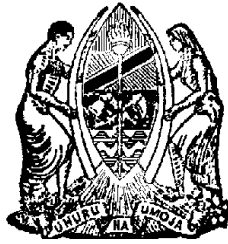


THE UNITED REPUBLIC OF TANZANIA



MINISTRY OF FINANCE

BUDGET EXECUTION REPORT

**BUDGET FOR FISCAL YEAR 2001/02
BUDGET PERFORMANCE
OCTOBER – DECEMBER 2001**

FEBRUARY 2002

BUDGET FOR FISCAL YEAR 2001/02

BUDGET PERFORMANCE

OCTOBER – DECEMBER 2001

Summary

1. Overall budget performance for the second quarter of the fiscal year 2001/02 spanning October – December 2001 remained broadly in line with budget estimates. Sound revenue collection coupled with lower than planned expenditure resulted in an improvement of the government position despite lower than expected external inflows. Details of fiscal performance for the first and second quarters are presented in Annex A.

2. Revenues in the first half of the year were above estimate by 1 percent. Revenue collection for the quarter was Tsh 264 billion compared to estimate of Tsh 252 billion. Total revenue collection for the first and second quarters of the fiscal year was Tsh 508 billion compared to estimate of Tsh 503 billion. This represents an over performance of 1 percent, mainly attributable to higher collection of income taxes and VAT on domestic sales. This half year revenue performance is 10 percent higher than the collections from the first half of the 2000/01 fiscal year.

3. Total expenditure for the second quarter was Tsh 316 billion, 19 percent below estimates of Tsh 392 billion. Cumulative expenditure for the first half of the fiscal year was Tsh 595 billion, 25 percent below estimates of Tsh 796 billion. Therefore the good performance during the second quarter resulted in a moderate catch-up of expenditures.

4. The lower than planned expenditure for the half year was due to delays in i) government procurement of goods and services, on account of the stringent procedures that need to be followed under the new Public Procurement Act 2001 and ii) delays in reporting of donor financed expenditure on development projects. Priority sectors received their full second quarter allocations (October – December 2001), as per respective cash-flow requirements. Further, adequate allocations were made towards the preparations of the population census and the core set of statistics. Thus, for the first half of the year, priority sectors were availed their full budgeted resources. Year on year actual priority sector expenditure increased by 65 percent, however this is partially explained by an increase in the number of priority sectors compared to last year, for example agriculture and lands.
5. During the half-year July to December 2001, the financing position of the government improved both vis-à-vis domestic and foreign creditors. Net domestic financing, at negative Tshs 26.6 billion, compared favourably with estimates of Tshs 6.9 billion borrowing. This was mainly on account of the markedly lower and slower government expenditures which lent buoyancy to the government's position with the banking system. Net foreign financing was Tshs 42.4 billion, less than half the projected figure of Tshs 89.2 billion. This was due in part to delays in programme loan disbursements and partly due to amortisation savings arising from the HIPC Completion Point reached in November 2001.
6. Presented below are summaries of fiscal performance for the first half July – December 2001, and the second quarter October – December 2001. Performance is compared with estimates and with figures for the same period last year.

