

**AGREEMENT**  
**BETWEEN**  
**THE NORWEGIAN MINISTRY OF FOREIGN AFFAIRS**  
**AND**  
**THE GOVERNMENT OF THE UNITED REPUBLIC OF**  
**TANZANIA**  
**REGARDING**  
**STRENGTHENING CAPACITY ON REVENUE**  
**FORECASTING, TAX POLICY, AND TAX LEGISLATION**

WHEREAS the Government of the Kingdom of Norway (Norway) and the Government of the United Republic of Tanzania (Tanzania) have entered into an agreement dated 14 May 1986 regarding cooperation for promotion of the economic and social development of Tanzania which has been prolonged by Addenda of which the latest is dated 1 November 2007 (the Main Agreement),

WHEREAS Tanzania in letter dated 9 September 2006 has requested Norway for support to Strengthening Capacity on Revenue Forecasting, Tax Policy, and Tax Legislation in the Policy Analysis Department of the Ministry of Finance, and

WHEREAS the Norwegian Ministry of Foreign Affairs (MFA) has decided to comply with the request,

NOW THEREFORE MFA and Tanzania (the Parties) have reached the following understanding which shall constitute an Agreement between the Parties:

**Article I Scope and objectives**

1. This Agreement sets forth the terms and procedures for MFA's support to Strengthening Capacity on Revenue Forecasting, Tax Policy, and Tax Legislation in the Policy Analysis Department (PAD) of the Ministry of Finance, (the Programme) as outlined in the Agreed Programme Summary in Annex I and further described in the Programme Document "Strengthening Capacity on Revenue Forecasting, Tax Policy, and Tax Legislation in the Policy Analysis Department of the Ministry of Finance, Tanzania", dated June 2007.
2. The Goal of the Programme is to contribute to reducing poverty on Tanzania.  
The Purpose of the Programme is improve capacity for analysis in PAD.
3. The Parties may agree on extending existing or including new Programme elements within the Programme, as well as on re-allocating funds within the Programme. Any such agreement shall be in writing, e.g. recorded in the Agreed Minutes from the consultations mentioned in Article VI.

## **Article II Cooperation – Representation**

1. The Parties shall communicate and cooperate fully with the aim to ensure that the Goal and Purpose are successfully achieved. The Parties further agree to cooperate on preventing corruption within and through the Programme, and undertake to take rapid legal action to stop, investigate and prosecute in accordance with applicable law any person suspected of misuse of resources or corruption. The Parties shall immediately inform each other of any indication of corruption or misuse of resources related to the Programme.
2. In matters pertaining to the implementation of the Programme the Norwegian Embassy Dar es Salaam (the Embassy) and the Ministry of Finance of Tanzania (the Ministry) shall be competent to represent MFA and Tanzania respectively. All communication regarding the Agreement shall be directed to the Embassy.

## **Article III Contribution of MFA**

1. MFA shall, subject to Parliamentary appropriations, make available to Tanzania a financial grant not exceeding NOK 8 000 000 (Norwegian kroner eight million) (the Grant) to be used exclusively to finance the Programme in the planned period 2008-2009.
2. Any accrued interests on the Grant may be used for the benefit of the Programme if agreed on by the Parties in writing.
3. Any unspent disbursed funds and accrued interests shall be returned to MFA upon completion of the Programme.

## **Article IV Contributions and obligations of Tanzania**

Tanzania shall through the Ministry of Finance as implementing ministry be responsible for implementing the Programme, and shall hereunder:

1. Have the overall responsibility for the planning, implementation, reporting and monitoring of the Programme,
2. ensure that the Grant is used according to approved work plans and budgets,
3. ensure that Programme funds, which shall include any accrued interests, are properly accounted for, and that the Grant is reflected in the plans, budgets and accounting of Tanzania,
4. promptly inform MFA of any circumstances that interfere or threaten to interfere with the successful implementation of the Programme,
5. ensure that all permits, import licenses and foreign exchange permissions that may be required are granted,
6. ensure that representatives of Norway are permitted to visit any part of Tanzania for purposes related to the Agreement and examine any relevant records, goods and documents,
7. provide sufficient qualified personnel and all financial and other resources required in addition to the Grant.

## Article V Disbursements

1. The Grant will be disbursed upon semi-annual written requests from Tanzania based on the financial needs of the Programme and, except the first request, on approved work plans and budgets. The first disbursement, amounting to NOK 2 million, will be made upon signing of this Agreement and approval by MFA of a disbursement request from Tanzania.
2. When determining the amount to request, Tanzania shall take into account unspent disbursed amounts and income from all sources as well as any accrued interests which the Parties have agreed on using for the benefit of the Programme according to Article III, Clause 2.

