

**SPEECH BY THE MINISTER FOR FINANCE, HON. DANIEL N. YONA (MP),
INTRODUCING TO THE NATIONAL ASSEMBLY THE ESTIMATES FOR
GOVERNMENT REVENUE AND EXPENDITURE FOR
THE FINANCIAL YEAR 1999/2000 ON 10 JUNE, 1999**

INTRODUCTION

Mr. Speaker, I beg to move that this esteemed House now deliberates and approves the government's proposals for revenue and expenditure estimates for the financial year 1999/2000. The Government budget has been consolidated in four budget volumes. Volume one contains government revenue estimates for the coming financial year, volumes two and three contain estimates of recurrent expenditure while estimates of development expenditure are in volume four. In addition, there is the 1999/2000 Finance Bill. This House is accordingly requested to deliberate in detail the contents of the Speech, the Budget Books and the Finance Bill in order to approve the 1999/2000 Government Budget Proposals.

2. Mr. Speaker, before proceeding further, allow me to take this opportunity to thank all those who participated in the preparation of this budget. Budget preparations have involved many people and institutions. To that effect, I would like to express my gratitude to all the staff of the Ministry of Finance, the Planning Commission and the various sectoral ministries, government departments, regions, district councils, and various groups who contributed in one way or another in the preparation of this budget. Further, I would like to thank the Ministry of Justice and Constitutional Affairs, in particular the Attorney General's Chambers for preparing all relevant Bills for this Budget. Let me also extend my appreciation to the Government Printer for printing on time the Books and Bills concerning this budget. I would further like to take this opportunity to express my sincere gratitude to all Parliamentary Committees, and in particular the Committee for Finance and Economic Affairs for scrutinizing in detail the budget proposals and for their valuable comments and advice which assisted in improving the structure of the 1999/2000 budget.

3. Mr. Speaker, since I presented the government budget for the financial year 1998/99, a number of events have occurred in your esteemed House. We note with sorrow that two Members of Parliament have passed away; the late Hon. Guntram Amani Mkolokoti Itatiro who was Member of Parliament for Mahenge, and the late Hon. Dr. Alex Khalid who was Member of Parliament for Mitema. May God rest their Souls in Eternal Peace. Also, the former Member of Parliament for Temeke, Mr. Augustino Lyatonga Mrema is no longer a Member of this House. Besides these events, this House is comforted by having four new Members of Parliament. They are Hon. Captain Thadeus Kasapira - Member of Parliament for Mahenge, Hon. Hashnain Muhamed Murji - Member of Parliament for Mitema, Hon. Aripa Marealle - Member of Parliament for special seats for women (CHADEMA) and Hon. Colonel Laban Thomas Makunenge - Member of Parliament for Bunda. I wish them success in their endeavours to build our Nation.

4. Mr. Speaker, this is the thirteenth year since Tanzania embarked on a comprehensive programme to reform the economy in June, 1986. Throughout this period, the Government has been formulating and implementing various policies on the social and economic development of our country, and there are now clear signs that the

economy is improving ' day after day. The Minister of State in the President's Office for Planning, Hon. Nassoro Malocho (MP) has already elaborated on the status of the economy and the development plan for this year and I do not intend to repeat what has been said. However, I would like to summarise by underscoring the point that the envisaged macro-economic targets have, in general, been met.

5. Mr. Speaker, economic growth has been positive in spite of bad weather conditions. Due to the fragility of our economy, we are negatively affected by heavy rains and prolonged droughts. Nevertheless, inflation is falling and Government revenue is increasing. The Government has also been able to control its budget by matching expenditure to revenue collection and by avoiding bank borrowing. Foreign exchange reserves have increased and now cover nearly four months of imports. Also, because of the good economic situation, the value of our shilling is in real terms stable. Likewise, foreign grants, investments and confidence in the economy and government are continuously increasing. As a result of these, developments, the capacity to provide services and to propel development to our people is improving although not yet at a sustainable level. It is important to recognize that economic reform is a long process. Nonetheless, after many years of reform the economy is now stabilized and the reform has started bearing fruits country-wide.

REVIEW OF IMPLEMENTATION OF BUDGET FOR 1998/99

6. Mr. Speaker, Before I present the 1 999/2000 Budget Proposals, allow me to review the implementation of the 1998/99 budget.

The Budget Base for 1998/99

7. Mr. Speaker, it may be recalled that the budget for the year 1998/99 aimed to achieve the following:-

- (i) GDP growth rate of 3.5 percent.
- (ii) Reduction of inflation rate to 7.5 percent by the end of June, 1 999.
- (iii) Reduction of the balance of payments deficit through increased exports.
- (iv) Increased employment, particularly in the private sector.
- (v) Expansion of the industrial sector and protection from unfair competition.
- (vi) Strengthening budget management and increasing efforts in revenue collection and transparency in expenditure allocation.
- (vii) Establishment of an effective system to ensure that national debt does not exceed the ability to pay.
- (viii) Improvement of Government services through increase in efficiency within various sectors.

- (ix) Increases in domestic savings so as to finance investment in assets.
- (x) Reduction of the proportion of the Government Budget that is spent on the national debt so that more of the bud et

resources can be used to strengthen the social and economic infrastructure.

- (x i) Strengthening co-operation among East African countries, COMESA and SADC and increasing exports.

Monetary Policy

8. Mr. Speaker, during the fiscal year 1998/99, the Government, through the Bank of Tanzania, continued to implement monetary policy which aimed at reducing inflation and increasing foreign exchange reserves. The inflationary trend is satisfactory. In December, 1998, the inflation rate was 11.2 percent. Beginning in January, 1999, inflation declined steadily and fell to 8.8 percent by the end of April I, 1 999; the lowest rate for the last 20 years.

