Change: Joining the dots

National Budget 2013/2014

Commentary

The 2013/14 Budget targets a significant increase in revenue collection with a target of TZS 11,154bn for tax revenue and non-tax revenue combined, equivalent to 20.2% GDP (in contrast to the 2012/13 target of 18% of GDP).

Tax revenue collections for the 10 months to April 2013 were only 4% off target, and in his speech the Minister for Finance highlighted the significant increase in tax revenues generated by the mining and telecommunications sectors. However, the tax revenue target for 2013/14 is an ambitious 29% increase on the budgeted figure for 2012/13.

The targeted increase for non-tax revenues as compared to the 2012/13 budget is much more modest – set at 15%, but this is against a background of actual collections to date for non-tax revenues being significantly below target.

Where will the revenue come from?

The removal of exemptions is one key area. Changes here include further limitations in relation to tax reliefs on "deemed" capital goods, and the removal of a number of exemptions relevant to the tourism sector.

A major surprise for the airline sector will be the removal of the withholding tax exemption on aircraft lease rentals paid to non-residents. On top of this there is reference in the speech to the introduction of excise duty on aircraft and helicopters. Conversely, there is good news for the railway sector with customs duty being exempted on railway machinery and spare parts. In addition, there is a commitment by the Government to significantly increase funding for railway infrastructure.

Other budget impacts for the transport sector include an increase in taxes on petrol and diesel. Whilst these increases might cause some political heat and debate the reality is that taxes on fuel have been declining in real terms in recent years so an adjustment should not come as a surprise. Motorists will also be hit by a TZS 50,000 increase in annual motor vehicle licence rates.

One further change of significance for the transport sector is the announcement of the abolition of the compliant trader scheme. This change has been made to deal with abuse of the system by dishonest traders but will cause a concern as to even greater delays being occasioned at the Dar es Salaam port.

The VAT and excise contributions of the telecoms sector (TZS 287,533m in the 9 months to March representing a 29% increase on the previous year) are the largest of any sector. Perhaps emboldened by the significant increase in collections from this sector, and by it being the fastest growing sector (20.6% growth in 2012/13), the Minister for Finance has decided that even more can be extracted. Apart from extending excise duty to all services provided by the mobile phone companies (rather than just air time), the excise duty rate has been increased to 14.5%, which once compounded with 18% VAT results in a combined 35.1%. Taking into account the other levies paid by telecoms companies on turnover takes the tax on gross revenue to 36.5%!

A further change for the mobile phone companies is that they will now be required to withhold 10% withholding tax on commission paid to mobile money agents.

Overall the question will be how much tax the sector can bear. Ultimately, these costs will have to be passed on to consumers something that may depress demand – if not for telecoms services, then for other consumer goods.

Last year saw significant excise increases for alcohol (25%), tobacco (20%), and soft drinks (20%) and the adverse impact on demand is shown in collection statistics significantly below budget. This year's increase in specific excise duties is generally around 10% - so in essence an increase broadly in line with inflation. Nevertheless, given the further increase for telecoms and its likely impact on disposable income, as well as the empirical evidence of the adverse impact of the significant increase in the previous year, there is an argument that more revenue would be generated by no excise increase for these other sectors.

Excise duty has also been extended to a number of new items including amongst other things imported furniture, yachts, and intriguingly guns and ammunition and ski jackets!

The sugar industry has raised its concern as to the appropriateness of the import duty tariff structure given the adverse impact of significant imports on the local industry. An increase in the import duty tariff from 10% to 25% is a step in the right direction but it is unclear if this is sufficient to satisfy the local industry given the prevailing low world market prices.

A reduction in skills and development levy to 5% (from 6%) is a small step in the right direction in seeking to reduce taxes on employment. Interestingly, this charge on employer labour costs is now extended to Government institutions.

There is not much cheer for individuals in relation to income tax as tax bands have not been indexed to adjust for inflation. Indeed, the threshold for the top rate of tax was last changed in 2008. There is a reduction in the tax rate on the first taxable band to 13% from 14% - resulting in a maximum annual saving of TZS 22,800.

