

**SPEECH BY THE MINISTER FOR FINANCE
HON. ZAKIA HAMDANI MEGHJI (MP.),
INTRODUCING TO THE NATIONAL ASSEMBLY,
THE ESTIMATES OF GOVERNMENT REVENUE
AND EXPENDITURE FOR THE FISCAL YEAR
2006/07 ON 15TH JUNE, 2006**

INTRODUCTION:

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 Fiscal Year 2006/07. This 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. Additionally, there is the 2006/07 Finance Bill.

2. **Mr. Speaker**, at the outset, I would like to take this opportunity to congratulate His Excellency Jakaya Mrisho Kikwete for having been elected by a landslide majority vote under the CCM party to be the fourth President of the United Republic of Tanzania since our country gained Independence. I would also like to

congratulate Honourable Edward Ngoyai Lowassa for having been appointed by the President and endorsed by the Parliament with overwhelming votes to become the Prime Minister. I congratulate you, Honourable Speaker, and the Honourable Deputy Speaker for having been elected by the Members of Parliament to lead our Parliament. I congratulate you all, Honourable Members of Parliament, on your election to this House. I would also like to congratulate, Honourable Ministers and Deputy Ministers, for having been appointed to lead your respective Ministries.

3. *Mr. Speaker,* I would now like to express my personal sincere gratitude to His Excellency the President, first, for appointing me a Member of Parliament, and then as the first woman Minister for Finance. His Excellency the President has given me a great honour and I would like to assure him, my Party and the general public, that I will work to the limit of my humanly ability, and I pray to God that he may help me. Amen.

4. *Mr. Speaker,* allow me to take this opportunity also to express my sincere appreciation to everyone, who in one way or another, contributed to the preparation of this budget. Indeed many stakeholders were

involved. I would like to thank the Finance and Economic Affairs Committee of the Parliament under the chairmanship of Honourable Abdallah Omari Kigoda (MP) for their excellent work in scrutinizing policies behind the expenditure and revenue estimates for 2006/07. The Committee's advice has been of great help in improving the budget that I am presenting today.

5. *Mr. Speaker,* I would also like to thank all Ministries, Independent Departments, Regions, Urban and District Councils, national and international organizations, and the private sector for their invaluable contributions to the preparation of this budget. Let me take this opportunity to thank in particular the Office of the Attorney General for the timely preparation of 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, Honourable Abdisalaam Issa Khatib (MP) and Honourable Mustafa Hadin Mkulo (MP), Permanent Secretary Mr. Gray Mgonja, Deputy Permanent Secretaries, Mr. Ramadhani Khijjah and Ms. Joyce Mapunjo, Heads of Department, and all members of staff of the Ministry. Let me also thank the Government Printer for the timely publication of this budget speech, the budget books and bills that are related to this

budget. Finally, I would like to extend my special thanks to all experts and those who offered professional suggestions on how to improve the collection of revenue. Their recommendations and advice have been taken into consideration in this budget.

6. Mr. Speaker, this is the first Parliamentary Budget Session following the General Elections of the President, Members of Parliament and Councillors in December 2005. In that election, the Chama Cha Mapinduzi party was endorsed by the public with an overwhelming majority to continue to lead our country. The CCM's election victory has demonstrated that Tanzanians not only have great faith in the party but also have high expectations with new zeal, new vigour and new speed.

7. Mr. Speaker, in his inaugural address to the Parliament on 30 December 2005, His Excellency Jakaya Mrisho Kikwete, the President of the United Republic of Tanzania, gave an extensive recount of the main responsibilities of the Fourth Phase Government, to include, I quote: **“First, is to lift Tanzania from a backward, and dependent economy, to a modern self-sustaining economy; and Second, to empower the people so that they can**

participate in economic activities and in eradicating poverty”...end of quote. This budget marks the beginning of implementation of the Policy stance and goals which His Excellency the President vowed. In contemplating your contributions to the 2006/07 budget proposals, our focus should be on the main motive of scaling up the economy with high speed, through Public participation so as to ensure that the public benefits from the fruits of a strong economy.

REVIEW OF IMPLEMENTATION OF FISCAL POLICIES FOR 2005/06

8. *Mr. Speaker,* overall performance of the economy during the first nine months (July 2005 to March 2006) of the 2005/06 fiscal year, was satisfactory, notwithstanding the prolonged drought, which caused food shortages as well as scarcity of water for electricity generation. The steady increase in oil prices in the world market has also continued to impact adversely on the cost of production and service delivery in our economy. As a result of these exogenous factors, inflation rate shot-up from 4.3 percent at the end of July 2005 to 6.9 percent at the end of April 2006. However, as stated by Honourable Minister for Planning, Economy and Empowerment, the economy grew by 6.8 percent in 2005 compared to 6.7 percent

in 2004. Likewise, official foreign exchange reserves for calendar year 2005 were equivalent to 6.4 months of imports of goods and services.

9. Mr. Speaker, implementation of the 2005/06 budget during the first nine months of the fiscal year (July 2005/March 2006) was on track, despite the adverse effects of drought and rising oil prices. The drought-induced food shortages forced the Government to make internal budget reallocations to cater for the procurement and distribution of emergency food to severely affected areas. Additional financial support was also provided to TANESCO to pay for capacity and energy charges to IPTL and SONGAS, and to procure transformers. To ensure availability of food at reasonable price to the consumers, the Government waived taxes on importation of foodstuff. Together, these measures reduced the severity of the food shortage and saved the lives of many people. The measures also helped to dampen the inflationary pressure.

