For yen loans

Ex-Ante Evaluation

1. Name of the Programme

Country: United Republic of Tanzania

Programme: Business Environment for Jobs Development Policy Operation

L/A signing date: April 11, 2016

L/A amount: 60 million yen

Borrower: The Government of the United Republic of Tanzania

2. Background and Necessity of the Programme

(1) Current States and Issues of the private sector in Tanzania

Tanzania has continued to experience stable economic growth backed by a revitalization of private investment primarily from foreign direct investment (FDI), and robust public investment. It achieved a real GDP growth rate of 7% in 2014, with solid growth forecasted for the future as well. However, its growth sectors are limited to the areas of resource development (gold-mining, natural gas), tourism, transportation, finance, telecommunications, and construction. Fostering industries that are conducive for creating employment, such as manufacturing industry or service industry, present a challenge.Tanzania's private sector is still dominated by informal sector, and domestic industries to soak up the country's labor power have not been adequately cultivated. Improving land systems and financial systems is crucial for private companies to do business in Tanzania; however, its reforms have been delayed so far. Issues like the shortage of human resources with sufficient managerial capabilities and/or technical prowess also poses a challenge to those companies. The country still has several critical issues when it comes to having foreign companies enter its markets. These include improving the business environment as a whole by simplifying business permits and tax administration procedures, as well as expediting customs clearance process. In the Doing Business 2016 report conducted by the World Bank, Tanzania was ranked in 139th place out of a total of 189 countries.

Given such conditions, backing must be provided to the growth of domestic companies and further encouraging foreign companies to advance into local markets through initiatives that benefit the private sector as a whole in order to go about achieving sustainable economic growth in Tanzania. It is also necessary to contribute to revitalizing the domestic economy and creating employment by strengthening the competitiveness of industry. This programme will assist with improving the business environment, which poses a challenge for doing business, by means of reforming policies and systems related to the private sector.

(2) Development Policies for the private sector in Tanzania and the Priority of the programme

The Government of Tanzania is aiming to achieve the Tanzania Development Vision 2025, which is a set of national objectives that purposes to graduate from Least Developed Country status to a middle-income country by 2025. In June 2011 it announced the Five Year Development Plan (FYDP I), which covers competitive industry development within the country. Moreover, the Big Result Now (BRN) was announced as a new politically-led initiative in 2013. BRN mandated that implementation and monitoring be meticulously carried out under more specific results objectives for eight priority sectors narrowed down from FYDP I (agriculture, education, energy, transportation, water, resource mobilization, health, and the business environment). With regard to promoting the private sector, BRN addresses improving business-related systems, tax reforms, labor market reforms and others for development of the base for private companies to do business as part of the “business environment” section.

(3) Japan’s and JICA’s Policy and Operations in the private sector

Japan’s Country Assistance Policy for the United Republic of Tanzania (June 2012) set forth “economic growth to reduce poverty” as a priority sector, and addresses support for developing the private sector in Tanzania. Furthermore, the analysis in JICA Country Analysis Paper (JCAP) for Tanzania indicates that it is important to work to improve the productivity of micro, small, and medium enterprises and promote the processing industry for agricultural products in order to advance industrial development within Tanzania.

JICA has dispatched industrial development advisors to the Ministry of Industry and Trade since 2008 to assist with the formulation of the Integrated Industrial Development Strategy 2025 (IIDS). Through the assistance, various proposals were also provided to diversify and upgrade industries. The analysis contained in IIDS states that it is important to develop special economic zones, transportation infrastructure and corridors, to foster small and medium-sized enterprises (SMEs), and to develop agriculture towards industrial development in Tanzania. JICA began the Project on Strengthening Manufacturing Enterprises through Quality and Productivity Improvement (KAIZEN) (a technical cooperation project) in 2013, which works to improve the quality and productivity of the manufacturing industry. JICA also began dispatching an individual expert for cluster development to assist with developing small-scale industrial parks in 2015. As these and others indicate, JICA has been implementing projects geared towards realizing proposed measures for industrial promotion in IIDS.

