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ANNEX 1

of the Commission Implementing Decision on the financing of the annual action plan in favour of the United Republic of Tanzania for 2021

Action Document for Green and Smart Cities SASA

ANNUAL PLAN
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plan in the sense of Article 23(2) of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title **CRIS/OPSYS business reference** **Basic Act**	Green and Smart Cities SASA[1] CRIS number: 2021/043-413 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	Yes Part of the first phase of Team Europe Initiatives "Green and Smart Cities SASA" for Tanzania.
3. Zone benefiting from the action	The action shall be carried out in Tanzania, specifically Mwanza, Tanga, and Pemba
4. Programming document	2021-2027 Multiannual Indicative Programme for Tanzania
5. Link with relevant MIP(s) objectives/expected results	- to promote green cities for the benefit of their communities and businesses - to enhance employability and entrepreneurship through skills development - to contribute to poverty reduction and economic empowerment through financial inclusion and social protection - to foster green jobs creation through SMEs development and access to finance - to support Government systems to deliver effective policy development and implementation - to render the business environment more conducive to private sector growth and increase investment and trade
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	Priority Area 1 – Green Deals (sector 430), Priority Area 2 – Human Capital and Employment (sectors 110,160 and 321) and Priority Area 3 – Governance (sectors 150 and 250).
7. Sustainable Development Goals (SDGs)	Main SDG : SDG 11 (Sustainable Cities and Communities) Other significant SDGs: SDG 6 – Clean Water and Sanitation; SDG 8 – Decent Work and Economic Growth; SDG 9 – Industry Innovation and Infrastructure; SDG 10 – Reduced Inequalities; SDG 13 – Climate Action; SDG 16 - Peace, Justice and Strong Institutions.
8 a) DAC code(s) [2]	430 – Urban Development- 42% 110 – Education – 11%

[1] SASA means NOW in Kiswahili

[2] DAC sectors (codes and descriptions) are indicated in the first and fourth columns of the tab 'purpose codes' in the following document: http://www.oecd.org/dac/financing-sustainable-development/development-financestandards/dacandcrscodelists.htm

	160 – Other social infrastructure and services 14% 321 – Industry including SME development – 7% 150 – Government and Civil Society – 21% 250 – Business and other services – 6%			
8 b) Main Delivery Channel @	Channel 1 – Central Government - 12001			
9. Targets[3]	☐ Migration ☒ Climate ☒ Social inclusion and Human Development ☒ Gender ☒ Biodiversity ☒ Education[4] ☐ Human Rights, Democracy and Governance[5]			
10. Markers [6] (from DAC form)	**General policy objective @**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	☐	☒
	Aid to environment @@	☐	☒	☐
	Gender equality and women's and girl's empowerment	☐	☒	☐
	Trade development	☐	☒	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction @Disaster Risk Reduction @	☐	☒	☐
	Inclusion of persons with Disabilities @	☐	☒	☐
	Nutrition @	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity @	☒	☐	☐
	Combat desertification @	☒	☐	☐
	Climate change mitigation @ @	☐	☐	☐
	Climate change adaptation @ @	☐	☒	☐
11. Internal markers[7] and Tags[8]:	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation @ Tags: digital connectivity	☐	☒ ☒	☐ ☐

[3] Actual contribution to targets will be confirmed ex-post based on a standardised methodology.

[4] This target is specific to INTPA. If the action is marked as contributing to the Education target, please make sure the target on "Social inclusion and Human Development" is also marked.

[5] Thematic target for geographic programmes (at least 15%) in delegated act.

[6] For guidance, see https://www.oecd.org/development/financing-sustainable-development/development-finance-standards/ (go to "Data collection and resources for reporters", select Addendum 2, annexes 18 (policy) and 19 (Rio) of the reporting directive).
If an action is marked in the DAC form as contributing to one of the general policy objectives or to RIO principles as a principal objective or a significant objective, then this should be reflected in the logframe matrix (in the results chain and/or indicators).

[7] The internal markers have been created to report on the implementation of the Commission's own policy priorities in areas where no DAC reporting tool is available. For the sake of consistency and comparability, the methodology is equivalent to the DAC markers, with three possible positions (main target, significant target, not targeted)

[8] Methodology for additional tagging providing granularity on internal markers is under development.

	digital governance digital entrepreneurship job creation digital skills/literacy digital services		☒ ☒ ☒ ☒ ☒	☐ ☐ ☐ ☐ ☐
	Connectivity @ Tags: transport people2people energy digital connectivity	☐	☒ ☒ ☒ ☒ ☒	☐ ☐ ☐ ☐ ☐
	Migration @ (methodology for tagging under development)	☒	☐	☐
	Reduction of Inequalities (methodology for marker and tagging under development)	☐	☒	☐
	Covid-19	☐	☒	☐
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): BGUE-B2021-14.020121-C1-INTPA Total estimated cost: EUR 75 000 000 Total amount of EU budget contribution: EUR 75 000 000 of which EUR 28 000 000 for budget support and EUR 47 000 000 for complementary support The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this annual action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing[9]	**Direct management** through: - Budget Support: Sector Reform Performance Contract - Procurement: Service contracts - Grants **Indirect management** with Member State Organisation/agency and/or international organisations to be selected in accordance with the criteria set out in section 4.4.3 Contribution to the Regional Blending Platform shall be implemented in indirect management by the entities indicated in the annex to this Action Document, in accordance with the Regional Blending Platform award procedure. Budgetary guarantees as set out in section 4.4.5			

[9] Art. 27 NDICI

1.2. Summary of the Action

Tanzania's urban population, currently estimated at 30% of its overall population, is expected to reach 50% in 2040. The rapid physical urban expansion has overwhelmed Government capacity and resources for planning and service delivery. As a result, the majority of urban development is unplanned and basic service provision in most urban neighbourhoods is limited. Yet, urban areas are critical to national economic growth and poverty reduction - they account for the majority of the country's physical, financial, human, academic, and technological capital. There is a growing risk that the current urbanization path will limit economic growth potential and lock Tanzanian cities into unsustainable energy-intensive pattern that is costly for service provision and unattractive for business.

The present Action is part of the first phase of Team Europe Initiatives "Green and Smart Cities SASA" for Tanzania. It mainly contributes to Priority Area 1 – Green Deals of the 2021-2027 Multi Annual Indicative Programme for Tanzania and promotes green and smart cities for the benefit of their communities and businesses, also incorporating i.a. relevant skills and access to finance (Priority area 2) as well as strong governance components (Priority area 3) for private sector development and investment. The Action, aligned with the new European Consensus on Development and the 2030 Agenda for Sustainable Development and the EU "Towards a comprehensive Strategy with Africa", will contribute to SDG 11 (Sustainable Cities and Communities). It intends to create wealth and enhance the quality of life for inhabitants – in particular women and youth – of the cities of Mwanza, Tanga and Pemba. It aims in particular to improve the conditions for greener cities and decent urban job creation. This will be achieved through attainment of the following set of specific objectives:

1. to promote an urban enabling regulatory and policy environment, to enhance local revenue mobilisation and inclusive urban economic development.
2. to strengthen urban resilience and public services to urban poor communities, in particular in settlements.
3. to stimulate a sustainable local economy in the selected cities, creating economic opportunities especially for women and youth.

Policy dialogue will target key priorities and reforms such as fiscal decentralisation and local development strategies implementation. A mix of modalities will be used, mainly budget support and contribution agreements, and synergies with guarantee operations will contribute e.g. to private sector access to finance. Complementarities will be sought with ongoing actions from EU Member-States targeting local government authorities. It is expected that additional cities will be added to this Team Europe Initiative, with the benefit of hindsight from this first phase.

2. RATIONALE

2.1. Context

Tanzania is experiencing rapid population progression. The population is nearly 60 million increasing at 3% every year. With an urban population growth rate of around 5.2% per annum, Tanzania is today considered among the fastest rising urban populations in the world. This urban development is largely driven by both the strong population expansion (an outcome of persistently high birth rates coupled with increasing life expectancies) but also rural-urban migration. Tanzania's urban population, currently estimated at 30% of its overall population is expected to reach 50% around 2040; yet this rapid urbanization is accompanied by far more limited financial resources for capital investment than were available to countries in other parts of the world when they were at similar urbanization levels[10]. The rapid physical urban expansion has overwhelmed government capacity and resources for planning and service delivery. As a result, the majority of urban development is unplanned and basic service provision in most urban neighbourhoods is limited. Given the speed of urbanization and the resource constraints experienced by government, cities face a number of intertwined challenges of multi-sectoral nature and suffer a harsh effect on their future development. On the other hand, urban areas are critical to national economic growth and poverty reduction - they account for the majority of the country's physical, financial, human, academic, and technological capital and four Tanzanian cities are expected to produce more than half of the country's GDP by 2030[11]. There is a growing risk that the current urbanization path will limit economic growth potential and lock Tanzanian cities into unsustainable energy-intensive pattern that is costly for service provision and unattractive for business.

