

Raising the Bar

Achieving Tanzania's
Development Vision

TANZANIA
ECONOMIC
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The giraffe is Tanzania's national symbol and, as such, it is protected by law. The giraffe is a graceful animal whose long neck represents the ability to be visionary while still viewing the past and present. The giraffe reminds Tanzanians to increase their understanding by viewing life from all angles.

Raising the Bar



Achieving Tanzania's
Development Vision

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DEDICATION

PROFESSOR BENNO NDULU

1950-2021

It is with heavy hearts that we dedicate this Tanzania Economic Update to the lasting legacy of Professor Benno Ndulu. Many World Bank Group staff had the special privilege to interact with Professor Ndulu—or just ‘Benno’ as he was known to many of us—either while working at the World Bank, or the Bank of Tanzania, or in the many international development activities he was so highly devoted to. A powerhouse in development economics and a remarkable leader with unwavering commitment to the socio-economic transformation of Tanzania, Benno was always at the heart of our work in Africa. This was all thanks to his affability, humility, and immense generosity to share his time and knowledge with others. His passing is felt very deeply.

Professor Ndulu made important contributions to the development of Tanzania and beyond. In the 1980s, he led a series of seminars in Tanzania on the economic difficulties that the country was facing, which helped to shape the reform agenda and its implementation by the Second Phase government. When he moved to the World Bank in 1997 to lead the Macroeconomic Division in the Tanzania country office, Professor Ndulu was a cornerstone in the Bank’s dialogue with the Third Phase government on the critical reforms that would directly contribute to decades of sustained economic growth that Tanzania has since enjoyed. These reform areas included liberalization, privatization, regulatory frameworks, poverty reduction, and the business environment, as supported by various World Bank lending and analytical projects.

Professor Ndulu moved to the World Bank Group headquarters in Washington DC in 2002 and extended his impact on the global development scene through various capacities, including as Research Manager in the Development Economics Department and as Manager and later Advisor to the Regional Vice President for Africa.

However, Professor Ndulu’s calling was always to the people of Africa, and he brought his wisdom and leadership back to Tanzania in 2008 as the Governor of the Bank of Tanzania. There he collaborated with local and international stakeholders including the private sector, to champion significant reforms in key areas such as financial inclusion, human development, business environment, and infrastructure. Indeed, Tanzania’s leading position in the global financial inclusion agenda cannot be delinked with Professor Ndulu’s personal dedication to this cause.

His retirement in 2018 did not faze Professor Ndulu’s passion for the causes that he championed. He joined Oxford University and continued to collaborate with partners, including the World Bank and many others. He served on many international advisory Boards, including the World Development Report 2021, the African Center for Economic Transformation, the “Think Africa Partnership”, and President Ramaphosa’s Economic Advisory Council to address the role of COVID-19 in South Africa, to name a few. Closer to home, he contributed to important World Bank work in the country including the Tanzania Inclusive Growth Analysis and Tanzania Economic Updates.

All of us at the World Bank will truly miss Benno’s intellectual leadership and championing of critical development issues. But most of all, we will miss his passion for research and for mentoring the next generation of African economists. He touched the lives and careers of so many and he will be truly missed.

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Abbreviations and Acronyms

AGOA	Africa Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
BoT	Bank of Tanzania
BMS	Block Management System
CAD	Current account deficit
COVID-19	Corona Virus Disease 2019
COV-BPS	COVID-19 Business Pulse Survey
CP-TPP	Comprehensive and Progressive Transpacific Partnership
DB	Doing Business
DFID	United Kingdom Department for International Development
DP	Development partner
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EAC	East African Community
EMDEs	Emerging markets and developing economies
EU	European Union
EVFTA	EU-Vietnam Free Trade Agreement
FBEP	Free Basic Education Policy
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
FSAP	Financial Sustainability Assessment Program
FYDP	Five Year Development Plan
GDP	Gross Domestic Product
GNI	Gross National Income
GVCs	Global Value Chains
HBS	Household Budget Survey
HCI	Human Capital Index
HIPC	Heavily indebted poor countries
ICT	Information and communications technology
IMF	International Monetary Fund
ILO	International Labor Organization
IPP	Independent Power Producer
LIC	Low Income Country
LLCs	Limited liability companies
LMIC	Lower Middle-Income Country
LPI	Logistic Performance Index

MoFP	Ministry of Finance and Planning
MSME	Micro, small, and medium enterprises
NBS	National Bureau of Statistics
NPLs	Nonperforming loans
NPS	National Panel Survey
ODA	Official Development Assistance
OSRM	Open Source Routing Machine
PER	Public Expenditure Review
PPD	Public Private Dialogue
PPPs	Public-private partnerships
PSSN	Productive Social Safety Net
PTA	Preferential Trade Agreements
RCEP	Regional Comprehensive Economic Partnerships
SADC	Southern Africa Development Community
SARS	Severe Acute Respiratory Syndrome
SDG	Sustainable Development Goal
SGR	Standard Gauge Railway
SME	Small and Medium-sized Enterprises
SOEs	State Owned Enterprises
SSA	Sub-Saharan Africa
TASAF	Tanzania Social Action Fund
TDV	Tanzania Development Vision 2025
TIC	Tanzania Investment Center
TVET	Technical and vocational education and training
TZS	Tanzanian shilling
UNCTAD	United Nations Conference on Trade and Development
URT	United Republic of Tanzania
US\$	United States dollar
USA	United States of America
VAT	Value-added tax
WB	World Bank
WBG	World Bank Group
WDI	World Development Indicators
WTO	World Trade Organization
WEF	World Economic Forum
WHO	World Health Organization



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The Tanzania Economic Update (TEU) is a biannual report describing the recent evolution of Tanzania's economy, and each edition highlights a subject of critical interest to policymakers. The TEU series is also designed to reach a broader audience of stakeholders that includes the private sector, the government's development partners, and the public. To ensure that the TEU is accessible to as wide a readership as possible, each edition is presented in a relatively nontechnical style.

