

**SPEECH BY THE MINISTER FOR FINANCE HON DANIEL N. YONA (MP)
INTRODUCING TO THE NATIONAL ASSEMBLY THE ESTIMATES FOR
GOVERNMENT REVENUE AND EXPENDITURE FOR
THE FINANCIAL YEAR 1998/99
ON THE 11 JUNE, 1998**

Introduction.

Mr. Speaker, I beg to move that this House now resolves itself into a Committee of Supply in order to deliberate and approve the estimates of Government Revenue and Expenditure for the Financial Year 1998/99. The Government Budget has been consolidated in the budget book which is in two volumes. Volume one contains government revenue estimates for the coming financial year and volume two is on estimates for recurrent and development expenditure. In addition to the two volumes, there is the 1998/99 Finance Bill. The House is accordingly requested to deliberate in detail the contents of the Speech, the Budget Books and the Finance Bill in order to consider and approve the 1998/99 Government Budget Proposals.

2. Mr. Speaker, before proceeding further, allow me at this juncture to express my gratitude to all those who participated in the preparation of this Budget. I would like to express my thanks to all of my colleagues and staff of the Ministry of Finance, the staff of the Planning Commission, the various sectoral ministries, regions, districts Councils, government institutions and various groups that contributed in one way or another in the preparation of this Government budget, I would also wish to take this opportunity to thank the Ministry of Justice and Constitutional Affairs in particular, the Attorney General's Chambers for preparing the various Bills which form part of this Budget. Furthermore, I would like to take this opportunity to extend my appreciation to the Parliamentary Committees of Finance and Economic Affairs and Defense and Security for scrutinizing the Budget proposals and for their very valuable comments and advice, which facilitated the completion of the Budget which the Government is tabling today.

3. Mr. Speaker, this is the Third Budget Session of Parliament since the Third Phase Government came to power. During this financial year, 1997/98 which is about to come to an end, we have witnessed a number of events which have affected your Esteemed House as well as the country as a whole. We note that some Members of Parliament who were with us during the last Budget Session are not here today for various reasons. They are the late Hon. Tuntemeke Sanga Nnungi, the then Member of Parliament for Makete, the late Hon. Joseph Monko, former Member of Parliament for Singida North, the late Hon. Mwita Hassan Khatib former Member of Parliament for Mikunguni, and

the late Hon. Mary Kabigi, the then Member of Parliament Special Seats for Women. All of them made valuable contributions in this Parliament. May God rest their souls in Eternal Peace.

We note too that there are some Members of Parliament who for various reasons are no longer in the House. They are: Honourable Makongoro Charles Nyerere, former Member of Parliament for Arusha, Honourable Sebastian Nzebayo Kanga, former Member of Parliament for Kahama, Honourable Paul Maholo, former Member of Parliament for Kishapu, Honourable Dr. Masumbuko Lamwai, former Member of Parliament for Ubungo, and Honourable Sebastian Rweikiza Kinyondo, former Member of Parliament for Bukoba Rural. They also made considerable contributions in this Parliament. I wish them luck and success in their endeavours out of Parliament in their different capacities wherever they are.

Mr. Speaker, your Esteemed House has four new Members, and I recognize Hon. Dr. Besen Hassy Kitine, Member of Parliament for Makete, Hon. Felix Christopher Mrema, Member of Parliament for Arusha, Hon. Raphael Nkuli Miolwa, Member of Parliament for Kahama, Hon. Alute Joram Sima, Member of Parliament for Singida North.

May I, with your permission Mr. Speaker, congratulate the new Members of Parliament and welcome them to the 1998/99 Budget Session of the Parliament, in which they are participating for the first time.

4. Mr. Speaker, the nation of Tanzania has this year experienced immense calamities that have had devastating effects on our economy. The Minister of State in the President's Office for Planning, Hon. Nasoro Malocho (MP) has in his speech this morning elaborated the performance of the economy during the 1997/98 financial year. I do not wish to repeat what he said.

5. Mr. Speaker, the recorded economic growth at the rate of 3.5% in 1997 leaves much to be desired particularly when compared with the population, which is growing at 2.8% per annum. This means that the real increase in per capita income of Tanzanians was less than 1% in 1997. A real per capita income growth of each Tanzanian at this rate cannot guarantee us the level of development we all desire. It is, therefore a challenge to all Tanzanians to appreciate this problem and join hands with the Government in the search for a quick but long lasting solution.

REVIEW OF IMPLEMENTATION OF 1997/98 BUDGET POLICIES

6. Mr. Speaker, allow me now to review implementation of the 1997/98 Budget policies.

7. Mr. Speaker, it may be recalled that for the 1997/98 financial year the Government estimated to collect Tshs. 695,300 million from internal sources and Tshs. 302,100 million from external sources. Likewise, the Government planned to spend Tshs. 975,639 million, of which Tshs. 666,842.6 million was recurrent expenditure. The Government also announced a number of policy measures and strategies for improvement of the economy increase in domestic revenue and control of expenditure. These policies and measures were intended to achieve the following targets: -

- i) GDP growth rate of 4.5% p.a.;
- ii) Reduction of inflation rate from 15 percent per annum during 1996/97 to 10 percent per annum by end of 1997/98;
- iii) Reduction of the current account deficit of the balance of payments;
- iv) Reduction of donor dependency.

8. Mr. Speaker, in view of those broad objectives, the 1997/98 budget frame was prepared as follows:-

- i) A revenue collection of Tshs. 695,300 million;
- ii) Recurrent Expenditure estimate of Tshs. 666,843 million;
- iii) A recurrent Budget Surplus of Tshs. 76,612 million (excluding debt servicing);
- iv) A repayment of domestic monetary debt to the tune of Tshs. 59,595 million;
- v) Reduction of domestic payment of arrears of ministries, government departments and regional authorities and avoidance of accumulation of new debts/bills/claims.

Revenue Policies

9. Mr. Speaker, based on the above mentioned objectives the revenue policies for 1997/98 financial year were as follows:-

- i) to improve revenue collection through

rationalization of -tax policies to protect our local industries, to encourage economic growth through creation of an enabling environment for investment, improved productivity and provision of, social services;

- ii) to rationalize or abolish nuisance taxes
- iii) to ensure all sectors contribute to government revenue by expanding the tax base so as to include untaxed services;
- iv) to finalize preparations for the introduction of Value Added Tax (VAT).

