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Speech by the Minister of Finance Hon. Mustafa H.Mkulo (MP). Introducing to the National Assembly the estimates of public revenue and expenditure for the financial year 2009-2010

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**SPEECH BY THE MINISTER FOR
FINANCE AND ECONOMIC AFFAIRS,
HON. MUSTAFA HAIDI MKULO (MP),
INTRODUCING TO THE NATIONAL
ASSEMBLY, THE ESTIMATES OF
GOVERNMENT REVENUE AND
EXPENDITURE FOR THE
FINANCIAL YEAR 2009/10**

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INTRODUCTION

1. **Mr. Speaker**, I beg to move that this esteemed House now resolves to debate and approve Government proposals of Revenue and Expenditure estimates for the Financial Year 2009/10. This budget has been consolidated in four volumes, which provide details of budget estimates. Volume One presents revenue estimates and it includes new revenue measures that are announced during budget speech presentation. Volumes Two and Three present recurrent expenditure estimates for Ministries, Government Departments, Regions, Urban and District Councils. The fourth volume contains development expenditure estimates for the Ministries, Government Departments, Regions, and Councils. In addition, there is the Finance Bill of 2009, which is also part of this budget.

2. **Mr. Speaker**, preparation of this budget has involved consultation with various Government and non-Government Institutions

and other stakeholders. Members of Parliament had the opportunity to discuss the Guidelines for the Preparation of the Plan and Budget proposals and provided useful advice on the priorities for the 2009/10 Budget. The preparation of the Guidelines is an important element of the Budget process in Tanzania as it provides opportunity for stakeholders, particularly the Honorable Members of Parliament, to provide their views before the budget proposals are presented to the Parliament for approval. On behalf of the Government, I would like to extend my sincere gratitude to the Honorable Members of Parliament for their advice that has been taken into account in the finalization of this budget. This arrangement for broad based consultations in the preparation of the national budget will be sustained and used to develop strategies for accelerating implementation and achievement of the commitments of the Ruling Party's 2005 election manifesto that seeks to improve the standard of life for every Tanzanian.

3. **Mr. Speaker,** I would like to sincerely thank all those who have been involved in one way or another, in the preparation of this budget. In particular, I would like to thank the Finance and Economic Affairs Parliamentary Committee, under the Chairmanship of Honorable Dr. Abdallah Omari Kigoda, Member of Parliament for Handeni, for seriously scrutinizing the budget estimates and providing useful comments on the various aspects of this budget. The valuable

inputs provided by the Committee have contributed significantly to the improvement of the quality of the budget that I am presenting today.

4. **Mr. Speaker**, I would also like to thank all Ministries, Independent Departments, Regions, Councils, Districts, Local Governments, national and international organizations, the private sector, and the academia, for their cooperation and support in preparing this budget. Special appreciation also goes to the Office of the Attorney General, for the timely preparation of the 2009 Finance Bill and other legal documents that are part of this budget. Likewise, I would like to recognize the contribution of my co-workers at the Ministry of Finance and Economics Affairs, starting with my two Deputies, Honorable Jeremia S. Sumari (MP) and Honorable Omari Y. Mzee (MP); the Permanent Secretary, Mr. Ramadhani M. Khijjah and three Deputy Permanent Secretaries, Mr. John M. Haule, Mr. Laston T. Msongole and Dr. Philip I. Mpango, Heads of Departments and Institutions and all staff of the Ministry of Finance and Economic Affairs. I would also like to thank the Chief Government Printer for the timely production of this budget. Finally, my sincere thanks also go to the broad range of experts, who made proposals regarding policy, strategies and tax related measures which, to a large extent, have been taken into account in the preparation of this budget.

5. **Mr. Speaker**, the 2009/10 budget has been prepared when the world is facing an unprecedented global economic crisis that has already adversely affected some domestic revenue sources. In response, the Government in collaboration with the Bank of Tanzania has begun taking measures to facilitate the identification of new sources of revenue in order to minimize the shortfall in domestic revenue.

6. **Mr. Speaker**, this morning, I presented the economic survey for 2008 and the medium term economic outlook for 2009/10 – 2011/12. At this juncture, I would like to review the implementation of budgetary policies during the first nine months of this fiscal year.

REVIEW OF IMPLEMENTATION OF THE 2008/09 BUDGET

7. **Mr. Speaker**, during the year 2008/09, the Government executed the budget on the basis of policy objectives that I presented in this House last year. The objectives focused on strengthening domestic revenue collection, public financial management and accountability. Further, the Government sustained efforts to manage the National Debt in accordance with the National Debt Strategy and continue to maintain good cooperation with our Development Partners that support the Government Budget.

8. **Mr. Speaker**, in the course of implementing the Budget for the year 2008/09, a number of issues emerged, including:

- (i) The effects of the global financial and economic crisis on our economy and on the Government Budget started to be manifested. The most affected sectors are agriculture, manufacturing, mining and tourism. The Government is taking appropriate measures to address the effects. A Task Force chaired by the Governor of the Bank of Tanzania, comprising of Permanent Secretaries from both the United Republic of Tanzania (URT) and Revolutionary Government of Zanzibar (RGZ) governments and experts was formed to assess the impact of the crisis and recommend mitigation measures. The Task Force has submitted recommendations to the Government, some of which have been included in this Budget as I will be elaborated later;
- (ii) Due to the global financial and economic crisis, revenue collection for the first 9 months of the year 2008/09 was not satisfactory and the likely outturn for the year ending June 2009 will fall short of the target by 10 percent;

- (iii) The current tax base still covers only a small portion of the tax potential of the economy. The Government continues to explore new sources of revenue; and
- (iv) Some parts of the country started experiencing food shortages. Measures are being taken to address the problem, including transportation of food from areas with surpluses to be distribution in areas that have food shortages.

DOMESTIC REVENUES

9. **Mr. Speaker**, in the 2008/09 budget, the Government planned to collect domestic revenue amounting to Shillings 4,728,595 million (4.7 trillion), equivalent to 18.5 percent of GDP as compared to 16.7 percent for the year 2007/08.

10. **Mr. Speaker**, several measures were taken to build sustainable capacity for increased domestic revenue mobilisation so as to fully finance recurrent expenditures from domestic revenue. Such measures included:

- (i) Broadening the tax base by registering new taxpayers and further improvement of the business and investment climate;
- (ii) Implementation of TRA Third Five-Year Corporate Plan 2008/09 - 2012/13, which aims at strengthening accountability among taxpayers and tax collectors for efficient revenue collection;

- (iii) Strengthening the capacity of the Customs and Excise Tax Department in the supervision and collection of revenue;
- (iv) Improving the procedures for collection of non – tax revenue; and
- (v) Improving the Tax Structure, fees, levies and other revenue measures.

11. **Mr. Speaker**, during the year 2008/09, the Government amended the Value Added Tax (VAT) Act, CAP 148. The amendments included: expanding the scope of qualifying service in the first schedule to the VAT Act for zero rating when exported. This measure is aimed at promoting export of services in order to increase their contribution to GDP; exemption of VAT on burning gel for domestic use; Compressed Natural Gas (CNG) and CNG cylinders for environmental protection; VAT exemption was also provided on bitumen in order to reduce road construction costs; and zero-rating VAT on locally manufactured bags in order to promote growth of local industries that manufacture the product and provide relief on farmers prices.

12. **Mr. Speaker**, in the year 2008/09 Budget, the Government amended the Income Tax Act, CAP 332 by introducing an Alternative Minimum Tax (AMT) at the rate of 0.3 percent of gross turnover on corporate enterprises making losses for three consecutive years. The entities typically

make commercial profits, but when incorporating tax adjustments they record losses on account of generous investment incentives that are provided in the legislation, including accelerated capital deductions and investment allowances. Furthermore, the Government reduced annual motor vehicle license fees and exempted tractors used for agricultural purposes from the annual fees.

13. **Mr. Speaker**, in compliance with the East African Community Protocol requirements, the EAC Ministers for Finance agreed to amend import duty rates by exempting duty on raw materials and other inputs imported by TANELEC for manufacturing of transformers and switch gears; and exempting import duty on hand hoes and other imported agricultural inputs and implements. With regard to property tax, TRA in collaboration with Dar es Salaam municipalities assumed responsibility to collect property tax.

14. **Mr. Speaker**, during the period July 2008 to March 2009, actual domestic revenue collections amounted to shillings 3,199,134 million (3.2 trillion), equivalent to 91 percent of the estimated amount of shillings 3,529,214 million (3.5 trillion). This is a shortfall of shillings 330,080 million compared to the target for the period. Excise duty collection amounted to shillings 222,737 million, compared to target of shillings 262,460 million, equivalent to 85 percent of the target. Income tax collection was shillings

940,675 million, equivalent to 89 percent of the target. The Government targeted to collect shillings 435,225 million on import duty, but actual collection amounted to shillings 343,331, equivalent to 21 percent. Areas which recorded good performance were VAT which amounted to shillings 490,662 million compared to the target of shillings 488,461 million.

15. **Mr. Speaker**, during the same period, collection of non-tax revenue by Ministries, Departments, Agencies and Regions reached shillings 138,479 million, compared to the target of shillings 184,988 million, being 25 percent below target. This was mainly due to temporary suspension of harvesting of forest products and the decrease in population of fish in Lake Victoria. Further, the decision to temporarily suspend issuance of mining licenses also led to a the decline in non-tax revenue collection. Regarding privatization proceeds, the target of shillings 45 billion was achieved as planned.

LOANS AND GRANTS

16. **Mr. Speaker**, the Government continued to implement the policy of zero borrowing from domestic financial institutions for financing its recurrent budget. However, Government securities and bonds amounting to shillings 559,600 million were sold in the domestic market as rollover of maturing obligations and for liquidity management. For the period ending March 2009, Government reserves

at the Bank of Tanzania increased to shillings 186,854 million.

17. **Mr. Speaker**, the Government Loans, Guarantees and Grants Act, CAP 134, and its regulations continued to be the guide for raising loans, issuing guarantees and receipt of grants, including debt relief. According to the International Monetary Fund, Tanzania is among African countries that have managed to maintain stable economic growth, sustainable debt and hence is considered to be credit worthy. Additionally, the Joint Assistance Strategy for Tanzania (JAST) has continued to be the basis for cooperation with our Development Partners, including the provision of General Budget Support.

