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2011

# Speech of Government Budget of the Year 2011 - 2012

Tanzania, United Republic

Ministry of Finance and Planning

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**SPEECH BY THE MINISTER FOR FINANCE  
HON. MUSTAFA HAIDI MKULO (MP.), INTRODUCING TO THE NATIONAL  
ASSEMBLY, THE ESTIMATES OF GOVERNMENT REVENUE AND EXPENDITURE  
FOR THE FISCAL YEAR 2011/2012**

**INTRODUCTION:**

1. ***Madam Speaker***, I beg to move that this esteemed House now resolves to debate and approve Government proposals for Revenue and Expenditure estimates for Fiscal Year 2011/12. Together with this speech, there are four volumes of books which provide detailed explanation of the budget estimates: volume **one** presents revenue estimates; volume **two** describes recurrent expenditure estimates for ministries, and government independent departments while volume **three** provides recurrent expenditure estimates for regions and local government authorities, and volume **four** presents development expenditure estimates for ministries, government independent departments, regions and local government authorities. In addition, there is a Finance Bill of the year 2011 which is part of this budget.
2. ***Madam Speaker***, I am privileged at this juncture, to take this opportunity to congratulate His Excellency Dr. Jakaya Mrisho Kikwete for having been elected for a second term to lead the fourth phase Government. I would also like to congratulate Hon. Dr. Mohamed Gharib Billal for being elected as Vice President of the United Republic of Tanzania. Similarly, I congratulate Hon. Mizengo Kayanza Peter Pinda (MP.) for being elected Member of Parliament and re- appointed by the President and endorsed by the Parliament to become the Prime Minister for the second term of the fourth phase Government.
3. ***Madam Speaker***, I congratulate you, Hon. Speaker Anne Makinda (MP.) for being elected as Speaker and thus become the first woman to lead the Parliament in East Africa. This signifies the confidence vested in you by the Honourable Members of Parliament on account of your wisdom, ability and experience in this Parliament. I would also like to congratulate Hon. Job Ndugai (MP.) for being elected as Deputy

Speaker. I also congratulate all my fellow Ministers and all Deputy Ministers, for having been appointed to these posts by His Excellency the President. Further, I congratulate you all, Hon. Members of Parliament, on your election and appointment to this House.

4. **Madam Speaker**, allow me also to take this opportunity to express my sincere appreciation to everyone, who in one way or another, contributed to the preparation of this budget. Preparation of the Government Budget involves various stakeholders and institutions. Specifically, I would like to thank the Finance and Economic Affairs Committee of the Parliament under the chairmanship of Hon. Dr. Abdallah Omari Kigoda, Member of Parliament for Handeni, together with other sectoral committees of Parliament for their constructive advice during their scrutinization of the proposals of this budget.
5. **Madam Speaker**, allow me to give special thanks to the Attorney General's Office for timely preparation of the 2011 Finance Bill and various related documents which are integral part of this budget. At the Ministry of Finance, I would like to thank the Deputy Ministers, Hon. Gregory Teu (MP) and Hon. Pereira Ame Silima (MP). I thank Permanent Secretary Mr. Ramadhani M. Khijjah, Deputy Permanent Secretaries, Mr. Laston T. Msongole, Dr. Servacius B. Likwelile and Mrs. Elizabeth Nyambibo. I would like to thank Prof. Benno Ndulu, Governor of the Bank of Tanzania, Mr. Harry Kitilya, Commissioner General of the Tanzania Revenue Authority and Dr. Albina Chuwa, Director General of the National Bureau of Statistics. I would like to thank Heads of Department, and all members of staff of the Ministry of Finance. I would also like to thank the Government Printer for the timely publication of this budget. Finally, I thank experts and all those who made professional proposals regarding policies, strategies and tax related measures which to large extent have been taken on board in preparation of this budget.
6. **Madam Speaker**, this is the first Parliamentary Budget Session following the General Election of the President, Members of Parliament and Councilors held in

October 2010, which again brought in power the Chama cha Mapinduzi and its government for the second term of the Fourth Phase. This parliament is expected by Tanzanians to increase the pace of economic development and to reduce income poverty which affects a large portion of the population. This is evidenced by the composition of Honourable Members of Parliament which has good mix in terms of age, gender, education and leadership experience. The Government hopes that this composition will be a catalyst in bringing development to the people with higher speed, more zeal, and vigour.

7. **Madam Speaker**, the 2010/11 budget has continued to be used as an instrument for the implementation of economic and social development policies and objectives. During this period, there have been satisfactory achievements in service delivery to our people and improving infrastructure, thus enabling the economy to grow and reduce poverty.
8. **Madam Speaker**, the Government has completed the preparation of the Five Year Development Plan for implementation of the National Development Vision 2025. The plan has identified four pillars for considerations, these are: sustaining macroeconomic stability and maintaining the success achieved in providing social services; using the available resources as catalyst for economic growth; exploit Tanzania's geographical advantages; and increase the use of Information and Communications Technology (ICT).
9. **Madam Speaker**, the 2011/12 budget will consider the following priorities:
  - i) Electricity;
  - ii) Water;
  - iii) Transport and transportation infrastructure (railways, ports, roads, airports, national optic fibre);
  - iv) Agriculture and irrigations; and
  - v) Job creation in the private and public sectors.

The budget shall also ensure that the achievements attained under education and health sectors are protected as well as to improve the quality of services delivered.

### **Strategies to mitigate high cost of living to the citizen**

10. **Madam Speaker**, the Government is aware of the challenges facing the citizens in addressing the high cost of living. The Government's Budget for the 2011/12, among other things, aims to address this problem. There have been several challenges that require deliberate efforts by various stakeholders, including the government, private sector, and individuals to address and reduce the cost of living. Measures that will be taken include the following:

i) **The increase in prices of goods and services:** the price increase of goods and services in the country is attributed to among other things, increase in oil prices in the world market; unreliable power generation which affects productivity; and food shortages in the country and in neighbouring countries. The Government will take the following measures to address the situation:

a) **The rise in the prices of petroleum products:** The rise in the price of petroleum products has been caused by a number of factors including the rise of prices in the world market. For instance, after the world economic crisis oil prices decreased to USD 40 per barrel. Currently, the oil price in the world market is about USD 120 per barrel which is three times more than the previous price. Moreover, the cost of sea freight insurance for ships coming to our country has increased due to piracy in the Indian Ocean, importation of oil by individual companies, and political conflicts in the Middle East and Northern African countries. Apart from this, oil products imported in our country are charged excise duty and fuel levy. In addition, various authorities impose service charges in the importation and

handling of fuel. These authorities include; EWURA, SUMATRA, TBS, TIPER, Tanzania Ports Authority, TRA and oil importing companies. Despite the Government's measures to remove Value Added Tax (VAT) and imposing special rates of fuel levy and excise duty on oil products, the price continued to be high causing high cost of living.

**Madam Speaker,** in addressing this situation, the Government has decided to review the computation of the charges with the aim of reducing them. The review is expected to be completed in the financial year 2011/12. Furthermore, the Government is finalising procedures for bulky importation of oil with the aim of distributing to oil companies on whole sale basis. Regulations on bulky importation of oil have been finalised and are expected to be operational during the financial year 2011/12. This arrangement is expected to reduce oil price and transportation cost. In addition to these government's efforts, the private sector is encouraged to invest in gas extraction for use as alternative energy to petrol especially in urban areas. It is my expectation that these efforts will contribute in lowering oil prices in the country and ultimately reduce the cost of living and improve the economy as whole.

- b) **Power Shortages:** Tanzania is facing power shortages as a result of low electrical power generation capacity, which is far below the demand of this utility in the market. Taking into consideration the importance and pivotal role the utility plays in the economic growth, the Government will take several measures during this financial year to curb this situation. These include inter alia: Completion of the Dar es salaam 100MW plant and that of 60MW in Mwanza; to assist TANESCO in securing loans from International Financial Institutions for purchase of power generation plants; to re-examine power activities with a view to separating electricity

generation, its transmission and distribution by engaging private operators in the process in order to reduce the financial burden and ensure that TANESCO concentrate in area it has competitive advantage and thus increase efficiency in the electricity sector. With the completion of PPP Regulations, it is expected that some of the power generation projects will be implemented in a Joint Venture between the Government and the Private Sector. The government has initiated joint venture negotiations with power generation investors in the following projects: Mtwara 300 MW, Mpanga 144 MW, and power transmission projects of 400 KV for Morogoro –Tanga – Kilimanjaro – Arusha (682 kms) and expansion of the North West Grid for Kagera, Kigoma and Rukwa Regions (1000 kms). The government is encouraging power consumers to use alternative sources of energy, including Solar Energy, Wind Power and Biogas and efficient use of the available energy.