CHART 1

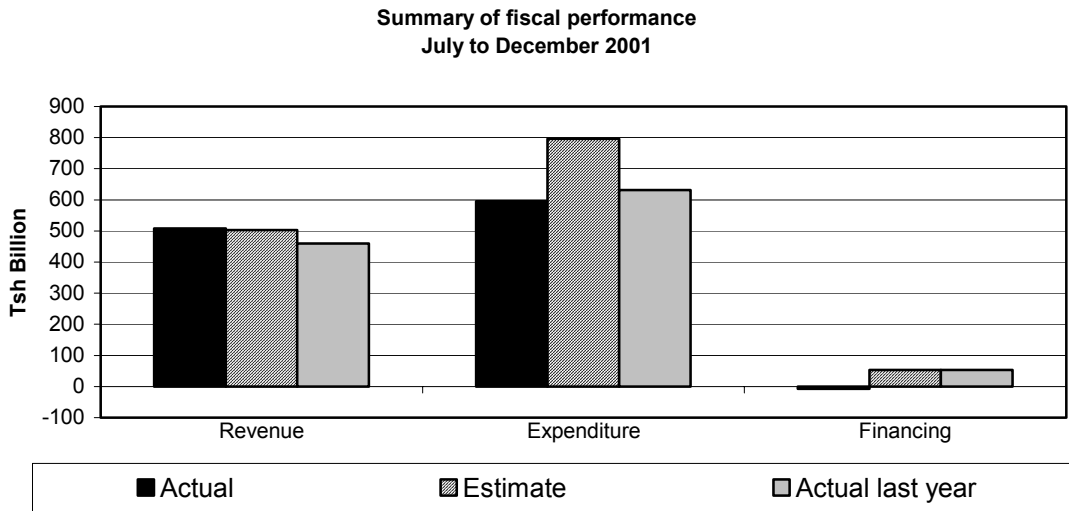
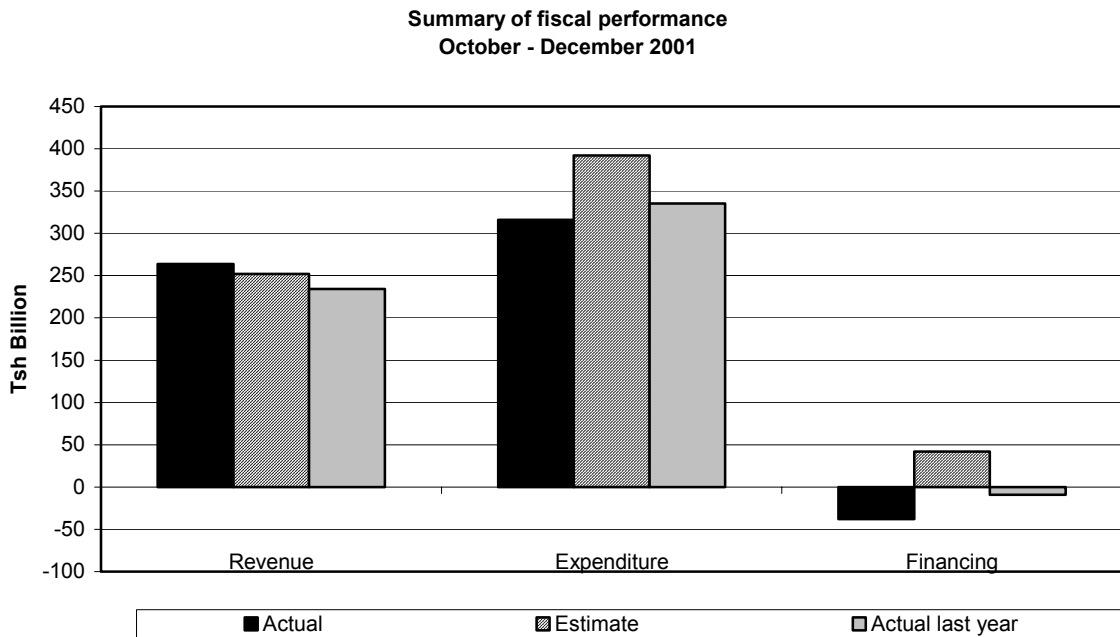