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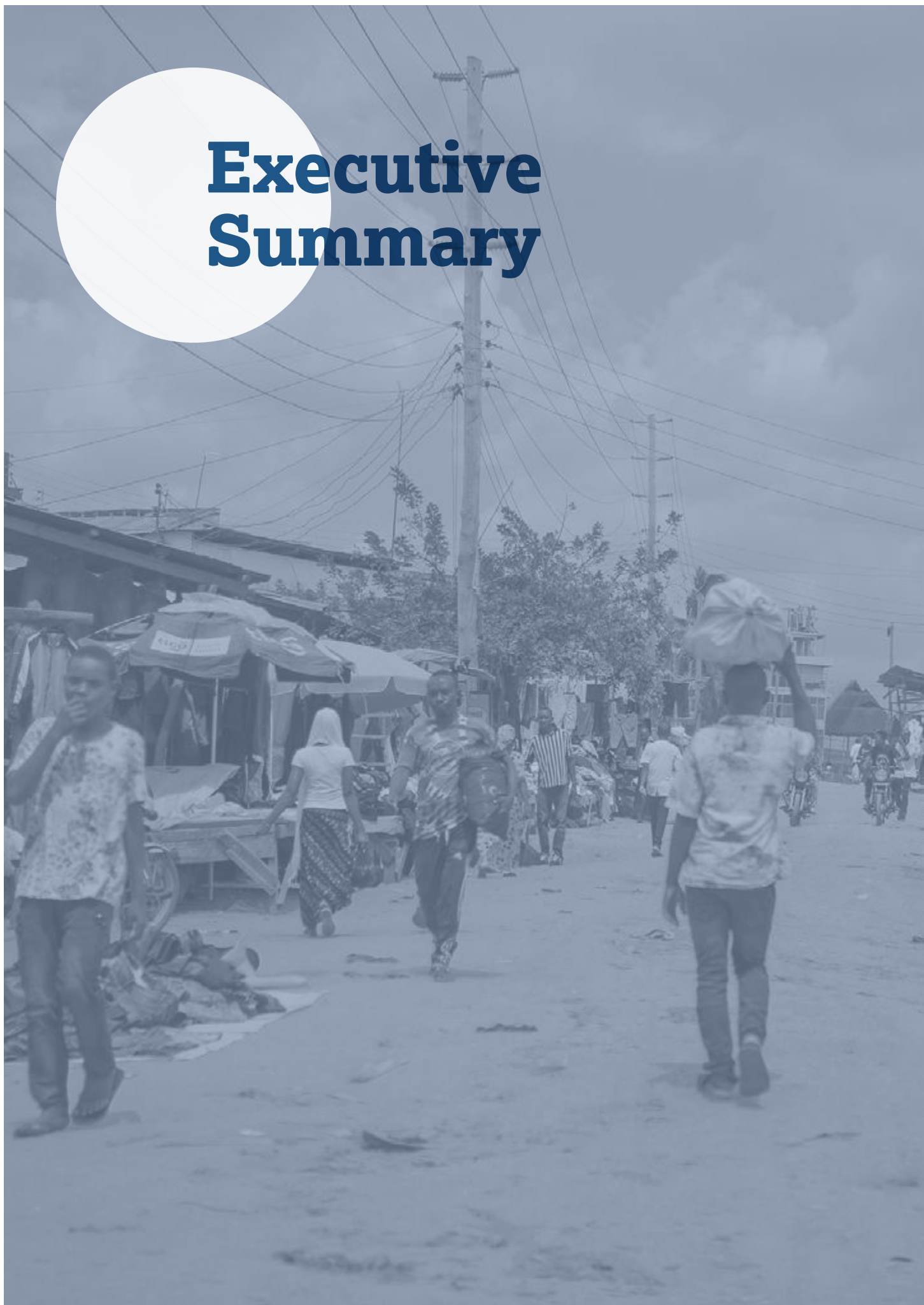
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Executive Summary





Tanzania avoided a recession in 2020, but the COVID-19 pandemic has significantly impacted lives and livelihoods across the country.

The emergency of the COVID-19 novel coronavirus plunged the global economy into a recession in 2020, and the pace of recovery remains uncertain both among advanced and emerging economies. Pandemic-related health restrictions and the adoption of precautionary behaviors by firms and consumers have greatly slowed economic activity, while uncertainty regarding the post-pandemic economic landscape and key policy decisions have discouraged investment. Agricultural and manufacturing firms face serious questions regarding the viability of global value chains, and the unforeseeable course of the pandemic weighs on international trade and tourism (World Bank 2021). Meanwhile, the disease itself continues to exact an enormous and mounting toll on human lives, and the disruption of education systems has slowed human capital accumulation, which could negatively impact the productivity of an entire generation. The global economy contracted by an estimated 4.3 percent in 2020, and while a 3.8 percent rebound is projected for 2021, worldwide economic output is expected to remain well below pre-pandemic trends over the near term.

Tanzania has fared relatively well compared to its regional peers, but economic growth has slowed significantly. The real GDP growth rate fell from 5.8 percent in 2019 to an estimated 2.0 percent in 2020, and per capita growth turned negative for the first time in over 25 years. The global economic slowdown has adversely affected export-oriented industries, especially tourism and traditional exports, and caused a drop in foreign investment. Gold has been the sole export to benefit from the crisis, as international gold prices rose sharply between 2019 and 2020. Although the government did not impose stringent mobility restrictions, the pandemic prompted firms and consumers to adopt precautionary behaviors, hindering domestic economic activity. Meanwhile, steep declines in production, consumption, and imports have significantly reduced fiscal revenue. The pandemic has also compounded preexisting challenges in the financial sector, and the share of nonperforming loans on bank balance sheets continues to be high, while the growth of credit to the private sector has slowed.

The government took early measures to alleviate the adverse health and economic impacts of COVID-19. In March and April 2020, the authorities implemented movement restrictions, including bans on large gatherings (except religious services), school closures, and the cancellation of international flights. The government supported the private sector's efforts to cope with the economic impact of the pandemic by expediting the verification and clearance processes for value-added tax (VAT) payments and refund arrears, while expanding the coverage of social security schemes to support vulnerable households. The Bank of Tanzania (BoT) reduced the discount rate and the minimum reserve requirement to inject liquidity into the financial system. However, these measures were moderate relative to those implemented in many other countries in the region. Moreover, the absence of official information on COVID-19 morbidity and mortality rates complicates efforts to assess the effectiveness of the public health response.