10. Mr. Speaker, the Government has by and large implemented the 1997/98 revenue policies. However, results of fiscal policy were significantly affected by the drought that persisted for the large part of 1997 followed by heavy rains which caused devastating floods which disrupted transport system, slowing down economic activity, including distribution of goods and services. Largely because of these developments, revenue target for 1997/98 was not met.

11. Another phenomenon noted during the year is the continuation of tax evasion, particularly on imports. Tax evasion seemed to be rampant on goods such as textiles, edible oils, detergents, shoes, tyres, motor vehicle batteries, radios and lately petroleum products.

It is also observed that tax exemptions granted under various legislations reduced further the tax base. Such tax exemptions will have to be reviewed.

Loans and Grants:

12. Mr. Speaker, the Government announced policies to guide the acquisition of external loans and grants for the 1997/98 budget. These policies include the implementation of the measures for restructuring the economy under ESAF and SAC as well as other programmes with the donor community. Furthermore, the Government continued negotiations with donors for assistance guided by the recognition that foreign assistance is only a catalyst and not the basis for our development. At present, the Government is continuing with the implementation of the Enhanced Structural Adjustment Facility Programme with IMF and the Structural Adjustment Credit (SAC) Programme with the World Bank as well as Structural Adjustment Loan Programme with ADB. The implementation of these programmes is on track save for some delays in the institutional restructuring and divestiture. Apart from the soft loans we received from these international and regional financial institutions, we have continued to

strengthen our development cooperation with other donors who have contributed to the development of this country in a significant way. May 1, on behalf of the Government, take this opportunity to thank all donors for the assistance they continue giving-us.

Domestic Debt

13. Mr. Speaker, as regards domestic debt from banks and non-bank financial institutions, the Government planned to reduce its outstanding liability by Shs. 596,695 million on net basis. Borrowing through Treasury Bill market would be the purpose of rolling over only. Records show that by the end of April, 1998, the Government had managed to reduce the outstanding debts to the financial system by Tshs. 48,199.9 million.

Expenditures:

14. Mr. Speaker, policies in the expenditure area that are being implemented include Cash Budgeting, giving priority to social sectors in budget releases, reduction of the accumulated domestic debts; and to reduction of the number of development projects so as to remain with few projects that can adequately be funded. The Government was substantially able to implement the above measures as envisaged albeit with difficulties. Cash Budgeting continued during the 1997/98 financial year, with some improvement to reflect the gradual transformation in the budget management. For instance, monthly releases were made to some of the votes basing on their approved budget. These votes include Regional and Local Government Supply, the Ministry of Defense and National Service, the Public Debt, Universities and medicines for public hospitals. As regards clearance of domestic supply and utility debts, the Government made repayments amounting to Tshs. 20,052.6 million as at end April 1998. The debts paid were in respect of TANESCO, Suppliers of goods and services, Duty-draw-back, Police Force allowances, fertilizer subsidy and salary increase arrears to government agencies.

Trends of the 1997/98 Budget

15. Mr. Speaker, having summarised a review of the 1997/98 Budget policies, allow me now to explain the performance of the budget. As regards Revenue, the Government had by end April, 1998 been able to collect Tshs. 512,709.2 million. This amount exceeds the amount that was collected in 1996/97 during the same period by Tshs. 44,181.2 million or 9 per cent. Given this trend in revenue performance, it is expected that revenue collection for the whole year will reach Tshs. 627,500 million by

end-June, 1998. This will represent an increase of Shs. 55,470 million (or nearly 10 percent) over 1996/97. It will however be below target by Shs. 67,800 million (or about 10 percent). The revenue performance in 1997/98 has to be judged against the background of the effects of El-Nino. Had it not been for this phenomenon, coupled with evasion and exemptions of taxes, the target for 1997/98 would have been surpassed.

16. Mr. Speaker, the trend of loans and grants for the period July, 1997 - April, 1998, indicates that a total of Tshs. 214,864 million which is 71% of the estimated disbursements of Tshs. 302,100 million was received. The amount expected to be realised by the end of June 1998 is Tshs. 243,400 million. The Government borrowed Tshs. 35,759.9 million from non-bank domestic sectors, of which Tshs. 18,465.8 was borrowed through Treasury Bills market. Moreover, the Government was compelled to borrow Tshs. 17,294.1 million through issuance of Promissory Notes (PN) in order to finance urgent transport equipment needs for security and defense forces especially as the wake of 9 tension in the neighbouring country of Burundi. It should, however, be noted that it is not the intention of the Government to continue borrowing through this system. On the other hand, the Government was able to reduce its indebtedness to the banking system by Tshs. 48,199.9 million by the end of April 1998. This means that on net basis total domestic debt was reduced by Tshs. 12,440 million by the end April, 1998. The Government is not intending to increase its borrowing during this financial year.

17. Mr. Speaker, as regards expenditure, the Government had spent a total amount of Tshs. 691,670 million by the end of April, 1998, which is 71 per cent of the budget estimates. Out of this amount, Tshs. 537,837.2 million is recurrent expenditure and Tshs.153,822.8 development expenditure. Recurrent expenditure is 81 percent of estimates while development expenditures is 50% of estimates. This indicates that total expenditure for the year is likely to reach Tshs. 866,951 million by the end of June 1998. This would be 11% less than the budget estimates consistent with resource availability.

Financial Sector

18. Mr. Speaker, allow me now to briefly review the developments in the financial sector. Economic development of any country, Tanzania inclusive, depends upon a strong and effective financial sector which ensures efficient intermediation. The Bank of Tanzania has effectively managed to control money supply and inflation by use of market-related instruments of monetary policy. The action of the Central Bank were greatly aided by the fiscal performance. Inflation rate reached 13.5% by end April, 1998 and is expected to fall to 10% by end June 30, 1998. It will be recalled that on 1st October, 1997 the then National Bank of Commerce (NBC) was split into two banks namely NBC (1997) Limited and National Microfinance Bank (NMB). A Holding Company was also

formed to take care of long outstanding non-performing loans and none core assets and liabilities of the former bank. The restructuring of the two new banks is progressing well despite difficulties in completing auditing of the, NBC accounts, which has affected the speed of divestiture.

External Sector

19. Mr. Speaker, performance in the external sector in 1997/98 has been mixed. Exports of goods and services are expected to drop from US dollars 794 million in 1996/97 to US dollars 678.0 million in 1997/98, a shortfall of 15%. Traditional exports have gone down from US dollars 410 million in 1996/97 to US dollars 337 million in 1997/98, representing a shortfall of 18%. Nontraditional exports also are estimated to have decreased by 11% in 1997/98. Despite the fact that prices of traditional exports except tobacco, have increased, there was a decline in the volume exported largely due to disruption of transportation network in the countryside, halting movement of export goods for shipment. Exports of minerals performed well as they have risen from US dollars 58 million in 1996/97 to US dollars 112 million in 1997/98, this being an increase of 93%.