18. **Mr. Speaker**, during the period July 2008 – March 2009, shillings 869,563 million was received as General Budget Support equivalent to 115 percent of the estimates of shillings 757,722 million for the period. The increase in GBS partly reflects higher support from some donors who provided more than was originally indicated in the budget estimates and partly due to the depreciation of the Tanzanian shilling against the USD during the period under review. Grants and loans received through development projects including Basket Funds for the period July, 2008 to March, 2009 reached shillings 867,564 million, equivalent to 59 percent of the approved estimates for the financial year 2008/09. In

addition, a total of shillings 6,677 million was received from the United States of America through the Millennium Challenge Corporation (MCC), and shillings 43,806 million as debt relief under the Multilateral Debt Relief Initiative (MDRI).

EXPENDITURE

19. **Mr. Speaker,** the Government has continued to link expenditure and policy objectives as identified in MKUKUTA. In addition, during fiscal year 2008/09 the Government continued to implement the cash budget management system, thus limiting spending to what is collected. The system has been effective in controlling Government expenditure. Actual expenditure for the first nine months of the fiscal year 2008/09, amounted to shillings 4,657,893 million (4.7 trillion) equivalent to 87 percent of the estimated amount of shillings 5,364,868 million (5.4 trillion) for the period. Recurrent expenditure was 3,142,301 million (3.1 trillion) and development expenditure was shillings 1,515,592 million (1.5 trillion).

20. **Mr. Speaker,** payments of Government wages and salaries for the period of July, 2008 – March, 2009 amounted to shillings 1,237,171 million (1.24 trillion), equivalent to 102 percent of the estimates of shillings 1,211,586 million (1.21 trillion) for the period. This was primarily as a result of salary adjustments which were implemented in August, 2008.

21. **Mr. Speaker**, interest payments on domestic debt for the period of July 2008 – March, 2009 amounted to shillings 144,080 million, equivalent to 106 percent of the estimates of shillings 135,561 million. This was due to payment of interest on domestic debt arrears. Foreign interest payments amounted to shillings 24,350 million. This was due to depreciation of the Tanzanian shilling against the USD. Expenditure on other debt servicing was shillings 284,320 million equivalent to 106 percent of the estimates for the period.

22. **Mr. Speaker**, Other Charges category in all Ministries, Departments and Agencies, Regions and Councils for the period of July, 2008 – March 2009, amounted to shillings 1,452,380 million, equivalent to 86 percent of estimates for the period. The decline was caused by a shortfall in domestic revenues as explained earlier.

23. **Mr. Speaker**, the Government has instituted several measures to improve efficiency in budget control. These include; enhancing capacity of the Cash Management Unit in the Ministry of Finance and Economic Affairs, and that of planning and budget officers in all line Ministries and other spending agencies in order to improve budget execution. The Cash Management Committee is closely monitoring revenue and expenditure trends to ensure that execution of the budget is in consistent with monetary policies.

PUBLIC FINANCIAL MANAGEMENT

24. **Mr. Speaker,** significant achievements have been attained in strengthening public financial management. The specific achievement in this regard include the establishment of Procurement Management and Internal Audit Units in each Ministry, Independent Departments and Agencies; establishment of Audit Committees; and strengthened Parliamentary Public Finance Committees, for both Central and Local Governments. It is worth noting that, the Government is in the process of establishing an independent Internal Auditor General's Department. The Internal Auditor General will have authority to oversee internal audits for Government accounts and will be accountable directly to the Paymaster General.

25. **Mr. Speaker,** the Government has made changes in respect of Government Finance Statistics (GFS) by migrating from the former GFS 1986 system to the current GFS 2001 in compliance with the changes made by the International Monetary Fund (IMF) since year 2001. The changes are aimed at providing a comprehensive framework suitable for analyzing and evaluating fiscal policy, especially the performance of Government and the broader public sector. In view of this, all the four government budget books for the year 2009/10 have been prepared on the basis of the GFS 2001 system.

26. **Mr. Speaker**, during the year 2008/09, the Government established the Public Procurement Policy Unit within the Ministry of Finance and Economic Affairs as part of implementing the Government's commitment to strengthen public procurement practices. The role of the Unit is to provide technical inputs in designing, developing and reviewing public procurement policies, laws, regulations, circulars and guidelines as well as evaluation of implementation of the Policy.

27. **Mr. Speaker**, the Controller and Auditor General's report for the year 2007/2008 indicates general improvement in the management and control of public finances particularly in Ministries and Departments. However, the management and controls of public finances in Local Governments remains unsatisfactory, where more work on controls is needed. Similarly, reports of the Parliamentary Public Accounts Committee and the Local Authority Accounts Committee (PAC and LAAC) have also identified weaknesses in management of public finances.

28. **Mr. Speaker**, according to the Controller and Auditor General's Audit report, common weakness in public finance management include: lack of adequate supporting documents for payment vouchers to verify correctness and justification for payments; non-compliance with the procurement Act, regulations and procedures;

delay in retirement of imprests in accordance with Finance Act and regulations; unavailability of reports for direct-to-Project Funds resulting to inability to reconcile the budget as approved by the Parliament and actual expenditure and weaknesses in valuation of fixed assets.

29. **Mr. Speaker,** in order to address weaknesses highlighted in the Controller and Auditor General's report and Parliamentary Finance Committee reports, the Government will take the following measures:

- (i) Training of all accounting officers and their technical staff on financial management procedures;
- (ii) Ensure that all public institutions have a Tender Board and provide training to all members of the Board;
- (iii) Strengthen the quality of internal auditing through provision of training, improving technical auditing, effective expenditure tracking and ensure that the Internal Auditor General's Department is fully functional;
- (iv) Strengthen pre-audit units in each Ministry and Government Departments;

- (v) Strengthen audit committees in order to enhance their independence and efficiency; and
- (vi) Finalise valuation of Government assets in 20 Ministries for the purpose of recording them in a permanent register and thereafter, cover the remaining Ministries.

30. **Mr. Speaker,** During 2007/08 some Ministries and Councils received clean audit certificates indicating improved public finance management. The Government will continue to strengthen public financial management so that these measures eventually translate into improved social services delivered to the people.

ISSUES RELATED TO LOCAL GOVERNMENT REFORMS

31. **Mr. Speaker,** during 2008/09, the Central Government continued to allocate and transfer resources to Local Governments in order to enable them execute their activities as planned in the budget. By March 2009, the Government had transferred a total of shillings 1,121,134 million (shillings 1.1 trillion), out of which, shillings 914,746 million was for recurrent expenditure and shillings 206,387 million was for development expenditure. The Government also recruited 202 accountants and internal auditors in order to improve financial management in Local Governments.

32. **Mr. Speaker**, implementation of the policy of Decentralization by Devolution (*D by D*) is in its third year. Significant achievements have been realized todate. They include: better understanding by Ministries on their roles and functions in Local Government Authorities; improvement in participatory planning and budgeting; improved accountability with respect to procurement management in Local Governments; and substantial reduction in the number of bank accounts for various programs. In spite of these achievements, there are challenges that need to be addressed in order to accelerate the implementation of this policy, including: strengthening monitoring and evaluation at all levels; building capacity of Local Government staff in order to strengthen accountability and management of public resources; and resource enhancement for the under-served Councils to enable them to recruit and retain competent staff.

JOINT FINANCE COMMISSION

33. **Mr. Speaker**, the Joint Finance Commission (JFC) continues to provide advisory services to both Governments of RGZ and URT. At the end of its first term, His Excellency, the President of the United Republic of Tanzania, re-constituted the Commission, by appointing new members. Both Governments have completed

reviewing the commissions report and are currently working on their respective responses.

COOPERATION BETWEEN THE MINISTRIES OF FINANCE AND ECONOMIC AFFAIRS OF THE URT AND THE RGZ

34. **Mr. Speaker,** in strengthening cooperation between the Ministries of Finance and Economic Affairs of the URT and that the RGZ, a number of activities have been undertaken including involvement of the RGZ in policy decisions related to development cooperation with multilateral institutions such as the International Monetary Fund, World Bank and Africa Development Bank; capacity building on aid coordination and; cooperation in the preparation of URT budget. Following discussion between the two Governments, agreement has been reached under which the RGZ will get 4.5 percent of Budget Support loans effective 2009/10.

ECONOMIC EMPOWERMENT

35. **Mr. Speaker,** during the year 2008/09, the Government continued with implementation of the National Economic Empowerment Policy of 2004 focusing on: creating a favourable environment for investment and economic growth; improving the tax system and its administration; reviewing laws, rules and regulations to ensure that they meet the requirements of a market oriented economy and easing the availability of capital in order to enable more Tanzanians to

access loans. Other areas of focus were: raising skills and knowledge levels; strengthening economic infrastructure; promoting the establishment and development of cooperatives; improving the capacity to produce goods of high quality, better and reliable public service, supporting the establishment of appropriate marketing systems and identification of markets; improving and simplifying licensing procedures; creating a favorable environment for Tanzanians to participate more effectively in the privatization of state enterprises and using land as a springboard to accelerate empowerment. The National Economic Empowerment Policy is implemented in various sectors of the economy.

36. **Mr. Speaker,** some of the notable achievements in the implementation of the National Economic Empowerment Policy include; increased real GDP growth; increase in the average per capita income; decrease in basic needs poverty; establishment of various funds for provision of capital; increase number of surveyed farms and plots to facilitate acquisition of title deeds that can be used as collateral in the acquisition of loans.

37. **Mr. Speaker,** in the financial year 2008/09, progress was also recorded in the implementation of economic empowerment programmes. These programmes include: the Programme for Economic Empowerment and Job Creation; the Mwananchi Empowerment Fund;

Small Entrepreneurs Loan Facility (SELF) and the National Income Generation Programme (NIGP). During the period July 2008-March 2009 loans amounting to Shillings 68.58 billion were extended to 131,640 entrepreneurs (members of 210 SACCOS and 86 economic groups). Out of the 131,640 beneficiaries, 58,907 are women and 72,633 men. Efforts to sensitize potential beneficiaries to form or join existing SACCOS were also made resulting into a remarkable increase in the number of SACCOS from 1,875 SACCOS in 2005 to 4,780 SACCOS in 2008. In addition, loans were also provided through the Women Development Fund, Youth Development Fund, and the Tanzania Social Action Fund (TASAF).