Slowing economic activity has adversely impacted livelihoods. During June and July 2020, the World Bank conducted a COVID-19 Business Pulse Survey (COV-BPS) covering 1,000 small and medium enterprises in Tanzania. The survey data indicate that about 140,000 formal jobs were lost in June 2020, and another 2.2 million nonfarm informal workers suffered income losses. Tanzanians employed in informal nonfarm microenterprises tend to be especially exposed to economic shocks, as they often have limited savings to draw on in a crisis. Firms reported an average decline in sales of 36 percent, which has jeopardized the solvency of more than three-quarters of small and medium enterprises. Most affected firms have not benefited from any type of government support, and respondents suggested that tax deferrals for firms in the most severely affected sectors, including tourism and related services, could help mitigate the disruptive effect of the crisis and enable a swift recovery. Also, offering more flexible capital and collateral requirements to borrowers could enable firms to sustain their operations and allow investors and entrepreneurs to take advantage of emerging opportunities.

The crisis could push an additional 600,000 people below the national poverty line. While the poverty headcount ratio at national poverty line (TZS 49,320 per month per adult equivalent, which is equal to US\$ 1.35 per person per day in purchasing-power-parity terms) has declined modestly over time, falling from 28.2 percent of population in 2012 to 26.1 in 2019, Tanzania's rapid population growth has caused the number of people living below the national poverty line to steadily increase. In 2020, the pandemic-induced economic slowdown caused the poverty rate to rise to an estimated 27.2 percent, compounding the effect of population growth on the absolute number of people living in poverty. Because a large share of Tanzania's population is close to the poverty line, even a mild economic shock can push numerous households into poverty. The impact of the crisis has been especially acute among households that rely on self-employment and informal microenterprises in urban areas.

Tanzania's growth prospects depend on both the successful worldwide rollout of a COVID-19 vaccine and the implementation of sound domestic policies to accelerate the recovery of economic activity.

Tanzania's economic outlook remains highly uncertain. The annual GDP growth rate is projected to rise to 4.5 percent in 2021, but this forecast hinges on a strong and consistent recovery in global economic activity. The epidemiological trajectory of COVID-19 continues to evolve, and a resurgence in infection rates is being reported across much of the world.

Even if Tanzania contains its domestic outbreak, a worldwide health crisis that continues well into 2021 could continue to suppress economic activity. Tanzania's tourism sector is especially vulnerable to a downside scenario in which the pandemic persists. Moreover, capital inflows—including foreign direct investment—remain sensitive to both the economic uncertainty engendered by the crisis and the increasing fragility of global financial markets driven by the sharp rise in debt-financed stimulus spending.

The shock of the pandemic is expected to slow poverty reduction. The national poverty rate is projected to fall to 27.0 percent in 2021, down slightly from 2020 but still above its 2019 level. Due to rapid population growth, the number of people living below the national poverty line is projected to increase by 320,000 in 2021. The quality of the post-crisis recovery will shape poverty dynamics in 2021 and beyond. To sustainably reduce poverty, the recovery must create high-paying jobs, enable the growth of micro, small and medium enterprises (MSMEs), and support gains in the productivity of the agricultural sector, on which three-quarters of poor households depend. To bolster household consumption and accelerate poverty reduction, the government must expand social support programs such as the Productive Social Safety Nets (PSSN) program implemented by the Tanzania Social Action Fund (TASAF) and ensure adequate coverage in urban areas.

Increasing the availability and quality of information on both the domestic spread of COVID-19 and the evolution of macroeconomic indicators will strengthen the government's ability to plan and implement effective policies. On May 8th, the government stopped reporting the number of new COVID-19 cases, and since then no official figures on case numbers, deaths, and recoveries have been published, making it impossible to reliably assess either the human toll of the virus or the effectiveness of the government's health strategy. Meanwhile, a delayed release of national-accounts data for the second and third quarters of 2020 has prevented a timely analysis of the pandemic's macroeconomic effects, the impact of the initial fiscal and monetary policy response, or the pace of Tanzania's recovery. Expanding the publication of epidemiological and macroeconomic data could help ensure the success of the public health response while also bolstering market sentiment by signaling the government's determination to counter the external shock induced by the pandemic. Providing comprehensive and timely information on the containment of the domestic outbreak and the evolution of macroeconomic indicators would also facilitate collaboration between local, regional, and international stakeholders.

The government is urged to proactively engage with technical partners to prepare a plan for deploying a COVID-19 vaccine. Establishing an internal process for planning a COVID-19 inoculation campaign would position the authorities to move swiftly as new vaccines become available. Enhancing access to health care in targeted areas under a health-systems approach could increase the availability and use of public health services. Finally, building the adaptive capacity of the health system would enable the authorities to adjust to a changing disease profile and confront emerging challenges.

The success of the government's efforts to improve the investment climate will largely determine whether robust growth can be sustained beyond 2021. Tanzania has several macroeconomic advantages that favor a swift recovery. It is one of the few economies in the region not to experience a contraction in 2020. The country's low risk of debt distress offers some space to prudently utilize debt financing, and the government's fiscal position has improved over the last four years, with the fiscal deficit averaging around 2.0 percent of GDP. International reserves are relatively high at about five months of import coverage, while a combination of high gold prices and low oil prices is bolstering the terms of trade. To capitalize on these advantages and lay the foundation for robust and sustainable long-term growth, the government should seize the opportunity to advance its structural reform agenda. The government has already approved several important measures, including the Blueprint for Regulatory Reform and the Arrears Management Strategy. Accelerating the implementation of these initiatives while taking additional steps to improve the business climate for domestic and foreign investors will position the Tanzanian economy to capitalize on the anticipated global recovery.

Raising the Bar: What will it take to achieve Tanzania's Development Vision?

Following two decades of sustained growth, Tanzania reached an important milestone in July 2020, when it formally graduated from low-income country (LIC) to