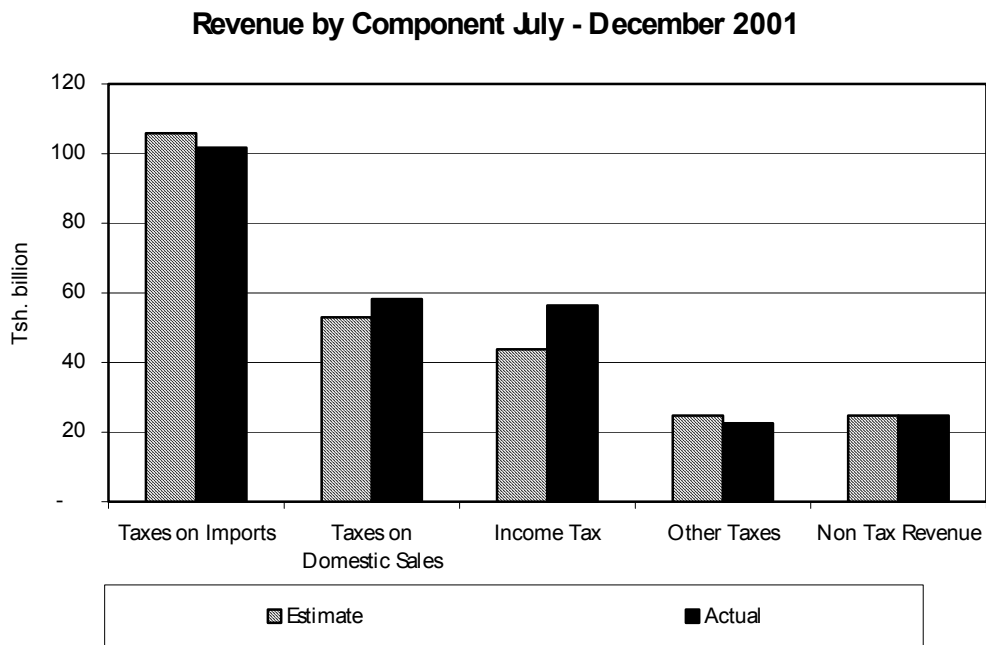
CHART 2



REVENUE BY SOURCE

7. Cumulative revenue performance for the half-year July to December 2001 was Tsh 508 billion, 1 percent over estimates. Notwithstanding shortfalls in some tax items, the second quarter revenue collection more than compensated for the revenue shortfall experienced in the first quarter. Chart 3 presents revenue performance by source against estimates, revealing major gains in income taxes and indirect taxes on domestic sales.

CHART 3



Year on Year Performance

8. Total revenue collection was 10 percent higher than the same period last year. Table 1 shows the revenue items with the largest year-on-year changes. Overall, direct taxes (income taxes) increased by 13 percent while indirect taxes increased by 10 percent.

Table 1 Revenue items with the largest year-on-year changes

Revenue source	Change	Percentage change
VAT on domestic goods	Tsh 11 billion increase	16 percent increase
PAYE	Tsh 10 billion increase	21 percent increase
VAT on non-petroleum imports	Tsh 9 billion increase	15 percent increase
Excise on petroleum	Tsh 8 billion increase	18 percent increase
Corporate taxes	Tsh 5 billion increase	24 percent increase
Import duties	Tsh 6 billion decrease	12 percent decrease
All other revenue	Tsh 0.3 billion decrease	0.1 percent decrease
Total Revenue	Tsh 42 billion increase	10 percent increase