MKUKUTA

38. **Mr. Speaker,** The 2008 MKUKUTA Annual Implementation Report indicates that achievements have been realized in all three MKUKUTA Clusters namely, economic growth and reduction of income poverty; social well-being and improved livelihoods; and good governance and accountability. In the area of social well being, the main achievements include increased enrollment rate at all levels of education. In the health sector, the number of health facilities has increased. There has also been modest improvements in the rates of maternal and child mortality. Furthermore, improved availability of clean and safe water in urban and rural areas has contributed to improvement in the livelihood of

people, especially women and children. In the area of good governance and accountability, the government continued to strengthen the capacities of law enforcement organs through training and recruitment of new staff and provision of essential equipments.

39. **Mr. Speaker**, MKUKUTA I implementation will end in June, 2010. Therefore, the Government is in the process of preparing MKUKUTA II that will be implemented from July 1, 2010. In formulating MKUKUTA II, the Government will build on the experience gained during implementation of MKUKUTA I. The objective is to address the shortcomings that were experienced under MKUKUTA I, especially in setting-up priorities, availability and allocation of resources, management, monitoring and evaluation and timely reporting. The aim is to ensure that implementation of MKUKUTA II attains the objectives of speedy reduction of poverty and in so doing improve the standard of living of the citizens. It is our expectation that Honorable Members of Parliament and the general public will participate in and contribute towards this process.

2008/09 BUDGET LIKELY OUT-TURN TO JUNE, 2009

40. **Mr. Speaker**, fiscal performance during the first nine months of 2008/09 suggests that revenue performance will be below target.

Domestic revenue is expected to be shillings 4,248,858 million (4.2 trillion) equivalent to 90 percent of planned target of shillings 4,728,595 million (4.7 trillion). The shortfall is mainly due to the negative impacts of the current global economic and financial crisis. The crisis has adversely affected business operations of local companies and their ability to pay taxes as was originally anticipated. The impact on tax performance has been noticeable on large tax payers who contribute a large proportion of total tax revenue. However, foreign inflows are expected to be in line with budget estimates.

41. **Mr. Speaker**, regarding the expenditure side, we project that until June, 2009, expenditure targets will be met as planned. This is because the shortfall in revenue will be off-set by higher than budgeted GBS as well as proceeds from the sales of non-inflationary Government bonds.

THE BASIS AND OBJECTIVES OF THE 2009/10 BUDGET

42. **Mr. Speaker**, this budget is the fourth since the December 2005 General Elections. The basic assumptions and targets for this budget are guided by the National Development Vision 2025 which aims at transforming Tanzania into a middle income country; the CCM Election Manifesto of 2005 whose main objective is to improve the quality of life for every Tanzanian; National Strategy for Growth and Reduction of

Poverty; Tanzania Mini Tiger Plan 2020; and the Millennium Development Goals. In contrast with previous years' budgets, the 2009/10 budget will be implemented under difficult circumstances emanating from the global financial and economic crisis. In order to mitigate the adverse impact of the crisis, the Government will put emphasis on improving agriculture and those areas that support agriculture. In that regard, the MOTTO of the 2009/10 budget is "Agriculture First". Measures will be taken to ensure agriculture is allocated more resources, including agro-inputs and farm implements.

43. **Mr. Speaker**, in view of the long standing Government objective of attaining better life for every Tanzanian, the budget for 2009/10 is intended to implement the following actions:

- (i) Improve further the tax structure with a view to strengthen domestic revenue collection. This will include, broadening the tax base through identification of new sources; improving the administration and revenue collection processes and reducing tax exemptions.
- (ii) Take budgetary measures to mitigate the impact of the global economic crisis;

- (iii) Improve and expand essential infrastructure services: roads, railways, harbours, airports and rural electrification;
- (iv) Take measures to protect employment in sectors most hit by the global economic crisis;
- (v) Take measures to ensure food security;
- (vi) Protect the gains made in social services delivery in health, education and water sectors and sustain special programmes such as the fight against HIV/AIDS, TB and Malaria;
- (vii) Strengthen the Public Financial Management System and enhance monitoring and evaluation of the plan and budget so as to ensure value for money;
- (viii) Mobilize more concessional loans from International /multilateral Institutions and seek support from emerging donors including from the Middle East and Asian countries in order to enhance financial capacity of the Government to finance big infrastructure development projects. This

includes engaging the private Sector through Public Private Partnership (PPP);

- (ix) Allocate funds to cater for land survey in the remaining 1,500 villages;
- (x) Provide financial resources for special programs aimed at attracting and retaining staff in underserved areas; and
- (xi) Sustaining efforts to create a conducive environment for attracting local and foreign investments.

REVENUE POLICIES

44. **Mr. Speaker,** in the year 2009/10, domestic revenue is projected to be shillings 5,096,016 million (5.1 trillion) equivalent to 16.4 percent of the GDP compared to 15.9 percent of the GDP for the year 2008/09. In view of the current global economic and financial crisis, there is need for the Government to make more efforts to increase domestic revenue collections by broadening the tax base in areas that are not yet harnessed, strengthening revenue collection procedures and minimizing tax exemptions so as to be able to finance a major portion of the budget from domestic revenue sources. In order to achieve these goals, the following measures will be taken:

- (i) Continue to broaden the tax base, reduce tax exemptions, and create a conducive business and investment climate;
- (ii) Monitor closely implementation of the TRA Third Five-Year Corporate Plan 2008/09 – 2012/13 which has been the basis of the increase in tax revenue collection in recent years;
- (iii) Continue reviewing the tax structure and strengthening the Large Taxpayers' Department by improving the systems of operations;
- (iv) Continue strengthening supervision and operations in the Customs and Excise Department;
- (v) Strengthen supervision and control of the movement of cargo from the Dar es Salaam port to Inland Container Depots (ICD) with a view to decongest the port;
- (vi) Strengthen monitoring of fuel import by ensuring flow meters operate all the time, control adulteration of fuel, working in collaboration with the respective authorities, and ensure that transit fuel is not sold in the domestic market;

- (vii) Establish a Fuel Bonded Warehouse, using TIPER facilities to allow bulky importation of fuel. The objective is to have a sustainable stock of fuel for a reasonable time, curb tax evasion, reduce operational costs and hence reduce hiking of fuel prices to consumers;
- (viii) Improve field and desk tax audits as well as reinforce supervision in collections of tax arrears;
- (ix) Improve supervision in collection of property tax and tax on rental income; and
- (x) Finalize the study on non-tax revenue with a view to identify new sources and improve control and efficiency in revenue collection.

45. **Mr. Speaker,** the Government has prepared guidelines that will allow its Institutions and agencies that operate commercially to contribute part of their revenue to the Consolidated Fund. Moreover, the Government will strengthen procedures for revenue collection from Ministries and Departments with a view to improve efficiency.

46. **Mr. Speaker,** the 2009/10 budget will be the first to incorporate revenue collections from Local Government Authorities (LGAs). Hence, the Budget includes shillings 138,052 million as revenue estimates from LGAs. The aim of this

measure is to comprehensively reflect the structure of the Government budget. Such revenue will be spent in the respective Councils and will be generated from LGAs own sources that include:

- (i) service levy, crop cess, parking fees, guest house levy, forest produce cess, auctions and market fees;
- (ii) license and permit fees including: business license fees, transportation of passengers and cargo, alcohol license, permits for building and quarrying;
- (iii) fees and levies including: markets fees, tender proceeds, sewage services, abattoir fees, auctions, animal inspection and transportation;
- (iv) dividends, business profits, renting of equipments or fixed assets of the LGAs; and
- (v) Royalty incomes derived from natural resources endowments in the LGAs.

47. **Mr. Speaker**, despite the proposed level of revenue collection by LGAs, the Government believes that LGAs have the potential of collecting more revenue than what is current estimated for this budget. Thus, the Government will strive to build the capacities of LGAs through training of

their staff in order to enhance efficiency in revenue assessment and collection.

NEW GRANTS AND CONCESSIONAL LOANS

48. **Mr. Speaker**, foreign grants and loans provide an important source of revenue for the Government budget. In 2009/10, the Government projects to receive shillings 3,181,948 million (trillion 3.18) from our Development Partners in the form of grants and concessional loans. Out of this amount, shillings 1,193,909 million (trillion 1.19) is General Budget Support, shillings 572,927 million is Basket Funds and shillings 1,415,112 million is for projects and programs in various sectors. This amount is shillings 722,412 million or 30 percent higher than the level of loans and grants in the previous budget. Moreover, some donor countries and international financial institutions have promised to provide additional financing to Tanzania on account of strong signals that there will be a shortfall in domestic and foreign revenue collections. To this effect, the European Union and World Bank have pledged to provide additional financing to support agriculture food production to ensure sustainable food supply in the country.

49. **Mr. Speaker**, the World Bank has also indicated in principle, its willingness to provide further budget support to the Government's economic rescue package as needs arise, in case of unexpected additional financing needs requirements for the budget. Furthermore,

discussions are underway between the Government and the World Bank aiming at securing additional resources for budget support in the range of US\$ 100-250 million, through supplemental financing of PRSC 7. Once these resources are made available, they will be allocated to priority expenditure items and will be submitted to your esteemed House for approval as supplementary budget. On the other hand, the IMF, through its Exogenous Shock Facility, has approved USD 336 million to enhance foreign exchange reserves for imports of goods and services. The Government is expanding its aid mobilisation efforts by approaching the Middle East and Asian countries with a view to solicit grants and concessional loans which will increase government capacity in financing critical development projects/programmes.

50. **Mr. Speaker**, foreign grants and loans are intended to strengthen Government capacity to deliver quality and adequate services to the public. In order to achieve this objective, the Government will sustain efforts to strengthen the management and coordination of foreign grants and loans through the implementation of the Joint Assistance Strategy for Tanzania (JAST) and the National Debt Strategy. The objective is to enhance the effectiveness of aid provided to Tanzania.