10. Mr. Speaker, in 2005/06 the Government aimed at collecting domestic revenue of at least shillings 2,066,751 million. In this regard several measures were taken, including strengthening administration and management in the Customs Department; Internal restructuring within the Tanzania

Revenue Authority in order to enhance management of domestic taxes; strengthen the Large Taxpayer's Department so as to serve more taxpayers, and reforms in the tax structure itself to simplify tax collection and improve efficiency. By end March 2006, a total of shillings 1,544,366 million have been collected, surpassing the target by 0.5 percent. The most current trend indicates that the revenue target for the full year 2005/06 will be met. The following are among the measures that were implemented in 2005/06 budget: -

(i) Amendment of the Income Tax Act, 2004:

The Government amended the Pay as You Earn (PAYE) structure by raising the exemption threshold from shillings 60,000 per month to shillings 80,000 per month. This measure was intended to remove low-paid employees from the personal income tax net thereby enhancing their disposable income.

(ii) Amendment of the Excise (Management & Tariff) Act, Chapter 147

Excise duty rates on soft drinks, beer, imported wines, spirits and cigarettes were raised by 5 percent to adjust for

inflation. Revenue collected from this source in the first nine months (July 2005 to March 2006) increased by 16.5 percent.

(iii) Amendment of the Value Added Tax (VAT) Act

The Government made amendments to the Value Added Tax Act, Chapter 148 to give relief to the transportation sector and curb loopholes for tax evasion. The amendments include VAT exemption on locomotives, rolling stock, parts and accessories to reduce transportation cost and enable TRC and TAZARA to meet regular maintenance costs. Furthermore, the Government exempted aviation fuel for domestic air operators from VAT to cushion them from escalating air transportation costs.

(iv) Amendment of the Customs Tariff Structure

The East African Community Partner States, commenced the implementation of common external tariffs in January 2005. During July 2005 - March 2006, customs duty revenue were 52 percent higher than revenue in the same period in the

2004/05 fiscal year. This is evidence that Tanzania succeeded in safeguarding her revenues in the protocol for the establishment of the East African Customs Union.

- (v) Amendment of Business Licensing**
Measures taken in this area include amendment of various regulatory fees charged by various authorities, with a view to improving the business environment. One of the measures taken was the removal of transport license fees for non-passenger vehicles including cargo haulage vehicles and pick ups.

11. Mr. Speaker, during July 2005 - March 2006 external grants and concessional financing reached shillings 1,364,244 million, compared to estimate of shillings 1,443,580 million for the same period. Out of the total grants and loans received, shillings 575,956 million were channelled through the exchequer against estimates of shillings 589,913 million. Project loans and grants reached shillings 731,711 million against an earlier expectation of shillings 783,467 million. The estimates for grants and concessional financing were not attained due to a number of reasons, the main

one being that some of the development partners had general elections and new Governments coming into power, thus causing delays in the disbursement of the pledged resources.

12. Mr. Speaker, privatization proceeds amounted to shillings 33,309 million compared with estimates of shillings 5,210 million for the period. The proceeds received came from the sale of 49 percent of Government shares in NMB.

13. Mr. Speaker, by the end of March 2006, total expenditure reached 3,180,542 million almost equal to the estimate of shillings 3,171,084 million for the period. Recurrent expenditure was 2,199,632 million, and development expenditure shillings 980,911 million. Debt repayment and pension outlays amounted to shillings 440,623 million and wage bill was 468,511 million during the period under review. The pension payments included claims of the former employees of the defunct East African Community. New claims continue to be processed particularly claims from relatives of the deceased. It is expected that this exercise will be finalised by the end of June 2006. In the event some claims remain outstanding by then, verification and payment process will be continued to FY 2006/07.

14. *Mr Speaker,* On the basis of revenue collection trend for the period July 2005 to March 2006, the Government believes that the revenue targets for 2005/06 will be attained with a comfortable margin. Domestic revenue is expected to reach 2,066,751 million equivalent to 14.3 percent of GDP as per the existing GDP figures. However, based on the most recent revision of the GDP statistics, the revenue - GDP ratio is compressed to 13.6 percent. The projected foreign grants and loans including debt relief will be met. On the expenditure side, the trend indicates that recurrent expenditure will be as planned, save for the internal reallocation to cater for the emergencies as explained earlier. Development expenditure is also expected to be as planned.

ECONOMIC EMPOWERMENT OF THE PEOPLE

15. *Mr. Speaker,* during FY 2005/06, the Government continued to strengthen the environment for the development of financial and capital markets. A new Banking and Financial Institutions Act, and a new Bank of Tanzania Act were enacted by the Parliament in April 2006. The Acts seek to enhance the autonomy of the Central Bank, strengthen its capacity to supervise banks and financial

institutions, to improve financial services especially, by expanding availability of credit at competitive terms, and to provide opportunity for the people to contribute to economic growth and poverty reduction. It should be remembered that a strong financial services sector is a prerequisite of any stable economy. These amendments are part of the implementation of the Second Generation Financial Sector Reforms which include: -

- (i) Strengthening the policy environment for the financial sector to grow; and be able to extend its services to more people;
- (ii) Strengthening financial markets so as to bring more competition and efficiency;
- (iii) To reform regulatory framework of pension funds;
- (iv) Strengthening the insurance industry;
- (v) Creating an environment for facilitating the availability of micro credits services;

- (vi) Reforming the land registration system for enabling land to be used as a collateral against credit or mortgage; and
- (vii) Putting in place arrangements for development of medium and long term finance.