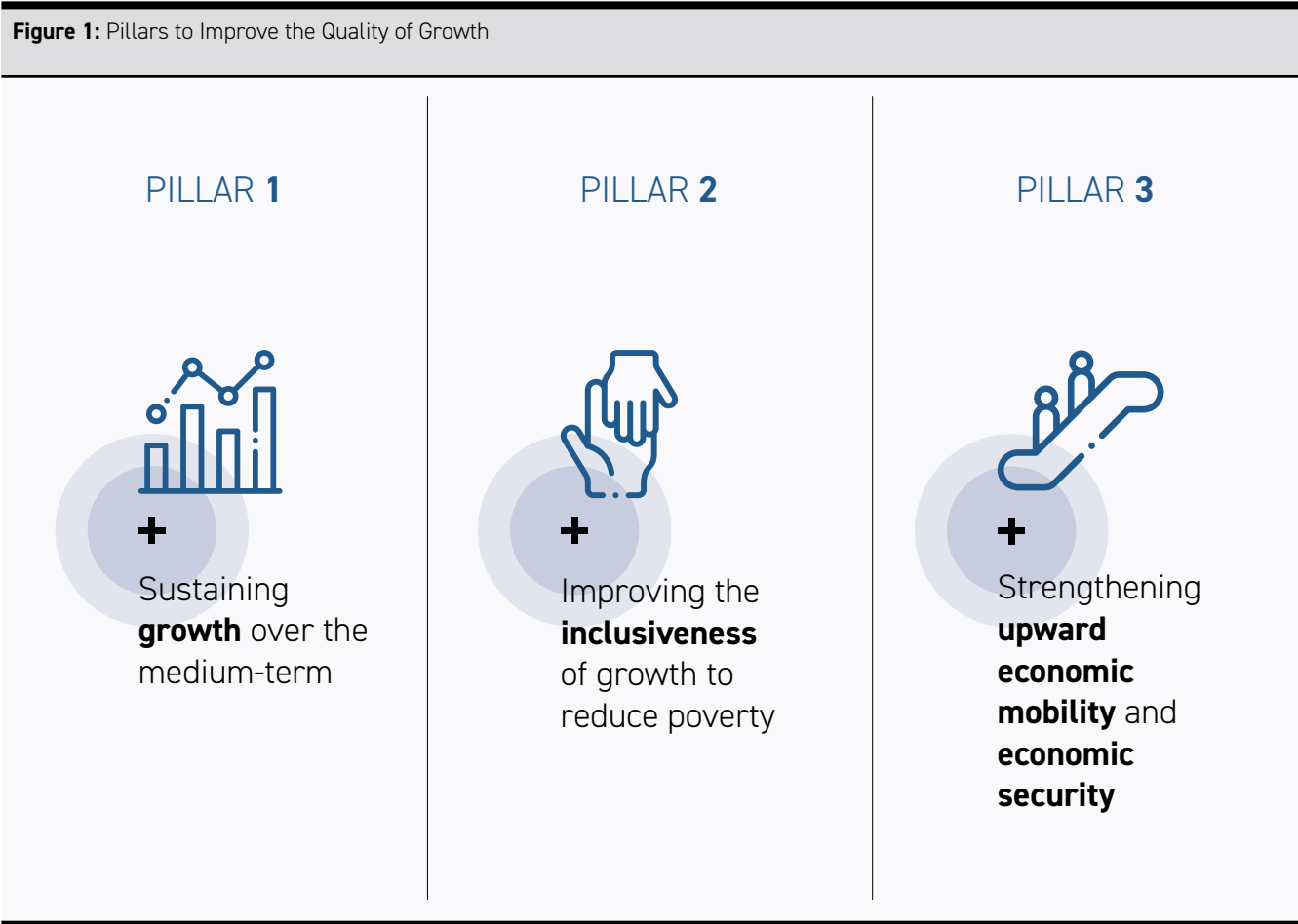
lower-middle-income country (LMIC) status. This reclassification reflected the country's rising gross national income (GNI) per capita, which reached US\$1,080 in 2019, surpassing the US\$1,035 threshold for LMIC status. Tanzania's achievement reflects sustained macroeconomic stability that have supported growth as well as the country's rich natural endowments and strategic geographic position. Tanzania's graduation to LMIC status presents an opportunity to assess the quality of past growth and to develop a roadmap to guide its successful transition to middle-income status. These perspectives will provide the basis for raising the bar, as Tanzania strives to achieve qualitative development goals that extend beyond income per capita.

While reaching LMIC status is a laudable achievement, Tanzania's larger development agenda remains unfinished. The Tanzania Development Vision (TDV) 2025 envisages Tanzania as a middle-income country with well-developed human capital, an ample supply of high-quality livelihood opportunities, and broad-based gains in living standards.¹ To realize this vision, Tanzania's impressive progress in boosting income levels, narrowing the infrastructure gap, and improving social indicators must be complemented by widespread improvements in poverty reduction, shared prosperity, and other qualitative development indicators. For example, the average poverty rate based on the international extreme poverty line of US\$ 1.90 per day in 2011 purchasing-power-parity terms for a country that has just achieved LMIC status is 30 percent, yet Tanzania's extreme poverty rate remains close to 50 percent.² Rapid population growth, slow and uneven job creation, low levels of education, and limited access to educational and employment opportunities, especially among women and girls, have reduced the inclusiveness of Tanzania's economic expansion, blunting its effect on poverty reduction. In this context, sustaining a robust expansion while ensuring that economic growth generates inclusive opportunities and broad gains in living standards will be critical to realize the ambitious objectives of the TDV 2025.

Achieving the government's development goals for the next five years will require an annual GDP growth rate of 8 percent, the creation of 8 million jobs, and sustained improvements in social indicators. To recast the TDV's aspirations as concrete policy measures, the policy makers will need to carefully evaluate the quality of recent growth and integrate lessons from the experience of successful middle-income countries. Recent growth experiences from countries that successfully transitioned from low-income to middle-income economies highlight the importance of: (i) accelerating the growth of labor productivity in agriculture and agribusiness value chains; (ii) attracting private investment in labor-intensive manufacturing, services, and nonfarm activities that add value to agricultural products, including the processing and export of food and cash crops; and (iii) ensuring equitable employment access for low-skilled workers, youth, and women.³

While Tanzania aspires to middle-income status, in the near term it will need to maintain its LMIC status in a context of deep and lasting external shocks. Over the past 10 years, 23 countries have fallen from middle- to low-income status or from high- to middle-income status. In some cases, these reversals were caused by exogenous factors, such as natural disasters and conflicts, but at least half were linked to macroeconomic instability arising from mismanaged commodity price shocks or deteriorating debt profiles. The experience of these countries illustrates the dangers of complacency and underscores the importance of prudent macroeconomic and fiscal management and a consistent focus on strengthening resilience to shocks. As the COVID-19 pandemic continues to depress global economic activity, Tanzania will need to endure an indefinite slump in external demand regardless of the effectiveness of its domestic health response.

This report frames Tanzania’s next-level-of-development goals around three strategic pillars (Figure 1). These three pillars reflect both the lessons of the international experience and Tanzania’s unique circumstances and form the basis for an actionable policy agenda to achieve the goals of the TDV 2025. The following analysis of challenges and opportunities in these areas is intended to inform both the implementation of the current National Five Years Development Plan II (FYDP II) and the design of the subsequent FYDP III.



