Report Number : ICRR0021574

## 1. Project Data

| Operation ID | Operation Name |
|---|---|
| P150009 | TZ-Business Env & Competitivenes fr Jobs |
| **Country** | **Practice Area(Lead)** |
| Tanzania | Macroeconomics, Trade and Investment |

| L/C/TF Number(s) | Closing Date (Original) | Total Financing (USD) |
|---|---|---|
| IDA-57100 | 31-Aug-2016 | 79,496,064.00 |
| **Bank Approval Date** | **Closing Date (Actual)** | |
| 03-Sep-2015 | 31-Aug-2016 | |

| | IBRD/IDA (USD) | Co-financing (USD) |
|---|---|---|
| Original Commitment | 80,000,000.00 | 0.00 |
| Revised Commitment | 80,000,000.00 | 0.00 |
| Actual | 79,496,064.00 | 0.00 |


| Prepared by | Reviewed by | ICR Review Coordinator | Group |
|---|---|---|---|
| Hjalte S. A. Sederlof | Robert Mark Lacey | Malathi S. Jayawickrama | IEGEC (Unit 1) |


## 2. Project Objectives and Policy Areas

### a. Objectives

The Project Development Objective (PDO) for the First Business Environment for Jobs Development Policy Operation (FBEJD-1) was “to increase the job creation potential of the Tanzanian private sector (i) by reducing the overall cost of doing business and (ii) creating an enabling environment for selected labor-intensive industries." (Project Document, page 15)

FBEJDPO-1 was the first in a programmatic series of three DPOs focused on developing Tanzania’s private sector. The second and third operations were cancelled in April, 2017. In part, they did not have the full



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support of the government that took office in late 2016 shortly after the operation was approved by the Board. There were also government concerns about implementation capacity – especially at a time when four other Bank-financed budget support operations were either under preparation or already underway (in power and gas, governance and public financial management, pension reform, and this series). Delays in reform actions on business licensing and taxation of farm outputs also contributed to the government's concerns.

Achievement of the objective – increased job creation potential – will be measured by the two sub-objectives – reductions in the overall cost of doing business; and a more enabling environment for selected labor-intensive industries.

### b. Pillars/Policy Areas

The operation had three pillars:

**Pillar 1: making the regulatory framework more "business friendly"**, through reforms in business registration, licensing, taxation and trade regimes;

**Pillar 2: improving the functioning of factor markets** by modernizing labor regulations, simplifying land administration, securing property rights, and broadening access to finance;

**Pillar 3: establishing an enabling environment for competitive job-creating industries**¸ notably agribusiness and tourism

### c. Comments on Program Cost, Financing, and Dates

An IDA Credit of SDR 57.6 million (US$80 million equivalent) for FBEJDPO-1 approved on September 3, 2015, became effective on November 5, 2015, and closed on schedule on August 31, 2016, after fully disbursing. The Japan International Cooperation Agency (JICA) provided US$50 million in parallel financing. The second and third operations were cancelled in April 2017.

## 3. Relevance of Objectives & Design

### a. Relevance of Objectives

The series' objectives addressed a relevant development challenge – to increase the role of the private sector as an engine of growth by raising job creation potential in the private sector. So far, the driving force had mainly been government spending, with the private sector playing a limited role. To create a sufficient number of productive jobs for a rapidly growing labor force would require involvement by the private economy and the elimination or reduction of barriers to growth, especially for small/informal businesses, which represent some 90 percent of existing operators, and on fostering investments in labor-intensive sectors. These factors were recognized in the FY12-16 Country Assistance Strategy Progress Report (CAS-PR) in effect at closure; the CAS-PR explicitly identifies a more vibrant private sector as one of the key sources of job creation and economic growth. This thinking also reflects priorities among development partners, including in particular JICA that partnered in preparing the operation, and provided parallel financing. The objectives were aligned with the government's development plan at the time the operation was being prepared, but this was no longer the case with the advent of the new government. While the new government continued to support privatization, it considered reform program design to be too broad and too institutionally demanding. This was aggravated by a new administration that was unfamiliar with the reform program and had limited capacity to take it on. The transition also exposed issues of inter-agency coordination. As a result, while the concern that the series was to address – an ineffectual private sector – remained active, the second and third operations were nonetheless cancelled at the request of the authorities.

