sector Budget (Development Vs. Recurrent)

The increase in trend of development budget allocations for the years 2015/16 to 2017/18 indicate efforts towards increase in the use of technology, decrease of manpower and attaining the LMIC status (Figure 7). The slight decrease of 2018/19-budget development share calls for attention to attain the 2025 goal.

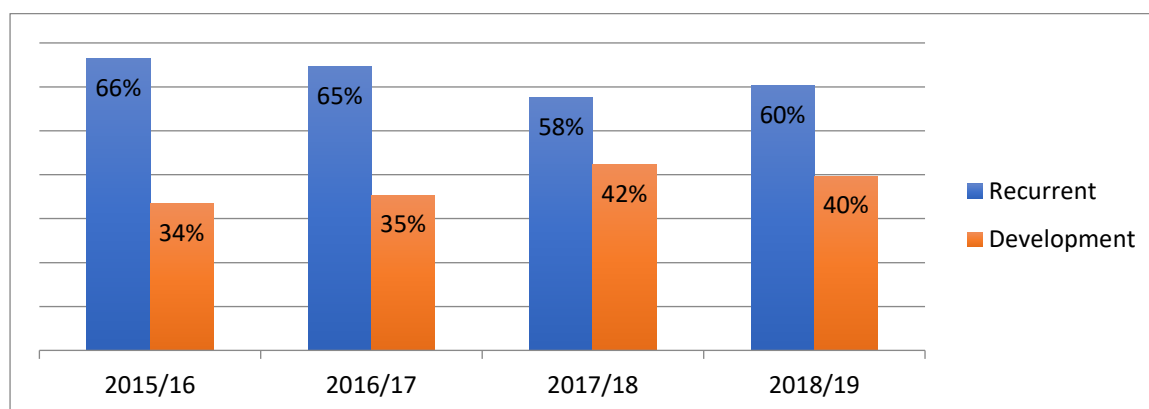


Figure 7: Compositions of Health Sector Budget (Development Vs. Recurrent)

### Compositions of Health Sector Budget (Domestic vs. Foreign)

Composition of health sector Budget (Domestic Vs. Foreign) shows an increase in domestic contribution by 5% from previous year and by 10% since 2015 in real terms. The domestic budget allocation for FY 2018/19 is TZS 1,736.1 Billion, which is equal to 85% of the total budget. The increase in domestic allocation is a realization of continued efforts made by different Stakeholders who advocate for increased domestic share for the health budget. Equally, it demonstrates commitment by the Government to allocate more domestic resources to finance the Health Sector.

### Key recommendations:

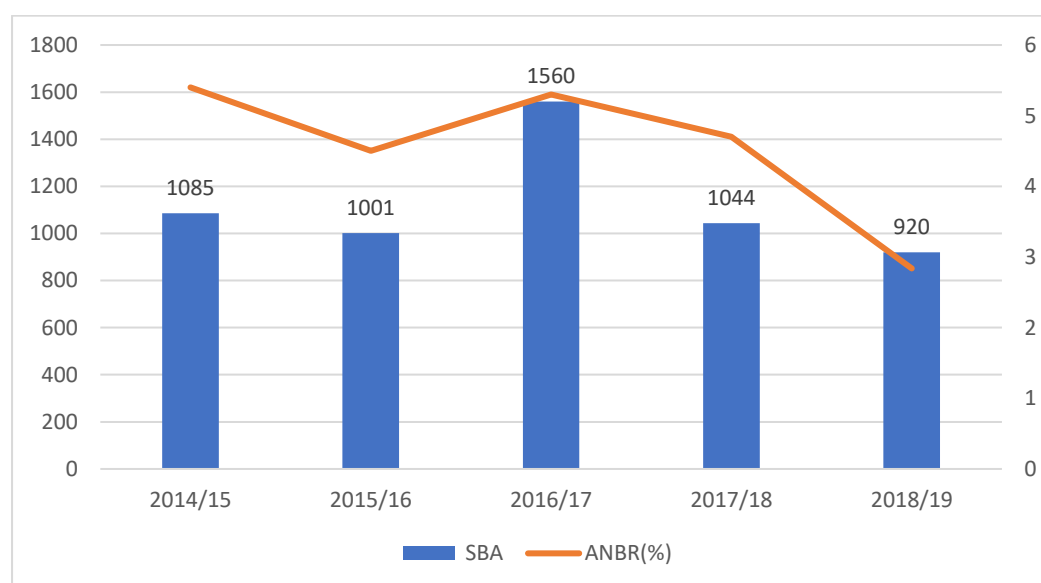
- i. Budget allocation should consider population growth and increasing disease burden.