Private investment should be the driver of sustainable future growth, as the previous two decades have shown. Over the past two decades, rising overall investment levels have steadily increased the national capital stock, and investment has consistently accounted for roughly two-thirds of real GDP growth. About three-quarters of total investment has come from private sources. However, foreign direct investment (FDI) inflows have waned in recent years, threatening Tanzania’s position as a top FDI destination in East Africa. Tanzania’s net FDI inflows as a percentage of GDP are now below both the LIC and LMIC averages, and reversing the deceleration of private investment will be crucial to support growth through capital deepening, technology spillovers, and skills upgrading. Attracting export-oriented FDI has been at the cornerstone of successful development strategies in much of East Asia and in some African countries, and the international experience highlights the importance of fostering a competitive business climate.

Productivity gains will be crucial both to sustaining LMIC status and to transitioning to upper-middle income status. Tanzania’s productivity indicators are low by the standards of its new LMIC comparators.⁴ Factor accumulation has driven recent economic growth in Tanzania, and productivity gains have been modest and inconsistent: since 2013, labor productivity has gradually increased, but total factor productivity has declined. Greater efficiency in the utilization of capital and labor could leverage Tanzania’s scarce resources, improving its competitiveness and facilitating export-

oriented growth. Fostering technology transfer and domestic innovation, strengthening human capital through public investment in health and education, and creating a more hospitable business environment could help encourage the efficient allocation of resources.

Boosting private investment and enhancing productivity are separate but complementary objectives.

Continued capital deepening will be necessary to further narrow Tanzania's infrastructure gap and create adequate employment opportunities for its growing workforce. Improving the quality of governance, expanding the supply of public services, and addressing regulatory constraints on doing business will enable Tanzania to attract the investment it needs. At the same time, policymakers must ensure that private investment is allocated to competitive sectors and increases overall economic productivity. Strengthening inter-sectoral linkages, facilitating technology transfer, and increasing the supply of market-relevant workforce skills can maximize the productivity-enhancing effect of private investment. Creating an environment conducive to productivity-seeking investment requires focusing public expenditure policies on human capital, infrastructure, and essential services, while also implementing regulatory reforms designed to lower administrative costs for private firms. Measures that accelerate the uptake of digital technologies could play an especially important role in increasing total factor productivity and promoting inclusive growth.⁵

Agricultural transformation is at the heart of Tanzania's development vision. Agriculture accounts for the largest share of employment, and the sector provides livelihoods for many of the country's poorest households. Increasing the productivity of agriculture through investments in rural infrastructure, production systems, and distribution networks, while bolstering the sector's resilience to natural shocks, could facilitate the growth of a labor-intensive manufacturing sector that utilizes excess rural labor and adds value to agricultural commodities. Increasing public expenditure efficiency could create additional fiscal space to finance investment in agricultural research and more efficient water and land management systems. Meanwhile, removing trade restrictions and improving the regulatory environment for agricultural input markets (e.g. seeds, fertilizers) could support greater private investment in agriculture and agro-processing. Agricultural transformation is also vital to break intergenerational cycles of poverty and vulnerability, as a lack of alternative economic opportunities consigns most Tanzanians from farming households to a lifetime of employment in low-productivity agriculture.

Despite Tanzania's impressive GDP growth rate, the pace of poverty reduction has slowed in recent years, and growth has become less inclusive. Since 2012, income and consumption growth among the wealthiest households has outpaced growth among the poorest, and Tanzania's growth elasticity of poverty is among the lowest in the world. The current economic expansion has been driven by sectors that employ relatively few workers, especially from poor households. Wealthier Tanzanians, particularly those in urban households with greater human capital and productive assets, were better positioned to seize opportunities generated by rapidly growing sectors such as construction, information and communications technology, and real estate. This imbalance in economic opportunities widened the income gap between households. Meanwhile, job creation is becoming increasingly urgent, as Tanzania's demographic dividend is intensifying pressure on the labor market. At present, an estimated 800,000 new workers are expected enter the market each year, and this number is expected to increase over the next decade. Without a substantial increase in the number of high-quality jobs, many of these workers will face unemployment or underemployment, with negative implications for their lifetime earnings and for Tanzania's development aspirations.

Investments in human capital are fundamental to increase productivity, accelerate long-run economic growth, and create an economically secure middle class. A country's aggregate level of education, health, and skills development is a critical determinant of both the pace and quality of its economic growth. Human capital formation is also vital to economic security, as it increases household resilience and lowers the risk of falling back into poverty. By expanding access to employment opportunities and basic services, investments in human capital generate more inclusive growth and accelerate intergenerational economic mobility. Currently, less than 10 percent of Tanzania's population is defined as economically secure, and the large number of nonpoor households just



above the poverty line slows progress on poverty reduction: in recent years, three out of every four Tanzanians who rose above the poverty line eventually fell back below it. In addition to building human capital, expanding access to financial services, particularly among women, can enable firms and households to build financial reserves against future shocks and invest in income-generating activities, promoting inclusive growth and strengthening economic security.

Achieving the goals of the TDV 2025 will require a more ambitious human capital development strategy. The government's policy orientation is broadly aligned with its stated objectives, and significant progress has been made in enhancing access to healthcare, reducing child mortality, expanding free primary education, raising primary and secondary enrollment rates, increasing investment in higher education, and implementing targeted social protection programs for households in extreme poverty. However, Tanzania's Human Capital Index (HCI) remains well below the LMIC average. Access to education is highly unequal, and a lack of qualified teachers undermines learning outcomes. The health system's resources are not adequate to meet the needs of the population, and a fragmented approach to alleviating stunting and malnutrition hinders progress on crucial health indicators. In the labor market, a shortage of skilled workers, and skills mismatches, slows income growth and constrains employment opportunities. A more ambitious human capital development strategy must reflect the evolving needs of Tanzania's growing population, with a focus on poor households, underserved regions, and vulnerable groups such as children, women, and adolescent girls.

Implementing the policies necessary to realize Tanzania's development goals will require improved governance, greater revenue mobilization, increased expenditure efficiency, and an enduring commitment to macroeconomic stability. The government has established a track record of sound macroeconomic management, but further reforms to both revenue mobilization and public expenditure policy will be required to create adequate space for productive investment without jeopardizing fiscal sustainability.⁶ The government can also catalyze private investment, including FDI, by narrowing the infrastructure gap, improving the quality of public services, and enhancing the business climate. Investing in high-quality granular data, facilitating the exchange of information within the government, and improving communications between the government and other stakeholders will be critical to improve policy design, enhance public service delivery, foster transparency and accountability, and accelerate private-sector-led growth.