51. **Mr. Speaker**, the assistance and support from our Development Partners have significantly

contributed to the achievements registered in various sectors of our economy. At this stage, let me extend sincere appreciation to all our Development Partners through their respective Ambassadors, High Commissioners in Tanzania by mentioning them before your august Parliament as follows: Belgium, Canada, China, Denmark, United Kingdom, Finland, France, Germany, India, Ireland, Italy, Japan, South Korea, Kuwait, the Netherlands, Norway, Spain, Sweden, Switzerland, United States of America, Africa Development Bank, BADEA, European Union, Global Funds, IMF, Kuwait Fund, Nordic Fund, Opec Fund, Saudi Fund, United Nations Agencies and World Bank. We are very grateful for the assistance.

DOMESTIC FINANCING

52. **Mr. Speaker**, during the year 2008/09, the Government did not envisage to borrow from the domestic market to finance recurrent expenditure. However, due to revenue shortfall arising from the impacts of global economic crisis it was necessary for the Government to look for alternative sources of revenue, including borrowing from the domestic financial market to finance essential expenditures without compromising macroeconomic objectives.

53. **Mr. Speaker**, during 2009/10, the Government intends to borrow shillings 506,193 million from the domestic financial market. This is due to an unexpected shortfall in domestic

revenue collection in general, and considering that there are important obligations that cannot be put on hold. Furthermore, shillings 576,476 million will be raised for repayment of maturing bonds. This level of domestic borrowing is consistent with monetary policy targets.

ECONOMIC EMPOWERMENT

54. **Mr. Speaker**, in the financial year 2009/10, the Government will continue implementing the National Economic Empowerment Policy. The major areas of focus will include the following: facilitate availability of capital for undertaking economic activities; implementing the resolutions of National Dialogue on Economic Empowerment held in November 2008; conducting dissemination and sensitization seminars for district and regional leaders so that they can also sensitize other stakeholders on the National Economic Empowerment Policy and Act No. 16 of 2004; and coordinate and evaluate empowerment activities and initiatives in various sectors of the economy.

EXPENDITURE POLICIES

55. **Mr. Speaker**, during the year 2009/10, implementation of expenditure policies will focus on the following areas: to mitigate the adverse impacts of the global financial and economic crisis on our economy; improve productivity in agriculture and livestock, increase population with access to clean and safe water as well as water for irrigation; continue to improve

education and health services; infrastructure; industries; tourism; research and development (R & D); continue to implement the Decentralization by Devolution (D by D); and the preparations for the general elections in 2010 and National Population and Housing Census in 2012.

56. **Mr. Speaker**, other areas of focus include; increasing the minimum pension; re-capitalizing the Tanzania Investment Bank to enable it operate a special window for lending to agriculture; establishment of an Agricultural Development Bank; and Parastatal Commercial debts re-introduction of compulsory National Service. In the tourism sector, efforts will be made to promote domestic tourism along side with foreign tourism. Measures will also be undertaken to improve access to sustainable energy including promotion of use of other alternative sources of power such as solar energy, wind, coal and natural gas.

57. **Mr. Speaker**, priority areas in agriculture, livestock, water and irrigation, shall be the following:

- (i) Ensure timely availability of inputs for agriculture and livestock (improved seeds, fertilizers, agro-chemicals, and veterinary medicines). One of the strategies is to ensure that the Agricultural Input Fund is sufficiently funded;

- (ii) Research Institutions such as Ukiliguru, Ilonga, Naliendele and Uyole will be given necessary support to scale up research for improved seeds. In addition, institutions like Msimba Seed Farm, National Service and Prisons will be tasked to produce more improved seeds. This will increase the number of farmers benefiting from these results and thereby increase their productivity;
- (iii) Strengthen capacity of the Strategic Grain Reserve to buy and store sufficient grains consistent with national food requirements. Additionally, six regions i.e. Mbeya, Ruvuma, Rukwa, Iringa, Morogoro and Kigoma which have potential to produce food crops in large quantities will be given priority in the allocation of farm implements;
- (iv) Agricultural Training Institutions will be supported to produce more extension officers so as to assist farmers and pastoralists to increase production;

- (v) Continue to improve the rural road network for the purpose of improving rural transportation;
- (vi) Strengthen irrigation infrastructure including rain water harvesting to ensure increased productivity in food and cash crops;
- (vii) Provision of education to farmers; improve dips, shallow dams, abattoirs, ranches, quality crops and industries dealing with agro-processing for both agriculture and livestock;
- (viii) Improve storage facilities for agricultural crops and livestock products and assist farmers to identify reliable markets;

58. **Mr. Speaker**, given the importance of infrastructure in development, the Government will continue to focus on improving roads, railways, ports and airports. The emphasis of the 2009/10 budget will be on the following areas:

- (i) Implement ongoing infrastructure projects including roads, electricity and water projects;
- (ii) Strengthen operational capacity of underperforming Parastatals such as

- TTCL, ATCL, TAZARA, and TRL with a view to increase their efficiency;
- (iii) Finalize preparation of a national policy on Public Private Partnership (PPP) in order to enable the private sector to participate in infrastructure projects

59. **Mr. Speaker**, with regard to education, the Government will put emphasis on protecting achievements already attained and strengthening areas of weakness. The priority is to recruit qualified teachers at all levels, provision of teaching materials and infrastructure. In the long term, the Government is preparing a national program for teacher's residential housing, whose implementation will start in peripheral underserved areas.

60. **Mr. Speaker**, in the Health sector, the government will continue to implement the Primary Health Care Development Programme (MMAM) - 2007 -2017, whose objective is to improve quality of reproductive and child health; strengthening capacity of human resource at all levels; rehabilitation and construction of health centers and acquisition of equipments; continue implementation of National Aids Control Programme; and improving the center for heart surgery at Muhimbili National Hospital. The objective of all these measures is to ensure achievement of the Millennium Development Goals.

61. **Mr. Speaker**, regarding provision of water services, the Government intends to expand and rehabilitate infrastructure for clean water and irrigation. In addition, rehabilitation and construction of sewage water infrastructure in urban centers will be strengthened for environmental protection. During 2008/09 the implementation of the Lake Victoria-Shinyanga-Kahama water supply project was completed at a cost of shillings 250 billion and distribution of water to Shinyanga and Kahama towns and surrounding villages is in progress. The Government will maintain close cooperation with the communities in planning and issuing of guidelines to various stakeholders for sustainable water development.

62. **Mr. Speaker**, consistent with this year slogan of, "Agriculture First" the Government's priority will be to establish and to revive agro-processing industries, with participation of the private sector.

63. **Mr. Speaker**, regarding Research and Development (R & D), the Government will take appropriate measures to strengthen research institutions in capacity building activities that will increase the number of researchers, establish Centers of Excellence in various fields such as agriculture, forestry, livestock, fisheries, microbiology, technology and social sciences. The

Government will also ensure that research is carried out in priority areas in line with various guidelines and that research outcomes and results are applied in the development of relevant areas.

64. **Mr. Speaker**, based on the foregoing explanations, the focus of the 2009/10 budget has taken into account the aspiration of national strategies that seek to improve the livelihood of every Tanzanian. A summary of resource allocation for the 2009/10 budget covering some key sectors as well as wages and salaries is as follows:

(i) Education sector has been allocated shillings 1,743.9 billion in 2009/10, an increase of 22 percent compared to shillings 1,430.4 in 2008/09. This sector continues to get a big share of the budget as it plays vital role in the economy;

(ii) Agriculture has been allocated shillings 666.9 billion, being an increase of 30 percent compared to shillings 513.0 billion in 2008/09 including of EPA resources. In addition, the Government will guarantee loans intended for investment in agriculture sector;

- (iii) Infrastructure has been allocated shillings 1,096.6 billion, which is an increase of 12.7 percent compared to shillings 973.3 billion allocated in 2008/09;
- (iv) Health has been allocated shillings 963.0 billion, which is an increase of 5.7 percent compared to shillings 910.8 billion allocated in 2008/09;
- (v) Water has been allocated shillings 347.3 billion, compared to shillings 231.6 billion allocated in 2008/09 which is an increase of 50 percent; and
- (vi) Energy and Minerals have been allocated shillings 285.5 billion representing a decrease of 24.6 percent compared to shillings 378.8 billion allocated in 2008/09. This decline in allocation is attributed to the completion of the emergency power contracts with Dowans, APR and Aggrekko. However, efforts are underway to solicit and secure loans from our Development Partners in 2009/10 in order to access more resources for development of the power sector in our country. Some Development Partners including BADEA, Saudi Fund, OPEC Fund and

South Korea have indicated willingness to finance projects in the sector in the next financial year.

65. **Mr. Speaker**, in total, the priority areas that I have explained above have been allocated shillings 5,103.2 billion equivalent to 64 percent of the budget for 2009/10.

GLOBAL ECONOMIC CRISIS

66. **Mr. Speaker**, as I explained in my speech on the state of the economy this morning, the World is experiencing an economic crisis whose impact is affecting the sectors of agriculture, mining and tourism. The Government has begun taking measures to mitigate the impact of the global economic crisis. Broadly, the strategy adopted includes daily surveillance and supervision of banks by the Central Bank in order to be able to detect potential problems in the banking system and take immediate actions. Other measures aim at strengthening domestic resource mobilization; improving productivity in the agricultural sector so as to increase domestic food supply and therefore reduce inflationary pressures; and promoting tourism, especially domestic tourism.

67. **Mr. Speaker**, the proposed specific measures to address the adverse impact of the global economic crisis include the following:

- (i) To compensate the losses incurred by buyers of crops during the fiscal year 2008/09, including cooperatives and private companies which sold cotton and coffee products at a loss. The Government will make direct payments to the respective banks after verification of claims;
- (ii) The Government will guarantee rescheduling of outstanding loans;
- (iii) To provide working capital at concessional terms. Under the plan, the Government will provide soft loan facilities for on-lending to businesses whose operations have been adversely affected by the economic crisis;
- (iv) To strengthen the Export Credit Guarantee Scheme (ECGS) and the Small and Medium Enterprises (SMEs) Guarantee Scheme. This measure will enhance loan guarantees in order to stimulate production for export. In addition, the Government will provide additional resources to the SMEs Guarantee Scheme;
- (v) Apart from the aforementioned financial support to be provided by the Government, the Bank of Tanzania, the affected Commercial Bank and

Development Partners will contribute other additional resources;

- (vi) Proceeds from the recent loan agreed with the Government of India will be used to import farm implement in order to improve production and productivity in the agricultural sector;
- (vii) A loan will be given to Artamas to enable the company to continue with power generation project for Mtwara and Lindi regions in order to improve power availability in those regions;
- (viii) Government will seek loans from multilateral and bilateral development partners to finance operations of the TRL;
- (ix) Our ports will establish special docks with required facilities for handling cruise liners in order to encourage such vessels carrying tourists to make stopovers in our country.