20. On imports, available statistics are indicating an increase from US dollars 1,388 million in 1996/97 to US dollars 1,508 million in 1997/98, which is about 9%. The major increase in imports is on account of equipment and plants, raw materials for industries and foodstuffs.

Parastatal Organizations:

21. Mr. Speaker, the aim of the Government in the implementation of the policies for the public sector is to ensure -that public enterprises graduate from dependency on Government funding to being able to operate efficiently on a self sustaining basis. In this context, the Government has continued with restructuring of the public enterprises including divestiture and liquidation where necessary. By May, 1998, 176 out of 398 parastatal enterprises had been privatized.

22. Mr. Speaker, the Dar es Salaam Stock Exchange started operations on 15th April, 1998 by selling shares of Tanzania Oxygen Limited (TOL). Moreover, Tanzania Breweries Limited has also started selling 10% of Government shares to the public through the Dar es Salaam Stock Exchange. It is my expectation that Honourable Members of Parliament are participating like other Tanzanians in the purchasing shares in the Dar es Salaam Stock Exchange. Other companies namely the Tanzania Cigarette Company (TCC), BP, AGIP, Tanga Cement Company Ltd, and Portland Cement (Wazo)

Ltd, have started preparations to offer for sale some of the Government shares to the public.

23. Mr. Speaker, to ensure that the large and key public enterprises also operate more efficiently, the Government has started the process to restructure and 12

eventually privatize public utilities such as the Dar es Salaam Water and Sanitation Authority (DAWASA), Tanzania Harbours Authority (THA), Tanzania Telecommunications Company Ltd (TTCL) and Tanzania Electric Supply Company Limited (TANESCO).

Private Sector

24. Mr. Speaker, as a result of the implementation of the privatization policy, the private sector has now assumed a major role in the development of our economy. Presently, a total of 176 formerly public enterprises are now in private sector ownership. Moreover, the private sector has increased its contributing to National output as a result of liberalization and the creation of enabling and attractive environment for investment, including the transformation of the former Investment Promotion Centre into Tanzania Investment Centre (TIC). The establishment of the Dar es Salaam Stock Exchange has provided opportunity for the general public, especially the low income people to buy shares in companies which the Government had retained for that purpose. It is the policy of the Government to allow more sale of its shares for those companies that are privatized once these are in sound financial standing and have established good track record.

The Debt Situation

25. In 1997/98, total outstanding domestic debt was estimated at Shs. 859.6 billion. Outstanding external debt was estimated at US dollars 7.9 billion. The Government used various methods to reduce the debt stock, including securitisation, debt substitution, rescheduling (in the case of external bilateral dent), and direct repayments. In servicing the debts, the government has endeavoured to give equal weight to both domestic and external debt, bearing in mind that the debts to multilateral financial institutions are not eligible for rescheduling.

26. In his speech to the nation recently, The President of the United Republic of Tanzania explained in detail the Government's intentions in servicing external debts. The objective was to demonstrate in real terms our commitment to pay the debts although constrained by resources. The President also explained the reasons of the Government's commitment to pay. Some of the reasons include the need to safeguard

our integrity and credit worthiness, to maintain our good relations with donors and creditors so that they may consider providing further debt relief to create an attractive and conducive environment for foreign private investors. Due to these efforts, our country has continued to receive assistance from external sources, which has been directed to the social services, infrastructure and production sectors.

Civil Servants' Welfare:

27. Mr. Speaker, during this financial year 1997/98, the Government further reviewed the salaries of its employees in the various categories in an effort to improve the levels of remuneration ' The Government, however, is aware that the measures to rationalize the remuneration of its employees are not adequate as yet, owing to resource constraint. The Government is also looking into ways of improving pensionable terms for National leaders, politicians and public employees in general. Bills 'to amend various Acts associated with the provisional changes will be brought before your esteemed House for consideration.

BASIS FOR THE 1998/99 BUDGET

28. Mr. Speaker, having reviewed implementation of the Budget for Financial year 1997/98, I wish now to explain the policy stance and basis for the Budget proposals for 1998/99. The Budget Frame for the year 1998/99 has been prepared with a view to achieving the following objectives:-

- i) A GDP growth rate of 3.5%;
- ii) Achieving average rate of inflation of 7.5% by end of June 1999;
- iii) further reduction of deficit on the balance of trade by encouraging more exports;
- iv) Increase in employment especially in the private sector;
- v) To enhance provision of social services by increased efficiency in the various sectors
- vi) to promote growth of the industrial sector;

- vii) To strengthen Budget management and control and to increase transparency in revenue collection and allocation;
- viii) To increase revenue collection;
- ix) To increase mobilization of domestic savings;
- x) To put in place a strategy to reduce the magnitude of the public debt servicing burden on the budget so that the savings are utilized to improve funding of basic social services and economic infrastructure;
- xi) To promote regional cooperation within East Africa, and beyond, with a view to creating better opportunities for trade and investment.

29. Against the background of the above broad objectives, the budget frame for 1998/99 Financial Year takes cognisance of the medium-term goals embodied in the Forward Budget and Rolling Plan, as well as the vision for next millennium.

Revenue

30. Mr. Speaker, as regards revenue target for 1998/99, the aim is to consolidate reform measures initiated in 1997/98, the main one being the introduction of VAT. The thrust will be to ensure that Government revenue collection does not fall below Tshs. 699,521 million, which is equivalent to 13% of revised GDP. Considering the adverse effects of El-Nino in the production sectors notably infrastructure, concerted efforts would be required to enhance revenue collection. In that regard, the introduction of Value Added Tax (VAT), review of tariff determination for imported goods, with the purpose of streamlining classification are all geared towards achieving that goal. Avenues to reduce exemptions will also be explored.

31. Mr. Speaker, as explained in the 1997/98 budget speech, the Value Added Tax (VAT) will become effective 1st July, 1998. Some of the benefits of introducing VAT in our country are as follows:-

- i) expansion of the tax base which will enable the Government to increase its revenue collection in order to improve its capacity to fund essential services;
- ii) The VAT system will improve efficiency and simplify tax administration by way of applying a single tax rate of 20% which will replace sales tax and other taxes (stamp duty and entertainment tax for VAT registered enterprises);

- iii) the introduction of VAT will encourage exports as they will be zero-rated;
- iv) VAT will encourage compliance in tax payment because businesses will have to prepare proper books (receipts) during purchases to enable them to claim refunds and reduce their tax burden.