Based on Tanzania's unique opportunities and challenges, and incorporating lessons from the experience of successful LMICs, this report highlights five priority areas for achieving Tanzania's development goals. These areas include: (i) productive investment; (ii) human capital development; (iii) agricultural transformation; (iv) digital technology; and (v) public sector capacity-building, which includes the capacity to leverage partnerships with the private sector. While this is not intended to serve as an exhaustive list of recommendations for realizing the goals of the TDV 2025, actions in these areas will be essential to generate inclusive and sustainable growth and become a middle-income economy.

Figure 2: Priority Policy Areas

Accelerating productive investment



Prioritizing human-capital development



Enabling agricultural transformation



Leveraging digital technology



Building public sector capacity

1

Tanzania's Economy in Global Perspective

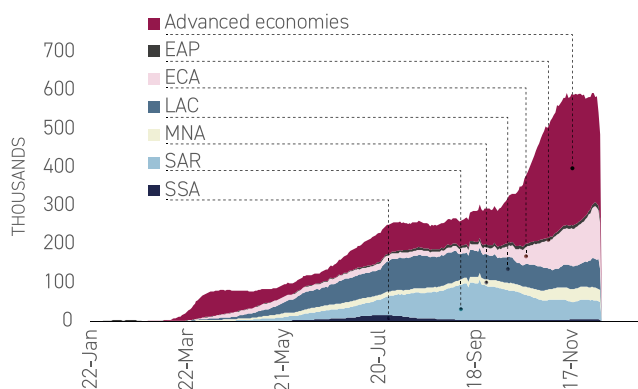
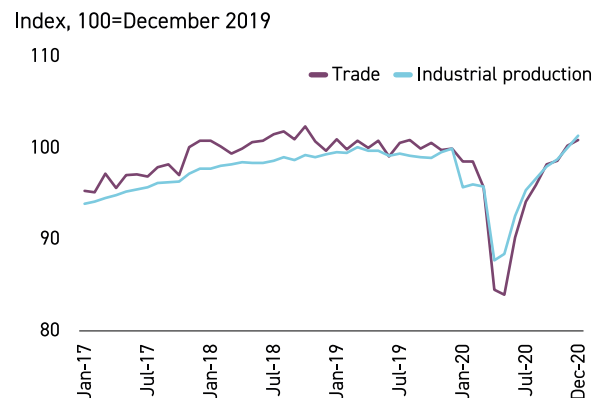
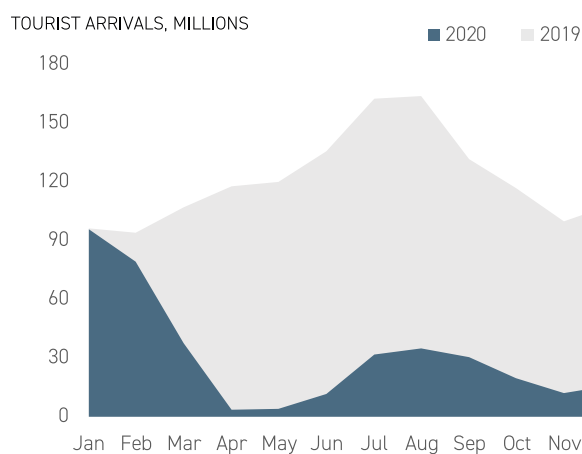
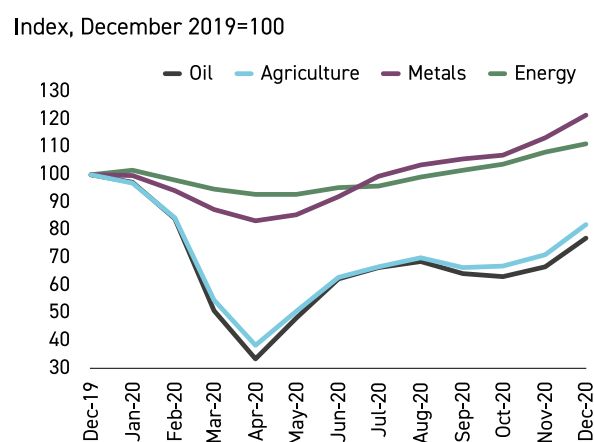


1.1 Recent Economic Developments

The COVID-19 pandemic continues to exact an enormous humanitarian and economic toll worldwide.

To date, the COVID-19 pandemic has resulted in almost 115 million confirmed cases and more than 2.5 million deaths worldwide. The pandemic has dealt a devastating blow to the global economy, and worldwide economic activity is projected to fall to a 70-year low in 2020. Yet despite the recent upsurge in infection caseloads, high-frequency indicators suggest that a gradual recovery began in the second half of 2020. Supported by gains in manufacturing and services, the global composite Purchasing Managers' Index (PMI) edged up to 53.8 in December, the sixth consecutive monthly increase, and industrial production levels in advanced economies and emerging markets and developing economies (EMDEs), excluding China, have risen from their April lows. However, the services sector's future remains highly uncertain, as social-distancing measures continue to shift consumption patterns away from services requiring face-to-face interactions.

Global merchandise trade volumes are slowly rising, but new export orders have stabilized below their pre-pandemic levels, reflecting persistent weakness in global demand. Various mitigation measures, including travel restrictions, remain in effect, and consumer behavior has yet to normalize. These conditions have impeded the recovery of international travel and tourism and they continue to disrupt the services sector. Agriculture and metal commodity prices have partially recovered during the second half of 2020, with oil prices below their pre-pandemic levels ([Figure 3](#)).

Figure 3: The Global Economic Impact of the COVID-19 Pandemic**A. New COVID-19 cases by region****B. Global trade, industrial production, and maritime shipping****C. International tourist arrivals****D. Commodity price indexes**

Source: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; John Hopkins University; World Bank; World Tourism Organization.

Notes:

A. 7-day average for new COVID-19 cases. Last observation is November 29, 2020.

B. Data are daily for seaborne shipping, and monthly for trade and industrial production.

C. Figure shows international tourist arrivals between 2019 and 2020.

D. Pink Sheet data on commodity (agriculture, energy, oil, metals) price levels of oil, metals, and agricultural prices indexed to December 2019.

