Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 96448-TZ

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 57.6 MILLION (EQUIVALENT TO US$80 MILLION)

TO

THE UNITED REPUBLIC OF TANZANIA

FOR THE

FIRST BUSINESS ENVIRONMENT FOR JOBS DEVELOPMENT POLICY OPERATION

August 6, 2015

Trade and Competitiveness Global Practice (GTCDR)
Africa Region (AFR)

TANZANIA – GOVERNMENT FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of May 31, 2015)

Currency Unit:	=	Tanzania Shillings (TZS)
US$1.00	=	TZS 2,084.98
US$1.00	=	SDR 0.72

ABBREVIATION AND ACRONYMS

AF	Additional Financing
BRELA	Business Registrations and Licensing Agency
BRN	Big Results Now
BoT	Bank of Tanzania
CAG	Controller and Auditor General
CAS	Country Assistance Strategy
CCROs	Certificates of Customary Right of Occupancy
CPAR	Country Procurement Assessment Report
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
DAWASCO	Dar es Salaam Water and Sewerage Corporation
DeMPA	Debt Management Performance Assessment
DFID	Department for International Development (UK)
DPs	Development Partners
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
EAC	East African Community
EFT	Electronic Fund Transfer
EIA	Environmental Impact Assessment
ELRA	Employment and Labor Relations Act
EMA	Environmental Management Act
FDI	Foreign Direct Investment
FY	Fiscal Year
FYDP	Five Year Development Plan
GBS	General Budget Support
GDP	Gross Domestic Product
GEPF	Government Employees Pension Fund
GLGGA	Government Loans, Guarantees, and Grant Act
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GNI	Gross National Income
GoT	Government of Tanzania
GRS	Grievance Redress Service
HBS	Household Budget Survey
HIPC	Heavily Indebted Poor Countries

ICAS	Investment Climate Advisory Services
IDA	International Development Association
IIDS	Integrated Industrial Development Strategy
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IPTL	Independent Power Tanzania Limited
IT	Information Technology
JBS	Joint Budget Support
JICA	Japan International Cooperation Agency
LAPF	Local Authorities Pension Fund
LGA	Local Government Authority
LGTP	Local Government Transport Program
LIS	Land Information System
LNG	Liquefied Natural Gas
M&E	Monitoring and Evaluation
MDIs	Micro Deposit Institutions
MDU	Ministerial Delivery Unit
MFIs	Micro Finance Institutions
MFS	Mobile Financial Systems
MLHHSD	Ministry of Lands, Housing and Human Settlements Development
MoAFC	Ministry of Agriculture, Food, and Cooperatives
MoF	Ministry of Finance
MoHSW	Ministry of Health and Social Welfare
MoIT	Ministry of Industry and Trade
MoLE	Ministry of Labour and Employment
MoNRT	Ministry of Natural Resources and Tourism
MoPS	Ministry of Public Service
MoU	Memorandum of Understanding
MSMEs	Micro, Small, and Medium Enterprises
MTEF	Medium Term Expenditure Framework
NDP	National Development Plan
NEMC	National Environmental Management Council
NEPSA	National Employment Promotion Service Act
NFIF	National Financial Inclusion Framework
NGO	Non-Governmental Organization
NHIF	National Health Insurance Fund
NIMES	National Integrated Monitoring and Evaluation Strategy
NPS	National Payment System
NSSF	National Social Security Fund
PCC	Policy Coordination Committee
PDB	Presidential Delivery Bureau
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PERD	Public Enterprise Reform and Divestiture
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Program
PIM	Public Investment Management
PMO	Prime Minister’s Office

PMO-RALG	Prime Minister's Office – Regional Administration and Local Government
POPC	President's Office Planning Commission
PPF	Parastatal Pension Fund
PPP	Public Private Partnership
PRBS	Poverty Reduction Budget Support
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSCP-AF	Private Sector Competitiveness Project Additional Financing
PSI	Policy Support Instrument
PSIA	Poverty and Social Impact Assessment
PSPF	Public Service Pensions Fund
RLRC	Regulatory Licensing Reform Committee
ROC	Regional Operations Committee
SACCOs	Savings and Credit Cooperatives
SADC	Southern African Development Community
SAGCOT	Southern Agriculture Growth Corridor of Tanzania
SDL	Skills Development Levy
SEZ	Special Economic Zone
SPS	Sanitary and Phytosanitary
TA	Technical Assistance
TANCIS	Tanzania Customs Integrated System
TANESCO	Tanzania Electric Supply Company
TBS	Tanzania Bureau of Standards
TDV	Tanzania Development Vision
TFDA	Tanzania Food and Drugs Authority
TIN	Taxpayer Identification Number
TNBC	Tanzania National Business Council
TPA	Tanzania Ports Authority
TRA	Tanzania Revenue Authority
USAID	United States Agency for International Development
VAT	Value-Added Tax
VETA	Vocational Education and Training Authority
VPO	Vice President's Office
WB	World Bank
WBES	World Bank Enterprise Survey
WBG	World Bank Group
WTTC	World Travel & Tourism Council

Regional Vice President:	Makhtar Diop
Country Director:	Bella Bird
Senior Practice Director:	Anabel Gonzalez
Practice Director:	Cecile Fruman
Practice Manager:	Catherine Masinde
Task Team Leader:	Andrea Dall'Olio
Co-Task Team Leader:	Yutaka Yoshino

THE UNITED REPUBLIC OF TANZANIA

FIRST BUSINESS ENVIRONMENT FOR JOBS DEVELOPMENT POLICY OPERATION

TABLE OF CONTENTS

ANNEXES

TABLES

FIGURES

This operation was prepared by an IDA team consisting of Andrea Dall'Olio (Lead Economist, GFMDR, Task Team Leader), Yutaka Yoshino (Senior Economist, GMFDR, co-Task Team Leader), Barbara Calvi (Analyst, GTCDR), Valeriya Goffe (Finance and Private Sector Development Specialist, GFMDR), Moses Kajubi (Senior Operations Officer, GTCDR), Suhail Kassim (Senior Private Sector Development Specialist, GTCDR), Moses Kibirige (Senior Private Sector Development Specialist, GTCDR), Zoe Kolovou (Lead Counsel, LEGAM), Andreja Marusic (Senior Operations Officer, GTCDR), Christiaan Nieuwoudt (Fincne Officer, WFALA), Mupelwa Sichilima (Operations Officer, GTCDR), and Neema Mwingu (Consultant, GTCDR).

The operation was prepared in collaboration with a JICA core team consisting of Kuniaki Amatsu (Senior Representative), Minoru Honma (Senior Representative), Yoshisuke Kondoh (Program Advisor), Daishiro Murakawa (Assistant Director) and Yuzuru Ozeki (Advisor).

The World Bank Group core team benefited from the support of Arvo Kuddo (Senior Labor Economist, GSPDR), Hannah Messerli (Senior Private Sector Development Specialist), Hermione Nevill (Operations Officer, GTCDR), Nikola Kojucharov (Economist, GTCDR) and Wim Douw (Senior Operations Officer, GTCDR).

Inputs and comments were also received from other World Bank staff, including Philippa Amiri (Consultant, AFRDE), Alexandra Bezeredi (Regional Environmental and Safeguard Advisor, GENDR), Alfred K'Ombudo (Operations Officer, GTCDR), Ann Jeannette Glauber (Senior Environmental Specialist, GENDR), Arun Joshi (Lead Education Specialist, GEDDR), Emmanuel Mungunasi (Senior Economist, GMFDR), Laurent Corthay (Senior Private Sector Development Specialist, GTCDR), Mahjabeen Haji (Consultant, GMFDR), Coleen Littlejohn (Senior Operations Officer, AFRDE), Maria Miller (Senior Operations Officer, GTCDR), Tanangachi Ngwira (Operations Analyst, GTCDR), Nobuyuki Tanaka (Education Economist, GEDDR), Oliver Braedt (Program Leader, LCC6C), Rekha Menon (Practice Manager, GHNDR), Thomas Walton (Consultant, GENDR), Victoria Cunningham (former Senior Economist, GMFDR), Xiaonan Cao (Senior Education Specialist, GEDDR), and Zainab Semgalawe (former Senior Rural Development Specialist, GFADR).

Grace Mayala (Team Assistant, AFCE1) provided primary team and mission support. Other administrative assistance was provided by Khalid Alouane (Language Program Assistant, GTCDR), Justina Kajange (Team Assistant, AFCE1), Irene Ayinda-Mah (Program Assistant, GTCDR), and Maude Balembrum (Language Program Assistant, GMFDR).

Bella Bird (Country Director, AFCE1), Philippe Dongier (Country Director, AFCE1), Preeti Arora (Country Program Coordinator, AFCTZ), Cecile Fruman (Director, GTCDR), Ganesh Rasagam (Practice Manager, GTCDR), Catherine Masinde (Practice Manager, GTCDR), Jacques Morisset (Program Leader, AFCE1), Irina Astrakhan (Practice Manager, GFMDR), and Albert Zeufack (Practice Manager, GMFDR) provided guidance. Doerte Doemeland (Lead Economist, GMFDR) and John Gabriel Goddard (Senior Economist, GTCDR) were peer reviewers.

SUMMARY OF PROPOSED CREDIT AND PROGRAM

THE UNITED REPUBLIC OF TANZANIA
FIRST BUSINESS ENVIRONMENT FOR JOBS DEVELOPMENT POLICY OPERATION

Borrower	The United Republic of Tanzania
Implementing Agency	Ministry of Finance (MoF)
Financing Data	IDA Credit - standard IDA terms. 38-year maturity and 6-year grace period. Amount: SDR 57.6 million (US$80 million equivalent).
Operation Type	First single tranche operation of a programmatic series of three.
Pillars of the Operation And Program Development Objective(s)	The DPO series is built to support reforms in three policy areas: **Pillar 1 -** Making the Regulatory Environment (for business registration, licensing, trade and taxation) More "Business Friendly"; **Pillar 2 -** Improving the Functioning of Factor Markets (Labor, Land, and Capital); and **Pillar 3 -** Establishing an Enabling Environment for Competitive, Job-Creating Industries (in particular for Agribusiness and Tourism). The **PDO** is to increase the job creation potential of the Tanzanian private sector by reducing the overall cost of doing business and by creating an enabling environment for selected labor-intensive industries.
Result Indicators	All indicators have targets set for 2018 with baseline for 2014. Some selected indicators include: (i) time to start a business declines to 10 days (baseline 26 days); (ii) number of procedures required to start a business is reduced to 3 (baseline 9); (iii) total number of licenses is reduced to 25 percent of the baseline number to be established; (iv) percent of cargo inspected is reduced to 50 percent (baseline 100 percent); (v) percent of new value added tax (VAT) refund claims that are settled within a month increases to 90 percent (baseline 74 percent); (vi) number of labor laws governing employment for citizens and non-citizens is reduced to 2 (baseline 8); (vii) percent of Skills Development Levy (SDL) revenue allocated for training purposes is increased to 100 percent (baseline 40 percent); (viii) cost to register a property (percent of property value) declines to 2 percent (baseline 4.5 percent), (ix) time to register a property declines to 40 days (baseline 67 days); (x) percent of households that have a transactions account increases to 80 percent (baseline 57.4 percent); (xi) percent of firms with a bank loan or line of credit increases to 19 percent (baseline 16.6 percent); (xii) proportion of Local Government Authorities (LGA) roads in fair or good condition (as published) increases to 70 percent (baseline 60 percent); (xiii) tax burden on agribusinesses decreases by 20 percent (baseline 0 percent); (xiv) percent of firms in the food sector with an internationally-recognized quality certification increases to 30 percent (baseline 20.5 percent); (xv) total number of licenses, permits, taxes, levies and fees for tourism businesses is reduced to less than 35 (baseline 59); and (xvi) direct employment in the tourism sector increases by 10 percent (baseline 400,000 individuals). See ANNEX 1 for other indicators.
Overall risk rating	Moderate
Climate and disaster risks	There are no short and/or long-term climate and disaster risks relevant to the operation identified as part of the SORT environmental and social risk rating.
Operation ID	P150009

IDA PROGRAM DOCUMENT FOR A PROPOSED FIRST BUSINESS ENVIRONMENT FOR JOBS DEVELOPMENT POLICY OPERATION TO THE UNITED REPUBLIC OF TANZANIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Business Environment for Jobs Development Policy Operation (DPO) is the first in a programmatic series of DPOs to the United Republic of Tanzania focused on enhancing the development potential of the country's private sector.** The development objective of the proposed series is to increase the job creation potential of the Tanzanian private sector by reducing the overall cost of doing business and by creating an enabling environment for selected labor-intensive industries. The proposed first operation is for an amount of US$80 million equivalent, and has been prepared jointly with the Japan International Cooperation Agency (JICA), which plans to provide parallel financing.

2. **Over the past decade, the private sector has played a limited role as an engine of economic growth and employment creation for a growing workforce.** A decomposition of growth in the 2000s has suggested that the driving forces were mainly consumption and current government spending.[1] Private investment and growth were concentrated in a few fast growing sectors, such as the extractive, finance, communication, and transport sectors. With the exception of construction, labor-intensive sectors, such as agriculture and manufacturing, expanded below the average rate of the economy and job creation was limited as a result. To create a sufficient number of productive jobs for the rapidly growing labor force, which is expected to double from 20 to 40 million in the next 15 years, the economy will have to accelerate its structural shift from agriculture to manufacturing and services and generate productivity gains in its labor-intensive sectors, including agriculture, where about three quarters of the Tanzanian population is still employed today.

3. **The latest household budget survey data show a positive outcome of poverty reduction in recent years, although there needs to be continued efforts to reduce poverty and inequality through creation of productive employment.** Until 2007, the poverty rate (basic-needs poverty rate) in Tanzania remained stagnant at around 34 percent despite a robust growth at average 7 percent of annual growth. The 2011/12 Household Budget Survey (HBS) data indicate that the poverty rate has declined to 28.2 percent—the first significant decline in the last 20 years.[2] However, there are still a large number of people in poverty with 12 million Tanzanians—mostly in rural areas, in larger households, with lower education, and lower access to infrastructure—being below the poverty line. The data also reveal that the decline in poverty is not necessarily geographically even, with the most of the improvements in the poverty indicators occurred in Dar es Salaam and inequality is increasing between urban and rural areas as well as between Dar es Salam and the other regions.

4. **Any strategy to support employment creation by the private sector in Tanzania should be anchored on the need to eliminate or reduce barriers to growth for small/informal**

[1] Capital spending—both private and public—accounted for less than 20 percent.
[2] The 2015 Poverty Assessment presents a comprehensive set of quantitative analyses of the data.

businesses, which represent approximately 90 percent of existing operators, and on fostering investments in labor-intensive sectors. Allowing household enterprises and small firms to move out of the informal sector into more structured forms of business is one route to create jobs with higher productivity. It is estimated that if one out of five existing small, non-farm businesses can double its employment base, almost one million new jobs will be created every year. In parallel, the expansion of labor-intensive industries based on Tanzania's comparative advantages is an imperative for the country going forward. Growth in light manufacturing, agribusiness and tourism offer the greatest potential for job creation in the country and therefore should be an intrinsic focus of any approach.

5. **Reducing the cost of "doing business" in Tanzania is critical to stimulate local entrepreneurship and attract foreign investors.** The complicated and opaque regulatory framework, partly the legacy of a highly-regulated and planned economy, generates unnecessary costs and has proven especially difficult to improve over time. Today, Tanzania remains towards the bottom of the overall 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 it to be more damaging to smaller ones which make up the vast majority of firms in Tanzania.[3] Large firms, in comparison, have the experience and resources to navigate through a complex business environment and deal with (or circumvent) administrative and regulatory procedures.

6. **All private firms, including medium-size ones and specifically those operating in the formal sector, will benefit from improvements in the functioning of basic factors of production (land, labor, and financial capital).** While Tanzania is blessed with abundant factor endowments, including vast land and a fast-growing population, several barriers and bottlenecks prevent optimal allocation of these assets and proper market functioning. The process for acquiring land is complicated and the procedures costly. The labor market suffers from relatively rigid 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 (WBES) 2013—is low and unequal due to constraints on demand and supply sides, thus hampering the reallocation of savings to their most productive uses.

7. **Beyond addressing these crosscutting issues, international experience has shown that a competitive job creation strategy is more effective when it addresses industry-specific constraints that have kept promising sectors from reaching their full potential.** A narrower focus helps create momentum around proposed reforms since, arguably, all bottlenecks in terms of access to infrastructure and factors of production cannot realistically be addressed for all firms in every location at the same time. Thus far, governmental efforts have focused primarily on agribusiness and tourism—sectors that have expanded relatively fast in recent years based on the country's advantages and sustained global demand. However, their expansion has been hampered

---

[3] It is estimated that approximately 3.1 million micro, small, and medium enterprises (MSMEs) operate in Tanzania, employing more than 5.2 million people and contributing to about 27% of GDP. Only 4 percent of these businesses are formally registered.

in large part by outdated sector-specific regulatory frameworks, cumbersome taxation systems, sub-optimal use of land, and constraints on the availability of skilled labor.

8. **The proposed DPO series will support a reform agenda combining "horizontal" crosscutting reforms to improve the overall business environment (including factor markets) with "vertical" interventions to remove specific constraints in key job-creating industries.** More specifically, reforms will aim at: (i) improving the efficiency and transparency of selected regulatory, trade and taxation processes; (ii) strengthening the labor market/skills development policy environment, making the land administration processes more efficient, and improving access to finance; and (iii) establishing more business-friendly regulatory and taxation frameworks for potentially transformative and job-creating industries (agribusiness and tourism).

9. **The policy reforms supported under the DPO series will help remove critical business environment constraints in Tanzania and are complementary to other sector specific operations.** The latest WBES data (2013) show that access to finance, tax, access to land, customs and trade regulations, business licenses and permits, and transportation are among the top 10 business environment constraints as perceived by firms in Tanzania: this is reflected in the weak performance in the relevant Doing Business indicators (e.g., starting a business, registering properties, getting credit, paying taxes, and trading across borders) and recognized by the Big Results Now (BRN) initiative as priority areas for reforms.[4] This DPO series will address those constraints by simplifying the business registration and licensing regimes, strengthening the effectiveness and efficiency of customs administration, in particular at the Port of Dar es Salaam, improving effectiveness in tax administration and rationalizing tax incentives, simplifying the land registration process, improving access to finance, in particular among micro, small, and medium enterprises (MSMEs), and lowering agriculture transport cost. Energy reliability—also perceived as one of the major obstacles in Tanzania constraining firm-level productivity—is being tackled by another DPO series on power and gas as well as by specific projects aimed at restoring the financial sustainability as well as at improving its service quality of the state-owned utility, Tanzania Electric Supply Company (TANESCO).

10. **This reform agenda is well aligned with the Government's Five Year Development Plan (FYDP) and the 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 main objectives of the Government's National Growth and Poverty Reduction Strategy (MKUKUTA II) and FYDP. 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

[4] The BRN Initiative is modeled on Malaysia's Government Transformation Program and was launched in 2013 with the aim of helping the Government of Tanzania to establish a strong and effective system to oversee, monitor, and evaluate the implementation of its development plans and programs. The Government established a dedicated agency—the Presidential Delivery Bureau (PDB)— to lead this program, with original focus on six (6) National Key Result Areas (NKRAs), namely agriculture, education, energy, transportation, water, and resource mobilization. In early 2014, business environment and health were added as seventh and eighth NKRAs of the BRN. For each of these areas dedicated "Labs" have been conducted with stakeholders, which led to the preparation of eight action plans including concrete indicators for measuring delivery progress in each area. The action plans have been approved by the Government after public hearing and extensive engagement with DPs and have been implemented starting from the 2013/14 budget.

Report (July 2014) identifies a more vibrant private sector as one of the key sources of job creation and economic growth.

11. **Through its central focus on job creation, the proposed DPO series will make multifaceted contributions to the country's progress toward attaining the World Bank Group (WBG)'s twin goals of achieving shared prosperity and eradicating extreme poverty**. Job creation is critical to broader poverty reduction efforts in Tanzania.[5] Creating better conditions for obtaining a secure and decent earning is the most direct and sustainable way to lift out of poverty the 28 percent of Tanzanians (12 million people) still living below the poverty line.[6] Reducing the cost of doing business in the country and strengthening general access to finance, as supported by the DPO series, will facilitate growth and formalization of micro and small enterprises, thereby promoting inclusive growth and generation of productive jobs. Through reforms to improve efficiency in labor markets and foster skills development, the DPO series will provide direct support to job creation in the country. The series specifically focuses on agribusiness and tourism—two sectors that have the most job creating potential with labor intensity well nested in a natural comparative advantage. In fact, since approximately 83 percent of the poor reside in rural areas, creating employment opportunities in, or linked to, agriculture and rural areas will have an immediate impact on poverty. A stronger and more broad-based private sector, which the DPO series ultimately aims for, will broaden the tax base in the country and enhance the Government's effort to mobilize domestic revenue and sustain a sufficient fiscal buffer to protect the most vulnerable from exogenous economic and non-economic shocks.

12. **Although the Government has demonstrated a strong and renewed commitment to promote faster and inclusive growth there are a number of risks that may delay the process.** Existing operators and administrators that benefit from existing opaque administrative arrangements may challenge many of the proposed reforms. The President and key policy making organizations, including the Presidential Delivery Bureau (PDB), have supported a drive for reforms though it is unclear whether this push will be retained after the national elections scheduled in October 2015. However, the challenge of creating enough productive jobs through a competitive private sector is now well anchored in the policy debate and is supported by the main business associations, civil society, and academics in Tanzania.

2. MACROECONOMIC POLICY FRAMEWORK

2.1 RECENT ECONOMIC DEVELOPMENTS IN TANZANIA

13. **Tanzania's recent economic developments have been favorable overall with stable growth and inflation under control.** As shown in Table 1, GDP growth remains robust, reaching 7.3 percent in fiscal year (FY) 2013/14 and projected to remain above 7 percent in FY2014/15. Economic expansion has been driven by several fast-growing sectors, such as mining, communication, financial services, and construction. More recently there has been a surge in manufacturing—in particular agro-processing (food, beverage, and tobacco) and basic metal industries (construction materials)—as well as retail trade. By contrast, agriculture— the sector upon which about 75 percent of households depend as their primary economic activity—has continued to post slow growth and weak productivity gains even though this sector reported some

[5] The 2014 Country Economic Memorandum (CEM).

[6] 2011/12 Household Budget Survey (HBS). For more details, see World Bank's 2015 Poverty Assessment.

improvements in 2014 due to favorable weather conditions. Inflation has gradually declined over the past 30 months as the result of prudent monetary policy and falling international energy and food prices. The inflation rate was 5.3 percent in May 2015, down from over 19 percent at the end of 2011.

