

THE UNITED REPUBLIC OF TANZANIA



MINISTRY OF FINANCE

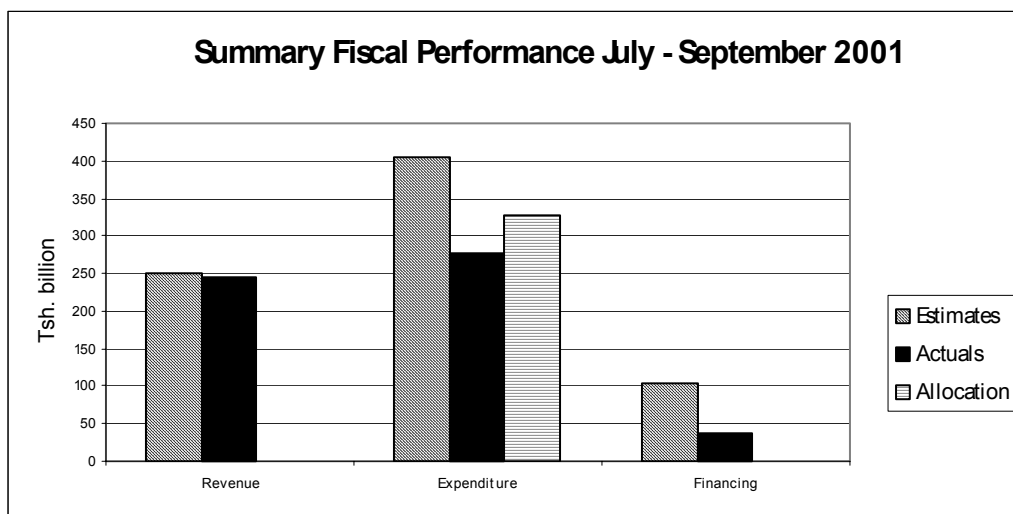
**BUDGET EXECUTION REPORT
BUDGET FOR FISCAL YEAR 2001/02
BUDGET PERFORMANCE JULY – SEPTEMBER 2001**

NOVEMBER 2001

Summary

Overall budget performance for the first quarter of the fiscal year 2001/02 remained broadly in line with budget estimates. The summary fiscal performance for the first quarter is presented in table 1 on the following page. Revenue collection for the quarter was Tsh. 244.8 billion compared to estimates of Tsh. 251.0 billion. The shortfall in revenue collection was mainly in VAT on imports. The reason for this underperformance is that starting July 2001 the government started paying VAT on purchases of goods and services and for the first quarter government spending on VATable goods has been below estimates. Since VAT payment by government is also recorded as expenditures, lower VAT collection on government purchases represent lower spending by government and is thus fiscally neutral. Total expenditure for the first quarter was Tsh. 278.4 billion compared to estimates of Tsh. 404.0 billion. However, total allocations made in the first quarter were Tsh. 328.0 billion. Therefore, at the end of the first quarter some ministries and departments carried forward their allocations into the second quarter. Priority sectors received their three monthly allocations in July 2001, as per the estimates. Further, adequate allocations were made towards the preparations of the population census and the core set of statistics. Foreign inflows for the first quarter remained below estimates mainly on account of delays in finalizing disbursement details with development partners. However, it is expected that this shortfall will be made up during the remainder of the fiscal year. The government's net domestic position with the financial sector improved more than estimated mainly on account of conservative fiscal policies during the fiscal quarter under consideration.

The graph below presents a summary depiction of the fiscal performance for the first quarter of the current fiscal year. Annex 1 of this report presents a summary of the central government financial operations for the quarter.