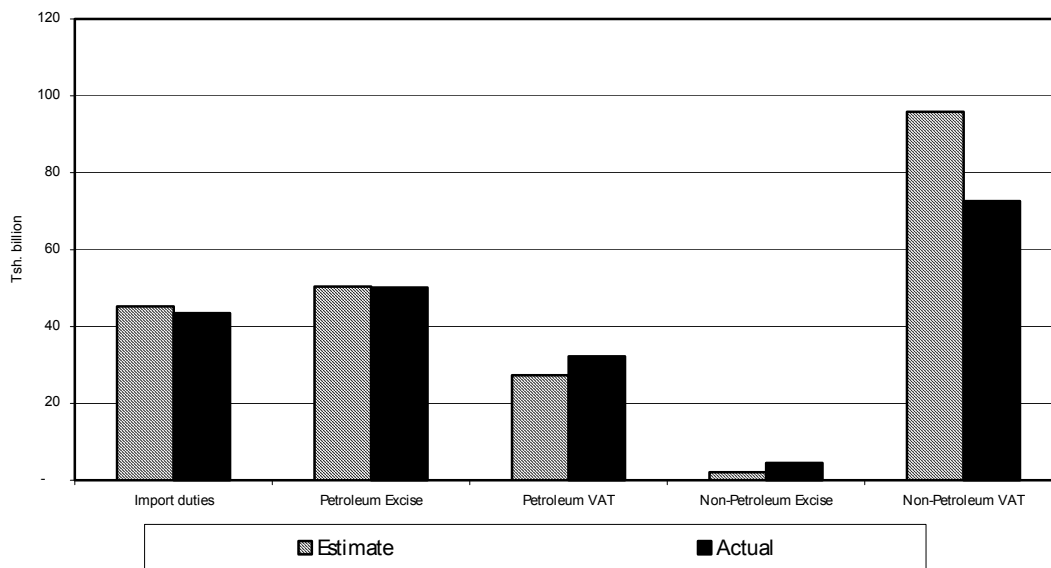
Taxes on Imports

9. Tax revenue from imports increased by 15 percent over last year, closely shadowing the increase in imports of 16 percent. Imports of intermediate and consumer goods (non capital goods), which are taxed, increased by 19 percent. Most of this increase was in intermediate goods rather than the more highly taxed consumer goods.

10. Chart 4 presents performance of import taxes for the first half of the fiscal year. Performance across import taxes was mixed. VAT on petroleum imports performed significantly above target as a result of improved compliance. VAT on non-petroleum imports performed significantly below estimates, reflecting lower than planned government purchases. This was due to delayed procurement by government agencies on account of the new regulations on government procurement. The above mentioned under performance is, however, fiscally neutral because both government expenditures and revenues are lower as a result.

CHART 4

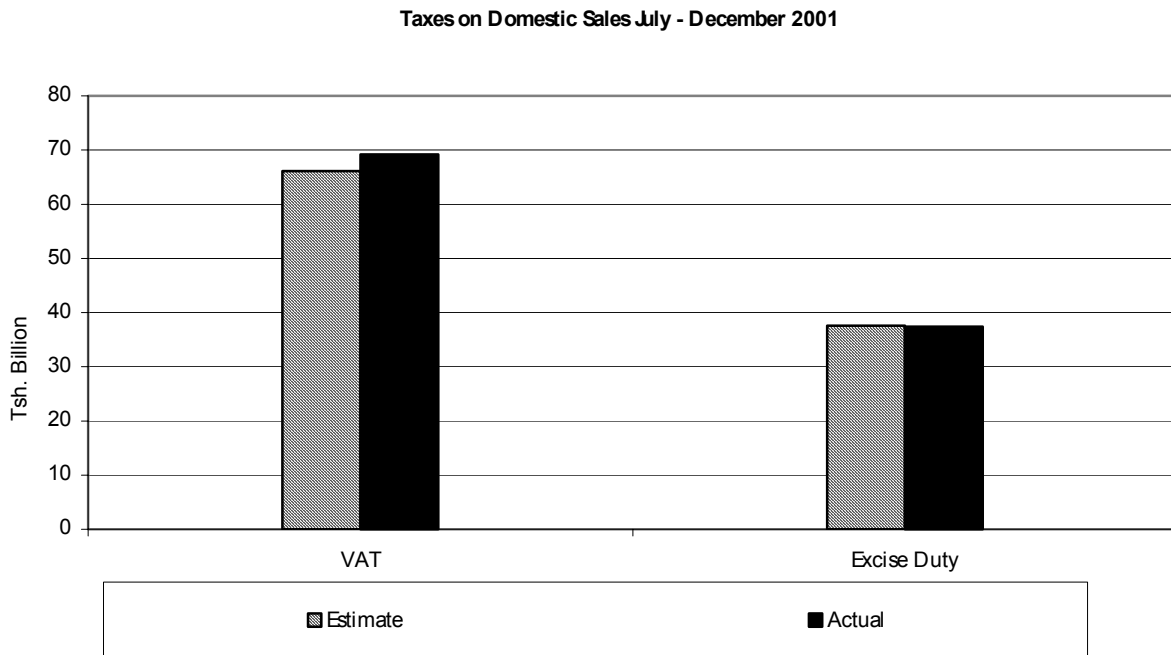
Taxes on Imports July to December 2001



Taxes on Domestic Sales

11. Overall taxes on domestic sales performed above targets, partly as a result of the setting up of the large taxpayers department within the Tanzania Revenue Authority. Cumulatively, taxes on domestic sales were 3 percent above estimates. A year-on-year comparison points to an increase of 16 percent on VAT for domestic sales while domestic excise registered an increase of 4 percent. Chart 5 presents the performance of taxes on domestic transactions for July to December 2001.