Tanzania's National Development Vision 2025, which is entering in its last phase with the third Five-Year Development Plan (FYDP III, 2021-2025), and Zanzibar Development Vision 2050 are the main strategic documents

[10] When East Asian countries were at Tanzania's current urbanisation rate of about 30 percent, their average GDP per capita was US$2,600, compared to Tanzania's average GDP per capita of US$ 500 https://documents1.worldbank.org/curated/en/811221624876806983/pdf/Transforming-Tanzania-s-Cities-Harnessing-Urbanization-for-Competitiveness-Resilience-and-Livability.pdf

[11] Dar es Salaam, Mwanza, Arusha, Dodoma

the Government of Tanzania refers to for its development ambitions. More specifically, and in order to sustain Tanzania's recently acquired status of middle-income country, the FYDP III aims at realizing competitiveness-led export growth, leveraging national competitiveness for human development and promoting large infrastructures. Zanzibar Development Vision 2050 (ZDP) also focuses on economic transformation, infrastructural linkages, human capital and social services as well as governance and resilience. The FYDP III and the ZDP are fully integrated with the Agenda 2030 for Sustainable Development Goals.

It has also recognised the institutional and capacity challenges across Tanzania's local authorities and their importance for the country's growth and development. A policy of "Decentralization by Devolution" is in place since 1998, and its reforms have steadily progressed. The Regional and Local Government Strengthening Programme (RLGSP) supports the implementation of the 2019 National Decentralization policy and the successive FYDP. The main components of the RLGSP aim at supporting regional and local economic governance; community participation, service delivery, local governance, service delivery, political decentralization.

One of the strategic directions of FYDP III is to promote planned and serviced urban settlements with functioning town planning procedures, including improved solid and liquid waste management, sustainable transport, renewable energy, clean and safe water and sanitation. Promoting investment and trade and stimulating human development through socio-economic projects are among the interventions planned under the FYDP III. The FYDP III has set targets to achieve its objectives, some of which include ensuring that by year 2026, more than 95% of the urban population have access to clean and safe water and sanitation, 30% of urban households are connected to public sewer system and Non Water Revenue in urban centres declines to 20%.

The Government is well cognisant, that fulfilling the FYDP III objectives will require substantial investment, and it has identified external support and private sector as key partners to co-finance the plan. In facilitating private sector participation in Public Private Partnership projects, the Government has strengthened applicable legal and institutional framework in order to finance, manage and operate projects as fast as possible in the course of FYDP III.

The present Action stems from the European Consensus for Development and the Green Deals. It is an opportunity to support the Government in advancing its FYDP III, ZDP and National Development Visions' objectives. It is aligned with the EU "Towards a comprehensive Strategy with Africa", the new European Consensus on Development and the 2030 Agenda for Sustainable Development. It will contribute primarily to SDGs11 (Sustainable Cities and Communities), 13 (Climate Action) and 9 (industry, innovation and infrastructure), but also to SDGs 6 (Clean Water and Sanitation), 10 (Reduced Inequality) and 16 (Governance). As a Team Europe initiative, it will attract contributions from EU Member-States for a transformative impact in selected cities of Tanzania.

2.2. Problem Analysis

Given the need for a multifaceted approach to integrated development at the level of a city, the analysis touched upon all three priority areas.

<u>Priority area 1 - Green deals</u>

Tanzanian cities are urbanising fast with limited resources for capital investments. Urban areas offer residents limited access to most basic services due to unplanned development. The lack of master plans to manage land use, economic growth and social wellbeing is a contributing factor to the current challenges. The Tanzanian cities are affected by poor connectivity by high fragmentation and low accessibility. Environmental degradation is occurring at a rapid pace with large areas vulnerable to disasters and climate-related hazards.

<u>Priority area 2 – Human Capital and Employment</u>

Cities are the powerhouse of Tanzania's economy and offer opportunities for job creation, innovation and inclusion. Yet, a low level of professionalization of business, limited access to technology, lack of financial literacy and high level of informality of business are limiting skills development and access to finance needed for businesses to grow, leading to lost opportunities and limited added value of local products. An aggravating factor is the absence of private-public dialogue, leading to the disruption of value-chains. Public-Private partnerships, e.g. for the management of social infrastructures, have not been well developed due to the complexity of these arrangements requiring additional capacities and based on a proper private public dialogue.

<u>Priority area 3 – Governance</u>

The level of fiscal independence of cities and the resources at their disposal are inadequate to unlock their socio-economic potential, and respond to the mounting pressure on land, services and infrastructure. The unpredictability and delay of transfers from central to local governments, as well as a lack of alignment with local needs, compromise

the implementation of city council's budgets and plans[12]. Despite their low share, own source revenues have not reached their full potential. The 2021/22 budget emphasizes the need to strengthen domestic revenue collection and administration, with an emphasis on the use of ICT systems. The analysis concludes on the opportunity to seize the benefits of this rapid urbanisation by supporting a more sustainable and inclusive urban development in selected cities, focusing on provision of green infrastructure, disaster risk reduction and preparedness, local economic development and improved public service delivery and (e-) governance. The aim would be to support targeted cities to reverse the trend of unplanned and unmanaged urban growth which if left unchecked could hamper the delivery of major development goals. In this first phase of the Team Europe initiative, the cities of Mwanza and Tanga, in tandem with Pemba, have been selected. This choice was discussed and agreed with the Government of Tanzania[13].
A community-centered approach and the adoption of a participatory framework will allow to engage all key stakeholders of the community and the city, from the local institutions, to governmental and non-governmental organizations, private sector, tourism actors, environmental organizations, civil societies, and broader beneficiaries, in a collaborative exercise. This engagement will help define and co-design the uses and the urban functions, identify the landmarks and cultural tangible and intangible attractions recognized by the community and the city, and possibly offer an exclusive cultural experience to visitors and tourists. Main stakeholders are the following: Public sector and local communities: the primary target group is the local government authorities (LGAs) and local urban communities in selected cities of Mwanza, Tanga and Pemba. The LGAs are the main beneficiary institutions while the local urban communities, especially youth and women are the main beneficiaries of the Action. Tanzanian public sector/national institutions, both on the Mainland and in Zanzibar, such as the President's Office Regional Administration and Local Government, which is the ministry responsible for LGAs, Ministries of Water in charge of water authorities (in particular in Mwanza, Tanga and Pemba), Works and Transport, Finance and Planning, Gender and Lands, Housing and Human Settlements Development. Private sector: Investors as well as Micro Small and Medium Size Enterprises (MSMEs) will be the main private target group under this action. MSMEs may receive specific support for their development[14]. Local business organisations, either public (e.g. Tanzania Investment Centre) or private (e.g. Tanzania Private Sector Foundation, Tanzania Confederation of Industries, Tanzania Chamber of Commerce, Industries and Agriculture), will be involved/ consulted. Tanzanian banks and other local financial institutions are potential providers of financial products to local businesses. The Action will support design of specific financial products for young/female entrepreneurs and promote financial inclusion for vulnerable communities.

2.3. Additional Areas of Assessment

2.3.1. Pre-condition on Fundamental Values

N/A

[12] Cities covered under this Action were for 89% dependent on such transfers in FY2019/20. The average performance level across local governments was 82% for transfers of recurrent grants and as low as 54% for transfers of development grants. This implies that 46% of local government's development activities were not implemented. With transfers financing such a significant share, fiscal independence of local governments is currently low. In Mwanza, own source revenues cover only 20% of recurrent expenditure and in Tanga this is as low as 6%.

[13] From an EU perspective, the objective was to select cities of a different nature to assess, in this first phase, the potential for change the TEI can bring on such geographical areas: Mwanza is the fastest growing large urban agglomeration in Tanzania while Tanga and Pemba play a strategic role as main centres, respectively, of Mainland coastal and Zanzibari Muslim populations (with a potential risk for increased political friction and need for mitigation activities as identified in conflict analysis carried out in 2020). This choice was also guided by the potential for involvement of European Development Finance Institutions (AFD and EIB already active in Mwanza) and the – green – growth expected in Tanga (e.g. East African Crude Oil Pipeline, port expansion) and its trade links with the island of Pemba, thus supporting President Hassan's ambition to bring Mainland and Zanzibar closer.

[14] Through skills development and access to finance, with a positive discrimination for female and young entrepreneurs/start-ups. Large companies may also be supported to the extent that they demonstrate high positive impact on MSMEs, on smallholders or on individuals (i.e. finance facilitation for small-holders, decent jobs, pollution reduction etc.)

2.3.2. Public Policy

The Regional and Local Government Strengthening Programme (RLGSP) supports the implementation of the 2019 National Decentralization policy and National Five Year Development Plan. Its first phase covers 2020/21 until 2024/25, followed by a second 5-year phase. The main components of the RLGSP are Regional and Local Economic Governance; Community Participation, local economic governance, community participation and Local Governance; Service Delivery, local governance, service delivery through Improved Financial, Administrative and Human Resources Management; Political Decentralization; and central-local relations; Coordination, Monitoring & Evaluation. The RLGSP is coordinated by the President's Office- Regional Administration and Local Government (PO-RALG).

This action will focus particularly on public financial management for decentralised service delivery and local economic development. Specifically, the action will support the following RLGSP objectives: i) improve Inter-Governmental Fiscal Transfers (IGFT) systems to make grants to LGAs more adequate, equitable, timely and responsive to local needs, ii) enhance LGAs own sources collection for improved local services delivery; iii) support LGAs with systems and capacities for management of fiscal resources, iv) promote LGAs credit worthiness and access to loan finance for capital investment and other income generating activities; (v(iv) provide a conducive investment environment for local economic development, (vi) Strengthening) strengthen financial and technical systems for LGAs to catalyse investments in local clusters and business facilities; (vii) , and (vi) improve participatory planning and the budgeting process.