OPPORTUNITIES ARISING FROM GLOBAL FINANCIAL AND ECONOMIC CRISIS

68. **Mr. Speaker**, besides the effects which I explained above, the Task Force identified opportunities for which our country could benefit from the current global crisis. If properly used, the opportunities could help to increase domestic revenue, increase income to our farmers as well as improve our foreign exchange reserves.

Opportunities arising from the financial and economic crisis can be summarized as follows:

- (i) Tanzania is surrounded by several landlocked countries which have also been affected by the crisis. There is therefore need to address operational constraints at Dar es Salaam port, including TICTS operations, in order to improve efficiency particularly in providing cargo handling for the landlocked countries;
- (ii) There is need to identify and survey land for large scale food crop farming in order to increase food production to satisfy local and world market demand;
- (iii) Food shortages in the world market is giving us opportunity to increase food production especially in six regions, i.e. Ruvuma, Iringa, Mbeya, Rukwa, Kigoma and Morogoro, by ensuring the regions are given priority in timely provision of farm implements and inputs;
- (iv) Due to the crisis in the neighboring countries, there is need to be more aggressive in searching markets for our food and industrial products; and
- (v) Agricultural loans window at the Tanzania Investment Bank (TIB) is

another opportunity for investors in agriculture. TIB has about shillings 20 billion for that purpose. Preparation of procedures and regulations for applicants to get soft loans to finance agricultural projects will be fast tracked.

REFORM OF THE TAX STRUCTURE, FEES AND REVENUE MEASURES

69. **Mr. Speaker**, notwithstanding the impact of the current global economic crisis to our economy, the Government will undertake reform measures and enhance domestic revenue collection so as to be able to finance a large part of the expenditure from domestic revenue. These measures include expanding the tax base by reviewing tax laws and strengthening administration of tax exemptions with a view to reduce them and enhance administrative controls.

70. **Mr. Speaker**, the Government proposes to undertake tax reforms including review of rates of taxes, fees and other charges; under different revenue laws. The reforms are aimed at creating conducive business environment, reducing impact of the global economic crisis to our economy and simplification of tax administration.

71. **Mr. Speaker** the proposals have also taken into account tax exemptions granted to various beneficiaries like investors, including

those in the mining sector, Non -governmental organizations and religious organizations. The review of tax exemption policy indicated that such exemptions have been increasing each year reaching an average of 30 percent of total tax revenue equivalent to 3.5 percent of GDP in 2007/08. This level of exemption is the highest in the East African Community region. For example in Kenya tax exemption accounts for 1 percent of GDP while in Uganda it accounts for 0.4 percent of GDP. The increasing levels of tax exemption contribute to low revenue collection and thus weaken Government ability to finance social economic infrastructure and ultimately reduces the pace of improving well being of our people. Tax exemptions have also created loopholes for tax evasion and revenue leakage. In order to address this concern, the Government proposes to review tax laws granting tax exemptions and administrative procedures and controls with a view to reverse the increasing trend of the exemptions. The proposed amendments will cover the following tax laws:-

- (a) The Value Added Tax Act, CAP 148
- (b) The Income Tax Act, CAP 332
- (c) The Excise (Management & Tariff) Act, CAP 147
- (d) The Road and Fuels Tolls Act, CAP 220
- (e) Local Government Finance Act, CAP 290
- (f) The East African Community Customs Management Act, 2004
- (g) Government Notices granting tax exemptions

A. The Value Added Tax Act

72. **Mr. Speaker**, it is proposed to make the following amendments in the Value Added Tax Act CAP 148:-

- (i) Exempt VAT on heat insulated milk cooling tanks and aluminum jerry cans used for storage and collection of milk in the dairy industry in order to promote their use and thus improve the quality of milk;
- (ii) Exempt VAT on farm services of land preparation, cultivation, planting and harvesting in order to reduce production costs in agriculture. Currently agricultural implements, and fertilizers are VAT exempt;
- (iii) Extend the VAT Special Relief granted to Tanzania Defense Forces Duty Free Shops to include all Armed Forces. It is further proposed to impose administrative procedures for accessing the relief including publishing in the Government Gazette a list of eligible products to curb abuse of the relief;
- (iv) Limit the VAT Special Relief provided to water and sewerage authorities to only cover goods and services used for water and sewerage infrastructure development;
- (v) Abolish VAT exemption on air charter services as these are commercial services

and are therefore taxable like any other means of transport;

- (vi) Abolish VAT exemption on processed locally grown tea and coffee in order to bring equity with other processed agricultural products which are taxable. Currently unprocessed agricultural products are exempted from VAT;
- (vii) Abolish VAT exemption on electronic cash registers as these registers are being phased out and instead TRA is replacing them with electronic tax register;
- (viii) Abolish VAT Special Relief on supply of inputs, raw and packaging materials for manufacture of human medicines as local pharmaceutical manufacturers are already zero rated in the First Schedule. It is proposed that implementation of this measure starts on 1st January 2010 to provide time for the manufacturers to adjust without affecting their production;
- (ix) Abolish VAT exemption on leased buildings, (except for lease of residential buildings by National Housing Corporation and Registrar of Buildings) and serviced apartments, The measure will not affect ordinary renting of residential houses as the annual rent from this businesses will normally be below the VAT registration threshold;

- (x) Charge VAT on mobile services on phase value of vouchers at source and not on discounted value sold to wholesalers;
- (xi) Limit the VAT Special Relief given to mining companies to only cover prospecting and exploration activities; *
- (xii) Abolish VAT Special Relief on charitable community-based; or other non profit driven organizations or institutions and religious organizations. This measure will apply to all religious denominations including Muslims, Christians, Hindus etc. However, tools of worship shall continue to enjoy the relief;
- (xiii) Abolish the current practice of classifying goods intended for use in specific investments as capital goods (deemed capital goods) in order to provide tax relief to investors. For example investors in hotels import goods like bed linen and cutlery as deemed capital goods;
- (xiv) Reduce the VAT rate from 20 percent to 18 percent in order to minimize the impact of the global economic crisis to the economy; and
- (xv) Exempt VAT on the services of loading and unloading into local vessels of incoming cargo from outside the country provided that the initial service of unloading the

cargo from a foreign going ship at the first point of disembark was charged VAT. The measure is intended to encourage importers to use Tanga and Mtwara ports as a way to reduce congestion at the Dar es Salaam port.

The VAT measures together will reduce Government revenue by Shs. 45,078 million.

B. The Income Tax Act

73. **Mr. Speaker**, it is proposed to reduce the corporate income tax rate from 30% to 25% for listed companies in the Dar es Salaam Stock Exchange and issuing to the public at least 30% of its share capital in order to encourage more companies to go public and broaden corporate ownership in the country.

The Income Tax measure will reduce Government revenue by Shs. 3,992 million.

C. The Excise (Management & Tariff) Act

74. **Mr. Speaker**, it is proposed to make the following amendments in the Excise (Management & Tariff) Act CAP 147:-

- (i) Abolish the excise duty exemption granted to the mining companies as the Government is losing substantial amount of revenue from this exemption thus constraining its ability to provide basic services to the people;

- (ii) Charge excise duty on mobile phone services at the point of sale of scratch cards or airtime at its full face value rather than at the point where the actual use takes place;
- (iii) Adjust the specific excise duty rates on non petroleum products by 7.5 percent. The adjustment considered the average inflation rate for the period. The current and proposed rates are as follows:-
 - (a) Carbonated soft drinks from shillings 54 per litre to shillings 58 per litre;
 - (b) Beer made from local un-malted cereals from shillings 194 per litre to shillings. 209 per litre;
 - (c) Other beers from shillings 329 per litre to shillings 354 per litre;
 - (d) Wine produced with more than 25% imported grapes from shillings 1,053 per litre to shillings 1,132 per litre; and
 - (e) Spirits from shillings 1,561 per litre to shillings 1,678 per litre.
- (iv) The Excise Duty rates on cigarettes are as follows:-

- (a) Cigarettes without filter tip and containing domestic tobacco exceeding 75% from shillings 5,348 to Shs. 5,749 per mil;
- (b) Cigarettes with filter tip and containing domestic tobacco exceeding 75% from shillings 12,618 to shillings 13,564 per mil;
- (c) Other cigarettes not mentioned in (a) and (b) from shillings 22,915 to shillings 24,633 per mil;
- (d) Cut rag or cut filler from shillings 11,573 per kilogram to shillings 12,441 per kilogram; and
- (e) The excise duty rate on "cigars" remains at 30 percent.

The excise duty measures together are expected to increase Government revenue by Shs. 72,691 million.

D. The Road and Fuels Tolls Act

75. **Mr. Speaker**, it is proposed to abolish the partial fuel levy exemption granted to mining companies by revoking Government Notice No. 99 of 2005. The changes will affect mining companies entering into Mining Development Agreement (MDA) from 1 July, 2009. It is further proposed that the Government initiate contract

negotiations to remove the specific provision granting this exemption in the MDAs.

E. Local Government Finance Act,

76. **Mr. Speaker,** it is proposed to reduce the cap for charging produce cess from 5 percent of farm gate price to 3 percent in order to reduce the impact of global economic crisis to the farmers. However, it is proposed to start implementation of this measure in 2010/11 fiscal year to provide time for local governments to look for alternative sources of revenue.

