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This action is funded by the European Union

<u>ANNEX 2</u>

of the Commission Decision on the Annual Action Programme 2016 in favour of the United Republic of Tanzania to be financed from the 11th European Development Fund

<u>Action Document for Tanzania Economic and Fiscal Governance Programme</u>

<table>
<tr><td>1. Title/basic act/ CRIS number</td><td colspan="4">Tanzania's Economic and Fiscal Governance Programme
CRIS number: 2016/038-939 financed under European Development Fund</td></tr>
<tr><td>2. Zone benefiting from the action/location</td><td colspan="4">United Republic of Tanzania
The action shall be carried out at the following location: Dar es Salaam, Tanzania</td></tr>
<tr><td>3. Programming document</td><td colspan="4">National Indicative Programme (NIP) for the United Republic of Tanzania 2014-2020</td></tr>
<tr><td>4. Sector of concentration/ thematic area</td><td colspan="2">Budget reform, public finance management, macroeconomic stability, economic governance, tax reform</td><td colspan="2">DEV. Aid: YES[1]</td></tr>
<tr><td>5. Amounts concerned</td><td colspan="4">Total estimated cost: EUR 214 500 000
Total amount of EDF contribution EUR 205 000 000 For budget support of which:
EUR 200 000 000 for budget support and
EUR 5 000 000 for complementary support

This action is co-financed in parallel co-financing by DANIDA with an amount of EUR 9 500 000.</td></tr>
<tr><td>6. Aid modality(ies) and implementation modality(ies)</td><td colspan="4">Direct management - Budget Support - Sector Reform Contract

Project Modality (for complementary support)
Indirect management with DANIDA
Indirect management with Government of Tanzania</td></tr>
<tr><td>7 a) DAC code(s)</td><td colspan="4">15111 Public Finance Management 2% 51010 Budget Support 98%</td></tr>
<tr><td>b) Main Delivery Channel</td><td colspan="4">12000 – Recipient Government</td></tr>
<tr><td rowspan="2">8. Markers (from CRIS DAC form)</td><td>General policy objective</td><td>Not targeted</td><td>Significant objective</td><td>Main objective</td></tr>
<tr><td>Participation development/good governance</td><td>☐</td><td>☐</td><td>x</td></tr>
</table>

[1] Official Development Aid is administered with the promotion of the economic development and welfare of developing countries as its main objective.

	Aid to environment	x	☐	☐
	Gender equality (including Women In Development)	x	☐	☐
	Trade Development	x	☐	☐
	Reproductive, Maternal, New born and child health	x	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Main objective**
	Biological diversity	x	☐	☐
	Combat desertification	x	☐	☐
	Climate change mitigation	x	☐	☐
	Climate change adaptation	x	☐	☐
9. Global Public Goods and Challenges (GPGC) thematic flagships	N.A.			
10. Sustainable Development Goals (SDGs)	SDGs: 1, 8, 10 and 16			

SUMMARY

The proposed action will contribute to the effective implementation of the Second Five Year Development Plan (FYDP) (2016/2017-2020/2021) of the United Republic of Tanzania, by providing direct financial support to the budget and ensuring that the necessary fiscal policies (i.e. policies in Domestic Revenue Mobilisation, Public Expenditure Management and Accountability of public funds) are adopted and followed-through. Two complementary measures to this budget support are part of this action document: a support to the Tanzania Revenue Authority (TRA) to their tax modernisation programme and a facility to provide high-quality research to foster the policy dialogue.

The country is on a path of rapid industrialisation and aims to reach a middle-income status by 2025, and therefore to graduate from aid dependency. To ensure that this growth is sustainable and inclusive, the Government of Tanzania has to ensure that i) it optimally captures potential revenues for the national budget, ii) it develops a relevant and credible budget reflecting the national development strategies, avoiding fiscal risks and iii) improves the execution of the budget to ensure value for money and effectiveness in the implementation of the national policies. Sectoral policies have suffered in the past years from shortages of resources, weaknesses in planning, un-expected expenditures competing with an approved budget, and problems with expenditure management. A well planned, adequately funded and properly executed and controlled budget will benefit these policies directly.

In this endeavour, the role of the Ministry of Finance and Planning (MoFP) in developing and implementing the right fiscal policies, ensuring proper public finance management and coordinating sectoral ministries accordingly needs to be reinforced. The proposed action will serve as an instrument for the MoFP to achieve this objective, by allowing: i) evidence-based and well-informed fiscal policy development, ii) a clear set of priorities and targets for fiscal policies and related monitoring, and iii) a constructive dialogue with relevant stakeholders in the budget process (Parliament, Non-State Actors,

private Sector, Development Partners, etc.). This action is in line with the EU "Collect more-Spend better" staff document[2] promoting, in the framework of the Financing for Development Agenda, the efficient, effective, transparent and fair taxation, as well as the efficient and effective public spending by addressing public investment expenditures, public procurement and debt management.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Tanzania has experienced strong and stable economic growth since the middle of the 1990's, aided by a context of peace and stability. Gross domestic product (GDP) growth averaged 7% in the last years, and is expected to remain as such in the medium to long-term. The Government of the United Republic of Tanzania has adopted generally prudent macro-fiscal and monetary policies and engaged in a number of important reforms to maintain a favourable framework to its development.

In the past decade, the high growth has been concentrated in five capital-intensive sectors, i.e. trade, manufacturing, transport, financial services, and telecoms, which represent almost 60% of GDP growth. Labour-intensive sectors have not benefitted similarly, and therefore widespread job creation has suffered. In addition, relatively high demographic growth puts pressure on public services delivery and the formal and informal job markets. Underemployment and seasonal labour is chronic, especially in rural areas and among the youth.

In recent years, however, growth has started to translate into poverty reduction. Approximately 28% of the population were living below the national poverty line in 2012, a reduction from 34% in 2007[3]. Major improvements during this period include access to basic education, health and nutrition, improvements in living conditions, and labour force participation in non-agriculture employment. The population is currently estimated at being 47.4 million[4]. While inequality is still high, recent figures also indicate a small improvement: the Gini index reached 37.8 in 2011, down from 40.3 in 2007[5].

With regards to Millennium Development Goals (MDGs): Tanzania showed progress in attaining MDG4, having achieved a significant decline in infant and under five mortality rates. While important gains have been achieved towards the targets set out in MDG6 (combat HIV/AIDS, malaria and tuberculosis), there has been slower progress on achieving MDG5 targets (reproductive and maternal health). Since 2010, the number of children enrolling in primary school has plateaued putting MDG2 at risk and despite the decline in extreme poverty, the country will not attain MDG1.

The Sustainable Development Goals (SDGs) have come into force at an opportune time coinciding with the formulation of the country's Five Year Development Plan II (2016/17-2020/21), which will enable domesticating and mainstreaming the SDGs into the new national development framework.

1.1.1 Public Policy Assessment and EU Policy Framework

In May 2015, the Government of Tanzania made a decision to merge its National Strategy for Growth and Reduction of Poverty (NSGRP) called MKUKUTA II and its Five Year Development Plan (FYDP) (for mainland Tanzania). This harmonised framework, captured under the FYDP of second generation (FYDP II), for the period 2016/17-2020/21 should benefit from clearer priority setting and effective coordination, better alignment of resources, and stronger monitoring, evaluation and

[2] European Commission, "Collect more-Spend better; achieving development in an inclusive and sustainable way"
[3] Tanzania - Household Budget Survey 2011-2012 (http://www.nbs.go.tz/tnada/index.php/catalog/36)
[4] National Bureau of Statistics, figure for 2014
[5] World Bank

reporting. The Government of Zanzibar has also prepared a successor programme to MKUZA, which will run in alignment with the FYPD II within the same period.

While the late MKUKUTA II placed emphasis on shared growth for poverty reduction, the FYDP II is targeting strategic priority interventions to move Tanzania to a higher economic growth trajectory coupled with a shift from an agriculture-based to an industry-based economy. Furthermore, the FYDP II aims at inclusive growth to ensure that its benefits are broadly shared and reflected in improved quality of life for the majority of Tanzanians. Employment creation, particularly for the youth, is also a particular crosscutting target of the FYDP II.