14. **Sustained private consumption and investment have been the main drivers of economic growth from the demand side.** Private consumption and investment accounted, respectively, for 61 percent and 33 percent of GDP growth between 2008 and 2013. However, comparing two periods of 2003-2008 and 2008-2013, the share of government consumption in GDP growth increased from 14 to 20 percent.

15. **However, the relatively high economic growth has not translated into the creation of productive jobs to absorb the rapidly growing labor force**. While the overall unemployment rate remains low at approximately 4 percent, most jobs continue to be concentrated in low productive sectors such as agriculture and small, informal, non-farm businesses. So far Tanzania has not been able to create enough productive jobs because the shift from subsistence agriculture toward manufacturing and services has remained limited and productivity gains have been marginal in labor-intensive sectors. A stimulus to private economic activity to create new opportunities and the diversification of the economy towards labor-intensive industries has become a central theme for Tanzanian policy makers and was analyzed in depth as part of the 2014 World Bank's Country Economic Memorandum (CEM).

16. **Tanzania's economy has become more open, increasing exports and diversifying toward new products and markets.** The trade-to-GDP ratio has risen from 49 percent in 2008 to 54 percent in 2013, but remains lower than the Sub-Saharan Africa average of around 66 percent. Although the export structure remains largely dependent on primary commodities such as gold, coffee, tea, cashews, and cotton, the recent surge in manufactured exports to the East African Community (EAC) and Southern African Development Community (SADC) has been a welcome development. Another notable development over the past decade has been the steady increase in service exports (especially tourism), reaching about US$3.3 billion in 2013/14, the top foreign exchange earner for the country.

17. **The local currency has lost value against the currencies of Tanzania's major trade partners over the past year.** Initially this depreciation reflected the relative strength of the US dollar on international markets as well as the decline in aid inflows. The depreciation pressure of the Tanzanian Shilling was also partly countered by the Central Bank, which sold US$500 million worth of international reserves from January to April 2015. Since early May 2015, the Tanzanian Shilling has depreciated rather sharply against all major currencies, including the Euro, resulting in a nominal depreciation rate of approximately 16 percent since March 2014. While the Central Bank's recent intervention resulted in a quick appreciation at the end of June, the exchange rate has become more volatile with a wider bid-ask spread and variances among different rates prevailing in the market. This has led to a real depreciation of about five percent between March 2014 and April 2015, correcting to some extent the real appreciation that took place between 2011 and 2014.

Table 1: Key Macroeconomic Indicators

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Real Economy	Annual percentage change, unless otherwise indicated					
GDP (nominal, TSh billion)	65,585	74,779	84,319	94,275	105,506	117,998
Real GDP	6.2	7.3	7.2	7.2	7.1	7.0
Nominal GDP per Capita (US$)	914	1,000	1,020	981	1,047	1,121
Contributions: Consumption	6.1	5.4	4.3	5.5	6.8	8.5
Contributions: Investment	1.0	2.0	1.8	2.6	2.9	2.5
Contributions: Net exports	-0.2	-0.4	0.2	-1.0	-2.7	-4.1
Imports (goods & services)	7.8	10.8	15.1	9.9	9.2	8.3
Exports (goods & services)	5.1	10.2	8.4	9.0	13.3	15.8
Unemployment Rate	--	--	--	--	--	--
GDP deflator	8.8	6.3	5.2	4.3	4.5	4.5
CPI (e.o.p.)	7.6	6.4	4.8	5.0	5.0	5.0
Fiscal Accounts	Percent of GDP, unless otherwise indicated					
Expenditures	20.6	18.7	18.6	20.6	19.3	19.3
Revenues	12.9	13.6	13.3	14.9	15.0	15.2
Overall Balance (Including Grants)	-5.0	-3.3	-4.0	-4.2	-3.0	-3.0
Public debt	30.8	31.6	37.8	39.2	39.1	39.0
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated					
Reserve Money	14.5	13.7	9.0	13.4	--	--
Credit to Private Sector	17.1	21.4	17.5	14.1	--	--
Interest Rate (Treasury Bill 91 days; e.o.p.)	13.9	12.7	n.d.	n.d.	n.d	n.d
Balance of Payments	Percent of GDP, unless otherwise indicated					
Current Account Balance	-10.3	-10.3	-9.5	-8.2	-7.0	-7.2
Imports (goods & services)	31.0	30.2	29.2	29.5	28.9	28.9
Exports (goods & services)	20.1	19.2	19.2	21.4	21.9	21.8
Foreign Direct Investment	4.4	4.2	4.1	4.0	4.0	4.0
Gross Reserves (in US$ million, e.o.p.)	4,357	4,634	4,540	4,914	5,555	6,088
In months of next year's imports (g & s)	3.7	4.0	3.9	4.0	4.1	4.2
As % of short-term external debt	n.a.	n.d.	n.d.	n.d.	n.d.	n.d.
External Debt	23.1	23.8	30.2	30.9	30.8	30.8
Terms of Trade (annual change)	-1.2	-3.1	3.5	6.8	-3.7	-1.0
Exchange Rate (Tsh/US$; e.o.p)	1,580	1,615	2,245	n.d.	n.d.	n.d.

Source: Bank of Tanzania, IMF, World Bank staff

Notes: Projected amounts of foreign direct investment for the future years do not include likely large investments for a Liquefied Natural Gas (LNG) plant. Expenditures include clearance of domestic suppliers in FY2014/15 (0.2 percent of GDP) and FY2015/16(0.7 percent of GDP). Public debt assumes issuance of a TZS 1.4 trillion bond during FY2015/16 to clear outstanding pre-1999 PSPF liabilities. Exchange rate for FY2014/15 is as of June 18, 2015. "n.a." is not applicable. "n.d." is not disclosable. "n.r." is not required.

18. **In spite of the fluctuations in exchange rates, the balance of payments remained stable with the current account deficit being around 10 percent of GDP.** The reduced import bill due to the fall in oil prices on international markets, coupled with improved export performance in some food crops and manufacturing, has helped the current account deficit to decline from 10.3 percent of GDP in 2013/14 to 9.5 percent in 2014/15. The high volume of foreign direct investment (FDI) led to high imports which kept the current account deficit relatively high, albeit declining. The level of gross official reserves is sufficient to cover 3.9 months of projected imports of goods and services for the following year. While aid accounted for approximately 60 percent of total capital inflow in 2010/11, its share was only 40 percent in 2013/14.

19. **The Central Bank has continued to follow a prudent monetary policy**. Annual growth of average reserve money declined to 13.9 percent in 2013/14, down from 19.3 percent three years ago. For the purpose of supporting domestic private sector credit growth, the Central Bank temporarily reduced the reserve requirements for commercial banks from 10 to 8 percent, creating

a higher level of liquidity in the financial system. Monetary policy was tightened subsequently with the Central Bank reversing the measure in May 2015.

20. **In 2013/14 the Government reduced the fiscal deficit to 3.3 percent of GDP from 5 percent of GDP in 2012/13 but accumulated a large amount of arrears with contractors and pension funds** (Table 2). At 13.7 percent of GDP, the actual domestic revenue collection in 2013/14 turned out to be two percentage points lower than the target in the approved budget, forcing a severe adjustment in the level of expenditures throughout the year. The significant expenditure cuts affected implementation of priority infrastructure investment projects and social services under the BRN and the national development plan (MKUKUTA). However, the fiscal adjustment was also obtained by increasing the outstanding stock of arrears by the Central Government— toward domestic suppliers and Value-Added Tax (VAT) refunds—including to pension funds. By the end of June 2014, arrears reached 4.4 percent of GDP, approximately one percent of GDP higher than the level reported in June 2013.

21. **About half of the arrears are payments due to pension funds, which stood at TZS 1.56 trillion (2 percent of GDP).** These Government arrears to pension funds can be divided into two categories. First, they are the result from the Government's failure to pay the "pre-1999" benefits during the past 15 years, estimated at TZS 1.4 trillion as of June 2014. The second source of arrears lies in the late repayment by the Government of the loans extended by several pension funds to government related projects: the latter were estimated in the range of TZS 160 billion as of June 2014.

22. **For 2014/15, the Government has remained committed to meeting the fiscal target of an overall deficit of 3.8 percent of GDP, consistent with the IMF Policy Support Instrument (PSI) program.** However, the implementation of the budget has faced severe challenges, including missing the revenue collection target by about 1.5 percent of GDP during the first semester. The fiscal gap was exacerbated by the slow disbursement in budget support as the result of the Independent Power Tanzania Limited (IPTL) corruption case even though it was partially compensated by borrowing on both the domestic and external markets. As a result, the Government has slowed down the execution of the budget, notably locally funded development expenditures and non-wage recurrent expenditures, by about 0.8 percent of GDP during the first semester. However, the level of arrears has continued to grow both with contractors and pension funds. At the end of December 2014, the stock of expenditure arrears more than 90 days old amounted to TZS 1,700 billion, equivalent to approximately 2.2 percent of GDP. Currently, the present value of pre-1999 PSPF liabilities is estimated at TZS 4.8 trillion (6 percent of GDP), of which TZS 1.4 trillion is in arrears and the rest are future payments coming due.

23. **To address existing fiscal challenges, the Government has taken a series of actions to control expenditures and address the accumulation of arrears**. The authorities issued a new circular in December 2014 to control domestic arrears by strengthen monitoring. In March 2015, the Cabinet also adopted a set of decisions in addressing the issue of accumulated arrears with pension funds. While actions are still being finalized, the Government has endorsed the proposal of merging the mandatory social security funds (subject to the results of the ongoing International Labour Organization—ILO—study) with the objective of improving their efficiency through economies of scale. The decision was also made to (i) fund the existing and future payments of pre-1999 obligations to pensioners through the budget, and (ii) recognize the amount of

accumulated arrears through a bond issue to pension funds.[7] On the expenditure side, the authorities have identified areas for further expenditure cuts during FY2014/15 to compensate for lower-than-projected revenue and grant receipts.

Table 2: Key Fiscal Indicators

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
			(percent of GDP)			
Overall Balance	-4.1	-3.1	-5.0	-3.3	-4.0	-3.0
Primary balance	-3.5	-2.4	-3.8	-2.0	-2.6	-2.6
Total Revenues (excluding grants)	10.3	10.9	12.9	13.6	13.3	14.9
Tax revenues	9.5	9.8	11.8	12.4	12.0	13.2
Taxes on goods and services (VAT, Excise)	5.7	5.7	5.2	4.9	5.0	5.6
Import duties	0.8	0.7	0.9	0.9	0.9	0.9
Income tax	3.0	3.4	4.6	5.1	4.6	4.7
Non-tax revenues	0.8	1.1	1.1	1.2	1.3	1.7
Grants	3.3	3.1	2.6	2.1	1.3	1.5
Expenditures	16.8	16.2	20.6	18.7	18.6	20.6
Recurrent expenditures	11.9	10.5	14.4	13.8	12.8	14.5
Wages and compensation	4.2	4.1	5.1	5.3	5.6	5.9
Goods, services, and transfers	7.1	5.7	8.1	7.2	5.8	7.0
o/w Transfers to TANESCO	..	..	0.6	0.5	0.0	0.0
Interest payments	0.6	0.7	1.2	1.3	1.4	1.6
Development expenditures	4.9	5.7	6.2	4.9	5.7	6.1
General Government Financing	4.1	3.1	5.0	3.3	4.0	4.2
External (net)	1.9	2.6	3.9	3.0	4.3	2.7
Domestic (net)	2.3	0.5	1.1	0.3	-0.3	1.5

Source: IMF and World Bank staff

Table 3: Balance of Payment Financing Requirements and Sources

	2013/14	2014/15	2015/16	2016/17	2017/18
Financing requirements			(US$ million)		
Current account deficit	-4,746	-4,568	-3,863	-3,607	-4,023
Debt amortizations	-109	-208	-242	-390	-471
Financing Sources			(US$ million)		
FDI and portfolio investments (net)	1,929	1,962	1,894	2,061	2,251
Capital transfers	748	363	627	491	450
Debt disbursements (general government)	2,074	1,219	1,078	1,229	1,292
Change in reserves (net)	-232	-8	-438	-703	-607
IMF credit (net)	0	-52	-64	-78	-89

Source: IMF and World Bank staff

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

24. **Tanzania's medium-term macroeconomic outlook remains favorable with economic growth projected to remain stable at around 7 percent over the next two years.** Scaling up of public investments (as part of the BRN initiative), if implemented successfully, should support this target as well as sustained expansion of the same sectors more than in the recent past (see Tables 1 and 2). The rate of inflation is expected to stabilize around 5 percent, pending no shock on international food and energy prices and a continued commitment by authorities to prudent

[7] These actions are supported by the World Bank pension DPO, which is under preparation.

monetary policy and sound exchange rate policy. The overall balance of payment is expected to remain stable with a lower current account deficit based on lower oil import bills and stronger export performance. In the medium term, the current account deficit is expected to improve when the use of onshore natural gas will replace liquid fuel as the main source of thermal power generation, thereby reducing costly energy imports.

25. **The medium-term macroeconomic policy framework is expected to remain sound.** The authorities are projecting an overall fiscal deficit at around 4.2 percent of GDP, which includes clearance of arrears equivalent to 0.7 percent of GDP, and stabilization of the total public debt below 40 percent of GDP in FY 2015/16. These targets are consistent with the Government of Tanzania's (GoT) objective of maintaining fiscal sustainability, low debt distress, limiting accumulation of new arrears and expenditure cuts during budget execution, and avoiding the risk of renewed inflation pressure. Additional domestic revenue needs to be mobilized to achieve the fiscal deficit target. Implementation of a new VAT Act from July 2015 is expected to provide additional revenue equivalent to 0.5 percent of GDP. During FY2015/16, the Government plans to introduce a substantial increase of the fuel levy (100 percent) as well as a new railway tax. The Government has also identified a set of measures for reducing tax exemptions based on a study produced in 2014 as a part of the joint GoT-Development Partners (DPs) Public Expenditure Review (PER) process. The control of recurrent spending, notably the wage bill, will be required as well as considerable improvements in the selection and management of investment projects. To control future occurrence of arrears, the Government is working on several public financial management (PFM) reform actions to improve its cash management, supported by the Bank's Open Government DPO series. The Government established a consolidated debt management office in the Ministry of Finance (MoF) in May 2014 and is currently reviewing the Government Loans, Guarantees, and Grants Act (GLGGA).The ongoing 2015 Debt Management Performance Assessment (DeMPA) will contribute to pin-pointed identification of areas to strengthen the debt management system. Close monitoring and improvement in both fiscal and debt management, however, remains critically important. The authorities remain committed to a prudent monetary stance, consistent with inflation targets in the medium-term and a flexible exchange rate regime. Moreover, the Bank of Tanzania (BoT) is making good progress towards interest rate targeting as opposed to the current reserve money targeting approach.

26. **With good prospects to become a major producer of natural gas in the long-term, Tanzania needs to move quickly to build an institutional framework while ensuring sound macroeconomic and fiscal management.** The expected huge FDI inflows (potentially US$4-5 billion per year) toward the natural gas sector, especially for construction of liquefied natural gas (LNG) plant(s) that may start as early as 2017 depending on final decisions by the international gas investors, should support the growth of the economy. The challenge is to prepare the country for the gas economy and establish strong foundations to ensure that any gains from this potential resource wealth accrue to the benefits of all Tanzanians. This includes setting up appropriate and workable fiscal rules and properly designing a revenue fund well integrated with the overall fiscal framework and budget process. The Government has approved an Oil and Gas Revenue Management bill, which was tabled for discussion in Parliament on May 29, 2015 and first read on June 16, 2015,[8] in order to set a framework and fiscal rules for the effective management of

[8] The bill was tabled for discussion in Parliament together with two other oil and gas-related bills, namely the "Tanzania Extractive Industries (Transparency and Accountability) bill" and the "Petroleum bill".

future gas revenue. Strengthening the public investment management (PIM) system will be critical to ensure effective use of resources. Ensuring transparency in each node of the resource value chain will also be of paramount importance.

27. **Tanzania's current risk of debt distress remains low provided fiscal consolidation is maintained.** The 2015 IDA-IMF Debt Sustainability Analysis (DSA) Update (June 2015) shows that Tanzania continues to face a low risk of debt distress based on the external DSA. The public debt outlook also remains favorable. However, stress tests highlight vulnerabilities to exchange rate depreciation under the external DSA and lack of fiscal consolidation under public DSA (Figure 1). In addition, recognition of outstanding pensions and other liabilities, which are incorporated in the baseline scenario, is shown to have significant impacts on the level of public debt. Debt service will also increase from 14 to 22 percent of total revenues between 2014/15 and 2015/16, putting fiscal pressure on the Government budget. These results highlight the need for Tanzania to continue implementing a prudent fiscal policy, with an overall deficit of 3 percent of GDP providing a good medium-term fiscal anchor, and stronger effort to mobilize domestic revenue. Recourse to non-concessional borrowing is likely to further increase in the medium-term, but this transition to market financing needs to be progressive and accompanied by a strengthening of debt management capacity and public investment management.

28. **Positive economic prospects face a number of macro-fiscal challenges in the medium term**. **The first fiscal challenge is related to the spending pressures, coupled with underperforming domestic revenue mobilization.** Tanzania's infrastructure and social service needs are so pressing that the GoT might allow a higher fiscal deficit and borrow more to finance projects in those areas, especially if the authorities fail to meet their revenue target which is already being revised downward to a more realistic level. The temptation might be exacerbated by pressures related to the forthcoming general elections in October 2015 and by the prospect of additional revenues from natural gas in the future (which might be used in advance to guarantee commercial debt). With the continued growth of debt service requirements and the wage bill (8 percent and 29 percent of total expenditure in FY2015/16 respectively) the Government is also losing flexibility in adjusting its fiscal framework to accommodate such expenses. The trade-off between prudent debt management and sustained public investment will have to be closely monitored by the GoT with support from the IMF, the World Bank and other DPs through the joint PER program. Ensuring fiscal transparency and consolidation will also be critical. The GoT should move toward a consolidated presentation of the State's financial accounts, including those of the main parastatal agencies operating in the energy and mining sectors, which would allow more comprehensive management of fiscal risks in the public sector.

29. **The second challenge is related to the accumulation of arrears by the Government, and more broadly by the public sector, including pensions and parastatals**. While the Government is stepping up its effort to clear arrears and prevent their future accumulation, the high and growing level of GoT arrears may not necessarily capture the entire public sector in Tanzania such as pension funds and parastatals. While reforms implemented in the pension system—to be supported by the forthcoming World Bank Pension Reform DPO series—should help reduce pressure on the Government budget in the medium to longer term by eliminating contingent liabilities, it is important that the fiscal framework fully incorporate the remaining outstanding liabilities as well as future liabilities that will not be captured by the bond. Unless measures are taken to reduce the amount of these liabilities by undertaking retroactive parametric

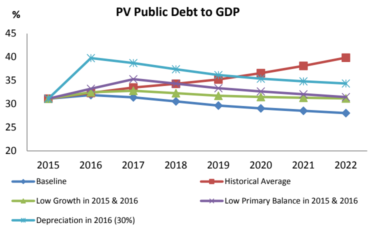
reforms, a combination of cash transfers and debt issuance will be required to meet this sum, potentially increasing the debt to GDP to 36.5 percent. Fiscal risks from parastatals also require attention. While significant progress has been achieved in improving the financial performance of TANESCO with an average 39 percent increase in electricity tariffs in January 2014, the value of arrears accumulated by TANESCO with suppliers and gas developers remains significant. The Bank's ongoing DPO series on power and gas continues to monitor the status. Other parastatals such as the water utility, Dar es Salaam Water and Sewerage Corporation (DAWASCO), have also accumulated arrears which might over time lead to additional fiscal pressures. The Pension DPO series will support the Government efforts in reducing these arrears, although this will have an impact on the deficit targets.

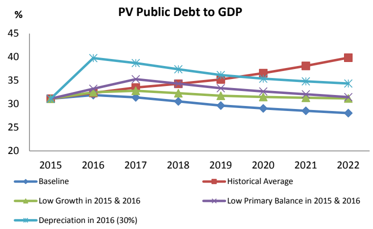
30. **The third challenge is linked to the Government's level of debt, the value of which is estimated to be around 38 percent of GDP as of June 2015, as well as growing fiscal pressure from debt service**. The Government anticipates borrowing externally on a non-concessional basis around US$2.42 billion between January 2014 and June 2016. The expected borrowing should be sufficient to finance a number of new investment projects while keeping debt at a sustainable level of 30 percent of GDP by the end of FY2015/16. Any significant deviation from this plan may endanger the Government's creditworthiness, increase debt service and limit capacity to refinance at affordable costs on both the international and domestic markets. In fact, debt service is already increasingly putting pressure on the Government budget, which potentially may heighten debt sustainability risk as shown in the 2015 DSA Update. The Government is stepping up its effort to strengthen its debt management (DeMPA, DSA, GLGGA revision, etc.).

31. **The fourth and final challenge is associated with external factors**. While the Tanzanian economy is not over-exposed to global market volatility, it is not completely immune. Major fluctuations in commodity prices, notably gold and oil, will affect trade balance. Currently, world oil prices are falling which has positively impacted TANESCO's financial position, but any reversal in those trends would negatively impact TANESCO through higher generation costs and operational deficits, which will lead to additional fiscal pressure on the Government budget, negatively impact the current account, and place pressures on exchange rate and external reserves. The magnitude and timing of anticipated multi-billion FDI inflows in the natural gas sector will also impact the local economy. These potential impacts will have to be carefully managed by the authorities. The recent sharp depreciation of the local currency against major currencies, most-notably US dollars, would bring inflationary pressure unless the authorities continue to implement prudent monetary and exchange rate policies.