The introduction of a 5% resident withholding tax (stated to apply whether the recipient is TIN registered or not) seems like a step back to the old days of the goods and services tax. It is to be hoped that this withholding tax will not apply to VAT registered entities or corporate entities but we await to see the detailed legislation.

Looking forward, there was reference to a number of on-going tax reform initiatives that aim to increase revenues. These include a comprehensive review of the VAT Act, a study on tax exemptions, and a study on the underperformance of non-tax revenue.

In the immediate short term the question will be as to whether the revenue collection target of 20.2% of GDP can be achieved.

Change: Joining the dots

National Budget 2013/2014

The lowest PAYE marginal tax rate reduced to 13%

Introduction of withholding tax on payment to residents for services

SDL rate reduced to 5%

Significant increase in fuel taxes

Excise duty on mobile phone services increased to 14.5%

Increase in Annual Road licence fees

Introduction of excise duty from 10% to 25% on various "luxury" items as well as imported furniture

Inflationary increase on excise duty on alcohol, beverages and cigarettes

Tax Changes

Highlights based on Finance Minister's speech

Income Tax

Taxation of employees

Tax band remains unchanged. However, the marginal tax rate for individuals has been reduced from 14% to 13% on the lowest tax band (monthly income from TZS 170,000 to TZS 360,000). The change will result in a maximum tax saving of TZS 1,900 per month for the individual.

The new monthly tax table will be as follows:

Income TZS	Tax
Up to 170,000	Nil
170,001 to 360,000	13% on excess of TZS170,000
360,001 to 540,000	TZS 24,700 + 20% on excess of TZS 360,000
540,001 to 720,000	TZS 60,700 + 25% on excess of TZS 540,000
Over 720,000	TZS 105,700 + 30% on excess of TZS 720,000

The upper threshold of TZS 720,000 has not been increased from July 2008.

Withholding Tax

(i) Goods

Payments for supply of goods to the Government and Government institutions will now be subject to withholding tax at 2% regardless of whether the supplier has a Taxpayer Identification Number (TIN) or not. At the moment withholding tax of 2% is applicable on supply of goods and services by persons without TIN.

(ii) Commission on mobile phone money transfer

Withholding tax of 10% has been introduced on commission paid by mobile phone companies to retail agents in respect of mobile phone money transfer. This change has been introduced to tax what is perceived to be income not declared by some retail agents.

(iii) Services

Withholding tax of 5% has been introduced on payments for services regardless of whether the payee is TIN registered or not (previously 2% on non-TIN registered taxpayers).

It is not clear from the Minister's speech whether this change is intended to apply to payments made to resident persons only or to both residents and non-resident persons. It is also unclear whether it applies to all persons or just individuals, and whether it applies to VAT registered persons.

Currently, withholding tax of 15% applies to payments made to non-resident person in respect of services with source in Tanzania.

If introduced, this will create a significant administrative burden for (a) providers of services in seeking to offset such tax credits (b) those making payment in determining whether a payment is for goods or services.

(iv) Aircraft lease rental

Withholding tax exemption on payments to non-resident persons in respect of aircraft lease rental has been abolished. It is not clear from the Minister's speech what would be the applicable withholding tax rate.

However, at the moment the applicable withholding tax rate on payments of rent to a non-resident person is 15%.

Skills and Development Levy (SDL)

Reduction in SDL

After calls over several years by businesses to reduce the rate, SDL has been reduced from 6% to 5%. This is finally a move in the right direction as Tanzania is the only country in East Africa that has a tax payable by an employer on employment.

In order to fill the gap from the above reduction, Government agencies that do not depend to a large extent on government budget for running of their operations will now have to start paying the levy.

Indirect Taxes - Fuel

Petrol and diesel prices are set to increase by a minimum of TZS 174 and TZS 115 respectively as a consequence of the following changes:

- Excise duty on petrol has been increased from TZS 339 to TZS 400 per litre
- Excise duty on diesel has been increased from TZS 215 to TZS 217 per litre
- Fuel levy has been increased from TZS 200 per litre to TZS 263 per litre to cater for increased road maintenance costs.
- Petroleum levy has been introduced at TZS 50 per litre.

