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Speech by the Minister of Finance Hon.Daniel N.Yona (MP). Introducing to the National Assembly the estimates of public revenue and expenditure for the financial year 1997-98

The United Republic of Tanzania

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THE UNITED REPUBLIC OF TANZANIA

**Speech by the Minister for Finance
Hon. Daniel N. Yona (MP.)
Introducing to the National Assembly
on 19th June, 1997 the Estimates of Public
Revenue and Expenditure for the Financial
Year 1997/98**

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**SPEECH BY THE MINISTER FOR FINANCE
HON. DANIEL N. YONA (MP)
INTRODUCING TO THE NATIONAL ASSEMBLY
ON JUNE 19, 1997 THE ESTIMATES OF PUBLIC
REVENUE AND EXPENDITURE FOR THE
FINANCIAL YEAR 1997/98**

Mr. Speaker,

I beg to move that this House now resolves itself into a Committee of Supply in order to debate and approve the estimates of Government Revenue and Expenditure for the Financial Year 1997/98.

2. **Mr. Speaker,** I would like, at the outset to express my gratitude to all those who were involved and participated in the preparation of this Budget. As we all know, preparation of the Government Budget is quite an involving exercise requiring the participation of many individuals and institutions. I would like, therefore, at this juncture, to take this opportunity to thank all my colleagues and staff of the Ministry of Finance, particularly the Deputy Minister for Finance, Hon. A. Khatib, the Deputy Minister for Finance, Hon. M. Mbega, and the Principal Secretary, Treasury, Mr. R.O.S. Mollel. I also wish to thank the Planning Commission and Public Sector Reform, Ministries, Government Departments, Regions and various institutions for their valuable contributions towards the completion of this Budget.

3. Furthermore, I would like to pay tribute to the Chief Parliamentary Draftsman for his tireless efforts in the preparation of various Bills connected with this Budget. I would also like to take this opportunity to express my appreciation to the Parliamentary Committees, and, in particular, the Finance and Economic Committee of this Parliament under the Chairmanship of Hon. Juma Akukweti, Member of Parliament for Tunduru. The Finance and Economic Committee has immensely contributed to this Budget through their thorough scrutiny of the various proposals in the Budget and more so for their wise advice which the Government took into account in the Budget preparation. I thank the Government Printer and his staff for the timely publication of this speech and other related documents.

4. Mr. Speaker, the 1997/98 Budget, as I will elaborate in this speech, is a Budget of cooperation and self reliance; with your permission, therefore, allow me also to express my sincere gratitude to the Business Community, Industrialist and Researchers who since last year, have been giving valuable advice and recommendations for a sound budget. The Government did in the 1996/97 Budget incorporate some of the recommendations from the private sector and it is the desire of the Government to continue reviewing and implementing the others in 1997/98 Budget and in subsequent years. The Government appreciates these recommendations and will continue encouraging the private sector, individuals and various institutions to give recommendations on how best to boost Government revenue collections and strengthen expenditure control.

The Government will receive such recommendations, critically evaluate and implement them where deemed valuable in the best interest of the nation. The Government is determined, during 1997/98 and in future, to continue taking measures in creating a sustainable basis for collection of tax and other revenues sufficient to cover all critical expenditures without depending on donors or borrowing from banks.

5. **Mr. Speaker**, this is the second Budget Session of the Parliament since the Third Phase Government came to power, following the General Election in October, 1995. Since the last Parliament Budget session, there have been a number of changes in your House. During this period, we have lost a number of Members of Parliament namely, the late Hon. Professor Nicas Mahinda former Member of Parliament for Morogoro North, Hon. Malaki Lupondije former Member of Parliament for Magu and the late Hon. Horace Kolimba former Member of Parliament for Ludewa. All of them had made valuable contributions in this Parliament. May God rest their souls in Eternal Peace. Yet there are Members of Parliament who have lost their Parliamentary seats on various accounts. These include Mr. Arcado D. Ntagazwa, former Member of Parliament for Muhambwe, Mr. Stephen Wassira, former Member of Parliament for Bunda, Mr. Paul N. Makolo, former Member of Parliament for Kishapu, Mr. Sebastian Kanga, former Member of Parliament for Kahama and Mr. Ally Kihyo, former Member of Parliament for Temeke. I wish to recognise their valuable contributions when they were in Parliament and wish them all the best in whatever they are doing out of the Parliament for the development of the nation.

6. **Mr. Speaker,** the Electoral Commission has successfully organised by-elections to fill the various vacancies in the Parliament. In that endeavour, four new Members of Parliament have been elected. They are, Hon. Augustine Lyatonga Mrema, Member of Parliament for Temeke, Hon. John Momose Cheyo, Member of Parliament for Magu, Hon. Suleiman Ahmed Sadiq, Member of Parliament for Morogoro North and Hon. Professor Crispin Haule Che Mponda, Member of Parliament for Ludewa. I wish to take this opportunity to congratulate them all for being elected Members of Parliament and welcome them to this Budget Session, in which they are participating for the first time.

7. **Mr. Speaker,** in addition to what has happened in the Parliament during this financial year, the Nation had suffered a long drought which has severely affected agricultural output and caused deaths to a large number of livestock. Also, industrial production was severely constrained by scarcity of water and frequent power shortages. This had also been the case for household water availability for most of the urban as well as rural areas in the whole country. Yet, at the end of the drought, there have been floods experienced in some parts of the country causing loss of lives to people and property. This situation further aggravated the food situation in the affected areas, damaged roads and other properties. These developments signify the need for the Nation to strengthen preventive measures to combat the effects of such calamities in the future.

REVIEW OF IMPLEMENTATION OF 1996/97 POLICIES

8. **Mr. Speaker**, the Vice Chairman and Minister of State Planning and Parastatal Reform Commission, Hon. Nasoro Malocho, in his address to this House this morning, presented an elaborate analysis of our country's economic performance for 1996/97 and the objectives and policies for 1997/98. It is my turn now to give you a brief evaluation of the implementation of the 1996/97 Budget.

9. **Mr. Speaker**, in the 1996/97 Budget speech, the Government outlined various measures for implementation in the areas of revenue and expenditure, loans and grants, financial sector, parastatal sector, external sector, private sector and civil service, all aimed at the attainment of the objectives of economic and social reforms. The review of the implementation of these measures show encouraging achievements in almost all aspects.

GOVERNMENT BUDGET

10. **Mr. Speaker**, the 1996/97 Budget was prepared on the basis of the following objectives and targets:-

- (a) A GDP growth rate of 4.7 percent.
- (b) A target total revenue collection of not less than 15.57 percent of GDP, that is Tshs. 563,756.4 million.

- (c) Reduction in the average rate of inflation from 23 percent estimated by June, 1996 to 15 percent during 1996/97.
- (d) A recurrent expenditure target (excluding debt amortisation) of 15.11 percent of GDP.
- (e) A Central Government recurrent savings of not less than 0.45 of GDP from 1996/97.
- (f) A net repayment to the banking system to the tune of 0.45 percent of GDP, that is 16,293.56 million.
- (g) reduction of outstanding bills in government ministries, departments and in the regions and to stop accumulation of new arrears.
- (h) substantial reduction in the use of donor funds for financing recurrent expenditures, including salaries and other charges.
- (i) continue negotiations with the IMF, the World Bank, and donors in order to reach an agreement and start implementation of ESAF Programme during 1996/97.

REVENUE

11. **Mr. Speaker**, to improve revenue collection, the Government took various measures including the establishment of the Tanzania Revenue Authority (TRA),

widening of the tax base and adjustment of some tax rates. The Government also planned to make a review of tax exemptions with a view to substantially reducing them.

12. **Mr. Speaker**, implementation of the revenue enhancing measures has been encouraging. The Tanzania Revenue Authority (TRA) started operations on July 1st, 1996. Likewise, some changes to the tax structure were announced in the 1996 Finance Bill, with a view to widening the tax base and improving tax administration.

13. The Government also continued consolidating its grip on and monitoring of Customs Bonded Warehouses by closing those which provided loopholes for tax evasion on imported goods such as sugar, cooking oils, rice, wheat flour and khanga, emanating from weaknesses in tax administration. Moreover, the Union Government and the Government of Zanzibar reached an agreement on the harmonization of tax rates for these commodities in February, 1997.

14. **Mr. Speaker**, the various measures taken on revenue area have led to an improvement in the revenue collection trend. Total revenue collection for the first nine months of the year (July, 1996 - March, 1997) stood at Tshs. 424,991.6 million compared to projection of Tshs. 414,102.0 million. Of this amount, Tshs. 370,555.5 million were tax revenues and Tshs. 54,436.1 non tax revenues. For the period July - December, 1996 TRA collected Tshs. 254,374 million compared with an estimate of Tshs. 241,710.8 million, this being an increase of Tshs. 12,663.6 million or 5.2 percent on the estimate. However, for the January - March, 1997 period, Tanzania Revenue

Authority collected Tshs. 124,926.9 million compared to an estimate of Tshs. 138,478.3 million or 9.8 percent shortfall. The revenue collection trend from January, 1997 indicates that the revised target of Tshs. 571,956.4 million may not be met. The likely out-turn of revenue collection for the whole fiscal year is Tshs. 556,485.6 million being a shortfall of Tshs. 24,551.3 million or 2.7 percent below the revised target. The expected shortfall is due to a combination of factors, including slackening of imports; and decline in domestic industrial production.

