Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 12-May-2018 | Report No: PIDISDSA20536

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Tanzania	P161355	Tanzania Financial Inclusion Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	14-May-2018	28-Jun-2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	MINISTRY OF FINANCE	BANK OF TANZANIA	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to expand responsible access to finance for MSMEs and improve capacity for regulators, financial institutions and enterprises. The operation will have a gender focus to address the specific inclusion and access constraints faced by women in Tanzania.

Components

Improving Access to Credit for MSMEs
Capacity strengthening for MSMEs, PFIs and financial service providers
Development of infrastructure for financial inclusion
Enhancing policy, legal, regulatory framework for financial sector, consumer protection and public awareness
Project Management

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	150.00
Total Financing	150.00
of which IBRD/IDA	150.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	150.00
IDA Credit	150.00

Environmental Assessment Category

F-Financial Intermediary Assessment

Decision

The review did not authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The United Republic of Tanzania, the sixth largest economy in Sub-Saharan Africa (SSA), is greatly endowed with assets that provide unique economic opportunities**. It is endowed with abundant and diverse natural resources, both renewable and non-renewable, providing the basis for current and future economic development and people's livelihood.

2. **Tanzania's high socio-political stability since its independence has provided a solid foundation for economic growth**. Recent economic developments have been favorable with stable growth at an average rate of 6.5 percent per annum over the past decade. However, economic growth recently softened, with the rate declining to 6.8 percent in the first half of 2017, compared to the figure of 7.7 percent recorded in the same period in 2016. Gross Domestic Product (GDP) growth is projected at 6.9 percent for FY 2016/17[1] compared to 7 percent in the previous year. The decline in growth is mainly attributable to under-execution of the national budget and the decline in private sector sentiment; and slow credit growth (2 percent as of January 2018 compared to 5% in January 2017 and 25 percent in the same period 2016). Despite the softening, at these growth levels, Tanzania is amongst the strongest performers in the region.

3. **Tanzania is close to the middle-income country (MIC) level of per capita income and now needs to go an extra mile to achieve this status**. The per capita Gross Domestic Product (GDP) of Tanzania today is around US$1,000. Tanzania Development Vision (TDV) 2025 aspires for a middle-income status with high quality livelihood; peace, stability and unity; good governance; a well-educated and learning society; and a competitive economy capable of producing sustainable growth and shared benefit.

4. **This aspiration, however, is challenged by the turbulent global economic environment, the mounting pressures on employment from population growth, and the growing risks from climate change**. Climatic variability is a significant economic threat because Tanzania depends on climate-sensitive activities. About 70 percent of recent natural disasters have been associated with climate change; and the economy is increasingly affected by prolonged droughts, severe storms and floods, and rising temperatures, which have cost more than 1 percent of GDP. The Government of Tanzania has committed to supporting adaptation activities in water, agriculture, health, land use, land change and forestry, the environment, energy, and urban and social development—and recognizes that it needs to build capacity.

5. **The current administration, which took office in October 2015, embarked on sweeping measures to strengthen fiscal management and address corruption.** Upon assuming office, the Government undertook immediate measures to increase tax collection and eliminate wasteful public spending by cutting down non-priority government expenses: domestic revenue collection increased to 15.3 percent of GDP over the year, about one percentage point of GDP higher than in 2015/16, with the increase supported by Government measures to control tax exemptions and to prevent tax evasion and corruption. On the expenditure side, recurrent expenditures were reduced to about 11 percent of GDP, down from the figure of 14-15 percent recorded in the previous year.

6. **The new Five-Year Development Plan (FYDP) 2016/17-2021/22 "*Nurturing Industrialization for Economic Transformation and Human Development*", approved by the Government in June 2016, focuses on accelerating structural transformation to move Tanzania into a semi-industrialized economy.** Following the second National Strategy for Growth and Reduction of Poverty and within the global objectives set by the TDV 2025, FYDP II has a dual focus: accelerating growth and promoting human development.