This new framework is based on the following five key principles[6]: i) facilitating mainstreaming the poverty reduction agenda into the core of the nation's development planning framework; ii) improving coordination with respect to prioritisation, implementation, monitoring, evaluation and reporting; iii) enhancing resource mobilisation and utilisation by articulating clear national key result areas (NKRAs) and focusing both domestic and foreign resources on national priorities; iv) aligning national priorities with sector strategies through Medium Term Expenditure Frameworks (MTEFs) and the Strategic Budget Allocation System (SBAS); and v) ensuring coherence of public Expenditure Reviews and Sector Reviews with national priorities."

The new plan also integrates result delivery programmes developed under the previous strategies, such as the Big Results Now (BRN) by notably scaling up its monitoring and evaluation (M&E) framework and the Poverty Monitoring Master Plan.

The FYDP II objectives are i) promoting economic growth and industrialisation; ii) enhancing human and skills development; iii) improving business environment; iv) improving implementation effectiveness. In the same line, the objectives of Zanzibar's new development strategy are built around 5 key areas: i) enabling sustainable and inclusive growth in key sectors; ii) promoting human capital development; iii) providing quality services for all; iv) attaining environmental sustainability & climate resilience; and v) adhering to good governance principles.

The FYDP II has been formulated under the leadership of the Planning Commission, which was sitting under the President's Office under the previous government and which has now been integrated into the Ministry of Finance. While this move gives reasonable assurance that the plan will be coherent with the country's budget, the recent history of weak medium-term expenditure planning, lack of budget credibility, and sub-optimal revenue generation forewarn the risks to the effective implementation of the FYDP II. It is expected, however, that the new administration, which has already demonstrated strong commitment in the few months of its investiture, will strongly back the development vision and effectively direct the resources available in order to deliver on its objectives, preventing wastages where possible.

This action is in line with the EU "Collect more-Spend better" staff document[7] promoting, in the framework of the Financing for Development Agenda, the efficient, effective, transparent and fair taxation, as well as the efficient and effective public spending by addressing public investment expenditures, public procurement and debt management.

Based on the above, the public policy is assessed as relevant and credible.

[7] European Commission, "Collect more-Spend better; achieving development in an inclusive and sustainable way"

1.1.2 ***Stakeholder analysis***

Through the un-earmarked funding to the Government of Tanzania's budget, the action will support development expenditures of various sectors' votes, and thus has the people of the United Republic of Tanzania as final beneficiaries.

Policy dialogue and related capacity building will be targeting the main institutions responsible for revenue mobilisation and administration, as well as expenditure management and accountability of public funds, namely:

- The Ministry of Finance and Planning (MoFP), and in particular its departments of: a) Policy Analysis Commissioner for Policy Analysis Department (CPAD), in charge of fiscal policy and debt management; b) Budget, in charge of budget preparation and management; c) Treasury Registrar, in charge of overseeing government's investments in public enterprises and commercial entities; d) Internal Auditor General, in charge of identifying systemic issues with internal controls; e) Public Procurement; and f) External Finance, in charge of managing bilateral and multilateral development aid.
- The Tanzania Revenue Authority (TRA). The TRA has gone through a Tax Administration Diagnostic Assessment (TADAT); this tool assisted in identifying the relative strengths and weaknesses of the departments responsible for collecting domestic revenues[8].
- The Controller and Auditor General (CAG) in the National Audit Office of Tanzania.
- The relevant committees in the Parliament of Tanzania, i.e. namely Budget Committee and Public Accounts Committee.

The above institutions have been regularly consulted in the framework of formulation of this action and have confirmed their commitment to a problem-solving dialogue.

Other stakeholders to the action include:

- The private sector, through its representative bodies including the Tanzania Private Sector Foundation, the Tanzania Chamber of Commerce, Industry and Agriculture, the EU Business Group, among others.
- The civil society organisations are also important partners to inform the dialogue on the progressivity of tax measures and the effectiveness of public expenditure management for service delivery.

The stakeholders mentioned above are part of the extended Public Expenditure Review (PER) Champions' Group led by the MoFP dialogue mechanism, and are therefore expected to continue their role of active stakeholders of an economic and fiscal governance dialogue.

1.1.3 ***Priority areas for support/problem analysis***

The Government of Tanzania has struggled in the past years to fund its development programmes while maintaining a sustainable deficit. It has not worked on the basis of a medium-term planning, and there are important variances (in particular at decomposed levels) between the approved and executed budget, which undermines the whole exercise, as well as the accountability towards tax payers and citizens in general.

In order to set stronger foundations, for a more effective implementation of the next Five Year Development Plan (FYDP) II the following elements could be considered: i) develop a relevant and credible budget to put in place its development policy; ii) optimally capture potential revenues for the national budget, respecting the principle of equity; iii) improve the execution of the budget to ensure value for money and effectiveness in service delivery; and iv) remain accountable to its citizens on the revenue and expenditure side of the budget.

[8] Customs revenue are not covered by this assessment

The Government of Tanzania can be credited for having developed relevant fiscal and economic policies, to which it has remained committed throughout the years, and on which it is willing to engage in dialogue with development partners[9]. Measures required to improve financial governance have been analysed and in several cases, the Government of Tanzania has developed action plans to address them. In its declaration at the inauguration of the 11th Union Parliament, the President gave clear signs that revenue mobilisation and budget discipline are high on the country's agenda. However, policy reforms on core issues related to the management of public finances, the collection of revenue and the accountability in the management of funds have stalled, while the reform on economic governance had limited spill-over effects in big spending line ministries and public parastatals. The role of the Ministry of Finance and Planning (MoFP) in its function of budget coordinator as well as Public Financial Management (PFM) reform promoter needs to be reinforced. This strengthening entails more efficient coordination with other ministries, departments and agencies (MDAs), better sequencing/organisation/priority setting of reforms and crucial policy actions, stronger analytical and management capacities in some areas. The proposed action (budget support component) would support this reinforcement.

In order to expand the tax base and improve the level of compliance of the tax administration, the Tanzanian Revenue Authority (TRA) is considering more advanced and efficient technologies and work processes to analyse cross cutting data. This will prove difficult if staff is not trained accordingly or if changes in staffing profiles are not carried out. The 4th TRA Corporate Plan[10] has initiated several measures in that direction. A complementary support to this action, supporting the Tax Modernisation Programme of the TRA, could contribute in supporting these endeavours.

1.2 Other areas of assessment

*1.2.1 **Fundamental values***

The EU Delegation provided a full analysis of fundamental values in April 2014 which concluded to the existence of a conducive environment in Tanzania to promote the fundamental values and many of the EU's human rights priorities. Since this assessment, the Risk Management Framework (RMF) has been regularly monitored, and its last assessment was examined by the Budget Support Steering Committee on 26th February 2016. It concluded that the political risk (including dimensions on Human Rights, Democracy, and Rule of Law) remains moderate.

However, while an overall respect of fundamental values is still observed in the country as a whole, some concerns have aroused with regards to recent developments on the status of democracy in Zanzibar and freedom of expression in both Mainland Tanzania and Zanzibar. The fundamental values in Zanzibar are at risk, in the medium to long-term, if a political settlement is not found to ensure a more inclusive political process. More generally, at Union level, there are concerns in relation to freedom of expression and to the operations of the Parliament. Within this framework, the EU Delegation will closely monitor the risks identified and reported through the risk management framework. The most pertinent issues relate to the mentioned unsatisfactory democratic process in Zanzibar; the Constitutional review impasse and the contested enforcement of the cybercrime act[11].

Based on this assessment, it is concluded that the pre-condition for a budget support operation continues to be considered as met but requires close follow-up. The conclusion is supported by the adoption, in February 2016, of the Risk Management Framework by the Budget Support Steering Committee.