EXPENDITURE

15. **Mr. Speaker,** regarding expenditure, the Government continued with the implementation of expenditure control measures; including among others, the monthly cash budget with allocations to high priority areas based on revenue collected, retrenchment of excess employees, freezing of employment and consolidating various fringe benefits into salaries. In addition, the Government introduced a new control system to check against slippage on the monthly payroll adjustments made by employers. In exercising more expenditure control measures, a Central Payment System (CPO) was established with 15 ministries receiving all payments from one central point in order to efficiently monitor and receive reports on expenditure. This system, has to a large extent, helped to reduce expenditure overruns especially in wage bill. The expenditure trend from July, 1996 to March, 1997 is encouraging. Out of Tshs. 434,809.1 million spent during this period, Tshs. 149,875.0 million was for salaries, Tshs. 167,671.3 million for servicing Government Debt, and Tshs. 117,362.8 million financed other charges

(OC). It is estimated that by the end of the financial year total expenditure will reach Tshs. 581.609.5 million; which will be 92 per cent of the approved estimates of Tshs. 631,906 million for 1996/97.

16. **Mr. Speaker**, despite the favourable expenditure performance, the resources allocated for "other charges" were insufficient to cover the envisaged Government commitments largely because of the need to service the Government debt and the large Wage Bill. Even with this encouraging trend, funds allocated were not sufficient to pay all accumulated bills by Ministries, independent Government Departments and the regions. Due to the limited financial resources, it was inevitable that the Government had to come to a debt set-off arrangement with major parastatals such as TANESCO and TTCL. The Government has instructed all Accounting Officers of Ministries, independent Government departments and institutions to exercise strict control on telephone and electricity use in order to avoid future accumulation of unpaid bills.

DEVELOPMENT BUDGET

17. **Mr. Speaker**, The 1996/97 Annual Development Budget could not effectively be implemented due to shortage of funds. Indeed, this has been the case for the past two years. Of the approved budget of Tshs. 27,429.0

million for local funds, only Shs. 2,765.2 million was released. As a result, external funds disbursed were only Shs. 16,263.8 million out of the planned Shs. 99,561.4 million. In spite of this shortfall, expenditure was directed to high priority areas under the annual plan, namely roads, water, education, health and security. The Government managed to clear only a portion of the debts that accrued during the 1995/96 Development Plan from the funds allocated in the 1996/97 Budget.

18. **Mr. Speaker,** the limited local funds released for development projects should also be looked at against the background of the large number of projects under implementation. In line with the objectives of Government reforming its expenditures on priority activities, and ensuring the sustainability of development projects, particularly in the context of reduced aid - dependence, the Government intends to reduce further the number of projects to the level that will be comfortably accommodated by Government Budget.

LOANS AND GRANTS

19. **Mr. Speaker,** it will be recalled that the flow of foreign aid has not been smooth for some years due to difficulties experienced in meeting agreed benchmarks with IMF and the World Bank and also due to issues of governance raised by donors. However, since coming to power, the Third Phase Government has taken deliberate policy actions to enforce economic, social as well as governance reforms which have resulted in some improvement in the in flow of aid. As a result, the Government has received a total of Tshs. 67,231.9 million

for the period of July, 1996 to March, 1997 from donors in support of the budget. Also in November, 1996 the Government received a total of Tshs. 22,200.0 million from the International Monetary Fund (IMF) as first tranche of Enhanced Structural Adjustment Facility (ESAF).

20. **Mr. Speaker**, due to good performance of the Third Phase Government in economic reforms, the International Monetary Fund again provided Tshs. 21,245.0 million in April this year, which is the second tranche under the first annual programme of ESAF. The Government has concluded negotiations with the World Bank for a structural adjustment credit and continues to discuss with donors on bilateral basis on future co-operation.

DOMESTIC DEBT

Mr. Speaker, the Government did not borrow from domestic banks during the period July, 1996 - March, 1997, instead it made a net debt reduction to the banking system of

Tshs. 18,239.6 million. This has been facilitated by improvements in budget management. Accordingly, this stance will be maintained to the end of this financial year, and our target is to further reduce the level of outstanding bank borrowing instead of borrowing as was the case in previous years.

THE FINANCIAL SECTOR

22. **Mr. Speaker,** a stable and effective financial sector is key for a sustained national economic development as its performance affects both economic and social sectors. In an effort to reform the financial sector, the Government continues to implement measures aimed at controlling the growth of money supply largely through effective control of the Government Budget which has led to the reduction in inflation. Further, the Government will continue with the restructuring of the financial sector with the aim of enhancing efficiency. The Government will proceed with the divestiture of the National Bank of Commerce and encourage the entry of new private banks as well as other financial institutions. Emphasis will be placed on extending financial services to the rural population as well as to urban small scale and micro-enterprises.

EXTERNAL SECTOR

23. **Mr. Speaker,** The Balance of Payments position has continued to strengthen in 1996/97 with overall export performance showing encouraging growth. Exports increased from US\$ 682.92 million in 1995 to US\$ 761.67 million in 1996. Traditional goods rose by 17 percent while non traditional exports increased by 13 percent. Favourable export prices as well as higher export volumes for the majority of primary commodities were the force behind the recorded improvement in exports.

24. Imports in 1996 decreased by about 10.0 percent from US\$ 1,340.67 million in 1995 to US\$ 1,212.63 million in 1996. The decline in imports was mainly reflected in capital goods and raw materials for industries. The reasons behind the slackening in imports include the reduced disbursement of donor-project funds.

THE PARASTATAL SECTOR

25. **Mr. Speaker,** many parastatal institutions are burdened with under capitalization, indebtedness and cash flow problems. The Government has continued with the divestiture programme to improve efficiency and reduce fiscal burden of the parastatal sector. In the 1996/97 Budget Speech the Government had undertaken to finalise procedures for the establishment of the Privatization Fund, a vehicle intended to enable nationals to acquire shares in the privatized parastatals. I wish to report to your esteemed Parliament that a legislation to establish the Privatization Fund was enacted by this Parliament in April 1997, and implementation procedures are underway.

26. **Mr. Speaker**, the divestiture programme has been facing a number of problems, amongst them, the debts accumulated by most parastatals. The debts can be grouped in seven categories as follows:

- (a) Loans and donor-grants received by Government and on-lent to parastatal organisations.
- (b) Debts related to Commodity Import Support (CIS) availed to parastatal organisations through the Government for procurement of raw materials and spare parts.
- (c) Taxes collected by parastatal organisations on behalf of Government but never paid to the Government.
- (d) Debts related to bridging finance.
- (e) Debts related to Government Guarantees.
- (f) Other commercial loans related to commodities or services rendered by institutions like NUWA, (now DAWASA), TTCL, TANESCO, TRC, THA etc.

This problem of indebtedness is constraining the pace of divestiture programme of the parastatal sector.

27. **Mr. Speaker,** as you are aware, the privatisation exercise is being executed by the Parastatal Sector Reform Commission (PSRC). Since its establishment in 1993, a total of 142 parastatal organisations have been privatised. The Government has earned a total of US\$ 166.9 million in foreign currency and Tshs. 15,800 million in local currency from the sale of shares. A total of Tshs. 5,688 million has also been received as dividends from parastatal organisations which were involved in joint venture between the Government and investors from abroad and within the country. Though much has been done, there is still a lot of work ahead, taking into account the size of debts and the ability of Government to service debts of the privatised parastatals.

PRIVATE SECTOR

28. **Mr. Speaker,** the Private Sector is steadily gaining importance in the economic development of our country, both in terms of contribution through privatisation of parastatal organisations and in new investments in various sectors of the economy. The Government will continue to encourage expansion of this sector by improving the enabling environment to further attract foreign as well as local investors. Measures will include reforming the tax regime, improving infrastructure and modernising civil services. In this connection, the Government has been involving various private sector institutions such as the Tanzania Chamber of Commerce, Industries and Agriculture (TCCIA) and Confederation of Tanzania Industries (CTI) to obtain views on how to strengthen the private sector. Consistent with these measures, the Government has reviewed the Investment

Promotion Policy and Act of 1992 with a view to eliminating existing bottlenecks that hamper flow of investment. Furthermore, it is envisaged that the establishment of the Dar es salaam Stock Exchange and the Privatization Fund would enable the domestic private sector to buy shares from parastatal organisations and companies in which Government still holds shares.

EXTERNAL AND DOMESTIC DEBT

29. **Mr. Speaker**, during the fiscal year 1996/97, the Government took a number of steps geared towards effective control of debt so as to improve economic management. The focus was directed towards reduction of the debt size and debt service burden which stood at Tshs. 4,570,686 million (Tshs. 4.57 trillion) as of end March, 1997. Out of this debt, Tshs. 3,896,580 million (Tshs. 3.89 trillion) is external and Tshs. 674,106 million is domestic debt. The Government, in cognisant of this debt burden, has formed a technical Task Force of experts to work on a debt strategy. Furthermore, the Government would give priority in debt servicing to multilateral institutions, Paris Club Creditors and other creditor countries which would comply with the Paris Club terms. It is my expectation that by establishing a track record in meeting debt obligations, the Government can convince creditors to write off remaining debts. With regard to the small private debt, the Government is finalizing arrangements with the World Bank for a Debt Buy Back operation.

