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Speech by the Minister of Finance Hon. Basil P.Mramba (MP). Introducing to the National Assembly the estimates of public revenue and expenditure for the financial year 2002-2003

The United Republic of Tanzania

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THE UNITED REPUBLIC OF TANZANIA

**SPEECH BY THE MINISTER FOR FINANCE
HON. BASIL P. MRAMBA (MP.), INTRODUCING
TO THE NATIONAL ASSEMBLY THE ESTIMATES
OF GOVERNMENT REVENUE AND EXPENDITURE
FOR THE FINANCIAL YEAR 2002/2003**

Dodoma,

13th June, 2002

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ON 13TH JUNE, 2002**

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 the financial year 2002/03. The Government budget has been consolidated in four volumes which provide details of budget estimates. Volume one presents government revenue estimates; volumes two and three contain recurrent expenditure for ministries, government departments and regions, including town and district councils, while estimates of development expenditure for ministries, departments, regions, and councils are in volume four. In addition, there is the 2002/03 Finance Bill.

2. *Mr. Speaker*, at the outset, allow me to express my appreciation to all those who participated, in one way or another, in the preparation of this budget. I would like to thank the Finance and Economic Committee and Sectoral Committees of this Parliament, for a job well done in scrutinising the budget proposal in detail and for valuable advice which assisted in improving this budget proposal.

3. **Mr. Speaker**, the preparation of this budget involved a wide range of stakeholders within and outside the government. Let me also take this opportunity to thank those who contributed, including the staff of various ministries, government departments, regions and councils, and other local and international institutions for their valuable contribution to the preparation of this budget. Further, I would like to thank the Office of the Attorney General for preparing the bills and notices for this budget. I would also like to express my gratitude to my colleagues in the Ministry of Finance, in particular, the Deputy Ministers for Finance Hon. Abdisalaam I. Khatib (MP), and Hon. Dr. Festus Limbu (MP), the Permanent Secretary Mr. Peter J. Ngumbullu, Deputy Permanent Secretaries Mr. Peniel M. Lyimo and Mr. Gray S. Mgonja, all Heads of Department and staff of the Ministry, for making it possible to complete budget proposals for 2002/03. I thank the Government Printer for the timely publication of this budget speech and the other books and bills related to this budget. Finally, my thanks go to the various experts for their valuable technical advice and suggestions on tax measures, which have been taken into account in this budget.

4. **Mr. Speaker**, during this fiscal year Tanzanians have witnessed a historical event which is important to our country, when in November 2001, the President of the United Republic of Tanzania, H.E. Benjamin William Mkapa, was appointed Co-Chairman of the World Commission on the Social Dimensions of Globalisation. Also, in the same month, Tanzania became the fourth

HIPC country to reach completion point due to our resolve to fight poverty. I would like to request Honourable Members of Parliament to join me in congratulating His Excellency the President, on behalf of the people of Tanzania, for this appointment and his personal efforts in ensuring that Tanzania qualifies for debt relief.

5. **Mr. Speaker,** we also acknowledge the inauguration of the East African Legislative Assembly and the East African Court of Justice during this financial year. I congratulate Hon. Abdulrahman Kinana of Tanzania on his election as the first Speaker of the East African Legislative Assembly. I congratulate also Members of the East African Legislative Assembly who were elected by this Parliament to represent Tanzania. It is my expectation that the East African Legislative Assembly will co-operate with the three governments of the partner states in bringing about economic, political and social development. May I take this opportunity to congratulate the Governments of Kenya, Uganda, and Tanzania for the progress so far made.

6. **Mr. Speaker,** the September 11th 2001 terrorist attacks in the United States of America have affected the economies of many countries in the world, Tanzania included. The Government of Tanzania which was affected mostly in the tourist sector, took precautionary measures to protect its economy and to ensure security for its people and their property. Tanzania joins the international community to condemn all acts of terrorism, and supports international initiatives to combat it.

7. **Mr. Speaker**, we are closing the 2001/02 fiscal year, with great sorrow as we lost some of our important leaders. We remember the late Dr. Omari Ali Juma who was the Vice President of the United Republic of Tanzania, the late Hon. Sebastian Rukiza Kinyondo who was Member of Parliament for Bukoba (Rural), and the late Hon. John Mangwangwa who was Member of Parliament for Mpanda West. May Almighty God Rest their souls in Eternal Peace, AMEN.

REVIEW OF IMPLEMENTATION OF BUDGETARY POLICIES FOR 2001/2002

Economic Situation

8. **Mr. Speaker**, macroeconomic developments have been positive. In calendar year 2001 the economy grew by 5.6 percent in real terms compared with 4.9 percent in 2000. Foreign exchange reserves increased from USD 1.0 billion at the end of March, 2001 to USD 1.3 billion at end-March 2002, equivalent to about five months of imports of goods and non factor services. Inflation rate fell to 4.6 percent during the year ended May, 2002, and is expected to decline further, to 4.5 percent by end-June, 2002.

Fiscal Developments

9. **Mr. Speaker**, developments in the fiscal area are also encouraging. Revenue collection has surpassed targets. However, expenditures have been slow, resulting from low understanding of the new public procurement regulations. Despite a shortfall in disbursement of promised external resources, the budget has been on

track. This fiscal stability is a reflection of the government's ability to adjust to unexpected situations.

10. **Mr. Speaker,** revenue policies for fiscal year ending June 2002 continued to focus on expanding the tax base, improving the tax structure and tax administration, increasing efficiency in collection and combating tax evasion. The domestic revenue target was Tshs. 1,025 billion, equivalent to 12.2 percent of GDP. During July 2001 – March 2002 period, actual collection reached Tshs. 768.820 billion, compared to estimate of Tshs. 754.841 billion for that period. This level of collection was above the target by Tshs. 13.979 billion or 1.8 percent. This revenue collection performance is attributed to income tax and value added tax (VAT). The likely out-turn at the end of June 2002 is put at Tshs. 1,026 billion, slightly higher than the original target of Tshs. 1,025 billion.

11. **Mr. Speaker,** in this fiscal year, the Government maintained the cash budget system in the release of resources. However, as I have said earlier, the pace of utilisation of funds released has been slow following the application of the new public procurement regulations which was not easily understood and adopted by the concerned government officials. My Ministry arranged training for staff including Permanent Secretaries, Heads of Department, Accountants and Auditors on the new government procurement procedures. Other reasons for the slow pace of spending include the following:-

- Government accountants not understanding properly the procedures for claiming refunds on VAT as approved by Parliament during last year's budget.
- Delays in completing new recruitment procedures for civil servants; as announced in the last budget session, and
- Shortfall in disbursement of external resources for budget support.

Therefore, during the period July 2001 - March 2002, actual total expenditure reached Tshs. 1,091 billion instead of the Tshs. 1,288 billion estimated in the budget. Of this amount, recurrent expenditure amounted to Tshs. 906.810 billion and development expenditure was Tshs. 184.190 billion.

12. **Mr. Speaker**, the overall budget trend indicates that while expenditure may be less than budgeted, domestic revenue targets will be met. Latest indications however, show that the level of expenditure has started picking up and therefore that domestic revenue will match expenditures. Development expenditure, dependent on donor funding, will continue to lag behind in view of the shortfall in disbursements.

13. **Mr. Speaker**, allocation of budgetary resources has continued to be in line with the country's poverty eradication programme. The priority sectors, as outlined in the Poverty Reduction Strategy have continued to be the areas of focus in the allocation of resources, and have been provided with resources on a quarterly basis. In addition, the Government, in collaboration with various

stakeholders, is monitoring the implementation of the poverty reduction strategy on a continuous basis. The Implementation Progress Report of the Poverty Reduction Strategy for this year will be produced within the next few months. During this budget session, Ministers responsible for the poverty reduction priority sectors will highlight, to your esteemed House, the progress made in their respective sectors.

14. **Mr. Speaker**, during July 2001- March 2002, grants and loans for budget support reached Tshs. 194.702 billion compared with pledges of Tshs. 241.889 billion, representing a shortfall of Tshs. 47.187 billion or 19.5 percent. Debt relief from multilateral and bilateral creditors under the enhanced HIPC initiative, contributed a total of Tshs. 90.861 billion. Grants and soft loans for development projects amounted to Tshs. 129.949 billion compared to an estimated amount of Tshs. 218.904 billion. The shortfall is Tshs. 88.955 billion or 40.6 percent of the target. There is a possibility that a substantial amount of donor assistance for development projects was disbursed outside the government budget system, and has not yet been reported to government. HIPC debt relief assisted in covering the gap in foreign financing. It will be recalled that in November, 2001, Tanzania was the fourth among the HIPCs to reach completion point under the enhanced debt relief framework. Under this initiative, the international community pledged to grant debt relief to Tanzania amounting to Tshs. 3.0 trillion or USD 3.0 billion over a twenty year period.

15. **Mr. Speaker,** despite the success in obtaining HIPC debt relief from development partners and the multilateral financial institutions, there are still a number of Non-Paris Club creditors who are yet to confirm the terms of their participation in the initiative. To date, only two Non-Paris Club creditors, China and Kuwait, have confirmed their participation, through bilateral agreements. The Government continues to seek response from the rest of the countries in this group with a view to obtaining comparable debt relief treatment. However, to ensure that our debt burden remains sustainable, the Government is finalising an updated National Debt Strategy. The Strategy outlines ways to address structural risks of public debt, and to strengthen the legal and institutional arrangements for borrowing and debt management.

16. **Mr. Speaker,** on the side of domestic debt, the Government has continued to benefit from low interest rates on treasury bills, resulting from prudent monetary and fiscal policies. This conducive environment has enabled the Government to issue a 5-year Treasury bond. The first tranche of this bond was issued in February 2002, and was listed in the Dar Es Salaam Stock Exchange in March 2002. The listing of a new treasury bond on the Stock Exchange was welcomed by investors in the capital market. The Government believes that the development of the domestic financial markets will stimulate competition in the financial sector and in turn encourage banks to lend. Regarding domestic arrears to suppliers, the Government has paid Tshs 66.1 billion in the period July 2001 - March 2002, out of which, Tshs 53.8 billion

was paid from domestic revenue sources, and Tshs. 12.3 billion was paid using European Union (EU) aid resources. It is expected that cumulatively a total of Tshs. 77.1 billion will be paid by the end of this month.

17. **Mr. Speaker,** the Government maintains good relations with bilateral donors and multilateral financial institutions. However, due to historical reasons, not all donor assistance is channelled and captured through the government exchequer system. This makes it difficult for the government to have reliable information on the level of assistance, due to lack of a single system of channelling, utilising, and accounting for such resources. The Government, in collaboration with the development partners, is looking into this matter in order to reach consensus on the needed improvement. Also, due to the same historical reasons, every donor had her own priority areas and procedures for providing assistance. It is encouraging that recently, our development partners have agreed with the government on priority areas for support and some have agreed to pool funds to finance specific areas according to agreed modalities of expenditure. This framework of dialogue which is referred to as "Tanzania Assistance Strategy" (TAS) provides a coherent vehicle of co-operation and co-ordination, in managing resources to support the implementation of the poverty reduction strategy. Further, the government has adopted an annual public expenditure review forum which provides opportunity for a wide range of stakeholders to contribute ideas on the government's expenditure policies, particularly in those areas receiving financial support from our development partners.

STRATEGIES FOR ECONOMIC GROWTH

18. **Mr. Speaker,** in my last year's budget speech, I explained that the key requirement for poverty reduction is to increase incomes of the people and improve delivery of basic social services. The only sustainable way to raise people's incomes is to increase the rate of economic growth. The economy of Tanzania must grow at a rate of not less than 8 percent per annum in real terms in order to be confident of a sustained basis for reducing poverty. In the Tanzanian case, the main way of increasing economic growth and reducing poverty is through the revival of agriculture and rural development. Moreover, I explained last year, that the new initiatives for reviving productivity in the agriculture sector were underway. I am happy that the programme for agriculture is now ready and that, in the coming fiscal year, the ministerial budgets for the agriculture sector and local governments will focus on priority interventions to revive agriculture, as I will elaborate later.

19. **Mr. Speaker,** another important way of stimulating the pace of economic growth is the creation of a conducive environment for private sector development. Such a conducive environment includes infrastructure, tax structure, investment services, legal system and good governance, to mention just a few. The government has been promoting these through its policies and day to day operations and will continue to accord priority in policy and strategic areas. The budget I am presenting today

includes some proposals for supporting the private sector to grow and flourish, as I will elaborate later.

