

**Ministry of Foreign Affairs – Dar es Salaam**

**Meeting in the Council for Development Policy 16 May 2017**

Agenda item 2

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| <b>1. Overall purpose</b>                       | For discussion and recommendation to the Minister                           |
| <b>2. Title:</b>                                | Tanzania: Reallocation from general budget support to sector budget support |
| <b>3. Presentation for Programme Committee:</b> | N/A   |

Information note to the Council for Development Policy

*In May 2016, the External Grant Committee approved the Danish Embassy's proposal to redesign the Development Contract (General Budget Support) with Tanzania. The commitment to the thematic programme was granted and signed with the Tanzanian Government in 2015, as part of the overall Country Programme for Tanzania. However, while the Government of Tanzania's preferred modality continues to be GBS, the need to redesign the Danish approach was prompted by political shifts in Development Partner HQs, an increased fragmentation of Development Partners, and the expiration of the Budget Support dialogue forum. This required a new approach for the continued pursuit of the overall Danish Country Programme objective. The redesigned programme with a budget of 375 million DKK to support effective economic management and fiscal governance with sector budget support to the Tanzanian Ministry of Finance and Planning was presented to the External Grant Committee in December 2016. The programme complements existing efforts in promotion and protection of human rights and good governance as well as interventions supported under the health sector and business sector programmes. The Committee requested the Embassy to share the final results and risk mitigation frameworks with the Council for Development Policy before the redesigned programme is presented to the Minister for Development Cooperation. The implementation of the programme is harmonised with the recently signed agreement around an EU Sector Reform Contract and a similar Swedish intervention.*

*The present note presents the results framework and revised risk matrix as well as more in-depth reflections on recent developments and how the programme may contribute to addressing the current challenges in relation to management of public funds and delivery of services to the Tanzanian population. The note should be read in conjunction with the note to the External Grant Committee of 14 December 2016 presenting the reformulated Danish sector budget support to Economic Management and Fiscal Governance. The note is attached.*

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The **preparation of the programme to support Economic Management and Fiscal Governance** took place during a period of changing mechanisms for regular policy dialogue. The previous Partnership Framework Memorandum (2011-2016) defining the framework for policy dialogue related to General Budget Support (GBS) expired in June 2016. The Government of Tanzania (GoT) and Development Partners (DPs) are currently engaged in the design of a new overall aid architecture in Tanzania in a process led by former AfDB President, Dr. Donald Kaberuka. The framework is expected to clarify the structure(s) through which issues, such as promotion and protection of human rights and democracy, can be discussed. This process is expected to be completed during 2017. The Ministry of Finance and Planning (MoFP) and the EU delegation have agreed to set up **an interim Policy Dialogue mechanism** related to the new EU – Sector Reform Contract on Economic and Fiscal Governance, to provide a forum for regular dialogue between MoFP and DPs (EU, Denmark

and Sweden) about key strategic economic and fiscal governance issues. This structure may be integrated into the finally agreed wider dialogue process, if appropriate.

As highlighted in the presentation to the External Grant Committee in December 2016, the overall objective of the Government's **second five-year development plan** - FYDPII - is to achieve middle income status by 2025 through industrialization and support to human development initiatives. The Government's strategy aims to mobilise domestic revenue and attract foreign investments to finance the FYDPII while reducing the dependence on external development assistance. The plan is ambitious and careful attention to the development of an effective implementation strategy and a focused framework for monitoring is crucial to achieve stated objectives. GoT is currently drafting costed annual plans and identifying indicators for appropriate monitoring. The role of aid in financing expenditures combined with capacity development and targeted policy dialogue will remain important, and Denmark will continue to engage closely with GoT and other DPs in this process.

Tanzania has achieved significant progress in non-monetary poverty indicators over the past two decades in line with the MDG agenda. At the same time, the quality of public service delivery continues to hinge on the financial performance of the public sector including the credibility of the Government budget and financial sustainability of state owned enterprises delivering services. In previous fiscal years lack of budget credibility and weak revenue forecasting led to unforeseen expenditure cuts, frequent reallocations, accumulation of arrears and poor execution rates. This has had negative consequences for the delivery of services to the population, including in health, education, and water. The major challenges related to public financial management (PFM) include inequitable and untimely distribution of resources, fiscal and human, and procurement inefficiencies and irregularities - leading to reduced value for money, lower quality services than expected and increased risks in the use of funds. Addressing the evident capacity constraints in existing systems at local government level is essential. Accordingly, to achieve a significant and lasting impact, the capacity development efforts have to be guided by a well understood overall policy and mechanisms to ensure that bottlenecks in the delivery of services are identified and addressed.

The redefined Danish programme has a clear focus on the management of public funds, targeting the implementation of the annual budgets through the MoFP. On the one hand, funds will be transferred to the MoFP in the form of sector budget support to support the implementation of the budget, including the planned reform activities falling within the remit of the MoFP (e.g. development of a sound legal PFM framework, medium term fiscal frameworks, institutional capacity building, establishing guidelines and a framework for management of public investments, capacity building and strengthening audit offices, simplify and improve regulation and framework procedures around cash management and facilitating transfers of professional norms (like accounting and auditing standards)). On the other hand,

this will be combined with a continuous dialogue with the MoFP which will focus on the challenges and bottlenecks e.g. in the flow of funds and the distribution of resources to local levels of government. Thereby the programme will contribute to improving the delivery of services and enhancing the quality of the lives of ordinary Tanzanians in a sustainable and system-wide manner.