30. **Mr. Speaker**, I would like to inform your esteemed Parliament that the Government, as at the end of December, 1996 did manage to pay off (actual debt service) USD 211.9 million to external creditors and debt servicing is expected to reach USD 422.428 million by end of December, 1997.

EAST AFRICAN COOPERATION

31. **Mr. Speaker**, Tanzania's co-operation with the East African countries has now been given a new impetus following the launching of the East African Co-operation Strategy 1997 - 2000 by the Presidents of our countries of Tanzania, Kenya and Uganda on 29th April, 1997 at Arusha. In addition to the launching of the East African Co-operation Strategy, the Heads of State also inaugurated a new flag of co-operation and new travel document for the citizens of East African countries. Furthermore, the experts from the three East African countries are in the process of exchanging views and ideas with regard to the harmonisation of fiscal and monetary policies, matters concerning immigration and banking procedures, stock markets etc. These steps are necessary in providing the environment for meeting the expectations of the peoples of Tanzania, Kenya and Uganda.

COOPERATION WITHIN SOUTHERN AFRICA DEVELOPMENT COMMUNITY (SADC) AND COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA (COMESA)

32. **Mr. Speaker**, as you are aware, Tanzania is also a member of the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The main objective of co-operation within these institutions is to build up a strong market for stimulating social and economic development of member states. Our country has a greater opportunity of benefiting from this co-operation. It is the Government's intention to encourage and involve private sector participation through their respective organisations and other grass-root institutions in the effort to build capacity and vision which would enable the country to benefit commercially and economically. We need to be more strategic in our approach, otherwise we would find ourselves being used for the benefit of other member states. The main strategy for achieving our ambition is to widen investment avenues in the productive sectors especially in areas where we have comparative advantage and to be more aggressive in marketing our endowment.

CIVIL SERVICE REMUNERATION

33. **Mr. Speaker**, the Government has been regularly reviewing salaries of her employees. For the financial year 1996/97 the Government regulated the salaries of her employees in an effort to improve remuneration and improve the standards of living. The Government will continue to take similar measures to improve the welfare of Civil Servants in the forthcoming budget taking into consideration the financial ability of the Government.

BASIS FOR THE 1997/98 BUDGET

34. Mr. Speaker, the implementation of 1996/97 fiscal policy has revealed the following:-

- (a) The need to increasingly rely on our own resources to meet necessary expenditures as the availability of foreign aid is increasingly becoming unpredictable and declining.
- (b) The cost of running the current Government structure is still too large compared to Government's financial capability.
- (c) The size of debt burden is colossal and threatens to erode Government's ability to provide social services, yet, failure to service due debts erodes the credibility of the nation. Furthermore, non-payment for goods provided by the local suppliers hinders the development of local business and the economy as a whole.
- (d) The number of development projects in the existing development plan is too big to be adequately funded by Government.
- (e) The pay of civil service is still substantially low despite the effort of Government to increase salaries each year.

35. **Mr. Speaker,** The 1997/98 Budget Frame has been prepared against the background of the factors listed above, and in line with the economic objectives outlines this morning by the Vice Chairman of the Planning Commission and Minister of State Planning and Public Sector Reform. In summary, the main economic targets for 1997/98 for the purpose of budgetary projections are as follows:-

- (a) A GDP growth rate of 5%;
- (b) Achieving average rate of inflation of 10% by end of June, 1998;
- (c) Reduction in the current account deficit;
- (d) Government to be more self reliant in her budget.

36. Cognisance of the broad economic targets mentioned above, the 1997/98 Budget frame has been prepared on the basis of the following:-

- (a) To collect total revenue of Tshs. 695,300 million, equivalent to 17.1.% of GDP
- (b) A recurrent expenditure target of Tshs. 666,842.6 million, equivalent to 16.4% of GDP.
- (c) A saving of Tshs 76,612 million on recurrent budget (excluding amortization) equivalent to 1.9% of GDP.
- (d) Reduction in Government indebtedness to the banking system by Tshs. 59,695 million which is equivalent to 1.5% of GDP.

- (e) Reduction of outstanding bills in the Government ministries, independent Government departments and in the regions and stop building up of new debts.

POLICIES FOR THE 1997/98 BUDGET

37. **Mr. Speaker**, having explained the basis for the 1997/98 Budget, allow me now to elaborate the various aspects of fiscal policy for 1997/98.

38. **Mr. Speaker**, the Government Budget proposals for 1997/98 have incorporated policies and measures in the areas of revenue, expenditure, loans and grants as well as domestic and external debts. The main objective of these measures is to improve the Budget as an effective instrument to implement and achieve our social and economic development objectives. The Budget has been prepared with a view to raising domestic revenues to fully finance recurrent expenditures and local financing requirements for priority development projects. External loans and grants will only be directed to financing special expenditure requirements such as retrenchment, costs of the census and priority development projects.

Revenue

39. **Mr. Speaker,** As regards revenue for 1997/98 the Government will implement various measures aimed at strengthening the revenue base. The fiscal policies will be reviewed towards promoting domestic production without negative effects on revenue collection. The main thrust will be the creation of a conducive and enabling environment for investment, industrial production, and provision of basic social and economic services. Some taxes will be abolished and some tax rates will be reviewed. In order to ensure that all sectors contribute to the revenue effort and in furthering the spirit of self-reliance, the Government will introduce taxes on goods and services that were not subjected to taxation before. Moreover, the Government will ensure that preparations are completed for the introduction of Value Added Tax (VAT) on 1st July, 1998. Details on policies and revenue measures will be elaborated later.

Expenditure

40. **Mr. Speaker,** As for expenditure, the Government will continue to pursue measures adopted in 1996/97 Financial Year in order to consolidate the achievements already attained. These measures include the monthly cash budgeting with allocation to priority areas only. It should be recognised that the cash budgeting system is aimed at ensuring that Government expenditure is in conformity with the macro-economic targets including the control of bank borrowing and inflation. It is also consistent with the objective of reducing dependence on external aid. Cash budgeting is therefore a tool to control expenditures in excess of revenues in the event actual

revenues are less than projected. This is a temporary system aimed at hedging against the adverse effects of fluctuations in revenue collection. When an effective expenditure control is in place cash budgeting will be phased out. On the recurrent expenditure, more emphasis will be placed on the wage bill as well as the servicing of domestic and external debts.

41. **Mr. Speaker,** on other charges, priority in allocation will be towards social services, security and economic services.. Given the budgetary constraint, the Government is compelled to re-examine its operations with a view to reducing them.

42. **Mr. Speaker,** the ceiling set for wage bill for both the Central and Local Government during 1997/98, is Tshs. 226.0 billion. This amount exceeds the expected expenditure for 1996/97 by Tshs. 26.5 billion. The increase has been necessitated by the need to rectify discrepancies in the new salary scales that came into effect in July, 1996 and also to partly finance the second phase of the 'pay reform programme'. The increase will also be for financing salaries for teachers and doctors who were employed in 1996/97 but could not be included in the pay roll.

43. On the development expenditure, during 1997/98 the Government intends to substantially reduce the number of development projects. The aim is to direct funds to fewer projects but of high priority in order to speed up their implementation. As a result of this decision, the number of projects that have been allocated with development funds has been reduced from 1300 in

the 1996/97 budget to 646 during 1997/98. The criteria which has been used to cut down the number of projects include the elimination of projects without proper feasibility studies and those which are considered to be commercially oriented. The criteria also include projects which have been under implementation for more than ten years, and those which are recurrent in nature as well as those which are not reporting on donor funds received.

Loans and Grants

44. **Mr. Speaker**, during 1997/98 the Government will continue dialogue with donors for their support. The most critical element in this dialogue is the successful implementation of the ESAF programme agreed with the IMF and the SAC programme with the World Bank as well as the SAL programme with ADB. The implementation of these programmes is geared towards an improvement in economic performance which is a precondition for donor support. In this regard, the agreement reached with the Paris Club in January, 1997 will be implemented without fail. It is necessary to observe that, despite Government's determination to execute various measures for a self financed budget, donor support would still be needed to supplement our resources in financing development projects and other special programmes.

THE FINANCIAL SECTOR

45. Mr. Speaker, the Government in 1997/98 will continue to implement monetary policies which were pursued in 1996/97. The measures include control of increase of money supply, restructuring of state owned institutions in the financial sector, non-borrowing from the domestic banking system and reduction of the debt stock. The aim of these measures is to bring about efficiency in the economy and the banking institutions. The Government would, in this endeavour, continue to strengthen bank services and restructuring of banks where deemed necessary. Furthermore, the Government, through the Bank of Tanzania, will continue to motivate the banks to provide loans especially to the agricultural and manufacturing sectors to foster rapid economic development. The Government is envisaging to reduce its debt to the banking system by Tshs. 59,695 million in 1997/98 which would enable the banks to extend credit to the private sector.

46. Mr. Speaker, your esteemed Parliament endorsed the Insurance Act No. 18 of 1996 to allow private sector participation in insurance business currently monopolised by the National Insurance Corporation (NIC) in Tanzania-Mainland and Zanzibar Insurance Company (ZIC) in Zanzibar. The Commissioner for Insurance to be appointed soon under the Ministry of Finance, will be responsible for the administration of this Act. In tandem with the establishment of the Insurance Commission, there will be established a National Re-Insurance Company as provided for in the Act.

