

SUMMARY

Annual Action Programme 2016 in favour of Tanzania to be financed from the under the 11th European Development Fund

1. Identification

EDF allocation	11 th EDF National Indicative Programme for Tanzania
Total cost	EUR 255 000 000 of EU contribution <ul style="list-style-type: none">• The action "<i>Economic and Fiscal Governance Programme</i>" is fully financed by the EU;• The action "<i>Rural Electrification Programme – Turnkey III – in Tanzania</i>" programme is co-financed by: The Government of Tanzania with EUR 5 000 000
Basic act	Council Regulation (EU) 2015/323 of 2 March 2015

2. Country and Regional background

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.

Tanzania's overall population is about 51 million with a population growth rate of 3.2% (2014). Fertility rates remain high but are progressively slightly decreasing (5.1 child per woman). Poverty affects a large part of the population despite a downturn over the last decade. The most recent poverty survey (2012) reports, that official basic needs poverty line (Household Budget Surveys, HBS) progressively fell from 35.7% in 2001, 34,2% in 2007 to 28.2% in 2011 of the Tanzanian population, while 9.7% in 2011 falls below the food poverty line.

Tanzania's public policies are anchored in the Tanzania Development Vision 2025 (TDV 2025), which aspires to drive the economy towards a middle income country by 2025. Moreover, the TDV 2025 envisages to create an economy with high productivity, high quality livelihood; peace, stability and unity; good governance, a well-educated and learning society; and a competitive economy capable of producing inclusive growth and shared benefits.

Implementation of the TDV 2025 is supported by two main strategic documents. The first pillar is the National Strategy for Growth and Poverty Reduction (NSGRP) 2010/11–2014/15 or MKUKUTA II which has been the principal vehicle for realizing TDV 2025 and the Millennium Development Goals (MDGs). The MKUKUTA II came to an end on 30 June 2016.

The second pillar of the TDV 2025 is the Tanzania Long Term Perspective Plan (TLTPP 2011/10-2025/26) which provides the roadmap to achieving TDV 2025 goals and objectives. The TLTPP addresses "the socio-economic transformation" through three strategic Five Year Development Plans (FYDPs)". The second and current FYDP (2015/16-2020/21) focuses on nurturing an industrial economy. The FYDPs are seen by the Government of Tanzania as the main instrument to scale up its investments in order to ensure the transformation of a low performing economy to a competitive and open economy to international trade.

In this context, the 11th National Indicative Programme (NIP) of the European Development Fund proposes to focus on three sectors which will contribute to the achievement of the strategic objectives of the EU-Tanzanian relationship and are coherent with both the Government national development strategies and the EU Agenda for Change: i) Good Governance and Development, ii) Energy and iii) Sustainable Agriculture.

3. Summary of the Action Programme

The interventions under the proposed Annual Action Programme (AAP) 2016 are part of the overall EU support strategy to Tanzania that aims at promoting pro-poor, inclusive and sustainable growth. Actions will specifically support Tanzania's core systems in public finance management and tackle the lack of reliable and affordable energy services. The actions under the AAP 2016 are contributing to the implementation of two focal sectors of the 11th EDF NIP (Good Governance and Development and Energy).

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. However, there are several important challenges remaining for the Public Finance Management (PFM) systems to reach the intended impacts of strategic allocation of resources and efficient service delivery. For instance, a medium term perspective to budgeting has yet to be properly developed, and deficiencies in internal control systems detract from efficient service delivery through wastage and leakage of funds. 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 "*Economic and Fiscal Governance*" programme 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.). The proposed action will contribute to the effective implementation of the FYDP II 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.

Tanzania's electricity access rates remain among the lowest in the world, particularly in rural areas. Despite a remarkable progress over the last years to overcome barriers to electricity access through ambitious grid extension programmes and support to development of off grid solutions, still thousands of villages remain without access to electricity. Major barriers toward improving electricity connectivity include absence of national grid in large parts of the

country, high cost of delivering electricity to rural areas, high upfront investment costs, scattered settlements in the rural areas leading to long and costly distribution lines. The Government of Tanzania has embarked on an ambitious programme to accelerate significantly the connection of rural households to the national grid and increase connectivity rates to 50% by 2020 and to 75% by 2025. The rural electrification efforts are led by the Rural Energy Agency (REA). REA five-year Strategic Plan (2016/17 - 2020/21) sets the very ambitious goal to provide access to some 10 000 yet un-electrified villages in mainland Tanzania over a period of five years. These villages will be electrified through the REA Turnkey III programme (2016/17 – 2020/21). The action will cover the period 2017 – 2021 to match that of the REA Turnkey III programme and contribute significantly in achieving the targets. The action envisages improving access to reliable electricity in rural areas through the extension of the distribution network, and strengthens the capacities within Tanzania Electric Supply Company Limited (TANESCO) and REA. Successful implementation of the action will increase the quality of life in rural areas, bring clear benefits especially to women and children, and improve health and educational services. Also, the action will contribute to the implementation of the FYDP II (2016/17 – 2020/21) which seeks to improve availability and reliability of electrical power, particularly by increasing power generation, enhancing power transmission in various parts of the country, and enhancing rural electrification through improved power distribution networks. REA will be the executing agency of the Action and have responsibility for the overall implementation, monitoring of progress and reporting. TANESCO will have the responsibility for supervision of construction and commissioning of works. After completion, the operation will be handed over to TANESCO.

The two interventions build on existing mechanisms in place to maximise synergies complementarity and coordination with other key players of respective sectors. In that framework, for these actions, the European Union (EU) is engaged in close and continuous discussions with relevant development partners working in similar areas.

4. 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 of the Action Document.

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.

Contracts for communication and visibility services shall be concluded under each action to ensure the elaboration of a communication plans and visibility of intervention, through media articles, high level events, publication and dissemination of results.

5. Cost and financing

Economic and Fiscal Governance Programme	EUR 205 000 000
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Rural Electrification Programme –Turnkey III – in Tanzania	EUR 50 000 000
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Total EU contribution to the measure	EUR 255 000 000
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The Committee is invited to give its opinion on the attached Annual Action Programme 2016 [in favour of the United Republic of Tanzania.

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This action is funded by the European Union

ANNEX 1

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

Action Document for the 11th EDF Rural Electrification Programme

1. Title/basic act/ CRIS number	Rural Electrification Programme – Support to Turnkey III in Tanzania CRIS number: TZ/FED/037-432 financed under the 11 th European Development Fund			
2. Zone benefiting from the Action/location	Tanzania			
3. Programming document	National Indicative Programme (NIP) of the 11 th European Development Fund			
4. Sector of concentration/ thematic area	Energy	DEV. Aid: YES ¹		
5. Amounts concerned	Total estimated cost: EUR 55 000 000 Total amount of EDF contribution: EUR 50 000 000 This action is co-financed in joint co-financing by the Government of Tanzania for an amount of EUR 5 000 000			
6. Aid modality(ies) and implementation modality(ies)	Project modality Indirect management with the Rural Energy Agency (REA)			
7 a) DAC code(s)	Electric power transmission and distribution - 23630 100%			
b) Main Delivery Channel	Recipient Government - 12000			
8. Markers (from	General policy objective	Not	Significant	Main

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

CRIS DAC form)		targeted	objective	objective
	Participation development/good governance	<input type="checkbox"/>	X	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	X	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	X	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input type="checkbox"/>	X	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	X	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			
10. Sustainable Development Goals (SDGs)	SDG 7 – Universal energy access			

SUMMARY

Tanzania's electricity access rates remain among the lowest in the world, particularly in rural areas. The lack of reliable, affordable and sustainable energy services continues to be a critical constraint to poverty alleviation and socio-economic development. The proposed action aims to improve access to reliable electricity in rural areas through the extension of the distribution network. More specifically, the Action will contribute to the implementation of rural electrification programme of the Government of Tanzania and the Rural Energy Agency (REA) for the period 2016/7-2020/1, the Turnkey III. The extension of the grid is considered to be the least-cost technology to increase access to electricity in the selected areas, which are not far from the grid and relatively densely populated.

The EU contribution from the 11th EDF is EUR 50 million over four years. This support would provide electricity to 250-275 villages in rural regions of Tanzania, with an estimated 80 000 new grid connections benefitting 720 000 people. It would also help strengthen the capacities within the power utility Tanzania Electric Supply Company Limited (TANESCO) and REA to prepare, design and implement rural electrification programmes. The action will increase the quality of life in rural areas, bring clear benefits especially to women and children, and improve health and educational services. The action will also promote entrepreneurship through the productive use of energy and ensure linkages to other key stakeholders promoting rural development at large. Given the nature of the action it is expected that any negative impact will be small and that appropriate mitigation measures will be considered during the design, construction, and commissioning phases.

