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<u>THIS ACTION IS FUNDED BY THE EUROPEAN UNION</u>

<u>ANNEX 2</u>

to the Commission Implementing Decision on the financing of the annual action plan in favour of the United Republic of Tanzania for 2022

<u>Action Document for Finance for Growth</u>

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

1 SYNOPSIS

1.1 Action Summary Table

1. Title **CRIS/OPSYS business reference** **Basic Act**	Finance for growth OPSYS number: ACT-60961 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
2. Team Europe Initiative	No
3. Zone benefiting from the action	The action shall be carried out in Tanzania, both Tanzania Mainland and Zanzibar.
4. Programming document	2021-2027 Multi-annual Indicative Programme for Tanzania[1]
5. Link with relevant MIP(s) objectives / expected results	Priority area 2: -Contribute to poverty reduction and economic empowerment through financial inclusion -To enhance employability and entrepreneurship through skills development (skills gap for public and private sector is reduced) Priority area 3: -Support Government systems to deliver effective policy development and implementation -Contribute to social accountability and the rule of law for an inclusive society -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 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: 17 (Partnership for the Goals, target 17.1, 17.3) Other significant SDGs and where appropriate, targets: SDG 16 (Peace, Justice and Strong Institutions, target 16.5, 16.6, 16.7), SDG 8 (Decent work and economic growth, target 8.10), SDG5 (Gender Equality) and SDG 1 (No poverty, targets 1a and 1b).

[1] The United Republic of Tanzania Multiannual Indicative Programme is accessible here: https://international-partnerships.ec.europa.eu/system/files/2022-01/mip-2021-c2021-9074-tanzania-annex_en.pdf

8 a) DAC code(s)	150 – Government and Civil Society – 54% 240 – Banking and financial services – 32% 110 – Education – 2%			
8 b) Main Delivery Channel	Channel 1 – Central Government – 12001 Channel 2 – Third country government (Delegated cooperation) – 13000			
9. Targets	☐ Migration ☒ Climate ☒ Social inclusion and Human Development ☒ Gender ☐ Biodiversity ☒ Education ☐ Human Rights, Democracy and Governance			
10. Markers **(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 @	☒	☐	☐
	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 and Tags:	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation @	☐	☒	☐
		YES	NO	
	digital connectivity	☐	☒	
	digital governance	☒	☐	
	digital entrepreneurship	☐	☒	
	digital skills/literacy	☒	☐	
	digital services	☒	☐	

	Connectivity @	☒	☐	☐
	digital connectivity energy transport health education and research	YES ☐ ☐ ☐ ☐	NO ☒ ☒ ☒ ☒	
	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-B2022-14.020121-C1-INTPA Total estimated cost: EUR 63 359 596 Total amount of EU budget contribution: EUR 50 000 000, of which EUR 30 000 000 for budget support and EUR 20 000 000 for complementary support. This action is co-financed in joint co-financing by: - Embassy of Finland for an amount of EUR 5 200 000; - Foreign, Commonwealth and Development Office - FCDO for an amount of GBP 6 900 000 (EUR 8 159 596[2]).			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	**Direct management** through: - Budget Support: Sector Reform Performance Contract - Grants (incl. Twinning) - Procurement: service contracts **Indirect management** with pillar assessed entities to be selected in accordance with the criteria set out in sections 4.4.5 and 4.4.6. Budgetary guarantee(s) as set out in section 4.4.7.			

1.2 Summary of the Action

Building a competitive, inclusive and climate-sensitive economy that responds to the needs of Tanzania's growing and young population, calls for an enabling environment with good fiscal governance and more inclusive financial markets that can mobilise and fund increased levels of investments. The Government's National Development Vision 2025 and Five Year Development Plan III (FYDP III) underline priorities such as reliable and increased financing, public financial management, good public governance, anti-corruption and improved access to finance.

The flagships of Green Cities (AAP 2021) and Blue Economy (2022), both Team Europe Initiatives, will be supported by three main enablers: digitalisation (Digital for Tanzania - 2021), gender (Gender "Breaking the Glass Ceiling" - 2021) and access to finance, under the current action, named Finance for Growth (F4G).

F4G aims to promote better fiscal governance and access to finance to catalyse green, inclusive and sustainable development in Tanzania. It is designed to create an enabling environment, which will support the implementation of EU flagships and other programmes. It will contribute to (i) unlocking broader and more affordable access to

[2] INFOREURO GBP-EUR exchange rate for April 2022

finance in a country where private investment levels are particularly low, (ii) strengthening the capacity of the public administration for raising revenue and delivering public services and investments and (iii) promoting accountability.

The Action will deliver on the following key domains and objectives:

1. Public Finance: Improve the effective, efficient and accountable mobilisation and management of gender- and climate-sensitive public finances. The action will focus on enhancing domestic resource mobilisation, public financial management and skills development for the data-driven and digital-transitioning financial institutions.
2. Private Finance: Enhance financial market systems to increase access to finance. The action will support regulatory frameworks, innovative financial products and services, financial market infrastructure, and financial and digital literacy. There will be a specific focus on MSMEs, women and youth and the market segments of microfinance, capital markets, green finance and fintechs. These interventions will be complementary to the "Regional initiative to support African Central Banks through capacity building" and EU support to the Alliance for Financial Inclusion of which Tanzania is a member.
3. Accountability and dialogue: The action will support anti-corruption efforts, strengthen the voices of rights holders and promote public-private dialogue on the business environment.

The Action targets SDG1 (No Poverty), 8 (Decent work and economic growth), 16 (Peace, Justice and Strong Institutions) and 17 (Partnership for the goals).

In terms of modalities, budget support will support key reforms and a mix of procurement, contribution agreements and twinning grant will be used to build capacities of key stakeholders, with a strong reliance on EU expertise.

2 RATIONALE

2.1 Context

Tanzania is a beacon of macro-economic and political stability in the region, benefiting from a strategic location, natural endowments and a relatively diversified economy. After a decade of consistent high economic growth, Tanzania attained lower middle-income status in 2020. Changes in the political context since 2021, with the rise to power of President Samia Suluhu Hassan, have led to a gradual opening for instance in the areas of freedom of expression and association, business environment and multilateralism. The country is recovering from COVID-19, with an economic growth rate of 4.9% but a poverty rate of 27% in 2021. The various external shocks over the past three years put pressure on fiscal space, increased the risk of debt distress and some gains in poverty reduction were lost, particularly impacting women. At the same time, the effects of climate change on livelihoods are visible, access to finance is low and uneven and Tanzania's population is growing rapidly, with over 800,000 youth entering the job market every year.

In response to this diverse mix of challenges and opportunities, the Government of Tanzania set out to build a competitive, industrialised, inclusive and climate-sensitive society that is resilient to external shocks and responds to the needs for jobs and good service delivery of its fast growing, youthful population. Closely related is the President's priority to put Tanzania on the map as an investment destination and improve the business environment to encourage private-sector led growth. **Implementing this vision and unlocking Tanzania's potential requires an enabling environment with good fiscal governance and financial markets that work for Tanzanians, especially women, youth and the poor**.

Tanzania's National Development Vision 2025 and Five Year Development Plan III (FYDP III) make explicit reference to the need for reliable and increased financing, good public governance and access to finance. It points to the country's revenue potential through broadening the tax base, using e-government solutions and using non-traditional and innovative sources of finance. Grants and concessional financing is expected to decline, now Tanzania has become a lower middle income country and several traditional partners shifted priorities. On the expenditure side, the Government aims to make public financial systems more efficient and effective, with a strong role for automation and digitalization. Corruption is perceived to be an issue both at low and high level. The Zanzibar Development Vision 2050 also identifies public finance management as a priority with a particular focus on domestic revenue mobilisation.

For the financial sector, FYDP III highlights the need to restructure and strengthen financial institutions with commitments made to support the country's capital markets, support greater competition in the banking system and ease conditions for access to finance, in particular for MSMEs. There is a momentum to increase access to finance created by an improvement in the overall business environment and public-private dialogue, strong leadership in favour of women empowerment and more focus on sustainable investments. In 2017, 28% of Tanzanians were financially excluded, with a majority of people living in rural areas, smallholder farmers, youth and women[3]. Women have less access to mobile phone (ownership and use) compared to men, negatively impacting their entrepreneurship opportunities.

In the current political climate, there is increased space for impactful domestic accountability and public-private dialogue. The government is more open to engage with private sector associations, CSOs and media. The President committed to changes in the legal framework to remove restrictions on media freedoms and improving the business environment is one of her top priorities. This creates a window of opportunity to rebuild trust and improve transparency and public participation for citizens and businesses. In the area of anti-corruption, there is a renewed focus on strengthening the anti-corruption institutions.

