



ENHANCING DOMESTIC RESOURCE MOBILIZATION IN SUB-SAHARAN AFRICA

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Domestic Resource Mobilization: The Case of
Tanzania

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ROAD MAP

- Introduction
- Binding Constraints to DRM
- Strategies for Improving DRM
- Recommendations

1. INTRODUCTION

- The need for DRM widely accepted in African countries
- A sustained increase in growth rates require higher level of savings and investment
- Over the recent years, Tanzania has exhibited strong macroeconomic performance
- Spending needs of Tanzania are growing rapidly more than the foreign resources can actually meet
- It is important that the country seeks ways to mobilizing more domestic financial resources.

2. BINDING CONSTRAINTS TO SAVINGS MOBILIZATION

- Constitutional/Legal Constraints
- Fiscal constraints
- Financial and Monetary Constraints
- Other Constraints

2. BINDING CONSTRAINTS TO DRM

2.1 Constitutional Constraints

- The role of parliament is limited by the constitution
- Authorization of taxes and public expenditures is a primary function of the legislature in a democratic system.
- In East African Parliaments the role of parliaments is embedded on UK model
- The Tanzanian Constitution has only two provisions on financial matters:
 - Articles 99 and 138

2. BINDING CONSTRAINTS TO DRM

2.2. Fiscal Constraints

- Narrow tax base
- Lack effective Assessment and Collection of Tax from the Informal Sector
- Lack of effective taxation of property

2. BINDING CONSTRAINTS TO DRM

2.3 Financial and Monetary Constraints

- Inadequate financial services
- Physical distance from banking institution
- High minimum deposit and balance requirements
- Many documentation required to open a bank account
- Low interest rates on deposits
- Multiplicity of bank charges
- High interest rate spread

2. BINDING CONSTRAINTS TO DRM

Table 1.: GDP growth, Inflation, and Interest Rates

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP Growth	4.1	4.8	4.9	6.0	7.2	6.9	7.8	7.4	6.7	7.1	7.4
Inflation	12.8	7.9	5.9	5.1	4.6	3.5	4.2	6.0	6.2	8.8	10.3
Exchange rate (TZS/USD)	681.0	797.3	803.3	916.3	976.7	1063.6	1043.0	1165.5	1261.6	1132.1	1280.3
Lending rate		22.7	23.1	18.0	15.7	13.8	14.8	15.0	16.4	15.3	15.1
Time deposit rate		7.2	5.8	4.0	3.4	3.9	4.4	5.3	7.2	8.3	6.8
Savings deposit rate		7.1	4.7	3.6	2.7	2.5	2.6	2.6	2.6	2.7	6.12.7
Real Deposit rate		-0.8	-1.2	-1.6	-1.8	-1.0	-1.6	-3.4	-3.6	-	-7.6
Interest rate spread		15.6	18.4	14.5	13.0	11.4	12.2	12.4	13.8	12.6	12.4
M3 to GDP ratio	13.2	14.9	16.3	18.0	21.0	22.9	25.3	32.6	37.3	42.2	30.0
M2 to GDP ratio	10.8	11.9	12.7	13.6	15.5	16.5	18.2	23.3	24.8	29.8	22.1

Source: Bank of Tanzania

3. STRATEGIES TO ENHANCE DRM

3.1 Collecting Taxes from the Informal Sector

- A reflection on Tanzania ought also to recognize the *simple taxpayer analysis* to appreciate the yield for an effort directed at the informal sector.
- Figure 1, which is based on Kimungu and Kileva (2007) shows that majority (in numbers) of the tax payers are small formal enterprises, but what they pay is maximum of 10% of the total revenue.

3. STRATEGIES TO ENHANCE DRM

- Figure 1: Analysis of Taxpayers

	Tax payer group	Number of tax payer groups as percentage of total	collected by tax payer
Formal	Large	10	70
	Medium	5.25	10 to 25
	Small (SMEs)	70.95	0-10
Informal			

Formalization

3. STRATEGIES TO ENHANCE DRM

3.2 Exploiting Property Tax Potential

- Most properties not contributing adequately to tax revenue
- One means of ensuring compliance will be to set affordable rates but with effective enforcement to benefit from the economies of scale in collection.

3. STRATEGIES TO ENHANCE DRM

3.3 Enhancing private savings

- Reducing interest rate spread
 - The Bank of Tanzania should consider lowering its prime rate
- Credit should be provided to private sector at concessionary terms
- Increasing banking institutions in the rural areas
- Increasing investment opportunities
- The government should expand its efforts to develop long-term public debt

4. RECOMMENDATIONS

- The government should widen the tax base by designing better and more effective ways of taxing the informal sector. One way to go around this is by imposing presumptive taxes.
- The government should widen the tax base by strengthening taxation of property.
- There is a need to reduce the interest rate spread. This can be done by either reducing the lending rate or increasing the deposit rate

4. RECOMMENDATIONS

- In view of the existing financial constraints, there is need to establish development banks particularly in the rural areas. Setting up these banks will increase people's access to credit.
- To stimulate stock market performance and increase its size, the government should impose a threshold above which a company must list, educate people on stock market activities.
- The government should also encourage banks to diversify their services to rural areas.



END

Thank you for listening