CHART 5

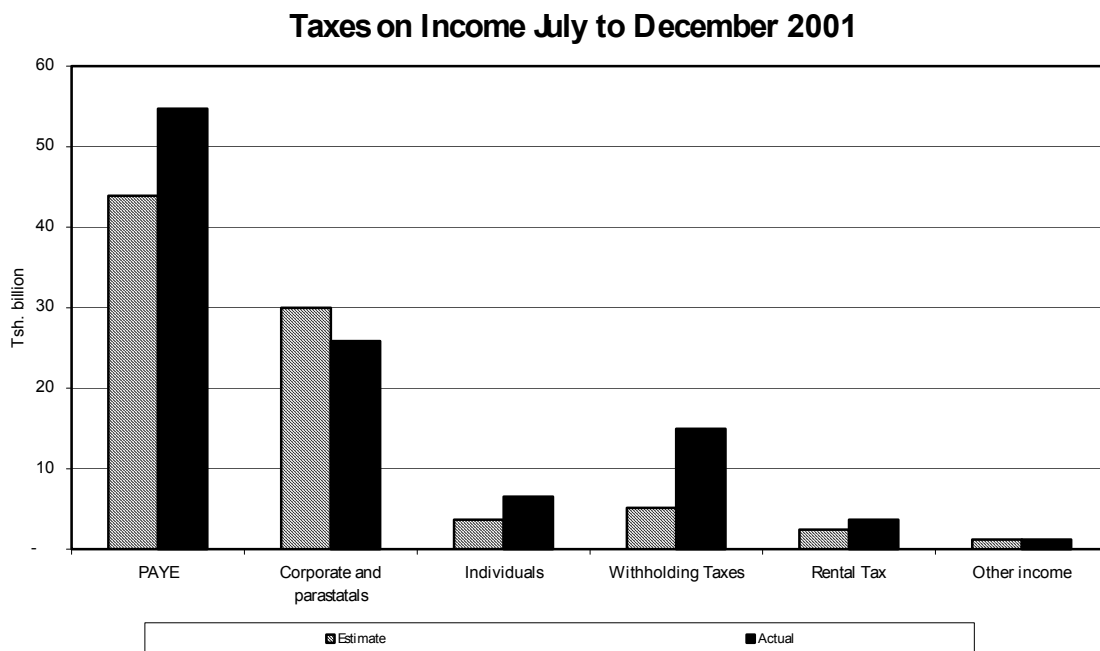


Taxes on Income

12. Total income taxes remained very buoyant during the first half of the fiscal year. Year-on-year collections increased by 13 percent. Chart 6 presents the performance of income taxes for the period July to December 2001.
13. Pay-As-You-Earn (PAYE) taxes performed well, and increased by 21 percent over last year. As the public sector is a very significant PAYE source, the public sector wage increase had a positive impact on PAYE revenue. In addition, growth in the mining sector contributed to higher PAYE payments. Withholding taxes also exceeded targets. Withholding tax on goods and services was eliminated for TIN registered businesses starting July 2001. The revenue loss envisaged from this action has been a lot less than estimated, thus withholding taxes have performed better than estimated.

14. Corporate taxes in the first half of the fiscal year were 86 percent of estimates for the period, but was higher by 24 percent over last year. While the private sector performed well, parastatals under privatization did not, probably because restructuring measures caused uncertainty and hence delayed the implementation of productivity enhancing measures. In addition, the tax measures of 1999/00 which allowed companies to carry forward losses to set against following year profits, and also to set capital expenditure against profits immediately rather than spreading the cost over the period of use, contributed to negative effects on corporate income tax revenue.

