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Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 08-Nov-2016 | Report No: PIDISDSC19789

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Tanzania	P161355		Tanzania Financial Inclusion Project (P161355)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Oct 16, 2017	Nov 30, 2017	Finance & Markets
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 improve financial inclusion in Tanzania and expand access to credit for MSMEs. The operation will have a gender focus to address the specific inclusion and access constraints faced by women in Tanzania.

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	150.00
Total Project Cost	**150.00**

Environmental Assessment Category	Concept Review Decision
F-Financial Intermediary Assessment	Track II-The review did authorize the preparation to continue

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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**. As a coastal economy bordering eight countries, Tanzania has a strong advantage in terms of its location to be a regional trade hub. It is also 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. The dispersed location of untapped high-quality agricultural lands benefits agriculture and generates high potential for future development of the sector. Tanzania is also endowed with a variety of mineral resources, including gold, diamonds, and gemstones, as well as large natural gas deposits.

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. Gross Domestic Product (GDP) growth is projected at 6.9 percent for FY 2016/17. Economic expansion has been driven by several fast-growing sectors, namely communication, financial services, and construction. More recently there has been a surge in manufacturing, in particular agro-processing and basic metal industries, as well as retail trade. By contrast, agriculture - the sector upon which about 73 percent of households depend as their primary economic activity - has shown continuous slow growth performances.

3. **Poverty and inequality in Tanzania started to decline since 2007**. After a long period of stagnation, the national poverty headcount declined to 28.2 percent in 2012, down from 34.4 percent in 2007; and extreme poverty declined from 11.7 percent to 9.7 percent. Nevertheless, despite some recent improvements, poverty is still prevalent in Tanzania (about 12 million people still live below the poverty line), making the country one of top 10 countries in the world with largest size of the poor population, and top 4 in SSA, based on the international poverty line. A large share of the population is clustered around the poverty line and is highly vulnerable to fall into poverty.

4. **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 statu**s. 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. 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.

5. **The new administration, which took office in October 2015, embarked on sweeping measures to strengthen fiscal management and address corruption**. Upon assuming office, the newly-elected President Magufuli undertook immediate measures to eliminate wasteful public spending by cutting down non-priority government expenses. He also succeeded in the effort of rapidly increasing tax collection: Tanzania has passed from collecting TZS 10.7 trillion (US$ 5 billion) in financial year 2014/15 to TZS 13.3 trillion (USD 6.2 billion) in 2015/16.

6. **The new Five Year Development Plan (FYDP) 2016/17-2021/22, 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.

Sectoral and Institutional Context

7. **Similar to other countries in the East African Community (EAC), Tanzania's financial system is a bank-centric one, crowded by the presence of a large number of heterogeneous players, but at the same time highly concentrated**. The banking sector accounted for 71 percent of the total assets of the financial system in 2015 (see Table 1). It includes a large number of banks (58) of different sizes, business models/specialization (by clients or products) and profitability. This might possibly have led to an excessive market fragmentation and to a "layering" of intermediation (through significant inter-bank lending, from wholesalers to retailers), with the consequent increases in interest rates for the final borrower.

8. **While the banking system has grown significantly over the years, the top tier of banks remains weakly contested, resulting in relatively high profits and limited efficiency gains**. A significant asset concentration in two banks – representing 40 percent of total bank assets – and a geographical concentration of the commercial network in urban areas – with 50 percent of bank branches located in three main cities in a largely rural country – might be detrimental to a fairer and more intense competition and for facilitating access to the formal banking system. While large banks in Tanzania are able to generate significant profits, many small banks are not profitable due to lack of scale as well as limited capacity to make sound credit decisions. The level of NPLs greatly varies from bank to bank in Tanzania. Some banks have NPLs over 20 percent (with the industry maximum as high as 81 percent), while others have NPLs significantly below the average. Community and cooperative banks generally have high NPLs, well above the average.

9. **The banking sector not only remains small compared to other sectors of the economy, but it also reaches only a small fraction of the population**. Domestic credit to the private sector by banks is registered as only 15 percent of GDP and banking sector assets are only 30 percent of GDP. Only 17 percent of firms have a bank loan in Tanzania, compared to 23 percent in Sub-Saharan Africa and 35 percent worldwide. Only 19 percent of individuals had a bank account in 2014, slightly up from 17.3 percent in 2011, according to Global Findex. Similarly, Finscope (2013) also shows a low share of population who have/use bank product: only 14 percent, a small improvement from 9 percent in 2009. It is important to stimulate the use of formal banking products and services as their low usage impacts heavily on the level of savings mobilized domestically through the financial system, which in turn affects access to credit and investment by the private sector. The ultimate goal would be to ensure that the population transitions to the regulated financial system where it could save money, obtain credit, and benefit from a broad range of other services.