Along with the requests, except the first request, Tanzania shall state the cash balance of the Programme and submit a statement of bank balances for the Programme from the bank.

3. Funds will be transferred upon MFA's approval of the requests to a bank account with the Ministry of Finance

Tanzania shall immediately, in writing, acknowledge receipt of the funds. The date of receipt shall be stated as well as the exchange rate applied.

4. All disbursements to suppliers of goods or services shall be made by Tanzania.

## Article VI Annual Meeting

1. Representatives of the Parties shall have an Annual Meeting within the second quarter in each year in order to:
  - Discuss the progress of the Programme, including results and fulfillment of agreed obligations,
  - discuss and, if feasible, approve annual work plans and budgets for the following year,
  - discuss issues of special concern for the implementation of the Programme, such as the major risk factors set out in the Agreed Programme Summary in Annex 1, and how to manage such risks/issues.

Each of the Parties may include others to participate as observers or as advisors to their delegations.

2. The documentation specified in Articles VII and IX shall form the basis for the consultations.
3. The Annual Meeting shall be called and chaired by the Ministry of Finance.
4. Main issues discussed and points of view expressed as well as any decisions shall be recorded in Agreed Minutes. The Agreed Minutes shall be drafted by Tanzania and be submitted to MFA for comments no later than two weeks after the Annual Meeting.

## Article VII Reports

1. Tanzania shall submit to MFA the reports and documentation specified below. MFA shall respond within three weeks upon reception of the reports and documentation.
2. A progress report shall be submitted annually within three weeks before the annual meeting.

The progress reports shall be prepared in accordance with the format in Annex 2 to this Agreement, and shall include the following information:

- A description of actual outputs compared to planned outputs (as defined in the work plans),
  - a brief summary of the use of funds compared to budget,
  - an assessment of the efficiency of the Programme (how efficiently resources/ inputs are converted into outputs),
  - an explanation of major deviations from plans,
  - an assessment of problems and risks (internal or external to the Programme) that may affect the success of the Programme,
  - an assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation.
3. A work plan shall be submitted annually within three weeks before the Annual Meeting. The work plan shall specify planned outputs and time schedules for the next fiscal year.
4. The following annual financial statements and budget shall be submitted within three weeks before the Annual Meeting each year:
- a. Financial statements for the Programme consisting of:
- i) A statement showing cash receipts/income and expenditures for the previous period structured as and compared to approved budgets for such previous period as well as accumulated for the Agreement period. The statement shall capture all sources of funding, with sufficient segregation of data to permit identification of individual sources of funds and disbursements on major Programme activities or types of expenditure,
  - ii) a statement of cash and bank balances,
  - iii) relevant notes to the above mentioned statements including a description of the accounting policies used and any other explanatory material necessary for transparent financial reporting of the Programme.
- b. Budget for the Programme for the coming fiscal year showing estimated income from all sources and planned expenditures.
- The financial statements and budget(s) shall give complete and detailed information on the financing of the Programme.
5. A final report shall be submitted within six months after the completion of the present phase of the Programme. If the Programme is not completed by December 2010, a status report shall be submitted to MFA by the said date. The final report shall include:
- The topics listed in Clause 2 above for the whole Agreement period,
  - an assessment of the effectiveness of the Programme, i.e. the extent to which the Purpose has been achieved,
  - an assessment of impact (if possible), i.e. the changes and effects positive or negative, planned and unforeseen of the Programme seen in relation to target groups and others who are affected,
  - an assessment of sustainability of the Programme, i.e. an assessment of the extent to which the positive effects of the Programme will still continue after the external assistance has been concluded,
  - a summary of main "lessons learned".

## Article VIII Procurement

1. Tanzania undertakes to effect all procurements of goods and services necessary for the implementation of the Programme.
2. The procurements shall be performed in accordance with generally accepted procurement principles, good procurement practices and the procurement regulations of Tanzania. Norwegian suppliers shall be given the same opportunities as other suppliers to compete for deliveries.

Tanzania shall observe the highest ethic standards during the procurement and execution of contracts, and shall ensure in its national legislation adequate and effective means to punish and prevent illegal or corrupt practices.

No offer, gift, payment or benefit of any kind, which would or could, either directly or indirectly, be construed as an illegal or corrupt practice, e.g. as an inducement or reward for the award or execution of procurement contracts, shall be accepted. Invitations to make offers as well as the procurement contracts shall, respectively, include a clause stating that the offer will be rejected and/or the contract cancelled in case any illegal or corrupt practices have taken place in connection with the award or the execution of the contract.