- ii. Future budget plans should take into consideration strategic documents, which have been developed by different stakeholders and the Government itself.
- iii. It is important to close the funding gap in the costing of HSSP IV to ensure that the country remains on track to complete the objectives set in the plan, which ends in 2020.

#### 4. AGRICULTURAL SECTOR

##### Share of the sector in the national budget

Agriculture financing in the country experiences challenge of meagre resources allocation as compared to other sectors. The declining trend of agriculture sector financing clearly indicates its low priority in the current administration (Figure 8). Based on this, the agriculture transformation and industrialization agenda that have impact on economic growth and poverty reduction will be a mere dream.



**Figure 8:** Share of agriculture budget to the total national budget (%)

**Source:** Budget speeches/citizens budget (2014/15 to 2018/19)

##### a) Development vs recurrent budget

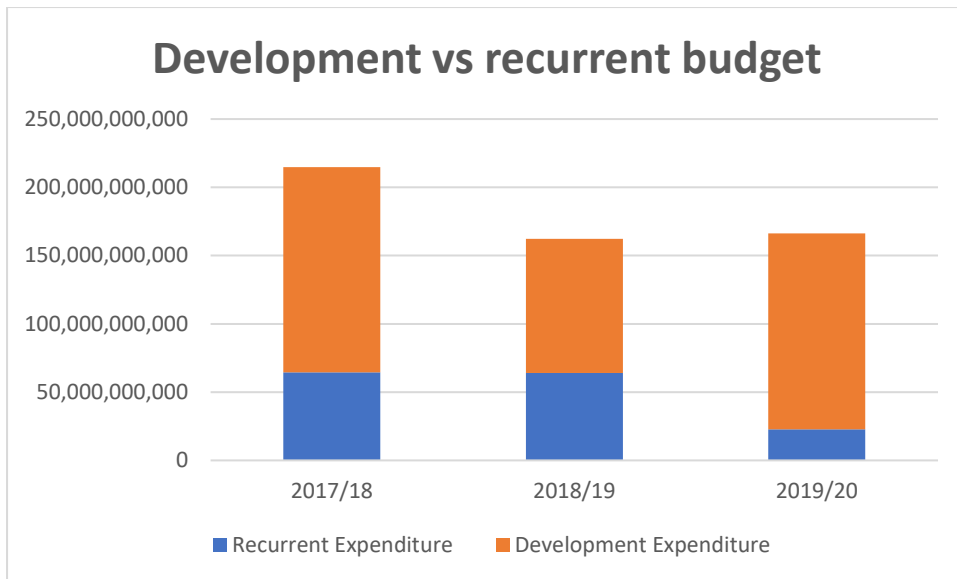
Low budget allocation to development expenditure over time is observed, however it is important that the government plans what it can realistically be able to implement.