The estimated overall investments under the Turnkey III rural electrification programme for the period 2016/7-2020/1 (including "on" and "off grid" electrification) stands at USD 1.3 billion, of which the Government undertakes to finance an estimated 80%. Other important contributions to REA will come from key development partners including Sweden, the UK Department for International Development (DFID), Norway and the World Bank. Agence française de développement (AfD) is discussing with the Government of Tanzania/REA its possible participation.

The EU contribution towards the programme would also be channelled through REA in indirect management mode. This is proposed as the preferred implementation modality following the recent Pillar Assessment of REA. These joint and well-coordinated efforts, in complementarity with other EU instruments, including ElectriFI, will contribute to reaching the ambitious goals of the Government of providing universal access to affordable, reliable, sustainable and modern energy for all by 2030 in line with the Sustainable Development Goal 7.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Tanzania, a medium-sized poor country with a population of 51 million, is a union formed in 1964 between the mainland and the islands of Zanzibar.

Politically stable, its gross domestic product (GDP) is estimated to have grown by 7.2% in the first half of 2015, with strong performance recorded in electricity generation (15.6%), information and communication (14.1%), transport and storage (11.1%), construction (11.1%), and financial intermediation services (11.0%). Economic growth is expected to remain close to 7% in 2016, supported by vigorous growth of credit to the private sector, particularly in the services and construction activities, and the completion of one the natural gas power plants (Kinyerezi I - 150 Megawatt (MW)).

The energy sector is characterised by low electricity access rates and reliance on biomass use for household consumption (fuel wood and charcoal account for some 90% of the total energy use). Despite a significant increase in the number of connections over the last decade (7.5% on a yearly basis), the number of customers served by the power utility TANESCO remains below 2 million and electricity consumption is at approximately 100 kWh per capita per year. It is estimated that some 10 000 villages, i.e. 7 million households remain without access to electricity. These identified areas are targeted by the Rural Energy Agency (REA) for electrification either through grid extension and densification and various off grid solutions.

In the electricity sector the total installed generation capacity has moved from 1226.24 MW (April 2015) to 1461 MW (April 2016), an increase of 19 %. The increase is attributed to the new natural gas power plant having come on stream and the completion of the 500 km gas pipeline from Mtwara and Lindi in the South to Dar es Salaam, which has allowed some of the existing power plants to switch to natural gas. Installed capacity is set to increase to 1646 MW with the 180MW Kinyerezi 1 extension to be completed in 2018. According to the latest figures released by the Ministry of Energy and Minerals, the current peak demand of electricity is 1026.02MW, which is below the installed capacity. The current supply of electricity to the national grid is 6227 GWh with an increase of about 3% with respect to the previous year.

Increased use of natural gas has reportedly reduced the average generation cost per unit (kWh) from TZS 262 to 229 (approx. EUR 0.1) and increased the proportion of natural gas in the power generation mix. According to most recent government data available power generation capacity currently consists of natural gas - 711.00 MW (49%), hydropower - 566.79 MW (39%) and thermal and biomass - 183.90 MW (12%). Renewable energy resources such as solar, wind, geothermal, co-generation from biomass and small hydropower currently only contribute to a small amount of the national power supply. The potential of renewable energy resources is very high, particularly for geo-thermal and solar energy.

Despite the opening to Independent Power Producers (IPPs) in 2002, the power sector remains dominated by the vertically integrated national power utility, TANESCO, which owns most of the generation capacity, transmission and distribution networks. Regional interconnections with Kenya, Uganda and Zambia are being developed with a foreseen interconnection of the East African Power pool to the Southern African Power Pool.

1.1.1 Public Policy Assessment and EU Policy Framework

Tanzania's long-term strategy, the **National Development Vision 2025**, is implemented through **Five Year Development Plans**, with the objective of meeting the needs of the fast growing population and lifting the country out of poverty. The second Five Year Development Plan 2016/17 – 2020/21 - FYDP II “*Nurturing Industrialization for Economic Transformation and Human Development*” is to mobilize and organize the national resources strategically in order to: 1) Nurture an industrial economy in a bid to transform Tanzania into a semi-industrialised nation by 2025; 2) Accelerate economic growth while making sure that the quality of that growth will benefit the majority of the people in terms of significant poverty reduction and job creation especially for the youth and women; and 3) Foster and strengthen implementation effectiveness. The FYDP II clearly identifies slow implementation of strategic projects in the energy sector as a major limitation and one of the main reasons for the partial failure to achieve objectives and targets set forth in the FYDP I and the National Strategy for Growth and Reduction of Poverty (MKUKUTA II)

In 2013, the Government launched the Big Results Now (BRN) Initiative. The BRN focuses on accelerating the delivery of defined priority results in six areas of the economy, including (a) energy and natural gas; (b) agriculture; (c) water; (d) education; (e) transport; and (f) mobilisation of resources, with a major emphasis on leveraging private sector investment. In the priority area of energy and natural gas, the key focus is to improve reliability and access to power supply by increasing gas-fired power generation capacity and access to electricity in rural areas. The new Government inaugurated following the 2015 Presidential elections has reaffirmed its commitment to the implementation of the BRN priority energy projects.

The 2015 National Energy Policy (NEP) stresses that the lack of access to affordable and reliable electricity presents a major constraint to achieving the desired socioeconomic transformation in Tanzania. To attain the planned access targets, the Government of Tanzania has embarked on an ambitious programme to accelerate significantly the connection of rural households to the national grid and increase connectivity rates to 50% by 2020 and to 75% by 2025.

Tanzania has also developed the Sustainable Energy for All (SE4All) Action Agenda that seeks to integrate the multi-tiered efforts towards providing universal access to energy, increased energy efficiency and an increase in the use of renewable energy. In the SE4All Action Agenda for Tanzania, Government reiterates the goal to transform the energy sector by deepening reforms and increase public and private investment.

The rural electrification efforts continue to be led by the REA and are guided by the National Electrification Program Prospectus published in July 2014. The REA five-year Strategic Plan (2016/17 - 2020/21) sets the very ambitious goal to provide access to some 10 000 yet un-electrified villages in mainland Tanzania over a period of five years. A Rural Energy Master Plan is under preparation and will cover the period 2018 – 2030 to match that of the SE4All Action Agenda.

Substantial investments will be required in generation, transmission and distribution infrastructure. It is estimated that power supply generation capacity will have to increase to some 10 000 MW (from the current 1500 MW) to sustain the economic growth required to transform Tanzania into a middle income country by 2025. In order to attract the required capital, the country has embarked on an ambitious programme of reforms aimed at increasing efficiency and service delivery and creating

conditions for greater sustainability. A central piece of this undertaking is the *Electricity Supply Industry (ESI) Reform Strategy and Roadmap 2014-2025*, which foresees the restructuring of the power utility and progressive separation (*unbundling*) of the generation, transmission and distribution business segments into separate companies. The restructuring of the electricity supply industry and market aims at improving governance and performance to allow for sustainable socio-economic transformation anchored in active participation of the private sector.

The core reforms being introduced stem from the 2008 Electricity Act. Other key elements of the legal and regulatory framework for the power sector include the Energy and Water Utilities Regulatory Authority (EWURA) Act (2001) establishing an independent regulator, the Rural Energy Act (2005), establishing the Rural Energy Agency, The Rural Energy Regulations (2011), and Small Power Producer (SPP) framework. The Second Generation SPP framework covers the development of small hydro, biomass, wind and solar energy projects of capacity ranging from 100kW up to 10MW, and is based on two approaches: Renewable Energy Feed-in Tariffs (REFITs) approach for small hydro and biomass projects; and competitive/bidding process approach for wind and solar projects.

The proposed action is fully in line with the 11th EDF NIP which prioritises energy as one focal cooperation areas with a twofold focus on access and reforms, as well as the Sustainable Development Goal 7, which is to ensure access to affordable, reliable, sustainable and modern energy for all by 2030. It will support the EU commitment to provide access to an additional 500 million people by 2030 proposed by President Barroso and endorsed by Commissioner Mimica. Cooperation in the energy sector is also critical for meeting the long-term goals contained in the Paris agreement on climate change.

