SPEECH BY THE MINISTER FOR FINANCE AND ECONOMIC AFFAIRS HONOURABLE MUSTAFA HAIDI MKULO (MP), INTRODUCING TO THE NATIONAL ASSEMBLY, THE ESTIMATES OF GOVERNMENT REVENUE AND EXPENDITURE FOR THE FINANCIAL YEAR 2008/09 ON 12TH JUNE, 2008

INTRODUCTION:

1. ***Mr. Speaker,*** I beg to move that this esteemed House now resolves to debate and approve Government proposals for Revenue and Expenditure Estimates for the Financial Year 2008/09. This budget has been consolidated into four volumes which provide details of budget estimates. Volume One presents the revenue estimates. Volumes Two and Three contain recurrent expenditure estimates for Ministries, Government Departments, Regions and Urban and District Councils. Volume Four presents development expenditure estimates for the Ministries, Government Departments, Regions and Councils. In addition, there is the Finance Bill, 2008 which is part of this budget.

2. ***Mr. Speaker,*** preparation of this budget involved consultations with a broad range of Government and Non-Government Institutions, and other stakeholders. As last year, Members of Parliament had an opportunity early this year to

discuss the Guidelines for the Preparation of the Plan and Budget and provided advice on the priorities for the 2008/09 budget. The process for preparing the Guidelines is an important element in the budget process, as it provides an opportunity to stakeholders including Members of Parliament, to provide input before the budget proposals are finalised and presented to the Parliament for approval. On behalf of the Government, I would like to express my appreciation to Honourable Members of Parliament for their advice which has greatly assisted in improving this budget. This will be a regular annual process in order to join our efforts in developing strategies for accelerating the implementation of CCM's commitment towards improving the standard of living for every Tanzanian.

3. ***Mr. Speaker,*** I would like to express my sincere appreciation to all those who participated, in one way or another in the preparation of this budget. In a special way, I thank the Finance and Economic Affairs Committee of the Parliament, under the chairmanship of Honourable Dr. Abdallah Omari Kigoda, Member of Parliament for Handeni Constituency, for keenly scrutinising the budget estimates and providing advice on the various areas of this budget. The invaluable advice offered by this Committee has greatly assisted in improving the budget that I am presenting today.

4. ***Mr. Speaker,*** I would also like to thank the staff of various Ministries, Government Departments, Regions, Local Governments', national and international organisations, the academia, and representatives of the private sector, for their invaluable contributions which have assisted in the preparation of this budget. I would like to express my appreciation to the Office of the Attorney General for the timely preparation of Finance Bill, 2008 and the various legal notices which form part of this budget. I would also like to express my gratitude to my colleagues in the Ministry of Finance and Economic Affairs, starting with the Deputy Ministers; Honourable Jeremiah S. Sumari (MP) and Honourable Omari Y. Mzee (MP); Permanent Secretary Mr. Gray S. Mgonja; Deputy Permanent Secretaries; Mr. Ramadhani M. Khijjah, Mr. John M. Haule and Mr. Laston T. Msongole, Heads of Departments, Institutions and all members of staff of the Ministry of Finance and Economic Affairs. Let me also thank the Government Printer for the timely publication of this budget speech. Finally, I would like to extend my special thanks to all experts who offered professional suggestions concerning policies, strategies and various tax measures which have been largely taken into account in finalising this budget.

5. ***Mr. Speaker,*** I would like to take this opportunity, to thank the former Minister for Finance, Honourable Zakia Hamdani Meghji (MP) and the former Deputy Minister for Finance, Honourable Abdisalaam Issa Khatib (MP). I would also like to express my appreciation to the former Minister for Planning, Economy and Empowerment, Honourable Dr. Juma Halifa Ngasongwa (MP), and his former Deputy Minister, Honourable Gaudence Kayombo (MP) for the work well done in leading the former two Ministries. I have had many lessons from them which are proving handy and helping me in leading the new Ministry of Finance and Economic Affairs. I wish them good health.

6. ***Mr. Speaker,*** earlier today I provided a review of the status of implementation of macroeconomic policies for the year 2007/08, and the medium term outlook for 2008/09 - 2010/11. I would now like to present a review of the implementation of policies and objectives of the 2007/08 budget especially for the first nine months of this financial year.

REVIEW OF THE IMPLEMENTATION OF THE 2007/08 BUDGET

7. ***Mr. Speaker,*** the 2007/08 budget was implemented on the basis presented in June 2007 and with a view to achieving the objectives stated at that time. The focus of the budget was

centered on strengthening domestic revenue collection, allocation of budgetary resources in line with the priorities of CCM Election Manifesto of 2005 and the National Strategy for Growth and Reduction of Poverty (MKUKUTA), strengthening public financial management and budgetary control, and accountability. The implementation of the 2007/08 budget is as explained here below.

8. ***Mr. Speaker,*** key issues emanating from the first nine months of implementation of 2007/08 budget are as follows:-

(i) To the large extent, our budget remains dependent on foreign financing despite rising domestic revenue. Thus, the daunting challenge for the 2008/09 budget is to strengthen collection of domestic revenue and contain growth of unmatched recurrent Government expenditures.

(ii) The contribution of non-tax revenue to domestic revenue is still low despite existing opportunities to improve it; the Government is preparing a strategy to explore appropriate measures to increase the share of non tax revenue to domestic revenue.

(iii) However, domestic revenue collection remains on track and is expected to meet

the target by the end of the financial year.

(iv) Public procurement procedures remain a challenge for Government institutions and therefore affect budget execution. Plans to improve performance of the Procurement Management Units are underway, including a strategic plan to develop the public procurement profession.

(v) Overall, Government expenditure remains contained within budget estimates and is expected that the 2007/08 budget will be executed as approved by the Parliament, except for those areas that needed re-allocations to meet emergency needs.