Implications of the above changes

The overall impact (assuming a current retail price for diesel and petrol of TZS 1,892 and TZS 2,057 respectively and that retailers will fully pass on the tax increase) could be an increase of around 6.1% in the retail prices of diesel and 8.5% for petrol.

	Diesel	
	Before TZS/litre	**After TZS/litre**
Excise duty	215	217
Fuel levy	200	263
Petroleum levy	0	50
Total taxes	415	530
Price pre-taxes	1,477	1,477
	1,892	2,007
Increase		**6.1%**

	Petrol	
	Before TZS/litre	**After TZS/litre**
Excise duty	339	400
Fuel levy	200	263
Petroleum levy	0	50
Total taxes	539	713
Price pre-taxes	1,518	1,518
	2,057	2,231
Increase		**8.5%**

It also appears that the Petroleum levy of TZS 50 will apply to all petroleum products as defined in The Petroleum Act 2008 (including bitumen, lubricants etc).

Indirect Taxes - Telecoms

Mobile phone companies continue to suffer the brunt of tax increases. Excise duty now applies to all mobile phone services (not just airtime as in the past) and the rate has again been increased from 12% to 14.5%. Last year there was an increase from 10% to 12%.

The 2.5% increase will be used to fund education.

This increase will be a bitter pill for both mobile users and operators, making calls more expensive and the business less profitable.

The table below illustrates that mobile phone companies are the highest taxed business in the country and would now pay TZS 36.5 for every TZS 100 of revenue.

Before budget 2012/2013

Charge before tax		100.0	
Excise Duty	12.0%	12.0	12.0
		112.0	
VAT	18.0%	20.2	20.2
		132.2	32.2
Local tax - service levy	0.3%		0.3
Levies to TCRA, UCAF	1.1%		1.1
Total tax and levies			33.6

After budget 2013/2014

Charge before tax		100.0	
Excise Duty	14.5%	14.5	14.5
		114.5	
VAT	18.0%	20.6	20.6
		135.1	35.1
Local tax - service levy	0.3%		0.3
Levies to TCRA, UCAF	1.1%		1.1
Total tax and levies			36.5

Such a tax level does not appear consistent with the country's need for modern communications technology bearing in mind the high taxes already existing in respect of purchasing the mobile phone devices. One also needs to bear in mind that apart from the indirect taxes, mobile phone companies also pay significant corporate tax, withholding taxes and payroll taxes.

Excise duty will also now be applicable to landlines and wireless telecom services.

Annual Road Licence fees for Motor Vehicles

Annual motor vehicle licence fees have been increased by TZS 50,000 as set out in the table below.

Engine Capacity	Old Rate TZS	New Rate TZS
Not exceeding 500 cc	50,000	Nil
Exceeding 500 cc but not exceeding 1,500cc	100,000	150,000
Exceeding 1,500 cc but not exceeding 2,500cc	150,000	200,000
Exceeding 2,500 cc	200,000	250,000

Value Added Tax

Removal of exemptions

VAT exemption on tourist services has been removed. This includes (i) Tourist guiding (ii) Game driving (iii) Water safaris (iv) Animal or bird watching (v) Park fees (vi) Tourist charter services (vii) Ground transport.

Tanzania is already perceived to be one of the most expensive tourist destinations in East Africa and this change will now add a further 18% to the tourist activities highlighted above.

Removal of zero-rating and introduction of special relief on supply of locally produced textile

Special relief has been introduced on supply of locally produced textile using locally produced cotton. Previously this supply was zero-rated.

Excise Duty

Increase of excise duty on non-utility motor vehicles older than 10 years to 25%

Excise duty on non-utility motor vehicles older than 10 years has been increased from 20% to 25%. This is aimed at discouraging the importation of aged vehicles, curbing the rate of accidents and protection of environment.

Introduction of excise duty on utility motor vehicles older than 10 years

5% excise duty has been introduced on utility motor vehicles under HS codes 87.01, 87.02 and 87.04 excluding tractors and unassembled vehicles. This is aimed at promoting investment and employment in the motor vehicle assembly industry.

Inflationary excise duty changes

Excise duty on soft drinks, beer, wine and spirits has also been increased by 10%. However it appears there will be no increase on excise duty on bottled water.