Such a context provides an opportunity to bring together Government and EU priorities, through an action closely aligned with the Global Gateway[4], the new European Consensus for Development[5], "Towards a comprehensive Strategy with Africa"[6] and the 2030 Agenda for Sustainable Development[7], which make reference to effective and accountable institutions, sound public financial management, domestic revenue mobilisation, anti-corruption, access to finance and the digital transformation in these areas. It supports implementation of the Gender Action Plan III and its Country Level Implementation Plan and complements the Gender Transformative Action. In supporting Civil society fostering citizens' voices, it will contribute to the EU CSO Roadmap for Tanzania. It is harmonised with the EU's Collect More Spend Better agenda, the Addis Tax Initiative, and the Busan Action Plan for Statistics. The Action contributes to the 'Cape Town Global Action Plan for Sustainable Development Data' and the 2030 Agenda for Sustainable Development. It specifically addresses SDG 1 (No poverty), SDG 5 (Gender Equality), SDG 8 (Decent work and economic growth), SDG 16 (Peace, justice and strong institutions) and SDG 17 (Partnership for the Goals), in order to leave no one behind.

This Action functions as an enabler for sector specific programmes such as Green and Smart Cities and Blue Economy and cross-cutting programmes such as Digitalization and Gender. It contributes to creating a conducive environment for unlocking access to finance under the Cities and Blue Economy actions. It also helps to ensure that public expenditures are well managed to promote effective service delivery and contribute to effective implementation of sectoral development programmes (digitalization, gender, cities and blue economy).

2.2 Problem Analysis

The public financing of developmental priorities in Tanzania remains hampered by challenges in domestic revenue mobilisation and public finance management. With a tax to GDP ratio of 11.4% in 2020/21 and a large tax gap, Tanzania still has significant potential to **'Collect More'**. A narrow tax base, high non-compliance, inefficiencies in the tax administration, as well as significant illicit financial flows and a complex and unpredictable tax policy environment contribute to under-realisation of revenues and have a negative impact on Tanzania's business environment. Trust in the tax administration remains low, tax objections and arrears are high, and the pace of the digital transformation is slow. Policies and reforms do not sufficiently build on impact analyses, testing and consultations to ensure inclusive, green and sustainable outcomes. There is also a growing need to complement traditional financing with alternative financing sources (e.g. green bonds). Tanzania is not yet maximising such opportunities because of capacity gaps. To effectively increase fiscal space, Tanzania also needs to **'Spend Better'**. Tanzania's overall public financial management system has improved considerably, though some weaknesses continue to hinder effective service delivery and sustainable development outcomes, as shown in the latest Public Expenditure and Financial Accountability Assessments (PEFA)[8] for Tanzania Mainland and Zanzibar.

Private finance in Tanzania is characterised by low access to and use of formal financial products and services, which disproportionately affects women and youth. This results from high costs[9], low financial and

[3] National Financial Inclusion Framework (2018-2022). Link

[4] https://ec.europa.eu/info/sites/default/files/joint_communication_global_gateway.pdf

[5] https://www.consilium.europa.eu/media/24004/european-consensus-on-development-2-june-2017-clean_final.pdf

[6] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020JC0004

[7] https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

[8] Main challenges in Mainland Tanzania include budget credibility is still a major weakness, as well as the quality of budget documentation, transparency, expenditure arrears, public investment management and internal audit. Zanzibar's PFM system is hampered by low budget credibility, weak cash flow forecasting, low compliance with procurement regulations and accounting standards and lack of systems integration.

[9] interest rates are around 16-17% nominal for commercial banks and 30-40% for micro-finance ,while inflation hovers around 3.3 %.

digital literacy, limited borrower credit information, restrictive collateral requirements, limited access to long-term finance, a high level of informality of businesses, lack of integrated identification systems and predominance of cash use[10]. Only 30% of MSMEs use formal financial services even though many more face working capital shortages[11]. While financial inclusion in Tanzania has improved significantly since 2009[12], progress has stalled since 2013[13]. Limited competition in the banking sector has contributed to risk aversion, heavy cost structures and high lending rates. Despite a focus on less risky lending activities, non-performing loans remain high. In the absence of developed capital markets, medium-to-small banks rely on costlier, short-term, interbank financing and institutional deposits. Microfinance institutions, savings and credit cooperatives and community microfinance groups[14] benefit from proximity to customers and lower cost structures but face challenges linked to capacity constraints and informality. Capital markets, essential for raising long-term funds, are underdeveloped with only a small number of listings on the stock exchange. Key constraints include the high degree of informality in the economy and low financial literacy and awareness. Thematic securities such as green bonds are only recently emerging and require more promotion and specific guidelines. Fintech is at a nascent but rapidly growing phase[15].

The digital transition and shift towards evidence-based decision-making created new human resource needs at public and private financial institutions. The statistics and data science curricula in Tanzanian higher learning institutions, do not adequately meet market needs for data scientists, applied statistics and artificial intelligence and the teaching staff does not have sufficient knowledge and skills to teach these subjects.

Finally, sustaining good fiscal governance and inclusive access to finance requires accountability and dialogue. Transparency and public participation in the area of public finance remains low[16]. Civil society and private sector organisations are regaining some space to effectively fulfil their roles as policy influencers, watchdogs, and public educators, and need support to rebuild trust and effectively hold duty bearers accountable. Tanzania has made progress in reducing corruption and organised crime, but is still to effectively institutionalise reforms and make the anti-corruption drive sustainable. Corruption may increase without a proper system for detection, arrest, prosecution and recovery of money and assets. Putting this in place requires proper coordination that brings oversight institutions, judiciary and law enforcement agencies together.

The main stakeholders to be covered by the action are:

<u>State actors</u>:
- *Public finance*: the Mainland **Ministry of Finance and Planning (MoFP)[17],** the **Zanzibar President's Office of Finance and Planning** and the **Tanzania Revenue Authority (TRA)[18]**. Positioned within the Ministry's department for planning, the PFM reform programme (PFMRP) secretariat coordinates reforms in both Tanzania Mainland and Zanzibar, and the department for Research, Policy and Planning of TRA coordinates the implementation of transparent tax administration reforms as duty-bearers. Other key stakeholders include the Public Procurement Regulatory Authority, Office of the Treasury Registrar, Parliamentary Budget Office, Zanzibar Revenue Board, Institute for Tax Administration, Parliamentary Accounts Committee and the Supreme Audit Institution.
- G*overnance of financial markets*: the **Capital Markets and Securities Authority (CMSA)[19]** and the **Bank of Tanzania**. CMSA is responsible for ensuring efficient and sustainable capital markets and securities in Tanzania,

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[10] local banks estimate that about 60% of transactions are done outside the banking system. Tanzania's financial sector is small at 3.7% of GDP and at a relatively nascent stage of development, with microfinance and commercial banks dominating financial services provision.
[11] 2022 National SME Financing Strategy. 38% of MSMEs closed their businesses due to lack of working capital
[12] 17% increase in financial inclusion between 2009 and 2017, mainly thanks to mobile money.
[13] financial exclusion now mostly occurs in the two poorest quintiles. There is a 10% financial inclusion gap between women and men, and women and youth's uptake of financial services is mostly limited to basic sending and receiving money.
[14] there are 727 licensed non-deposit taking microfinance institutions, 615 licensed savings and credit cooperatives, and almost 25,000 registered community microfinance groups.
[15] of an estimated 33 Fintechs in Tanzania, most are in the early stages of development. The main difficulties for Fintech start-ups include navigating the regulatory environment, and establishing partnerships with other financial service providers
[16] 2022 PEFA and 2019 OBS results
[17] the Ministry of Finance and Planning manages overall revenue, expenditure and financing of the Government of Tanzania's plans. This includes the policy aspects of public financial management, tax policy and financial markets. The Zanzibar equivalent is the President's Office of Finance and Planning.
[18] TRA is responsible for the collection of tax and (some) non-tax revenues. TRA is closing staffing gaps as they hired a considerable number of new graduates and ICT experts, which require training and capacity building. The equivalent in Zanzibar is the Zanzibar Revenue Board, which is responsible for collection of all taxes from domestic revenue sources, except customs, excise and income taxes administered by TRA. The Institute for Tax Administration is the main training institute for TRA staff.
[19] it is the authority that licences and regulates stocks and commodity exchanges, brokers and investment advisers; it also formulates principles and guidance for the industry, protection of investor's interests.

whereas the Bank of Tanzania regulates the banking sector, and formulates and implements monetary policy that maintains domestic price stability.

- *Anti-corruption*: the President's Office Public Service Management and Good Governance (PO PSMGG), which leads the inter-institutional dialogue to identify and address systemic issues blocking effective prosecution on corruption as a guarantee of accountability of duty-bearers. Institutions involved in presenting and fighting corruption are the Ministry for Constitutional and Legal Affairs, the Parliament, the Prevention and Combating of Corruption Bureau[20], the Director of Public Prosecutions, the National Audit Office, the Financial Intelligence Unit, the Special Division of the High Court dealing with corruption and economic crime and the Ethics Secretariat.

Non-state actors, active on public and private finance as well as accountability:

Media[21] and Civil Society[22] represent the voices of rights holders in demanding transparency, participation and accountability from the Government in the areas of domestic resource mobilisation, PFM and corruption. CSOs and women-led organisations can also add value in monitoring of budget support results. **Private sector organisations** collect, aggregate and advocate business interests to the Government by providing evidence for decision-making. **Financial institutions** and related stakeholders will play a key role in access to finance for MSMEs. The Financial Sector Deepening Trust (FSDT) supports the development of the financial sector with a particular focus on women and youth. More concretely FSDT supports financial institutions to create access to finance for poverty eradication in Tanzania. **Academia** educates and prepares future generations to drive evidence policy-making, data-driven financial management and the digital transition. For instance, the University of Dar es Salaam teaches both data science and a knowledge-based statistics curriculum. A competence-based statistics curriculum is taught at The Eastern Africa Statistical Training Centre (EASTC) Dar es Salaam.