47. Following the liquidation of the Tanzania Housing Bank (THB) in 1995, the Government, in collaboration with the National Housing Corporation (NHC) and the Shelter Afrique based in Nairobi, are preparing a study for establishment of a new mortgage facility. Terms of Reference have already been prepared for the experts to do an in-depth analysis (a feasibility study) and advise the Government. The intention is to stimulate interest of many investors, such as the National Provident Fund (NPF), Parastatal Pension Fund (PPF), NHC, NASACO etc. The Ministry of Lands, Housing and Urban Development and my Ministry will prepare the procedures for establishment of such entity upon completion of the feasibility study.

External and Domestic Debts

48. **Mr. Speaker**, there exist well set regulations and procedures for the administration of Government loans, both foreign and local. However, there are still some weaknesses inherent in adhering to these procedures. Many Government institutions including Ministries, Parastatal Organizations and independent Government departments have caused the Government to bear heavy external and domestic debts due to failure to observe the provisions of the Government Loans, Guarantees and Grants Act, 1974. Furthermore, it has been revealed that Government guarantees issued to public corporations, to cover their borrowing have widely been abused. Many corporations have not been accountable in discharging their debt obligations thus passing over the burden to the Government.

49. **Mr Speaker,** the expected maturity of National Debt for the year 1997/98 will amount to Tshs. 493,100 million of which Tshs 354,200 million is domestic debt. Apart from 1997/98 debt, there is a sizeable amount of debts in arrears. As of March, 1997, total debt in arrears stood at Tshs 1,831,084.6 million, being 53.5% of the National Income (GNP) of which Tshs 145,624.6 million is domestic and Tshs 1,685,460 million is external. Domestic debt arrears cover supplies and services rendered to the Government for recurrent and development purposes.

50. The external debt servicing burden would have been much bigger had the Government not been granted a debt relief under the Paris Club and other bilateral donor countries such as the People's Republic of China. In trying to minimise the debt burden, the Government is compelled to take the following measures, among others:-

- (i) Instructing Ministries and Parastatal Organisations not to incur any new debts without prior approval of the Cabinet and complying strictly to the provisions of the Government Loans, Guarantees and Grants Act, 1974.
- (ii) The Government to sustain the policy of not issuing loan guarantees to public enterprises;

- (iii) To design short-and long term strategy for domestic debt settlement including "asset securitization" with a view to reducing the cost of debt. This strategy will also include issuance of marketable Treasury Notes to domestic suppliers with claims on the Government, which can be discounted at banks, or be held to maturity upon which the Government will redeem.
- (iv) The overall Government external borrowing strategy will continue to be guided by the agreements in the PFP and ESAF programmes.

EXTERNAL SECTOR

51. Mr. Speaker, regarding the external sector, the Government will give more emphasis on the production and supply of better quality goods and services so as to become competitive in the export market. Similarly, together with the on-going trade liberalisation policy, the Government will continue to improve the environment for more private sector participation in the promotion of exports.

PARASTATAL SECTOR

52. Mr. Speaker, as previously explained, it is the aim of the Government to enhance the performance of parastatal sector. Various measures have already been taken, including outright sale, joint venture arrangements and internal restructuring. The Government will endeavour to speed up preparations for assisting the general public to acquire shares in these parastatals at

reasonable prices. The establishment of the Dar es Salaam Stock Exchange and the creation of the Privatisation Fund will greatly assist in this exercise.

PRIVATE SECTOR

53. **Mr. Speaker**, as afore-mentioned, the private sector is increasingly assuming an important role in our economy. The establishment of Dar es Salaam Stock Exchange Ltd. which is expected to open its doors soon will start with the selling of part of the Government interests in privatised companies such as Tanzania Oxygen Ltd (TOL), Tanzania Breweries Ltd (TBL), Tanzania Cigarette Company (TCC), BP (T) Ltd, Agip(T) Ltd., General Tyre Company, Twiga Cement Ltd and Tanga Cement Ltd. As it can be observed, this is a vital link between the private and public sectors following the current change of the ownership structure in the parastatal sector.

PRODUCTION SECTOR

54. **Mr. Speaker**, the production sector is the pillar of our economic development. Statistics show that agriculture, industry, mining and natural resources contribute greatly to GDP. To further this, it is the aim of the Government to create an enabling environment for private investments in every sector. In this regard, the Government will continue providing the necessary economic and social infrastructure to foster investment in the productive sectors.

WELFARE OF CIVIL SERVANTS

55. **Mr. Speaker,** the Government will continue providing better remuneration to its employees as its ability improves. The 1997/98 changes in relation to the 1996/97 may not be substantial due to constraints in revenue. However, it is important to note that any increase has to be backed by a reduction in the size of the civil service. At the same time, the Government has to exercise due care in the implementations of the on-going retrenchment exercise to ensure that the intended results are actually attained.

56. **Mr. Speaker,** the current pension structure needs to be reformed. May I inform your House that preliminary arrangements regarding the intended reviews are complete and that starting 1998/99 a new contributory pension fund/scheme for civil servants will be operational. This means that pension payments will be made out of a Contributory Fund rather than from the Consolidated Fund Services (CFS).

THE 1997/98 BUDGET FRAME

57. **Mr. Speaker,** according to the Budget framework for 1997/98, the Government is planning to mobilize a total of Tshs 975,639 million. Out of this amount, Tshs 695,300 million will be realised from domestic revenue while Tshs 340,034 million from external loans and grants. The Government is not intending to borrow from domestic banks, instead it will reduce its indebtedness by Tshs. 59,695 million in the coming financial year.

Revenue

58. **Mr. Speaker**, on revenue, the Government expects to collect Tshs 631,258 million on the basis of existing tax structure. In comparison with the expenditure of Tshs 975,639 million this implies a deficit of Tshs 344,381 million which will have to be financed from other sources.

59. **Mr. Speaker**, the Government expects to receive a total of Tshs 340,034 million from various donors in the year 1997/98. Out of this amount, Tshs 126,075 million is for Import Support and Balance of Payments support, while Tshs. 213,959 million will be for development projects. Together with IMF, World Bank, Africa Development Bank and the European Union, the following donor countries have indicated willingness to contribute to the 1997/98 budget: These are People's Republic of China, United Kingdom, Sweden, Japan, Netherlands, Finland, Switzerland, Canada, Denmark, Norway, Germany, Ireland, Belgium and United States of America.

May I take this opportunity to thank all the bilateral donor countries and others and also the multilateral institutions that are supporting our economic development effort.

60. **Mr. Speaker**, it is expected that with the above commitments for loans and grants, the gap will now be Tshs. 4,347 million. Our strategy remains not to borrow from the domestic banking system. During 1997/98 financial year, Government will reduce debt by Tshs. 59,695 million to the domestic banking system. This will

increase the budgetary gap to Tshs. 64,042 million to be covered from other sources of revenue.

FISCAL POLICIES AND NEW REVENUE MEASURES

61. Mr. Speaker, various revenue measures are being proposed to bridge the financing gap by raising Tshs. 64,042.0 million. Together with the need to raise additional revenue, various changes to the tax policy and structure are proposed for improved future revenue collection and economic sustainability. These measures fall under various categories as follows:

- (i) Review of the tax structure
- (ii) Review of tax rates on various goods
- (iii) Review of the tax rates on services
- (iv) Review of investment tax rates
- (v) Widening of the tax-base
- (vi) Abolishing nuisance taxes
- (vii) Strengthening tax administration.

CUSTOMS DUTY STRUCTURE:

62. Mr. Speaker, it is proposed that Customs Duty structure be reduced from the current seven to four bands shown below:

<u>Proposed Rates</u>	<u>Current Rates</u>
5%	5%
10%	10%
20%	15%
30%	20%
	25%
	30%
	40%

This proposal will have 30% as the maximum rate compared to the current 40 percent.

Sales Tax Structure

63. Mr. Speaker, it is further proposed that the sales tax structure on goods and services be amended.

Sales Tax on Goods

64. It is proposed to reduce sales tax bands on goods from six to four as follows:

Proposed Rates

Current Rates

5%

0%

10%

5%

20%

10%

25%

20%

25%

30%

The maximum rate in this new structure is 25% compared with the current rate of 30%

Sales Tax on Services

65. Regarding the structure of sales tax on services, it is proposed that the bands be adjusted from 3 to 4 as follows:

<u>Proposed Rates</u>	<u>Current Rates</u>
5%	5%
10%	10%
15%	15%
20%	

In this proposal, the maximum sales tax rate on services is set at 20 percent from the current 15 percent.

Adjustment of Various Tax Rates:

66. **Mr. Speaker**, it is proposed that amendments be made to a number of tax rates to simplify, rationalize, and create a more favourable basis for increased revenue collection.

Cars:

67. Mr. Speaker, it is proposed that amendments on various taxes on different categories of small vehicles be made. Firstly, all four wheel drive station wagon vehicles be charged Excise Duty of 30 percent and Customs duty be increased from 20 percent to 30 percent. Following the above changes, taxes on the 4WD station wagon category of vehicles shall be as follows:-

(i)	Customs duty	-	30%
(ii)	Sales tax	-	25%
(iii)	Excise duty	-	30%

This measure is aimed at checking the misuse of this category of vehicles and increase the efficiency on the use of fuel. It is expected that a total of Tshs. 4,542.0 million will be raised from this measure as additional revenue.