32. **Despite these challenges, the medium- and long-term economic outlook remains positive overall and the Government's macroeconomic policy stance remains acceptable, providing an adequate basis for a development policy operation.**

Figure 1: Debt Sustainability





External Debt Position	US$ million	% of Total External Debt	% of GDP
Total External Debt	11,163	100.0	24.1
by Government	9,667	86.6	20.9
by Private Sector	1,496	13.4	3.2
Medium/Long Term	11,137	99.8	24.1
Short Term	26	0.2	0.1

Source: IMF and World Bank staff

2.3 IMF RELATIONS

33. **The IMF's new three-year PSI program with Tanzania starting from FY2014/15 was approved by their Board in July 2014**. The new PSI supports the Government of Tanzania's medium-term objectives of maintaining macroeconomic stability and debt sustainability as well as promoting equitable growth and job creation. In July 2015, the IMF concluded the second review under the PSI program. The periodic IMF assessments of Tanzania's macroeconomic performance serve as a key input to the dialogue and assessments on policies related to macroeconomic stability. Consultation and collaboration between the Bank and Fund in the preparation of the operation is strong. The issue of government pension liabilities has been discussed at length with the IMF, and is recognized in the latest PSI. The IMF has also been providing Technical Assistance (TA) to the BoT on pension regulation and supervision.[9]

3. THE GOVERNMENT'S PROGRAM

34. **Tanzania's focus on private sector development is captured in the Second National Growth and Poverty Reduction Strategy 2010/11-2015/16 (MKUKUTA II) and the First Five Year Development Plan for 2011/12-2015/16 (FYDP I).** MKUKUTA II is a medium-term mechanism to achieve the goals of Tanzania's Development Vision 2025 (TDV 2025), which sets forth Tanzania's aspiration to become a middle income country by year 2025. Among MKUKUTA II's key priorities is scaling up the role of the private sector primarily by strengthening the business climate for efficient use of factors of production and investing in human capital, skills and infrastructure development. In particular, the strategy is strongly oriented towards growth and enhancement of productivity as a way out of poverty, thus opening space for more active private sector participation.[10] Complementary to this, the FYDP I highlights the policy priorities in operationalizing MKUKUTA II, focusing on sectors with high growth potential (agribusiness, tourism and financial services). The Government is currently preparing the successor FYDP (2016/17-2020/21).[11] It is expected that business environment reforms to strengthen the private sector continues to be at the center of the Government's priority policy agenda.

[9] See IMF (2014) 'Tanzania: Strengthening Pension Regulation and Supervision', a report produced following a TA mission conducted in March 2014.

[10] MKUKUTA II was originally planned to cover only until 2014/15 but has been extended for another year to allow for a proper review.

[11] The current plan of the Government is to produce one single strategy/plan that succeeds both MKUKUTA II and FYDP I

35. **While the new FYDP is under preparation, the Government envisions a competitive private sector to be built through three parallel initiatives:**

- **The Big Result Now Business Environment (BRN-BE) Lab, led by the PDB, has identified a set of actions aimed at improving the business environment.** The Investment Climate Roadmap—prepared in 2010 in response to Tanzania's consecutive poor performance in "Doing Business"— proposed a time-bound action plan to implement "quick-win" policy measures.[12] However, tangible results on the ground were slow to materialize. To reinvigorate this effort in December 2013, the Tanzania National Business Council (TNBC) endorsed the launch of a BRN-BE Lab. Through close, private-public dialogue, the BRN-BE Lab identified a set of actionable recommendations in six priority reform areas: (i) realigning regulations and institutions; (ii) streamlining access to land and security of tenure; (iii) simplifying taxation and reducing multiplicity of levies and fees; (iv) curbing corruption; (v) improving labor law and skills development; and (vi) enhancing contract enforcement, law and order. The BRN-BE Lab targets were accompanied by the allocation of clear roles and responsibilities, timelines, and budgets.

- **The efforts, led by the BoT, to improve access to finance and implement the National Financial Inclusion Framework (NFIF).** Significant progress has been achieved by Tanzania in expanding financial services coverage—especially through mobile money—to reach a NFIF target of access to formal financial services for 50 percent of adults by 2016. This target is accompanied by an effort to create a proper regulatory framework that covers electronic money issuers and microfinance institutions. A key pillar of the NFIF—*ensuring reliable and secure electronic payment platforms*—foresees that the BoT, jointly with other government agencies, develops the legal and regulatory framework to provide legal certainty and consistency for a stable, mobile-money market, promote financial inclusion, and protect customers. Another NFIF pillar—*robust information and easy client on-boarding*—underscores the importance of improving the breadth and quality of credit information to facilitate access to finance for MSMEs. With more complete credit information lenders are able to better assess borrower creditworthiness and reward good borrowers while penalizing borrowers with poor credit history. To address this the BoT created a Credit Reference System in 2012 consisting of a Credit Reference Databank administered by the BoT itself and private credit reference bureaus. Under this pillar of NFIF, a robust legal and regulatory framework to govern secured transactions in the country is being developed, including a planned central collateral registry to alleviate lenders' concerns that collateral can be pledged multiple times—especially in the case of movable collateral. All these interventions would favor the private sector, and especially smaller firms, by offering a broader set of instruments to access financing at more convenient terms.

- **The design and implementation of a Ministry of Industry and Trade (MoIT)-led "Integrated Industrial Development Strategy 2025" (IIDS), which targets the development of specific high-growth, labor intensive sectors.** The vision of an "agriculture- and resource-led industrialization" laid out in the IIDS prioritizes the growth of agro-processing (edible oils, cashew nuts, fruits, milk and dairy products) given the fairly low capital/technology requirements for market entry, and its high labor intensity. This is expected

[12] Tackling policy areas such as starting a business, property registration, taxation and trade.

to help absorb the abundant labor force migrating from villages to cities due to the steady mechanization of the agriculture sector and rising secondary school and post-secondary training ratios. Other job-creation potential sectors included in the IIDS are light manufacturing (such as leather, textiles, and light machinery) and tourism, which is highlighted for its wide range of downstream and upstream linkages to other sectors.

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

36. **The objective of the DPO series is to increase the job creation potential of the Tanzanian private sector by reducing the overall cost of doing business and by creating an enabling environment for selected labor-intensive industries.** The DPO series will support the Government's efforts to make the regulatory environment more "business friendly", improve the functioning of factor markets, and remove obstacles affecting competitive job-creating industries. The proposed series is anchored on the recent initiatives launched by the Government and is a natural continuation of the long-standing dialogue between the Government and the WBG on private sector development issues. This dialogue was already incorporated in the previous budget operation series (Poverty Reduction Support Credits—PRSCs), intensified through the completion of the recent CEM on productive jobs, and is also supported by several World Bank (WB)/International Finance Corporation (IFC) investment operations and analytical/advisory activities (see Section 4.3 for details).

37. **Recognizing the multi-dimensional nature of the reform needed to promote a competitive private sector in Tanzania the proposed series supports policies in two crosscutting ("horizontal") pillars and one sector-specific ("vertical") pillar.** Reforms under the horizontal pillars aim at reducing the most binding constraints that affect firms in all sectors of the economy. The vertical pillar supports interventions on selected high-growth/ high-employment potential sectors. The combination of horizontal and vertical reforms should help create a level playing field across all sectors and provide a sense of prioritization that should favor rapid concrete results and create momentum for more global reforms in the economy.

Crosscutting (horizontal) policy reforms:

- **Pillar 1: Making the Regulatory Environment (for business registration, licensing, trade and taxation) More "Business Friendly".** The actions under this pillar support reforms of business registration, licensing, taxation, and trade regimes aimed at streamlining regulatory processes and improving the efficiency/transparency of underlying institutions.

- **Pillar 2: Improving the Functioning of Factor Markets (Labor, Land, and Capital).** The actions under this pillar aim at modernizing labor regulations, simplifying land administration and securing property rights, and broadening access to finance.

Sector-specific (vertical) policy reforms:

- **Pillar 3: Establishing an Enabling Environment for Competitive Job-Creating Industries (in particular for Agribusiness and Tourism).** Actions under this pillar address specific bottlenecks and constraints identified in the CEM in agribusiness and tourism sectors, two industries with the highest potential for job creation.[13]

38. **The two horizontal pillars are closely aligned with the BRN initiative as well as the financial sector reform program of the BoT.** Reforms to reduce the regulatory, administrative, and tax burdens 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. Since most of these horizontal reforms are derived from the BRN initiative the majority of prior actions, triggers, and expected results identified in the DPO series are aligned with it. This alignment not only reinforces the Government's commitment but also facilitates monitoring since a specific "ministerial delivery unit" has been designed and made accountable for each BRN action. Such alignment is central for a multi-sector and multi-ministerial operation.

39. **The vertical pillar is aligned with the GoT's priorities in terms of sector focus and was found to be analytically sound in several recent Bank studies, including the CEM.** Agribusiness and tourism are identified in the FYDP as high potential sectors and as such included into the IIDS and targeted by TNBC. The BRN initiative[14] targets specific actions supported by the DPO such as improvements of rural roads and rationalization of "nuisance taxes, licenses, and fees" in agribusiness and tourism.

40. **The prior actions for the first DPO have been selected with three main objectives in mind. First, they aim at sending an immediate positive signal to private investors on the Government's commitment by improving Tanzania's ranking in the Doing Business indicators.** Establishment of a physical one-stop shop at the Business Registrations and Licensing Agency (BRELA), which Tanzania Revenue Authority (TRA) officials (and possibly social security funds representatives in the future) would operate jointly with the BRELA officers, will reduce the time and cost to create a new enterprise, thus improving the Doing Business indicator for *Starting a Business*. The introduction of an option to use a standardized contract for notarization of property transfers (which is currently done by private lawyers for a cost equivalent to 3 percent of the property value, one of the highest in the world) will decrease the total cost of registering properties. Enforcement of a risk management system to substitute 100 percent cargo inspections at the Port of Dar es Salaam will reduce time frames to export and import, which is one of the primary Doing Business indicators of effective cross border trade.

41. **Second, some prior actions help set up the legal basis for subsequent improvement in the functioning of labor markets and access to finance.** The new legislation on labor relations, non–citizen employment and the national payment system are first steps for improving labor markets and inclusive finance.

42. **Third, and last, the first DPO aims at improving governance and transparency by facilitating private sector access to information on required taxes, licenses and fees, and by helping to strengthen the institutional framework**. This is accomplished through the publication of all charges levied on tourism operators, and the creation of the new committee in charge of

[13] Agro-processing accounts for more than half of manufacturing value-added and employment. Meanwhile, tourism provides direct and indirect jobs for over one million Tanzanians and has been the top foreign currency earner.
[14] In the Agriculture Lab and Business Environment Lab.

identifying major administrative bottlenecks faced by private firms in the country, as an initial step for a broader rationalization process. The explicit incorporation of a budget line for rural roads also aims at reinforcing the budget allocation and management for the development of agricultural value chains in the country.

43. **The selection of the three pillars and their related actions has been informed by the lessons from the World Bank's previous experience with private sector reforms in Tanzania**. The recent PRSCs series and the ongoing Private Sector Competitiveness Project Additional Financing (PSCP-AF) (P145971) have demonstrated that a focused approach is more likely to lead to tangible results on the ground. They have also emphasized that proper sequencing is necessary to account for limited technical capacity and coordination both within the Government and between the Government and the private sector. This new DPO series therefore takes a more selective approach by focusing on a limited set of reform areas.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

44. **This section provides background on each of the three pillars proposed in the DPO series and the rationale for the selection of associated prior actions and triggers.** It also identifies the results/outcomes expected to be achieved at the end of the series and the analytical underpinnings that were used to inform the proposed financial assistance.

45. **The proposed three pillars will be supported by 9 prior actions for the first operation and 13 indicative triggers for the second operation** (see Table 4 and ANNEX 1).

Table 4: Summary of Prior Actions for DPO-1 and Indicative Triggers for DPO-2

Key objective	DPO-1 Prior Action	DPO-2 Indicative Trigger
Pillar I: Making the Regulatory Environment (for business registration, licensing, trade and taxation) more "Business Friendly"		
Component I-1: Making the business regulatory and trade facilitation institutions more efficient and transparent		
1. Simplify the process for starting a business and eliminate unnecessary, duplicative and overlapping licenses and permits	-The Government launches the first phase of the one-stop shop (OSS) program by integrating tax and business registration within the Business Registration and Licensing Agency (BRELA) office.	-The Government launches a fully integrated IT platform to support the streamlined process of starting a business and eliminates the certificate of compliance requirement.
	-The MoIT establishes a Regulatory Licensing Reform Committee (RLRC) with the responsibility to streamline the legal framework (laws, regulations, licenses, permits and certifications) and the regulatory bodies concerning business licenses.	-The Government establishes an information and licensing portal where a comprehensive inventory of business licenses is published and the 10 most frequent licenses are delivered online.
2. Increase the efficiency of trade facilitation institutions and infrastructure to improve the competitiveness of Tanzanian industries	-The Ministry of Finance (MoF) repeals the Directive requiring 100% cargo inspection at the port of Dar es Salaam allowing TRA to implement the risk-based inspection system according to its capacity building action plan, targeting initially 80 percent of all import cargo.	-The MoF reviews the results of the risk-based inspection system implementation and undertakes actions to strengthen it thereby further reducing physical cargo inspections towards international best practice levels. -The Government implements the national Electronic Single Window system in the port of Dar es Salaam by (i) establishing high level Steering Committee (comprising CEOs of key trade facilitation agencies); and (ii) adopting necessary regulations and/or law.

Key objective	DPO-1 Prior Action	DPO-2 Indicative Trigger
Component I-2: Simplifying tax procedures, rationalizing and improving quality of tax incentives		
3. Increase the efficiency of tax administration and rationalize tax incentives	-The TRA increases the budget allocation for value-added tax (VAT) refunds in FY2014/15 budget and reduces the amount of outstanding claims for VAT refunds.	-The Government: (i) increases the VAT threshold with introduction of an opt-in clause for voluntary registration applicants and adopts a risk-based compliance management system; and (ii) improves efficiency of the VAT refund system by introducing a VAT offset mechanism.
Pillar II: Improving the Functioning of Factor Markets (Labor, Land, and Capital)		
Component II-1: Modernizing labor law and enhancing skills development		
4. Modernize labor regulations for both citizens and non-citizens, and improve regulatory framework and financing for skills development and business process innovation	-The Government submits to the Parliament: (i) a bill to amend the "Employment and Labor Relations Act" (ELRA); and (ii) a bill to enact the "Non-Citizen Employment Regulation Act".	-The Government adopts implementing regulations for the Non-Citizen Employment Regulation Act to reduce potential burden for employers and employees. -The Government develops and adopts a comprehensive strategic framework for effective skills development to enhance industrial and labor productivity, including sustainable financing mechanisms, for promoting in-service training, private sector participation in vocational training, and business process innovation.
Component II-2: Strengthening land administration and simplifying property registration procedures		
5. Simplify land administration procedures	-The Ministry of Lands, Housing and Human Settlements Development (MLHHSD) sets up a desk at its Dar es Salaam Zonal Land Office to offer notarization for the transfer of properties using standardized contract forms and announces it through the media.	-The Government takes a set of measures to expedite the issuance by TRA of the capital gains tax clearance certificate required for obtaining land title.
Component II-3: Improving access to finance		
6. Improve regulation of mobile financial services, reduce risk aversion of lenders through improved credit information, and expand availability of collateral	-The Government creates a unified legal framework for payment systems by submitting to the Parliament a bill to enact the "National Payments Systems Act".	-The Government completes the regulatory framework for mobile financial services by issuing Electronic Money Regulations inclusive of requirements on effective disclosure in agent operations and dispute resolution mechanisms. -The Government facilitates access to finance to MSMEs by expanding sources of available collateral through the submission to the Parliament of a "Secured Transactions Act", based on the approved concept paper on secured transactions.
Pillar III: Establishing an Enabling Environment for Competitive, Job-Creating Industries (in particular for Agribusiness and Tourism)		
Component III-1: Building competitiveness of agribusiness industries		
7. Improve access to customer and supplier markets for agribusinesses through stronger LGA road program	-The Government improves transparency in its resource allocation for implementing rural transport policy by creating a new budget line specifically for rural road development.	-The Government improves transparency and effectiveness in implementing its rural transport policy through the application of: (i) the recently adopted Public Investment Management Operational Manual (PIM-OM) to the district level to design, select and implement public investment projects for rural roads, and (ii) the new rural road management manual to be issued.
8. Remove business-unfriendly taxes and export permits for agribusiness		-The Government adopts and implements an action plan to rationalize agricultural cess and institutionalizes a monitoring mechanism for implementation of reforms on agricultural cess

Key objective	DPO-1 Prior Action	DPO-2 Indicative Trigger
		and other taxes and levies on agribusiness by district.
9. Strengthen the standards regime consistent with EAC and international good practice to facilitate agribusiness exports and imports		-The Government eliminates the existing regulatory overlaps between the Tanzania Food and Drugs Authority (TFDA) and the Tanzania Bureau of Standards (TBS) by adopting a Food Safety Policy in line with EAC Harmonized Food Safety Measures.
Component III-2: Building competitiveness of tourism industry		
10. Streamline the uncertain tourism business environment	-The Ministry of Natural Resources and Tourism (MoNRT) publishes on its website a comprehensive list of public charges (licenses, permits, taxes, levies, fees, and excises) applicable to the tourism sector.	-The Government streamlines the licenses, permits, taxes, levies and fees charged to the tourism sector.

PILLAR I: MAKING THE REGULATORY ENVIRONMENT (FOR BUSINESS REGISTRATION, LICENSING, TRADE AND TAXATION) MORE "BUSINESS FRIENDLY"

Component I-1: Making the business regulatory and the trade facilitation institutions more efficient and transparent

46. **Administrative burdens hinder the development of Tanzania's private sector, in particular MSMEs, by creating barriers to entry and formalization and by introducing unnecessary costs to operate a business.** While all firms are penalized in such environment, the burden is heavier for MSMEs that lack the necessary resources to understand and comply with cumbersome rules and procedures.

47. **International experience has shown that streamlining procedures to start a business (including the elimination of unnecessary, duplicative, and overlapping licenses/permits) fosters the creation and formalization of new businesses, which contributes to the development of a more vibrant private sector.** According to the 2015 Doing Business report, business owners in Tanzania are required to visit several institutions, spending on average 26 days doing so, before being able to operate. Therefore, Tanzania ranks 124th out of 189 countries for "Starting a Business". The BRN BE Lab recognizes that the existence of a multiplicity of laws and regulations, licenses, permits and certifications, as well as the involvement of regulatory bodies/institutions with duplicative mandates, hampers enterprises' competitiveness and limits their growth potential. Most procedures are burdensome and lack transparency. Businesses are not able to access clear information about which licenses they need to obtain as well as what requirements they need to comply with to obtain a license. In turn, the requirements to retain a license create the need for numerous decentralized inspections.

48. **The first reform area focuses on reducing the costs to start and operate a business by (i) implementing an electronic one-stop shop (OSS) for business registration, and (ii) conducting a rationalization of unnecessary licenses and permits.** The DPO will support the Government's effort to: (i) set up an integrated OSS for business registration, allowing online registration to improve the speed of transactions and enhance transparency of the process; and (ii) reduce the number of operating licensing and permits as well as harmonize issuance procedures.

This will be achieved in a sequential manner under the DPO series through the following prior actions and triggers:

- ***Prior Action 1*: "The Government launches the first phase of the OSS program by integrating tax and business registration within the BRELA office."** TRA set up a desk at the new BRELA headquarters in May 2015 to start issuing taxpayer identification numbers (TINs) at BRELA. Issuance of TINs at the same location of business registration is expected to reduce the time and cost to start a new business.[15] A memorandum of understanding (MoU) has been exchanged between BRELA and TRA to formalize the arrangement[16] and a press announcement advertised the new service.

- ***Prior Action 2:* "The MoIT establishes a Regulatory Licensing Reform Committee (RLRC) with the responsibility to streamline the legal framework (laws, regulations, licenses, permits and certifications) and the regulatory bodies concerning business licenses."** The Committee (established in February 2015) has a mandate to identify ways in which regulations and institutions can be streamlined, simplified, harmonized and, where necessary, consolidated. The Committee is also responsible for supervising the implementation of the rationalization process.

- ***Indicative Triggers for DPO-2*:** On business registration, the DPO-2 will support the Government's move to the next stage of the OSS program by introducing an information technology (IT) platform for the registration process, while eliminating the certificate of compliance requirement.[17] On the business-licensing regime, the DPO-2 will support the creation of an inventory of all licenses requested at the national and local level and publish it on a portal accessible to the public. In addition, the online business-licensing portal will be made transactional for the 10 most frequent licenses.

- ***Indicative Trigger for DPO-3*:** The proposal is to consolidate the reforms under DPO-1 and -2 by (i) establishing a fully integrated online business registration system and (ii) completing the rationalization process to eliminate at least 25 percent of licenses (to be confirmed at the completion of the inventory).

49. ***Outcome indicators:*** The main indicators for tracking progress will be: (i) time to start a business (baseline in 2014 is 26 days, target for 2018 is 10 days); (ii) the number of procedures required to start a business (baseline in 2014 is 9, target for 2018 is 3); (iii) the percent of new businesses registered online (baseline is 0 in 2014, target for 2018 is 30 percent); and (iv) the number of licenses (target in 2018 is a 25 percent reduction from the baseline number which will be determined once the inventory under DPO-2 is completed).

50. **The second set of policy actions under this component will aim at reducing the time and cost associated with international trade transactions.** This will be achieved by

[15] Once implemented, the reform would eliminate one procedure in the DB indicator for *Starting a Business*.
[16] Officers from BRELA, TRA and eventually social security funds will be seated and handle starting business procedures from the same office space.
[17] Introducing an IT-based registration process is a part of the country's e-Government strategy to make public services available in digital forms. A traditional in-person service will remain available for those who do not have Internet access.

strengthening the institutional framework for customs clearance at border posts and logistics services at the Port of Dar es Salaam where approximately 90 percent of merchandise is imported and exported from Tanzania. International experiences show that a risk-based cargo clearance system is an effective way of improving efficiency in trading across borders. Tanzania has had its risk-based system since 2004 but its implementation has not been adequate. The MoF introduced a Directive in 2013 that required 100 percent cargo inspection in reaction to high profile smuggling cases that occurred under the previous customs clearance system (ASYCUDA++), which was not adequately performing to prevent such cases. Subsequently, TRA has upgraded its electronic customs clearance system to the Tanzania Customs Integrated System (TANCIS), including a robust and more effective risk management module. However, the 2013 Directive has hampered full implementation of TANCIS.

51. **The introduction of a single window system at the Port of Dar es Salaam would substantially accelerate the transactions required by several agencies and reduce cost for traders.** The Government has initiated such integrated effort by implementing TANCIS for customs clearance that connects TRA with several agencies such as Tanzania Bureau of Standards (TBS), Tanzania Food and Drugs Authority (TFDA), and the immigration authorities. However, a more comprehensive single window system at the Port of Dar es Salaam (BRN has recommended a "National Electronic Single Window" system) is needed that will also cover other areas of the port operations such as cargo logistics and involve a broader set of stakeholders including the Tanzania Ports Authority (TPA).

- ***Prior Action 3*: "The MoF repeals the Directive requiring 100% cargo inspection at the port of Dar es Salaam allowing TRA to implement the risk-based inspection system according to its capacity building action plan, targeting initially 80 percent of all import cargo."** The MoF issued a letter to TRA in April 2015, indicating its decision to repeal the earlier Directive and allow TRA to implement the risk-based inspection system, thus gradually reducing the rate required for physical inspections at the Port of Dar es Salaam. As a first phase of the risk-based system implementation, TRA will inspect at least 80 percent of all import cargo, with the expectation that the rate will be reduced further depending on the progress in controlling fraud cases in customs declarations. At the same time, TRA has adopted its capacity building action plan in implementing its risk-based customs management under TANCIS with external technical assistance. Full implementation of the risk-based inspection system would facilitate cargo customs clearance and reduce the average time to export and import.