The Public Finance Act 2001 and Local Government Financial Regulations 2010 describe the financial accounting system and procedures for inter-governmental transfers including transfer of funds to local government authorities. Inter-Governmental Fiscal Transfers constitutes more than 90% of LGA revenue. The transfers from the Government are delayed, inadequate and unequitable on need-based. The formula-based allocation of fiscal resources across LGAs endorsed by the cabinet in 2004 has proved difficult to apply as most fiscal transfers are non-discretional (highly earmarked). An allocation of resources formula was revised in 2014 by PO-RALG to ensure optimal allocation for each LGA. However, the revised formula is not yet approved by the Government. Addressing Inter-Governmental Fiscal Transfers challenge will be adopted as an activity under the program-RLGSP.

The development of the RLGSP has involved a number of stakeholders including Ministries, Departments, Private Sector and NGOs, Academic Institutions and Development Partners. The program was approved by Inter-Ministerial Technical Committee and the Cabinet in 2020. The President's Office Regional Administration and Local Government has a positive track record in implementing previous programmes in local Government Authorities across the country in collaboration with the Central Government.

The M& E Framework has detailed SMART indicators and yearly targets which provide the benchmark for monitoring progress. The program does not describe a system for collecting, processing and analysing the information and the data produced during the review process. . The actors responsible for monitoring include PO-RALG, MDAs, RS, LGAs and Non-State Actors.

The RLGSP is ambitious with a broad scope and an important financing gap. However, this action will not seek to support RLGSP in all its aspects. Rather, it will focus on 'collect more, spend better' at LGA level, strengthening local revenue mobilisation, timely and predictable transfers, effective planning and budgeting, and budget implementation. This action will therefore built on the Economic and Fiscal Governance sector reform contract which introduced a focus on budget credibility and transfers.

RLGSP objectives are also supported by the Public Financial Management Reform Programme V (PFMRP V). The reform programme has been built from previous phases (I-IV), which provided institutional capacity of different actors including the Ministry of Finance and Planning; the National Audit Office (NAOT), the Parliamentary Oversight Committees (Local Government Accounts Committee and Public Accounts Committee) and Internal Auditor's General Division (IAGD). The PFMRP (V) aims on building institutional capacities and strengthening of financial management systems in the areas of planning and budgeting, accounting and financial reporting, internal audit, internal controls, external audit and procurement. The PFMRP (V) is adequately coordinated by the Ministry of Finance and Planning. The program adopts an inclusive review progress led by the Government. Equally, non-state actors including the development partners are involved in the reform monitoring process. The EU co-chairs the Public Finance and National Planning Development Partners Group.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.3.3. Macroeconomic Policy

In 2019, before the outbreak of the Covid-19 pandemic, Tanzania's growth was on a strong trajectory, with the World Bank declaring that between 2013 –2018 Tanzania's average gross domestic product (GDP) growth was 6.5%[15]. Although the pandemic has pushed the global economy into a recession in 2020, Tanzania managed to keep its economy relatively afloat. During the FY 21/22 budget speech, the Government reported on positive real economic growth in 2020 at a rate of 4.8%, compared to the projected growth rate of 5.5% in 2020, and a 7.0% growth stated for 2019. Growth for 2021 is projected at 4%, with a fiscal deficit of 3.9%

This economic slowdown was mainly attributable to adversely affected export-oriented industries, especially tourism and traditional exports, and caused a drop in foreign investment. However, significant discrepancies with International Monetary Fund and World Bank GDP growth rates persist, with 2020 real GDP growth estimates of 1.0% and 2.0% respectively.

Thus far, the Tanzanian Government spent USD 8.4 million specifically related to deal with the effects of COVID-19. In addition, the government has received grants and will use contingency reserve of USD 3.2 million to fund additional health spending to mitigate the risks of the pandemic. To support the private sector, the authorities indicated that they expedited the payment of verified expenditure arrears with priority given to the affected SMEs, paying USD 376 million in March 2020. The government has also expanded social security schemes by USD 32.1 million to meet the increase in withdrawals benefits for new unemployed due to COVID-19. On May 12, the Bank of Tanzania (BoT) reduced the discount rate from 7 percent to 5 percent and reduced collateral haircuts requirements on government securities. Effective June 8, the BoT Statutory Minimum Reserves requirement is reduced from 7 percent to 6 percent. In addition, the BoT will provide regulatory flexibility to banks and other financial institutions that will carry out loan restructuring operations on a case-by-case basis[16].

The Government of Tanzania secured financial assistance from the IMF for USD 567 million under the Rapid Credit Facility and the Rapid Financing Instrument to tackle the health and socio-economic challenges caused by the COVID-19 pandemic. The new loans comes a little over a year after the IMF Executive Board approved debt relief equivalent to USD 14.3 million under the Catastrophe Containment and Relief Trust to help free up resources for public sector health needs and other emergency spending. The IMF loan signal a positive development in the relationship between the country and the IMF, which has faced difficulties since the Tanzanian authorities have not consented to publication of the 2019 Article IV Consultation staff report.

Notwithstanding the adverse effect the pandemic has had on important economic sectors, Tanzania seems to have maintained relative macroeconomic stability. The government has been able to manage the economy in a manner that has provided relatively low and consistent rates of inflation. In May 2021, inflation rate was recorded at 3.3%, slightly above the recorded annual inflation rate of 2020 which stood at 3.2%, but below the 2018-19 average of 3.5%. Whilst energy inflation has experienced volatility, there has been a high degree of stability in food and headline inflation in recent years.

A similar example of government control resulting in stable economic indicators is the recent trajectory of the Tanzanian Shilling (TZS). The TZS has seen relatively low degrees of volatility in recent years against key currencies. Foreign reserves remain at sufficient level to cover 5.1 months of import of goods and services, though have dropped compared to 6.1 months in the same period last year.

Tanzania's risk of debt distress increased to moderate for both external and overall public debt, with an estimated debt-to-GDP ratio of 40 percent in 2020/21. The increase in the rating is caused by Tanzania's weakened ability to absorb shocks with sensitivity to a narrowing export base and by the lower debt burden thresholds corresponding to the new medium debt carrying capacity classification. The changing debt composition may lead to liquidity risks as commercial debt has increased from just 4 percent to about 20 percent over the past 8 years, driven by the financing needs of large capital projects. In March 2021, debt service equalled 41% of domestic revenues.

Tanzania reached an important milestone in July 2020, when it formally graduated from low-income country to lower-middle-income country (LMIC) status. This reclassification reflected the country's rising gross national income per capita, which reached USD 1,080 in 2019. However, Tanzania's extreme poverty rate remains high at close to 50 percent[17].

Domestic revenue mobilisation continues to be a priority for the Government of Tanzania to finance the FYDP III. The country's recent reclassification to LMIC is likely to reduce access to grants and concessional loans. Tanzania

[15] World Bank Group, Tanzania Economic Update: Assessing the Impact of Covid-19

[16] International Monetary Fund, Policy Tracker, 1 July 2021: https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#T

[17] World Bank Economic Update: Raising the bar, achieving Tanzania's Development vision, February 2021

has considerable untapped tax revenue potential. The tax gap is estimated at 6 to 7 percent of GDP, one of the largest in the region. The tax to GDP ratio has increased marginally over time and is still relatively low at 12 percent[18]. During the implementation of the FYDP II (2015/16 – 2020/21), tax revenues increased by 56% in nominal terms. Since the start of Covid-19, nominal tax revenues have contracted by roughly 3% in 2020. Zanzibar experienced a particular large drop due to the collapse of the tourism industry. Tax revenue targets for FY2021/22 seem optimistic, predicting a 9% nominal increase while the economy is still recovering from the pandemic. On the other hand, the increase is much more conservative than the >20% increase in the first budget of the previous 5th phase government.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.4. Public Financial Management

The Government of Tanzania (GoT) has made progress to strengthen its Public Financial Management (PFM) systems since the latest PEFA in 2017. The 2017 Public Expenditure and Financial Accountability Assessment (PEFA[19]) concluded that Tanzania's PFM System improved in 9 out of 28 performance indicators and regressed in 10 out of 28. The PFM system is strong in the following areas: Reporting on extra-budgetary operations, fiscal risk reporting, public asset management, debt management, budget preparation, legislative scrutiny of budgets, accounting for revenue, payroll controls and legislative scrutiny of audit reports. Procurement management, internal and external audit are emerging strengths.

PEFA 2017 identified budget credibility as a weakness, with discrepancies between budgets and actual expenditures. Other weaknesses were public investment management, comprehensiveness of budget documentation, fiscal strategy, expenditure arrears, public access to fiscal information, medium term expenditure framework, in-year controls on non-salary expenditures, in-year budget reports and predictability of in-year resource allocation.

Since the PEFA in 2017, cash management has improved following the adoption of a Treasury Single Account, compliance with public procurement regulations improved as a result of the e-procurement system, GoT made progress in arrears clearance, internal availability of budget information improved due to the Central Budget Management System. The Government is also more compliant with the international Public Sector Accounting Standards9 (IPSAS) accounting standards as the 2019/20 financial statements received an unqualified opinion, has accelerated the integration of IT systems through an Enterprise Service Bus[20] and deployed an audit recommendation tracking information system to enhance the implementation of audit recommendations. Revenue and expenditure targets have shown more realism. Marginal real term annual increases, translated in improved budget credibility prior to Covid-19. It is unclear whether the economic impact of the pandemic has sufficiently been taken into account in the latest budget as targets seem on the ambitious side. Budget credibility, in-year resource allocation, commitment controls and arrears prevention remain areas to monitor throughout the implementation of the programme.

