**TERMS OF REFERENCE FOR**

**CONSTRUCTION OF BUSINESS CYCLES LINKING REVENUE COLLECTION PERFORMANCE IN TANZANIA**

**1.0 Introduction**

Business cycles are downward and upward movements of levels of [gross domestic product](http://en.wikipedia.org/wiki/Gross_domestic_product) (GDP) and other macroeconomic related variables. It refers to the period of expansions and contractions in the level of economic activities (business fluctuations) around its long-term growth trend. These fluctuations occur around a long-term growth trend, and typically involve shifts over time between periods of relatively rapid economic growth (an [expansion](http://en.wikipedia.org/wiki/Economic_expansion) or [boom](http://en.wikipedia.org/wiki/Economic_boom)), and periods of relative stagnation or decline (a contraction or [recession](http://en.wikipedia.org/wiki/Recession)). The upward and downward movements of macroeconomic variables include GDP growth of domestic and external economies, inflation, exchange rate, credit to the private sector, investment levels and more others. These variables need to be monitored and detect their short and medium-term influence on revenue collection. This would assist in providing early warning to the policy-making machinery to device means of adjusting or redirecting the movements of macroeconomic variables that affect revenue collection so that the government may stay focused in its fiscus endeavors. In view of that Tanzania Revenue Authority (TRA) through the Research and Policy Department in one of its duties, monitors movements of economic variables and the way they affect revenue collection.

* 1. **Functions of Tanzania Revenue Authority**

Accordingto the TRA Act Cap 399, the main functions of TRA are to: -

1. Assess, collect and account for Central Government revenues,
2. Administer effectively and efficiently the revenue laws of the Central Government,
3. Advice the Government on matters related to fiscal policy,
4. Promote voluntary tax compliance,
5. Improve the quality of service to the taxpayers,
6. Counteract fraud and other forms of tax evasion,
7. Produce trade statistics and publications.

The Research and Policy Department among other things, undertakes the function of provision of fiscal policy advice after carrying out analyses for informed advice. Business cycles analysis is one of the tools in this attempt.

* 1. **Essence of Procuring Consultancy Service**

Macroeconomics Section in the Research and Policy Department has been monitoring and doing analyses of macroeconomic variables in relation to their impact on revenue collection, on quarterly basis, and produce reports that give short term and medium term recommendations to safeguard revenues. Much as the Section continues to produce quarterly reports, the long term analysis of the behavior of these variables (business cycles) would bring in a more meaningful advice to the Government as regards to policy formulation to bring about stability of revenue collection through the interplay of allied macroeconomic variables. The consultancy is therefore sought to carry out such analysis while giving a different flavor of analysis broadening staff knowledge of linking business cycles with revenue issues so that to produce sound policy advice to Government.

1. **Objectives for Construction of Tanzania Business Cycles**

The main objective for the construction of business cycles is to have a short and medium term analysis of the movements of GDP growth and other related macroeconomic variables needed for policy-making process. The business cycles analysis will also serve to device means of formulating policies to adjust or redirect the movements of macroeconomic variables that affect revenue collection. With this boarder objective therefore, TRA intends to hire an independent consultant to carry out specific objectives as stipulated hereunder;

1. Examine nature, main features and causes of business cycles for Tanzania and their associated reasons for occurrence;
2. Analyze economic sectors’ behavior and sectoral revenue data and determine the more responsive sectors in terms of upward and downward movements as well as their impact on revenue;
3. Undertake analysis of business cycles linking with tax revenue collections;
4. Prepare a model report on Tanzania business cycles linking with tax collection.
5. **Duties, Responsibilities**

TRA as a Client and the consultant will have specific functions or duties to perform for a successful completion of this assignment as stipulated below:

* 1. **Consultant**

The Consultant shall be responsible for carrying out the study diligently and in a professional way by carrying out a number of activities but are not limited to:

1. Reviewing the performance of economy at least for the past fifteen years by examining both quantitative and unquantifiable factors (such as policy changes, Effects of Global Financial crisis and others factors);
2. Assessing reasons for output fluctuations by categorising them into ‘real disturbances’ and ‘monetary disturbances’ in each category specify leading factors for output fluctuations examining main features, trends and cycles;
3. Assess revenue collection performance as an aggregate and by sector linking to reasons for output fluctuations at least for the past fifteen years;
4. Establish common shocks on investment profitability, consumptions and other taxable bases for the past fifteen years;
5. Preparation of model report on Tanzania business cycles linking with tax collection.
   1. **The client**

The Client (TRA through RPD) will provide the Consultant with data, relevant documents, and assistance to the Consultant to obtain any other material and information from within TRA if needed. The Client will also, at his own cost, provide qualified personnel to work with Consultant. Drawing from objectives, it is envisaged that some members from RPD will work closely with the Consultant as part of capacity building but the responsibility of carrying out the task will remain with the Consultant.

1. **Outputs of the Study and Time frame**

The major deliverables from this task are:

1. An inception report in a period of three weeks following commencement of the assignment. The report should also include the work plan for completion of the assignment;
2. Preliminary report containing the consultant’s initial findings and data collected, and indicating the issues to which TRA may need to give early consideration before the final draft is produced. This task should be within the 4th week after the inception report;
3. A final Model draft report containing analysis of Tanzania business cycles linking with tax collection. This will include findings and recommendations and it should be produced within two weeks after TRA comments;
4. **Working Relationship**

In dealing with TRA, the Consultant will report to the Director for Research and Policy (DRP) but day to day consultancy work will involve working together with staff in the Macro Section as a way of sharing knowledge and expertise. DRP will act as a link between the TRA Management and the Consultant whereas the Consultant shall submit all his deliverables through the DRP. These include an inception report, preliminary report, draft report and final report which contains such other items as clarified in **Section Four** of this TOR.

1. **Key Competencies of the Consultants**

The prospective Consultant for this work should have a team of minimum of two experts with key area of expertise and competencies as described below:

* 1. **Lead Consultant**

The lead consultant need to be an economist or public finance expert or an equivalent qualification with not less than a PhD qualification preferably with relevant expertise and proven experience in modelling, research and analytical skill of linking business cycles with revenue collection for not less than 10 years. Evidence of research work in construction of Tanzania business cycles should be a compulsory requirement.

* 1. **Other Consultant**

The other consultant should be economist, public financiers or tax expert at post graduate level, with proven knowledge in taxation matters. She/he also must have been involved at least once in a similar assignment in the last five years.

* 1. **COST**

The prepared budget for the construction of business cycles linking revenue collection performance is **Tshs 35,676,000/=** under **ABB CP04001- 4060523.**