1.1.2 Stakeholder analysis

The two main stakeholders are the power utility Tanzania Electric Supply Company Limited (TANESCO) and the Rural Energy Agency (REA). TANESCO is a parastatal organization that was established in 1964 and is wholly owned by the Government of the United Republic of Tanzania. The Ministry of Energy and Minerals (MEM) sets and oversees policies and strategies while the Energy and Water Utilities Regulatory Authority (EWURA) regulates the operations of TANESCO, as well as those of independent power producers (IPPs) and small power producers (SPPs).

In the current set up, TANESCO owns the national transmission and distribution network as well as a number of large power plants that provide most of the electricity generation. SPPs and, more importantly, IPPs contribute, however, a significant share. TANESCO operates through a network of regional offices, responsible for the operation and maintenance of the network at local level.

TANESCO has known many of the inefficiencies typical of state-owned utilities, such as transmission and distribution losses, low level of revenue collection, poor procurement practices, inadequate planning and implementation capacities, insufficient skills in technical and managerial positions which have all contributed to the critical financial position of the utility. This has impacted customers that continue to be confronted with frequent power outages and low power quality, and IPPs that have seen the amount of outstanding payments increase considerably over time. TANESCO's plan to bring the level of arrears down has yet to produce the expected result.

An internal reform has been launched aimed at improving performance and service delivery through a series of measures in the area of procurement, metering, revenue collection, accountability for results and performance monitoring. In parallel, the Electricity Supply Industry (ESI) road map adopted in 2014 contemplates the turnaround of TANESCO and the vertical unbundling of the utility. The first step in the road map is the separation of the generation business segment that should lead to the establishment of new public generation company to compete with IPPs for the supply of power to TANESCO and directly to bulk (industrial) off takers.

The REA was established in 2005 and became operational in 2007 with the aim of promoting rural energy access and electrification investments that by their nature could not be funded on commercial grounds. REA coordinates the planning phase, mobilizes the funding and coordinates the procurement process for rural electrification projects on-grid and also provides support to off-grid developments led by private sector, non-governmental organisations (NGOs) and community-based organisations. It is also responsible for monitoring and evaluating the impact of rural energy projects. Despite the limited staff (less than 70 employees), REA has achieved significant success in promoting small scale renewable generation and rural electrification projects, the most notable of which has been the implementation of two country wide Turnkey Rural Electrification programmes with the aim to increase electricity access through grid extension and promote new connections. Preparation for Turnkey III is ongoing and financing under the 2016-17 budget has been earmarked to allow for the programme to be rolled out as of early 2017.

REA Operations and Project Financing Expenditures for 2016/2017 are estimated at *TZS 715.738 Billion* (approx. EUR 290 million) out of which *TZS 702.841 Billion* is for projects financing and *TZS 12.897 Billion* for REA operational expenses. Out of *TZS 702.841 Billion* required for project financing, *TZS 559.243 Billion* or approximately 80% is expected to come from Government sources (mainly through transfer to REA of the entire expected revenues from the Fuel and Electricity Levies) with an increase of some 50% compared to the previous financial year. Development partners are expected to contribute *TZS 143.598 Billion*. About 90% of project financing is planned to be used for transmission, distribution as well as *densification* interventions.

Both TANESCO and REA fall within the area of responsibility of the Ministry of Energy and Minerals (MEM) as the Ministry responsible for facilitating development of the energy and mineral sectors. The overall indicative budget of the MEM in 2016/17 financial year amounts to *TZS 1,122 Billion* (approx. EUR 460 million). This is a 74.9% increase in comparison to 2015/16 financial year (FY) budget of *TZS 642 Billion*. Some 94% is allocated for development expenditure (including the above transfers to REA and investments in new gas to power plants to remain under public control) and 6% for recurrent expenditures. Nevertheless, development expenditure includes some important ordinary expenditure and will remain below the investment needs in generation, transmission and distribution. MEM's stated priorities include:

- a. to improve and expand generation, transmission and distribution of electricity for socio-economic development;
- b. implementation of the Electricity Supply Industry (ESI) Reform Strategy;
- c. development of renewable energy sources including geothermal and biomass;
- d. to attract and facilitate private sector investment in energy sector and mining activities;
- e. strengthening revenue collection; and
- f. development and empowering small scale miners;

The Energy and Water Utilities Regulatory Authority (EWURA) was created under the Energy and Water Utilities Regulatory Authority Act (EWURA Act) in 2001 and became operational in 2006. EWURA's core functions are licensing and regulating access to the market, tariff setting, and establishing and monitoring technical standards that promote quality and reliability in electricity services and distribution of petroleum and gas resources. As mentioned earlier, EWURA has issued a series of rules and regulations to promote small scale renewable generation and distribution projects. EWURA approved in 2012 a 40% average tariff increase application submitted by TANESCO, which contributed to improving the cost-reflectiveness of the electricity tariff structure and therefore TANESCO's finances.

The target group of the REA rural electrification programme are rural consumers, mainly households to be part of the so-called lifeline tariff for low consumption customers, small scale productive users,

public buildings and facilities. Although the demand and willingness to pay (for a subsidised connection fee and subsidised tariff) have generally been estimated as high, accompanying measures are required (as outlined below) to ensure a satisfactory uptake of energy services and to increase the number of connection by high consumption productive users.

1.1.3 Priority areas for support/problem analysis

Tanzania's electricity access rates remain among the lowest in the world, particularly in rural areas. The lack of reliable, affordable and sustainable energy services continues to be a critical constraint to poverty alleviation and socio-economic development, including being a key hurdle for increased rural productivity and private sector development. Energy is also one of the three main elements of the “Nexus” approach, where water, agricultural and energy security are seen as intersecting and interdependent.

Major barriers toward improving rural electricity connectivity include high upfront investment costs, due to harsh terrains and inaccessibility, scattered settlements in the rural areas, leading to long and costly distribution lines. Other elements are high operating costs of grids in rural areas due to low population density, acquisition of way-leaves due to land compensation demands and vandalism of power infrastructure.

The sub-sector of rural electrification has suffered from weak planning, organisational capacity and financial constraints. The weak financial position of the power utility TANESCO, and the lack of alternative financing instruments to support investments in rural access, have further hampered grid extension and distribution in rural areas. The establishment of the Rural Energy Agency and Rural Energy Fund, the promulgation of the new electricity legislation (Electricity Act 2008) and the development of a regulatory framework for rural electrification projects (including for SPP and mini grids) have helped address some of the shortcomings. This was compounded by the introduction of a fuel and an electricity levy to fund rural electrification by REA and by efforts undertaken towards cost recovery with a notable increase in electricity tariffs in 2012 and 2014.

Subsidies to fund energy access in rural areas are justified given that the necessary investment in infrastructure cannot be recovered from small rural consumers who often do not have the capacity to pay high connection costs. The tariff for most of the rural customers is the lowest D1-tariff grid, which currently stands at 100 TZS/KWH. This is not cost reflective as the average generation cost currently stands at approximately 250 TZS/KWH. Therefore, the tariff necessitates a subsidy to be sustainable for TANESCO. The National Energy Policy 2015 recognises the role of subsidies among the policy instruments used by governments to attain economic, social and environmental objectives.

REA intends to roll out the next phase of its rural electrification strategy starting from 2016/17 to further extend its transmission and distribution network to rural areas and increase the number of connections in areas already electrified (densification). A key criterion for least cost electrification is distance from the 33 kV MV-grid. According to the National Electrification Prospectus about 46% of rural residents live close to an existing grid, making on-grid electrification the least cost option for these. Another criterion is the identification of so called “development centres”, derived from simple ‘Indicators for Potential Development’ such as village population size, where the projects are likely to yield the highest economic and social rate of return. Mini-grids are considered justified to reach the 20% of the population that live far from the grid but in high density population areas. It is estimated in general that socio-economic returns significantly outweigh the investment costs of rural electrification programmes, and are therefore well justified national priorities.

The current framework foresees that TANESCO will take over the transmission and distribution assets built through the programme. The action will therefore require a strong coordination between REA and TANESCO. TANESCO, as the ultimate owner and operator of the foreseen infrastructure will be

involved in the design of the power network, preparation of the technical specifications and supervision of works. The action will include the mobilisation of technical assistance to strengthen capacities of REA and TANESCO's staff.