[9] Public Expenditure Review champions group, PFM Reform Programme steering committees, PSI with IMF, PFM DPO with World Bank
[10] http://www.tra.go.tz/index.php/about-tra/corporate-news
[11] Ref: Country Risk Profile – United Republic of Tanzania – Risk Management Framework, as approved by the BSSC in February 2016

1.2.2 *Macroeconomic policy*

The Government of Tanzania again demonstrated in 2015 its commitment to maintaining macroeconomic stability, as reported by the International Monetary Fund (IMF) in the framework of their reviews and missions under the Policy Support Instrument (PSI)[12]. The GDP growth rate in 2015 is estimated to be similar to the ones of previous years, i.e. around 7%. Strong performance is recorded in transport, construction, communication, and financial services. The outlook remains favourable in the medium term, with a year growth rate estimated to remain in the ranges of 7% until 2020. The inflation rose gradually throughout 2015 and reached around 9% at the end of the year, (compared to 5.6% at the end of 2014), largely driven by supply side factors, particularly food prices, and the exchange rate depreciation in the first half of 2015. According to the IMF, it is, however, expected that the inflation will gradually decline towards the government's target of 5%.

The Tanzanian shilling lost around 17% of its value against the US dollar, with a strong depreciation around April-June 2015, and a stabilisation in the end of the year. This was mostly due to the strength of the dollar, seasonally low export earnings, and high repatriation of corporate dividends. In an effort to curb inflation, the Government of Tanzania has pursued prudent fiscal and monetary policies: the Bank of Tanzania has reduced monetary expansion and increased the discount rate and minimum reserve requirements for government deposits. In spite of the fluctuations in exchange rates, the balance of payments remained stable with the current account deficit being around 10% of GDP. The reduced import bill due to the fall in oil prices on international markets, coupled with improved export performance in some food crops and manufacturing, has helped the current account deficit to decline from 10.3% of GDP in 2013/14 to 9.5% in 2014/15.

The credibility of the Government's macro-economic policies has allowed the IMF to agree to a renewed three-year PSI, which started in July 2014. In the framework of this programme, the Government has committed to structural benchmarks for improving efficiency and increasing revenue mobilisation, strengthening debt and public enterprise management, advancing PFM and pension reforms, and ensuring that the benefits of natural gas findings benefit all Tanzanians. In the longer term, Tanzania has also committed itself to strict Macroeconomic Convergence Criteria in the framework of the Monetary Union Protocol with the East African Community (EAC).

Extractive Industries Transparency Initiative (EITI) objectives are increasingly recognized and included in the Government policy statements, such as the Natural Gas Policy-2013 and in the development of Local Content Policy- 2014. This indicates the importance of putting transparency and accountability at the core of administration of extractive industries. Unfortunately, the deadline for publishing the report could not be met. The EITI Board issued a Suspension Notice on September 2, 2015. As of November 2015, Tanzania has produced six EITI reports since it joined the initiative in February 2009. Taken together, the Government has disclosed revenue receipts of TSH 3.96 trillion (USD 2 539, 123, 424) from July 1, 2008 to June 30, 2014.

This stable macro-economic framework is, however, not immune to some key challenges. Indeed, over the past few years, Tanzania has had difficulties achieving its desired level of fiscal deficit. The accurate measure of the fiscal deficit (i.e. including arrears) was at 4.2% of GDP for 2013/14, and 4.5% for 2014/15 (compared to a target of 3.8%). Public debt, though still assessed as sustainable, has increased substantially (it is estimated at close to 39% of GDP in 2015 compared to 29% at end-June 2014), and is becoming more and more on non-concessional terms. The Government has two years in a row been obliged to proceed to important mid-year reductions in development expenditures to meet its fiscal targets. This is, for a great part, due to unmet revenue targets, inaccurate planning of expenditures, and the weighing on the budget of an increasing value of arrears, which have accumulated drastically to about 3% of GDP. The fiscal risk posed by some public enterprises and

[12] IMF – 3rd Review under the PSI instrument – January 2016 (PSI was agreed in July 2014).

institutions, such as the energy facility Tanzania Electric Supply Company Limited (TANESCO) and the pension funds are also quite worrisome, due to their weak financial situation and the contingent liabilities they represent for the Government.

Efforts have been made, however, for more realistic revenue projections, and some key tax reforms have been recently put in place through the VAT and Tax administration laws. The new Administration under President J.P. Magufuli has a clear focus on domestic revenue mobilisation (DRM). The Treasury Registrar has, under the impetus of the Big Results Now (BRN) initiative, increased the non-tax revenue collection to the government from public enterprises and the President's Office Regional Administration for Local Governments (PORALG) has started the roll out in Local Government Authorities of a standardised revenue management system (i-tax). Yet important improvements will be necessary in tax administration to reach this objective and achieve in the medium-term the full potential of DRM. A Tax Administration Diagnostic Assessment Tool (TADAT) has just been applied to Tanzania and its conclusions and recommendations will be supported under the proposed action.

Based on this assessment, it is concluded that Tanzania has a credible stability-oriented macro-economic policy. The current programme is seen as essentially mitigating the identified risks to this macro-economic context.

1.2.3 Public Financial Management (PFM)

The fourth phase of the PFM reform strategy (PFMRP IV) is now more than half-way completed (2012/2013 to 2016/2017). In addition to the regular Ministry of Finance and Planning bi-annual reports on the progress of the reform, Development Partners (DPs) are invited to carry out a yearly supervision mission report, which concluded in October 2015 that "at an overall level, there is continuous improvement in the PFM environment in Tanzania". An independent mid-term evaluation report concluded in September 2015 that the reform programme was overall successful in achieving its intended results and that it was regarded as being "under good management and control". The Government has recently made some notable progress in formalising budget discipline thanks to the entry into force of the Budget Law on 1st July 2015. With the PFMRP IV coming to an end in June 2017, the Government started the preparation of a new five-year medium-term PFM Reform strategy (2017/18 to 2021/22), in line with the new Five Year Development Plan (FYDP). The last PEFA[13] (September 2013) concluded positively as to the improvements of the PFM systems. A new PEFA exercise is foreseen by the end of 2016, which will inform the economic and fiscal policy dialogue expected under this programme.

However, there are several important challenges remaining for the PFM systems to reach the intended impacts of strategic allocation of resources and efficient service delivery. As stated already in the latest central government, a medium term perspective to budgeting has yet to be properly developed, and deficiencies in internal control systems detract from efficient service delivery thorough wastage and leakage of funds. The reform programme makes important technical steps, but is limited in its flexibility, priority setting and there hasn't been enough leadership to pass some important reforms. The main issues are a) the continued lack of budget credibility: there is no consolidated MTEF, the budget is not enough centrally controlled and is based on un-realistic revenue estimations, leading to continuous reallocations and the accumulation of arrears; b) the revenue administration is still facing important challenges preventing it from being able to meet targeted revenue mobilisation for the country; c) although improving, the oversight of public entities is still too weak, leading to fiscal risks; d) there are still weaknesses in internal controls and poor value for money in procurement; and finally,

[13] Public Expenditure and Financial Accountability (PEFA) Assessment – mainland Tanzania, Central Government, Final Report September 2013-ADE

e) a recent Fiscal Transparency Evaluation conducted by the IMF[14] indicates that Tanzania has overall relatively basic performance in disclosing fiscal reporting, fiscal forecasting and budgeting, and fiscal risk management, therefore limiting the accountability of the government with regards to its budget and expenditure management.

Given the commitment of the government in the PFM reform and the progress observed in recent years evidenced by the PEFA exercise and several assessments on the reform programme, **it can be concluded that the PFM reform programme is relevant and credible.**

1.2.4 Transparency and oversight of the budget

The Ministry of Finance and Planning (MoFP) has published the Executive Budget proposals as well as the Enacted Budgets for FY 2015/2016 and the three previous fiscal years. Volumes 2–4 comprising the recurrent expenditure estimates for central government MDAs, the Regional Secretariats and the development budgets for MDAs respectively are available to the public on the Internet and in hard copy. Volume 1 covers revenue measures, and has been published for the two past financial years. At least since 2009-2010, the audit reports performed by the National Audit Office of Tanzania (NAOT) have been submitted on time to the National Assembly. Four regular audit reports are generally produced for: i) Central Government (MDAs, Regional Secretariats and Embassies), ii) Local Government Authorities, iii) Public Authorities & Other Bodies (PA&OB), iv) Donor-funded projects. Overall, the audit reports are gaining every year on credibility and maturity. The NAOT Audits are compliant with International Standards on Auditing (ISA) and INTOSAI (International Organisation of Supreme Audit Institutions)/AFROSAI (African Organization of Supreme Audit Institutions) standards and the NAOT has received AFROSAI level-3 accreditation following the 2012 peer review.