The existing PFM reforms programme in Tanzania (PFMRP) is both credible and relevant. The programme's strategic objectives are formulated to address the weaknesses identified in the PEFA assessment. PFMRP has a comprehensive action plan that identifies tasks, timeframes, resources and responsibilities. The action plan is coherent with Tanzania Development Vision 2025 and Five Year Development Plans. The PFMRP has been adequately financed by GoT and Development Partners and is implemented, with oversight from stakeholders such as the Development Partners PFM Group and the PFMRP Secretariat[21]. A results-oriented Monitoring and Evaluation Framework is in place.

Tanzania does not have a separate policy for domestic revenue mobilisation or tax revenues beyond the chapter on policy financing in the FYDP III. Tax policy changes are introduced annually through the Finance Bill. The existing policy framework is somewhat unpredictable in the eyes of investors. Some policy changes have been effective, whereas others did not have the intended impact and were reversed shortly after. The government headed by President Samia Suluhu Hassan is leaning towards a more medium term outlook with a stronger emphasis on widening the tax base, improving voluntary compliance and addressing tax evasion, as highlighted in the budget speech of June 2021. These priorities reflect the Government's commitment to a more conducive investment climate.

The Finance Bill for 2021/22 intends to promote economic recovery and balances the need to improve the business environment and increase domestic revenues. Measures include a 1% reduction of income tax for the lowest band, introduction of small income tax rate of 3% for small scale miners, a levy on mobile money transactions and sim cards, exemption for income tax on interest derived from government bonds and increased duty rates on various imported products to protect local industries.

[18] World Bank Economic Update: Raising the bar, achieving Tanzania's Development vision, February 2021
[19] 2017 PEFA Assessment report
[20] Enterprise Service Bus is a communication system between interacting software. It improves systems integration.
[21] Public Financial Management Reform Program- Joint Supervision Mission Report-2019

Tanzania is implementing reforms to modernise the tax administration with the goal of increasing voluntary compliance. For example, Tanzania Revenue Authority (TRA) increased scanning capacity and launched a centralised scanner system to increase efficiency at the ports. TRA also launched an electronic filing system and in the near future it will launch complementary online modules, for example to look for refunds. In parallel, TRA is enhancing its infrastructure to accommodate the shift to a digital tax authority. Reform progress has been positive but slow, mostly due to competing priorities and weaknesses in planning, budgeting and procurement. The new leadership at TRA is more reform oriented and has started to implement changes to move away from harmful collection practices used in the past.

The Government has shown a continued commitment to PFM and Domestic Revenue Mobilisation reforms under President Samia Suluhu Hassan. The Government is currently undergoing a new PEFA assessment. The report will be publicly available in Quarter 4 of 2021. The outcomes will inform the PFM reform priorities of the GoT beyond June 2022. GoT also announced a review of its domestic revenue system including tax policy and administration, revenue forecasting, debt management functions, management of loans, grants and guarantees and inter-governmental transfers. The review will also assess opportunities to improve the budget process to allow for more inclusive and productive consultations between government, private sector and civil society on proposed tax policy changes. The Government's is expected to maintain its current open and cooperative attitude towards private sector and CSOs in the review process. Both processes confirm the GoT's openness and commitment to evidence-based PFM and DRM reforms.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.3.5. Transparency and Oversight of the Budget

Tanzania has a well-structured budget process with a sound legal base. The GoT follows the provisions of the Budget Act 2015 in a satisfactory manner. Since 2019, the GoT has consistently published budget guidelines, which provide the framework for the budget preparation process. The executive scrutinizes the budget before submission to parliament. The GoT does not publish the Executive's Proposal online. After presenting the Executive's budget proposal to parliament, parliamentary sessions take place between April and June before the start of the fiscal year on 1st July. After parliamentary approval, GoT publishes the Enacted Budget and a Citizen version on the website of the Ministry of Finance and Planning. In recent years, all volumes are made available within weeks from its enactment. In previous years, timely online publication has been a challenge. This year, the Enacted Budget for FY 2021/22 was published timely.

During budget implementation, the Budget Act prescribes the need to publish Budget Execution Reports (BERs) within 30 days after the end of every quarter. In reality, the reports are often delayed. While internal information systems have made the production of these reports more efficient, lengthy internal approval processes stood in the way of timely publication. The BER for Q2 serves as a mid-year report. Its quality can be improved by reporting on budget re-allocations. The most recent in-year reports for FY2020/21 are all available online. Financial Statements are published after release of the general audit reports, which are published annually in April. The Financial statements from 2017 up to 2020 are all available online.

Budget comprehensiveness has improved, as the budget currently shows both the actual budget and fiscal forecasts for outer years. Data necessary to improve the comprehensiveness of the information presented in the Budget documentation is readily available. For example, the Integrated Financial Management System (IFMIS) produces regular reports based on the revised budget allocations for different Votes. Also, expenditure can be compared against budget on IFMIS regularly.

Tanzania's Open Budget Survey score increased to 17 in 2019 from 10 in 2017, suggesting a small positive trend. At the same time, budget Transparency remains low, with according to OBS scant availability of information. Tanzania loses most points by not making the Executive's Budget Proposal available online before the budget is enacted every year in June. Tanzania's mid-year report is not considered sufficient as an update on budget execution, and in-year budget execution reports have been published with a delay. The Tanzania Budget Act 2015 instructs GoT to publish the audited financial statements. Since the audit is released every year in April, GoT does not meet the OBS deadline of publication within 4 months after the end of the FY.

The Open Budget Survey 2019 reports that the legislature and the audit office provided weak oversight during budgeting process. Tanzania scored 31out of 100 on legislative oversight. While oversight is regarded as weak, both National Audit office and Legislature are continuously strengthening their respective institutions.

With regards to parliamentary oversight, the parliamentary budget office continues to provide support to the parliament. An information centre has been set up to assist parliamentarians to access information related to budget and guide has been prepared to assist the National Assembly in scrutinizing the national budget.

National Audit Office Tanzania (NAOT) is part of the budget control process. NAOT does not have a significant role in the budget preparation process but does participate during budget execution by scrutinizing approved estimates and actuals. General Audit reports are published in April, in compliance with the Audit Act and the quality is sound. The scope of the General Audit reports has broadened over the years to include Information Systems audits and NAOT is rolling out comprehensive audit across the organization. The independence of NAOT, as per the current legal framework, requires monitoring as well as the implementation of audit recommendations, which is in need of more active follow-up from management.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to contribute to sustainable and inclusive urban development for the benefit of communities and businesses.

The Specific Objectives (Outcomes) of this action are to:

1. Promote an enabling urban environment and enhance local revenue mobilisation and inclusive urban economic development.
2. Strengthen urban resilience and public services to urban poor communities, in particular in settlements.
3. Stimulate a sustainable local economy in the selected cities, creating economic opportunities especially for women and youth.

The Outputs to be delivered by this action contributing to the corresponding Specific Objectives (SO) are:

<u>SO 1 – Urban policy environment</u> *(Budget support)*

Induced outputs

1.1 Inter-governmental transfers from central to local government are more predictable, timely and responsive to local needs;

1.2 E-governance solutions to improve urban management, local revenue mobilisation and service delivery are operationalized;

1.3 Public resources available for discretionary spending of local urban development plans are increased;

1.4 Local development projects, and public investments and PPPs for local development projects are effectively planned, financed and managed in line with multi-annual urban development plans (*Complementary support*);

1.5 Urban planning and management strengthened, national policies and systems operationalized at the level of municipal and city councils and quality and accessibility of municipal services improved (Complementary support).

Direct outputs

1.6 External assistance is channelled through the national budget.

1.7 Problem solving oriented policy dialogue

1.8 Increased credibility of relevant policy reforms adopted in the context of the Regional and Local Government Strengthening Plan.

1.9 Improved capacities to implement Local Governments Strategies (Complementary support).

<u>SO 2 – Urban resilience</u>

2.1 Planning in urban resilience in selected cities using digital skills and technology is strengthened;

2.2 Infrastructure and nature-based solutions for sustainable urban drainage, sanitation and water supply in selected cities are developed;

2.3 Solid waste management and circular economy practices in selected cities is enhanced;

2.4 Quality of municipal investment projects preparation is improved, in accordance with local strategic plans, and they are implemented with enhanced use of private partnerships;

2.5 Social facilities, local markets and basic services to poor urban communities in Pemba are upgraded.

<u>SO 3 – Sustainable local economy</u>

3.1 The local business and investment environment is improved;

3.2 The value chains of key sustainable economic sectors are strengthened through improved access, relevance and quality of skills development and entrepreneurship promotion;

3.3 Availability of quality and accessible financial products and capital investments in key sustainable economic sectors has been improved and local business development service provider ecosystems have been strengthened.

3.2. Indicative Activities

SO 1 – Urban policy environment *(Budget support)*

Budget support and technical assistance will support **policy dialogue with President's Office for Regional and Local Government (PORALG)**. The development of a specific Performance Assessment Framework and performance indicators will contribute to guide the policy dialogue and monitor progress at central and local levels. The dialogue will aim at ensuring necessary reforms, country ownership and commitment, sufficient resources allocation and planning.