20. **Mr. Speaker**, other areas with potential for accelerated economic growth and poverty reduction are tourism, mining, commercial fishing, small and medium size enterprises and all types of business, large and small. Like in agriculture, these areas have opportunities for employment creation thereby fighting poverty. In order for the general public to benefit, government has the obligation of continuing efforts to put in place conducive political and economic environment, improve use of modern technology, while the people must work hard in an environment of peace and stability.

Important Lessons Learned During Implementation of the 2001/02 Budget.

21. **Mr. Speaker**, in implementing macroeconomic and fiscal policies for the fiscal year under review, important lessons were learned, and emerged as key challenges in the preparation of the budget for the coming fiscal year. Some of the lessons are as follows:-

- i) The Government budget is by and large still dependant on donor aid, (particularly development projects). Although the level of dependency appears to be declining annually, more efforts are necessary to increase the proportion of the budget financed by domestic resources.
- ii) Experience has shown that disbursement of aid can be suddenly delayed, or suspended irrespective of

- government's implementation of agreed prior conditions.
- iii) The task of increasing domestic resource mobilization is still daunting.
 - iv) The macro-economic stability we have achieved has not yet had an impact on the majority of our people.
 - v) The shortage of technical and professional staff in government including accountants, threatens to jeopardise the sustenance of the many reforms the government has implemented including in financial management.
 - vi) The quarterly publication of funds released by the Treasury to various beneficiaries has helped to improve government accountability.
 - vii) There was a lack of understanding among civil servants of the new public procurement and public finance laws and regulations, which reduced the pace of utilization of approved funds. The new procedures have enhanced discipline in the procurement of goods and services although they may have reduced the level of efficiency in procurement. The regulations will be reviewed, however, it is important that government officials are able to adapt to change to ensure that new initiatives can be implemented.

BASIS, POLICIES AND OBJECTIVES OF 2002/2003 BUDGET.

22. *Mr. Speaker*, bearing in mind the level of poverty in Tanzania, and the fact that the private sector is still

weak, the financing of the poverty reduction programme will continue to be largely the responsibility of the government through the budget. Obviously, the poverty reduction programme requirements are higher than available resources. Thus, there is the need to strengthen domestic revenue collection efforts and to use resources in an efficient manner. On the strength of underlying achievements so far, and based on the experience of the current fiscal year, the fiscal policies, objectives and targets for 2002/03 are the following:-

- i) To attain a GDP growth rate of 5.9 percent in the year 2002 and 6.3 percent in 2003.
- ii) To control and maintain inflation at not more than 4.5 percent by June, 2003.
- iii) To collect domestic revenue amounting to Tshs. 1,172 billion equivalent to 12.3 percent of GDP based on the most recent national accounts. This revenue target of 12.3 percent of GDP represents a slight increase from 11.9 percent in 2001/02,
- iv) To continue with the reforms and privatisation of the remaining parastatals, particularly those providing economic services, in order to increase their productive efficiency and reduce the burden on the government budget.
- v) To continue providing priority resource allocations to the poverty reduction sectors.
- vi) To give priority to exports, particularly the non-traditional and processed agricultural exports.
- vii) To maintain foreign exchange reserves at a level above 4 months of imports of goods and non-factor services.

- viii) To encourage the development of, and access to, micro-finance to enable many Tanzanians to undertake economic activities.
- (x) To finalise and start implementation of the National Debt Strategy which incorporates the management of domestic and foreign debt.
- x) To continue to control public expenditure in line with the new Public Finance Act and the Public Procurement Act so as to improve the efficiency of use of public resources.
- xi) To improve the welfare of government employees so as to increase performance in civil service.

Revenue Policies

23. *Mr. Speaker*, revenue policies for 2002/03 are aimed at collecting domestic revenue amounting to Tshs. 1,172 billion or 12.3 percent of the revised GDP. It is necessary to enhance domestic revenue collection efforts so as to gradually reduce budgetary dependence on foreign grants and loans. In order to achieve the revenue target, the following actions will be taken:

- i) Strengthen administration of the VAT. Although initially the trend of VAT was deemed to be satisfactory, recent trends show a narrowing of the VAT base. The government will review the performance of this tax with a view to improving it further. Areas which will be assessed include the threshold and tax exemptions.
- ii) To curb tax evasion on imports.
- iii) To review customs and excise duty exemptions.

- iv) To make changes in certain areas, in order to improve the tax structure, including tax measures that would stimulate growth, and remove impediments to tax compliance.
- v) To strengthen revenue collection by the ministries and government departments under the retention scheme, with a view to improving collection.
- vi) To review the suspended duty regime for imports to improve trade practices and stimulate local industries to address challenges on competitiveness.
- vii) To put in place a tax system that promotes investment and exports without negative implications for government revenue.
- viii) To prepare and implement a strategy for harmonization and rationalization of local government taxes and fees so as to build an improved environment, particularly in the rural areas, for people to engage in productive activities.
- ix) To put in place a predictable tax system which does not place undue burden on taxpayers, and tax collectors alike.

Local Government Taxes and Levies

24. **Mr. Speaker**, there are many complaints from ordinary people, local businesses, and investors from within and abroad, about the multiplicity of taxes and levies imposed by local government authorities, - (urban and rural). In addition, there are too many licences and permit fees which have been turned into sources of revenue instead of just compensating for costs of licenses and permits. The ordinary, poor people are the victims of

this regime, and they need to be given opportunity to participate in economic activities to fight poverty. Although there are good reasons for imposing these levies and fees by local authorities, such as to finance the provision of social services; the large number of taxes and the system used to collect revenues, is a source of undue hassle to the people and a misuse of human resources that could otherwise be engaged in development activities. The numerous road blocks for tax collection purposes do not reflect existence of good governance. In order to reverse the trend, the government has decided to review the local government tax system, to develop a regime that will build a conducive environment for attracting investment in rural areas and to enable the rural population to participate fully in productive activities. These measures will be announced formally after consensus has been reached among the stakeholders. I request the Honourable Members of Parliament to contribute to this discussion as they are closer to the people who are the victims of this situation.

COOPERATION WITHIN THE EAST AFRICAN COMMUNITY

25. *Mr. Speaker*, in accordance with the Treaty which established the East African Community, the first phase of establishing the Community will be a Customs Union. The second phase will be the establishment of a Common Market. During the first phase, the partner states will eliminate internal tariffs among them and establish a common external tariff for commodities imported from outside the community. In

line with the Treaty, the EAC partner states have agreed to finalise the protocol for the establishment of a Customs Union by 30 November 2003. Each of the partner states is currently reviewing and consulting on proposals submitted by the other partner states concerning:-

- The procedures and time frame for elimination of internal tariffs within the East African Community,
- The entry level tariff to be imposed on imports from outside the East African Community,
- The system and procedures for verification of Rules of Origin for commodities imported from one country to another within the East African Community,
- Further, there is discussion regarding modalities for the EAC customs administration, particularly the sharing of revenues which will accrue from custom duties once the Customs Union is in place.

26. Mr. Speaker, proposals presented by Tanzania to Kenya and Uganda on these areas are in line with the principal of "asymmetry" which, in a nutshell, means that a country which is comparatively more developed than the other EAC partner States, will be required to open its market for goods originating from other EAC countries first, and that those other countries will be given opportunity to build capacity to compete in the market over some period of time. The objective is to ensure that EAC member states get a fair share of the benefits which will accrue, and that no partner state loses out. In this connection, Tanzania has proposed as follows:-

- i) Customs tariffs will be abolished gradually over a period of five years starting with the top tariff rate

- in existence at the time of coming into force of the Customs Union,
- ii) The system of verification of rules of origin of products should be similar to that applied within SADC, and
 - iii) Tariffs on imports from outside East Africa will be classified in three bands; and the maximum tariff rate will be 25 percent.

27. **Mr. Speaker**, as negotiations are continuing, the member states are already co-operating in a number of areas. For example, today the budgets for Kenya, Uganda and Tanzania are concurrently being presented to the respective Parliaments. The Finance Ministers of the three countries met early this month for pre-budget consultations, in order to exchange views on their budgets and to agree on areas that can be harmonised. There are a number of areas in which we agreed to harmonise our policies, for example, that our governments should not borrow from the banking system so as to allow the banks to lend to the private sector; that we should jointly protect the horticulture industry in East Africa, (blending and branding) we should harmonise some tariffs, abolish payments for student visas, harmonise vehicle insurance; capital markets etc. There is evidence that border trade and investment within East Africa, particularly companies from Kenya investing in Tanzania and Uganda, has increased.

FOREIGN GRANTS AND CONCESSIONAL LOANS

28. *Mr. Speaker*, despite our endeavours to reduce aid dependency, there are many rich friendly countries which have expressed the intention to continue to support Tanzania's effort in its war against poverty. I would like to take this opportunity, on behalf of the government, to express our sincere gratitude to these countries and their people for the support they have extended to us and their continued commitment to provide assistance. During 2002/03, we expect to receive Tshs. 449.6 billion from bilateral development partners including the European Union, of which Tshs. 163.8 billion will be channelled as poverty reduction budget support (PRBS). The balance of Tshs. 285.8 billion will be for development projects. Furthermore, our co-operation with multilateral financial institutions including the World Bank, the IMF, the African Development Bank etc. continue to be impressive. It is projected that during financial year 2002/03, Tshs. 331.4 billion will be disbursed from the World Bank in concessional loans. Of this amount, Tshs. 84.40 billion will be in form of budget/balance of payments support; Tshs. 48.705 billion will be for primary education development programme (PEDP). The balance of Tshs. 198.30 billion is earmarked for the Songosongo gas project, roads, water supply, environment, and agriculture projects.

29. *Mr. Speaker*, the IMF - supported Poverty Reduction and Growth Facility (PRGF) has entered its third year of implementation and will be completed in March, 2003. Under the programme, the IMF has already disbursed USD 125 million, equal to 74 percent of total expected disbursements. The IMF resources are not used

to support the government budget but rather to augment our foreign exchange reserves and enhance our ability to finance imports of goods and services, as well as to service external debt. It is estimated that the African Development Bank (ADB) will disburse Tshs. 47.04 billion and Tshs. 23.0 billion will be provided by the European Investment Bank. The remaining balance constitutes debt relief from the World Bank, the IMF, the ADB and the Paris Club together with grants and concessional loans from United Nations Organisations and other financial institutions such as the OPEC Fund, the IFAD, the Kuwait Fund, the NDF, and others. Thus, a total of Tshs 993.661 billion is estimated to be realised from external sources.

Expenditure

30. **Mr. Speaker**, as in previous years, expenditure policies for 2002/03 will focus on government financial management, supervision, and enforcement of expenditure discipline. The Public Finance Act and the Public Procurement Act both of which were passed by Parliament last year, will continue to be enforced. In this regard, the current procurement regulations will be reviewed in order to facilitate an increase in the efficiency of government procurement. The Integrated Financial Management System (IFMS) now operational in all Ministries and Departments, will be strengthened in the Regions to ensure that expenditure and revenue reports are captured directly by the system. Also, due to unpredictable flows of foreign aid, the cash budget system will continue to be maintained, by allocating funds on quarterly basis to the priority sectors earmarked for poverty reduction and promoting economic growth, as

was the case in the previous financial year. Other sectors will continue to receive funds on a monthly basis and will be provided with indications of likely available funds for the subsequent three months. Expenditures for all Votes in 2002/03 include payments for the customs and excise duties effective from July 1, 2002.

31. **Mr. Speaker,** expenditure policies for 2002/03, have taken into account, amongst other things, the following:

- a) To continue giving priority in the budgetary allocation, to the priority sectors involved in Poverty Reduction Strategy and those which stimulate economic growth and exports. These sectors include agriculture, education, health, water, rural roads, legal and judicial systems, and the fight against HIV/AIDS. For all these sectors as a group, excluding salaries, the total expenditure in fiscal year 2002/03 will increase by 45 percent over 2001/02. The wage bill is projected to increase by 15.5 percent.
- b) Although a lot has been said in the past about the importance of the agriculture sector, funds allocated to the sector have remained inadequate. This has been due to scarce government resources, but also because the programme identifying priority interventions and their costing had not been completed. The first phase of the exercise has now been finalized. It is important to give the agriculture sector special priority in the allocation of budgetary resources, but it is more important to

ensure that the resources are directed to the areas that will increase crop and livestock production, marketing, exports, and others, as well as creating an attractive environment for agro-processing industries to establish and grow. Therefore, in line with the costing that has been completed, the government has allocated a total of Tshs. 95.6 billion in 2002/03 to the agriculture sector. This is an increase of 101 percent compared to the 2001/02 budget. I would like it to be understood that my definition of the agriculture sector includes production of crops, livestock, seeds, traditional irrigation, co-operatives, marketing, extension services, agro-chemicals, veterinary drugs, and rural roads.