- c) **Enhancement of Strategic Grain Reserve:** Due to recurring food shortages caused by drought in various parts of the country, the Government will continue to purchase food crops in order to enhance the National Grain Reserve. This reserve will be used to subsidise food prices in the country by distributing grain in affordable price in the market during shortages. Likewise, farmers are advised to cultivate drought resistant crops and apply irrigation farming while observing food reserving habit.
- ii) **Employment creation:** Unemployment especially for youth has remained a big challenge. The Government is thus putting in place deliberate initiatives to create employment in various sectors as follows:-
  - a) Development of Southern Agricultural Growth Corridor of Tanzania (SAGCOT). This initiative aims at bringing agricultural revolution whereby the government will collaborate with other potential agricultural stakeholders. Implementation of

this initiative, as an integral part of "Kilimo Kwanza Vision", will help in reducing poverty among the rural population by increasing agricultural productivity and creation of employment. In 2011/12 the World Bank plans to finance this initiative with USD 60 million equivalent to Tshs 92.8 billion. The government is finalizing procedures of accessing these funds before submission for expenditure approval by the parliament.

**Madam Speaker,** the Government will continue to implement reforms in the agricultural sector by improving crop production, livestock keeping and fishery. With regard to crop production, Tanzania has arable fertile basins for rice production in Tabora, Mwanza, Shinyanga, Kigoma, Pwani, Mbeya, Kilimanjaro, Tanga and Morogoro, whereby smallholder farmers will be empowered through provision of loans, extension services and improved farm inputs (seeds and fertilizers). Research findings indicate that appropriate use of the basins, use of agricultural inputs and improved productivity could create a mixture of employment opportunities.

- b) Agricultural processing industries will add value and increase employment. Another area that can increase employment is through linkage between textile industries and agricultural sector. Efforts to improve generation of electricity by using alternative sources like wind, solar and biogas will enhance production in the industrial sector. Further, the Government will improve working environment for industries to improve efficiency.
- c) To speed up the implementation of the Property and Business Formalization Programme (MKURABITA) to increase employment. The Government in collaboration with non-state actors and Non Governmental Organisations and other stakeholders will continue to empower small and medium entrepreneurs to increase employment. The Government will improve VETA and Development



training institutions to provide training to entrepreneurs to increase employment. The Government has provided clear guidelines to loan applicants on how they can use Government guarantees under the Bank of Tanzania to access loans for production. This arrangement has benefited many entrepreneurs including cooperative societies and private entrepreneurs.

d) To increase the speed of ongoing reforms in the financial sector and implementation of the empowerment policy will facilitate credit availability of loans to many people for capital for self employment. Measures that have been taken by the Government in this area include speeding up the national identity project, establishing credit reference bureau as a custodian for the credit reference databank, and sensitizing public enterprises, private sector and social security funds to increase employment opportunities in their respective areas by investing in economic activities and provide training for self employment for unemployed youths.,

11. **Madam Speaker,** it is my expectation that, these measures will reduce the costs of living to the people and improve the economy in general. For these measures to bear the expected results, the government will need the cooperation of every one of us.

## **REVIEW OF FISCAL POLICY IMPLEMENTATION FOR 2010/11**

12. **Madam Speaker,** the 2010/11 budget took into consideration the Tanzania Development Vision 2025; National Strategy for Growth and Reduction of Poverty – NSGRP/MKUKUTA II; Millennium Development Goals (MDGs); CCM Election Manifesto of 2005; Joint Assistance Strategy for Tanzania (JAST); and National Debt Strategy.

13. **Madam Speaker,** in the financial year 2010/11, the Government continued to implement its commitments in line with its agreed fundamental policies. Those

policies aimed at strengthening revenue collection, managing the public expenditure and accountability. The Government will continue to control the size of the National Debt and to improve government's relationship with development partners who support the government budget.

14. **Madam Speaker**, based on macroeconomic objectives and fiscal policies, the Government planned to mobilize budgetary resources and to finance the recurrent and development expenditure amounting to Tshs 11.6 trillion in 2010/11. The government planned to collect domestic revenue of Tshs 6.0 trillion; revenue from local government authorities amounts to Tshs 172.6 billion; general budget support was Tshs 821.65 billion; grants and loans for development projects of Tshs 2.5 trillion; domestic and external loans was Tshs 1.3 trillion; loans for rolling over maturing government securities was Tshs 797.6 billion; and Tshs 30.0 billion from the privatization proceeds.

15. **Madam Speaker**, in implementing the budget for the year 2010/11 the following achievements were realised:

- i) The total domestic revenue collected up to March 2011 increased by 21 percent compared to revenue collected during the same period in year 2009/10. During the same period, revenue collection increased from an average of Tshs 390 billion per month in year 2009/10 to Tshs 473 billion in year 2010/11;
- ii) Financed the General Elections in October 2010 as planned;
- iii) Facilitated the acquisition of 182,000 tons of food for the National Strategic Reserve amounting to Tshs 57 billion in order to overcome the problem of food shortage in several regions in the country;
- iv) Financed the training of 4,598 students in field relating to provision of agriculture and livestock sector extension services;
- v) Government continued to pay civil servants' arrears as verified by Controller and Auditor General;
- vi) Salaries and remunerations to servants have been duly paid on time;

- vii) The Government paid an amount of Tshs 200 billion as part of the cost for the purchase of electric power generator with capacity of 60 megawatts for Mwanza region and 100 megawatts for Dar es Salaam region. The Government took necessary emergency measures in reducing power rationing in the national grid by funding the purchase of fuel for running IPTL power plant at a cost of Tshs 18.5 billion;
- viii) In cooperation with the Government of China, the Government continued with the construction of a special building for heart treatment at the Muhimbili National Hospital, as well as construction of a ward for cancer inpatients at the Ocean Roads Hospital;
- ix) Paid an additional capital of Tshs 50 billion to the Tanzania Investment Bank (TIB) and thus raising its capital to Tshs 92 billion. A total of Tshs 20 billion was paid as additional capital to the agricultural window and thus making the window having a total of Tshs 42 billion; and
- x) Provided loans amounting to Tshs 185 billion for 96,328 higher education students, as compared to Tshs 145 billion for 72,035 students in year 2009/10.

## **DOMESTIC REVENUE**

16. ***Madam Speaker***, in the financial year 2010/11 the Government estimated to collect domestic revenue amounting to Tshs. 6,003.6 billion, equivalent to 17.3 percent of GDP. In order to strengthen domestic revenue collection to finance recurrent expenditure, several measures were taken including:

- (i) Strengthening systems of revenue collection, using bank payment systems wherever possible;
- (ii) Improving services in the tourism industry by grading hotels in line with international standards with a view to increase revenue from fees collection;

- (iii) Enforce implementation of the Finance Act No. 13 of 2008 and the Treasury Circular No.8 of 2008/09 which directs parastatals and public enterprises to contribute to the Consolidated Fund.
- (iv) Continue to broaden tax base by registering new taxpayers and maintaining sustainable macroeconomic stability along with improving business environment to support growth of the private sector;
- (v) Continue close monitoring of the ongoing major reforms at the TRA under the TRA's Third Five Year Corporate Plan as it has been the basis for the increase of domestic revenue collections from one year to another;
- (vi) Take measures to increase non-tax revenue collections by Government Ministries, Departments and Agencies;
- (vii) Review procedures for tax exemptions to strengthen control over abuse; and
- (viii) Continue ensuring there is enhanced capacity to local authorities by allocating adequate skilled manpower with a view to increase efficiency in their revenue assessment and collections.

17. **Madam Speaker**, during the year 2010/11, the Government amended the Value Added Tax Act, CAP 148. Most of the amendments were made in favour of agricultural sector as a priority so as it contributes more to the GDP. In these amendments the Government exempted VAT on machines and equipments used for collection, transportation and processing of milk products to promote investment in the diary sub-sector and improve the income of individuals.

18. **Madam Speaker**, the Government exempted VAT on animal feeds locally known as "mashudu" to improve livestock keeping and better earnings of oil seed farmers; exempted VAT on agricultural implements, breeding services through artificial animal insemination and packaging materials for fruit juices. The Government granted special VAT relief to flowers' Green Houses and exempted airfreight charged on transportation of flowers for export. These measures resulted into increase of production and processing of milk, importation of milk storage tanks, availability of agricultural implements and increase in production of livestock and agricultural products in some parts of the country.
19. **Madam Speaker**, the Government granted VAT special relief on sales of goods and services to the registered farmers or cooperative unions/societies in construction of farm infrastructures such as irrigation canals, feeder roads, storage facilities or other similar services and zero rated VAT on processing of edible oil using local oil seeds. These measures have reduced production costs and added value to the products.
20. **Madam Speaker**, these measures have increased the availability of farm implements, together with livestock and agricultural products in some parts of the country. Preliminary statistics indicate that production of sunflower is expected to increase from 328,533 mts in 2009/10 to 666,030 mts in 2010/11; groundnuts production from 475,918 mts in 2009/10 to 600,300 mts in 2010/2011; and sesame from 146,919 mts in 2009/10 to 326,600 mts in 2010/11. Up to April 2011 importation of Green Houses increased from houses of 4,542,959 kilogrammes in 2009/10 to 7,181,228 kilogrammes. It is important to note that results of other measures taken in improving agricultural production will only be measured in the medium and long terms.
21. **Madam Speaker**, in the year 2010/11 , the Government also amended Income Tax Act, CAP 332 by introducing Ring-fencing within the mining areas with a view of controlling costs and restricting deductible expenses of one mine against the

taxable income of another mine; reduce the minimum Individual Income Tax rate from 15 percent to 14 percent for employees with the intention of reducing tax burden and increase disposable income to the lower income earners; extend the application of withholding tax of 2 percent to taxpayers without Tax Identification Number (TIN) supplying goods to all registered tax payers with TIN with a view to encourage voluntary registration of TIN.

