

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

<Date>

Report No.: AB7687

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<b>Operation Name</b>	Tanzania Business Environment and Competitiveness for Jobs DPO
<b>Region</b>	AFRICA
<b>Country</b>	Tanzania
<b>Sector</b>	General industry and trade sector (50%);Other industry (30%);General finance sector (20%)
<b>Operation ID</b>	P150009
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	MINISTRY OF FINANCE
<b>Implementing Agency</b>	MINISTRY OF FINANCE
<b>Date PID Prepared</b>	December 8, 2014
<b>Estimated Date of Appraisal</b>	March 16, 2015
<b>Estimated Date of Board Approval</b>	May 6, 2015
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.
<b>Other Decision <i>{Optional}</i></b>	<i>Teams can add more if they wish or delete this row if no other decisions are added</i>

**I. Key development issues and rationale for Bank involvement**

1. **The proposed Business Environment and Competitiveness for Jobs Development Policy Operation (DPO) is the first in a programmatic series of three operations for the United Republic of Tanzania.** The development objective (PDO) of the proposed International Development Association (IDA) credit for an amount of USD 50 million equivalent is to foster private sector job creation by improving the overall business environment and establishing enabling conditions for the development of industries with high job-creation potential.

2. **Although Gross Domestic Product (GDP) growth has been relatively high and stable over the past decade, private sector growth has continued to lag.** A decomposition of growth in the 2000s suggests that the main driver of growth was consumption and current government spending, while capital spending (both private and public) accounted for less than 20 percent. Moreover, private investment was concentrated in a few sectors such as extractive industries, communication, and transports, suggesting that the Government's efforts have had limited success in stimulating private activity in the rest of the economy.

3. **Bolstering private sector performance is central to the goal of achieving shared prosperity and eradicating extreme poverty in Tanzania.** As of 2012, 28 percent of Tanzanians (12 million people) lived below the poverty line, with 83 percent of the poor located in rural areas.<sup>1</sup> Obtaining a secure and decent earning has been the most direct and sustainable way to lift households out of poverty

<sup>1</sup> Source: 2011/12 Household Budget Survey. For more details, see forthcoming World Bank's Poverty Assessment.

and, so, job creation by the private sector—in particular by labor-intensive industries including light manufacturing and agribusiness—is critical to the broader poverty reduction effort.<sup>2</sup>

4. **Eliminating barriers to small business growth and providing an enabling environment for investments in labor-intensive sectors will ultimately result in job creation opportunities.** Around 800,000 youth are expected to enter the Tanzanian labor market every year, for the next 10 years, doubling the workforce from 20 million today to over 40 million by 2030. Allowing household enterprises and small firms to move out of the informal sector to more structured forms of businesses is one route to create jobs with higher productivity and generate additional growth. Further job creation opportunities could be generated by the expansion of labor intensive sectors, such as light manufacturing and tourism, given Tanzania’s existing and comparative advantages.

5. **International benchmarks indicate that the current business environment in Tanzania is not attractive to (local and foreign) entrepreneurs and small and medium enterprises (SMEs).** The exiting complicated and opaque regulatory framework, partly the legacy of a highly-regulated planned economy, has proven especially difficult to improve over time. In 2014, Tanzania remained at the bottom of the Doing Business ranking (131 out of 189 countries), the Global Competitiveness Index ranking (125 out of 148 countries), and of the Transparency International Corruption Perceptions Index (119 of 175 countries). The poor quality of the business environment is detrimental to all businesses, but international experience has shown to be more damaging to smaller ones – the vast majority of firms in Tanzania<sup>3</sup>. Large firms, in comparison, have the experience and the resources to navigate through a complex business environment and to deal with (or circumvent) administrative and regulatory procedures.

6. **Private firms, including medium size ones and those operating in the formal sector continue to face difficulties accessing land, labor, and financial capital.** While Tanzania is blessed with abundant factor endowments— notably vast land and a fast-growing population—several barriers and bottlenecks prevent the well-functioning of these markets and the optimal allocation of factors of production. The process for acquiring land is complicated and the procedures costly. The labor market suffers from relatively high regulations and underdeveloped cooperation between the private and public sectors, notably in the provision of training programs.. Finally, access to (formal) finance —identified by Tanzanian firms as their most significant obstacle in the latest World Bank’s Enterprise Survey (2013)— is low and unequal due to constraints on the demand and supply sides of the market, hampering the reallocation of savings to their most productive uses.

