

**SPEECH BY THE MINISTER FOR FINANCE**

**HON. BASIL P. MRAMBA (MP) INTRODUCING**

**TO THE NATIONAL ASSEMBLY THE**

**ESTIMATES OF GOVERNMENT**

**REVENUE AND EXPENDITURE FOR**

**THE FINANCIAL YEAR 2005/06**

**ON 8TH JUNE, 2005**

1. Mr. Speaker, I beg to move that this esteemed House now resolves to debate and approve Government proposals for Revenue and Expenditure estimates for the Financial Year 2005/06. This Government budget has been consolidated into four volumes: volume one presents revenue estimates; volumes two and three describe recurrent expenditure estimates for ministries, government departments, regions, urban and district councils; and volume four presents development expenditure estimates for the ministries, government departments, regions, and councils. In addition, there is the 2005/06 Finance Bill.

2. Mr. Speaker, allow me to begin by expressing my sincere appreciation to everyone, who in one way or the other, participated in the preparation of this budget. The Finance and Economic Committee of the Parliament and Sector Committees did a commendable job in keenly scrutinising the budget estimates with a high standard of professionalism; and their advice has been incorporated. I would like to thank the Office of the Attorney General for preparing various bills and legal notices for this budget. I would also like to express my gratitude to my colleagues in the Ministry of Finance, in particular the Deputy Ministers for Finance, Hon. Abdisalaam Issa Khatib (MP) and Hon. Dr. Festus Limbu (MP); the Permanent Secretaries, Mr. Gray Mgonja, and Mr. Peniel Lyimo; Deputy Permanent Secretary, Mr. Ramadhan Khijjah; and all Heads of Department and staff of the Ministry of Finance, for their contributions in the preparation of this budget. Let me also thank the Government Printer for the timely publication of this budget speech, the budget books and bills related to this budget. Finally, my sincere thanks go to the wide range of stakeholders, who made proposals to me and shared their insights and policy recommendations, in particular on tax measures. Their views and comments have been taken into account in this budget.

3. Mr. Speaker, in the past eleven months, we have lost five colleagues, who passed away. They are: the late Hon. Yete Simtemule Mwalego, who was Member of Parliament for Mbeya Rural; the Late Hon. Theodos James Kasapila - Ulanga East, the Late Hon. Frank Michael Mussati - Kasulu East, the Late Hon. Ambassador Ahmed Hassan Diria - Rahaleo, and the Late Hon. Abubakar Towegale Kiwanga - Kilombero. May God rest their souls in eternal peace, Amen.

4. Mr. Speaker, this is the last parliamentary budget session of the Third Phase Government, and this budget is the tenth since the Third Phase Government took power in November 1995. Most of us will be returning to our constituencies in accordance with the law and procedures, to request the people's mandate to come back to this Hall, which will be new. I have high hopes that

people will not forget the achievements of the Third Phase Parliament and its Government. The Third Phase Government under the leadership of President Benjamin William Mkapa has made profound achievements, which we are all proud of, notably in economic recovery, growth, attainment of macroeconomic stability, infrastructure development, and improvement in social service delivery. The Government's ability to provide basic socio-economic services has more than doubled during the nine years the Third Phase Government has been in power.

5. Mr. Speaker, I would like to congratulate your esteemed House under your able leadership, for the invaluable contribution that has enabled the Third Phase Government under CCM to attain great achievements. I also take this opportunity to congratulate our fellow Member of Parliament, Hon. Jakaya Mrisho Kikwete, CCM MP for Chalinze and Minister for Foreign Affairs and International Cooperation, for his overwhelming nomination by Chama Cha Mapinduzi as its Presidential candidate for the coming general elections. The CCM choice is a sign of confidence the Party has in us, as Members of Parliament, and in the Parliament itself as an institution. This example should be emulated by other political parties in the country.

6. Mr. Speaker, as I said earlier, this is the tenth budget of the Third Phase Government since CCM came to power in 1995. During this period, the Government budget has been instrumental in fostering economic development in the country. Through putting in place budget control mechanisms, under prudent fiscal policy, the economy has been stabilised as we have learned to live within our means.

## THE PAST AND THE WAY FORWARD

### A. ACHIEVEMENTS OF THE THIRD PHASE GOVERNMENT

7. Mr. Speaker, during the past nine years, Tanzania has enjoyed a strong and stable economy despite external shocks such as floods caused by El Nino rains, a series of droughts, increases in fuel prices in the world market, and the collapse of world market prices for major agricultural commodities. Despite these setbacks, the Third Phase Government has implemented many programmes geared towards making the livelihood of Tanzanians better and safer. Some of these achievements have been explained in detail by Hon. Dr. Abdallah Kigoda, the Minister of State, President's Office, Planning and Privatisation. Other achievements will be presented by the Honourable Prime Minister and Sector Ministers when they table their respective budget estimates.

8. Mr. Speaker, to elaborate further, the achievements of the Third Phase Government include the following:

(a) Putting in place strong structures for domestic revenue collection, strengthening Government-donor relationships and effective budget management has enabled the Government to achieve and sustain macro-economic stability.

(b) Instituting and maintaining fiscal discipline and avoiding indiscriminate printing of notes has enabled the Government to reduce inflation from 21 percent in 1996 to 4 percent in 2005.

(c) The rate of GDP growth has accelerated from 4.2 percent in 1996 to 6.7 percent in 2005. This rate of economic growth has elevated Tanzania to among the top in the African region.