9. ***Mr. Speaker***, there are other areas the Government committed to implement during this financial year. I would now like to give a brief account on the implementation progress of these commitments as follows:

(i) The Government announced its intention to transfer its deposits from commercial banks to the Bank of Tanzania (BOT) in order to prevent banks from using the Government's funds to buy Treasury Bills hence causing it to incur interest expenses

on its own money. Most of the Government funds in commercial banks are foreign grants and concessional loans. Measures which have been taken in this exercise include the following:-

(a) The Government has identified and validated respective accounts.
(b) The Government has initiated a dialogue with the Development Partners funding the accounts on the best way to solve the problem.
(c) We have identified the requirements that will enable the Bank of Tanzania to handle management of the accounts once they are opened, and to ensure that the BOT will be able to provide the funds when needed for financing intended projects.
(d) Procedures for opening new accounts at the BOT for the Government projects have already started.

(ii) The Government has started using the Tanzania Inter-bank Settlement System (TISS) on a pilot basis, so that the system is ultimately used for all or most Government payments, thus eliminate the need for large balances in any Government accounts in commercial banks. The system reduces use of cheques and cash. The system is already being used by the

Tanzania Revenue Authority in collecting revenue from large taxpayers. The TISS is used by MCA (T) and will be the payment system in the implementation of projects which financed by the Millennium Challenge Corporation (MCC). Implementation of the projects will commence during the coming fiscal year (2008/09). Under that system, payments for executing respective projects will be directly entered and sent to respective accounts without writing payment cheques.

(iii) In the efforts to improve domestic revenue collection, the Government, through TRA, has analysed tax exemptions with the view to reducing them in order to save public revenues. The analysis has revealed that all exemptions are statutory, and provided for in the legislations. A significant part of the exemptions are to investors in the mining sector, and through Certificates of Incentive under the Investment Act, 1997. Other beneficiary groups include religious organisations and non-Governmental organisations, especially those providing services for community development. However, taxes that are exempted for the latter group are paid by the Government through Treasury Voucher System.

10. ***Mr. Speaker***, the Government is now considering various rationalising amendments in the law in order to reduce tax exemptions and save Government revenues. This exercise is continuing.

11. ***Mr. Speaker***, the Tanzania Revenue Authority continues to provide entrepreneurial and tax education to small taxpayers. As part of this programme, TRA is supplying publications on business discipline, entrepreneurship, and tax payment, especially on Value Added Tax (VAT) and income tax.

12. ***Mr. Speaker,*** following the measures taken by the Government, including a reduction in the use of Treasury Bonds and Treasury Bills in the financial market, Government's decision to reduce idle public cash balances in commercial banks, and improved management of the domestic securities market, interest rates for bank loans have started to decline, and are expected to decline further. Furthermore, the recently enacted Finance Leasing law is expected to facilitate improved access to credit through leasing. Moreover, the Government has prepared the various legal amendments required in order to put in place a conducive environment for financial institutions to provide mortgage financing products. Recommendations for the respective amendments will be submitted to the Parliament during the financial year 2008/09.

Pending the completion of these efforts, a number of financial institutions are already providing mortgage loans on the basis of existing laws.

13. ***Mr. Speaker,*** the Government intended to increase the capital of the Tanzania Investment Bank (TIB) to at least Shillings 50 billion over a three years period. This intention has now been fulfilled. The 2008/09 Budget includes Shillings 21 billion for this purpose, thus bringing the bank's capital to the target Shillings 50 billion. This reflects the Government's determination to address the persistent lack of long term credit for industrial and agricultural sectors.

14. ***Mr. Speaker,*** after completing the recapitalisation of TIB, the Government's focus will now be on restructuring the Tanzania Postal Bank (TPB). Earlier assessment had indicated that the Bank needed reorganisation before its future role could be defined. The Bank has recently strengthened its business position through technological modernisation, expanding its branch network and customer base, mobilising deposits, and introducing new financial products.

15. ***Mr. Speaker,*** following the release of the 2007 Audited Statements of the National Microfinance Bank (NMB), the planned sale of the Government's 21 percent shares in the bank is now almost complete. After deducting an estimated Shillings 5 billion for transaction costs,

the Government expects to raise Shillings 58 billion from this exercise, and the amount has been budgeted for in 2008/09. Furthermore, privatisation of the National Insurance Corporation is underway, with the insurance business separated from real estate operations.

16. ***Mr. Speaker,*** the Government has prepared a framework for increased contribution to its budget by Public Agencies and institutions . I will provide more details on the proposed framework later. The retention scheme, whereby MDAs collect revenue and retain a share of the amount collected has been strengthened to provide more incentives for these institutions to increase their revenue effort.

DOMESTIC REVENUES

17. ***Mr. Speaker,*** in the year 2007/08, the Government planned to increase its revenue collection by adjusting the tax structure and improve collection processes in order to raise at least Shillings 3,502.583 billion (3.5 trillion) in domestic revenue equivalent to 18.1 percent of the GDP (using previous statistics for the base year), compared to the 14.3 percent collected in financial year 2006/07. Following the recent adjustment of GDP statistics, the target of 18.1 percent is now equivalent to 16.7 percent.

18. ***Mr. Speaker,*** a range of measures were implemented with a view to enhance domestic revenue collection including, continued effort to improve the business environment and investment in order to broaden the tax base, and registering new taxpayers. Moreover, under the TRA Second Corporate Plan, there has been improvement in supervision, implementation and accountability in and of TRA. As stated earlier, the Government has begun to evaluate the contribution of non-tax revenues administered by Ministries and various other Government Departments in order to identify and correct deficiencies with the aim of increasing efficiency in non-tax revenue collection.