7. **Beyond those cross-cutting issues that have affected all sectors of the Tanzanian economy, industry-specific constraints have kept promising job-creating sectors from reaching their full potential.** This is especially visible for agribusiness and tourism. Both sectors have expanded relatively fast in recent years, building on the country’s advantages and sustain global demand, but their expansion has been hampered in large part by outdated sector specific regulatory frameworks and cumbersome taxation systems.

8. **The proposed DPO series will support a reform agenda combining “horizontal” cross-cutting reforms to improve the general business environment (including factor markets) with vertical interventions to remove constraints in key job-creating industries.** Specific actions will be aimed at: (1) improving the efficiency and transparency of the institutions and processes for business regulations, trade facilitation and taxation; (2) modernizing and strengthening the labor market/skills development institutions, the land administration, and improving access to finance; and (3) establishing

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<sup>2</sup> The 2014 Country Economic Memorandum (CEM).

<sup>3</sup> It is estimated that approximately 3.1 million MSMEs operate in Tanzania, employing more than 5.2 million people,<sup>3</sup> and contributing to about 27% of GDP.<sup>3</sup> Only 4% of these businesses are formally registered.

more business-friendly regulatory and taxation frameworks for potentially transformative and job-creating industries, namely agribusiness and tourism.

9. **This reform agenda is well aligned with the Government’s Five Year Development Plan and the Big Results Now (BRN) initiative, and fully congruent with the current Country Assistance Strategy (CAS) and the Africa Regional Strategy.** Promoting private sector development by improving the business environment is one of the objectives of the Government’s National Growth and Poverty Reduction Strategy (MKUKUTA II) and the Five Year Development Plan. The recent BRN initiative provides a further focus, by having identified a series of concrete actions needed to upgrade the business environment for both the short and longer terms. The CAS Progress Report (July 2014) identifies a more vibrant private sector as one of the key sources of job creation and economic growth.

10. **The proposed operation will contribute to the country’s sound macroeconomic context by building the foundation for long-term growth, improving the resilience to external shocks, enhancing the external balance and increasing the domestic revenue mobilization.** Strong domestic private sector will drive long-term growth as the primary generator of value-added and human and physical capital accumulations. It will also make the economy less vulnerable to external shocks such as drought and international price fluctuations. An improved business environment for the private sector will also improve the export competitiveness of the domestic products, contributing to an improved balance of payment. At the same time, strong private sector performance will broaden the tax base, contributing to domestic revenue mobilization.

## II. Proposed Objective(s)

11. **The PDO of the DPO series is to foster private sector job creation by improving the overall business environment and establishing enabling conditions for the development of industries with high job-creation potential.**

12. **The reform agenda supported by the DPO series is derived from Tanzania’s MKUKUTA II, FYDP, and BRN, which have been prepared through consultations process that involved the private sector.** Tanzania’s national strategies have been traditionally developed through intensive consultative processes with a wide array of stakeholders, including private sector. The Tanzania National Business Council provides a platform of dialogue and coordination between the private sector and the Government on the reform agenda on business environment and private sector competitiveness. The Government prepared TDV 2025, MKUKUTA II and FYDP with significant stakeholder consultations. The Business Environment Lab of BRN involved significant participation of the private sector. Many of the policy areas covered by the DPO are underpinned by sector or thematic processes that involve consultations with the private sector.

13. **This operation was prepared jointly with the Japan International Cooperation Agency (JICA) who will provide parallel financing with this operation.** This follows the previous partnership with JICA through its parallel financing with the Bank’s two previous series of PRSC operations.<sup>4</sup> JICA participated in the meetings with key government counterparts, and worked extensively with the World Bank team to design a joint matrix of policy actions. Going forward, JICA will also share the responsibility for follow-up discussions with the government and monitoring and evaluation.

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<sup>4</sup> JICA provided parallel financing with the Bank’s PRSC-4 to -8 series and PRSC-9 to -11 series, except for PRSC-7 Supplemental Financing (supplemental financing from the Bank to address fiscal shocks to the Government in light of Global Financial Crisis) and PRSC-9 (prepared in 2011 which coincided with the post-disaster recovery period for Japan in the aftermath of a major earthquake and tsunami in March 2011).