The following indicative activities, under each output, consist in a dialogue on:

Induced outputs 1.1-1.5:

- Joint review and deployment of a legal and regulatory framework on fiscal decentralisation;
- Development of e-governance and deployment of e-services;
- Budget allocation and financing of local urban development plans;
- Support to definition of strategic development vision at local level;
- Support to planning and management of local development projects, including public investments and PPPs;
- Support to improvement of data quality and accessibility of municipal services;
- Training to strengthen staff capacity.

Direct outputs 1.6-1.9:

- Joint monitoring of implementation of policy and strategies at central and local levels;
- Joint review of general conditions for Budget Support operations;
- Joint definition and regular review of Variable Tranches indicators;
- Joint review, improvement and application of a comprehensive policy and regulatory framework through the main *fora* in the sector and *ad hoc* initiatives.

Team Europe Initiative contribution: The ongoing Good Financial Governance Programme (GFG), co-funded by Germany, EU and Switzerland, supports PORALG and the city councils in Tanga and Mwanza to improve own source revenue collection, strengthen internal audit functions and improve social accountability. The technical assistance provided under GFG complements the budget support and will contribute to achieving induced output 1.4 and 1.6.

SO 2 – Urban resilience

The following indicative activities, under output 2.1-2.5, consist in:

- Support/mentoring to strengthen resilience planning by reducing disaster risk through interventions that mitigate flooding, temper urban heat island effects, and improve soil and air quality including absorption of carbon emissions mostly through tree planting
- Establishment of the Tanga Water Fund and its equivalent in Mwanza[22] in order to promote sustainable water use and catchment conservation.
- Improvement of solid waste management in Mwanza, Tanga and in the urban areas of Pemba Island, including segregation of waste, reduction of plastic use, promotion of circular economy practices and approaches, recycling and clean and safe disposal[23];

[22] Or any other relevant name. The objective is to carry out conservation activities in the water catchment area of the city (the development of Tanga Water Fund arose from the fact that there is a need to respond to water security concerns. This water fund offers a mechanism for all stakeholders to work together promoting equitable access to water resources from the source to the points of consumption). The programme will also facilitate performance based contracting for Non-Revenue Water using digital technology for leak detection, pressure management, facilitate private sector engagement in onsite sanitation services and promoting decentralised wastewater treatment systems in Tanga and Mwanza. Water industrial discharge in the selected cities will be monitored, private sector engagement will be facilitated in order to ensure that the industrial pollution is minimised and controlled. Threats to biodiversity have been identified hampering the catchment water area. Particular activities for soil conservation, agroforestry, woodlots for carbon sequestration, integrated watershed management and possible livelihood support could be supported through these local water funds.

[23] In particular, these activities may include the introduction of dedicated skips to segregate the organic compostable waste at markets along with recyclable containers, conversion the city's collection points managed by community or private sector, utilisation of the sanitary landfill to receive inert materials (no recyclables or biomass), the design and construction of designated composting facilities, replacement of single use plastic with renewable products like sisal products (ropes, packaging etc) especially in the context of Tanga where sisal is produced, the utilisation of compost in agriculture for soil amelioration and carbon sinks (sisal plantations in Tanga and Cotton in Mwanza etc.).

- Preparatory studies and staff training including on feasibility studies, design and detailed design, design and transaction costs of PPPs, other costs related to preparation of the above mentioned urban investments[24];
- Improvement of social facilities, local markets and provision of basic services to poor urban communities in the main urban areas of Pemba.

<u>Team Europe Initiative contribution</u>: The activities related to Output 2.1 will be facilitated and co-financed by the joint German - European NatuRES programme mobilising the resilience academy hosted in the University of Dar es Salaam and supported by European Universities among others. Online open training for data collection and analysis, development of urban planning and service delivery applications, international academic and technical collaboration, scholarship, sector mentoring support will be supported through the resilience academy. The activities related to Output 2.2 will be facilitated and co-financed by the joint German - European NatuRES programme and Nederland through an existing cooperation between Dutch water public utilities and Tanzanian ones. The activities related to Output 2.3will be facilitated and co-financed by Germany and the European Investment Bank. Under output 2.4, the preparation and implementation of municipal infrastructure investments will be undertaken through blending operations with EU Development Financial Institutions[25].

<u>SO 3 – Sustainable local economy</u>

The following indicative activities, under output 3.1-3.3, consist in:

- public-private dialogue, including capacity building to both public sector and private associations and organization of investors forums[26];
- strengthening of value chains in key sustainable economic sectors through improved access, relevance and quality of vocational skills development[27]
- professionalization of local businesses and capacity strengthening of financial service providers to serve MSMEs in priority sectors, with a positive discrimination for women and youth[28].

<u>Team Europe Initiative contribution</u>: The network of the trade EU counsellors accredited to Tanzania will help mobilise European investors (e.g. involved in the construction/exploitation of the East African Crude Oil Pipeline) for partnerships around tailor-made skills development of the Tanzanian workforce in view of their employment by these companies, which may act themselves as trainers.

The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

3.3. Mainstreaming

Environmental Protection & Climate Change

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that an SEA should be undertaken focusing on Tanga, Mwanza and the urban areas of Temba. This assessment will be done before the action starts and will inform the key challenges to be addressed and mitigated in the various activities. **Outcomes of the EIA (Environmental Impact Assessment) screening** (relevant for projects and/or specific interventions within a project). The EIA

[24] The targeted sectors will depend on the investment priorities of the beneficiary cities, developed in their local development strategies. They could cover culture heritage, urban mobility, water supply, sanitation, waste management, energy efficiency, flood prevention, markets, urban green parks, renovation of urban centres and green industrial parks.

[25] Investment grants may cover financial gap of economically viable investments, the environmental upgrade, social inclusion costs of such investments, e.g. costs to reduce environmental footprint of an investment, costs to improve access to the infrastructure built for people with disabilities, costs to extend access to water and sanitation for poor people, dedicated facilities for women and children within public markets, etc.

[26] To inform the local Government of regulatory challenges experienced by the private sector that can be addressed at local level. A technical assistance will act as a "broker" of bankable projects, e.g. for PPP prepared for output 2.4.

[27] This may be achieved through enhanced coordination/dialogue between Vocational Skills Development stakeholders in target cities, key vocational learning institutes and local training centres, improvement of technical and digital and pedagogical skills of local vocational training centre teachers, systematic updates of curricula according to the industry needs (including quality standards), facilitation of the development of all-inclusive short vocational training courses dealing with soft, digital technical and entrepreneurial skills linked with market opportunities. Partnerships with European investors will be explored.

[28] Brokerage services between MSMEs and financial institutions, in particular those financial institutions participating European Fund for Sustainable Development (EFSD+) directly (European Development Financial Institutions) and indirectly (local financial institutions partnering with European Development Financial Institutions) may entail the development of a pipeline for finance through guarantees, loans, equity, quasi-equity etc. supported by the EFSD(+) guarantees supported by the EFSD(+) guarantees.

(Environment Impact Assessment) screening classified the action as category A for outcome 2 related to Green Infrastructures. **Outcome of the CRA (Climate Risk Assessment) screening** (relevant for projects and/or specific interventions within a project). The CRA screening concluded that this action is at risk (climate risk will be addressed as part of an EIA.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. A budget support indicator (e.g. on skills development) may specifically address the gender divide. The present action will be developed simultaneously with the one on gender, equally part of the annual action plan 2021, considering, in particular, the sixth priority of the European Gender Action Plan 2021-25 on green recovery and digital transformation.

Human Rights

Tanzania is a party to the most important international conventions on human rights and has a national legislation providing for the protection of human rights. Despite the letter of the law, in the last years, respect for human rights and fundamental freedoms faced restrictions. The situation has improved after the accession to power of the incumbent President who has given clear instructions to leave more space to freedom of expression and to respect for human rights. As for the way this action will contribute to consolidating human rights see also the paragraph below on Democracy.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the action is relevant to improve the rights of people with disability (see above human rights section).

Democracy

The Constitution of Tanzania affirms the principle of democracy and all the institutions of a democratic system are in place. The challenges faced by the country in the last years, which contributed to criticism of different international partners, appeared more evident during the elections, highlighting the absence of a rigorous separation of powers providing for the independence of certain bodies like the judiciary and key agencies such as the electoral commissions. Accordingly, the Head of State has very extended powers and the good functioning of the democratic system relies on his/her policy decisions. In this context, inclusion and consultation of the citizens in the policy decisions is all the more important. This action will contribute to consolidate the practice of consultations of the stakeholders in the policy and administrative decisions to be taken for the management of cities. It will also strengthen the position of the local administrations providing them with more tools to exercise their role.

Conflict sensitivity, peace and resilience

Pemba is a traditional stronghold of the opposition. During the October 2020 presidential and legislative elections, the most serious case of violence took place there. Since then, some reconciliation process is taking place, but the underlying political tensions do not change. The main grievance of Pemba is to be economically and socially neglected by both the central and the main island Unguja governments. This programme, together with other EU funded programmes in Pemba, may contribute to appeasing the tensions.