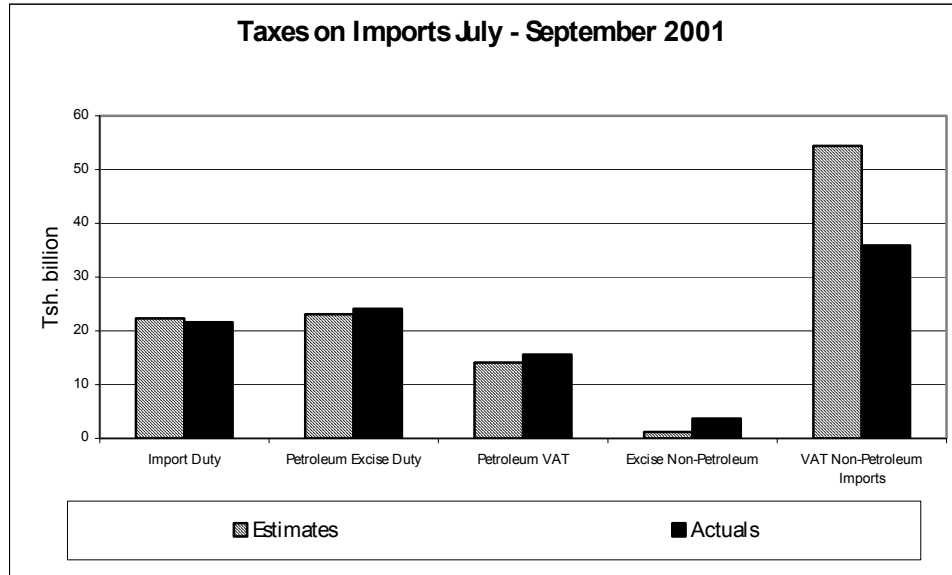


REVENUE BY SOURCE

Revenue collection for the first quarter was ninety eight percent of estimates, a shortfall of Tsh 6 billion. A breakdown of revenue collection is presented in Annex II table 2.

Taxes on Imports

The graph below depicts the performance of import taxes by category.

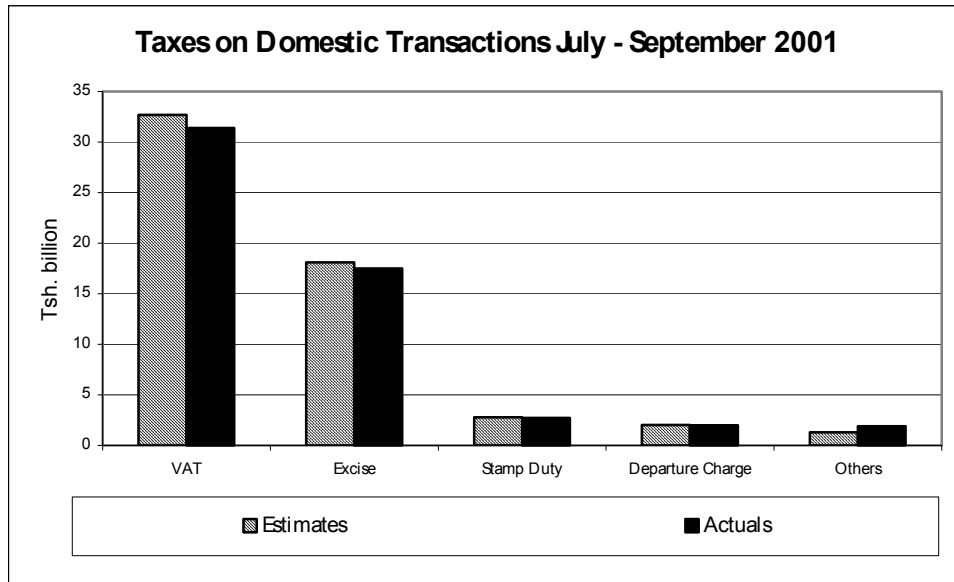


From the graph above, it can be seen that import duty collection was slightly below estimates while excise duty on non-petroleum products was above estimates. Revenue performance on petroleum taxes remained above estimates reflecting inter-alia the positive effect of tax administration measures undertaken in the petroleum sector to curb dumping and smuggling of petroleum products.