10. **Digital technology has provided a platform for cost effective delivery of financial services in Tanzania**. A large geographic area with poor connectivity made it difficult to make quick progress in the financial inclusion using traditional methods. Very low population density made viability of brick and mortar networks extremely expensive and financially unviable. The digital technology has succeeded in bridging the vast distances of a sparsely populated country, enabled much smaller thresholds for profitable service provision, enhanced convenience of service and reduced time for delivery. Not surprisingly, the growth of financial inclusion in Tanzania in the recent years can be almost fully attributed to the impressive growth of mobile money. According to Global Findex, more than 40 percent of Tanzanians had an account in 2014, and more than half of them have only a mobile one.

11. **While the results achieved by Tanzania are undeniably impressive, there is potential to continue building upon the digital technology and achieve even more progres**s. On the one hand, additional efforts need to be made to ensure financial inclusion of the "last mile consumers", given that these represent the more disadvantaged groups. On the other hand, financial inclusion needs to be deepened to increase the range of products and services used by the

population and promote competition.

Relationship to CPF

12. **The proposed project is consistent with the gaps identified through the Systematic Country Diagnostic (SCD) for Tanzania and the Twin Goals of the World Bank Group to eradicate extreme poverty and increase shared prosperity**. The recently completed SCD recognizes that one of the key bottlenecks for Tanzania to become a middle-income country is limited access to finance, including unmet needs for financial inclusion, gender gaps in access to financial services (including MFSs), and underdeveloped financial sector. As a result, the actions proposed as part of this project are fully aligned with the areas of intervention identified by the SCD, such as expanding credit to the poor and informal businesses, empowering them by improving their level of financial literacy, offering a broader variety of financial products and services, and extending the maturity of financial products.

13. **The project also has important implications for the implementation of the Universal Financial Access (UFA) Agenda**. Tanzania has been included as one of 25 focus countries in the UFA agenda. In 2015 the WBG (with partners) committed to help extend access to financial services via transaction accounts by 2020 to 1 billion adults who are financially excluded. Tanzania is one the 25 focus countries where 78 percent of the world's unbanked adult population lives.

14. **The proposed project will complement a number of programs supporting Tanzania**. For example, the roll-out of National ID is crucial for the successful delivery of the programs under the Tanzania Social Action Fund (TASAF). In addition, a National ID would also greatly facilitate the verification of pension and social security benefits payments, especially now that plan members are allowed to shift their contributions from one social security fund to another during their working life. It would also help address the problem of "ghost pensioners" that has been afflicting the largest funds in Tanzania over the past few years, resulting in scandals and diminished trust in the pension system. Overall, the project could support improvements in the governance of the pension sector, as pursued by the Pension DPO under preparation. The project will also complement the Second Business Environment for Jobs DPO which supports a robust reform agenda and a new private sector development Investment Project Financing (IPF) under preparation. The IPF will provide support for the industrialization through a number of interventions, including the development of SME accelerators and innovation incubators, strengthening of national quality infrastructure, and other activities.

C. Proposed Development Objective(s)

Note to Task Teams: The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet.

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

Key Results (From PCN)

- **PDO level indicators:**

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

- Percentage of adults (aged 15+ years) who report having an account (by themselves or together with someone else) at a bank or another type of financial institution (gender disaggregated, Mainland/Zanzibar disaggregated).
- Percentage of adults (aged 15+) who report personally using a transaction account including mobile money service in the past 12 months (gender disaggregated, Mainland/Zanzibar disaggregated).
- Increase in the number of cashless retail payments per capita
- # of adults with IDs which can be used to meet Know Your Customer (KYC)/Customer Due Diligence (CDD) requirements
- Volume of financial support to MSMEs under the credit facility (gender disaggregated, Mainland/Zanzibar disaggregated).
- Number of MSMEs reached with financial services under the credit facility (gender disaggregated, Mainland/Zanzibar disaggregated).

- **IR Indicators**

- Number of individuals and businesses for which records are available at credit bureaus
- National payment switch established and operational
- Decrease in % of adults citing 'documentation' as a barrier to have an account at a formal financial institution
- Development and roll-out of financial education programs tailored to low income and rural populations, # of people attending and % reporting satisfaction with the program.
- Collateral Registry established and operational
- Portfolio quality under the credit facility (gender disaggregated)
- Number of adults who have used a redress mechanism for financial consumer protection, gender disaggregated (indicator for citizen engagement)

D. Concept Description

15. **The project is proposed to be structured around four components which include support for development of financial infrastructure, technical assistance to regulators, provision of line of credit, and project management**. Based on analytical work and discussion with the counterparts, the team has identified a set of potential interventions that can be included in each component. As the process of project preparation evolves, the team will be able to clearly define the feasibility of the proposed interventions and may focus the project on a narrower set of activities.