The dialogue will also support improved macro-economic management (including prudent fiscal, tax and debt policies) and help guide the allocation of resources on a medium-term basis in line with national priorities. These elements are key to improving the credibility of the budget. Further, improving the efficiency and effectiveness of public services and service delivery (meaning better education, improved health and greater confidence in government) will be pursued through a more strategic dialogue on how resources are allocated, distributed and spent (economic efficiency), and by strengthening the fiscal discipline. Medium term budgets executed as planned and in a timely and accurate fashion, with reporting and strengthened internal controls, and better procurement practices are also critical contributions to improved financial management in the country. Overall, the implementation of planned activities and the delivery of services outputs at local government level will be improved to the benefit of all Tanzanians, leaving no one behind in line with the 2030 SDG agenda.

The thematic programme furthermore includes three accompanying measures (development engagements - DEs) aimed at improving tax mobilisation efforts through Tanzania Revenue Authority (TRA) (DE2); strengthening capacity development in public financial management (PFM) (DE3); and supporting evidence based poverty research (DE4). These will be continued unchanged. Support to the development of a more progressive fiscal system will contribute to the mobilisation of domestic resources and to reducing inequality. According to research, such support will also increase the quality of education and support inclusive growth strategies that encourage social mobility and raises income and human development in disadvantaged areas.<sup>1</sup> The accompanying measures supporting **Tanzania's Revenue Authority** and **capacity building efforts at central and local government levels** will generate synergies and contribute to ensuring the overall impact of the four thematic programmes that together form the Country Programme by enhancing the overall generation of revenue and ability to manage public funds, and thereby the ability to implement national plans and strategies.

The revised thematic programme's **results and risk mitigation frameworks** as per April 2017 are attached to this note. Monitoring of the implementation of planned activities will take place through quarterly and annual meetings between DPs and MoFP. The finalized framework reflects that the focus of the dialogue will be on issues within the remit of the Ministry with a view to enhancing achievement of planned activities. Other issues, such as **protection and**

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<sup>1</sup> Strategic choices for development cooperation in a post-2015 world, UNU-WIDER

**promotion of human rights and democracy** will be considered in bilateral and multilateral fora, such as the recently convened EU Article 8 dialogue.

In terms of the **aid effectiveness agenda**, under current circumstances the proposed intervention is the one best harmonised and aligned to GoT's efforts. The implementation of the programme will be **closely coordinated** with the EU and Sweden. It is expected that the harmonised interventions will add up to more than 70 million USD annually in support of the implementation of the FYDP II. Compared to a project or basket-fund approach, the **harmonised approach of DPs reduces transaction costs** and helps underpin constructive policy dialogue with relevant counterparts in the MoFP with responsibility for the delivery of quality social services.

## Annex I Result framework

In the results framework of the thematic programme the Thematic Programme Objective is new, whereas the two impact indicators are carried over from the original Country Programme. Among the development engagements, the framework for DE 1 is new, whereas those for DE 2 to 4 are unchanged compared to the original Country Programme.

### Thematic Programme on Economic management and Fiscal governance

Thematic Programme		Thematic Programme on Economic Management and Fiscal Governance	
Thematic Programme Objective		Improved mobilization and more efficient management of public funds for better and more equitable social service delivery, transparent and accountable governance, and a more conducive business environment for investment and growth.	
Impact Indicator (Country Programme)		<ul style="list-style-type: none"> <li>Improved revenue mobilisation and administration for enhancing reliance on own funds (% tax return on GDP)</li> </ul>	
Baseline	Year	2015/16	13.4 %
Target	Year	2020/21	20.1 %
Impact Indicator		<ul style="list-style-type: none"> <li>Number of births attended by skilled health personnel</li> </ul>	
Baseline	Year	2015/16	80 %
Target	Year	2020/21	95 %

Engagement Title		Sector Support to Economic Management and Fiscal Governance (DE1)	
Outcome		Improving the comprehensiveness and credibility of the budget to maintain macro-economic stability and allow the GoT to achieve its policy objectives (Aligned with EU)	
Outcome indicator		Aggregate expenditure outturns (measures the extent to which the outturn reflects the originally approved budget)	
Baseline	Year	2014-15	85%
Target	Year	2019-20	>90%
Outcome		Strengthening equitable domestic revenue mobilization and administration	
Outcome indicator		Registered taxpayers (domestic and large taxpayers). Source TRA CPV	
Baseline	Year	2014-15	996,043
Target	Year	2020-21	2,771,201
Outcome		Improved expenditure management in areas key to service delivery	
Outcome indicator		Availability of information on resources received by service delivery units (PEFA indicator PI-8). Timely release of funds to service delivery units. Source: Budget execution reports	