19. ***Mr. Speaker,*** during the year 2007/08, the Government introduced amendments to the Value Added Tax Act, CAP 148. These amendments provided tax relief for diapers, urine and hygienic bags for medical use and fire extinguisher tanks in order to promote their use. Furthermore, the Government reduced the lower marginal income tax rate for employment income from 18.5 percent to 15 percent in order to reduce tax burden for employees. The Government also adjusted the specific excise duty rates by the inflation rate in order to protect public revenue in real terms. Moreover, the Government raised the fuel levy on petroleum products and adjusted the structure of the annual motor vehicle license fee in order to raise

resources for the Road Fund and meet increased road maintenance cost. The overall results of these measures have been satisfactory.

20. ***Mr. Speaker,*** domestic revenue during the period July 2007 to March 2008, reached Shillings 2,656.2 billion, compared to the projected Shillings 2,633.9 billion for the period, being 100.8 percent of projection. Good performance was particularly recorded by personal income tax from employees (PAYE), corporate income tax, and Skills Development Levy. On the other hand, the performance of non-tax revenues collected by Ministries and Government Departments, and taxes on imports, were not satisfactory. Nevertheless TRA set a new monthly record by collecting Shillings 328.6 billion in December 2007, beating its own earlier record of Shillings 259 billion collected in March 2007. The positive trend in revenue collection reflects improved tax administration, the impact of implementation of TRA's modernisation programme under the Second Corporate Plan, and implementation of the various revenue measures approved by the Parliament in fiscal year 2007/08. Implementation of TRA's third Corporate Plan will commence in July, 2008 and emphasize, among other things, on strengthening the Customs Administration.

FOREIGN LOANS AND GRANTS

21. ***Mr. Speaker,*** during July 2007 - March 2008 external grants and concessional loans reached Shillings 1,873.781 billion, equal to 80 percent of the annual estimates. Out of this amount, General Budget Support (GBS) was Shillings 956.038 billion, which was 8 percent higher than the annual estimate. Two factors account for this; first, the African Development Bank concessional loan scheduled for 2006/07 was delayed and disbursed this year. Second, most of our GBS Development Partners made their disbursements during the first half of the FY 2007/08 consistent with the agreement under the Joint Assistance Strategy for Tanzania (JAST). During the same period, sector and programme basket funds' disbursements amounted to Shilling 383.786 billion, which is 33 percent higher than the annual estimates. However, disbursements to development projects during the period July 2007 – March 2008 reached Shillings 533.957 billion equal to 60 percent of the target during the same period. This is a result of slow pace in project implementation due to various reasons.

EXPENDITURE

22. ***Mr. Speaker,*** the overall fiscal performance for the first nine months of the financial year 2007/08 has been satisfactory. In general, expenditure continues as was approved by the Parliament. However, the budget execution

encountered a number of challenges including inflation caused by increasing international food, fuel and fertilisers prices. To mitigate the development, the Government implemented a number of measures, including a waiver of import duties on imported maize as an incentive to traders to import large quantity of maize. The measure could, however not bear the expected fruits due to a shortage of maize all over the World. Furthermore, the Government reduced the import tariff on cement as an incentive for traders to import the product to address a notable shortfall in domestic supply. The Minister responsible for the sector will announce further measures to deal with possible food shortages in the country at the time of presenting the policy and budget estimates for his Ministry.

23. ***Mr. Speaker,*** by the end of March 2008, total expenditure reached Shillings 4,174.415 billion (trillion 4.147) as compared to the estimated Shillings 4,836.919 billion (trillion 4.836) for the period. Recurrent expenditure was Shillings 2,451.925 billion (trillion 2.452), and development expenditure Shillings 1,695.491 billion (trillion 1.695). Recurrent expenditure comprises the wage bill, debt service, pension payments and other administrative expenses (OC). Considering the sum of domestic revenues and foreign aid of Shillings 4,530.0 billion and expenditure of Shillings 4,147.4 billion, the

budget had a surplus of Shillings 282.6 billion for the period July 2007 – March 2008.

24. ***Mr. Speaker,*** during the current financial year, the Government has continued to implement the cash budget management system. This system has been successful in controlling public expenditure and in restricting domestic borrowing to finance recurrent expenditure. The Ministry of Finance and Economic Affairs has also implemented a range of measures to further strengthen the cash budget management system for various implementing agencies, including provision of indicative three months' rolling resource projections for the MDAs, and strengthening the Integrated Financial Management System (IFMS) at various levels of the Government. Furthermore, the expenditure tracking units of the Ministry of Finance and Economic Affairs have been strengthened to effectively continue tracking and monitoring of public expenditures all over the country.

PUBLIC PROCUREMENT

25. ***Mr. Speaker,*** when presenting the National Budget for 2007/08 last year, the Government announced the promulgation of the Local Governments' Public Procurement Regulations in order to reduce problems and disputes associated with procurement at the Local Government level. The Regulations were

published in the Government Gazette issue Number 177 on 3rd August, 2007. A remaining obstacle in the procurement area is the lack of sufficient qualified procurement professionals. The Government will strengthen the Procurement Units by building the capacity of the relevant staff. Furthermore, the supervision of the procurement profession is being transferred to the Ministry of Finance and Economic Affairs from the Ministry of Infrastructure Development in consideration of the fact that large part of the Government budget is implemented through procurement and therefore public financial management includes management of public procurement.

26. ***Mr. Speaker,*** in order to monitor expenditure of public funds transferred to LGAs, the Government will review the Local Government Act, Chapter 290 together with the Public Finance Act, Chapter 348 to enable the Paymaster General, with the assistance of the Accountant General to monitor and manage public funds expenditure in LGAs.