Revenue Policies

9. Mr. Speaker, in order to strengthen revenue collection, the Government took various measures in the 1998/99 fiscal year. The measures included the introduction of Value Added Tax, (VAT), various reforms in tax laws, efforts to fight tax evasion and reduce inconveniences to taxpayers. The Government has also reviewed the structure of customs tariffs to reflect the level of processing of goods. Alongside these measures, the Government has again allowed the use of Bonded Warehouses, largely for raw materials and transit goods Moreover, considering the importance of promotion exports, the Government abolished Export Tax o traditional agricultural goods such as cotton, coffee, cashew nuts, tea, tobacco, pyrethrum and sisal.

10. **Mr. Speaker**, in order to encourage **revenue** collection the Government began to operate **during** 1998/99 a retention scheme which allows certain ministries or departments to retain a proportion of their monthly revenue collections in order to finance essential services. The retention ratios are based on the relative importance of the services and the need to enhance revenue collection. This scheme has enhanced Government revenue collection during this fiscal year, 1 998/99.

11. **Mr. Speaker**, up to March, 1999, the Government collected a total of Shs. 531, 106 million, being 4.8 percent above the estimated amount of Shs. 506,618 million for this period. Out of this amount, Shs. 486,302.6 is tax revenue and Shs. 44,803.4 million is from non-tax sources. Given trend, revenue collection is expected to reach Shs. 722,775 million compared with original estimates of Shs. 699,521 million. This is equal to Shs. 23,254 million or 3.3 percent above target. This performance in revenue is attributed to VAT, customs duty and some sources of income tax.

Expenditure

12. **Mr. Speaker**, during the fiscal year 1998/99, the Government continued with the system of cash budgeting by matching expenditure to revenue collection as an important tool of budget management. This system has greatly assisted the Government to avoid borrowing from the banking system for deficit financing. Besides the system of cash budgeting, the Government has taken other measures to control expenditure, such as introducing a system of entering all commitments undertaken by government into computer. Currently this system is implemented with 10 Ministries and the results are so far encouraging. The Government expects to cover all Ministries and Departments beginning in the 1999/2000 financial year. The system of cash budgeting has improved budgetary discipline and accountability in the Government.

13. **Mr. Speaker**, the trend of Government expenditure for 1998/99 has been satisfactory. Total expenditure from July, 1998 to March, 1999 reached Shs. 615,583.5 million compared to an estimated level of Shs. 671,077.9 million. Out of this amount, Shs. 568,601.8 million was recurrent expenditure and Shs. 46,981.7 development expenditure during the period under review. Given this trend, the Government expects to spend a total of Shs. 980,572 million by the end of June, 1999 compared with the estimated amount of Shs. 1,007,786 million. Recurrent expenditure is now likely to reach Shs. 830,607 million and development expenditure, Shs. 149,965 million.

The Parastatal Sector

14. **Mr. Speaker**, as the Hon. Minister of State **Planning** has already explained, the privatization programme is progressing well, and the burden on the government budget is reduced as non-performing parastatals are privatised. Moreover, many of the parastatals that have been privatised are now employing workers, with improved salaries, and are paying out higher dividends and taxes to the Government than before. In order to realize the government's objective of selling shares of the privatised parastatals to citizens, in addition to the presence of the Dar es Salaam Stock Exchange, the Privatisation Trust is finalising arrangements for appointing a Manager, who by law is required to be one of the domestic financial institutions. The Manager once appointed

will be entrusted with the task of preserving, managing and selling to citizens the remaining shares of the Government in a transparent manner.

Loans and Grants

15. Mr. Speaker, during 1998/99 the Government put in place various policies and strategies with the aim of building a self sufficient economy by using the efforts of Tanzanians themselves, with grants and loans acting as a catalyst. In order to achieve this objective, the Government continued its economic reform programmes namely ESAF in collaboration with the International Monetary Fund, (IMF), and the SAC programme in collaboration with the World Bank, (WB). Moreover, the Government continued discussions with the donors with a view to strengthening co-operation and obtaining increased assistance which would largely be directed to reducing the debt burden so that more budgetary resources can be freed and directed towards improving social and economic services. This has been partly realised following the establishment of the Multilateral Debt Relief Fund, (MDF), which provides relief in respect of repayment of debts owed to multilateral financial institutions.

16. Mr. Speaker, the Government has improved and strengthened its co-operation with donors and multilateral financial institutions during this fiscal year. This is the outcome of successful implementation of our policies. A total of Shs. 114, 608 million from external soft loans and grants were received between July 1, 1998 and March, 1999 compared to an estimated amount of Shs. 195,641.0 million in the budget. The shortfall of Shs. 81,032.5 million, or 41.4% is attributed to the slow pace of disbursement of project funds. During the period, Shs. 34,781.5 million were disbursed compared with an estimated amount of Shs. 130,279.2 million.

Domestic Borrowing

17. Mr. Speaker, as explained earlier, during 1998/99, the Government intended to refrain from bank borrowing, but reduce its indebtedness to banking and non-banking domestic financial market. As of March, 1999 the Government had made net repayments to the banking system of Shs. 9,878.2 million. During the period, the Government issued new Treasury Pills worth Shs. 14,478.8 million in order to retire maturing bills (roll-over).