Baseline	Year	2015-16	(as per PEFA April 2017)
Target	Year	2020-21	tbc
Outcome		Improved domestic accountability and national control mechanisms	
Outcome indicator		Transparency. Source: Open Budget Index	
Baseline	Year	2015	46/100
Target	Year	2020	51/100
<b>Engagement Title</b>		<b>Sector Support to Tanzania Revenue Authorities (DE2)</b>	
Outcome		Increase the efficiency of tax administration and rationalise tax incentives	
Outcome indicator		Percentage of new VAT refund claims that are settled within a month	
Baseline	Year	2014-15	74%
Target	Year	2018-19	90 %
<b>Engagement Title</b>		<b>Support to Public Financial Management Reform Programme (PFMRP) V (DE3)</b>	
Outcome		Improvements in PFM performance across LGAs supported under PFMRP V The proportion of Internal Audit recommendations implemented has increased.	
Outcome indicator		Average procurement compliance scores have increased.	
Baseline	Year	2015	70 %
Target	Year	2020-21	85-90%
<b>Engagement Title</b>		<b>Support to Poverty Reduction Policy Research (DE4)</b>	
Outcome		Increased research output and publications of high quality of the collaborating partners;	
Outcome indicator		Number of research papers published in peer reviewed journals	
Baseline	Year	2015	-
Target	Year	2018	8-10 (cumulative)

## Annex II - Risk Management Matrix

### Programmatic and institutional risks

#### Support to Economic Management and Fiscal Governance

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment of potential impact	Risk response
The political drive to improve economic and fiscal management is reduced slowing the reform implementation and efforts to tackle systemic constraints to social service delivery.	Unlikely	The new government has a strong focus on combatting corruption and reducing wasteful spending in the public sector. However, government has had a tendency to focus more on short term gains rather than longer term reforms	Minor	High-level political support may not be critical for the implementation of the PFM reform measures. And there is a variety of more technical areas where work can be focused.	Use high-level dialogue dynamically to ensure Government maintains focus on prioritizing and driving reforms.  Focus implementation on less politically-sensitive, but critical, technical areas.
Government does not pay sufficient attention to allocating the budget in a way that provides for effective implementation of the FYDPII priorities, particularly for local government service delivery	Likely	The much needed development of an implementation plan and costing for the 5 year implementation of the FYDPII is in progress but is still not finalised. Furthermore, the new government has other priorities (eg. moving to Dodoma) which have not been taken into account in the	Major	Experience so far is that Government has found it challenging to translate development plans adequately into the medium-term expenditure framework	The joint SBS support (DE1) targets strengthening of the budgeting framework process in forward looking manner. Use the dialogue on the budget for focused discussions on cross-sectoral/local government budget allocations.  The support to anti-poverty policy research (DE4) will be used to highlight gaps and needs for a poverty-reducing budget  Use sector-dialogue through health-sector support to actively raise budgetary and funding-transfer issues for service delivery

		current budget.			
Weak implementation of measures to improve PFM and revenue levels.	Likely	Reform measures are increasingly decided on in an ad hoc fashion with less clear common direction overall, and with less attention to fundamental improvements to the systems for economic and fiscal management	Major	Some reforms within MOFP remit can be pushed forward at the technical level. But a high-level political reform drive by the government is needed to ensure that attention is not diverted from more long-term sustainable reform efforts to a focus on short term gains.	Carefully review action plans and results frameworks in order for them to have clear focus and coherence  Use dialogue related to SBS and tax productively to raise profile and focus on issues of strategic importance
Revenue mobilization efforts increasingly hampered by administrative challenges, which include low performance in collection.	Unlikely	The newly enhanced focus on revenue collection and the ability of government to finance its own budget has shown collection performance of 100 %	Major	There have been challenges in previous years in reaching revenue collection targets	The complementary measure for support to TRA (DE2) will focus on addressing this factor in a targeted manner
Fiscal transfers to lower levels of government remain unpredictable, untimely, and non-transparent, hampering effective and equitable service delivery	Likely	In recent years, the budget execution has been lower than anticipated with consequences for the level of service delivery	Major	Spending entities have not received their funding on time and consequently activities have started late and result in low overall implementation rates.	Careful monitoring and dialogue will bring forward the need for required action
Rising corruption with involvement of high-level officials in graft and a sense of impunity	Unlikely	The new government's focus on combatting corruption seems to have reduced the level of corruption in the country	Major	The perception of corruption increased in 2015, but could reflect increased awareness and media reporting. The involvement of high-level officials in recent cases of graft indicated a sense of impunity.  The new administration has adopted a no-tolerance	Closely follow progress on donor supported anti-corruption initiatives (incl. Civil Society Organisation/Local Authorities (CSO/LA) programme; anti-corruption measures as part of the Democratic Governance Facility and DFID's capacity building of key anti-corruption institutions

				attitude towards corruption and has already put this into practice in several cases.	<p>Work with main donors in the area of economic/fiscal governance to maintain focus on addressing corruption, including through active assessment and constructive dialogue on the underlying principles.</p> <p>Use support within the Danish country programme for demand-side accountability participation, and transparency through Thematic Programme on governance and human rights.</p>
Ineffective public procurement not addressed.	Unlikely	The procurement framework meets international standards, but compliance is weak. The risk is that programme funds may be misused or do not achieve VFM.	Major	This is likely to lead to hamper the implementation of programme activities.	Direct support to and lead role for PFMRP and other donor support in procurement.