To ensure proper operations and maintenance of the rural network and long term sustainability of investment in access will require TANESCO to address inefficiencies and improve its financial position. It will also require a clear and transparent public subsidy policy for the rural areas.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Slow uptake of new connections in rural areas.	H	<p>Implement subsidy scheme for Turnkey III to facilitate acceleration in connectivity.</p> <p>Implement the REA outreach plan (see activities). Promote productive use of electricity.</p> <p>Facilitate connections of poorest households through social programmes / measures. Promote the introduction of ready-board device (instead of wiring the entire house).</p> <p>Facilitate and coordinate with Local Government Authorities the connections of public buildings incl. budgeting for service line connection, internal wiring or ready board, and the subsequent monthly payments for electricity.</p>
Land compensation demands.	M	<p>REA request beneficiaries of rural energy projects to waive demands for compensation.</p> <p>In specified cases, an equal and transparent criterion to be developed for compensation and resources set aside for this purpose from the government financial contribution.</p>
Lack of supervision and coordination	M	<p>EU and development partners to continue to call for close cooperation between REA and TANESCO on rural electrification. Technical assistance provided under the action to REA and TANESCO to prepare, design and supervise rural electrification projects and ensure an appropriate level of performance in operations and maintenance of the lines once they enter into operation.</p>
Sustainability of the intervention	M	<p>TANESCO, as the ultimate owner and operator of the infrastructure participates in the design of the power network, preparation</p>

		<p>of the technical specifications and monitoring of the contractors.</p> <p>Local communities are involved from the early stages of project implementation to facilitate awareness and uptake of energy services</p> <p>Activities are put in place to stimulate new connection from productive users.</p> <p>Dialogue and actions in support of core energy sector reforms</p>
<p>Assumptions</p> <p>Government's high-level commitment towards SDG7 and rural electrification is maintained, and efforts are pursued to put in place conducive policies.</p> <p>The power utility TANESCO will further implement measures to address inefficiencies across the board and improve its financial position.</p> <p>Availability of installed generation capacity and completion of main ongoing and planned power plants.</p> <p>The action contributes to high-level policy dialogue and coordination between government institutions, NSA and development partners.</p>		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The action will build on the 10th EDF and the EU Energy Facility that have promoted innovative approaches for decentralised solutions to energy supply based on renewable sources, as well as grid development and new connections in rural areas. Valuable lessons have been generated under programmes by other development partners in Tanzania, including Sweden, Norway and the World Bank

Accumulated experience in rural electrification in Tanzania, and more widely in Africa, offers some important indications as regards socio-economic impacts, cost of energy and willingness to pay, importance of stakeholder interactions as well as technical and financial execution of projects.

It is established that electricity tariffs are cheaper than other sources of energy such as kerosene, batteries, candles or even wood fuels that are widely used in rural area. A Baseline Survey carried out in 2011 in Tanzania revealed that the willingness to pay for energy services is very high within rural communities, due to the adoption of modern appliances including the use of new technology in communication. This was evidenced by a significant percentage i.e. 92% of rural households are willing to pay for energy services.

Recent experiences from REA Turnkey II operations confirm the importance to associate existing stakeholders already during the planning process to ensure their full collaboration during implementation. There is a need for information dissemination through different communication channels, such as public meetings and media (TVs, local radios etc.). This includes secondary and primary schools as well as clinics in rural areas that fall under Local Government Authorities (LGAs).

It is important to engage well in advance with LGAs to encourage connectivity and budgeting for service line connection, internal wiring or ready board, and for the subsequent monthly payments for electricity consumed.

There are huge needs and opportunities to direct energy access investments to increase rural productivity, for instance, to support milling, irrigation and small and micro-enterprises. A recent draft discussion paper by International Institute for Environment and Development (IIED)/Humanist Institute for Cooperation (HIVOS) *"Remote but productive: How can Tanzania make the most of mini-grid and other energy access investments to catalyse local enterprises, jobs and incomes among poor rural communities?"* confirmed that policy-makers and citizens have high expectations that rural energy access investments will transform local economies. However, this does not happen automatically. Catalysing productive uses of energy (PUE) often requires extra measures to overcome barriers such as gaps in local people's skills, financial resources, barriers to supporting women's entrepreneurship, and non-energy bottlenecks in value chains which make it hard for small enterprises to convert their electricity into increased productivity and incomes (e.g. poor roads). Investing in awareness-raising and targeted capacity building, good practice guidance, patient (long-term) capital and increased cross-sector co-ordination among key institutions in rural development could promote more integrated approaches to energy access and rural development through productive use of energy.

Providing rural households, social institutions, and productive enterprises with new energy access and improved energy services has the potential to promote gender equality, create employment and business opportunities for women and improve development outcomes with regard to, for example, education and maternal health. Evidence shows that these benefits are more often realized if gender-sensitive approaches are integrated in the design and implementation of rural electrification interventions.

Several pieces of evidence suggest that household electrification raises employment by releasing women from home production and enabling micro-enterprises. Migration behaviour may also be affected. Recent experiences have also indicated the willingness of the youth to stay and benefit and take part in new services and opportunities provided following access to modern energy services, be it at home or as a source for productive use and business development. Improved access might therefore help curtail the migration flows of the youth and families to urban centres and beyond.

Comprehensive long run rural electrification planning has to be undertaken for all rural zones, in order to assess the economic and financial benefits, the costs and the identification of the feasible alternatives. Technical planning should consider various technical options, alone or in combination, from the very early stages. These include grid extension, mini-grid and development of distributed technologies. REA has recently adopted a network planner system that is expected to provide a basis for better informed decision making.

Financial planning and financing schemes need to respond to the needs and characteristics of rural electrification projects. Such schemes should allow sharing of the burden of electricity access costs through cross-subsidies among customers but also time (short term high return schemes may pay for lower return schemes developed later on). Grants are justified when cross-subsidies are not sufficient to fund the investment programmes. Electricity tariffs should be cost reflective to allow for enhanced sustainability of the service provided. Cost reflective tariffs would also help attract private sector interest to invest in and operate local networks once the appropriate market structures and regulatory frameworks are in place (following the full vertical and horizontal unbundling process, as outlined in the Tanzania Electricity Supply Industry Reform Strategy and Roadmap).

To ensure the sustainability of the project, close supervision of both Contractors and sub-contractors is needed to ensure high quality outputs, that will also make operating and maintenance of the network less costly to TANESCO.

Furthermore, coordination of rural electrification efforts especially as regards on and off grid areas needs to be strengthened.

The Government, through the Ministry of Energy and Minerals, has requested beneficiaries of rural energy projects to waive for land compensation of grid extension projects. However, in specified cases, an equal and transparent criterion should be developed for land compensation and resources set aside for this purpose from the Government.

3.2 Complementarity, synergy and donor coordination

Investment in the extension of the public distribution network in rural areas under this 11th EDF programme will be complemented by private sector-led initiatives in generation (on and off grid) and distribution (off grid or "grid-connected") supported under the innovative EU Electrification Financing Initiative (ElectriFI). The response to the first call for proposals under ElectriFI reflects a strong interest from Tanzania for the instrument. The EU African Investment Facility (AfIF) will instead provide parallel opportunities for the blending of EU grants with loans from International Financial Institutions (IFIs) and other financing for the development of large scale energy infrastructure, in particular for high voltage transmission lines but also for power generation from renewable sources. These will build on ongoing blending operations under the AfIF, namely the 400 kV transmission line Iringa-Shinyanga (with the European Investment Bank (EIB) and other financing institutions) and the 200 kV line Geita-Nyakanazi (with Kreditanstalt fuer Wiederaufbau (KfW) and Agence française de développement (Afd)).

Key complementary actions will also be those to be developed under the second main objective pursued in the 11th EDF NIP for this sector: the support to energy sector reforms will be crucial to ensure the long term sustainability of investment in infrastructure. The EU intends to strengthen policy dialogue and follow up on initial assistance provided to the national regulatory authority EWURA, to MEM and REA; It is considering engaging with TANESCO, in close coordination with development partners already involved, such as USAID and the World Bank. Assistance is already ongoing in areas such as the evaluation of TANESCO's assets and liabilities and the preparation of competitive procurement of generation projects in natural gas and renewable energy. An enabling environment to promote private sector investment will be important to meet the ambitious plans to expand generation capacity in line with the goal to transform the country into a middle income economy by 2025.

A number of Development Partners are assisting REA in its rural electrification efforts, through technical and financial support. The 11th EDF programme will be running in parallel with a rural densification programme funded by Norway (NOK 230m), a World Bank Rural Electrification Expansion Project (Tanzania Rural Electricity Expansion Program (TREEP), amounting to US\$ 219m) and a Swedish / DFID support to the Rural Energy Fund for on-grid electrification and renewable mini/micro grids (SEK 600 million and GBP 30 million). These are all meant to contribute to achieving REA's rural electrification goals.