Goods	Old Rate TZS Per ltr	New Rate TZS Per ltr
Carbonated soft drinks	83	91
Juice (from locally grown fruit)	8	9
Juice (from fruit grown outside the country)	100	110
Clear beer (from 100% local unmalted	310	341
All Other Beer (Malted)	525	578
Wine with more than 75% locally grown grapes	145	160
Wine with more than 25% imported grapes	1,614	1,775
Spirits	2,392	2,631

The excise duty rates on cigarettes and other tobacco products has also been increased by 10%.

Goods	Old Rate TZS	New Rate TZS
Cigarettes without filter, containing more than 75% domestic tobacco	8,210 per thousand cigarettes	9,031 per thousand cigarettes
Cigarettes with filter, containing more than 75% domestic tobacco	19,410 per mil	21,351 per mil
Other cigarettes not mentioned above	35,117 per mil	38,628 per mil
Cut rag/filler	17,736 per kg	19,510 per kg

Excise duty on cigars remains at 30%.

Introduction of excise duty on various products

Excise duty ranging from 10% to 25% has been introduced on various products including, among others, carpets, leather suitcases, leather apparel and clothing, guns and ammunition, yatch and boats for pleasure and aircraft and helicopters of an unladen weight exceeding 2,000kg.

Imported furniture will also now be subject to 15% import duty. This is to promote local production of furniture.

Customs Duty

A council of Finance Ministers from the East African Countries who met in Arusha Tanzania on 7th June 2013 agreed to pass various changes to the East African Community Common External Tariff (CET) and the East African Community Customs Management Act 2004 (EACCMA 2004).

These have been outlined below.

1. *Extended stay application of duty at 35% on wheat grain under HS*

Code 1001.90.20 and 1001.90.90. Instead a CET rate of 10% will be applied for a period of one year. This is aimed at providing import relief on wheat grain.

2. *Reduction of import duty rate*

Rice and sugar are sensitive items and currently attract import duty at 75% and 100% respectively under the Common External Tariff Handbook.

Currently these are imported at a reduced rate of 10% when there is a shortage in the local market via stay application. This rate will now be increased to 25%.

3. *Amendment to the 5th Schedule*

In line with the current efforts to improve the railway transport, the 5th Schedule has been amended to cater for exemption of import duty on machinery and spare parts imported by Tanzania Railways Limited for use in railways operations. This measure is aimed at reducing operational costs and improvement of railway operations.

4. *Import duty remission and exemption on/to the following items*

- Continuing duty remission on soap manufacturers using LABSA as raw materials under HS Code 3402.11.00; HS Code 3402.12.00; and HS Code 3402.19.00 for a period of one year. The measure is intended to encouraged growth and production of soap manufacturing especially to small industries producing soaps in the country.

- Introduction of import duty exemption to plastic bag biogas digesters under HS Code 3926.90.90. This measure is intended to promote the use of alternative sources of energy and preserve environment.

- Introduction of exemption of import duty to goods imported by the National Intelligence Services.

- Continuing import duty exemption to Armed Forces Canteen Organisation for the period of one year.

5. *Increase import duty rate*

The import duty rate for millstones and grindstones for milling, grinding or pulping (HS Code 6804.10.00) has been increased from 0% to 25%. This measure is intended to protect local industries in the EAC region.

6. *Splitting of tariff*

The tariff line under HS Code 8421.29.00 has been split in order to grant exemption of import duty to water treatment effluent plant. This measure is intended to promote the usage of the plant in the industries and preservation of environment.

7. *Measures to curb revenue leakage*

- The Compliant Trade Scheme has been abolished to curb the current perceived wave of abuse by some unfaithful traders.

- Measures will be taken to improve the Import Export Commodity Data Base (IECDB).

Reduction of import duty exemption on "deemed capital goods"

The Minister has proposed to reduce tax exemptions originally granted to goods known as "deemed capital goods" from 90% to 75%.

This means investors will be obliged to pay 25% of the due tax.

The Minister has also proposed introduction of a list of items which cannot be deemed as capital goods:

- Office equipment;
- Stationeries;
- Furniture;
- Sugar;
- Beverages;
- Spirits;
- Tiles;
- Fuel;
- Saloon cars;
- Air conditioners;
- Fridges; and

- Electronic equipment.