2.3 Additional Areas of Assessment

2.3.1 Pre-condition on Fundamental Values

N/A

2.3.2 Public Policy

The policies and strategies monitored as part of the public policy eligibility criteria cover three areas: public financial management, domestic resource mobilisation and financial sector development.

The **Public Finance Management (PFM) Reform Strategic Plan** (under development) presents the government's PFM reform priorities for the period 2022/23 – 2026/27 in its aim to improve the efficiency, effectiveness and accountability of managing public resources. The strategy is relevant as it is consistent with Tanzania's development vision and responds to weaknesses and opportunities highlighted in the final review of the PFM reform programme and draft results of the 2021 Public Expenditure and Financial Accountability Assessment. The top priorities are addressing the lack of budget credibility, improving the comprehensiveness and transparency of budget documentation, systems integration with the new integrated financial management system, improving compliance with the public investment management operational manual and strengthening the internal audit function.

The implementation track record of previous PFM reform strategy is positive, which contributes to the credibility of the current strategic plan under development. According to the latest external review, MoFP achieved 64% out the output indicators, and 23% of outcome level targets. According to the report, the ambition and targets set during the design phase were too high and unrealistic for the programme to reach them within the set timeframe.

The strategic plan is costed at approximately EUR 63 million, of which most will be financed by the Government and a remaining part by development partners. External financing for the PFM reform strategy is expected to reduce as long-term funders Denmark and the United Kingdom are unable to continue financing for non-programme related reasons. The European Union and most likely Norway will be the main funders of PFM reforms moving forward, as other development partners provide closely aligned technical assistance. The available funding will most probably not close the entire gap and will require further prioritisation and improved efficiency in spending.

[20] PCCB has the mandate to investigate and prosecute corrupt offences in mainland Tanzania. PCCB is assisted by the Police Force to carry out investigation and Director of Public Prosecution to prosecute corruption offences.

[21] Media actors include Tanzania Broadcasting Corporation, radio stations such as Clouds FM,various newspapers and social media fora.

[22] Tanzanian CSOs working in relevant areas include Policy Forum, Haki Elimu, Wajibu and Sikika.

The end term review of the previous PFM reform programme underlines weaknesses in the results framework, as no distinction is made between output and outcome indicators and indicator definitions and targets are not well substantiated. The results framework of the existing draft strategy shows similar weaknesses. Upon request from the ministry, the EU is currently mobilising a technical expert who will assist MoFP to improve the strategic plan as a whole and to develop a clear results logic with a strong monitoring and evaluation framework before its adoption in June 2022.

The Tanzania Revenue Authority (TRA) Corporate Plan 6 (CP6) sets out the strategic vision for the period FY2022/23 to FY2026/27. During this period, TRA aims to make paying taxes easy and enhance tax compliance for sustainable development. The plan has four themes with its own objectives: a) operational excellence (improved revenue collection, voluntary tax compliance and operational efficiency), b) Taxpayer engagement (positive image and perception, building taxpayer's confidence and satisfaction), c) automation (automation and systems integration, better data quality) and d) Innovation (improved institutional capacity). Under these themes, TRA identified 18 strategic initiatives, of which 8 are prioritised. Priority initiatives include the second phase of the High Availability Data Centre, development and implementation of an Integrated Domestic Revenue Administration system, improving systems integration, development of enterprise service delivery management and better knowledge management practices. The plan has been approved by TRA management.

The CP6 is relevant as the themes and activities respond to priorities articulated in Tanzania's development plans, and are consistent with the President's directives to improve the business environment. The plan acknowledges and responds to challenges and weaknesses identified during the implementation of CP5. TRA's implementation track record of the CP5 has been modest at best, with low spending and implementation rates. Main challenges included lack of prioritisation and inability to complete procurement processes. During the final two years of implementation, this track record has improved because of a reduction in the number of initiatives, technical assistance to strengthen procurement functions and better strategic steering. Institutional learning is clearly visible and given the improvements in implementation rates, and demonstration of strong high-level commitment to CP6, credibility of the policy is considered acceptable.

The plan is costed at 160 million euros, of which 116 million euros (72%) will be financed by the Government. TRA is currently looking to mobilise 43 million euros in financing from development partners to close the gap (excluding bilateral technical assistance). While several partners, including Norway, Finland and the EU expressed interested in financing the plan, it is unlikely that resources will be sufficient to fully close the gap. In this case, further prioritisation and efficiency gains will be needed, though most of the plan and key priorities can still be implemented.

Building on a lesson learned from CP5, CP6 has a clearer results framework that groups Key Performance Indicators per strategic objective, which will help to make the link between activities and results. Indicators have baselines, targets, definitions and methods of calculation for each indicator. The results framework can be improved with time by distinguishing between outputs and outcomes in order to build a clear intervention logic. Data quality and reliability issues will be addressed through the complementary support to the budget support.

The Financial Sector Development Master Plan 2020/21 – 2029/30 guides policies and programmes aimed at the development of the sector, to create a stable, safe, efficient, competitive and sound financial system. It addresses the following areas: banking, capital markets, microfinance, insurance and social security. The focus of this action is on the microfinance, banking and capital markets areas. The Master Plan identified all relevant stakeholders and assessed in detail the challenges and shortcomings of the financial systems. The objectives are clearly identified and the plan contains a monitoring framework. The overall responsibility for monitoring and evaluation at the national level lies within the ministries responsible for finance (Mainland and Zanzibar) working in close collaboration with financial sector regulatory authorities, key sectoral ministries and other stakeholders. The Ministry of Finance and Planning in Mainland, as a coordinating body, will collect, compile and analyse data on the implementation of the Master plan. The Master Plan formed the basis for the **Action Plan for the Implementation of the Financial Sector Development Master Plan (2021/22 – 2023/24)** with nine strategic objectives in the areas of financial inclusion, consumer protection, stability, long term finance (including green finance), system integrity, international cooperation, research and development, capacity building, and the legal and regulatory framework. The action plan is partly funded through regular budget allocations to the different ministries and agencies.

The 2022 National **SMEs financing strategy** (currently in draft) is the main policy for the implementation of the Master Plan in relation to SME financing. It identifies clearly the main challenges facing SMEs and defines adequate and well targeted strategies to address such challenges. Key intervention areas include the formalisation of businesses, reducing collateral requirements which are currently limited to immovable property, the development of a collateral registry, developing capital markets and particularly the enterprise acceleration programme for start-ups, financial literacy, credit history information and a credit reference system, innovative tailor-made financial products and services, and the development of a sandbox regulatory framework for fintech. It contains a monitoring and evaluation framework, and appropriate institutional arrangements to guide implementation.

The governance of the financial sector has a positive track record with relative financial stability, solid progress in increasing access to finance, and recently a gradual reduction in interest rate spreads and non-performing loans. Examples of key legislative reforms include the 2018 Microfinance act, which sets the framework for governing the sector, and the 2015 National Payment Systems Act, which paved the way for greatly reducing transaction costs. An Instant Payment System is being rolled out. It will improve interoperability among payment providers, reduce cost, and promote the digitisation of cash. Whereas the introduction of a government levy on mobile and digital transactions in 2021 posed a challenge for the financial sector, the levy was subsequently reduced. Gender-sensitive policy have to address barriers to women's financial inclusion (e.g. access to mobile, financial products adapted). Financial inclusion plans and frameworks should include specific orientations to reach groups living in vulnerable situations (women, young people, people living with disabilities).

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

Tanzania's pre-pandemic growth trajectory was strong with an average annual GDP of 6.5% between 2013 and 2018. Although the pandemic has pushed the global economy into a recession in 2020, Tanzania kept its economy relatively afloat, with an official growth rate of 4.8% though World Bank (WB) and International Monetary Fund (IMF) growth estimates for 2020 were lower, around 1% and 2% respectively. The economic slowdown was mainly attributable to adversely affected export-oriented industries, especially tourism and traditional exports, and caused by a drop in foreign investment. So far, Tanzania has maintained it recently obtained status as middle-income country (LMIC), even though external shocks led to a slight decrease in Gross National Income per capita, which reached 1,080 in 2020.

During 2021, the economy has started showing signs of recovery with a growth rate of 4.9%. After several years of discrepancies, the IMF and WB figures are now consistent with Government estimates. High frequency indicators from the WB show an upward trend as mobility, goods and services exports, tourist arrivals and credit to the private sector all rose during 2021. The rebound in economic growth is largely because of strong performance in accommodation and restaurant services, mining and electricity. The tourism industries in Tanzania Mainland and Zanzibar both got an impetus, even though tourist arrivals have not fully recovered yet. Overall, economic activity across sectors has not yet reached pre-pandemic levels. Depending on external developments and the pace of the Government's COVID-19 response, the WB predicts a 6% medium-term growth potential.

Between September and December 2021, the IMF approved loans totalling $751 million to Tanzania under its Rapid Credit Facility in order to tackle the health and socio-economic challenges caused by the pandemic. Discussions on a possible new IMF programme are ongoing.