Disaster Risk Reduction

Through activities in outcome 2 on Green Infrastructure, this Team Europe initiative will contribute to disaster risk reduction and management in the targeted cities. This will be done through flood mapping and will promote disaster preparedness and possible emergency management. While mobilising the "resilience academy" and using digital technologies, preparedness of local authorities and communities will be improved. The preparation of public and infrastructure projects as described in output 2.4 will enhance the urban resilience in the context of natural hazards.

3.4. Risks and Lessons Learnt

Category	Risks	Likelihood	Impact	Mitigating measures
3	Lack of political will to implement institutional and policy reforms to strengthen sector context	**Medium**	**Medium**	A continued and where possible intensified policy dialogue at the different levels of Government
2	Limited capacities of LGAs in planning, budgeting and managing funds	**High**	**Medium**	Include institutional capacity building programme to selected LGAs
4	Overlapping roles and responsibilities between the local authorities and central government, mainly with agencies operating in the urban context	**Medium**	**Low**	Conduct political and policy dialogue framework involving all relevant stakeholders.

1	Unsustainability of the invested infrastructures	**Low**	**High**	Ensure participation of private sector and civil society organizations in planning, implementation and operations of infrastructure facilities
4	Private sector investments do not materialise due to a non-conducive business environment and constrained access to finance	**Medium**	**High**	PPPs and public-private dialogue, including with financial sector, will be organised with help of technical assistance. A mix of financing tool, including guarantees will be used.

Lessons Learnt:

The various urban programmes supported by the EU Development Finance Institutions and World Bank have shown that the policy dialogue is segmented by sector multiplying the number of interlocutors mostly at central level. In addition, the dialogue is mostly at project level given little space for a holistic approach to the urban needs. The EU and Member States under Team Europe approach will work in a coordinated way to approach the Government focusing on the cities supported by this programme and covering the main urban challenges.

3.5. The Intervention Logic

The present Team Europe Initiative aims to build wealthy, resilient and sustainable cities, to the benefit of their citizens. This objective calls for a real "metamorphosis" of the selected cities and can only be achieved with an ambition of deep institutional and infrastructural improvements and a concentration of joint financing from the EU and its Member-States for a dramatic impact in those cities in the 5 years to come. A strong geographical focus and an integrated multi-sector approach – also reflected in the choice of financing modalities – are guarantees for a higher impact and this needs to be met while promoting EU "green values" for a sustainable economic growth, mindful of climate change, the need for environmental protection and inclusiveness, in particular of women, youth and vulnerable populations. To realise such an ambition, the intervention logic rests on close public-private (and non-state actors in general) dialogue and partnership (PPP).

For the public actors to deliver on their part of the partnership and create the necessary conditions for structural change to happen (e.g. urban planning[29], delivery of reliable services, local business environment, PPPs), budget support is considered to be the right modality, bringing leverage to promote EU values and interests (e.g. EU green investment and trade deals) as well as a strong visibility of Team Europe joint action. It may help operationalise an enabling regulatory and policy environment that will promote effective urban management, fiscal autonomy of local authorities and inclusive economic development. Indicators related to the role of the central Government (e.g. fiscal decentralisation and reliability of fiscal transfers, implementation of e-governance strategy) will complement those addressing the local level (e.g. planning and budgeting of the local development strategy). A regular and open policy dialogue with the President's Office for Regional Administrations and Local Governments and the involved cities may ensure that policy reforms[30] will be adopted at central level and implemented locally.

Through blending operations with European Development Finance institutions and Team Europe initiatives, concrete green infrastructure investments in sectors affected by rapid urban population growth[31] will be combined with digital solutions to provide services to urban poor communities and support cities resilience. Depending on the nature of the investment and the ambition of the local authorities, operation and maintenance may remain a public service (e.g. for social services like water and sanitation) or be entrusted to the private sector, under the form of PPPs (e.g. markets, industrial parks, strategic value-chains promotion)[32].

To that end, the action will empower the local private sector – MSMEs and start-ups – with skills development opportunities (e.g. partnerships with European investors looking for qualified workforce) and access to financial products and services (including business development services, incubators, accelerators), in particular for women and youth. Contribution agreement with an EU Member-State with experience of working with impact funds is envisaged and would work concomitantly with EFSD+ guarantees provided to the finance sector[33]. In addition, the EU aims to act as a "broker" for PPPs and European investment at local level. This will be leveraged by creating a conducive local business environment and promoting innovation ecosystems (e.g. yearly Cities Investment Forums based on the preparation of bankable projects in selected value-chains). Private-public dialogue will be inclusive in the sense that civil society organisations, as the voice of the citizens, as well as institutions such as training centres, will be involved in the dialogue around public and private development and investment strategies.

Compared to the current low level of investment in the selected cities, the two-pronged national and local levels approach and the mix of different financial instruments are expected to strongly and sustainably boost the local economy and employment in those cities.

[29] Resilience planning will aim to reduce disaster risks related to flooding, temper urban heat effects and improve soil and air quality.
[30] Such reforms will ultimately improve the functioning of the national PFM systems that will facilitate the implementation of local development strategies in cities including public investments and will also facilitate local economic development.
[31] e.g. water supply and sanitation, waste management, local markets, urban drainage.
[32] A list of possible PPPs has been prepared with financing from the World Bank in all major cities, including Mwanza and Tanga. As regards value-chain promotion, support will be provided to some of them in areas relevant to each city (e.g. fisheries, energy in Mwanza, tourism, energy, sisal, plastic in Tanga).
[33] e.g. Dutch entrepreneurial development bank (FMO) is expected to sign a NASIRA guarantee with NMB, the biggest bank in Tanzania, which has branches in selected cities.

3.6. Logical Framework Matrix

PROJECT MODALITY (3 levels of results / indicators / Source of Data / Assumptions - no activities)

Indicators from the programming document (MIP) marked with '*'and indicators aligned to the EU Results Framework marked with '**'. Indicators used within variable tranches are flagged in **bold.**

Results	Results chain (@): Main expected results (maximum 10)	Indicators (@): (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	To contribute to a more sustainable and inclusive urban development for the benefit of the communities and businesses	1 2	1 2	1 2	1 2	*Not applicable*
Outcome 1	1. Promoted an enabling urban environment and enhanced local revenue mobilisation and inclusive urban economic development	1.1 % of public resources spent on projects in the urban development plans of focal cities	1.1	1.1	1.1	
Outcome 2	2. Strengthened urban resilience and public services to urban poor communities, in particular in settlements	2.1 Number of green infrastructure developed through EU resources	2.1 0	2.1 10	2.1	
Outcome 3	3. Stimulated a sustainable local economy in the selected cities, creating economic opportunities especially for women and youth	3.1 Number of sustainable SMEs supported / created with EU support, desegregated by sex, age ** 3.2 Number of decent jobs created with EU support, desegregated by sex, age**	3.1 0 3.2 0	3.1 120 SMEs supported / created yearly 3.2 500 jobs yearly, at least 50% for women and youth	3.1 Annual and ROM/ Results Data reports 3.2 Annual and ROM/ Results data reports	
Induced Output 1 related to Outcome 1	1.1 Inter-governmental transfers from central to local government are predictable, timely and responsive to local needs	1.1.1 % of recurrent transfers to LGAs realised vs. budgeted **1.1.2 Development grants released to LGAs in Q1 and Q2, as % of budgeted development grants** 1.1.3 Execution of the development budget of focal cities	1.1.1 tbc 1.1.2 54% 1.1.3 tbc	1.1.1 tbc 1.1.2 60% 1.1.3 tbc	1.1.1 BER report / CAG report 1.1.2 BER report 1.1.3 CAG report	
Induced Output 2 related to Outcome 1	1.2 E-governance solutions to improve urban management, local revenue mobilisation and service delivery are operationalized	**Digitization of urban planning functions at PO-RALG:** **1.2.1 Number of guidelines and tools updated** **1.2.2 Number of LGAs which tested the system** **1.2.3 % of urban local government agencies usingthee-system for urban planning**	1.2.1 0 1.2.2 0 1.2.3 0	1.2.1 3 (2021/2) 1.2.2 tcb by September 2022 1.2.3 tbc by September 2023	1.2.1 PO-RALg progress reports 1.2.2 PO-RALG progress reports 1.2.3 PO-RALg progress reports	