**Ministry of Foreign Affairs, Embassy Dar es Salaam**

F2 reference: 2016-25254

**Grant Committee Meeting 14 December 2016**

**Agenda Item no.: 2**

1. Title: **Support to Economic and Fiscal governance**  
Presentation of a reformulated Danish support to Economic governance
2. Partners: Ministry of Finance & Planning
3. Amount: N/A
4. Duration: Four years: 2017/18-2020/2021
5. Presentation to the Programme Committee: 3<sup>rd</sup> December 2013
6. Previous Grants: General Budget Support Programme, Phase IV, 2011-2015: 615 million DKK  
Tanzania Country Programme 1.350 million DKK, 2014 - 2019
7. Strategies and policy priorities: Denmark-Tanzania Country Policy Paper, 2014-2018  
Danida Strategy – Right to a Better Life (2012)
8. Guidelines: Guidelines for Country Programmes
9. Danish National Budget account code: § 06.32.01.10 Tanzania
10. Desk officer: Mette Melson
11. Reviewed by Financial Officer: Gregers Juel Jensen
12. Head of Representation: Einar Hebogård Jensen
13. Summary:

As agreed in the External Grant Committee's meeting on May 3, 2016 the Embassy has designed a new programme to replace the Development Contract (General Budget Support, GBS). Harmonised with a new EU Sector Reform Contract, the new Danish programme supports the Country Programme in a cross-cutting way by providing sector budget support to the Ministry of Finance and Planning. Support to the three accompanying measures aimed at improving tax mobilisation efforts through Tanzania Revenue Authority (TRA); strengthening public financial management (PFM), and supporting evidence based poverty research will be continued.

## 1. Introduction

On May 3, 2016 the Good Governance and Human Rights thematic programme was presented to the External Grant Committee together with a general stocktaking on the implementation of the Tanzania Country Programme (CP). The Committee supported the proposal to redesign the Development Contract (GBS) into a sector budget support programme and asked for a presentation hereof as this could serve as inspiration for other countries where Denmark operates.

While the Government of Tanzania's preferred modality continues to be GBS, the need to redesign the Danish approach was prompted by political shifts in Development Partner HQs, an increased fragmentation of DPs, and the expiration of the Budget Support dialogue forum, requiring a new approach for the continued pursuit of the overall Danish CP objective.

### Tanzania Country Programme objectives and theory of change

The Country Programme's **development objective** is *to reduce poverty and inequality and to ensure equitable delivery of quality social services, especially in health*. The **thematic objectives** are: 1) to promote inclusive green growth and employment, 2) improve the health and well-being of the poorest by strengthening national systems to enhance the delivery of and equal access to quality health services for all, and 3) strengthen democracy, good governance, rule of law and respect for all human rights. The Development Contract was designed to target the Danish overall development objective by continuing Denmark's long-standing general budget support to Tanzania.

The **CP's theory of change** accorded the Development Contract (GBS) a special role: The General Budget Support enabled Denmark and other Development Partners (DPs) to engage in high-level policy dialogue with Government on critical, overarching policy issues central for achieving the CP's objective, backed by clear, agreed results important for the Danish thematic areas, and performance-based payments. The Development Contract was signed by the two governments in September 2015.

In July 2016 Denmark and Tanzania met to discuss the progress of the Country Programme. Recognising the changed conditions for provision of GBS, the Tanzanian Government concurred with the Danish proposal to address the CP objective using a more focussed approach aimed at improving the mobilisation and management of public funds. The new Thematic Programme (TP) on economic and fiscal governance that replaces the Development Contract (GBS) will be aligned to a new EU Sector Reform Contract and continue supporting the accompanying measures to enhance tax mobilisation, improve PFM and research.

This note presents the redesigned support.

## 2. The Tanzanian context

The following recent developments in the Tanzanian context inform the theory of change of the Country Programme/TP:

- **Tanzania's new Government continues to show strong political commitment to the fight against corruption and enhancement of public sector efficiency.** With his first year in office coming to an end, President Magufuli continues his action-oriented way of cracking down on corrupt practices, reducing public sector wasteful spending, and focusing on enhancing revenue mobilisation through the Tax Revenue Authority (TRA) by enforcing compliance, reducing tax

exemptions and imposing VAT. While it is too early to assess the impact of reforms, the political leadership-drive to public sector reform is the strongest in a long time, and the President continues to enjoy widespread public support nationally as well as internationally.