Tanzania's macro-economic framework remains relatively stable despite the external economic shocks that impact the fiscal deficit, public debt levels, the current account deficit. As part of the COVID-19 recovery, fiscal buffers have been replenished with official gross reserves sufficient to cover 6.1 months of imports in February 2022, exceeding national and regional thresholds. The Government also continues to successfully stabilise the trajectory of the Tanzanian Shilling against main trading currencies. Revenue shortfalls and elevated expenditure drove the fiscal deficit up to 3.9% in 2020/21. Whether the fiscal deficit indeed reverts back to projected levels of 2%, partly depends on external factors and the domestic policy response. The external sector faces continued strain due to the impact of the Russia-Ukraine conflict - also impacting cereals and fertilisers imports to Tanzania. The current account deficit doubled during February 2022 because of a rising import bill. Increased foreign inflows offset the negative trend so that the overall balance of payment has improved in recent months. The Government has a continued track record of ensuring stability in headline inflation, within the country target of 3-5%. Energy, fuel and food inflation have been more volatile, with recent upward pressure.

During the pandemic, Tanzania's risk of debt distress increased to "moderate" and overall public debt levels rose to 40.6% in October 2021. 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. Rising debt levels are driven by non-concessional borrowing to finance large capital projects, including the standard gauge railway, the major hydropower dam and the national airline. Domestic borrowing also increased to finance the widening fiscal deficit. A changing debt composition may lead to liquidity risks as commercial debt has increased from 3% of GDP in 2011 to more than 16% of GDP in 2021. While debt levels are still sustainable, debt service equalled 40% of domestic revenues in October 2021, putting increasing pressure on fiscal space.

Domestic revenue mobilisation continues to be a priority for the Government of Tanzania to finance the FYDP III. The county's recent reclassification to LMIC and shifting priorities of traditional development partners is likely to reduce access to grants and concessional loans. Tanzania has considerable untapped revenue potential from tax revenues, non-tax revenues and alternative financing. The tax to GDP ratio is low at 11.4% (FY2020/21) and the tax gap is estimated at 6 to 7%, one of the largest in the region. During the implementation of the FYDP II (2015/16-2020/21), tax revenues increased by 56% in nominal terms. Revenues are recovering after revenue shortfalls in both Tanzania mainland and Zanzibar in 2020/21. Tax revenue outturns for the first 7 months of 2021/22 are high at 97% of targets for Tanzania mainland and 83% for Zanzibar.

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 in strengthening its Public Financial Management (PFM) systems since the latest PEFA in 2017, for Mainland. The 2017 PEFA 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.

The latest official 2017 PEFA results identify budget credibility as a weakness, with large 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 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 Standards accounting standards as the 2019/20 financial statements received an unqualified opinion, has accelerated the integration of IT systems through an "Enterprise Service Bus" 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. The pandemic eroded progress in 2019/20, but for the ongoing fiscal year, tax revenue outturn is exceptionally high reaching 97% of its target for the first three quarters. On the expenditure side, execution of the development budget equally reached 96% in FY2020/21. This seems to be driven by IMF emergency financing for Tanzania's COVID-19 response. Overall, budget credibility is an important precondition for more advanced PFM reforms and remains important to monitor throughout the budget support, as well as predictability of in year resource allocations, commitment controls and arrears.

The PFM reform 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. A results-oriented Monitoring and Evaluation Framework is in place.

Tanzania joined the EITI as part of the government's wider reform efforts to make the extractive sector more competitive and maximise the benefits from mining. Tanzania has been using the EITI process to produce data on local content, the East Africa Crude Oil Pipeline and the contribution of artisanal and small-scale mining to mining revenues and local content. The latest report covering 2018-2019 was published in June 2021. Tanzania is also a member of the Financial Action Task Force (FATF). According to the latest FATF Mutual Evaluation Report June 2021, measuring effectiveness and technical compliance rating, Tanzania was compliant for 3 and Largely Compliant for 11 of the FATF 40 Recommendations. In terms of level of effectiveness rating, Tanzania had 2 moderate and 8 low, with none of the variables rated high.

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 rather 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 latest Finance Bill for 2021/22 intended to promote economic recovery and balanced 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 a lower 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.

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 plans to implement an integrated revenue administration system. TRA is enhancing its infrastructure to accommodate the shift to a digital tax authority. The 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 (DRM) reforms under President Samia Suluhu Hassan. The Government is currently undergoing a new PEFA assessment. The report will be publicly available Quarter 2 of 2022 and will inform the PFM reform priorities of the GoT beyond June 2022. GoT also announced a review of its domestic revenue system. 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 is expected to maintain its current open and cooperative attitude towards the 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, and meets the entry requirement for this eligibility criteria. The budget preparation process scored an A in the latest 2017 PEFA. Since 2019, the GoT has consistently published budget guidelines, which provide the fiscal framework and high level budget ceilings to inform budget preparation. The executive, up to cabinet level, scrutinises the budget before submission to parliament. Compared to other countries in the region, Tanzania tends to submit the proposal relatively late leaving less time for parliamentary scrutiny.

After presenting the executive's budget proposal, parliamentary sessions take place between April and June before the start of the fiscal year on 1st July. The GoT has started publishing volumes II-IV of the Executive's Budget Proposal online since FY 2021/22, but not volume I[23] and only after enactment of the budget which does not meet the OBS and PEFA criteria. Upon parliamentary approval, the GoT publishes the Enacted Budget and a Citizen version on the website of the Ministry of Finance and Planning. In recent years, all budget volumes were made available within weeks from its enactment, which is an improvement as timely online publication used to be a

[23] The budget books have 4 volumes. Volume I covers the financial statements and revenue estimates, Volume II and II covers public expenditure estimates (recurrent) and Volume IV Public expenditure estimates for the development budget.

challenge. This latest Enacted Budget for FY 2021/22 was published timely. Citizen budgets, however, have been published too late into the year for them to be an effective tool to inform and engage the public.

During implementation, the Budget Act prescribes the need to publish in-year reports, or Budget Execution Reports (BER), within 30 days after the end of every quarter. In reality, the reports are published much later and often difficult to locate on the website. This does not meet PEFA and Open Budget Survey (OBS) criteria for in-year reporting. While internal information systems have made the production of these reports more efficient, lengthy internal approval processes stand in the way of timely publication.

The BER for Q2 serves as a mid-year report. Its comprehensiveness can be improved by reporting on budget reallocations. 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 the budget in IFMIS throughout the year.

Tanzania's OBS score increased to 17 in 2019 from 10 in 2017, suggesting a modest 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 enactment 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 OBS 2019 reports that the legislature and the audit office provided weak oversight during the 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 a guide has been prepared to assist the National Assembly in scrutinising the national budget. On the contrary, legislative scrutiny of the budget scored a B+ in the latest PEFA and external audit a C+, mostly because the Supreme Audit Institution does not meets PEFA's independence requirements.

In conclusion, Tanzania meets the entry requirements and incremental progress is visible. The relevant budget documentation has been published and the eligibility criterion is met. Renewed openness of the Government offers an opportunity for Tanzania to harvest low hanging fruits and improve their performance in the OBS and PEFA assessments.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The Overall Objective of this action is to contribute to an enabling environment for sustainable development and growth in Tanzania.

The Specific Objectives of this action are to:

1. Improve the effective, efficient and transparent mobilisation and management of gender- and climate-sensitive public finance
2. Financial market systems provide increased access to finance, particularly for women and youth
3. Strengthen accountability and inclusive dialogue on financial governance

The Induced Outputs to be delivered by this action contributing to the corresponding Specific Objectives are:

<u>Contributing to Specific Objective 1: Public Finance</u>

1.1 Improved budget credibility and expenditure management for effective service delivery (induced output)

1.2 Increased effectiveness, efficiency and fairness of tax administration and tax policy, and improved framework for the issuance of green bonds (induced output)
1.3 Statistics and data science courses at higher learning institutes respond better to market needs, including those of financial institutions

Contributing to Specific Objective 2: Private finance
2.1 Improved policies and regulatory reforms of financial market systems developed and implemented
2.2 Innovation in financial products and services tailored to underserved MSMEs and individuals, with a specific focus on women and youth, and market infrastructure developed to reduce financial transaction costs and enhance financial inclusion;
2.3 Capital market stakeholders facilitate the intermediation of long term funds, including green and innovative finance.

Contributing to Specific Objective 3: Accountability and Inclusive Dialogue
3.1 Strengthened capacity of government institutions to tackle corruption and serious organised crimes
3.2 Increased opportunities for public participation and public debate on financial governance issues given to domestic accountability actors (rights holders), with a focus on women and youth, and increased capacity to hold duty bearers accountable
3.3 Enhance the quality, structure and organisation of Public-Private Dialogue and private sector consultations

For budget support contributing to Specific Objectives 1 and 2, direct outputs are:

- New fiscal space created and the increased predictability of funds;
- Policy dialogue strengthened in support of implementation of the PFM reform strategy, TRA's Corporate Plan 6, Financial Sector Development Master Plan and SME financing strategy.
- Improved capacity of key stakeholders to implement relevant policies, strategies and reforms
- Improved policy performance assessment and monitoring

3.2 Indicative Activities

Activities relating to Specific Objective 1: Public finance

Output 1.1:
- Strategic policy dialogue on PFM and fiscal governance for example on legal and regulatory revisions, PFM policy priorities, gender responsive budgeting and green procurement *(budget support)*
- Financing *(budget support to mainland)*, technical and analytical support to coordination, implementation and monitoring of PFM reforms in Tanzania Mainland and Zanzibar closely aligned with the PFM reform programme. This technical support could help pave the way for future budget support to Zanzibar.
- Coordination and implementation of budget support including the joint review of general conditions, monitoring and evaluation of reforms, definition and review of variable tranche indicators and coordination of dialogues
- Diagnostics and independent external reviews to inform the PFM reform process and verify performance on budget support indicators.