7. **The FYDP II specifies that the private sector remains the engine of growth, poverty reduction and the driver of economic transformation**. Improvement of the business and investment environment is one of the priorities identified by the government. FYPD II also states that including smallholder farmers, micro and small businesses in the growth process is an effective means to achieving inclusive growth. Specifically, FYDP II calls for linking MSMEs to large-scale enterprises in priority sectors, boosting efficiency of small enterprises and improving quality.

Sectoral and Institutional Context

Tanzania Financial Sector Overview

8. **Tanzania's financial system is rather shallow, with the financial assets to GDP ratio reaching only 41 percent.** The ratio of private sector credit to GDP stands at only 16 percent (2016), well below the average private sector lending to GDP ratio of 60-80 percent in other lower income countries (LICs)[2], which includes Kenya with ratio of 35 percent.

9. **The financial system comprises of regulated and non-regulated players.** Similar to other countries in the East African Community (EAC), Tanzania's financial system is a bank-centric one, in which banks contribute almost 70 percent of the total assets (equivalent to assets to GDP ratio of about 30 percent) (Table 1). The microfinance sub sector, which serves the majority low-income groups, especially women and people living in rural areas, is mostly unregulated.

10. The banking sector is crowded by the presence of a large number of heterogeneous players (53 banks of different sizes, business models/specialization by clients or products and profitability), but at the same time highly concentrated. Two large banks currently control 40 percent of total bank assets.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to expand responsible access to finance for MSMEs and improve capacity for regulators, financial institutions and enterprises. The operation will have a gender focus to address the specific inclusion and access constraints faced by women in Tanzania.

[1] World Bank (2017). Tanzania Economic update; Managing Water Wisely: The urgent need to improve water resources management in Tanzania.

2 IMF: United Republic of Tanzania selected issues—macro financial issues; IMF Country Report No. 16/255.

Key Results

PDO level indicators:

The progress towards the PDO will be measured by the following indicators:

- Number of new MSME borrowers financed by PFIs under the project (cumulative, disaggregated by gender, area of residence/operation, new/existing borrower etc.)
- Volume of Bank support (cumulative, US$ million)
- Number of PFIs participating in the project
- Number of MSMEs which implemented priority actions of the capacity-building program (cumulative)
- Assessment of supervisors against international standards/best practices

D. Project Description

The project is proposed to be structured around five components which include:

- Line of Credit for MSMEs;
- Capacity Strengthening for MSMEs, PFIs and other financial Services Providers;
- Development of Infrastructure for Financial Inclusion;
- Access to Finance Policies and Prudential and Market Conduct Regulation and Supervision; and
- Project Management, Outreach and M&E.

Component 1 – Line of Credit for MSMEs. Under this component, debt denominated in local currency will be provided to eligible financial intermediaries to on-lend to creditworthy MSMEs. GOT will pass on the LOC funds to BOT in local currency. BoT will on-lend the funds[3] to banks and financial institutions (henceforth participating financial institutions - PFIs) to help them finance and refinance eligible MSME loans. In addition, BoT will on-lend funds to PFIs to on lend to MFIs for them to finance or re-finance MSMEs. BoT will assume credit risk on PFIs, while PFIs will assume the full credit risk for all final borrowers and sub-loans that will be financed.

Component 2 – Capacity Strengthening for MSMEs, PFIs and other financial services providers. The value of Government and the World Bank intervention will be in creation of a demonstration effect by catalyzing the formation of a strong market for MSME finance and spurring competition in the segment. This requires addressing capacity challenges of MSMEs, PFIs and other financial services providers. The capacity of various microfinance services providers such as SACCOS, VSLAs, and VICOBAs and apex bodies will be

[3] Such funding could be debt or sub-debt subject to covenants on enhancing outreach, adopting good lending practices including on responsible lending

strengthened to ensure they are well coordinated and have the necessary ability and resources to serve the interest of their members and able to access financing from PFIs.

Component 3 – Development of Infrastructure for Financial Inclusion. The interventions financed under this component aim to facilitate access to financial services by reducing barriers and/or by contributing to reduce the final costs of financial products available for final users through development of the infrastructure for boosting uptake of retail payments, improving governance, monitoring and coordination of government funds and programs, and infrastructure for risk-based supervision of the microfinance sector.