- c) Also, in cognizance of the problems facing cash crop marketing, including very low commodity prices in the world market, and commercial banks' reluctance to finance crop purchases from the farmers; the Government has decided to establish an Export Credit Guarantee Scheme under the management of the Bank of Tanzania. To start with, the Export Credit Guarantee Scheme will provide guarantee to commercial banks lending for crop purchases. The Scheme will start with a capital of Tshs. 6.5 billion, of which Tshs. 5.0 billion has been allocated in the 2002/03 budget, and Tshs. 1.5 billion will be contributed by the Bank of Tanzania. All applications for guarantee under the Scheme will be scrutinized by the Bank of Tanzania. However, in order to realise the intended results of

this government contribution, the management of the co-operatives needs to be restructured and improved substantially. In the meantime the government is working on the areas of concern expressed by banks in order for them to lend like they do in other parts of the world without requiring government guarantee.

- d) National Population Census will be conducted in August 2002. The funds required for undertaking the exercise (Tshs. 8.5 billion) have been allocated in the 2002/03 budget.
- e) The salary structure for civil servants continues to be adjusted with a view to increasing productivity and performance of government. In the 2002/03 budget, the government has set aside an allocation to cater for new salaries, including new recruitment, salary increments and adjustments. The Minister responsible for Civil Service will elaborate later.
- f) In order to reduce the hardship experienced by pensioners receiving minimum pension entitlements, the government has decided to increase the entitlement, and the budget for 2002/03 has made a provision of Tshs. 1.15 billion to cover the increment.
- g) Following the government decision last year to make a special allocation of funds for fast track road construction, Tshs. 21.84 billion has been set

aside in the 2002/03 budget for that purpose. The road sector as a whole, including construction and maintenance, has been allocated a total of Tshs. 250.7 billion during 2002/03 financial year.

- h) Next year's budget has also made a provision for terminal benefits to workers of public enterprises earmarked for privatization/ leasing. These include Dar Es Salaam Water and Sanitation Authority, Tanzania Railways Corporation, and Air Tanzania Corporation.
- i) The 2002/03 budget has taken into account the agreed allocation of 4.5 percent of programme aid for budget support to the Revolutionary Government of Zanzibar. This is in line with the consensus reached in the past as a transitional arrangement pending the formation of a Joint Finance Commission. It is anticipated that the Commission will be established in the near future.
- j) In view of the worsening condition of government aircrafts, the 2002/03 budget has set aside Tshs. 7.0 billion as advance payment for the purchase of a new Government aircraft.
- k) Last year, the Government established an Education Fund with a view to supporting secondary and higher education. However, it has been noted that many children with excellent academic ability have been denied the right of continuing with studies due to orphanage and or

failure by their poor parents to pay school fees. The Government has the obligation of helping these children who are national assets. In this regard, the 2002/03 budget has set aside Tshs. 1.5 billion for this purpose and the money will be deployed under conditions to be announced later.

- l) Small and Medium Size Enterprises Sector does contribute enormously to employment creation and GDP. This sector needs government support, particularly in the areas of extension services, education to operators of the Small Industries Development Organizations (SIDO), programmes for marketing and technological advancement for stakeholders in this sector, tools etc. The 2002/03 budget has set aside Tshs. 1.0 billion for this purpose. I would like to request Regional and District Commissioners, as a first step, to earmark areas for small scale industries and small scale trading. Also, the Ministry of Industries and Trade will provide appropriate policy and regulatory environment to govern this sector.

Local Government Debt

32. *Mr. Speaker*, a recent analysis of local government debt, has revealed that the Councils have accumulated domestic debt arrears to the tune of Tshs. 92.2 billion. The central government public debt programme also addresses local government debt. However, the 2002/03 budget could not allocate funds for retirement of this debt because the verification exercise is not yet complete.

THE STRUCTURE OF 2002/03 BUDGET ESTIMATES

33. **Mr. Speaker**, consistent with the economic policies and objectives stated by the Minister of State, President's Office, Planning and Privatization, together with those that I explained, in 2002/03, on the basis of the existing tax structure (without measures), the government plans to collect Tshs. 1,145.71 billion (Tshs. 1.145 trillion) from domestic sources. This amount is equal to 12.0 percent of National Gross Domestic Product (adjusted).

34. **Mr. Speaker**, with the government expenditure projected at Tshs. 2,219.21 billion (Tshs. 2.219 trillion), a gap of Tshs. 1,073.5 billion emerges. As I explained earlier, for 2002/03, external assistance in the form of grants and concessional loans (including debt relief) is projected at Tshs. 993.661 billion. Contribution from external assistance reduces the projected gap to Tshs. 79.84 billion.

35. **Mr. Speaker**, the Government intends to draw down its reserve with the Central Bank, accumulated within the current fiscal year, by Tshs. 21.25 billion. In addition, the government intends to issue a 2-year bond to the tune of Tshs. 9.0 billion. These measures (draw down of reserve and T- bond) will reduce the gap by Tshs. 30.25 billion, leaving Tshs. 49.6 billion which needs financing. In the 2002/03 fiscal year, the government hopes to realize Tshs. 18.0 billion from sale of part of its shares held in public enterprises; the government will also realise Tshs. 5.0 billion as repayment of restructuring bond by NBC. This will reduce the gap to Tshs 26.588

billion, which will have to be covered from new revenue measures.

REFORM OF THE TAX STRUCTURE, FEES AND OTHER REVENUE MEASURES

36. **Mr. Speaker**, in effort to improve the tax structure and tax administration, I propose to take a wide range of measures in the following areas:-

- (a) The Customs Tariff Structure
- (b) The Income Tax Structure
- (c) The Car Benefit Tax Act
- (d) The Value Added Tax Structure
- (e) The Excise Tariff Structure
- (f) Games of Chance
- (g) Fuel Levy
- (h) Income Tax Law
- (i) Levies and Fees collected by ministries and different government departments
- (j) Tax Exemptions
- (k) Tax Administration

The Customs Tariff Structure:

37. **Mr. Speaker**, concerning the customs tariff structure, I propose to take the following measures:-

Tariff Rates:

38. **Mr. Speaker**, I propose to amend import tariff rates for selected raw materials. The proposed new rates of import duty compared with current ones are as follows:

No.	Description of Goods	Current Tariff Rate	Proposed Tariff Rate
1	Kiln refractory bricks, kiln cooler, elbows, kiln compressor parts, kiln cobler tub anchors for HS codes – 6902.10.00, 6902.20.00, 6902.90.00 except 7304.90.00	15%	10%
2.	Lubricating Greases	25%	15%
3	Pen Nibs	25%	15%
4	Mosquito Coils	0%	10%

The effect of these amendments is to restore competitiveness of domestic industries which was eroded by current tariff structure. This measure is expected to reduce revenue by Tshs. 133 million.

39. **Mr. Speaker**, I also intend to make amendments to suspended duty on certain goods imported from outside East Africa. In this area I am proposing the following changes:-

- (i) To reduce suspended duty rate on all imported fresh milk from the current rate of 25 percent to 20 percent.
- (ii) To abolish suspended duty on milk products (e.g. powdered milk, cheese, yoghurt) etc.

- (iii) To change suspended duty on imported cigarettes from the ad-valorem rate of 30 percent to a specific rate of US\$ 8 for 1,000 cigarettes or US\$ 4 for a kilogram of filter.
- (iv) To reduce suspended duty on imported cement from 50 percent to 40 percent.
- (v) To reduce and change suspended duty on imported matches from 25 percent ad-valorem to specific rate of Tshs. 4,000 for 1,000 match boxes equivalent to 20 percent.
- (vi) To reduce suspended duty on imported motor vehicle tyres and bicycle tyres from 50 percent to 40 percent.
- (vii) To reduce suspended duty on Khanga and Kitenge from 40 percent to 35 percent.
- (viii) To reduce suspended duty on jute bags from 50 percent to 40 percent.
- (ix) To introduce suspended duty of 10 percent on imported fully refined edible oil. This measure is intended to encourage local industries, including small scale industries, to use domestic oil seeds produced by Tanzanian farmers and therefore encourage farmers to increase production. The Association of Edible Oil Manufacturers has

made formal commitment to increase the use of domestic oil seeds and to provide fertilizer and other inputs to farmers.

All these measures on customs tariff are expected to increase government revenue by Tshs. 9.867 billion.

Measures to Increase Exports:

40. **Mr. Speaker**, in order to motivate domestic industries to refocus on exports, I propose the following measures:

- (i) Goods sold by domestic industries to foreign institutions operating in Tanzania, which enjoy exemption from import duty, be recognized as deemed exports, and the concerned industries be entitled to duty drawback facility in respect of their imported raw materials.
- (ii) To promote Export Processing Zones.
- (iii) To encourage production of exports within the framework of "manufacturing under bond"

Elimination of Customs Duty Exemptions on Government Imports:

41. **Mr. Speaker**, I propose that the government and its independent departments begin to pay customs duty on imported goods as opposed to the current situation. To this end, from 1 July, 2002 the central government, local government authorities and departments will pay import duties for their import purchases. However, exemption on customs duties will continue for projects financed by development partners, faith organisations and others with

statutory exemption or under bilateral agreements. The aim of this measure is to curb tax evasion for those using the loophole of government exemptions, and to enable the government to know the full cost of its purchases. This measure is expected to generate, for the government, revenue of Tshs. 10,000 million.

Elimination of Exemption of Customs Duty on Sugar in Duty Free Shops:

42. **Mr. Speaker,** I propose to abolish exemption of customs duty on sugar sold in duty free shops. From July 1, 2002, sugar in these shops will be sold duty-inclusive. The main objective is to curb tax evasion and enhance government revenue.

To Stop Harassment in Local Village Markets:

43. **Mr. Speaker,** I propose to stop the practice of TRA officials and other tax collectors demanding receipts for payment of customs duty from village petty traders in local markets. The purpose is to stop harassment of small traders especially youth and women, and to reduce loopholes for bribery. In most cases, the petty traders do not themselves import the goods and so cannot produce receipts. It is emphasized that this measure does not prevent local authorities from collecting local cesses or levies which are legally due.

Amendment to the Income Tax Structure:

44. **Mr. Speaker,** In this area I propose to take the following measures:-

- (i) To amend the current arrangement for assessment of capital expenditure on investments, by replacing 100 percent first year expensing of capital expenditure with the following arrangement:
 - (a) Adjust first year expensing of capital expenditure to 50% percent for all classes of assets.
 - (b) In subsequent years;
 - implement wear and tear allowance of 37.5 percent per annum for class I investments including tractors, heavy vehicles, industrial equipment and computers.
 - Implement wear and tear allowance of 25 percent per annum for class II investments including other vehicles, airplanes and motor bikes; and
 - Implement wear and tear allowance of 12.5 percent per annum for class III investments including ships, furniture and other small items.
- (ii) To allow deduction of interest on capital loans.
- (iii) To allow indefinite carry forward of losses for investors instead of five years at present. This measure aims at harmonizing income tax and reducing most obstacles experienced by large investors.
- (iv) To abolish withholding tax on transport services for holders of a Taxpayer Identification Number (TIN). This measure aims at harmonizing with the decision

taken last year on abolishing withholding tax on goods and services.

- (v) I propose to reinstate the additional 15 percent capital allowance on unredeemed qualifying capital expenditure as set out in the Mining Act No. 5 of 1998 for those who had invested as of July 2001. This measure amends the 2001 Finance Bill which abolished this exemption even for those who invested in the sector before July 2001, contrary to the 2001/2002 budget speech. This relief will be granted only for those with agreements with the Government.
- (vi) I propose to increase the Pay-as-You-Earn (PAYE) threshold to Tshs. 50,000 per month. The aim is to exempt from tax those earning below Tshs. 50,000. This measure will not reduce government revenue.
- (vii) I propose to increase the minimum threshold for taxation of benefit in kind to employees from Tshs. 1,000 to Tshs. 50,000. The aim of this measure is to provide tax relief to low income earners. This measure will not decrease government revenue.
- (viii) I propose that all long-term bonds (i.e. of at least three years' maturity) which are issued and listed in the Dar es Salaam Stock Exchange during the fiscal year 2002/03, be exempted from withholding tax on interest until maturity.