### Rating

Substantial

## b. Relevance of Design

Program design supported the job-creation objective set for the series. Considering the poor quality of the business environment (at the time of program preparation, the country ranked 131 out of 189 countries in the Doing Business ranking), it could be reasonably expected that all private firms, especially those in the formal sector, would benefit from measures that aimed at improving the overall business environment and removing constraints in key job-creating industries. The results framework, set out in the policy and results matrix, included a set of prior actions (essentially laws and regulations) that, if applied, would likely create a more business friendly environment. They included faster single-window registering and licensing of businesses; risk-based cargo inspections reducing the burden on trade of full inspections in the main port; and reductions in the backlog of VAT refunds. Other prior actions aimed to improve factor markets by modernizing the labor law and facilitating skills development; strengthening land administration to secure property rights, and encouraging investment; improving access to finance, and building competitiveness in agri-business and tourism.

There were, however, shortcomings. While design included a well-articulated set of pillars, as well as a consistent theory of change, the broad coverage, ranging from business licensing to land management to industrial policy, made the program difficult to manage and stretched limited national resources. This was aggravated with the change in government and an incoming administration that in addition to facing capacity constraints was unfamiliar with the operation.  Moreover, M&E design was to prove insufficient to determine project results in some instances (i.e. for agribusiness measures).

The macro-economic framework was robust at the start of the operation and remained so throughout implementation.  Economic growth was high, averaging about 7 percent per year over the period 2014 to 2017, and inflationary pressures remained under control.  The fiscal deficit was contained, falling from 4 percent of GDP in FY2015-16 to 2.1 percent in FY2016-2017.  The trade deficit was kept under control, and the authorities were committed to a prudent monetary stance and flexible exchange rates.  A new 3-year Policy Support Instrument with the IMF had been approved in July 2014 with the medium-term objective of maintaining macroeconomic stability and debt sustainability.

**Rating**
Substantial

## 4. Achievement of Objectives (Efficacy)

### Objective 1
**Objective**

To reduce the overall cost of doing business

**Rationale**

The objective was to be achieved by creating a more business-friendly regulatory environment through streamlining regulatory processes (for business registration, licensing, trade, and taxation); and improving functioning of factor markets (labor, land, and capital) through modernization of labor regulations, simplification of land administration and securing property rights, and broadening access to finance by reducing risk to mobile-based lending that served as an important source of credit for smaller enterprises..

**Strengthening business regulatory processes**

To facilitate start-up and operation of a business, reforms under the project included (i) implementing an electronic one-stop shop for business registration, and (ii) reducing the number of operating licenses and permits, and harmonizing issuance procedures.  As prior actions underpinning these reforms, the government integrated tax and business registration within its Business Registration and Licensing Agency; and established a Regulatory Licensing Reform Committee to streamline the legal and regulatory framework for business licenses and permits.  Nonetheless, only one of four outcome targets were met, while the other three showed declining (2) or uncertain  (1) results:

- The share of new businesses registered online had reached 100 percent by September 2017, against a target of 30 percent (the baseline was zero);
- The time to start a business increased from 26 days in 2014 to 28 days in 2017, compared to a targeted reduction to 10 days that was to be achieved in 2018;
- The number of procedures to start a business rose from 9 in 2014 to 11 in 2017, against a target of 3 in 2018;
- Following an inventory of unnecessary, duplicative and overlapping licenses or permits, the number of such licenses was to be reduced by 25 percent by end-2018. In fact, only one license out of 800 was officially eliminated. A blueprint for revisions to the inventory was approved by the government in May 2018 and was in early 2019 awaiting an implementation plan to become operational.