22. **Madam Speaker**, this measure together with other efforts has resulted in the increase in the number of new tax payers, whereby until March, 2011, about 686,098 new tax payers were registered with TIN compared to target of 674,442 taxpayers estimated to be registered at end June 2011. Improvement of income tax in the mining sector is expected to increase revenue in the medium and long term.
23. **Madam Speaker**, during the year 2010/11, the Government amended the Excise (Management & Tariff) Act, CAP 147 by reducing excise duty rate on HFO from Tshs 97 to Tsh. 80 with a view to reduce industrial production costs by taking into Government deliberations of promoting industrial growth, creating employment and domestic revenue. Also in that period the Government amended the Motor Vehicle (Tax on Registration and Transfer) Act, CAP 124 and Road Traffic Act, CAP 168 by increasing registration fees, transfer fees and annual license fees with a view of increasing revenue.
24. **Madam Speaker**, in compliance with the requirements of the East African Protocol, in the year 2010/11 the Ministers for Finance from the EAC Partner States agreed to make several amendments on the EAC Common External Tariff and Customs Management Act, 2004, with a view to promote sectors like industries, agriculture and transport, as important catalyst in EAC economic growth.
25. **Madam Speaker**, during the period July 2010 to March 2011, domestic revenue collection including revenue from Local Government Authorities reached Tshs 4,256.3 billion, equivalent to 69 percent of the estimates 2010/11 budget of 6,176.2

billion. Out of this Tshs 3,910.6 billion, is tax revenue and Tshs 227.4 is non-tax revenue, while collections from Local Government Authorities amounted to Tshs 118.2 billion.

26. **Madam Speaker**, actual import duty collections reached Tshs 343.2 billion, equivalent to 70 percent of the target of Tshs 493.1 billion. Excise duty collection on imported products amounted to Tshs 455.0 billion, equivalent to 73 percent of the estimated budget of Tshs 622.8 billion, while Tshs 258.7 billion was collected from excise duty on locally manufactured products compared to the target of Tshs 404.2 billion, equivalent 64 percent. Collection of VAT on imports amounted to Tshs 664.6 billion compared to Tshs 999.3 billion, equivalent to 67 percent, while Tshs 611.2 was collected from VAT on local sales, compared to Tshs 992.3 billion equivalent to 62 percent of the target. Income Tax, collections reached Tshs 1,255.8 billion, equivalent to 74 percent of the budget estimates of Tshs 1,702.3 billion for the period. Collection from other taxes reached Tshs 449.7 billion which is equivalent to 72 percent of estimates of 620.9 billion.

27. **Madam Speaker**, non tax revenue collection for July 2010 to March 2011 period reached Tshs 227.4 billion compared to the estimates of Tshs 365.0 billion, equivalent to 62 percent. Revenue from Local Government Authorities reached Tshs 118.2 billion, equivalent to 68 percent of the estimates of Tshs 172.6 billion.

## **DOMESTIC BORROWING**

28. **Madam Speaker**, in the financial year 2010/11, the Government planned to borrow Tshs. 1,397.6 from domestic sources for budget financing. Out of that amount, Tshs. 600.0 billion was for financing various development projects and Tshs. 797.6 billion was rollover of maturing bonds. Up to March 2011, a total of Tshs. 1,107.5 billion was borrowed for that purpose. This amount included Government Securities amounting to Tshs. 607.6 billion which was issued in the

domestic market for rolling over matured securities while Tshs. 499.9 billion was used to finance various development projects.

### **CONCESSIONAL LOANS AND GRANTS**

29. **Madam Speaker**, Government Loans, Guarantee and Grant Act of 1974 (as amended in 2004) and its regulations, have continued to be the basis for raising loans, issuing guarantee and receipt of grants including debt relief.
30. **Madam Speaker**, during the period July 2010 to March 2011, General Budget Support (GBS) amounted to Tshs 845.7 billion equivalent to 103 percent of the budget. The reason for the increase was the decision of Canada to double its GBS contribution compared to its earlier estimates. External grants and loans for development projects and programs including Basket Funds amounted to Tshs 1,427.6 billion, equivalent to 58 percent of estimates.

### **SOVEREIGN CREDIT RATING**

31. **Madam Speaker**, following the recovery of the world economy after world economic crisis and government's intention to improve availability of verified information about performance trend of the national economy, political, and good governance which will be used by investors and creditors to take right decision of investing and lending, the Government is in the process of procuring international consultant who will lead the government in the sovereign credit rating exercise. Key issues to be considered in the credit rating exercise are: political stability, economic growth rate, control and management of government budget; control of financial markets and inflation rate; and balance of payment. Credit rating will help investors and creditors by providing information on the economic situation, political and governance of the country and thus facilitate availability soft external loans for the government and private sector.



## **Public Debt**

32. *Madam Speaker*, in year 2000/01, public debt was USD 8.55 billion compared to USD 10.01 billion in year 2005/06 which decreased to USD 7.53 billion in year 2006/07. The decrease of public debt was attributed to by debt relief from creditor countries and International Financial Institutions under enhanced HIPC and MDRI arrangements. However, public debt increased to USD 10.54 billion in year 2009/10 from USD 9.36 billion in 2008/09. Out of the 2009/10 debt, USD 5.99 billion is external debt and USD 4.55 billion is domestic debt, which includes USD 1.63 billion of Government Guarantee to Ministries, Departments and Government Agencies' projects.

## **Budget Dependence**

33. *Madam Speaker*, despite the achievements in revenue collection mentioned above, the government budget continued to depend on assistance from development partners, to the tune of 17 percent of the budget in 2010/11 down from 28 percent in 2007/08. Cognizance of the need self reliance at the national level both in attitude and in resources, the Government has decided to take strong measures to improve domestic revenue collection which includes measures aimed at broadening the tax base, increase efficiency in revenue collection and identification of new tax payers; and control expenditure so that by the year 2015, the percentage of aid dependence does not exceed 10 percent of the budget.

## **EXPENDITURE**

34. *Madam Speaker*, during the financial year 2010/11, Government expenditure policies focused on improving the management of public funds and increasing efficiency in the use and management of public funds, with particular emphasis on areas that had potential for accelerating economic growth and reduction of poverty, specifically income poverty. Total expenditure for July 2010 - March 2011 was shillings 7,169.3 billion, equivalent to 67 percent of the budget. Out of this amount,

recurrent expenditure was shillings 5,226.9 billion and development expenditure was shillings 1,942.4 billion.

35. **Madam Speaker,** payments of Government wages and salaries for July 2010 - March 2011 was Tshs 1,749.1 billion equivalent to 79 percent of the budget. Of this amount, Tshs 569.96 billion was for Ministries, Departments and Agencies, Tshs 52.9 billion was for Regional Administration, and Tshs 1,126.2 billion was for Local Government Authorities. In addition, Tshs 443.9 billion was paid for wages and salaries for parastatal organisation.
36. **Madam Speaker,** Interest payments on domestic debt for July 2010 - March 2011 amounted to Tshs 173.6 billion, equivalent to 74 percent of the budget. Also, foreign interest payments amounted to Tshs 44.6 billion, equivalent to 34 percents of the budget. Expenditure on other debt servicing obligations (CFS others) was Tshs 361.3 billion, equivalent to 66 percents of the budget, and Other Charges expenditure was Tshs 1,955.3 billions. Generally, the Government continued to use the cash budget system in the release of funds.
37. **Madam Speaker,** during the period July 2010 – March 2011, total development expenditure was Tshs 1,942.4 billion whereby locally financed development expenditure was Tshs 514.8 billion and foreign financed development expenditure was Tshs 1,427.6 billion compared to total budget of Tshs 1,366.1 billion and Tshs 2,452.9 billion respectively.
38. **Madam Speaker,** in recognition of the importance of National Identity Cards, the Government has finalized the procedure to secure a contractor and already signed a contract. The total cost of National Identity Card Project is estimated at Tshs 355 billion. Implementation for the financial year 2011/12 is estimated at Tshs 70 billion. The first phase of the production of national identities will be completed by the end of year 2011. The completion of the project will enable identification of citizens and hence facilitate, among other things, broadening of the tax base,

facilitate access to different services including, the financial services as well as identification of illegal immigrants.

## **ISSUES RELATED TO LOCAL GOVERNMENTS**

39. **Madam Speaker**, during the year 2010/11 the Central Government continued to support Local Government Authorities in management of human and financial resources to enable them provide services efficiently. In addition, the Government continued to provide funds, staff, equipment and technical assistance in respective areas as provided for in the budget. As of March 2011, the Local Government Authorities had received Tshs 1,358.6 billion, equivalent to 90 percent of the target of Tshs. 1,504.7 billion.