- (ix) I propose to introduce a withholding tax of 10 percent on Directors Fees paid to non-full time Directors serving on Boards of companies, public and private. Such fees will be paid by those organisations and companies with tax subtracted, and the organisations and companies will be responsible for remitting these revenues to Tanzania Revenue Authority.
- (x) I propose to allow and recognize telecommunication equipment and telecommunication towers owned by telecommunication companies for investment deduction for income tax. This step will help encourage investors to improve coverage of telecommunication services in the country. The government would wish to encourage co-investment and partnership arrangements in the use of telecommunication towers.
All these measures under Income Tax will result in a net revenue loss of Tshs 2,900 million.

Car Benefit Tax:

45. *Mr. Speaker*, in an effort to remove nuisance taxes, I propose to abolish the "car benefit tax" imposed on company owned cars.

The Value Added Tax (VAT):

46. *Mr. Speaker*, As regards the Value Added Tax (VAT), I am proposing to make the following amendments:

- (i) To re-introduce a VAT refund system for VAT paid by farmers on transportation, processing and packaging material for export crops. Under this arrangement, VAT refunds will be effected through co-operatives and other farmers' associations which will be registered with Tanzania Revenue Authority for VAT purposes. In order for farmers to benefit from this tax relief, they will be required to register with co-operatives or other farmers associations for the reason that they, in their individual capacity, will not be registered for VAT. The proposal is intended to protect farm income. This measure will reduce government revenue by Tshs. 500 million.

Excise Duty Tax:

47. **Mr. Speaker,** It is proposed to amend the structure of excise tariff as follows:

- (i) I propose to abolish excise duty exemptions on government purchases. This means that, beginning July 1, 2002, the central government, local governments and institutions that depend on government subventions will pay excise tax on their purchases. This measure is expected to generate government revenue to the tune of Tshs. 3,906 million.

- (ii) I propose to reduce the excise duty on "heavy furnace oil" (HFO) for industrial use, from the current Tshs. 26.50 per litre to Tshs. 13.50 per litre. This adjustment is aimed at reducing production costs for the heavy industries. This

measure will reduce government revenue by Tshs. 4,620 million.

- (iii) I propose to reduce the excise duty on Jet fuel (JET A-1) from the current Tshs. 56 per litre to Tshs. 28 per litre. This proposal is aimed at harmonizing the tax structure with the other East African Countries. In addition, this proposal will boost tourism, reduce air travel costs, and attract foreign cargo flights for export of local products such as fish and flowers, etc.

This measure will reduce government revenue by Shs. 2,515 million.

- (iv) Alongside this, I propose to introduce excise duty on mobile phone services by 5 percent. This proposal is intended to harmonize excise duty tax imposed on similar services by the other East African Countries. This measure will generate government revenue of Tshs. 2,000 million.

These proposed measures on the structure of excise tariffs will reduce government revenue by Tshs. 1,229 million.

Tax on Games of Chance:

48. **Mr. Speaker**, last year the Government introduced "gaming Tax". However, expectations of revenue from the new gaming tax have not been met for business related reasons. The Government has revisited the

situation and proposes to make the following amendments to gaming tax:

Description of Game	Current Tax Rates	Proposed Tax Rates
i) Casino Dar es Salaam	Shs. 500,000 per table per month	Shs. 400,000 per table per month.
ii) Casino Dar es Salaam	Shs. 100,000 per machine per month	Shs. 60,000 per machine per month
iii) Casino Regions	Shs. 500,000 per table per month	Shs. 200,000 per table per month
iv) Casino Regions	Shs. 100,000 per machine per month	Shs. 30,000 per machine per month
v) Slot Machine	Shs. 20,000 per machine per month	Shs. 16,000 per machine per month
vi) Private Lotteries	60% (gross sales)	10% (gross sales)

In addition, the Government has formulated a new policy on games of chance under which the Government will contract out national lottery gaming activities to agents to be appointed through tendering procedure. Furthermore, effective today, all pyramid scheme games commonly known as **"UPATU"** are banned. The objective of this measure is to protect innocent citizens from loss of financial resources to conmen.

These measures are expected to yield revenue for the government of Tshs. 1.0 billion.

Fuel Levy:

49. *Mr. Speaker*, in this area, I propose to adjust fuel levy rate by Tshs. 10 per litre. This means that fuel levy will increase from the current Tshs. 80 per litre to Tshs. 90 per litre. This move is intended to enhance resources for the road fund for improving road maintenance.

This measure will generate additional revenue for the Road Fund of Tshs. 7.2 billion.

Amendments of Other Certain Laws:

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

- (i) I propose to rationalize certain stamp duty rates under the Stamp Duty Act, No. 20 of 1972,
- (ii) I propose to abolish stamp duty on school fees earned by government owned schools, colleges, private schools, and training institutions, and I propose to write off all unpaid liabilities emanating from the same, which have now become a burden to school administrations.

Fees and Levies Collected by the central government:

51. *Mr. Speaker*, in this area, I propose to make the following changes:-

- (i) To rationalise rates of levies and fees collected by ministries, government departments and regions to ensure conformity with the fiscal policy objectives including minimizing hurdles for employment creation, poverty reduction and enhancing revenue collection.

- (ii) I propose to write off arrears of (unpaid) land rent which was fixed at Tshs. 600 per acre, accrued before the introduction of the new land rent at Shs. 200 in 2001/2002. This measure is intended to remove an unnecessary burden on farmers and livestock keepers considering that such unpaid liabilities are not payable. Alongside this, I propose to abolish land rent of Tshs. 200 **in the rural areas** except for commercial farming and commercial livestock keepers. The Minister for Lands and Human Settlements will elaborate on the appropriate arrangement.
- (iii) I propose to transfer to the Tanzania Revenue Authority (TRA) the collection of passport and visa fees from the Ministry of Home Affairs and the Ministry of Foreign Affairs and International Cooperation. TRA may however appoint agents to collect the fees on its behalf. This measure will be effected beginning January 1st 2003.
- (iv) I propose to prohibit government departments and institutions (such as hospitals, post offices, airports etc.) from charging service fees (such as gate fees) without written authority of the Minister for Finance. Institutions which are charging such fees now are directed to submit to the Ministry of Finance detailed explanation of the reasons for collection of such fees, and revenue and expenditure reports on the fees collected, before July 1, 2002.

- (v) I propose to amend the Commodity Import Support Regulation (Amendment) Act, 1999, to allow for a better management of the Commodity Import Support (CIS).

Reduction and Control of Tax Exemptions:

52. **Mr. Speaker**, with the objective of curbing tax evasion, I propose to reduce and control tax exemptions as follows:-

- (i) To introduce a Treasury Voucher System for those who are exempted from paying taxes. This system will allow organisations and institutions benefiting from tax exemptions to receive a Treasury Voucher and present it to Tanzania Revenue Authority. Recognizing that, this is a new system in Tanzania which needs sufficient preparation, it is proposed that the system become operational from January 2003. It is also proposed that initially the new system be applied to non-religious NGOs. In order to effect the proposed system the government has set aside Tshs. 13.15 billion as the initial cost of such exemptions in the 2002/03 budget.
- (ii) To abolish customs and excise duty exemption on motor vehicles purchased by public servants. Many public servants have misused the tax exemption facility by selling the exemption permits to people not entitled, thereby causing loss of government revenue.

- (iii) To abolish exemptions of excise duty on fuel enjoyed by mining companies, instead, to introduce a pay and refund scheme whereby eligible companies will be refunded excise paid on fuel.
- (iv) The government will publish in newspapers, on quarterly basis, the names of individuals, companies, and institutions that will have been exempted from paying taxes, like we are doing with fund releases to government ministries, departments and agencies. The objective here is to institute transparency and control of misuse.

53. **Mr. Speaker.** The proposals for amending the administration of tax exemptions have the objective of ensuring an efficient tax administration regime and good governance. Already, there is a public outcry that exemptions create classes in society, those exempted and those who are liable to pay taxes, and this is not good governance. Experience has shown that tax exemptions create room for bribery and corruption, reduce the tax base, and increase loopholes for tax evasion. The Government has decided to pay all taxes in order to curb such loopholes, increase the tax base, and enable it to recognize actual costs of its operations. The government can reinforce compliance and will have moral authority to tell everybody to pay taxes. In this connection the government intends to initiate discussion with its development partners with a view to agreeing on appropriate modality for treating tax status of goods entering the country under donor funded projects.

Improving Tax Administration:

54. **Mr. Speaker**, in this area, I am proposing the following measures to improve tax administration:

- (i) I propose to abolish the mandatory Pre Shipment Inspection on imported raw materials that have zero rate of import duty. This measure is intended to reduce cost and nuisance faced by producers.
- (ii) I propose further to extend the duty drawback application period from three months to six months. This proposal aims at enabling eligible industries to claim refunds of import duty without undue impediments.
- (iii) Finally, I propose to establish a new motor vehicle registration system, to control tax evasion and car thefts. The new system will be announced later.

Effective Date of these Measures:

55. **Mr. Speaker**, unless otherwise stated, all revenue measures shall become effective from 1st July, 2002.

SUMMARY

56. **Mr. Speaker**, the tax measures I have proposed and their outcome in terms of revenue are summarized as follows:

	Tshs. Million
(i) Amendments of Customs Tariff Structure	9,867
(ii) Amendments of Income Tax Structure	(2,900) (revenue loss)
(iii) Amendments of VAT	(500) (revenue loss)

(iv)	Amendments of Excise Duty	(1,229) (revenue loss)
(v)	Amendments of Gaming Tax	1,000
(vi)	Amendment of Fuel Levy	7,200
(vii)	Management of Tax Exemptions	<u>13,150</u>
	Total	<u>26,588</u>

The net additional revenue of Tshs. 26,588 million bridges the resource gap explained earlier and the budget for 2002/2003 is fully financed.

THE BUDGET FRAME FOR 2002/03

57. *Mr. Speaker*, on the basis of the budget structure explained above, the budget frame for 2002/2003 will be as follows:

	<u>Revenue</u>	(billion)
A.	Domestic Revenue	1,172.297
	(i) Tax Revenue	1,044.484
	(ii) Non Tax Revenue	101.225
	(iii) New Revenues	26.588
B.	Foreign (soft) Loans and Grants including HIPC	993.661
C.	Drawdown on Reserve including Domestic Loan	30.254
D.	Revenue from Sale of Shares	18.000
E.	Recovery from NBC Bonds	5.000
	Total Revenue	2,219.212
	<u>Expenditure</u>	
F.	Recurrent Expenditure	1,499.085
	(i) Public Debt	323.523
	(ii) Ministries	828.104

(iii) Regions	25.448
(iv) Special Expenditure	74.983
(a) Change in the wage bill	(41.312)
(b) Change in Salaries of Public Institutions	(6.000)
(c) Debt Swaps	(4.000)
(d) Tax on NGOs (Treasury Voucher)	(13.150)
(e) Others	(10,521)
 (v) Local Governments	 247.027
(a) Urban	47.057
(b) District	199.970
 G. Development Expenditure	 720.127
(a) Domestic	95.662
(b) Foreign	624.465
 Total Expenditure	 2,219,212

CONCLUSION:

58. *Mr. Speaker*, I said earlier that the most important thing we should bear in mind as we plan is to increase the level of national self reliance. This budget frame for 2002/03 indicates that domestic revenue will finance 78.2 percent of recurrent expenditure, compared to 72.6 per cent in 2001/02. This is an encouraging trend, but not good enough. It is important that we should target to finance a hundred percent of recurrent expenditure from

domestic sources so that donor's assistance is directed to development programmes and projects.

59. **Mr. Speaker,** the budget I am proposing today continues to reinforce the government's commitment to implement the poverty reduction strategy, notably attacking income poverty. The most reliable means to reduce income poverty is to accelerate economic growth, through increased production in the pro-poor sectors such as agriculture, livestock, small-scale and medium size industries, fishing, trade and tourism. The budget has put emphasis on these areas in the tax measures and in expenditure allocations.

60. **Mr. Speaker,** employment creation is a necessary requirement in the war against income and non income poverty. This budget has strived to continue improving the investment climate for both domestic and foreign investors. The government has involved high level experts, investors, and the business community in the formulation of the tax measures. This is important because the private sector is expected to take the lead in employment creation, in paying taxes, and in economic growth. The budget has also made some steps to improve the environment in which small scale and micro enterprises operate as they too contribute to employment creation. This budget has also been mindful of the plight of workers and peasants in the villages.