Component 4 – Access to finance policies and prudential and market conduct regulation and supervision. This component will provide support for building an enabling environment for financial inclusion and increased access to finance for households and microenterprises through strengthening the legal, regulatory and oversight framework for the financial sector and improving capacity of supervisory authorities.

Component 5: Project Management, Outreach and Monitoring and Evaluation. This component would finance all the costs pertaining the Project Implementation Unit (PIU) within implementing entity including costs related to fiduciary and safeguards aspects; communication and outreach of the project, and monitoring and evaluation (M&E). The component will also aim to build awareness among potential beneficiaries of the MSME credit line about the terms of the program, requirements to participate and potential benefits.

E. Implementation

Institutional and Implementation Arrangements

Project Institutional and Implementation Arrangement

The United Republic of Tanzania through the MOFP is the borrower, and the project's activities will be implemented by the BoT, who will manage the project and administer the line of credit on behalf of the MOFP. BoT will sign Project Agreement with IDA. BoT will be administering all components of the project including. The LOC will be administered through an apex arrangement. BoT has great experience of implementing World Bank projects and is familiar with Bank project designs, fiduciary and safeguards arrangements (including through the Private Sector Competitiveness Project and the Housing Finance project which uses an Environment and Social Safeguards Management Framework, ESMF, which will be updated/adapted for the purposes of this project).

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The exact location of activities under component 1 – Improving Access to Credit for MSMEs will not be known until project implementation. Clear guidance for sub-loan eligibility application will be detailed in the ESMF and Project Operational Manual.

G. Environmental and Social Safeguards Specialists on the Team

Mary C.K. Bitekerezo, Social Safeguards Specialist
Jane A. N. Kibbassa, Environmental Safeguards Specialist
Ekaterina Romanova, Social Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	This policy is triggered given that sub-loans granted under the credit line component can have potential (adverse) environmental risks and impacts in its area of influence. ESMF has been prepared and will comply with national EIA regulations which outline the environmental screening process to be applied to sub-projects implementation.
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	Any sub-project that would trigger the policy will not be funded
Forests OP/BP 4.36	No	Any sub-project that would trigger the policy will not be funded
Pest Management OP 4.09	No	No sub-projects involving an increased use of pesticides will be funded under FIP
Physical Cultural Resources OP/BP 4.11	No	It is expected there will be no impact on physical cultural resources. Any sub-projects that would have negative impacts on physical cultural resources would not be funded.
Indigenous Peoples OP/BP 4.10	No	Any activities that could affect disadvantaged communities located in land and territories

		traditionally owned, or customarily used or occupied by such communities, are excluded
Involuntary Resettlement OP/BP 4.12	No	Under component 1, no credits will be given to activities that will require involuntary land acquisition or displacement of existing occupants or economic users of any plot of land, regardless of its current ownership, or loss of, or damage to any assets. The ESMF sets clear selection criteria for the credit line to MSMEs under Component 1.
Safety of Dams OP/BP 4.37	No	FIP will not be funding subprojects for construction or rehabilitation of dams
Projects on International Waterways OP/BP 7.50	No	FIP will not fund any subproject that will have an impact on international waterways
Projects in Disputed Areas OP/BP 7.60	No	Although Tanzania is a peaceful country, FIP will not fund any subprojects located in potentially disputed areas

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project has been categorized as FI, as it will work with Financial Intermediaries to extend a credit line to MSMEs.

The majority of subloans are expected to be for micro and small enterprises with average loan size of about US$ 500 and US$10,000 respectively. In the case of medium enterprises, larger investment loans (averaging US$ 50,000) could be demanded. For small to medium enterprises taking, most will likely take loans for scaling up production, purchasing or renovating existing facilities rather than for green field investment. The fund to be borrowed indicates that projects to be implemented will be small scale with minimum environmental impacts generally site-specific, largely reversible, and readily addressed through mitigation measures. Such projects are expected to range from expansion of agriculture, small businesses which include selling cereals and milling, food processing, iron smiths, small to medium construction and education projects. Such projects are expected to have minimum impacts which might be associated with removal of vegetation, excavation of earth soil, soil and water pollution, emissions of green house gases, oil and diesel/petrol spillage, processing of hazardous chemicals and noise, to mention few.