Coordination with development partners and, in particular, with European development partners, has taken place during the formulation of the present proposal and will continue to take place in the framework of the Energy Development Partner Group (EDPG), sub-group on rural electrification, and as part of regular meetings between the sub-group and the REA Board. In addition, the EU Delegation will continue to meet with REA's Management on a bilateral basis for regular consultations around the 11th EDF support implementation.

3.3 Cross-cutting issues

Given the nature of the programme it is expected that any negative impact will be small and that appropriate mitigation measures will be considered during the design, construction, and commissioning phases. The programme will be implemented taking into account best practices on cross-cutting issues in rural electrification projects. Particular effort will be made to ensure and monitor gender equity in promoting new connections and in the access to programmes to develop skills and promote employment in connection with productive users of energy.

Gender - Without reliable and safe access to energy especially in rural areas, women and children spend most of their day performing basic tasks, including time-consuming and physically draining tasks of collecting biomass fuels such as wood. Fighting energy poverty also means to fight against unequal access to energy resources for women and children. Gender equality and child-rights are therefore integral parts of reforming the energy sector in Tanzania.

The National Energy Policy 2015 calls for effective participation of both women and men in development of energy sector at the grass-root level. Despite increased awareness and national commitments, women and girls still face significant obstacles with regard to legal protection and control of personal and household assets, and they register lower education and health outcomes. Recognizing the inherent gender-based differences in impact and opportunities associated with the provision of energy services, REA has developed a systematic approach to mainstream the gender dimension in its programmes. Opportunities will be sought to strengthen co-operation with other partners to reinforce integration of gender equity and women empowerment considerations.

Access to energy will support human rights, in particular women and **child rights**, by extending affordable, safe and clean supply of electricity for education and security, and better indoor environment both at home and at school. Health benefits will come from reduced exposure to smoke from kerosene lanterns. Furthermore, provision of public street lighting will improve overall security, and lighting recreational areas such as play- and sports grounds in rural areas would improve the overall quality of childhood. Access to electricity will open up opportunities for economic activities that can contribute to diversified income with positive repercussions on household food security and nutrition.

Climate change and Environment – The programme is in line with the EU objective to promote and support low carbon energy. Access to electricity is expected to reduce the use of diesel, kerosene and wood fuels. With added generation coming from low carbon sources, such as natural gas and hydropower and plans to increase resort to solar, wind and geothermal in the medium to long run, the programme supports a low-carbon development agenda with clear mitigation benefits.

By its nature, the extension of the power distribution network by means of medium and low voltage transmission lines have moderate impacts on the environment. This has been confirmed in the environmental and social impact assessment (ESIA) carried out as part of the pre-feasibility study conducted in preparation for this programme. The national legislation and regulations on environmental and social impact assessments under the control of the National Environmental Management Council (NEMC) will continue to apply as appropriate to rural electrification projects.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

This action is relevant for the Agenda 2030. It contributes primarily to the progressive achievement of SDG target 7 which is to ensure access to affordable, reliable, sustainable and modern energy for all by 2030.

The **overall objective** of the action is to improve livelihoods and foster social and economic development in rural areas through provision of access to electricity.

The **specific objective** of the action is to improve access to reliable power in rural areas through the extension of the public power distribution grid.

The action will contribute to the implementation of third phase of the rural electrification programme of the Government of Tanzania led by REA (Turnkey III, 2016/7-2020/1) with a focus on settlements which are within 10 km of the 33-kV MV network in selected regions of Tanzania.

The expected results (R) of the action in 2017-2020 are:

- R1: Some 250 - 275 villages in rural regions of Tanzania gain access to electricity.
- R2: An estimated 80 000 new grid connections including households, businesses and public buildings, benefiting a total population of some 720 000 people.
- R3: Strengthened technical capacities within TANESCO and REA to prepare, design, monitor and supervise rural electrification projects and ensure an appropriate level of performance in operations and maintenance of the lines once they enter into operation.

4.2 Main Activities

Result 1 - Some 250 - 275 villages in rural regions of Tanzania gain access to electricity.

- Confirm final selection of target villages/districts/regions having regard to the Turnkey III plan.
- Prepare Engineering, Procurement, Construction (EPC) tender documents, tender and select competent contractors.
- Monitor and supervise Turnkey operations (extension and connections).
- Certify and approve systems of Turnkey operations.

Result 2 - Estimated 80 000 new grid connections including households, businesses and public buildings, benefiting a total population of some 720 000 people.

- Implement REA's outreach plan to raise awareness of prospective beneficiaries of energy services.
- Identification of productive uses of electricity in targeted rural areas and activities to increase use of electricity for productive uses (businesses) in rural areas.
- Coordinate with Local Government Authorities to facilitate connection of public buildings and provision of services.
- Conduct survey of poor households to be connected using ready-boards.

Result 3 - Strengthened technical capacities within TANESCO and REA to prepare, design, monitor and supervise rural electrification projects and ensure an appropriate level of performance in operations and maintenance of the lines once they enter into operation.

- Streamline and strengthen joint REA / TANESCO planning, monitoring and supervision systems of rural electrification projects.
- Streamline and strengthen joint REA / TANESCO certification and approval systems to ensure an appropriate level of performance.
- Improve and strengthen overall coordination functions incl. data collection, analysis and management capacity at REA / TANESCO incl. improving national energy statistics.

4.3 Intervention logic

The assessment undertaken as part of the 11th EDF NIP formulation, confirmed the extension of the grid as to be the least-cost technology to increase access to electricity in areas which are not far from the grid and relatively densely populated. Electrification through other solutions, such as micro or mini grid distribution based on solar power still requires considerable up-front investment and remains uncompetitive in the targeted areas. Stand-alone systems such as solar home systems are increasingly seen as complementary, rather than alternative to, grid connected power in rural areas. The Government of Tanzania has set ambitious targets for the expansion of the national distribution grid to reach as many villages as possible among those that can be electrified at a reasonable investment cost and has asked for the participation of development partners in the financing of this ambitious undertaking. The Government has demonstrated its commitment to this objective by allocating more than half of the Energy sector development budget for the year 2016/17 to the Turnkey III rural electrification programme (some EUR 200 million). The overall programme cost to reach some 10 000 villages in the next 5 years has been estimated at USD 1.3 billion.

A number of donors have already committed funding to support this effort (World Bank, Norway, Sweden and DFID) and others discussing with Government of Tanzania their possible participation (AfD). The EU will therefore join a number of development partners in the implementation of a nation-wide programme coordinated by REA/TANESCO. The timing of EU commitment is very much appropriate as Government of Tanzania intends to roll out the third phase of its rural electrification programme already starting from the fiscal year 2016/17.

A field survey conducted in the regions of Mwanza, Manyara, Morogoro, Dodoma and Singida (partly also Geita and Simiyu) based on some 400 villages pre-identified by REA and TANESCO revealed that 275 villages in 23 Districts can be electrified under the EU contribution, because they are within the 10km from existing MV lines and have enough customers eligible for connection. The pre-feasibility study report outlined the main results to be achieved, the estimated overall costs of the action and the average investment cost of connection (approx. 600/700 euros). Average costs per connection are considered adequate by national and international comparison to justify the investment.

The proposed action is of significant importance for the socio-economic development of Tanzania in general and for the selected regions in particular. While the pre-feasibility study conducted during formulation aimed at providing concrete indications on specific projects for EU support, the final definition of target regions/districts/villages will need to reflect possible developments in the surveyed areas since the field visits.

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 operational implementation period of this action, during which the activities described in section 4.1 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

N.A.

5.4 Implementation modalities

5.4.1 Indirect management with the partner country

Implemented through a pool fund

A part of this action may be implemented in indirect management with the Rural Energy Agency of Tanzania 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 supporting the rural electrification programme of the Government of Tanzania and REA with a focus on the Turnkey III programme for rural electrification 2016/7-2020/1. The aim is to promote new connections and increase electricity access in rural areas. This includes planning and priority setting, contract management, financial management, dissemination and communication related activities, awareness raising, training, monitoring of rural electrification activities and accurate and timely results reporting. This implementation is justified based on the Rural Energy Act no.8 of 2005 that gives REA the explicit mandate to promote and facilitate extended access to modern energy services including electrification in rural areas of Mainland Tanzania. Being an autonomous body, REA's powers emanate from sector legislation; REA is therefore considered as an agency designated by a Third Country in line with Article 58.1 c.(i) of the Financial Regulation.

