Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Jun-2022| Report No: PIDC33328

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Tanzania	P178156	Tanzania First Inclusive and Resilient Growth Development Policy Financing (P178156)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
EASTERN AND SOUTHERN AFRICA	Oct 31, 2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Finance and Planning	Ministry of Industry, Investment, and Trade		

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 and strengthen public sector efficiency and transparency.

Financing (in US$, Millions)

SUMMARY

Total Financing	450.00

DETAILS

Total World Bank Group Financing	450.00
World Bank Lending	450.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

To reverse the downward trend in private sector activity, and promote a resilient economic recovery, Tanzania needs to overcome persistent challenges faced by its private sector. The challenges faced by the Tanzanian private sector, including costly practices in obtaining business licenses and permits, low access to finance, lagging regulatory environment for FDI attraction, low penetration of ICT services, and inefficient public sector transactions curbed domestic private investments and FDI inflows long before the Covid-19 pandemic and the Ukraine war. 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, FDI inflows decreased from 3.2 percent of GDP in 2015 to only 1.5 percent in 2020, lower than regional peers. With the pandemic and the war in Ukraine, these trends were aggravated: While total private investments grew by 12.3 percent each year between 2010 and 2015, and by 7.5 percent annually between 2015 and 2020, it slowed further to an estimated 4.5 percent per year by 2022.

The proposed DPO will support the Tanzanian Government's reform program aimed at boosting private sector activity, and public sector efficiency and transparency under an adequate macroeconomic policy framework. As the country's space to absorb external shocks narrows, Tanzania is advised to balance 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 an appropriate 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 stable and sustainable fiscal balances. Therefore, the macroeconomic framework of Tanzania is assessed to be adequate for the proposed operation.

Relationship to CPF

The two pillars of this DPO support directly the CPF Focus Areas 1 and 3. The World Bank CPF for Tanzania identified three major focus areas and objectives. Two of those focus areas, Focus Area 1 (Enhance productivity and accelerate equitable and sustainable growth) and Focus Area 3 (Modernize and improvise the efficiency of public institutions) have been captured by the two pillars of this DPO (Pillar 1: Improving the environment for private sector-driven recovery and growth and Pillar 2: Strengthening public sector efficiency and transparency). The correspondence between the CPF and DPO objectives is further elaborated by the following table.

Table 1. Correspondence between World Bank's CPF (2018) and the DPO Prior Actions

CPF Focus Areas and Objectives	Corresponding DPO Actions
1.1. Strengthen the business environment for job creation, notably in manufacturing, agri-business, and tourism	**PA#1:** Amendment of the Investment Bill to create business conditions for more domestic and foreign investments **PA#2:** Miscellaneous Amendments Bill for improving the business climate for a private-sector driven recovery
1.2. Put credit within reach, improving access to credit particularly for MSMEs and women	**PA#6.** Amendments to the Banking and Financial Institutions Act of 2006 to enhance financial sector stability and resilience, maintain investor confidence, and ensure continued access to credit by private sector and households.
3.1. Strengthen public accountability & financial efficiency in delivering services	**PA#4:** Operationalizing the new Tax Ombudsman Office through a transparent and competitive assignment of leadership **PA#13:** Expediting arrears clearance adopting a new Arrears Management Strategy
3.2. Improve efficiency and competitiveness in public investments	PA#9: Disclosure of multi-year cost structure (backward-looking and forward-looking) of major public investment projects
3.3. Better leverage ICT to modernize the public sector	**PA#3**: Adopting a risk based VAT refund system, introducing e-filing and verification systems. **PA#8:** Fully unrolling the electronic complaints handling system for all public entities.

C. Proposed Development Objective(s)

The objective of the proposed development policy operation series is to support Tanzania's inclusive and resilient recovery and growth. This will be achieved by supporting reforms to improve the environment for private sector growth and jobs creation and strengthen public sector efficiency and transparency. Pillar 1 (Improving the environment for private sector-driven recovery and growth) supports critical business climate measures aimed at job-creating private-sector-driven growth by addressing longstanding constraints on private investment, including excessive bureaucracy, predatory taxation, limited access to finance and other inputs, and low uptake of digital solutions due to their high costs and limited access. Pillar 2 (Strengthening public sector efficiency and transparency) supports fiscal and debt reforms to strengthen efficiency and transparency of public spending and debt, address fiscal risks and, thus, bolster the resilience of Tanzania's economy to shocks and boost inclusive growth through better and more efficient provision of public services.