Other tax changes

The Minister has also proposed various changes on other non-major taxing legislations as outlined below.

Unsolicited Public Private Partnership proposals

Amendments have been made to the Public Procurement Act, 2011 and Public Private Partnership Act, 2010.

With these amendments, complex "Unsolicited Public Private Partnership proposals" will not be subject to competitive bidding process in order to attract local and international investors.

Contribution of 10% of gross revenue to the Consolidated Fund by Public institutions

Public institutions, including Regulatory Authorities, public corporations and Government agencies will now be required to remit 10% of their gross revenues to the Consolidated Fund.

Amendment to Rates for fees and various levies

There will be new rates for fees and various levies charged by the Ministries, Regions and Independent Departments. This is aimed at rationalising with the current level of economic growth.

Change: Joining the dots

National Budget 2013/2014

Economic growth of 6.9% as compared to 6.4% in 2011

The Economy

Highlights based on speeches by the Minister of Finance and Economic Affairs on 13th June 2013

Past Performance 2012/13

The economy of Tanzania is estimated to have attained real GDP growth of 6.9% in 2012 compared with 6.4% in 2011.

Target of GDP growth of 7% in 2013 and 7.2% in 2014

Domestic revenue for the ten months to the end of April 2013 was TZS 6717.2 billion representing a shortfall of TZS 492 billion compared to the target TZS 7,209.2 billion target.

For 2013/14, domestic revenue collection has been projected at TZS 11,154.1 billion. This compares to a 2012/13 target of TZS 8,715 billion

Growth is largely attributed to improved infrastructure in transport and communication as well as increased capacity of industrial production. This is a result of Government efforts in ensuring availability of sustainable electricity supply and the use of alternative sources of energy. Moreover, this growth has been contributed by increased agricultural production due to favourable weather conditions and government efforts in providing subsidized quality seeds and pesticides on time.

Annual inflation rate in 2012 was 16%, but had declined to 8.3% by May 2013

The annual inflation rate was 16.0 % in 2012 compared to 12.1% in 2011. This increase has been attributed to general increase in fuel prices in the world market and the increased demand of food crops in the neighbouring countries. As at May 2013 the inflation rate had declined to 8.3%.

Challenges ahead

Despite some achievements in economic growth and revenue collection some challenges remain. These include:

- Enhancing domestic revenue collections;
- Timely accessing grants and loans for financing development projects;
- Increasing arrears emanating from contractors, suppliers employees and service providers;
- Improving economic infrastructure;
- Managing public procurement to ensure value for money;
- Improving productivity across economic agents;
- Unlocking geographical potentials to bolster economic growth;

- Ensuring food sufficiency;
- Providing reliable power supply to consumers from mixed energy sources;
- High lending interest rates sustaining national debt;
- Curbing inflation;
- Climate change;
- Enhancing provision of quality social services in particular education, water and health;
- Creating employment opportunities for the citizens;
- Motivating private sector to participate effectively in projects execution through the Public-Private Participation arrangement; and
- Availability of agricultural inputs at affordable cost to farmers.

Budget Objectives 2013/14

The 2013/14 budget takes into account the priorities set in the Annual Development Plan of 2013/14 and the Big Results Now, National Strategy for Growth and Poverty Reduction phase II (MKUKUTA II), the Millennium Development Goals (MDGs) 2015, the CCM Election Manifesto 2010 and the Public Sector Reform Programmes. The goal is to realize the objectives of the Tanzania Development Vision 2025.

The 2013/14 Budget Framework

The 2013/14 budget sets out the following targets:

- To achieve real GDP growth rate of 7.0 % in 2013 and 7.2% in 2014;
- To reduce the inflation rate and to maintain it in a single digit with annual inflation expected to decline further to 6.0% by June 2014;
- Increase domestic revenue to 20.2% of GDP in 2013/14 compared to the likely outturn of 17.7%of GDP in 2012/13;
- Maintain budget deficit after grants not exceeding 5.0% of GDP in 2013/14;
- Contain the growth of extended broad money supply (M3) at 15.0% by June 2014, consistent with real GDP growth and inflation targets;
- Accumulate gross official reserves adequate to cover at least 4.0 months of imports of goods and services in 2013/14;
- Reduce interest rate spread; and
- Strengthen the shilling and maintain a stable and market determined exchange rate.