16. Mr. Speaker, the Government has continued to guarantee bank credits through the Export Credit Guarantee Scheme (ECGS) and Small - Medium Enterprises Credit Guarantee Scheme (SME-CGS) which are managed by the Bank of Tanzania on an agency basis. The Government is further finalizing arrangements for establishment of Development Finance Guarantee Fund (DFGF). The Government acknowledges complaints raised by some people that the operations and management of these schemes are cumbersome. During FY 2006/07, the Government will evaluate these schemes and take appropriate measures.

17. Mr. Speaker, the Government has started to implement the Property and Business Formalisation Programme for Tanzania (PBFP – MKURABITA) intended to formalize in particular, unregistered assets of the informal sector. This Programme is premised on the

large size of the informal sector, the value of unregistered capital, procedures for managing it, and the great contribution that the informal sector can make to economic growth of the country. Proposals are currently being prepared on how to formalise the informal sector so that the assets of the people are recognised and that people can obtain title deeds which can be used as collateral for borrowing from banks.

18. *Mr. Speaker*, during this fiscal year, the Government began the process of transforming the National Investment Bank (TIB) into a development bank that will coordinate mobilization of term finance for the provision of loans for investment and production to all sectors, including agriculture and industries. As a first step, TIB's capital has been partially increased, and the bank is now focusing on strengthening its human resource capacity before expanding its activities. Furthermore, the Government is improving conditions for facilitating further development of financial services.

CHALLENGES AHEAD:

19. *Mr. Speaker*, despite the many economic and social achievements, our country still faces daunting challenges, including the following:

- (i) **First**, the capacity of the Government to tackle problems of poverty is limited. Upon us, lies the big responsibility to scale up domestic resource mobilization by strengthening tax administration, integrating the informal sector into the tax base, improving tax policies, remove loopholes for tax evasion, strengthening domestic financial markets to enable the people to borrow for their self-development, and building a conducive environment for private investment, which will, in turn widen the tax base, as well as create employment.

- (ii) **Second**, the bulk of our foreign exchange is derived from official development assistance. Exports of Tanzanian goods and services are very small. We must institute a vigorous effort to increase exports. This task must begin by recognizing and addressing areas that can provide us with quick returns and increase our competitiveness in the world market.

- (iii) **Third**, we should use the support we receive from our Development Partners in ways that help us to build our capacity for self-reliance in the near

future. Decisions on where aid should be directed are very important.

- (iv) **Fourth**, even though public financial management has improved compared to the past, some weaknesses still remain, and measures are being taken to overcome them.

THE RELATIONSHIP WITH OUR DEVELOPMENT PARTNERS

20. *Mr. Speaker*, in this financial year, the Government has continued to improve its relationship with our Development Partners under the existing strategies. We continued to receive grants and concessional financing. The main aim of our strategies is to ensure that the Government leads and assumes ownership of our development agenda, rather than the Development Partners, to ensure that foreign assistance is available and continues to be increased, and that more external resources pass through the Government budget system.

21. *Mr. Speaker*, during fiscal year 2005/06, Tanzania began to benefit from the Multilateral Debt Relief Initiative (MDRI) after the G8 countries agreed to cancel the debt of 22 poor countries, including Tanzania. The International Monetary Fund (IMF) has already

cancelled Tanzania's debt with the Fund in the amount of USD 336 million. The World Bank and the African Development Bank have also announced that they will cancel Tanzania's debt with their organizations. The total amount of debt to be forgiven by the two institutions will be known before 1st July 2006. The Government of the United States of America through its Millennium Challenge Corporation (MCC), has selected Tanzania as one of eligible countries for assistance from the Millennium Challenge Account. We have already successfully passed the first stage (threshold) and are now preparing the Compact Programme for the second and more comprehensive stage.

22. Mr. Speaker, the Government is at the final stage of implementing the Programme with the IMF known as Poverty Reduction and Growth Facility (PRGF) which will expire in December 2006. The relationship between Tanzania and IMF has been very good throughout the past ten years. The good relationship with the Fund has provided important incentive for investments, debt relief, and significant increase in aid from Development Partners including the World Bank and a steady increase in official foreign exchange reserves. The IMF has introduced a new facility for poor countries that do not need IMF financing any longer, and are capable of

managing their economic affairs without financial resources from the Fund. This new facility is known as “Policy support Instrument” (PSI). Negotiations between the IMF and the Government are underway for the PSI to succeed the current arrangement which expires at end December 2006. The new arrangement is expected to have the following potential benefits:

- (i) Attract more investment;
- (ii) Low transaction costs with only two assessments per year compared to the PRGF arrangement which required many and frequent mission visits;
- (iii) Reduce dependency on the Fund as Tanzania will no longer use IMF resources except for emergencies, and technical assistance.