VAT on non-petroleum imports under performed significantly. The reason for this under performance primarily is that the estimates for VAT on imports included forecasted revenue collection from government purchases of vatable goods. It should be recalled that starting July 2001 the government revoked its exemption from VAT. The revenue collection from government payment of VAT was to be channeled back into relevant ministries and departments. This effectively means that the government pays tax (higher expenditure) but also receives higher revenue. However, for the first quarter actual government expenditures remained below estimates and thus VAT payable remained below estimates as well. Thus VAT on imports under performed. This under performance is not a cause for concern, as the overall fiscal position will remain unaffected.

Taxes on Domestic Transactions

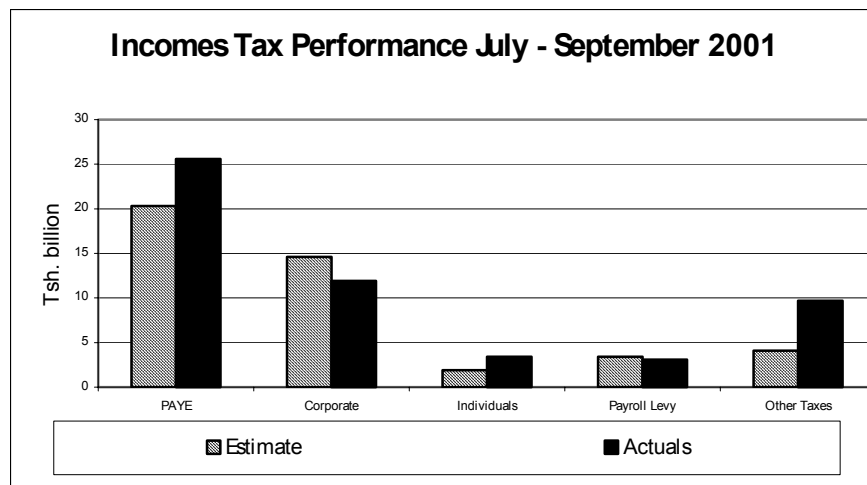
The graph on the following page depicts the revenue performance of major components of taxes on domestic transactions.



As can be seen from the graph above, revenue performance across most taxes remained broadly in line with estimates. VAT on domestic transactions under performed marginally. However its does not appear that this under performance is a structural problem and VAT collections are expected to recover in later quarters.

Income Taxes

The graph below depicts the performance on income taxes for the fiscal quarter



Pay As You Earn (PAYE) performed significantly well. As the public sector is a large PAYE source, the public sector wage increase had a positive impact on PAYE revenue collection.

Corporate taxes were below estimates. In the fiscal year 1999/2000, measures were introduced allowing companies to carry forward losses to offset against following year profits, and also to set capital expenditure against profits immediately rather than spreading the cost over the period of use. This has had a negative effect on corporate income tax revenue.

Other income taxes performed well.

Non-Tax Revenue

Non-tax revenue collection was ninety three percent of estimates. This underperformance is mainly due to lower than expected dividends from parastatal organizations. There are problems with estimating the monthly or quarterly timing of parastatal dividends therefore it is difficult to estimate the collections for the quarter. However, full year estimates remain robust.

Year-on-Year Comparative Revenue Performance

The table below presents year-on-year revenue performance in the first quarter of fiscal years 2000/01 to the first quarter of the fiscal year 2001/02

Table1: Year-on-Year Revenue Performance: July - September 2000 vs. July - September 2001

	Actual Collections July - Sept 2001	Actual Collections July - Sept 2000	Absolute change	Percentage change
(In billions of Tanzania shillings)				
Total Domestic Revenue	244.8	227.8	17.0	7.5
Tax Revenue	221.8	209.4	12.4	5.9
Customs Duty	21.6	24.5	-3.0	-12.1
Excise Duty - Imports	27.8	21.9	5.9	27.0
Excise Duty - Local	17.5	17.1	0.4	2.5
Value Added Tax (VAT) - Import	51.5	48.0	3.5	7.2
Value Added Tax (VAT) - Local	30.9	28.2	2.7	9.4
Income Tax	47.2	49.5	-2.4	-4.8
Other Taxes	25.5	20.2	5.3	26.2
Non-Tax Revenue	23.0	18.3	4.6	25.2