Revenue

The budget policy measures on revenue are focused on domestic revenue collection. For 2013/14 domestic revenue collection is projected at TZS 11,154.1 billion, equivalent to 20.2% of GDP. The specific details of the revenue enhancing measures are set out in our highlights of tax changes.

In summary, the budget revenues will be as follows:

Revenue	**TZS m**
Domestic Revenue	11,154,071
LGA Own Source	383,452
General Budget Support	1,163,131
Foreign Loans and Grants Including MCA (T)	2,692,069
Domestic Borrowing	1,699,860
Non-Concessional borrowing	1,156,400
Total Revenue	**18,248,983**

The Government intends to widen the revenue base through identifying new sources, strengthening administration of the current sources and reducing the magnitude of tax exemptions. The objective is to reduce dependency on foreign aid as well as on international trade taxes which have shown a declining trend as a result of growth of regional economic cooperation in the East African Community (EAC) and the Southern African Development Community (SADC).

Expenditure

The Government is proposing to spend TZS **18,248,983** million in 2013/14 as follows:

Expenditure	TZS m
Recurrent	12,574,949
Development	5,674,034
Total Expenditure	**18,248,983**

Recurrent Government expenditure in 2013/2014 will focus on:

- Financing the payments of wages and salaries TZS 4,763 billion
- Government Institutions and Agencies, Consolidated Funds Service (CFS) TZS 3,319.2 billion, and
- TZS 4,492.6 billion is allocated for other charges (OC).

Development Government expenditure in 2013/2014 will focus on:

- Infrastructure: - energy infrastructure; transportation (roads, railway, airports and marine transport); ICT; clean water and sewerage and irrigation
- Agriculture: - including food and cash crops, industrial raw materials, livestock, fisheries and forestry
- Industries:- which use domestic raw materials and value addition, heavy industries for fertilizers and cement, factories in the Special Economic Zones, electronics and ICT
- Human resources and skills development by emphasizing science, technology and innovations
- Developing tourism, trade and financial services and
- Social services: improve the availability and quality of social services

Credit and Money Supply

Extended broad money supply (M3) increased by TZS 14,730.7 billion in 2012 from TZS 13,021.3 billion, equivalent to 13.1%. The growth of M3 was below the year target of 15.1%, and 18.2% of year 2011. This trend was due to a decrease in assets in dollar terms in the commercial banks and decreased rate of provision of loans to the private sector. Extended broad money supply (M2) grew by 16 % to TZS 10,724.5 in 2012 from TZS 9,247.9 billion in 2011. This compares to 15.0% in 2011.

Balance of Trade

Tanzania recorded a trade deficit of 624.10 USD Million in March 2013. Between 2006 and 2013, Tanzania's monthly Balance of Trade averaged -296.79 USD Million reaching an all time high of -101.80 USD Million in January of 2006 and a record low of -763 USD Million in August of 2011. Tanzania's major exports are agricultural commodities with tobacco, coffee, cotton, cashewnuts, tea and cloves being the most important. Other exports include gold and manufactured goods. Tanzania main exports partners are India, Japan, China, United Arab Emirates, Netherlands and Germany. Tanzania imports mostly transport equipment, machinery, constructions materials, oil, fertilizers, industrial raw materials and consumer goods. Main imports partners are: China, India, South Africa, Kenya and United Arab Emirates.

Sector policies and programmes to support budget initiatives

Agriculture, Livestock, Forestry and Hunting

The agriculture sector grew by 4.3 % in 2012 compared to 3.6% in 2011. This growth was attributed to increased agricultural production due to favourable weather conditions in the 2011/2012 agriculture season, and government efforts in providing subsidised quality seeds, pesticides and other inputs in timely fashion.

The contribution of agricultural economic activities to GDP was 24.7 % compared to 24.6 % in 2011.

Fishing

Fishing grew by 2.9% in 2012 compared to 1.2% in 2011. The contribution of fishing activities to GDP has been 1.4% for the last three consecutive years.