(d) The balance of payments has strengthened substantially. Our foreign reserves are sufficient to cover 7 months of imports of goods and services compared to only 2 months ten years ago. Although our exports in the world market have not risen markedly, our balance of payments has improved due to direct foreign investment and foreign aid, which has tripled. Other contributing factors include debt relief, tourism growth and foreign exchange liberalisation.

(e) Due to an attractive investment environment, there are now 26 commercial banks compared to only 2 in 1996. Similarly, there are five non-banking financial institutions compared to only 2 in 1996. Commercial bank credit to the private sector has increased and is growing at a rate of 30 percent per annum, while bank lending rates have dropped from an average of 26 percent in 1996 to 14.4 percent in 2004.

(f) Money and capital markets have also grown. There is now a Stock Exchange, about ten insurance companies, and many more financial services which did not exist ten years ago.

9. Mr. Speaker, the main pillars of a sustainable economy are domestic savings and investment. Domestic savings come from two major sources, which are taxes and deposits from ordinary people and businesses in banks and other financial institutions. Tax revenue is the major source of Government capacity to finance economic and social services, defence and security, and investment in development programmes.

10. Mr. Speaker, during 1995/96, the Government collected Tshs. 448.4 billion equivalent to Tshs. 37 billion per month. In the fiscal year 2004/05, the Government expects to collect a total of Tshs. 1,774 billion or Tshs. 145 billion per month. This represents an increase of more than four times over a ten year period.

11. Mr. Speaker, the increase in revenue collection is attributed to the implementation of prudent fiscal policies and tax administration during the period. Briefly, the following revenue measures were implemented by the Third Phase Government:

(a) Tax policies and systems underwent major reforms including harmonization of various taxes with the aim of simplifying their collection.

(b) Most nuisance taxes or those with little productivity were abolished, including the development levy.

(c) The Value Added Tax (VAT) was introduced in 1997.

(d) Major routes of tax evasion have to a large extent been put under control.

(e) Through effective tax administration, domestic revenue collection by the Tanzania Revenue Authority (TRA) has more than doubled. The new Large Tax Payers Department has been instrumental in improving the environment for better compliance.

(f) Annual consultations between the Government and tax payers, through the Task Force on Tax Reforms, has increased morale for voluntary tax compliance.

(g) Various tax laws have either been amended or repealed to take into account new developments.

(h) Management capacity within the TRA has been strengthened and more capacity building is being undertaken.

(i) The Tax Revenue Appeals Board (TRAB) and the Tax Revenue Appeals Tribunal (TRAT) were established in 2000, aimed at addressing the concerns of tax payers.

(j) Customs procedures have been restructured to become more modern. For example, all fuel imports through Dar es Salaam port are offloaded through a flow meter while container shipments go through screening equipment known as "Container Scanners" in order to control tax evasion.

12. Mr. Speaker, these measures have enabled the Government to surpass revenue collection targets, and coupled with external grants and concessional financing from Development Partners and International Financial Institutions, have given the Government the capacity to invest significantly in various socio-economic programmes such as in health, education, roads, water, agriculture, and other sectors. Budget allocation in these sectors also increased almost four-fold during the period and the positive outcome in these sectors are glaringly apparent.

13. Mr. Speaker, in view of sound economic policies, good governance and accountability, accompanied by disciplined utilisation of Government resources, we have restored good relationship with our Development Partners, which has resulted in external aid doubling over the last decade. External grants and concessional loans have increased from Tshs. 187.0 billion in 1995/96 to Tshs. 1.7 trillion this year. Likewise, the Tanzania Assistance Strategy has contributed to an increase in external aid, particularly in the form of General Budget Support. When the Third Phase Government came to power, Tanzania did not receive direct budget support from Development Partners. All aid to the country was delivered directly to projects, which were conceived and implemented by donors themselves. The Government had little or no control over them. The situation is different today. We are in control of programme and project formulation and implementation. A great proportion of aid is now disbursed as General Budget Support. Also, a large proportion of concessional credits from the World Bank and the African Development Bank are provided through General Budget Support. This is sufficient evidence of the confidence the international community has developed in the Third Phase Government led by President Benjamin William Mkapa. Tanzania is among the few pioneers of this aid modality in Africa south of the Sahara.

14. Mr. Speaker, in addition to good economic policies, the growing confidence Development Partners and other international stakeholders have in the Government, is also a result of major reforms in public financial management and accountability. The decision to invest in the Integrated Financial Management System (IFMS) and the on-going Public Financial Management Reform Programme (PFMRP) have been important catalysts in building confidence among our Development Partners that the assistance extended to us will be utilised to implement agreed programmes. The good cooperation between Tanzania and Development Partners has also been facilitated by the Tanzania Assistance Strategy (TAS) and will be further strengthened by the forthcoming Joint Assistance Strategy (JAS).

15. Mr. Speaker, the Third Phase Government had put a lot of effort towards addressing the country's debt burden. Our country had an enormous debt obligation, which was not easy to repay due to our meagre resources. This meant that Tanzania was no longer creditworthy. In order to restore our creditworthiness, the Government decided to repay some of the debts, even though some people questioned the rationale behind the decision to repay debts when the economy was very weak. At the same time, the Government initiated policies and strategies to manage its debts and joined hands with other international stakeholders urging rich countries to cancel poor countries' debts.