61. **Mr. Speaker,** despite the achievements recorded in revenue collection, reaching a monthly average of Tshs. 85.5 billion, revenue leakage by way of tax evasion is still

significant, especially in customs duties and value added tax (VAT). The tax measures presented in this budget, including removal of tax exemptions on government purchases; abolition of exemptions of customs duties on private vehicles of civil servants, and a new system of tax exemptions for NGOs etc., are essentially intended to plug loopholes for tax evasion and increase transparency in tax administration. Once again, I urge the public to insist on issuance of receipts whenever they make purchases, otherwise they participate in tax evasion with the shopkeepers. If we all play our part in the fight against tax evasion, capacity of government to stimulate development will be enhanced and we will reduce aid dependency. Self determination is self reliance where everybody works hard and diligently.

62. **Mr. Speaker**, I beg to move.

TRENDS OF SOME IMPORTANT ECONOMIC INDICATORS FOR EXTERNAL TRADE (1991/92 - 2001/02)

Table No. 1 (US \$ Million)

Year	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02*
1. Exports	358.7	397.0	439.3	519.4	682.9	763.8	752.6	588.5	543.3	714.2	784.7
2. Imports	1,227.6	1,316.6	1,274.9	1,309.3	1,340.5	1,212.6	1,148.0	1,382.2	1,368.2	1,389.4	1,477.1
3. Trade Balance	-868.9	-919.6	-835.6	-790.0	-657.6	-448.8	-395.4	-793.6	-825.0	-675.2	-692.4
4. Petroleum Imports	159.7	185.4	167.2	149.0	193.8	158.4	173.0	126.8	148.1	163.9	214.7
5. Petroleum Imports as % of Exports	44.5	46.7	38.1	28.7	28.4	20.7	23.0	21.5	27.3	23.0	27.4

Note: Statistics have been revised right after the completion of the Customs Department of the Tanzania Revenue Authority Balance of Payments Statistics for 1992 - 1993 has been revised due to time-series reconciliation

* Provisional Data

Source: Bank of Tanzania, International Economics Department and Tanzania Revenue Authority

TRENDS OF GOVERNMENT RECURRENT BUDGET (1993/1994 - 2002/2003)

Table No. 2

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002*	2002/2003**
Year										
Recurrent Revenue	242,444	329,660	448,373	572,030	619,083	689,325	777,645	929,624	1,026,184	1,172,297
Recurrent Expenditure	340,140	459,564	470,014	606,308	669,592	791,206	1,136,526	1,124,720	1,422,873	1,499,085
Recurrent Expenditure (net of amortization)	296,221	406,882	416,068	553,608	543,751	682,812	820,065	1,044,372	1,347,486	1,386,163
Recurrent Gap	-97,696	-129,904	-21,641	-34,278	-50,509	-101,881	-358,881	-195,096	-396,689	-326,788
Recurrent Gap as a % of Recurrent Expenditure	-28.7	-28.3	-4.6	-5.7	-7.5	-12.9	-31.6	-17.3	-27.9	-21.8

* Likely Out-turn

** Estimates

Source: Ministry of Finance

SUMMARY OF CASH CROPS PRODUCED (IN '000' METRIC TONS)
1992/1993 -2001/2002

Table No. 3

Year	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Tobacco	24.1	25.8	22.6	28.6	35.4	50.3	37.9	31.8	27.7	29.9*
Cotton	308.3	147.7	125.4	221.2	251.8	202.2	105.9	100.6	123.5	149.1
Coffee	59.6	34.2	42.0	52.5	43.6	38.0	46.6	47.9	58.1	35.9
Cashewnuts	39.3	46.6	63.4	81.7	65.4	93.2	103.3	121.1	122.3	140.0*
Pyrethrum	2.1	0.5	1.5	0.9	0.5	0.5	0.5	1.0	1.9	2.5*
Tea	21.0	22.3	25.5	20.5	19.8	24.8	24.8	24.8	26.4	26.8
Sisal	21.4	26.3	25.7	22.5	20.1	20.1	20.1	20.6	20.5	23.5

* Estimates

Source: Crop boards and Ministry of Agriculture and Food Security

TANZANIA (IMPORTS (1992-2001))

(Million US\$)

Table 4

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001*
A. Capital Goods	700.5	632.9	656.5	554.2	501	563.6	764.9	693.2	638.8	739.7
Transport equipment	339.4	262.3	242.3	209.7	202.7	253.1	253.1	231.8	228.5	169.9
Building and Construction	116.3	103.5	107.5	49.2	42.5	85.1	137	121.6	128.9	144
Machinery	244.8	267.1	308.7	295.3	255.8	225.4	374.8	339.6	281.1	406
B. Intermediate Goods	337.3	296.2	290.4	608.9	531	382.9	303.4	319.6	319.7	440.7
Oil imports	185.4	167.2	149	193.8	158.4	173	126.8	148.1	142.9	220.7
Crude Oil	97.6	72	79.8	115.2	89.9	104.8	63.6	148.1	11	11
White products	87.8	95.2	69.2	78.6	68.5	68.2	63.2	131.9	131.9	220.7
Fertilizers	16	11.3	11.7	11.7	23.3	22.6	13.8	10.8	16.8	15.5
Industrial Raw Materials	135.9	117.7	129.7	403.4	349.3	187.3	162.8	160.7	160	204.4
C. Consumer Goods	392.5	312.2	359.5	377.7	361.8	373.1	520.4	559.9	576.7	531.6
Food and Foodstuffs	48.9	93.7	127.5	44.2	52.7	97	180.9	230.7	163	169.4
All other Consumer Goods	343.6	218.5	232	333.5	309.1	276	339.5	329.2	393.7	362.4
D. Unclassified Imports	83	224.1	198.6							
Total	1,513.30	1,465.40	1,505.00	1,540.80	1,393.80	1,319.50	1,588.70	1,572.70	1,535.20	1,712.20

* Preliminary

Imports estimated on the basis of I/O forms, Customs and PSI reports as well as returns from TIDOC import statistics for 1992 - 1993 have been increased eight after compensation of the Tanzania Revenue Authority import statistics for 1992 - 1993 have been reviewed due to time series reconciliation.

Source: Central Bank, International Economics Department and Customs Department of TRA

TABLE No. 5: Tanzania's Public Debt Stock Developments in FY 2001/02

Figures in TZS bn	stocks at end			% change		
	Jun-2001	Dec-2001	Mar-2002	Jun-Dec	Dec-Mar	Jul-Mar
Total public debt stock						
Central government	7,114.8	7,396.9	7,797.2	2.6%	6.9%	9.6%
Other public sector	6,074.7	6,528.0	6,633.8	7.5%	1.6%	9.2%
	1,040.1	768.9	1,163.4	-26.1%	51.3%	11.9%
Public domestic debt stock						
Central government securities	1,273.4	1,267.5	1,323.6	-0.5%	4.4%	3.9%
Other public sector	784.6	780.8	786.7	-0.5%	0.8%	0.3%
	488.8	486.8	536.9	-0.4%	10.3%	9.6%
Public external debt stock						
Central government	5,841.4	6,029.3	6,473.6	3.2%	7.4%	10.8%
Other public sector	5,290.1	5,747.2	5,847.1	8.6%	1.7%	10.5%
	551.3	282.1	626.5	-48.8%	122.1%	13.7%
				bilateral change		
Domestic debt/ Total debt	17.9%	17.4%	17.0%	-0.5%	-0.4%	-0.9%
External debt/ Total debt	82.1%	82.6%	83.0%	0.5%	0.4%	0.9%
National external debt/ Exports of GNFS	506%	481%	485%	-25.8%	4.1%	-21.7%
Total public debt/ GDP	92.1%	89.1%	92.3%	-2.9%	3.2%	0.2%
Total public debt/ domestic revenues	765%	746%	774%	-19.2%	28.1%	8.9%
Interest/ domestic revenues	10.1%	12.5%	10.5%	2.4%	-2.0%	0.4%
Principal repayments/ domestic revenues	35.8%	34.8%	33.8%	-1.0%	-1.0%	-2.0%
				% change		
GDP at current market prices	7,726.8	8,186.5	8,445.4	5.9%	3.2%	9.3%
Total domestic revenues (for year-ending)	929.6	978.0	1,007.1	5.2%	3.0%	8.3%
End-period exchange rate (TZS/USD)	888.0	916.3	981.3	3.2%	7.1%	10.5%

Memo items (TZS bn, except exchange rate):

GDP at current market prices

Total domestic revenues (for year-ending)

End-period exchange rate (TZS/USD)

Source: MOF and BOT

TABLE No. 6: Tanzania's Public Debt Flow Developments in FY 2001/02

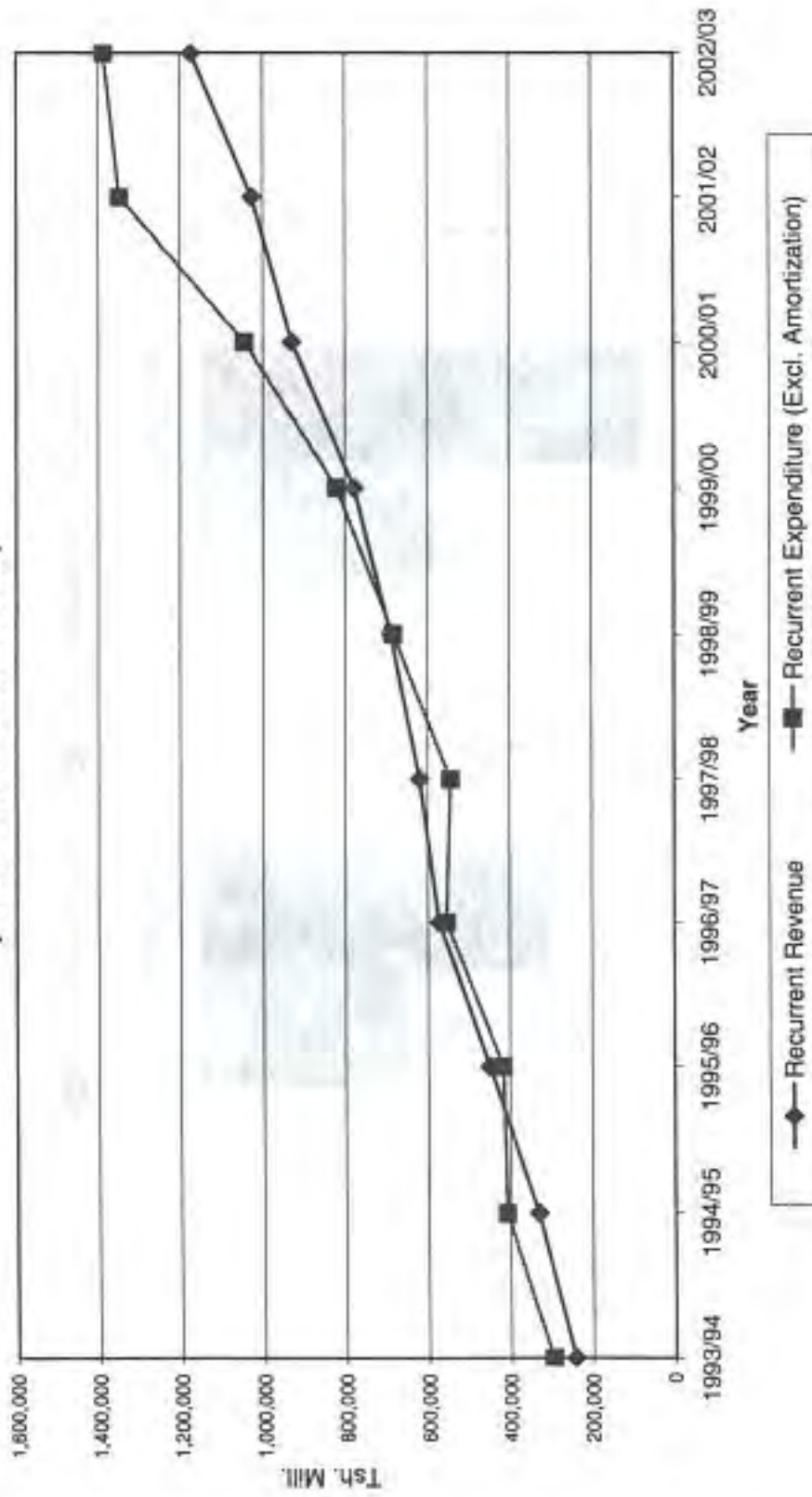
Figures in TZS bn	year ending		quarter ending		actual		budget - actual/budget	
	Jun-2001	Dec-2001	Mar-2002	Jul-Mar	Jul-Jun	Jul-Mar	Jul-Jun	Jul-Mar
Debt service	427.2	231.5	103.4	334.9	442.0	75.8%		
Domestic	325.2	182.4	84.4	266.8	293.0	91.1%		
External *	102.1	49.1	19.0	68.1	149.0	45.7%		
Redemptions/principal repayments	333.0	170.3	85.1	255.4	333.8	76.5%		
Domestic	348.5	145.7	72.5	218.2	220.2	99.1%		
External	84.5	24.6	12.6	37.2	113.6	32.8%		
Interest payments	94.2	61.2	18.3	79.4	108.2	73.4%		
Domestic	76.7	36.7	11.9	48.6	72.8	66.8%		
External	17.6	24.5	6.4	30.8	35.4	87.2%		
Gross borrowing	458.5	247.7	161.3	409.0	462.7	88.4%		
Domestic	248.5	145.7	72.5	218.2	218.2	100.0%		
T-bills	228.9	111.0	52.4	163.4	163.4	100.0%		
T-bonds	19.6	34.7	20.1	54.8	54.8	100.0%		
Foreign	210.0	102.0	88.8	190.7	244.4	78.0%		
Project	127.6	45.4	88.8	134.2	104.9	127.9%		
Programme	82.4	56.5		56.5	139.5	40.5%		
Foreign grants	259.2	123.6	86.7	210.3	451.1	46.6%		
Project	123.6	14.2	3.6	17.8	187.0	9.5%		
Programme (PRBS)	83.6	85.9	75.4	161.3	200.6	80.4%		
HIPC Multilateral Debt Relief -	52.0	23.5	7.7	31.1	63.6	49.0%		
Memos:								
Average period exchange rate (TZS/USD)	845.8	908.4	950.1		900.0			