- **Tanzania’s macro-economic performance with high growth is set to continue, but certain trends need to be watched carefully.** Growth is expected to continue around 7% and inflation remains below 5%. Tanzania is at low risk of external debt distress and the authorities’ efforts to improve the efficiency of public spending<sup>1</sup> is remarkable. Notable progress has been made in stepping up revenue collections (tax revenue increased by 26.3 % in 2015/16 compared to 2014/15). However, a narrow tax base and low compliance still present challenges.
- **The Government’s Five Year Development Plan (FYDPII) for 2016/17-20/21** focuses on “Economic Transformation and Human Development” with priority areas in growth/industrialization, economic and human development, enabling environment for business and investment, and with emphasis on implementation. The Danish CP objectives, such as public expenditure management, anti-corruption, decentralization, and revenue enhancement are central elements of reform in the FYDPII. While underfunded by 40%, the plan enjoys strong support from the political leadership and includes a comprehensive monitoring and evaluation framework integrating the Sustainable Development Goals and focussing on use of reliable data to track progress and monitor results.
- **Government has managed to contain the budget deficit, but budget credibility remains low.** Key weaknesses relate to poor budget execution, low implementation rates and weak accountability. This underscores the need to address expenditure and revenue management to ensure the FYDP II’s implementation and ambitions to improve service delivery, transparency and accountability - framework conditions for growth and employment – and all issues key to the CP Thematic Objectives.
- **In a regional context, Tanzania still compares well when it comes to respect for democracy and human rights.** Nevertheless, the country has in recent months experienced quite a few setbacks when it comes to the enjoyment of fundamental rights and democratic freedoms: From the on-going political crisis in Zanzibar due to the cancellation of elections, limitations in the democratic space for political parties, civil society and the media to the recent increased pressure on the LGTBI community. Denmark is closely following the situation and has on several occasions using different channels - bilaterally or together with other partners - reached out and conveyed views to counterparts. Continued efforts and strengthened dialogue are necessary to improving relations. Politically, Denmark intends to continue to actively pursue a constructive dialogue, also on issues regarding the promotion of and respect for democracy and human rights together with other DPs or bilaterally. In addition, through our interaction with and support to civil society organisations the national voice and engagement in these important issues will be strengthened.

### 3. Strategic considerations and justification

**The focus of the Danish Country Programme on support to improving the development and implementation of good fiscal and economic management of public finances will be strengthened.** This reflects the lessons that key constraints in Tanzania to implementation of social development objectives and poverty reduction policies are lack of resources, weak planning, and problems with expenditure management resulting from out of budget expenditures.

Based on lessons learned, **the policy dialogue on fiscal and economic management will be focussed on the Ministry of Finance and Planning (MOFP)**, which is the Government partner with the main remit for these areas. The dialogue will be focussed on a small set of critical results and

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<sup>1</sup> IMF PSI mission statement (October 2016)

monitoring of realistic and achievable targets set and owned by Government. Supporting the Government's efforts to improve the public sector economic and fiscal governance through an enhanced focus on implementation of key fiscal policies and management of public finances through the Ministry of Finance and Planning, improving the mobilisation and administration of revenues through TRA, and focusing on expenditure management and procurement as well as transfers of local government grants is critical to ensuring improvements across the CP and strengthening the three thematic programmes.

The most **aid-effective way to achieving results** in the area of economic and fiscal governance is through a focussed sector budget support, partnering with and aligning to the recently approved EU programme targeting areas directly within MOFP's mandate. Sector budget support provides the needed platform for dialogue with MOFP as the institution vested with the main responsibility for and tools to drive reforms in this area. It also allows for the dialogue to focus on critical issues at policy level and on obtaining strategic solutions. By partnering with EU and providing support through a sector reform contract, Denmark will be adopting a sound design and ensuring that support will be provided in the most harmonized and aid-efficient way. See Annex A for a more elaborate description of the EU programme.

Denmark and EU follow the same sector budget support principles, and **a joint approach strengthens the impact and lowers transaction costs** for both Ministry of Finance and Planning and DPs. The EU programme targets the most critical PFM reform areas, and its approach of a problem-solving and strategic policy dialogue, performance-based payments, and focus on a few, key results is assessed to form an effective support package. Finally, a joint approach by EU, Denmark and possibly Sweden<sup>2</sup> may attract further partners thus in the longer run further boost the impact of the support.

**It is critical to Government, Development Partners and others supporting economic and public financial management to participate in a policy dialogue mechanism devoted to fiscal and economic management issues.** Such a mechanism is expected to be designed after concluding the aid architecture review process where the expired budget support dialogue forum will be replaced by a new and more suitable platform for Government - DP dialogue. As co-chair for the Development Partners Group, Denmark is one of the key actors in the GOT/DPs efforts towards revising the aid architecture, a process facilitated by the former head of the African Development Bank, Dr. Donald Kaberuka and former World Bank VP Jim Adams. The aim of the facilitation exercise is to secure a more effective dialogue between the Government of Tanzania, DPs, and other stakeholders to match the country's ambition of becoming a middle income economy. Initial findings suggest that several dialogue mechanisms are needed, including the creation of mechanisms for managing politically sensitive issues by separating discussions of political governance from more technical development policy issues, such as PFM and tax. Government and several DPs (incl. EU, DK, UK, Finland, Sweden, Norway, Canada, World Bank and AfDB) supporting aspects of economic management and fiscal governance are pursuing the idea of a dialogue forum exclusively and strategically targeting these areas.

#### 4. A new Thematic Programme on Economic Management and Fiscal Governance

The objective of the new **Thematic Programme** will be *“Improved mobilization and management of public funds for better and more equitable social service delivery, transparent and accountable governance, and a more conducive*

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<sup>2</sup> The Swedish programming cycle is on-going and approvals are expected in 1<sup>st</sup> quarter 2017.