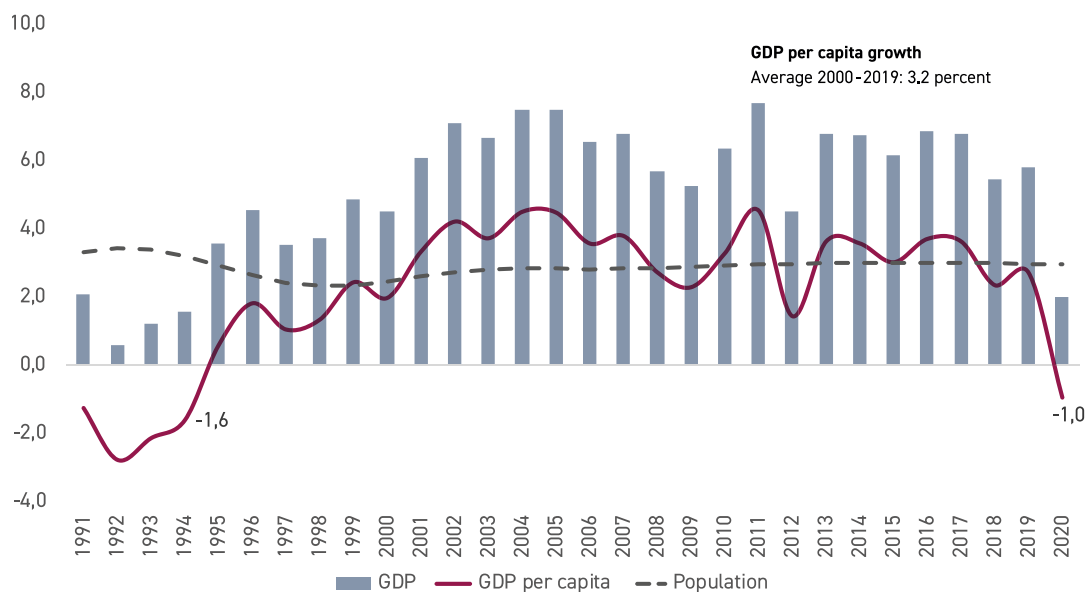
The global economy is projected to contract by 4.3 percent in 2020 before rebounding to a 3.8 percent growth rate in 2021. Despite this moderate anticipated recovery, worldwide economic output is expected to remain well below pre-pandemic trends. The pandemic-led contraction of 2020 is projected to be the most severe in seven decades, with a nadir almost three times as deep as that of the global financial crisis.⁷ Tanzania's two largest trade partners are China and India, and the pandemic has slowed the former's expansion while causing a contraction in the latter. Economic slowdowns are also forecast for Tanzania's key export destinations in Sub-Saharan Africa (SSA).

The pandemic continues to threaten lives and livelihoods of millions worldwide. Elevated unemployment and job losses have caused a sharp decline in labor income, with nearly 500 million fulltime jobs lost in the second quarter of 2020 alone. Meanwhile, an estimated 9 percent drop in remittance inflows to SSA countries has deprived many unemployed households of a vital source of income, forcing some to reduce their consumption.⁸ Even if the rollout of vaccines in 2021 successfully contains the pandemic, declining per capita income in EMDEs is expected to push between 110 and 150 million people into extreme poverty during 2020 and 2021, reversing decades of progress on poverty reduction.⁹

The pandemic-induced global economic shock slowed Tanzania's growth in 2020, but the country avoided a recession.

As external demand weakened, Tanzania's GDP growth rate fell from 5.8 percent in 2019 to an estimated 2.0 percent in 2020. As a result, GDP per capita contracted for the first time since 1994 (Figure 4). The COVID-19 crisis has depressed global demand for Tanzanian exports, with the notable exception of gold, and the disruption of trade links and market access—including border closures—pushed up the cost of inputs and transportation services early in the year. Meanwhile, rising global economic uncertainty reduced capital inflows, especially foreign direct investment (FDI), and the resulting deterioration of domestic business conditions has been marked by levels of consumer spending on durable goods, tightening credit constraints, and delays in implementing private investment projects. Shocks to export-oriented sectors such as tourism, manufacturing, and related services have been amplified, via diminished revenues and labor income, to domestically oriented small and medium enterprises (SMEs). Precautionary behaviors by firms and consumers have compounded these dynamics, further inhibiting economic activity.

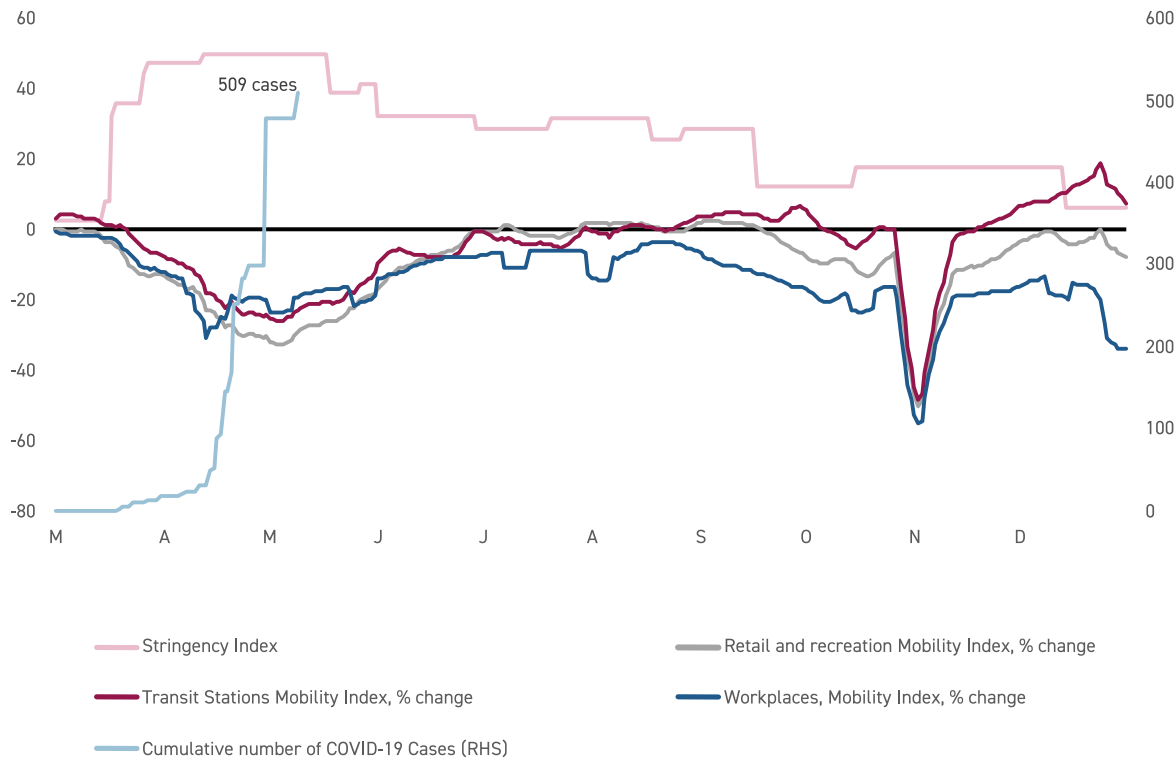
Figure 4: GDP and Population Growth Rates, 1994-2020