16. **Component 1- Development of Infrastructure for Financial Inclusion.** This pillar aims at facilitating financial inclusion and increased access to finance for households and microenterprises by improving the “hard” public-good infrastructure underlying the financial sector. The interventions financed under this component will facilitate access to financial services by reducing eliminating barriers and/or by contributing to reduce the final costs of financial products available for final users. The component will be implemented in collaboration and complement other donors’ interventions such as those financed by the Financial Sector Deepening Trust (FSDT) and Consultative Group to Assist the

Poor (CGAP). Four areas will be explored during project preparation: the national ID infrastructure, an enhanced payment system, credit infrastructure, and deposit insurance.

17. **Component 2 – Strengthening of the Regulatory Capacity and Enhancing Financial Consumer Protection and Financial Literacy**. This component will support technical assistance to improve the legal, regulatory and oversight framework for the financial sector in the areas of credit infrastructure, consumer due diligence, microfinance, strengthening SACCOs and others. This component will also provide support for the Financial Consumer Protection (FCP) and Financial Literacy (FL) initiatives, including design of FCP tools, strengthening of the institutional structure for FCP supervision and cross-government coordination and support of Financial Literacy (FL) and awareness initiatives. Finally, it will include support for financial sector development of Zanzibar.

18. **Component 3- Line of Credit**. Through this component of the project, a line of credit (LOC) will be extended to eligible intermediaries to order to provide financing to creditworthy MSMEs on an on-lending basis. The project will have a separate window for women-owned enterprises due to large expected benefits of expanded access to finance for this group. A multivariate regression analysis shows that the performance of female-owned household enterprises is more responsive to the use of formal credit than their male counterparts, which suggests that female entrepreneurs would benefit from greater access to financial products and services more than male entrepreneurs. The project will also consider the capitalization of the existing SME scheme at BoT as an enhancement to the proposed credit line.

19. **Component 4: Project Management, Outreach and Monitoring and Evaluation**. This component would finance all the costs pertaining the Project Implementation Unit (PIU) within implementing entity; communication and outreach of the project, and monitoring and evaluation (M&E).

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SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will focus on supporting MSMEs with relatively small investment and working capital loans. In terms of the future sub-projects, while they are not limited to specific sectors, they may include hospitality, agroprocessing, and similar activities. The loans will not fund land acquisition or activities on IFC Exclusion List.

The project is categorized as a Financial Intermediary (FI) project and the appropriate FI category is FI-2. This is based on anticipated environmental and social risk impacts of sub-projects as assessed by the WB in accordance with OP/BP 4.03 (WB Performance Standards for Private Sector Activities). The sub-loan portfolio is expected to comprise subprojects that have limited environmental or social risks or impacts that are few in number - generally site-specific, largely reversible, and readily addressed through mitigation measures - or that it may include a very limited number of subprojects with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. The project will nevertheless put in place adequate environmental and social measures, including assessment and management of environmental risks and social screening measures to preclude and manage risks related to labor and working conditions.

The project will support relatively small investment and working capital loans with little or no environmental or social impact. However, it is recognized that there may be some business activities in which the environment and social risk and impacts may potentially be more significant and may require commensurate assessment and management (e.g. labor and working standards, inappropriate disposal of waste, or unhealthy or hazardous working conditions). Procedures and guidance will be developed in a manual for screening, assessing, and managing these risks for transactions funded by the project.

The project does not expect to have negative social effects, but rather have a number of positive impacts. The proposed components aim to improve the enabling environment for the poor to get access to finance by mainly focusing on improving the soundness and efficiency of financial sector. It is very unlikely that any particular social group, including ethnic minorities, would be negatively affected. The project would also have a positive on the gender gap as it will include several interventions targeting specifically women.

B. Borrower's Institutional Capacity for Safeguard Policies

Despite low expected risks, adequate measures will be taken to mitigate potential environmental and social risks, in line with the World Bank Group (WBG) Performance Standards. Specifically, an Environmental and Social Operations Manual (ESOM) will be developed under the project and applied by all the participating financial institutions (PFIs).

All PFIs will be required to develop and operate the Environmental and Social Management System (ESMS) commensurate with the level of environmental and social (E&S) risk in their portfolio and prospective business activities. The ESMS should incorporate relevant principles of Performance Standard 1 on Assessment and Management of Environmental and Social Risks and Impacts. The scope and complexity of the ESMS will depend on the E&S risk of the PFIs' lending/investment activities. All PFIs must also manage the working conditions of their workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions related to employment practices and conditions.

Performance Standards Applicable :
PS 1: Assessment and Management of Environmental and Social Risks and Impacts: YES
PS 2: Labor and Working Conditions: YES
PS 3: Resource Efficiency and Pollution Prevention: NO
PS 4: Community Health, Safety, and Security: NO
PS 5: Land Acquisition and Involuntary Resettlement: NO
PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources: NO
PS 7: Indigenous Peoples: NO
PS 8: Cultural Heritage: NO

C. Environmental and Social Safeguards Specialists on the Team

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

May 31, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

November 2016 - April 2017

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