16. Mr. Speaker, these Government efforts bore fruits as Tanzania qualified for debt cancellation under the enhanced Heavily Indebted Poor Countries (HIPC) initiative. As a result, Tanzania has benefited from debt cancellation amounting to Tshs. 3.0 trillion over a period of twenty years. As of today, debt worth a total of Tshs. 1.3 trillion has actually been cancelled. Tanzania's international credibility has been restored, and we are creditworthy once more. We are now able to choose sources of borrowing unlike the previous situation when no one wanted to lend to us. Despite these achievements, we still have obligations to meet; and since our country is still underdeveloped, the demand for cancellation of the remaining debts will continue to be pursued.

17. Mr. Speaker, the Government's efforts were not limited to improving the country's image before external creditors. Between 1995/96 and 2003/04, domestic debt amounting to Tshs. 144.3 billion was repaid after verification. The amount includes a cumulative accrued compensation of Tshs. 12.3 billion, outstanding suppliers claims of Tshs. 111 billion, and unpaid cumulative civil servant wages, including for teachers, of Tshs. 21 billion. Settlement of these debts has injected more life into the domestic private sector, which had almost collapsed due to delayed payments. The exercise of analysing and verifying any remaining domestic debts is continuing.

#### Economic Empowerment

18. Mr. Speaker, during the decade of the Third Phase Government, various measures have been taken to empower Tanzanians to participate actively in the economy for their socio-economic development, as follows:

(a) An Economic Empowerment Policy was formulated in 2004 and is being implemented through the Economic Empowerment Act of 2004.

(b) The Government established the Tanzania Social Action Fund (TASAF) to support community-based projects through a participatory process of project identification, preparation and coordination at the village government level. The TASAF programme, which has been very successful, enters into its second phase with a budget of Tshs. 180.0 billion following its recent launch by President Benjamin William Mkapa in Magu District.

(c) The Government has designed and is now implementing a programme for the formalization of property rights designed to transform unregistered property of the informal sector into formal property that could be used as collateral.

- (d) The Government introduced a National Microfinance Policy in 2001. The guidelines and regulations for its implementation have been finalized and published. Many low income Tanzanians are expected to benefit from this scheme.
- (e) The Government, in collaboration with the Bank of Tanzania has introduced an Export Credit Guarantee Scheme (ECGS), which is managed by the Bank of Tanzania on an agency basis. The Scheme has been very instrumental in enabling buyers of export crops, especially cooperatives, to purchase crops and export them. In addition, it has benefited investors in export processing zones.
- (f) The Government has also established Small and Medium Enterprise Credit Guarantee Scheme (SME-CGS) to assist small and medium scale investors. Already Tshs. 2.0 billion has been availed. Additionally, the Government is completing the process of establishing a guarantee scheme for long term credits.
- (g) The Government has also implemented major reforms in the banking and financial sector, which are expected to be very beneficial to their clients.
- (h) Alongside these reforms, the process of transforming the Tanzania Investment Bank (TIB) into a development bank is in the final stages of completion. Plans are also underway to enable Social Security Funds to issue long term loans and housing finance through banks and other financial institutions.
- (i) At the same time, the Government in collaboration with the United Nations HABITAT is pursuing an enabling environment for the development of housing finance facilities in the country.
- (j) The Government is also collaborating with the International Finance Cooperation (IFC) and some other Development Partners to develop an enabling environment for leasing finance, especially for production machinery and equipment. This programme, which initially involves the IFC, the Government of Switzerland and the Government of Tanzania, was inaugurated in May 2005.
- (k) Steps are underway to strengthen the Bank of Tanzania and its banking sector supervisory role. During this budget session, the Government will table a bill to amend the Bank of Tanzania Act of 1995 and the Banking and Financial Institutions Act of 1991.
- (l) The regulatory framework for the implementation of the new Land Act of 2004 will enable bank borrowers to obtain loans using their land titles as collateral.
- (m) The establishment of the Dar es Salaam Stock Exchange (DSE) and the Capital Markets and Security Authority (CMSA) has put in place a conducive environment for participation of Tanzanians in acquiring shares. More than 67,000 Tanzanians currently own shares in various companies listed at the DSE.
- (n) Government is implementing the Rural Financial Services Programme (RFSP) including introducing procedures for operating banking services at ward level and other member-based micro credit entities. From now on, these entities will be regulated through guidelines to be

issued by the Bank of Tanzania in line with international best practice. The Bank of Tanzania will delegate its regulatory role to District Executive Directors using the latter's Departments of Community Development, which will be given power to register these entities and provide support for capacity building. This arrangement will now clarify the situation and eliminate confusion regarding the responsibility for registration and supervision of SACCOS under the Co-operative Law, separate from SACAs which will now be registered and supervised under the Bank of Tanzania guidelines.

(o) The Unit Trust of Tanzania (UTT), which was established in 2003 under the Unit Trust Act, is effectively operational. Following its establishment, investment in shares held by UTT began through Umoja Fund that commenced operations on 16th May 2005, and Tanzanians now have the opportunity to invest by acquiring units. To achieve the Fund's objectives, the Government has undertaken the following measures:

(i) It has allocated 2 percent of its shares in Tanzania Breweries Limited (TBL) and 1 percent of its shares in the Tanzania Cigarettes Company (TCC) as initial capital for the Fund. The total value of these shares is Tshs. 10.9 billion.

(ii) It has offered a discount of 30 percent per unit price in order to enable as many Tanzanians as possible to own units in the Umoja Fund.

(iii) Umoja Fund units are offered only to Tanzanians, companies owned wholly by Tanzanians, and local Social Security Funds. Banks are not allowed to participate in the initial public offering of the Fund.