**Increasing the efficiency of trade facilitation institutions and infrastructure**

To reduce the time and cost associated with international trade transactions, an electronic customs clearance system and a risk-based cargo clearance system were to be upgraded through which 90 percent of Tanzania's international trade would pass. The former, which was to introduce a single window system for port transactions, was not yet fully operational as of mid-2018; and the latter, which was to reduce a 100 percent cargo inspection requirement to 50 percent by 2018, was at 93 percent according to most recent available data (end-2017). Progress was measured by these two outcome targets, and neither was met:

**Increasing efficiency in tax administration and tax policies**

The operation focused on two specific areas of tax policy and administration that raise costs of doing business: delays in VAT refunds that caused cash flow shortages and created disincentives for tax compliance, and a high number of tax expenditures that distorted the tax regime.

A prior action (the VAT Act of 2015) increased the budget allocation for VAT refunds, raised the VAT threshold to favor micro, small and medium enterprises (MSME), and introduced a 90-day time limit on VAT refund decisions, with a target of raising the share of refund claims that are settled within a month from 74 percent to 90 percent. By end - 2015, with the introduction of the 90-day limit, outstanding VAT refund claims had already been reduced by some 30 percent. However, progress stalled, as the government froze the refund budget, effectively dropping VAT refunds to zero, in order to undertake a review of the existing procedures for a VAT refund.

Tax expenditures as a share of GDP fell from about 3 percent in 2014 to less than 1 percent in 2018, achieving the target. While this was not a prior action, the VAT Act also removed a number of tax exemptions, lowering the cost of the tax exemption regime.

**Improving the functioning of factor markets**

To address inefficiencies in the labor market, government enacted legislation consolidating and simplifying employment regulations for citizens and non-citizens (prior action under BEJDDPO-1); and adopted implementing regulations for the law. These measures consolidated labor legislation into two laws in 2017 from eight laws in 2014 in accordance with the overall target of maintaining two laws.

To boost labor force productivity, while improving the competitiveness of domestic firms, the skills development levy was lowered, reducing the tax burden on employers with some expectations on improved tax compliance. The ICR provides no information on what in fact happened in terms of revenue flows. At the same time, the government agreed to finance some share of companies' training costs. There is currently no evidence available in the ICR concerning the results of these two actions – including whether or not training moneys increased or decreased, or if the stock of employable workers changed. The results indicator was to increase the share of the levy allocated to training from 40 percent to 100 percent. The ICR indicates that a government policy statement in 2017 suggested allocating 2/3 of the levy for training-related programs. this suggests that the target remains unmet.

**Strengthening land administration and simplifying property registration**

To improve land registration, the government set up an integrated land management information system (ILMIS) to offer notarization for the transfer of properties using standardized contract forms (prior action). The contract for the establishment of ILMIS has been awarded and the inception report completed. A pilot was launched in early 2018, covering one region. Over time, this is expected to reduce the cost and time required for land registration.

In the meantime, and prompted by the ILMIS initiative, the government has introduced several measures to reduce transactions costs and streamline evaluation procedures in the existing land management system. However, these do not address the two main issues targeted – property registration costs, which have increased (from a baseline of 4.5 percent of property value to 5.2 percent), and the time to register property, which has remained the same (67 days, compared to a targeted 40 days).

**Improving access to finance**

To improve access to finance for MSMEs and household firms, and especially the latter that rely predominantly on mobile-based (electronic) financial services, the government created a unified legal framework to regulate issuers of electronic money (prior action). That legislation was complemented by an expansion of eligible collateral for MSMEs. There were three specific targets in this policy area:

- The share of households with a transactions account was expected to rise from a baseline of 57 percent in 2014 to 80 percent in 2018. That target was not met as the share reached only 65 percent in 2017;

- The quality of the legal/regulatory framework for payment systems (drawing on a Bank-developed methodology) was to rise from a baseline rating of "low/medium low" to "medium high/high". That was achieved, and by late 2017 the government rated it as "high";
- The percentage of firms with a bank loan or line of credit was expected to increase from 16.6 percent in 2014 to 19 percent in 2018. There is no information available regarding this in the ICR:
- Coverage of the credit bureaus was planned to improve from 0.6 percent of the adult population to 6.0 percent. This target was achieved, as the coverage reached 6.5 percent in 2017.