68. Secondly, it is proposed that vehicles with less than 1750cc engine capacity be levied 30 percent customs duty instead of the current 20 percent and that for those with 2000cc or more be levied 30 percent instead of the current 40 percent so as to harmonise their rates. Also it is proposed that sales tax on small cars be reduced from the current rate of 30% to 25%. This will harmonise and rationalise the rate of sales tax on small cars with the structure proposed above.

69. Thirdly, with regard to pick-ups of less than 3 tons, it is proposed that customs duty be increased from 20% to 30%, while sales tax would remain at the current rate of 25% and excise duty as per prevailing rate.

Heavy Vehicles

70. **Mr. Speaker**, regarding heavy duty vehicles it is proposed that completely knocked down (CKD) be charged 5 percent customs duty compared to the current 10 percent and that sales tax also be 5 percent instead of the current 10 percent. For semi-knocked down (SKD) vehicles, customs duty shall be 10 percent instead of 20 percent while sales tax shall be levied at 10 percent. This measure is aimed at providing some protection to vehicle assembly firms in the country.

71. For completely built up vehicles (CBU) with the exception of pick-ups of less than 3 tons, and vehicles of 10 tons, it is proposed that customs duty be reduced from the current 30 percent to 20 percent while sales tax would be increased from the present 10 percent to 20 percent. Vehicles of more than 10 tons, customs duty is reduced from 30 percent to 10 percent while sales tax shall remain the same at 10 percent.

Vehicle Tyres:

72. **Mr. Speaker**, to rationalise customs duty rates on vehicle tyres, the Government proposes that heavy duty radial tyres be charged 30 percent instead of the current 40 percent and that sales tax be reduced from 30 percent to 20 percent. On non-radial tyres, duty be fixed at 30 percent instead of 40 percent and sales tax at 25 percent instead of 30. Any other type of vehicle tyres manufactured in the country would continue to be charged 10 percent sales tax.

Vehicle Spare parts:

73. **Mr. Speaker**, the Government further proposes that duty and sales tax on various motor vehicle spare parts be adjusted as follows:

- (a) the upper limit of customs duty be reduced from 40 percent to 30 percent while other rates remain the same.
- (b) the upper limit of sales tax be reduced from 30 to 25 percent with the other rates remaining unchanged.

The above measures would be revenue-neutral because the upper limit was applicable to a very limited range of commodities and there was wide-spread tax evasion.

BEER

74. It is proposed that customs duty on beer imported from COMESA member states be reduced from 15 percent to 10 percent and excise duty be increased from Tshs. 300/= per litre to Tshs. 350/=. This is intended to provide adequate protection to the local beer industry which will lead to increased volume, employment, and government revenue.

75. It is further proposed that for non-COMESA beer, custom duty be increased from 25 percent to 30 percent

with the minimum dutiable value for duty and sales tax purposes being set at US\$ 0.85 per litre. Excise duty for the non COMESA beer shall be fixed at Tshs 325/= per litre instead of the current 620/= per litre. Excise duty for local beer be adjusted upward by Tshs. 10/- to Tshs. 290/- per litre. With these adjustments, the structure of effective tax on beer will be as follows:-

	<u>CURRENT</u> <u>PER LITRE</u>	<u>PROPOSED</u> <u>PER LITRE</u>
1. Locally manufactured beer	280%	290%
2. COMESA beer	346%	380%
3. Non-COMESA beer	752%	480%

It is expected that these measures will generate additional revenue of Tshs. 2,510.08 million.

Cigarettes:

76. **Mr. Speaker**, with regard to cigarettes, it is proposed that sales tax and excise duty be combined and add Tshs 250/= per 1000 cigarettes. The above change has the following effects:-

- (a) Premium brands with 70mm or more -
Tshs. 10,650/= per 1,000 cigarettes
- (b) Cigarettes with less than 70mm
(Sigara Kali) - Tshs. 4,450/= per 1,000
- (c) All types of imported cigarettes will be
charged Tshs. 23,000/- per 1,000 cigarettes

77. For all cigarettes sold in Tanzania Mainland, it is proposed that a tax stamp be affixed on each packet with effect from 1st November, 1997. Cut rug/cut filler tobacco for cigarette making, shall from now cease to be considered as raw material for the purpose of Government Notice No. 144 of 1996 (for customs duty purposes) and Government Notice No. 37 of 1996 as amended by Notice No. 143 of 1996 (for sales tax purposes). Duty and sales tax on this type of tobacco shall be levied at the rate of final product, as excise at Tshs 7,069/= or US\$ 11.4 per kilogram whichever is higher. This measure is expected to raise a total of Tshs 3,035 million in additional revenue.

Soft Drinks:

78. Mr. Speaker, the Government proposes that sales tax and excise duty on all soft drinks be combined to sale tax at Tshs. 115/= per litre instead of the current Tshs. 123.75 per litre. Soft drinks from imports shall be charged customs duty of 30 percent instead of 40 percent and sales tax of Tshs. 213.50 per litre.

Hard Drinks (Spirits):

79. Mr. Speaker, for hard drinks, including Konyagi manufactured locally, it is proposed that excise and sales tax be combined as is the case with beer to be excise duty, levied at Tshs. 1,470/= per litre. For all imported spirits it is proposed that customs duty be 30 percent and excise duty Tshs 1,815/= per litre.

Pharmaceuticals:

80. It is proposed that no tax shall be charged on raw materials and packing materials used to produce pharmaceuticals locally. All pharmaceutical products imported including from COMESA shall be charged customs duty of 5 percent and sales tax of 5 per cent. The same sales tax will apply to locally produced pharmaceuticals.

Cooking Oil

81. On cooking oil, the following adjustments are proposed: For refined edible oil, import duty be levied at 30 percent and sales tax be maintained at the current rate of 10 percent. Minimum dutiable value be US\$ 750.00 per ton. Crude edible oil will be charged 10 percent import duty and 10 percent sales tax. Crude oil importers will however, pay the import duty and sales tax at the refined oil rates and claim refund after production. Cooking oil manufactured by use of local raw materials will continue to be charged 5 percent sales tax. These adjustments will have no impact on revenue.

Petroleum Products/Fuel Oil

82. Mr. Speaker, adjustments are also proposed on petroleum products as follows:

83. First - introduce a 5 percent sales tax on gas oil and increase excise duty on liquefied petroleum gas-LPG by Tshs. 12/- per kg.

Second - increase the excise duty on lubricants by Tshs. 4/- per litre and increase the excise duty on JET oil (JET-A1) from Tshs 10.65 to Tshs. 15.78 per litre.

Third - it is proposed to reduce sales tax rate on motor spirit premium and motor spirit regular from 30 percent to 25 percent. Excise duty is however to be increased by Tshs 15.85 a litre of motor spirit premium and by Tshs. 13.95 a litre of motor spirit regular.

Four - it is proposed to increase excise duty on industrial diesel oil from Tshs. 9.1068 to shs.14.068 per litre. Road Toll is also proposed to increase by Tshs. 10/- per litre to Tshs. 70/- from the current Tshs.60/- per litre. There are no adjustments proposed on kerosene. These measures will raise **Tshs. 13,411.6 million** in additional revenue.

Soap

84. **Mr. Speaker,** it is also proposed to make adjustments on taxes on soap. In this area it is proposed that raw materials for soap manufacturing be charged 10 percent import duty and 10 percent sales tax. However, importers of crude oil as raw materials for soap manufacturing will have to pay these taxes at the rates applicable for refined oil and claim refund on the difference after actual production of soap. All locally manufactured soaps will be charged 20 percent sales tax instead of the present 30 percent. For imported soaps it is proposed to charge 30 percent import duty instead of the present 40 percent and sales tax at 20 percent instead of the present 30 percent.

Textiles

85. On textiles, the Government is proposing to abolish excise duty but maintain the present import duty of 10 percent and sales tax of 10 percent on textile raw materials. In line with the harmonised rates with Zanzibar, it is proposed that 30 percent import duty and 20 percent sales tax be charged on khanga imports. Other textiles are to be charged 30 percent import duty and 25 percent sales tax. All locally manufactured textiles including khanga are to be charged 20 percent sales tax. These measures will raise **Tshs. 3,712.8 million** additional revenue.

Shoes

86. With regard to shoes, it is proposed that raw materials for shoe manufacturing be charged 10 percent import duty and 10 per cent sales tax. Imported shoes be charged 30 percent import duty and 25 percent sales tax, whereas locally manufactured shoes be charged 25 percent sales tax instead of the present rate of 30 percent.

WIDENING THE TAX BASE

87. **Mr. Speaker**, in the endeavour to widen the tax base the following measures are proposed:-

- (a) It is proposed that a Sales tax rate of 10 per cent be levied on all goods that are currently not subject to sales tax, unless specified. The objective of this action is to ensure that all sectors and economic activities contribute to Government revenue. This measure is expected to raise Tshs. 25,331.0 million from imported goods and Tshs. 500.0 million from locally manufactured goods. Some of the goods currently not subject to sales tax are: tanks and pipes (both plastic and steel), industrial lubricants and rubber products.

- (b) Bottled water which is currently not subject to any sales tax will be charged 25 per cent sales tax. This measure will generate additional revenue of Tshs. 1,666.8 million.

Adjustments of licence charges and fees.