BASIS, POLICIES AND OBJECTIVES OF THE 2006/07 BUDGET

23. *Mr. Speaker*, as explained earlier, the Budget for 2006/07 is the first one for the fourth phase Government, following the General Election for President and Parliamentarians held in December 2005. The

main thrust of the Budget for 2006/07 is to start implementing the CCM 2005 Election Manifesto, continue to implement the National Strategy for Growth and Reduction of Poverty, Millennium Development Goals, and eventually, Vision 2025. As explained by the Minister of Planning, Economy and Empowerment this morning, the macro-economic targets for 2006/07 include:-

- (i) Attaining a real GDP growth of 5.9¹ percent in 2006, 7.3 percent in 2007, and 7.7 percent in 2008;
- (ii) Inflation rate not exceeding 4.0 percent by June 2007;
- (iii) A domestic revenue to GDP ratio of 14.5 percent in 2006/07, 14.7 percent in 2007/08 and 14.8 percent in 2008/09; and
- (iv) Increase of broad money supply (M2) consistent with the country's economic growth and inflation rate.

CCM 2005 ELECTION MANIFESTO

24. Mr. Speaker, this budget begins to implement the CCM 2005 Election Manifesto.

¹ Speed of GDP growth rates will be slowed down in year 2005/06 due to drought and increase of petrol and electricity costs.

Some of the promises in the election manifesto that are addressed in this budget include the following:-

- Budget of 2006/07 spurs speed up of economic growth;
- Provision for subsidy for fertilizer, seeds and inputs for agriculture and livestock as well as for irrigation infrastructure, has been increased in this budget;
- The Budget includes funds for starting Special Economic Zones (SEZ) and Export Processing Zones (EPZ);
- Funds are allocated for defining and determining village borders and providing title deeds for sustainable land use in the entire country;
- Funds are also allocated for survey of pasture lands for livestock in order to halt environmental degradation;
- The Government will continue to strengthen the credit guarantee schemes to stimulate banks to lend;

- There are various other Election Manifesto aspects in tax reforms which I will explain later in this budget speech.

THE NATIONAL STRATEGY FOR GROWTH AND REDUCTION OF POVERTY (MKUKUTA)

25. *Mr. Speaker*, the implementation of the Election Manifesto goes hand in hand with the implementation of the NSGRP - MKUKUTA, the Millennium Development Goals, and eventually the National Vision 2025. Having started with the budget for 2005/06, allocations for implementation of MKUKUTA continues to be on the basis of the three broad outcome clusters. In 2005/06, 39 percent of MKUKUTA related expenditures were allocated to economic growth and the reduction of income poverty, 43 percent for improvement of quality of life and social well-being and 18 percent for strengthening good governance and accountability. In the budget for 2006/07, funds allocated for the three MKUKUTA clusters have increased so as to speed up implementation of the MKUKUTA. The budget for 2006/07 puts more attention on growth and governance which are the basis for a sustainable poverty reduction strategy. In this regard, 45.8 percent of resources allocated for MKUKUTA will be spent for economic growth

cluster, including infrastructure, such as the completion of road projects, completion of the large-scale water project that extends from Lake Victoria to the towns of Shinyanga and Kahama, as well as funding for increasing generation capacity for TANESCO by approximately 145 Megawatt electricity to ensure that there is reduced energy loading shedding in times of drought. Overall, this budget has set aside 26 percent of domestic revenue for development expenditures, compared to 15 percent that was allocated in 2005/06 with a view to ensuring relatively good infrastructure network, to reduce economic costs thereby improving investment climate and job creation. If we succeed in these efforts, we will be able to process a greater share of our crops. Also, 35.8 percent of MKUKUTA related expenditure is allocated for the cluster of social services, quality of life and social well-being. The remaining 18.4 percent is allocated for strengthening good governance.

EMPOWERMENT

26. *Mr. Speaker*, empowerment of the people is an integral part of the programme for ensuring a better life for every Tanzanian, as enunciated in the CCM 2005 Election Manifesto. As a means to ensure the

attainment of this objective, the 2006/07 fiscal policy includes the following elements:-

- i. **First,** the Credit Guarantee Schemes will be strengthened in order to enhance access by many local investors.
- ii. **Second,** procedures for the establishment of the Development Finance Guarantee Scheme shall be finalized to start issuing guarantees during FY 2006/07.
- iii. **Third,** the Government is preparing procedures for establishing SACCOS of different community-based groups which will be facilitated to access credit from commercial banks and financial institutions located in the Regions across the Country.
- iv. **Fourth,** pragmatic measures shall be taken to diversify and enhance the country's electricity generation capacity, upgrade the National electricity grid and distribution network.

- v. **Fifth,** funds have been allocated for initial work towards establishment of National Identity Cards to enable Tanzanians to have control over their natural resources.

- vi. **Sixth,** to carry forward the transformation of Tanzania Investment Bank, so that it is a bank capable of providing term financing for production, including the manufacturing, agriculture and tourism sectors. The first step towards recapitalizing the bank is the conversion of government funds that were managed by the bank of TShs. 17.5 billion. The balance sheet of TIB indicates that, the bank has a capitalization level of TShs. 7.4 billion arising from retained profits over the recent past years. Thus, the bank now is capitalized to the tune of TShs. 24.9 billion. However, in order for TIB to perform the function of a “development bank”, it needs a minimum of capitalization TShs. 50 billion.

- vii. **Seventh,** the development of mortgage finance, lease finance and micro finance will also be given priority in the implementation of the 2006/07 budget. The Government has agreed with the CEOs of all banks in the country to jointly appoint a special committee which shall review access and evaluate the problems associated with the banking system relating to availability or lack of credit, high lending rates and low deposit rates, concentration of banking service in big cities, banks favouring large-scale expatriate customers, banks concentration in holding of government securities lack of mortgage finance and other term finance, perceived risk in agriculture etc. The joint committee will be formed within one month and will submit its recommendations to the government in October 2006.