3. Contracts entered into exceeding threshold amount USD 50 000 shall be submitted to MFA for information. The TOR for the consultancies will be submitted to MFA for information.

Along with the documentation mentioned above Tanzania shall confirm in writing that the procurement regulations agreed on in Clause 2 above, have been adhered to.

4. Tanzania shall upon request furnish MFA with all relevant information on its procurement practices and actions taken, and provide access to all related records and documents. MFA may require access to information even during the stage in the procurement procedure when it is restricted to the officers performing the procurement. Restrictions on such information shall be respected until the information can be made public without any risk of detriment to the result of the procurement.

## Article IX Audit

1. The annual financial statements of the Programme shall be audited by the Controller and Auditor General or an equivalent governmental audit body or an independent professional accountant/accountancy firm in public practice (external auditor/ audit firm) engaged by the Controller and Auditor General.
2. The audit shall be carried out in accordance with international auditing standards. The auditor shall state in the report which auditing standards that have been applied.
3. The audit report shall state the auditor's opinion/findings as to:
  - Whether the financial statements present fairly, in all material respects, the Programme's cash receipts/income and expenditures as well as the cash/bank/financial position in accordance with an acceptable financial reporting framework,
  - whether the audit has uncovered any material weaknesses in relevant internal control(s),
  - whether the audit has uncovered any illegal or corrupt practices,
  - whether funds have been used exclusively to cover Programme expenditures,
  - whether cash receipts/income and expenditures are properly accounted for.
  - whether the Grant is reflected in the budgets and accounting of the Ministry.

4. Tanzania shall submit to MFA the audit report and any other report from the auditor significant to the implementation of the Programme within the first quarter each year. Tanzania shall comment upon the auditor's findings. MFA shall respond within three weeks upon reception of the report.

#### **Article X Reviews – Evaluation**

1. Norway reserves the right to carry out independent reviews or evaluations of the Programme as and when MFA deems it necessary. The cost for such reviews will be covered by funds over and above the Grant.

#### **Article XI Reservations**

1. MFA reserves the right to withhold disbursements at any time in case e.g.:
  - The Programme develops unfavorably in relation to the Goal and Purpose,
  - substantial deviations from agreed plans or budgets occur,
  - resources to be allocated by Tanzania are not provided as agreed,
  - the documentation specified in Articles VII and IX has not been submitted as agreed,
  - the financial management of the Programme has not been satisfactory,
2. MFA reserves the right to reclaim all or parts of the Grant and cancel the Agreement if Programme funds are found not to have been used in accordance with the Agreement or are found not to be satisfactorily accounted for.
3. MFA has the right to cancel the Agreement or portion of the Agreement, and has the right to demand the cancellation of any contract financed under the Agreement, with immediate effect if it determines that corrupt or fraudulent practices were engaged in by representatives of Tanzania or by a beneficiary of Programme funds during procurement or execution of the contract without Tanzania having taken timely and appropriate action satisfactory to Norway to remedy the situation.
4. Before MFA withholds disbursements, reclaims funds or cancels the Agreement, the Parties shall consult with a view to reaching a solution in the matter.

#### **Article XII Distribution of the Agreement**

The Parties shall distribute copies of the Agreement to the respective ministries, authorities and other institutions involved in the Programme or otherwise in need of information on its content.

#### **Article XIII Entry into force – Termination – Disputes**

1. The Agreement shall enter into force on the date of its signature, and shall remain in force until the Parties have fulfilled all obligations arising from it. Whether the obligations are fulfilled, shall be determined in consultations by the Parties.
2. Notwithstanding the previous clause each Party may terminate the Agreement upon three months written notice.
3. If any dispute arises relating to the implementation or interpretation of the Agreement, the Parties shall consult with a view to reaching a solution.

IN WITNESS WHEREOF the undersigned, acting on behalf of their respective Governments, have signed the Agreement in two originals in the English language.

Done in Tanzania the 28 day of March of 2008.

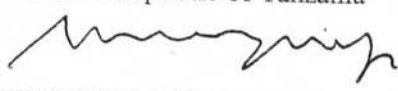
For the Norwegian Ministry  
of Foreign Affairs



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JON LOMØY  
Ambassador

For the Government of  
the United Republic of Tanzania



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GRAY S. MGONJA  
Permanent Secretary

Annexes:  
I. Agreed Programme Summary  
II. Format for progress reports

# Annex I Agreed Programme Summary

## Identification of the Programme

- Project: TAN-2297 Strengthening Public Financial Management
- Agreement: TAN-07/094 PAD Capacity and Studies
- Responsible Embassy: Norwegian Embassy in Dar es Salaam.
- Agreement Partner: Ministry of Finance (MOF)
- Implementing Institution: MOF.

