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Tanzania First Inclusive and Resilient Growth Development Policy Financing (P178156)

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Report No: PGD339

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED CREDIT

IN THE AMOUNT OF US\$500 MILLION

(COMPRISING US\$250 MILLION FROM THE REGULAR SCALE UP WINDOW,  
US\$250 MILLION FROM THE SCALE UP WINDOW-SHORTER MATURITY LOANS)

TO

UNITED REPUBLIC OF TANZANIA  
FOR THE

TANZANIA FIRST INCLUSIVE AND RESILIENT GROWTH  
DEVELOPMENT POLICY FINANCING

November 21, 2022

Macroeconomics, Trade And Investment Global Practice  
Eastern And Southern Africa Region

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United Republic of Tanzania

**GOVERNMENT FISCAL YEAR***July 1 – June 30***CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of October 31, 2022)

Currency Unit

US\$1.00 = THS 2,330.0

**ABBREVIATIONS AND ACRONYMS**

ADB	African Development Fund	MOFP	Ministry of Finance and Planning
BOP	Balance of Payments	MSME	Micro, Small, and Medium Enterprise
BoT	Bank of Tanzania	MSP	Micro Service Provider
BRELA	Business Registration and Licensing Agency	MTEF	Medium-Term Expenditure Framework
CAR	Capital Adequacy Ratio	NHIF	National Health Insurance Fund
CHF	Community Health Fund	NPL	Non-Performing Loan
CPF	Country Partnership Framework	OSHA	Occupational Safety and Health Authority
CPI	Consumer Price Index	OTR	Office of the Treasury Registrar
DSA	Debt Sustainability Analysis	OTRMIS	Office of the Treasury Registrar Management Information System
EAC	East African Community	PER	Public Expenditure Review
ENCB	External Non-Concessional Borrowing	PIM	Public Investment Management
EOI	Expression of Interest	PPP	Public Private Partnership
EU	European Union	PRSC	Poverty Reduction Support Credit
FDI	Foreign Direct Investment	PV	Present Value
FYDP	Five Year Development Plan	RCF	Rapid Credit Facility
GDP	Gross Domestic Product	SADC	Southern African Development Community
GNP	Gross National Product	SCD	Systematic Country Diagnostic
GoT	Government of Tanzania	SDFP	Sustainable Development Financing Policy
IBRD	International Bank for Reconstruction and Development	SDR	Special Drawing Rights
IDA	International Development Association	SHIB	Social Health Insurance Benefit
IFC	International Finance Corporation	SOE	State Owned Enterprise
ILO	International Labor Organization	TDV	Tanzania Development Vision
IMF	International Monetary Fund	TIA	Tanzanian Investment Act
LCU	Local Currency Unit	TIC	Tanzania Investment Center
LDP	Letter of Development Policy	TRA	Tanzania Revenue Authority
LGA	Local Government Authority	UHI	Universal Health Insurance
LMIC	Lower Middle Income Country	VAT	Value Added Tax
MFI	Micro Finance Institution	WBG	World Bank Group

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**UNITED REPUBLIC OF TANZANIA**

**TANZANIA FIRST INCLUSIVE AND RESILIENT GROWTH DEVELOPMENT POLICY FINANCING**

**TABLE OF CONTENTS**

<b>SUMMARY OF PROPOSED FINANCING AND PROGRAM .....</b>	<b>3</b>
<b>1. INTRODUCTION AND COUNTRY CONTEXT .....</b>	<b>5</b>
<b>2. MACROECONOMIC POLICY FRAMEWORK.....</b>	<b>8</b>
2.1. RECENT ECONOMIC DEVELOPMENTS.....	8
2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY .....	12
2.3. IMF RELATIONS .....	14
<b>3. GOVERNMENT PROGRAM .....</b>	<b>15</b>
<b>4. PROPOSED OPERATION .....</b>	<b>15</b>
4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION .....	15
4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS .....	16
4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY .....	27
4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS .....	28
<b>5. OTHER DESIGN AND APPRAISAL ISSUES .....</b>	<b>28</b>
5.1. POVERTY AND SOCIAL IMPACT .....	28
5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS .....	29
5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS.....	30
5.4. MONITORING, EVALUATION AND ACCOUNTABILITY .....	31
<b>6. SUMMARY OF RISKS AND MITIGATION .....</b>	<b>32</b>
<b>ANNEX 1: POLICY AND RESULTS MATRIX .....</b>	<b>34</b>
<b>ANNEX 2: FUND RELATIONS ANNEX .....</b>	<b>37</b>
<b>ANNEX 3: LETTER OF DEVELOPMENT POLICY.....</b>	<b>39</b>
<b>ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE .....</b>	<b>47</b>

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## SUMMARY OF PROPOSED FINANCING AND PROGRAM

### BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P178156	Yes	1st in a series of 2

### Proposed Development Objective(s)

The objective of the proposed development policy operation series is to support Tanzania's inclusive and resilient recovery and growth by supporting reforms to improve the environment for private sector growth and jobs creation, strengthen public sector efficiency and transparency, build resilience.

### Organizations

Borrower: THE UNITED REPUBLIC OF TANZANIA

Implementing Agency: Ministry of Finance and Planning

## PROJECT FINANCING DATA (US\$, Millions)

### SUMMARY

Total Financing	500.00
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### DETAILS

International Development Association (IDA)	500.00
IDA Credit	500.00

## INSTITUTIONAL DATA

### Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

### Overall Risk Rating

Moderate



## Results

Indicator Name	Baseline	Target
Results Indicator #1: FDI inflows as a share of GDP. <sup>1</sup>	1.6% (FY2021)	3.0% (FY2025)
Results Indicator #2: Percentage of banks meeting Basel II/III capital adequacy ratio (CAR).	0% (FY2021)	80% (FY2025)
Results Indicator #3a: The ratio of outstanding VAT refunds to VAT collections (in %).	10.5% (FY2022)	4.8% (FY2025)
Results Indicator #3b: Average time for processing of VAT refund.	360 days (FY2022)	90 days (FY2025)
Results Indicator #4: The share of SOEs enrolled in the OTRMIS system.	0% (FY2021)	80% (FY2025)
Results Indicator #5: Stock of verified arrears as % of expenditures.	9% (FY2021)	4.5% (FY2025)
Results Indicator #6a: The share of male population with health insurance coverage.	14.7% (FY2021)	30% (FY2025)
Results Indicator #6a: The share of female population with health insurance coverage.	14.7% (FY2021)	30% (FY2025)
Results Indicator #7: Number of banks complying with the guidance on governance, risk management and disclosure of climate related financial risk.	0 (FY2022)	35 (FY2025)
Results Indicator #8: The share of new public investment projects complying with the new PIM OM.	0% (FY2021)	75% (FY2025)
Results Indicator #9: The number of farmers registered by the National Farm Enterprise Registry.	0 (FY2021)	6 million (FY2025)

<sup>1</sup> FDI data for 2021 from World Development Indicators; other indicators from Government official statistics.



## IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE UNITED REPUBLIC OF TANZANIA

### 1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Operation (DPO), supports Tanzania’s institutional and policy reforms aimed at: (i) Improving the business environment for a more dynamic private sector, (ii) Strengthening public sector transparency and fiscal risk management, and (iii) Boosting economic resilience.** As the first operation in a programmatic series of two, the proposed DPO for US\$500 million International Development Association (IDA) credit from the Scale Up Window (SUW)<sup>2</sup> aims to support the Government of Tanzania’s reforms targeting, in the short-term, the facilitation of a private-sector led economic recovery from the compounding effects of the COVID-19 pandemic and the global economic fallout from the war in Ukraine. By reducing obstacles to private investment, and improving the sustainability and credibility of public policies through greater transparency and stronger fiscal risk management, these reforms are also designed to address the country’s longer run structural challenges, which have been aggravated by overlapping external shocks. Finally, following the World Bank Group’s “Green, Resilient and Inclusive Development Approach 2021”, the reforms supported by the DPO aim to strengthen the resilience of the Tanzanian economy by reinforcing the inclusiveness of economic processes and enhancing preparedness for future shocks, especially climate-driven factors which affect very low-income Tanzanians disproportionately.

2. **Tanzania has graduated to a Lower Middle-Income Country (LMIC) status in July 2020 following a long stretch of high growth and macroeconomic stability.** In the last two decades, Gross Domestic Product (GDP) growth averaged at 6.5 percent annually and was accompanied by strong macroeconomic fundamentals. These included a relatively low inflation pattern with sustainable fiscal and current-account deficits. Growth was largely driven by investments, and private investments were a key driver of total investments, comprising about three quarters of them. The country’s journey from a low-income economy to LMIC status has not only resulted in higher incomes but also improvements in infrastructure and social indicators. Encouraged by this strong historical performance, the 2025 Tanzania Development Vision (TDV) aspires to transform Tanzania as a middle-income country with well-developed human capital, ample supply of high-quality livelihood opportunities, and broad-based gains in living standards.

3. **In order to sustain a rapid growth momentum, and achieve her development aspirations, Tanzania needs to accelerate structural reforms.** While the country’s economic performance has been impressive historically, Tanzania faces new challenges that can threaten the country’s development momentum going forward. First, private investments have been losing steam, gradually being replaced by public investments. In the medium-term, boosting private investments and economic activity is a prerequisite for the next phase of growth and development in the country. Second, despite rapid growth, poverty rates have been stagnant in Tanzania. International experience shows that, while an initially rapid economic growth can lift economies up from low-income status, pushing the development agenda further requires shared prosperity. Third, unlike in the previous decades, Tanzania faces increasing climate change driven challenges going forward. Tanzania’s traditional sectors like agriculture and tourism, which employ a large share of the country’s labor force, are highly sensitive to temperature and precipitation volatility. Thus, building economic resilience should be an essential feature of the country’s development agenda. Together, these three factors provide the founding blocks of the proposed “inclusive and resilient growth” development financing operation.

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<sup>2</sup> The credit comprises 50 percent Regular SUW and 50 percent SUW-Shorter Maturity Loans. For the SUW eligibility criteria, see Section 5.3. of this program document.



4. **Supporting private economic activity and investments is the key for maintaining rapid economic growth, increasing shared prosperity, and building the resilience of the Tanzanian economy.** Tanzania's strategic location, a relatively stable macroeconomic environment, and memberships in key regional bodies such as the East African Community (EAC) and the Southern African Development Community (SADC) make the country attractive for private economic activity and investments. However, with slow reforms, structural bottlenecks have recently constrained opportunities. With more difficult business environment, including excessive bureaucracy, high taxes, and inadequate infrastructure and skills, the economy fell short of its potential over the past 4-5 years. Since 2015, the number of new businesses registering in Tanzania dropped by a third, reflecting the real and perceived challenges of conducting business in the country. Similarly, Foreign Direct Investment (FDI) decreased from 3.2 percent of GDP in 2015 to only 1.6 percent in 2021, lower than regional peers like Ethiopia and Uganda. While total private investments grew by 12.3 percent each year between 2010 and 2015, on average, they grew by 7.5 percent annually between 2015 and 2020. With the COVID-19 pandemic and the war in Ukraine, the growth in total private investments slowed further to an estimated 4.5 percent per year by 2022. With slowing private sector activity, the sensitivity of poverty rates to aggregate economic growth also decreases. Using the international extreme poverty line of US\$2.15 per capita, poverty in Tanzania remained close to 50 percent in 2021. In the medium term, sustaining the historically high growth rates and boosting economic resilience will require lifting up low-income Tanzanians by deepening inclusiveness.

5. **To reverse the downward trend in private sector activity, and promote rapid economic recovery, Tanzania needs to overcome persistent challenges in regulatory mechanisms, access to finance, and efficiency in policy implementation.** The progress on business regulatory reforms has been limited. The result is muted entry and growth of formal businesses and low growth of the SME segment thereby creating a "missing middle". Specifically, the following have been identified among the most binding constraints:

- a. **Business licensing and permits:** Tanzanian businesses identify licensing and permits as one of the major constraints (34 percent of firms in Tanzania versus 16 percent of Sub-Saharan Africa's firms). To establish a business in Tanzania, an entrepreneur is reportedly required to visit five separate offices<sup>3</sup>. At each stage, a bank-visit for making payments is also required.
- b. **Access to finance:** Lending to private sector has always been relatively low in Tanzania, and 37 percent of firms have identified access to finance as a major constraint.
- c. **Regulatory environment for attracting FDI:** The Tanzanian Investment Act (TIA), introduced in 1997 and amended in 2015, maintains restrictions on foreign investment in several key sectors through limitations on foreign equity ownership or other activities. It also has several shortcomings regarding entry and protection of foreign investments, including redundancy and overlaps in procedures and minimum investment size requirements for licensing—a procedure widely recognized as counterproductive.
- d. **Public sector transactions:** Inefficiency, irregularity, and lack of transparency in public systems pose another burden on private sector investments in Tanzania. Expenditure arrears driven by inefficiencies in the public procurement system reached 3 percent of GDP by early 2018, triggering a subsequent arrears prevention and clearance strategy; but, the problem prevails. A similar accumulation of arrears has also been observed in Value Added Tax (VAT) refunds systems, where paper submissions and across-the-board verification of all submissions have slowed the process, leading to sizeable backlogs and distorting the cash flow of the Tanzanian private sector.

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<sup>3</sup> Business Registration and Licensing Agency (BRELA), Tanzania Revenue Authority (TRA), a line ministry, respective Local Government Authority (LGA), and the Ministry of Industry and Trade (MIT).



6. **Not only do these constraints dampen growth prospects in the Tanzanian economy, but they also have regressive distributional implications, reducing the poverty-alleviation effects of growth in the country.** The private sector in Tanzania is dominated by microenterprises: about 97.2 percent of all recorded micro, small, and medium enterprises (MSMEs) employed less than five employees (almost exclusively sole proprietorships) and only 3.9 percent were registered with the BRELA. Duplicate procedures and fees, delays and arrears in public sector transactions, and limitations in access to finance hurt MSMEs disproportionately. In comparison, larger enterprises, with more robust cash flows and market power, can absorb such costly frictions or transfer such costs to final consumers. Although poverty dynamics in Tanzania have not exhibited the same pattern as the private investment rates since 2015 (poverty measured by the national poverty line remained relatively stable around 27 percent), other indicators show the regressive impact of private and public sector constraints. Very few enterprises graduate from the micro/small level in Tanzania. Non-performing loans (NPLs), most of which are incurred by MSMEs, increased in the last decade (from 5.1 percent in 2013 to 8.7 percent in 2020, with a peak at 11.5 percent in 2017). A more dynamic private sector, including MSMEs, will be needed to lift low-income constituents out of poverty in the coming years.

7. **With increasing climate risks, Tanzania needs to build economic resilience by protecting those who are vulnerable to shocks and by better monitoring such climate risks.** Tanzania's most important strategic sectors, agriculture and tourism, employ a large share of the country's labor force but they are highly sensitive to climate-change driven natural shocks. Those who are employed in these sectors are often more vulnerable to such shocks and have less access to social safety nets compared to other Tanzanians. Deepening inclusiveness and protecting those who are one weather shock away from poverty should be a first step of building resilience in the Tanzanian economy. In addition, authorities should also improve the effectiveness of policy interventions to provide timely and well-targeted assistance, which requires a more systematic understanding of the intended beneficiaries. Finally, building resilience also requires a more systematic approach to incorporating climate-risks in key decision-making systems. These include the financial sector (as lending is concentrated in agriculture sector, which increases exposure to climate risks) and public investments.