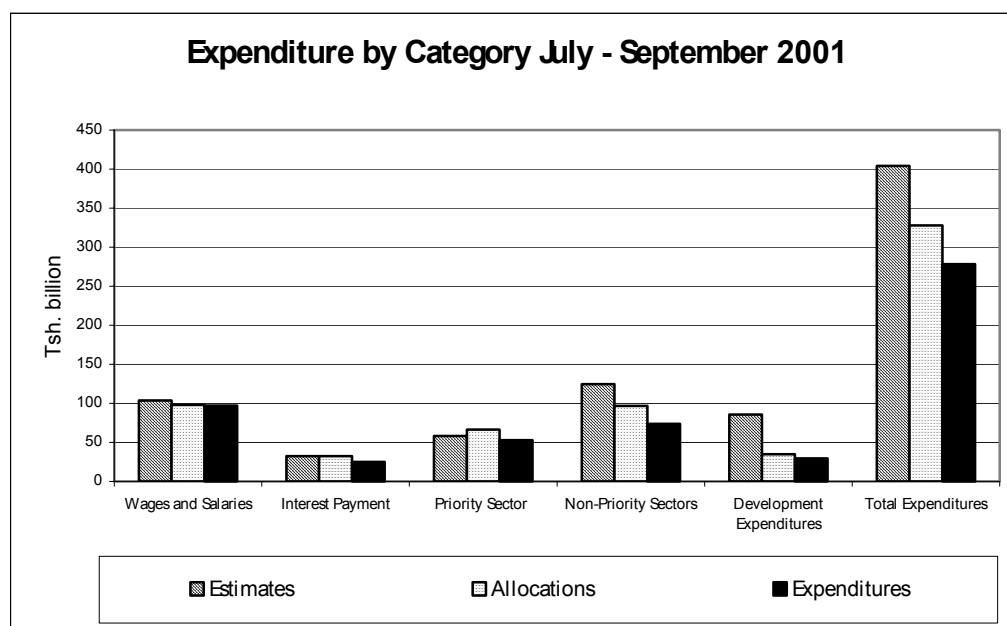
Parastatal Dividends	1.8	2.2	-0.4	-20.0
The Treasury	4.4	6.2	-1.8	-28.9
Ministries and Regions	16.8	9.9	6.8	68.9
Appropriations in Aid	0.0	0.0	0.0	-26.5

Source: Ministry of Finance

EXPENDITURE BY CATEGORY

Total expenditures for the quarter July – September 2001 were below estimates. Annex III table 3 presents detailed expenditures along with estimates for the quarter.

Recurrent expenditures were seventy eight percent of estimates. The graph below depicts expenditure performance for major expenditure categories.



The budget is executed via the cash management system. In the cash management system allocations are made quarterly for priority sectors and monthly for other non-priorities. Once allocations are made, its up to the spending ministry or department to utilise its allocation. Unutilised allocations are carried forward to the next month.