- ***Indicative Trigger for DPO-2*:** The MoF will review the results of the risk-based inspection system implementation and undertake actions to strengthen it, thereby further reducing physical cargo inspections towards international best practice levels. In addition, ensuring inter-agency coordination is critical for effective introduction of the National Electronic Single Window system for the Port of Dar es Salaam, linking TANCIS managed by TRA and the Port Community System managed by TPA. The DPO-2 will therefore support the GoT to establish a Steering Committee to oversee the implementation of the National Electronic Single Window and to adopt the necessary regulations and/or law.

- ***Indicative Trigger for DPO-3*** will support the Government's effort to establish and operationalize the National Electronic Single Window system as the only portal for submitting and processing all cargo import and export transactions.

52. ***Outcome indicators:*** The main results indicators will be: (i) the percent of cargos inspected (baseline is 100 percent in 2014, target for 2018 is 50 percent); and (ii) the number of agencies able to use the "single window" at the Port of Dar es Salaam (baseline is 0 in 2014, target for 2018 is 15).

Component I-2: Simplifying tax procedures, rationalizing and improving quality of tax incentives

53. **The proposed series of operation will focus on two specific tax policy and administration areas that raise the costs of doing business in the country: improvement in the VAT administration and tax incentives**. When VAT refunds are delayed businesses suffer from cash flow shortages, providing a disincentive for future tax compliance. TRA has set itself a target of ensuring that 85 percent of all VAT refund claims are settled within one month but it has been unable to meet this target in recent times. As of the end of June 2014, only 74 percent of VAT refunds were settled within one month and outstanding VAT refunds were TZS 251,000 million with 66 percent of that more than 90 days old.

54. **In spite of the Government's commitment to reduce the use of tax incentives, their number is still high, their benefits unclear, while the costs are fairly substantial.** The latest Government figures indicate tax expenditures[18] (i.e., foregone revenue) in 2013/2014 at 3.13 percent of GDP, up from 3.02 percent of GDP in 2012/2013 and higher than the EAC average of 2.4 percent. Such a high level of incentive is also incompatible with the EAC Competition Act (2006) barring export-based fiscal incentives. In the medium term, the use of export-based incentives may limit the access of Tanzanian companies to the EAC market.

55. **In this context, the DPO will support the following set of prior actions and triggers:**

- ***Prior Action 4*: "The TRA increases the budget allocation for value-added tax (VAT) refunds in FY2014/15 budget and reduces the amount of outstanding claims for VAT refunds."** Recognizing the challenge, the GoT increased the annual refund budget from TZS 401 billion in the 2013/14 budget to TZS 549 billion in 2014/15 budget and reduced the amount of outstanding claims from TZS 254 billion in end-July 2014 to TZS 161 billion by end-March 2015. The proportion of outstanding VAT refund claims that are over 90 days old out of the total amount of outstanding claims also decreased from 66 percent in July 2014 to 47 percent in March 2015.

- ***Indicative Trigger for DPO-2*:** Under the DPO-2, the Government will further improve efficiency in the VAT refund system by introducing a VAT offset mechanism. It will also make the VAT system friendlier to small enterprises by introducing opt-in clauses for voluntary registration of applicants while raising the VAT entry threshold, and by adopting a risk-based compliance management system. Those measures will complement the ongoing efforts by TRA to improve efficiency in processing VAT refund claims by

[18] Tax expenditure is defined as "provisions of tax law, regulation, or practices that reduce or postpone revenue for a comparatively narrow population of tax payers" (Anderson, 2008, cited in OECD, 2010).

strengthening tax assessment and audit capacity both under the TRA's Fourth Corporate Plan as well as the BRN BE Lab.

- ***Indicative Trigger for DPO-3*** will support the Government's effort to align the national tax incentives system with the EAC tax incentive framework. Specifically, the Government will rationalize tax incentives to remove most costly ones, consolidate all tax exemptions in the tax laws and repeal incentives that harm or contravene the EAC common market agreements. Further, the Government will harmonize Special Economic Zones (SEZ) incentives to the approved EAC Incentives Policy.

56. ***Outcome indicators:*** The main indicators for tracking reform progress include: (i) the percentage of new VAT refund claims that are settled within a month (baseline is 74 percent in 2014, target for 2018 is 90 percent); and (ii) tax expenditures as percentage of GDP (baseline is 3.13 percent in 2014, target for 2018 is <1 percent, based on pre-rebasing GDP figure).

PILLAR II: IMPROVING THE FUNCTIONING OF FACTOR MARKETS (LABOR, LAND, AND CAPITAL)

Component II-1: Modernizing labor laws and enhancing skills development

57. **Tanzania's private sector suffers from an inadequate quantity and quality of skilled/ semi-skilled labor; a constraint that will become increasingly important when new industries, such as oil and gas and power, develop.** According to the WBES 2013, 41 percent of firms identified the inadequately educated workforce as a major constraint (Sub-Saharan Africa was 26 percent). In spite of recent progress, the labor force remains largely uneducated: less than 5 percent of Tanzanian youth entering the labor market have reached beyond ordinary level ("O-level") education.[19] Technical and vocational training programs are underdeveloped and only a handful of firms offer on-the-job training. The development of new industries (such as natural gas and its related value chains) will imply a rapid increase in demand for highly qualified domestic and foreign workers, further straining the market for such limited skills.

58. **The labor market suffers from ineffective policy and institutional frameworks that constrain labor formalization and efficient reallocation of workers among sectors and industries.** According to the WBES 2013, 32 percent of firms classified labor regulations as a major constraint (Sub-Saharan Africa was just 12 percent). The BRN BE Lab has emphasized the need to address labor market policies, laws and regulations on at least two key aspects: facilitating employability (both self and wage employment), labor productivity and competitiveness of the domestic labor force that includes rationalizing the use and access of, as well as reducing the Skills Development Levy (SDL)[20] to finance all levels of skills development and training, and enhancing flexibility and effectiveness in hiring procedures for workers that also include processing of work permits for foreign workers to fill scarcity in skills and qualified professionals in highly specialized occupations in the domestic labor market. Complexity and restrictiveness in hiring procedures is

[19] 2010/11 National Panel Survey
[20] Out of 5 percent SDL, 3 percent is used to finance HESLB (student loans) while the remaining 2 percent goes to Vocational Education and Training Authority (VETA) to finance their staff salaries and some skills development programs.

evident in the case of foreign workers. Eight laws govern the issuance of work permits[21] if skills are not available on the local market. Local hires are also hampered as the current Employment and Labor Relations Act (ELRA) limits fixed-term contracts only for professional and managerial cadres and does not allow voluntary agreements for employees to work during their schedule leaves when there is a temporary increase in work demand. There are also complex procedures for redundancy dismissals. Furthermore, formal workers are subject not only to mandatory social contributions but also to a 5 percent SDL which only partially funds skills training programs. Currently, the revenue from SDL does not facilitate employers' needs for skilling and re-skilling of their employees to enhance productivity and innovativeness, nor does it facilitate training for unemployed labor force in the market for enhancing their employability and labor market competitiveness. The combination of these restrictive policies provides a disincentive to use formal labor and as such to train and retain skilled workers. Upgrading and modernizing labor laws will serve as an attraction to investors and help Tanzania develop the quality and quantity of trained workers.

59. **The proposed DPO series will support the Government's effort to improve the legal and regulatory framework by: (i) consolidating and simplifying employment provisions (for citizens and non-citizens); (ii) reducing the burden on the private sector to provide formal employment to workers; and (iii) improving the delivery mechanism of workforce training in the private and public sector.** While the World Bank supports the Government's effort to develop a skilled workforce through a parallel investment operation, the proposed DPO will support some of the policy reforms necessary to ease the skills constraints for businesses.

- ***Prior Action 5*****: "The Government submits to the Parliament: (i) a bill to amend the "Employment and Labor Relations Act" (ELRA); and (ii) a bill to enact the "Non-Citizen Employment Regulation Act."** The bill to amend the ELRA (submitted to the Parliament in February 2015) (i) broadens the scope of fixed-term contracts beyond professional and managerial cadre; (ii) requires all employment contracts to be in writing; and (iii) introduces flexibility for workers to respond to temporary surges in labor demand. The bill to enact a "Non-Citizen Employment Regulation Act" (which was passed by the Parliament in March 2015) is expected to create a single law to integrate the governance of work permits for non-citizens, improving the accountability of the overall system. The submitted bill has incorporated existing requirements for issuing work permits to non-citizens present in the National Employment Promotion Service Act (NEPSA), including a requirement to ensure that work permits be issued to non-citizens only after all national hiring options are exhausted and that a training program for local workers be provided by employers of non-citizen workers (a "succession plan"). On the other hand, while the Act centralizes the power for issuing work permits to the Labor Commissioner, it preserves the previous complex key procedural requirements (in terms of documentation) and it may impose implementation challenges unless the capacity of the Ministry of Labour and Employment (MoLE) is increased. The final version of the bill has been adopted by the Parliament and signed by the President as an Act, and does not have any substantive

[21] These are Tanzania Investment Centre Act, Business Licensing Act, Immigration Act, Export Processing Zones Act, Special Economic Zones Act, Refugees Act, Education Act, and National Employment Promotion Service Act.

changes from the bill as submitted to the Parliament according to the Government, as stated in the Letter of Development Policy (see ANNEX 2).

- ***Indicative Trigger for DPO-2*****:** The effectiveness of the Non-Citizen Employment Regulation Act 2014 will depend on the implementing arrangements, which will have to be efficient and transparent to minimize the burden for potential employers and improve labor market outcomes. Going forward, it is important that the Government prepares regulations to implement the Act in such a way as to not increase transaction costs for the private sector and starts preparing for future amendments to further streamline the documentary process for issuing work permits. The trigger for DPO-2 will be supporting the finalization of the regulatory framework for non-citizen employment by adopting by-laws, regulations and detailing the institutional arrangements. In this regard, the MoLE has already started preparing regulations to implement the Non-Citizen Employment Regulation Act. In addition, for DPO-2, the Government will develop and adopt a comprehensive strategic framework for skills development to enhance industrial and labor productivity, including sustainable financing mechanisms that provides guidelines for promoting in-service training, private sector participation in vocational training and business process innovation, setting the stage for reform of the SDL.

- ***Indicative Trigger for DPO-3:*** In response to the BRN BE Lab recommendation to rationalize the use of SDL to finance all levels of skills development including enhancing access by Employers for undertaking in-service/workplace training for their employees, the Government has decided, starting from FY2015/16, to gradually modify the allocation of the 5 percent of SDL revenues to finance (i) skills training at higher learning education and training level, (ii) skills training for the Vocational and Technical Education and Training level, and (iii) Labor market/post-school skills training level that includes in-service training by employers. Roughly 33 percent is proposed to be allocated to each level of skills development—as opposed to the current practice whereby an allocation of 40 percent goes to VETA, 60 percent goes to finance higher education and general training institutions, and none goes to labor market/post-school skills development. While the improved allocation rule is a positive step, further consideration could be made under DPO-3 to amend the Vocational Education and Training Act to increase the compliance level by employers to remit to the SDL and to reduce the SDL rate[22] as well.

60. ***Outcome indicators:*** The main indicators for tracking reform progress will be: (i) the number of labor laws governing employment provisions for citizens and non-citizens (baseline is 8 laws in 2014, target for 2018 is 2 laws); and (ii) the percent of SDL revenue allocated for training purposes (baseline is 40 percent in 2014, target for 2018 is 100 percent).

Component II-2: Strengthening land administration and simplifying property registration procedures

61. **Weak land administration, in particular the uncertainty in land tenure and inefficiency in the land registration system, continues to constrain access to formal ownership.** Undocumented property rights make enterprises and individuals vulnerable to losing

[22] BRN BE Lab recommendation is to reduce it to 2 percent.

their land and delay their investment plans. The lack of secure property rights reduces access to long-term financing, as immobile assets cannot be used as collateral for borrowing from financial institutions. It also contributes to increased transaction costs, as parallel channels have to be used to acquire and secure land property rights. The system of registering land in Tanzania remains cumbersome (Tanzania is ranked 123rd in the Doing Business ranking): this results in a lower share of land formally titled compared to its peers.

62. **Current processes for obtaining land titles are burdensome, costly and overly centralized.** Documentation requirements are onerous requiring more procedures (8 versus an average of 6.3 for Sub-Saharan Africa according to the Doing Business report) and longer time (67 versus 57 days) even for people living in Dar es Salaam. These issues are compounded for citizens living in other regions and in remote villages far from a land office. Finally, several studies have shown that the cost of transferring titles is significant (averaging 4.5 percent of the property value), the main driver of it being the notarization fees that individuals must incur to make sure that a contract is legally sound. However, according to the existing Tanzanian land laws and regulations, individuals have an option of using standardized contracts for completing the same process. This is a cost effective option (if chosen by transaction parties), especially for simple, low-value transactions that are common amongst most Tanzanians.

63. **The DPO series aims at reducing the transaction costs associated with access to formal land ownership through the sequencing of the following reforms:**

- ***Prior Action 6:*** **"The Ministry of Lands, Housing, Human Settlements Development (MLHHSD) sets up a desk at its Dar es Salaam Zonal Land Office to offer notarization for the transfer of properties using standardized contract forms and announces it through the media."** The desk was set up in May 2015 and will promote use of a standardized contract for notarization (as attached to the Land Act), which is expected to reduce the cost that private parties currently incurred by going to private lawyers. This initiative was started in Dar es Salaam on a pilot basis with a view towards expanding it to other Zonal Offices and even to District Offices if proven effective.

- ***Indicative Trigger for DPO-2*****:** The issuance by TRA of the capital gains tax clearance certificate required for obtaining land title will be expedited through a set of measures (to be identified by the authorities).

- ***Indicative Trigger for DPO-3:*** The Government establishes and operationalizes 30 regional land offices, starting from the current 8 zonal offices, bringing land administration services closer to citizens. The offices will be fully equipped to provide all land administration services including the issuance of land titles.

64. ***Outcome indicators:*** The main results indicators will be: (i) cost to register a property (baseline in 2014 is 4.5 percent of property value, target for 2018 is 2 percent); and (ii) time to register a property (baseline in 2014 is 67 days, target for 2018 is 40 days).

Component II-3: Improving access to finance

65. **Access to finance is a major constraint for the majority of businesses operating in Tanzania**. The amount of credit extended by the formal banking sector to the private sector is only 20 percent of GDP, and highly concentrated in a few enterprises and sectors. While firms have access to semi-formal forms of finance (e.g., micro-finance, village funds, etc.), those sources remain underdeveloped. The recent Enterprise Survey 2013 indicates that only 18.5 percent of firms in Tanzania use the formal banking system to finance investments, while more than 80 percent can only count on their own sources of financing or those from within their households.

66. **Although access to finance is a crosscutting constraint for all businesses, policy reforms need to address the specific credit needs and capacities of different borrowers**. These range from large firms, which have well-established credit histories and stable financing arrangements with the large commercial banks; to MSMEs, which generally must deal with the smaller community banks and face higher borrowing costs and collateral requirements; and to entrepreneurs and household enterprises that usually rely on microfinance or mobile financial services.

67. **The proposed DPO will focus on the constraints faced by MSMEs and household enterprises with the objective to make access to finance more inclusive.** For household enterprises, which rely predominantly on mobile-based financial services, the reform priority is to regulate these services so as to improve consumer rights and protect and facilitate future borrowing opportunities. Tanzania has witnessed an unprecedented boom in mobile financial services (MFS) in recent years—from one percent of the adult population in 2008 to 90 percent in 2013. Although clearly beneficial from a financial inclusion perspective, the proliferation of such financial services exposes consumers to greater potential for abuse if they remain unregulated. The establishment of a robust legal, regulatory, and oversight framework for MFS is therefore critical to preserving user trust in these services and preventing a reversal in the progress made on financial inclusion. Moreover, it would encourage households to feel safer in using MFS for saving and borrowing (rather than predominantly for simple money transfers), thus helping them to build credit history and obtain financing on better terms than they would otherwise receive from informal lenders.

68. **The other proposed policy measures focus on expanding the sources of available collateral for MSMEs and reducing the risk aversion of lenders through improved credit information.** While several pieces of legislation on collateralized credit activities exist in Tanzania, when combined, they do not provide an effective secured transactions' framework. The country also lacks a well-functioning collateral registry. Although one already exists for both movable and immovable assets, it is manually operated and not backed by a law that allows for the efficient enforcement of creditor rights. The BoT, with the assistance of USAID, has prepared a Concept Paper on improvements to the legal framework for secured transactions and the operations of the collateral registry, which was approved by the BoT management in March 2015 and which will pave the way for the drafting of the Secured Transactions Bill and its submission to Parliament. Furthermore, the incompleteness and inconsistent quality of financial information submitted to the BoT's Credit Reference Databank continues to undermine lenders' ability to assess borrower creditworthiness and prompts them to charge high risk premiums to compensate.

69. **The DPO proposes to support these reforms in a sequential manner:**

- ***Prior action 7*: "The Government creates a unified legal framework for payment systems by submitting to the Parliament a bill to enact the "National Payments Systems (NPS) Act"."** The National Payment Systems Bill was approved by Parliament on March 23rd, 2015 and signed by the President as an Act in early May 2015 (gazetted on May 22nd as Act No. 4 of 2015). The NPS Bill represents the first comprehensive legal framework regulating electronic (including mobile) money issuers, and it covers bank, non-bank and non-financial institutions. The Bill establishes the requirement for all electronic money issuers to be licensed and regulated—for electronic money transactions—by the BoT. In addition, providers will be required to submit in electronic form to the BoT the names of all subscribers and users of the electronic money service, and to audit and publish financial statements in respect to the electronic money funds.

- ***Indicative Trigger for DPO-2*:** Following the NPS Act, the BoT will issue the Electronic Money Regulations inclusive of requirements on effective disclosure in agent operations and dispute resolution mechanisms. Such regulations would complete the regulatory framework for the MFS with a view toward promoting innovations in financial services delivery channels without compromising the integrity, safety and efficiency of payment systems. In addition, the DPO-2 will support the Government's policy action to submit the Secured Transactions Bill to Parliament, based on the approved Concept Paper, in order to facilitate access to finance to MSMEs by expanding sources of available collateral.

- ***Indicative Trigger for DPO-3*** will continue to support the reforms required to simplify the process for pledging land as collateral, particularly the procedures for issuance of certificates of customary right of occupancy (CCROs). It will also support the establishment of an electronic registry for movable collateral, which would be administered by the BoT, and its procurement could be funded in part through the World Bank's PSCP-AF. Finally, DPO-3 will support the establishment of a "Microfinance" Act that grants the BoT regulatory powers over non-bank credit providers (e.g. MFIs, saving and credit cooperatives or SACCOs, microlenders, etc.) and requires these providers to submit financial information to the Credit Databank.

70. ***Outcome indicators:*** The main results indicators will be: (i) the percent of households who have a transactions account (baseline in 2014 is 57.4 percent, target for 2018 is 80 percent); (ii) the quality of the legal/regulatory framework for payment systems (baseline in 2014 is Low/Medium-low, target for 2018 is Medium-high/High); (iii) the percent of firms with a bank loan or line of credit (baseline in 2014 is 16.6 percent, target for 2018 is 19 percent); and (iv) the coverage of the Credit Bureaus (baseline in 2014 is 0.6 percent, target for 2018 is 6 percent).

PILLAR III: ESTABLISHING AN ENABLING ENVIRONMENT FOR COMPETITIVE, JOB-CREATING INDUSTRIES (IN PARTICULAR FOR AGRIBUSINESS AND TOURISM)

Component III-1: Building competitiveness of agribusiness industries

71. **Transformation of the agribusiness sector is critical to Tanzania's economic growth and development.** The agricultural sector in Tanzania mainly consists of traditional crops (maize, beans, cassavas) but there is an increasing diversification toward more value-added products (vegetables, horticulture), most notably in the Arusha area. Tanzania also has strong potential in

meat and dairy products (as well as leather) since the country is host to the third largest livestock in Sub-Saharan Africa. With a long coast and several big lakes, the fishery sector has good potential for job creation if supported by an appropriate regulatory framework

72. **Tanzania's agribusinesses sector faces several challenges pertaining to upstream markets: the high cost of infrastructure access and burdensome regulatory regimes.** In order for agribusiness to develop competitively some key constraints affecting the agricultural markets need to be addressed upstream, including: poor connectivity between farms and markets; multiple, heavy and inconsistent policies; and low quality products by international standards.

73. **To promote the development of agribusinesses, the DPO series proposes a targeted and sequential approach on three specific reform areas: agricultural taxation, rural transport, and standards.** The first two areas tackle upstream constraints affecting the agricultural markets and reduce the cost of inputs and facilitate market access. The third area focuses on removing specific regulatory burdens affecting food producers, including removal of overlapping competences between agencies and a reduction in the cost of doing business.

74. **The first reform focus is to improve access to markets by supporting the Government's effort to improve efficiency of rural agricultural transport through transparent implementation of its rural road policy**. The 2014 CEM on productive jobs, as well as the joint Growth Diagnostics Study by the GoT and the United States, have emphasized that limited and poorly maintained rural roads are a critical impediment for the development of commercial agriculture. Many Tanzanian farmers have limited access to supplier and customer markets. This DPO series will support the GoT's implementation of its rural road policy as encapsulated in both the Tanzania Transport Policy and in FYDP I. The Government has developed the Local Government Transport Program (LGTP) Phase II as the primary operational vehicle for rural road policy; however, the program has not been effectively implemented due to lack of financing. The current conditions of local government authority (LGA) roads (feeder, district, and urban roads) versus trunk roads are presented in Table 5.

Table 5: Selected Indicators for Different Classes of Roads

	Trunk roads	LGA roads
Road length (km thousands)	10.6	56.6
National budget for road development (TZS billions)	1,247	12
Road Fund for road maintenance (TZS billions)	365	111
Tarmacking (paved proportion, %)	42	<1
Road condition (good or fair, %)	>90	<60

Source: PER Rapid Budget Analysis 2012; JICA

- ***Prior Action 8*: "The Government improves transparency in its resource allocation for implementing rural transport policy by creating a new budget line specifically for rural road development."** The Government introduced a new budget line for FY2015/16 development expenditure specifically for rural road development under the Prime Minister's Office Regional Administration and Local Government (PMO-RALG) budget. The new budget line clarifies the amount specifically intended to finance implementation of LGTP Phase II, thereby improving transparency in resource allocation to finance quality improvements of existing LGA roads.