In addition to the financial contribution by the Government of Tanzania, a number of Development Partners contribute to REA's rural electrification efforts, through technical and financial support. The 11th EDF programme will be running in parallel with a rural densification programme funded by Norway, a World Bank Rural Electrification Expansion Project (Tanzania Rural Electricity Expansion Programme (TREETP)) and a Swedish / UK Department for International Development (DFID) support to the Rural Energy Fund for on-grid electrification and renewable mini/micro grids. These are all meant to contribute to achieving the targets set for the third phase of REA's rural electrification goals.

The entrusted entity would carry out the following budget-implementation tasks: launch calls for tenders; defining eligibility, selection and award criteria; evaluating tenders; awarding contracts; acting as contracting authority concluding and managing contracts, carryout payments.

The entrusted Partner Country's organisation is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012, applicable in accordance with Article 17 of Regulation (EU) No 2015/323. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the Partner Country's organisation can be entrusted with budget-implementation tasks under indirect management.

Following the recommendations of the ongoing Pillar Assessment and as a pre-condition for approval of indirect management, REA needs to successfully implement the recommended measures as regards the risk assessment component of Pillar 1 (Internal Control System). This entails "simplifying" the existing risk management policy and procedures in order to obtain a pragmatic approach to implement risk management procedures which are tailored and considered sufficient for the organisation. Once a tailored risk management process has been prepared, the risk management should be implemented into the internal control process and be part of the daily activities. Pillar 1 will be re-assessed in Q4 2016.

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

Grant: direct award "Rural Electrification Programme – Support to the Implementation of Turnkey III" (direct management)

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented in direct management in accordance with the following implementation modalities.

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results aim to improve access to affordable, reliable, sustainable and modern electricity access in rural areas through the extension of the national grid as outlined in detail in section 4.1.

(b) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because in accordance with the Rural Energy Act no.8 of 2005, REA is considered as an agency designated by a Third Country in line with Article 58.1 c.(i) of the Financial Regulation. REA has the explicit mandate to promote and facilitate extended access to modern energy services including electrification in rural areas of Mainland Tanzania. Being an autonomous body, REA's powers also emanate from sector legislations: In terms of principal legislation in the electricity sector, it derives its powers from the Electricity Act, 2008; and in the petroleum sector, from the Petroleum Supply Act, 2008. As for regulatory framework, REA works closely with the multi-sectoral regulatory authority, Energy and Water Utilities Regulatory Authority (EWURA), which is responsible for technical and economic regulation of the energy and water sectors in Tanzania. This is in line with Article 190 RAP (1) (c) where the beneficiary is in a legal or factual monopoly situation, as it is the only organisation (i) operating or (ii) capable of operating in the field of activity and/or geographical area to which the grant relates by virtue of all considerations of fact and law.

(c) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 80% of the overall action.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012 applicable by virtue of Article 37 of (EU) regulation n° 323/2015 if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative trimester to conclude the grant agreement

First trimester of 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, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 22(1)(b) of Annex IV to the ACP-EU Partnership Agreement and Article 89(2)(f)(ii) and 89(3) of Council Decision 2013/755/EU on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.6 Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.4.1 Indirect management with a partner country	49 000 000	5 000 000
5.9 - Evaluation, 5.10 - Audit	300 000	N.A.
5.11. Communication and visibility	700 000	N.A.
Totals	50 000 000	5 000 000

5.7 Organisational set-up and responsibilities

The Rural Energy Agency (REA) will be the executing agency and have responsibility for the overall implementation, monitoring of progress and reporting. This includes contract management, financial management, administration, and accurate and timely results reporting.

The Rural Energy Board (REB) governs operations of REA and oversees administration of Rural Energy Fund (REF). The REB is an autonomous body, with Board members from a number of key

stakeholder agencies and institutions as set out in the Rural Energy Act. REB is comprised of representatives from the Ministry of Finance, Ministry of Energy and Minerals, Ministry responsible for regional administration and local government, private sector, civil society, consumers, Tanzania Bankers' Association, development partners (Energy Development Partner Group); REB works within the policy framework as established by the Minister of Energy and Minerals and reports annually to the Minister of Energy and Minerals.

Tanzania Electric Supply Company Limited (TANESCO) is mandated to supervise all works in the National Grid System and will have the responsibility for supervision of construction and commissioning. After completion, the operation will be handed over to TANESCO. The Distribution Division's Operational Section will be responsible for overseen operation and maintenance of the expanded electricity distribution network.

A Memorandum of Understanding will be signed between TANESCO and REA, witnessed by MEM and the EU Delegation, establishing the objectives and respective responsibilities under the programme.

The EU will be an integral member of the Joint REA - Development Partner Steering Committee once established. Meanwhile, the 11th EDF Rural Electrification Steering Committee will continue to be the platform of interaction among key stakeholders of the programme.

REA management is responsible for ensuring that the systems, controls, rules and procedures are in accordance with internationally accepted standards and best practices when it comes to handling risks for corruption.

The EU Pillar Assessment of REA had the objective to provide reasonable assurance as to whether REA is in accordance with internationally accepted standards and with the criteria set by the European Commission for management of funds from the EDF. Subject to simplification and implementation of the existing risk management framework as recommended by the pillar assessment auditors, it is considered that conditions are in place for REA to become eligible with budget implementation tasks as outlined in section 5.

REA's internal safeguards for handling corruption risks have been extensively addressed in Swedish International Development Cooperation Agency's (SIDA) Systems Based Audit, risk analysis for the Assessment Memorandum, and Mid Term Review (MTR) of REA Capacity Development project. In addition, Norway has carried out a performance audit of REA which provided recommendations for improving the management of REA.

REA has a code of conduct and Ethical Committee in place that specifies the proper work ethics to follow. The evaluation process of projects is designed to mitigate fraudulent behaviour by separating actual disbursement of funds from the decision-making functions in the award committee and the Rural Energy Board (REB). This is further strengthened by the role of the Trust Agent that does the actual transfer to developers. SIDA's system audit assessed that the risk of diverting deposits from the Rural Energy Fund for other than those strictly specified in contracts is minimal with the current checkpoints.

5.8 Performance monitoring and reporting

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 maintain a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports and final reports. Separate reports relating to the

action can be requested if need arise. 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 logframe matrix. 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 European Commission may undertake 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).

The REA has a well-established monitoring and evaluation (M&E) system that tracks progress on the implementation of all REA-supported energy projects and includes a results-based monitoring approach, detailed in the REA's M&E framework. The M&E framework provides information on the quarterly implementation status and achieved results. The results-based monitoring-reported information tracks physical implementation progress and financial expenditures against planned activities and budgets. The REA's M&E system is managed by the REA's M&E unit, while evaluations are partly managed internally within the REA and partly by external and independent evaluators as engaged by REA management when the need arises.

5.9 Evaluation

Having regard to the nature of the action, mid-term and final evaluation(s) will be carried out for this Action or its components via independent consultants contracted by the Commission.

The mid-term evaluation will be carried out to take stock of project implementation, constraints, challenges and success to guide further project implementation and orientations.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision) taking into account in particular lessons learnt from rural electrification outreach through grid extension.

The Commission shall inform the implementing partner at least 30 days in advance of the dates foreseen for the evaluation missions. 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 2 contracts for evaluation services shall be concluded under for mid-term and final evaluation.

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.

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 during implementation of the Action, if necessary.

5.11 Communication and visibility

The EU will ensure that adequate communication and visibility is given to EU funding by the Government of Tanzania through specific events like project inaugurations, press conferences, media reports, etc. Furthermore, the implementing partner 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.

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, 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 implementing partner, 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.

One or more service contracts for a total amount of EUR 700 000 will be awarded as a result of the procurement procedures in accordance with the provisions in the practical guide for Procurement And Grants for European Union external actions. The procedure will be launched in the 3rd semester of 2017.

6 PRE-CONDITIONS

The entity underwent a Pillar Assessment to provide assurance as to whether it fulfils the requirements set out in points (a) to (d) of the first subparagraph of Article 60.2 of the Financial Regulation applicable to the General Budget of the European Commission and Article 29.1 of the Financial Regulation applicable to the European Development Fund with regard to the following Pillars: 1. Internal Control System, 2. Accounting System, 3. Independent External Audit, 4. Grants and 5. Procurement.

Following the recommendations of the assessment and as a pre-condition for approval of indirect management, REA needs to successfully implement the recommended measures as regards the risk assessment component of Pillar 1 (Internal Control System) of the above mentioned Pillar Assessment. This entails "simplifying the existing risk management policy and procedures in order to obtain a pragmatic approach to implement risk management procedures which are tailored and considered sufficient for the organisation. Once a tailored risk management process has been prepared, the risk management should be implemented into the internal control process and be part of the daily activities". Pillar 1 will be re-assessed in Q4 -2016 and hence constitutes a pre-condition of the action.