8. **The proposed DPO will support the Government of Tanzania's reform program targeting to reduce, mitigate, or remove altogether, these constraints.** Pillar 1 of this program will support critical business environment measures aimed at supporting employment-intensive private-sector-driven growth by addressing longstanding constraints on private investment, including excessive bureaucracy and overlapping mandates of regulatory agencies, resulting in high costs of compliance for businesses, excessive taxation, limited access to finance and other inputs. In the financial sector, reforms will facilitate greater stability by mitigating risks related to banks' asset quality through an increased capital buffer requirement, and supervision of portfolio risks associated with climate change. Pillar 2 will support measures aimed at streamlining public sector transactions (arrears management) and enhancing transparency (public spending and fiscal risks). Pillar 3 will bolster the resilience of the Tanzanian economy by reinforcing protection of banks' asset quality through supervision of climate related risks, and increasing health insurance coverage, which is particularly important for low-income Tanzanians in rural areas, whose livelihoods are more fragile against volatile weather events. Reforms also aim at improving the public sector's ability to extend support when and where needed by creating a comprehensive farmer registry, and mandating a more explicit identification of climate risks in the public investment management system, which are critical for adaptation to climate change.

9. **These reform efforts reflect the Tanzanian authorities' drive to accelerate structural reforms to continue the recovery and improve longer term inclusiveness and resilience.** The election of Tanzania's new



administration, including the country's first female president, in March 2021 has been accompanied by a strengthened resolve for reform, opening a path for renewed engagement through DPOs after a gap of several years. The government's policy objectives remain guided by the Tanzania Development Vision 2025 and supported by five-year development plans; however, the reform momentum has picked up. The government's priorities are: (i) altering its COVID-19 policies to more actively manage renewed threats from the pandemic; (ii) proactively engaging with multilateral and bilateral partners, both in the region and worldwide; and (iii) reaffirming the private sector as the engine of economic growth by addressing major constraints on private investment. These priorities have recently been reinforced with the onset of the war in Ukraine, and the subsequent economic fallout, which is expected to affect the Tanzanian economy through elevated costs of imported fuel, food and fertilizers. Within this context, Tanzanian authorities have requested World Bank support. In parallel, the authorities also requested a new IMF Extended Credit Facility (ECF) for US\$1.046.4 billion, which was approved in July 2022.

10. **The program supported by this DPO is aligned with the World Bank Country Partnership Framework (CPF: FY18-22) for Tanzania and the Global Crisis Response Framework.** The Prior Actions in this DPO map well onto several directions highlighted by strategic documents at country and global levels. The first three Prior Actions under the first pillar are geared to improve business climate and boost private investments, and the two prior actions under the second pillar aim to facilitate this by preventing public expenditure arrears and better monitoring fiscal risks. These are closely aligned with the fourth pillar of the GCRF (Strengthening Policies, Institutions, and Investments) and the first and third focus areas of the CPF (*Enhance productivity and accelerate equitable and sustainable growth*; and *Modernize and improve the efficiency of public institutions*). The third pillar of this operation is fully aligned with the third pillar of the GCRF (Strengthening Resilience), with subcomponents also aligning with other GCRF pillars. The sixth prior action (Universal Health Insurance) supports the second pillar of the GCRF (Protecting People and Preserving Jobs) and the second focus area of the CPF (Boost Human Capital and Social inclusion). The ninth prior action (farmer's registry) supports the first pillar of the GCRF (Responding to Food Insecurity), and complements activities being considered under a forthcoming Food Systems Resilience Program for Results.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1. RECENT ECONOMIC DEVELOPMENTS

11. **With relatively strong pre-COVID buffers, Tanzania's macroeconomic fundamentals have remained largely stable despite recent shocks.** The pandemic and global contraction exacerbated the country's existing structural bottlenecks and especially caused devastating impact on the tourism sector and related services, with tourist arrivals plummeting by 60 percent and sector revenues falling by 72 percent in 2021. The impact was initially countered ineffectively by a weak health and economic response. For example, by December 2021, just 2.4 million vaccine doses were administered in Tanzania—a slow pace by global standards. The government's posture has since changed, and vaccinations have accelerated. According to the Ministry of Health, 22.1 million people (71.9 percent) were fully vaccinated by October 2022.

- a. **Growth.** GDP growth slowed from 5.8 percent in 2019 to 2.0 percent in 2020 (Table 1), indicating a moderate impact of the COVID-19 pandemic thanks to relatively strong pre-COVID buffers. In 2021, growth increased to an estimated 4.3 percent. The arts, entertainment and recreation, information and communication, mining, and electricity sectors drove the rebound in 2021.<sup>4</sup> By the end of 2021,

<sup>4</sup> GDP growth estimates based on World Bank staff calculations.



the proportion of heads of household indicating they were working was higher than the pre-pandemic level by about 5 percentage points, with stronger recovery for men than for women. Earlier in 2022, economic activity showed signs of stronger recovery. However, as the war in Ukraine and its global economic impact unfolds, Tanzania's GDP is projected to grow by 4.6 percent in 2022, below the potential growth rate of about 6 percent per annum.

- b. **Inflation (CPI).** The recovery from the COVID-19 pandemic has been accompanied with an uptick in inflation from 3.3 percent in 2020 to 3.7 percent in 2021. This was, in part, driven by supply side problems and, in part, by the counter-cyclical monetary policy pursued by authorities. The CPI inflation increased to 4.8 percent in September 2022, largely driven by higher energy prices and lower agricultural production due to drought, and it is expected to average at 5.2 percent in 2022. The fuel subsidy program implemented by the government had a moderating effect on inflation.
- c. **External balances:** The current-account deficit widened from 1.3 percent of GDP in 2020 to 3.1 percent in 2021 as rising imports more than offset the increase in exports. Services and manufacturing exports to EAC member states significantly increased due to improving relations between Tanzania and its neighbors, but the implementation of capital projects spurred a sharp rise in imports of oil and capital goods. Services exports expanded by 33.8 percent in the first three quarters of 2021 after contracting by 49.7 percent during the same period in 2020, driven by the recovery of travel and tourism. Tourist arrivals have increased significantly but remain below 50 percent of their pre-pandemic levels. The current-account deficit was funded largely by external loans and foreign direct investment. The current-account deficit is projected to widen to 4.4 percent of GDP in 2022 as imports will grow faster than exports with rising commodity prices.
- d. **Monetary/financial sector.** The authorities have continued to implement an expansionary monetary policy, which resulted in an increased growth rate of credit to the private sector to 23.4 percent in August 2022, while lending rates remained stubbornly high near 17 percent. The banking sector is relatively stable, and the nonperforming loan ratio fell to 7.6 percent in August 2022, though it remains above the central bank's preferred threshold of 5.0 percent. The Tanzanian shilling (TZS) remained relatively stable against the currencies of major trading partners in 2022. Gross official reserves declined to US\$5.1 billion by end-August 2022 from US\$6.7 billion end-October 2021 but remained adequate to cover about 4.6 months of imports of goods and services.
- e. **Fiscal sector:** The fiscal deficit narrowed to 2.9 percent of GDP in 2021/22, lower than the 3.4 percent in 2020/21 and the 3.1 percent target for 2021/22. However, domestic revenue collection fell short of the government target by 0.8 percent of GDP, as the recovery remained slow and revenue targets were ambitious. Total domestic revenue amounted to 15.3 percent of GDP in FY2021/22, while public spending totaled 18.2 percent. Although recurrent expenditures were controlled, authorities ramped up the implementation of capital projects, boosting development expenditures. Despite stronger arrears management, unverified arrears stood at TZS 2.2 billion in June 2022 and the stock of VAT-refund arrears remained high at TZS 920 billion in June 2021. The fiscal deficit was funded by both external and domestic borrowing, and while the public and publicly guaranteed debt stock remained relatively low at 40.7 percent of GDP in June 2022, debt service has increased significantly. Domestic public debt has increased but remains small (10.4 percent of GDP by FY2020/21), with about 30 percent in short-term instruments. Commercial banks continue to hold the largest share of government debt, followed by social security funds.



**Table 1. Key macroeconomic indicators**

Indicator	Unit	2019	2020	2021	2022(e)	2023(p)	2024(p)	2025 (p)
<b>REAL ECONOMY</b>								
GDP (Nominal -- Local Currency)	g	8.4	2.3	6.5	8.7	9.3	10.1	8.9
Real GDP	g	5.8	2.0	4.3	4.6	5.3	6.1	6.2
GDP per capita (USD, nominal)	g	2.9	-0.6	2.9	5.1	5.7	6.4	6.8
<b>CONTRIBUTIONS TO REAL GDP GROWTH</b>								
Private Consumption (growth)	g	3.1	1.0	4.3	3.6	3.4	3.0	3.5
Gross Fixed Investment (growth)	g	8.0	2.4	6.8	8.4	8.6	9.0	9.4
Exports (growth)	g	19.0	-8.6	8.7	8.3	10.6	11.8	6.9
Imports (growth)	g	-1.4	-7.6	20.3	15.3	9.6	7.2	8.8
Unemployment Rate (ILO Definition)	l	1.6	1.1	0.2	0.6	0.8	1.6	1.3
GDP Deflator	g	2.5	0.3	2.1	3.9	3.8	3.8	2.5
CPI (year-average)	g	3.9	3.3	3.7	5.2	4.5	4.0	3.8
<b>FISCAL ACCOUNT</b>								
Expenditures	%GDP	17.6	17.5	18.5	18.2	18.7	18.6	18.5
Revenues	%GDP	14.6	15.2	15.1	15.3	15.8	16.0	16.2
General Government Balance	%GDP	-3.0	-2.3	-3.4	-2.9	-2.9	-2.6	-2.3
General Government Debt	%GDP	38.3	38.7	39.8	40.7	39.4	38.3	36.1
<b>SELECTED MONETARY ACCOUNTS, ANNUAL</b>								
Base Money	g	5.3	9.5	23.7	25.3	21.0	16.2	10.2
Discount Rate	l	7.0	5.0	5.0	5.0	5.0	5.0	5.0
<b>BALANCE OF PAYMENTS, PERCENT OF GDP UNLESS INDICATED OTHERWISE</b>								
Current Account Balance	%GDP	-1.6	-1.3	-3.1	-4.4	-4.2	-3.3	-2.8
Imports, Goods and Services	%GDP	17.5	14.8	17.8	20.1	21.3	21.8	22.8
Exports, Goods and Services	%GDP	16.0	13.8	15.1	16.0	17.3	18.7	19.6
Net Foreign Direct Investment	%GDP	2.0	1.1	1.6	1.8	2.1	2.6	3.1
Gross Reserves	%GDP	13.7	15.3	16.2	14.7	13.7	14.1	14.1
External Government Debt	%GDP	27.6	28.0	27.9	27.9	26.7	26.1	25.0
Terms of Trade	g	-4.9	0.0	-0.2	0.5	1.0	1.3	0.0
<b>OTHER MEMO ITEMS</b>								
GDP nominal in US\$ (millions)	l	60407	61824	65812	71540	78222	86096	93757

Source: World Bank



**Table 2. BOP financing requirements and sources financing**

Indicator	Unit	2019	2020	2021	2022(e)	2023(p)	2024(p)	2025 (p)
<b>Financing Requirements</b>	%GDP	2.8	2.4	3.1	4.4	4.2	3.3	2.8
<b>Current Account Deficit</b>	%GDP	1.6	1.3	3.1	4.4	4.2	3.3	2.8
<b>Net Errors and Omissions</b>	%GDP	1.2	1.1	0.0	0.0	0.0	0.0	0.0
<b>Financing Sources</b>	%GDP	3.5	2.7	3.1	4.4	4.2	3.3	2.8
<b>Capital Account Balance</b>	%GDP	0.8	0.5	0.5	0.5	0.6	0.6	0.6
<b>Net Foreign Direct Investment</b>	%GDP	-2.0	-1.1	-1.6	-1.8	-2.1	-2.6	3.1
<b>Net Portfolio Investment</b>	%GDP	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Govt Foreign Borrowing</b>	%GDP	-1.0	-1.4	-1.6	-1.7	-1.7	-1.7	-1.7
<b>Net All Other Flows</b>	%GDP	-0.8	1.6	-0.7	-0.2	-0.1	-0.1	-0.8
<b>Change in reserve assets</b>	%GDP	1.1	-1.2	1.3	-0.2	0.2	1.7	1.0
<b>External Financing Gap</b>	%GDP	0.8	0.3	0.0	0.0	0.0	0.0	0.0

Source: World Bank

**Table 3. Key fiscal indicators, percent of GDP unless otherwise indicated**

Indicator	Unit	2019	2020	2021	2022(e)	2023(p)	2024(p)	2025 (p)
<b>Overall Balance</b>	%GDP	-3.0	-2.3	-3.4	-2.9	-2.9	-2.6	-2.3
<b>Primary Balance</b>	%GDP	-0.5	-0.3	-1.6	-1.2	-1.1	-0.9	-0.7
<b>Total Revenues and Grants</b>	%GDP	14.6	15.2	15.1	15.3	15.8	16.0	16.2
<b>Tax Revenues</b>	%GDP	11.8	12.1	12.5	12.7	13.2	13.5	13.6
<b>Taxes on Goods and Services</b>	%GDP	3.2	3.6	3.7	3.7	3.8	3.7	3.6
<b>Direct Taxes</b>	%GDP	4.1	4.4	4.6	4.6	4.8	5.0	4.5
<b>Taxes on International Trade</b>	%GDP	3.3	2.5	2.9	3.2	3.4	3.6	3.9
<b>Other Taxes</b>	%GDP	1.1	1.5	1.2	1.2	1.2	1.2	1.5
<b>Non-Tax Revenues</b>	%GDP	2.4	2.5	2.4	2.3	2.3	2.2	2.6
<b>Grants</b>	%GDP	0.5	0.6	0.3	0.3	0.3	0.3	0.7
<b>Expenditures</b>	%GDP	17.6	17.5	18.5	18.2	18.7	18.6	18.5
<b>Current Expenditures</b>	%GDP	10.8	10.3	11.0	11.0	10.9	10.6	11.0
<b>Wages and Compensation</b>	%GDP	4.1	4.2	4.9	5.2	5.1	4.9	5.2
<b>Goods and Services</b>	%GDP	3.9	3.8	3.9	4.1	4.0	3.9	4.2
<b>Interest Payments</b>	%GDP	2.4	2.0	1.8	1.7	1.7	1.7	1.6
<b>Current Transfers</b>	%GDP	0.3	0.3	0.4	0.0	0.0	0.0	0.0
<b>Capital Expenditures</b>	%GDP	6.4	7.0	7.2	7.2	7.3	7.4	7.6
<b>Government Financing</b>	%GDP	2.2	2.0	3.4	2.9	2.9	2.6	2.3
<b>External (Net)</b>	%GDP	1.0	1.4	1.6	1.7	1.7	1.7	1.6
<b>Domestic (Net)</b>	%GDP	1.2	0.6	1.8	1.2	1.2	0.9	0.7
<b>GDP nominal in LCU (millions)</b>	g	8.4	2.3	6.5	8.7	9.3	10.1	10.1

Source: World Bank



12. **The war in Ukraine has affected Tanzania's economy through multiple channels.** The assessments above already incorporate the impact of the war in Ukraine on Tanzania. However, the marginal impact can also be considered separately. A deterioration in the terms of trade (due to higher oil, food, and fertilizer prices), and disrupted tourist flows from Russia and Ukraine are projected to widen the current account deficit by more than 1 percent of GDP in 2022, and reserves to decline by about US\$800 million by 2025. The external shock is expected to reduce growth in 2022 by about 0.6 percentage points relative to the pre-war scenario. The effect on the fiscal outcomes is expected to be less than 1 percent of GDP since the response has primarily been through limited fuel and fertilizer subsidies. The war and its global fallout may also cause NPLs to increase in the financial sector, and particularly affect financial institutions with certain sectoral balance sheet exposures (for example to the energy industry).