88. **Mr. Speaker**, in addition to the above measures, it is proposed to make adjustments in various fees and licence charges administered by Ministries, Government Departments and Regional Authorities in order to align them with the current market realities. The fees and licence charges that will be involved include:-

- (a) Business Licences and Fees
- (b) Film Censorship Fees
- (c) Court Fees
- (d) Weights and Measurement Fees
- (e) Various Fees collected by the Ministry of Labour and Youth Development
- (f) Companies Registration Fees
- (g) Birth and Death Registration Fees/Charges
- (h) Fees and charges under the Road Traffic Act, 1993.
- (i) Transportation Licences and Fees
- (j) Licences and Fees collected by the Ministry of Home Affairs
- (k) Fees collected by the Ministry of Lands, Housing and Urban Development
- (l) Adjustments of charges/rates for various other services

The above adjustments in fees and licence charges are incorporated in the 1997 Finance Bill.

Adjustment of tax rates and charges on Services

89. **Mr. Speaker**, the Government is also proposing adjustments in taxes and charges for various services.

The following adjustments are proposed:-

Hotel Levy Act: 1972 and Sales Tax Act - 1976.

90. In order to reduce the number of taxes imposed on the Tourism sector, it is proposed that Hotel Levy be abolished and a sales tax on hotel services of 20 per cent be introduced on all payments for customer services rendered. This measure, is, however, not aimed at taking away local Government revenue collected from Hotel levy on Guest Houses.

91. **Mr. Speaker**, it is also proposed that the 15 per cent sales tax on catering services continue to be charged on food and beverage services provided in places other than hotels. Moreover, it is proposed that sales tax on tour operators be 10 percent based on net charges. Import duty and sales tax on charter aircraft spare parts is proposed to be abolished but sales tax on Air Charter Services will be maintained at 10 percent.

92. **Mr. Speaker**, parallel to the various proposed measures in the tourism sector, it is also proposed to introduce a sales tax on Telex, Fax, E-Mail and Internet services. These services will be charged a 15 percent sales tax rate similar to the one on telephone services. The Government is also proposing, during 1997/98 to introduce a sales tax on services provided by Private Valuers. These measures will raise Tshs. 244.7 million.

Adjustment of tax rates on Investment in the Mineral Sector

93. **Mr. Speaker**, in the Mineral Sector, the following measures are being proposed:-

- (a) Mineral Prospecting Companies be exempted from all taxes on importation of machinery and equipment during investment until the first year of production; Machinery and Equipment imported after the first year of production will be subjected to 5% sales tax and 5% import duties.
- (b) Companies engaged in Mineral production be exempted from sales tax on supplies and equipment if they are used for the production of goods for export;
- (c) Mineral Prospecting companies with Title Deeds be exempted of Domestic Withholding tax. However, they will be liable to withholding tax for goods and services procured domestically. Withholding tax on technical service payments to sub contractors and management fees be 3 per cent of total payments, except where management fees exceed 2 per cent of total operating expenditure where withholding tax shall be 20 per cent.
- (e) A Royalty of 3 percent be charged on the value of mineral exports from mines except diamonds which shall be charged 5 percent loyalty.
- (f) Export tax and stamp duty on Mineral Exports be abolished.

- (g) The 100 percent depreciation allowance on capital expenditure in the mineral sector be allowed as is the case at present.
- (h) Withholding Tax on dividends and profit sharing tax for non residents be 10 percent.
- (i) Companies with mineral production licences will not be subject to withholding tax in respect of interest on foreign borrowing. However, these companies will have to show proof that they do not have special business interests with the sources of borrowing. (Withholding tax on interest will not apply to interest payments by mining rights holders on foreign borrowing at arms' length).
- (j) Polished and cut mineral stones will not be charged loyalty.

These measures will not have any revenue impact as there are no revenues presently being collected from this source of tax. The changes of tax in the mineral sector will be incorporated in the Miscellaneous Amendments Finance Bill that will be tabled in this House at a later stage.

The Tax Regime on Other Investments

94. **Mr. Speaker**, with regard to investment incentives in other sectors, the following is proposed:-

- (a) Investors in Petroleum and Gas exploration will not be charged customs duty or sales tax on machinery and equipment to be used for oil exploration.
- (b) Investors in agriculture, infrastructure, telecommunications and human resource development will be charged 5 per cent customs duty and 5 per cent sales tax.
- (c) Investors in all other sectors will be charged 10 percent import duty and 10 per cent sales tax as is the case at present.

Changes in Income Tax

Mr. Speaker, it is proposed to make amendments to various sections of the Income Tax Act, 1973 as follows:-

Taxation of Expatriates

95. In this area, it is proposed that all expatriates be required to pay tax on income earned in Tanzania with the exception of those who come under special agreements with the Government. This measure is expected to raise shs. 5,000 million.

Depreciation Allowance for motor vehicles

96. It is proposed that the maximum salvage value for motor vehicle depreciation be changed from the present Tshs. 1,000,000/- to Tshs. 5,000,000/-.

Adjustments in Airport and Port Service Charges

97. **Mr. Speaker**, during 1997/98 it is proposed that airport service charge be raised from Tshs. 1,000/- to Tshs. 2,000/- for domestic travellers and port service charges be raised from Tshs. 300/- to Tshs. 500/-. The Port Service charge is to be collected by vessel owners or their agents on behalf of Government. This procedure is intended to curb leakage of government revenue through sales of fake stamps. These measures will raise Tshs. 115.4 million.

COLLECTION OF TAX ARREARS

98. **Mr. Speaker**, the Government will institute measures to collect identified tax arrears on fraudulent IPC related exemptions. On the basis of special audit completed recently, this measure is expected to raise a minimum shs. 4,400 million from tax arrears.

99. **Mr. Speaker**, the Government proposes to abolish the following taxes which are considered a nuisance:-

- (a) Withholding Tax on Business Insurance Claims
- (b) Excess Profit Tax, and
- (c) Single Trade Transaction Tax

The abolition of these taxes will reduce Government revenue by some Tshs. 399.2 million.

100. **Mr. Speaker**, with the exception of fees and charges collected by ministries and other government departments and changes related to Income Tax Act, which will be applicable from July 1, 1997, all tax measures proposed above will take effect from 20th June, 1997.

MEASURES TO ENHANCE TAX ADMINISTRATION

101. **Mr. Speaker**, the Government contemplates to introduce various measures to enhance tax administration. They include the following:-

- (a) With effect from 1st July, 1997, all major importers of goods prone to tax evasion, in particular, importers of refined and crude edible oil, wheat flour, sugar, tyres and tubes, rice, khanga, kitenge (wrappers), beer and spirits, and soap, shall be registered with the Tanzania Revenue Authority (TRA). Procedures for monitoring the movement of such goods through customs will be developed in consultation with the importers.
- (b) With effect from November 1, 1997, special tax stamps will be introduced starting with cigarettes, and will be extended to include other products of similar nature on the basis of experience to be gained with cigarettes.

- (c) Registered Dealers Certificate Holders would no longer be exempted from payment of sales tax on raw materials and other production inputs. Instead, they will pay the tax and will be allowed to deduct the amount of tax so paid from sales tax collection on finished products in proportion to the inputs/raw materials used.
- (d) Minimum Dutiable Values will be set by TRA in respect of goods which are proven to be prone to tax base manipulation.
- (e) To revoke Government Notice (GN) No. 131 of 1989 regarding tax rates on COMESA/PTA goods. The taxation of such goods will be on the basis of the structure proposed in this speech, including the use of reciprocal arrangements.
- (f) Tourist Agents Licensing Authority (TALA) and Hotels Board shall, with effect from 1st July, 1997, be authorised to issue business licenses in their respective sectors on behalf of all other licensing authorities. This measure is geared to reducing red tape in the tourist sector.
- (g) Government will review the existing contracts with Pre-shipment Inspection companies with a view to improving the value of service offered.
- (h) It is also proposed that the TRA Act be amended to require that business licences can only be renewed with TRA's clearance that all taxes have been paid.

- (i) Sugar and wheat as raw materials will be subjected to customs duty of 10 per cent and sales tax of 10 percent. However, importers will pay tax at finished goods rates and will be refunded after ascertaining that they used the product for production and not for consumption.

SUMMARY OF REVENUE ESTIMATES FROM ADDITIONAL MEASURES FOR 1997/98

102. **Mr. Speaker,** following the different measures that the Government would take in order to fill the gap of Tshs. 64,042.0 million, I wish now to present a summary of total revenue from the various measures for 1997/98 year, as follows:-

	(Tshs. million)
1. A 10 percent sales tax on imported goods which are currently not taxed	25,331.00
2. A 10 percent sales tax on locally produced goods that are currently not taxed	500.00
3. Reduction of import duty rate from 40 percent to 30 percent	(1,400.00)
4. Reduction in the maximum rate on sales tax imported and local goods from 30 percent to 25 percent	(7,400.00)
5. Saloon cars	4,542.00

6.	Beer	1,948.00
7.	Cigarettes	3,035.00
8.	Mineral Water	1,666.80
9.	Pharmaceuticals	1,146.00
10.	Textiles	3,712.00
11.	Telex and Fax services	244.70
12.	Income Tax (foreign experts)	5,000.00
13.	Petrol	13,411.60
14.	Abolition of nuisance taxes	(399.20)
15.	Aluminium Fossils	3,024.00
16.	Non-Tax Revenue	5,278.00
17.	Tax Arrears - IPC Certificates	<u>4,400.00</u>

Total Tshs. 64,042.00

The additional revenue of Tshs. 64,042 million expected from new tax measures would be adequate to fill the gap envisaged in the Government Budget.