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY) ²

The activities, the expected outputs and all the indicators, targets and baselines included in the logframe matrix are indicative and may be updated during the implementation of the Action, no amendment being required to the financing decision. When it is not possible to determine the outputs of an Action at formulation stage, intermediary outcomes should be presented and the outputs defined during inception of the overall programme and its components. The indicative logframe matrix will evolve during the lifetime of the Action: new lines will be added for including the activities as well as new columns for intermediary targets (milestones) for the output and outcome indicators whenever it is relevant for monitoring and reporting purposes. Note also that indicators should be disaggregated by sex whenever relevant.

	Results chain	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification	Assumptions
Overall objective: Impact	To improve the living conditions of the rural population and foster social and economic development in beneficiary areas through provision of access to electricity.	% of population below the poverty line in target districts/villages	28.2% (National Census 2012)		Local Government Authorities National Bureau of Statistics (National Panel Survey, Household Budget Survey Integrated Labour Force Survey)	Government's high-level commitment towards poverty reduction and rural development is maintained.
Specific objective(s):	To improve access to reliable electricity in rural areas through the extension of the national distribution grid.	% of rural population with access to electricity	40% at national level (MEM May 2016)	<ul style="list-style-type: none"> Government target at national level: 75% by 2025 100% by 2030 For rural areas: 	TANESCO, National Bureau of Statistics, Local Government Authorities REA Monitoring and Evaluation Framework.	Government programme for rural electrification is implemented. Execution of

² Mark indicators aligned with the relevant programming document mark with '*' and indicators aligned to the EU Results Framework with '**'.

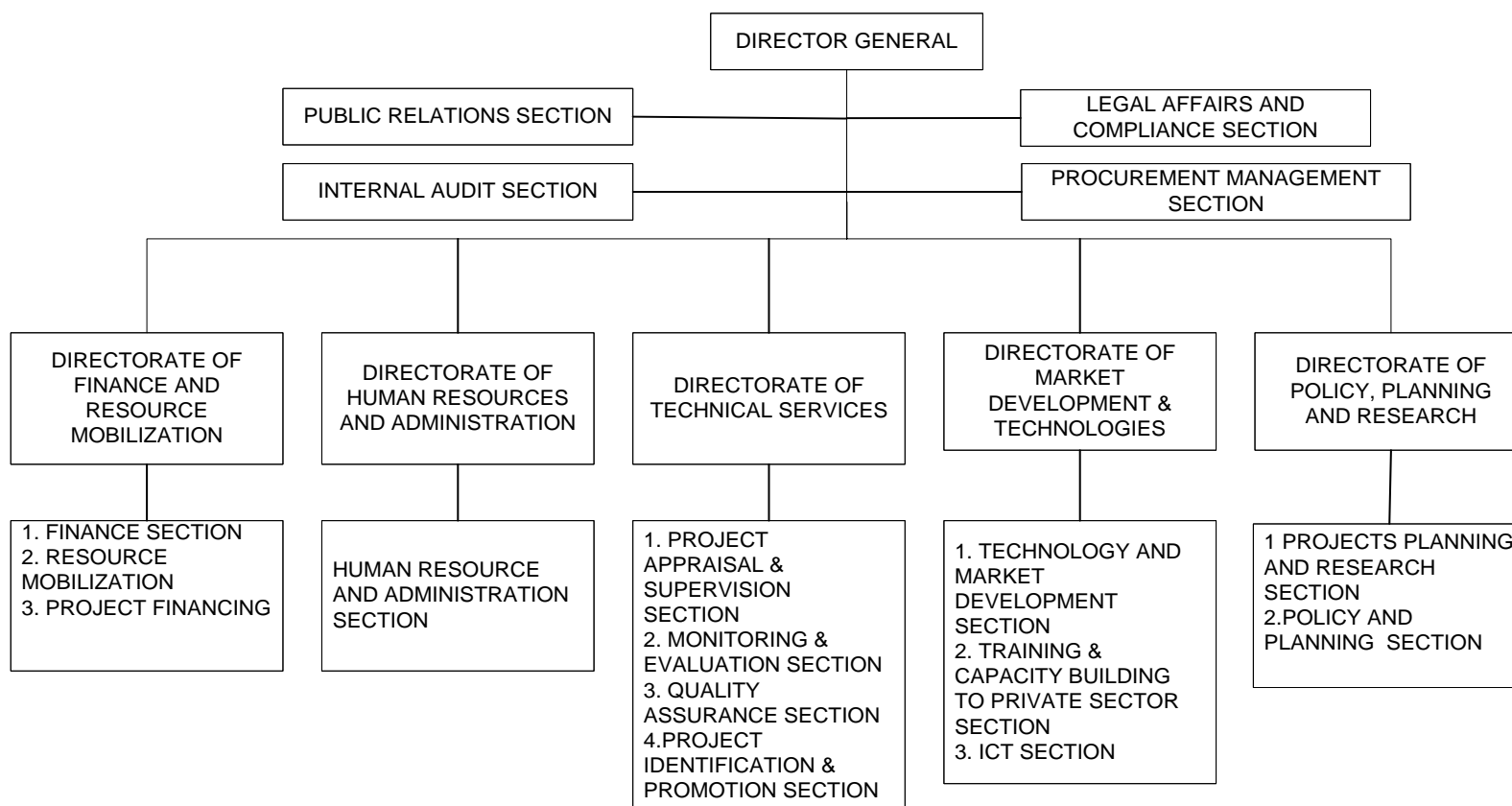
		<p>Number of villages with access in target rural areas*</p> <p>Number of connections in target rural areas* and direct beneficiaries</p> <p>Number of people employed in economic activities relying on grid-connected power in targeted villages disaggregated for women and youth</p> <p>Number of people with access to improved health and education services in target districts/villages</p>		<p>25 % by 2018 35 % by 2019 45% by 2020</p> <ul style="list-style-type: none"> For targeted rural areas: 100% by 2021 <p>250-275 villages by 2021</p> <p>80.000 connections by 2021, directly benefiting 720.000 people</p>	<p>Independent monitoring and evaluation reports</p> <p>National Panel Survey, Household Budget Survey Integrated Labour Force Survey</p> <p>REA Monitoring and Evaluation Framework.</p> <p>Independent monitoring and evaluation reports</p>	<p>planned projects in the generation and transmission sector.</p> <p>TANESCO ownership and support of the program</p>
Outputs	R1: Some 250 - 275 villages in rural regions of Tanzania will gain access to electricity.	Number of villages with medium and low voltage lines constructed; Transformers	Baseline 0 villages in selected areas	Year 1: Procurement of contractors completed; Works contract signed; Works underway	The REA M&E framework provides information on the quarterly implementation status and achieved results. The results-based	<p>Customers accept the new electric services provided</p> <p>Energy services</p>

		installed;		Year 2: 70 villages Year 3: 150 villages Year 4: 250-75 villages	monitoring-reported information tracks physical implementation progress and financial expenditures against planned activities and budgets.	meet the expectations of customers
		Number of overall new connections in selected villages in which:	Baseline 0			Opportunities for Productive Use of Energy
	R2: Estimated 80,000 new grid connections including households, businesses and public buildings directly benefiting a total population of 720,000 people.	- Number of connections among poorest households	Baseline 0	Year 2: 20000 Year 3: 40 000 Year 4: 80 000 ³		Households are able to connect to 'Ready - boards'
		- Number of connections for productive use	Baseline 0	Year 2: 6,000 Year 3: 9,000 Year 4: 12,000		Funds and subsidies are made available by the government as needed for land compensation and household connections for poor families.
		- Number of connections of public facilities	Baseline 0	Year 2:2,000 Year 3:3,000 Year 4:4,000		
				Year 2: 844 Year 3: 1,266 Year 4: 1,688		

³ This is the overall cumulative figure following year 4

	<p>R3: Strengthened technical capacities within TANESCO and REA to prepare, design and monitor and supervise rural electrification projects and ensure an appropriate level of performance in operations and maintenance of the lines once they enter into operation</p>	<p>Coordination between TANESCO and REA to timely perform activities</p> <p>Joint rural electrification planning and monitoring tool established</p>		<p>Year 1: Tool established</p>	<p>Performance Assessment of REA, TANESCO</p> <p>EU ROM missions</p>	<p>Willingness of REA and TANESCO to cooperate and improve systems and operations</p>
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APPENDIX 2- REA organisational matrix