## 2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

13. **In the medium-term, Tanzania's macroeconomic outlook will be shaped by: (i) the lingering effects of the pandemic and the war in Ukraine on the global economy and (ii) the policy and reform agenda in Tanzania.** The impact of the COVID-19 pandemic on economy remains potentially sizeable, with significant downside risks in the medium term. Further flare-ups could prolong the negative impact of the pandemic on Tanzania's external demand and domestic activity. Such pandemic driven risks will be compounded by the impact of the war in Ukraine on the global economy. With higher import bills through oil, food, and fertilizer prices, and suppressed tourist inflows (also driven by the economic downturn in advanced markets) growth may be suppressed at the margin by about 0.3 percentage points in 2022 and 2023, with similar fiscal effects given the authorities response so far. In comparison, the acceleration of the reform agenda, with its emphasis on reducing frictions faced by private investments, will help balance the adverse effects of these external shocks. Overall, the sustainability analysis discussed below relies on the following projections:

- a. **GDP growth:** With ongoing reforms, including those supported by the proposed DPO and the IMF's ECF, the country's real GDP is expected to grow at 5.3 percent in 2023, which reflects a 0.7 percentage point increase from the year before despite the counterbalancing forces due to the spillover effects of the war in Ukraine. The economy is projected to gain momentum in the medium term, growing at 6 percent or above annually. From the demand side, the projected rebound in growth is expected to be supported by improvement in the terms of trade and public investments. Private investment is projected to increase supported by rising FDI and a strengthening business environment for domestic firms. On the supply side, faster expansion of services especially tourism and the industrial sector, including construction, transport and energy sub-sectors, are expected to drive the growth rebound over the medium term.
- b. **Inflation (CPI):** The change in consumer prices is expected to decline to 4.5 percent in 2023 as global commodity prices start to moderate. The CPI growth is expected to stabilize around 4 percent, reflecting: (i) the expected impact of plans for import substitution of goods affected by the war in Ukraine; and (ii) planned investments in agriculture, including the increase in local fertilizer production capacity.
- c. **Investments:** With the implementation of government's reform agenda, investments are expected to increase significantly, driven primarily by the private sector. With the expected implementation of the Investment Act and the Miscellaneous Amendments Act, the share of private investments in GDP is expected to increase by about 6 percentage points in the medium-term, offsetting the reduction in previously escalated public investments.
- d. **Current account balance:** The current account deficit is expected to remain elevated at 4.2 percent of GDP in 2023 as a result of lower tourism receipts and higher import bill generated by the



overlapping shocks (pandemic and the war in Ukraine). In the medium-term, as the tourism sector recovers and import bill shrinks with a moderation in commodity prices and the easing of the public investment drive, the current account deficit will drop below 3.0 percent of GDP (Table 2).

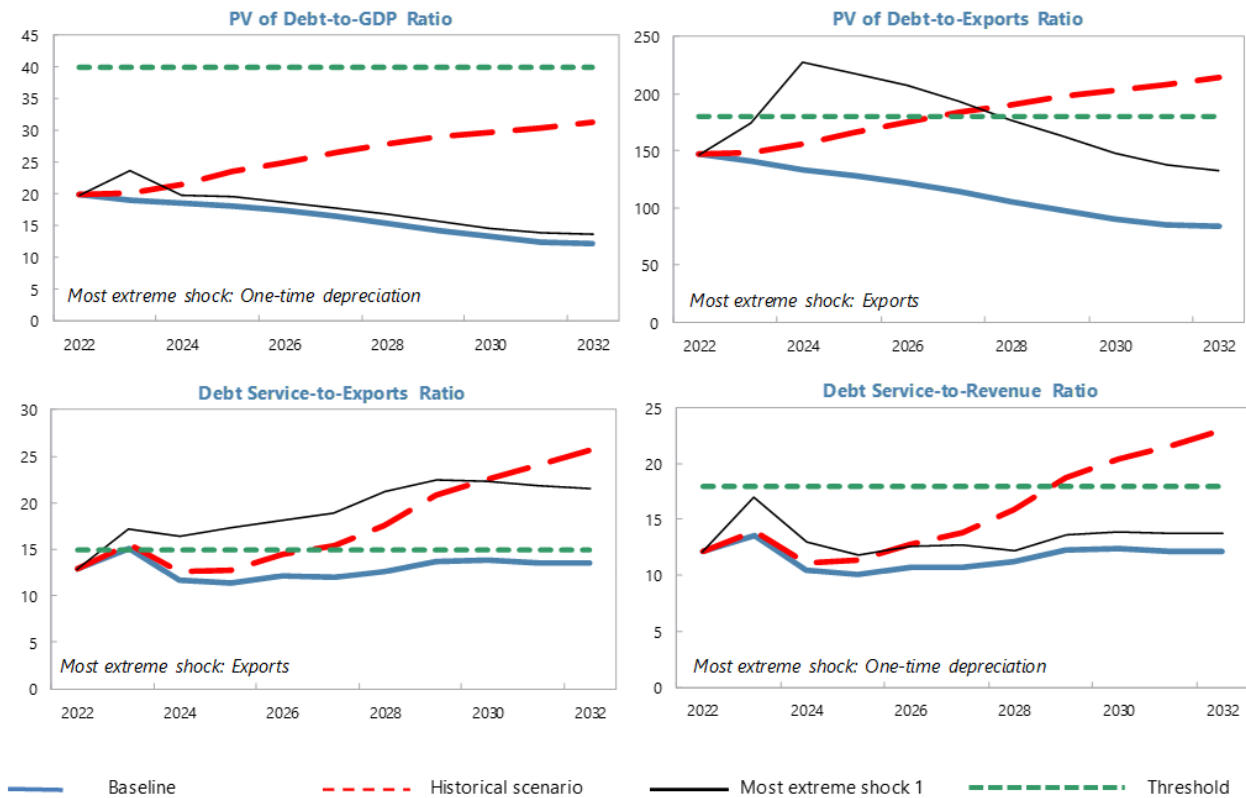
- e. **Fiscal balances:** The overall fiscal deficit is projected to remain around 2.9 percent of GDP in 2023 (Table 3). This reflects the additional fiscal support featured as part of the FY22/23 budget to mitigate external shocks, including targeted and temporary subsidies on fuel and fertilizers (estimated at TZS 600 billion FY2022/23), reduced import duties on cooking oil (estimated revenue loss of TZS 26.9 billion), and additional cash transfers for social protection (TZS 8 billion), among others. The deficit will gradually decrease to stabilize around 2.3 percent of GDP in the medium-term as a result of improvements in revenue mobilization and a gradual decline in development spending as a share of GDP while factoring gradual implementation of universal health insurance. Reforms to improve tax policy, including broadening the tax base and reducing exemptions in VAT are expected to drive the projected increase in domestic revenue. This medium-term fiscal deficit is below the convergence criterion of the East African Community (3 percent of GDP).
- f. **Gross financing needs:** Gross financing needs are projected to peak in FY2022/23 at about 10.7 percent of GDP and remain around 8.8 percent of GDP over the medium term. External non-concessional borrowing (ENCB) is projected to remain below 50 percent of annual foreign financing over the next five years, while access to grants is assumed to taper.

14. **Based on this medium-term macroeconomic framework, both public and external debt distress ratings are “moderate” in Tanzania.** The most recent DSA (June 2022) shows that, under the baseline scenario, the present value (PV) of public debt remains below the indicative threshold (40 percent) and decreases throughout the projection horizon. With the most extreme stress scenario, PV of debt to GDP ratio increases in the medium-term to peak at about 25 percent of GDP in FY2023/24. After that, the ratio declines gradually and remains below both the threshold associated with heightened public debt vulnerabilities and the EAC convergence criterion of 50 percent (Figure 1). Although the overall debt to exports ratio remains relatively high, its present value declines over time. As for the overall public debt, a one-time materialization of contingent liabilities (6.4 percent of GDP) is the most extreme scenario amongst the bound tests for all ratios, highlighting again the importance of improving public investment management processes and the proper prioritization of investment projects, as well as proper public financial management processes. As some public debt service has been pushed to higher maturities, domestic revenue mobilization reforms should continue to flatten the debt service to revenue ratio in the long term. To enhance transparency and management of public debt and ensure fiscal sustainability, Tanzania is implementing Policy and Performance Actions (PPAs) under IDA’s Sustainable Development Financing Policy (SDFP) with World Bank support.

15. **Overall, the macroeconomic framework of Tanzania is assessed to be adequate for the proposed operation.** As the country’s space to absorb external shocks narrows, Tanzania is appropriately balancing between proactive counter-cyclical monetary/fiscal policies and structural reforms. The authorities’ emphasis on promoting a private sector-driven recovery, improving public sector efficiency and accountability, focusing on domestic revenue mobilization, and maintaining prudence in concessional and non-concessional composition of loans reflect such balance. This is also confirmed by the projections for key macroeconomic indicators, including a relatively low inflation rate (which shows that demand is not overstimulated in the presence of supply shocks), a controlled absorption of external shocks through the fiscal budget, and the country’s sustainable fiscal balances.



Figure 1. Indicators of Public and Publicly Guaranteed External Debt by Scenario, 2022–32



Source: Joint Wb-IMF Debt Sustainability Analysis for Tanzania, July 2022.

### 2.3. IMF RELATIONS

16. On July 18, 2022, the IMF Executive Board approved a 40-month Extended Credit Facility (ECF), equivalent to US\$1.046.4 billion, for Tanzania. The financing package is devised to assist the economic recovery and address the spillovers from Russia’s invasion of Ukraine, help preserve macroeconomic stability, and support structural reforms toward sustainable and inclusive growth, drawing on the government’s priorities. Reforms will focus on strengthening fiscal space for much needed social spending and high yield public investment, resuming and advancing the authorities’ structural reform agenda and strengthening financial deepening and stability. Previously, in September 2021, the IMF Board approved US\$567.25 million under the RCF and Rapid Financing Instrument (RFI) support to Tanzania’s effort in responding to COVID-19 pandemic by addressing health, humanitarian, and economic costs. Moreover, in November 2021, the IMF Board approved US\$372.4 million in emergency financial assistance under the RCF in an amount equivalent to the recently early repurchased non-concessional financial assistance under the RFI. The concessional RCF emergency financing supported the implementation of the authorities’ pandemic response plan. The World Bank and IMF teams collaborates closely in respective policy dialogues with Tanzanian authorities, and DSAs are prepared jointly.



### 3. GOVERNMENT PROGRAM

17. **The administration’s policy objectives remain guided by the Tanzania Development Vision 2025 and five-year development plans, however, the reform momentum has picked up.** The administration’s priorities are: (i) altering its COVID-19 policies for a more active pandemic; response (ii) proactively engaging with multilateral and bilateral partners, both in the region and worldwide; and (iii) reaffirming the private sector as the engine of economic growth by addressing major constraints on private investment. These priorities have recently been reinforced with the onset of the war in Ukraine, and the subsequent economic fallout, which is expected to affect the Tanzanian economy through elevated costs of imported fuel, food and fertilizers. In addition, volatility in key sectors such as agriculture, energy, and tourism are expected to increase as a result of climate change. Within this context, Tanzanian authorities have requested from the World Bank financial assistance to support Tanzania’s inclusive and resilient recovery from the adverse impact of the overlapping shocks.

### 4. PROPOSED OPERATION

#### 4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

18. **The DPO series will support the implementation of the FYDP III with an objective of improving inclusiveness and resilience of economic growth and efficiency and transparency of the public sector.** The DPO series will support the Government’s efforts to implement policy reforms to improve the business and investment environment to facilitate higher contribution of the private sector in the economic growth and recovery. In addition, the DPO series will support Government efforts to implement reforms that will increase efficiency and transparency of the public sector operations, including in supporting the private sector. Some of the policy actions to be supported by the DPO series include reforms to improve conditions for private investment, reduce the costs to businesses of regulatory compliance, improve stability of the financial sector, increase health insurance coverage, strengthen resilience of agriculture to climate shocks, strengthen commitment controls to prevent accumulation of arrears, and improve VAT refund system.

19. **Although Tanzania has not done a DPO in the last eight years, the preparation of the DPO series has been informed by lessons learned from previous operations implemented in Tanzania, including the PRSCs, Business Environment DPO, Power and Gas DPO, and the Open Government DPO.** Prior to this operation, the World Bank had drafted several DPOs in parallel in Tanzania which had increased the transaction costs both to the Government and the World Bank. The proposed DPO learns from that experience and consolidates the reform agenda into one operation, reducing the transaction costs and allowing Government to focus on timely implementation of the reform agenda. The proposed reform agenda also aligns well with the priorities of the President Samia Hassan’s administration as outlined in new FYDP III, reducing the risks of backtracking which had previously been encountered. The consolidation of the reform agenda also allows the limited technical and coordination capacity both within the Government and between the Government and the private sector to focus on carrying out a selective and limited set of critical reforms to support private sector-led inclusive growth and resilience as well efficiency and transparency of the public sector. Together with DPO, the World Bank is supporting the Tanzania authorities to implement the SDFP of the World Bank. In that regard, a set of Performance and Policy Actions have been agreed, with April 2023 implementation target.



## 4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

20. The proposed DPO series supports Tanzania's policy and institutional reforms that are critical for strengthening the role of the private sector in economic recovery, increasing the transparency and risk management capacity of the Tanzanian public sector, and building economic resilience against future shocks driven by climate change and other external factors. Thus, the first DPO covers three pillars: i) Improving the environment for private sector-driven recovery and growth, (ii) Strengthening the management of SOEs and fiscal risks and improving fiscal transparency, and (iii) Boosting economic resilience.

### **Pillar 1. Improving the business environment for private sector-driven recovery and growth**

21. Under this pillar, the proposed DPO will support critical business climate measures aimed at job-creating private-sector-driven growth by addressing longstanding constraints on private investment, including excessive bureaucracy, predatory taxation, and limited access to finance and other inputs.

#### ***Policy area 1.1: Accelerating private investments.***

22. **Rationale:** Tanzania's recent economic growth and development agenda has been constrained by persistent regulatory challenges for starting businesses, including costly and complex procedures, and a lack of transparency about functional divisions among regulatory agencies. As a result, FDI inflows decreased steadily from more than 4 percent of GDPs in mid-2010s to only 1.6 percent by 2021. Over the past several years, the Government of Tanzania strengthened its efforts to improve the business environment and investment climate in the country. In 2018, the Blueprint for Regulatory Reforms to Improve the Business Environment (the Blueprint) was developed to reduce regulatory burdens and risks faced by businesses in complying with regulations.