- ***Indicative Trigger for DPO-2*****:** The DPO-2 will support the Government's further effort to improve transparency and effectiveness in its implementation of rural transport policy by reporting on its screening of rural agriculture transport infrastructure investments using the Public Investment Management Operational Manual (PIM-OM) prepared by POPC in 2014 as well as a new rural road management manual to be prepared and adopted.

- ***Indicative Trigger for DPO-3*** will support the Government in designing a successor program to LGTP Phase II for the development and maintenance of LGA roads that covers Feeder, District, and Urban Roads.

75. ***Outcome indicators*****:** The main indicators for tracking reform progress will be the proportion of LGA roads that are in fair or good condition (as published) (baseline in 2014 is 60 percent, target for 2018 is 70 percent).[23]

76. **The second reform focus to removing bottlenecks to agribusiness growth in Tanzania is to resolve the current tax system of agricultural cess.[24]** Today, farmers are penalized by the cess tax that is collected by local governments on the value of traded merchandise. The Government committed to eliminate this tax by July 2013 but has failed to do so mainly because of the resistance of local governments.[25] In the meantime, the BRN BE Lab has adopted a shortened list of legislative amendments for rationalization of taxes, fees, and levies, including produce cess. A study to access efficiency of produce cess has been commissioned by the PMO-RALG and the Ministry of Agriculture, Food, and Cooperatives (MoAFC) with support from USAID. The study was completed with a set of recommendations to rationalize the cess system and improve efficiency of its administration. The Prime Minister's Office (PMO) is currently preparing a Cabinet Paper on investor incentives in the agriculture sector, which specifically focuses on produce cess and land rent. The above study has identified that the revenues collected by the local governments are in the range of US$20 million per year. This amount could be replaced by allocating only 0.3 percent of total tax revenues collected by the Central Government. Given the high costs associated with the cess tax, its full elimination should be envisaged together with the earmarking of alternative revenues to affected local governments.

- ***Indicative Trigger for DPO-2*****:** Given the need for further consultations with relevant stakeholders, the Government has decided not to take specific reform actions before the general elections. DPO-2 will support the GoT's adoption and implementation of an action plan to rationalize agricultural cess and institutionalize a monitoring mechanism for implementation of reforms on agricultural cess and other taxes and levies on agribusiness imposed at the district level.

- ***Indicative Trigger for DPO-3*** will encourage the Government to continue to address business-unfriendly taxes and levies on agribusiness through publication of the monitored results of implementation of the action plan. The Government will also review the overall

[23] MKUKUTA annual implementation report and/or PER annual budget analysis.
[24] Agricultural cess was established under the 1982 Local Government Finance Act. The rate is set at five percent of the merchandise traded at the collect point. It has long sparked concerns regarding impact on agriculture competitiveness as well as the way it distorts the market.
[25] As part of Tanzania's adherence to the G8 New Alliance on Food Security and Nutrition in 2012.

tax burden on agribusiness and eliminate the cumbersome system of export permits for food exports.

77. ***Outcome indicators:*** The main results indicator will be the reduction in tax burden on agribusinesses (baseline in 2014 is 0, target for 2018 is 20 percent reduction).

78. **The third area for reforms focuses on streamlining the regulatory process to ensure quality and hygiene standards for food products**. While regulations for standards and safety of food products are important to ensure the people's health and can improve quality of products in the domestic and global markets, excessive levels of regulation increase the cost of doing business and negatively affect industry competitiveness. In Tanzania, there are overlapping and duplicative responsibilities between the administration of food safety standards by TFDA, within the Ministry of Health and Social Welfare (MoHSW), and by TBS, within MoIT. The excessive, uncoordinated regulations act as a non-tariff barrier, reducing trade and job creation by perhaps as much as 5,000 direct jobs per annum.[26] The proposed DPO will support the Government's effort to adopt and implement the National Food Safety Policy and associated Acts and Regulations to rationalize the mandate of the two institutions involved in enforcing food standards. This Act will also establish service providers to assess private sector conformity to the regulations of the Act and will require all laboratories that provide testing services in the food safety system to be accredited. It will be aligned with comprehensive harmonized EAC food safety measures that are being finalized to promote food trade within EAC. The Policy will also make reference to national quality standards that would be developed by the MoIT.

- ***Indicative Trigger for DPO-2*:** The Cabinet will adopt a Food Safety Policy (aligned with EAC Harmonized Food Safety Measures and making reference to national quality standards) that will eliminate regulatory overlaps between TFDA and TBS. The MoHSW has already drafted the initial version of a food safety policy. While the initial draft is well structured and contains a number of useful measures to improve the regulatory framework on food safety, it has not yet addressed in sufficient detail the critical issue of regulatory overlaps between institutions regulating the sector, and in particular between TBS and TFDA.

- ***Indicative Trigger for DPO-3*:** The Government will amend and simplify relevant Acts and Regulations to ensure the use of national standards in technical regulations and sanitary and phytosanitary (SPS) measures, liberalize the conformity assessment regime for testing and certification of food products, and eliminate overlaps and political frictions in regulatory agency activities that dis-incentivize economic growth and investment. In addition, risk-based inspections for food safety will be implemented which will enhance government control and compliance through more efficient surveillance.

79. ***Outcome indicators:*** The main results indicator will be: (i) the number of testing and certifications for food safety conducted by accredited laboratories independent from the TFDA (baseline in 2014 is 0, target for 2018 is at least 4); (ii) the percent of firms in the food sector with an internationally-recognized quality certification (baseline in 2014 is 20.5 percent, target for 2018

[26] Source: "Simplifying Compliance with Regulations in the Food Processing Sector to Enhance the Ease of Doing Business", Confederation of Tanzania Industries, 2013.

is 30 percent); and (iii) the percent of firms in the food sector identifying business licensing and permits as a major constraint (baseline in 2014 is 36.4 percent, target for 2018 is 20 percent).

Component III-2: Building competitiveness of tourism industry

80. **Tourism is a significant contributor to Tanzania's economy that has not yet developed its full potential.** In 2013, tourism contributed 12.9 percent of GDP (US$4.1 billion). It is now the largest source of foreign exchange (US$1.88 billion in 2013), after overtaking gold exports, and the third largest recipient sector of FDI. In 2012, 1,043,000 international tourists visited Tanzania. According to the World Travel & Tourism Council (WWTC), direct tourism industry employment was 3.8 percent of total employment in 2013 or about a half million direct jobs. Tanzania ranks 109th out of 139 countries on the World Economic Forum's Travel & Tourism Competitiveness Index. This is despite having Serengeti, Kilimanjaro, and Ngorongoro and ranking fourth in the world on natural resource endowments. The sector remains heavily focused on the popular, wildlife-based Northern Circuit. Diversification into new products, expanded geographic areas and additional markets would offer greater opportunity for actualizing maximum job potential. It will also decrease growing pressure on specific natural assets.

81. **The reform focus under this DPO series supports the Government's effort to modernize tourism-related policy and legislation and build a more diverse and competitive tourism industry by streamlining the overly complex system of taxes and licenses that impacts the sector.** Tanzania's current tourism policy and regulatory framework does not reflect good practice necessary for the economy to benefit fully from the sector. The multiplicity and unpredictable nature of taxes, levies and fees collected from the tourism sector are an excessive burden for many operators, discouraging further investment and job generation. An inclusive inventory of all these taxes and levies will be a pre-requisite to design and implement an action plan to eliminate redundancies and excessive burdens. Such task should be conducted—as initiated in the recent BRN Lab—through a close collaboration between the private and public sectors.

82. **The DPO series will also support development of a strategy to diversify the sector to build its strength.** Tanzania does not benefit fully from the full range of opportunities that the tourism sector offers.[27] A tourism Master Plan was issued in 2002 but the sector still lacks a contemporary and comprehensive vision to guide strategic policy. As a result, the country lags behind its neighbors in terms of offering good price/value for a variety of tourism products that are in demand outside of wildlife tourism. The sector can generate additional jobs by developing products in beach, adventure, conference and cultural heritage tourism, and can broaden its appeal to tourists by diversifying beyond the current low-volume high-value (LVHV) strategy that is so heavily weighted toward the congested, wildlife-based Northern Circuit.

- ***Prior Action 9*: "The MoNRT publishes on its website a comprehensive list of public charges (licenses, permits, taxes, levies, fees, and excises) applicable to the tourism sector."** As a part of BRN BE Lab recommendations, the Government, with the MoIT ministerial delivery unit being the focal point, is currently in the process of finalizing lists of taxes applied to three sectors: tourism (tour operators), agriculture, and telecommunication. For tourism, the list was published on the MoNRT website in May

[27] See the Tanzania Economic Update January 2015, "The Elephant in the Room".

2015, and will remain a living document to be updated as the sector regulatory framework evolves.

- ***Indicative Trigger for DPO-2:*** Based on the list created under the DPO-1, the Government will initiate a process to streamline licenses, permits, taxes, levies, and fees charged to the tourism sector. The process should be based on the private sector's participation. The ongoing study conducted by the World Bank Group on taxation in the tourism sector will provide inputs to the process.

- ***Indicative Trigger for DPO-3*** will target integration of sector policy and planning with business environment reform by creating and approving a 10-year National Tourism Development Plan (two 5-year phases, inclusive of strategy and action plans).

83. ***Outcome indicators*:** The main indicators for tracking reform progress will be: (i) the total number of licenses, permits, taxes, levies and fees for tourism businesses (baseline in 2014 is 59, target for 2018 is less than 35); and (ii) direct employment in the tourism sector (baseline in 2014 is 400,000 individuals, target for 2018 is 10 percent increase).

Analytical Underpinnings

84. The design of this operation is underpinned by extensive diagnostic work and technical assistance provided in recent years. The WBG, including IFC and MIGA, has conducted a series of specific reports, technical assistance projects, and lending operations that have provided analytical guidance for this operation. Several of the areas covered in the proposed DPO series have been analyzed in the 2014 CEM and a number of background papers on specific topics, including trade and regional integration, inclusive finance, commercial agriculture, skills development, and targeted industries, were developed as inputs to that study. In particular, the first pillar relies on the Doing Business report indicators and the dedicated BRN Lab. See Table 6 for a more detailed description of the operation's analytical underpinnings.

Table 6: DPO Prior Actions and Analytical Underpinnings

Analytical Work Informing Design of Prior Action	Prior Actions
Pillar I: Making the Regulatory Environment (for business registration, licensing, trade and taxation) more "Business Friendly"	
Component I-1: Making the business regulatory and trade facilitation institutions more efficient and transparent	
• BRN-BE Labs Report (Realigning regulations and institutions) • WBG Doing Business Reports 2013, 2014 and 2015 • IDA Private Sector Competitiveness Project AF PAD • WBG ICAS "Promoting Inclusive and Private Sector-Led Growth in Tanzania through Business Environment Improvements" (September 2014)/*	-The Government launches the first phase of the one-stop shop (OSS) program by integrating tax and business registration within the BRELA office. -The MoIT establishes a Regulatory Licensing Reform Committee (RLRC) with the responsibility to streamline the legal framework (laws, regulations, licenses, permits and certifications) and the regulatory bodies concerning business licenses.

• WBG Micro-Foundation for Economic Growth in Tanzania ESW Report (2011) • WBG Tanzania CEM (2014) • IDA PRSC 9-11 Program Documents • WBG Doing Business Reports 2013, 2014 and 2015 • WBG ICAS "Promoting Inclusive and Private Sector-Led Growth in Tanzania through Business Environment Improvements" (September 2014)/*	-The MoF repeals the Directive requiring 100% cargo inspection at the port of Dar es Salaam allowing TRA to implement the risk-based inspection system according to its capacity building action plan, targeting initially 80 percent of all import cargo.
Component I-2: Simplifying tax procedures, rationalizing and improving quality of tax incentives	
• BRN Taxation Lab Report • WBG ICAS "Promoting Inclusive and Private Sector-Led Growth in Tanzania through Business Environment Improvements" (September 2014)/* • TRA 4th Corporate Plan • TRA June 2014 Financial Statements	-The TRA increases the budget allocation for value-added tax (VAT) refunds in FY2014/15 budget and reduces the amount of outstanding claims of VAT refunds.
Pillar II: Improving the Functioning of Factor Markets (Labor, Land and Capital)	
Component II-1: Modernizing labor law and enhancing skills development	
• BRN-BE Labs Report (Labor law and skill set)	-The Government submits to the Parliament: (i) a bill to amend the "Employment and Labor Relations Act" (ELRA); and (ii) a bill to enact the "Non-Citizen Employment Regulation Act".
Component II-2: Strengthening land administration and simplifying property registration procedures	
• BRN-BE Labs Report (Access to land, security of tenure) • IDA PSCP-AF Project Appraisal Document	-The MLHHSD sets up a desk at its Dar es Salaam Zonal Land Office to offer notarization for the transfer of properties using standardized contract forms and announces it through the media.
Component II-3: Improving access to finance	
• National Financial Inclusion Framework 2014-2016 • BoT Concept Paper on Secured Transactions (2014) • Consumer Protection and Financial Literacy Diagnostic for Tanzania (2014) • IDA Private Sector Competitiveness Project AF PAD • WBG FinScope Survey (2013)	-The Government creates a unified legal framework for payment systems by submitting to the Parliament a bill to enact the "National Payments Systems Act".
Pillar III: Establishing an Enabling Environment for Competitive, Job-Creating Industries (in particular for Agribusiness and Tourism)	
Component III-1: Building competitiveness of agribusiness industries	
• WBG "Light Manufacturing in Tanzania – A Reform Agenda for Job Creation and Prosperity" (2013) • WBG Tanzania CEM (2014) • WBG East Africa Grain Trade ESW Report (2009)	-The Government improves transparency in its resource allocation for implementing rural transport policy by creating a new budget line specifically for rural road development.
Component III-2: Building competitiveness of tourism industry	
• WBG Tanzania CEM (2014) • WEF "The Travel & Tourism Competitiveness Report 2013 - Reducing Barriers to Economic Growth and Job Creation" (2013) • World Travel & Tourism Council "Tanzania Travel and Tourism Economic Impact" (2013) • WBG "Review of Tourism Best Practices in Sub-Saharan Africa" consultant report. (December 2010)	-The MoNRT publishes on its website a comprehensive list of public charges (licenses, permits, taxes, levies, fees, and excises) applicable to the tourism sector.

Note: /* Proposal to CIDA for Collaboration with World Bank Group Trade & Competitiveness Global Practice

4.3 LINK TO CAS AND OTHER BANK OPERATIONS

84. **The proposed operation is aligned with the Country Assistance Strategy (CAS) FY12-FY15 and the CAS Progress Report approved by the Board in July 2014.** The private sector is viewed as one of the key sources of job creation and thus should lead to accelerated and stronger shared economic growth in Tanzania. The CAS Progress Report emphasized the need for closer alignment of the Bank's policy and investment support with the BRN initiative.

85. **The multi-dimensional and multi-sector approach supported by the proposed DPO series is embedded in the recent and ongoing World Bank program in Tanzania.** Several operations and analytical work have guided and will complement the policy agenda in favor of private sector development, including:

- **The Private Sector Competitiveness Project Additional Financing(PSCP-AF) and the follow-up operation** contain several components which will: strengthen the legal and regulatory framework for businesses; finance specific improvements in land management and administration capacity (most notably the topographic mapping of Tanzania's land); increase access to finance; strengthen consumer protections and financial literacy; and support the development of capital markets, the insurance sector, and the establishment of a commodity exchange and other activities.

- **The forthcoming Growth Poles Project** will complement the overall private sector policy reform agenda with a targeted, spatial intervention to strengthen physical infrastructure, skills, and access to finance in identified agglomeration poles. The project will be designed in close collaboration with the Urban and Transport practices in order to maximize the synergies with their ongoing and upcoming interventions (including, in particular, the Urbanization Review and the Ports upgrade project respectively).

- **The Program for Results (PforR) in the education sector, the Science and Technology for Higher Education Project - Additional Financing, and the forthcoming Skills operation,** will complement the policy reform agenda on skills development under this DPO series by providing necessary institutional and capacity building support to the Government in the area of education, vocational training, and skills development.

- **The Let's Work Initiative.** Tanzania has been identified as one of the potential countries to conduct a Let's Work[28] pilot operation to implement the job creation agenda in relation to private sector development. The Country Team is thus preparing a proposal to explain how this initiative could be linked to and complement existing work related to employment creation and skills development (in particular the analytical work under the 2014 CEM and the operational work in preparation of this DPO series and above-mentioned Growth Pole operation).

- **The ongoing Power and Gas Sector DPO series and other energy projects** complement this DPO series by addressing another critical business environment constraint in the

[28] "Let's Work" is a global partnership to create more and better private sector jobs composed of the IFC, the World Bank, other international financial institutions, donor agencies and private sector companies' stakeholders.

country, which is access to energy. Through improving the financial performance of the state-owned utility and reducing the cost to generate electricity by leveraging natural gas, the DPO series and other projects on energy will help the country improve on the cost, the quality, and the accessibility of energy services in Tanzania.

- **Some new proposed projects will also complement the business environment reforms supported by this DPO series on agribusiness and tourism through sectoral investments and technical assistance.** The agricultural projects, including the forthcoming Southern Agriculture Growth Corridor of Tanzania (SAGCOT), will contribute to improved agriculture sector performance through investments in better infrastructure, stronger sector institution, and industrial linkages for potential large-scale investors and smallholders. A new proposed project on resilient natural resource management will provide investments and technical assistance to improve the management of natural resources inside priority protected areas (e.g. national parks and game reserves) in southern Tanzania as a way to better manage priority tourism assets, and to enhance the benefits received from tourism to neighboring communities.

- The WBG's Trade and Competitiveness team has been designing a scaled-up technical assistance program from the **Investment Climate Advisory Services (ICAS) program** which is intended to provide technical support to reduce the burden of business regulation, ease trade logistics and tax administration, and support improved compliance with regional (EAC) commitments. Such advisory work provides capacity building support to the Government in implementing critical reform actions supported under the DPO series.

86. **This proposed DPO series is one in a set of four budget operations planned by the World Bank in Tanzania.** As explained in the CAS Progress Report in July 2014, four parallel budget support operations are expected to support the Government in its effort to implement policy reform in four priority areas: (i) open government and governance; (ii) power and natural gas; (iii) private sector development and business environment; and (iv) pensions. These four operations will provide additional fiscal space to the Government and further flexibility to shape the financial support depending on progress realized in these priority sectors. The proposed focus on private sector development is a continuation of the agenda supported by the last PRSC series, as concluded in the last operation (PRSC-11), which was approved by the Board in March 2014.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

87. **The reform agenda supported by the DPO series is included in Tanzania's multiple national strategies (MKUKUTA II, FYDP, and BRN), which were prepared in a consultation process that involved the private sector.** The TNBC provides a platform of dialogue and coordination between the private sector and the Government on the business environment and private sector competitiveness reform agenda. The Government prepared TDV 2025, MKUKUTA II and FYDP with significant stakeholder consultations. The BRN BE Lab was conducted with the participation of the private sector. Sector or thematic processes that involve consultations with the private sector underpin many of the policy areas covered by the DPO.

88. **This operation was prepared jointly with JICA, which plans to 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.[29] 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.

89. **The proposed series is expected to be integrated into the harmonized framework for General Budget Support (GBS) in Tanzania.** This DPO series has been designed in close collaboration with GBS DPs and the business environment as part of the Performance Assessment Framework (PAF) integrated selected indicators from the proposed DPO. This approach has already been successfully applied in other DPO series to build synergies between the WBG and other DPs and streamline dialogue with the Government.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACTS

90. **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 the series aims to improve the investment climate in Tanzania and facilitate the development of a competitive domestic private sector, which should ultimately 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 skills development, particularly caters to this objective. The 2015 Poverty Assessment based on HBS 2011/12 data shows that there is a clear positive contribution of engagements in enterprises and in wage labor on individuals' consumption level. Comparing 2007 and 2011/12 HBS data, the assessment also shows that engagement of nonfarm business has provided positive returns to extremely poor households both in Dar es Salaam and other urban areas. With respect to the latter, poorer households in fact experienced higher returns than wealthier households from nonfarm business engagement.

91. **The focus of the proposed DPO on improving the administrative and regulatory environment for business should help household enterprises and MSMEs, which constitute the bulk of enterprises operating in Tanzania.** Most private businesses are informal ones having only one employee or a few family members. Unlike large industrial firms, which have experience of navigating the business environment and the resources to deal with (or circumvent) administrative and regulatory procedures, smaller entities are highly sensitive to the financial cost of overcoming these obstacles. Indeed, overly burdensome procedures or regulations can "make-or-break" a small firms' business and deter them from entering the formal market where they would generally have better access to capital and other factor inputs. The data from an original microenterprise survey covering 660 microenterprises, as conducted by the University of Dar es Salaam in 2014 for the ongoing World Bank Poverty and Social Impact Assessment (PSIA) on the informal sector taxation and business environment, show that only 13 percent are registered at BRELA, a figure most likely driven by a cumbersome, business-unfriendly system of business

[29] 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).

registration. BRELA registration would facilitate access by those micro enterprises, which again are mostly informal, to finance and training opportunities that would enhance their productivity.

92. **Some policy actions supported by this operation have specific pro-poor implications.** Streamlining business registration and licensing processes will have significant pro-poor implications as it reduces the cost of doing business, particularly for MSMEs. Several studies, including the recent study commissioned by PMO-RALG and MoFAC, have shown that agricultural cess is harmful for the development of commercial agriculture. Moreover, its burden, between 3-5 percent of value of agriculture products, is transmitted to poor farmers by reducing farm-gate prices due to their low bargaining power with intermediaries and traders. Increased spending and greater transparency in resource allocation for rural roads development will ultimately enable the poor rural households to improve their accessibility to markets. The 2015 Poverty Assessment shows that that access to market has provided higher returns to poorer households between 2007 and 2012 compared to rich households in rural areas. Firm-level data in Tanzania show that MSMEs face more difficulty in accessing formal credit so that the policy reforms supported by these series of DPOs, including improved credit information systems, will benefit them more than large enterprises.

93. **Several policy actions will also have positive impacts to promote gender equity.** Firm-level data, including WBES 2013, also show that women entrepreneurs are disproportionately concentrated among microenterprises as opposed to medium and large enterprises. Reducing the costs of doing business, including more streamlined procedures for registering businesses and access to credit, will provide a more conducive environment for female entrepreneurs to formally start their businesses. Also, streamlining land administration will lead to the empowerment of women, who as a general group still suffer from application of customary law, particularly with reference to property, inheritance, and land rights in the rural areas.

5.2 ENVIRONMENTAL ASPECTS

94. **The specific policies supported by this series 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.