DEBT

External Debt

18. Mr. Speaker, during the fiscal year 1998/99, the Government continued with efforts to control and reduce the external debt burden as well as contain the growth of debt. Measures taken include the following:-

- (i) To search for an amelioration of debt repayment terms with Paris Club members. This is alongside the implementation of the agreement already reached between the Paris Club and the Government of Tanzania.
- (ii) To encourage donors to contribute to the Multilateral Debt Relief Fund (MDF).
- (iii) To establish the Debt Buy Back Scheme (DBB) for purchasing commercial debts.
- (iv) To implement the National External Debt Strategy (NDS).
- (v) To carry out a debt-sustainability analysis with a view to obtaining debt relief under HIPC.
- (v i) To continue to negotiate for debt relief from non-Paris Club creditors.

19. Mr. Speaker, In addition to efforts to reduce the growth of domestic debt, the government is continuing with its effort to contain further growth of external debt. These efforts include attempts to obtain further relief under the Paris Club arrangement. Others include the continuation of negotiations with Non-Paris Club creditors for debt relief and there are now positive signs of success. As at end of March 1 999, total external debt was Shs. 5,536,580 million, equivalent to USD 7,909.4 million. During the first nine months of 1998/99 a total of Shs. 95,800 million was used to service external debt.

20. Mr. Speaker, so far, seven donors have pledged a total of USD 130.1 million for the MDF. For the period July/March 1998/99 a total of USD 85.4 million was disbursed by these donors. Out of this amount, Shs. 42.3 million (equivalent to USD 62.4 million) was spent for servicing debt to multilateral financial institutions during the period. The savings from the MDF have assisted in protecting budget releases to the priority sectors of education, health and water. I would like to take this opportunity to thank donors for their contribution to the MDF. These are the UK, Sweden, Finland, Ireland, Denmark, Norway and the Netherlands.

21. Mr. Speaker, a policy paper on National Debt Strategy has been adopted and its implementation will begin in the fiscal year 1999/2000. It is the Government's intention that this strategy be adhered to in order to reduce the debt burden of this country. This strategy includes continuing discussions with non-Paris Club creditors in order to obtain treatment and terms commensurate with those of the Paris Club creditors.

Domestic Debt

22. Mr. Speaker, during the year 1998/99, the Government continued with verifying its suppliers debts owed by ministries and other government agencies with a view to clearing such debts.

23. Mr. Speaker, just like external debt, domestic debt also poses a heavy burden'. As at end of March 1999, Government domestic debt stood at Sh.739.700 million, including financial and suppliers debt. By the end of March, 1999, the Government had

verified suppliers debts amounting to Shs. 56,000 million, out of which Shs. 24,000 million was paid.

Civil Servants Welfare

24. Mr. Speaker, it will be recalled that when I presented the Government budget estimates for the fiscal year 1998/99, I expressed the Government's intention of tabling in this House several Bills for the improvement of civil service welfare. The Bills, which were tabled and passed by this House in November, 1998, will be implemented during 1999/2000. These Bills are: The Public Service Retirement Benefits Act, 1999 and The Health Insurance Act for Civil Servants. Together with these measures, the Government will continue to improve the welfare of civil servants whenever economic conditions allow.

POLICIES AND BASIS FOR THE 1999/2000 BUDGET

25. Mr. Speaker, as explained earlier, the economic reform measures implemented by the Government for many years now have started showing positive results. These sound macroeconomics indicators or fundamentals must now be translated into better services to the people of Tanzania as quickly as possible. It is important therefore to steer the economy to attain a higher growth rate so that the gains from macro-economic stabilization and structural adjustment are adequately shared by the population. It is on this basis that the budget frame and policies for 1999/2000 aim at achieving the following:-

- (i) To attain a GDP growth rate of at least 4.9%
- (ii) To bring inflation rate down to 5% or below by the end of June 2000;
- (iii) To increase domestic revenue collection to at least 13% of GDP.
- (iv) To reduce the deficit on the balance of payments to 6.0% compared to 7.5% in 1998/1999 by encouraging more exports.
- (v) To continue with the privatisation programme so as to reduce the burden on the government budget.
- (vi) To control the increase of unemployment.
- (vi i) To provide sufficient budgetary allocations to the social sectors so as to improve social welfare.
- (viii) To continue improving control of public expenditure.

- (ix) To continue discussions with our external creditors with the aim of easing the debt burden.
- (x) To increase and maintain adequate foreign exchange reserves.
- (xi) To improve management of external and domestic debt.
- (xii) To improve civil servants welfare.
- (xiii) To improve the environment for eradicating poverty particularly for women and children.
- (xiv) To increasingly assume leadership in our relations with donors with a view to owning our development agenda.

26. Mr. Speaker, it is evident that it will take more than one year to realise some of the objectives listed above. Nevertheless- the Government is committed to implementing these policies step by step in the 1999/2000 Budget.

Monetary Policy

27. Mr. Speaker, in addition to the economic targets highlighted above, the Government in the year 1999/2000 is determined to maintain prudent monetary policies, increase foreign reserves and put in place a conducive environment that will encourage increased provision of domestic credit (by about 35%) to the private sector.

28. her. Speaker, in order to attain these targets, the Bank of Tanzania, acting on behalf of the Government, will implement the following:-

- (a) Continue depositing 91 day Treasury Bills proceeds into the special account to check the growth of the money supply.
- (b) Continue-- with controlling the money supply so that inflation falls from 12.1 percent in June, 1 998 to 5 percent or less by June, 2000.
- (c) Improve competitiveness in the banking sector so as to enable banks to provide credit at affordable and more reasonable interest rates.
- (d) Facilitate the establishment of a Credit Information Bureau to ensure that credits are extended to credit-worthy customers only.
- (e) Improve the Central Bank's supervision capacity to improve efficiency and reduce the incidence of bank failures.

To increase foreign exchange reserves to cover at least four months of imports.