Induced Output 3 related to outcome 1	1.3 Public resources available for discretionary spending of local urban development plans are increased	**1.3.1 Annual % change in local government agencies'own source revenues, in real terms**	1.3.1 757 bullion TZS	1.3.1 +7%	1.3.1 BER, BoT (inflation)	
Induced Output 4 related to outcome 1	1.4 Local development projects, and public investments and PPPs for local development projects are effectively planned, financed and managed in line with multi-annual urban development plans	**1.4.1 % of pipeline* local development projects (in line with the strategicplansfor Tanga and Mwanza) contracted in the selected LGAs**	1.4.1 76%	1.4.1 80%	1.4.1 PLANREP system/MTEF	
Induced Output 5 related to outcome 1	1.5 Urban planning and management strengthened, national policies and systems operationalized at the level of municipal and city councils and quality and accessibility of municipal services improved	1.5.1	1.5.1	1.5.1	1.5.1	
Direct Output 6 related to Outcome 1	1.6 External assistance is channelled through the national budget	1.6.1 Disbursements of tranches under this action (amount)	1.6.1 € 0 M	1.6.1 € 28 M	1.6.1 Disbursement file	
Direct Output 7 related to Outcome 1	1.7 Problem solving oriented policy dialogue	1.7.1 Number of dialogue meetings between EU, PO-RALG and MoFP	1.7.1 Three meetings per year	1.7.1 Three meetings per year	1.7.1 Disbursement file, meetings minutes	
Direct Output 8 related to Outcome 1	1.8 Increased credibility of relevant policy reforms adopted in the context of the Regional and Local Government Strengthening Plan	1.8.1 Number of reforms implemented by PO-RALG in the area of fiscal decentralization, digitalization and urban planning	1.8.1 0	1.8.1 8	1.8.1 Progress reports PO-RALG	
Direct Output 9 related to Outcome 1	1.9 Improved capacities to implement Local Governments Strategies	1.9.1 Number of change projects implemented in focal cities	1.9.1 0	1.9.1 8	1.9.1 Meetings minutes, progress reports	
Output 1 related to Outcome 2	2.1 Planning in urban resilience in selected cities using digital skills and technology is strengthened	2.1.1 Number of online training developed with EU resources 2.1.2 Number of data analysis done for the selected cities developed with EU resources 2.1.3 Number of digital applications developed with EU resources	2.1.1 0 2.1.2 0 2.1.3 0	2.1.1 10 2.1.2 10 2.1.3 10	2.1.1 Ad-hoc evaluation 2.1.2 2.1.3	
Output 2 related to Outcome 2	2.2 Infrastructure and nature-based solutions sustainable urban drainage, sanitation and water supply in selected cities are developed	2.2.1 Number of river gauging stations/sediment monitoring financed by EU resources	2.2.1 0 2.2.2 30% -2021	2.2.1 20	2.2.1 Yearly report of water public utilities 2.2.2	

		2.2.2 % of leakage on the water pipe networks (Non-Revenue Water)		2.2.2 20% - 2025		
Output 3 related to Outcome 2	2.3 Solid waste management in selected cities is enhanced	2.3.1 Tonnes of waste transported to sanitary landfill	2.3.1	2.3.1 (20% reduction of the baseline)	2.3.1 Yearly report of the public utility	
Output 4 related to Outcome 2	2.4 Municipal investment project preparation and implementation quality are improved	2.4.1 Number of bankable and climate change adaptation projects prepared 2.4.2 Number of investment projects implemented	2.4.1 0 2.4.2 0	2.4.1 6 2.4.2 3	2.4.1 Ad-hoc evaluation 2.4.2	
Output 5 related to Outcome 2	2.5 Social facilities, local markets and basic services to poor urban communities in Pemba are improved	2.5.1 Number of urban projects financed by EU resources	2.5.1 0	2.5.1 7	2.5.1 Ad-hoc evaluation	
Output 1 related to Outcome 3	3.1 The local business and investment environment has been improved	3.1.1 Number of studies, analyses and knowledge products developed to inform policy making 3.1.2 Number of participatory dialogues conducted (disaggregated by category (private-private and private-public) 3.1.3 Number / value of Private-Public Partnerships investments	3.1.1 0 3.1.2 0 3.1.3 0	3.1.1 2 per year (average) 3.1.2 2 per year (average) 3.1.3 2 (total)	3.1.1 Annual programme progress reports 3.1.2 Meeting reports and annual programme progress reports 3.1.3 Annual programme progress reports	
Output 2 related to Outcome 3	3.2 The value chains of key economic sectors are strengthened through improved access, relevance and quality of skills development	3.2.1 Number of VSD teachers who received training (disagg: sector, value chain, training topic, sex) 3.2.2 Number of curricula that have been updated (disagg: sector, value chain) 3.2.3 Number of beneficiaries whose knowledge is enhanced by at least 20% through training courses (disagg: sector, value chain, training topic, sex, age) 3.2.4 Number of people engaged in self-entrepreneurship as a direct result of the intervention	3.2.1 0 3.2.2 0 3.2.3 0 3.2.4 0	3.2.1 50 3.2.2 5 3.2.3 400 3.2.4 20%	3.2.1 Annual programme progress reports 3.2.2 Annual programme progress reports 3.2.3 Tests administered by trainer 3.2.4 Surveys	

Output 3 **related to Outcome 3**	3.3 Availability of quality and accessible financial services and capital investments in key economic sectors has been improved	3.3.1 Number of entrepreneurs / SMEs staff trained in financial literacy and business management, desegregated by sex, value chains; 3.3.2 Number of cooperatives / MSMEs obtaining access to finance through EU support; 3.3.3 Number / volume of outstanding loans / other finance by MSMEs and facilitated with EU support 3.3.4 Number of financial products designed with EU support, addressing women and youth;	3.3.1 0 3.3.2 0 3.3.3 0 3.3.4 0	3.3.1 3.3.2 3.3.3 3.3.4 5	3.3.1 ROM and data collection reports 3.3.2 Annual reports 3.3.3 3.3.4	

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3. 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 responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 28,000,000, and for complementary support is EUR 47,000,000. This amount is based on lessons learned from previous and ongoing budget support operations and on the Government's financing needs to implement policy priorities.

In general, budget support is complementary to other implementation modalities in this action and adds value by allowing for a high-level results oriented policy dialogue between the EU, Ministry of Finance and Planning, PO-RALG and respective city councils. Thus, bringing different stakeholders together to discuss ongoing reforms in national systems and local administrations that facilitate the implementation of Tanzania's urbanisation agenda. It also incentivizes continued improvements in the national public finance management system and budget transparency.

Given the recent positive developments in the country, the use of budget support seems particularly timely and relevant. There is a real opportunity to build on this political momentum to support the renewal of a close political dialogue with the country's national authorities. Moreover, budget support is the government's preferred implementation modality. During the six years of general budget support preceding the ongoing programmes, the Government had an absorption capacity of 96% out of 300 million euros. The absorption capacity for the recently concluded economic and fiscal governance programme is 88% out of 200 million euro. Informed by this change in track-record, this action opts for a different approach: a smaller, focussed sector reform and performance contract, where budget support blends with other modalities and is highly complementary to drive a specific set of reforms that require cooperation of different government actors.

The Government has made progress in its intention to reduce aid dependency, but is still counting on a substantial aid financing of TSH 2.9 trillion (approx. EUR 1.06 billion) for its 2021/22 budget. This represents 8% of total expenditure (estimated at TSH 34.88 trillion) and 22% of development expenditures (estimated at TSH 12.9 trillion). The combined EU budget support allocation in FY2021/22 will be 56.17 million euros (approx. 151 billion TSH), and consist of EUR 7 million to be paid through the proposed cities action, 7 million EUR through the proposed gender action, 7 million EUR through the proposed digitalisation action, 20.17 for the Covid-19 tranche of the Economic and Fiscal Governance programme and the next tranche of EUR 15 million of road sector budget support. This constitutes 0.43% of the total budget, 0.58% of domestic revenues and 5.2% of the budgeted grants from development partners, and therefore does not create disproportionate aid dependency.

Besides, with 75% of the total amount linked to variable tranches, the programme is totally in line with the Commissioner's new recommendations that at least 70% of the amount of budget support operations should be linked to variable tranches, guaranteeing that performance is rewarded while strengthening our political dialogue.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.

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

- Satisfactory progress in the implementation of the Regional and Local Government Strengthening plan and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.

- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities: Improving the fiscal independence of local governments (predictability and timelines of transfers from central to local governments and their alignment with local priorities; increasing own source revenue collection by local governments); use of ICT systems and digital solutions; financing and implementation progress of urban development plans; improved service delivery in urban areas.

c) Modifications
The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

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

4.3.3. Budget Support Details

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.

The action includes both fixed and variable tranches over 4 years. The fixed component covers the first year and variable component starts in the second year and covers the last 3 years. The overall amount of variable tranches is 75% of the total. The incentive to deliver on the sector policy targets, through the variable tranches, starts from year 2. The total amount available each year is the same.

	Year 1 (2021/22)	Year 2 (2022/23)	Year 3 (2023/24)	Year 4 (2024/25)
Fixed tranche	7			
Variable tranche		7	7	7

The preliminary disbursement schedule is as follows:

- Year 1 disbursement in 2021/22 fixed tranche after signing FA
- Year 2 disbursement in 2022/23 (n) based on eligibility assessment of 2021/22 (n-1)
- Year 3 disbursement in 2023/24 (n) based on eligibility assessment of 2022/23 (n-1)
- Year 4 disbursement in 2024/25 (n) based on eligibility assessment of 2023/24 (n-1)

4.4. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures[34].

[34] www.sanctionsmap.eu. Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.4.1. Direct Management (Grants)

a) Purpose of the grants
Grants will contribute to achievement of output 2.5 for upgrading social facilities, local markets and basic services to poor communities in Pemba. This implementation arrangement is proposed due to project implementation capacities constraints demonstrated by the public institutions in Pemba.
b) Type of applicants targeted
Potential applicants for funding include local authorities, public bodies, international (inter-governmental) organisations, Non-Governmental Organisations (NGOs) and economic operators such as SMEs.