DECENTRALISATION BY DEVOLUTION (D BY D)

27. ***Mr. Speaker****,* during the year 2007/08, the Government accelerated the implementation of the decentralisation by devolution policy through LGAs. Specific measures involved the Ministries of Education and Vocational Training;

Agriculture, Food and Cooperatives; Water and Irrigation; Health and Social Welfare; Infrastructure Development and Prime Minister's Office – Regional Administration and Local Governments (PMO – RALG), and a total of Shillings 216.2 billion was transferred to the Councils from these Ministries. The exercise raised the Councils' budgetary allocation to Shillings 1,074.6 billion in 2007/08 from Shillings 858.4 billion in 2006/07.

28. ***Mr. Speaker***, in implementing the D by D policy, the Government continues to address emerging challenges which include capacity building for the Councils to enable them to effectively implement the transferred responsibilities, improve frontline service delivery, ensure that sufficient resources are allocated for the transferred activities, and rationalise and simplify the procedures for transferring funds to the Councils.

29. ***Mr. Speaker***, another eight Ministries have been evaluated and activities to be transferred to the Councils identified. The Ministries are: the President's Office – Public Service Management (PO – PSM); Lands and Human Settlement Development; Community Development, Gender and Children; Livestock and Fisheries Development; Natural Resources and Tourism; Energy and Minerals; Industries,

Trade and Marketing; and Labour, Employment and Youth Development.

30. ***Mr. Speaker,*** in order to ensure that the financial resources transferred to the Councils reach target beneficiaries and finance execution of intended objectives, the Government will strengthen the monitoring of resources at all levels including auditing of the development projects. In this regard, the Government during the 2008/09 financial year will continue to strengthen the offices of the District Commissioners, District Administrative Secretaries, District and Urban Councils' Chairpersons for managing budget execution, and ensuring good governance and accountability in public finance management in their respective areas. The Government, in collaboration with other stakeholders, is also contemplating means of reducing the number of Councils' bank accounts in which funds from various sources are deposited.

JOINT FINANCE COMMISSION

31. ***Mr. Speaker***, the Union Government and the Revolutionary Government of Zanzibar have both reviewed the Report of the Joint Finance Commission (JFC) on the criteria for sharing revenues and contributing to the cost of running the Union Matters. The JFC has been tasked to provide further analysis and elaboration

in a number of areas of its report, to facilitate the two Governments' consideration of the Commission's recommendations.

THE 2007/08 BUDGET LIKELY OUT-TURN TO JUNE, 2008

32. ***Mr. Speaker,*** based on the budget execution trends over the nine months to March 2008, the Government is confident that planned revenue collection targets to June 2008 will be achieved. Indeed, domestic revenue is expected to slightly surpass the target of Shillings 3,502,583 million (trillion 3.5), despite projected shortfalls in taxes on imports and non-tax revenues. External grants and concessional borrowing for General Budget Support is expected to surpass the target. However, grants and concessional borrowing for implementation of development projects will not reach the target due to delays in disbursements. On the expenditure side, it is expected that expenditure on Other Charges (OC) will be on target. Domestically financed development expenditure will also be on track, but foreign financed development expenditure will fall short of the target.

CHALLENGES AHEAD OF US

33. ***Mr. Speaker,*** some of the budgetary challenges that our country is facing include:

(i) Resources required for financing the implementation of MKUKUTA, particularly building economic and social infrastructure, by far exceed our national

capacity despite an increasing domestic revenue effort. To this end, more efforts are needed to involve the internal and external private sector in implementing MKUKUTA;

(ii) Dependence of the budget on the donor external financing, which is unpredictable, affects the Government's medium term planning and implementation of annual plans. Strategies towards self reliance over the core programmes are therefore needed, with any foreign aid supplementing our own effort;

(iii) Execution of the budget in areas of procurement and public expenditure reporting is still short of satisfactory;

(iv) Budget execution, especially for infrastructure construction projects, is constrained by shortage of contractors with the required capacity, skills, equipment, and experience. This problem must be addressed if we are to keep the requisite pace and achieve our growth targets; and

(v) To some extent, the budget faces a risk if prices of fuel, foodstuffs, raw materials and inputs continue to rise.

THE BASIS AND OBJECTIVE OF THE FINANCIAL YEAR 2008/09 BUDGET

34. ***Mr. Speaker***, during 2008/09, the Government will continue to implement national plans as stipulated in the CCM Election Manifesto, National Development Vision 2025 and the MKUKUTA. Moreover, resources allocation will continue to be based on priority areas expected to stimulate economic growth and improve social services delivery. Priorities that have been considered on the basis of the Economic and Social Policies that I presented to you this morning include education, infrastructure, agriculture, health, water, and energy.

35. ***Mr. Speaker,*** the objectives of the 2008/09 budget include the following:

(i) To collect domestic revenue of at least 18.5 percent of the Gross Domestic Product (GDP) compared to the 16.7 percent of the GDP which is expected to be collected by the end of the FY 2007/08;

(ii) To accord priority to the interventions identified through a consultative process that involved a broad cross section of stakeholders, as well as those stipulated in the MKUKUTA, CCM Election

Manifesto of 2005, and the Millennium Development Goals;

(iii) With effect from 2008/09, the Government recurrent expenditure shall be limited to our capacity to raise domestic resources, and will be financed by 100 percent from domestic revenue;

(iv) To enhance discipline in public funds spending, including control of allowances that are not related to productivity or based on any law.

(v) In the execution of the development budget, first priority will be given to payment of contractual obligations with construction companies, especially infrastructure and water projects.