Output 1.2:
- Strategic policy dialogue on domestic revenue policy, for example about broadening the tax base, green- and gender-transformative taxation, taxing informal economy and emerging sectors[24] or medium-term stability of the tax policy environment *(budget support)*
- Financing *(budget support)*, technical and analytical support to domestic revenue policy and revenue forecasting, including traditional (i.e. tax) and alternative modes of financing (e.g. green bonds)
- Financing *(budget support)*, technical and analytical support to the tax administration to strengthen key internal functions (e.g. procurement, M&E, project management) and support implementation of TRA Corporate Plan 6.

Output 1.3:
- Capacity building for local academia in data science and statistics to competently teach the revised curricula including new fields such as machine learning, artificial intelligence, big data, etc.

Activities relating to Specific objective 2: Private finance

[24] E.g. blue economy and digital economy

Output 2.1:
- Strategic policy dialogue on financial sector development, including in the areas of secured credit, credit information, Know Your Customer requirements, financial consumer protection, and fintech (*budget support*) targeting vulnerable groups (in particular women and youth), including in rural areas.

Output 2.2:
- Research, surveys, regulatory impact assessments in the area of access to finance, mainstreaming gender equality and social inclusion approach (GESI) (systematic analysis of power relations between genders).
- Development and scaling of innovative and responsive financial products and services, alternative collateral tools and credit de-risking instruments, consumer choice through information and complaints mechanisms, with a specific focus on women and youth
- Financial and digital literacy and promotion of e-payment/digitisation opportunities for women and youth
- Link between financial inclusion and economic empowerment through partnerships to promote access to financial and entrepreneurship skills, with a focus on women and women entrepreneurs

Output 2.3:
- Demand and supply of securities promotion: financial education, investment road-shows, fund management training, investment opportunities mapping, awareness campaigns, etc.
- Development of thematic securities issuer guidelines, particularly in the area of green and innovative financing
- Start-ups and SMEs to mobilise capital through the Enterprise Growth Market segment of the Stock Exchange and explore options to promote crowdfunding
- Institutional capacity building to the national capital markets authority in areas such as the supervision of new capital markets products and services, protection of investor’s rights, sector specific certifications, etc.

Activities relating to Specific objective 3: Accountability and dialogue

Output 3.1:
- Better government systems in intelligence based detection, investigation and prosecution of corruption cases
- Increase in coordination among legal and law enforcement agencies in dealing with corruption and serious organised crime

Output 3.2:
- Strategic policy dialogue on public participation and transparency on fiscal governance (*budget support*)
- Capacity building for domestic accountability actors, including media, to strengthen expertise on fiscal governance and engage effectively in dialogue opportunities
- Raising awareness, informing and educating citizens, notably women and youth on fiscal governance, e.g. public dialogues and debates to create more opportunities for public participation and domestic accountability
- Generation and dissemination of information on public finance to enhance quality of debates and dialogues in Tanzania

Output 3.3:
- Strengthening of the voice of the private sector, and foster the inclusion of key stakeholders such as women and youth in dialogue with the private sector.
- Synergies and coordination between the various private sector organisations (PSOs) to improve the business environment and investment climate in Tanzania
- Capacity strengthening of selected PSOs to increase the generation of evidence for decision making
- Structured and organised Public-Private Dialogue and private sector consultations.

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 no further action was required.
Outcomes of the EIA screening (relevant for projects and/or specific interventions within a project): an EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment). **Outcome of the CRA screening** (relevant for projects and/or specific interventions within a project): The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender will be mainstreamed as part of the action. The component on financial inclusion will have a strong focus on access to finance for women and women empowerment (priority 3 of the EU Gender Action Plan 2021-2025). The focus of the Financial Sector Deepening Trust Tanzania is on women and youth based on extensive gender analysis, and the financial sector policy documents address gender issues. The action will address some of the challenges identified in the women entrepreneurship study undertaken by the EUD. The component on public finance will support the implementation of gender responsive budgeting, complementing the Gender Transformative action (AAP 2021). Further gender-based analysis may be conducted to understand the gender impact of activities, and policy dialogue will focus on encouraging gender sensitive policies and reforms.

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. Since 2021, the human rights situation has been improving, with more space for dialogue with civil society and media on freedom of expression, media freedoms, right to assembly, access to justice and gender equality. This action will contribute to consolidating human rights including the EU Human Rights Action Plan, for example by supporting the operationalisation of public participation rights and of the right to access to information and by contributing to rule of law and women's rights. See also the paragraph below on Democracy.

All activities under this intervention are designed and will be implemented in accordance with principles of good governance and human rights, gender equality and the inclusion of socially or economically deprived groups wherever these issues are of particular relevance to the institutions to be assisted. A human rights-based approach applied to the financial sector is essential, particularly promoting accountability, transparency and participation to decision-making. Research, analyses and assessments will be conducted to systematically analyse power relations. Activities with the private sector and financial actors will incorporate specific work on Business and Human Rights and mainstream the human rights-based approach and responsible business conduct. New policies and action plans will be transparent and communication campaigns will support transparency, access and participation for all. Particular focus will be given to inclusive policies targeting women and persons living in vulnerable situations.

Disability

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that there will be no specific activities in relation to disabilities. However, an inclusive approach is promoted and some of the strategy documents linked to the budget support, such as the TRA Corporate Plan 6, which pays specific attention to the needs of taxpayers with disabilities.

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 2020 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 extensive 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 policy decisions is all the more important. This action will contribute to consolidating the practice of public consultations in policy and administrative decisions and contribute to strengthening civil society's role in public accountability, as stipulated in the CSO Roadmap. It will also strengthen the position of the local administrations providing them with more tools to exercise their role.

Conflict sensitivity, peace and resilience

The Action indirectly impacts conflict sensitivity, peace and resilience. Economic growth that is socially and environmentally sustainable contributes to peace and stability. F4G aims to expand access to finance, which will increase the resilience of low-income households and create more opportunities for women and youth to benefit from Tanzania's economic growth. This is particularly important to Tanzania in the face of increasing inequality and the weakened link between economic growth and poverty. F4G further supports transparency and participation in domestic resource mobilisation and public financial management, which reinforces the social contract and reduces grievances. In general, F4G contributes to building a culture of transparency, participation and dialogue between the public, private sector and Government, which prevents conflict and aids conflict-resolution.

Disaster Risk Reduction

F4G has an indirect impact on disaster risk reduction. By improving financial governance, F4G contributes to the ability of the Government to effectively finance and implement Tanzania's disaster risk reduction efforts. The PFM strategy explicitly refers to the need to mainstream the National Disaster Recovery Plan in annual plans and budgets as a risk mitigation measure, which is within the scope of the F4G budget support. Policy dialogue can therefore bring issues of integrating disaster risks into fiscal risks assessments and expenditure planning to the forefront. F4G further contributes to building a culture of transparency and dialogue between the public, private sector and Government, which aids recovery planning and accountability of expenditures during disaster recovery.

Other considerations if relevant

n/a

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood	Impact	Mitigating measures
3	Lack of political will or commitment to implement institutional and policy reforms	**Medium**	**Medium**	Intensified policy dialogue at different levels of Government, possibly in cooperation with other development partners and accountability actors.
3	High turnover of Government staff causing discontinuity, lack of ownership and changing priorities	**High**	**High**	Involving different levels of government officials in the budget support and steering committees to ensure continuity and knowledge transfer. Raising the concern during policy dialogues and investing in relation-building with newly arrived staff
2	Insufficient financial and human resource allocations to line ministries and authorities to implement activities and reforms	**Medium**	**High**	During the first dialogues, ensure that authorities and ministries understand how variable tranche indicators can assist them in budget negotiation. Include the budget department in policy dialogues.
2	Inefficient ways of working and operating in the public service slow down the reform process	**Medium**	**Medium**	Budget support modality incentivizes the Government to spend resources more efficiently to achieve results.
1	Regression of fundamental values including rule of law, human rights and closing space for domestic accountability	**Low**	**High**	Ensure that Government understands the link between budget support and fundamental values. Continued political dialogues with close alignment between policy and political dialogue.
1	Government falling back to distrusting the private sector and ignoring their needs	**Medium**	**High**	Through ongoing projects, enhance the dialogue between Government and private sector to demonstrate the added value for private sector in national development.