In order to achieve the above targets, the Government expects full cooperation from the business community.

32. Mr. Speaker, the Government through TRA also intends to allow storage of general goods in Owner Operated Bonded Ware-Houses to stimulate trade., Currently, goods such as food stuffs, clothes are not allowed in such bonded-ware-houses, a situation which has resulted in loss of markets for Tanzanians in the neighbouring land-locked countries of Zambia, Malawi, Rwanda, Burundi, Uganda and the Democratic Republic of Congo. The proposed restoration of bonded-warehousing for general merchandise will help in the promotion of trade with the neighbouring countries. The Tanzania Revenue Authority, however, will exercise maximum care in monitoring the Ware-houses so as to prevent recurrence of abuse leading to tax evasions as it used to be in the past.

33. Mr. Speaker, the Government also intends to review the tax structure to rationalise rates and bands with a view to simplifying collection including the re-introduction of the COMESA tariffs so as to enhance regional trade.

34. Mr. Speaker, the Government will transfer to TRA the administration of all statutory tax exemptions, including those granted under the Investment Act, 1997, donor funded projects, charitable organizations and the like. Those requesting discretionary tax exemptions granted by the Minister for Finance will also be required to submit their applications to TRA for scrutiny and advice. The administration of the Duty Draw Back scheme for exporters will also be amended in order that taxes so collected are deposited in a Special Account to be managed by TRA. Exporters will be refunded from the Special Account upon verification by TRA.

35. Mr. Speaker, regarding non-tax revenue, the Government intends to take the following measures:-

- i) Ministries which collect substantial amount of revenues will be allowed to continue retaining a portion of the revenue collected under the Retention Scheme so as to provide capacity to enhanced collections. However, with effect from 1998/99 financial year, all revenues collected by such

ministries and institutions under this scheme will have to be accounted for through credits into the Paymaster General's Accounts and then the approved amounts under retention will be paid to the respective ministries. The Treasury will closely monitor the use of such funds to ensure that they are within the approved budgets for the respective ministries.

- ii) Fees and other charges will be reviewed with a view to rationalising them while also looking into the possibility of expanding the base to cover areas where such fees were not charged.

The various fees charged by Local Governments especially on industrial products and exports will be reviewed with the aim of consolidating them so as to reduce the multiplicity of taxes. This measure is also aimed at minimising inconveniences experienced by manufacturers. The implementation of this measure will be subject to agreement between the central government and the local government authorities.

Loans and Grants:

36. Mr. Speaker, the Government is fully aware of the fact that the responsibility of developing a self sustaining economy is that of Tanzanians themselves. Yet external assistance will continue to be needed for sometime to come to enhance our capacity to finance economic development. It is therefore important to direct external assistance investments in the priority sectors, and not to recurrent expenditure. -In this connection, in 1998/99 financial year, the Government will take the following actions:-

- (i) Continue with the structural adjustment programme supported by the IMF, the World Bank and the donor community;
- (ii) Strengthen development cooperation with donors with the aim of mobilising funds for various development projects;
 - (iii) Improve donor coordination and monitoring of all aid funds;
 - (iv) A Multilateral Debt Relief Fund (MDF) is being established with contributions expected from various donors for the purpose of assisting with servicing of multilateral financial institutions debts.

Domestic Borrowing:

37. Mr. Speaker, during 1998/99, the Government intends to continue to reduce inflation as well as increase domestic savings. This means that in the next financial year, the Government does not expect to borrow from banks but will endeavour to continue reducing its domestic debt. Where deemed necessary for the Government to borrow from domestic sources other than banks, the Government will borrow using the interest rate obtaining in the Treasury Bills Market as a basis for calculating the real cost of such borrowing.

Expenditure:

38. Mr. Speaker, the measures to be taken in this area are to re-direct more resources to priority sectors of education, health, roads and water and to enhance control and transparency in government expenditure. The budget Frame for 1998/99 envisages:-

- i) continuation of the Cash Budget System . However, the monthly Cash Budget System will be improved, including providing indicative quarterly allocations.

This arrangement would enable ministries and other spending agencies to better plan their expenditures. It is important to emphasize that the Government agencies will be required to defray expenditures strictly on the basis of their monthly allocations, as the quarterly indicative allocations will largely be for planning purposes;

- ii) to institute a system of commitments reporting as a measure for controlling expenditure. This arrangement is expected to enable the Government to effectively control build up of arrears;
- iii) With effect from 1998/99 financial year, the Road Fund will exclusively be utilized for road maintenance and construction;
- iv) Ministerial allocation of funds and disbursements will be based upon each ministry's plans and targets to be achieve in the provision of services;
- v) With regard to payment of debt priority will be given to multilateral financial institutions, the Paris Club and local suppliers;
- vi) Electricity bills in respect of Government Ministries will from now be paid directly by the Treasury once the bills have been verified by the relevant ministries;

vii) Considering the adverse effects of El-Nino rains, a total of Tshs. 11,448.1 million has been set aside to meet emergency requirements as follows:

- (a) Roads - Tshs. 10,000.0 million
- (b) Water -1 Tshs. 400.0 million
- (c) Agriculture - Tshs. 1,448.1 million

(ix) In compliance with Presidential Circular No. 1 of 1998 on Austerity Measures, the Government will, as of 1998/99, see to it that purchase of motor vehicles will strictly follow the approved models. In addition the Ministry of Works will issue new guidelines on the purchase of furniture in Government Houses as a measure to control expenditures.

39. Mr. Speaker, despite the budgetary constraint, the social and infrastructure sectors will be accorded higher priority in budgetary allocations in the 1998/99. On the basis of analysis of recurrent budgetary allocation on "Other Charges" the following pattern emerges:-

- Social Services	23.97%
- Defence and Security	22.62%
- Economic Services	20.17%
- Administration	13.79%
- Production	4.50%
- Special Expenditure	(14.96%)

In view of the Government objective to decentralize and to transfer power and responsibilities to district council level, budgets for regions have considerably been reduced. In the 1998/99 Financial Year, Regional Administrations, (the Secretariat) have been allocated Tshs. 6,614.3 million out of Tshs. 120,900 million or 5.5% of the budget for the regions.

