

2024 -
June

TANZANIA, UNITED REPUBLIC OF

Component: Revenue and Spending

Module: RM II – Revenue Administration

SM II – Managing Public Finances

TANZANIA

PROJECT SUMMARY	
COUNTRY:	Tanzania
LEAD DEPARTMENT:	FAD
REGION:	AFR
PROGRAM ID:	[To be filled out by Secretariat]
PLANNED DATES:	FY25 - FY27
FUNDING PROGRAM TITLE:	GPFP Tanzania
PROJECT MANAGERS:	Ian Hawkesworth, Lead (FADM1)
RM II - REVENUE ADMINISTRATION:	Thabo Letjama (FADR2)
SM II – MANAGING PUBLIC FINANCE:	Ian Hawkesworth (FADM1)
ESTIMATED BUDGET	\$863,318
BUDGET FOR ENDORSEMENT:	\$401,740

Contents

PROJECT SUMMARY	2
Acronyms	4
I. Project Purpose.....	5
II. Background	6
Macro-fiscal situation.....	6
Country engagement and alignment to reform priorities	6
IMF priority areas / cross-cutting themes	6
III. Project Modules - Description	7
Table 1. Summary of Objectives covered by the Proposal.....	7
A. RM II - Revenue Administration	7
Scope	7
Program Objectives	7
Expected Results (outcomes)	7
B. SM II – Managing Public Finances	8
Scope	8
Program Objectives	8
Expected Results (outcomes)	8
IV. Organizational Arrangements	8
A. Country Engagement	8
B. Delivery Modalities	9
C. Coordination / Cooperation	9
V. Risk Assessment and Mitigation.....	10
VI. CD Delivery Plan	11
Table 2. Summary of Indicative CD Delivery	11
Table 3. First year workplan.....	11
VII. Program Financials	12
VIII. Targeted Logical Framework.....	12
A. RM II – Revenue Administration.....	12
B. SM II – Managing Public Finances.....	12

ACRONYMS

AFRITAC	IMF's Africa Regional Technical Assistance Center
CD	Capacity development
EI	Extractive industry
FAD	IMF's Fiscal Affairs Department
MTRS	Medium-term revenue strategy
PFM	Public financial management
PIMA	Public Investment Management Assessment
NDV	National Development Vision
RSF	Resilience and Sustainability Fund
STX	Short-term expert

I. PROJECT PURPOSE

The IMF in July 2022 approved a 40-month arrangement for Tanzania under the Extended Credit Facility (ECF). The program focuses on three key areas: (i) strengthening fiscal space through improved revenue mobilization and spending quality; (ii) advancing the structural reform agenda; and (iii) safeguarding macro-financial stability and advancing financial deepening.

The Tanzanian authorities are committed to designing and implementing a medium-term revenue strategy (MTRS) that aims to fund its development goals and a sustainable fiscal and debt position. Development of the MTRS and its implementation plan and their submission to cabinet by end of June 2024 is a structural benchmark under this program. The MTRS will be for three years (2024/25- 2026/27) and targets to raise revenue from an estimated 11.3 percent to 15 percent—a 3.7 percentage points increase. The MTRS also aims to fund Tanzania's aspirations of its National Development Vision (NDV) 2025 and its Third Five-Year Development Plan (FYDP III). The Authorities requested support for implementation of the MTRS post its approval by Cabinet.

Climate change poses a major threat, as Tanzania is highly vulnerable but not well-prepared to address the effects of climate change. In this context, the authorities have requested an arrangement under the Resilience and Sustainability Fund (RSF) that is currently being finalized. It is expected that RSF will build on the 2022 Climate Public Investment Management Assessment (Climate-PIMA). In addition, the Revolutionary Government of Zanzibar has requested from the IMF's Fiscal Affairs Department (FAD) support for the President's Office for Finance and Planning on improved and inclusive performance-based budgeting with a special focus on gender budgeting. The project will support the Government of Zanzibar in developing the relevant climate related public financial management (PFM) tools and support the Government of Zanzibar in its inclusive budgeting reform efforts.