Lessons Learnt:

This program is based on experience of previous and ongoing programmes as well as the numerous consultations carried out during the current action design process. Specific lessons learned that inform this Action include:

- **Sector Budget support to PFM:** the final evaluation of the Economic and Fiscal Governance programme concludes that budget support is a suitable modality to support PFM reforms. It recommends complementing Budget Support with regular independent diagnostics and assessments to incentivise and inform the reform process.
- **Supporting tax administration reforms**: previous EU support to the Tax Modernisation Programme has shown that the credibility of the tax reform agenda strongly depends on political leadership, with the risk that over emphasis on collection targets shift focus away from reforms. The pace of reform depends on the strength of internal planning, budgeting and procurement processes.
- **Access to finance and digitalisation**: The level of political will and the capacity of market actors are identified as the most important factors that influence results. Financial inclusion and digitalisation require a strong focus on women and youth with tailor-made financial products and services, underpinned by adequate gender and youth data.

- **Accountability:** CSOs' role in domestic accountability and anti-corruption needs to be strengthened to promote efficiency in public expenditures and delivery of social services. Experience from ongoing EU support to BSAAT[25] shows that more effort is needed to strengthen coordination and capacity in the criminal justice system.
- **Public-private dialogue:** learning from the IBEE[26] and ongoing BEGIN[27] programmes, the ability of PSOs to contribute to change in business climate strongly depends on general policy making and is directly influenced by the political economy in Government, hence the need for continuous engagement of private sector in public policy.

3.5 The Intervention Logic

This Action contributes to creating a conducive environment for sustainable development and growth with sound fiscal governance, accountability, and well-functioning financial market systems that unlock Tanzania's potential.

For fiscal governance, outputs are focussed on domestic revenue mobilisation and PFM. If reforms are well-designed, sequenced and implemented through budget support and capacity building, tax administration and domestic revenue policy will be more effective, efficient and inclusive (output 1.2), budget credibility will improve and expenditure management will be more effective and transparent (output 1.1). Such reforms will enable the Government to mobilise more domestic revenues in a sustainable way (outcome 1), meaning from a broader tax base and reduced illicit financial flows while promoting equitable and green outcomes[28]. A tax to GDP ratio of 15% is a tipping point at which countries are able to sustainably fund basic services and a well functioning PFM system contributes to improved service delivery and better public investment outcomes. If academic courses in Tanzania respond to market needs and teaching staff are qualified to train students in data science, artificial intelligence and applied statistics (output 1.3), financial institutions in the public and private sector will have access to skilled staff that meets their human resource needs[29].

Unlocking Tanzania's developmental potential will also require substantial increases in private investment which is dependent on functioning financial market systems (outcome 2). This action will achieve this through a combination of legal and regulatory reforms, strengthening of key financial governance institutions, developing and scaling innovative and digital solutions in financial services and products, improving market infrastructure, and financial literacy with a specific focus on women and youth The action will seek to address the main financial market failures comprehensively, focussing on financial inclusion, capital markets development for long-term financing and financing start-ups, reducing inefficiencies and the cost of financial intermediation, and tackling knowledge gaps in new areas such as green finance. The component will address systemic challenges and pave the way for investments foreseen under sector programmes, such as sustainable cities, gender, and blue economy. The action will also facilitate deployment of EFSD+ guarantees due to better working financial systems and by creating favourable conditions for deployment of innovative financial products, such as green / blue bonds.

Domestic accountability is key for public and private finance to lead to improved development outcomes (outcome 3). If media and CSOs have opportunities for public participation and are capable of playing their roles as facilitators of public debate, educators and awareness raising about fiscal governance (output 3.2), budgets as well as financial products and services respond better to citizens' needs - provided that the environment for media and CSOs remains open. Lower levels of corruption encourage investment, improve access to social services and encourage a more equitable distribution of resources in society. If the law enforcement system is strengthened, the detection of corruption activities improves. If the criminal justice system has more capacity, the handling of corruption cases and recovering of crime proceeds will improve. The assumption is that the improved deterrence in criminal justice will reduce the perception and incidences of corruption. Eventually, for reforms to adequately address the needs of the economy, Tanzania requires credible private sector organisations to have high quality dialogue with the government, sustained by research and evidence for decision-making. Output 3.3 will focus on enhancing the capacity of private sector organisations to join hands with the Government and positively influence and accompany economic growth.

[25] the Building Sustainable Anti-corruption Action
[26] Investing in Business Enabling Environment programme
[27] Business Environment, Entrepreneurship, Growth and Innovation
[28] In turn, PFM reforms coupled with domestic accountability, ensure that resources are increasingly spent according to gender-sensitive plans and budgets, with reduced fiduciary risk. Both rest on the assumption that there is political will and strategic leadership to prioritise medium-term gains over short-term tax collection targets, and to address complex, structural weaknesses in the PFM system. According to the IMF, a tax to GDP ratio of 15% is a tipping point at which countries are able to sustainably fund basic services and a well functioning PFM system contributes to improved service delivery and better public investment outcomes (outcome 1). Therefore, both are central elements to improve fiscal governance for sustainable economic growth.
[29] This assumes that over time, the pool of graduates will be sufficient to serve both the public and the private sector and that the public sector is able to offer competitive opportunities.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.
On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.
The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

PROJECT & BUDGET SUPPORT MODALITY (4 levels of results / indicators / Source of Data / Assumptions - no activities)

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 an enabling environment for sustainable development and growth in Tanzania.	1 Annual growth rate of real GDP per capita	1. TBD	1. TBD	1 SDG monitoring portal	*Not applicable*
Outcome 1	1 Effective, efficient and transparent mobilisation and management of climate and gender-sensitive public resources improved	1.1 % increase in tax revenue collection 1.2 Expenditure outturn (Mainland and Zanzibar)** 1.3 Transparency score in the Open Budget Survey*	1.1 12.tbc 1.2a Mainland: 89% (2020/21), 1.2b: Zanzibar: 86% (2018/19) 1.3 21 (2021)	1.1 tbc 1.2 > 95% (2024/25) 1.3 >41 (2025)	1.1 TRA annual report 1.2 Budget Execution Report; 1.3 Open Budget Survey	Country is able to maintain stability during external economic shocks.
Outcome 2	2 Access to finance increased, with particular attention to women and youth	2.1World Bank Doing Business "getting credit'' ranking /score**	2.1 2020: 67/65 2.1 2022	2.1 2026: 2.2 TBD	2.1 WB Doing Business report	Government is open to regular dialogue

		2.2 Number of beneficiaries with access to financial services with EU support * and ** 2.3 Number of firms with access to financial services disaggregated by user type (sex of head of firm, age of head of firm, etc) * and **	2.2 and 2.3 2023 (TBD new Finscope ongoing)		2.2 and 2.3 Finscope	with private sector
Outcome 3	3 Accountability and dialogue strengthened	3.1 Corruption perception index score 3.2 Public Participation score in the Open Budget Survey 3.3 Number of official public-private policy dialogues conducted	3.1 39 (2021) 3.2 9 (2019) 3.3 1 per year (2021)	3.1 45 (2025) 3.2 25 (2025) 3.3 2 per year (2025)	3.1Transparency International 3.2 International Budget Partnership 3.3 Reporting from event	
Output 1 **relating to Outcome 1**	1.1 Improved budget credibility and expenditure management for effective service delivery	1.1.1 Number of ICT systems integrated under PFMRP VI in Tanzania mainland and Zanzibar 1.1.2 % of projects compliant with PIM Operational Manual requirements for appraisal and selection 1.1.3 % of Internal Audit Units compliant with international audit standards 1.1.4 % of MDAs using Gender responsive budgeting guidelines 1.1.5 Number of green public procurement tools and guidelines developed 1.1.6 Zanzibar: Level of compliance with procurement regulations	1.1.1 0 (2021/2022) 1.1.2 0 (2021/22) 1.1.3 tbc (2021/22) 1.1.4 0 (2021/22) 1.1.5 0 (2021/22) 1.1.6 tbc (2021/22)	1.1.1 10 (2024/25) 1.1.2 75% (2024/25) 1.1.3 tbc (2024/25) 1.1.4 50% (2024/25) 1.1.5 2 (2024/25) 1.1.6 tbc (2024/2025)	1.1.1 PFMRP progress reports 1.1.2 PFMRP progress reports 1.1.3 PFMRP progress reports 1.1.4 PFMRP progress reports 1.1.5 PFMRP progress reports 1.1.6 PFMRP progress reports	Strong strategic steering and political commitment to addressing structural PFM weaknesses
Output 2	1.2 Increased effectiveness, efficiency and fairness of tax	**1.2.1 Number of active registered taxpayers**	1.2.1 3,157,106 (2021)	1.2.1 4,500,000 (2025)	1.2.1 Progress reports	Government remains