Revenue Policies

29. Mr. Speaker, the revenue policies for 1999/2000 aim at achieving a revenue to GDP ratio of 13 percent. To that end, the government will take further measures to improve the tax structure with a view to improving compliance and therefore enhancing revenue collection. Moreover, the Tanzania Revenue Authority will be strengthened so as to enhance its capacity. The capacity of TRA will get a boost from the Tax Administration Project (TAP) financed by the World Bank (IDA).

Expenditure e Policies

30. Mr. Speaker, Government expenditure policies for 1999/2000 aim at strengthening expenditure control and allocating more funds to the priority sectors. To that effect, the 1999/2000 budgets for Ministries and Departments are based on a new system of Performance Budgeting. Under this system, allocation of funds is related to targets and expected outputs Performance budgeting will enable Government ministries and agencies to better evaluate implementation of various targets based on funds allocated.

31. Mr. Speaker, the cash budget system will continue alongside the performance budget. However, the cash budget management system will be improved to allow Accounting Officers to be able to make quarterly indicative expenditure plans. Thus, although the current monthly releases of funds will be maintained, indications will be made on the likely releases for subsequent months on a quarterly basis.

32. Mr. Speaker, in the 1999/2000 budget, priority has been given to the social and economic infrastructure; namely, education, health, water, roads, agriculture, energy, lands, the legal system and the general elections. The sectoral allocation of the recurrent budget, excluding National Debt (CFS) and Social Expenditure, is as follows:-

1999/2000	1998/99	Shs. Million	%	Shs. Million	%
(a)	Social Services	201,035.6	34.1	183,754.3	34.3
(b)	Economic Services	72,099.	12.3	168,010.3	12.7
(c)	Administration	148,237.5	25.2	135,556.5	25.3
(d)	Defence and Security	140,016.5	23.8	23,283.7	23.0
(e)	Production	26,821.8	4.6	25,488.0	4.7
TOTAL		588,210.9	100.0	536,093.8	100.0

Public Enterprises **1**

33. Mr. Speaker, in view of the fact that most of the

Public Holding Corporations no longer have a substantial

role to play after the privatisation of their subsidiaries, the Government has no intention of continuing to bear the burden of allocating subventions to them. To this end, all ministries responsible for these Holding Corporations are directed to wind them up immediately. Any remaining activities will be assumed by the respective Ministries under the current budget envelope.

34. Mr. Speaker, the Government for many years has relied on Tanzania Italian Petroleum Refinery Ltd, (TIPER), for refining petroleum products. However, operating costs of the refinery are increasing and becoming a burden to the Government budget. The Government is in consultation with its partner, Agip Petrol of Italy to discuss and consider the possibility of privatising TIPER.

Domestic Borrowing

35. Mr. Speaker, during 1999/2000, the government will maintain its stance of no net domestic borrowing. However it will raise funds through the Treasury Bill Market to retire maturing bills. The Treasury Bill Market will be expanded by increasing the number of primary dealers. As the economy is improving, there is the possibility now and in the future for investors in Government bonds to consider investing in longer maturity stocks. It is envisaged that in 1999/2000, the Government will issue longer-term bonds of three years or more.

External Loans and Grants

36. Mr. Speaker, despite the Government's desire to increase domestic revenue to finance its expenditure, external assistance will continue to be required to compliment Government efforts, particularly to pay debts and to finance development projects. The Government will continue to co-operate in 1999/2000 with the various donors in this regard. Main areas of co-operation will evolve around the continued implementation of the reform programmes, continuous consultations with donors in respect of programmes and projects supported by them, contributions to the MDF and efforts concerning the cancellation of Tanzania's debts under the Heavily Indebted Poor Countries Initiative (HIPC). The Debt Buy Back Scheme which was planned to begin in the financial year 1998/99 will now be implemented in 1999/2000.

The Private Sector and Employment

37. Mr. Speaker, following the restructuring of the Civil

Service and the privatization of public institutions, the

private sector is now the major employer. In its efforts to promote the employment potential of this sector, the Government has created various special funds, particularly for women and youth, to enable people to gain access to capital and start their own small businesses. During the fiscal year 1999/2000, the Government has allocated Shs. 2,000 million for this purpose. There are also other programmes of this nature which have been established in collaboration with donors and non-governmental organisations to create more employment and help alleviate poverty. The Government will ensure that responsible Ministries and other government agencies put in place proper procedures to guide the public on the utilisation of these resources, to ensure that they reach the targeted beneficiaries and that the funds are used for the intended purposes and re-paid at the appropriate time. There is a serious problem of many borrowers not being creditworthy as they do not repay loans at the appropriate time. I request Honourable Members of Parliament to assist in the task of educating the public on the importance of repaying loans.

38. Mr. Speaker, the Government has formulated a draft National Microfinance Policy for the provision of financial services to micro entrepreneurs and small holder farmers. Under this policy, guidelines will be formulated to assist service providers in

their work. It is the objective of the Government to ensure that a wide spectrum of people and institutions are involved in this scheme and therefore contribute to the eradication of poverty and the national income.

39. Mr. Speaker, the Government's contribution towards promoting the private sector and increasing employment includes the many tax reforms which are being implemented.

Civil Service Welfare

40. Mr. Speaker, as mentioned earlier, the Government presented in this House, Bills aimed at improving the welfare of civil servants. Following the enactment of those Bills, I wish to inform your House that effective from 1 July, 1999:-

(i) A Pension Fund for civil servants will be introduced, with a contribution of 15% from the employer i.e. the Government and 5 % from the employee.

(ii) The monthly pension payments for retired officers will be adjusted from the current minimum monthly payment of Shs. 2,000 to a monthly payment of Shs. 10,000.

(iii) The lump sum pension payment threshold will be adjusted from the present Shs. 5,000 per month to Shs. 20,000 per month.