CHART 6



Non-Tax Revenues

15. Non-tax revenue collection was ninety seven percent of estimates. This marginal 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 accurately estimate the collections for the quarter. However, full year estimates remain robust.

EXPENDITURE BY CATEGORY

16. Total expenditure for the quarter ended December 2001 was Tsh 316 billion, 19 percent below estimates, thus continuing the trend experienced during the first quarter. Total expenditure for the half year was Tsh 595 billion, 25 percent below the estimates of Tsh 796 billion. Year on year, actual expenditure for the July – December period decreased by 6 percent. Annex C presents a quarterly detailed breakdown of expenditures by category.
17. Recurrent expenditures for October – December 2001 were Tsh 271 billion, 88 percent of estimates. First half of the year actual recurrent expenditure was also 83 percent of estimates, although year on year recurrent expenditures were 3 percent higher. This lower than estimated expenditure for the first half of the fiscal year is explained mainly by delays experienced by spending authorities on account of new procurement procedures, and certain contingent expenditures that did not materialise in the first half of the fiscal year. Chart 7 depicts the expenditure performance for major expenditure categories.
18. Expenditure on wages and salaries during October – December 2001 was Tsh 83.5 billion, 6 percent below estimates. For the first half of the fiscal year, expenditure was Tsh 168.3 billion, only 2 percent below estimates. Year on year, however, an increase of 12 percent was realized. Expenditure was below estimates due to slower than expected rates of recruitment, but greater than last year due to wage increases.

19. Development expenditures for October – December 2001 were Tsh 45.2 billion, below estimates by 53 percent. July – December 2001 development expenditure was Tsh 74.9 billion, 56 percent lower than estimated. Year on year actual development expenditure decreased by 42 percent. This low expenditure can be explained in part by delays in finalising project execution details and in part by lack of adequate information on foreign direct-to-project disbursements. It is expected that development expenditures will pick up as project implementation details are finalized and more information is received by the government on foreign project disbursements.

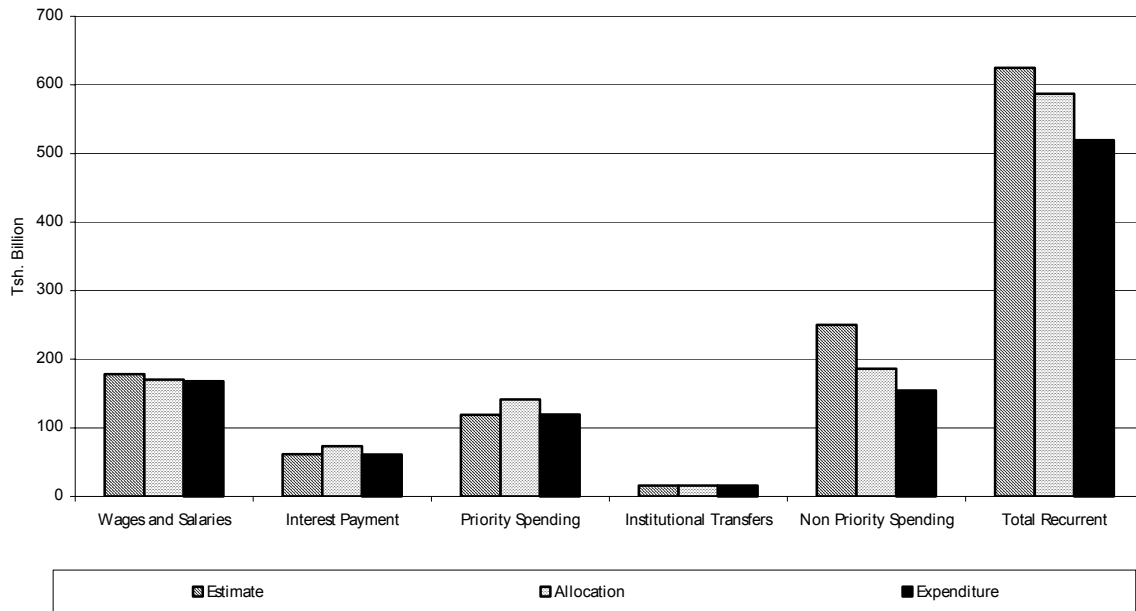
20. Total priority sector expenditure for October – December 2001 was Tsh 67 billion, 9 percent higher than estimates. During the first six months of the fiscal year, expenditure of Tsh 120 billion was realized, close to estimates of Tsh 119 billion. Year on year actual priority sector expenditure increased by 65 percent, the greatest area of increase being Other Social which saw an increase of Tsh 19 billion, mainly from disbursement of banded funds which has been recorded in this expenditure item. It is also important to note that the list of priority sectors has been expanded this fiscal year to include agriculture and lands.