Industry and construction

The industry and construction sector includes manufacturing, electricity and gas, water supply, mining and quarrying and construction. Industry and construction economic activities grew by 7.8% in 2012 compared to 6.9% in 2011. The increase has been attributed to the growth of small industry activities. The share of industry and construction sector in GDP was 22.1% in 2012 compared to 21.9% in 2011.

Construction

The construction sub-sector grew by 7.8% in 2012 compared to 9.0 % in 2011. This decrease was as a result of completion of various construction projects. Despite the decline in growth, the share of construction activities in GDP increased to 8.1% in 2012 from 8.0% in 2011.

Manufacturing

Manufacturing activities grew 8.2% in 2012 from 7.8% in 2011. This was due to the increased production of industrial products especially food products, drinks, metal products as well as government efforts in improving the availability and distribution of electricity. The share of manufacturing in GDP was 8.4% in 2012, as it was in 2011.

Electricity and gas

Growth in the electricity and gas sub-sector was 6.0% in 2012 compared to 1.5% in 2011. The increase has been influenced by the initiatives taken by the government to ensure reliable availability of electricity especially from diesel (thermal) and gas. The electricity generation increased by 10.4% from 5,226.0 million kWh in 2011 to 5771.4 million kWh in 2012. The share of electricity and gas activities in GDP was 1.9% compared to 1.8% in 2011.

Water Supply

The water supply sub-sector grew by 5.4 % in 2012 compared to 4.0% in 2011. This growth has been contributed by implementation of various water projects including, well drilling and expansion of Ruvu Juu and Ruvu Chini facilities. The share of water supply in GDP was 0.3% in 2012 as it was in 2011.

Services

Communications

The communication sub-sector continued to have the highest growth rate in 2012 compared to other economic activities. The growth rate in communication services was 20.6% in 2012 compared to 19.0 % in 2011. This was mainly due to the increased number of mobile phone subscribers. The share of communication in GDP was 2.3% in 2012 compared to 2.2 % 2011.

Trade and Maintenance

The trade and repair sub-sector grew by 7.7% in 2012 compared to 8.1 % in 2011. This decline was mainly due to the stability of regional trade activities. Further to that, the increase in price of electricity, adversely affected these activities. However, the share of trade and repair activities in GDP grew to 12.3% from 12.2% in 2011.

Education and health

Education and health services grew by 6.5% and 5.6% in 2012 compared to 7.4% and 5.4% in 2011 respectively. The lower growth in education services is attributed to the decline in new employment of teachers. The growth in health services was as a result of the implementation of various programmes including immunization, malaria, tuberculosis and HIV- AIDS. The share of education in GDP remains at 1.4 % for the past four consecutive years, while the share of health services in GDP was 1.7% in 2012 as it was in 2011.

Cross-cutting issues

Aside from sectorial activities, the Government also plans to undertake significant steps to address several cross-cutting issues that impact on the economy. These include:

Reducing Public Expenditure

The Government will continue to build capacity of accountants, procurement officers, stock verifiers and internal auditors. Moreover, the Government will strengthen Government Asset management and carryout verifications of Government assets in Ministries, Regions and Local Government Authorities with the aim of improving the Government Assets Register as well as identifying obsolete assets for disposal.

Implementation of the Public Procurement Act

The Government is reviewing Public Procurement Regulations to ensure that goods and services procured achieve the value for money objective. The Government will continue with sensitisation programmes on the use of Information Communication Technology to reduce operational expenses.

Improving Management of National Debt

The Government is finalising the establishment of a National Debt Management Department in the Ministry of Finance which is expected to be in operation by year 2013/14.

Improvement in the Financial Management System

To ensure the implementation of the budget, the Government will build capacity to users of the Integrated Financial Management System (IFMS) especially on the improved areas of EPICOR version 9.02.

Conclusion

To implement the 2013/14 budget, the Government has decided to focus on implementing the National Strategic Investment projects to reduce costs of living by putting in place strategies to improve discipline in planning and execution of development projects in order to get value for money. On the basis of this, the Government has identified six key strategic areas:

- Resource mobilization
- Agriculture
- Water
- Education
- Energy, and
- Transport.