27. Mr. Speaker, I will explain additional measures of empowerment later in the context

of changes to the regimes for taxes, fees and levies.

THE ENVIRONMENT

28. *Mr. Speaker*, recently, the Government announced a series of various measures for protecting the environment with a view to creating a sustainable basis for development and livelihood. Those measure include a ban on the export of logs to safeguard forests and water sources, the removal of livestock from river sources and a ban on the production and importation of light plastic bags. The 2006/07 budget has allocated a total of 9.4 billion shillings for the implementation of the strategy for protecting the environment.

29. *Mr. Speaker*, there are more measures for protecting the environment, which I will announce shortly.

REMUNERATION OF CIVIL SERVANTS

30. *Mr. Speaker*, the intention to improve civil service remuneration to make it competitive is enunciated in MKUKUTA as well as in the CCM Election Manifesto 2005. Consistent with the pay reform objectives, the wage bill for 2006/07 has allocated shillings one trillion, four million, compared with

shillings 682 billion in 2005/06, an increase of Shillings 318 billion. The increase includes pay adjustment, new employment of teachers, health workers, accountants, internal auditors, promotions and others. The Minister of State, President's Office, Public Service Management will give details when submitting her Ministry's budget.

DOMESTIC REVENUE

31. *Mr. Speaker*, during FY 2006/07 the Government plans to collect domestic revenue totalling Tshs. 2,460,995 million equivalent to 14.5 percent of Gross Domestic Product, compared to Tshs. 2,066,752 million in 2005/06, an increase of 19.1%. The Government will implement further policy measures to continue improving domestic revenue collection as follows:-

- (i) To continue broadening the tax base, by registering new tax payers and strengthening macroeconomic stability, together with conducive business environment for private sector to grow.
- (ii) Close monitoring of the ongoing reforms in the Tanzania Revenue Authority under its second five year strategic corporate plan, which has

been the basis for domestic revenue growth year after year.

- (iii) Continue reforming the tax system and strengthening the Large Tax Payers Department by improving performance.
- (iv) Put more emphasis on improving the performance of the customs by enhancing accountability, technology usage, and reducing red-tape which has been the source of frustrations among the tax payers.
- (v) Reviewing the basis and procedures for tax exemption with a view to removing loopholes for tax evasion.
- (vi) Reviewing the non tax revenue collection system with a view to identifying problems and rectifying them so as to increase efficiency in collecting those revenues.

FOREIGN GRANTS AND CONCESSIONAL FINANCING

32. Mr. Speaker, as I explained earlier, the implementation of the Joint Assistance Strategy and the National Debt Strategy will remain important frameworks for maintenance of good

relations with our development partners including the International Financial Institutions, for mobilizing grants and concessional financing for implementation of our development programmes. For the FY 2006/07, external grants and concessional financing will contribute about 39 percent of the national budget, excluding multilateral debt relief under MDRI.

EXPENDITURE

33. *Mr. Speaker,* as I explained earlier, this budget starts implementation of the CCM Election Manifesto of 2005 as it gives attention to priority areas outlined in the Manifesto and in the National Strategy for Growth and Reduction of Poverty. Moreover, the Government will continue to improve human capacity including upgrading, skills development, strengthening discipline in public expenditure management, and ensuring accountability at all levels of the Government, including Local Government Councils. The Integrated Financial Management System (IFMS) which has so far been successful in controlling Government expenditures will be rolled out to more local government councils. IFMS is a computer programme which monitors expenditure flows and restricts unbudgeted or unapproved expenditure. It is important for

Local Government Authorities to review their regulations and systems with a view to instituting measures to improve supervision for ensuring that funds entrusted to them are efficiently managed and utilized for the intended purposes. Honourable Members of Parliament, have a key role to play in this regard as you are Councilors in your constituents.

34. Mr. Speaker, I would like to emphasize the importance of screening employees so that those who are dishonest are punished promptly. Councils are encouraged to publish monthly reports on revenues and expenditures, likewise the general public is reminded of its responsibility of regularly scrutinizing the council's expenditures by tracking disbursements from the Treasury. The Government will on its part continue to assist the councils to strengthen their management capacity and skills level especially in the areas of accountancy and internal audit. Currently, the Government is finalizing the recruitment of accountants and internal auditors for who will be posted to the councils with effect from July, 2006. Moreover the Ministry of Finance has established a special Unit responsible for expenditure tracking from the centre to the final point of destination of the disbursed money.

35. Mr. Speaker, in determining the budget allocation for FY 2006/07, the following priorities among others, were considered: -

- (i) Shillings 641,766 million, or 26 percent of domestic revenues is allocated for local currency component of development expenditures, shillings 219,240 million of this amount is for implementing the special gas power generating projects at Ubungo and Kinyerezi sites as well as rehabilitation of the power distribution infrastructure.

- (ii) The agricultural sector recognized as the leading sector capable of generating economic growth and employment, is allocated a reasonable share of the budget for 2006/07. Resources allocated for the development of the agricultural sector are in various Ministries including Agriculture, Food Security and Cooperatives, Livestock Development, Regional Administration and Local Government, Infrastructure

Development, Local Government Authorities, and others.