The PEFA score for PI-6[15] was B, as five of the nine criteria met the required benchmarks. For two other benchmarks, the information is actually made available to the Parliament, albeit in other documents than the budget documentation itself. The latest available budget documents and budget guidelines are expected to lead to a similar assessment. According to the last Open Budget Survey (2015), Tanzania scores 46 (i.e. limited information provided to the public), which is a more or less similar score as in the two previous surveys and similar to global average. There is indeed some important room for improvement to make the budget more comprehensive, accessible and available timely, and in user-friendly format.

Based on the above, it can be considered **Tanzania performs above average in terms of budget transparency and that the entry point is met**.

2 RISKS AND ASSUMPTIONS

A detailed analysis of risk is available in the adopted Risk Management Framework. Overall, the country risk profile remains at moderate level for the political, macro-economic, developmental and PFM risks. The risk of corruption remains substantial but the recent strong anti-corruption stance of the new President and the concrete measures already taken under his administration to fight against draft and wastage give some assurance that this risk could be lowered in the short to medium term.

[14] While the report of this evaluation is still expecting a government's response and has not been made available, the main findings were shared with the EU Delegation

[15] Comprehensiveness of information included in the budget documentation

The table below only focuses on risks with high and medium risk levels.

Risks	**Risk level (High-H/Medium-M/Low-L)**	**Mitigating measures**
Government's ineffectiveness in implementing the 2nd Five Year Development Plan (FYDP) and ensuring equitable service delivery	H	The first draft of the 2nd FYDP presented to Parliament in April 2016 gives assurance as to the efforts for prioritising resources, better planning of expenditures and focus on inclusive growth. The proposed action aims to support the MoFP in its role of coordinator of sector ministries around the budget for an effective implementation of the country's development plans. The Support to Statistics project funded by the EU (to begin 4th quarter 2016) should also support the Government with evidence for more efficient policy making
Absence of political settlement in Zanzibar does not allow a more inclusive political process and leads to deterioration of fundamental values in the isles.	H	The political risks are and will continue to be addressed through the diplomatic political dialogue with the relevant interlocutors of the government; An article 8 dialogue will be relaunched by the EU in 2016.
Weak budget credibility undermines budget execution, leading to cash constraints, accumulation of arrears and spending cuts	H	The newly enacted Budget Law, made operational on 1st July 2015, contains specific measures for increased credibility. The proposed action has a specific objective to improve the planning, formulation and execution of the budget.
Several cases of non-compliance to internal controls and procurement systems result in wastage and inefficiencies	H	The EU-funded "Good Financial Governance project" (with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) reinforces the internal and external audit functions. Government's efforts in strengthening internal controls and adherence to the public procurement law will be monitored through the proposed action's dialogue and performance framework
Limited oversight of public enterprises (monitoring of financial situation, actual servicing of liabilities for which the government has given guarantee, remittance of revenues and dividends to the consolidated fund) results in fiscal risks and uncaptured non-tax revenues	H	The proposed action will include in its policy dialogue the necessary reforms for loans, debt and guarantees, as well as the re-enforcement of the Treasury Registrar in its oversight of public enterprises. The newly enacted Budget Law also

		foresees some mandatory reporting requirements for these enterprises
The perception of corruption has increased throughout 2015, although this could also be a sign of increased awareness and media reporting. The involvement of high-level officials in recent cases of graft indicated a sense of impunity	H	The new Administration seems to have adopted a no-tolerance attitude towards corruption and has already put this into practice in several administrations. The EU intends to support specific anti-corruption initiatives in 2016, i.e: actions promoting transparency and accountability under the Civil Society Organisation/Local Authorities (CSO/LA) programme and a specific anti-corruption measure to be formulated as part of the Democratic Governance Facility (Annual Action Programme (AAP) 2017). UK's Department for International Development (DFID) has an ongoing programme of capacity building of several key institutions involved in the fight against corruption
Revenue mobilisation efforts might be hampered by some administrative challenges, which include low performance in collection.	M	The TADAT has allowed for a clear diagnostic and ranking of issues pertaining to tax administration. The proposed complementary support will help support the authorities' action plan following this assessment and the EU-funded Good Financial Governance project (with GIZ) includes technical assistance to tax administrations at central and local level.
Fiscal transfers to lower levels of government are unpredictable and untimely and done in a non-transparent manner, hampering effective service delivery	M	The PER dialogue follows up on the recommendations of the Fiscal Inequities study (addressing the issue of transfers), which has been taken on board by the President's Office Regional Administration for Local Governments (PORALG). The revision of the Local Government Authorities (LGA) allocation formula and intergovernmental fund transfers are also monitored under the PFM RP and policy dialogue could be elevated under the proposed action
Risk of damage to democratic principles in Tanzania mainland: incomplete Constitutional Review process and enforcement of the cybercrime act limiting right of information and freedom of expression	M	The EU will finalise a Democracy Action Plan in March 2016 and will start the formulation of a Democratic Governance facility as part of AAP 2017. The CSO/LA thematic programme will also focus on inclusive participation in the political

		system
Lack of budget transparency and comprehensiveness prevent informed budget decision making and accountability; Oversight of budget execution /Compliance with external audit recommendations remains weak	M	The recently conducted Fiscal Transparency Assessment for Tanzania should facilitate the setting of targets for improvement by the Government. The resulting plan of action could be followed under the policy dialogue of the proposed action
Assumptions		
1. The 2nd FYDP is adopted by the National Assembly in June 2016 and operationalised and the foreseen detailed M&E framework is put in place 2. Political risks will be addressed under the political and diplomatic dialogue (notably art 8) 3. The Government continues to operate under the IMF Policy Support Instrument (PSI) and maintains its prudential macro-economic and monetary policies; it also continues to receive and accept support of the IFM Technical Assistance in matters of macro-fiscal, banking supervision, monetary, PFM and revenue administration		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The recent independent budget support evaluation for Tanzania of 2013 supported by the EU[16], the management of the recently completed MDG contract[17], the experience as chair of the Budget Support Development Partners' (BS DP) group, helped the delegation to draw lessons which will be used for the design of the proposed action.

Lessons on the "theory of change" or which objectives the action can realistically achieve:

The BS evaluation concludes that the credibility of BS in Tanzania has suffered because the expectations that it could drastically influence policy making were unrealistic[18]. In fact, a reality check is even more necessary today considering how the overall BS contributions (all partners combined) have importantly been reduced: while BS was still representing 14% of public spending in the period covered by the evaluation, this percentage is estimated to be only of 2.3% for the current FY 2015/2016[19]. By achieving realistic objectives, the credibility will be restored, and possibly some development partners (DPs) may even considering coming back on board.

It is proposed that the action focuses on the key cross-cutting reforms and policies, which the Government has identified as necessary to bring concrete improvements to the strategic allocation of resources and efficient service delivery, yet that are actionable by the Ministry of Finance and Planning (MoFP) as main partner. The objectives of the action are ambitious in the sense that they represent important breakthroughs in revenue mobilisation, revenue administration, expenditure management and accountability, that the Government of Tanzania has not been able to put in place yet. However, the objectives are also realistic because they are clearly owned by the new administration, informed by extensive recent diagnostic and assessments, and supported by a problem-solving oriented dialogue.

Lessons on how to engage in a meaningful dialogue which brings added-value to the Government for the formulation, implementation and monitoring of its policies:

The evaluation also advocates for this solutions-oriented dialogue, respecting the principle of partnership and limiting the use of "conditionality" and "policy leverage". It concludes that external actors have very limited influence over domestic constituencies on the pace and direction of policy reforms. It argues that, rather than "forcing" policy directions, the dialogue should aim at finding constructive solutions to what is preventing the Government from implementing its chosen policies.

The proposed dialogue under the various specific objectives of the action will be supporting policy directions taken by the Government with evidence-based recommendations (diagnostic and assessment tools, analytical studies). It will be a pragmatic exchange with the specific interlocutors in government (see stakeholders analysis), involving civil society and private sector when needed (notably through the PER dialogue platform), and bringing in experts' advice to bring the expected added-value to Government of Tanzania.