**Summary**. While all new businesses now can register online and do so, performance on other measures to facilitate business startup – time to start a business and number of procedures to do so – have become more, rather than less, cumbersome. In trade facilitation, import cargo inspections have declined slightly, while the single window electronic customs clearance system is not yet operational. In tax policy, tax expenditures as a share of GDP have fallen (increasing efficiency and fiscal space), but there has not yet been any change in the time it takes to provide VAT refunds. In improving factor markets, employment provisions have been simplified, the skills development levy on enterprises has been reduced, and the government expects to be contributing to companies' labor costs. There is, however, little evidence of the impact of these measures. To facilitate land registration, neither target has been met - costs have gone up and time to register has remained the same. There is no evidence in the ICR of increased MSME access to finance.

### Rating
Modest

## Objective 2
### Objective
To create an enabling environment for selected labor-intensive industries

### Rationale

The objective was to be achieved by building competitiveness in agri-business and tourism, sectors considered as having high growth and employment potential.

**Agri-business**

To promote agribusiness, the series was to address three specific reform areas: rural transport, agricultural taxation, and standards. Targets were set for all three areas, but in the absence of relevant data, the actual impact of the interventions cannot be assessed.

Still, some progress appears to have been made: (i) in order to expand the share of rural roads in fair or good condition, a new budget line for developing rural roads was introduced as a prior action (thought there is no measure of the adequacy of the funds allocated); and (ii) a 40 percent reduction in tax on traded merchandise – the main element of the overall tax burden in the agricultural sector – is believed to have met the target of a 20 percent reduction in the baseline (2014) tax burden.

Other measures aimed at strengthening agribusiness and addressing both the demand and supply side – better certification of food safety and smoother licensing procedures – could be expected to have a positive impact, but there is no evidence to confirm that.

**Tourism**

The reform focused on modernizing tourism-related policy and legislation and building a more diverse and competitive tourism industry by streamlining the overly complex system of taxes and licenses in the sector.

To that end, a prior action was to draw up a comprehensive list of public charges (licenses, permits, taxes, fees) applicable to tourism as a basis for change. It was to form the basis for reducing fees that, in turn, was to increase the demand for tourism and create new employment. There were two outcome targets: first, the number of fees payable was to be reduced from 59 to 35 by the end of 2017, but only one fee was eliminated; second, employment in the sector was to increase by 10 percent from a baseline of 400,000 in 2014. There is no information available on employment changes in tourism over the 2014-2017 period. However, the ICR argues that the target has been met, based on annual sector growth of 9 percent generating an assumed 10 percent increase in employment over the period. There is no analysis to support this assumption.

**In summary**, to promote agri-business, a new budget line for rural roads was introduced, and the tax on traded merchandise was reduced, but there is no evidence on how agri-business responded to these measures; nor is there information on the effects of better food safety standards. To promote tourism, the number of public fees was to be reduced; and this did not happen. The cited increase in employment is based on an assumption unsupported by analysis.

**Rating**
Negligible

## 5. Outcome

Objectives were **substantially** relevant to country circumstances, Bank strategy and government priorities as defined during project preparation. During implementation these priorities changed as noted in Section 3. Relevance of design is rated **substantial**, reflecting an overly ambitious design, given known weaknesses in implementation and coordination capacity that were aggravated with the change in administration. Efficacy for the first objective is rated **modest,** reflecting partial achievement of some measures; efficacy for the second objective is rated **negligible** due to the lack of evidence of tangible results.