The project will cover the following modules:

- Module II - Revenue administration
- Spending Module II – Managing Public Finances

The estimated budget for this three-year project is \$863,318 but endorsement is requested for \$401,740 in FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

II. BACKGROUND

Macro-fiscal situation

In its NDV 2025, Tanzania aims to build a society with: (i) a better life, peace, stability, and solidarity; (ii) good governance; (iii) a better education and learning culture; and (iv) a competitive economy capable of inclusive and sustainable growth. At the same time, climate change poses a major threat, as Tanzania is highly vulnerable but not well-prepared to address the effects of climate change. To help achieve this ambition, Tanzania has developed the FYDP III—the last in the implementation of the Long-term Perspective Plan (2011/12–2025/26) designed to implement the NDV 2025. At 11.3 percent of GDP in 2022/23, Tanzania's tax revenue is below its estimated potential, and revenues have continued to fall below budget expectations. Reforms to broaden the tax base, modernize tax administration, reduce compliance costs, rationalize tax exemptions, and encourage business formality will improve economic efficiency and increase revenues. Against this background, the authorities have decided to develop and approve a MTRS and its implementation plan by end of June 2024. The government has also requested an arrangement under the RSF that is currently being finalized, which will help the country to streamline climate sensitivity across the government and to address its climate challenges.

Country engagement and alignment to reform priorities

The IMF in July 2022 approved a 40-month arrangement for Tanzania under the Extended Credit Facility (ECF). The program focus areas include strengthening fiscal space through a number of measures. With submission of the MTRS and its implementation plan to cabinet being a structural benchmark, this project aims to support the authorities to deliver on this commitment and strengthen revenue mobilization in the medium-term. By linking revenue mobilization and climate change, gender, to Tanzania's medium-term spending needs, and in support of its development agenda, the project will ultimately improve internal coordination and provide a single view of FAD support to Tanzania.

IMF priority areas / cross-cutting themes

The project will support the Tanzania Revenue Authority in implementing its digitization strategy and the Tanzania and Zanzibar Ministries of Finance in implementing green and gender budgeting respectively. The strategy aims to ensure that all tax and customs processes are adequately supported by revenue administration systems that are able to share data among themselves and with third-parties. It also aims to strengthen data analysis capability to strengthen compliance risk management. On public finances, it aims to support the achievement of reform measures under the anticipated RSF program, and the introduction of gender budgeting in Zanzibar.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide capacity development (CD) support to Tanzania in the area of revenue administration, climate related PFM and inclusive performance-based budgeting. FAD CD will support improvements within the strategic objectives presented in Table 1 below:

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	Strengthened revenue administration management and governance arrangements
Spending	SM II / Managing Public Finance	Frameworks to build Sustainable Fiscal Institutions and Frameworks

A. RM II - Revenue Administration

Scope

At 11.3 percent of GDP, tax revenue in Tanzania is low relative to potential, there is inadequate capacity on transfer pricing audits, and there is no framework on compliance management of the extractive industry (EI). The project aims to assist the authorities with implementation of the MTRS largely focusing on strengthening monitoring, ongoing review, governance structures, stakeholder engagement, and adoption of an effective reform methodology. Under the MTRS umbrella, targeted CD will be delivered to establish capacity for taxation of the EI sector, build capacity for transfer pricing audits, implement a digitization strategy, strengthen compliance risk management, and improve taxpayer registration processes for a more reliable taxpayer register- accurate, updated, and complete.

Program Objectives

The objectives of the Project are to: (i) assist the authorities to attain a tax to GDP ratio of 15 percent by June 2027 targeted by their MTRS; (ii) strengthen registration processes; (iii) support implementation of a digitization strategy; and (iv) develop adequate capacity for management of EI and international taxation. The program also aims to strengthen internal coordination, initially with the IMF's Africa Regional Technical Assistance Center – East (AFRITAC East) and ultimately across FAD, and with other development partners.