*business environment for investment and growth.*”<sup>3</sup> The Thematic Programme provides support to GoT’s reform plans in the area of economic management and fiscal governance (Development Engagement, DE 1), based on strategic dialogue with Ministry of Finance and Planning on the achievement of clear, agreed results-targets, and performance-based payments to the national budget. The support includes already agreed accompanying measures through support to TRA’s Strategic Plan (DE2); technical support to the PFM reform programme with an enhanced focus on improving PFM at Local Government Level (DE3) and, Poverty research for evidence-based policy (DE4).

The **Sector budget support to Economic Management and Fiscal Governance (DE1)** focusses directly on the credibility of the budget, administration and mobilisation of revenues, expenditure management for improved service delivery, and sound domestic accountability. The Development Engagement has four specific objectives, which will be monitored at outcome level in the CP:

- Improving the comprehensiveness and credibility of the budget for macro-economic stability and enabling achievement of GoT development policy;
- Strengthening equitable domestic revenue mobilisation and administration;
- Improving expenditure management for efficient and effective service delivery;
- Foster sound domestic accountability and strengthen national control mechanisms to improve governance.

Specifically, the Danish sector budget support will consist of a package with the following elements:

- **Policy dialogue** with Ministry of Finance and Planning, targeted at the four specific objectives, and using a problem-solving oriented approach to support policy formulation, implementation of strategies and action plans in economic and fiscal governance for the operationalization of the FYDPII. The dialogue will be jointly with EU, possibly Sweden and other budget support partners<sup>4</sup>.
- **Payment for results** through a fixed tranche(50%), paid annually upon a satisfactory overall progress in the area of economic management and fiscal governance, and a variable tranche (up to 50%), where the amount depends on progress in a few indicators agreed with Government and linked directly to the four specific objectives (see the Box 1 below). The variable tranche is maintained at 50% to reflect the strong emphasis on results in the CP and also to be a risk mitigating factor. First disbursement of the fixed tranche is expected to support implementation of the Tanzanian FY 2017/18 (in July 2017), while disbursement of the variable tranche is expected to begin in 2018.
- Monitoring of progress and risks based on a **results framework** that jointly guides the EU and Danish support. Performance will be monitored based on a limited number of indicators under the responsibility of the Ministry of Finance and Economic Planning.
- **Incentives to reform.** The focus will be on fewer indicators and on rewarding progress to encourage achievements.
- **Complementary support** in the form of capacity development and analytical input to boost MOFP’s ability and effectiveness to deliver on budget credibility, revenues, expenditure management, and accountability. This is provided through continued support to the Thematic Programme’s Development Engagements with TRA, and public financial management, poverty research, combined with other donor support.

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<sup>3</sup> The EU programme’s overall objective is ”to assist the GOT in becoming a middle-income country promoting inclusive growth by consolidating and improving economic and fiscal governance”, which is consistent the Danish development objective. The EU and Danish thematic programme have identical specific objectives.

<sup>4</sup> EU has a Budget Support operation on Transport; the World Bank has DPOs on Jobs, Energy and PFM. Finally AfDB have a Budget Support operation on Energy.

## BOX 1: Criteria for disbursement aligned with EU programme

General conditions (fixed tranche, 50%)	Specific conditions (variable tranche, max 50%)
<ul style="list-style-type: none"> <li>- Satisfactory progress in FYDP II implementation</li> <li>- Implementation of credibility oriented macro-economic policy</li> <li>- Satisfactory progress in PFMRP implementation</li> <li>- Satisfactory progress in public availability of timely, comprehensive, and sound budget information</li> </ul>	<ul style="list-style-type: none"> <li>- Budget credibility (budget outturn)</li> <li>- Domestic revenue mobilization (tax and non-tax revenue outturn compared to budget)</li> <li>- Improved expenditure management (procurement legislation compliance)</li> <li>- Oversight of and transfers of grants to local Governments)</li> </ul>

The **theory of change** is that the inputs (funds available for GOT's discretionary spending through the economic management and fiscal governance programme) combined with lower transaction costs (compared to basket/project funds), a problem solving dialogue with the MOFP on the budget credibility, administration of revenues, expenditure management, and accountability will lead to achievement of the specific objectives defined for these areas. MOFP will clearly own the outcomes defined as these are few and manageable within the Ministry's remit, and set within GoT's FYDP II. This combined with technical support to directly target these areas through TRA and PFM reform programmes will provide support by informing the dialogue with MOFP, provide capacity to GOT in delivering the outputs and strengthen the risk management.

The TP includes accompanying measures through continued support to:

**TRA's Corporate Plan (DE2);** Denmark supports the modernisation of the tax system by improving the tax administration and targeting long term sustainable tax financing of the public sector and ultimately reducing Tanzania's dependency on foreign aid. The support involves Danish core-funding to Tanzania Revenue Authority supplemented by earmarked support and technical assistance to address identified gaps in TRA's strategic plan in areas of ICT security with input from the Danish tax authority (SKAT). Denmark will as lead DP provide indirect management - act as delegated partner - for the EU funds in the implementation.