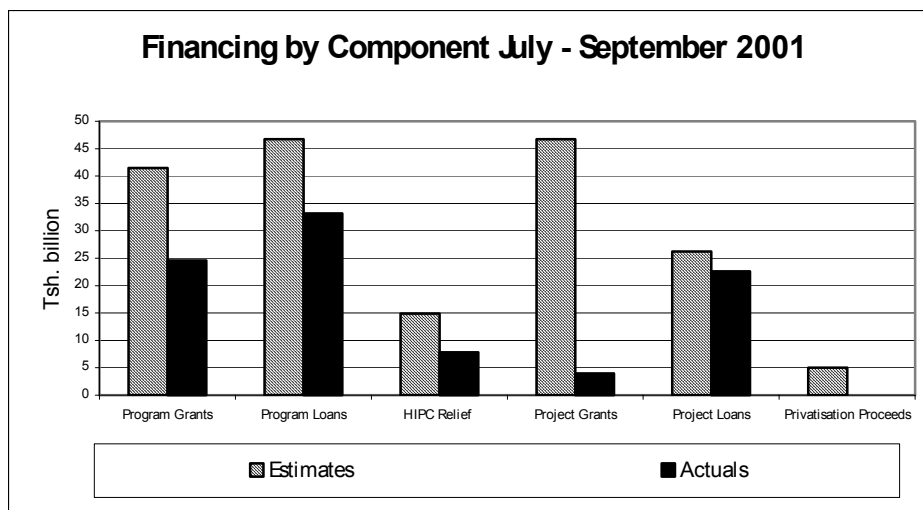
Wages and salaries remained below estimates because the provision for new employment was not utilised in the first quarter. Actual interest payments remained below estimates because interest rates on government securities declined by more than estimates. However, full allocations had been provided for interest costs for the quarter. Priority sector spending was slightly below estimates even though priority sectors received their full quarterly allocations in July 2001. It is expected that expenditures will take place as the financial needs arise. Notwithstanding the allocations carried forward by priority sectors into the subsequent quarter, the government provided full second quarter allocations to priority sectors in October 2001 based on the cashflow plans of respective ministries and independent departments.

Development expenditures consist of domestically financed expenditures and donor financed expenditures. For the first quarter domestically financed expenditures remained below estimates because of delays in the finalisation of certain development project execution plans. Over the ensuing fiscal quarters it is expected that domestic development projects will be fully funded. Foreign development project spending registered below estimates because of the time lag in capturing some donor financed development projects within the government accounts. This is only an information capturing issue and does not represent any shortfalls in actual expenditures.

FINANCING BY COMPONENT

The government receives direct budget support (programme) and development project support. Budget support comes in the form of grants and loans. Development project support also comes in the form of grants and loans. Annex V Table V presents detailed financing developments for the fiscal quarter July – September 2001.

The graph below depicts the performance of financing by component for the quarter July – September 2001.



During the first quarter it was expected that Tanzania would receive budget support via the Poverty Reduction Budget Support (PRBS) mechanism of Tsh. 46.7 billion. However due to delays in finalisation of disbursement details there was significant shortfall experienced in programme grants. However, disbursement details have since been finalised and it is forecasted that programme grants will be on track for the next quarters. Programme loans were expected from the World Bank under the Programmatic Structural Adjustment Credit (PSAC) facility and by the African Development Bank (ADB) under the Structural Adjustment Loans. For the first quarter only the World Bank PSAC loan was received. It is expected that ADB will disburse its loan in the second quarter.

Proceeds from privatisation did not materialise because of delay in finalising plans to further reduce government shareholding in previously privatised parastatal enterprises. However, it is expected that these plans will be finalised soon.

Amortisation of foreign loans remained below estimates. This is because amortisation estimates are constructed on commitment basis while in actuality Tanzania is receiving relief on certain debt payments due to the HIPC debt relief.

During the first quarter the government allocated more resources than estimated for clearing budgetary arrears. This arrear clearance policy goes hand-in-hand with the decision by government to implement stringent expenditure control functions for avoiding any more build-up of arrears. The government has resolved not to honour any payment requests that have not been based on a local purchase order generated by the Integrated Financial Management System (IFMS).

OVERALL GOVERNMENT POSITION JULY – SEPTEMBER 2001

Taking into account the revenues for the first quarter of the fiscal year 2001/02, expenditure by category and financing by component, the government position, as calculated by the net domestic financing of the government, improved. It was estimated that budgetary execution in the first quarter would require the government to draw down its deposits with the domestic financial system by Tsh. 1.7 billion. However, in actuality the government managed to increase its deposits with the domestic financial system by Tsh. 12.5 billion.