Expected Results (outcomes)

The project will assist the authorities to achieve the following outcomes: (i) effective compliance risk management program; (ii) improved reliability of the taxpayer register with accurate, complete and updated taxpayer data; (iii) strengthen audit capacity resulting in increase in audit yields including improvement in yields from transfer pricing audits; (iv) an effective framework in place for management of the EI; and (v) revenue administration systems in place and adequately supporting tax and customs functions, and able to share data among themselves and with third-parties.

B. SM II – Managing Public Finances

Scope

Tanzania is highly vulnerable to climate change which poses significant risks to its macroeconomic, fiscal, and social development. Individual climate-related events have caused economic costs estimated at more than 1 percent of GDP per year and occur regularly, reducing long-term growth. The authorities are requesting the RSF arrangement to address gaps in Tanzania's climate adaptation and mitigation policies identified by diagnostic assessments. This project will focus on mainstreaming climate policies in budgeting and public investment planning. It will do so by providing CD that could include establishing capacity for implementing the Climate PIMA recommendations on how to mainstream climate issues across the infrastructure cycle and other demand led initiatives.

The Zanzibar Ministry of Finance requested support on gender budgeting, following from a high-level regional event on gender equality organized by UN Women and AFRITAC East in Tanzania in November 2023. This builds on high level political support from the Tanzanian government on gender equality. Working with UNICEF, the Ministry has been making promising steps forward on initiating reforms and are interested in IMF support to align reforms with good practice from the region and with other suitable peers. FAD support would start with an assessment of existing capabilities to ensure that reform ambitions are tailored to the PFM foundations in Zanzibar, with an aim to produce a medium-term roadmap and short-term action plan, which could be further supported by UNICEF.

Program Objectives

The objectives of the program are to support the governments to

- (i) Issue and apply methodological guidelines and other initiatives to enhance the capacity for climate sensitive PFM; and
- (ii) undertake necessary initiatives to support the implementation gender budgeting reforms.

Expected Results (outcomes)

The project will assist the authorities to achieve the following outcomes: (i) enhanced PFM system capacity to align policies and key documents with official climate objectives; (ii) the production of a gender budgeting roadmap outlining the needed reform steps.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

Following a lull from 2017, engagement restarted with two Headquarters led missions in September 2023: the Tax Administration Diagnostic Assessment (TADAT) and customs diagnostic mission. Subsequently, the authorities made a request for support with development of an MTRS and its implementation plan, and a mission in April 2024 assisted the authorities to develop the strategy. FAD's PFM Division 1 (FADM1) undertook a PIMA and Climate-PIMA in December 2022; an AFRITAC East mission on National training for budget analysts (November 2022); National training to strengthen the capacity to assess compliance with accrual International Public Sector Accounting Standards (IPSAS) (August 2022); and

TANZANIA

Zanzibar, expenditure prioritization and budget costing (November 2021 and December 2022). A number of additional missions are planned from AFRITAC East and will be coordinated with this project.

This project will provide further follow-up to support the ministry of finance, Tanzania Revenue Authority, and other parties to improve compliance and also strengthen capacity in line with the project objectives.

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert (STX) work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.
- **Short-term expert (STX) visits** to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration and public financial management. The project will seek to use Portuguese-speaking experts.