FY	Budget Estimates (TZS)		
	Recurrent Expenditure	Development Expenditure	Total
2017/18	64,562,759,000	150,253,000,000	214,815,759,000
2018/19	64,105,298,000	98,119,516,000	162,224,814,000
2019/20	22,658,785,940	143,577,033,140	166,235,819,080

**Table 3:** Development VS Recurrent budget figures

**Sources:** MoA (Vote 43) 2017/18 to 2019/20





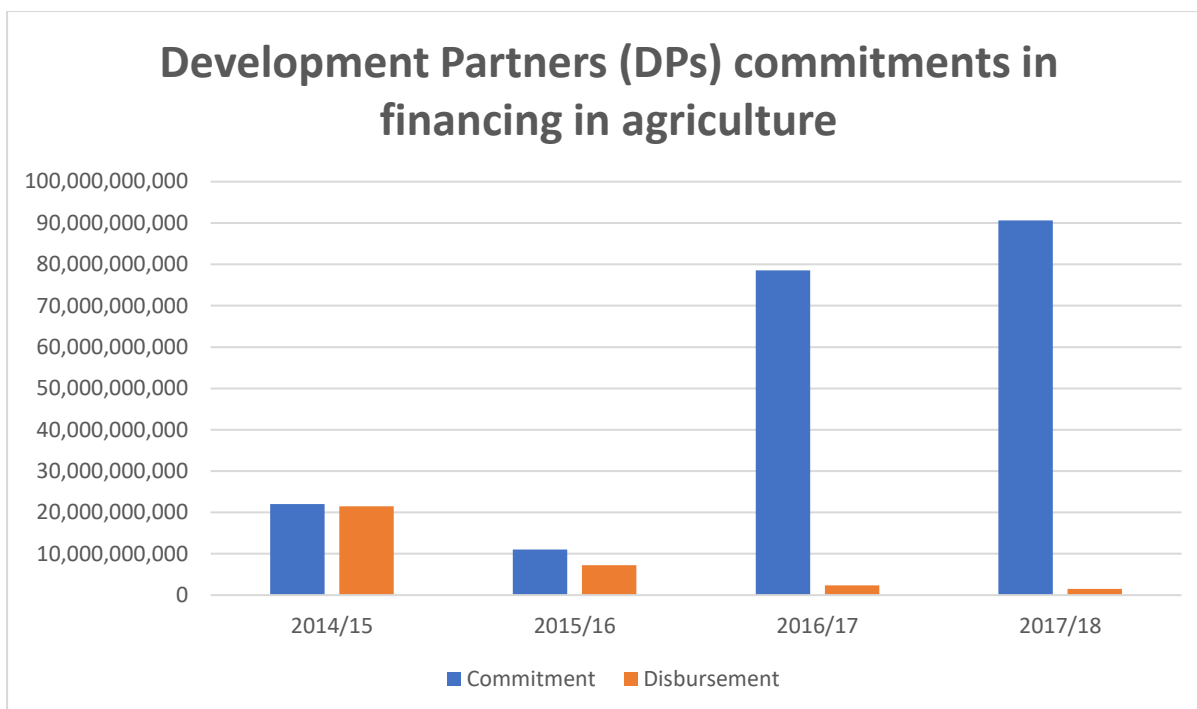
**Figure 9:** Development VS Recurrent budget figures  
**Sources:** MoA (Vote 43) 2017/18 to 2019/20

**b) Development Partners (DPs) commitments in financing in agriculture**

The issue of honouring commitments is a challenge to both government and Development Partners, which in turn affect project implementation.

FY	Commitment	Disbursement
2014/15	22,044,770,000	21,457,435,750
2015/16	10,993,073,000	7,232,774,249
2016/17	78,527,497,000	2,366,743,994
2017/18	90,653,000,000	1,521,937,484