#### MEASURES TO ADDRESS PUBLIC NUISANCES

19. Mr. Speaker, apart from the measures that I have explained thus far, the Government has taken other deliberate steps to reduce income inequalities in the society and to abolish various nuisances facing the people of Tanzania. These measures are, amongst others, the following:

(i) Primary school fees have been abolished to enable all school-aged children to be enrolled. The tuition fee for government secondary schools has been reduced from Tshs. 40,000 to Tshs. 20,000 per annum.

(ii) Various nuisance taxes and fees, including the development levy, have been abolished.

(iii) The Government continues to subsidize transport costs for fertilizer for the benefit of farmers.

(iv) Taxes on imported agricultural implements and equipment, for example tractors, have been abolished to reduce production costs.

(v) The Government continues to provide free medical services in government hospitals and healthcare centres for pregnant women, children under five years of age, and those suffering from leprosy, tuberculosis and HIV/AIDS.

(vi) Wages and salaries for civil servants have been raised from a minimum of Tshs. 17,500 per month in 1995 to Tshs. 60,000 per month in 2004.

(vii) Pensioners paid on a lump sum basis have been reinstated in the pensioners register to enable them to manage their cost of living. The minimum pension has also been raised.

## B. CHALLENGES AHEAD

20. Mr. Speaker, notwithstanding the achievements attained by the Third Phase Government in the economic and financial spheres, our country still faces many challenges, as follows:

(i) Our Country is still very poor. Considering that the population growth rate is currently at almost 3 percent per annum, we are compelled to step up the rate of GDP growth to at least 10 percent per annum in order to attain the National Development Vision's target of attaining a middle income status by the year 2025. More ingenuity, new vigour, and faster dedicated pace are key requirements for accelerating the economy's growth rate. This is the major challenge facing our Nation now.

(ii) The Government Budget is still dependent on development assistance by 41 percent. This means that we still have an immense task of raising the level of domestic revenue collection. Apart from strengthening Tanzania Revenue Authority and improving the collection of non-tax revenues, faster economic growth is the single most important strategy that will help us attain self-reliance.

(iii) The bulk of our foreign exchange inflows are in the form of grants and concessional loans. Our exports of goods and services are still very low. We must put new impetus to boost exports.

## REVIEW OF THE IMPLEMENTATION OF THE 2004/05 BUDGET

21. Mr. Speaker, after explaining the achievements of the Third Phase Government, let me now present a review of the implementation of the 2004/05 budget. As stated by the Minister of State, President's Office for Planning and Privatization, the real GDP growth rate for 2004 was 6.7 percent, while inflation went down from 4.8 percent in March 2004 to 4.1 percent in March 2005 and is expected to further decline to the targeted 4.0 percent at end June 2005. Foreign exchange reserves as at end March 2005 were sufficient to finance 8.3 months of imports of goods and services, against the target of 6 months of imports by end June 2005.

22. Mr. Speaker, as part of the fiscal policies for 2004/05, the Government planned to undertake further measures to broaden the tax base; to strengthen tax administration at the Tanzania Revenue Authority, especially the expansion of the Large Tax Payers Department; to implement the new Income Tax Act of 2004; and to review various tax laws, including the VAT Act of 1997, in order to rationalize them. Moreover, the Government announced a number of investment incentives in the agricultural sector, and measures for business facilitation by changing the business licensing regime, and began to implement the East African Community Customs Union Protocol.

23. Mr. Speaker, the performance of the 2004/05 budget displays an encouraging trend. Revenue collections have surpassed targets while expenditure has continued to remain below targets,



albeit at levels slightly lower than those recorded in previous years. Moreover, disbursements of Budget Support loans and grants were as expected.

24. Mr. Speaker, during the year 2004/05 the Government planned to collect Tshs. 1,739,288 million in domestic revenue, equivalent to 13.8 percent of GDP. Between July 2004 and March 2005, total revenue collection reached Tshs. 1,314,524 million, which is Tshs 21,681 million or 2 percent more than the targeted revenue collection of Tshs 1,285,257 million for this period. This trend indicates that the revenue collection target for the whole of 2004/05 will be attained and slightly surpassed. Moreover, the outcome of the various revenue measures taken in financial year 2004/05 is reassuring.

25. Mr. Speaker, most of the increase in revenue is on account of VAT and income tax. VAT collection increased following the measure to raise the threshold for VAT registered companies from Tshs. 20 million to Tshs. 40 million in annual turnover. In other words, the number of VAT tax payers has been reduced making tax collection more efficient. The increase in income tax is due to Pay As You Earn (PAYE) and Corporate Tax, following increased efficiency in tax collection and the elimination of loop holes for tax evasion due to the new Income Tax Act of 2004. Other reasons for the good performance include the introduction of a one-stop centre for tax payers in districts and the expansion of the Large Tax Payers Department, which has improved service delivery to this category of tax payers. The use of modern technology and training of tax collectors have also improved productivity in collection.

26. Mr. Speaker, custom duty collections were below target for various reasons. However, non-tax revenue collection through Ministries, Departments and Regions surpassed targeted levels.

27. Mr. Speaker, most of our Development Partners including the International Financial Institutions, have positively responded to our call for their participation in supporting our endeavours for economic development and poverty reduction. During July 2004 to March 2005 period, grants and concessional loans for budget support reached Tshs. 429,676 million, this being only Tshs. 4,800 million or 1.1 percent less than the projected disbursements of Tshs 434,476 million for the period. Moreover, a total of Tshs. 719,817 million was received as grants and concessional loans for financing development expenditures. This is Tshs. 134,442 million or 23 percent above the projected disbursements of Tshs. 585,376 million for the period.