The Financial Sector:

40. Mr. Speaker, in the 1998/99 financial year the Government is determined to further reduce inflation to below 1 0% This is in addition to the Government's effort to reduce the domestic debt from banks, to improve the cash budget system and to limit domestic bank borrowing. Moreover, the Government will intensify its programme of reforms of the financial sector including, in particular, the restructuring of NBC (1997) Ltd and the National Microfinance Bank.

41. Mr. Speaker, the objective of the financial sector reform is to introduce competitiveness of financial service delivery for quality and improved services to clients, especially the provision of affordable loans for investment. However, without

containing inflation it will be impossible for banks to reduce their interest rates or loans.

External Sector

42. Mr. Speaker, in the fiscal year 1998/99 the Government will continue to mobilize resources from the External Sector in her efforts to promote economic growth. The Government will continue to encourage the promotion of exports of goods and services. The Government will continue to seek and consider views from exporters and importers alike on how best to remove any remaining impediments to trade. The Government will continue to create a conducive economic environment, improve services delivery, develop communication and infrastructure and involve more the private sector in the management of this important sector.

Parastatal Sector

43. Mr. Speaker, as explained earlier, it is the intention of the Government to continue reducing dependency of the Parastatal Sector on Government budget. In addition to the on-going parastatal sector reform, deliberate actions will be taken to improve their efficiency, as this is the only way to prepare them to face competition and or attract investors for joint venture with Government. For those parastatals that would prove impossible to restructure or privatize, the Government will liquidate them.

44. Mr. Speaker, as regards the Privatization Trust Fund, established by an Act of Parliament in April, 1997, the Government in collaboration with the PSRC, is finalizing arrangements for the appointment of the Board of Trustees and Manager of the Fund. It should be understood, however that this Fund is not intended to provide loans for purchase shares from privatized parastatals, but rather it is a facility to enable the Government to retain shares until such a time that the respective privatized parastatals qualify for listing in the, Stock Exchange (SE). The Minister for Finance has issued a Government Notice in the Government Gazette on the date of commencement and the modus operandi of the Fund.

The Real Sector

45. Mr. Speaker, production in the sectors of agriculture, livestock, industries, mining etc., have substantial contribution to GDP and to the welfare of the society. Thus, the Government will continue with its policies of creating an enabling environment so as to strengthen further these important sectors.

Private Sector

46. Mr. Speaker, despite the success so far made in the development of this sector, the Government intends to take further measures to put in place policies which will create a conducive environment for the growth of the private sector to become the real engine of growth of the economy. The Government will also continue to provide funds for Women and Youth through their Funds and to the National Income Generating Programme so as to promote projects in the private sector. For the 1998/99 financial year, Women and Youth Funds have been allocated a total of Tshs. 1.0 billion while Shs. 500 million has been allocated for NIGP.

Debt Policy

47. During the 1998/99 financial year, the Government will continue with its efforts to reduce the size of both internal and external debts. As regards external debt, the Government will continue with its efforts to solicit contributions from donor countries to the Multilateral Debt Relief Fund for the servicing of debts to the Multilateral Institutions which in turn will enable the Government to increase allocation of funds to the social sectors.

48. The Government, in addition to the above-mentioned efforts, will implement the Debt Buy Back Scheme for commercial debts, estimated at US dollars 350.0 million. In this scheme, the Government expects to use aid funds from the International Development Agency of the World Bank, and from Donor Countries to pay-off these debts.

49. With regard to internal debt, during 1998/99 financial year, the Government will continue with the system of assets securitization so as to reduce the costs of repayments. In efforts of finding a permanent solution to the debt problem, the Government formed a task force to prepare a National Debt Strategy. The task force has completed its work and has handed to the Government the proposed debt strategy. The Government will study the proposal with a view to implementing the recommendations.

COMESA, SADC and EAC Cooperation:

50. Mr. Speaker, the Government in the 1998/99 financial year is intending to strengthen the existing efforts to bring about economic development and integration in the East African countries and in SADC and COMESA.

The 1998/99 Budget Frame:

51. Mr. Speaker having explained the Budget policies, allow me now to present the budget frame for 1998/99. Basing on the Budget policies as I have explained, and before any changes are introduced to the current tax structure, the Government estimates to collect Tshs. 695,165.9 million from its domestic sources.

52. On the expenditure side, a total of Tshs. 1,007,786 million is planned to be spent in 1998/99 financial year. This amount is only 74% of actual requirements of Tshs. 1,359,785.2 million submitted by Government entities. This means that the approved allocations on expenditures do not reflect the actual requirements to finance the Government structure. This is indicative of the need for the Government to continue having-off some functions to levels that it can finance Moreover, efforts to reduce the debt servicing burden will assist to generate additional resources to support the financing of the Government structure.

53. On the basis of revenue projections without additional measures, with estimated expenditure, there (is a budget deficit of Tshs. 312,620.1 million. External assistance including loans and grants is estimated at Tshs. 309,265.0 million during 1998/99 to support the budget. Out of this amount, Tshs. 80,265.0 million is in form of balance of payments support, while Tshs. 229,000.0 million will be for development projects. Donors support will reduce the deficit to Tshs. 3,355.1 million.

54. Mr. Speaker, during 1998/99, financial year, the Government will not borrow from domestic banks, instead it targets to reduce its indebtedness by Tshs. 10,000 million. This will increase the budget deficit to Tshs. 13,355.1 million. The Government projects privatization proceeds of Tshs. 9,000 million. This amount Will reduce the budget deficit to Tshs. 4.355.1 The Government expects to cover this deficit from various revenue measures.

New Revenue Measures:

55. Mr. Speaker, may I, at this juncture, take this opportunity to thank the Revenue Task Force which has ,once again accomplished a commendable task of evaluating the tax regime and advising the Government on further measures to improve it.

Mr. Speaker, the tax Policies and other revenue measures are in the following ar6as:-

- i) The introduction of Value Added Tax (VAT);
- ii) Amendments of the Customs Tariff Act No. 12 of 1976;
- iii) Amendment of the Export Tax Act of 1974;
- iv) Export of scrap metal;

- v) Adjustment of tax and duty on beer, cigarettes, spirits, wine, chibuku and soft drinks;
- vi) Amendments of tariff on petroleum products;
- vii) Amendments of taxes on vehicles;
- Vii) Amendments of Income tax;
- ix) Promotion of Capital and Securities;
- x) Amendments of fees and other charges collected by ministries and regions;
- xi) Improving Tax Administration
- xii) Rationalization of various taxes;
- xiii) Review of tax exemptions.