**Table 4:** Development Partners (DPs) Commitments to the Agriculture Financing (2014/15-2017/18)  
**Source:** MoA



**Figure 10:** Development Partners (DPs) Commitments to the Agriculture Financing (2014/15-2017/18)

**Source:** MoA

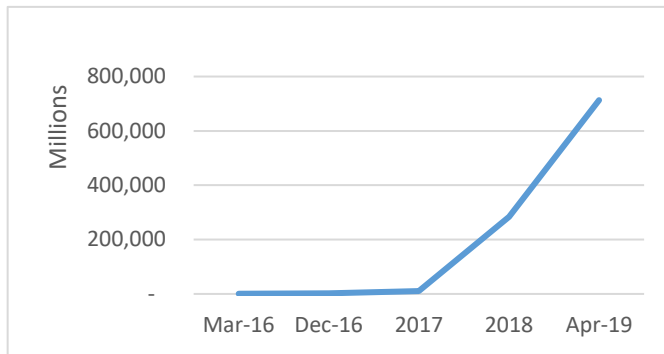
### c) Financing through the Agricultural Development Bank (TADB)

Despite its potential to transform the economy and its contribution to GDP, the agricultural sector in the country is still largely underfinanced. The Agricultural Development Bank (TADB), however, was established in 2012 to strengthen the agriculture financing value chain including the facilitation of rural lending.

According to the CAG report of report 2016/17, TADB experienced challenges early on during the delivery of this mandate. It was reported to have invested a significant part of its funds in fixed deposits instead of issuing loans to farmers (CAG report 2016/7). According to the report, as to the end of 2016, the bank placed TZS 54.7 billion in fixed accounts, which is equivalent to 91% of the total advance towards share capital. The report also highlighted that, out of total loan portfolio of 3.95 billion, loans and advance to staff stood at TZS 1.71 Billion while TZS 2.23 Billion went to farmers as loans.

In order to implement recommendations made by the CAG, TADB proceeded to develop a pipeline of agricultural projects for financing. The bank adopted the clustering and value chain financing approach which has identified eight clusters and respective value chains of focus which are in consonance with the country's agri-ecological zones defined by the ASDP II programme.

In terms of outcomes, TADB financed 91 projects in eight of the clusters (21 regions) with loans worth **TZS 712.9 billion** advanced to over **1.7 million farmers**. **TZS 600 billion** of total loans were advanced to finance the off-taking of cashew in the 2018/19 season while 112Billion have been advanced to other crop value chains.



Disbursed loans increased from TZS 662 million in March 2016 to TZS 2.65 billion in December 2016 and rose to TZS 10.49 billion by the end of 2017. In 2018, disbursed loans rose by TZS 284.0 billion and reached TZS 295.04 billion by the end of the year. TZS 428.9 billion was disbursed in 2019 to make cumulative disbursements reach TZS 712.9 billion by March 31, 2019.

**Figure 11:** Lending Growth

In addition to lending, TADB is managing the Smallholder Credit Guarantee Scheme which incentivises – through risk sharing – commercial banks to increase lending to smallholder farmers. The scheme is implemented in partnership with five commercial banks. Loans worth **TZS 3.34 billion** were issued to 871 smallholder farmers in various regions as of March 31, 2019.

### Recommendations

- 1) Prioritize the agriculture as an important development agenda through enough budget allocation to key investment areas such as irrigation, extension services, markets, research, inputs subsidies and climate mitigation.
- 2) Both government of Tanzania (GoT) and Development Partners (DPs) financing agriculture need to honour their commitments/pledges for agriculture projects undertaking.

### Summary of our key policy recommendations:

1. Keep enhancing mobilisation of domestic resources to improve budget credibility. This could among others be done through improving the business environment and registering eligible tax payers those that are not in the tax net yet.
2. Improved mobilisation of domestic resources without financial discipline will not get the country to any positive stride. It is encouraged to improve management in the use of public resources and work on the recommendations provided in the audit reports.
3. There is a need to promote research, development and innovation in order to achieve industrialization given the roles of such parameters in influencing industrial growth.
4. The government should improve and harmonise gender disaggregated data on water and sanitation sector with a very strong and real database informed by a Monitoring and Evaluation Framework to inform evidence during planning and budgeting process.
5. Call for increased allocation and disbursement trend of the education and health sectors' budget especially development budget including the sector's development budget disbursement challenges being addressed.
6. Deliberate efforts and strategies are needed to ensure enough investment in health in terms of planning, allocation, disbursement and efficient execution of resources.