F. The East African Community Customs Management Act

77. **Mr. Speaker,** proposals from Tanzania for amendment of the Common External Tariff rates were discussed together with those from Kenya, Uganda and Rwanda during the pre budget consultation meeting of the EAC Ministers for Finance held in Nairobi, Kenya on 20th May, 2009. The Ministers for Finance agreed to make the following changes in EAC Customs Management Act and Common External Tariff:-

- (i) Exempt import duty on heat insulated milk cooling tanks for dairy industry in order to promote their usage for hygienic collection of milk and thus improve quality of the milk;
- (ii) Tanzania to continue the stay of application of CET rate of 35 percent and apply 10

percent on wheat grain of HS codes 1001.90.20 and 1001.90.90 for one year as the wheat production in the region cannot meet demand;

- (iii) Tanzania to remove the 10 percent import duty on pharmaceuticals and start applying the CET rate of zero percent like other EAC Partner States. The Government expect that this measure will enable people to get medicines at affordable price;
- (iv) Tanzania to remove the 10 percent import duty rate on crude palm oil and start applying CET rate of 0 percent like other EAC Partner States. The measure will put domestic industries in the level playing field with their counterparts in East Africa;
- (v) Exempt import duty on industrial spare parts subject to conditions that will be developed by the Secretariat of the East African Community in collaboration with the Partner States. The measure intends to reduce the cost of production and promote investment in the industrial sector;
- (vi) Exempt import duty on four wheel drive vehicles specially designed and built for tourist purposes in order to promote tourist business in the region. The East African Community Secretariat has been directed to develop criteria and specification for eligible

tourist vehicles and conditions for managing the exemption;

- (vii) Exempt import duty on equipments and inputs, excluding motor vehicles, imported by a licensed company for direct and exclusive use in oil, gas or geothermal exploration and development upon recommendation by a competent authority of a Partner State;
- (viii) Exempt import duty on raw materials used for the manufacture of sanitary towels and tampons in order enable users to get these hygienic products at affordable price;
- (ix) Reduce import duty rate from 25 percent to 0 percent for asbestos fibers of HS codes 6812.80.00 and 6812.99.00 used for manufacture of brake linings and pads as these inputs are not available in the region;
- (x) Reduce import duty rate from 25 percent to 0 percent on television cameras, digital cameras and video camera recorders of HS code 8525.80.00 in order to promote filming industry and create employment and income for the youth;
- (xi) Reduce import duty rate on worn clothing from 45% or 30 US cents per kilo to 35 percent or 20 US cents per kilo whichever is higher for a period of one year;

- (xii) Increase import duty rate on yoghurt and other buttermilk of HS codes 0403.10.00 and 0403.90.00 from 25 percent to 60 percent to protect the dairy sector from stiff competition arising from importation of these products;
- (xiii) Grant duty remission on raw materials for use by paper and paperboard mills. Tanzania and Kenya will submit to the EAC Secretariat a list of manufacturers and quantities of the required raw materials;
- (xiv) Reduce import duty rate on light trucks of at least 5 tons carrying capacity under HS code 8704.22.90 from 25 percent to 10 percent and remove import duty on heavy trucks of more than 20 tons carrying capacity under HS codes 8704.23.90 for one year while verification mission is being undertaken to establish Kenya's capacity and price competitiveness in manufacturing of trucks in relation to demand and usage in the region; and
- (xv) Remove import duty rate on synthetic yarn in order to reduce production costs to the producers who uses synthetic yarn for blending with cotton yarn.

The import duty measures together will reduce Government revenue by Shs. 23,622 million.

G. Government Notices (GNs) granting Tax Exemptions

78. **Mr. Speaker**, it is proposed to revoke 405 government notices which grant tax exemption to private companies, non-governmental organization, religious organization, international institutions and completed Government sponsored projects in order to prevent erosion of tax revenue. Most of these GNs issued between 1964 and 2005 were found to have a number of shortfalls including not being specific on tenure of the exemption amounts to be exempted, and type of taxes exempted. In the event that any of the revoked GNs is still required, the beneficiary would be required to re-apply in line with existing laws and procedure.

H. Amendments of Rates for Non Tax Revenue

79. **Mr. Speaker**, it is proposed to review rates for various fees, levies, and charges collected by Ministries, Regions and Independent Government Departments in order to rationalize them with economic growth. Further, in an effort to rescue the tourist sector during this period of global economic crisis, it is proposed to reduce VISA fees for all category of vistor to USD 50.

I. Minor Amendments in Tax Laws

80. **Mr. Speaker**, it is further proposed to make minor amendments to various tax laws with a view to simplifying revenue collection.

J. Effective Date for Implementation of New Revenue Measures

81. **Mr. Speaker**, unless otherwise stated, the new revenue measures shall become effective on 1st July 2009.

THE STRUCTURE OF THE 2009/10 BUDGET

82. **Mr. Speaker**, during fiscal year 2009/10 the Government envisages to collect shillings 9,413,685 million (9.5 trillion), of which domestic revenue is shillings 5,096,016 million (5.1 trillion) and foreign resource is shillings 3,181,948 million (3.2 trillion). Furthermore, the Government expects to receive shillings 15 billion as a balance arising from the sale of its 21 percent shares in the National Microfinance Bank and shillings 1,082,669 million (1.1 trillion) will be borrowed from the domestic market to finance the Government budget including rollover of maturing bonds.

83. **Mr. Speaker**, during the fiscal year 2009/10 Government expenditure will be shillings 9,513,685 million (9.5 trillion), of which recurrent expenditure is shillings 6,688.254 million (6.7 trillion) and development expenditure is shillings 2,825,431 million (2.8 trillion). Shillings 1,857,403 million (1.9 trillion) for the

recurrent expenditure, will be externally financed through projects/programs and basket funds. The remaining balance of shillings 968,028 million for recurrent expenditure will be financed through domestic borrowing and General Budget Support.

84. **Mr. Speaker,** the budget frame is summarized as shown in the following table.

Budget Frame 2009/10

<u>Revenue</u>	<u>Shillings in Million</u>	
A. Domestic Revenue		5, 096,016
(i) Tax Revenue (TRA)	4,855,935	
(ii) Non Tax Revenue	240,081	
B. LGA Revenue		138,052
C. Foreign Loans and Grants including:		3,181,948
(i) General Budget Support	1,193,909	
(ii) Project Loans and Grants	1,073,170	
(iii) Basket Loans and Grants	572,927	
(iv) MDRI and MCA(T)	341,942	
D. Domestic Borrowing		1,082,669
E. Privatisation Proceeds (balance from NMB IPO)		15,000
TOTAL REVENUE		9,513,685
<u>Expenditure</u>		
F. Recurrent Expenditure		6,688,254
(i) Public Debt	1,523,024	
(ii) Ministries	3,476,242	
(iii) Regions	123,013	
(iv) Local Governments	1,565,973	
G. Development Expenditure		2,791,521
TOTAL EXPENDITURE		9,513,685

CONCLUSION

85. **Mr. Speaker**, notwithstanding the global economic crisis, I would like to assure your Esteemed House and Tanzanians that the 2009/10 budget will be implemented as planned. Based on, strategies outlined in this budget, emphasis will be on improving productivity in agriculture and efficiency in public expenditure. As I explained earlier, the global economic crisis will affect the rate of economic growth in 2009, such that, it is necessary to take deliberate measures to mitigate its impacts. The National Development Vision 2025 aims at achieving GDP growth rate of more than 8 percent, to be able to reduce poverty significantly and reach a middle income country status and better life for all. Therefore, each one of us is supposed to fully participate in productive activities. The Government will continue to closely monitor the key macroeconomic indicators to counter any exogenous shocks before they adversely affect our economy.

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

Table 1: Domestic Revenue Collection Trend, 2004/05-2009/10

	2004/05	2005/06	2006/07	2007/08	2008/09	2008/09 Likely Outcome	2009/10 Budget
	Actual	Actual	Actual	Actual	Budget		
Total domestic revenue	1,773,573.4	2,124,843.7	2,739,022.4	3,634,580.6	4,781,595.0	4,301,858.4	5,096,016.1
A. Tax revenue	1,615,284.9	1,946,432.6	2,529,439.4	3,359,249.8	4,497,070.0	4,052,062.1	4,855,934.9
1. Import duty	103,570.0	190,855.8	242,831.8	289,275.6	376,343.0	358,267.0	448,174.4
2. Excise Duty	237,950.7	261,550.3	520,078.1	660,888.2	908,022.0	798,998.4	993,790.7
3. Value added tax	681,036.1	803,024.6	831,627.9	1,042,489.7	1,268,003.5	1,204,380.2	1,400,189.1
4. Income tax	446,828.0	554,048.0	716,320.5	983,804.3	1,366,390.8	1,267,124.9	1,498,712.6
5. Other taxes	145,900.1	136,954.0	218,581.1	382,792.0	578,310.7	423,291.6	515,068.1
B. Nontax revenue	158,288.5	178,411.1	209,583.0	275,330.8	284,525.0	249,796.3	240,081.2
1. Parastatal dividends	15,587.1	13,232.2	10,567.5	58,253.5	19,799.0	19,082.0	25,597.0
2. Ministries and regions	106,025.3	124,642.2	131,080.1	172,797.3	128,702.1	170,195.4	12,777.5
3. Other nontax revenue	36,676.1	40,536.7	67,935.4	44,280.0	83,023.9	7,518.9	201,706.7
4. EPA Funds					53,000	53,000	

Source: Ministry of Finance and Economic Affairs

Table 2a: Budget Frame for 2004/05 - 2009/10

	TSh Million			
	2004/05 Actual	2006/06 Actual	2008/07 Actual	2009/10 Budget
I. TOTAL RESOURCES	3,364,730	4,131,946	5,269,042	7,271,130
Domestic revenue /1	1,773,709	2,124,844	3,634,581	4,781,595
LGAs Own Sources	429,676	588,702	980,452	812,113
Programme loans and grants	708,906	747,514	844,970	1,083,808
Project loans and grants	162,939	82,302	200,628	212,656
Basket support Loans	159,168	217,450	197,953	206,126
Basket support Grants	72,309	76,389	0	0
HIPC relief - Multilateral			114,200	66,322
MDRI (IMF)			0	68,511
MCA (T) USA	47,648	219,241	19,795	0
Non-Bank Borrowing	97,307	129,645	-316,755	249,313
Bank Borrowing	-86,929	-87,450	-377,192	0
Adjustment to Cash	0	33,309	0	45,000
Privatisation Funds				15,000
II. TOTAL EXPENDITURE	3,364,730	4,131,946	5,269,042	7,271,130
RECURRENT EXPENDITURE	2,124,580	2,788,580	3,458,070	4,779,650
CFS	409,411	572,500	583,799	681,911
Debt service	250,379	345,579	324,880	358,365
Interest	174,763	218,862	264,833	285,153
Amortisation	140,937	126,717	60,047	73,212
Others	159,036	228,921	258,919	323,546
Recurrent Exp (excl. CFS)	1,715,169	2,216,080	2,874,272	4,097,739
a/w Salaries and wages	550,554	656,789	1,134,709	1,596,214
Designated			0	0
LGAs Own Sources	1,164,615	1,559,291	1,739,563	2,501,526
Other Charges				138,052
DEVELOPMENT EXPENDITURE	1,240,150	1,343,366	1,810,972	2,491,480
Local	239,651	296,100	567,421	940,380
Foreign	1,000,499	1,047,266	1,243,551	1,551,100
GDP mp	14,968,443	16,953,281	22,819,484	26,704,390
				27,061,899
				31,108,881