23. More recently, as part of the Miscellaneous Amendments Act (June 2022), authorities introduced a large number of amendments to further ease the overall regulatory burden imposed by various laws on the private sector both at the national and the subnational level, as proposed by the Blueprint. The Act has (1) Streamlined standard setting and regulatory functions among various agencies to reduce overlapping mandates (including in areas like fuel, fertilizer, cotton, dairy, and medical), and strengthened the role of Tanzania Bureau of Standards; (2) Amended the Copyright Act to strengthen accountability and management of copyright related issues; (3) Streamlined select licensing and permits issuance process by the Tourism Board and the Occupational Safety and Health Authority; (4) Amended Local Government and Local Government Finance Acts to encourage LGAs to establish joint centers for coordination, mobilization and improvement of the business environment and to reduce hotel levies.

24. Despite these efforts, however, making Tanzania a competitive FDI location and boosting private investments from foreign and domestic investors alike require further reforms. The current regulatory policy remains inefficient where duplications and overlaps abound, leading to significant red tape and time/financial costs to businesses. Streamlining the roles and responsibilities of different agencies in business registration and investment certification will make the procedure more business-friendly. In addition, the minimum investment capital threshold for a business to access the benefits and immunities under the Act is set too high, often deterring smaller investors. These thresholds should be eliminated or reduced, ideally for both domestic and foreign investors, but, at the minimum, for the former group.

25. **Substance of the reform.** In September 2022, authorities submitted the new Investment Bill to parliament, which constitutes the Prior Action for the DPO. This Bill amends the Tanzania Investment Act of 1997, with an objective to create a more favorable environment for investors, and to strengthen the



institutional framework for the coordination and facilitation of investment in the country. In particular, the draft bill improves clarity on key issues such as institutional setup for implementation of the law, enhances investment repatriation guarantee, and eases the framework for hiring foreign workers which was commonly reported to be cumbersome. The Investment Bill also provides for international arbitration as means for settling disputes between investors and the state. Section 23 of the TIA sets negotiation as the primary method for resolving disputes between investors and the government. In the case of failure of such negotiations, the parties have multiple options; a) settle disputes in accordance with the arbitration laws of Tanzania, b) submit the dispute for arbitration under the convention of the International Centre for Settlement of Investment Disputes (ICSID); or c) through the procedures within the framework of an international investment agreement to Tanzania is a party to. In this regard, the TIA and the draft bill does not grant advance consent and subjects the recourse to arbitration to agreement between the parties.

26. It is key to note that the success of the Bill depends critically on effective implementation when it becomes law. In this regard, the Trigger for the second operation under this DPO focuses on the regulations that will operationalize the Investment Act. A forthcoming Technical Assistance by the World Bank will aim to inform this process by drawing on lessons from international best practices.

**Prior Action #1:** To boost private investments by strengthening investment protection guarantees, improving the registration process of investment projects, and supporting smaller investors, the Recipient has submitted a new investment bill to the Parliament.

**Indicative Trigger:** The Recipient has issued regulations to operationalize the approved Investment Act.

27. **Expected results.** On the investment promotion front, the reforms supported by the DPO are expected to increase in the number of expressions of interest (EOIs) received by the TIC and increase in the volume of FDI received by Tanzania after the enactment of the new investment Act (target 3 percent of GDP). While a more transparent investment framework and enhanced investor protection will certainly improve the attractiveness of Tanzania as a destination for investment, it is important to note that these effects should be considered at the margin. That is, the overall FDI inflows will also depend on many other factors (such as global liquidity conditions, relative appeal of other destinations, and risk perception).

***Policy area 1.2: Increasing the stability and resilience of Tanzania's financial sector***

28. **Rationale.** An important constraint against a more dynamic private sector growth and investments in Tanzania is the historically low rates of credit in the economy, which took a further hit during the COVID-19 pandemic. For example, in March 2021, credit extended to the private sector by banks grew by only 2.5 percent, significantly lower than the 8.6 percent growth in March 2020. In 2022, banks have begun to see better liquidity and lowering of non-performing loans (NPLs). These trends, along with monetary easing by the BOT, have contributed to better growth in credit to the private sector averaging an annual level of 8 percent as of end of May 2022. However, concerns of a sharp global slowdown due to the war in Ukraine are negatively affecting banks' asset quality through multiple channels not the least inflationary pressure, turbulence in financial markets, and investor confidence. Low asset quality drives banks to constrain their lending, especially to SMEs who are perceived as very high risk. Thus, to boost access to credit in Tanzania, or at least to maintain a consistent level of credit to the private sector under an incremental external shocks scenario, a stronger and more resilient and stable financial sector is needed.

29. **Substance of the reform.** The financial sector reforms in this DPO cover two key aspects. First, they support the transition of banks to the Basel Committee of Banking Supervision (BCBS) Core Principles for



Effective Banking Supervision Basel 2 and Basel 3<sup>5</sup>, enabling the BOT to issue, and supervise accordingly, banking sector regulations and guidelines prescribing an additional capital buffer, to define a framework for liquidity standards, and leverage ratio.<sup>6</sup> To do this, the authorities have submitted to Parliament the amended Banking and Financial Institutions Act (BAFIA) in September 2022. This Bill is expected to help improve resilience in the banking sector to enable the sector to continue serving the economy and households in the face of potential adverse situations. Building on this, the Trigger for the second operation comprises the issuance of banking sector regulations and guidelines, which will translate the underlying legislation to actionable set of rules.

**Prior Action #2:** To enhance financial stability and sector resilience, the Recipient has submitted to the Parliament a proposed amendment to the Banking and Financial Institutions Act of 2006 to facilitate the adoption of Basel II and Basel III requirements.

**Indicative Triggers:** The recipient, through the BOT issues banking sector regulations and guidelines in accordance with Basel II and Basel III requirements.

30. **Expected results.** The results of the reforms under the financial sector pillar are expected to strengthen the resilience and supervision of financial institutions. The ultimate objective is to support sustainable growth in lending to the private sector. The expected result would be an improved resilience in the banking sector to enable it to continue serving the economy and households in the face of potential adverse situations, measured through the share of banks meeting Basel 2/3 capital adequacy ratio (CAR, target: 80 percent).

***Policy area 1.3: Increasing the efficiency of the VAT refund system.***

31. **Rationale.** VAT refund delays are a longstanding issue in Tanzania. Government has accumulated a large backlog of VAT refunds (>0.6% of GDP at end-June 2021) that has hurt the cashflow of businesses, especially small and medium sized firms who may not have access to credit or cannot replace the funds otherwise. The refund backlog was estimated at TSH 739 billion in March 2019, it has increased since then to more than TSH 965 billion by October 2021, due to limited funds released by Ministry of Finance and Planning to pay refunds and TRA conducting verification for all VAT refund claims. The denial or delay of refunds involves an opportunity cost in terms of time value of money and may cause serious cash flow problems for taxpayers. For exporters, denial or delay of refunds makes the VAT perform like a production tax through its unrelieved burden on inputs thus, negatively affecting the country's export competitiveness. Beyond the production tax burden, delayed VAT refunds may reduce VAT collection efficiency by delays in compliance. Relatedly, the inability of Tanzanians to challenge unfair tax administration practices and aggressive and arbitrary tax collection policies are often reported as a key challenges by businesses. Thus, improvements in the VAT refunds system and strengthening tax complaint mechanisms will ease costs of

<sup>5</sup> The Basel Accords Basel 1, Basel 2 and Basel 3 were introduced by the BCBS with the intention of strengthening banking supervision and enhance the credibility of the banking sector through risk management from a bank's capital adequacy perspective. Basel 1 was established to specify a minimum ratio of capital to risk-weighted assets; Basel 2 introduces supervisory responsibilities to further strengthen the minimum capital requirement; and Basel 3, introduced after the 2008 financial crisis, promotes the need for liquidity buffers as an additional layer of equity.

<sup>6</sup> The big banks currently meet Basel 2 requirements while the medium and small banks are at Basel 1. The expectation is for the big banks to meet the Basel II/III capital adequacy ratio (CAR) however it was agreed to provide smaller banks with a longer timeframe (phasing-in period) to enable them to support the real economy while raising the additional capital buffers and meeting the new leverage ratio and liquidity requirements.



funding business operations and facilitate business growth.

32. **Substance of the reform.** The DPO will support reforms that aim to improve the efficiency of VAT refunds and prevent future backlogs by introducing modernized and risk-based VAT refund procedures, electronic submission of refund claims, and the electronic verification of all new refund claims. In 2022, Tanzania Revenue Authority (TRA) has introduced a risk-based approach to VAT refunds, eliminating the need to verify all submissions (focusing only on high-risk submissions). Together with an e-filing system for return submissions, and the electronic verification of the new fund claims, this aims to accelerate the processing times for VAT refunds. This PA also supports the implementation of proposed FY23 fiscal sustainability Performance Policy Action (PPA) under the SDFP, which involves the strengthening of the e-filing system to speed up VAT refunds.<sup>7</sup> These reforms are also accompanied by progress made in establishing the country's first Tax Ombudsman's Office, which will review and address any complaint by a taxpayer regarding service, procedural or administrative matter arising while administering tax laws by the Authority, the Commissioner General or a staff of the Authority.

**Prior Action #3:** To increase the efficiency of VAT refunds, and to prevent accumulation of VAT refund arrears, the Recipient has mandated that the verification of VAT refund claims be conducted electronically.

33. **Expected results.** With improvements in the processing of the VAT refund claims, and prevention of future backlogs, these reforms are expected to decrease the average time for processing the VAT refunds (from 360 days to 90 days), thereby reducing the overall backlog of VAT refunds, measured by the ratio of outstanding VAT refunds to VAT collections (from 10.5 percent to 4.8 percent). Broadly, this will help reduce the additional costs imposed on cash-constrained private businesses in the form of delayed access to VAT tax returns.

## **Pillar 2. Strengthening the management of SOEs and fiscal risks and improving fiscal transparency.**

34. Under this pillar the proposed DPF series supports fiscal reforms to strengthen the risk monitoring of SOEs and to enhance the efficiency and transparency of fiscal operations by improving the management of arrears. Broadly, these will, in turn, bolster the resilience of Tanzania's economy to shocks and boost inclusive growth through better and more efficient provision of public services.

### ***Policy area 2.1: Strengthening oversight and managing fiscal risks from SOEs.***

35. **Rationale.** Despite the increasingly important role that State-Owned Enterprises (SOEs) play in promoting Tanzania's economic development, most of these SOEs still face critical operational and governance challenges for effective and efficient services delivery. The problem is exacerbated by the lack of a robust governance framework ranging from unsystematic board appointments and board performance management; inadequate institutional and individual performance management systems; inadequate tracking of SOE performance results; and lack of aggregate financial reporting. These combined challenges elevate the fiscal risk exposures for the SOEs which threatens the SOEs sustainability.

36. **Substance of the reform.** The Office of the Treasury Registrar (OTR) has launched a web-based reporting portal called the OTR management informant system (OTRMIS) that will enable OTR to electronically monitor SOEs governance practices including board appointments, tenure, and corporate disclosures. The OTRMIS will also enable mandatory reporting and analysis of SOEs financial performance and strengthen SOEs fiscal oversight and transparency. Enforcement and proper roll-out of the system is the

<sup>7</sup> An important aspect of the PPA is its programmatic nature, which will facilitate a continued engagement on fiscal sustainability.



first step in strengthening SOEs oversight and corporate governance. The proposed DPO will support the operationalization of the Management Information System (OTRMIS) and the adoption of the OTRMIS by all SOEs. These will enable mandatory reporting on SOEs financial performance, thereby strengthening SOEs fiscal oversight and transparency. The trigger for the second operation will build on this by approving regulations for OTRMIS use and, among other requirements, includes a commitment to publish key financial information on SOEs, which will help increase fiscal transparency in Tanzania.

**Prior Action #4:** To strengthen the state-owned enterprises (“SOEs”) oversight and corporate governance, and to better monitor fiscal risks, the Recipients’ Office of the Treasury Registrar has mandated all SOEs to adopt the OTRMIS.

**Indicative Triggers:** To increase fiscal transparency, the Recipient has approved regulations for OTRMIS use, which mandates the periodical publication of key financial information on SOEs.

37. **Expected results.** This reform will mandate all SOEs to adopt the OTRMIS, which will facilitate the monitoring of financial performance of all SOEs in an effective and cost-efficient way. As a result, the reform is expected to strengthen SOE performance through better fiscal oversight and transparency. Results will be measured by the share of SOEs using the OTRMIS (an increase from 0 percent at the base year to 80 percent by 2025 is targeted).

***Policy area 2.2: Arrears management/ fiscal risks/debt transparency.***

38. **Rationale.** Despite the implementation of the Arrears Management Strategy of 2018, the Government has continued to create new expenditure payment arrears, with the stock standing at TZS3.2 trillion in June 2022. The 2018 strategy lacked adequate measures and actions to improve revenue forecasting, ensure commitment controls and use of IFMIS in all expenditures, multi-year commitments, enforcement of compliance to financial laws by the accounting officers, and timely verification and comprehensive reporting of payment arrears. The accumulation of arrears curtails economic growth by hurting the cash flow of private suppliers and contractors, especially medium, small and micro enterprises that have more difficulty to weather revenue inflow delays and contributing to the buildup of NPLs in the banking system. Additionally, high and persistent arrears may also imply direct fiscal costs, which reduce the fiscal space for other priority public expenditures. The clearance of arrears, and the prevention of new ones, is an essential step toward enhancing confidence in public fiscal management and supporting the private sector.

39. **Substance of the reform.** The proposed DPO will support reforms aimed at accelerating arrears verification and clearance and increasing efficiency and transparency of budget operations, including adopting an updated expenditure arrears management strategy and the publication of quarterly summary reports on payment arrears. The Government has approved the Revised Arrears Management Strategy and the Ministry of Finance and Planning has issued a circular to mandate Accounting Officers to implement the Strategy. The Strategy includes measures and actions to prevent the accumulation of new arrears and for clearing off the existing stock of arrears in the short- and medium - term period. The specific interventions focus on strengthening the legal and regulatory framework, enhancing the credibility and realism of the budget, improving accounting and reporting, strengthening commitment controls, improving cash management, enhancing oversight function across public entities, and upgrading of an integrated financial management system. Further, the strategy provides a roadmap of three years to clear the existing stock of arrears by allocating adequate funds in the general government budget for paying verified arrears.



**Prior Action #5:** To expedite public expenditure arrears verification and clearance, and to increase efficiency and transparency of budget operations, the Recipient has adopted the updated Expenditure Arrears Management Strategy; and made the corresponding budgetary allocations to implement the adopted strategy.

**Indicative Triggers:** The Recipient: (i) publishes a statement of fiscal risks, which inter alia includes information on the government's exposure to risk from payment arrears, SOEs, and PPPs, and (ii) publishes quarterly summary reports on payment arrears on the MoFP website.

40. **Expected results.** The reforms supported by this DPO aims at accelerating arrears verification, and clearance and increasing the efficiency and transparency of budget operations, through a new expenditure arrears management strategy and the publication of quarterly summary reports on payment arrears. The adoption and implementation of this strategy is expected to reduce the current stock of arrears and prevent future accumulation, as measured by a decreasing stock of verified arrears as share of expenditures (from 9 percent to 4.5 percent).

### **Pillar 3. Boosting economic resilience.**

41. Under this pillar, the proposed DPO will support measures aimed at boosting the resilience of the Tanzanian economy by (i) deepening inclusiveness (through expanding health insurance coverage), which will help protect especially the low income Tanzanian against future climate shocks, as this group tends to be more vulnerable to such shocks and has less access to other social safety nets, (ii) strengthening the monitoring of climate risks in the financial system and public investment projects, and (iii) building preparedness for future climate shocks by creating a farmer registry, which will facilitate timely and better targeted interventions to mitigate the adverse weather and market shocks.