**UPDATE:** After publication of this Pre-Budget Position statement in The Guardian newspaper of the 29<sup>th</sup> of April, 2019. The Agricultural Development Bank (TADB) contacted Policy Forum with updates on their implementation of the recommendations of the Controller and Auditor General's report of 2016/17. The update provides a more realistic representation of the status of loans provided to-date and hence warranted inclusion herein.

The agriculture sector section of this Pre-Budget Position statement which makes reference to TADB has hence been updated and the full rejoinder from the bank is included below.

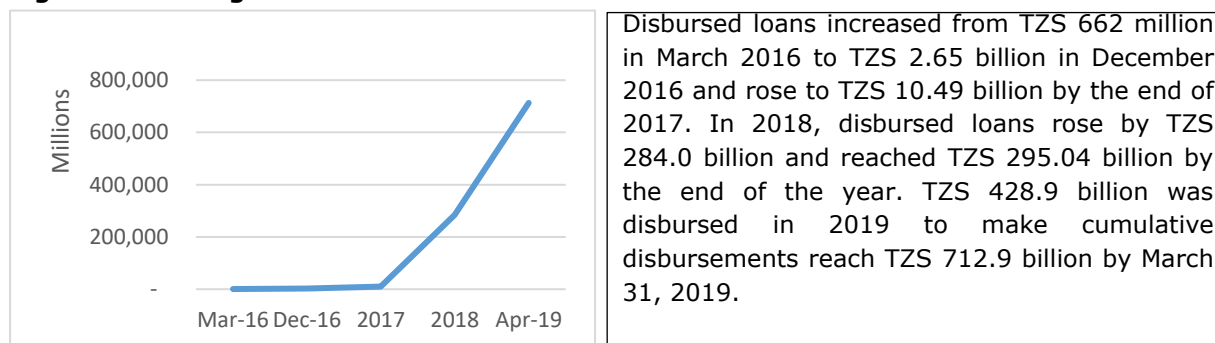


### UPDATES ON POLICY FORUM’S 2019/20 PRE-BUDGET POSITION STATEMENT

In order to implement recommendations made by the CAG, TADB proceeded to develop a pipeline of agricultural projects for financing. The bank adopted the clustering and value chain financing approach which has identified eight clusters and respective value chains of focus which are in consonance with the country’s agri-ecological zones defined by the ASDP II programme.

In terms of outcomes, TADB financed 91 projects in eight of the clusters (21 regions) with loans worth **TZS 712.9 billion** advanced to over **1.7 million farmers**. **TZS 600 billion** of total loans were advanced to finance the off-taking of cashew in the 2018/19 season while 112Billion have been advanced to other crop value chains.

**Figure 1: Lending Growth**



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Other achievements recorded include growing the bank’s service outreach by operationalising three zonal offices; **TADB Eastern Zone office** in Dar es Salaam, **TADB Lake Zone office** in Mwanza and **TADB Central Zone office** in Dodoma. TADB is at final stages of opening its Southern Highlands Zone office in Mbeya and a liaison office in Kigoma. Additionally, the bank has trained over **20,000** smallholder farmers and livestock keepers in numerous regions.

TADB has made profits for three consecutive years and posted TZS 5.9 billion in retained earnings which among other factors, contributed to growth in shareholder’s funds by **TZS 7.5 billion** to **TZS 67.5 billion** by the end of the first quarter of 2019.

Going forward, TADB is implementing its Funding Strategy which aims to raise resources to facilitate the transformation of the agriculture sector. Priority projects include irrigation projects, nucleus farms and agro-processing projects, construction of modern storage facilities, establishment of farm clinics and mechanisation centres, and aggregating smallholder farmers into commercialised producer groups and then training them and linking them to markets.