Furthermore, General Budget Support (GBS) totaling 12.5 billion yen was provided between 2007 and 2014 through co-financing with the World Bank via the Poverty Reduction Support Credit (PRSC). From the perspective of promoting the private sector, this contributed to improving the investment environment, such as by formulating a PPP bill and the regulatory framework for this. This programme will provide financial support specialized to the private sector in the form of a co-financing programme with the World Bank, and is being positioned as a successor programme to PRSC.

(4) Other Donors' Activities

Since 2001, aid coordination mechanism has been introduced and promoted in Tanzania in the interest of improving aid efficiency and enhancing ownership of the government. GBS was adopted as an aid modality comprising the core of this. As of February 2016, nine donors (Japan, the World Bank, the African Development Bank (AfDB), Canada, Denmark, the European Union (EU), Finland, Ireland, and Sweden) led by Japan, the World Bank, the AfDB, and the EU have provided budget supports. As the evaluation of the budget support as a whole, the Performance Assessment Framework (PAF), which includes outcome indicators for major sectors, was formulated based on a consensus between the Government of Tanzania and the donors. The achievement status of PAF is utilized by donors aside from Japan, the World Bank, and the AfDB to determine their contributions to GBS. The total amount of GBS for FY2015/2016 will be a maximum of US$366 million (as of August 31, 2015). The contribution details are: World Bank (IDA loan) (US$250 million / loan), EU (US$34 million / grant aid), AfDB (US$35 million / loan), Sweden (US$25 million / grant aid), and others.

In recent years, reforming budget support mechanisms has been discussed in Tanzania. One such reform measure has been to adopt a mode of budget support targeting specific sectors or themes. It clarifies goals and expected results from this support more precisely, indicates specific policy actions geared towards achieving those results, and promotes direct dialog with implementing departments within the government. In response to those changes, the World Bank has formulated and implemented budget support to encourage reforms in four areas: power, public finance management, the private sector, and pensions. This programme provides co-financing with the World Bank in the private sector area. With regard to the relation of GBS, some of the outcome indicators of the policy matrix for this programme have been incorporated into PAF so that the achievement status of this programme can be assessed through PAF as well.

(5) Necessity of the Programme

Backing must be provided to the growth of domestic companies, including SMEs, and further encouraging foreign companies to advance into local markets through initiatives for improvements that benefit the private sector as a whole in order to go about achieving sustainable economic growth in Tanzania. Moreover, it is necessary to work to revitalize the domestic economy and create employment by strengthening the competitiveness of agribusiness and the tourism industry, with which the country has a comparative advantage. Under the ambitious commitments the government has made through FYDP I and BRN, reforms for private sector development are being promoted.

This programme will provide support to challenges and priority items for development policies of Tanzania, and is also consistent with the assistance policies of Japan and JICA. Therefore, there is highly necessary and relevant to implement this programme.

3. Programme Overview

(1) Programme Objective

The objective of this programme is to improve the business environment and thereby achieve sustainable economic growth in Tanzania by means of achieving policy and institution reforms related to the private sector in Tanzania.

(2) Programme Site / Target Area

Throughout Tanzania

(3) Programme Components

The programme period (FY2014/2015 – FY2016/2017) will be divided into three phases. Policy actions to be achieved for each phase are set and budget support will be provided after the achievements of those actions are confirmed. The policy actions consist of three reforms: i) Improving the business environment, ii) Reforming the factor markets such as labor, land, and capital, and iii) Creating employment and strengthening industrial competitiveness (for agribusiness and the tourism industry). Under those three pillars, there are ten policy actions: (a) Corporate registration / licenses, (b) Facilitating harbor services / improving customs clearance services, (c) Corporate tax reforms,

(d) Labor market reforms, (e) Land system reforms, (f) Financial access, (g) Rural road policies, (h) Agribusiness tax reforms, (i) Modernizing food hygiene systems, and (j) Strengthening the competitiveness of the tourism industry. Currently, the reforms instituted in FY2014/2015 (July 2014 – June 2015) are being targeted under Phase I, and all of the policy actions have been achieved.

