

6.0. BUDGET FRAMEWORK FOR POVERTY REDUCTION PROGRAMMES

6.1. Overview

This section focuses on the budget framework for poverty reduction. It assesses and projects the budgetary resources available now and likely to be available in relation to requirements of priority sectors over the medium term. It is clear that the financing gap for priority sectors will persist in the medium-term and additional resource enhancing measures need to be deployed. This section also highlights measures taken by the government to improve resource mobilization in 2001/02 and 2002/03 and the government plans in the medium term.

6.2 Resource envelope: a macroeconomic perspective

Financing of the PRS is outlined in the Medium Term Expenditure Framework (MTEF). The macroeconomic policy targets for the period 2002/03 – 2004/05 have been drawn ensuring consistency with the revised medium term targets for the PRS as outlined below:

- Real economic growth of 5.9 percent in 2002, rising to 7.0 percent by the year 2005.
- A consumer price inflation rate of 4.2 percent by end-June 2003, declining to 4.0 percent by end-June 2004 and thereafter remaining consistent with major competitors and trading partners;
- Domestic revenue yield at equivalent of 12.3 percent of GDP in 2002/03, increasing to 12.8 percent in 2003/04 and with a target of up to 14.0 percent in 2004/05;
- Expansion of broad money supply (M2) consistent with macro-fiscal targets;
- Maintenance of foreign reserves above the equivalent of 4.0 months of imports of goods and services.

6.3 Budget frame consideration for financing of priority sectors

The Government remains steadfast in continuing to implement policies that can enhance domestic resource mobilization to raise government domestic resources and giving priority to funding poverty reduction programme, and to reduce dependency on foreign aid. The outcome of recent efforts has been encouraging. In fiscal year 2001/02, domestic sources reached Tsh. 1,056 billion which is about 70 percent of constrained requirements of priority sectors, which stood at Tsh. 1,498 billion. In the medium term, priority sector requirements are projected to be much higher, as sector development programmes become operationalised. Given the projected resource envelope and expenditure requirements for 2002/03 – 2004/05 (Appendix I Table 1), there will not be adequate domestic

resources to meet all requirements for priority sectors. While the government is intensifying efforts to raise further domestic revenue, it will still need enhanced financial support from development partners including concessional financing.

6.4. Medium-Term Revenue Generating Measures

The large size of the informal economy including the dominance of peasant agriculture, coupled with the high level of poverty, in large part explain the narrow revenue base. Positive economic growth combined with measures to streamline tax policy and tax administration, have generated improvements in revenue in the past five years. However, the revenue yield relative to GDP remains low. In the budget for 2002/03 the Government took additional measures to reduce revenue leakage, improve voluntary compliance and expand the tax base including further reduction of exemptions. It is important to mention here the focus n of reforms directed at Taxpayer Department, which has performed strongly during the year and promises potential for more revenue yield in the coming years.

The government is committed to enhance the revenue base in the medium-term through a number of additional measures, including the following:

- An Act on Export Processing Zones (EPZ) was enacted by Parliament early 2002. However, to avoid the possibility of revenue leakage in future, the government is reviewing this legislation with a view to directing the focus to take advantage of export markets under the United States' AGOA and European Union's Everything-But-Arms (EBA) arrangements. In this regard, the implementation of EPZs will start on the basis of the regulations that focus on access to AGOA and EU, while the required amendments to the act are being processed.
- The Government intends to review tax laws, starting with the income tax legislation with a view to rationalizing them to enhance the tax yield.
- The government will continue to review the remaining exemptions with a view to cutting them back to enhance the tax base.
- The government will review the tax contribution of the high-growth sectors such as mining, to enhance revenue.
- A centralized motor vehicle registration system has been adopted to increase efficiency and curb revenue leakage.

6.5 Public Expenditure Management in the Medium Term

The Government intends to pursue further reforms to enhance public expenditure management. In order to allow better tracking of outlays to priority sectors, the government will harmonize the presentation of priority expenditures based on uniform budgetary codes across PRS, the budget, and budget execution reports, starting with the budget guidelines for 2003/04. The recording and reporting of donor-funded project expenditure continues to be strengthened in collaboration with development partners. As in the last year, public financial management policies for 2002/03 are focusing on supervision and enforcement of expenditure discipline. The provisions of the Public Finance Act and the Public Procurement Act (both of 2001) will continue to be enforced. The procurement regulations will be reviewed to facilitate efficiency improvement in government procurement. The IFMS, now operational in all ministries and departments, will be strengthened in the regions to ensure that expenditure and revenue reports are captured directly by the system. Expenditures for all votes in the 2002/03 Budget include provision for payment of all taxes. The government is taking measures to harmonise and classify local government budgets into the GFS classification.

In order to increase transparency and accountability, local governments have started publishing the consolidated fiscal accounts on a quarterly basis with a view to do the same for their individual reports. The consolidated report was published in October 2002. Finally, the fiscal year of local governments will be brought in line with that of the central government by 2004/05.