- (iii) The FY 2006/07 budget has allocated Shilling 21,196 million for transfer to the Revolutionary Government of Zanzibar constituting 4.5 percent of General Budget Support grants. The formula for allocation of external grants and other revenue will continue to be used until another formula is recommended by the Joint Finance Commission and approved by our two Governments.
- (iv) The budget has continued to allocate relatively large share for social services – (education, health, water, etc).
- (v) This budget has taken into account the strategic needs for defense and Public safety including the revival of National service camps.
- (vi) The FY 2006/07 budget has allocated funds for peripheral regions, procurement of motor vehicles for districts in great need, especially the new districts.

- (vii) The needs of special on-going projects have been considered in the FY 2006/07 budget: including infrastructure for Special Economic Zones; Lake Victoria Water Supply to Shinyanga and Kahama Project; Road projects and procurement of power generation plants.

REFORM OF THE TAX STRUCTURE, FEES AND OTHER REVENUE MEASURES

36. *Mr. Speaker,* The Government proposes to make certain changes in the revenue collection system with a view to improving tax yield, curb tax evasion, enhance government revenue, protect the natural environment, and provide conducive climate for economic empowerment of our people. The proposed measures will be effected through the amendment of the following tax laws.

- (a) The Value Added Tax Act, CAP 148
- (b) The Income Tax Act, 2004
- (c) The Excise (Management & Tariff) Act, CAP 147
- (d) The Road and Fuel Tolls Act CAP 220
- (e) The East African Community Customs Management Act, 2004

- (f) The Tanzania Investment Act, CAP 38
- (g) The Mining Act, CAP 123
- (h) The Local Government Finance Act, CAP 290
- (i) The Petroleum Act
- (j) The Gaming Act.

The Value Added Tax:

37. Mr. Speaker, it is proposed to make the following amendments to the Value Added Tax Act:-

- (i) To clarify in the Second Schedule, that aircraft lease fees paid by locally registered airline companies are exempted from VAT as is the case for the cost of purchasing an aircraft. VAT was exempted to reduce running cost of the locally registered airline companies and protect their competitiveness;
- (ii) Exempt from VAT Liquefied Petroleum Gas (LPG) and LPG cylinders to encourage the use of gas as an alternative source of energy instead of charcoal and firewood with a view to preserving our environment;

- (iii) Exempt from VAT locally grown grounded, roasted or instant coffee like was done in tea with a view to revamping production, processing and reviving coffee export;
- (iv) Reduce the time limit for lodging claims for refund from 5 years to 3 years, in order to curb tax evasion;
- (v) Increase the fine imposed for failure to issue tax invoice or receipt from Shillings 200,000 to shillings 500,000;
- (vi) Review the fine imposed for fraudulent evasion of tax, from the current fixed amount of shillings 2,000,000/= to a minimum of shilling 2,000,000 or twice the value of tax evaded whichever is higher, or imprisonment for two years or both fine and imprisonment;
- (vii) Increase the fine for failure to pay tax or submit returns by due date from shillings 200,000 to shillings 500,000 or twice the value of tax involved whichever is higher.

The Income Tax Act:

38. *Mr. Speaker*, it is proposed to make the following amendments in the Income Tax Act:

- (i) Reduce the corporate income tax rate from 30 percent to 25 per cent for a period of 3 years, from the date of listing for newly listed companies in the Dar es Salaam Stock Exchange (DSE) with at least 35 per cent of equity ownership issued to the public. This will encourage companies to go public and broaden corporate ownership in Tanzania.
- (ii) Provide tax relief to individuals contributing to the Tanzania Education Fund as it is currently the case for businesses. To access the relief, applicants will have to file a return with the Commissioner.
- (iii) Change the method of taxing terminal benefits (except pension benefits which are exempted) by spreading the lump sum benefits over a period of six years or actual years of employment instead of the existing procedure of taxing the entire benefit in the current year.

The measure will substantially reduce tax burden on the retirees.

- (iv) Reduce the withholding tax rate on interest income by Collective Investment Schemes (CIS) from 30 percent to 10 percent as it applies to individuals, in order to encourage collective investments in the country.

Excise (Management & Tariff) Act:

39. *Mr. Speaker*, it is proposed to make the following amendments in the Excise (Management and Tariff) Act:

- (i) Reduce the excise duty rate on kerosene (IK) from shillings 122 per litre to shillings 52 per litre to encourage the use of kerosene as an alternative source of energy instead of charcoal and firewood with a view to preserving the environment. However, this measure may increase the problem of tax evasion through fuel adulteration. The Government will therefore strengthen control measures in the petroleum business;

- (ii) Increase excise duty rates for non-petroleum products by 7 percent to adjust for inflation, so as to preserve the real value of revenue from these sources. The current and proposed rates are as follows:
- (a) Carbonated soft drinks, from the current rate of shillings 41.50 per litre to shillings 45.00 per litre.
 - (b) Clear beer, from un-malted barley from the current rate of shillings 150 per litre to shillings 161 per litre.
 - (c) Other beers, from the current rate of shillings 256 per litre to shillings 274 per litre.
 - (d) Wine produced with more than 25 percent imported grapes, from the current rate of Shs. 820 per litre to Shs. 878 per litre.
 - (e) Spirits, from the current rate of shillings 1,216 per litre to shillings 1,302 per litre and
 - (f) Amend excise duty rates on cigarettes as follows:
 - Cigarettes without filter and containing more than 75 percent domestic tobacco,

from the current rate of shillings 4,170 to shillings 4,462 per thousand cigarettes.