28. Mr. Speaker, during the period of July 2004 to March 2005, the Government had planned to draw down its reserves with the Bank of Tanzania by Tshs. 118,200 million to finance programmed expenditures. As domestic revenue collections over-performed, the Government was able to avoid drawing down its reserves and instead increased its reserves with the Bank of Tanzania by Tshs. 81,368 million.

29. Mr. Speaker, as at end March 2005, expenditures reached Tshs. 2,429,269 million compared to projections of Tshs. 2,486,892 million. Recurrent expenditure was Tshs. 1,560,067 million, of which Tshs. 152,122 million was used for debt service, while the wage bill was Tshs. 409,333 million against estimates of Tshs. 413,369 million. Moreover, verified arrears to teachers and other government employees have been paid as envisaged. Tshs. 869,202 million was development expenditure. In order to eliminate the recurring problem of salary arrears to civil

servants, including teachers, the Government will ensure that the directives given to all Accounting Officers through Treasury Circular No. 12 of 2004 are strictly adhered to.

30. Mr. Speaker, the Government has continued to pursue measures aimed at strengthening control and accountability in the use of public funds and public property. The new Public Procurement Act of 2004 aims at increasing responsibility and accountability. The Cash Budget system continued to be used in allocating resources such that expenditures are based on resources available. The Integrated Financial Management System (IFMS) has been further improved by the installation of a disaster recovery site. The IFMS payments system restricts all payments to budgeted levels approved by Parliament and enables quick and accurate detection of any fraud or theft of public funds, which was not possible before the introduction of this system. All ministries, independent departments, regions and 32 district councils are now connected to IFMS. Training of accountants in the Government also continues. Further, the Government has reinstated 10,813 retired officers, who had taken lump sum payments of their pension, to the Pensioners Register.

#### LIKELY BUDGET OUTTURN BY END-JUNE 2005

31. Mr. Speaker, based on the trend of budget performance up to March 2005, the Government is confident that the targets for domestic revenue collection, disbursements of external funds, and expenditure estimates will all be attained as projected. However, on the part of recurrent expenditure, especially Other Charges, the estimates may not be achieved due to the reasons explained beforehand. Nonetheless, the targets for expenditures in the priority sectors for economic growth and poverty reduction will be attained as projected.

#### BASIS, POLICIES AND OBJECTIVES OF THE 2005/06 BUDGET

32. Mr. Speaker, the main thrust of the Budget for 2005/06 is to implement the National Strategy for Growth and Reduction of Poverty (NSGRP-MKUKUTA). The main economic targets include:

(i) Attaining a real GDP growth of 6.9 percent in 2005, 7.2 percent in 2006, 7.6 percent in 2007, and 7.9 percent in 2008;

(ii) An inflation rate of 4 percent by end June 2005 and thereafter an inflation rate that is consistent with our major trading partners;

(iii) A domestic revenue to GDP ratio of 14.3 percent in 2005/06, 14.5 percent in 2006/07 and 14.6 percent in 2007/08;

(iv) Foreign exchange reserves equivalent to at least 7 months of imports of goods and services; and

(v) Containing the growth of broad money supply (M3) consistent with the country's economic growth and inflation targets.

Revenue Policies:

33. Mr. Speaker, the Government's revenue policies for the Financial Year 2005/06 are aimed at collecting Tshs. 2,066,751 million (2.067 trillion) from domestic sources, equal to 14.3 percent of GDP compared to 13.8 percent in 2004/05. This amount represents an increase of 18.7 percent for 2005/06, compared to an increase of 20.7 percent expected during 2004/05. The following measures will be implemented with a view to continuing to improve domestic revenue collection:

- (i) To strengthen administration and management in the Customs Department;
- (ii) To further restructure the Tanzania Revenue Authority in order to enhance the management of sources of domestic revenue;
- (iii) To strengthen the Large Tax Payers Department so as to serve a larger number of tax payers;
- (iv) To reform the tax system in some areas so as to improve efficiency in tax administration; and
- (v) To improve non-tax revenue collection and information from ministries and government departments, particularly those falling under the Retention Scheme.

34. Mr. Speaker, in addition to economic growth and broadening of the tax base, the reforms undertaken within the Tanzania Revenue Authority under its Second Corporate Plan have been important factors for growth of domestic revenue. During the financial year 2005/06, the Government will continue to strengthen the Large Tax Payers Department by improving performance and skills, as well as shifting all mining companies to this department in order to improve communications with these companies. Furthermore, we will continue to improve supervision and administration of the Customs Department by increasing accountability, computerisation, and simplifying bureaucratic procedures. In this endeavour, the Government will collaborate with the (IMF) Eastern-Africa Regional Technical Assistance Centre (AFRITAC), the World Customs Organisation (WCO), and the United Nations Conference on Trade and Development (UNCTAD).

#### Foreign Grants and Concessional Loans:

35. Mr. Speaker, as I have said earlier, with the implementation of the Tanzania Assistance Strategy and the National Debt Strategy, the Government continued to improve its relations with Development Partners and International Financial Institutions. For the financial year 2005/06, foreign grants and concessional loans will contribute about 41 percent of the national budget. In spite of our goal to be self-reliant, we still need foreign aid to assist us in gradually building our capacity for self-reliance and in speeding up the implementation of strategies for achieving the Millennium Development Goals (MDGs). The government will continue consultations with our Development Partners with a view to increasing General Budget Support.