REVENUE

36. ***Mr. Speaker***, in the Financial Year 2008/09, domestic revenue is projected to be Shillings 4,728.595 billion (4.728 trillion) equivalent to 18.5 per cent of the GDP compared to 16.7 per cent of the GDP in the Financial Year 2007/08 (using current statistics). This represents an increase of 31 percent of the domestic revenue collection in 2007/08. In order to achieve this major goal of domestic revenue collection, the following measures will be undertaken:

(i) More emphasis will be on widening the tax base by registering new taxpayers, improve compliance, and continue improving the investment and business environment;

(ii) The tax base will expand as a result of high economic growth particularly in the sectors that contribute substantially to Government revenue. The management and control of tax exemptions will also increase the tax base;

(iii) To strengthen supervision of excise and customs duties;

(iv) Implementation of the TRA Third Corporate Plan, which focuses on promoting compliance and accountability among the taxpayers and tax collectors alike;

(v) The Government will put in place better procedures for non-tax revenues collection. The outcome of these procedures will start to be noted with effect from 2009/10.

37. ***Mr. Speaker,*** due to the expansion of economic activities in the country, the revenues of institutions, Government Agencies and Authorities have been increasing yearly thereby making some of these organizations to enjoy super normal surpluses which could have increased the resources available for implementing important national programmes.

Some governing legislations of these organisations, especially those establishing Regulatory Authorities, are not clear on the role of the Minister for Finance and Economic Affairs in managing public financial and other resources, thereby causing an inconsistence between them and the Public Finance Act, CAP 348.

38. ***Mr. Speaker,*** the Government has noted the need for the institutions, Government Agencies and various authorities to contribute to the Consolidated Fund of the Government. In view of this, the Public Finance Act, CAP 348, will be amended to authorise the Paymaster General to direct these organizations to contribute to the Consolidated Fund in each year according to the organisations budget. The procedures to govern the contribution process will be laid down in Regulations under the Public Finance Act; CAP 348.

GRANTS AND NEW BORROWING

39. ***Mr. Speaker***, the Government will continue to coordinate effective implementation of the Joint Assistance Strategy for Tanzania (JAST), maintain good relations with our development partners and the international financial institutions, and seek their financial assistance in line with their commitments to provide grants and concessional loans for MKUKUTA implementation. Experience on aid management

records frequent delays in confirmation of pledges or disbursements of committed amounts, which affects the implementation of targeted beneficiary project and programmes. The Government will therefore seek ways to improve the management of foreign aid in the medium term, including enhancing the reliability of in year and medium term pledged donor funds. The decision to limit recurrent expenditure to domestic revenue from 2008/09 is in part to address this problem. In this regard, aid resources will now be directed towards development programmes and projects that stimulate further economic growth which a critical basis of sustainable poverty reduction.

DOMESTIC BORROWING

40. ***Mr. Speaker,*** as in 2007/2008, the Government will continue with its policy of zero domestic borrowing for financing the budget. However, the sales of Government Securities to the public will continue for rollover of maturing obligations of a similar character, and for liquidity management. Moreover, a Joint Cash Management Committee composed of members from the Ministry of Finance and Economic Affairs, the Bank of Tanzania and TRA has been formed to closely follow up on the flow of Government funds in the financial system.

EXPENDITURE POLICY

41. ***Mr. Speaker,*** the Government will continue emphasising the expenditure policies implemented in 2007/08, with more emphases placed on economic growth, improvement of social wellbeing, devolving power to the people through D by D, good governance and accountability, and attaining the macroeconomic targets which I explained in my speech on economic survey earlier today. The priorities for the next year take into account the earlier stated challenges, and the views expressed by the Honourable Members of Parliament. The Government will also continue to implement the cash budget management system, and the measures to improve its operation. Control of public expenditure will continue to be strengthened, targeting the loopholes for unproductive spending at all levels of Government.

42. ***Mr. Speaker***, in 2008/09, the Government has allocated funds in various important areas based on the priorities and National Plans explained in the National Economic Survey for 2007 and the Trend for the Medium Term (2008/09 – 2010/11). I would now like to mention some of those. Resources have been allocated to the main priority areas as follows:

(i) the educational sector is allocated Shillings 1,430.4 billion in 2008/09 compared to Shillings 1,086.0 billion in 2007/08;

(ii) Roads infrastructure is allocated Shillings 973.3 billion in 2008/09 compared to Shillings 777.2 billion in 2007/08;

(iii) the Health Sector is allocated Shillings 803.8 billion in 2008/09 compared to Shillings 589.9 billion in 2007/08;

(iv) Agriculture is allocated Shillings 460.0 billion in 2008/09 compared to Shillings 379.0 billion in 2007/08;

(v) the Water Sector is allocated Shillings 230.6 billion in 2008/09 compared to Shillings 309.1 billion in 2007/08; and

(vi) the Energy Sector will get Shillings 383.4 billion in 2008/09 compared to Shillings 354.0 billion in 2007/08.

43. ***Mr. Speaker***, the six sectors of economic infrastructure and social services, are allocated about 64 percent of the total budget for 2008/09. Adding the budget for Good Governance, which is among the important MKUKUTA areas, the allocation for the priorities under the ruling party's manifesto and MKUKUTA will far exceed two thirds of the total budget including wages and debt service.

44. ***Mr. Speaker,*** detailed explanation on these important sectors is as follows:-

(i) Let me start with agriculture which is allocated Shillings 460.0 billion or 6.4 percent of the 2008/09 budget. It should be understood that these funds do not include the budget allocated to District Councils which also deal with agriculture. In addition, as stated earlier, the implementation of MKUKUTA is the responsibility of the Government, the private sector and other development stakeholders. It is important that I also state here that agricultural development will depend on other sectors' contribution such as infrastructure, credit and other financial services, education, markets and industries. In the financial year 2008/09, the larger amount of the budget allocated for agriculture will be spent on fertilizer subsidies, the Special Grain Reserve (SGR), research particularly on improved seeds, and training. The Government expects that the private sector will positively respond to the opportunities coming up in agriculture in collaboration with the Government, and provide the other needs of the sector, including producing fertiliser locally, supply tractors, etc, It is important to note that our agriculture

will become modernised with high productivity if we have agro-processing industries and stop selling raw materials. The industries ought to be built by the private sector.