- Cigarettes with filter and containing more than 75 percent domestic tobacco, from the current rate of shillings 9,840 to shillings 10,529 per thousand cigarettes.
- Other cigarettes not mentioned in (a) and (b) from the current rate of shillings 17,870 to shillings 19,195 per thousand cigarettes,
- Cut filler from the current rate of shillings 9,025 to shillings 9,657 per kilo.

(iii) Increase the excise duty rate on mobile phone airtime from the current rate of 5 per cent to 7 percent of turnover to come closer to rates applicable in Kenya and Uganda, East African Community Partner States.

(iv) Amend Excise (Management & Tariff) Act to require all excisable items for export to bear a mark 'FOR

EXPORT ONLY' to prevent those products from re-entering domestic market without paying taxes;

- (v) Increase excise duty rates on plastic bags not banned, from the current rate of 15 percent to 120 percent with a view to protecting the environment;
- (vi) Impose an excise duty of 20 percent on imported used non utility motor vehicles aged 10 years or more.

Road and Fuel Tolls Act:

40. Mr. Speaker, for the purpose of protecting the Road Fund revenue from erosion due to the increase of maintenance cost for roads, it is proposed to increase fuel levy from the current level of shillings 90 per litre to shillings 100 per litre and introduce a provision in the law for the automatic annual adjustment of the specific rate for inflation.

The East African Customs Management Act 2004

41. Mr. Speaker, a meeting of the Ministers for Finance of the East African Community Partner States was held on 8th June, 2006 in Arusha to consider proposals submitted by the

Partner States for reviewing the Common External Tariff rates. The Ministers agreed to effect the following changes in the Common External Tariff:

- (i) Tanzania to stay the application of the Common External Tariff rate of zero percent on crude palm oil, for one year, and instead impose a duty rate of 10 percent in order to protect local farmers producing alternative oil seeds and curb tax evasion.
- (ii) Reduce duty rate for RBD palm stearin from 25 percent to 10 percent to cater for stand-alone soap manufacturers using this input. This measure is aimed at protecting small producers from unfair competition within the industry.
- (iii) Eliminate import duty on gas cylinders in order to promote the use of gas and protect environment.
- (iv) Reduce duty rate on raw materials used for printing and packaging papers from 25 percent to 10 percent (Hs codes

4802.55.00, 4804.11.00, 4810.51.00 and 4811.51.00). This measure is aimed at reducing production costs.

- (v) Exempt all solar powered equipment and specialized accessories from import duty. The aim is to promote the use of alternative sources of energy given the current energy crisis in East Africa.
- (vi) Increase the duty rate on matchboxes from 35 percent to 50 percent in order to protect the local matchbox manufacturer from unfair competition.
- (vii) Reduce the duty rate on energy saving bulbs to zero percent. The measure is aimed at reducing the consumption and cost of electricity.
- (viii) Reduce the duty rate on unassembled (CKDs) kits imported by approved local assemblers to 10 percent and zero percent for motorcycles and bicycles respectively. However, the duty rate on finished

imported motorcycles and bicycles will remain at current duty rate of 25 percent for motorcycles and 10 percent for bicycles.

- (ix) Amend the Fifth Schedule to the East African Community Customs Management Act to provide exemption for diagnostic equipment and reagents used in hospitals, clinics and diagnostic laboratories.
- (x) Increase duty rate on floor covering and mats (Hs Code 4016.91.00) to 25 percent since these are finished products;
- (xi) Reduce duty rate on raw materials used in the manufacture of paper from 10 percent to zero percent (Hs Code 2507.00.00; Hs Code 2526.10.00; Hs Code 2526.20.00)
- (xii) Reduce the duty rate on coke and semi coke of coal of lignite from 10 percent to zero percent to make it consistent with the duty

- rate on coal (Hs Code 2704.00.00).
- (xiii) Reduce duty rate on non – ionic (surfactant triton) from 25 percent to 10 percent (Hs Code 3402.13.00)
 - (xiv) Reduce duty rate on filter paper and paper board used as raw materials in the production of oil and fuel filter from 10 percent to zero percent (Hs Code 4805.40.00)
 - (xv) Eliminate duty on nickel bars, rods, profiles, wire and wire of stainless steel. These are essential inputs in the manufacture of welding electrodes (Hs Code 7505.11.00; 7505.12.00; 7223.00.00).
 - (xvi) Split tariff lines on Articles of glass (Hs Code 7019.90.00) in order to eliminate duty on circular interwoven discs, netting glass fibre used for the manufacture of grinding and cutting wheels.

- (xvii) Split aluminium foil (Hs Code 7607.19.00) in order to increase duty rate for printed aluminium foil from 10 percent to 25 percent.

42. Mr. Speaker, it is proposed to impose EAC-CET rates on sugar imported from SADC. In the SADC, sugar is not included in the Programme of Elimination of Internal Tariffs and a special arrangement has been provided for allocation of quotas to Member States who want to export to South Africa. However, Tanzania has not been allocated quota due to her low production capacity, which cannot satisfy the local consumption at the moment. In view of the situation, it is considered that the importation of sugar at a duty rate of 25 percent may negatively affect the current efforts to increase production and satisfy the local demand, with the attendant job creation.