14. **The proposed series is integrated in the harmonized framework for GBS in Tanzania.** This framework has been designed by the Government in close collaboration with 10 GBS Development Partners (DPs), including the World Bank. This DPO series is closely aligned with the business environment part of the Performance Assessment Framework (PAF). Such approach has already been successfully applied for the Power and Gas Sector DPO series and the forthcoming Open Government DPO series as they build synergies between the World Bank and other DPs and help streamline the dialogue with the Government on specific thematic areas.

### III. Preliminary Description

15. **The objective of the series, in line with Government program summarized above, is to strengthen Tanzania’s private sector by improving the business enabling conditions and the functioning of factor markets, and by removing obstacles affecting competitive job-creating industries.** The momentum for these reforms has gradually built up over the years and the design of the proposed operation is in line with the Government priorities and recent actions. The programs also stems from the continuous dialogue between the Government and the World Bank, and complements parallel World Bank operations and technical assistance aimed at promoting private sector development.

16. **Recognizing the multi-dimensional nature of this reform agenda, the proposed operation structures the policy actions around two horizontal (cross-cutting) pillars and a vertical one.** Reforms under the horizontal pillars target constraints affecting firms in all sectors of the economy, with the aim of creating a level playing field by improving the ease/cost/time of doing business, while the vertical pillar reforms are industry-specific interventions that aim to alleviate the specific constraints faced by sectors identified as having high-growth and high-employment potential for the Tanzanian economy:

#### *Horizontal*

- **Pillar 1: Improving the business environment.** The actions under this pillar will support reforms to make the institutions and processes regulating business registration, licensing, taxation, and trade more efficient, cheaper and transparent.
- **Pillar 2: Improving the functioning of factor markets: labor, land and capital.** This set of horizontal reform will aim to modernize labor regulation, simplify land administration, and improving the conditions for private firm to access finance.

#### *Vertical*

- **Pillar 3: Establishing enabling conditions to build competitive job-creating industries.** Actions under this pillar will drill down “vertically” to address bottlenecks and constraints to specific potentially transformative and job-creating industries in Tanzania—namely agribusiness and tourism as identified in the 2014 CEM—aiming to establish more business-friendly regulatory and taxation frameworks for those industries.

17. **The horizontal pillars are closely aligned with the BRN initiative, drawing on the recommendations of the BRN labs and other NKRA as well as the financial sector reform program by BoT.** Horizontal reforms focus on reducing the regulatory, administrative, and tax burdens on businesses and are predominantly drawn from BRN initiatives. Factor markets reforms for access to land and skills development are also explicitly targeted in the BRN, while access to finance is a priority agenda item for the BoT.

18. **Furthermore, given the overlap between the implementation timeline of the BRN and the 3-year horizon of the DPO series, many of the proposed policy actions are harmonized with the BRN targets to foster synergies.** The careful monitoring and frequent benchmarks associated with the BRN measures lend themselves well to the trigger-based sequencing of the programmatic DPO series. Furthermore, since accountability for each BRN action is assigned to a specific ministerial delivery unit (MDU), there is a natural “champion” for each reform component, helping to foster the ownership that is crucial in an operation of this multi-sector and multi-ministerial nature.

19. **The sectors selected for “vertical” policy intervention—agribusiness and tourism—are in line with the GoT priorities identified in the IIDS and targeted by the Tanzanian National Business Council.** With a view towards keeping the list of sectors and policy actions focused and manageable, agro-processing was selected since it accounts for more than half of manufacturing value-added and employment. Meanwhile, tourism was identified by the TNBC as one of the highest-potential industries that could thrive with a new strategy and the simplification/removal of specific administrative constraints.

20. **These three pillars include [11] prior actions for the first operation and [16] indicative triggers for the second operation.** While these actions and triggers are discussed in fuller details in the next section, it is worth underscoring that [two] prior actions are almost completed, while the others are broadly on track.