95. **The existing regulatory and institutional framework in Tanzania encourages sound environmental management of investments financed through the Government budget.** The 2004 Environmental Management Act (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. It is also charged with conducting research; facilitating public participation in environmental decision-making; raising environmental awareness; and collecting and disseminating 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).

96. **In implementing the 2004 EMA, the 2005 Regulations provide the basis for undertaking Environmental Impact Assessments (EIA) and Environmental Audits for various development projects with significant environmental impacts in the country.** According to the Regulations, EIA is mandatory for the following types of transport infrastructure projects under the jurisdiction of local government: construction and expansion/upgrading of roads, harbors, shipyards, fishing harbors, air fields and ports, railways and pipelines. The Regulations also require a Preliminary Environmental Assessment (screening) for rural roads under the jurisdiction of local government. All road development activities that fall under the categories mentioned above must, in the first place, be registered with the NEMC. Based on the Preliminary Environmental Assessment the environmental authorities will decide whether a full EIA study is required or not. Most sectoral ministries and departments have environmental units and officers. Their capacity in terms of budget, staffing, and expertise still need to be strengthened. In response to this issue, the development funding for NEMC and for EMA implementation support program in FY2014/15 (both under VPO) has been increased significantly by 50 percent and 300 percent respectively from FY2013/14 actual levels.

97. **The specific policies supported by this programmatic operation contribute to better environmental management.** For example, improving transparency in resource allocation for rural roads development will enhance the Government's accountability in implementing the country's rural road policy as well as its operational tool, LGTP Phase II, thereby contributing to proper implementation of environment management arrangements stipulated under that policy and program, including sufficient funding for such arrangements. The Program specifies that all rural road projects (new road construction, upgrading, improvement, rehabilitation, and maintenance - if maintenance work requires either opening of new borrow pits or quarries or establishment of labor camps) be subject to NEMC registration and environmental assessments. In implementing the "Removal of Bottlenecks" program under the LGTP Phase II, the Government also has adopted a more specific Environmental and Social Management Plan. Interventions under LGTP Phase II include: providing inputs to the preparation of transport sector environment management tools relevant for local government roads (guidelines, regulations, standards, environmental management plans, etc.); liaising with the Ministry of Works' Safety and Environment Unit on environmental training for Council and Regional Secretariat engineers and Council technicians; following-up and monitoring of environmental issues on the local government transport system; conducting training, workshops and seminars on environmental management to stakeholders; and providing equipment for environmental monitoring.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

98. **While Tanzania's PFM was once considered among the best in Africa, there are signs of weakening in the PFM system in recent years.** The 2009 and 2013 Public Expenditure and Financial Accountability (PEFA) scores reflect some deterioration of the PFM systems since 2005. The latest 2013 PEFA highlighted several key problem areas: (i) weaknesses in non-salary internal control systems; (ii) fiscal risk to the budget posed by some public enterprises; (iii) unreliable cash forecasting, multiple budget reallocations, execution of the budget through a monthly cash rationing system, and ineffective commitment control—all of which impede service delivery. Tanzania's rating in the area of PFM was lowered in the 2011 Country Policy and Institutional Assessment (CPIA) and maintained the same rating in 2012. The Bank and other DPs continue to support the Government's effort to address challenges in the PFM system including

macroeconomic and fiscal forecasting, predictability of budget execution, harmonization of debt systems, and timely implementation of audit recommendations through phase IV of the PFM Reform Program (PFMRP).

99. **The Government has increased the amount of budget information made widely available to the public.** The Government budget for the financial year beginning July 1, 2015 (FY2015/16) was presented to the Parliament on June 11, 2015 (before commencement of the new financial year) and approved on June 25, 2015. The budget presented to the Parliament in the form of the budget speech (and accompanying four volumes of the budget books as submitted to Parliament) by the Minister of Finance was immediately made available on the MoF website. The budget books as submitted to the Parliament were posted on the MoF website in the same month and will be replaced by the budget books as passed by the Parliament shortly as was the case for previous FYs. The approved Finance Act 2015 has been posted on the Parliament website.

100. **The Poverty Reduction Budget Support (PRBS) accounts are annually audited by the Controller and Auditor General (CAG).** The latest CAG report for FY2013/14, issued in December 2014, provided an unqualified opinion. The Bank, like other DPs, was availed with a copy within a month after its completion. This report confirmed the integrity of PRBS funds and made recommendations on a number of improvements to the mode of operations, which have resulted in new technical improvements to the related financial operations. In light of the above, the fiduciary risk to Bank funds being disbursed to the BoT for onward credit to the exchequer account is rated as moderate.

101. **An updated IMF safeguards assessment of the BoT was finalized in November 2012**. The assessment identified a strengthened governance and safeguards framework at the BoT (including its audit committee and establishment of a risk-management function), but also noted the importance of continued oversight by the BoT's board over remaining non-core functions and over compliance with statutory limits on credit to government. The audited accounts of the BoT for 2013/14 with an unqualified opinion are published on the BoT's website.

102. **The overall PFM system in Tanzania remains adequate for this operation and fiduciary risks directly related to the operation are moderate.**

103. **The proposed credit will follow the Bank's disbursement procedures for development policy loans/credits**. The untied finances will be disbursed against satisfactory implementation of the development policy program and 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 Bank at the BoT (central bank of Tanzania), forming part of the country's foreign exchanges reserves. The Borrower shall ensure that upon the deposit of the loan 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 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[30]. If the

[30] For the past PRSC operations, the authorities submitted such receipts after the disbursements with Exchequer Receipt Vouchers attached with some time lags of 40 to 70 days for PRSC-7, PRSC-7 supplemental, and PRSC-8.

proceeds of the credit are used for ineligible purposes as defined in the Financing Agreement, the IDA will require the Borrower to, promptly upon notice from the IDA, refund an amount equal to the amount of said payment to the IDA. Amounts refunded to the Bank upon such request shall be cancelled. The administration of this credit will be the responsibility of the Ministry of Finance.

104. **Audit arrangements.** 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 the Parliament within nine months of the financial year end. The IDA will have access to those reports.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

105. **The Government and the World Bank as well as JICA will monitor the implementation of the DPO series.** The implementation of the series has been conducted through periodic missions involving relevant GoT offices, which allow the team to obtain updated data on a regular basis. As part of an overall framework, supervision and preparation of the operations in the series take place in collaboration with other donors and in consistency with the MKUKUTA review mechanism.

106. **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 Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns.

107. Affected communities and individuals may submit their complaints to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. 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**.**

108. 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 World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

109. **The overall risk associated to this operation is considered to be moderate**. The main risk lies in the difficulties for the Government to overcome existing vested interests, both in the public and private sector, which would be reduced by the implementation of the reforms supported by the DPO series. This risk might be exacerbated in light of the upcoming elections but is mitigated by the commitment of the vast majority of stakeholders in the country and the sequencing approach selected by the Government that aims at building momentum over time. A summary of ratings for the main risk categories is provided in Table 7.

Table 7: Systematic Risk Assessment Tool (SORT)

No.	Risk categories	Rating (H, S, M or L)
1	Political and governance	M
2	Macroeconomic and fiscal	M
3	Sector strategies and policies	S/M
4	Technical design of the program	S/M
5	Institutional capacity for implementation and sustainability	S
6	Fiduciary	M
7	Environment and social	L
8	Stakeholders	M
Overall		**M**

110. **Political and Governance risks.** The reforms aimed at streamlining the business environment will reduce the costs of doing business in the country, and so favor the majority of businesses. They will also reduce the barriers to entry and increase competition in the economy. However, as experienced in other countries, and previously in Tanzania, those reforms may also reduce the existing rents from well-established investors and some administrations, at least in the short term. Those losers may lobby against the proposed reforms. A key mitigation measure is the high-level government leadership commitment and the focus on BRN that has defined clear objectives and designed effective monitoring and accountability mechanisms over time. To mitigate further this risk the Banks' team has engaged with the full range of Ministries and agencies, i.e., the MoF, the Planning Commission, the MoIT, the MoLE, the BoT and other relevant stakeholders from the private sector and civil society.

111. **Macroeconomic and fiscal risks.** While in the short term Tanzania does not appear vulnerable to exogenous risks, the economy remains exposed to large variations in commodity prices on the international market, notably of food, fuel, and gold. On the domestic front, the most important risks arise from fiscal policy, including: (i) shortfalls in revenue collection while facing increased public spending, particularly from the BRN initiative and possibly from the elections; (ii) financial distress in the energy sector; (iii) contingent liabilities from Public Authorities and Other Bodies; and (iv) level of debt with increased non-concessional borrowing. To mitigate these fiscal risks, the Bank will continue the macro-fiscal dialogue through the IMF program and PER process, which offer the platform to monitor recent fiscal development and inform policymakers, including monitoring tax exemptions, contingent liabilities, and other fiscal risks. Programmatic studies such as debt sustainability diagnostics should also help monitor those risks over time. Lastly, the Bank has strategically processed a series of operations to address fiscal risk, including an Open Government DPO (PFM including cash management), Power and Gas Sector DPO (energy sector fiscal risks) and a Pension Reform DPO under preparation.

112. **Sector strategies and policies risks.** Many agencies are financed through the revenues they collect from charging specific sector taxes or levies to the privates (e.g., business licenses, skills levies, certification fees, etc.). Therefore, the streamlining process and the reforms proposed under this operation may encounter opposition from within the administration. Communication and stakeholders' engagement will be important mitigation measures to explain why the reforms are needed, as they will bring benefits to the economy and the large majority of Tanzanians. In the

dialogue, the Bank's team has been exploring with the Government the implementation of incentives and compensatory mechanisms to build a national consensus and bring on board the agencies that may be losing revenues as part of the reform process.

113. **Institutional capacity for implementation and sustainability risks.** Numerous implementation challenges exist in relation to the reform process, including:

i) **Institutional capacity.** Some of the agencies involved in the DPO lack either the necessary resources or capacity to successfully and timely implement the proposed reforms. The WBG will provide capacity building through complementary investment operations and advisory services implemented by the Trade and Competitiveness Global Practice.

ii) **Coordination.** The proposed reforms involve a large number of Government agencies, sometimes with conflicting interests (e.g., TBS and TFDA). This raises an important coordination issue. A key mitigation measure will be the identification of a key champion (possibly PMO) for the reform program, to ensure timely implementation.

iii) **Sustainability.** Some of the proposed reforms risk being reversed after the end of the DPO series unless proper monitoring mechanisms are in place. In particular, the positive impact of the business license streamlining process might be cancelled if new licenses are approved elsewhere. To mitigate this risk, the programmatic nature of the DPO series will facilitate the close monitoring of the reforms by strengthening IT systems and setting new regulations, thus ensuring their sustainability.

114. **Fiduciary risks.** The overall PFM system in Tanzania remains adequate for DPOs and fiduciary risks directly related to this operation are moderate. However, capacity constraints in PIM and PFM continue to pose a risk in the country's PFM system. The ongoing PFMRP IV program, the PER dialogue process, the budget support dialogue, as well as the former PRSC series are important channels of dialogue and technical support to ensure that further deterioration of the PFM system does not happen. The Open Government DPO also facilitates dialogue and actions on improving public investment management, cash management, procurement and transparency in the PFM system.

115. **Environmental and social risks.** 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. Tanzania has in place adequate environmental controls and legislation under the mandate of NEMC, providing support to line-ministries in incorporating environmental guidelines.

116. **Stakeholder risks.** The operation and the series require a high level of political commitment and coordination among different government agencies and stakeholders involved in the implementation of the various components. Transparency, participation, and good communication among all stakeholders are key to mitigate such risks at the national level.

117. **Non-economic, exogenous risks.** There are a number of non-economic, exogenous factors which might adversely affect the expected outcome of the program, in particular Pillar III. For example, the performance of the tourism sector is vulnerable to such risks as neighboring countries instability, terrorism threats, the recent Ebola outbreak, and natural disasters.

ANNEX 1: POLICY AND RESULTS MATRIX

Key objective	Current status	DPO-1 Prior Action	DPO-2 Trigger	DPO-3 Trigger	Results		
					Outcome Indicator	**Baseline (2014)**	**Target (2018)**
Pillar I: Making the Regulatory Environment (for business registration, licensing, trade and taxation) more "Business Friendly"							
Component I-1: Making the business regulatory and the trade facilitation institutions more efficient and transparent							
1. Simplify the process for starting a business and eliminate unnecessary, duplicating and overlapping licenses and permits	*Current registration process requires visiting multiple agencies in scattered locations. Excess and overlapping licenses and poor guidance on how to obtain them.*	-The Government launches the first phase of the one-stop shop (OSS) program by integrating tax and business registration within the BRELA office. -The MoIT establishes a Regulatory Licensing Reform Committee (RLRC) with the responsibility to streamline the legal framework (laws, regulations, licenses, permits and certifications) and the regulatory bodies concerning business licenses.	-The Government launches a fully integrated IT platform to support the streamlined process of starting a business and eliminates the certificate of compliance requirement. -The Government establishes an information and licensing portal where a comprehensive inventory of business licenses is published and the 10 most frequent licenses are delivered online.	-The Government launches an online business registration system. -The Government eliminates unnecessary business licenses and permits and simplifies burdensome ones, thereby reducing the overall number of licenses and the associated compliance costs to businesses by at least 25%.	Time to start a business *(Doing Business)* Number of procedures to start a business *(Doing Business)* Percent of new businesses registered online *(BRN)* Total number of licenses since the inventory is established (percent reduction) *(BRN)*	26 days 9 0% 0% (the baseline and absolute numbers will be available once the inventory under DPO-2 is completed)	10 days 3 30% 25%
2. Increase the efficiency of trade facilitation institutions and infrastructure to improve the competitiveness of Tanzanian industries	*Ports, customs, and other border agencies' transactions remain inefficient.*	-The MoF repeals the Directive requiring 100% cargo inspection at the port of Dar es Salaam allowing TRA to implement the risk-based inspection system according to its capacity building action plan, targeting initially 80 percent of all import cargo.	-The MoF reviews the results of the risk-based inspection system implementation and undertakes actions to strengthen it thereby further reducing physical cargo inspections towards international best practice levels. -The Government implements the national Electronic Single Window system in the port of	 -The Government establishes an efficient National Electronic	Percent of cargo inspected *(Team analysis)* Number of agencies able to use the "single	100% 0	50% 15

Key objective	Current status	DPO-1 Prior Action	DPO-2 Trigger	DPO-3 Trigger	Results		
					Outcome Indicator	**Baseline (2014)**	**Target (2018)**
			Dar es Salaam by (i) establishing high level Steering Committee (comprised of CEOs from key trade facilitation agencies); and (ii) adopting necessary regulations and/or law.	Single Window that will serve as the only portal for submitting and processing of all cargo import and export transactions.	window" at the Dar es Salaam Port *(Team analysis)*		
Component I-2: Simplifying tax procedures, rationalizing and improving quality of tax incentives							
3. Increase the efficiency of tax administration and rationalize tax incentives	*Tax administration including the VAT refund system remains inefficient. There are numerous tax exemptions with weak transparency. Some exemptions harm or contravene the EAC common market agreements.*	-The TRA increases the budget allocation for value-added tax (VAT) refunds in FY2014/15 budget and reduces the amount of outstanding claims for VAT refunds.	-The Government: (i) increases the VAT threshold with introduction of an opt-in clause for voluntary registration applicants and adopts risk based compliance management system; and (ii) improves efficiency of the VAT refund system by introducing a VAT offset mechanism.	-The Government rationalizes tax incentives to remove most costly incentives measures, consolidates all tax exemptions in the tax laws and repeals incentives that harm or contravene the EAC common market agreements. Further, the Government harmonizes SEZ incentives to the approved EAC Incentives Policy.	Percent of new VAT refund claims that are settled within a month[31] *(TRA reports and team analysis)* Tax expenditures (i.e., foregone revenue) as percentage of GDP *(TRA reports and team analysis)*	74% 3.13%	90% < 1% (based on pre-rebasing GDP figure)

[31] Number of days from date of lodgement to the date of refund should be less or equal to one month.

Key objective	Current status	DPO-1 Prior Action	DPO-2 Trigger	DPO-3 Trigger	Results: Outcome Indicator	Results: Baseline (2014)	Results: Target (2018)
Pillar II: Improving the Functioning of Factor Markets (Labor, Land, and Capital)							
Component II-1: Modernizing labor law and enhancing skills development							
4. Modernize labor regulations for both citizens and non-citizens, and improve regulatory framework and financing for skills development and business process innovation	*There is a multiplicity of labor laws governing employment of workers. Skills development does not have harmonized regulatory framework. Effective incentives and movement for skill development and business process innovation are not introduced.*	-The Government submits to the Parliament: (i) a bill to amend the "Employment and Labor Relations Act" (ELRA); and (ii) a bill to enact the "Non-Citizen Employment Regulation Act".	-The Government adopts implementing regulations for the Non-Citizen Employment Regulation Act to reduce potential burden for employers and employees.		Number of labor laws governing employment for citizens and non-citizens *(BRN and team analysis)*	8 laws	2 laws
			-The Government develops and adopts a comprehensive strategic framework for effective skills development to enhance industrial and labor productivity, including sustainable financing mechanisms, for promoting in-service training, private sector participation in vocational training, and business process innovation.	-The Government submits to the Parliament for its approval a bill to amend the Vocational Education and Training (VET) Act (Cap 82) Sec 14 and 15 to reduce Skills Development Levy (SDL) rate from 5% and expand access to the collected SDL revenue by employers and the Vocational Education and Training Authority (VETA).	Percent of SDL revenue allocated for training purposes *(BRN and team analysis)*	40%	100%

Key objective	Current status	DPO-1 Prior Action	DPO-2 Trigger	DPO-3 Trigger	Results		
					Outcome Indicator	Baseline (2014)	Target (2018)
Component II-2: Strengthening land administration and simplifying property registration procedures							
5. Simplify land administration procedures	*Land administration in Tanzania remains inefficient.*	-The MLHHSD sets up a desk at its Dar es Salaam Zonal Land Office to offer notarization for the transfer of properties using standardized contract forms and announces it through the media.	-The Government takes a set of measures to expedite the issuance by TRA of the capital gains tax clearance certificate required for obtaining land title.	-The Government further decentralizes land administration services by establishing and operationalizing 30 regional land offices, starting from the current 8 zonal offices, each fully equipped to provide all land administration services including the issuance of land titles.	Cost to register a property (percent of property value) *(Doing Business and team analysis)* Time to register a property *(Doing Business and team analysis)*	4.5% 67 days	2% 40 days
Component II-3 Improving access to finance							
6. Improve regulation of mobile financial services, reduce risk aversion of lenders through improved credit information, and expand availability of collateral	*Household enterprises rely predominantly on unregulated mobile financial services.* *Credit information on many borrowers is missing, incomplete and/or low quality.* *Weak and fragmented legal framework for use of collateral.*	-The Government creates a unified legal framework for payment systems by submitting to the Parliament a bill to enact the "National Payments Systems Act".	-The Government completes the regulatory framework for mobile financial services by issuing Electronic Money Regulations inclusive of requirements on effective disclosure in agent operations and dispute resolution mechanisms. -The Government facilitates access to finance to MSMEs by expanding sources of available collateral through the submission to the Parliament of a "Secured Transactions Act", based on the approved concept paper on secured transactions.	-The Government established a centralized electronic registry for movable collateral. -The Government submits to the Parliament a bill to enact the "Microfinance Act", which will provide a legal, regulatory and supervisory framework for microfinance operations, including credit information sharing requirements.	Percent of households who have a transactions account *(Finscope 2013)* Quality of the legal / regulatory framework for payments systems *(WB Payment Systems Development Group)* Percent of firms with a bank loan or line of credit *(Enterprise Survey 2013)* Coverage of the Credit Bureaus *(Team analysis)*	57.4% Low/Medium-low[32] 16.6% 0.6%	80% Medium-high/High 19% 6%

[32] For a detailed definition of the indicator, see "Measuring Payment System Development" Working Paper, M. Cirasino and J.A. Garcia, 2008 (http://siteresources.worldbank.org/EXTPAYMENTREMMITTANCE/Resources/MeasuringPaySysDevelopment_WorkingPaper.pdf).

Key objective	Current status	DPO-1 Prior Action	DPO-2 Trigger	DPO-3 Trigger	Results		
					Outcome Indicator	Baseline (2014)	Target (2018)
Pillar III: Establishing an Enabling Environment for Competitive, Job-Creating Industries (in particular for Agribusiness and Tourism)							
Component III-1: Building competitiveness of agribusiness industries							
7. Improve access to customer and supplier markets for agribusinesses through stronger LGA road program	*Poor quality of LGA roads is the key bottleneck of agribusinesses.*	-The Government improves transparency in its resource allocation for implementing rural transport policy by creating a new budget line specifically for rural road development.	-The Government improves transparency and effectiveness in implementing its rural transport policy through the application of: (i) the recently adopted Public Investment Management Operational Manual (PIM-OM) to the district level to design, select and implement public investment projects for rural roads, and (ii) the new rural road management manual to be issued.	-The Government develops a successor program of LGTP-II for development and maintenance of LGA roads.	Proportion of LGA roads in fair or good condition (as published) *(MKUKUTA monitoring and PER)*	60%	70%
8. Remove business-unfriendly taxes and export permits for agribusiness	*Numerous nuisance taxes continue to be imposed on businesses. Agricultural cess in particular is constraining agribusiness. Food crop exports and imports involve complicated permit processes while tariffs are not always applied systematically.*		-The Government adopts and implements an action plan to rationalize agricultural cess and institutionalizes a monitoring mechanism for implementation of reforms on agricultural cess and other taxes and levies on agribusiness by district.	-(i) The Government publishes the monitored results of agricultural cess and other taxes and levies on agribusiness by district and streamlines the overall tax burden on agribusiness. (ii) The Government abolishes export permits required for food exports.	Reduction in tax burden on agribusinesses *(Team analysis)*	0	20% reduction

Key objective	Current status	DPO-1 Prior Action	DPO-2 Trigger	DPO-3 Trigger	Results		
					Outcome Indicator	**Baseline (2014)**	**Target (2018)**
9. Strengthen the standards regime consistent with EAC and international good practice to facilitate agribusiness exports and imports	*Tanzania's food safety systems (quality) remain cumbersome and in some cases are NTBs*		-The Government eliminates the existing regulatory overlaps between the Tanzania Food and Drugs Authority (TFDA) and the Tanzania Bureau of Standards (TBS) by adopting a Food Safety Policy in line with EAC Harmonized Food Safety Measures.	-The Government amends and simplifies relevant Acts and Regulations to: (i) ensure the use of national standards in technical regulations and SPS measures, (ii) liberalize the conformity assessment regime for testing and certification of food products, and (iii) eliminate overlaps in regulatory agency activities. -The Government implements risk based inspections for food safety.	Number of testing and certifications for food safety conducted by accredited laboratories independent from the TFDA *(Team analysis)* Percent of firms in the food sector with an internationally-recognized quality certification *(Enterprise Survey 2013)* Percent of firms in the food sector identifying business licensing and permits as a major constraint *(Enterprise Survey 2013)*	0 20.5% 36.4%	At least 4 30% 20%
Component III-2: Building competitiveness of tourism industry							
10. Streamline the uncertain tourism business environment	*Business environment is uncertain with numerous taxes and licenses discouraging investment and growth*	-The MoNRT publishes on its website a comprehensive list of public charges (licenses, permits, taxes, levies, fees, and excises) applicable to the tourism sector.	-The Government streamlines the licenses, permits, taxes, levies and fees charged to the tourism sector.	-Integration of sector policy and planning with business environment reform through Government approval of a comprehensive National Tourism Act with Cabinet approval of a 10-year National Tourism Development Plan (in 2 five-year phases; inclusive of strategy and action plans).	Total number of licenses, permits, taxes, levies and fees for tourism businesses *(BRN)* Direct employment in the tourism sector *(WTTC report)*	59 400,000 individuals	<35 10% increase

ANNEX 2: LETTER OF DEVELOPMENT POLICY

THE UNITED REPUBLIC OF TANZANIA
MINISTRY OF FINANCE

Telegrams: "TREASURY", Dar es Salaam,
Tel: 2111174/6, Fax 2110326, Telex: 41329.
(All Official communications should be addressed to the Permanent Secretary to the Treasury and NOT to individuals).