In the programme formation process, interviews were held with Japanese companies that are currently advancing into the Tanzanian market or have the inclination to do so. Sessions were also held to exchange opinions with Japanese chambers of commerce and industry in Tanzania, and progress was made on formulating a policy matrix in a manner that incorporated the results of those interviews. Of the ten policy actions, (a) Corporate registration / licenses, (b) Facilitating harbor services / improving customs clearance services, (c) Corporate tax reforms, (d) Labor market reforms, and (i) Modernizing food hygiene systems can be expected to contribute to improving the business environment to allow overseas companies to advance into the local market.

(4) Estimated Programme Cost (Loan Amount): 60 million Yen

(5) Schedule

The target period for the policy actions of this programme is from July 2014 – June 2015 (the target period for budget support is from July 2015 – June 2016). All of the policy actions were accomplished, and the programme will be considered completed once the loan has been disbursed (scheduled for June 2016).

(6) Programme Implementation Structure

1) Borrower: The Government of the United Republic of Tanzania
2) Executing Agency: Ministry of Finance and Planning
3) Operation and Maintenance System: For the implementation of the programme, relevant government ministries and agencies with jurisdiction over the policy and system targeted in the programme's policy actions (Prime Minister's Office, Prime Minister's Office –Regional Administration and Local Government, Ministry of Industry and Trade, Ministry of Lands, Housing and Human Settlements Development, Ministry of Labour and Employment, Ministry of Agriculture, Food, and Cooperatives, Ministry of Natural Resources and Tourism, Ministry of Transport, Bank of Tanzania, Tanzania Revenue Authority, and Business Registrations and Licensing Agency (BRELA)) will perform analysis and

hold monitoring consultations on the concerned policy and system.

(7) Environmental and Social Consideration / Poverty Reduction / Social Development

1) Environmental and Social Consideration:

(1) Category: C

(2) Reasons for Categorization:

The programme is likely have minimal adverse impact on the environment under the “JICA Guidelines for Environmental and Social Considerations” (stipulated in April 2010).

2) Promotion of Poverty Reduction: The goal of this programme is to promote private sector development by reducing and reforming constraints in order to improve the business environment and achieve industrial development in Tanzania. It will contribute to reducing poverty by means of improving the various policies and institutions targeted by the policy actions of labor market reforms, financial access, rural road policies, agribusiness tax reforms, and more.

3) Promotion of Social Development (e.g. gender perspective, measures for infectious diseases including HIV/AIDS, participatory development, consideration for persons with disabilities): Gender mainstreaming needs survey / analysis programme (Reason for Categorization: the programme is expected to contribute to promoting gender equality and improving the business environment for female entrepreneurs through policy actions such as (a) Corporate registration / licenses, (e) Land system reforms, and (f) Financial access based on the gender challenges in the private sector area)

(8) Collaboration with Other Donors: Since the programme is a co-financing programme with the World Bank, the monitoring of the policy matrix will be carried out jointly.

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators

Reform pillar	Policy area	Application / results indicators		
		Results indicators	Baseline (FY2014)	Target (FY2018)
Improving the business environment	i) Corporate registration / licenses	Time to start a business	26 days	10 days
		Number of procedures to start a business	9	3
		Percent of new business registered online	0%	30%