1/ Budget for 2008/09 includes EPA Funds

Source: Ministry of Finance and Economic Affairs

Table 2b: Budget Frame for 2004/05 - 2009/10
As a percent of GDP

	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Budget	2008/09 Likely	2009/10 Budget
I. TOTAL RESOURCES							
Domestic revenue /1	22.5%	24.4%	23.2%	23.1%	27.2%	26.8%	30.6%
LGA's Own Sources	11.8%	12.5%	14.1%	15.9%	17.9%	15.9%	16.4%
Programme loans and grants	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Project loans and grants	2.9%	3.5%	3.8%	4.3%	3.0%	3.9%	3.8%
Basket support Loans	4.7%	4.4%	3.5%	3.7%	4.0%	4.0%	3.4%
Basket support Grants	1.1%	0.5%	0.2%	0.9%	0.8%	0.8%	0.9%
HIPC relief - Multilateral	1.1%	1.3%	0.6%	0.9%	0.8%	0.7%	0.8%
MDRI (IMF)	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
MCA (T) USA	0.0%	0.0%	0.6%	0.5%	0.2%	0.2%	0.4%
Non-Bank Borrowing	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.7%
Bank Borrowing	0.3%	1.3%	1.1%	-0.1%	0.0%	0.0%	1.9%
Adjustment to Cash	0.7%	0.8%	0.1%	-1.4%	0.0%	0.9%	1.6%
Privatisation Funds	-0.6%	-0.5%	-0.9%	-1.7%	0.0%	0.0%	0.0%
	0.0%	0.2%	0.0%	0.0%	0.2%	0.2%	0.0%
II. TOTAL EXPENDITURE							
RECURRENT EXPENDITURE	22.5%	24.4%	23.2%	23.1%	27.2%	26.8%	30.6%
CFS	14.2%	16.4%	16.3%	15.2%	17.9%	17.7%	21.5%
Debt service	2.7%	3.4%	2.4%	2.6%	2.6%	2.5%	4.9%
Interest	1.7%	2.0%	1.3%	1.4%	1.4%	1.3%	3.4%
Amortisation	1.2%	1.3%	1.1%	1.2%	1.1%	1.1%	1.3%
Others	0.9%	0.7%	0.2%	0.3%	0.3%	0.3%	2.1%
	1.1%	1.3%	1.2%	1.1%	1.2%	1.2%	1.5%
Recurrent Exp. (excl. CFS)	11.5%	13.1%	13.9%	12.6%	15.3%	15.1%	16.6%
o/w Salaries and wages	3.7%	3.9%	5.0%	5.0%	5.9%	5.9%	5.7%
Designated	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%
LGA's Own Sources	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Other Charges	7.8%	9.2%	8.9%	7.6%	9.5%	9.2%	9.4%
DEVELOPMENT EXPENDITURE							
Local	8.3%	7.9%	6.9%	7.9%	9.3%	9.2%	9.1%
Foreign	1.5%	1.7%	2.6%	2.5%	3.5%	3.5%	3.1%
	6.7%	6.2%	4.3%	5.4%	5.8%	5.7%	6.0%

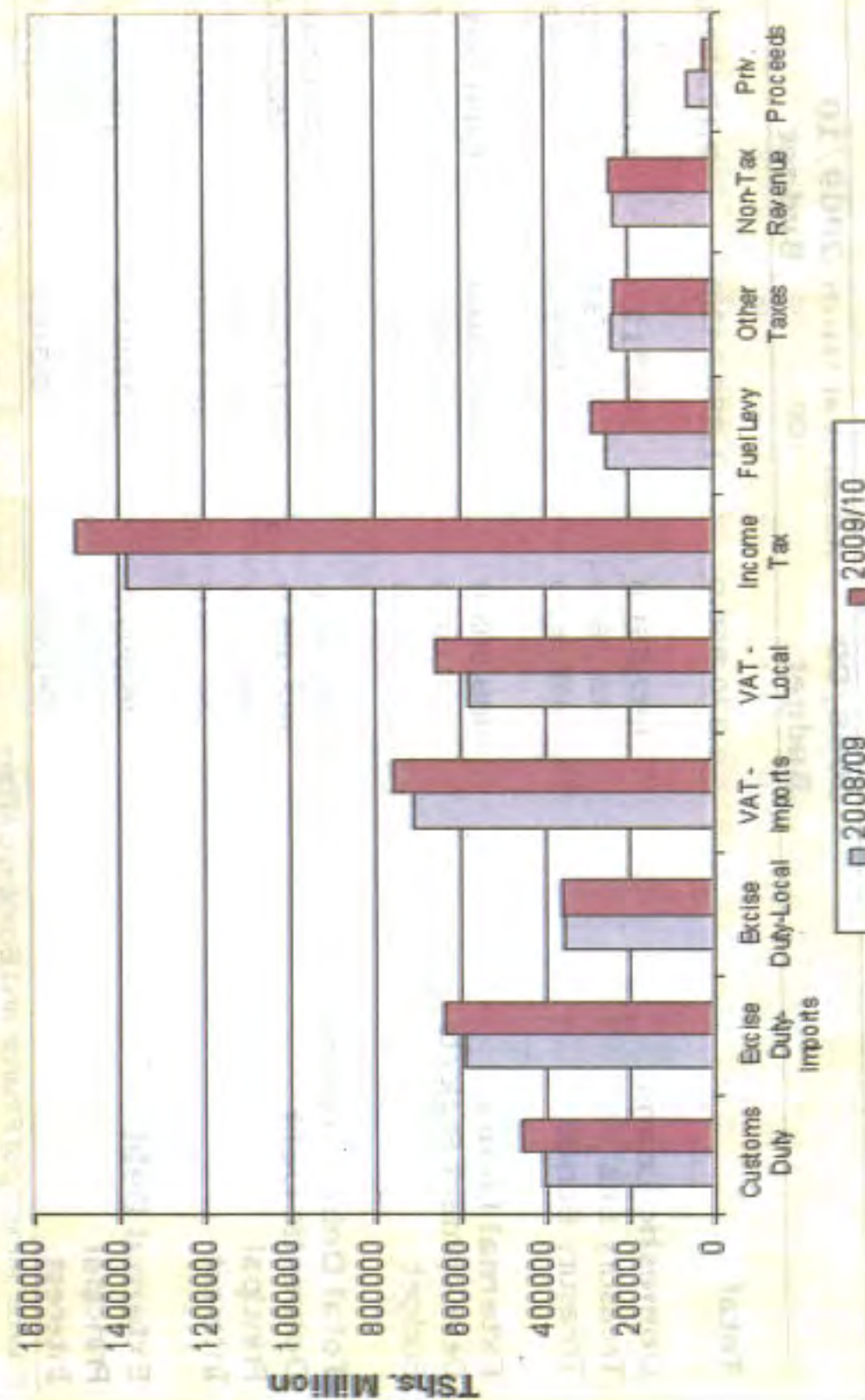
Source: Ministry of Finance and Economic Affairs

Table 3: External and Domestic Loan (TShs Million)

	2008/09 Budget	Actual as at March 09	2009/10 Budget
Total	1,870,856.0	1,983,242.0	2,173,670.0
Domestic Loans	882,551.0	392,712.0	1,082,669.0
Treasury Bills	426,584.0	219,733.1	202,500.0
Treasury Bonds	455,967.0	172,978.9	880,169.0
External Loans	988,305.0	1,590,530.0	1,091,001.0
Development Projects	720,097.0	649,880.0	722,537.0
Budget	268,208.0	940,650.0	368,464.0
Total Debt Services	658,785.9	646,840.7	1,059,238.2
Domestic Debt	582,086.9	634,142.8	952,386.3
Principal	334,327.9	489,749.9	597,476.3
Interest	247,759.0	144,393.0	354,910.0
External Debt	76,699.0	12,697.9	106,851.9
Principal	42,099.0	3,349.2	53,935.7
Interest	34,600.0	9,348.7	52,916.2