1 MADARAKA STREET,
P.O. Box 9111,
11468 DAR ES SALAAM;

In reply please quote:

Ref. No. **CDB 441/545/01**

July 2, 2015

Country Director for Tanzania, Uganda and Burundi,
World Bank Country Office,
50 Mirambo Street,
DAR ES SALAAM.

RE: LETTER OF DEVELOPMENT POLICY FOR PROPOSED FIRST BUSINESS ENVIRONMENT FOR JOBS DEVELOPMENT POLICY OPERATION

On behalf of the Government of the United Republic of Tanzania, I hereby present a request for approval of the First Business Environment for Jobs Development Policy Operation (BEJDPO-1) in the amount USD 80 million (SDR equivalent). This credit, the first in the series of three operations, will assist in implementation of the Government programme to increase the job creation potential of the Tanzanian private sector by reducing the overall cost of doing business and by creating an enabling environment for selected labor-intensive industries. The programme pertains reforms in the following three policy areas: (i) making regulatory environment (for business registration, licensing, trade and taxation) more "business friendly"; (ii) improving the functioning of factor markets (labour, land, and capital); and (iii) establishing an enabling environment for Competitive, job-creating industries (in particular for agribusiness and tourism).

1

I. BACKGROUND

A. MACROECONOMIC PERFORMANCE AND PROJECTIONS

GDP growth

1. The trend of GDP growth for the past decade (2004 – 2014), indicated the growth of real GDP to be at an average of 6.8 percent. The GDP growth at 2007 constant prices was 7.0 percent in 2014 compared to 7.3 percent in 2013. The growth was driven mostly by agriculture, construction, trade and manufacturing. It is worth noting that Agriculture, which accounts for more than 70 percent of the population is nearly 3 times the size of next largest activity. While agriculture accounts for 31.7 percent to GDP, the second largest activity is trade which contributes 10.5 percent in the new GDP series.

Inflation

2. Headline inflation remained at single digit consistent with sustained tight monetary policy and the general decline in global commodity prices, especially oil prices. In addition, monetary policy measures, which were undertaken since the end of 2011, have been successful in containing core inflation within the desired trajectory during the first half of 2014/15. Headline inflation eased to 4.5 percent in April, 2015 compared with 6.4 percent recorded in June 2014. In the same period, food inflation eased to 7.2 percent from 8.1 percent, while core inflation (excluding food and energy) slowed to 2.1 percent from 3.5 percent in June 2014.

Financial Sector

3. The Government continued to implement the Financial Sector Reforms Programme with the view to improve access and usage of

formal financial services to reduce poverty and increase economic growth. By December 2014, **credit extended to private sector** increased by 19.4 percent compared with 15.2 percent recorded in December 2013 and the projected growth of 19.8 percent. The credit growth was mainly funded by increased mobilization of domestic deposits by the banking system. Significant amount of the credit was directed to business activities which accounted for 21.7 percent of the total credit; personal loans 15.8 percent; manufacturing 11.8 percent; and agriculture 8.9 percent.

4. The Government continues to improve policy and legislation environment in the Financial Sector whereby the National Payment System Act of 2015, which regulates and supervises all electronic payments will commence its operations. In addition, the draft National Microfinance Policy and its implementation strategy have been prepared for the purpose of improving access and usage of microfinance services to low income individuals, households and enterprises. Moreover, the Housing Microfinance Fund for extending housing loans to the low income earners was established.

5. **Deposit and lending rates** remained relatively stable with small interim movements. However, the spread between one year lending and deposit rates widened to 3.69 percentage points in December 2014 from 2.10 percentage points in December 2013, partly associated with rising in default rates for the short term debts as reflected in the rising of non-performing loans during the period. The spread, however, narrowed to 2.0 percentage points in January 2015.

6. **The value of the Tanzania shilling against US dollar** has been stable for about three years since 2012. Its value abruptly depreciated in the beginning of the last quarter of 2014. This depreciation was a result of strengthening of the US dollar against all other currencies. The appreciation in the value of US dollar originated from the recovery of the US economy, which has attracted many investors to invest in US dollar. Other reasons for depreciation in the value of Tanzanian shilling include:

(i) Lower export earnings compared to the import bill of goods and services;

(ii) Falling gold price in the world market, which reduced our forex earnings from the export of gold; and

(iii) increasing demand for the US dollar on account of repatriation of dividends by foreign companies.

7. The Government is taking appropriate measures to stabilize the value of the shilling. Those measures include increasing production and exports of goods and services; adding value by enhancing production in export processing zones and special economic zones and attracting more capital inflows and investments. The Government is creating conducive business environment to attract investors to exploit these potential opportunities for the intention of increasing exports while reducing unnecessary imports of goods and services.

Government Budget

8. For the past five years, implementation of the budget was characterized by shortfall in revenue from all sources by an average of 12 percent per annum. Actual domestic revenue collection up to

March 2015 was 87 percent of period estimates. Major shortfall was on account of shortfall in grants and concessional borrowing. By April 2015 the actual budget support contributions received were 44 percent of the annual projection. Since Tanzania practices cash budget system, expenditure policies focused on aligning expenditure with revenues collected.

9. The Government has continued to manage the **National Debt** based on Government Loan, Grants and Guarantees Act, Cap.134. In this regard, the emphasis has been directed to borrow from concessional sources rather than commercial sources. Loans require high integrity, and to be directed to the projects that stimulate economic growth, including construction of road and railway infrastructures, construction of power generation plants and construction of airports.

10. Total national debt has been growing over the past eight years mainly on account of increase in new disbursements of external debt and issuance of domestic debt to finance infrastructure projects. Total national debt as of March 2015 was USD 19.5 billion, equivalent to 40.3 percent of GDP. However, based on the Debt Sustainability Analysis (DSA), which was conducted in September 2013, external and total public debt will continue to remain sustainable in the short, medium and long term. The analysis revealed that all indicators remain below debt sustainability thresholds.

External Sector Development

11. The current account deficit narrowed to USD 2,002.4 million during July - Dec 2014 compared with a deficit of USD 2,281.1 million in the preceding year, mainly attributed to a decline in imports of goods and services. Moreover, the overall balance of payments recorded a deficit of USD 191.2 million compared to a surplus of USD 310.8 million during 2013/14 as capital and financial account transactions could not fully offset the deficit in the current account. As at end Dec 2014, gross official reserves amounted to USD 4,388.6 million, sufficient to cover 4.1 months of projected imports of goods and services excluding those financed through foreign direct investments.

B. BUSINESS ENVIRONMENT REFORM

12. Bolstering private sector performance is central to reduction of poverty and promotion of inclusive growth in Tanzania. Private sector contributes to job creation which is critical to the broader poverty reduction efforts in Tanzania. Creating better conditions for obtaining a secure and decent earning is the most direct and sustainable way to lift out of poverty the 28 percent of Tanzanians (12 million people) still living below the poverty line.

13. Over the past decade, the private sector has played a limited role as an engine of growth for the economy and of employment creation for a growing workforce. A decomposition of growth in the 2000s has suggested that the driving forces to growth were mainly consumption and current government spending. Private investment and growth were concentrated in a few fast growing sectors such as the extractive, finance, communication, and transport sectors. With

the exception of construction, labour-intensive sectors such as agriculture and manufacturing expanded below the average rate of the economy. To create a sufficient number of productive jobs for the rapidly growing labour force, the economy will have to accelerate its structural shift from agriculture to manufacturing and services and generate productivity gains in its labour intensive sectors, including agriculture.

14. Reducing the cost of "doing business" in Tanzania is critical to stimulate local entrepreneurship and attract foreign investors. Today, Tanzania remains 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 it to be more damaging to smaller ones, which make up the vast majority of firms in Tanzania.

15. All private firms, including medium-size ones and specifically those operating in the formal sector, will benefit from improvements in the functioning of basic factors of production (land, labour, and financial capital). While Tanzania is blessed with abundant factor endowments, including vast land and a fast-growing population, several barriers and bottlenecks prevent optimal allocation of these assets and proper market functioning which the Government has taken note of and initiated efforts to address them.

16. Beyond addressing these crosscutting issues, international experience has shown that a competitive job creation strategy is more effective when it addresses industry-specific constraints that have kept promising sectors from reaching their full potential. Such focus helps create momentum around the proposed reforms as, arguably, all bottlenecks in terms of access to infrastructure and factors of production cannot be addressed for all firms in every location at the same time. Thus far, government efforts have focused primarily on agribusiness and tourism, and both sectors have expanded relatively fast in recent years, building on the country's advantages and sustaining global demand and is working on measures that will sustain the performance of these sectors including through updating sector specific regulatory frameworks, improving taxation systems and building human capacity.

The Government's Strategy

17. Tanzania's focus on private sector development is captured in the Second National Growth and Poverty Reduction Strategy 2010/11-2014/15 (MKUKUTA II) and complemented by the First Five Year Development Plan for 2011/12-2015/16 (FYDP I). MKUKUTA II is a medium-term mechanism to achieve the goals of Tanzania's Development Vision 2025 (TDV 2025), which sets forth Tanzania's aspiration to become a middle income country by year 2025. Among MKUKUTA II's key priorities is scaling up the role of the private sector primarily by strengthening the business climate for efficient use of factors of production and investing in human capital, skills development and infrastructure development. Complementary to this, the FYDP I highlights the policy priorities in operationalizing

MKUKUTA II, focusing on sectors with high growth potential (agribusiness, tourism and financial services).

18. While the new FYDP is under preparation, the Government envisions a competitive private sector to be built through the following three parallel initiatives: (i) the Big Results Now Business Environment Lab; (ii) the National Financial Inclusion Initiative; and (iii) the Integrated Industrial Development Strategy 2025.

19. The Big Results Now Business Environment (BRN-BE) Lab, led by the Presidential Delivery Bureau (PDB), has identified a set of actions aimed at improving the business environment. The Investment Climate Roadmap - prepared in 2010 in response to Tanzania's consecutive poor performance in "Doing Business" - proposed a time-bound action plan to implement "quick-win" policy measures. However, tangible results on the ground were slow to materialize. To reinvigorate this effort, in December, 2013 the Tanzanian National Business Council endorsed the launch of a BRN-BE Lab. Through close, private-public dialogue the BRN-BE Lab identified a set of concrete and actionable recommendations in six priority reform areas: (i) realigning regulations and institutions; (ii) streamlining access to land and security of tenure; (iii) simplifying taxation and reducing multiplicity of levies and fees; (iv) curbing corruption; (v) improving labour law and skills development; and (vi) enhancing contract enforcement, law and order. The BRN-BE Lab targets were accompanied by the allocation of clear roles and responsibilities, timelines, and budgets.

20. There are efforts, led by the Bank of Tanzania (BoT), to improve access to finance and implement the National Financial Inclusion Framework (NFIF). Significant progress has been achieved by Tanzania in expanding financial services coverage - especially through mobile money - to reach a NFIF target of access to formal financial services for 50% of adults by 2016. This target is accompanied by an effort to create a proper regulatory framework that covers electronic money issuers and microfinance institutions. A key pillar of the NFIF - ensuring reliable and secure electronic payment platforms - foresees that the BoT, jointly with other government agencies, develops the legal and regulatory framework to provide legal certainty and consistency for a stable mobile money market, promote financial inclusion, and protect customers. Another NFIF pillar - robust information and easy client on-boarding, underscores the importance of improving the breadth and quality of credit information to facilitate access to finance for MSMEs. With more complete credit information, lenders are able to better assess borrower creditworthiness and reward good borrowers while penalizing borrowers with poor credit history. To address this the BoT created a Credit Reference System in 2012 consisting of a Credit Reference Databank administered by the BoT itself and private credit reference bureaus. Under this pillar of NFIF a robust legal and regulatory framework to govern secured transactions in the country is being developed, including a planned central collateral registry to alleviate lenders' concerns. Such collateral can be pledged multiple times - especially in the case of movable collateral. All these interventions would favour the private sector, and especially smaller firms, by offering a broader set of instruments to access financing at more convenient terms.

21. The design and implementation of a Ministry of Industry and Trade (MoIT)-led "Integrated Industrial Development Strategy 2025" (IIDS) which targets the development of specific high-growth, labour intensive sectors are an important initiative. The vision of an "agriculture- and resource-led industrialization" laid out in the IIDS prioritizes the growth of agro-processing (edible oils, cashew nuts, fruits, milk and dairy products) given the fairly low capital/technology requirements for market entry, and its high labour intensity. This is expected to help absorb the abundant labour force migrating from villages to cities due to the steady mechanization of the agriculture sector and rising secondary school and post-secondary training ratios. Other job-creation potential sectors included in the IIDS are light manufacturing (such as leather, textiles, and light machinery) and tourism, which is highlighted for its wide range of downstream and upstream linkages to other sectors.

THE GOVERNMENT PROGRAM

A. POLICY OBJECTIVE

22. Recognizing the multi-dimensional nature of the reform needed to promote a competitive private sector in Tanzania, the Government has adopted a programme of policy reforms to increase the job creation potential of the Tanzanian private sector through two crosscutting ("horizontal") pillars and one sector-specific ("vertical") pillar. Reforms under the horizontal pillars aim at reducing the most binding constraints that affect firms in all sectors of the economy. The vertical pillar supports interventions on selected high-growth/high-employment potential sectors. The combination of

horizontal and vertical reforms should help create a level playing field across all sectors, together with a sense of prioritization that should favour rapid concrete results and create momentum for more global reforms in the economy.

23. Crosscutting (horizontal) policy reforms:

- Pillar 1: Making the Regulatory Environment (for business registration, licensing, trade and taxation) More "Business Friendly". The actions under this pillar support reforms of business registration, licensing, taxation, and trade regimes aimed at streamlining regulatory processes and improving the efficiency/transparency of underlying institutions.

- Pillar 2: Improving the Functioning of Factor Markets (Labour, Land, and Capital). The actions under this pillar aim at modernizing labour regulations, simplifying land administration and the ability to secure property rights, and broadening access to finance by firms.

24. Sector-specific (vertical) policy reforms:

- Pillar 3: Establishing enabling conditions to build competitive job-creating industries (primarily in agribusiness and tourism). Actions under this pillar address specific bottlenecks and constraints in agribusiness and tourism sectors, two industries with the highest potential for job creation.

B. DESCRIPTION OF POLICY AREAS

Pillar I: Making the Regulatory Environment (for Business Registration, Licensing, Trade, and Taxation) More "Business Friendly"

Component I-1: Improving the efficiency and transparency of the business regulatory and trade facilitation institutions

25. Administrative procedures add costs to businesses and in particular micro, small, and medium enterprises (MSMEs), which are mostly affected because of their size. These costs may contribute to high level of business informality due to cost implication in operating MSMEs where the return margins are fairly narrow. It is therefore necessary to develop appropriately simplified procedures to cater for MSME's in the interim while modern systems and legal framework is being developed.

26. International experience has shown that modernising and streamlining the procedures to start a business using ICT based systems (including the elimination of manually duplicative and overlapping licenses/permits) fosters creation and formalization of new businesses, contributing to the development of a more vibrant private sector. According to the 2015 Doing Business report, business owners in Tanzania are required to visit several institutions, spending 26 days on average doing so, before being able to operate. Tanzania ranks 124/189 in this indicator. The Government expects the current efforts of improving its operations through e-Government initiatives will tremendously contribute in improving service delivery and contribute to more favourable ranking in near future.

27. The BRN BE Lab recognizes that the existence of a multiplicity of laws and regulations, licenses, permits and certifications, as well as the involvement of regulatory bodies/institutions with duplicative mandates, hampers enterprises' competitiveness and limits their growth potential. Most procedures are burdensome and lack transparency. Businesses are not able to access clear information about which licenses they need to obtain as well as what requirements they need to comply with to obtain a license. In turn, the requirements to retain a license create the need for numerous decentralized inspections.

28. The first reform area focuses on reducing the costs to start and operate a business by (i) implementing an electronic One-Stop Shop (OSS) for business registration, and (ii) conducting a rationalization process to eliminate unnecessary licenses and permits. The Government's reform program includes following actions:

(1) The Government has launched the first phase of the OSS program by integrating tax and business registration within the BRELA office. TRA set up a desk at the new BRELA headquarters in May 2015 to start issuing tax identification numbers (TINs) at BRELA. Issuance of TINs at the same location of business registration is expected to reduce the time and cost to start a new business. A memorandum of understanding (MoU) has been exchanged between BRELA and TRA to formalize the arrangement.

(2) Also, the MoIT has established a Regulatory Licensing Reform Committee (RLRC), responsible for streamlining

the legal framework (laws, regulations, licenses, permits and certifications) and the regulatory bodies concerning business licenses. The Committee, which was established in February 2015, has a mandate to identify ways in which regulations and institutions can be streamlined, simplified, harmonized and, where necessary, consolidated. The Committee will also be responsible for supervising the implementation of the rationalization process.

29. Going forward, the Government will move to the next stage of the OSS program by introducing an IT platform for the registration process, while eliminating the certificate of compliance requirement. This will be an intermediate step for achieving the goal of establishing a fully integrated online business registration system, thus reducing significantly the cost and time required to start a business, and making the process more transparent. On the business-licensing regime, the Government will create an inventory of all licenses requested at the national and local level and publish it on a portal accessible to the public. This inventory will be the basis for a rationalization process aimed at eliminating at least 25 percent of redundant or outdated licenses. In addition, the online business-licensing portal will be made transactional for the 10 most frequent licenses.

30. The second set of policy actions under this component will aim at reducing the time and cost associated with international trade transactions. This will be achieved by strengthening the institutional framework for customs clearance at border posts and logistics services at the Port of Dar es Salaam where approximately 90 percent

of merchandise is imported and exported from Tanzania. International experiences show that a risk-based cargo clearance system is an effective way of improving efficiency in trading across borders. Tanzania has had its risk-based system since 2004 but its implementation has not been adequate. The MoF introduced a Directive in 2013 that required 100% cargo inspection in reaction to high profile smuggling cases that occurred under the previous customs clearance system (ASYCUDA++), which was not adequately performing to prevent such cases given its deficiency. Subsequently, TRA has upgraded its electronic customs clearance system to TANCIS, which overcomes the shortcomings of ASYCUDA++ including a robust and more effective risk management module. However, the 2013 Directive has hampered full implementation of TANCIS.

31. The introduction of a single window system at the Port of Dar es Salaam would substantially accelerate the transactions required by several agencies and reduce cost for traders. The Government has initiated such integrated effort by implementing TANCIS for customs clearance that connects TRA with several agencies such as the Tanzania Bureau of Standards (TBS), the Tanzania Food and Drugs Authority (TFDA), and the immigration authorities. However, a more comprehensive single window system at the Port of Dar es Salaam (BRN has recommended a "National Electronic Single Window" system) is needed that will also cover other areas of the port operations such as cargo logistics and involve a broader set of stakeholders including the Tanzania Ports Authority (TPA).

32. In this regard, the Government's reform actions include the following:-

(1) The MoF has repealed the Directive requiring 100% cargo inspection at the port of Dar es Salaam allowing TRA to implement the risk-based inspection system according to its capacity building action plan, targeting initially 80% of all import cargo. The MoF issued a letter to TRA in April 2015, indicating its decision to repeal the 100 percent Directive and allow TRA to implement the risk-based inspection system, thus gradually reducing the rate required for physical inspections at the Port of Dar es Salaam. As a first phase of the risk-based system implementation, TRA will inspect at least 80 percent cargos, with the expectation that the rate will be reduced further depending on the progress in controlling fraud cases in customs declarations. At the same time, TRA has adopted its capacity building action plan in implementing its risk-based customs management under TANCIS with external technical assistance. Full implementation of the risk-based inspection system would facilitate cargo customs clearance and reduction of average time to export and import.

(2) Going forward, the Ministry of Finance will review the results of the risk-based inspection system implementation and undertake actions to strengthen it, thereby further reducing physical cargo inspections towards international best practice levels. In addition, the Government will establish a Steering Committee to oversee the implementation of the National Electronic

Single Window and to adopt the necessary regulations and/or law.

33. With an improved risk management system in place, and the establishment of an effective Steering Committee, the Government aims in the medium term at operationalizing the National Electronic Single Window as the only portal for submitting and processing all cargo import and export transactions.

Component I-2: Simplifying tax procedures and rationalizing the tax incentives

34. The proposed series of operation will focus on two specific tax policy and administration areas that raise the costs of doing business in the country: improvement in the VAT administration and tax incentives. When VAT refunds are delayed businesses suffer from cash flow shortages, providing a disincentive for future tax compliance. TRA has set itself a target of ensuring that 85 percent of all VAT refund claims are settled within one month. However realising this target has been a challenge as of end-June, 2014, only 74 percent of VAT refunds were settled within one month.

35. The Government is committed to reduce the use of tax incentives with a view of enhancing revenue collections. The latest Government's figures indicate tax expenditures (i.e., foregone revenue) in 2013/2014 at 3.13 percent of GDP, up from 3.02 percent of GDP in 2012/2013 and higher than the EAC average of 2.4 percent. Such a high level of incentive is also incompatible with the EAC Competition Act (2006) barring export-based fiscal incentives. In the medium term, the use of export-based incentives may limit the access of Tanzanian companies to the EAC market.