21. The cash management system has continued to make quarterly allocations for priority sectors based on respective cash flow plans submitted to the Ministry of Finance, and therefore allocations to some priority sectors have been higher than estimated, however, actual expenditures for some priority sectors remained below estimates on account of the delays in procurement by spending agencies following the enactment of the new Procurement Act. The unutilised allocations will be carried forward to the second half of the fiscal year, when government procurement is expected to pick up sharply.

22. In addition to quarterly allocations for priority sectors, preparation of the core set of statistics was provided the remainder of its annual budget allocation in full. Thus, this activity has been fully funded.

CHART 7

Recurrent Expenditure by Category July - December 2001



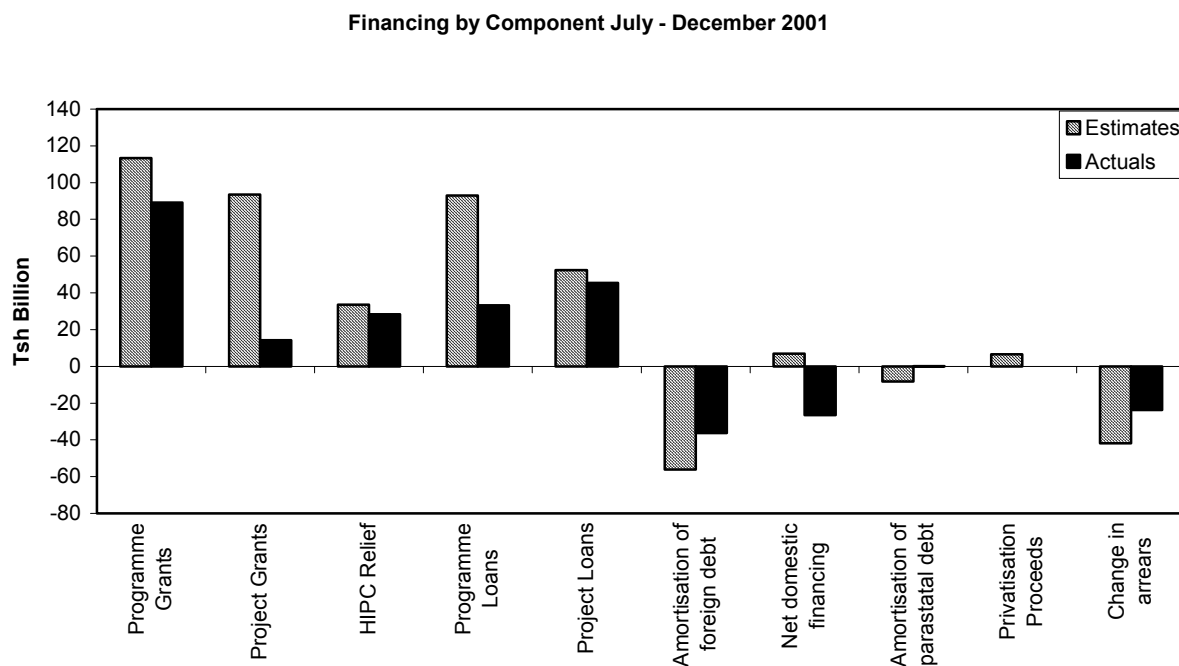
23. Interest payment, and subvention provided to the Tanzania Revenue Authority and the Capital Markets and Securities Agency were as estimated in the second quarter at Tsh 7.9 billion. For the first half of the fiscal year actual payment was Tsh 15.8, slightly below estimates of Tsh 16.6 billion. Year on year payments to TRA and CMSA increased by 17 percent.