* Foreign debt service figures are as per externalisation by BoT.

- Includes IDA and IMF only.

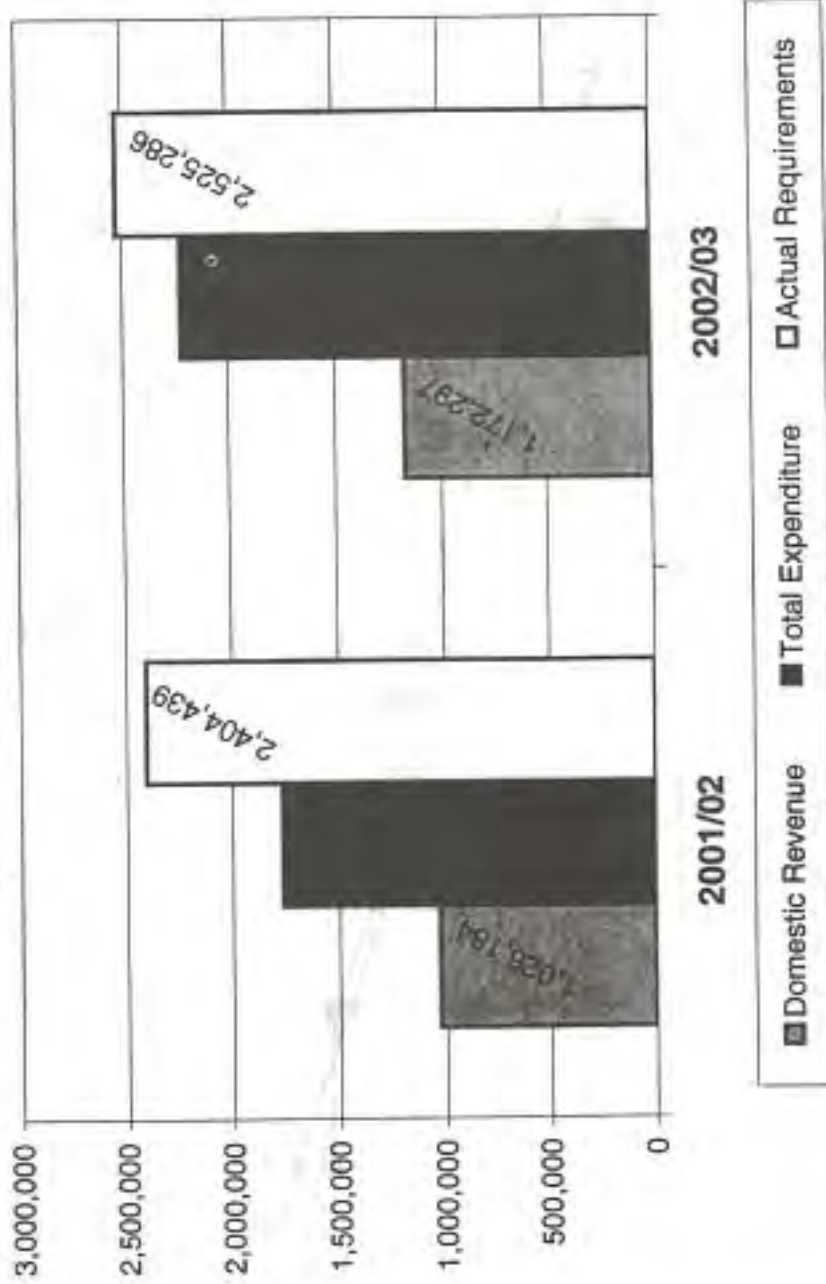
Source: MOF and BOT

**Figure 1: Government Recurrent Budget
(1993/1994 -2002/2003)**



Source: Ministry of Finance

**Figure 2: Budget Frame for 2001/02 and 2002/03
Compared to Actual Requirements**



Source: Ministry of Finance

Figure 3: Sources of Revenue 2001/2002



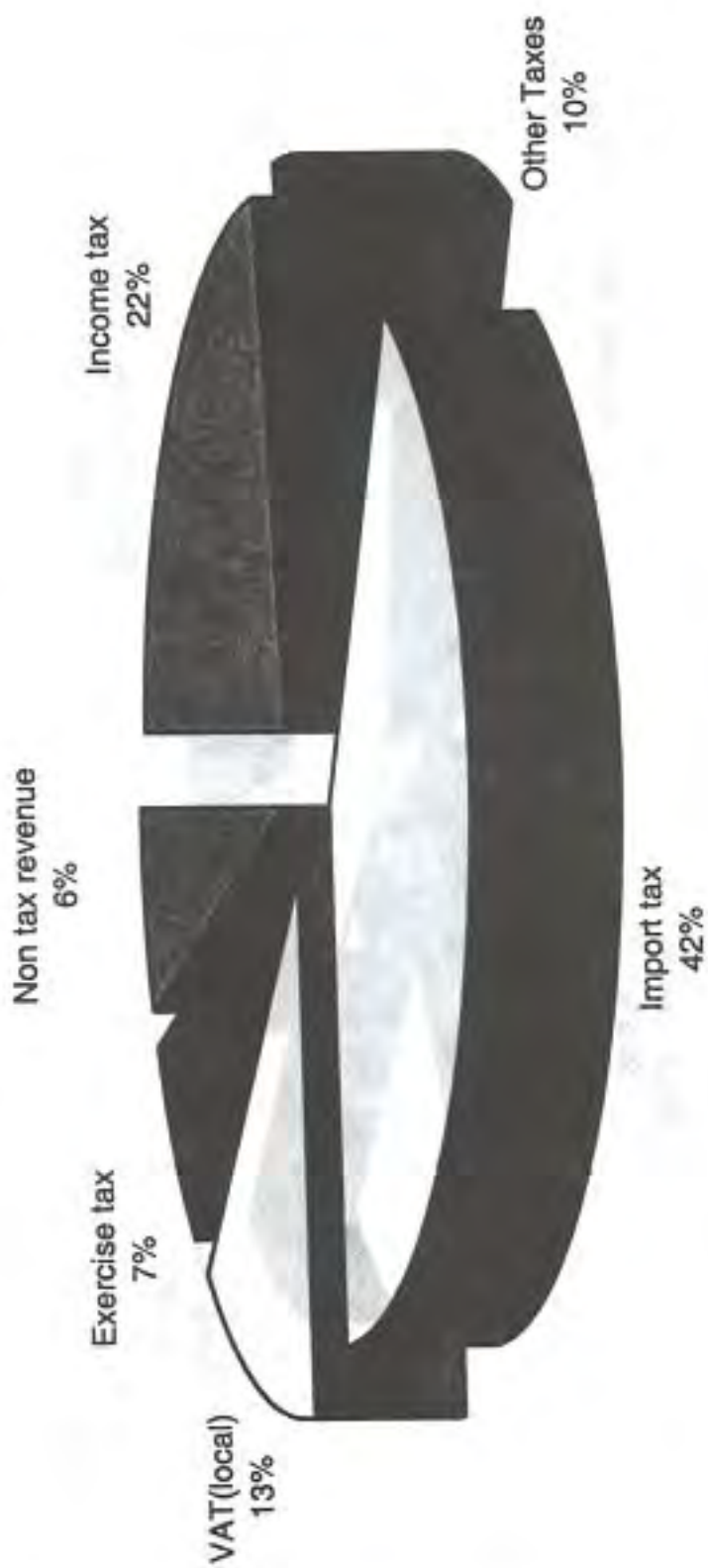
Source: TRA and Ministry of Finance

Figure 4: Sectoral Allocations of Recurrent and Development Budget 2001/2002



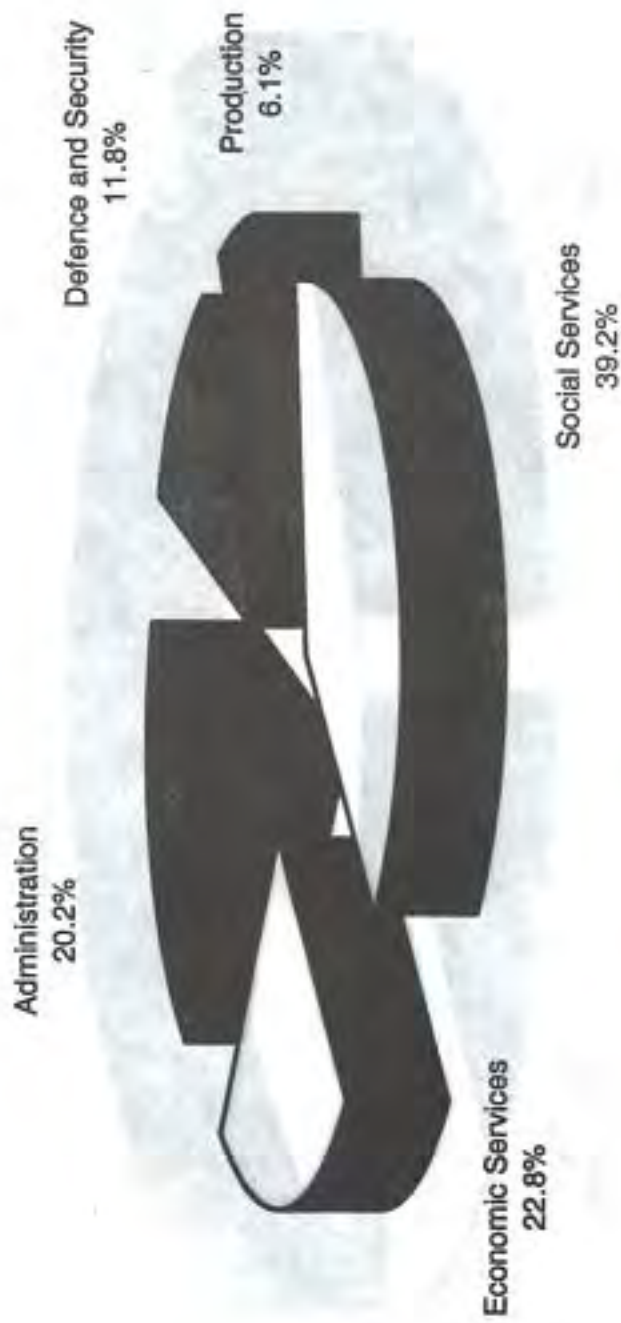
Source: Ministry of Finance

Figure No 5: Source of Revenue 2002/03



Source: TRA , Ministry of Finance

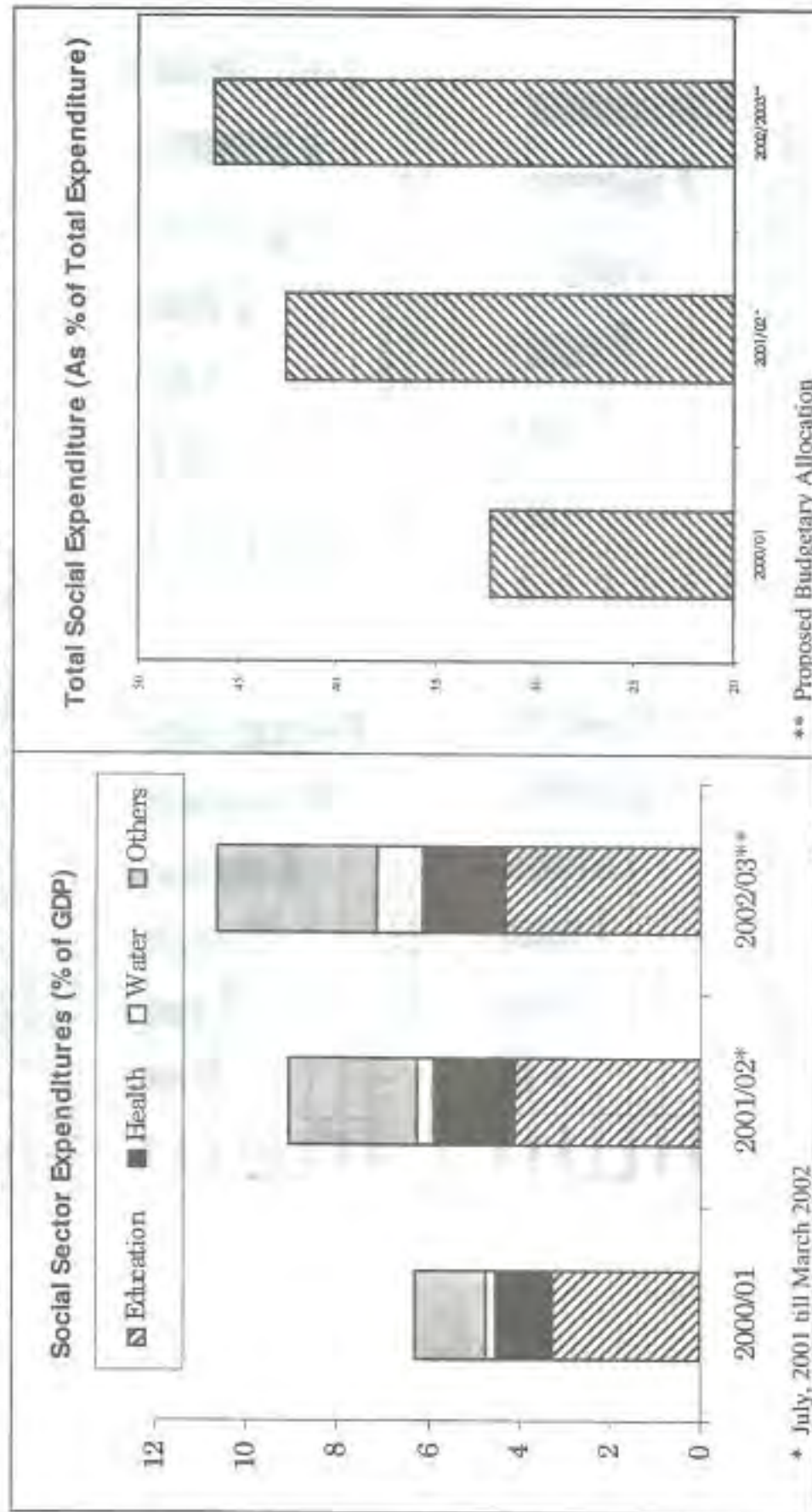
**Figure 6: Sectoral Allocations of Recurrent and Development Budget
2002/2003**



Source: Ministry of Finance

Figure 7

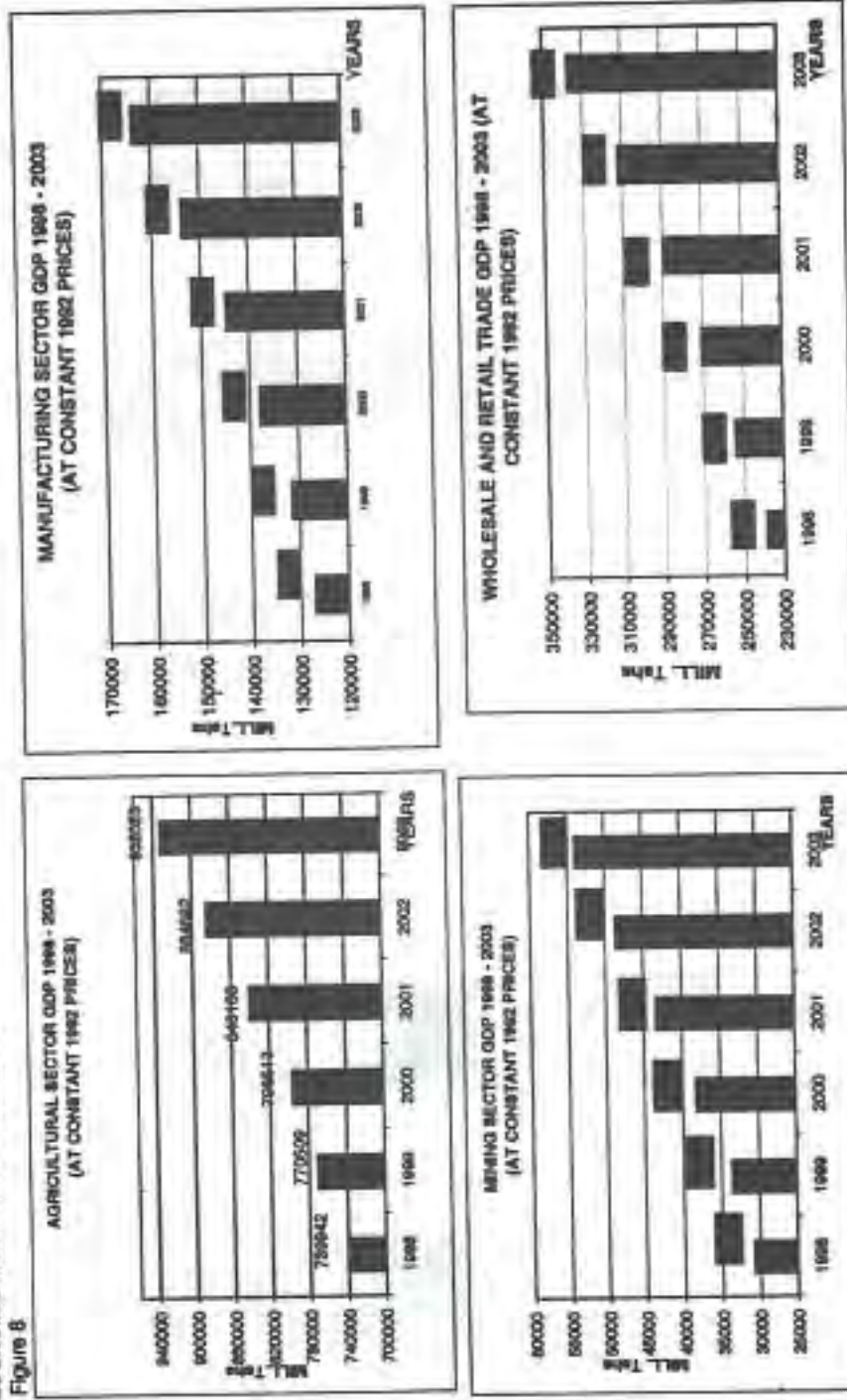
THE GOVERNMENT IS SERIOUS ABOUT POVERTY REDUCTION



Source: Ministry of Finance

ECONOMIC MOMENTUM IS BUILDING

Figure 8



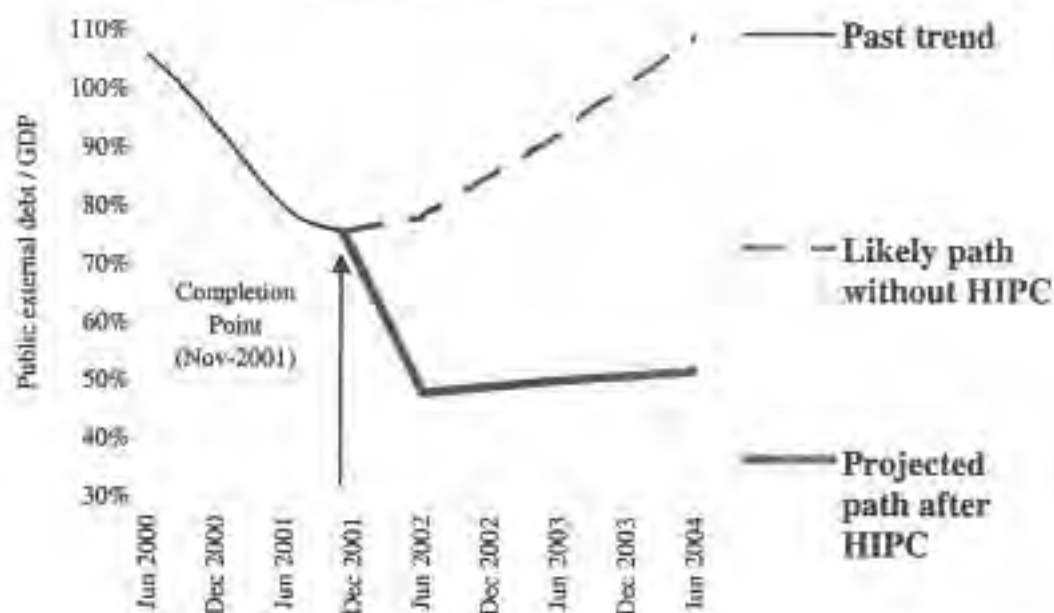
NOTE: Years 2002 and 2003 are estimates.