(iv) The compulsory retirement age will be adjusted from 55 years to 60 years whereas the voluntary retirement age will be 55 years instead of 50 years as at present.

(v) The Government will establish a Health Insurance Fund

for civil servants under which the employee will contribute 3% of his/her monthly salary and the Government will likewise contribute 3%. The modality of the management of the Health Insurance

Fund is under preparation by the responsible Ministry.

(vi) The Government has made various adjustments to civil

servant salaries in order to increase their welfare. This will be elaborated by the Minister responsible for the civil service.

Co-operation with neighbouring countries

41. Mr. Speaker, during 1999/2000, the Government will continue to strengthen co-operation within East Africa and the sub-region in the context of COMESA, SADC and other regional organisations. As for the East African Co-operation, we expect that the Treaty for the East African Community will be signed. Our co-operation with East African Countries, COMESA and SADC will continue to be strengthened particularly on economic matters including the harmonisation of fiscal and monetary policies,

investment in the economic infrastructure and the facilitation of private sector participation in production and commerce.

1999/2000 BUDGET FRAME

42. Mr. Speaker, having explained the policy framework underlying the government's budget for 1999/2000, I would like at this juncture, to explain the structure of the 1999/2000 budget. In line with the Macroeconomics Policy Framework highlighted this morning by the Minister of State for the Planning Commission, and the budget policies explained above, the Government plans to mobilise a total of Shs.1,180,741 million to finance expenditures in the next financial year. Out of this amount, Shs. 810,298 million will be raised from domestic revenue while Shs. 392,443 million will be from external loans and grants. The Government will maintain its policy of no bank borrowing and plans to make a net repayment to the banking system of Shs. 24,000 million. Further, the Government expects to obtain Shs. 2,000 million from proceeds of the privatisation of public institutions.

43. Mr. Speaker, Government expenditure for the fiscal year 1999/2000, will be 1,180,741 million. It is important to mention here that this is just 89 percent of the Government's actual requirements based on its structure. This means that the Government is still unable to raise adequate funds to meet all of its requirements.

44. Mr. Speaker, the Government is projecting to collect a total of Shs. 810,298 million in revenue during 1999/2000. This level of revenue collection compared to the expenditure level of 1,180,741 million leaves a deficit of Shs. 370,443 Million which needs to be financed from new sources.

45. Mr. Speaker, as explained earlier, in addition to our efforts to increase revenue, external assistance still plays- an important catalytic role in our economic development. The Government in 1999/2000 expects to raise a total of Shs. 392,443 from external loans and grants from the donor community in support of the Government budget. Out of this amount, Shs. 177,500 million is balance of payments support and Shs. 214,943 million will be for development projects.

46. Mr. Speaker, on the basis of expected external

loan and grants, there is an apparent surplus of Shs. 22,000 million. As was the case in 1998/99, the Government expects to realise additional revenue from the privatisation proceeds of parastatals of Shs. 2,000 million. This will further increase the surplus to Shs. 24,000 million.

47. Mr. Speaker, as stated earlier, the Government does not intend to borrow from domestic banks or other domestic financial institutions, but will instead make a net repayment to the tune of Shs. 24,000 million. This absorbs the perceived revenue surplus as indicated above.

Tax Reform and New Revenue Measures

48. Mr. Speaker, the Government will continue during 1999/2000 to implement measures to further streamline the tax regime and improve the revenue collection

mechanism. The-proposed measures will reduce revenues from some sources while improving collections in other sources. There has been an overlap on tax jurisdiction between the central and local Governments leading to double taxation in some cases and thus creating a tax regime which is unfriendly and unfair. The Government is recommending steps to rationalise the tax structure and several other fees to improve compliance, make taxes more transparent and at the same time increase revenue for local Governments. The combined effect of the measures being proposed is to enable the Government to collect Shs. 810,298 million.

Amendment of the Tax Structure and Fees

49. **Mr. Speaker**, in order to improve the tax structure and strengthen tax administration, it is recommended to make reforms in the following areas:-

- (i) Customs Duty
- (ii) Income Tax
- (iii) Value Added Tax
- (iv) Excise Duty
- (v) The rationalisation of central and local government taxes.
- (vi) Other revenue measures.

Customs Duty Structure

50. **Mr. Speaker**, it is proposed that the following amendments be made to the customs-duty structure:-

a) Applicable Customs Duty Rates:

It is proposed that effective 1 July, 1999, applicable rates of duty be based on the degree of processing, with the lowest rate for investment goods and the highest rate applicable to consumer goods. Further, it is proposed to have a maximum of four tariff bands as follows:-

- (i) 5 per cent for raw materials, replacement parts and capital goods.
- (ii) 10 per cent for semi-processed inputs and spare parts except spare parts for motor vehicles.
- (iii) 20 per cent for fully processed inputs and motor vehicle spare parts.
- (iv) 25 per cent for consumer goods. This will now be the top import duty rate.

- It is however proposed that the zero (0) rate be maintained for strategic and lead investment sectors.

- The proposed amendments to the customs duty structure and rates will have the effect of reducing Government revenue by Shs. 28,929.0 million. The loss in revenue is also in respect of VAT and Excise duty as they are assessed on custom duty as base. However, since Shs. 12,249 million will be compensated from the reduction of net domestic borrowing, the gap from revenue loss is reduced to Shs. 16,680 million. Further, it is proposed that the application of the COMESA tariff regime, except for Beer, is maintained.

51. Mr. Speaker, it is recommended that the applicable rate for Beer from EAC and COMESA countries be 20 percent instead of 10 percent and 25 percent for Beer from non COMESA countries. The proposed amendment on the import duty rate for Beer is to facilitate harmonisation of excise duty charged on local and imported beer. From now on, it is the import duty that will be used as an instrument of protecting domestic industries instead of excise duty.