Mr. Speaker, all the amendments to the EAC-CET will be effected through a Legal Notice that will be published in the East African Community *Gazette*.

Tanzania Investment Act:

43. Mr. Speaker, I propose to amend the Tanzania Investment Act in order to make the following changes:-

- (i) To limit the application of Section 19 (2) of the Tanzania Investment Act, so that it applies only to Strategic Investors like those who have invested in agriculture, large scale production projects for exports, infrastructure and related projects.
- (ii) To eliminate tax exemption currently provided for non-utility vehicles for any investor with TIC certificate. However tax exemption will continue to apply for utility vehicles.

Mining Act:

44. Mr. Speaker, it is proposed to exempt salt producers using renewable resources from paying royalty. This measure is aimed at supporting the Government efforts in fighting iodine deficiency diseases such as goitre.

Local Government Finance Act:

45. Mr. Speaker, it is proposed to abolish city plying fees, provided under the Local

Government Finance Act in order to improve the business environment and remove unnecessary nuisance to investors.

Tax Administration on Petroleum Products:

46. *Mr. Speaker*, it is proposed to make the following changes in this area:

- (i) Remove VAT on petroleum prices in order to reduce the burden of the increase in the price to the consumer.
- (ii) Adjust excise duty rates on petroleum products as follows:-
 - (a) Petrol (MSP and MSR), shillings 315.00 per litre;
 - (b) Diesel (GO), shillings 292.00 per litre;
 - (c) Illuminating kerosene (IK), shillings 52.00 per litre;
 - (d) Heavy Furnace Oil (HFO), shillings 109.00 per litre;
 - (e) Industrial Diesel Oil (IDO), shillings 366.00 per litre;
 - (f) Liquefied Petroleum Gas (LPG), - exempted from excise duty; and
 - (g) JET A-1 - exempted from excise duty.

- (iii) Increase transit period for the petroleum products imported into the country on transit to the neighbouring countries from 15 days to 30 days. This measure is expected to improve business on petroleum products and will not affect government revenues.
- (iv) Improve the current procedures for refunding excise duty and fuel levy to mining companies with exemption, so as to link the refund with actual production and export of gold. This measure is intended to curb tax evasion.
- (v) Appoint a Special Team within the Tanzania Revenue Authority to manage and monitor the refund procedures for the Mining Companies.

Administration of Gaming Tax

47. Mr. Speaker, in this area, the following amendments are proposed:

- (i) To bestow to the Gaming Board the authority to collect taxes from this source on behalf of the Tanzania Revenue Authority; and

- (ii) To amend the procedures for levying gaming taxes. Instead of imposing special rates on gaming equipment, this tax be levied at the rate of 13 percent of the total returns on games.

Effective date of these Measures:

48. Mr. Speaker, unless otherwise stated, all revenue measures shall become effective from 1st July, 2006.

RECAPITULATION

49. Mr. Speaker, As I explained earlier, the Government plans to collect TShs. 2 trillion, 460 billion, 995 million (Tshs.2,460,995 million) for the fiscal year 2006/07.

50. Mr. Speaker, on the other hand, the Government plans to spend **Tshs 4 trillion, 850 billion, 588 million (Tshs 4,850,588 million)**. Like in the previous year, expenditure for both central government and Local Government Authorities are tax inclusive in respect of all non – exempt goods.

51. Mr. Speaker, the budget frame for 2006/07 is as follows:-

THE BUDGET FRAME 2006/07

	<u>Revenue</u>		Tshs. Million
A.	Domestic Revenue		2,460,995
B.	External concessional loans and grants (including debt relief)		2,226,116
C.	Drawdown on reserves		163,477
Total Revenue			4,850,588
	<u>Expenditure</u>		
D.	Recurrent Expenditure		3,116,121
	(i) <i>Public Debt</i>	287,786	
	(ii) <i>Ministries</i>	2,037,536	
	(iii) <i>Regions</i>	60,514	
	(iv) <i>Local Government Authorities</i>	730,285	
E.	Development Expenditure		1,734,467
	a) <i>Domestic Resources</i>	641,766 ²	
	b) <i>External Resources</i>	1,092,701	
Total Expenditure			4,850,588

² It includes financial resources under MDRI Debt Relief from IMF amounting to TShs. 291.24 billion (USD 180 million).

CONCLUSION

52. Mr. Speaker, the Fourth Phase Government has lined up for implementing with new vigour the 2005 CCM Election Manifesto which emphasizes rapid economic growth and employment creation in order to combat income poverty and improve living conditions for every Tanzanian. The 2006/07 budget also addresses government's efforts towards implementation of MKUKUTA, Millennium Development Goals (MDGS), and National Development vision 2025. In order to attain these goals, every Tanzanian should strive to use the opportunities available by engaging in productive activities so as to increase their incomes. The Government does not dish out money to each individual to fight poverty, but it provides enabling environment for people to produce, create employment and attain a good life. The Government stands ready to discharge its responsibility.

53. Mr. Speaker, to accelerate economic growth, active participation in production of the people individually, as well as collectively, is important. Development of industry with emphasis on agro-processing will accelerate economic growth and job-creation. This Budget aims at fostering the Governments efforts to connect the whole country through

development of the road network, railway, communication and energy infrastructure.

It is my expectation that all Members of Parliament will support this budget which aims at meeting the expectations of the people who elected us.

54. Mr. Speaker, I beg to move.