Key Results

The reform actions in this DPO are expected to boost private sector activity, investments, and public efficiency and accountability. Specifically, the Pillar 1 (private sector) and Pillar 2 (public sector) reforms will likely increase the number of projects registered by the Tanzania Investment Center; eliminate several levies, fees, charges, and penalties; reduce the number of days it takes to issue licenses or process VAT refunds; decrease the cost of compliance in importing or exporting agricultural imports; increase the resilience of the financial sector (both banks and microfinance institutions); reduce expenditure arrears; enforce the disclosure of multi-year cost estimates for major public projects; insert climate and gender consideration into public investment management system, and enforce identification of climate-change related risks in the country's financial system.

D. Concept Description

The proposed DPO series support Tanzania's policy and institutional reforms that are critical for strengthening the role of the private sector in economic recovery and the efficiency and the transparency of the Tanzanian public sector. The first DPO covers two pillars: i) Improving the environment for private sector-driven recovery and growth, and (ii) Strengthening public sector efficiency and transparency.

a) **The first pillar supports critical business climate measures aimed at job-creating private-sector-driven growth by addressing longstanding constraints on private investment.** These include excessive bureaucracy, predatory taxation, limited access to finance and other inputs (e.g. agrochemicals), and low uptake of digital solutions due to their high costs and limited access. To accelerate investments, authorities are amending the Investment Act and preparing a new "Miscellaneous Amendments Act" (formerly known as the Business Facilitation Act). Other reforms supported by the DPO target increasing the efficiency of VAT refund system and strengthening taxpayers' rights, countering shocks in agricultural markets by efficiency-boosting reductions in transaction costs, increasing private sector's access to credit by boosting financial intermediation efficiency and incorporating climate risks, and leveraging digital technologies for stakeholder engagement and private sector development.

b) **The second pillar support fiscal and debt reforms to strengthen efficiency and transparency of public spending and debt, address fiscal risks.** This pillar aims to bolster the resilience of Tanzania's economy to shocks and boost inclusive growth through better and more efficient provision of public services. Reforms under this pillar target strengthening public investment management, İmproving efficiency and transparency of public procurement, strengthening oversight and managing fiscal risks from SOEs, improving arrears management and preventing future backlogs, and enhancing the transparency of fiscal risks in the country.

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 enabling environment to facilitate free participation of the private sector in the economy. 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, strengthen digital economy, improve stability of the financial sector, strengthen commitment controls to prevent accumulation of arrears, and improve VAT refund system.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The proposed prior actions have the potential to support inclusive growth as the reforms will create opportunities for the poor to move out of poverty. The reduction of the ceiling on levies, fees, charges, and penalty through the Local Governments Finance Act will likely mostly benefit small trading and manufacturing firms. These are important vehicles for aggregation of produce from low-income farmers who form the majority of the poor as well as small non-farm businesses, many of which were negatively impacted by the Covid-19 induced economic downturn. Similarly, the Value Added Tax exemptions for key agricultural value chain components related to transport of perishable agricultural products, will likely help small scale producers to access markets. Similarly, the simplification and reduction of the combined export license fees for various fishery exports which will have the potential to support Tanzanian producers, with proportionately higher reduction for small-scale producers with potential spin-offs to the poor. Further analysis will follow to confirm this is the case. The potential elimination of the minimum investment requirement for FDI registration ($500 thousand) through the investment act, will likely affect the composition of FDI inflow towards smaller investments. These are typically more labor intensive and small in upfront capital needs 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.

Environmental, Forests, and Other Natural Resource Aspects

The DPO can open space to boost climate action in Tanzania. PA#7, which aims to facilitate effective management and supervision of climate related financial risk and is likely to have important climate adaptation implications. 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. PA #10, 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 (UNFCCC) held in Glasgow, United Kingdom in 2021 is the renewed focus on nature-based solutions & forestry as key and cost-effective approaches to address climate change mitigation and adaptation. Tanzania has a significant forest estate but which faces key degradation pressures. Tanzania is also a biodiversity hotspot with impressive 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.

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APPROVAL

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