FRAME FOR THE 1997/98 BUDGET

103. Mr. Speaker, following the revenue and expenditure proposals elaborated above, the Budget Structure for 1997/98 year would be as follows:-

A. Revenue

(a)	Recurrent Revenue	Tshs. 695,300.0m
i.	(Revenue before new tax measures)	Tshs. 631,258.0m
ii.	Revenue from new tax measures	Tshs. 64,042.0m
(b)	External Loans and Grants	Tshs. 340,034.0m
(c)	Domestic Borrowing	<u>Tshs. 59,695.0m</u>

Total Revenue Tshs. 975,639.0m

B. Expenditure

(a)	Recurrent Expenditure	Tshs. 666,842.6m
(i)	Consolidated Fund Service (CFS)	Tshs. 207,815.0m
(ii)	Ministries/Departments	Tshs. 317,832.6m
(iii)	Regions	Tshs. 14,779.2m
(iv)	Councils	Tshs. 88,381.7m
(v)	Special Expenditure	Tshs. 38,034.1m
(b)	Development Expenditure and Special Projects	Tshs. 308,796.4m
(i)	Development Programme	Tshs. 242,416.4m
	Local Funds	Tshs. 28,457.4m
	External Funds	Tshs. 213,959.0m
(ii)	Special Programmes	<u>Tshs. 66,380.0m</u>

Total Expenditure Tshs. 975,639.0m

The Government is proposing the above budget frame for 1997/98 to your esteemed Parliament.

CONCLUSION

104. Mr. Speaker, the 1997/98 Budget is geared towards achieving economic targets as explained above. Although the Donor Community will continue to give support, the focus of 1997/98 Budget is to reduce donor dependence, especially on recurrent budget. In order for the Government to implement the budget, it would be necessary that recurrent revenue be collected as planned. The Tanzania Revenue Authority, Ministries/Departments and Regions are all responsible in ensuring that revenue is effectively collected. In addition to government machinery on revenue collection, the various tax policies as explained in this Budget are all intended to motivate tax payers, especially the Business Community, to contribute towards government revenue. The rates for certain taxes have been reduced, the tax structure has been rationalised and simplified to this end. The aim of these measures is to ensure that taxes on both imported goods as well as locally produced goods are effectively paid so that there is fair deal for all tax payers. It is the expectation of the Government that the Business Community and other tax payers will take these measures as a challenge to them, and that they will co-operate with the Government through TRA in ensuring that the revenue targets are realized. The Government will continue to remove any remaining anomalies and deficiencies in the tax policy and tax structure, in order to revamp revenue collection, promote voluntary compliance and improve the economy in general. The Government, through TRA is undertaking a major project of reforming the tax administration to make it efficient and tax-payer-friendly.

105. **Mr. Speaker**, the Budget for 1997/98 Financial Year has also taken into consideration the need to enhance social welfare of our people. The measures aimed at reducing inflation are among the policies intended to realise that objective. Reduction of tax rates on goods, especially mass-consumption items would go a long way to reduce prices of those goods and therefore provide relief to consumers. For the purpose of accomplishing its Budget, the Government has slightly raised the prices of petrol and diesel. It is appreciated that taxes on petroleum products would certainly increase transportation costs. However, the Government is convinced that the increase is not significant, considering the existing competition in the transport sector. There is great possibility that any increase in prices would be compensated with an increased productivity in the sector and, therefore, would have no impact on transportation costs. The measure is also intended to improve efficiency in the use of petrol.

106. **Mr. Speaker**, it is the goal of the Third Phase Government to continue pursuing measures to steadily improve the standard of living of Tanzanians. Tanzania is endowed with enormous natural resources. The role of the Government is to provide enabling environment to ensure that Tanzanians benefit more by exploiting the resources. This role will continue to be pursued on a continuous and sustainable basis.

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

TRENDS OF SOME IMPORTANT ECONOMIC INDICATORS FOR EXTERNAL TRADE 1990 - 1996

(US \$ Million)

Table No. 1

Year	1990	1991	1992	1993	1994	1995	1996*
1. Exports.....	407.8	362.3	397	439.3	519.36	682.92	761.67
2. Imports	1227.15	1269.96	1361.97	1274.89	1309.32	1340.67	1212.63
3. Trade balance.....	-819.35	-907.66	-964.97	-835.59	-789.96	-657.75	-450.96
4. Trade balance as % of Exports.....	-200.9	-250.5	-243.1	-190.2	-152.1	-96.3	-59.2
5. Petroleum Imports..	180	136.1	181.9	167.2	148.86	193.82	158.38
6. Petroleum Imports as % of Exports.....	44.1	37.6	45.8	38.1	28.7	28.4	20.8

* Likely Out-turn

Source: Planning Commission

TRENDS OF GOVERNMENT RECURRENT BUDGET (1991/92 - 1997/98)

Table No. 2

(Tshs. Million)

YEAR	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97*	1997/98**
Recurrent Revenue.....	173535.0	164110.0	242444.0	329660.0	448373.0	556358.0	695300.0
Recurrent Expenditure Incl. Amortization.....	195705.0	275509.0	340140.0	459564.0	470014.0	581609.5	666842.6
Recurrent Expenditure Excl. Amortization.....	162288.0	240349.0	296221.0	406882.0	416088.0	488265.7	614785.1
Recurrent Gap.....	-22170.0	-111399.0	-97696.0	-129904.0	-21641.0	-25251.5	28457.4
Recurrent gap as % of Recurrent expenditure Incl. Amortization.....	-11.3	-40.4	-28.7	-28.3	-4.6	-4.3	4.3

* Likely out-turn

** Estimates

Source: Ministry of Finance

TREND OF GOVERNMENT RECURRENT BUDGET

(FOR YEAR ENDING 30th JUNE (Millions of T. Shillings)

RECURRENT EXP

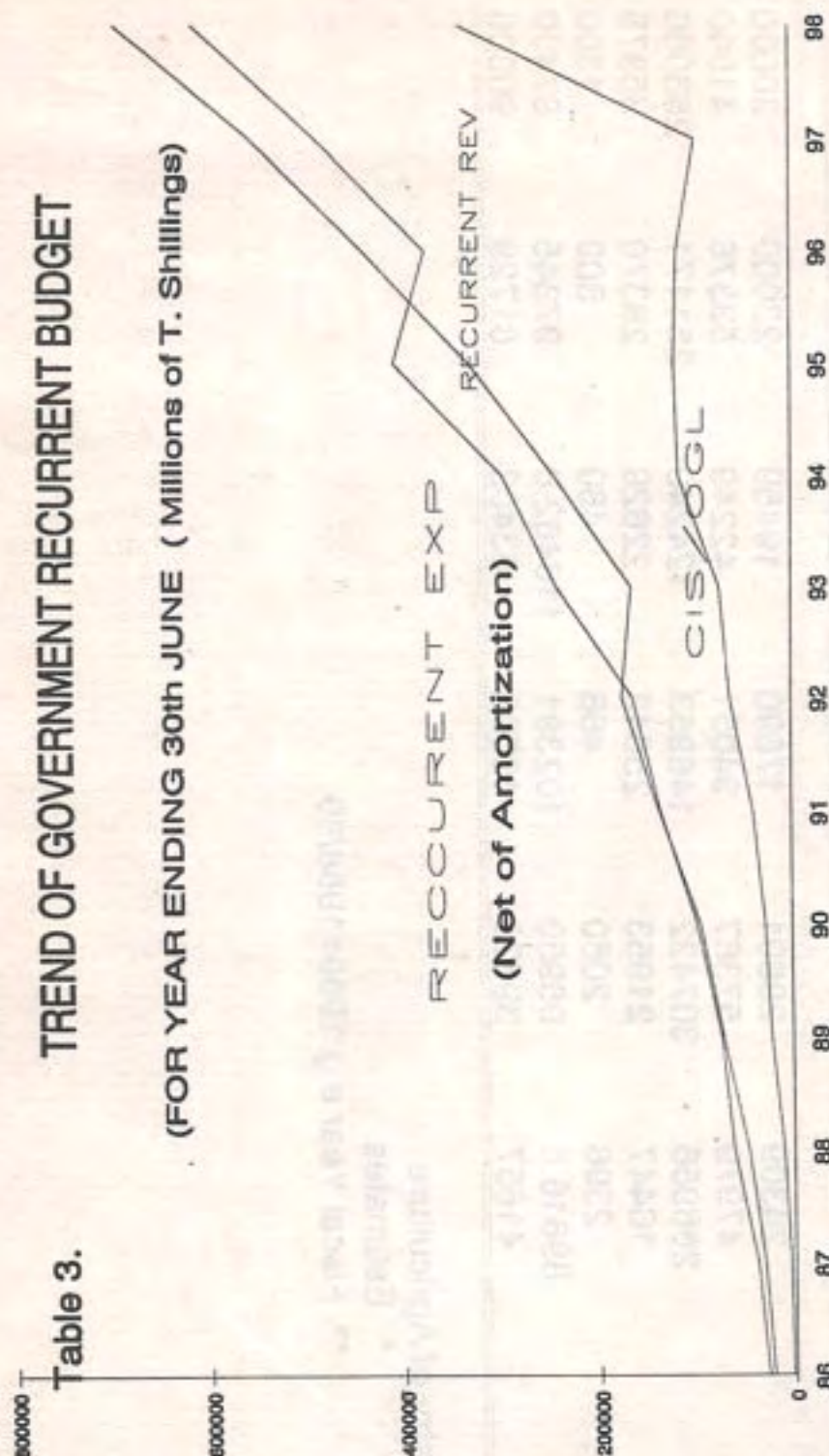
(Net of Amortization)