The Introduction of VAT:

56. Mr. Speaker, following the enactment of VAT Act last year, VAT will effectively start to be collected on July 1, 1998. As a result of introducing this tax, the following taxes will be affected:-

- (a) Sales tax on goods and services will be abolished effective 1st July, 1998;
- (b) Receipt based stamp duty will not be applicable to VAT registered businesses;
- (c) Entertainment tax will not apply for VAT registered businesses.

57. In addition, it is being proposed that the following amendments be made to the VAT Act of 1997:-

- (a) Some of the services in the Tourist Industry e.g. game viewing, be exempted from VAT;
- (b) Capital goods be treated differently under VAT. The application of VAT be in the form of debit credit to investors until production starts;
- (c) Producers and businesses holding stocks of goods purchased prior to VAT becoming effective for which sales tax was paid, be refunded upon payment of VAT;

- (d) All types cereals and flour be exempted from VAT as explained in the second schedule of the VAT Act;
- (e) It is being proposed that raw materials and packaging materials for manufacturing pharmaceuticals be exempted from VAT;

VAT refunds be made within one month after submission of claims so as to instill confidence and increase productivity and efficiency among exporters and other VAT payers.

- (g) VAT refunds will take into consideration any other tax arrears as agreed upon by collectors and payers;

The introduction of VAT, accompanied by abolishing some taxes is estimated to generate additional revenue of Tshs. 6,635.1 million.

Customs Duty Structure:

58. Mr. Speaker, it is being proposed that the custom tariff structure be reviewed to match the levels of processing of goods i.e. lowest tariff level be charged on capital goods and raw materials, middle tariff level be charged on semi-finished goods and highest tariff level be charged' on finished goods. Because of the magnitude of required work in this area, these adjustments are expected to be completed in December, 1998 at the latest and the new tariff structure be operational as soon as possible. This reform of the tariff structure will enhance the tax base and reduce the coverage of products currently enjoying exemptions. The measure has the potential of enhancing revenue.

COMESA Tariffs:

59. Mr. Speaker, it is recommended that the application of COMESA tariffs be reinstated. For 1998/99 Tanzania should reduce tariff rates by 80% for goods imported from COMESA member countries. However, the reduction in the Preferential rates will not be increased to 90% by October, 1998 as required by the COMESA Treaty.

60. For purposes of ensuring that the level of protection of domestic industry is not eroded, and also to control dumping it is recommended that a Suspended Duty of 20% be imposed on selected imported goods.

In line with this measure, the Government will ensure strict enforcement of the Rules of Origin Clause with the Member States as provided for in the COMESA Treaty.

61. Mr. Speaker, in the case of beer, spirits, cigarettes and cement, the COMESA tariff regime will not be applied. The existing tax structure applicable to these products will prevail. It is also recommended that manufacturers in COMESA member countries wishing to sell their products to the Tanzania market under COMESA tariff arrangements, be required to appoint sales agents resident in Tanzania. The agents will be registered by TRA for tax purposes. Goods imported without observing this arrangement will be impounded and barred from entering the Tanzania market. The Government also expects that member countries will eliminate all administrative non-tariff barriers in their countries.

Export Tax:

62. Mr. Speaker, in order to promote exports and to protect farmers' income, it is recommended that the export tax on cotton, sisal, pyrethrum, coffee, tea and tobacco be abolished. This measure will have the effect of reducing Government revenue by Tshs. 5,780 million.

Export of Scrap Metals:

63. Mr. Speaker, following complaints from exporters, it is recommended that export of scrap metals be reinstated. However, exporters of scrapes will be required to pay export tax as a measure of controlling the export of these materials which are used as raw material for our steel industries. The Ministry of Industries and Trade will be regulating this business.

Amendment of Taxes and Duties on Beer, Chibuku, Cigarettes, Spirits, Wine and Soft Drinks:

64- Mr. Speaker, it is recommended that excise duty levied on beer Produced by local industries be Tshs.174-00 per litre and VAT of 20%. Beer from member states of COMESA will be levied import duty of 10%, excise duty of Tshs. 195.00 per litre and VAT of 20%. Beer from non-COMESA sources be charged import duty of 30%, excise duty of Tshs. 153.00 per litre and VAT of 20%. For chibuku, it is recommended that the current excise duty of Tshs. 2.20 be abolished and replaced by VAT of 20% per litre. These amendments would raise effective tariff level by 5% for all. The differential effective tax between domestic and imported beer remains unchanged from the current structure.

Cigarettes:

65. Mr. speaker, for cigarettes, it is recommended to adjust the tariff level for each 1000 cigarettes as follows:-

- (a) cigarettes with length of more than 70 mm. produced locally be levied excise duty of Tshs. 7,568.00 and VAT of 20%. For cigarettes with length less than 70 mm. be levied customs duty of Tshs. 3,299-00 and VAT of 20%.

- (b) Imported cigarettes would be charged excise duty of Tshs. 17,020.00, import duty of 30%, and VAT of 20%.

These measures will raise effective tariff levels on cigarettes by 5%.

Spirits and Wine:

66. Mr. Speaker, for locally produced spirits and wine, it is recommended that spirits be levied excise duty of Tshs. 864.00 per litre and VAT of 20%. Excise duty of Tshs. 508.30 per litre and VAT of 20% be levied for wine. Furthermore, imported spirits will be levied import duty of 30%, excise duty of Tshs. 1,040.00 per litre and VAT of 20%. Imported wine will be levied import duty of 30%, excise duty of Tshs. 776.00 per litre and VAT of 20%.

Soft Drinks:

67. Mr. Speaker, it is recommended that locally produced soft drinks be levied VAT of 20% and excise duty of Tshs. 43.00 per litre. In addition, imported soft drinks be charged Customs duty of 30%, excise duty of Tshs. 140.00 per litre and VAT of 20%. These measures are aimed at protecting Government revenue levels, in the light of introduction of VAT.

Paper Products:

68. Mr. Speaker, it is recommended that the import tax exemption that was granted on news print under G.N. No. 122 and 142 be abolished. This measure is being taken in the light of the assessment to the effect 35 that the newspaper industry is now strong enough to stand on its feet through competition.

Amendments to Taxes on Petroleum Products:

69. Mr. Speaker, to avoid the macroeconomic impact of a rise in petroleum product prices, it is recommended as follows:

- (i) All petroleum products be exempted from VAT. However, all other duties and taxes will continue to be levied on these products;
- (ii) It is further recommended that sales tax currently levied on petroleum products be converted into excise duty so as to protect Government revenue.