**PFM reform programme and public expenditure review process (DE3);** The TP will include continued support to the implementation of the PFM reform programme. By establishing systems of coordination and computerisation of processes combined with a sound legal basis for reform, the support is aimed at addressing areas of fiscal sustainability and balance in the public economy, reallocation and restructuring for growth and poverty alleviation and improved public sector performance. A new phase 5 expected to target the local government levels (LGA) for directly improving service delivery creates useful synergies not only to the support to the health sector basket fund implemented through Local Government, but also with the new sector budget support. A Public Expenditure and Accountability Assessment (PEFA) conducted in early 2017 will provide updated information on the status and challenges of Tanzania's PFM systems and further inform the results framework. Denmark is actively engaged in the process. PFMRPV is hoped to be more strategic, focussed, and local government-oriented, and is expected to receive support from several key donors with programme formulation finalized in mid-2017.

**Poverty research for evidence-based policy (DE4);** A total of DKK 10 million is allocated to a research collaboration with the University of Dar es Salaam to support evidence based research within poverty research and inclusive growth. The first dissemination workshop was held in November 2016 in Dar es Salaam.

## 5. Budget: Thematic Programme on Economic and Fiscal governance, 2014-2020

The total budget for the Programme is DKK 550 million of which a total of DKK 375 million will constitute the total maximal tranche payments under the new Programme.

	2015	2016	2017	2018	2019	2020	2021	Sum
DE1:								
- Fixed tranche	-	-	50	50	50	50	-	200
- Variable tranche	-	-		50	50	50	25	175
Total DE1	-	-	50	100	100	100	25	375
DE2: Support to TMP	-	-	15	15	15	15	-	60
TA incl. advisers	2	2	2	2	2	-	-	10
Total DE2	2	2	17	17	17	15	-	70
DE3: PFM RP	15	15	15	10	10	-	-	65
Support to PER basket	1	-	1	1	1	1	-	5
Total DE3	16	15	16	11	11	1	-	70
DE4: Support to research	3	3	4	-	-	-	-	10
Country programme reviews, studies etc.	-	-	2	2	2	2	2	10
Unallocated funds			5	5	5			25
<b>Total Thematic programme</b>	<b>21</b>	<b>20</b>	<b>94</b>	<b>135</b>	<b>135</b>	<b>118</b>	<b>27</b>	<b>550</b>

## 6. Monitoring framework

Monitoring and dialogue process will be aligned with EU programme and Government's planning and budget process.

A comprehensive mid-term review of the country programme is foreseen in late 2017 to review progress of the overall programme, assess possible needs for adjustment, and consider proposals for budget reallocations.

Preliminary (revised) results framework (including outcome indicators) is attached in Annex B.

## 7. Summary of risk analysis

Overall the risks of the Country Programme change with the replacement of the Development Contract and the shift in the use of the modality. A fully updated risk matrix will be in the Development Engagement Document.

The revised thematic programme remains a risk mitigating measure for especially the health sector thematic programme as it is expected to contribute to improvement in the quality of public financial management and service delivery.

In addition the following risk analysis can be highlighted:

### Programmatic risks:

- Lower risks related to a more focussed dialogue on economic and fiscal governance led by MOFP. This should make the dialogue more effective and lower risks of overloading the

dialogue agenda with topics outside of MOFP mandate. These will be handled in a dialogue forum fit for this purpose. Moderate risks of the policy dialogue will remain, as the new dialogue mechanism has yet to be fully defined and tested in practice. GOT and budget support partners are engaged, and Denmark will play an active role in this effort.

- Risks linked to the effective implementation of the FYPDII, the main basis for the support, specially related to Government's continued drive to push implementation, allocation and disbursement of adequate budgets to central and also local levels, success in achieving revenue targets and manage expenditures, and adequate results monitoring and follow-up. Several of these factors are core focus of the sector budget support, hence will be monitored, supported, and addressed in the policy dialogue of that forum, jointly with the other supporting donors. Moreover, implementation will be assessed by the Mid-term Review in late 2017 providing suggestions for fine-tuning of the Danish programmatic approach as needed.
- Medium risks linked to corruption as the support in future (notionally) targets part of the Government budget only, as opposed to being linked the whole budget and thus any corruption in all sectors. Moderate risks of corruption exist, however, since the Danish (and EU) funds are not ring-fenced and since there remain risks of corruption also in the target sectors of economic management and fiscal governance. Risks mitigation will be strengthened by the joint-approach with the EU, allowing greater leverage in the monitoring, follow-up, and dialogue, and by the closer focus and support to public financial management including possibly support to PFMRPV.

## Annex A: EU - Tanzania Economic and Fiscal Governance Programme: A summary

The EU - Tanzania Economic and Fiscal Governance Programme (2016/17-2020/21) was approved in the European Development Fund committee on 16 November 2016. The programme will contribute to the effective implementation of Tanzania's FYDP II by promoting the adoption and implementation of key fiscal policies in the areas of domestic revenue mobilization, public expenditure management and accountability, and by providing direct financial support to the Government budget.