40. **Madam Speaker**, With regard to domestic revenue, the Local Government Authorities continued to collect revenue from its various sources in accordance with of the Local Government Act Cap 290. In 2010/11, revenue from Local Government Authorities was estimated at Tshs. 172.6 billion. By March 2011 actual revenue collected amounted to Tshs. 118.2 billion, equivalent to 68 percent of the budget. Also, the Government accomplished the following:

- i) Payment of Tshs. 10.5 billion arrears to civil servants other than teachers as verified by the CAG;
- ii) Construction of three regional hospitals in Manyara, Singida and Mbeya and the rehabilitation of 10 regional hospitals and 17 districts hospitals;
- iii) Construction of Regional Administration block in Dodoma, three Regional Commissioners' residential houses, 22 District Councils blocks and 210 residential houses in various Local Government Authorities;
- iv) Rehabilitation of 17 Regional Administration blocks, 26 offices and 23 District Commissioners' residential houses; and

- v) Improving and linking Integrated Financial Management Systems (IFMS) to Local Government Authority level to improve accountability, monitoring and evaluation of public expenditure.

## **PUBLIC FINANCIAL MANAGEMENT**

41. **Madam Speaker**, the Controller and Auditor General's Audit Report for 2009/10 has shown some weaknesses in public financial management in Ministries, Independent Departments and Agencies, and in Regional Secretariats as compared to the 2008/09 audit report. The report shows a decline in the unqualified audit reports for Ministries and Independent Departments from 87% to 77% while the qualified audit reports increased from 10% to 20%. Similarly, in Local Authorities, the unqualified audit reports decreased from 58% to 48.5% while qualified audit reports increased from 41% to 48.5% in the same period.
42. **Madam Speaker**, some of the reasons for decline in the unqualified audit reports relate to non compliance to the international standards in the preparation of public accounts (IPSAS), Public Procurement Act of 2004 and its regulations of 2005, inadequate management and monitoring of development projects, non adherence to the internal control system, lack of sustainable training for IFMS users in local governments, as well as non implementation of recommendations of previous years audit reports.

## **Public Financial Management and control – Local Government**

43. **Madam Speaker**, in strengthening the management and control of public finance, the Article 348 of the Public Finance Act has been reviewed to empower the Paymaster General and the Accountant General to manage and monitor public financial management at the Local Government Authorities level. Through these changes, the Government has created the post of Assistant Accountant General responsible for management of finances at the Local Government Authorities, thus enabling the implementation of the intended objective of these changes.

## **Management of Public Enterprises**

44. *Madam Speaker*, in recent years, many challenges have emerged in the management of public agencies, institutions, and corporations. Some of the public enterprises that are supposed to operate commercially have failed to operate efficiently; on the contrary, they turned to be a burden to the Central Government by depending on subsidies.

45. *Madam Speaker*, as a result of these challenges, the Government has restructured the Ministry of Finance by transforming the office of the Treasury Registrar into an independent agency to closely monitor and manage the government agencies, institutions and corporations, and thus enhance their effectiveness, productivity, revenues and reduce dependency on central government subsidies. In order to eliminate overlaps among the agencies in performing their duties, the Government is reviewing the laws that established various public entities and other laws that relate to the office of the Treasury Registrar.

## **NATIONAL STRATEGY FOR GROWTH AND REDUCTION OF POVERTY (MKUKUTA II)**

46. *Madam Speaker*, the Government has finalised the preparation of MKUKUTA II and its implementation commenced in July 2010. Like I informed your esteemed Parliament during the budget session for 2010/11, MKUKUTA II is a vehicle towards achieving objectives of Vision 2025 and those of the ruling Party election manifesto. The Government continues to allocate funds for implementation of MKUKUTA II especially for priorities that touch the majority and directed at improvement of social welfare. Financing of this strategy will be from government budget, community contribution and private sector.

47. *Madam Speaker*, MKUKUTA II focuses on the following important areas of:

- (i) Infrastructure, especially rural roads, railways, ports, airports, electricity, information and communication infrastructure and transportation of fuel and gas;
- (ii) Agricultural sector including livestock and fisheries development;
- (iii) Industry sector with the aim to develop factories that will use locally available resources; and
- (iv) Public Private Partnership by expanding and strengthening private sector participation and contribution in the areas of infrastructure, food production, trade as well as provision of social welfare services such as health, transportation, education and financial services.

These areas are part of strategic areas that will receive more emphasis in this budget.

### **Joint Finance Commission (JFC)**

48. *Madam Speaker*, the Joint Finance Commission (JFC) of the United Republic of Tanzania was formed under Section 134 of the Constitution of the United Republic and the Joint Finance Act, CAP 140. The Commission produced several reports and recommendations, including a report that was produced in 2006 on union revenue contribution and distribution. This report, which was reviewed in 2010 with a view to improve the findings and recommendations, was submitted in April 2011 to the Ministry of Finance of the Union Government and the President's Office Finance, Planning and Economic Development of the Revolutionary Government of Zanzibar. Both Governments are conducting country consultations on the recommendations and are expected to submit their opinions to the Joint Meeting under the Chairmanship of the Vice President of the United Republic of Tanzania early 2011/12.

### **ECONOMIC EMPOWERMENT**

49. *Madam Speaker*, In the financial year 2010/11, the Government continued to implement the National Economic Empowerment Policy 2004 by providing soft loans through various funds and programmes; sensitization on forming cooperatives

(SACCOS) and Village Community Banks (VICOBA) as the best way of getting soft loans, income generation, employment and poverty reduction. Sensitization led to tripling of SACCOS from 1,875 in 2005 to 5,344 in 2010 and increase of SACCOS members from 1,360,850 to 2,100,000 during the same period. SACCOS members' savings have increased more than five times from 31.4 billion in 2005 to 174.6 in 2010. Furthermore, the Government in collaboration with economic empowerment stakeholders has prepared the framework for monitoring and evaluation of the National Economic Empowerment Implementation Strategy. Moreover, the Government is in the process of preparing the National Framework for Entrepreneurship Training.

50. **Madam Speaker,** In the financial year 2011/2012, the Government will continue to implement the National Economic Empowerment Policy by disseminating it to the majority of citizens to enable them understand it and participate effectively in its implementation; provide training to entrepreneurs; sensitization on saving and investment, sensitization on formation of SACCOS and VICOBA; and conduct studies aiming at developing entrepreneurship skills, as well as initiating and improving economic activities. The Government will continue to promote participation of people in development activities through the Tanzania Social Action Fund (TASAF).

#### **LIKELY OUTTURN OF THE 2010/11 BUDGET TO END JUNE 2011**

51. **Madam Speaker,** according to revenue collection over the period of the first nine months of 2010/11, expectation is that to the end June 2011, the Government will be able to collect revenue amounting to Tshs 5,553.7 billion, equivalent to 93.0 percent of the target of Tshs 6,003.6 billion.

52. **Madam Speaker,** with regard to the General Budget Support a total of Tshs 927.9 billion is likely to be disbursed by June 2011 compared to original estimates of Tshs 821.6 billion, which is an increase of 13 percent. Further, the disbursement trend is

showing that, up to end June 2011, remarkable amount of the funds planned from grants and loans to finance development projects will be disbursed.

53. **Madam Speaker,** on the expenditure side, the Government has continued to release funds depending on the availability of resources by taking into consideration planned priorities. The trend is showing that total expenditure will be less than the target of 2010/11 budget, due to the shortfall in revenue collection. Also, before the end of 2010/11, the Government will have paid all verified claims of state security forces, house allowances for lecturers of public universities and house rents for Judges.

### **BASIS AND OBJECTIVES OF THE 2011/12 BUDGET**

54. **Madam Speaker,** the 2011/12 Budget takes into account key areas in order to achieve the National Development Vision 2025, MKUKUTA II, Millennium Development Goals, the ruling party (CCM) Election Manifesto of 2010-2015, the Joint Aid Strategy, the of Tanzania (JAST) and the National Debt Strategy.

55. **Madam Speaker,** other areas that will be considered in the 2011/12 budget are as follows:

- (i) To address challenges emanating from the high cost of living;
- (ii) To continue improving domestic tax administration, improve investment climate to attract local and foreign investors and develop private sector participation in economic activities to increase new sources of revenue;
- (iii) To continue to implement the National Identity Card Project and create postal codes and implement the Property and Business Formalization Programme (MKURABITA);
- (iv) To ensure that non-tax revenues are collected as required and remitted to the Exchequer;



- (v) To allocate resources for areas with economic multiplier like infrastructure for electricity, water, roads, ports, agriculture, irrigation schemes, and Information and Communication Technology (ICT);
- (vi) To strengthen good governance and accountability;
- (vii) To continue implementing plans and strategies to hasten economic growth, such as attracting investors in Export Processing Zones (EPZ) and establishing Special Economic Zones (SEZ);
- (viii) To finalise preparation of the fourth phase of Public Financial Management Reform Programme (PFMRP - IV);
- (ix) To strengthen the formulation and implementation of monetary policies to be aligned with fiscal policies in order to reduce inflation and interest rate, and enhance the private sector's access credit and ensure public debt sustainability;
- (x) To improve balance of payment by processing products before exports especially agricultural products, minerals and other products;
- (xi) To mobilize concessional and commercial loans from banks like to increase the Governments capacity to finance development projects;
- (xii) To fast track the implementation of the Public Private Partnership Act to increase opportunities for implementation of development projects;
- (xiii) To allocate funds for 2012 population and human settlement census; and
- (xiv) To protect and uphold achievements in education, water and health sectors.