52. Mr. Speaker, with the objective of encouraging Tanzanians to use computers and in view of the need to be prepared to tackle the problem posed by the Millennium Bug, it is proposed that computer software and hardware including accessories, printers, UPS and systems with embedded processors be charged customs duty rate of 5 percent instead of the current 20 percent with effect from 1st July, 1999.

53. Mr. Speaker, in order to promote the use of modern technology and farm implements in the agricultural sector it is proposed that effectively July, 1999 import duty on Tractors, currently at 5 percent, be abolished. With this measure, tractors will be imported tax free.

54. Mr. Speaker, in addition to the proposed amendments, the Tanzania Revenue Authority, will be mandated to institute Minimum Dutiable Value (MDV) for all imported goods that have shown a high incidence of under-declaration of value -with the aim of Such goods include, soaps and detergents, paints, plastic products, cement, tea, sacks and bags, rice, textiles, shoes, edible oils, metal packaging, fishnets, lids and caps, plastic bags, beer, spirits and wine, bulbs, match boxes, motor vehicle bicycle tubes and tyres.

(b) Amendments to the Income Tax Structure

Personal Income tax

55. Mr. Speaker, it is being proposed that, with effect from 1 July, 1999 the personal income tax regime be as follows:-

(i) Personal Income tax bands be reduced from 11 to 4.

(i i) Minimum taxable income (threshold) be raised from, Shs. 20,000 to Shs. 45,000 per month..

(i i i) The highest marginal. income tax rate reduced from 35 percent to 30 percent to equate it with the corporate income tax rate of 30 percent. Following this amendment, the personal income tax structure follows:-

INCOME TAX BANDS FOR PERSONAL INCOME

PURPOSES

CURRENT STRUCTURE

<u>Monthly Income Bands</u>	<u>Rate Payable</u>
0 - 20,000	NIL
20,001 - 50,000	7.5% over 20,000
50,001 - 80,000	2,250 + 1 0% over 50,000
80,001 - 110,000	5,250+ 12.5% over 80,000
110,001 - 140,000	9,000 + 1 5 % over 1 1 0,000
140,001 - 200,000	13,500+ 17.5% over 140,000
200,001 - 300,000	24,000 + 20% over 200,000
300,001 - 400,000	44,000 + 22.5% over 300,000
400,001 - 500,000	66,500 + 25 % over 400,000
500,000 - 600,000	91,500+27.5% over 500,000
600,001 - 700,000	119,000 + 30% over 600,000
Over 700,000	1491000 + 3 5 % over 700,000

PROPOSED STRUCTURE

<u>Monthly Income Bands</u>	<u>Rate Payable</u>
0 - 45,000	0
45,000 - 180,000	17.5%
180,001 - 360,000	23,625 + 20% over 180,000
360,001 - 540,000	59,625 + 25% over 360,000
Above 540,000	104,625 + 30% over 540,000

56. The Tax structure which is being proposed will not result in a reduction of revenue estimates for the year 1999/2000.

Corporate Income Tax,

57. **Mr. Speaker,** regarding corporate income tax, it is proposed to effect the following changes as from 1st July, 1999:-

(i) Retain straight-line depreciation for buildings and unify regular depreciation rates at 5 percent instead of the current 4 per cent. This uniform rate will be applied to all commercial buildings, including industrial buildings, offices and hotels.

It is proposed that in computing tax relief for companies, full capital expensing be allowed, except for expenditure relating to buildings. This amendment is aimed at harmonizing the income tax regime for investors with TIC certificates and investors without TIC certificates.

(i i i) It is proposed to amend article 16 (4) of the Income Tax Act, 1973 as follows:-

Losses sustained in one year can be carried forward and offset against tax claimed in the-subsequent year for a period not exceeding five years.

(iv) Interest income be included as part of company income and be taxed at a rate of 30 percent.

Any amount deducted as withholding tax will be reckoned as advance tax paid. This measure intends to harmonise the income tax regime.

(v) Tax exemption on interest income from treasury bills be rescinded with the introduction of a 15 percent tax.

(vi) The capital gains tax which was abolished in the past, is to be re-instated at a rate of 10 percent.

Stamp Duty

58. Mr. Speaker, it is proposed to make amendments to the stamp duty structure to facilitate availability of credit in the financial sector and the development of the stock market. The proposed changes effective 1 July, 1999 are as follows--

The maximum stamp duty rate for the registration of property (for security or mortgage) be Shs. 10,000.

The stamp duty of 0.96 percent currently charged on sale of shares and other financial securities, be abolished.

59. Mr. Speaker, overall, amendments in customs duty and income tax structure will result in revenue loss estimated at Shs. 16,680.0 million.

Value Added Tax

60. Mr. Speaker, the following amendments are proposed on VAT with effect from 1 July, 1999.

Pharmaceutical products as per the approved list by the National Pharmacy Board be zerorated so that producers may get refunds of VAT paid on inputs.

(i i) Tourist air charters be exempted from VAT.

(i i i) Aircraft, aircraft engines, spare parts for

aircraft and aircraft maintenance be exempted from VAT.

61. The proposed VAT amendments will reduce government revenue by Shs. 1,458.7 million. The revenue loss emanating from VAT amendments when combined

with the loss from other tax measures, increases the overall loss of revenue to Shs. 18.1 38 million for which new revenue measures are needed

Excise Duty:

62. Mr. Speaker, it is proposed, with effect from 1 July 1999, to harmonize excise duty rates for imported and locally produced goods as follows:-

(i) Cigarettes

(a) Cigarettes manufactured with more than 75% Tanzanian tobacco content as raw material, and with length of not more than 70mm be charged Shs.3,267 as excise duty instead of Shs. 2,970 for every 1 000 pieces. This is an increase of 1 0 percent.