#### ***Policy area 3.1: Boosting economic inclusion and resilience by introducing universal health insurance***

42. **Rationale.** Despite several attempts to reform the Tanzanian health sector, there remain formidable challenges, including in pooling resources, increasing efficiency of service provision, and growing inequities across socio-economic groups in accessing quality healthcare. Healthcare financing is fragmented in Tanzania, with no cross subsidization between socio economic groups. Over two decades, the Government strived to introduce and expand coverage of the pre-payments schemes through the introduction of the National Health Insurance Fund (NHIF), Community Health Fund (CHF), Social Health Insurance Benefits (SHIB) and others. However, by 2021, only 14.7 percent of all citizens were covered by health insurance. The vast majority of the population is unable to access health services and seek alternative care. Because the poor do not have access to healthcare, they lag in economic participation, which makes poverty a self-regenerating cycle. As a result, the burden of supporting provision of health services to special groups such as the poor, children, elderly and disabled people falls onto the fiscal budget, which is not sustainable in the absence of risk sharing and cross-subsidization.

43. Access to different health insurance schemes has differentiated implications for men and women. While coverage rates are roughly the same for men and women overall, as the majority of formal sector workers, men are more likely to be covered by NHIF than women. Across the board, 9 percent of women



and 10 percent of men had health insurance, according to an analysis of DHS data (2015-16).<sup>8</sup> Because they are more concentrated in informal work, women are more often covered by CHP when they have coverage at all. While NHIF was opened in 2013 to informal workers, the voluntary enrolment premium remains high compared to average wages in the informal sector.<sup>9</sup> Access is even more limited for widows, elderly women and those of lower income and education levels. A 2018 nationally representative survey (N=13,266), found that insurance coverage and access to health services was lower for older and non-partnered women (divorced, widowed or separated).<sup>10</sup> Women's ability to work decreases with age, as do risks of maternal complications, making access to health services all the more critical for these groups. Because women are more likely to use health services when they have insurance, expanding coverage has the potential to disproportionately benefit women. Lack of health insurance was one of the most significant barriers to accessing healthcare for women, and that uninsured women had significantly less access to health services generally compared to women with insurance.<sup>11</sup> In a different African country (Ghana) uninsured women were found to have significantly less access to maternal and post-natal care than women with health insurance.<sup>12</sup> An analysis of claims made through NHIF found women were 1.3 times more likely to have a claim than men.<sup>13</sup>

44. **Substance of the reform.** Authorities have submitted a Universal Health Insurance Bill to parliament in September 2022. The objective of the Bill is to promote universal health coverage and ensure quality health services are accessible to the entire population. The implementation of the Bill will include a method for prepayment of financial contributions for health care, with a view to sharing risk among the population and avoiding catastrophic health-care expenditure and impoverishment of individuals as a result of seeking care. In addition, the reform aims to strengthen the management and control system of the health insurance funds while protecting the rights of members, employers, service providers, relevant funds, and private health insurance companies. The new law will guarantee access to necessary services while providing protection against financial risk, especially for the poor. The law will further empower the participants (through existing public health insurance funds or private health insurance companies such as Strategies, Jubilee and Bima Mkononi) by facilitating access to the needed quality health services. The health financing system will further be strengthened by reducing fragmentation and increasing efficiencies.

45. The success of this reform will depend on clear and sufficient preparations from all providers of care. This is particularly true for public providers as they are the main providers of care in the country especially in rural and hard to reach areas. For the insured to receive equitable and good-quality health services according to the benefits package, pertinent infrastructures and human resources will need to be in place. In addition, a costed and financed implementation plan which includes strengthening of the institutions managing and regulating health insurance, along with financing sources for the implementation and line item budgeted for UHI, including resources to facilitate the participation of low-income Tanzanians who cannot

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<sup>8</sup> MoHCDGEC, MoH, NBS, OCGS, and ICF (2016). Tanzania Demographic and Health Survey and Malaria Indicator Survey, 2015–2016. Dar es Salaam: Ministry of Health, Community Development, Gender, Elderly and Children (MoHCDGEC, Tanzania), Ministry of Health (MoH, Zanzibar), National Bureau of Statistics (NBS, Tanzania), Office of Chief Government Statistician (OCGS, Zanzibar), and ICF. Available at: <https://dhsprogram.com/publications/publication-FR321-DHS-FinalReport>.

<sup>9</sup> Ibid.

<sup>10</sup> Bintabara D, Nakamura K, Seino K. Improving access to healthcare for women in Tanzania by addressing socioeconomic determinants and health insurance: a population-based cross-sectional survey. *BMJ Open*. 2018 Sep 12;8(9):e023013. doi: 10.1136/bmjopen-2018-023013. PMID: 30209158; PMCID: PMC6144413.

<sup>11</sup> Bintabara et al 2018.

<sup>12</sup> Browne JL, Kayode GA, Arhinful D, et al.. Health insurance determines antenatal, delivery and postnatal care utilisation: evidence from the Ghana Demographic and Health Surveillance data. *BMJ Open* 2016;6:e008175 10.1136/bmjopen-2015-008175

<sup>13</sup> Durizzo et al 2022.



afford contributions, are critical. Therefore, establishing the right pace of the reform implementation (with special considerations given to maintaining the contributions-benefits balance on the basis of available fiscal space) is essential. In light of these policy design challenges, the trigger for the second operation focuses on the regulations that operationalize the Universal Health insurance Law. In addition, deepening technical dialogue and assistance between World Bank and the Ministry of Health in Tanzania will help reflecting lessons from international experience.

**Prior Action #6:** To boost the resilience of Tanzanians and the inclusiveness of economic growth, the Recipient has submitted a universal health insurance bill to the Parliament.

**Indicative Triggers:** The Recipient issues regulations to operationalize the Universal Health Insurance Bill.

46. **Expected results.** In ensuring that the universal health insurance system is sustainably funded will help to improve the provision of health services to majority of Tanzania citizens. The result will be measured by the percent of all male and female Tanzanians with special attention to indigents covered by health insurance (target level 30 percent for both males and females). More broadly, with citizens from all groups being assured of the best health services they will be able to better participate in economic activities, build human capital, increase productivity, and reduce poverty.

### ***Policy area 3.2: Better monitoring climate risks in the financial sector***

47. **Rationale.** Tanzanian banks are facing increasingly consequential risks emanating from climate shocks due to the high concentration of lending to the agriculture sector as well as Tourism. In Tanzania as in many parts of the region, businesses are particularly vulnerable to drought and flood impacts due to the heavy reliance on rain-fed sectors such as agriculture, livestock, and fisheries. Climate shocks can similarly impact tourist attractions through changes in biodiversity and presence of wildlife.

48. **Substance of the reform.** BOT has mandated the implementation of the BCBS Principles and guidelines for effective management and supervision of climate related financial risk and supporting the transition towards a sustainable economy. This will help strengthen the resilience of the financial sector against climate related risks. It will raise the bar for and increase awareness in the banking sector about the impact that climate change might have on traditional banking risks and NPLs. Managing climate related risks in the financial sector is a critical first step towards fostering mitigation and adaptation strategies by banks to climate risk in the medium term. Addressing climate change will require the financial sector to support bold actions and massive investments across key economic sectors. The global climate crisis presents opportunities for economic transformation and prosperity that Tanzania can seize, like the adoption of renewable energy technologies (solar and wind); investments in climate-smart infrastructure, creating jobs while addressing climate-related problems (such as pollution, floods, extreme heat); and extending sustainable linked loans with covenants and pricing more favorable to borrowers reaching green goals (for example, reducing CO2 emissions). The Banking and Financial Institutions Act of 2022 gives the Bank of Tanzania the power to issue prudential guidelines on this issue.

**Prior Action #7:** To strengthen resilience of the financial sector against climate related risks, and supporting the transition towards a sustainable economy, the Recipient through the Bank of Tanzania has issued prudential guidelines mandating the implementation of the Basel Committee on Banking Supervision's Principles for Effective Management and Supervision of Climate-Related Financial Risks.



49. **Expected results.** The guidance from the BOT regarding the disclosure of climate risks will help the financial sector to consider a more medium-to long-term assessment of their risk profile and boost preparedness. The metric that will be used against this outcome is the number of banks complying with the Guidance on Governance, risk management and disclosure of climate related financial risk (35 out of 46 currently existing Banks by FY2025).

**Policy area 3.3. Internalizing climate concerns in public investment management**

50. **Rationale.** Public investments play an important role in Tanzania’s economic development, with the Tanzanian Government holding a large public investment portfolio. Tanzania is also keen on scaling up its PPP program to crowd in private investment in infrastructure and public services. In the fiscal budget for FY2022/23, development expenditures constitute about 37 percent of total public expenditures (8 percent of the projected GDP). With such a sizeable portfolio, climate considerations in public investment projects can play a prominent role in shaping the country’s development path. In addition, the most recent DSA (June 2022) shows that contingent liability shocks associated with public investments pose a significant fiscal risk (the most extreme shock for Public DSA). Thus, from project selection to monitoring fiscal risks associated with active project portfolio, PIM reforms are among the most impactful in ensuring sustainability of fiscal policies and promoting resilience in Tanzania. Institutionalizing and operationalizing a PIM system that provides consistent guidance for climate and gender considerations in the identification, design, appraisal, selection, implementation, and M&E of public investment projects would strengthen the effectiveness and credibility of the development budget and enable systematic prioritization of projects supporting inclusive and resilient growth.

51. **Substance of the reform.** The authorities (MoFP/NPD) have made progress on PIM in Tanzania, including the development of the National Projects Management Information Systems (NPMIS), the revision of the PIM – Operations Manual (OM) in April 2022, and the formulation of the National Monitoring and Evaluation Framework and Policy, which are expected to be approved and disseminated in Q1 FY23. The reforms supported by this DPO focus on further improving the PIM system by incorporating climate-driven costs and fiscal risks into the PIM system. Currently, climate-related issues are given no consideration in the PIM system (neither in terms of project selection criteria nor on the basis of climate-driven fiscal risks). This Prior Action introduces the adoption of climate aspects as part of the PIM OM and mandating the implementation of it through a circular. It also supports the implementation of fiscal sustainability FY23 PPA under IDA’s SDFP. The Trigger for the second operation will introduce a Public Investment M&E policy, with climate-informed investments to be reported periodically, and include regulations to operationalize the PPP Project Facilitation Fund.

**Prior Action #8:** To integrate climate concerns into public project selection, and to enhance the implementation of the revised public investment management framework; the Recipient through its Ministry of Finance and Planning has: (a) adopted a new Public Investment Management Operational Manual (“PIM-OM”), requiring public investment decisions to consider climate risks and low-carbon alternatives; and (b) mandated the new PIM-OM to be used in all new public project selections.

**Indicative Triggers:** To strengthen the public investment portfolio, the Recipient, through its MoFP, (i) approves a Public Investment M&E policy, incl. inter alia monitoring and evaluation of climate-informed investments; the new criteria are applied to all new projects and reflected in the semi-annual reports, (ii) approves regulations to operationalize the PPP Project Facilitation Fund, and updates its PPP Guidelines to provide resources and support the design of PPPs that are climate responsive.



52. **Expected results.** With the PIM reforms supported as part of this DPO, a large portion of new public projects (75 percent) are expected to comply with the new PIM guidelines, including climate and gender related stipulations, as characterized by the new PIM Operations Manual. This will effectively introduce the new criteria on climate and gender concerns into the PIM system.

***Policy area 3.3. Raising the bar for resilience in Tanzanian agriculture***

53. **Rationale.** Agriculture and related value chains provide two-thirds of all employment in Tanzania, and three-quarters of employment among poor households. However, agricultural productivity in Tanzania is low and highly sensitive to weather patterns, resulting in volatility in incomes and prices, leaving credit-constrained Tanzanians in rural areas highly vulnerable to climate and external shocks. Volatile weather events driven by climate change, combined with COVID-19 and the war in Ukraine, which have contributed to higher fuel, fertilizer, and food prices, have underscored the need to invest in strengthening the resilience of Tanzania's food systems. Recent estimates show that the combined food, fuel, and fertilizer shocks can push an additional 1.2 million people below the poverty line in Tanzania. In parallel, higher fertilizer prices and reduced availability can suppress GDP by 1.3 percent. While the war in Ukraine and the COVID-19 pandemic are transitory shocks, with climate change unfolding, similar shocks are likely to become the “new normal” in Tanzania. To mitigate the transitory negative impact of high fertilizer prices and to stimulate the demand for fertilizers, the Government of Tanzania has introduced a TZS150bIn (US\$ 65 million) temporary fertilizer subsidy program in July 2022. The subsidy program has reached about 1.8 million farmers so far, providing access to subsidized fertilizer at approximately half the market price. However, to mitigate future shocks effectively, the authorities recognize the need for a more holistic agriculture support programs beyond fertilizer subsidies, which would build resilience of food systems such as investments in climate smart adaptive research and extension services, and sustainable water resources management.

54. **Substance of the reform.** Tanzanian authorities, especially the Ministry of Agriculture, puts great emphasis on the structural challenges posed by climate change. While the current interventions aim to relieve pressure from the current global shocks, in parallel, the authorities have used the opportunity to build shock-mitigation capacity to tackle future downturns. The reforms supported by this DPO focus on the establishment of National Farmer Enterprise Registry (NFER) via a digital eVoucher platform. In 2022, the system was used to register farmers, producers, distributors and fertilizer agents in the country to coordinate the distribution of fertilizers to farmers and the payment of subsidized fertilizers. It helped to simplify the distribution of subsidized fertilizers to farmers as well as expand the scope and efficiency of service delivery, control fraud loopholes and reduce the costs of managing agricultural projects in the country. The electronic registration of farmers open opportunities to extend agricultural services including extension services, weather update information, and advice to farmers similar to that provided by the M-Kilimo system (mobile phone based extensions services), which will be available even after the completion of the fertilizer subsidy program. The electronic system is being managed by the Ministry of Agriculture and is expected to register all farmers in the country. The registry is expected to improve the delivery of public services, such as climate-smart extension services and sustainable irrigation services. This will allow for a stronger alignment of agricultural expenditures and policies with climate change adaptation and mitigation and natural resources protection (soil, water) which are critical to ensure mid and long-term productivity and resilience to shocks. Farmer profiles will inform the design and targeting of the support required to ensure farmers recover from shocks. The database can also establish and strengthen productive partnerships between farmers and agribusinesses. It can create linkages between financing institutions and producers, especially small- to medium-scale farmers, which could incentivize the supply of credit to this productive (but often overlooked) segment of farmers. Overall, improved availability of information provided by the NFER will lead to improved



targeting of the agriculture support programs and increased effectiveness of the government expenditures, which is critical given the tightening fiscal space of the country.

55. These reforms supported by the DPO also complement the activities being considered under a forthcoming Food Systems Resilience PforR. The main impact of the PforR will come through repurposing of public agriculture spending programs, through increased budget allocation to research (directly) and extension, seed and irrigation (indirectly), which contribute towards growth and job creation. It is also considering a DLI which would incentivize the government to reduce fertilizer subsidies, along with improved budget management DLIs. The functioning NFER would support beneficiary targeting for these programs, contributing this to efficiency and effectiveness of budget resources.