MINISTRY OF FINANCE
NOVEMBER 2001

Annex 1

Table 1: Summary of Budget Performance July - September 2001

	Budget Estimate	July - September 2001			Actual as percent of Estimate
		Estimate	Actual	Divergence between estimates and Actuals	
(In billions of Tanzania shillings)					
Total Domestic Revenue	1,025.2	250.9	244.8	6.1	97.6
Tax Revenue	926.2	226.2	221.8	4.3	98.1
Custom Duty	91.1	22.3	21.6	0.7	96.8
Excise Duty - Import	105.4	24.3	27.8	-3.6	114.6
Excise Duty - Local	76.1	18.1	17.5	0.6	96.8
Value Added Tax (VAT) - Import	247.5	68.5	51.5	17.0	75.1
Value Added Tax (VAT) - Local	132.0	32.7	30.9	1.8	94.5
Income Tax	183.1	39.4	47.2	-7.8	119.8
Other taxes	90.9	21.0	25.5	-4.5	121.2
Non tax revenue	99.0	24.8	23.0	1.8	92.7
Parastatal dividend	12.0	3.0	1.8	1.2	58.7
The Treasury	19.1	4.8	4.4	0.4	91.8
Ministries and regions	67.8	17.0	16.8	0.2	99.0
Appropriation In aid	0.1	0.02	0.0	0.0	102.5
Total Expenditure	1,578.7	404.0	278.4	125.6	68.9
Recurrent expenditure	1,236.5	318.5	248.7	69.7	78.1
Wages & salaries (Central & Local Govt.)	356.3	89.1	84.8	4.3	95.2
Interest payment	123.1	32.3	25.0	7.3	77.4
Domestic	72.8	21.3	14.0	7.3	65.9
Foreign	50.3	11.0	11.0	0.0	99.7
Goods and services and Transfers	757.1	197.1	138.9	58.2	70.5
Parastatal wages	58.3	14.6	12.3	2.3	84.3
TRA/CMSA	34.3	8.6	7.9	0.7	92.2
CFS (Other)	68.8	17.2	15.5	1.7	89.9
Other	595.8	156.7	103.3	53.5	65.9
Priority Sector Spending	234.7	57.7	44.1	13.6	76.4
Health	43.1	10.8	7.9	2.9	73.2
Education	81.5	20.4	14.2	6.2	69.7
Water	10.5	2.6	2.1	0.5	80.9
Other Social	16.8	4.1	9.0	-4.9	219.4
Roads	63.8	15.5	12.9	2.6	83.4
<i>Road Toll</i>	48.0	11.5	8.8	2.8	76.1
<i>Others</i>	15.8	3.9	4.1	-0.2	104.8
Justice	7.1	1.8	2.1	-0.4	120.5
Agriculture	8.2	1.6	4.2	-2.6	258.3
Lands	3.6	0.9	0.6	0.4	61.2
Other Charges	361.1	99.0	59.2	39.9	59.8
Dev. Exp. & net lending	342.1	85.5	29.7	55.8	34.7

Table 1: Summary of Budget Performance July - September 2001 (continued)