relating to Outcome 1	administration and tax policy, and improved framework for the issuance of green bonds	1.2.2 Number of modules of the Integrated Domestic Revenue Administration System released for public use **1.2.3 % of tax assessments objected** 1.2.4 % of timely paid taxes	1.2.2 1 (2022) 1.2.3 22% (2020/21) 1.2.4 tbc	1.2.2 5 (2025) 1.2.3 15% (2024/25) 1.2.4 tbc	1.2.2 TRA annual report 1.2.3 TRA annual report 1.2.4 TRA annual report	committed to tax and business environmen t reforms (medium-term).
Output 3 **Relating to Outcome 1**	1.3 Statistics and data science courses at higher learning institutes respond better to market needs, including those of financial institutions	1.3.1 Number of teaching staff in higher education institutions trained with EU support (disaggregated by sex) 1.3.2 Number of students graduated with advanced data science and applied statistics skills (disaggregated by sex)	1.3.1 0 (2022) 1.3.2 0 (2022)	1.3.1 20 (2025) 1.3.2 2 cohorts of at least 8 students (2025)	1.3.1 Progress reports 1.3.2 Progress report, university registers	Graduates get jobs in the public as wel as the private financial sector after graduation
Output 1 (induced) **relating to Outcome 2**	2.1 Implemented policy and regulatory reforms of financial market systems	2.1.1 **New acts and regulations adopted and / or implemented for the financial** sector*	2.1.1 TBD	2.1.1 TBD	2.1.1 TDB	
Output 2 **relating to Outcome 2**	2.2 Innovation in financial products and services tailored to underserved MSMEs and individuals, with a specific focus on women and youth, and market infrastructure developed to reduce financial transaction costs	2.2.1 Number of demand driven microfinance products and services introduced (Disaggregated by gender and age) 2.2.2 **Number of new regulations prepared and presented to the Government** 2.2.3 Number of SMEs supported / formalised (disaggregated by women-/youth led organisations)	2.2.1 TBD (2022) 2.2.2 TBD (2022) 2.2.3 TBD	2.2.1 TBD (2025) 2.2.2 TBD (2025) 2.2.3 TBD	2.2.1 Progress report Financial sector master plan + project reports 2.2.2 Progress report Financial sector master plan + project reports 2.2.3	
Output 3 **relating to Outcome 2**	2.3 Capital market stakeholders facilitate the intermediation of long term funds, including green and innovative finance	2.1.1 Number of staff trained in new financial operations / products (disaggregated by sex) 2.1.2 Number of new capital markets products issued / supported (bonds, impact funds, diaspora etc)	2.1.1 TBD (2022) 2.1.2 TBD (2022)	2.1.1 TBD (2025) 2.1.2 TBD (2025)	2.1.1 Progress report Financial sector master plan	

					2.1.2 Progress report Financial sector master plan	
Output 1 **Relating to Outcome 3**	3.1 Strengthened capacity of government institutions to tackle corruption and serious organised crimes	3.1.1 Number of conviction related to corruption 3.1.2 Value of assets recovered through court orders	3.1.1 0 (2022) 3.1.2 Tzs 1.6 billion recovered (2021)	3.1.1 20 (2025) 3.1.2 Tzs 8 billion (2025)	3.1.1 Progress reports, PCCB report 3.1.2 Progress reports, PCCB report	Improved deterrence in criminal justice will reduce perception and incidences of corruption
Output 2 **Relating to Outcome 3**	3.2 Increased opportunities for public participation and public debate on financial governance issues given to domestic accountability actors (rights holders), with a focus on women, and increased capacity to hold duty bearers accountable	3.2.1 Number of participants in opportunities for public debate and participation created with EU support (disaggregated for sex and age) 3.2.2 Number of CSO and media stakeholders trained with EU support (disaggregated by sex and age)	3.2.1 0 (2022) 3.2.2 0 (2022)	3.2.1 8 (2025) 3.2.2 50 (2025)	3.2.1 Progress reports 3.2.2 Progress reports	Government is receptive. Media freedoms and civic space is open.
Output 3 **Relating to Outcome 3**	3.3 Enhanced the quality, structure and organisation of Public-Private Dialogue and private sector consultations	3.3.1 Number research studies commissioned on issues of strategic interest to private sector development and business environment reform	3.3.1 0 studies (2023)	3.3.1 8 studies (2025)	3.3.1 Publication on the internet	Capability of the private sector priorities research and commission studies.
Direct Outputs **Relating to outcome 1 and 2**	- New fiscal space created and increased predictability of funds - Policy dialogue strengthened in support of the PFM reform	- Amount of budget support disbursed - Number of policy dialogue meetings held	- 0 - 0	- EUR 30 M - 12 (3 per year)	Disbursement dossier	

	strategy VI, TRA Corporate Plan 6, Financial Sector Development Master Plan and the SME Financing Policy - Improved capacity to implement above mentioned policies	- Number of capacity building projects successfully implemented (>80% of outputs achieved)	- 0	- 3 (TA to MoFP, TA to TRA, TA to Capital Markets and Securities Authority)	Disbursement dossier, minutes Contract progress reports	

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 60 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 30 000 000, and for complementary support is EUR 20 000 000. This amount is based on lessons learned from previous budget support actions and on Government financing needs to implement policy priorities.

In this action, budget support is complementary to other implementation modalities and adds value by allowing for a high-level results oriented policy dialogue between the EU, Ministry of Finance and Planning, Tanzania Revenue Authority, the Bank of Tanzania and the Capital Market and Securities Authority. Thus, bringing different stakeholders together to discuss and advance ongoing policy reforms to make public and private financial systems work better for Tanzania's green and sustainable development. It also incentivises continued improvements in budget transparency and continued macro-economic stability.

Positive developments in the country make the use of budget support relevant and timely. The political engagement with Tanzania's national authorities has improved considerably. Moreover, budget support is the government's preferred implementation modality. During the six years of general budget support, 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 was 88% out of 200 million euro. Informed by this change in track-record, this action opts for a different approach: a smaller, focused 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 following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

The indicative disbursement schedule is as follows:

- Year 1 disbursement in 2022/23 fixed tranche after signing FA
- Year 2 disbursement in 2023/24 (n) based on eligibility assessment of 2022/23 (n-1)
- Year 3 disbursement in 2024/25 (n) based on eligibility assessment of 2023/24 (n-1)
- Year 4 disbursement in 2025/26 (n) based on eligibility assessment of 2024/25 (n-1)

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 PFMRP strategic plan, TRA's Corporate Plan 6, Financial Sector Development Master Plan 2020/21 – 2029/30 and the 2022 SME Financing Strategy 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: In the area of domestic revenue, indicators may focus on tax revenue outcomes, tax policy changes and tax administration reforms (i.e. integrated domestic revenue administration system). In the area of public finance management, variable tranche indicators may focus on reforms in the areas of budget credibility, systems development/integration, transparency, public investment, (green) procurement, gender responsive budgeting and audit and controls. In the area of private finance, budget support indicators may focus on reforms in the areas of secured credit, credit information, the regulatory framework for innovative platforms such as fintech, and the promotion of green financing.

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 budget support allocation. The incentive to deliver on the sector policy targets, through the variable tranche starts from year 2.

	Year 1 (2022/23)	Year 2 (2023/24)	Year 3 (2024/25)	Year 4 (2025/26)
Fixed tranche	7.5			
Variable tranche		6.5	8	8

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[30].

4.4.1 Direct Management (Grant)

(a) Purpose of the grant(s)
The grant will contribute to achieving output 2.1 and 2.2 for making capital markets more effective.

[30] 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.

(b) Type of applicants targeted
Potential applications for funding include: No call for proposals foreseen. Direct grant with a Non-profit organisation which has de facto monopoly.

(c) Justification of a direct grant
Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to Financial Sector Deepening Trust (FSDT), which has been selected using the following criteria:

- has established itself as a valuable partner in the financial sector both in Tanzania and across the global network;
- has a specific objective to support the development of the financial sector in Tanzania and aims to contribute to poverty eradication measures in the country;
- is a trusted partner of the Tanzanian Government and the Tanzanian private financial sector, currently supporting the Government with the implementation of various components of the Financial Sector Development Master Plan;
- has a demonstrated track-record of facilitating changes that lead to a more inclusive and effective financial system in Tanzania;
- has demonstrated excellent knowledge of the local financial sector as well as international expertise in the sector

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals will be justified when the beneficiary has a *de facto* monopoly, being the only organisation that fulfils the criteria above and is able to implement this grant in line with the specified objectives. The organisation has a unique position as the only trusted partner of the Government and the financial sector in Tanzania, including trust of the international donors' community, with a strong implementation track record in financial inclusion This justification will be in line with Article 195FR(c).

4.4.2 Direct Management (Twinning Grant)

(a) Purpose of the grant(s)
The grant will contribute to achieving output 2.3 for enhancing micro-finance and fintech market systems and to output 1.2 (only the component on green bonds.) Output 2.3 and this one element of output 1.2 will be implemented through a Twinning grant.

(b) Type of applicants targeted
Potential applications for funding include EU Member state administrations or their mandated bodies.

4.4.3 Direct Management (Grant)

(a) Purpose of the grant(s)
The grant will contribute to achieving output 3.2 to strengthen domestic accountability on fiscal governance, supporting CSOs and media organisations.

(b) Type of applicants targeted
Potential applications for funding include CSOs, think tanks and media organisations.

4.4.4 Direct Management (Procurement)

Procurement will contribute to achievement of specific objective 3, in particular output 3.3 to enhance structured and organised Public-Private Dialogue and private sector consultations.

4.4.5 Indirect Management with a pillar assessed entity

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

- Extensive experience working on public finance management and domestic resource mobilization in the region, as per the areas under the specific objectives in reference
- Complementarity of on-going activities in Tanzania or in the region

- Operational capacity

The implementation by pillar assessed entity as part of this Action entails support to improving budget credibility and expenditure management for effective service delivery (output 1.1), effectiveness and quality of tax administration and tax policy (output 1.2, excluding green bonds) and enhancing the capacity of higher learning institutes to meet market needs in the areas of statistics and data science (output 1.3).