FINANCING BY COMPONENT

24. Annex D provides detailed financing developments while Chart 8 presents a summary of financing for the first half of the fiscal year. As can be seen from Chart 8 there was significant shortfall in foreign inflows recorded, particularly project grants and programme loans. In addition, expected privatisation proceeds did not materialise in the first half of the fiscal year. However, there was a saving from foreign amortisation, mainly due to the reduction in principal debt service on account of HIPC Completion Point.

25. In November 2001, Tanzania became the fourth country to reach Completion Point under the Enhanced HIPC initiative. The Boards of the IMF and World Bank approved Tanzania's poverty reduction strategy implementation report and expressed full satisfaction with the country's stabilization and reform programme. Reaching Completion Point means that the 54% present value reduction in Tanzania's external debt that creditors had committed at Decision Point can now be fully operationalised. This translates into USD 1,020 million of net present value relief (in flow terms) from multilateral creditors, and USD 796.3 million of net present value relief (mostly stock) from Paris Club creditors. In nominal terms the committed debt relief to Tanzania amounts to USD 3,000 million. In light of the recently concluded Paris Club VII, Tanzania is set to obtain even higher relief from Paris Club creditors, some of which (Netherlands, Norway, UK, US, Italy, Germany and Canada) have indicated their willingness to cancel 100 percent of their claims. The Government is also working hard to obtain comparable treatment from non-Paris Club creditors.

CHART 8



26. During July-December, external grants and loans were substantially below estimate by Tsh 176 billion, and while amortization of foreign loans was also less than estimated, net financing from external sources was still less than estimates. In addition, while it was estimated that the government would borrow Tsh 6.9 billion from domestic sources, in contrast it made a net repayment of Tsh 26.6 billion.
27. Programme loans of Tsh 46.2 billion expected in the second quarter did not materialise. This was mainly on account of delays in finalising the conditions for the tranche disbursement under PSAC (IDA) and SAL II (ADF). These loans are now expected in the fourth quarter of the fiscal year.
28. The second quarter of the fiscal year realized total external grant inflows that were Tsh 42.0 billion below the expected level of Tsh 137.4 billion. The first half of the fiscal year registered a more significant shortfall of Tsh 108.7 billion, although year on year grants increased by 23 percent. This shortfall is mainly accounted for by 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. Project grants of Tsh 10.3 billion were received during the second quarter, in comparison to estimates of Tsh 46.7 billion. Tsh 14.2 billion was recorded July – December 2001, which was Tsh 79.3 billion below estimates. Programme grants during the second quarter, at Tsh 64.5 billion, remained broadly in line with estimates of Tsh 71.9 billion, but were 24 percent lower than estimated for July - December 2001. This arose mainly due to exogenous reasons. Banking system problems, resulting from tightened security checks for international monetary transfers after the September 11th events in the US, led to delays in receipt of inflows by the government.

29. With the aim of honouring the commitment of clearing all audited budgetary arrears by end-December 2001, the government allocated sufficient resources for the purpose. On account of the need for verification and logistical constraints Tsh 23.8 billion of the Tsh 41.9 billion was paid by December 2001. Further, in order to effectively address the problem of allocated arrears, the government implemented commitment control within IFMS, provided adequate funds for expenditure items that were prone to arrear accumulation and has not honoured any payment request not accompanied with an IFMS-generated local purchase order. Suppliers of goods and services were reminded not to supply any goods or services to any government agency without a local purchase order generated by IFMS.

30. Prudent implementation of the cash budget management system and lower expenditures due to slow procurement process, coupled with strong revenue performance, meant that lower than estimated foreign inflows did not result in domestic borrowing, and the fiscal situation remained stable.