## **REVENUE POLICIES**

56. **Madam Speaker**, in the year 2011/12 the Government projects to raise domestic revenue not less than Tshs. 6,775.2 billion equivalent to 17.2 percent of the GDP compared to the likely outturn of collecting 5,553.7 billion or 16.0 percent of GDP for the year 2010/11. Tax revenue is projected to be Tshs. 6,228.8 billion while

non-tax revenue is projected to be Tshs.547.1 billion. A total of Tshs. 350.5 billion is projected to be collected from local authorities.

57. **Madam Speaker**, the Government will continue to strengthen domestic revenue collections by deploying policy and administrative measures on both tax and non-tax revenues as well as widen revenue bases to cover large portion of unharnessed revenue potentials. The measures that will be considered to increase revenue collection includes:

- (i) Strengthening knowledge and skills of tax audit capacity on business books of records and accounts; improve tax administration on block management system, enterprise wide risk management and tax evasion; and continue with the efforts of widening tax base by formalization of the informal sector to be in the taxation system;
- (ii) To review and harmonise various tax laws, which have provisions of exemptions, with a view to minimise such exemptions. Currently tax exemptions stand at 2.5 percent of the GDP and the target is to reach at least 1 percent of GDP.
- (iii) To continue strengthening systems of revenue collection by ensuring that all payments are made through banks; and start using sms-banking services such as M-PESA on tax payments not exceeding Shs. 500,000 to relieve taxpayers from queuing in banks;
- (iv) Enhance extensive use of ICT in tax administration with particular attention on communication, financial management, forensic audits as well as maintenance of statistics for further analysis;
- (v) To ensure effective use and control of the Electronic Fiscal Devices – EFDs and provide taxpayers’ education to the business community;

- (vi) To continue monitoring closely the TRA's Third Five Year Corporate Plan by ensuring that it is in the right track of collecting more revenues;
- (vii) Improve systems of collection and administration of non-tax revenues by reviewing system of issuing receipt, licensing and improve retention schemes' rates by the Government Ministries, Department and Agencies;
- (viii) To review property tax collection systems in cities, municipalities, towns councils, district councils and small town councils with a view to improve administration and revenue collection by using updated valuation of the properties; including reviewing other revenue sources and collection systems in the local authorities;
- (ix) Sustaining macroeconomic stability and improving business environment for the private sector growth and thus contributing to the Government revenue;
- (x) Improving infrastructure for ports, railways and roads to stimulate business and subsequently enhance revenue collection; and
- (xi) Strengthening supervision, monitoring and control of all transit goods through our ports to neighbouring countries, particularly petroleum products, so that dumping of such products does not occur to deplete domestic revenue.

## **GRANTS AND LOANS**

58. **Madam Speaker**, in the financial year 2011/12, the Government anticipates to receive grants and concessional loans amounting to Tshs 3,923.6 billion as

compared to Tshs 3,274.6 billion planned in the year 2010/11. This is an increase of Tshs 648.99 billion, which is 20 percent more than the amount of 2010/11. Out of the amount to be received in 2011/12, Tshs 869.4 billion will be for General Budget Support and Tshs 3,054.1 billion will be grants and loans for development projects and programs including Basket Funds.

59. ***Madam Speaker***, allow me to recognise and thank our Development Partners who have continued to provide grants and loans for the development of our country even when their own countries have been affected by the world economic crisis. The Development Partners are: Africa Development Bank, BADEA, Belgium, Canada, China, Denmark, European Union, Finland, France, Germany, Global Fund, IMF, Ireland, Italy, Japan, Korea, Kuwait Fund, the Netherlands, Nordic Fund, Norway, Opec Fund, Saudi Fund, Spain, Sweden, Switzerland, United Kingdom, United Nations, United States of America, and World Bank. We are very grateful for their kind contributions.

## **NON -CONCESSIONAL BORROWING**

60. ***Madam Speaker***, Non-Concessional borrowing takes into account sustainability of the National Debt, in which USD 1,500 million is planned to be borrowed in the period of three years 2010/11 - 2012/13. Therefore USD 822 million equivalent to Tshs 1,271.6 billion is expected to be disbursed in 2011/12. Out of that USD 297 million, equivalent to Tshs 459 billion, is balances from the anticipated loans from the previous financial year and a total of USD 525 million, equivalent to Tshs. 812.2 billion, is expected to be used in year 2011/12 for infrastructure projects.

## **DOMESTIC BORROWING**

61. ***Madam Speaker***, during financial year 2011/12, Government intends to borrow from domestic financial markets Tshs 1,204.3 billion. Out of that, Tshs 393.4 for bridging revenue shortfall, while Tshs 810.9 is for roll over.

## EXPENDITURE POLICY

62. **Madam Speaker,** Government expenditure policies will strategically focus on improving management and control over public finance, including control in the payment of salaries, development projects expenditure, subsidies on farm inputs, public procurement, and control accumulation of debt. Particular emphasis will be on areas identified as the basis for 2011/12 budget with a view to accelerating economic growth and reduction of poverty.

63. **Madam Speaker,** on the basis of the priorities mentioned in paragraph 9, the sectoral allocation of the 2011/12 budget is summarized as follows: -

- i) Infrastructure (roads, railways ports and ICT) has been allocated Tshs 2,781.4 billion compared to Tshs 1,505.1 billion in 2010/2011. This represents an increase of 85 percent;
- ii) Energy and Minerals has been allocated Tshs 539.3 billion compared to Tshs 327.2 billion in 2010/2011. This represents an increase of 65 percent;
- iii) Water has been allocated Tshs 621.6 billion compared to Tshs 397.6 billion in 2010/2011. This represents an increase of 56 percent;
- iv) Agriculture and irrigation has been allocated Tshs 926.2 billion compared to Tshs 903.8 billion in 2010/2011. This represents a increase of 2.5 percent;
- v) Education has been allocated Tshs 2,283.0 billion compared to Tshs 2,045.4 billion in 2010/2011. This represents an increase of 12 percent; and
- vi) Health has been allocated Tshs 1209.1 billion compared to Tshs 1,205.9 billion in 2010/2011. This represents an increase of 0.3 percent.

### Expenditure Control

64. **Madam Speaker,** the Government will continue to make sure that finance and procurement guidelines are adhered to, to avoid all unnecessary expenditures.

- a) During the 2011/2012 budget, government will continue to take different measures in controlling expenditure by improving payroll auditing in which accountants will undertake effective scrutinisation of payrolls every month for public organisations and their institutions. Under this arrangement the heads of departments will be responsible to undertake constant validation of the payroll to ensure those who are paid fall under their jurisdiction as they will be accountable for ghost workers. Furthermore, the government will continue to regularly verify salary payments through Internal Auditors and government expenditure tracking section under Budget department. In the year 2011/12 government has also planned to carry out survey of all civil servants by arranging special National pay day where public servants will receive salaries personally - 'National Pay Day'. Moreover, the government will monitor implementation of Treasury Circular No.2 of 2010 about accountability and monitoring in the salary payments together with completion of improvement of salary preparation system (Lawson Version 9), which will improve management of salary payments.
- b) Another area of concern relates to auditing of development projects. This work will be done by Technical Auditing Unit which is under the new Internal Auditing Department. The auditing will be done to ensure that spending is in line with value for money.
- c) The Controller and Audit Report of March 2001 has shown weaknesses in public financial management in Local Government. In order to deal with this, the government continues to reduce the number of bank accounts in the Councils up to six, and therefore from July 1, 2011 Local Government Authorities will have the following accounts: - revenue account, deposits account, salaries account, miscellaneous account, development expenditure account and road fund account. These measures will assist in

controlling public expenditure enhance transparency and accountability, and improve revenue and expenditure reports. Further, the government continues to improve accountability system in the Local Government to ensure that there is value for money. Furthermore, Internal Audit General, together with other duties, will be responsible for internal auditing in the Local government.

- d) Every year, the government spends a lot of resources in procurement of goods and services. Therefore in this 2011/2012 budget, the government is determined to put in place a public procurement system that will ensure value for money. The Government will continue with its efforts to control expenditure by suspending procurement of all kinds of vehicles except for special reasons; and with approval by the Prime Minister's Office. Similarly, it will stop purchasing imported office furniture; rationalize and scale down various allowances, cut down fuel costs on government vehicles, reduce the number of internal and external trips, together with reducing the size of delegations and continue ensuring that seminars and workshop are curbed and, where necessary, should be under approval by the Prime Minister's Office. The government will also cut down costs for exhibition and public ceremony.
  