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This action is funded by the European Union

ANNEX 2

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

Action Document for Tanzania Economic and Fiscal Governance Programme

1. Title/basic act/ CRIS number	Tanzania's Economic and Fiscal Governance Programme CRIS number: 2016/038-939 financed under European Development Fund			
2. Zone benefiting from the action/location	United Republic of Tanzania The action shall be carried out at the following location: Dar es Salaam, Tanzania			
3. Programming document	National Indicative Programme (NIP) for the United Republic of Tanzania 2014-2020			
4. Sector of concentration/ thematic area	Budget reform, public finance management, macroeconomic stability, economic governance, tax reform	DEV. Aid: YES ¹		
5. Amounts concerned	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.			
6. Aid modality(ies) and implementation modality(ies)	Direct management - Budget Support - Sector Reform Contract Project Modality (for complementary support) Indirect management with DANIDA Indirect management with Government of Tanzania			
7 a) DAC code(s)	15111 Public Finance Management 2% 51010 Budget Support 98%			
b) Main Delivery Channel	12000 – Recipient Government			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	x
	Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>

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

	Gender equality (including Women In Development)	x	<input type="checkbox"/>	<input type="checkbox"/>
	Trade Development	x	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>
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 document² 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 2007³. 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 million⁴. 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 2007⁵.

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/tmada/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 FYDP 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 principles⁶: 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 document⁷ 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.
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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 revenues⁸.
- 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 partners⁹. 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 Plan¹⁰ 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 act¹¹.

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 PEFA¹³ (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 IMF¹⁴ 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-6¹⁵ 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 2 nd Five Year Development Plan (FYDP) and ensuring equitable service delivery	H	The first draft of the 2 nd 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 4 th 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 1 st 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 EU¹⁶, the management of the recently completed MDG contract¹⁷, 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 unrealistic¹⁸. 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 2015/2016¹⁹. 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.

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 IPTL²⁰ 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 economic 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 implemented 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 strengths 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 overall²¹.

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

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 thematic 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 Tranche²² 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 (EU) 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 Two of Regulation (EU, Euratom), No 966/2012. These rules, as well as rules on grant procedures in accordance with Article 193 of Regulation (EU, Euratom) No 966/2012 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	2 nd 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 overarching 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	2 nd 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)	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	PERFORMANCE INDICATORS²⁴ 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	3.1. 69% (2014-2015)	3.1. At least 75%	3.1. Public Procurement Authority (PPRA) annual performance evaluation report	MoFP is committed to PFM Reform Programme
		3.2. Indicator #5: Actual central government transfers to districts versus approved budgeted by Parliament for LGAs for a current financial year ²⁹	3.2. 88% (2014-2015)	3.2. 92%	3.2. IAG annual report	
	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	<p>For SO1:</p> <ul style="list-style-type: none"> - 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 <p>---</p>	<p>1.1. The status of usage of PIM manual in the major projects</p> <p>1.2. Budget reallocations</p> <p>1.3. "Off-budget" expenditures</p> <p>1.4. Status of development of Background budget document and MTEF developed in line with Budget Law</p> <p>1.5. Status of Budget guidelines and other instructions on arrears management,</p> <p>1.6. Level of stock of total arrears ³⁰</p>	<p>1.1.PIM manual not yet used</p> <p>1.2. To be determined</p> <p>1.3. No aggregated MTEF produced</p> <p>1.4. No aggregated MTEF produced</p> <p>1.5. No guidelines</p> <p>1.6. 4.5% of GDP</p>	<p>1.1. At least 10 projects of FYDP II follow MIP manual</p> <p>1.2. Reduced trends</p> <p>1.3. MTEF at aggregated level produced</p> <p>1.4 MTEF at aggregated level produced</p> <p>1.5. Guidelines Operationalised</p> <p>1.6. Reduced trends</p>	<p>1.1. FYDP implementation reports</p> <p>1.2. Ref. to budget reallocation study (PFMRP)</p> <p>1.3. PEFA indicators on arrears/off-budget</p> <p>1.4. Publication of MTEF on MoFP website</p> <p>1.5. Publication of MTEF on MoFP website</p> <p>1.6. IMF Review</p>	
	<p>For SO2:</p> <ul style="list-style-type: none"> - Improved tax administration by the Tanzania Revenue Authority (TRA) - Improved administration and collection of non-tax revenues 	<p>2.1. TRA "Tax Administration Diagnostic Assessment Tool" Strategies Implementation Action Plan is incorporated into TRA corporate plan</p> <p>2.2. The status of implementation OR monitoring of The Tax Modernisation Programme in general³¹</p> <p>2.3. Administration of non-tax revenues is included in TRA corporate plan and the status of the NTR Dept</p> <p>2.4. Status of study and incorporation of Recommendations on non-tax revenues into a work plan</p> <p>2.5. Follow-up status on The Treasury Registrar' strategy for collecting dividends from public enterprises</p>	<p>2.1. Action Plan adopted in March 2016</p> <p>2.2. TMP ongoing</p> <p>2.3. No Non-tax revenue dpt</p> <p>2.4. Non-tax revenue study to be finalised</p> <p>2.5. Strategy defined</p>	<p>2.1. Action Plan operationalised</p> <p>2.2.TMP achieves targets</p> <p>2.3. Tax-revenue dpt set-up and staffed</p> <p>2.4. Non-tax revenue study finalised and approved</p> <p>2.5. Strategy operationalised</p>	<p>2.1.TRA Corporate Plan and TMP annual implementation report/TADAT Annual Progress Reports</p> <p>2.2.TRA Corporate Plan and TMP annual implementation report /TADAT Annual Progress Reports</p> <p>2.3. PFMRP IV</p> <p>2.4. PFMRP IV</p> <p>2.5. PFMRP IV</p>	
	<p>³⁰ Note: EU RF L1 #14</p> <p>³¹ Note: EU RF L1 #29; L2 #32</p> <p>---</p>			---		

	<p>For SO3:</p> <ul style="list-style-type: none"> - 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 <p>---</p>	<p>3.1. Status or level of implementing the amended Public Procurement Act</p> <p>3.2. The status of follow-up of the e-procurement action plan</p> <p>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</p> <p>3.4. Status of follow-up on the Action plan following the PER study on Fiscal Inequities including measures on flow of funds</p> <p>3.5. The revision of the LGA allocation formula is put in place³²</p> <p>---</p>	<p>3.1. The PPA not used</p> <p>3.2. e-procurement service contract being procured</p> <p>3.3. Strategic plan adopted in June 2015</p> <p>3.4. Action plan adopted in 2015</p> <p>3.5. To be determined</p> <p>---</p>	<p>3.1. PPA used</p> <p>3.2. e-procurement tested on 2 pilots</p> <p>3.3. Annual targets of plan implemented</p> <p>3.4. Annual targets of plan implemented</p> <p>3.5. To be determined</p> <p>--</p>	<p>3.1. Reporting at PER reviews</p> <p>3.2 Act published on Parliament website PFM RP IV</p> <p>3.3. PPRA annual report</p> <p>3.4. Reporting at PER reviews</p> <p>3.5 LGA level dialogue</p> <p>---</p>	
	<p>For SO4:</p> <ul style="list-style-type: none"> - 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 	<p>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</p> <p>4.2. The capacity of the NAOT to perform quality revenue audits and audits in extractive industries</p> <p>4.3. The status of the Parliamentary Budget Office</p> <p>4.4. Implementation of actions following assessment under the Fiscal Transparency Code (IMF) following action plan of government on latest assessment³³</p> <p>4.5. Mid-year financial reports</p>	<p>4.1. No strategy in place and last plan expires in 2016</p> <p>4.2. No capacity for such audits in 2016</p> <p>4.3. No PBO in place by 2016</p> <p>4.4. None were implemented or % implemented</p> <p>4.5. No produced</p>	<p>4.1 Strategy adopted and implemented</p> <p>4.2. Several audits produced</p> <p>4.3. PBO in place and running</p> <p>4.4. To be determined</p> <p>4.5. Produced</p>	<p>4.1. Good Financial Governance project implementation reports</p> <p>4.2. Good Financial Governance project implementation reports</p> <p>4.3. PBO reports published on Parliament's website</p> <p>4.4. FTC, government reports</p> <p>4.5. NAOT website</p>	
<p>³² Note: EU RF L1 #14</p> <p>³³ Note: EU RF L1 #14</p>						

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	