Source: Ministry of Finance and Economic Affairs

Figure 1: Composition of Domestic Revenue 2008/09 - 2009/10



**Figure 2: Domestic Revenue as a Percent of GDP
1999/00 - 2009/10**

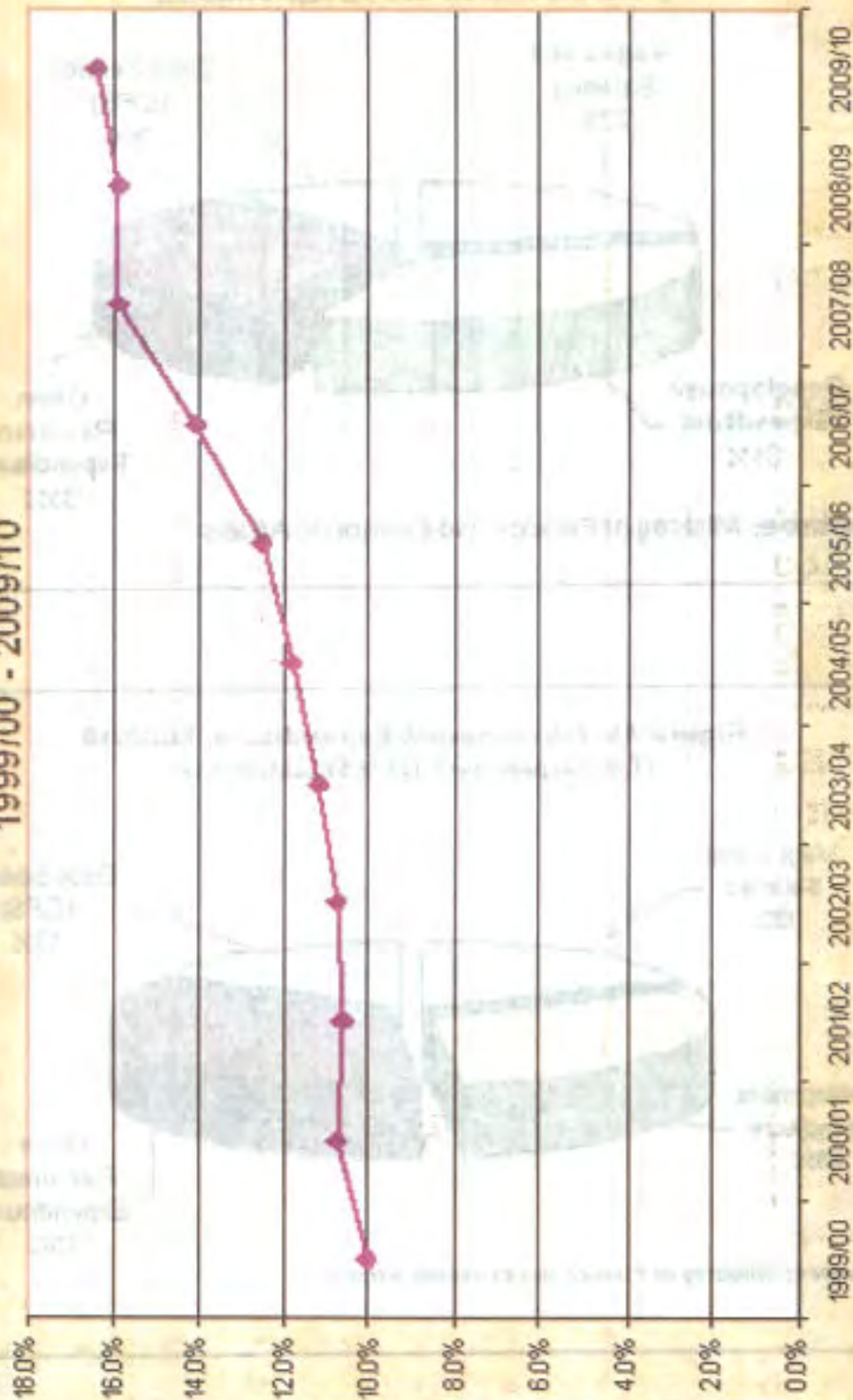
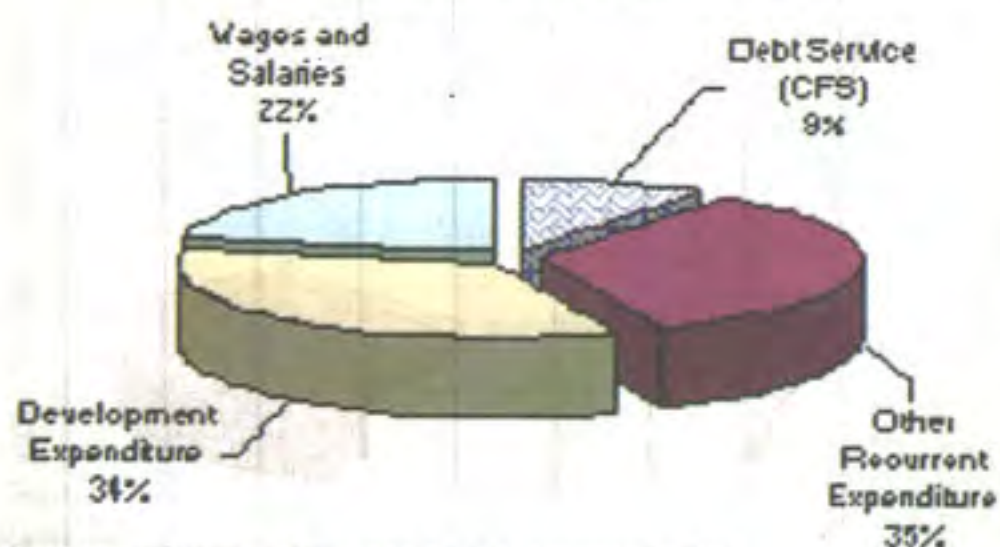
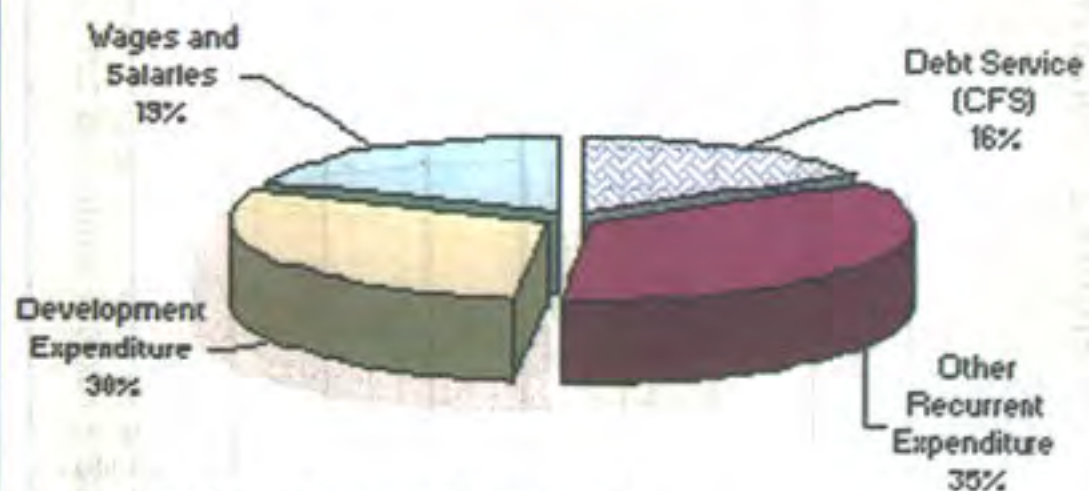


Figure 4a: Government Expenditure, 2008/09
(Total expenditure Tsh 7,265,316 million)



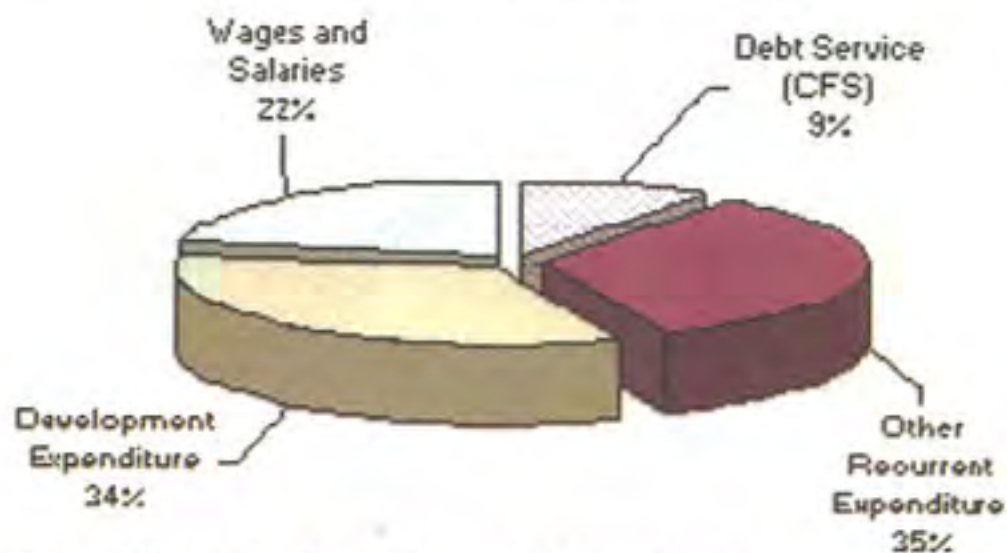
Source: Ministry of Finance and Economic Affairs

Figure 4b: Government Expenditure, 2009/10
(Total expenditure Tsh 9,513,625 million)



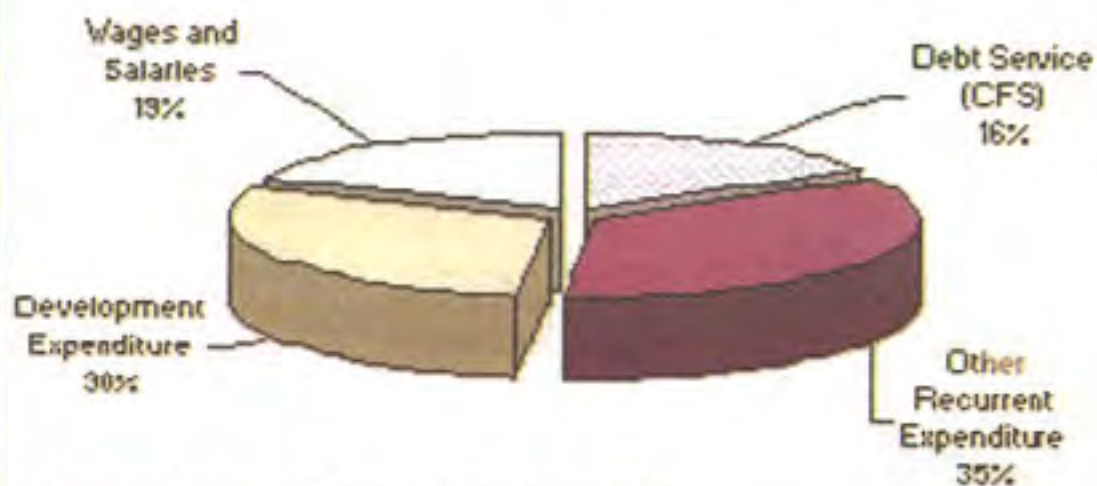
Source: Ministry of Finance and Economic Affairs

Figure 4a: Government Expenditure, 2008/09
(Total expenditure Tsh 7,265,316 million)



Source: Ministry of Finance and Economic Affairs

Figure 4b: Government Expenditure, 2009/10
(Total expenditure Tsh 9,513,685 million)



Source: Ministry of Finance and Economic Affairs