		Total number of licenses since the inventory is established (percent reduction)	0%	25%
	ii) Facilitating harbor services / improving customs clearance services	Percent of cargo inspected	100%	50%
		Number of agencies able to use the “single window” at the Dar es Salaam Port	0	15
	iii) Corporate tax reform	Percent number of new VAT refund claims that are settled within one month	74%	90%
		Tax expenditures as percentage of GDP	3.13%	1%
Reforming the factor markets for labor, land, and capital	iv) Labor market reforms	Number of labor laws governing employment for citizens and non-citizens	8 laws	2 laws
		Percent of SDL revenue allocated for training purpose	40%	100%
	v) Land system reforms	Cost to register a property (percent of property value)	4.5%	2%
		Time to register a property	67 days	40 days
	vi) Financial access	Percentage of households who have a transaction account	57.4%	80%
		Quality of the legal regulatory frameworks for payment systems	Low/ Medium-Low	Medium high /High
		Percent of firms with a bank loan or line of credit	16.6%	19%
		Coverage of the Credit Bureaus	0.6%	6%
Creating employment and strengthening industrial competitiveness	vii) Rural road policies	Proportion of LGA roads in fair or good condition	60%	70%
	viii) Agribusiness tax reforms	Reduction in tax burden on agribusiness	0%	20% reduction
	ix) Modernizing food hygiene	Number of testing and certifications for food safety conducted by accredited laboratories independent from TFDA	0	4
		Percent of firms in the food sector with an internationally-recognized quality certification	20.5%	30%
		Percent of firms in the food sector identifying business licensing and permits as a major constraint	36.4%	20%
	x) Strengthening the competitiveness of the tourism industry	Total number of licenses, permits, taxes, levies and fees for tourism businesses	59	35 or less
		Increase in direct employment in the tourism sector	0%	10%

(2) Qualitative Effects: Improving the capabilities the Government of Tanzania in policy making and implementation, and promoting sustainable economic growth and the creation of employment

(3) Internal Rate of Return: Not calculated

5. External Factors and Risk Control

Sound macro-economic situation is a precondition for the implementation of the programme. Therefore, it will be carefully monitored utilizing assessment results by the International Monetary Fund (IMF) through Policy Support Instrument, which is one of IMF schemes, in which IMF provides advice and periodic assessments of the country’s policies without offering financial support.

6. Results of Evaluations and Lessons Learned from Past Programmes

(1) Lessons Learned from Past Programmes

An evaluation of budget support to Tanzania by the EU was announced in June 2013. It shows that the budget support from the donors had contributed to increasing development expenditures, priority budgetary allocations to the government's priority areas, substantially increasing social services, and strengthening public financial management. An independent evaluation by the World Bank related to PRSC1 – PRSC8, which was announced in July 2013, mentioned that the PRSCs had contributed to improving policies and institutions primarily in the areas of government procurement systems, audit systems, roads, power, and agriculture. The World Bank evaluation also reported seven lessons for enhancing the effectiveness of the policy improvements via budget support (narrowing down the targeted fields for policy and institutional improvements and clarifying the expected results, flexible program design changes in accordance with changes in the external environment, establishing functional indicators, etc.).

It was pointed out in the ex-post evaluation results for the Philippines' Development Policy Support Program (II) and (III) (2009 – 2010) that disseminating and sharing information with the private sector including Japanese companies operating in the local market, is expected to enhance the effectiveness and boost the results of program loans that zero in on the investment environment and infrastructural improvements.

(2) Application of Lessons to the Programme

The programme focuses on private sector development and its performance indicators selected are well linked with policy actions and easy to measure programme outcomes. Moreover, efforts are made to ensure that the government's reforms are successfully implemented by emphasizing coordination with existing JICA programmes and taking up the reforms incorporated into BRN. Interviews held with Japanese companies are reflected into the policy matrix to the extent possible.

7. Plan for Future Evaluation

(1) Indicators to be Used

Evaluations will be carried out based on the performance indicators for the policy matrix. Details of each indicator are shown in 4(1)1.

(2) Timing

The target period for the performance indicators is scheduled for FY2018. The evaluation will be carried out based on the achievement of the policy actions for FY2016/2017, which corresponds to Phase 3.