**Prior Action #9:** To improve the efficiency and effectiveness of agriculture expenditure programs and boost the resilience of Tanzanian farmers against increasing climate risks, the Recipient, through its Ministry of Agriculture, has established a farmer registry.

**Indicative Triggers:** To improve the effectiveness of government interventions in agriculture, the Recipient enhances the functionality of the farmers registry by mandating the linkages with other systems to facilitate the provision of mobile extension services, weather updates, and advice to farmers.

56. **Expected results.** The most direct result of the NFER will be the increase in the number of farmers within the government’s records (target: 6 million). This will, in turn, help to increase on-farm productivity, boost agricultural exports, reduce the sale of productive assets on small and medium farms (during a shock) and improve utilization of climate-smart technologies in the long term.

**Table 4: DPF Prior Actions and Analytical Underpinnings**

Prior Actions	Analytical Underpinnings
<b>Pillar 1: Improving the environment for private sector-driven recovery and growth</b>	
Prior action #1	Tanzania Systematic Country Diagnostics (2017) Tanzania inclusive growth analytics (2018-19)
Prior action #2	Tanzania Systematic Country Diagnostics (2017) Financial System Stability Assessment (2018)
Prior action #3	Tanzania Systematic Country Diagnostics (2017) Joint Private Sector Assessments (2022)
<b>Pillar 2. Strengthening the management of SOEs and fiscal risks and improving fiscal transparency</b>	
Prior action #4	Joint SOE Review (2019-20)
Prior actions #5	IMF-World Bank DSAs Joint SOE Review (2019-20)
<b>Pillar 3: Boosting economic resilience</b>	
Prior action #6	World Bank Universal Health Coverage Study Series No. 39 (2018)
Prior action #7	Financial System Stability Assessment (2018)
Prior action #8	World Bank PER (2019-20), World Bank PER (2022)
Prior action #9	Tanzania Economic Update on Agriculture (December 2019) World Bank Agriculture Public Expenditure Review (2022)



**4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY**

57. **This DPO supports directly World Bank Group Country Partnership Framework (CPF) for FY18-22 (Report No. 121790-TZ; discussed by the Board of Executive Directors in March 2018).** The World Bank Group CPF for Tanzania identified three major focus areas and objectives. These were: Focus Area 1 (Enhance productivity and accelerate equitable and sustainable growth) , Focus Area 2 (Boost Human Capital and Social Inclusion Using a Lifecycle Approach), and Focus Area 3 (Modernize and improve the efficiency of public institutions). These areas are covered by the three pillars of this DPO (Pillar 1: Improving the environment for private sector-driven recovery and growth, Pillar 2. Strengthening the management of SOEs and fiscal risks and improving fiscal transparency, and Pillar 3: Boosting economic resilience). This correspondence is further elaborated by the table 5.

**Table 5. Correspondence between World Bank’s CPF (2018) and the DPO Prior Actions**

<b>CPF Focus Areas</b>	<b>Corresponding DPO Prior Actions</b>
<b>1.1. Strengthen the business environment for job creation, notably in manufacturing, agri-business, and tourism</b>	<b>PA#1:</b> To boost private investments by strengthening investment protection guarantees, improving the registration process of investment projects, and supporting smaller investors, the Recipient has submitted a new investment bill to the Parliament.
<b>1.2. Put credit within reach, improving access to credit particularly for MSMEs and women</b>	<b>PA#2.</b> To enhance financial stability and sector resilience, the Recipient has submitted to the Parliament a proposed amendment to the Banking and Financial Institutions Act of 2006 to facilitate the adoption of Basel II and Basel III requirements.
<b>2.3. Improve the quality of healthcare and education</b> <b>2.5. Promote social inclusion</b>	<b>PA#6.</b> To boost the resilience of Tanzanians and the inclusiveness of economic growth, the Recipient has submitted a universal health insurance bill to the Parliament.
<b>3.1. Strengthen public accountability and financial efficiency in delivering services</b>	<b>PA#5.</b> To expedite public expenditure arrears verification and clearance, and to increase efficiency and transparency of budget operations, the Recipient has adopted the updated Expenditure Arrears Management Strategy; and made the corresponding budgetary allocations to implement the adopted strategy.

58. **In addition to the proposed DPO, other World Bank projects provide complementary actions to provide assistance in priority areas identified by the CPF.** For the Tanzania Resilient Natural Resource Management for Tourism and Growth IPF (US\$150 million, covering 2017-25 period- P150523) and the Digital Tanzania Project IPF (for US\$150 million, covering 2021-26 period- P160766), the policy reforms supported by the proposed DPO provide the broader business regulatory improvements that will enhance the project specific actions in tourism and digital sectors. For example, the improvements targeted by the Digital Tanzania Project in digital ecosystem, connectivity, and digital platform areas are more likely to be met under a more FDI-friendly business environment. Similarly, the economic and social impact of the human development and agriculture operations including the forthcoming Tanzania Maternal and Child Health Investment Program (170435) and the Food Systems Resilience PforR will be complemented and magnified by the Prior Actions that focus on human capital (Universal health Insurance) and better policy targeting (farmer’s registry) considered by the proposed DPO.



59. **All DPF prior actions are linked with the Global Crisis Response Framework.** The first three PAs under the first pillar are geared to improve business climate and boost private investments, and the two prior actions under the second pillar aim to facilitate this by preventing public expenditure arrears and better monitoring fiscal risks. These are closely aligned with the fourth pillar of the GRF (Strengthening Policies, Institutions, and Investments). The third pillar of this operation is fully aligned with the third pillar of the GCRF (Strengthening Resilience), with subcomponents also aligning with other GCRF pillars. The sixth prior action (Universal Health Insurance) supports the second pillar of the GCRF (Protecting People and Preserving Jobs) and the ninth prior action (farmer’s registry) supports the first pillar of the GCRF (Responding to Food Insecurity).

#### 4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

60. **During the preparation of the FYDP III, the Government consulted a wide range of stakeholders, including development partners, private sector, civil society organizations, sector ministries and lower government levels.** The policy reforms supported by the DPO program are well aligned with the FYDP III, which have been extensively consulted with relevant stakeholders. Prior actions have been designed to ensure that the reform program contributes to the objectives of the FYDP III.<sup>14</sup> Moreover, the legal reforms such as the Investment Bill, the Universal Health Insurance Bill and amendments of the Banking and Financial Institutions Act, supported by the DPO has benefited from the feedback of the citizens through relevant Parliament Committee inviting opinions from the general public following the first reading in the Parliament. The World Bank has apprised development partners regarding the proposed program. This has included donor briefings between November 2021 and June 2022. The operation has benefited from the discussions with development partners, such as EU and ADB, supporting implementation of the Blueprint action plan and public financial management reforms. There is a general agreement between development partners that the main reform areas supported by this operation are supportive of the Government’s Third Five Year Development Plan and important aspects of partner support. The EU’s Business Environment, Growth and Innovation program (23 million euros) includes support for implementation of the Blueprint for Regulatory Reform.

### 5. OTHER DESIGN AND APPRAISAL ISSUES

#### 5.1. POVERTY AND SOCIAL IMPACT

61. **The proposed prior actions provide and important impetus for making growth more inclusive.** The reforms will create opportunities for the poor to move out of poverty and protect the ‘near poor’ from falling back below the poverty line. The potential elimination of the minimum investment requirement for FDI registration (US\$500,000) through the investment act, will likely affect the composition of FDI inflow towards smaller investments. These are typically more labor intensive and also feature higher backward/forward linkages with the host economy. Thus, by allowing more of the smaller type FDI, the authorities will likely boost employment opportunities and add an important stimulus for making growth more inclusive. The investment act also reduces the minimum investment threshold for Tanzanian firms to be eligible for investment incentives from TIC, which will enable the smaller firms to also benefit. This will compound the pro-poor benefits of earlier reforms embodied in the Miscellaneous Amendment Act on the reduction of the ceiling on levies, fees, charges, and penalties through the Local Governments Finance Act which will mostly

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<sup>14</sup> All prior actions are assessed to have no adverse poverty or environment effects.



benefit small trading and manufacturing firms. Value addition by these firms plays an important role in linking low-income producers to markets and raise income of poor households.

62. **The PA on the PIM-OM to boost preparedness of public investment to climate change will particularly benefit poor households.** That is because they are most exposed to negative impacts of climate change given their low asset base, and typically live in areas that are more exposed to extreme weather events. The PIM reform will also enable conducting ex-ante assessments of the contribution of public investments to job creation for low-income households. While the PA on ensuring compliance of banks with the disclosure of climate related financial risk, may potentially lead to a decrease in credits due to enhanced risk screening, this is likely to be offset by more explicit consideration of climate driven systemic risks, which reduce NPLs at the margin, and help alleviate the risk aversion of credit institutions in non-climate related areas.

63. **The health insurance act will provide access to affordable health care for many low-income Tanzanians.** Sudden health expenses are a common phenomenon in Tanzania. These can lead to severe household distress, loss of savings and increasing debt levels, setting back a household's income earning ability for years. According to the NPS 2014/15 survey, 8 percent of households experienced a chronic or severe illness or accident in the year before the survey. The reform will enable households to insure against such risks. Preliminary results of the NPS 2020/21 show that their high costs were one of the main reasons for dissatisfaction with health care services. Only 8 percent of patients received medical fee exemption although this proportion was much higher for treatment of 0–4-year-olds where 30 percent were exempted, followed by those aged 60 years and above (19 percent). Although this reconfirms the implementation of health policy programs targeting these two population groups, it also shows health fee exemptions still only cover a small proportion of the population.

64. **The Health Insurance Act will contain specific measures to enable the poor to obtain health insurance.** This will be realized through (i) risk sharing and cross-subsidizing mechanisms embedded in the universal health insurance mechanism, and (ii) reductions or exemptions in contributions. The proposed Bill states that the Ministry by a notice to be published in the Government Gazette, will define the package of basic benefits that will be provided by the health insurance scheme. The bill guarantees that people who will be recognized as unable to afford insurance premiums will be entitled to be included in the health insurance scheme in a manner to be specified in the regulations. In FY 2021/22 the government already allocated and ringfenced TZS 149.8 billion to finance premiums for 30 percent of the poor. The government has indicated that the Bill will be a vehicle to increase the coverage to 100% of the poor, providing free health insurance for the about 15 million people that are currently below the poverty line. The Bill also specifies that the Minister of Finance and Planning will identify specific sources for the coverage of health insurance services for the poor. The approach currently used in the TASAF targeted cash transfer scheme will be used for identifying the poor.

## 5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

65. **The prior actions of the proposed DPO are not expected to have negative effects on Tanzania's environment, forests, water resources, habitats or other natural resources, nor are there any short or long-term climate change or geo-hazard risks relevant to this operation.** Tanzania has in place adequate environmental controls and legislation under the mandate of the National Environment Management Council (NEMC), providing support to line-ministries, including MoFP in incorporating environmental management issues.



66. **The seventh Prior Action, which aims to facilitate effective management and supervision of climate related financial risk, is likely to have important climate adaptation implications.** The proposed action could have the potential to open the space to maximize climate action impacts much more broadly through the economy as opposed to sectoral focus. It could also nudge along options and investment opportunities to be implemented with long-term benefits as well as shorter-term benefits in climate-sensitive (e.g., agriculture, livestock) and non-climate sensitive (e.g., mining) sectors. Effective actions here could improve efficiency in the use of resources which would complement the creation of fiscal space to finance reduction in climate vulnerability of the Tanzanian people and economy to climate shocks. Finally, this could support private sector participation at scale in terms of climate action.

67. **The eight Prior Action, which aims to incorporate climate risks into the Public Investment Management System, is a major step towards the country's transition towards a more resilient future in light of climate risks.** Requiring public investment decisions to consider climate risks and low-carbon alternatives in project selection and evaluation would (a) help to reduce inefficiencies, manage the risks climate change poses to Tanzania, and (b) enhance actions that can help avoid carbon lock-in in key public investments. Also, a key outcome of COP26 of the United Nations Framework Convention on Climate Change held in Glasgow, United Kingdom in 2021 is the renewed focus on nature-based solutions and forestry as key and cost-effective approaches to address climate change mitigation and adaptation. Tanzania has a significant forest estate, which faces key degradation pressures. Tanzania is also a biodiversity hotspot with impressive set of protected areas that serve as the base for tourism and provide key climate co-benefits. This PA could support URT in promoting nature-smart and climate-informed investments and would contribute to effective climate action at local, national and global levels with significant co-benefits in terms of jobs, gender and key environmental services. Other prior actions in this DPO are not assessed to have significant direct effects on climate or environment related conditions in the country.

### 5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

68. **Based on the 2022 PEFA report, Tanzania's public financial management (PFM) system has significant improvement compared to 2017.** The government PFM systems has strengthened in the areas of internal and external audit, accounting and financial reporting, and consolidation of the new MUSE integrated financial management system. Additionally, significant progress has been made in debt management, payroll controls, and procurement management, which provide the basic nuts and bolts for efficient service delivery. However, the PEFA report identified several weak areas, including the format and timelines of the publication of budget documentation, fiscal information and in-year budget reports that could be strengthened easily. Additionally public investment management and, debt transparency, medium term expenditure budgeting, budget credibility, cash management, commitment control and monitoring of arrears and accounts payable remain remains among the weakness of the PFM system in the country. The proposed program seeks to address this problem by supporting the Government to adopt a strategy that will prevent new arrears and reduce the stock of arrears to acceptable levels, improve PIM, increase debt transparency, and monitor fiscal risks associated with SOEs. Also, the Government's Six Phase of the Public Financial Management Reform Program (PFMRP VI) that was launched in July 2022 seeks to address the remaining weakness in the PFM. Tanzania makes its general government budget publicly available. Tanzania is using a Treasury Single Account (TSA), with all government accounts maintained at the Bank of Tanzania and monitored centrally by the Treasury. Additionally, the TSA is supported by the GeGP system for collecting government revenues and MUSE for payment and financial reporting. However, capacity constraints in public investment management, and other PFM-related challenges (such a budget credibility, debt transparency,



medium term expenditure budgeting, budget credibility, cash management, commitment control and monitoring of arrears and accounts payable) continue to pose risk to the country's PFM system. The recent IMF safeguards assessment of the BoT (July 2022) found that the BoT has implemented relatively good safeguards, including on financial reporting and internal audit. To strengthen the legal framework to ensure independent oversight, the BoT will prepare draft amendments to the BoT Act in consultation with IMF to strengthen governance arrangements as well as personal and financial autonomy, including addressing the issue of the composition of the Board to be comprised of a clear majority of non-executive (independent) members in line with leading practices.

69. **The proposed credit will follow the World Bank's disbursement procedures for development policy loans/credits.** The finances will be disbursed against satisfactory implementation of the development policy program and are not tied to any specific purchases. Once the credit is approved by the Board and becomes effective, and at the request of the Borrower, the proceeds of the credit will be deposited by the International Development Association (IDA) in an account designated by the Borrower and acceptable to the World Bank at the BoT, and forming part of the country's foreign exchanges reserves. The Borrower shall ensure that upon the deposit of the into said account, an equivalent amount is credited in the Borrower's budget management system in TZ shillings at the official exchange rate, in a manner acceptable to the World Bank. The Borrower will report to the Bank on the amounts deposited in the foreign currency account and credited to the budget management system within 30 days after the disbursement is made. If the proceeds of the credit are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Borrower to, promptly upon notice from IDA, refund an amount equal to the amount of said payment to IDA. Amounts refunded to the World Bank upon such a request shall be cancelled. The administration of this credit will be the responsibility of the Ministry of Finance. The proposed credit finances the Consolidated Fund, which is subject to audit by the CAG. The CAG is required by law to present the audit report on the public accounts to Parliament within nine months of the financial year end. IDA will have access to those reports.

