



**The World Bank**

Tanzania Second Inclusive and Resilient Growth Development Policy Financing (P180504)

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# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 16-Oct-2023 | Report No: PIDC36440

**BASIC INFORMATION****A. Basic Project Data**

Country Tanzania	Project ID P180504	Project Name Tanzania Second Inclusive and Resilient Growth Development Policy Financing (P180504)	Parent Project ID (if any) P178156
Region EASTERN AND SOUTHERN AFRICA	Estimated Board Date Dec 20, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

The proposed operation will support policy and institutional reforms to: i) improve the environment for private sector-driven recovery and growth; (ii) strengthen the management of SOEs and fiscal risks, and improve fiscal transparency, and (iii) boost economic resilience.

**Financing (in US\$, Millions)****SUMMARY**

<b>Total Financing</b>	750.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	750.00
World Bank Lending	750.00

**Decision**

The review did authorize the preparation to continue



## B. Introduction and Context

### Country Context

**Tanzania continues to face a complex range of structural challenges limiting its long-term growth potential and contributing to widespread poverty.** Economic growth in Tanzania has been driven primarily by public investments in infrastructure which has helped to narrow the infrastructure gap. However, productivity while mostly positive, has contributed modestly to economic growth. To reverse the downward trend in private sector activity, and promote an inclusive and resilient economic recovery, Tanzania needs to overcome persistent challenges faced by its private sector. The challenges faced by the Tanzanian private sector, including costly practices in obtaining business licenses and permits, low access to finance, lagging regulatory environment for FDI attraction, low penetration of ICT services, and inefficient public sector transactions curbed domestic private investments and FDI inflows long before the Covid-19 pandemic and the Ukraine war. In addition, repeated climate shocks, such as recurrent drought and floods, and other crises, like the COVID-19 pandemic, rising commodity prices due to the Russian invasion of Ukraine, continues to impact the economy.

**The proposed Development Policy Financing (DPF) aims at boosting private sector activity, and public sector efficiency and transparency under an adequate macroeconomic policy framework.** As the country's space to absorb external shocks narrows, Tanzania is advised to balance between proactive counter-cyclical monetary/fiscal policies and structural reforms. The authorities' emphasis on promoting a private sector driven recovery, improving public sector efficiency and accountability, focusing on domestic revenue mobilization, and maintaining prudence in concessional and non-concessional composition of loans reflect such an appropriate balance. This is also confirmed by the projections for key macroeconomic indicators, including a relatively low inflation rate (which shows that demand is not overstimulated in the presence of supply shocks), a controlled absorption of external shocks through the fiscal budget, and the country's stable and sustainable fiscal balances. Therefore, the macroeconomic framework of Tanzania is assessed to be adequate for the proposed operation. It is the second and last in a programmatic series of two DPFs. The first operation was approved by the Board on December 21, 2022. This second operation amounts to an International Development Association (IDA) Credit of US\$500 million.

### Relationship to CPF

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

**Table 5. Correspondence between World Bank's CPF (2018) and the DPO Prior Actions**

CPF Focus Areas and Objectives	Corresponding DPO Actions
1.1. Strengthen the business environment for job creation, notably in manufacturing, agri-business, and tourism	PA#1: Amendment of the Investment Bill and issuance of regulations to create business conditions for more domestic and foreign investments.
1.2. Put credit within reach, improving access to credit particularly for MSMEs and women	PA#2. issuance of banking sector regulations and guidelines. to enhance financial sector stability and resilience, maintain investor confidence, and ensure continued access to credit by private sector and households.
2.3. Improve the quality of healthcare and education	PA#6. Introducing universal health insurance coverage.
2.5. Promote social inclusion	
3.1. Strengthen public accountability and financial efficiency in delivering services	PA#2. (i) Amendments to the PPP Act 2018 and (ii) Enactment of revised PPP Regulations.