#### Other Sources of Revenue:

36. Mr. Speaker, for the Fiscal Year 2005/06, the Government intends to sell its shares in some companies and parastatals worth Tshs. 10,420 million and draw down its reserves with the Bank

of Tanzania amounting to Tshs. 259,225 million. At the same time, the Government will revisit its privatisation policy for profitable enterprises and those having other national strategic interest.

#### Expenditure Policy:

37. Mr. Speaker, during 2005/06, the Government will continue to enforce discipline in Government expenditure management in order to ensure sufficient accountability. The cash budget management system will continue to be implemented to ensure that the Government continues to live within its means. Internal audit for ministries and Government departments will be strengthened through training. During the next financial year, the Government expects to roll out the Integrated Financial Management System to 32 more district councils. This measure is expected to improve financial management of these district councils by enabling them to produce reports timely.

38. Mr. Speaker, in planning the budget allocation for the financial year 2005/06, the following objectives have been taken into consideration:

(i) More than 50 percent of the 2005/06 budget has been allocated for implementing the MKUKUTA priorities under the three clusters: growth and reduction of income poverty, improved quality of life and social well-being, and good governance and accountability.

(ii) Furthermore, relatively adequate resources have been allocated to economic and social services with a view to ring fencing the achievements of the first Poverty Reduction Strategy (PRS). Leading sectors in terms of resource allocation included in the 2005/06 Budget are Works, Health, Education, Agriculture, and Water.

(iii) Adequate resources have been set aside for the remaining costs of the October 2005 General Election.

(iv) This budget has allocated 4.5 percent of budget support to the Revolutionary Government of Zanzibar.

(v) The budget has set aside resources to purchase anti-retroviral drugs for HIV/AIDS patients and fight Malaria and Tuberculosis.

(vi) The 2005/06 budget has set aside funds to pay the defunct East African Community pensioners.

(vii) Following the Government decision to raise the number of students in higher education, the 2005/06 budget has allocated resources for this purpose. Further, discussions with social security funds are going on so as to increase the number of lecture rooms, dormitories, laboratories, etc. of higher education institutions.

(viii) The Government has decided to allocate ? of the Skills Development Levy to the Tanzania Education Fund so as to speed up the widening of the education infrastructure in the country.

(ix) The budget has set aside funds for village executive officers' wages as a second phase of this programme. The first phase was implemented during 2004/05, involving 7,770 officers.

(x) During the 2005/06 budget, the Tanzania Airport Authority will receive all revenues collected from passenger service charges instead of the current 90 percent in order to enable them to meet the higher running costs of airports.

(xi) The programme for strengthening good governance has been taken into consideration. Resources have been allocated to all ministries for implementing the National Anti-Corruption Strategy and Action Plan (NACSAP), and to the Ministry of Justice and Constitutional Affairs for improving the performance of the Judiciary system in the country.

(xii) This budget has allocated 18 percent of the domestic revenue for development projects.

#### THE STRUCTURE OF 2005/06 BUDGET ESTIMATES:

39. Mr. Speaker, as I explained earlier, for fiscal year 2005/06, the Government aims to collect domestic revenue amounting to Tshs. 2,066,751 million. This is equal to 14.3 percent of GDP. The Government is also expecting to receive Tshs. 10,424 million from the sale of shares in various public enterprises.

40. Mr. Speaker, on the expenditure side, for the fiscal year 2005/06, the Government plans to spend a total of Tshs. 4,176,050 million. Foreign grants and concessional loans (including debt relief) will amount to Tshs. 1,724,910 million, out of which Tshs. 616,165 million is General Budget Support, Tshs. 93,600 million is debt relief, and Tshs. 1,015,145 million concessional loans and grants for development projects. As I intimated previously, the Government intends to utilize Tshs. 259,225 million from draw down of Government reserves at the Bank of Tanzania.

#### REFORM OF THE TAX STRUCTURE, FEES AND REVENUE MEASURES

41. Mr. Speaker, as part of the continuous reform in the tax structure and tax administration, the Government proposes to make changes in the following areas:

- (a) The Income Tax Act
- (b) The Value Added Tax Act
- (c) The Excise Tariff Ordinance
- (d) Transport Licensing Act
- (e) Motor Vehicle License Fee
- (f) The Stamp Duty Act
- (g) The Education Fund Act

#### The Income Tax Act, 2004

42. Mr. Speaker, it is proposed to amend the Income Tax Act of 2004 by raising the personal income tax threshold from Tshs. 60,000 to Tshs 80, 000 per month. This measure is intended to remove low income earning individuals from the personal income tax net and to provide tax

relief to employees as part of the implementation of the National Strategy for Growth and Poverty Reduction (NSGRP - MKUKUTA). The current and proposed income tax rates are detailed in Table 1. The marginal income tax rates for the various income brackets remain the same i.e., 18.5 percent, 20 percent, 25 percent, and 30 percent.

43. Mr. Speaker, these amendments to the Income Tax Act, 2004 will reduce Government revenue by Tshs. 27,970 million. However, the increase of salaries for the civil servants together with improved efficiency in tax administration is expected to generate additional revenues and thus reduce the net revenue loss to Tshs. 1,822 million.

#### The Value Added Tax Act, 1997

44. Mr. Speaker, it is proposed to amend the Value Added Tax Act, 1997 in the following areas:

(i) To amend the Third Schedule in order to include in the exempted list, railway locomotives, rolling stocks, spare parts, and accessories. These amendments will reduce transportation costs and enable TRC and TAZARA to meet their regular maintenance needs.