70. **The proposed operation satisfies the SUW-eligibility criteria.** Tanzania is eligible for IDA Scale Up Window, and the proposed operation satisfies other criteria for SUW consideration. First, the operation is fully aligned with the WBG CPF as discussed above, and it supports the IDA20 policy priorities, including on human capital (PA#6 on health insurance), debt (PA#3 and PA#5 aim to eliminate the "hidden" public debt), and climate change (PA#7 and PA#8 introduce climate risk monitoring, and PA#9 boost resilience). Tanzania has not received Regular SUW financing in the current IDA cycle so far, and the country's "Moderate" debt risk rating does not change with the SUW terms. In addition, the authorities are on track to implement PPAs, and no eventual NCB ceiling is breached.

#### 5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

71. **Monitoring and evaluation of the reform program will be undertaken jointly by the MoFP and World Bank teams.** These two teams will meet regularly to monitor progress in implementing the agreed policy and institutional reforms supported by the operation, and to assess progress made towards achieving the expected results. Result indicators have been specifically selected to reflect available data sources in Tanzania, and build on lessons learned from earlier policy-based lending operations that recommend the use of simple and manageable results frameworks using available secondary sources of data. Full details of the links from prior actions/triggers to expected results are described in Annex 1.

72. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as Prior Actions or tranche release conditions under a World Bank



Development Policy Financing may submit complaints to the responsible country authorities, appropriate local/national grievance mechanisms, or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

## 6. SUMMARY OF RISKS AND MITIGATION

73. **Overall risk is Moderate.** All risk categories are assigned Moderate risk ratings with the exception of Sector strategies and policies risks and Institutional capacity for implementation and sustainability risks, which are assigned Substantial risk ratings.

74. **Sector strategies and policies risks are Substantial.** Even though publicly stated, there is a risk that the level of commitment to the business environment, public investment management and arrears management reforms may change overtime. The reforms embodied in the Investment Act to attract investment and improve business environment through regulatory streamlining require complex and cross-ministerial coordination. Implementation of the arrears management strategy and prevention of VAT refund arrears will require substantive and sustained resources from the national budget that may be challenged by competing needs. However, the government has reduced substantially domestic payment arrears and limited accumulation of new arrears. The picture is not the same for VAT refunds, where the backlog of arrears remains relatively high. To help mitigate the risks on the investment and business environment reforms, the Bank is in dialogue with the Government to draw up an action plan to implement the key recommendations from the Joint Government-World Bank Private Sector Assessment conducted in 2021. The Government has placed renewed emphasis on the importance of the private sector in deriving inclusive growth. It has increased high-level dialogue meetings to facilitate opportunities to exchange views and taking actions to resolve private sector concerns. The Government has also shown readiness for the private sector participation in the economy, including through PPPs.

75. **Institutional capacity for implementation and sustainability risks are rated as Substantial.** The implementation and sustainability of the program supported by the DPO series may face risk in terms of the ownership of the reform agenda and the capacity to implement the program. Challenges include: (i) insufficient technical capacity; and (ii) possible implementation delays due to delays in decision-making and weak institutional capacity and coordination. To mitigate these risks, several parallel technical assistance programs have been designed to increase capacity in select areas, such as for investment attraction and retention, financial sector stability, and debt management (DeMPA), by the Bank and other development partners. In addition, the multi-donor funded PFMRP VI will continue to provide support to PFM reforms.



**Table 6: Summary Risk Ratings**

<b>Risk Categories</b>	<b>Rating</b>
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Moderate
9. Other	
<b>Overall</b>	● Moderate



**ANNEX 1: POLICY AND RESULTS MATRIX**

Prior actions and Triggers		Results		
Prior Actions under DPF 1	Triggers for DPF 2	Indicator Name	Baseline	Target
<b><i>Pillar 1--- Improving the business environment for private sector-driven recovery and growth:</i></b>				
Prior Action #1. To boost private investments by strengthening investment protection guarantees, improving the registration process of investment projects, and supporting smaller investors, the Recipient has submitted a new investment bill to the Parliament.	Trigger #1. The Recipient has issued regulations to operationalize the approved Investment Act.	Results Indicator #1: Foreign Direct Investment inflow as a share of GDP.	1.6% (FY2021)	3.0% (FY2025)
Prior Action #2. To enhance financial stability and sector resilience, the Recipient has submitted to the Parliament a proposed amendment to the Banking and Financial Institutions Act of 2006 to facilitate the adoption of Basel II and Basel III requirements.	Trigger #2. The recipient, through the BOT issues banking sector regulations and guidelines in accordance to Basel II and Basel III requirements.	Results Indicator #2: Percentage of banks meeting Basel II/III capital adequacy ratio (CAR).	0 (FY2021)	80% (FY2025)
Prior Action #3. To increase the efficiency of VAT refunds, and to prevent accumulation of VAT refund arrears, the Recipient has mandated that the verification of VAT refund claims be conducted electronically.		Results Indicator #3a: The ratio of outstanding VAT refunds to VAT collections (in %)	10.5% (FY2022)	4.8% (FY2025)
		Results Indicator #3b: Average time for processing of VAT refund	360 days (FY2022)	90 days (FY2025)
<b><i>Pillar 2--- Strengthening the management of SOEs and fiscal risks, and improving fiscal transparency</i></b>				
Prior Action #4. To strengthen the state-owned enterprises (“SOEs”) oversight and corporate governance, and to better monitor fiscal risks, the Recipients’ Office of the Treasury Registrar	Trigger #4. To increase fiscal transparency, the Recipient has approved regulations for OTRMIS use, which mandates the periodical publication of key financial information on SOEs.	Results Indicator #4: The share of SOEs enrolled in the system.	0% (FY2021)	80% (FY2025)



Prior actions and Triggers		Results		
has mandated all SOEs to adopt the OTRMIS.				
Prior Action #5. To expedite public expenditure arrears verification and clearance, and to increase efficiency and transparency of budget operations, the Recipient has adopted the updated Expenditure Arrears Management Strategy; and made the corresponding budgetary allocations to implement the adopted strategy.	Trigger #5. The Recipient: (i) publishes a statement of fiscal risks, which inter alia includes information on the government’s exposure to risk from payment arrears, SOEs, and PPPs, and (ii) publishes quarterly summary reports on payment arrears on the MoFP website.	Results Indicator #5: Stock of verified arrears as % of expenditures.	9% (FY2021)	4.5% (FY2025)
<b>Pillar 3--- Boosting economic resilience</b>				
Prior Action #6. To boost the resilience of Tanzanians and the inclusiveness of economic growth, the Recipient has submitted a universal health insurance bill to the Parliament.	Trigger #6. The Recipient issues regulations to operationalize the Universal Health Insurance Bill.	Results Indicator #6a: The share of male population with health insurance coverage.	14.7% (FY2021)	30% (FY2025)
		Results Indicator #6b: The share of female population with health insurance coverage	14.7% (FY2021)	30% (FY2025)
Prior Action #7. To strengthen resilience of the financial sector against climate related risks, and supporting the transition towards a sustainable economy, the Recipient through the Bank of Tanzania has issued prudential guidelines mandating the implementation of the Basel Committee on Banking Supervision’s Principles for Effective Management and Supervision of Climate-Related Financial Risks.		Results Indicator #7: Number of banks complying with the Guidance on Governance, risk management and disclosure of climate related financial risk	0 (FY2022)	35 (FY2025)
Prior Action #8. To integrate climate concerns into public project selection, and to enhance the	Trigger #8. To strengthen the public investment portfolio, the Recipient, through its MoFP, (i)	Results Indicator #8: The share of new public investment projects	0% (FY2021)	75% (FY2025)



Prior actions and Triggers		Results		
implementation of the revised public investment management framework; the Recipient through its Ministry of Finance and Planning has: (a) adopted a new Public Investment Management Operational Manual (“PIM-OM”), requiring public investment decisions to consider climate risks and low-carbon alternatives; and (b) mandated the new PIM-OM to be used in all new public project selections.	approves a Public Investment M&E policy, incl. inter alia monitoring and evaluation of climate-informed investments; the new criteria are applied to all new projects and reflected in the semi-annual reports, (ii) approves regulations to operationalize the PPP Project Facilitation Fund, and updates its PPP Guidelines to provide resources and support the design of PPPs that are climate responsive.	complying with the new PIM OM.		
Prior Action #9. To improve the efficiency and effectiveness of agriculture expenditure programs and boost the resilience of Tanzanian farmers against increasing climate risks, the Recipient, through its Ministry of Agriculture, has established a farmer registry.	Trigger #9. To improve the effectiveness of government interventions in agriculture, the Recipient enhances the functionality of the farmers registry by mandating the linkages with other systems to facilitate the provision of mobile extension services, weather updates, and advice to farmers.	Results Indicator #9: The number of farmers registered by the National Farm Enterprise Registry.	0 (FY2021)	6 million (FY2025)



## ANNEX 2: FUND RELATIONS ANNEX

IMF Press Release – July 18, 2022

- IMF Board approves SDR 795.58 million (about US\$1,046.4 million) ECF arrangement for Tanzania, with about US \$151.7 million to be disbursed immediately.
- The 40-month financing package will assist the economic recovery and address the spillovers from Russia’s invasion of Ukraine, help preserve macroeconomic stability, and support structural reforms toward sustainable and inclusive growth, drawing on the government’s priorities.
- Reforms will focus on strengthening fiscal space for much needed social spending and high-yield public investment, resuming and advancing the authorities’ structural reform agenda and strengthening financial deepening and stability.

**Washington, DC:** The Executive Board of the International Monetary Fund (IMF) approved today a 40-month extended arrangement under the Extended Credit Facility (ECF) for Tanzania, with access equivalent to SDR 795.58 (200 percent of quota, equivalent to US\$1,046.4 million). The Board’s approval allows for an immediate disbursement equivalent to US\$151.7 million. The ECF arrangement follows Fund emergency support to Tanzania in 2021 (100 percent of quota, equivalent to US\$561.5 million). The arrangement is expected to catalyze additional bilateral and multilateral financial support.

Spillovers from the war in Ukraine are stalling the Tanzanian economy’s gradual recovery from the COVID-19 pandemic, exacerbating the country’s development and reform challenges to unleash its economic potential. The ECF arrangement is centered on supporting the economic recovery from the scarring effects of COVID-19 and coping with spillovers from the war in Ukraine; preserving macroeconomic stability; and advancing the structural reform agenda toward sustainable and inclusive growth. The program draws from the key priorities of the government’s Five-Year Development Plan. IMF financial support is also expected to help stimulate private sector investment and catalyze financial support from development partners.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Acting Chair, made the following statement:

“Executive Directors commended the authorities for their economic response to the pandemic and the policies enacted to mitigate the spillovers from the war in Ukraine. Directors noted, however, that considerable development and reform challenges and external headwinds, including COVID-19 induced scars and the war in Ukraine, risk eroding hard-won economic gains. Against this backdrop and recognizing Tanzania’s strong track record in reform implementation, Directors supported the authorities’ requests for an ECF arrangement to meet pressing financing needs. They underscored that the Fund supported program would help catalyze additional external financing, support a gradual recovery while increasing social and development spending, and anchor the country’s National Development Plan. Directors also noted the importance of scaling up vaccination efforts.

“Directors welcomed the authorities’ commitment to rebalance expenditure towards social spending and improve its efficiency and execution. They highlighted that creating additional fiscal space for priority spending requires raising government revenue, improving spending quality, and containing fiscal risks



from SOEs, PPPs, and local governments. Ensuring that measures to cope with high fuel and food prices are targeted, temporary, and limiting non-concessional financing will also be important to preserve debt sustainability. Directors welcomed progress towards COVID-related transparency commitments and encouraged continued efforts in fiscal transparency and accountability. Directors also emphasized the importance of an integrated capacity development strategy to bolster far-reaching reform efforts.

“Directors welcomed the authorities’ commitment to tighten monetary policy as needed, while allowing exchange rate flexibility to cushion shocks. Directors looked forward to further strengthening of the monetary policy framework and noted that a strong communication strategy would be needed. Improving financial regulation and supervision and implementing the 2018 FSAP recommendations would be important to address financial sector vulnerabilities. Further actions to align the AML/CFT framework with FATF guidelines are also needed. “Noting the need to boost private investment and potential growth, Directors encouraged the authorities to implement their ambitious reform agenda, including improvements in human capital and infrastructure spending, and close any remaining gender gaps. Improving National Accounts statistics is also important. They also stressed the need to continue to address climate risks, building on the findings from the upcoming C-PIMA.”



**ANNEX 3: LETTER OF DEVELOPMENT POLICY**

**THE UNITED REPUBLIC OF TANZANIA  
MINISTRY OF FINANCE AND PLANNING**

Address: "TREASURY", DODOMA,  
Tel: +255-26-2160000,  
Fax: +255-26-2963109  
Email Address: [ps@mof.go.tz](mailto:ps@mof.go.tz)  
Website: [www.mof.go.tz](http://www.mof.go.tz)  
(All Official communications should be addressed to the Permanent Secretary to the Treasury and NOT to individuals).



Government City – Mtumba,  
Treasury Avenue,  
P. O. Box 2802,  
40468 **DODOMA**.

In reply please quote:

**Ref. No. CDB. 427/ 624/ 01**

**14<sup>th</sup> November 2022**

Preeti Arora,  
Acting Country Director for Tanzania,  
Malawi, Zambia and Zimbabwe,  
World Bank Country Office,  
P.O. Box 2055  
**DAR ES SALAAM**

**RE: LETTER OF DEVELOPMENT POLICY**

1. On behalf of the Government of the United Republic of Tanzania, I hereby write to request approval of the Inclusive and Resilient Growth Development Policy Financing in the amount of USD 500 million. This credit will support Tanzania's inclusive and resilient recovery from the adverse impact of COVID-19 crisis; implementation of the Third National Five-Year Development Plan (FYDP III); implementation of the ongoing Government reforms aiming at maintaining macroeconomic stability; facilitating private sector participation in the economy; rural development, infrastructure, energy, education, and water sectors; strengthening the public financial management; improvement in public service delivery; enhancing governance; and ensuring environmental sustainability.

**BACKGROUND AND RECENT DEVELOPMENTS**

**A. MACROECONOMIC PERFORMANCE**

2. Tanzania's economy continued to recover from the negative effects of the COVID-19 pandemic. During the first quarter in 2022, the economy grew by 5.4 percent compared to 5.0 percent recorded in the corresponding period in 2021. The growth was mostly driven by agriculture, construction, manufacturing, mining and quarrying, trade and repair, and financial and insurance services.