4.4.2. Direct Management (Procurement)

Procurement will contribute to achievement of parts of the three specific objectives of the action. An operational procurement will be launched for implementation of the following activities through a service contract:

- Complementary support to budget support operation (output 1.4, 1.5,1.7,1.8, 1.9)
- Institutional and capacity building of implementing agencies and local government authorities (output 2.4)
- Capacity building to public sector institutions and private associations (output 3.1)

4.4.3. Indirect Management with a Member State Organisation and/or international organisation

A part of this action may be implemented in indirect management with an entity, which will be selected by Commission's services using the following criteria:

- Extensive experience working in the region in the areas under the specific objectives in reference
- Complementarity of on-going similar activities in Tanzania or in the region
- Operational capacity

The implementation by this entity entails support to improved solid waste management (output 2.3), improved resilience and urban planning (output 2.1), improve preparation of municipal investment project and implementation (output 2.4), availability of quality and accessible financial services and capital investments in key economic sectors (output 3.2), improve availability of quality and accessible financial products and capital investments in key economic sectors and strengthen local business development service provider ecosystems in selected cities (output 3.3) as well as provision of infrastructure and nature based solutions including sustainable urban drainage (output 2.2) in selected cities.

4.4.4. Contribution to Africa Investment Platform

This contribution may be implemented under indirect management with the entities, called Lead Finance Institutions, identified in the appendix to this Action Document.

The pipeline proposed under this mode of implementation has been identified during field visits with Member states and Lead Financial Institutions (output 2.2). During such field visits, intense discussions with the local administration have taken place to define the proposed pipeline. Additionally funds for feasibility studies, design, other studies etc. will be allocated to finalise the list that will be financed through this modality.

4.4.5. EFSD+ operations covered by budgetary guarantees

A part of this action may be implemented through budgetary guarantees under indirect management. The budgetary guarantees would fall within the following priority areas:

Priority Area 1 – Green Deals (sector 430),

Priority Area 2 – Human Capital and Employment (sectors 110,160 and 321)

This section 4.4.5 is included for information purposes only. A comprehensive action plan covering all EFSD+ budgetary guarantees and the financing decision for the entire annual commitment under the EFSD+ budget line are adopted separately.

4.5. 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 on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6. Indicative Budget

Indicative Budget components[35]	EU contribution (amount in EUR)
<u>Specific Objective 1</u>: Operationalise an enabling regulatory and policy environment	**30,600,000**
Budget support - cf. section 4.3 (**Outputs 1.1 to 1.6**)	28,000,000
Complementary modalities to budget support – Implementation modalities – cf. section 4.4	
Direct management (Procurement) – cf. section 4.4.2. Service contract (**Outputs 1.4, 1.5,1.7,1.8, 1.9, 2.4 and 3.1**)	2,600,000
<u>Specific Objective 2</u>: Improve cities resilience and services through green infrastructure:	**35,000,000**
Indirect management with a Member State Organisation/international organisation – cf. section 4.4.3 (**Outputs 2.1, 2.2, 2.3, 2.4 and 3.2**)	30,000,000
Direct management (Grants) – cf. section 4.4.1. - Call for proposals (**Output 2.5**)	5,000,000
<u>Specific Objective 3</u>: Grow sustainably the local economy	**7,000,000**
Direct management (Procurement) – cf. section 4.4.2 **(Output 3.1)**	cf. infra SO 1
Indirect management with a member state organisation/international organisation (**Output 3.2**)	cf. infra SO2
Indirect management with a Member State Organisation/international organisation[36] – cf. section 4.4.3 (**Output 3.3**)	7,000,000
Contingencies	**2,000,000**
Evaluation – cf. section 0 **Audit** – cf. section 5.3	400,000
Totals *Grants – total envelope under section 4.4.1: EUR 5,000,000* *Procurement – total envelope under section 4.4.2: EUR 2,600,000*	**75,000,000**

4.7 Organisational Set-up and Responsibilities

The implementation of the action involves the following stakeholders /organizational set up:

- The Ministry of Finance and Planning (MoFP),
- The President's Office for Regional Administration and Local Government (PORALG) and its equivalent in Zanzibar are administratively overseeing activities implemented by the selected cities of Tanga, Mwanza and Pemba,
- The Local Government Authorities (LGAs) in Tanga, Mwanza and Pemba will be the main beneficiary institution and counterpart for all results areas,
- Ministry of Water and Urban Water and Sanitation Authorities are administratively overseeing activities implemented to address water and sanitation,
- For their partial involvement in the project: Ministry of lands and the Ministries responsible for Gender,
- The Delegation of the European Union.

[35] N.B: The final text on audit/verification depends on the outcome of ongoing discussions on pooling of funding in (one or a limited number of) Decision(s) and the subsequent financial management, i.e. for the conclusion of audit contracts and payments.
[36] If contracting with Member State Organisation is unsuccessful, an International Organisation may be selected (cf. § 4.4.3)

A Steering Committee (SC) will be established with meetings every six months. Biannual performance report will be submitted at 6-month intervals with a clear focus on achievement of the results. The SC will include the main stakeholders for both Mainland and Zanzibar mentioned above.

Separately or as part of the same mechanism, a structured Budget Support dialogue gathering the main interlocutors (at least PORALG, MOFP and EU Delegation) will take place 2 to 4 times a year. Reporting will be coordinated by MOFP. The macro-economic, PFM and Transparency and oversight eligibility criteria for budget support will be monitored for all budget support operations at once during a separate annual meeting with the MOFP. Tanzania-EU sector dialogue will fall under the Development Cooperation Framework.

Coordination and harmonization of different components and contracts of the Action will be supported by the technical assistance recruited by the programme to facilitate dialogue across institutions, private sector and civil society. Technical assistance will adopt a result-based management approach through all components and results, building capacities and mechanisms across players. It will specifically support functions of coordination, internal coherence across results and contracts, building up a programme level M&E system, building capacities across institutions and stakeholders for management by results.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the EU Delegation will participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. 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 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 logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

Each implementing stakeholder will be requested to carry out a survey of the results achieved before the mid-term and end of term review of the programme are launched. The consolidation of this exercise will be discussed during the programme steering committee.

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).

Roles and responsibilities for data collection, analysis and monitoring:

The RLGSP M& E Framework has detailed SMART indicators and yearly targets which provide the benchmark for monitoring progress. The program does not describe a system for collecting, processing and analysing the information and the data produced during the review process. However, the program has been designed to collect data from other sources within PO-RALG departments and sector ministries in order to prevent duplication of systems and overlap. The program has documented a detailed data sources and type of data required for each activity or program component. The design of the program provides for quarterly and annual monitoring of specific indicators, which will form the basis for the policy dialogue. The actors responsible for monitoring include PO-RALG, MDAs, RS, LGAs and Non-State Actors. PFM-RP has extensive bi-annual progress reports.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action with variable tranche indicators focussed on areas where timely quality information is available as part of the official government budgetary documents, complemented with PO-RALG reports where necessary. Eligibility monitoring will be based on RLGSP M&E framework, PFM-RP progress reports, and policy dialogue with MoFP, PORALG and other stakeholders, at least twice a year.

5.2. Evaluation

Having regard to the importance of the action, a mid-term, final and ex-post 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 for problem solving in particular with respect to the implementation of the budget support (specific objective 1), preparation of green infrastructure projects ready to be co-financed by the EFSD+ instrument. This exercise will be important to prepare a second phase of actions and new cities to be supported during the course of the budget cycle. The evaluation of this programme will preferably be carried out jointly with Member States and EDFIs participating to this programme.

The Commission shall inform the implementing partner at least one month in advance of the dates envisaged 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 following the best practice of evaluation dissemination[37]. 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.

Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

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 audit(s) or expenditure verifications for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

[37] See best practice of evaluation dissemination

APPENDIX 1 REPORTING IN OPSYS

An Intervention[38] (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, Interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation.
Primary Interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: ‘a given contract can only contribute to one primary intervention and not more than one’. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a ‘support entities’. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the Institution.
Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).
The level of the Primary Intervention is defined in the related Action Document and it is revisable; it can be a(n) (group of) action(s) or a (group of) contract(s).
Tick in the left side column one of the three possible options for the level of definition of the Primary Intervention(s) identified in this action.
In the case of ‘Group of actions’ level, add references to the present action and other action concerning the same Primary Intervention.
In the case of ‘Contract level’, add the reference to the corresponding budgetary items in point 4.6, Indicative Budget.

Option 1: Action level		
☐	Single action	Present action: all contracts in the present action
Option 2: Group of actions level		
☐	Group of actions	Actions reference (CRIS#/OPSYS#): <Present action> <Other action>
Option 3: Contract level		
☒	Single Contract 1	Budget Support: Sector Reform Contract with United Republic of Tanzania – (Output 1.1 – 1.6)
☒	Single Contract 2	Direct Management: Service Contracts – Technical Assistance to implementing Agencies – (Output 1.7, 1.8 and 3.1)
☒	Single Contract 3	Indirect management with a Member State Organisation and/or International Organization : Contribution Agreement Agreements (Output 2.1 – 2.4 and 3.2 – 3.3)
☒	Single Contract 4	Direct Management: Grant Contracts – Output 2.5
☐	Group of contracts 1	

[38] ARES (2021)4204912 - For the purpose of consistency between terms in OPSYS, DG INTPA, DG NEAR and FPI have harmonised 5 key terms, including ‘action’ and ‘Intervention’ where an ‘action’ is the content (or part of the content) of a Commission Financing Decision and ‘Intervention’ is a coherent set of activities and results which constitutes an effective level for the operational follow-up by the EC of its operations on the ground. See more on the concept of intervention.