21. **The proposed actions and triggers are informed by the lessons of previous DPOs and investment operations in Tanzania.** Previous experience with private sector reforms in Tanzania, particularly in the context of the World Bank Poverty Reduction Support Credits (PRSC), has demonstrated that a blanket approach to the business environment reforms is not optimal, and that proper prioritization and sequencing is crucial in the face of insufficient technical and coordination capacities in the Government. This new DPO series therefore takes a more selective approach by focusing on a limited set of reform areas, where the implementation of policy reform can be supported by complementary investment operations and specific technical assistance. Furthermore, to reinforce national ownership, the proposed policy actions are strategically and operationally aligned with existing government reform initiatives in order to support rather than duplicate government processes.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### *Poverty and Social Impacts*

22. **Overall, the proposed operation is expected to have positive impacts on poverty reduction in the country through its contribution to job creation and shared prosperity.** The set of reforms supported by this operation and the series aim to improve investment climate in Tanzania, which will facilitate development of competitive domestic private sector and ultimately will lead to job creation—the main channel to reduce income poverty. The operation’s industry focus on two labor-intensive industries, namely agribusiness and tourism, as well as its support for effective functioning of labor market and skill development, is particularly catered to this objective.

23. **The weak private sector performance really “hits home” in an entrepreneurial economy such as Tanzania’s, where the vast majority of nonfarm businesses are household enterprises.** They consist of self-employed people operating informal businesses as well as family members working in those businesses. Unlike large industrial firms, who have experience navigating the business environment and the resources to deal with (or circumvent) administrative and regulatory procedures, small entrepreneurs are highly sensitive to the financial cost of overcoming these obstacles. Indeed, overly

burdensome procedures or regulation can make or break a small firms' business, and also deter them from entering the formal market, where they will generally have better access to capital and other factor inputs.

24. **Some policy actions supported by this operation have specific pro-poor implications.** Streamlining business registration and licensing processes (prior action x) will have significant pro-poor implications as it reduces cost of doing business, particularly among micro and small enterprises. A several studies, including the recent study commissioned by PMO-RALG and MoFAC, the tax burden of agricultural cess, while assessed on traders of agricultural produce, is passed on to poor farmers by reducing farm-gate prices due to market power traders have (prior action x). Ensuring adequate budget allocation for rural road development will ultimately enable the poor households in the rural sector to improve their accessibility to markets. Firm-level data in Tanzania show that micro and small enterprises face more difficulty in accessing credit. The policy actions supported by this operation and series to enhance access to finance in the country, including improved credit information system, will benefit such micro and small enterprises more than large enterprises. Given that households dependent on fisheries are predominantly poor households, the series of policy actions to strengthen sectoral management of the fisheries sector would have significant positive impacts on the poor fishery households.

25. **Some policy actions will also have positive impacts to promote gender equity.** Firm-level data also show that women entrepreneurs are disproportionately concentrated among microenterprises as opposed to medium and large enterprises. Reducing cost of doing business, including cost of starting business and access to credit, will empower women's participation in productive activities through supporting their entrepreneurship. Also, streamlining land administration will lead to empowerment of women, who still suffer from application of customary law, particularly with reference to property, inheritance, and land rights particularly in the rural areas.

#### *Environment Aspects*

26. **The existing regulatory and institutional framework in Tanzania encourages sound environmental management of investments financed through the Government budget.** The Environmental Management Act of 2004 (EMA) and associated regulations require due diligence in managing environmental impacts emanating from government operations and investments. The EMA gives a mandate to the National Environmental Management Council (NEMC), under the Vice President's Office (VPO), to oversee enforcement, compliance, review and monitoring of, and compliance with, environmental impact assessments; conduct research; facilitate public participation in environmental decision-making; raise environmental awareness; and collect and disseminate environmental information. The EMA also requires each sector to establish an environmental section to ensure that sectoral operations are conducted in accordance with the law's provisions, to coordinate aspects related to the environment, and to ensure that environmental considerations are integrated into sectoral planning and project implementation (such as power generation plants). These environmental units have been created in most sectoral ministries.

27. **The specific policies supported by this programmatic operation are not expected to have negative effects on Tanzania's environment, forests, water resources, habitats or other natural resources.** The risk of unanticipated adverse effects to the environment and natural resources is low.

## V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA) Borrower/Recipient	50
IBRD	50
JICA	
Total	100

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