All of the above impacts, at small scale are highly reversible and can be mitigated by employing mechanisms such as replanting of trees and vegetation for the project which will involve removal of vegetation, using proper containers to collect oil or diesel to avoid spillage, low use of pesticides and herbicides for agricultural projects, avoid use of other hazardous chemicals and use of noise absorbers in cases where noise will be detrimental. Social issues will be mitigated by ensuring stakeholders consultations is adequately conducted, and GRM is put in place. The hot line will be available to beneficiaries and other interested parties to submit their inquiries and grievances on issues related to project activities. A regular review of the hot line log and performance will indicate how activities are implemented and of any issues arising.

The project will support sub-projects of environmental category B and C, and no sub-projects in environmental category A will not be eligible for funding. Moreover, the project will not finance sub-projects which may have impacts on natural habitats and sub-projects involving land acquisition. On-lending to PFIs the Project will be subject to an Exclusion List of Activities (ELA). The ELA activities are prohibited for WBG lending, including IFC's exclusion list.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

Since the specific investments under the project will not be identified until project implementation, an Environmental and Social Management Framework (ESMF) is prepared under the scope of the Operational Manual to provide guidance regarding environmental review procedures.

The BoT will manage the project and administer the line of credit in accordance with this EMSF, World Bank Safeguard Policies the National policy, legal and regulatory frameworks. Consequently, it will be responsible for: (i) ensuring that all activities (including procurement related activities) that have the potential to have E&S risks are managed according to relevant laws, the World Bank Safeguard Policies and the ESMF. In case of procurement related activities, BoT will ensure that other implementing agents develop TORs that adequately reflects the need for E&S risks management and these risks are appropriately managed during implementation the consultancies; (ii) designating a staff member who are accountable for implementing the ESMF supported with qualified E&S expertise (potentially through external consultants) throughout the duration of the project (ii) ensuring that contracts with PFIs include clear covenants on the E&S risks management. PFIs will be required to ensure they mainstream those requirements in their engagement and agreements with MSMEs; (iii) in the case of refinancing, the BOT will assess to ensure that the refinanced portfolios meet E&S requirements prior to approving loans to PFIs; and (iv) monitor loan portfolios ex-poste to ensure that PFIs portfolios are in compliance with E&S requirements.

Staff who will be appointed to the PIU in the BOT to administer the line of credit, the capacity building components, and monitor the project have to have the necessary skills in Environmental and Social Management. Training in environmental management will be delivered. Training topics may include an overview of environmental issues within the FIP, introduction to EIA processes and methods, impact analysis, EIA review, the role of the public and stakeholders, EIA experience in Tanzania, and case studies. In addition, BOT will appoint or hire a dedicated staff with expertise in E&S risk management.

The responsibility of the PFIs will be to ensure that: (i) projects for requested loans have been properly screened; (ii) the required environmental permits have been obtained by the borrower prior to issuing a loan; (iii) the borrower is compliant after issuing the loan. The PFIs will be responsible for identifying and managing safeguards risks in line with the national environment and related social laws and the requirements of this ESMF. The National Environment Management Act of 2004 has a clear stipulation on projects which require EIA and those that do not require EIA, with clear screening criteria. PFIs will also use WB E&S screening criteria, which will be included in the agreements between the BoT and the PFIs. PFI's are required to appoint a designated staff member who is accountable for implementing the PFI E&S requirements (although responsibilities may be assigned to a qualified, external consultant). PFIs will train MSMEs on E&S risks and management practices and ensure closely following up compliance with E&S requirements during the duration of the loan.

According to the National Environmental Law, the borrowing MSMEs have the responsibility of making sure they comply with the environmental laws and in the case of construction, borrowers must get the right permits in advance of banks issuing the loans.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

22 stakeholders were consulted in Dar es Salaam to get their views and concern about the project. These included banks and financial institutions, microfinance institutions and NGOs, MDAs, and other key stakeholders.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
30-Apr-2018	11-May-2018	

"In country" Disclosure

Tanzania

11-May-2018

Comments

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?

No

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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APPROVAL

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