The programme is a sector reform contract financed under the EU National Indicative Programme for Tanzania, 2014-2020, with EUR 200 million for the sector budget support, and EUR 5 million for complementary project-support, targeting 1) support to Tanzania Revenue Authority (TRA) for their tax modernization programme, and 2) a research-support facility to foster the policy dialogue. The support is provided as direct untargeted budget support to the treasury. The implementation period will be 72 months from the date of entry into force of the financing agreement to be concluded.

The overall objective is to assist the Government of Tanzania (GoT) in becoming a middle-income country, promoting inclusive growth, by consolidating and improving economic and fiscal governance. It has four specific objectives: i) Improving the comprehensiveness and credibility of the budget for macro-economic stability and enabling achievement of GoT development policy, ii) Strengthening equitable domestic revenue mobilization and administration, iii) Improving expenditure management for efficient and effective service delivery, iv) Foster sound domestic accountability and strengthen national control mechanisms to improve governance.

Through the programme, the EU will engage with Ministry of Finance and Planning in a problem-solving policy dialogue on themes linked to the four specific objectives, and to support policy formulation, implementation of strategies and action plans in economic and fiscal governance for the operationalization of the FYDP II. The outcomes expected to result from the dialogue are defined in a results framework. EU will continuously assess the EU eligibility criteria and monitor progress on the performance criteria. The forum for dialogue is expected to be identified.

The support to TRA will be implemented through indirect management with Denmark as the lead donor. The funds will be channeled to the tax modernisation basket (TMP) which is funded by DfID, Norway and Denmark. This will limit the overall transaction cost and promote aid effectiveness and allow the EU to be part of the Memorandum of Understanding governing the TMP basket.

The EU sector reform contract will be disbursed using a fixed tranche of 70% and a variable tranche of (up to) 30%, which reflects EU's weighting between predictability and emphasis on results. Both tranches will be disbursed subject to a set of general conditions, while the variable tranche will be disbursed depending on progress in five specific performance indicators agreed with Ministry of Finance and Planning. Moreover, the variable tranche will be calculated so that it is paid based on the exact level of progress towards a target.

Under the programme, all the disbursements can be suspended permanently or temporarily, reduced or cancelled based on the financing agreement in case of a significant deterioration in the EU fundamental values.

## Annex B - Results Framework

### Thematic Programme on Economic management and Fiscal governance

Thematic Programme		<b>Thematic Programme on Economic management and Fiscal governance</b>	
Thematic Programme Objective		Improved mobilization and management of public funds for better and more equitable social service delivery, transparent and accountable governance, and a more conducive business environment for investment and growth	
Impact Indicator (4)		<ul style="list-style-type: none"> <li>For “Inclusive, sustainable growth”=&gt; Increased land productivity</li> <li>For “Improved quality and equity in the provision of social services” =&gt; #of births attended by skilled health personnel</li> <li>For “Enhanced effectiveness and accountability of public administration” =&gt; Ratio of domestic revenue to GDP</li> </ul>	
Engagement Title		<b>Sector support to Economic Management and Fiscal Governance (DE1)</b>	
Outcome		The comprehensiveness and credibility of the budget have improved significantly (1)	
Outcome indicator		Aggregate expenditure outturns	
Baseline	Year	2014-15	85%
Target	Year	2020-21	>90%
Outcome		Improved and more equitable revenue mobilization and administration (1)	
Outcome indicator		Tax revenue outturn	
Baseline	Year	2014-15	89%
Target	Year	2020-21	>95%
Outcome		Improved expenditure management in areas key to service delivery (1)	
Outcome indicator		Actual central Government transfers to districts versus approved as budgeted by Parliament for Local Government Authorities for a current financial year	
Baseline	Year	2014-15	88%
Target	Year	2020-21	92%
Outcome		Improved domestic accountability and national control mechanisms (1)	
Outcome indicator		To be determined in coordination with EU	
Baseline	Year	2015-16	Tbc
Target	Year	2020-21	tbc
Engagement Title		<b>Sector support to Tanzania Revenue Authorities (DE2)</b>	
Outcome		TRA’s compliance management improved significantly (2)	
Outcome indicator		%of timely paid taxed	
Baseline	Year	2015-16	Tbc
Target	Year	2020-21	Tbc
Engagement Title		<b>Support to PFMRPV (DE3)</b>	
Outcome		To be determined based on future PFMRPV programme document	
Outcome indicator		To be determined	
Baseline	Year	2016	To be determined during inception
Target	Year	2020	To be determined during inception
Engagement Title		<b>Support to Poverty reduction policy research (DE4)</b>	
Outcome		Increased research output and publications of high quality of the collaborating	

		partners (3)	
Outcome indicator		Research policy advice used by key stakeholders in policy action	
Baseline	Year	2015	[Situation prior to engagement activities]
Target	Year	2018	[intended situation by the end of engagement (phase)]

- (1) Aligned with results framework of EU's Tanzania Economic and Fiscal Governance Programme.
- (2) Aligned with TRA's Fifth Corporate Plan, which has seven strategic objectives covering three overall themes (convenience, compliance, continual improvement). The outcome/indicator picked represents one of the seven strategic objectives and falls under the area of "compliance".
- (3) Selected from Development Engagement Document for collaboration between University of Dar es Salam and MFA, section with results framework.
- (4) Transferred from Country Programme Document