From the above recommendations, the import taxes on various petroleum products shall be as follows:

- (a) LPG - Shs. 44.1372 per kg
- (b) MSP - Shs. 64.2978 per kg.
- (c) MSR - Shs. 58.4214 per kg.
- (d) JET-A1 - Shs. 24.0848 per. kg
- (e) IK - Shs. 19,9451 per kg.
- (f) GO - Shs. 16,8786 per kg.
- (g) IDO - Shs. 14.0680 per kg.

- (h) FO Not taxable.

Road Fund Tax:

70. Mr. Speaker, it is recommended that Road Toll be renamed "Road Fund Tax" for the reason of synchronizing it with its purpose. The current rate of Shs. 70.00 per litre of MSP, MSR and GO remain unchanged.

Amendments of Taxes on Motor Vehicles:

71. Mr. Speaker, it is observed that imports taxes on passenger cars are too high and have had negative impact on revenue. The Government recommends the following adjustments for such cars, that, excise duty on passenger cars with engine capacity not exceeding 2000 cc be abolished, import duty be charged at 30% and VAT of 20%. For passenger cars with engine capacity exceeding 2000 cc, it is recommended that import duty be levied at 30%, excise duty of 10% and VAT of 20%.

72. For pick-ups, lorries and buses, it is recommended that import duty of 20% and VAT of 20% be applied. Unassembled motor vehicles known as completely knocked-down, (CKD) will be levied import duty of 5% and VAT of 20%. Furthermore, it is recommended that import duty of 30% or Shs. 1.0 million whichever is higher, and VAT of 20% be levied on used passenger cars.

Fees on Foreign Vehicles:

73. It is proposed to reduce the fees on foreign vehicles from the current US dollars 60.0 for a stay of up to three months to a charge of US dollars 20 for a stay of up to one month.

Amendments of Tax Exemptions on Motor Vehicles:

74. Mr. Speaker, since it has been proposed to reduce taxes on motor vehicles, the Government further proposes to amend the tax exemption on passenger cars bought by eligible civil servants and returning citizens who were paying import duty of 5% and 15% respectively. From July 1, 1998, it is recommended that eligible civil servants and returning citizens should pay VAT of 20% only for their cars. Import duty and excise duty should not be applied on their cars. However, passenger cars eligible for this tax exemption should not exceed engine capacity of 3000 cc. Cars with engine capacity exceeding 3000 cc will be liable to full taxes.

75. Mr. Speaker, since passenger cars imported by investors are not directly used in production, it is recommended that such passenger cars which are, exempted under TIC be excluded from the incentive package list given to investors. Upon importation of passenger cars investors will be required to pay all taxes in full.

76. Mr. Speaker, the impact of amending taxes on motor vehicles is expected to be revenue neutral, because most of the cars imported were exempted from taxes. Furthermore, reduction of taxes on motor vehicles will enable people to buy new motor vehicles and therefore reduce maintenance costs and import bills for spare parts, as well as guard against environmental impact.

Amendments to taxes on Vehicle Tyres:

77. Mr. Speaker, as regards motor vehicle tyres, it is proposed that excise duty of 20% instead of 30% and VAT of 20% be charged on radial tyres while charges on all other types of tyres remain at 30% for customs duty and 20% VAT.

Measures for the Protection of Industries:

78. Mr. Speaker, the following measures are being proposed so as to protect our industries from unfair competition from imported goods:-

- (a) with regard to textile dyes, acids and other chemicals used for the manufacture of textiles, a charge of 5% custom duty instead of the 10% presently being levied will now be applied;

- (b) raw materials for the manufacture of batteries for motor vehicles with tariff numbers listed below will be charged 5% customs duties.

Item	Tariff No.
(i) Battery Cases Plasticised or Rubber Cased	3,923.1 0 or 4,016.99.90
(ii) Stoppers, Lids, Caps, etc.	3,923.50.00
(iii) Sulfuric Acid	2,851.00.00
(iv) Lead	7,806.00.90
(v) Cadmium	8,107.90.00

- (c) Raw materials for producing lubricants with tariff numbers 2710.00.90 and 3811.21.90 will also be charged import duty of 5% instead of IO% that is being charged now.

79. Mr. Speaker, it is proposed that payment of custom duties on raw materials for export goods would now be deposited in a special account with TRA. This measure is aimed at improving the administration of the Duty Draw Back Scheme. The Board of External Trade (BET) which now manages the present scheme will transfer this responsibility to TRA. These measures are not expected to affect government revenue in the short run, but have potential of increasing revenue in future.

Finished Products

80. Mr. Speaker, in order to put in place a level playing field between locally produced goods and those imported, it is proposed that packaging materials that can be used repetitively be charged 30% import duty while non-repetitive packaging materials be charged 20% import duty. The following products namely, shoes, P.P. bags, garments (both new and used), and textile materials (except MITUMBA), rice, crude and refined cooking oil, sugar and wheat flour will now be subjected to pre-shipment inspection irrespective of the value. Moreover industrial sugar used in the production of soft drinks and beer be charged a 10% import duty without requiring the users to pay a deposit of 20% and later raise a claim for refund as is currently the case. These measures are revenue neutral.

Stamp Duty Charges on the incomes of NSSF and PPF:

81. Mr. Speaker, it is proposed that stamp duty be charged on the incomes arising from investment activities which are-conducted by the National Social Security Fund (NSSF) and the Parastatal Pensions Fund (PPF). This charge will not involve the contributions made by members. The reason for introducing stamp duty charge on NSSF and PPF income is the expanded involvement of these funds in economic and commercial activities just like other business entities.

Amendment to the Income Tax Act, 1973:

82. Mr. Speaker, it is proposed to make amendments to the Income Tax Act, 1973 so as to give relief to tax payers, to increase Government revenue and also to simplify tax collection as follows: -

(a) **Income Tax on NSSF and PPF**

It is proposed that corporation tax be charged on NSSF and PPF income arising from commercial activities. This is not to affect members' contributions. This proposal arises from the fact that the activities of these funds have expanded to include normal commercial activities done by other commercial enterprises.

(b) **Housing Benefit Tax**

It is proposed that this tax be amended so that the charge is fixed at 15% of salary including other benefits. This will simplify the process of collecting it.