### a. Outcome Rating
Moderately Unsatisfactory

## 6. Rationale for Risk to Development Outcome Rating

The government in place at implementation appeared less than fully committed to the goals of the program and did not proceed with the full series. A series of factors were likely to threaten the reform program: weak reform ownership and low administrative capacity; and macroeconomic risks assessed by the IMF and stemming from potential shortfalls in financing the budget, and likely to influence the investment climate, generating external investment shortfalls.

The risk to the development outcome, substantial at preparation, continues to be so.

### a. Risk to Development Outcome Rating
Substantial

## 7. Assessment of Bank Performance

### a. Quality-at-Entry

The operation was strategically relevant, introducing the private sector as a potentially significant engine of growth. It was in line with Bank strategy and country needs, and it built on the experience from earlier Bank operations: the Private Sector Competitiveness project (P145971), and an earlier series of Poverty Reduction Support Credits. Preparation also was underpinned by analytical products, such as the 2014 Country Economic Memorandum and findings under World Bank lending, especially the Private Sector Competitiveness Project. There was close collaboration with development partners in the context of a joint general budget support framework for Tanzania. The operation was, moreover, jointly prepared with JICA, which contributed with parallel financing of the order of US$50 million.

However, design was over-ambitious for a country with limited implementation capacity, covering a broad range of sectors. Moreover, uncertainties related to the political backing for the reform agenda were not sufficiently appreciated, as government change was to indicate. Similar issues also affected a number of other policy operations in Tanzania. Consequently, achievement of results for this operation would turn out to be modest. While the results framework was straightforward, some key indicators were not sufficiently backed by data – in most instances there was baseline data, but information on outcomes was to turn out not to be available. This may have been exacerbated by uncertainties surrounding administrative authority for M&E that the Bank team might have been able to do more about (indicated in the ICR, pages 8 and 9). In summary, there were significant shortcomings in quality at entry that subsequently would result in only modest achievement of the objectives and the cancellation of two operations in the series.

### Quality-at-Entry Rating

Unsatisfactory

### b. Quality of supervision

The supervision process faced challenges – a new government more critical of the operation than its predecessor, an inadequate monitoring framework and lack of information to determine outcomes, the need to coordinate among several agencies, and a client that may not always have had the necessary capacity to bring the operation to fruition. The team appears to have been proactive in pursuing the dialogue with the government, and in trying to correct failings in the M&E framework (ICR, page 26). That said, the absence of ISRs and the inability to collect information on outcomes should be recognized as significant shortcomings.

### Quality of Supervision Rating

Moderately Unsatisfactory

### Overall Bank Performance Rating

Moderately Unsatisfactory

## 8. Assessment of Borrower Performance

### a. Government Performance

A few months after the approval of the series, a new government took office, and while reform remained important, priorities within the reform shifted and ownership of the program weakened. Government efforts at coordinating numerous participating agencies also decreased, and this is likely to have contributed to weak monitoring of implementation. The overall pace of reform slowed and soon resulted in the discontinuation of the two latter operations in the series.

### Government Performance Rating

Unsatisfactory

### b. Implementing Agency Performance

Not rated separately.

### Implementing Agency Performance Rating

Not Rated

### Overall Borrower Performance Rating

Unsatisfactory

## 9. M&E Design, Implementation, & Utilization

### a. M&E Design

The policy and results matrix of the series included 23 indicators that, in most instances, included baselines and targets. Some would prove difficult to monitor on a regular basis, requiring surveys or quality assessments. This made it practically difficult to regularly collect necessary monitoring data and would result in some outcome indicators not being verified (Section 4). Administrative arrangements were unclear (ICR page 9): the project team had reasonably expected that arrangements from earlier programs would be maintained, but with the new administration responsibilities became uncertain and information flows deficient. Efforts by the Bank team to revise M&E arrangements stranded on the discontinuation of the series.