- e) Since the enactment of the Public Procurement Act, CAP 410, a number of shortfalls in implementation of this Act have emerged. These shortfalls include those identified in the Controller and Audit General report of 2009/10, where some departments and public institutions have shown weaknesses in implementing this act. In order to deal with these shortfalls, in April 2011, the government submitted to the Parliament the Public Procurement Review Bill of 2010. The bill was discussed by the Finance and Economic Affairs Committee of the Parliament and other

stakeholders in which constructive advice were given to improve the bill. Taking into consideration the importance of the contributions from Parliament Committee and other stakeholder, the government has to republish the Bill and is expecting to resubmit the bill to the parliament for second reading.

- f) Continue to improve the Integrated Financial Management System (IFMS) to all government levels with a view to ensuring prudent use of public funds and to prevent accumulation of debt arrears; to provide training to accountants and internal audits on preparation of accounts according to international public standards (IPSAS); using the Inter-banking Settlement System (TISS) for payments made by all ministries and start using the same system to all Sub-Treasuries and Regional Secretariats.
  
- g) The government will continue to manage issuance of government guarantees to Ministries, Departments and Agencies (MDAs). Furthermore, the MDAs are required to request funds for projects in line with government budget process and not resort to requesting for government guarantees. This will reduce the amount of government guarantees requests which will reduce increase of National Debt to unsustainable level.

### **Public Private Partnership**

65. ***Madam Speaker***, in the financial year 2010/11, the Parliament passed the Public Private Partnership Act, 2010. Under this Act, the Private Sector, in partnership with public sector will be able to formulate and operate important projects and provide social and economic services such as agriculture, infrastructure, industry and manufacturing, exploration and mining, education, health, environment and waste management, Information and Communication Technology (ICT) and business, sports and entertainment which will allow Government to concentrate in other



priorities. Furthermore, the Act aims at providing reliable, sustainable and hence affordable services to the people, and lead to rapid economic growth in the country.

66. **Madam Speaker**, the Government will benefit from the Public Private Partnership projects as follows:

- (i) Increase competition in the labor market and efficiency,
- (ii) Expand trade and broaden tax base,
- (iii) Utilization of private owned financial resources which are usually available in plenty and critically needed in circulation of money in the economy,
- (iv) Government will reduce fiscal burden of non performing public enterprises and thus direct its resources to other priorities, and
- (v) Availability of reliable and affordable services to the people.

67. **Madam Speaker**, Public Private Partnership Act has established two Units. One Unit has been established within the Tanzania Investment Centre which will be dealing with promotion and attraction of investors. Another Unit has been established within the Ministry for Finance to ascertain whether the projects to be operated under Public Private Partnership are affordable, provides value for money and not burdensome to the Government. The Government intends to assign qualified international partnership experts to these units.

## **MINISTERIAL CONSULTATIONS WITH PARLIAMENTARY SECTORAL COMMITTEES**

68. **Madam Speaker**, during the budget scrutinization process, in some of the Parliamentary Sectoral Committees, there were views that the 2011/12 budget for some sectors was small and advised to increase them. The Government has considered them and decided to make changes in some of the budget votes in line with new sources of revenue. These changes will be submitted to the Parliament for approval.

## **WELFARE OF CIVIL SERVANTS**

69. **Madam Speaker,** the Government will continue to improve the welfare of civil servants depending on the budgetary resources with the aim of enabling them to cope with cost of living. The emphasis will be on making payment of salaries and annual leave in time, to ensure that civil servants receive their terminal benefits upon retirement and their monthly pensions. Besides, the Government will provide training to staff of sub-treasuries and judiciary that are dealing with survivors' pension as well as implementing joint strategies that will eliminate inconveniences to guardians and heirs.

## **Management of Public Enterprise**

70. **Madam Speaker,** in the financial year of 2011/12, the Treasury Registrar's Office, among other things, aims to do the following in supervising public agencies, institutions and corporations:

- (i) To enable public agencies, institutions and corporations to enter into performance contracts with parent Ministries;
- (ii) To perform managerial inspection of public agencies, institutions and corporations;
- (iii) To establish system to monitor and evaluate performance of boards and management committees of public agencies, institutions and corporations;
- (iv) To increase non-tax revenue collection in accordance to Finance Act No. 13 of 2008 together with Treasury Circular No. 8 of 2008/09;
- (v) To formulate investment fund as capital base of public agencies, institutions and corporations;
- (vi) To examine organizational salaries structures of public agencies, institutions and corporations;
- (vii) To coordinate the monitoring and evaluation of privatized public enterprises; and

- (viii) To render advice to the Government on the establishment of public agencies, institutions and corporations.

## **LOCAL GOVERNMENT ISSUES**

71. **Madam Speaker,** the Government will continue to improve the performance and accountability in the Local Government Authorities through the implementation of the second phase of the Local Government Reform Programme (LGRP II) aiming at enhancing the capacities of the Executive Directors to perform their duties effectively. The Government will also build the capacity of the Honourable Councilors to manage the operations of local authorities and ensure work discipline is instilled in accordance with the law, procedures and regulations for public service. All local authorities will prepare five year strategic plans in line with the National Five Year Development Plan which aligns the responsibilities with the national priorities that will be implemented efficiently. Also, the Government will strengthen the Anti Corruption Committees and Ethics Committees in the local authorities to manage discipline for civil servants at all levels and also ensure that their performance protects national interests. Furthermore, the Government will strengthen the Open Performance Review and Appraisal System (OPRAS) for all Local Government Staff and review the performance assessment criteria to increase productivity and efficiency in the Local Government.

72. **Madam Speaker,** Local Governments are expected to collect Tshs. 350.5 billion from own sources, equivalent to 5.2 percent of domestic revenues collected by the Central Government. This amount reflects measures that will be taken by the Government to improve revenue collection when compared with 2.9 percent of the domestic revenue collected in 2010/11. The Government will continue to take measures to collect revenues at local government level to ensure that revenues are collected according to available opportunities. The measures include: improving revenue collection and management system of revenues collected from local

Governments; to review abolished local Government sources; review system for collecting property tax in cities, municipalities, districts and towns; and identifying revenue leakages and alternative sources of Government revenues.

73. **Madam Speaker**, the Government will continue to improve monitoring and management of Local Government expenditure. Among measures to be taken include strengthening planning, accounts and internal control departments to increase accountability, management and control revenues in Local Governments; to improve and expand infrastructure services in roads, water and electricity; to continue with decentralization by devolution policy to empower the people to build capacity for the Local Governments to take responsibility in managing their affairs; and to continue to implement various programmes.

## **REFORM OF THE TAX STRUCTURE, FEES, LEVIES AND OTHER REVENUE MEASURES**

74. **Madam Speaker**, The Government will continue to undertake policy and administrative reform measures in order to enhance collection of tax and non tax revenue and widen tax base in other areas. Furthermore, the Government will undertake tax reforms by reviewing various tax laws which provide tax exemptions with a view to controlling and reducing them; closely monitor implementation of Tanzania Revenue Authority's (TRA) Third five years Corporate Plan; bringing the informal sector into the tax net; reviewing Property rate/tax structure in cities, municipals, towns, districts and small towns; and reviewing various revenue sources and collection systems in local governments to increase revenue collection.

75. **Madam Speaker**, The proposed amendments will cover the following tax laws:-

- (a) The Value Added Tax Act, CAP 148
- (b) The Income Tax Act, CAP 332
- (c) The Excise (Management & Tariff) Act, CAP 147

- (d) The Vocational Education and Training Act, CAP 82
- (e) The Stamp Duty Act, CAP 189
- (f) The Road and Fuels Tolls Act, CAP 220
- (g) The Business Licensing Act, Cap 208
- (h) The Local Government Finance Act, CAP 290
- (i) The Roads Traffic Act, CAP 168
- (j) Minor Amendments in various Tax Laws
- (k) Amendments of the Fees and Levies charged by Ministries, Regions and Independent Departments.
- (l) The East African Community Customs Management Act, 2004

**A. The Value Added Tax Act, CAP 148**

76. **Madam Speaker**, In order to promote investment and enhance productivity in Agriculture, Industry, Trade and Tourism and increase their contribution to the GDP, I propose to make the following amendments in the Value Added Tax Act, CAP 148:-

- (i) Exempt VAT on spare parts for threshers, rice dryers and mills, planters, trailers and power tillers used in organized farming (registered groups and cooperative unions). This measure is intended to promote agricultural mechanization and attract investment in the agricultural sector.
- (ii) Exempt VAT on NASCOR Pellet Feed used for poultry. This measure is aimed at promoting investment in poultry keeping.
- (iii) Exempt VAT on raw materials used for making fishing nets (nylon fishing twines). This measure is intended to reduce production costs and promote the fishing industry in the country.