(b) Cigarettes manufactured with more than 75 percent Tanzanian tobacco content as raw material and with length of more than 70mm be charged Shs 7,706 for 1 00b pieces instead of Shs. 7,005.

This is an increase of 1 0 percent.

(c) Premium Cigarettes manufactured with less than 75 percent of Tanzanian tobacco content be charged Shs 14,000 for 1 000 pieces.

(i i) Beer:

Excise dt,ity on locally brewed beer and imported beer be harmonised at Shs. 200 per litre instead of the current differential rates of Shs 174 per litre on local beers, Shs. 195 for imported beer from COMESA,- and Shs. 153 for imported beer from non-COMESA countries.

Spirits and Wines

63. Mr. Speaker, as regards spirits and wines produced locally and those imported, it is proposed to harmonise the excise on wine and vermont at Shs 6741.25 per litre (instead of the present rate of Shs 508.30 per litre on local wine and Shs. 776 per litre on imported wines). For spirits, the rate is to be harmonized at Shs.1000 per litre for local and imported spirits. (At present the rates are Shs. 864 per litre for local spirits and Shs. 1,000 per litre for imported spirits).

(iv) Soft Drinks

Mr. Speaker, it is proposed that excise rates for soft drinks be harmonized fit Shs. 34.0 per litre for local and imports. At present, locally produced soft drinks are charged -Shs. 34 per litre while imported soft drinks are charged Shs. 140 per litre. Harmonization of the excise on soft drinks is not expected to have effect on revenue as imports are negligible.

64. **Mr. Speaker**, the measures on excise duty will generate additional revenue of Shs. 7,199.7 million during 1999/2000. This additional revenue will reduce the deficit to Shs. 10,939.0 million.

v) **Airport Departure Service Charge**

65. **Mr. Speaker**, the government is also proposing to amend the airport departure service charge by increasing the rate from Shs. 2,000 to 3,000 for domestic flights effective 1 st July, 1999. This measure will generate an additional revenue of Shs. 802 million and therefore reduce the gap to Shs.,, 1 0, 137.0 million.

vi) **Gazetting of notorious tax evaders.**

66. **Mr. Speaker**, there is concern on the continued tax evasion. In order to fight this vice, the Government is recommending amendment of TRA Act to empower the Commissioner General of TRA to print the names of known tax evaders in the Official Gazette. The Government hopes that this measure will induce tax evaders to pay tax.

Harmonization of Central and Local Government Taxes

67. **Mr. Speaker**, in addition to the proposed changes in the tax regime, the government also intends to take measures to rationalise taxation systems and collection of fees between central and local governments. The measures in this area are directed at simplifying tax administration between the central and local government authorities., eliminating nuisance taxes which are a bother to tax payers and enhancing the revenue base of local authorities. To achieve these objectives it is proposed that effective 1 July, 1999 the following measures be taken;

Business Licence Fees

It is recommended that the distribution of licencing authority between local governments and central government be revised, with a view to enabling each authority to collect and retain licence fees for the licence it issues. Business Licence Act No. 25 of 1972 and the Local Government Finance Act No. of 1982 need to be amended accordingly.

This measure is aimed at broadening the tax base of local authorities from the proposed sources.

The licencing authorities, are urged to cut redtap and issue licences instantly upon applicants having paid the requisite fees and obtained tax clearance.

Registration of Town Commuter Buses

It is recommended that effective 1 July, 1999 TLB licence fees payable by urban commuter buses to central government be transferred to local authorities so that the same collect and retain the revenue.

Hunting Fees

68. **Mr. Speaker**, in this area, the following measures are recommended:-

To increase the share for local authorities in areas where hunting blocks are situated from the current 12.2 percent to 25 percent of the gross revenue.

The Wildlife Division of the Ministry of Natural Resources and Tourism, should apportion revenue from hunting blocks lying across two or more local authorities.

These adjustments are expected to reduce central government's revenue by Shs. 861.0 million and increase revenues of the same amount to the local authorities during 1999/2000. This therefore increases the revenue gap to Shs. 10,998.0 million.

Registration fees for Medical /Health facilities

69. Mr. Speaker, the Government is proposing changes in the registration of Medical/Health facilities including dispensaries, clinics, pharmacies and medical stores. It is recommended that registration of these facilities be done by the local authorities who will also collect the fees. However, registration of private hospitals will remain under the jurisdiction of Central government, but local authorities be entitled to 50 per cent of the total revenue collected as registration fees. This will enable the local authorities to meet expenses incurred in the process of registration.

These measures are revenue neutral.

(v) Slaughter and Meat Inspection Fees

Mr. Speaker, in this area, it is recommended that slaughter and meat inspection fees be collected and retained by respective local authorities. This is partly because veterinary officers who were formerly employed by the Central Government, have now been transferred to the local authorities and meat inspection is one of their functions.

Land Rent

(vi) Land Rent

70. Mr. Speaker, it is recommended that Land Rent continues to be collected by the central government, but, the share of revenue to local authorities be raised from 15 percent to 20 percent.

Moreover, Commercial Land Tax which is being charged by the local authorities be abolished.

These measures are expected to reduce central government

revenue by Shs. 163.2 million in 1999/2000 and therefore increase the revenue gap to Shs. 11,161.2 million.

(vii) Service Levy

In this area, it is proposed to abolish industrial cess and replace it with a new levy known as Service Levy. This levy will be charged at 0.3 percent of turnover net of VAT for corporate entities by the relevant local authority. Corporate entities which pay Service Levy will not be required to pay Produce cess as well.