36. In this context, the Government's reform program includes the following actions:

(1) The TRA has increased the budget allocation for value-added tax (VAT) refunds in FY2014/15 budget and reduces the amount of outstanding claims for VAT refunds. Recognizing the challenge, the GoT increased the annual refund budget from TSh 401 billion in the 2013/14 budget to TSh 549 billion in 2014/15 budget and reduced the amount of outstanding claims from TSh 254 billion in end-July 2014 to TSh 161 billion in end-March 2015. The proportion of outstanding VAT refund claims that are over 90 days out of total outstanding claims also decreased to 47 percent in March 2015.

(2) Going forward, the Government will further improve efficiency in the VAT refund system by introducing a VAT offset mechanism. It will also make the VAT system friendlier to small enterprises by introducing opt-in clauses for voluntary registration applicants for VAT while raising the VAT entry threshold, and by adopting a risk-based compliance management system. Those measures will complement the ongoing efforts by TRA to improve efficiency in processing VAT refund claims by strengthening tax assessment and audit capacity, in order to gradually align the national tax incentives system (including SEZ incentives) with the approved EAC Incentives Policy.

Pillar II: Improving the Functioning of Factor Markets (Labour, Land, and Capital)

Component II-1: Modernizing labour laws and enhancing skills development

37. Tanzania's private sector suffers from an inadequate quantity and quality of skilled and semi-skilled labour, a constraint that will become increasingly important when new industries, such as oil and gas and power, develop. According to the World Bank's Enterprise Survey 2013, 41 percent of firms identified the inadequately educated workforce as a major constraint (Sub-Saharan Africa was 26 percent). In spite of recent progress, the labour force remains largely uneducated: less than five percent of Tanzanian youth entering the labor market have reached beyond ordinary level ("O-level") education. Technical and vocational training programs are underdeveloped and only a handful of firms offer on the job training. The development of new industries (such as natural gas and its related value chains) will imply a rapid increase in demand for highly qualified domestic and foreign workers, further straining the market for such limited skills.

38. The labour market suffers from ineffective policy and institutional frameworks that prevent labour formalization and efficient reallocation of workers among sectors and industries. Again according to the World Bank's Enterprise Survey 2013, 32 percent of firms classified labour regulations as a major constraint (Sub-Saharan Africa was just 12 percent). The BRN BE Lab has emphasized the need to address labour market policies, laws and regulations on at least two key aspects: facilitating employability (both self and wage employment), labor productivity and competitiveness of the domestic labor force that includes

rationalizing the use and access of, as well as reducing the Skill Development Levy (SDL) to finance all levels of skills development and training, and enhancing flexibility and effectiveness in hiring procedures for workers that also include processing of work permits for foreign workers to fill scarcity in skills and rare professionalism in the domestic labor market. Complexity and restrictiveness in hiring procedures is evident in the case of foreign workers. Eight laws govern the issuance of work permits in case skills are not available on the local market. Local hires are also hampered as the current Employment and Labour Regulations Act (ELRA) limits fixed-term contracts only for professional and managerial cadres and does not allow voluntary agreements for employees to work during their schedule leaves when there is a temporary increase in work demand. There are also complex procedures for redundancy dismissals. Furthermore, formal workers are subject not only to mandatory social contributions but also to a 5 percent SDL, which only partially funds skills training programs. Currently, the revenue from SDL does not facilitate Employers' needs for skilling and re-skilling of their employees to enhance productivity and innovativeness, nor it facilitates training for unemployed labor force in the market for enhancing their employability and labor market competitiveness. The combination of these restrictive policies provides a disincentive to use formal labour and as such to train and retain skilled workers. Upgrading and modernizing labour laws will serve as an attraction to investors and help Tanzania develop the quality and quantity of trained workers.

39. In this regard, the Government intends to improve the legal and regulatory framework by (i) consolidating and simplifying

employment provisions (for citizens and non-citizens) and (ii) reducing the burden on the private sector to hire formal workers; and (iii) improving the delivery mechanism of workforce training in the private and public sector. The Government's reform program includes the following actions:-

(1) The Government has submitted to the Parliament: (i) a bill to amend the "Employment and Labour Relations Act" (ELRA); and (ii) a bill to enact the "Non-Citizen Employment Act." The bill to amend the ELRA (submitted to the Parliament in February 2015) (i) broadens the scope of fixed-term contracts beyond professional and managerial cadre; (ii) requires all employment contracts to be in writing; and (iii) introduces flexibility for workers to respond to temporary surge in labour demand. The bill to enact a "Non-Citizen Employment Act" (which was passed by the Parliament in March 2015 and signed by the President) is expected to create a single law to integrate the governance of work permits for non-citizens, improving the accountability of the overall system. The submitted bill has incorporated existing requirements for issuing work permits to non-citizens present in the National Employment Promotion Service Act (NEPSA), including a requirement to ensure that work permits are issued to non-citizens only after all national hiring options are exhausted and that a training program for local workers is provided by employers of non-citizen workers (a "succession plan"). **While the final version of the bill as adopted by the Parliament and signed by**

the President as an Act, it does not include any substantive changes from the bill that was submitted to the Parliament.

(2) Going forward, the effectiveness of the Non-Citizen Employment Regulation Act 2014 will depend on the implementing arrangements, which will have to be efficient and transparent to minimize the burden for potential employers and improve labour market outcomes. While the Act centralizes the power for issuing work permits to the Labour Commissioner, it preserves the previous complex key procedural requirements (in terms of documentation) and it may impose implementation challenges unless the capacity of the MoLE is increased. Therefore, it is important that regulations be prepared in such a way as to not increase transaction costs for the private sector and starts preparing for future amendments to further streamline the documentary process for issuing work permits. In this regard, MoLE has already started preparing regulations to implement the Non-Citizen Employment Regulation Act. In addition, the Government will adopt a comprehensive strategic framework for skills development to enhance industrial and labor productivity, including sustainable financing mechanisms, providing guidelines for in-service training, private sector participation in vocational training and business process innovation, and setting the stage for the reform of the SDL.

Component II-2: Strengthening land administration and simplifying property registration procedures

40. Weak land administration, in particular the uncertainty in land tenure, continues to constrain access to formal ownership. Undocumented property rights make enterprises and individuals vulnerable to losing their land and delay their investment plans. The lack of secure property rights reduces access to long-term financing as mobile assets cannot be used as collateral for borrowing from financial institutions. It also contributes to increased transaction costs as parallel channels have to be used to acquire and secure land property rights. More generally, improving the land governance environment is central to preserving livelihoods of the population, especially the most vulnerable, in both rural and urban areas.

41. Current processes for obtaining land titles are burdensome, costly and overly centralized. Documentation requirements are onerous and outsized fees are assessed at various stages of the process. Official land titles are currently only issued in Dar es Salaam, increasing the cost for citizens living in other regions and in remote villages. In addition, several recent studies (including the Doing Business report) have shown that the cost of notarisation and executing a sale agreement is significant (averaging 3% of the property value), the main driver of it being the legal fees that individuals must incur to make sure that a contract is legally sound. However, according to the existing Tanzanian Land Laws and regulations, individuals have an option of using standardised contracts for completing the same process. This is a cost effective option (if chosen by transaction parties), especially for simple, low-value transactions that are common amongst most Tanzanians.

42. In this regard, the Government's reform program includes the following policy actions:-

(1) The Ministry of Lands, Housing and Human Settlements Development (MLHHSD) has set up a desk at its Dar es Salaam Zonal Land Office to offer a service for notarizing and executing sales agreements for the transfer of properties based on a standardized contract, and has made a public announcement on the availability of such optional service. The desk has been set up in April 2015 and will promote use of the standardized contract (as attached to the Land Act), which is expected to reduce the high cost that private parties currently incur by going to private lawyers. This initiative has been started in Dar es Salaam on a pilot basis with a view to expand to other Zonal Offices and even to District Offices if proven effective, with the aim of bringing land administration services closer to citizens.

(2) Going forward, the issuance by TRA of the capital gains tax clearance certificate required for obtaining land title will be expedited through a set of measures (to be identified by the authorities).

Component II-3: Improving access to finance

43. Access to finance is a major constraint for the majority of businesses operating in Tanzania. The amount of credit extended by the formal banking sector to private sector is only 20 percent of GDP, and highly concentrated in a few enterprises and sectors. While firms have access to semi-formal forms of finance (e.g., micro-finance,

village funds, etc.), those sources remain underdeveloped. The recent Enterprise Survey 2013 by the World Bank indicates that only 18.5 percent of firms in Tanzania use the formal banking system to finance investments, while more than 80 percent can only count on their own source of financing or those from within their households.

44. Although access to finance is a crosscutting constraint for all businesses, policy reforms need to address the specific credit needs and capacities of different borrowers. These range from large firms, which have well-established credit histories and stable financing arrangements with the large commercial banks; to MSMEs, which generally must deal with the smaller community banks and face higher borrowing costs and collateral requirements; to entrepreneurs and household enterprises, that usually rely on microfinance or mobile financial services (MFS).

45. The Government's reform program in this area focuses on the constraints faced by MSMEs and household enterprises with the objective to make access to finance more inclusive. For household enterprises, which rely predominantly on mobile-based financial services, the reform priority is to regulate these services so as to improve consumer rights and protect and facilitate future borrowing opportunities. Tanzania has witnessed an unprecedented boom in MFS in recent years from 1 percent of the adult population in 2008 to 90 percent in 2013. Although clearly beneficial from a financial inclusion perspective, the proliferation of such financial services exposes consumers to greater potential for rights abuse if they remain unregulated. The establishment of a robust legal, regulatory, and oversight framework for MFS is therefore critical to preserving

user trust in these services and preventing a reversal in the progress made on financial inclusion. Moreover, it would encourage households to feel safer in using MFS for saving and borrowing (rather than predominantly for simple money transfers), thus helping them to build credit history and obtain financing on better terms than they would otherwise receive from informal lenders.

46. The other proposed policy measures focus on expanding the sources of available collateral for MSMEs and reducing the risk aversion of lenders through improved credit information. While several pieces of legislation on collateralized credit activities exist in Tanzania, when combined, they do not provide an effective secured transactions' framework. The country also lacks a well-functioning collateral registry: although one already exists for both movable and immovable assets, it is manually operated and not backed by a law that allows for the efficient enforcement of creditor rights. The BoT, with the assistance of the USAID, has prepared a Concept Paper on improvements to the legal framework for secured transactions and the operations of the collateral registry, which was approved by the BoT management in March 2015 and which will pave the way for the drafting of the Secured Transactions Bill and its submission to Parliament. Furthermore, the incompleteness and inconsistent quality of financial information submitted to the BoT's Credit Reference Databank continues to undermine lenders' ability to assess borrower creditworthiness and prompts them to charge high risk premiums to compensate.

47. Specific policy actions in the Government's reform program include the following:-

(1) The Government has created a unified legal framework for payment systems by submitting to the Parliament a bill to enact the "National Payments Systems Act". The National Payment Systems Bill was approved by Parliament on March 23rd, 2015 and signed by the President as an Act in May, 2015. The NPS Bill represents the first comprehensive legal framework regulating electronic (including mobile) money issuers, and it covers bank, non-bank and non-financial institutions. The Bill establishes the requirement for all electronic money issuers to be licensed and regulated – for electronic money transactions by the BoT. In addition, providers will be required to submit in electronic form to the BoT the names of all subscribers and users of the electronic money service, and to audit and publish financial statements in respect to the electronic money funds.

(2) Going forward, following the NPS Act, the BoT will issue the Electronic Money Regulations inclusive of requirements on effective disclosure in agent operations and dispute resolution mechanisms. Such regulations would complete the regulatory framework for the MFS with a view toward promoting innovations in financial services delivery channels without compromising the integrity, safety and efficiency of payment systems. The regulations will also reflect comments to the bill to enact the "National Payments Systems Act" that have been submitted by the World Bank to BoT received only after the approval of the bill. In addition, the Government will

submit the Secured Transactions Bill to Parliament, based on the approved Concept Paper, as an initial step to simplify the process of pledging land as collateral. The ultimate goal is to establish an electronic registry for movable collateral, including certificates of customary right of occupancy (CCROs) to be administered by BoT.

Pillar III: Establishing an Enabling Environment for Competitive, Job-Creating Industries (in Particular for Agribusiness and Tourism)

Component III-1: Agribusiness

48. Transformation of the agribusiness sector is critical to Tanzania's economic growth and development. The agricultural sector in Tanzania mainly consists of traditional crops (maize, beans, cassavas) but there is an increasing diversification toward more value added products (vegetables, horticulture), notably in the Arusha area. Tanzania also has strong potential in meat and dairy products (as well as leather) since the country is host to the third largest livestock in Sub-Saharan Africa. With a long coast and several big lakes, the fishery sector has a good potential for job creation if supported by an appropriate regulatory framework.

49. Tanzania's agribusinesses sector faces several challenges pertaining to upstream markets, the high cost of infrastructure access and burdensome regulatory regimes. In order for agribusiness to develop and become competitive some key constraints affecting the agricultural markets needs to be addressed upstream, including: poor connectivity between farms and markets,

multiple, heavy and inconsistent policies, and low quality products by international standards.

50. To promote the development of agribusinesses, the Government takes a targeted and sequential approach on three specific reform areas: agricultural taxation, rural transport, and standards. The first two areas tackle upstream constraints affecting the agricultural markets and reduce the cost of inputs and facilitate market access. The third area focuses on removing specific regulatory burdens affecting food producers, including removal of overlapping competences between agencies and a reduction in the cost of doing business.

51. The first reform focus to remove bottlenecks to agribusiness growth in Tanzania is to resolve the current tax system of agricultural cess. Today, farmers are penalized by the cess tax that is collected by local governments on the value of traded merchandise. The Government had committed to eliminate this tax by July 2013 but failed to do so mainly because of the resistance of local governments. In the meantime, the BRN BE Lab has adopted a shortened list of legislative amendments for rationalization of taxes, fees, and levies, including produce cess. A study to access efficiency of produce cess has been commissioned by the Prime Minister's Office Regional Administration Local Government (PMO-RALG) and the Ministry of Agriculture, Food, and Cooperatives (MoAFC) with support from USAID. The study was completed with a set of recommendations to rationalize the cess system and improve efficiency of its administration.

52. The Prime Minister's Office (PMO) is currently preparing a Cabinet Paper on investor incentives in the agriculture sector, which specifically focuses on produce cess and land rent. The above study has identified that the revenues collected by the local governments are in the range of US$ 20 million per year. This amount could be replaced by allocating only 0.3 percent of total tax revenues collected by the Central Government. Given the high costs associated with the cess tax, its full elimination should be envisaged together with the earmarking of alternative revenues to affected local governments. Given the need for further consultations with relevant stakeholders, the Government has decided not to take specific reform actions before the general elections. Going forward, the GoT will adopt and implement an action plan to rationalize agricultural cess and institutionalize a monitoring mechanism for implementation of reforms on agricultural cess and other taxes and levies on agribusiness imposed at the district level.

53. The second area of reform is to improve access to markets by supporting the Government's effort to improve efficiency of rural agricultural transport through transparent implementation of its rural road policy. Only 7 percent of Tanzania's roads are paved, one of the lowest in SSA. Trunk roads are at present only 42 percent paved, regional roads much less (4 percent), while nearly all of LGA roads (Feeder, District, and Urban Roads) are unpaved. Road condition surveys show that more than 90 percent of trunk roads are in either good or fair condition (passable all year) while the proportion for LGA roads is less than 60 percent. The 2014 CEM on productive jobs as well as the joint Growth Diagnostics Study by the Governments of Tanzania and the United States have emphasized

that limited and poorly maintained rural roads are a critical impediment for the development of commercial agriculture. Many Tanzanian farmers have limited access to suppliers and customers markets. This DPO series will support the GoT's implementation of its rural road policy as encapsulated in the Tanzania Transport Policy as well as in the Five Year Development Plan. As an operational vehicle, the Government has developed the Local Government Transport Program (LGTP) Phase II. However, the program has not been effectively implemented due to lack of financing. The Government's reform program includes the following actions:

(1) Government has improved transparency in its resource allocation for implementing rural transport policy by creating new a new budget line specifically for rural road development. A budget allocation of Tsh 25.9 billion has also be committed for FY2015/16 development expenditures, specifically dedicated to rural roads development under the PMO-RALG budget, thereby improving transparency in resource allocation to finance quality improvements of existing LGA roads.

(2) Going forward, the Government will make a further effort to improve transparency and effectiveness in its implementation of rural transport policy by reporting on its screening of rural agriculture transport infrastructure investments using the Public Investment Management Operational Manual (PIM-OM) prepared by POPC in 2014 as well as a new rural road management manual to be adopted.

54. The third area of reforms focuses on streamlining the regulatory process to ensure quality and hygiene standards for food products. While regulations for standards and safety of food products are important to ensure the people's health and can improve quality of products in the domestic and global markets, excessive levels of regulation increase the cost of doing business and negatively affect industry competitiveness. In Tanzania, there are overlapping responsibilities between the administration of food safety standards by the Tanzania Food and Drug Authority (TFDA), under the Ministry of Health and Social Welfare, and by the Tanzania Bureau of Standards (TBS), under the Ministry of Industry and Trade. The excessive uncoordinated regulations act as a non-tariff barrier, reducing trade and job creation by perhaps as much as 5,000 direct jobs per annum. The Government will adopt and implement the National Food Safety Policy and associated Acts and Regulations to rationalize the mandate of the two institutions involved in enforcing food standards. The Policy will be aligned with comprehensive harmonized EAC food safety measures that are being finalized to promote food trade within EAC.

Component III-2: Tourism

55. Tourism is a significant contributor to Tanzania's economy; yet the sector has not developed its full potential. In 2013, tourism contributed 12.9 percent of GDP (US$ 4.1 billion). It is now the largest source of foreign exchange (US$ 1.88 billion in 2013) after overtaking gold exports and the third largest recipient sector of FDI. In 2013, 1,095,884 international tourists visited Tanzania. According to the URT Economic Survey 2013, direct tourism industry employment was 3.8 percent of total employment in 2013 or

about half million direct jobs. Tanzania ranks 109th out of 139 countries on the World Economic Forum's Travel & Tourism Competitiveness Index. This is despite having Serengeti, Kilimanjaro, and Ngorongoro and ranking 4th in the world on natural resource endowments. The sector remains heavily focused on the popular wildlife-based Northern Circuit. Diversification into new products, expanded geographic areas and diverse markets would offer greater opportunity for actualizing maximum job potential. It will also decrease growing pressure on specific natural assets.

56. The Government' will modernize tourism-related policy and legislation to build a diversified and competitive tourism sector by streamlining the system of taxes and licenses in the sector. It was revealed that Tanzania current policy and regulatory framework on tourism does not reflect good practice necessary for the economy to benefit fully from this sector. Tourism Business Operators complain about multiplicity and the unpredictable nature of taxes, levies and fees collected from the tourism sector, which are an excessive burden for many operators, discouraging further investment and job generation. An inclusive inventory of all these taxes and levies will be a pre-requisite to design and implement an action plan to eliminate redundancies and excessive burdens. Such task should be conducted - as initiated in the recent BRN Lab - through a close collaboration between the private and public sectors.

57. The Government will also develop a strategy to diversify the sector to build its strength. The tourism Master Plan was issued in 2002: since then, the sector has lacked a comprehensive tourism strategy to guide strategic policy. As a result, Tanzania is lagging

behind its neighbours in terms of offering good price/value for a variety of tourism products which are in demand - beyond the heavy reliance on wildlife tourism. The sector can generate jobs as it develops diversified products in beach, adventure, conference and cultural heritage tourism, diversifying beyond the current low-volume high-value (LVHV) strategy and away from the congested wildlife-based Northern Circuit.

58. The Government's reform program in this area includes the following actions:-

(1) The MNRT has published on its website a comprehensive list of public charges (licenses, permits, taxes, levies, fees, excises, etc.) applicable to the tourism sector. The World Bank Group prepared a comprehensive list of taxes and other public charges in the tourism sector as part of their ongoing study on taxation in the tourism and agribusiness sectors, and in line with the BRN process. The list was validated through a public-private stakeholders' workshop held on April 24, and the final version has been published on the MNRT's website.

(2) Going forward, based on the list created under the DPO-1, the Government will initiate a process to streamline licenses, permits, taxes, levies, and fees charged to the tourism sector. The process, led by MNRT, should be based on the private sector's participation, and should be coordinated with the broader business licenses streamlining effort led by the newly created Regulatory Licensing Reform Committee (RLRC), as discussed in

Pillar I. In the longer term, the GoT aims at creating and approving a National Tourism Development Plan in order to fully catch the economic and job creation potential of the sector.

IV. CONCLUSION

59. The Government welcomes the new program on Business Environment and Jobs Development Policy Operation and is looking forward to working with the World Bank to increase the job creation potential of the Tanzanian private sector by reducing the overall cost of doing business and creating enabling environment for selected labor-intensive industries in view of achieving the development goals set out in the MKUKUTA and Five Year Development Plan.

Dr. Servacius B. Likwelile
PERMANENT SECRETARY - TREASURY

ANNEX 3: FUND RELATIONS ANNEX

Press Release No. 15/320
July 6, 2015

The Executive Board of the International Monetary Fund completed today the second review of Tanzania's economic performance under the program supported by the Policy Support Instrument (PSI).

The PSI for Tanzania was approved by the Executive Board on July 16, 2014 (see Press Release No. 14/350). Tanzania's program under the PSI supports the authorities' medium-term objectives. These include: the maintenance of macroeconomic stability, the preservation of debt sustainability, and the promotion of more inclusive growth and job creation.

Following the Board discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"Macroeconomic performance in Tanzania remains strong and medium-term prospects are favorable. Performance under the Policy Support Instrument was satisfactory through December 2014, but weakened in early 2015 due to a range of factors, including delays in mobilizing external financing and donor support. Against this backdrop, the authorities' corrective measures aimed at achieving the 2014/15 budget deficit target are commendable, though earlier expenditure ceiling adjustments could have helped preserve development spending.

"The draft 2015/16 budget, which targets an underlying deficit of 3.5 percent of GDP (excluding arrears clearance), is built on more prudent revenue and foreign financing assumptions. The fiscal target also puts Tanzania on a path to a 3-percent deficit over the medium term, which is consistent with maintaining a low risk of debt distress.

"The authorities' plans to address verified domestic supplier arrears transparently through the budget are welcome. Commitment controls on expenditures and related sanctions for breaching rules need to be strengthened to ensure new arrears do not accumulate. The strategy to address arrears to pension funds needs to be finalized quickly to allow for clearance of these arrears in 2015/16.

"The current monetary policy stance is appropriate, delivering high growth and low and stable inflation. The use of foreign exchange intervention should be restricted to smoothing volatility in the foreign exchange market, with higher reliance on domestic-currency instruments to address excess liquidity situations."

ANNEX 4: MAP OF TANZANIA