Source : Planning Commission

- > Economy has been strengthening
- > Growth becoming more broadly based from a sectoral and geographic perspective
- > Reflection of Government's stabilization policies
- > More investment-friendly environment reflected in strengthening investment performance
- > marked increase in capital projects in Dar es Salaam and in a number of regions
- > This is key to achieving poverty reduction in Tanzania.

Figure No. 9

By reaching HIPC Completion Point, the Government has substantially reduced its external debt burden

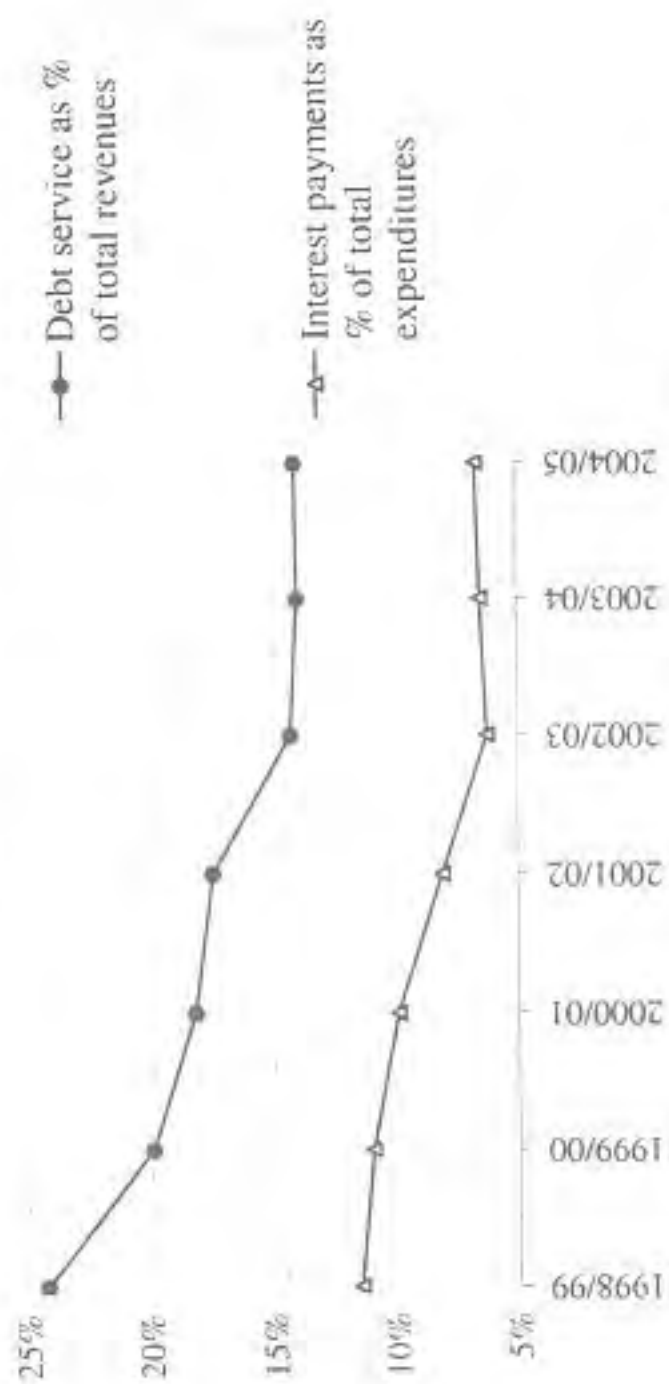


Source: Ministry of Finance

- * As a critical element of sound fiscal management, the government took major steps to address the looming problem of a large and unsustainable external debt.
- * International financial institutions and our bilateral development partners supported the country's efforts through a major HIPC debt relief initiative that reduced our external debt/ GDP ratio by almost half (from about 80% to below 50%).
- * This is monumental step as regards putting Tanzania back into the group of debt sustainable and credit-worthy countries.