(c) **Personal Relief Allowances**

Given the problems associated with the realisation of benefits Provided through this arrangement in view of the negligible amount of the relief itself, it is proposed that this allowance be abolished. This measure will not increase revenues, as most of the beneficiaries were not taking advantage of it anyway. It will, however, reduce costs of its administration.

(d) **Withholding Tax on Goods and Services**

It is proposed that this tax be amended so as to simplify its collection, and prepare for its abolition:

- (i) The minimum dutiable value
for this tax be Shs. 1 00,000 per transaction;
 - (ii) Government will explore the possibility of abolishing this tax during the year 1999/ 2000 based on the experience of VAT and the introduction of Tax Payers Identification Number (TIN);
 - (iii) This tax should be charged on purchases of goods and services, excluding VAT charges.
- (e) **Other Withholding Taxes** It is proposed that further amendments be made as follows:
- (i) Withholding tax on Royalties be reduced from 30% to 20%. This measure is aimed at harmonizing the tax level with those of the neighbouring countries of East Africa.
 - (ii) Withholding Tax on Leased Aircraft be reduced from 40% to 10%. This measure is aimed at reducing the costs of leasing aircrafts and strengthening the air travel business for our local companies. This tax has never been paid anyway at the rate of 40%.
 - (iii) Withholding tax on immovable assets owned by non-residents be lowered from 40% to 20%;
 - (iv) Non-Resident withholding tax on Management and Professional fees be reduced from 30% to 20%. This measure is aimed at reducing the excessive tax burden on professional and management services. The amendments to withholding taxes are not expected to have direct impact on Government revenue, but are expected to enhance compliance.
- (f) **Amendments to Income Tax for Holders of Tanzania investment Centre (TIC) Certificates**

It is proposed to amend the provision that allows the deduction of 100% of the investment costs in the calculations of Net Income for tax purposes in

order that the rates indicated in the 2nd schedule of the Income Tax Act are applied. This measure is aimed at harmonizing the applicable rates with those of our neighboring countries.

Capital and Securities Markets:

83. Mr. Speaker, in order to encouraged the ordinary public to participate in the capital and securities market, it is proposed that the Income Tax Act be amended in this respect in order that incomes accruing from dividends in companies listed in the Dar es Salaam Stock Exchange be charged 5% withholding tax.

Improving Tax Administration

84. Mr. Speaker, the following measures are proposed so as to improve tax administration:-

- (a) It is proposed that all goods imported through Zanzibar be subjected to pre-shipment inspection so as to curb tax evasion;
- (b) It is also proposed that other tax laws be reviewed so as to harmonize the various tax penalties and fines for non compliance to requirements of the law;
- (c) In order to promote trade and to take advantage of our geographical location in relation to neighbouring countries, it is being proposed that General Bonded Warehouses be allowed again for all goods. TRA will continue strengthening capacity for supervision of such warehouses;
- (d) With regard to Tax Appeals, it is being proposed that the TRA Act and other tax laws be harmonized so as to allow the establishment of a single tax appeals body. This measure will ease the inconveniences experienced by tax payers.

Rationalization and, Harmonization of Fees and Charges Collected by Ministries and Regions:

85. Mr. Speaker, it is also proposed to rationalize and harmonize fees and charges, which are collected by ministries and regions. This measure will increase Government revenue by Shs. 3,500.0 million.

86. Mr. Speaker, the introduction of VAT and the amendments to various taxes will become effective in accordance with the respective laws.

Summary of Revenue Impact of various tax measures for the year 1998/99:

87. Mr. Speaker, as a result of the various measures proposed above on tax rationalisation, harmonisation and improvement of tax administration, the revenue deficit of Shs. 4,355.0 million will be covered as follows:-

Measures	Additional Revenue
(i) Introduction of VAT	6,635.0
(ii) Amendments to Customs duties	0.0
(iii) Amendments to Export taxes	(5,780.0)
(iv) Export of Scrap Metals	0.0
(v) Amendments to taxes on petroleum products	
(vi) Amendments to Taxes on motor vehicles	0.0
(vii) Promotion Of the Stock Exchange	0.0
(viii) Amendments to fees and other charges collected by ministries and regions	3,500.0
(ix) Improvement in Tax administration	0.0
Total Additional Revenue	4,355.0

Budget Structure:

88. Mr. Speaker, following the description given above of the frame of Revenue and Expenditures, the 1998/99 Budget structure will be as follows:-

Revenue		Shs. - (Millions)
(a) Domestic Revenue		699,521.0
(i) Tax Revenue	632,784.7	
(ii) Non-Tax Revenue	62,381.2	
(iii) Revenue Measures	4,355.1	
(b) External Loans and Grants		309,265.0
(c) Domestic Borrowing		(10,000.0)
(d) Privatization proceeds		<u>9,000.0</u>
	Total	1,007,786.0
Expenditure:		
(e) Recurrent Expenditure		743,321.0
(i) Ministries	302,232.1	
(ii) Public Debt	209,123.0	
(iii) Regions	16,411.1	
(iv) Special Expenditure		111,034.1
(a) Electricity bills	15,000.00	
(b) Payment of Arrears	14,469.00	
(c) Road Fund	46,072.00	
(d) TRAICMSA	19,581.0	
(e) Contingency	15,912.1	
(v) Local Government		104,520.7
(a) Municipal Council	20,307.1	
(b) District Councils	84,213.6	
(f) Development Expenditure		264,465.0
(i) Domestic sources	10,000.00	
(ii) External sources	254,465.00	
	Total Expenditure	<u>1 007 786.00</u>

Conclusion:

89. Mr. Speaker, the 1998/99 Budget has been prepared against the background of economic hardships facing the country. The vagaries of weather have adversely affected our economy. It is the expectation of the Government that weather conditions will improve in 1998/99. Good news is that despite the adverse effect of the rains caused by El-Nino, it is reported that some parts of the country have a bumper harvest of both food and cash crops, for example, paddy and cotton. Nevertheless, for the bumper harvest to be of benefit to all Tanzanians, it is important that the transportation infrastructure is rehabilitated. As explained above, the 1998/99 budget is geared towards implementing and achieving that goal.

90. Mr. Speaker, considering the establishment of VAT, the Government has not proposed significant changes in other taxes so that the income base of the people, which is already low, is not further eroded. On the other hand, the move to abolish export tax is expected to a certain extent to enhance earnings for smallholder farmers. It is the expectation of the Government that the respective exporters of the crops on which export tax has been abolished would pass on to the farmers these benefits in the form of increased producer prices. This is an important message to exporters of traditional crops.

91. Mr. Speaker, I beg to move.