77. **Madam Speaker**, I am also proposing to amend the Value Added Tax Act, CAP 148, in order to enhance revenue collection and provide an incentive for Non-

governmental and Charitable Organizations to contribute to the Government efforts of improving services in the education sector.

- (i) Exempt VAT on spare parts for sprayers, harrows and grain conveyors.
- (ii) Introduce VAT refund system to retail exports purchased in the country by non-residents. The implementation of this system will start with Mwalimu Julius Nyerere International Airport (JNIA) and Kilimanjaro International Airport (KIA) entry/exit for purchases valued at TTshs.. 400,000/= and above. The new system becomes effective on January 1, 2012.
- (iii) Abolish exemption on sale and lease of residential buildings by the National Housing Corporation (**NHC**).
- (iv) Abolish the VAT Special Relief on charitable community-based organizations; or other non-profit driven organizations or institutions (NGOs); However, this measure does not apply to Religious Organizations.
- (v) Provide for VAT special relief to Non Governmental organizations when they provide food supplies to children and orphanage care centres and school.

**The VAT measures together will increase Government revenue by Tshs. 71,518.9 million.**

**B. The Income Tax Act, CAP 332**

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

- (i) Grant tax exemption on allowances payable to employees of the government and institutions which receives government subvention for their operations.
- (ii) Abolish withholding tax on fish transport for foreign freight. This measure is intended to promote fish exports and increase foreign exchange earning from the sector.

**The Income Tax measures will reduce Government revenue by Tshs. 20,287.5 million.**

**C. The Excise (Management & Tariff) Act, CAP 147**

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

- (i) Reduce Excise Duty on HFO from Shillings 80 to Shillings 40 per litre. This measure is intended to reduce the cost of production and promote industrial growth.
- (ii) Replace the 120 percent Excise Duty imposed on plastic bags of more than 30 microns of Polymers (HS Code 3923.29.00) with 50 percent.
- (iii) Adjust the specific excise duty rates on non petroleum products by 10 percent. The current and proposed rates are as follows:-
  - a) Carbonated soft drinks from shillings 63 per litre to shillings 69 per litre;
  - b) Beer made from local un-malted cereals from shillings 226 per litre to shillings 249 per litre;
  - c) Other beers from shillings 382 per litre to shillings 420 per litre;
  - d) Wine produced with more than 25% imported grapes from shillings 1,223 per litre to shillings 1,345 per litre; and
  - e) Wine with domestic grapes content exceeding 75 percent, shillings 420;
  - f) Spirits from shillings 1,812 per litre to shillings 1,993 per litre.

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

- (a) Cigarettes without filter tip and containing domestic tobacco more than 75% from shillings 6,209 to Shillings 6,830 per thousand cigarettes;
- (b) Cigarettes with filter tip and containing domestic tobacco more than 75% from shillings 14,649 to shillings 16,114 per mil;
- (c) Other cigarettes not mentioned in (a) and (b) from shillings 26,604 to shillings 29,264 per mil;
- (d) Cut rag or cut filler from shillings 13,436 per kilogram to shillings 14,780 per kilogram; and
- (e) The excise duty rate on "cigars" remains at 30 percent.

**The excise duty measures together are expected to increase Government revenue by Tshs. 99,521.5 million.**

**D. The Vocational Education and Training Act, CAP 82**

80. **Madam Speaker**, it is proposed to make the following amendments in the Vocational Education and Training (VETA) Act, CAP 82:-

- (i) To change the allocation of revenue collected from Skills Development Levy (SDL) of 6 percent so that 4 percent is allocated to the Higher Education Students' Loans Board (HESLB), and 2 percent to the Vocational Education and Training Authority – "VETA". This measure is intended to enhance and ensure availability of resources for the provision of Loans to higher education students.



**The VETA measure is neither expected to increase nor reduce the Government revenue.**

**E. The Stamp Duty Act, CAP 189**

81. **Madam Speaker**, it is proposed to make the following amendments in the Stamp Duty Act, CAP 189:-.

- (i) Exempt Stamp Duty on the transfer of the ownership of assets to the Special Purpose Vehicles (SPV) for the purpose of issuing asset-backed securities.

**The Stamp Duty measure is not expected to reduce government revenue, but rather it will promote savings mobilization and investments in the country.**

**F. The Road and Fuels Tolls Act, CAP 220**

82. **Madam Speaker**, it is proposed to make the following amendments in the Road and Fuels Tolls Act, CAP 220;

- (i) Exempt fuel levy charged on fuel for vessels, rigs and other equipments used in oil and gas exploration. The exemption will be granted through issuance of the Government Notice (GN). However, the applications will have to be verified and approved by the Tanzania Petroleum Development Corporation (TPDC) before being submitted to the Ministry of Finance.
- (ii) Introduction of a special account (escrow account) by the Tanzania Revenue Authority (TRA) where mining companies will be required to draw their estimated annual petroleum consumption plans and deposit money on the account equal to estimated taxes on petroleum products consumed in a given month. This measure is intended to remove the bottlenecks faced by the mining companies due to delays in tax refunds.

**The Road and Fuels Tolls measures together are expected to reduce Government revenue by Tshs. 2,007.6 million.**

#### **G. The Business Licensing Act, Cap 208**

83. *Madam Speaker*, it is proposed to make amendments in the Business Licensing Act, Cap 208 to impose business license fee as follows: -

- (a) For Town Authorities (Cities, Municipals and Towns) to impose shillings 50,000 annually for any business (except hard drinks) undertaken in the area;
- (b) For District Councils to impose and collect business licence fees of shillings 30,000 annually for any business undertaken in their area;
- (c) For Village Councils to impose and collect business licence fees of shillings 10,000 annually for any business.

The measure is aimed at strengthening the supervision of business and compensate the loss of revenue experienced by the Local governments following the government decision to abolish some of their sources of revenue.

#### **H. Local Government Finance Act, CAP 290**

84. *Madam Speaker*, I propose to make amendments in the Local Government Finance Act, CAP 290 in order to enable the Local Government Authorities to impose business license fee as specified in the Business Licensing Act, CAP 208.

**This measure is aimed at regulating business and it is also in line with the Government policy of Decentralization by Devolution.**

## **I. The Roads Traffic Act, CAP 168**

85. *Madam Speaker*, it is proposed to make the following amendments in the Roads Traffic Act, CAP 168 to increase the cap of Traffic Notification Fee from shillings 20,000 to shillings 300,000

## **J. Minor Amendments in various Tax Laws**

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

## **K. Amendments of the Fees and Levies charged by Ministries, Regions and Independent Departments**

87. *Madam Speaker*, I recommend to amend rates of fees and penalties charged by Ministries, Regions and Independent Departments in order to rationalize with the current level of economic growth.

## **L. The East African Community Customs Management Act, 2004**

88. *Madam Speaker*, During the Pre-budget consultations held in Kampala, Uganda on 7<sup>th</sup> May, 2011, the Ministers for Finance from Partner States (EAC) proposed and agreed to make changes in the EAC Customs Management Act, 2004 (EACCMA, 2004) and Common External Tariff (CET) for the Financial year 2011/12.

89. *Madam Speaker*, the Ministers agreed to make changes in the Common External Tariff (CET) as follows:-

- (i) Extend the stay of application of CET rate of 35 percent on Wheat grain under HS Code 1001.90.20 and HS Code 1001.90.90 and apply the CET rate at 10 percent for one year.
- (ii) Grant duty remission on raw materials used to manufacture beauty soaps, toilets and medicated soaps (Palm Stearin, RDB) under HS Code 1511.90.40

- for one year. The measure is intended to reduce production costs and promote small and medium standalone soap industries in the country.
- (iii) Split the tariff of raw materials under HS Code 2710.19.59 to provide for white oil (technical grade) used in the cosmetic industry sector, to be subject to duty rate of 0 percent. This measure is intended to reduce the cost of production in the industry.
  - (iv) Grant duty remission for duplex boards (HS Code 4810.92.00) to 0 percent. This measure is intended to reduce the cost of production and protect domestic manufacturers from unfair competition caused by imported match boxes.
  - (v) Grant duty remission on aseptic bags (HS Code 3923.29.00) and apply a duty rate of 10 percent instead of 25 percent for a period of one year. This measure will reduce the cost of production and promote fruit processing industry in the country.
  - (vi) Increase duty rate on galvanized wire of HS Code 7217.20.00 from 0 to 10 percent.
  - (vii) Grant duty remission on Copper Cathodes (HS Code 7403.11.00) which are raw materials used to manufacture refined copper and copper alloy. Currently, Copper Cathodes attract 10 percent while Copper alloy (refined copper) attracts 0 percent. This is against the ambit of the East African Customs Management Act, 2004.
  - (viii) Grant import duty remission on component parts and inputs for assemblers of refrigerators and freezers and apply a duty rate of 10 percent instead of 25 percent. The objective of this measure is to promote local production of these products and create employment opportunities particularly for the youth.
  - (ix) Split HS Code 2309.90.00 and provide for 0 percent for premixes used in the manufacture of animal and poultry feeds. The reduction is intended to promote the poultry keeping industry.