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[16] A joint evaluation of budget support to Tanzania: lessons learnt and recommendations for the future – Final Report 2013

[17] MDG Contract, CRIS #2009-21300

[18] The evaluation recommends to "define and disseminate realistic operational expectations, regarding the potential contribution of Budget Support processes to policy making and monitoring in partner governments. To a significant degree, the emerging scepticism over Budget Support has been the consequence of the creation of unrealistically high expectations over its likely influence on the design and implementation of partner government policies and the consequent disappointment at the failure to meet those inflated expectations"

19 Enacted budget includes TSH 20 000 billion of expenditures, which have been reduced mid-year by approximatively 1% of GDP. It is estimated that the current revised budget is therefore of TSH 19 056 billion or USD 8 billion. The communicated commitments from all development partners for the same year are of USD 185 million.

Lessons on the necessity to decouple the dialogue held under this action from the monitoring of fundamental values and the monitoring of the fight against corruption

The monitoring of the IPTL[20] corruption case was mostly carried out under the BS DP group, for lack of a better platform, and it was expected (by DPs) that the dialogue with Government of Tanzania would take place within the BS framework, with the MoFP in the lead. This actually prevented all other necessary policy dialogue with the MoFP, although foreseen under the partners' BS programmes (for the EU, the MDG contract), to take place. In order to ensure the ownership of the dialogue with the target stakeholders of this action (i.e. MoFP, TRA, Controller and Auditor General (CAG)), and keep a problem-solving oriented approach, it is important that the broader "governance" and "fundamental values" issues are tackled under a diplomatic political dialogue (such as the Article 8 dialogue), which would take place outside the budget support dialogue platform.

3.2 Complementarity, synergy and donor coordination

The proposed actions will exploit synergies with the following very closely linked projects:

1. The Good Financial Governance Project (Decision # 2015-038292, which started in May 2016) aims at: i) increasing the effectiveness and transparency of domestic revenue mobilisation (DRM) at local government level and ii) strengthening the domestic accountability of public funds with direct technical assistance support to the National Audit Office of Tanzania, the Internal Auditor General and relevant Parliamentary committees. This project (under a separate financing Agreement) can be considered as a direct complementary support to the proposed action as it provides concrete technical support to achieve specific objective 4.
2. The Support to Statistics Project (Decision #2015/038-395, to start in August 2016) will strengthen production and analysis of statistics to improve evidence-based policymaking.
3. The Budget Support Interim Services technical assistance to start in summer 2016 within the National Authorising Officer strengthening programme, aims to support the Ministry of Finance and Planning (MoFP) with long-term and short-term experts to "to enhance the impact of the budget support through delivering of better policy dialogue, which is solution oriented, transparent and participatory". It will provide direct capacity building assistance to support the MoFP in delivering the outputs foreseen under this action.
4. The support of the EU to the IMF East-Afritac technical assistance. The continuous technical assistance to the MoFP, Central Bank and National Bureau of Statistics is seen as an important macro-fiscal risk mitigation measure for the action.

Closed consultations with DPs, in particular with the World Bank (WB), the African Development Bank (AFDB) and Denmark (with current budget support operations); and the United Kingdom and Sweden (with interventions in the area of ecnomic and fiscal governance under consideration) have taken place all along the formulation process. In the area of public finance management, the EU is already working in partnership with Germany in a joint Good Financial Governance programme implemneted by GIZ in line with this budget support operation. Further **synergies** with relevant programmes of other DPs and the coordination of DPs implementing programmes with similar scope as the proposed action will take place under the revised aid architecture proposed by the Government of Tanzania, after a specific facilitation exercise will have taken place in July-September 2016. Indeed, the Government of Tanzania has requested high-level experts to assess the strenghts and weaknesses of the partnership with DPs, and to propose improved avenues for engaging one another. The objective is to reduce transaction costs further, and make the partnership more effective around the budget process, in particular in light of the reduced amounts of budget support overall[21].

The MoFP already proposed to merge the budget support dialogue platform with the Public Expenditure dialogue platform. The PER dialogue is mentioned as a key element of the Five Year

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20 Independent Power Tanzania Ltd. The IPTL corruption case was revealed at the end of 2013, when a specific audit was requested by the Parliamentary Accounts Committee (PAC) to the NAOT.

21 Letter from Permanent Secretary of the MoFP of 15th January 2016 on "BS DP "firm commitments" and indicative schedule of disbursements for financial year 2015-16"

Development Plan II (FYDP II) framework, it is foreseen in the budget law as the means to ensure a participatory (with DPs, civil society and private sector) budget formulation process. In practice, it has also contributed to policy formulation and the elaboration of related legislation, including on revenue mobilisation. Provided that that some reinforcements in the process are adopted, it could be confirmed as the principal forum for policy dialogue for this action. The above mentioned high level expertise on aid architecture will fine-tune the new arrangement.

3.3 Cross-cutting issues

The analysis of cross-cutting issues is mainly described in the dedicated Appendix. Concerning **gender issues and climate change**, the PER dialogue (which is expected to be the key dialogue platform for this action) has currently two important studies in the pipeline that will provide further information on the best way to mainstream gender and climate change concerns into the policy-making and budget preparation: i) the first, led by UN Woman, aims at making concrete recommendations for gender-responsive budgeting, in line with the UN Women flagship programme on "transformative financing for gender equality" with the overall aim that new and existing internationally agreed commitments on gender equality and women's empowerment are adequately and effectively financed and ii) the second study is to examine the trends and allocation of government expenditure in climate change and environment to assess the extent to which government spending is in line with both global and national environmental priorities. It will examine the level of funds allocated to address mitigation and adaptation challenges.

Another important expected added-value of the action is an improved **business environment** through the dialogue related on issues which are directly impacting the private sectors, such as discussion on: i) TRA's strategy related to revenue mobilisation and relation with customers, ii) compliance of Tanzanian institutions with regards to public procurement rules; iii) the development of Public Private Partnership; iv) a better monitoring of Parastatals management by the State.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

Overall Objective: to assist the United Republic of Tanzania in becoming a middle-income country promoting inclusive growth by consolidating and improving economic and fiscal governance.
Specific Objectives (SO):
SO1: Improving the comprehensiveness and credibility of the budget to maintain macro-economic stability and allow the Government of Tanzania to achieve its policy objectives;
SO2: Strengthening equitable domestic revenue mobilisation and administration;
SO3: Improving expenditure management for efficient and effective service delivery;
SO4: Foster sound domestic accountability and strengthen national control mechanism to improve governance.

SO2 will be specifically supported by the complementary measure with the Tanzania Revenue Authority.
SO4 is also supported by the "Good Financial Governance" project implemented through GIZ (under a separate Financing Agreement). The monitoring of progress under these two actions will be key to inform the dialogue.
A complementary measure so called "research facility" will inform the dialogue through expert advice to ensure that the objectives of the Economic and Fiscal Governance programme continue to be relevant in relation to the overall objectives of the Five Year Development Plan II (FYDP II).

The results proposed under each SO are detailed in the draft logical framework in Appendix 1.

4.2 Main activities

4.2.1 Budget support

1. Engaging into a problem-solving oriented policy dialogue with the Government of Tanzania around the thematics foreseen under the four proposed specific objectives, with a view to support policy formulation, implementation of strategies and action plans in economic and fiscal governance for the operationalisation of the Five Year Development Plan II (FYDP II). The foreseen outcomes of the dialogue are further detailed in the appendix on "indicative results indicators"
2. Promoting aid and development effectiveness in compliance with the EU and international commitments by adhering to the streamlined aid coordination architecture that will be proposed by the Government of Tanzania with DP consultation.
3. Assessing on a continuous basis the eligibility criteria and monitoring the progress on the performance framework of this action.

4.2.2 Complementary support

- Tax Modernisation Programme with the Tanzanian Revenue Authority (TRA)

1. Typical activities aimed at improving convenience for tax payers: introduction of a new Integrated Domestic Tax Information System (IDRIS); full implementation of Tanzania Customs Information System (TANCIS); implementation of the One-Stop Border Post operations; implementation of the Single Customs Territory for the East African Countries (EAC), Democratic Republic of Congo (DRC), Zambia and Malawi; enhancement of electronic services (e-filing, e-registration, e-payments, mobile payment); establishment of taxpayer advocacy services (Tax Ombudsman); design and development of a Swahili website.