	Budget Estimate	July - September 2001			
		Estimate	Actual	Divergence between estimates and Actuals	Actual as percent of Estimate
<i>Projects</i>	342.1	85.5	29.7	55.8	34.7
Local	50.2	12.6	3.2	9.4	25.1
Foreign	291.9	73.0	26.5	46.4	36.4
<i>Overall Deficit (before grants)</i>	(553.5)	(153.1)	-33.7	-119.4	22.0
<i>Grants</i>	451.1	103.1	36.4	66.7	35.3
Programme (incl. MDF funds)	200.6	41.5	24.6	16.8	59.4
Development /Project	187.0	46.7	4.0	42.8	8.5
HIPC Relief	63.6	14.9	7.8	7.1	52.4
<i>Overall Deficit Checks issued(After Grants)</i>	(102.3)	(50.0)	2.7	-52.7	-5.4
Expenditure Float	-	-	32.3	-32.3	-
<i>Adjustment to cash & other items</i>	0.0	0.0	-0.6	0.6	-
<i>Overall Deficit Checks cleared</i>	(102.3)	(50.0)	-30.1	-19.9	60.3
<i>Augmented Overall balance</i>	(102.3)	(50.0)	-30.1	-19.9	60.3
<i>Financing</i>	102.3	50.0	30.1	19.9	60.3
Foreign (net)	99.7	45.5	46.0	-0.5	101.0
Programme loans	128.5	46.7	33.2	13.6	71.0
Development Finance	104.9	26.2	22.6	3.6	86.2
Amortization(foreign)	(133.7)	(27.4)	-9.8	-17.7	35.7
Domestic (net)	24.5	1.7	-12.5	14.2	-736.3
Bank	35.0	1.7	-11.5	13.2	-681.0
Non Bank	-	-	-0.9	0.9	-
Amortisation of parastatal debt	(10.5)	-	0.0	0.0	-
Privatisation Fund	20.0	5.0	0.0	5.0	-
Bank and Parastatal Recapitalization	-	-	0.0	0.0	-
Change in arrears	(41.9)	(2.2)	-3.4	1.2	152.8

Source: Ministry of Finance

Table 2: Revenue by Source - Estimates and Actual Collections

	Budget Estimates	July - September 2001		Divergence between estimates and Actuals	Actual as percent of Estimate
		Estimate	Actual Collections		
(In billions of Tanzania shillings)					
Revenue	1,025.2	251.0	244.8	6.2	97.5
Tax Revenue	926.2	226.2	221.7	4.5	98.0
Taxes on imports	443.9	115.1	100.9	14.2	87.7
Import duties	91.1	22.3	21.6	0.7	96.9
Petroleum	161.3	37.2	39.7	-2.5	106.7
Excise	101.6	23.1	24.1	-1.0	104.3
VAT	59.7	14.1	15.6	-1.5	110.6
Other	191.5	55.6	39.6	16.0	71.2
Excise	3.8	1.2	3.7	-2.5	308.3
VAT	187.7	54.4	35.9	18.5	66.0
Taxes on domestic sales	208.1	50.8	48.5	2.3	95.5
Excise	76.1	18.1	17.5	0.6	96.7
VAT	132	32.7	31	1.7	94.8
Income Tax	183.3	39.3	49.6	-10.3	126.3
PAYE	101	20.3	25.6	-5.3	126.1
Corporate	58.6	14.6	11.9	2.7	81.5
Individuals	9.9	1.9	3.4	-1.5	178.9
Withholding Taxes	10.7	2.4	7.5	-5.1	312.5
Rental Tax	5.1	1.1	1.5	-0.4	136.4
Other income	4.2	0.6	0.7	-0.1	116.7
Other taxes	90.9	21.0	22.7	-1.7	108.1
Payroll Levy	17.4	3.4	3	0.4	88.2
Others	73.5	17.7	19.7	-2.0	111.3
Fuel Levy	48.0	11.5	13		
Stamp Duty	11.6	2.8	2.8	0.0	100.0
Departure Charge	8.4	2	2	0.0	100.0
Other (VAT dept.)	5.5	1.3	1.9	-0.6	146.2
Non Tax Revenue	99.0	24.8	23.1	1.7	93.1
Parastatal dividends	12.0	3	1.8	1.2	60.0
Treasury	14.7	3.7	3.7	0.0	100.0
Ministries and regions	67.8	17	16.8	0.2	98.8
Appropriations in aid	0.1	0	0	0.0	
TRA (VAT and Customs)	4.4	1.1	0.9	0.2	81.8

Source: Ministry of Finance

Table 3: Expenditure by Category - Estimates, Allocations and Actual Expenditures