C. Coordination / Cooperation

Coordination			
Partner	Type of coordination	Area of coordination	Frequency
Tanzania IMF Resident Representative	Supporting program benchmarks	Revenue - customs and tax Managing Public Finances	Half yearly
Cooperation			
Partner	Type of coordination	Area of coordination	Frequency
Danish International Development Agency (DANIDA), European Union (EU); United Kingdom's Foreign Commonwealth and Development Office (FCDO); Free Trade Agreement (FTA), German Agency for International Cooperation (GIZ); His Majesty's Revenue & Customs (HMRC); Japan International Cooperation Agency (JICA); United Nations Development Programme (UNDP); and World Bank (WB)	Agree on areas to be covered by each donor	Revenue - Including tax and customs Managing Public Finances	Ad-hoc

V. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Assessment	Mitigation Measures
Political Support			
RM II	Government strong oversight of the MTRS reforms and monitoring of results	Medium	Strong engagement of Government on MTRS implementation in liaison with the Country Team.
SM II	There may be a lack of political support for green and gender budget reforms	Medium	Strong engagement with government in the context of RSF reform measures and priorities identified by central and sub-national governments.
Management and Technical Staff Support and Commitment			
RM II	Government commitment to MTRS implementation	High	Guide authorities on MTRS strong governance and leadership of the MTRS process
SM II	Coordination can be challenging as decisions are centralized	High	Foster coordination by inviting multiple stakeholders to trainings and workshops
Resource Adequacy			
RM II	MTRS reforms not costed, and necessary resources not provided for MTRS implementation	Very High	Authorities strongly encouraged to make a cost/benefit analysis of the MTRS and provide resources to implement high priority measures.
SM II	Local resources may be insufficient for reaching all counterparts for reform	High	CD will aim to foster collaboration through workshops and collective discussions.

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM II – Revenue Administration						
HQ led CD mission	2	-	1	1	-	4
LTX Visits	-	1	-	-	-	1
STX visits	3	3	3	-	-	9
Subtotal	5	4	4	1	-	14
SM II – Managing Public Finances						
HQ led CD mission	1	-	-	-	-	1
STX visits	1	-	-	-	-	1
Subtotal	2	-	-	-	-	2
TOTAL	7	4	4	1	-	16

Note:

- In-person delivery was chosen in most instances because of strong preference for in person support by the authorities and poor technology available in Tanzania for remote support.
- Remote delivery was chosen several instances because of the short duration of the activity and the nature of the activity- this is largely used for follow-ups and progress reviews.
- Collectively the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, and remote activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM II - Revenue Administration		
Q2/FY25	Field-Based work - FB	MTRS Strategy
Q2/FY25	Field-Based work - FB	Digitalization Strategy
Q2/FY25	Field-Based work - FB	Taxpayer Register Accuracy
Q4/FY25	Field-Based work - FB	Risk Management (Managing Natural Resources and Wealth/MNRW)
SM II – Managing Public Finances		
Q3/FY25	Field-Based work - FB	Climate sensitive PFM and PIM
Q4/FY25	Field-Based work - FB	Gender budgeting (Zanzibar)

VII. PROGRAM FINANCIALS

	FY25	FY26	FY27	FY28	FY29	Total
RM II - Revenue Administration	\$150,842	\$110,449	\$320,932	-	-	\$582,223
SM II – Managing Public Finances	\$224,616	-	-	-	-	\$224,616
Subtotal	\$375,458	\$110,449	\$320,932	-	-	\$806,839
Trust fund management fee (7%)	\$26,282	\$7,731	\$22,465	-	-	\$56,479
Total	\$401,740	\$118,180	\$343,397	-	-	\$863,318

The estimated budget for this three-year project is \$1,010,724 and endorsement is requested for \$401,740 for FY25.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM II – Revenue Administration

Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1) – RAM	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	Multi-year reform implementation plan, with supporting resource plan, adopted and well communicated

B. SM II – Managing Public Finances

Objective	
Frameworks to build Sustainable Fiscal Institutions and Frameworks - FIF	
Outcome(s)	Indicator(s)
Strengthened capacity to plan, implement and sustain priority area reforms including climate, gender, and SDGs	Completed diagnostic of gender responsive budgeting framework
	Developed strategic and/or operational climate, gender or SDG action plans