2. Typical activities aimed at enhancing compliance: establishment of a mechanism for monitoring and reporting revenue by sectors and relate to sector potential; building an integrated approach to tax sharing and revenue mobilisation between Local Government Authorities (LGAs) and Central Government; implementing an automated tax stamp system; streamlining audit and investigation processes to reduce objections; implementing and monitoring an integrated risk based compliance strategy for domestic taxes; developing investigation guide/manual; developing and implementing a comprehensive taxpayer service and education program for each segment; implementing an Internal Audit Strategy; developing a Tanzania Revenue Authority (TRA) Anti-Corruption Strategy and Action Plan; carrying out an external review of TRA integrity and transparency.

3. Typical activities for a continuous improvement of the tax administration: putting in place the various recommendations concluded under the Tax Administration Diagnostic Assessment Tool (TADAT) and incorporated into the TRA Corporate Plan: enhancing monitoring and reporting on revenue lost through exemptions; assessing more regularly tax exemptions; conducting tax gap analysis; conducting sectorial risk analysis for energy and mining; developing a taxation regime for extractive industry (mining, oil and gas); reviewing the existing TRA Revenue Forecasting Model (TRFM), etc.

- Research Facility

This complementary support tackles one of the findings of the joint evaluation of budget support regarding the quality of policy dialogue. In this sense, this complementary support will aim at strengthening policy dialogue with a problem solving oriented focus and within the framework of the budget support operation objectives and the Five Year Development Plan (FYDP) II.

The specific envelope will be dedicated to finance studies and analyses which will feed into the dialogue with factual and credible information in areas of economic and financial governance as well as more broadly the impact of some policies adopted by the Government of Tanzania and their effectiveness in reaching the objectives of the FYDP II. Studies will ensure that gender and geographical inequalities are fully covered.

The main activities will be: i) the undertaking of research, diagnostic studies and assessments by experts in related outcome areas of the FYDP II; ii) the production and dissemination of these research papers to well targeted policy makers, as well as prominent representatives of the civil society and private sector in the margins of the policy dialogue with the Government of Tanzania.

4.3 Intervention logic

With reference to the 2012 Budget Support Guidelines, the proposed action's **inputs** (transfer of funds to the national treasury, *targeted* policy dialogue on economic and fiscal governance, *limited number* of performance indicators *under the responsibility* of the main Government of Tanzania partners involved in dialogue, and capacity building and analytical work through the complementary support within and outside this action document), combined with other main inputs of the Government of Tanzania and of other external assistance programmes (PFMRP, IMF PSI, World Bank Development Policy Operation (DPO), bilateral budget support programmes) should allow to obtain more directly the intended **outputs**: a) external assistance channelled through the national budget providing an increased size and share of funds available for discretionary spending coupled with a reduction of transactions costs for the Government of Tanzania (compared to a project or basket-fund approach); and b) a problem solving oriented policy dialogue which the Ministry of Finance and Planning (MoFP) wants to take part in because the issues tackled are in its remit combined with an increased credibility of the policy reforms adopted under the FYDP II and the strategies followed under this action.

With this logic, the complementary measures of support to the TRA and research facility are seen as key inputs to: i) inform the dialogue (output); ii) provide capacity to the Government in delivering the induced outputs; iii) reinforce the linkage between outputs and outcomes identifying related knowledge gaps; iv) propose risk mitigating measures to the achievement of the action's objectives.

While the focus will be on the induced outputs, the intervention logic is still that the intended sectoral **outcomes** (monitored more precisely by the government's monitoring of the FYDP II) will be reached, ensuring the overall **impact** of inclusive growth promoted by the country's strategic plan.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2 Indicative implementation period

The indicative implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) 2015/322.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for this budget support programme is EUR 200 000 000, and for complementary support is EUR 3 700 000 over four years. This amount is based on the following explanation:

While the Government has announced its intention to reduce aid dependency, it is still counting on a substantial aid financing of TSH 3.6 trillion (approx. EUR 1.44 billion) for its FY 2016-2017 budget, which would represent 12% of total expenditures (estimated to reach TSH 29.5 trillion) and 30% of development expenditures (estimated to reach TSH 11.8 trillion). The forecast of the budget support allocations made by the Government for FY 2016/2017 is of approximately TSH 483 billion (EUR 194 million). This would therefore represent only 1.6% of the total expenditures (and potentially 5.5% of development expenditures). The EU budget support actual disbursements would represent 24% of the combined budget support allocation in the next year, with EUR 50 million to be paid through this proposed action and the second tranche of EUR 12 million of road sector budget support.

For the medium term, the Government has announced that TSH 21 trillion (approx. EUR 8.4 billion) will need to be mobilised for each year of the Five Year Development Plan (FYDP) II (2016/2017-2020/2021): TSH 12 trillion would be domestic revenues generated by the Government, and TSH 9 trillion (approx. EUR 3.6 billion) would come from the private sector and development partners. If combined budget support allocations are maintained, they would therefore potentially represent around 7% of this needed external financing.

The Government has a reasonable track record of implementing its development strategies and executing the budget in line with the development priorities. Throughout the six years of the Millennium Development Goal (MDG) contract implementation, the programme experienced a good absorption capacity with a disbursement rate of 96% out of a total of EUR 300 million.

*5.3.2 **Criteria for disbursement of budget support***

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Five Year Development Plan II (FYDP II) and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the Public Financial Management (PFM) Reform Programme;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement that will be used for Variable Tranches (VT) are the following: satisfactory progress against the 5 performance indicators as agreed with the Government of Tanzania. These cover the following areas: budget credibility (aggregate budget outturn); domestic revenue mobilisation (Tax revenue out turn compared to approved budget + Non-tax revenue out turn compared to approved budget); improved expenditure management (compliance to public procurement legislation); oversight and central government transfers of grants to LGAs. The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the National Authorising Officer (NAO) may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

*5.3.3 **Budget support details***

The programme includes both Fixed and Variable Tranches (VT), with a variable component starting in the second year, and a global VT ratio of 30%. The rationale of the 70% Fixed Tranche / 30%

Variable Tranche[22] distribution is that it maintains the emphasis on the eligibility criteria while strengthening a results based approach through the monitoring of the performance indicators. The proposed allocation mechanism ensures a good balance between predictability and result performance. The predictability of the VT is ensured by applying the n-1/n+1 mechanism: the review of performance in year n, based on performance of year n-1, determines commitments for year n+1, hence being on time for the budgetary planning process.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Tanzanian Shillings will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support of budget support

5.4.1 Indirect management with a Member State.

A part of this action may be implemented in indirect management with Danish International Development Agency (DANIDA) in accordance with Article 58(1)(c) of Regulation (EU, Euratom) No 966/2012 applicable in accordance with Article 17 of Regulation (EU) 2015/323. This implementation entails the support to the Tanzanian Revenue Authority (TRA)'s Tax Modernisation Programme (TMP). This implementation is justified as DANIDA is already supporting the TMP through a basket fund, and DANIDA is currently the only bilateral grant partner with a medium-term budget support programme with the Government of Tanzania. Joining the TMP through one of these agencies would limit transaction costs to the TRA and promote aid effectiveness while allowing the EU to be part of the Memorandum of Understanding between TRA and its donors.

The entrusted entity would carry out the following budget-implementation tasks: managing and enforcing the contracts concluded (making payments, accepting or rejecting deliverables, enforcing the contract, carrying out checks and controls, recovering funds unduly paid), and also running the procurement and grant award procedures preceding the conclusion of such contracts, including the award and rejection decisions.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in indirect management with the UK Department for International Development (DFID). The implementation by this alternative entrusted entity would be justified because DFID is also funding the TMP basket. The alternative entrusted entity would carry out similar budget-implementation tasks as described above for DANIDA.