- (x) Grant the stay of application of EAC-CET on HS Code 8702.10.99 and HS Code 8702.90.99 and apply a duty rate of 10 percent for one year in respect of motor vehicles carrying more than 25 persons,
- (xi) Grant the stay of application of EAC-CET on HS Code 8704.22.90 and apply import duty rate at 10 percent for one year for motor vehicles transporting goods with gross vehicle weight exceeding 5 tons but not exceeding 20 tons.
- (xii) Grant the stay of application of EAC-CET on motor vehicles (HS Code 8704.23.90) with gross weight exceeding 20 tonnes, and apply Import duty rate at 0 percent instead of 25 percent for one year.
- (xiii) Extend the import duty exemption on buses under HS 8704.10.99 and HS Code 8702.90.99 and apply import duty rate at 10 percent for one year to cater for the Dar es Salaam Fast Truck Bus Project.
- (xiv) Split HS Code 8703.90.10 to provide for import duty exemption on motorcycles ambulances. This measure is intended to address the problem of transport faced by patients particularly in the rural areas.
- (xv) Split HS Code 2106.90.90 and provide for 10 percent for food supplements. The measure intends to reduce nutritional deficiencies and improve the well being of the people.
- (xvi) Split HS Code 9616.10.00 and apply a duty rate of 10 percent instead of 25 percent on raw materials used in the manufacture of sprays (Scent sprays and other similar toilet sprays).
- (xvii) Grant the stay of application of EAC-CET on road tractor (HS Code 8701.20.90) and apply import duty rate at 0 percent for one year. This measure is intended to reduce transportation costs and improve efficiency in the transport sector.
- (xviii) Extend the exemption regime granted to Armed Forces Canteen for one year.

90. **Madam Speaker**, the Ministers for Finance agreed to make changes in the EAC Customs Management Act, 2004 as follows:-

- (i) Amend paragraph 2 of the Fifth schedule Part A in order to provide import duty exemption to the Police Force. The measure is intended to enhance internal security.
- (ii) Amend the Fifth schedule of the EAC Customs Management Act, 2004 in order to implement the following: -
  - a. Provide import duty exemption on tsetse fly traps.
  - b. Provide for import duty exemption on Security equipments (Hand held metal detectors, walk through metal detectors, CCTV, cameras, bomb detectors and undercarriage mirrors). The measure is intended to enhance internal security.
  - c. Exempt import duty on battery operated vehicles/golf carts for use in hotels, hospitals and airports. This measure is aimed at improving tourism and health services as the vehicles are used for transport of guests and patients including disabled people.
  - d. Exempt import duty on Apron buses which are used to transfer passengers at the Airports. The measure is aimed at enhancing service provision for air passengers.
  - e. Grant remission of import duty on inputs for the manufacture of solar panels. The imported solar panels are duty free while the imported raw materials for the manufacture of the same attract duty at 25 percent and 10 percent.
  - f. Reduce the destination inspection fee from 1.2 percent to 0.6 percent of FOB of imported products in order to reduce the costs of importation and customs clearance delays. The measure is intended to lower clearance time and the cost of importation.

**The import duty measures together will reduce Government revenue by TShs. 4,669.7 million.**

## **M. Effective Date for Implementation of New Revenue Measures.**

91. **Madam Speaker**, unless stated otherwise, the new revenue measures shall become effective on 1<sup>st</sup> July 2011.

## **THE BUDGET FRAME FOR 2011/12**

92. **Madam Speaker**, consistent with macroeconomic and fiscal policy objectives, budget frame indicated that, shillings 13,525.9 billion are considered necessary for the financial year 2011/12. Shillings 13,525.9 billion are expected as total revenue. Government is expected to collect tax and non tax revenue of shillings 6,776 billion equivalent to 17.2 percent of GDP. Revenue from Local Government (LGAs own source) is projected at shillings 350.5 billion. In addition, the Government intend to borrow shillings 2,475.9 billion from both domestic and external sources. Of this amount, shillings 810.9 billion will be for rolling over of maturing Government Securities, shillings 393.4 will be from sell of Government Securities (domestic financing) and shillings 1,271.6 billion will be raised from non concessional loan.

93. **Madam Speaker**, Development Partners will continue to contribute in Government Budget in form of Grants and concessional loans, where by shillings 3,923.6 are expected. Of this amount, shillings 869.4 billion will be General Budget Support and shillings 3,054 billion will be grants and loans for development projects including basket funds.

94. **Madam Speaker**, Government expenditure for the financial year 2011/12 is planning to be shillings 13,525.9 billion for both recurrent and development expenditure. Of this amount, recurrent expenditure is shillings 8,600.3 billion including shillings 3,270.3 billion for wages and salaries of Government Institutions and Agencies, shillings 1,910.4 billion is for Consolidated Funds Service (CFS). In addition, development expenditure is estimated at shillings 4,925.6 billion. Out of the development expenditures, shillings 1,871.5 billion is from domestic revenue and shillings 3,054.1 billion is development partners' contribution through projects and basket funds.

95. *Madam Speaker*, the summary of the budget frame for 2011/12 is as shown below:

<b><u>Revenue</u></b>		<b>Shilings Million</b>
<b>A:</b>	Domestic Revenue	6,775,952
	(i) Tax Revenue (TRA)	6,228,836
	(ii) Non Tax Revenue	547,116
<b>B:</b>	LGAs Revenue	350,496
<b>C:</b>	Foreign Loans and Grants	3,923,551
<b>D:</b>	Domestic Revenue	1,204,262
<b>E:</b>	Non Concessional Loan	1,271,634
	<b>TOTAL REVENUE</b>	<b><u>13,525,895</u></b>
<b>F:</b>	Recurrent Expenditure	8,600,287
	(i) Consolidated Financial Services	1,910,376
	(ii) Wages and Salaries	3,270,292
	(iii) Other Charges	3,419,619
	Ministries	2,727,472
	Region	49,981
	LGAs	642,166
<b>G:</b>	Development Expenditure	4,924,608
	(i) Local	1,871,471
	(ii) Foreign	3,054,137
	<b>TOTAL EXPENDITURE</b>	<b><u>13,525,895</u></b>



## CONCLUSION

96. **Madam Speaker**, the 2011/12 budget is a continuation of Government efforts to deliver development to its citizens. This budget has considered the following:

- (i) The National Development Vision 2025;
- (ii) The National Strategy for Growth and Reduction of Poverty (NSRGP/MKUKUTA II);
- (iii) The Millennium Development Goals 2015 (MDGs);
- (iv) The CCM Election Manifesto 2010-2015;
- (v) The Joint Assistance Strategy for Tanzania (JAST);
- (vi) National Debt Strategy; and
- (vii) The Macroeconomic Policies Framework 2011/12

97. **Madam Speaker**, in order to achieve these objectives much earlier, active involvement of all Tanzanians in production activities, and in taking advantage of opportunities that emerge is key in increasing production and generation of self income. It is my sincere hope that a successful implementation of this budget will help to achieve our development goals for our citizens. The 2011/12 budget has been prepared at a time when our country is facing economic challenges including power shortages and increasing fuel prices in the World market. This has impacted negatively on the performance of the economy and our ability to collect more domestic revenue. The government is determined to address these challenges effectively by hastening the implementation of power projects and bulk fuel importation. As the government takes these initiatives, I urge my fellow citizens to use the available power careful. It is government's expectation that the budget will be implemented as planned.

98. **Madam Speaker**, The Fourth Phase government is determined to develop and strengthen capacity of our Nation especially in increasing more efforts in domestic revenue collections. This will be achieved by investing more in economic growth stimulants and broaden our tax base in order to become self reliant. In the medium term, expenditure policies will focus on providing higher resource allocation to priority sectors including: Energy and Electricity, Railways, Ports, Information

and Communication Technology, Water, Agriculture and to sustain achievements realized in education and health sectors. I call upon all my fellow Tanzanians to be innovative in their areas of production so that we increase our national income and be able to reduce poverty.

99. **Madam Speaker**, this budget has benefited from advice from members of Parliament of the Finance and Economic Affairs Committee and other sectoral committees of Parliament. Similarly, it has taken into account views and proposals from various stakeholders including the Business Community such as Manufacturers, Tourism and Hospitality industry, Agricultural Associations and many others. I thank them all for their good and constructive advices.

100. **Madam Speaker**, I would like to extend my special thanks to Kilosa constituency voters for electing me to be their representative for the next five years, I would like to promise that we will work together to bring development to our Kilosa constituency. I believe that I will not let them down. Lastly, I would like to take this opportunity to thank my lovely wife for her endless support.

101. **Madam Speaker**, as I said before, the government is aware of the rising costs of living facing our people. There is insufficient supply of electricity, rising fuel prices leading to high transport costs; high unemployment and need to improve food security. The attentive CCM government is keen to address these challenges, and do so effectively. It is the government's expectation that measures taken to address these challenges will bear expected fruits and improve the standard of living of the majority of Tanzanians.

102. **Madam Speaker**, I beg to move.