(ii) To amend the Second Schedule to include in the exemption list Aviation Fuel for domestic air operators. This measure intends to cushion the domestic air operators from escalating air transportation costs resulting from the September 11 terrorist attack, and rising fuel costs. The measure shall also provide relief to tourism, and planes catering for medical patients, agriculture, leaders, and national security organs.

(iii) To amend the Third Schedule in order to include in the exemption list, Mobile Health Clinics in order to facilitate service provision in remote rural areas that do not have health centers and dispensaries.

(iv) To amend the Third Schedule in order to remove the provision giving special relief to registered mining activities as the relief is already provided under other provisions within the same law.

These VAT Act amendments will reduce Government revenues by Tshs. 2,685 million.

#### The Excise Tariff Ordinance

45. Mr. Speaker, it is proposed to make the following amendments to the Excise Tariff Ordinance:

##### (a) Aviation Fuel

It is proposed to exempt aviation fuel (JET A1) from excise duty in order to create fair competition for the benefit of domestic air operators.

##### (b) Excise Duty Rates

46. Mr. Speaker, it is proposed to adjust for inflation the excise duty rates by 5 percent only, on the following products:

- (i) Carbonated soft drinks from the current rate of Tshs.39.4 per litre to Tshs. 41.5 per litre.
- (ii) Malted Beer from the current rate of Tshs. 243 per litre to Tshs. 256 per litre.
- (iii) Wine produced with more than 25 percent imported grapes from the current rate of Tshs. 780 per litre to Tshs. 820 per litre.
- (iv) Spirits from the current rate of Tshs. 1,158 per litre to Tshs. 1,216 per litre.
- (v) To change the basis for determining cigarette excise tax bands from cigarette length to cigarette with or without filters and to adjust the rates as follows:
  - a. Cigarettes without filter and containing more than 75 percent domestic tobacco, from the current rate of Tshs. 3,970 to Tshs. 4,170 per thousand cigarettes.
  - b. Cigarettes with filter and containing more than 75 percent domestic tobacco, from the current rate of Tshs.9, 367 to Tshs. 9,840 per thousand cigarettes.
  - c. Other cigarettes not mentioned in (a) and (b), from the current rate of Tshs. 17,017 to Tshs. 17,870 per thousand cigarettes.
  - d. Cut rag and/or cut filler from the current rate of Tshs. 8,593 to Tshs. 9,025 per kilogramme.
  - e. The excise duty rate on cigars remains at 30 percent.

These amendments on excise duty are expected to generate additional revenue to the Government amounting to Tshs. 4,418.6 million.

#### Transportation and Motor Vehicle License Fees

47. Mr. Speaker, it is proposed to amend various fees levied by various bodies. The goal is to remove nuisance to the public, to improve the business environment, and to share the costs of vehicle licensing. Thus the specific amendments in this area are:

- (i) To abolish transport license fees for non-passenger vehicles including pick ups and cargo haulage vehicles.
- (ii) To remit the remaining 10 percent of the airport departure service charge to Tanzania Airport Authority (TAA).
- (iii) To increase the annual motor vehicle license fee from Tshs. 10,000 to Tshs. 20,000 per vehicle per annum.

These measures are expected generate additional revenue of Tshs. 1,125 million.

#### Stamp Duty

48. Mr. Speaker, it is proposed to reduce stamp duty rate from 4 percent to 1 percent of the value for the following instruments:

- (a) Exchange of Property
- (b) Bill of Sale
- (c) Certificate of Sale
- (d) Instrument of Gift
- (e) Transfer of Lease by way of Assignment
- (f) Instrument of Partition
- (g) Instrument of Release
- (h) Instrument of Settlement

49. Mr. Speaker, it is also proposed to reduce stamp duty rate on acknowledgment of debt from 4 percent to a nominal value of Tshs. 500.

These measures will reduce Government revenues by Tshs. 1,996 million.

#### The Education Fund Act, 2001

50. Mr. Speaker, together with the Government decision to allocate one eighth (1/8) of the Skills Development Levy revenues to the Education Fund, it is proposed to make amendments to the Education Fund Act of 2001 in order to delete the clauses providing exemption of Income Tax, Value Added Tax and Import Duty for those contributing to the Fund. However, the contributors to the Fund will be allowed deduction for the Income Tax purposes as provided for under section 16(1)(b) of the Income Tax Act 2004.

This measure will have neutral effect on Government revenues.

#### Amendments of Other Tax Laws

51. Mr. Speaker, it is proposed to make amendments to various other tax laws with the objective of updating them and streamlining their administration. These measures have no revenue implication.

#### The Forestry Act and Regulations

52. Mr. Speaker, it is proposed to abolish license fees for residing in a Government forest reserve, and license fee for cultivating in forest reserve, for citizens who have been permitted to inhabit in forest reserve areas. It is also proposed that forest business license be issued only once when a business is established and not every year, consistent with similar measures taken in regard to business licenses.

This measure has no impact on government revenues but is intended to remove nuisances to citizens living in forest reserve areas.



## Customs Duty Act

53. Mr. Speaker, since the commencement of implementation of the East African Community Customs Union Protocol on 1st January 2005 we have received proposals for amendment of certain common external tariff rates from various stakeholders through the Task Force on Tax Reforms. The Governments of Kenya and Uganda have also received proposals from their stakeholders.

The Ministers for Finance from the three Partner States met on 14th May, 2005 in Arusha to consider the proposals. The Ministers' recommendations will be submitted to the EAC Sectoral Council of Trade, Finance and Investment which will meet on 20th June, 2005 as directed by the Summit of Heads of State of the EAC at their meeting held in Dar es Salaam on 29-30 May, 2005. The agreed measures will be implemented together with the other tax measures contained in this speech.