4.4.6 Indirect Management with a pillar assessed entity

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

- Extensive experience working on anti-corruption and serious organized crime in the region as per the areas under the specific objectives in reference
- Complementarity of on-going activities in Tanzania or in the region
- Operational capacity

The implementation by pillar assessed entity as part of this Action entails support to strengthening of government institutions' capacity to tackle corruption and serious organised crime (output 3.1).

4.4.7 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: Green deals, Global gateway

This section 4.4.7 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.

4.4.8 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

For specific objective 1, output 1.1, 1.2 and 1.3 (Complementary Support to PFM, DRM and Academia) as an alternative to indirect management with a pillar assessed entity, procurement in direct management may be used in exceptional circumstances.

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	EU contribution (amount in EUR)	Third-party contribution, in currency identified
Budget support - cf. section 4.3	**30 000 000**	
Implementation modalities – cf. section 4.4		
Objective 1: Public Finance Management composed of:	**4 000 000**	**5 200 000 EUR**
Output 1.1, 1.2 and 1.3: Indirect management with pillar assessed entity – cf. section 4.4.5	4 000 000	5 200 000 EUR (Finland)
Objective 2 Access to finance composed of:	**6 000 000**	
Output 2.1 & 2.2 microfinance: Grant (direct award) - cf section 4.4.1	4 000 000	
Output 2.3 capital markets: Twinning grant - cf section 4.4.2	2 000 000	
Objective 3 Accountability composed of:	**8 000 000**	**8 159 596 EUR**
Output 3.1: Indirect management with pillar assessed entity – cf. section 4.4.6	3 000 000	8 159 596 EUR (6 900 000 GBP, FCDO)
Output 3.2: Grant (direct management) - cf. section 4.4.3	2 000 000	
Output 3.3: Procurement (direct management) - cf. section 4.4.4	3 000 000	
Evaluation – cf. section 5.2 **Audit** – cf. section 5.3	**200 000**	
Contingencies	**1 800 000**	
Totals *Grants – total envelope under sections 4.4.1 to 4.4.3: EUR 8 000 000* *Procurement – total envelope under section 4.4.4: EUR 3 000 000*	**50 000 000**	**13 359 596 EUR**

4.7 Organisational Set-up and Responsibilities

The implementation of the action involves the following stakeholders:

- Mainland Ministry of Finance and Planning - MOFP (and other national PFM actors such as Public Procurement Regulatory Authority, National Audit Office Tanzania and the Parliamentary Budget Office)
- President's Office for Finance and Planning Zanzibar (POFP)
- Tanzania Revenue Authority (TRA)
- Bank of Tanzania (BoT)
- Capital Markets and Securities Authority (CMSA)
- Private Sector Organisations (PSO)
- Media and Civil Society Organisations (CSO)
- Academia
- Delegation of the European Union
- Embassy of Finland.

The Government has existing coordination mechanisms in the areas of PFM, DRM at the level of reform programmes and has an internal coordination forum for financial sector governance. F4G governance structure builds on these existing platforms. To facilitate strategic dialogue in the sector, the Government intends to establish a working group under the Development Cooperation Framework comprising main stakeholders and Donor Partners and covering thematic areas of PFM, DRM and macro-economic policy.

This working group or a separate forum may function as the **Fiscal Governance and Budget Support Coordination Committee (FGBC)**, which monitors progress of all EU budget support operations in Tanzania, discusses the general eligibility criteria for all EU budget support actions and oversees the support to media and civil society. Because of the thematic overlap, the FGBC may also function as the thematic annual Steering Committee for the 'public finance' component of F4G, including the complementary support. The FGBC is co-chaired by the Ministry of Finance and the EU and meets every 6 to 12 months and gathers the main interlocutors in this thematic area (at least MoFP, TRA, Zanzibar POFP, EU and the Embassy of Finland, possibly Media, CSO and Academia).

The 'Private Finance' component may have a separate Thematic **Private Finance Steering Committee (PFSC)**[31]. Tanzania-EU sector dialogue will fall under the Development Cooperation Framework. The sector Steering Committees cover both budget support and project support – including the support to public-private dialogue – and function as a decision-making body. The PFSC meets every 6 to 12 months and gathers the main interlocutors in the thematic area (at least the MoFP, CMSA, BoT and the EU, possibly PSO).

For each thematic area (i.e. public and private finance), **structured Budget Support Dialogues** gathering the main interlocutors will take place 2 to 4 times a year, either separately or as part of the FGBC and the PFSC. These fora will assess progress on variable tranche indicators and public policy reforms, analyse needs, facilitate policy dialogue, function as a platform for inter-agency coordination, review results and facilitate consultation with private sector and civil society stakeholders.

Support to anti-corruption has its own existing governance structures under the Ministry of Legal and Constitutional Affairs.

Coordination and harmonisation 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 where relevant.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action. Gender equality and human rights and human rights based approach expertise will be integrated in relevant documents (e.g. ToRs, CfPs) as minimum requirements of expertise.

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 taking into account gender equality and human rights dimension (examples: the right-holders/groups living in vulnerable situations have capacities to access to formal financial market and financial inclusion is enhance targeting women and youth with adapted products). 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).

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: Results-Oriented Monitoring will be contracted by the Commission, under the supervision of the Delegation for its implementation. Evaluations (mid-term and final) will collect data for assessing benchmarks and achievement of final indicators. Project implementing partners will be responsible for the collection of data from agreed sources of information, including their own data collection systems, to establish a baseline and track progress on results indicators in the respective contacts. For the engagement on public-private dialogue, monitoring will be done by the Delegation.

[31] at the same 'sector level' as other EU actions such as gender, digitalisation, cities and blue economy

For the budget support, the monitoring and evaluation frameworks are detailed in the selected sector policies and related strategic documents. The monitoring plans of the different policies track inputs (activities), outputs and outcomes based on SMART indicators, baselines, annual targets and sources. The data are collected and consolidated from different sources, including the Government's own systems (i.e. the accounting system). According to the track record of reporting on the selected policies, review and reporting generally happens quarterly for inputs (i.e. financial reports), twice a year for output indicators and no less than annually for outcome indicators. Progress reports for each policy are available to development partners, which form the basis for the policy dialogue, but not yet made public for purposes of domestic accountability. The actors responsible for monitoring of the policies include MoFP and TRA. The complementary support under F4G will provide support to monitoring systems to ensure credible baselines and support the Government to improve data quality. In line with the final evaluation of the Economic and Fiscal Governance programme, the complementary support will also complement Government monitoring systems with independent reviews and diagnostics for the same purpose and data verification. Civil society may also play a role in the monitoring of results.

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 and quality information is available as part of the official documents and reports from relevant stakeholders. Eligibility monitoring will be based on the policies M&E frameworks, PFM reform programme progress reports and policy dialogue with MoFP, TRA and other stakeholders. Additional studies and surveys to complement information available from existing / planned sources for measuring of indicators, if necessary, will be undertaken under specific objective 2 Private finance, by the implementer of outputs 2.1 and 2.2, using budget allocated to this part of the Action.

5.2 Evaluation

Having regard to the importance and nature of the action, mid-term and final evaluations may be carried out for this action or its components via independent consultants and contracted by the Commission or via an implementing partner.

The mid term evaluation may be carried out for problem solving and learning purposes, in particular with respect to the budget support and its complementarity with other modalities and components to assess the focussed sectoral approach to budget support chosen, which will inform the design of future budget support actions in Tanzania.

A final evaluation may be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this action covers a new area of cooperation to the EU Delegation (financial markets) and takes an innovative approach in aiming for complementarity of modalities with a small and focussed budget support.

The evaluations will be performed using a gender and human rights based approach, as per guidelines for integrating the gender dimension into evaluations of EU-funded actions. The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders. In case an evaluation is not planned, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

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 may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

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 or verification assignments 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 in principle 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 multi annual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

Appendix 1 REPORTING IN OPSYS

An Intervention (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.

The present Action identifies as

Action level		
☒	Single action	Present action: all contracts in the present action
Group of actions level		
☐	Group of actions	Actions reference (CRIS#/OPSYS#): <Present action> <Other action>
Contract level		
☒	Single Contract 1	Support entity: Indirect management with pillar assessed entity – cf. section 4.4.6, output 3.1, EUR 3 000 000
☒	Single Contract 2	Support entity: Procurement (direct management) - cf. section 4.4.4, output 3.3, EUR 3 000 000
☒	Group of contracts 1	Groups of contracts for the different outputs: Group of contracts 1 – Objective 1: • Budget Support (PFM and DRM elements) • Output 1.1, 1.2 and 1.3: Indirect management with pillar assessed entity – cf. section 4.4.5, EUR 4 000 000 • Output 3.2: Grant (direct management) - cf. section 4.4.3, EUR 2 000 000 Group of contracts 2 – Objective 2: • Budget support (Access to finance elements) • Output 2.1 & 2.2 microfinance: Grant (direct award) – cf section 4.4.1, EUR 4 000 000 • Output 2.1 & 2.2 microfinance: Grant (direct award) – cf section 4.4.1, EUR 4 000 000