(ii) Roads infrastructure is allocated enough funds to pay all maturing contractual obligations and completing ongoing projects according to its priorities of the respective Ministries and Councils.

(iii) The Health sector is allocated 11 percent of the 2008/09 budget. Let me explain here that the budget allocated for the sector does not include donor and Non-Governmental Organization funding outside the Government system. Such funding includes resources for the fight against HIV/AIDS, Malaria, and TB, and the like, which are managed either by the development partners offering the funding or their representatives. It is also important to note that more than 20 percent of health services are offered by faith-based organisations that are not covered in the budget I am presenting to Parliament.

(iv) The budget for the Water Sector has declined relative to 2007/08, mainly due to the completion of a big water project in

Shinyanga and Kahama. Moreover, there has been a reduction in external funding for the Monduli Water Project in the 2008/09 budget compared to 2007/08.

(v) As regards the Energy budget, it is important to note that the recent jump in the sector's allocation was on account of the emergence power projects, consisting mainly of imported leased and own generators and funded through the multilateral debt relief (MDRI) from the IMF, The decline reflects the status of implementation of the respective projects. Henceforth, projects in this sector will depend on availability of resources from donors as well as our own sources.

(vi) As in the 2007/08 budget, the education sector is allocated more funds than any other sector, reflecting the undisputable fact that education is the key of a prosperous life. We have widened the opportunities for all Tanzanian children to access education, and we understand that the requirements for more teachers, facilities, teaching aid, laboratories, and meals are required and costly.

45. ***Mr. Speaker,*** besides the six areas of economic infrastructure and social services, there is another important area of MKUKUTA, that is, Good Governance; because security and peace are equally important. There are also other areas like debt services, pensions and health insurance that are provided for in the budget.

46. ***Mr. Speaker,*** it will be remembered that in February 2008, the President of the United States of America, George W. Bush and H.E the President of the United Republic of Tanzania, Jakaya Mrisho Kikwete, signed the Millennium Challenge Compact Agreement which offered grants to Tanzania amounting to USD 698 million for infrastructure projects, in roads, energy, water, and one airport. The projects that will be implemented are located in Tanzania Mainland and Zanzibar. The Agreement signed by the two Presidents is for five years. For the first year of implementation, that is 2008/09, Shilling 68.5 billion is programmed to be spent on these projects in line with the work programme for the implementation of the Compact projects.

REFORM OF THE TAX STRUCTURE, FEES AND REVENUE MEASURES

47. ***Mr. Speaker,*** in order to build sustainable capacity of financing recurrent expenditure from domestic revenue, the Government will implement various measures to

enhance domestic revenue collection efforts including expanding the tax base by registering new taxpayers and continuing to strengthen the macro economic stability which supports the growth of the private sector. TRA will also start implementation of its Third Five Year Corporate Plan, following the completion of the implementation of a successful Second Five Year Corporate Plan.

48. ***Mr. Speaker***, the Government proposes to review the tax structure, including a review of tax rates fees and other charges; and tax administration and collection procedures. 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) Laws on Motor Vehicle Taxation;
(e) The East African Community Customs Management Act, 2004; and
(f) Non Tax Revenue Laws.

A. The Value Added Tax Act

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

(i) Modify and expand the scope of qualifying services in the First Schedule to the VAT Act for zero rating when exported to include: services of consultants, engineers, lawyers, accountants and other similar services; telecommunication services; radio and television broadcasting services; services rendered by intermediaries; and ancillary transport services;

(ii) Exempt VAT on burning gel for domestic use to reduce their cost and encourage its usage as alternative to kerosene, which is expensive, and charcoal which leads to deforestation;

(iii) Provide VAT special relief on supplies to Moto Poa Ltd of ethanol, dyestuff and thickening agent as inputs for production Moto Poa burning gel;

(iv) Exempt VAT on Compressed Natural Gas (CNG) and CNG cylinders as it is now for Liquefied Petroleum Gas (LPG) in order to promote its usage instead of kerosene, which is expensive, and charcoal which leads to deforestation;

(v) Exempt VAT on bitumen to reduce road construction costs;

(vi) Zero rate VAT on locally produced sacks for packing imported bulk agricultural produce

Together, the VAT measures will reduce Government revenue by TShs. 1,211 million.

B. The Income Tax Act

50. ***Mr. Speaker,*** it is proposed to make the following amendments in the Income Tax Act CAP 332:-

(i) Introduce an Alternative Minimum Tax (AMT) at the rate of 0.3 percent of turnover on corporate entities making tax loss for three consecutive years. Such corporate entities make commercial profits, however 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;

(ii) Introduce a final withholding tax on goods and services at the rate of 2 percent for payments made by the Government to suppliers without Taxpayer Identification Number (TIN);

(iii) Exempt capital gain tax on sale of units from an approved collective investment schemes;

(iv) Review Personal Income Tax structure in line with Government decision to increase the minimum wage and to protect employment income from inflationary impact. The current and proposed rates as follows:-

Current Rates

Monthly Income	Rate Payable
Where monthly income does not exceed Shs. 80,000/=	NIL
Where monthly income exceeds Shs. 80,000/= but does not exceed shs. 180,000/=	15% of the amount in excess of Shs. 80,000/=
Where monthly income exceeds Shs. 180,000/= but does not exceed Shs. 360,000/=	Shs. 15,000/= plus 20% of the amount in excess of Shs. 180,000/=
Where monthly income exceeds Shs. 360,000/= but does not exceed Shs. 540,000/=	Shs. 51,000/= plus 25% of the amount in excess of Shs. 360,000/=
Where monthly income exceeds Shs. 540,000/=	Shs. 96,000/= plus 30% of the amount in excess of Shs. 540,000/=