These measures are revenue neutral.

(viii) Agricultural Produce and Livestock Cess

71. Mr. Speaker, in this area, the Government is proposing that local authorities continue to charge produce cess on agricultural produce and livestock cess on livestock. However, for major export crops produce cess should not exceed 5 percent of the farm gate price (producer price).

Also, in order to remove inconveniences at markets for livestock and agricultural produce, Stamp Duty charged on these products by local authorities be abolished effective from July 1, 1999. **Agricultural** and Livestock should only be charged in districts where these goods are sourced and not in districts and villages where these are on transit. However, destination local authorities will be allowed to impose user charges at the place where the agricultural produce and livestock are sold to cover costs of running the markets. These measures are intended to reduce duplication of taxes on this source of revenue.

Court Fines

72. Mr. Speaker, due to the problem of local governments not being able to obtain their share of 50 percent of court fines issued for non-compliance of various local authority by-laws, the following amendments are proposed;

Revenue from fines for contravening by-laws should be maintained in a special account from which 50% of this revenue would be transferred to the respective local authority. The remaining 50% will be transferred to the consolidated fund service of the central Government.

Other Sources of Revenue

73. Mr. Speaker, in order to fill the remaining revenue gap of Shs. 11,161.2 million the government will **make** changes in the following areas:

(i) Dividends from parastatal organisations.

Amendments to be made on dividends are expected to generate an additional Shs. 8,059.8 million in revenue.

(ii) Revenue from Ministries and Government Departments

Ministries and government departments are expected to raise an additional revenue of Shs. 1,937.2 million.

74. Mr. Speaker, these measures will generate additional revenue of Shs 9,997.0 million which reduces the deficit to Shs. 1,164.2 million. The government expects to cover the gap through strengthening tax administration including a reduction of exemptions and collection of tax arrears.

(iii) Education Levy

75. Mr. Speaker, apart from the revenue measures described above, the government has deemed it necessary to find additional ways and means to finance improvements needed in education. In this connection the government is proposing to introduce an Education Levy. Because of the need to complete preparations for implementation of the new levy, including the decision on the rate, base and method of collection, as well as appropriation of proceeds, it is recommended that the levy be collected with effect from October, 1999. The levy will be collected as a special fund and will therefore **not** be part of the Government Budget.

Amendments to Various Tax Laws

76. Mr. Speaker, it is further proposed that amendments be made to various tax statutes and fees with a view to simplifying revenue collection. These amendments are shown in the Finance Bill.

Summary of Revenue Measures

77. Mr. Speaker, in summary, the various measures detailed above on the tax structure and rationalization of central and local government taxes have the following results:-

i) Amendments to Customs Duty Shs (-1 6,680.0) million (include VAT on Imports)

ii) Amendments to Income Tax Shs. 0.00 million

iii) Amendments to VAT Shs. (-1,458.7) million

iv) Amendments to Excise Duty Shs. 7,199.7 million

v) Rationalisation of Central and Local Government taxes Shs. (- 1,024.2)' million.

vi) Additional Revenue Ministries/Regions Shs. 1,937.2 million

vii) Additional Revenue from dividends

Shs. 8,059.8 million

viii) Amendments to Airport departure charges

Shs. 802.0 million

ix) Administrative measures Shs. 1. 164.2 million

Total Shs. 0.0 million

78. Mr. Speaker, In this connection, the revenue loss caused by the various amendments to the tax regime has been fully covered.

BUDGET STRUCTURE

79. Mr. Speaker, On the basis of the budget frame, explained above, the structure of the 1999/2000 Budget will be as follows:-

BUDGET FRAME

	Revenue	Shs. Million
A.	Domestic Revenue	810,298
	(i) Tax Revenue	(728,042)
	(ii) Non Tax Revenue	(82,256)
B.	Foreign Loans and Grants	392,443
C.	Net Domestic Borrowing	(-24,000)
D.	Privatisation Proceeds	2,000
	Total Revenue	11180,741

EXPENDITURE

Recurrent Expenditure	9211176
(i) Ministries.....	4541120.7
(i i) CFS.....	2661299.0
(i i i) Regions.....	15,730.1
(iv) Special Expenditure.....	66,666.2
(a) Salary Adjustment	37,538.2
(b) Pension Adjustment	2,900.0
(c) Others	261228.0
(v) Local Government.....	118,360.0
(a)..... Town Councils	221906.1
(b)..... Districts	951453.9
..... Emergency.....	12,650.0
Development Expenditure..	246,915.0
(i) Local	31,972.0
(i i) Foreign	214,943.0
TOTAL EXPENDITURE	11180,741.00

CONCLUSION

80. Mr. Speaker, the budget for 1999/2000 has been prepared with the objective of increasing the pace of economic growth. After many years of efforts to reform and revive the economy, in co-operation with donors including institutions such as the IMF and World Bank under the ESAI and SAC programmes, considerable achievement has been recorded. Indeed, despite the bad weather conditions in the past two years, the economy has continued to grow. The Government is managing the budget effectively, inflation is falling and foreign exchange reserves are increasing. However, there is no reason for complacency. We need to do more to translate the macroeconomic gains to the majority of Tanzanians. Sectors such as agriculture and industry which have the potential to employ many people are still under-developed. Social services, infrastructure including roads are still vastly inadequate. To a large extent the 1999/2000 budget aims at addressing these weaknesses. As has been observed above, there is still a need for external assistance to augment Government resources in improving service delivery and financing development projects. In addition the Government will continue to pursue the drive for debt forgiveness so as to be able to allocate more resources for development.

81. Mr. Speaker, I beg to move.