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MINISTRY OF FINANCE

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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).

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.

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