5.4.2 Indirect management with the partner country

A part of this action with the objective of producing and disseminating research papers and diagnostic work may be implemented with the United Republic of Tanzania in accordance with Article 58(1)(C) of the Regulation (EU, Euratom) No N° 966/2012 applicable in accordance with Article 17 of Regulation (EU) 2015/323 according to the following modalities:

The partner country will act as the contracting authority for the procurement and grant procedures. The Commission will control ex ante all the procurement and grant procedures.

Payments are executed by the Commission.

[22] With the exception of the 1st year of the programme where 100% of the disbursement will be a base tranche.

In accordance with Article 190(2)(b) of Regulation (EU, Euratom) No 966/2012 and Article 262(3) of Delegated Regulation (ERU) No 1268/2012 applicable in accordance with Article 36 of Regulation (EU) 2015/323 and Article 19c(1) of Annex IV of the ACP-EU Partnership Agreement, the partner country shall apply procurement rules of Chapter 3 of Title IV of Part Tow of Regulation (EU, Euratom), No 9662012/ These rules, as well as rules on grant procedures in accordance with Article 193 of Regulation (EU, Euratom) N0 966/212 applicable in accordance with Article 17 of Regulation (EU) 2015/323, will be laid down in the financing agreement concluded with the partner country.

5.4.3 Changes from indirect to direct management mode due to exceptional circumstances

If the indirect management with the partner country's modality foreseen for the research facility (5.4.2) cannot be implemented due to circumstances outside the Commission's control, it could be replaced by:

Procurement of services in direct management.

Subject in generic terms, if possible	**Type (works, supplies, services)**	**Indicative number of contracts**	**Indicative trimester of launch of the procedure**
Studies, analytical work, research papers, technical assistance	Services	Max 5	2nd trimester 2017

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

5.6 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified (amount in EUR)
5.3. Budget support	200 000 000	0
5.4.1 Indirect Management with DANIDA SO 2 - Complementary support – tax modernisation programme	2 200 000	9 500 000
5.4.2. Indirect Management with Tanzania Complementary support - "research facility"	1 500 000	0
5.9 - Evaluation, 5.10 – Audit	300 000	0
5.11 – Communication and Visibility	1 000 000	0
Total	**205 000 000**	**9 500 000**

5.7 Organisational set-up and responsibilities

The Financing Agreement is signed with the National Authorising Officer, who is also the Permanent Secretary of the Ministry of Finance & Planning (PS MoFP). The PS MoFP will be responsible for ensuring participation of other relevant ministries, departments and agencies (MDAs) around the policy dialogue of the programme.

The forum of the regular policy dialogue for the programme will be under the chairmanship of the MoFP, with the Permanent Secretary of the MoFP convening both the Public Expenditure Review (PER), such as foreseen in the Budget Act 2015 and its Regulations, as well as the Public Finance Management Reform Programme (PFMRP) steering committees. Development partners aligning to the objectives of the PER and the PFMRP will take part in the dialogue, as will relevant representatives of the civil society and the private sector. The PER is meant to be the central dialogue platform for all stakeholders to the National Budget process, including Budget Support providers. It is the forum where policy reforms to sustain the Five Year Development Plan (FYDP) II are discussed, proposed, monitored and supported. The frequency and operational arrangements of the PER and PFMRP meetings take place under pre-agreed rules of engagement, which are respectively the PER operational manual and PFMRP Strategy institutional arrangements and operational manual. These rules of engagement could be revised during the course of implementation of this action, notably after the facilitation mission to review the aid architecture in July-September 2016.

For the complementary measure supporting the Tax Modernisation Programme, the EU Delegation will sign the Memorandum of Understanding with the Tanzanian Revenue Authority (TRA), although the funding will be channelled through DANIDA. This will allow the EU Delegation to take part in the steering committee meetings and technical meetings where progress on activities and performance on results and objectives will be monitored.

For the complementary measure on a Research Facility, the National Authorising Officer, as Contracting Authority, will be responsible for setting up regular steering meetings with the EU Delegation and the Contractor(s) to approve priorities, work plans and progress reports.

5.8 Performance monitoring and reporting

The implementation of the Five Year Development Plan (FYDP) II will be supported by a Monitoring and Evaluation (M&E) Framework, based on a results' matrix per sector of intervention, including the following set of indicators: i. Indicators associated with aspects of industrialisation and economic transformation; ii. Indicators associated with Human development; iii. Indicators associated with policies that remove constraints to further economic transformation; iv. Indicators associated with ways of working and institutional development. The M&E Framework is currently being fine-tuned to incorporate the BRN methodology and is expected to be validated by end of 2016.

The Ministry of Finance and Planning (MoFP) will continue to be responsible for planning and budgeting, and administering disbursement of finance according to the approved plans' interventions ensuring that relevant implementing institutions of Government and non-state actors, develop action plans, cash requirements-flows and results indicators that are consistent with realization of planned interventions. MoFP will also be responsible for producing the Tanzania Human Development Report, Poverty and Environment Mapping Report, SDGs Performance Reports, and Stakeholders' Engagement Reports (with regard to policy and interventions implementation dialogue). In this regard, it will continue with the responsibility of coordinating implementation of FYDP-II by key actors through the development of annual plan and budget, producing an overall annual national implementation report and overall socioeconomic performance report (Economic Survey), capturing progress and issues pertaining to the strategic components of the FYDP-II.

Dissemination of the M&E of the FYDP II to stakeholders including Development Partners is foreseen through different fora, notably at the occasion of the annual policy dialogue meeting with the over-arching Development Partners Group (DPG main).

By engaging in a policy dialogue on Economic and Fiscal Governance such as foreseen under this action, the MoFP ensures that all necessary stakeholders cooperate to the achievement of the FYDP II objectives through the formulation, financing and execution of a sound national budget. The performance indicators foreseen for the action will be reported in the framework of this policy dialogue, providing the MoFP with useful information as to whether the budget is executed according to plan (indicator #1), whether the objectives in terms of domestic revenue mobilisation are on track (indicators # 2 and #3), whether expenditure management is efficient (indicator #4) and whether the central government is transferring enough resources to Local Government Authorities (LGAs) to implement their service delivery missions to the local population (indicator #5).

The general conditions for disbursement of all tranches will be based on the eligibility criteria set in Section 5.3.2 a, which will be reported upon annually, after a joint analysis between the National Authorising Officer's office and the EU Delegation.

The disbursement of the Variable Tranches will be determined by the assessment of the agreed performance indicators for the programme (ref 5.3.2.b).

The MoFP will have the responsibility to provide to the EU its own assessment for review, as well as all the background documents necessary for the verification of this assessment.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the nature of the action, a final evaluation will be undertaken for this action or its components via independent consultants contracted by the Commission. The evaluation may be carried out through a joint mission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the changing context for the provision of Budget support in Tanzania.

The Commission shall inform the implementing partners at least 30 days in advance of the dates foreseen for the evaluation mission. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded under a framework contract within six months after the operational period (i.e. after four years of implementation). Indicatively, one contract for evaluation services shall be concluded in the year following the end of the implementation period.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in the year following the end of the implementation period.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.6 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

The EU will ensure that adequate communication and visibility is given to EU funding overall (not only linked to this project) by the Government of Tanzania through specific events like inauguration of the Project, press conferences, media reports, etc. Furthermore, the Project will establish and maintain a web-site containing all relevant programme documents and information for the public. It will produce other communication material such as brochures, press releases, and if feasible, TV and radio spots to secure outreach and proper communication of the Project to the respective target audiences.

APPENDIX - INDICATIVE LIST OF RESULT INDICATORS (FOR BUDGET SUPPORT)[23]

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators. Note also that indicators should be disaggregated by sex whenever relevant.