## Description of the Programme

### Goal

The Goal of the Programme is to contribute to reducing poverty on Tanzania.

### Purpose

The Purpose of the Programme is improve capacity for analysis in PAD.

### Objective

The overall objective of the programme is to strengthen the capacity in the Policy Analysis Department (PAD) of the MOF on tax policy, tax legislation and revenue forecasting to allow PAD to carry out competently and confidently responsibilities assigned to the department in the tax area and to produce the required outputs on time and at an advanced level of quality.

### Outputs

- Study of the effective marginal tax rates in order to better understand the effect of taxation on investment;
- Study on VAT on services;
- Ways of improving contribution of non-tax revenue in the domestic resource mobilization;
- Review of the fiscal regime in mining sector;
- Development of an exemption policy; and
- Integration of Treasury Voucher tax expenditures into expenditures/budgets of Ministries.

### Inputs

- Costs related to local training (in-house and off-site) training of PAD staff in the tax area;
- Costs related to study tours, regional and overseas short courses;
- Costs related to short term missions undertaken by international, regional and national experts as part of the training of PAD staff;
- Minor amount for office and computer equipment, reference materials, supplies, and other materials and services used as inputs in achieving project objectives; and
- Financing of salaries given to professional candidates that are or will be recruited by MOF-TAN to work under the project for a prescribed period. The successful candidates must be suitably qualified and from the local job market; and
- Financing of studies as part of development of medium term revenue strategy.

### Main indicators

Finding perfect indicators for capacity building is extremely difficult. The indicators listed below will be used as proxies for the goal, purpose and objective of this project.

- Number of persons recruited by PAD
- Number of Non-Tax Revenue Studies Produced

- Number of Tax Policy Studies produced
- Government revenue (as a percentage of GDP)
- Government non-tax revenue (measured in Tanzanian Shilling)

Major risk factors (internal and external)

√ Capacity to implement project

Questions could be raised as to the capacity of the management of PAD to implement the project due to the work load of the department. However, the management has already hired most of the staff for the project and are undertaking several studies on its own. The additional work load of managing this

√ Implementation delays

Implementation delays are a risk that is inherent to all projects in Tanzania, and there were delays in hiring staff during the Twinning project. This risk is lower for this project as most of the staff already have been hired.

√ Political interference

This risk is minimal for the capacity building components, but could be a factor for the revenue studies. Significant government commitment to improved domestic revenue collection reduces this risk, and there has been no evidence of interference in recent economic studies, such as the PEFAR 2007 on parastatals.

√ Mismanagement of funds

The experience with PAD through the Twinning project has not led to any suspicions of mismanagement of funds. The funds in this project will be accounted for separately as a project in order to minimize the risk of mismanagement of funds.

The project contains relatively little money for procurement. Consequently this is considered a minor risk.

**Overall budget**

Financial Cooperation Agreement Ministry of Finance of Tanzania and Government of the Kingdom of Norway Strengthening Capacity on Revenue Forecasting, Tax Policy and Tax Legislation 2 YEAR PROJECT BUDGET - US dollars			
	2008	2009	TOTAL
	US\$	US\$	US\$
<b>Item 1. National services</b>			
1,1 National Recruitment	210 000	210 000	420 000
<i>Sub-total:</i>	<i>210 000</i>	<i>210 000</i>	<i>420 000</i>
<b>Item 2. Capacity Building Activities</b>			
Capacity Building Activities including moderate office			
2,1 equipment	100 000	100 000	200 000
<i>Sub-total:</i>	<i>100 000</i>	<i>100 000</i>	<i>200 000</i>
<b>Item 3. Medium Term Revenue Strategy</b>			
3,1 Non Tax Revenue Study	100 000	-	100 000
3,2 Tax Policy Studies	300 000	-	300 000
<i>Sub-total:</i>	<i>400 000</i>	<i>-</i>	<i>400 000</i>
<i>Grand Total:</i>	<i>710 000</i>	<i>310 000</i>	<i>1 020 000</i>

## Annex II Format for Progress reports

- A description of actual outputs compared to planned outputs (as defined in the work plans),
- a brief summary of the use of funds compared to budget,
- an assessment of the efficiency of the Programme (how efficiently resources/ inputs are converted into outputs),
- an explanation of major deviations from plans,
- an assessment of problems and risks (internal or external to the Programme) that may affect the success of the Programme,
- an assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation.

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