Figure No. 10

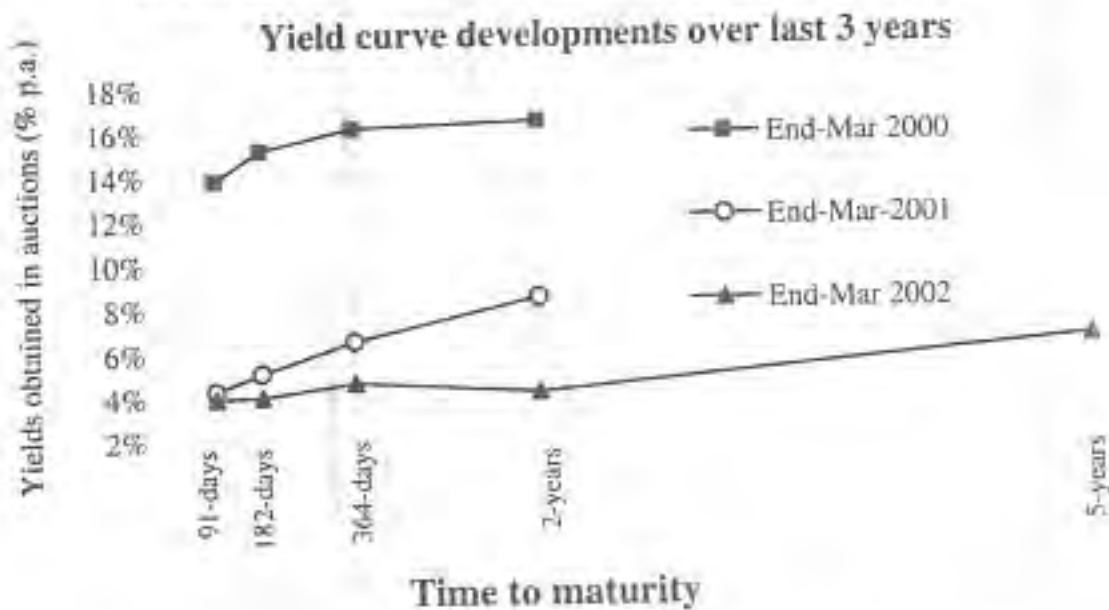
The burden of servicing public debt is falling which means we have more resources available for priority sectors



Source: Ministry of Finance

Figure No. 11

Interest costs on domestic debt are falling and the local financial market is being developed



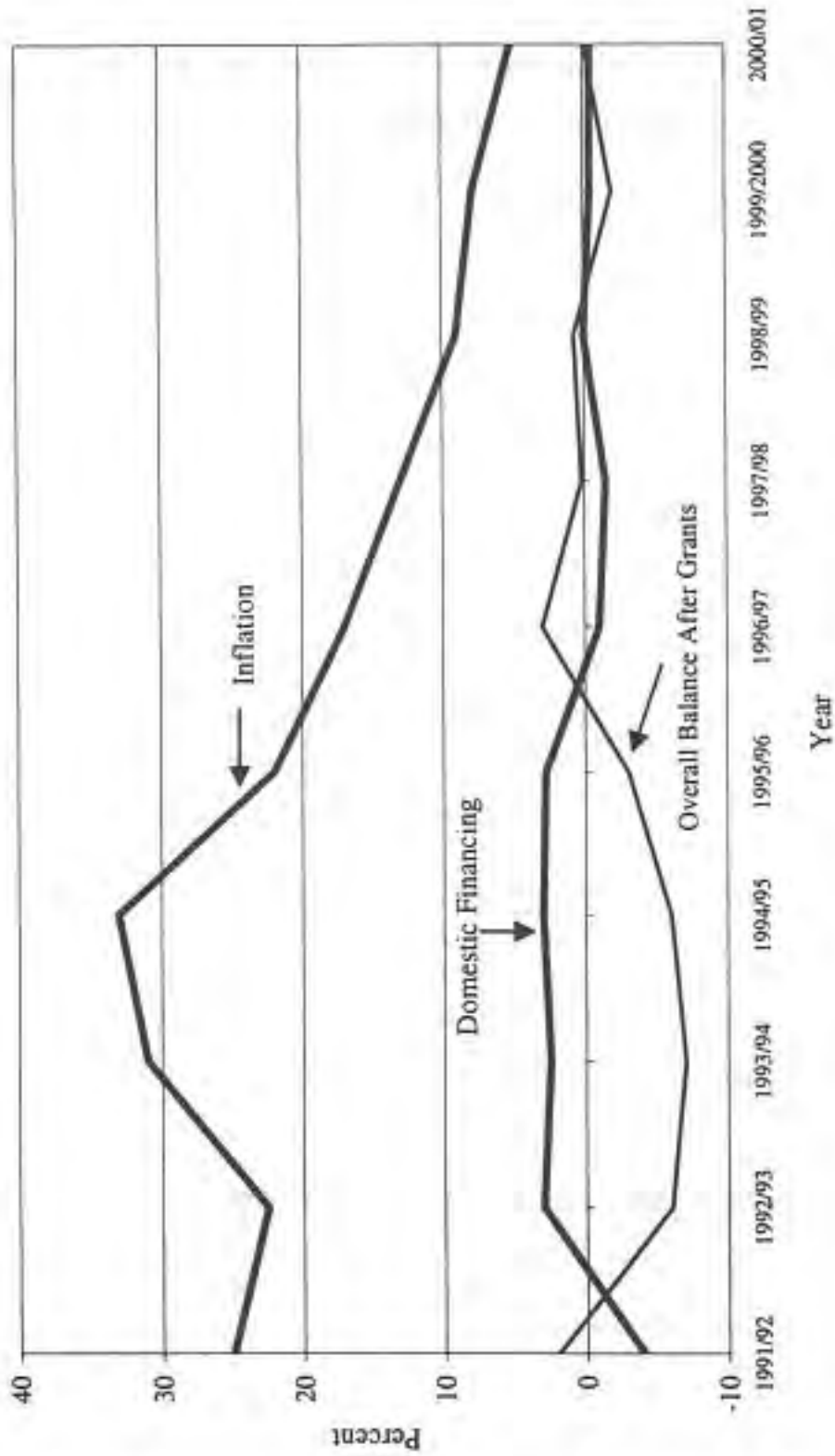
Source: Ministry of Finance; Bank of Tanzania

* Sound fiscal management, including a clear and deliberate debt management strategy have been well received by the financial markets. This is reflected in progressively lower borrowing costs (yields) for Government across a spectrum of maturities.

* The Government successfully launched a 5-year Treasury bond this year and listed all T-bonds on the Dar es Salaam Stock Exchange. The move will not only help boost secondary trading but also lengthen the maturity profile of our domestic debt and extend the yield curve which serves as a natural benchmark for pricing all long-term debts in the economy, including corporate bonds and long-term bank loans.

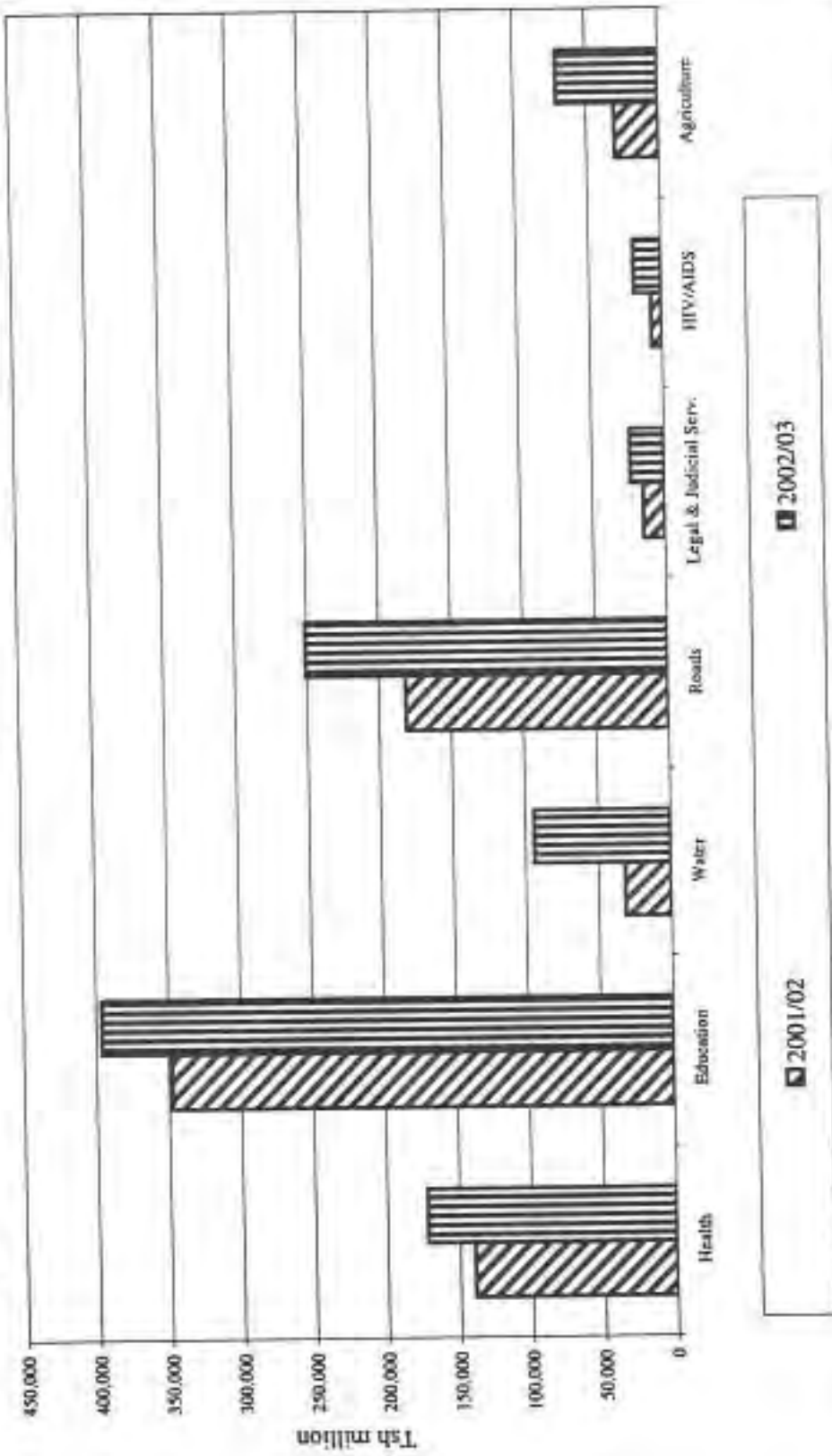
* Using a growing number of financial instruments now available to the Government, we have also begun to normalise a growing portion of our non-marketable debt.

Figure 12: Fiscal Performance and Inflation 1991/92 - 2000/01



Source: Ministry of Finance

Figure 13: Comparative Total Expenditures on Priority Sectors



Source: Ministry of Finance