Note: only indicators at the level of specific objective would be linked to performance payments

	Results chain	Indicators	Baselines (2014-2015)	Targets (2017-2019)	Sources and means of verification	Assumptions
Overall objective: Impact	To assist the Government of Tanzania in becoming a middle-income country promoting inclusive growth by consolidating and improving economic and fiscal governance	FYDP II indicators: i) associated with aspects of industrialisation and economic transformation; ii) associated with policies that remove constraints to further economic transformation; iii) associated with ways of working and institutional development iv) associated with Human development - GDP growth in 2015 - Poverty rate of population in 2015 - Literacy rate; school completion rate - Access to social services and housing] [Further, you can make use of the EU Results Framework Level 1 indicators here and make relevant matching (**) with indicators ## 1-3, 14-16, 13, 28 of EU RF level 1 and #14 of EU RF level 2]	Tbc when M&E framework for FYDP II is finalised 7% 28.2%	Tbc when M&E framework for FYDP II is finalised 8% Reduced	2nd FYDP M&E Framework Bank of Tanzania reports	FYDP II remains main development strategy

[23] Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

Specific objective(s): Outcome(s)		**PERFORMANCE INDICATORS**[24]				
	SO1: Improving the comprehensiveness and credibility of the budget to maintain macro-economic stability and allow the Government of Tanzania to achieve its policy objectives	1. Indicator #1: Aggregate expenditure out-turn[25]	1. 85% (2014-2015)	1. At least 90%	1. Budget Execution Reports from MOFP; Rapid Budget Analysis produced under PER	The Government continues to operate under the IMF Policy Support Instrument (PSI)
	SO2: Strengthening equitable domestic revenue mobilisation and administration	2.1. Indicator #2: Tax revenue out turn[26] 2.2. Indicator #3. Non-tax revenue out turn[27]	2.1. 89% (2014-2015) 2.2. 80% (2014-2015)	2.1. At least 95% 2.2.At least 90%	2.1. Budget Execution Reports from MoFP; 2.2. Rapid Budget Analysis produced under PER	
	SO3: Improving expenditure management for efficient and effective service delivery	3.1. Indicator #4: Average level of compliance of selected Procuring Entities to the Public Procurement Act (including breakdown for MDAs, LGAs, and PA&OBs)[28] 3.2. Indicator #5: Actual central government transfers to districts versus approved budged by Parliament for LGAs for a current financial year[29]	3.1. 69% (2014-2015) 3.2. 88% (2014-2015)	3.1. At least 75% 3.2. 92%	3.1. Public Procurement Authority (PPRA) annual performance evaluation report 3.2. IAG annual report	MoFP is committed to PFM Reform Programme
	SO4: Foster sound domestic accountability and strengthen national control mechanism to improve governance	4. Implementation of the results promoted by the EU Good Financial Governance programme, in its component related to public audit and control	4. N.A.	4. N.A.		Dialogue on PFM and Macroeconomic issues takes place

[24] Note: The indicators ## 1, 4 and 5 match with the EU RF L2 #14
[25] Indicator for variable tranches as described in Annex I below
[26] Indicator for variable tranches as described in Annex I below
[27] Indicator for variable tranches as described in Annex I below
[28] Indicator for variable tranches as described in Annex I below
[29] Indicator for variable tranches as described in Annex I below

Induced outputs	For SO1: - Public Investment Management manual is used as foreseen in planning & budgeting guidelines - The new Budget Law 2015 and its regulations are implemented - The mid-term planning of expenditure is more robust and transparent --- For SO2: - Improved tax administration by the Tanzania Revenue Authority (TRA) - Improved administration and collection of non-tax revenues ---	1.1. The status of usage of PIM manual in the major projects 1.2. Budget reallocations 1.3. "Off-budget" expenditures 1.4. Status of development of Background budget document and MTEF developed in line with Budget Law 1.5. Status of Budget guidelines and other instructions on arrears management, 1.6. Level of stock of total arrears [30] --- 2.1. TRA "Tax Administration Diagnostic Assessment Tool" Strategies Implementation Action Plan is incorporated into TRA corporate plan 2.2. The status of implementation OR monitoring of The Tax Modernisation Programme in general[31] 2.3. Administration of non-tax revenues is included in TRA corporate plan and the status of the NTR Dept 2.4. Status of study and incorporation of Recommendations on non-tax revenues into a work plan 2.5. Follow-up status on The Treasury Registrar' strategy for collecting dividends from public enterprises	1.1.PIM manual not yet used 1.2. To be determined 1.3. No aggregated MTEF produced 1.4. No aggregated MTEF produced 1.5. No guidelines 1.6. 4.5% of GDP --- 2.1. Action Plan adopted in March 2016 2.2. TMP ongoing 2.3. No Non-tax revenue dpt 2.4. Non-tax revenue study to be finalised 2.5. Strategy defined	1.1. At least 10 projects of FYDP II follow MIP manual 1.2. Reduced trends 1.3. MTEF at aggregated level produced 1.4 MTEF at aggregated level produced 1.5. Guidelines Operationalised 1.6. Reduced trends --- 2.1. Action Plan operationalised 2.2.TMP achieves targets 2.3. Tax-revenue dpt set-up and staffed 2.4. Non-tax revenue study finalised and approved 2.5. Strategy operationalised ---	1.1. FYDP implementation reports 1.2. Ref. to budget reallocation study (PFMRP) 1.3. PEFA indicators on arrears/off-budget 1.4. Publication of MTEF on MoFP website 1.5. Publication of MTEF on MoFP website 1.6. IMF Review --- 2.1.TRA Corporate Plan and TMP annual implementation report/TADAT Annual Progress Reports 2.2.TRA Corporate Plan and TMP annual implementation report /TADAT Annual Progress Reports 2.3. PFMRP IV 2.4. PFMRP IV 2.5. PFMRP IV	

[30] Note: EU RF L1 #14
[31] Note: EU RF L1 #29; L2 #32

	For SO3: - Public Procurement is carried through in compliance with the Public Procurement Act and following principles of value for money - Flow of funds to Local Government Authorities and Lower Level of Governments are more efficient	3.1. Status or level of implementing the amended Public Procurement Act 3.2. The status of follow-up of the e-procurement action plan 3.3. Status of follow-up on the Public Procurement Regulatory Authority (PPRA) medium-term strategic plan including on anti-corruption, and handling of procurement complaints 3.4. Status of follow-up on the Action plan following the PER study on Fiscal Inequities including measures on flow of funds 3.5. The revision of the LGA allocation formula is put in place[32]	3.1. The PPA not used 3.2. e-procurement service contract being procured 3.3. Strategic plan adopted in June 2015 3.4. Action plan adopted in 2015 3.5. To be determined	3.1. PPA used 3.2. e-procurement tested on 2 pilots 3.3. Annual targets of plan implemented 3.4.Annual targets of plan implemented 3.5. To be determined	3.1. Reporting at PER reviews 3.2 Act published on Parliament website PFMRP IV 3.3. PPRA annual report 3.4. Reporting at PER reviews 3.5 LGA level dialogue	
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	For SO4: - The Internal Audit function in Government is reinforced to better manage risk, and ensure quality of expenditure management - The NAOT increasingly performs its role as a Supreme Audit Institution efficiently. - The Parliament's scrutiny of the budget is reinforced	4.1.The status of the strategy and plan of - The Internal Auditor General including on harmonisation of legislation to allow its mandate on public enterprises 4.2. The capacity of the NAOT to performs quality revenue audits and audits in extractive industries 4.3. The status of the Parliamentary Budget Office 4.4. Implementation of actions following assessment under the Fiscal Transparency Code (IMF) following action plan of government on latest assessment[33] 4.5. Mid-year financial reports	4.1. No strategy in place and last plan expires in 2016 4.2. No capacity for such audits in 2016 4.3.No PBO in place by 2016 4.4. None were implemented or % implemented 4.5. No produced	4.1 Strategy adopted and implemented 4.2. Several audits produced 4.3. PBO in place and running 4.4. To be determined 4.5. Produced	4.1. Good Financial Governance project implementation reports 4.2. Good Financial Governance project implementation reports 4.3. PBO reports published on Parliament's website 4.4. FTC, government reports 4.5. NAOT website	

[32] Note: EU RF L1 #14
[33] Note: EU RF L1 #14

Direct outputs	a) external assistance channelled through the national budget providing an increased size and share of funds available for discretionary spending	- Disbursements of tranches under this action (amount and time of disbursement)	1 annual disbursement	1 annual disbursement (max amount on time)	Annual reports of the capacity building measures; disbursement files	
	b) a problem solving oriented policy dialogue combined with an increased credibility of the policy reforms adopted under the FYDP II	- Number of policy dialogue meetings between EU and MoFP	4 meetings	Min. 4 meetings	Annual reports of the capacity building measures; disbursement files	