Proposed Rates

Monthly Income	Rate Payable
Where monthly income does not exceed Shs. 100,000/=	NIL
Where monthly income exceeds Shs. 100,000/= but does not exceed shs. 360,000/=	15% of the amount in excess of Shs. 100,000/=
Where monthly income exceeds Shs. 360,000/= but does not exceed Shs. 540,000/=	Shs. 39,000/= plus 20% of the amount in excess of Shs. 360,000/=
Where monthly income exceeds Shs. 540,000/= but does not exceed Shs. 720,000/=	Shs. 75,000/= plus 25% of the amount in excess of Shs. 540,000/=
Where monthly income exceeds Shs. 720,000/=	Shs. 120,000/= plus 30% of the amount in excess of Shs. 720,000/=

Together the Income Tax measures are expected to increase Government revenue by Shs. 4,353 million.

C. The Excise (Management & Tariff) Act

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

(i) Reduce excise duty rate on Heavy Furnace Oil (HFO) from Shillings 117 per litre to Shillings 97 per litre in order to reduce industrial production costs and thus improve competitiveness of local products in the market;

(ii) Amend the excise duty structure on motor vehicles from the current structure of charging 10 percent excise duty on motor vehicles with engine capacity exceeding 2000cc to a two tier structure as follows:

(a) Motor vehicles with engine capacity below 1000cc shall have no excise duty;

(b) For motor vehicles with engine capacity exceeding 1000cc but not exceeding 2000cc the excise duty rate shall be 5 percent of the value of the car; and

(c) For motor vehicles with engine capacity exceeding 2000cc the excise duty rate shall be 10 percent of the value of the car.

(iii) Adjust the excise duty rate on mobile phone services from 7 percent to 10 percent of mobile phone services.

(iv) Adjust the specific excise duty rates on non petroleum products by 12 percent. The primary objective of this adjustment is to keep pace with inflation and thus preserve the real value of Government revenue from these sources. The current and proposed rates are as follows:-

a) Carbonated soft drinks from Shillings 48 per litre to Shillings 54 per litre;

b) Beer made from local un-malted cereals from Shillings 173 per litre to Shillings. 194 per litre;

c) Other beers from Shillings 294 per litre to Shillings 329 per litre;

d) Wine produced with more than 25% imported grapes from Shillings 940 per litre to Shillings 1,053 per litre; and

e) Spirits from Shillings 1,394 per litre to Shillings 1,561 per litre.

(v) The Excise Duty rates on cigarettes are as follows:-

(a) Cigarettes without filter tip and containing domestic tobacco exceeding 75% from Shillings 4,775 to Shs. 5,348 per mil;

(b) Cigarettes with filter tip and containing domestic tobacco exceeding 75% from Shillings 11,266 to Shillings 12,618 per mil;

(c) Other cigarettes not mentioned in (a) and (b) from Shillings 20,460 to Shillings 22,915 per mil;

(d) Cut rag or cut filler from Shillings 10,333 per kilogram to Shillings 11,573 per kilogram; and

(e) The excise duty rate on "cigars" remains at 30 percent.

D. Motor Vehicle taxation

52. ***Mr. Speaker,*** it is proposed to make the following amendments in motor vehicle taxation:-

(i) Reduce the annual motor vehicle license fees as follows:-

(a) For motor vehicles with engine capacity not exceeding 500cc, from Shs. 50,000 to Shs. 30,000;

(b) For motor vehicles with engine capacity exceeding 500cc but not exceeding 1500cc from Shs. 80,000 to Shs. 50,000;

(c) For motor vehicle with engine capacity exceeding 1500cc but not exceeding 2500cc from Shs. 150,000 to Shs. 120,000;

(d) For motor vehicle with engine capacity exceeding 2500cc but not exceeding 5000cc from Shs. 330,000 to Shs. 140,000; and

(e) For motor vehicle with engine capacity exceeding 5000cc from Shs. 175,000 to Shs. 150,000.

(ii) Exempt annual motor vehicle license fees on tractors used for agricultural purposes;

(iii) Adjust motor vehicle registration fees from Shs. 27,000 to Shs. 35,000 for motor cycles and Shs. 90,000 to Shs. 120,000 for motor vehicles

These measures together will reduce Government revenue by Shs. 2,380 million.

E. The East African Community Customs Management Act

53. ***Mr. Speaker,*** proposals for amendment of the Common External Tariff rates were discussed together with those from Kenya, Uganda, Rwanda and Burundi during the pre budget consultation meeting of the EAC Ministers for Finance which was held in Nairobi on 2nd June 2008. The agreed proposals will be submitted to the Sectoral Committee on Trade, Finance and Investment for endorsement. The agreed proposals are as follows:-

(i) Exempt import duty on hand hoes and other agricultural implements in order to reduce costs to the farmers, particularly the small scale farmers. The Secretariat of the East African Community will review capacity of the Partner States to produce locally the agricultural implements;

(ii) Exempt import duty on inputs imported by TANELEC for manufacturing of transformers and switch gears;

(iii) Remove import duty on up to 20,000 MT of barley that will be imported by brewery companies in Tanzania by December 2009;

(iv) Remove import duty on data processing machines of HS codes 8443.31.00 and 8443.32.00 as currently there is no import duty on computers;

(v) Reduce import duty rate on sodium sulphate from 25 percent to 10 percent;

(vi) Exempt import duty on vehicles specifically designed for garbage collection procured by local authorities or its approved agents;

(vii) Remove the 10 percent import duty rate on crude palm oil. Semi processed palm oil shall continue to attract import duty rate of 10 percent. The measure will put domestic industries in the level playing field with their counterparts in East Africa

These import duty measures will reduce Government revenue by Shs. 762 million.