### C. Proposed Development Objective(s)

**The objective of the proposed development policy operation is to support Tanzania's inclusive and resilient recovery and growth.** This will be achieved by supporting reforms to improve the environment for private sector growth and jobs creation, strengthen public sector efficiency and transparency, and bolster social and climate resilience. Pillar 1 (Improving the environment for private sector-driven recovery and growth) supports critical business climate measures aimed at job-creating private-sector-driven growth by addressing longstanding constraints on private investment, including excessive bureaucracy, predatory taxation, limited access to finance and other inputs, and low uptake of digital solutions due to their high costs and limited access and reinforcing protection of banks' asset quality. Pillar 2 (Strengthening public sector efficiency and transparency) supports fiscal and debt reforms to strengthen efficiency and transparency of public spending and debt, address fiscal risks. Pillar 3 will bolster social and climate resilience of the Tanzanian economy by increasing health insurance coverage, which is particularly important for low-income Tanzanians in rural areas, whose livelihoods are more fragile against volatile weather events and improving the public sector's ability to extend support when and where needed by creating a comprehensive farmer registry, which are critical for adaptation to climate change.

#### Key Results

**The proposed DPL2 supports Tanzania's policy and institutional reforms that are critical for strengthening the role of the private sector in economic recovery, increasing the transparency and risk management capacity of the Tanzanian public sector, and building economic resilience against future shocks driven by climate change and other external factors.** Specifically, reforms under Pillar 1 (private sector) and will likely increase FDI inflows and the number of projects registered by the Tanzania Investment Center and increase the resilience of the financial sector. The public sectors reforms under the Pillar 2 are expected to increase the efficiency and transparency of the SOE sector, facilitate new PPP projects, and help reduce the backlog and the creation of new fiscal arrears. Reforms under pillar 3 are expected to help increase access to affordable health care, increase the number of farmers accessing electronic extension services, and enhance the institutional foundations of a more robust social protection and gender policy agenda in Tanzania.

### D. Concept Description

**The DPO series will support the implementation of the FYDP III with an objective of improving inclusiveness and resilience of economic growth, efficiency and transparency of the public sector and economic resilience.** The areas selected are priorities in Tanzania's strategic development plans. Reform areas include:

- a) **The first pillar supports critical business climate measures aimed at job-creating private-sector-driven growth by addressing longstanding constraints on private investment.** Under this pillar, the proposed DPO will support critical business climate measures aimed at job-creating private-sector-driven growth by addressing longstanding constraints on private investment, including excessive transaction costs, predatory taxation, and limited access to finance and other inputs.
- b) **The second pillar supports the Government's efforts to implement reforms that will increase efficiency and transparency of the public sector operations and address fiscal risks.** Reforms under this pillar target strengthening public investment management, improving efficiency and transparency of public procurement, strengthening oversight and managing fiscal risks from SOEs, improving arrears management and preventing future backlogs, and enhancing the transparency of fiscal risks in the country.



- c) **The third pillar aims to bolster the resilience of Tanzania's economy to shocks and boost inclusive growth** through improving access to health care and enhancing the functionality of the farmers registry.

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

##### Poverty and Social Impacts

**The policy reforms under the proposed operation are expected to support economic recovery and to have positive impacts on household welfare and social inclusion, reducing gender disparities and poverty headcount rates, while improving non-monetary welfare measures.** The policy actions in Pillar 1 aimed at improving the business environment for private sector driven sector-driven recovery and growth by strengthening investment protection and establishing a stable and resilient financial sector will have positive social impacts and are expected to reduce poverty by boosting employment opportunities and facilitating sustainable growth. The reforms under pillar 2 are expected to improve public sector efficiency and accountability by strengthening the management of SOEs and reducing fiscal risks. The fiscal space is thus set to benefit, as additional funds are likely to be available for development programs that directly impact the poor. Pillar 3 aims at providing access to affordable health care, improving social protection and gender policies and improving the efficiency and effectiveness of agriculture expenditure programs is expected to improve access to social services to many low-income Tanzanians and improve the welfare of the poor.

##### Environmental, Forests, and Other Natural Resource Aspects

**The DPO can open space to boost climate action in Tanzania.** Some of the reforms and policy actions supported by the proposed operation will have a positive impact on the country's environment, forests, and other natural resources in the medium-term. All the actions supported by the operation are policy-oriented and do not directly finance environmentally impactful investments. Prior action aimed at enhancing the functionality of the farmers registry is expected to improve access to extension services in the agriculture sector thereby improving the information flow about weather patterns which often result in volatility in incomes and prices. The prior action should help to reduce the vulnerability of credit-constrained Tanzanians in rural areas to climate and external shocks.

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**APPROVAL**

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**Approved By**

Country Director:	Preeti Arora	27-Oct-2023
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