RECURRENT REV

CIS/OGL

Source: Ministry of Finance

Year



SUMMARY OF CASH CROPS PURCHASED(in Metric Tons)

1991/92 - 1996/97

Table No. 4

Year	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97*
Sisal**	24309	29601	17690	19459	23000	30000
Coffee	47979	57367	34051	42249	53376	41000
Cotton	266956	307422	148953	124240	251171	253000
Tobacco	16447	21953	25643	22629	28370	35379
Pyrethrum	2396	2050	466	460	600	1300
Green tea	89816.5	96950	102391	116462.8	97345	87400
Cashewnuts	41657	39323	46598	63403	81729	90000

Source: Ministry of Agriculture

* Estimates

** Fiscal Year e.g 1989=1988/89

Table No. 5

TANZANIA EXPORTS 1991 - 1997

Exports	1991	1992	1993	1994	1995	1996	1997*
COFFEE:							
Value	77.23	62.42	96.08	115.36	142.60	137.77	97.22
Volume (mt)	52.46	52.72	58.59	37	47.97	64	43.2
Unit Price (\$/mt)	1472	1184	1639.92	3117.71	2972.69	2152.66	2260.48
COTTON:							
Value	63.34	97.62	78.37	105.12	120.15	137.70	176.01
Volume (mt)	38.67	72.80	61.15	60	70.86	89.7	109.53
Unit Price (\$/mt)	1638	1341	1281.52	1752.02	1695.6	1535.07	1606.89
Sisal:							
Value	2.17	1.20	3.33	5.12	6.31	4.80	6.44
Volume (mt)	4.81	4.11	4.95	7.2	11.34	7.6	9.28
Unit Price (\$/mt)	451	317	672.83	711.67	556.44	631.59	693.75
TEA:							
Value	21.67	23.43	38.03	39.32	33.36	26.32	21.73
Volume (mt)	17.55	20.37	19.75	21.67	21.6	24.7	18.94
Unit Price (\$/mt)	1235	1160	1925.84	1823.68	1081.48	1063.59	1172.18
TOBACCO:							
Value	16.70	27.83	17.07	20.56	27.13	47.01	32.02
Volume (mt)	7.99	13.09	10.42	15.4	17.08	24.02	14.61
Unit Price (\$/mt)	2090	2133	1627.64	1335.19	1588.41	1957.12	2192.04
CASHEW:							
Value	16.70	25.95	23.31	51.16	64.00	92.79	64.80
Volume (mt)	39.00	32.93	32.16	65	75.56	121.16	87.95
Unit Price (\$/mt)	679	788	724.73	787	847.01	774.1	737.87
SUB - TOTAL VALUE	197.81	238.85	256.19	336.84	383.55	447.39	398.33
Petroleum Products	6.3	20	9.1	5.52	10.88	11.09	12.87
Minerals	35.17	46.66	69	30	44.88	50.36	62.27
Manufactured goods	40.87	113	52	77	109.25	110.81	176.49
Others	35.11	75	53.6	70	134.26	142.07	106.31
SUB - TOTAL VALUE	137.45	256.66	183.7	182.52	299.37	314.33	358.74
GRAND TOTAL VALUE	335.26	495.51	439.89	519.36	682.92	761.72	757.07

Source: Bank of Tanzania

* Estimator

Table No. 6

TANZANIA IMPORTS 1991 - 1997

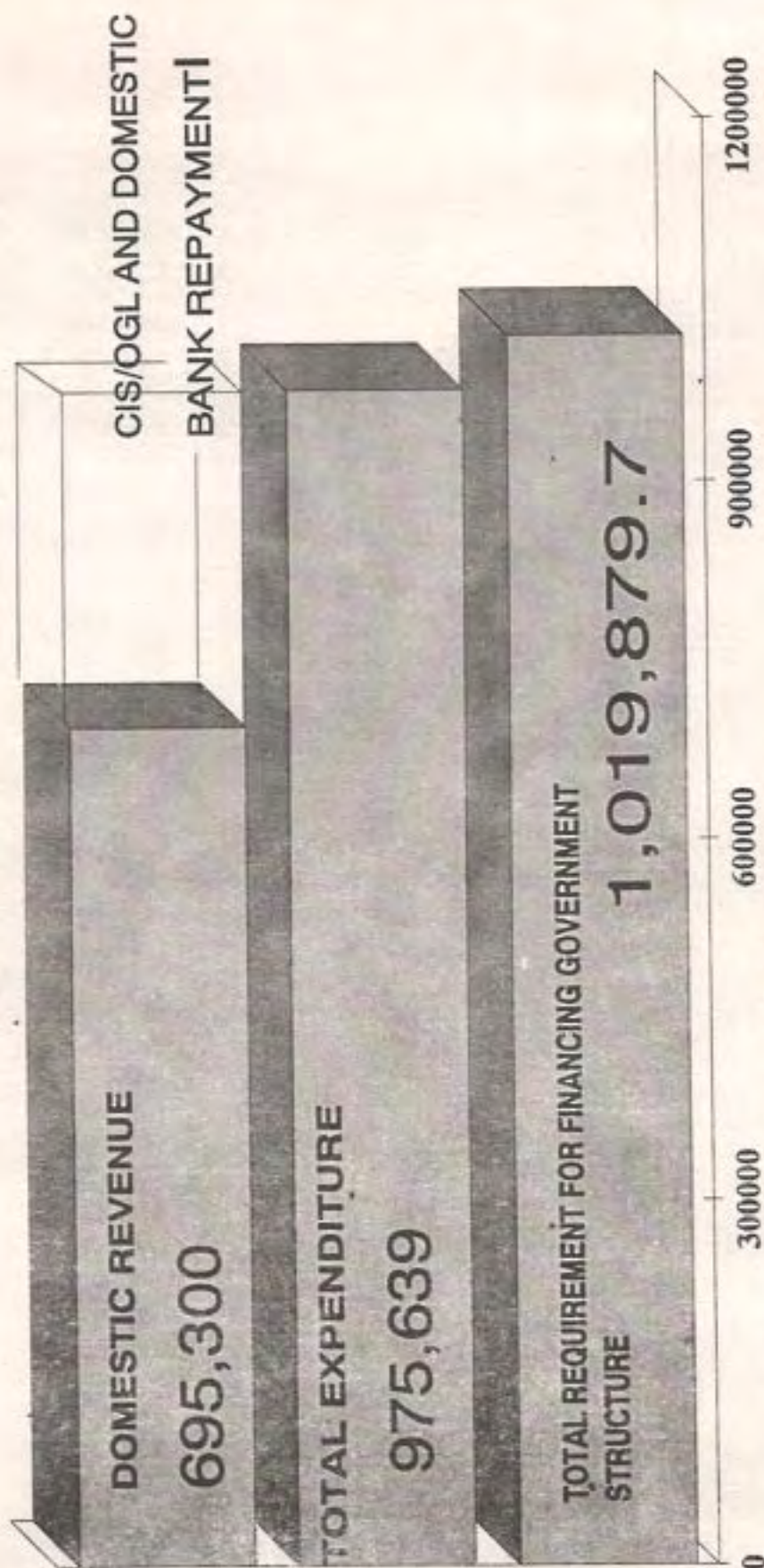
(In US \$ Million)

Year	1991	1992	1993	1994	1995	1996	1997*
CAPITAL GOODS.....	723.6	700.5	632.9	656.5	554.2	501.03	514.03
Transport Equipment	356.4	339.4	262.3	242.3	209.65	202.73	207.9
Building & Construction	109.8	116.3	103.5	107.5	49.22	42.52	42.29
Machinery	257.4	244.8	267.1	306.7	295.33	255.78	263.84
INTERMEDIATE GOODS.....	273.5	333.8	296.2	290.26	608.96	530.99	574.09
Petrol Oil	136.1	181.9	167.2	148.86	193.82	158.38	183.16
Fertilizers	23.8	16	11.3	11.7	11.75	23.34	22.31
Unprocessed goods	113.6	135.9	117.7	129.7	403.39	349.27	368.62
CONSUMER GOODS.....	327.2	388.3	312.2	359.5	377.65	361.81	374.2
Food	0.8	48.9	93.7	127.5	44.2	52.67	48.37
Others	326.4	339.4	218.5	232	333.45	309.14	325.83
UNCLASSIFIED IMPORTS.....	152.4	87.3	224.1	198.6	N/A	N/A	N/A
TOTAL	1476.7	1509.9	1465.4	1504.86	1540.81	1393.83	1462.32
T.Sha/US\$ (Average)	219.57	230	418	512	588.2		

Source: Bank of Tanzania * Estimates

Annex A

THE 1997/98 BUDGET STRUCTURE (MTshs)



Source: Ministry of Finance