F. The Non Tax Revenue

54. ***Mr. Speaker,*** it is proposed to amend the Public Finance Act, CAP 348 and the establishing acts for Agencies and Regulatory Authorities to empower the Paymaster General to require the Agencies and Regulatory Authorities to remit their surpluses to the Treasury annually.

G. Administration of Tax Exemptions

55. ***Mr. Speaker,*** it is proposed to amend the Third Schedule to the VAT Act in order to strengthen the administration of VAT exemptions to Non Governmental Organizations (NGOs) as follows:-

(i) Amend item 10 of the Third Schedule to the VAT Act to require NGOs applying for tax relief to submit to TRA their annual work plan stipulating the expected benefits of the planned project to the society. TRA will then issue a Tax Clearance Certificate that will allow the NGO to continue enjoying tax relief;

(ii) Amend item 10 of the Third Schedule to the VAT Act to require NGOs applying for tax relief to certify that the relief will only be used for the intended purpose and not otherwise;

(iii) Amend item 10 of the Third Schedule to the VAT Act to exclude household consumables from the relief under this provision; and

(iv) Delete item 11 of the Third Schedule to the VAT Act as the scope of this item is already covered in item 10 of the same Schedule.

H. Amendments to Various Tax Laws

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

Effective Date for Implementation of New Revenue Measures

57. Unless otherwise stated, the new revenue measures shall become effective on 1st July 2008.

THE STRUCTURE OF THE 2008/09 BUDGET

58. ***Mr. Speaker,*** during the financial year 2008/09, the Government plans to collect Shillings 7,216.130 billion. Out of this amount, domestic revenue is Shillings 4,728.595 billion, and foreign grants and concessional loans is Shillings 2,429.535 billion. Furthermore, the Government expects to raise Shillings 58.000 billion from the sale of its 21 percent share in NMB.

59. ***Mr. Speaker,*** during the fiscal year 2008/09, Government expenditures are estimated at Shillings 7,216.130 billion. Out of which, recurrent expenditure is Shillings 4,726.650 billion which is less the estimated domestic revenues of 4,728.595 billion. Development expenditures is estimated at

Shillings 2,489.480 billion. Out of the development expenditures, Shillings 1,551.100 billion is development partners' contribution through projects and basket funds; and Shillings 938.380 billion is the sum of general budget support, sale of Government NMB shares and the surplus from domestic revenues. The summary of the budget frame is as shown in the table below.

Budget Frame 2008/09

	REVENUE	Shillings in Million	
A.	**Domestic Revenue**		4,728,595
	(i) Tax Revenue	4,497,070	
	(ii) Non tax Revenue	231,525	
B.	**Foreign Loans and Grants including MDRI/ MCA(T)**		2,429,535
C.	**Sale of shares**		58,000
	Total Revenue		**7,216,130**
	EXPENDITURE		
D.	**Recurrent Expenditure**		**4,726,650**
	(i) Public Debt	648,284	
	(ii) Ministries	2,478,099	
	(iii) Regions	85,743	
	(iv) Local Governments	908,756	
	(v) Special Expenditures	364,391	
	(vi) Wages & Salaries adjustments	241,377	
E.	**Development Expenditure**		**2,489,480**
	(a) Domestic Resources	938,380	
	(b) External Resources	1,551,100	
	Total Expenditure		**7,216,130**

CONCLUSION

60. ***Mr Speaker,*** the budget for the financial year 2008/09 will be executed in a period when the whole world is faced with a daunting challenge of rising price of oil, cereals, food, agricultural inputs, and industrial inputs generally. These increases have caused inflationary pressure in all countries worldwide. Similarly, instability in the international financial markets is likely to affect inflows of foreign direct investment (FDI) from the developed to the developing countries. Therefore, we will need some interventions to mitigate the effect of these global economic deficiencies. However, countries that produce petroleum products are expected to continue to benefit from the price increases, especially, because of big demand in countries such as China, India and Brazil. Furthermore, the balance of payment shows the importance of putting more efforts to increase exports of goods and services, in order to increase the economy's resilience against such shocks.

61. ***Mr Speaker,*** as explained earlier, in this budget, the daunting challenge facing the Government is the unpredictable flow of aid and loans from Development Partners. This points to the need to double our effort towards reducing the rate at which recurrent expenditure has been expanding, especially in relation to those expenditure items that cannot be scaled down in

the event of a shortfall of revenues. In order to address this situation, the following will be taken into consideration:

(i) Implement prudent measures to reduce dependence of our budget on external resources. As stated, starting from the next financial year, the recurrent budget will be financed from domestic revenue, and the level of overall budget dependence is expected to decline to 34 percent compared to 42 percent in year 2007/08. When foreign loans, which will be paid back by the Government, are excluded from foreign financing, the level of dependence will have declined to 20 percent.

(ii) Controlling inflation by strengthening the management of money supply in the economy, and increase consultation with stakeholders especially banks in order to give them reliable information on monetary policy, its implementation, and direction.

(iii) Increase the availability of cereals whose prices have been increasing rapidly, with serious adverse impact on the lives of the public, by stopping the export of such goods, imposing an export tax, taking these two measures jointly. Other

considerations in this regard include improving the infrastructure especially for rural transportation, in order to reduce the transport costs of foodstuffs to urban areas; and

(iv) The most important measure is to take advantage of the increases in world foodstuffs price as an opportunity to increase production of food crops in the country, by encouraging the public to invest in large scale farming, and to produce more food crops as a source of food and revenue. Let us use this challenge of world food shortage as a blessing by producing more of our own food requirements, because we have land, the human resources and good weather.

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