3. The economic recovery observed in the first quarter of 2022, is threatened by resurgence of new coronavirus variants in some of the country's trading partners; the on-going war in Ukraine; and the global climate change effects. These continue to weigh on the global economic recovery as the economic repercussions are vividly spotlighted on commodities, notably hikes in global energy and food prices and disruptions in global supply chains. These uncertainties will likely disrupt businesses, reduce Foreign Direct Investments (FDIs) and affect the most vulnerable sectors and consequently hampering the projected growth in the near term and poverty reduction initiatives.
4. Headline inflation continued to rise slowly, but remained within medium-term target of 5 percent, in line with the EAC and SADC convergence criteria of 8 percent and between 3 to 7 percent, respectively. In August 2022, headline inflation edged up to 4.6 percent compared to 3.8 percent recorded in August 2021. The rise was associated with increase in prices of food (maize, rice and wheat) and petroleum products (petrol, diesel and kerosene). In the FY 2022/23, inflation is projected to increase and slightly surpass the medium-term target of 5 percent. Downward risks to inflation are associated with the recent decline in oil prices in the world market, and projected exchange rate stability coupled with prudent monetary and fiscal policies. In that regard, the headline inflation will be within the projection of 5.3 percent for 2022/23. However, there are still prevailing upward risks that may harm the trajectory of inflation, including further supply shocks to food because of both climate change and Ukraine war, as well as energy price due to the recent intention by OPEC to reduce production.
5. In the first quarter of 2022/23, monetary policy implementation faced challenges, owing to high commodity prices and rising inflationary pressures. These developments were attributable to geopolitical tensions in Eastern Europe and sanctions on Russia, which disrupted supply chains in the global economy, jeopardizing the global growth recovery. In response, Bank of Tanzania gradually reduced the accommodative monetary policy measures, to contain inflation within the medium-term target of 5 percent, while safeguarding recovery of economic activities. The policy stance also aimed at sustaining stable exchange rate, while ensuring foreign exchange reserves adequacy. Cognizant of the looming inflationary pressure, mostly from the supply side, the Bank will continue to gradually scale down the accommodative monetary policy measures in the remainder of 2022/23 to carefully contain inflation within the medium-term target. Meanwhile, the Bank of Tanzania will continue to closely monitor domestic and global economic conditions and stands ready to take additional policy and regulatory measures whenever necessary to ensure macroeconomic stability, as well as preserving financial sector stability.



6. The external sector continued to face the effects of global challenges of high commodity prices, high inflation, tight financial conditions coupled with rising interest rates in advanced economies. Reflecting this, the current account deficit widened to USD 4,404.7 million in the year ending August 2022, compared with a deficit of USD 1,796.8 million in the corresponding period in 2021. This was on account of increase in imports bill that increased to USD 15,119.2 million in the year ending August 2022, up from USD 10,260.4 million in the year ending August 2021. The increase is attributable to high commodity prices in the world market with a notable rise in refined white petroleum products aggravated by the ongoing war in Ukraine. Export of goods and services improved to USD 11,387.6 million during the year ending August 2022, up from USD 9,197.1 million in the corresponding period in 2021, owing to good performance of goods exports and travel receipts. Notable improvements were recorded in travel receipts— mainly tourism that rose more than twofold to USD 2,063.5 million from USD 1,025.4 million, consistent with the rise in tourist arrivals by 63 percent to 1,245,614 signalling continued increase in international travel. Foreign reserves stood at USD 5,092 million at the end of August 2022, sufficient to cover 4.6 months of projected imports of goods and services, in line with the country and EAC benchmark of at least 4 and 4.5 months, respectively.
7. The Government continues to implement sound fiscal policy by improving domestic revenue collection and controlling the use of public funds. This goes in hand with designing resource mobilization strategies that aims at improving Government's financial position as well as opening-up new sources of revenue and reduce revenue leakage. Owing to that, domestic revenue grew by 18.5 percent in 2021/22 compared to 2020/21, which also reflects a recovery of economic activities from the negative effects of COVID-19.
8. The overall fiscal deficit (including grants) is projected at 3.3 percent of GDP in 2022/23 down from a deficit of 3.6 percent of GDP recorded in 2021/22. Over the medium term, deficit is projected to be around 2.9 percent of GDP in line with the EAC convergence criteria of not exceeding 3.0 percent of GDP. Decline in fiscal deficit is on account of expected steady improvement in domestic revenue collection, as well as the completion of key infrastructure and energy projects.
9. The public debt portfolio has been gradually growing over the past ten years. As of August 2022, the public debt stock stood at USD 31,220.20 million equivalent to 10.10 percent increase from USD 28,067.16 million recorded in the corresponding period in 2021. Out of the total public debt stock, external debt was USD 20,273.70 million and domestic debt was USD 10,946.42 million. The increase in debt level was mainly due to the implementation of the Five-Year Development Plan, which among others focuses on the execution of strategic infrastructure projects. According to the National Debt Sustainability Analysis, conducted in November 2021, the public debt remains sustainable in the medium and long-term, with all sustainability indicators remaining below the thresholds under the baseline. This



was bolstered by current and future growth prospects, strong policy and institutional settings.

10. Furthermore, the analysis showed that the risk of debt distress for the country increased from low to moderate, following the negative effects of COVID-19 on exports and growth. The country's debt carrying capacity has been impacted by the negative effects of the pandemic on the growth of the economy and slowdown of exports attributable to a sizable decline in tourism receipts, such that under an extreme external shock scenario there is limited capacity for the country to service external debt. However, the Government is optimistic that the next Debt Sustainability Analysis will likely improve due to the recent improvements in exports trends. For the debt to remain sustainable, the Government will continue directing proceeds from commercial and concessional sources into projects that accelerate economic growth to boost exports and minimize the possibility of primary balance shocks. In addition, the Government continues to strengthen supervision of both financial institutions and state-owned enterprises with a view to minimizing risks associated with contingent liabilities.

## **B. MACROECONOMIC PROJECTIONS**

11. In 2022, growth is projected to remain subdued to about 4.7 percent albeit the good performance recorded in the first quarter, reflecting negative spillovers from both Ukraine war and COVID-19 pandemic. In the medium term (2023-2027), growth is expected to improve to about an annual average of 6.3 percent, supported by continuous recovery of an economy from the heightened shocks; implementation of strategic projects, enhanced efficiency of revenue collection and expenditure management, favourable weather condition, recovery in tourism sector, strong public investment, and a rebound in private sector activity. The projected economic recovery will also be supported by payment of domestic arrears to stimulate private sector investment. In addition, successful implementation of FYDP III that seeks to promote economic competitiveness and industrialization to realize human development; the on-going implementation of the Action Plan of the Blueprint for Regulatory Reforms to Improve the Business Environment; expansion of irrigation schemes; creating favorable environment for management and control of large-scale and medium scale mining; and sustenance of peace and security will add impetus to the anticipated growth.

## **C. DESCRIPTION OF POLICY AREAS**

### **• ACCELERATING PRIVATE INVESTMENTS**

12. Government has continued to support critical business climate measures aimed at job-creating private-sector-driven growth by addressing longstanding constraints on



private investment, including excessive bureaucracy, predaceous taxation, limited access to finance and other inputs, and low uptake of digital solutions due to their high costs and limited access.

13. Government of Tanzania has amended the Investment Act (formerly known as the Business Facilitation Act). The new Investment Act includes measures to amend the current investment code by strengthening investment guarantees, the removal, or reduction of the minimum investment requirement to invest in Tanzania, administration of incentives through transparent and non-discriminatory process using a clear and objective criterion and strengthening the investor recourse mechanism. The new Act addresses shortcoming of the previous Act by including the missing guarantees and by reformulating the provisions pursuant to good practice standards.

➤ **Prior Action #1:** *To boost private investments by strengthening investment protection guarantees, improving the registration process of investment projects, and supporting smaller investors, the Recipient has submitted the new Investment Bill to the Parliament.*

14. Lending to the private sector apart from being relatively low, took a major hit during the Covid-19 pandemic. The Government continues to implement financial sector reforms that support the transition of banks to Basel II/III and be supervised accordingly, enabling the Bank of Tanzania (BoT) to issue banking sector regulations and guidelines prescribing an additional capital buffer, to define a framework for liquidity standards, and leverage ratio. This will help improve resilience in the banking sector to enable the sector to continue serving the economy and households in the face of potential adverse situations.

➤ **Prior Action #2:** *To enhance financial stability and sector resilience, the Recipient has submitted to Parliament the amended Banking and Financial Institutions Act of 2006 to facilitate the adoption of Basel II and Basel III requirements.*

• **INCREASING THE EFFICIENCY OF VAT REFUND SYSTEM AND STRENGTHENING TAXPAYERS' RIGHTS.**

15. The Government is improving VAT refunds system and strengthening tax complaint mechanisms that is expected to ease costs of funding business operations and facilitate business growth. The Government has embarked in reforms that aim to improve the efficiency of VAT refunds and prevent future backlogs by introducing modernized and risk-based VAT refund procedures, electronic submission of refund claims, and the electronic verification of all new refund claims.



- **Prior Action #3:** *To increase the efficiency of VAT refunds, and to prevent accumulation of VAT refund arrears, the Recipient has mandated that the verification of VAT refund claims be conducted electronically.*

16. The Government through the Office of the Treasury Registrar (OTR) has launched a web-based reporting portal called the OTR management informant system (OTRMIS) that will enable OTR to electronically monitor SOEs governance practices including board appointments, tenure, and corporate disclosures. The OTRMIS will also enable mandatory reporting and analysis of SOEs financial performance and strengthen SOEs fiscal oversight and transparency. Enforcement and proper roll-out of the system is the first step in strengthening SOEs oversight and corporate governance. Its operationalization has enabled mandatory reporting on SOEs financial performance, thereby strengthening SOEs fiscal oversight and transparency.

- **Prior Action #4:** *To strengthen the state-owned enterprises (“SOEs”) oversight and corporate governance, and to better monitor fiscal risks, the Recipients’ Office of the Treasury Registrar has mandated all SOEs to adopt the OTRMIS.*

- **ARREARS MANAGEMENT/ FISCAL RISKS/DEBT TRANSPARENCY.**

17. The accumulation of arrears curtails economic growth by hurting the cash flow of private suppliers and contractors, especially medium, small and micro enterprises that have more difficulty to weather revenue inflow delays and contributing to the buildup of NPLs in the banking system. To address the issue, the Government has developed, approved and started the implementation of an arrear’s prevention and clearance strategy. The Ministry of Finance and Planning has issued circulars advising Accounting Officers to adhere to the Budget Act of 2017, and the government is allocating TZS 600 billion each year for the clearance of verified arrears. The Government remains committed to accelerate arrears verification and clearance and increase efficiency and transparency of budget operations, including an updated expenditure arrears management strategy and the publication of quarterly summary reports on payment arrears.

- **Prior Action #5:** *To expedite public expenditure arrears verification and clearance, and to increase efficiency and transparency of budget operations, the Recipient has adopted the updated Expenditure Arrears Management Strategy; and made the corresponding budgetary allocations to implement the adopted strategy.*

- **BOOSTING ECONOMIC RESILIENCE.**



18. In mitigating the risk of continuing having marginalized groups particularly elderly and women in the low-income bracket against future climate and other economic shocks, (as these groups have less access to other social safety nets, especially in the areas of health and wellbeing), the Government has made decision to deepen inclusiveness through expanding health insurance coverage by establishing Universal Health Care System that helps to protect and assure them to remain in the productive economic activities.
  - **Prior Action #6:** *To boost the resilience of Tanzanians and the inclusiveness of economic growth, the Recipient has submitted a universal health insurance bill to the Parliament.*
  
19. To accelerate efforts in the climate change area, raise the bar and increase awareness in the financial sector about the impact that climate change might have on traditional banking risks and Non-Performing Loans, the Government of Tanzania has decided to adopt climate related risk identification and measurement in the banking supervision and encourages the adoption of renewable energy technologies (solar and wind); investments in climate-smart infrastructure, creating jobs while addressing climate-related problems (such as pollution, floods, extreme heat); and sustainable linked loans that with covenants and pricing more favorable to borrowers reaching green goals (for example, reducing of CO2 emissions).
  - **Prior Action #7:** *To strengthen resilience of the financial sector against climate related risks, and supporting the transition towards a sustainable economy, the Recipient through the Bank of Tanzania has issued prudential guidelines mandating the implementation of the Basel Committee on Banking Supervision's Principles for Effective Management and Supervision of Climate-Related Financial Risks.*
  
20. Public investments play an important role in Tanzania's economic development, with the Government holding a large public investment portfolio. The Government is committed to continue implementing PIM reforms that are impactful in ensuring sustainability of fiscal policies and promoting transparency. The reforms in the PIM system also introduce adoption of climate aspects as part of the PIM OM and mandating the implementation to all Government departments responsible for public investments.
  - **Prior Action #8:** *To integrate climate concerns into public project selection, and to enhance the implementation of the revised public investment management framework; the Recipient through its Ministry of Finance and Planning has: (a) adopted a new Public Investment Management Operational Manual ("PIM-OM"), requiring public investment decisions to consider climate risks and low-carbon alternatives; and (b) mandated the new PIM-OM to be used in all new public project selections.*



21. In strengthening the resilience of Tanzania's food systems and cushion agriculture sector particularly small-scale farmers' from severe weather calamities and improve access to inputs and markets for their produce (as agriculture and related value chains provide two-thirds of all employment in Tanzania, and three-quarters of employment among poor households). The Government is putting great emphasis on the structural challenges posed by climate change by adopting technologies to register farmers together with the whole agriculture value chain to monitor and support agri-sector by introducing Farmers registration database with capabilities of collection, disseminating and track all agriculture related information and expenditure support.

➤ **Prior Action #9:** *To improve the efficiency and effectiveness of agriculture expenditure programs and boost the resilience of Tanzanian farmers against increasing climate risks, the Recipient, through its Ministry of Agriculture, has established a farmer registry.*

#### **D. CONCLUSION**

22. The Government remains committed to focusing on sustaining macroeconomic stability, increasing domestic resource mobilization, promoting pro poor economic growth, and increased investment in core social services such as Education, Health, Water, Sanitation and Energy. The Government is confident that various reforms pursued under this DPO will further improve service delivery in the public sector. Further, the Government recognizes that the support by the Bank and other development partners will complement Government's efforts to ensuring adequate funding of the FYDP III interventions, key towards Realizing Competitiveness and Industrialization for Human Development. Thus, the Government requests the World Bank to approve the provision of USD 500 million to complement the Government's efforts in fostering inclusive and resilient recovery from the adverse impact of COVID-19 crisis; implementation of the FYDP III and other reforms, thereby sustaining macroeconomic stability and poverty reduction.

Thank you for your continued cooperation and support.

Emmanuel M. Tutuba  
**PERMANENT SECRETARY  
AND PAYMASTER GENERAL**



**ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE**

Prior Actions (Focus)	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
<b>Operation Pillar 1: Pillar 1--- Improving the business environment for private sector-driven recovery and growth</b>		
Prior action #1 (Investment Act)	No	Yes/Positive
Prior action #2 (Banking and Financial Institutions Act)	No	No
Prior action #3 (VAT refunds)	No	No
<b>Operation Pillar 2: Strengthening the management of SOEs and fiscal risks, and improving fiscal transparency</b>		
Prior action #4 (SOE oversight)	No	No
Prior action #5 (Arrear prevention)	No	No
<b>Operation Pillar 3: Boosting economic resilience</b>		
Prior action #6 (Universal health insurance)	Yes/Positive	Yes/Positive
Prior action #7 (Climate related financial risk supervision)	Yes/Positive	No
Prior action #8 (Climate and gender filter in public projects)	Yes/Positive	Yes/Positive
Prior action #9 (Agriculture)	Yes/Positive	Yes/Positive