### b. M&E Implementation

As noted in the design section, the change in government appears to have severely affected M&E. New arrangements were designed by the government and the bank team, including revised results indicators, but they were not applied as the series was cut short. As a result, no rigorous monitoring ever took place, and a full set of M&E data was collected only in preparation of the ICR.

### c. M&E Utilization

Available information generated by the M&E system was used to prepare the ICR.

### M&E Quality Rating
Negligible

## 10. Other Issues

### a. Environmental and Social Effects

The PD notes that the specific policies supported by this operation were not expected to have negative environmental effects on Tanzania's environment. According to the PD, Tanzania has in place adequate environmental controls providing support to line-ministries in incorporating environmental guidelines.

### b. Fiduciary Compliance

According to the PD and the ICR, the overall PFM system in Tanzania was adequate for DPOs, and fiduciary risks directly related to this operation were considered moderate. The operation was subject to regular audits by the Controller and Auditor General (CAG). The CAG submitted annual audit reports to Parliament, and the Bank had access to these reports.

### c. Unintended impacts (Positive or Negative)
Not noted.

### d. Other
Not noted.

## 11. Ratings

| Ratings | ICR | IEG | Reason for Disagreements/Comment |
|---|---|---|---|
| Outcome | Moderately Unsatisfactory | Moderately Unsatisfactory | --- |
| Risk to Development Outcome | Substantial | Substantial | --- |
| Bank Performance | Moderately Unsatisfactory | Moderately Unsatisfactory | Quality at entry was unsatisfactory and overall |

| | | | |
|---|---|---|---|
| | | | outcome is also unsatisfactory. The lower rating for QAE overrides the MU for supervision, as it was within the Bank's control. |
| Borrower Performance | Unsatisfactory | Unsatisfactory | --- |
| Quality of ICR | | Modest | --- |

**Note**

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

## 12. Lessons

Lessons are drawn from the ICR with some adaptation of language.

**Implementation arrangements**. Teams should attempt to agree on arrangements for implementation and implementation monitoring with the government in advance, especially the central coordinating function, where the DPO-supported program aims to advance a cross-sectoral and cross-ministerial reform agenda. In Tanzania, such a role is conventionally played by the Ministry of Finance, but administrative authority appears to have been insufficient. This may have contributed to uncertainties regarding the absence of evidence of impact in some cases.

**In a country context characterized by weak implementation and coordination capacity, rigorous selectivity in program design increases the chances of success.** The team should emphasize simple designs and focus on fewer reforms when risks to program ownership are high. Under such circumstances, it might be justifiable to limit future DPO series to just two operations to reduce the risk of back-loading. A simpler M&E system with fewer indicators and clearly described responsibilities is an important element of more selective program design.

**Consideration of the overall administrative burden faced by a government can contribute to a more realistic assessment of government ownership and capacity**. In designing DPOs, the temptation to be aspirational rather than realistic is best avoided. In this case, the Authorities were faced with the need to implement four parallel sector-specific DPOs, as well as shouldering the already onerous burden of coordinating multiple sources of external assistance. A stronger ex *ante* assessment of risks and eventual mitigation measures might have avoided many of the challenges the project would face.

## 13. Assessment Recommended?

No

## 14. Comments on Quality of ICR

The ICR provided enough information to complete the review, and it was largely consistent with the guidelines.  However, a more focused discussion could have brought out the evidence more clearly and helped in the analysis of an undoubtedly complicated operation.  In particular, the government transition that appears to have had a decisive influence on the lack of success of the series - what were the underlying factors, why the dramatic shift in policy priorities? How did the Bank's interventions play in, if at all? - are all relevant questions that should have been more thoroughly addressed.  IEG is left with the impression that shifting priorities in policy underlay the moderately unsatisfactory performance rather than more technical challenges during implementation - but they remain unclear.

**a. Quality of ICR Rating**
Modest