## Effective Date for Implementation of New Revenue Measures

54. Mr. Speaker, the new revenue measures, together with those which will be agreed by the EAC Sectoral Council of Ministers on 20th of June, shall become effective from 1st July 2005 unless stated otherwise.

## OUTCOME:

55. Mr. Speaker, the proposed amendments may be summed up as follows:

Measures Shs. Millions

PAYE (1,822)

Stamp Duty (1,996)

Value Added Tax (2,685)

Excise Duty 4,419

License Fees 2,084

TOTAL 0

56. Mr. Speaker, on the basis of the budget structure explained earlier, the budget frame for 2005/06 will be as indicated in Table No.2.

57. Mr. Speaker, in summary, the size of the 2005/06 Budget will be Tshs. 4 trillion, 176 billion, 50 million (Tshs.4,176,050million).

(a) Tax revenues, non tax revenue and new tax measures are projected to total Tshs. 2 trillion, 66 billion, 752 million (Tshs.2,066,752 million).

(b) Grants and Loans, drawdown of reserves, privatization proceeds, and non-bank domestic financing are expected to raise Tshs. 2 trillion, 109 billion, 298 million (Tshs.2,109,298 million)

With respect to recurrent expenditure, the Government plans to spend Tshs. 2 trillion, 790 billion, 867 million (Tshs.2,790,867 million) for Public Debt service, Ministries, Regions, Local Councils, Wage Bill for the Central Government, Local Government, Independent Government Departments, Pension payments, and Contingencies.

Development expenditures will be financed from domestic resources by Tshs.370 billion and external resources by Tshs. 1 trillion, 15 billion, 145million (Tshs.1,015,145 million) amounting to a total of Tshs. 1 trillion, 385 billion, 183 million (Tshs.1,385,183 million).

Total resources equal total expenditure level of Tshs. 4 trillion, 176 billion, 50 million (Tshs.4,176,050 million), hence the Budget is balanced.

#### CONCLUSION:

58. Mr. Speaker, tremendous achievements have been attained by the Third Phase Government and all Tanzanians deserve self commendation. But, I believe that we shall be devoid of appreciation and courtesy in the highest order, if we failed to recognize the special and highly remarkable contribution made by our great leader in this battle, His Excellency Benjamin William Mkapa, President of the United Republic of Tanzania and Chairman of Chama Cha Mapinduzi. H.E. President Mkapa has at all times led us steadfastly and has been resilient to any pressures that could jeopardize national interests while implementing the reforms that have revolutionized our country and which we now take pride in. He did not waver when some of us were complaining about the difficulty in "making easy money", "stringent supply of cash", "selling off the country", etc.; he has nobly demonstrated to all of us his in-depth understanding of our economic situation and that of the international economic order; he has demonstrated remarkable ingenuity in formulating policy and strategies the fruits of which we are witnessing; and he has been exemplary in supervising implementation and adherence to the agreed objectives.

Moreover, his commitment and effective participation in domestic and international affairs, even while he was ill, has greatly contributed to making Tanzania more internationally respected and to becoming an attractive destination for investors and development partners. Our country has been blessed to have H.E. Mkapa as our leader during these difficult times and this has been critical for shaping the future of our Nation. It is my strong belief that, if the early indications we sense that the next phase of Government under Chama Cha Mapinduzi shall follow the footsteps of President Mkapa materialise, then the aspirations and wishes of the people for a more prosperous and poverty free Tanzania through renewed vigour, energy and speed ("nguvu mpya, ari mpya na kasi mpya"), will be realized to make Tanzania a better place to live and continue to fly at a faster pace. Personally, I feel greatly honoured and thank the Almighty God for being among the team that is now preparing to hand over to a new Government team after scoring many goals while on the pitch.

59. Mr. Speaker, the 2005/06 budget has been prepared as a means to further government efforts to:

(i) Finalize the implementation of the objectives of the CCM General Election Manifesto of 2000 and start implementing the 2005 manifesto without a gap;

(ii) Lay the foundation for the implementation of the Ruling Party's policies under the Fourth Phase Government;

(iii) Continue pursuing the National Development Vision 2025;

(iv) Start implementing the National Strategy for Growth and Reduction of Poverty (NSGRP-MKUKUTA); and

(v) Implementing macro-economic policies for 2005/06.

60. Mr. Speaker, implementation of the policies and strategies I illustrated earlier depends crucially on the dedicated efforts of every Tanzanian citizen, every patriot, and everyone with good wishes for our nation, which are necessary conditions for speeding up the rate of economic growth and improve the delivery of social services. Our major goal is to ensure fast reduction of poverty, systematically. As I mentioned before, our economy continues to grow at a desirable pace. Nevertheless, with the annual population growth of about 3 percent, it will take us at least 20 years to double the income per capita if we attain an annual economic growth rate of 8 percent. Considering that new income per capita will still continue to grow by less than 2 US dollars per day, it is obvious that we still have a long way to go. Therefore, we need to be more innovative and to persevere in developing strategic economic interventions, in order to find new means of accelerating the rate of economic growth to more than 10 percent per annum.

61. Mr. Speaker, this budget proposes to initiate deliberate measures to develop priority infrastructure that has proven to pose a major obstacle to our efforts to grow the economy. In the next phase of Government, more measures are needed to consolidate and make progress in this area.

62. Mr. Speaker, I beg to move.