	Budget Estimate	July - September 2001			Divergence between estimates and Actuals	Actual as percent of Estimate
		Estimate	Allocation ¹	Actual Expenditure		
(In billions of Tanzania shillings)						
Total Expenditure	1,578.7	404.0	328.0	278.4	125.6	68.9
Recurrent Expenditure	1,236.5	318.5	293.3	248.7	69.7	78.1
Wages and Salaries	356.3	89.1	85.3	84.8	4.3	95.2
Interest Payment	119.6	32.3	32.4	25.0	7.3	77.4
Domestic	72.8	21.3	21.4	14.0	7.3	65.9
Foreign	46.8	11.0	11.0	11.0	0.0	99.7
Goods, services and transfers	760.6	197.1	175.6	138.9	58.2	70.5
CFS (others)	68.8	17.2	23.1	15.5	1.7	89.9
TRA/CMSA	31.9	8.0	8.0	7.9	0.1	98.9
Contingent Expenditures	44.0	19.3	2.5	2.5	16.8	13.0
Parastatal Wages	58.3	14.6	12.7	12.3	2.3	84.3
Others	557.7	138.1	129.3	100.8	37.3	73.0
Priority Sector Expenditures	237.1	58.1	66.3	53.0	5.0	91.3
Health	43.1	10.8	10.8	7.9	2.9	73.2
Education	82.5	20.6	20.6	14.2	6.4	69.0
Water	9.1	2.3	2.3	2.1	0.1	94.0
Justice	9.3	2.3	2.3	2.1	0.2	92.9
Roads	63.8	15.5	15.5	12.9	2.6	83.4
Fuel Levy	48.0	11.5	11.6	8.8	2.8	76.1
Other Roads	15.8	3.9	3.9	4.1	-0.2	104.8
Agriculture	9.2	1.6	4.4	4.2	-2.6	258.3
Lands	3.3	0.9	0.9	0.6	0.4	61.2
Other Social	16.8	4.1	9.5	9.0	-4.9	219.4
Ministries	6.4	1.1	1.1	0.6	0.5	50.1
Basket Funding	10.4	3.0	8.4	8.4	-5.4	281.5
Other Charges	320.6	80.0	63.0	47.7	32.3	59.7
Development Expenditure	342.1	85.5	34.7	29.7	55.8	34.7
Domestic	50.2	12.6	8.2	3.2	9.4	25.1
Foreign	291.9	73.0	26.5	26.5	46.4	36.4

Source: Ministry of Finance

1. Total available resources for a ministry against which cheques can be written

Table 5: Financing by Source – Estimates and Actual Inflows

	Budget Estimates	July – September 2001			Actual as percent of Estimate
		Estimate	Actual	Divergence between Estimates and Actuals	
(In billions of Tanzania shillings)					
Foreign Sources	550.8	148.6	72.6	76.0	51.1
Grants	451.1	103.1	36.4	66.7	35.3
Programme	200.6	41.5	24.6	16.8	59.4
Project	187.0	46.7	4.0	42.8	8.5
HIPC Relief	63.6	14.9	7.8	7.1	52.4
Net Foreign Borrowing	99.7	45.5	36.2	9.3	79.5
Foreign Inflows	233.4	72.9	46.0	27.0	63.0
Programme	128.5	46.7	33.2	13.6	71.0
Project	104.9	26.2	22.6	3.6	86.2
Amortisation	(133.7)	(27.4)	(9.8)	-17.7	35.7
Domestic Sources	44.5	6.7	(12.5)	19.2	-186.3
Net Domestic Financing	35.0	1.7	(12.5)	14.2	-736.2
Bank	35.0	1.7	(11.5)	13.2	-680.9
Non-bank	-	-	(0.9)	0.9	-
Amortisation of parastatal debt	(10.5)	-	-	0.0	-
Privatisation	20.0	5.0	-	5.0	-
Change in arrears (clearance)	(41.9)	(2.2)	(3.4)	1.2	152.9

Source: Ministry of Finance