Source: WDI and World Bank Staff estimates.

The government did not impose stringent mobility restrictions, and its health and social protection measures were limited. Tanzania's public health response to COVID-19 was modest by the standards of East African countries, and by June most mobility restrictions had been lifted (Figure 4). However, the government stopped reporting the number of COVID-19 cases in the first week of May, and since then assessing the human toll of the pandemic has been impossible. Tanzania is among the 14 African countries that did not launch a large-scale economic response, and the most important measures to counter the economic impact of the crisis were a monetary stimulus initiative by the Bank of Tanzania (BoT) and the expedited payment of arrears and VAT refunds to SMEs (Box 1).

Figure 5: The Oxford Stringency Index, Google Mobility Indexes, and Number of Reported COVID-19 Cases, March – December 2020



Source: Google, Oxford and Tanzanian authorities.

Box 1
Key Policy Responses to the COVID-19 Pandemic

Mobility restrictions: The first confirmed cases of COVID-19 in Tanzania were reported on March 17, 2020. The government banned large gatherings (except for worship), suspended the operations of schools and educational institutions, cancelled international flights, and mandated the wearing of face masks in Dar Es Salaam. On May 18, 2020, the government lifted the ban on international flights. On June 1, the government allowed the reopening of upper-secondary and tertiary schools and the resumption of sports activities and events, and on June 29 all other educational institutions reopened. By July, all COVID-19-related restrictions had been lifted.

Fiscal measures: To date, the government has spent US\$8.4 million to directly counter the health and economic effects of COVID-19. To support the private sector, the government expedited the payment of verified expenditure arrears, with priority given to the affected SMEs. In March 2020, the authorities cleared US\$376 million in arrears. The government has also expanded its social security schemes by US\$32.1 million to account for the increase in new unemployment claims due to COVID-19. In addition, the government has granted VAT and customs duties exemptions for imported medical equipment and medical supplies.

Monetary measures: On May 12, the BoT lowered the discount rate from 7 percent to 5 percent and reduced collateral haircut requirements on government securities. On June 8, the BoT's Statutory Minimum Reserves requirement dropped from 7 percent to 6 percent. In addition, the BoT started providing regulatory flexibility, on a case-by-case basis, to banks and other financial institutions that carry out loan-restructuring operations. Finally, the daily transaction limit for mobile-money operators was raised from about US\$1,300 to US\$2,170, and the daily balance limit was raised from US\$2,170 to US\$4,340.

Source: IMF Policy Tracker, Tanzanian authorities.

Tanzania was the only country in East Africa in which statistics collection and publication was seriously disrupted following the COVID-19 pandemic. The National Bureau of Statistics (NBS) released GDP data for the second and third quarters of 2020 on January 25, 2021. In contrast, all other countries in the region with similar statistical institutional capacity published their second and third quarter national accounts data before the end of 2020. According to the NBS, Tanzania's GDP growth rate in the first three quarters of 2020 was 4.7 percent, year on year, led by construction (13.7 percent), agriculture (4.8 percent), transport and storage (8.9 percent), manufacturing (4.6 percent) and mining (9.5 percent). In contrast, accommodation and food services (-13.8 percent) and art, entertainment and recreation (-4.8 percent) declined.

Available high-frequency official data, combined with World Bank-led household and businesses surveys, reveal the severe toll of the COVID-19 crisis on firms and livelihoods. World Bank staff estimates using leading indicators suggest that GDP growth decelerated sharply, year on year, in the first three quarters of 2020 ([Table 1](#)). Monthly and quarterly data show that COVID-19 has significantly impacted exports, fiscal spending, tax revenue, imports of capital goods and raw materials, credit, and the performance of the industrial and services sectors. Mobility data show that visits to retailers, workplaces and transit stations were depressed during the second quarter of 2020, despite the absence of strict mobility restrictions, and mobility fell again in November.

The COVID-19 pandemic has exacerbated the vulnerabilities of Tanzania's private sector. Between April and August of 2020, the World Bank in collaboration with national statistics offices conducted COVID-19 Business Pulse Surveys (COV-BPS) in 16 African countries, including Tanzania (see [Annex 1](#)). The COV-BPS found that 81 percent of Tanzanian businesses reported fewer sales, with an average decline of 39 percent, and 35 percent of firms expected to fall into arrears on either their financial obligations or payments to suppliers ([Box 2](#)). Services firms were the most likely to report heightened vulnerability, and almost 20 percent had temporarily closed. Between 50 and 80 percent of firms have been affected by supply-side shocks (e.g., reduced working hours, limited availability of inputs, depressed demand) and/or liquidity shocks (e.g., diminished cash flow, limited access to finance). Public support reached just 6 percent of microenterprises and 17 percent of all other firms. While regional peers responded to the crisis by streamlining regulations, including import procedures, tariff regimes, and formalization processes, over 80 percent of businesses in Tanzania reported being unaware of either public support or reforms designed to address the crisis.

Table 1: High-Frequency NBS Data and the Findings of the COV-BPS

Sector	Series	Latest datapoint	Source
External	Exports of goods and services, imports of goods and services, the current account, international reserves	December 2020	Bank of Tanzania
Fiscal	Revenues, expenditures, grants, financing, arrears	December 2020	Ministry of Finance and Planning, Bank of Tanzania, and Tanzania Revenue Authority
Prices	Inflation (headline, food, energy), oil prices, exchange rates	December 2020	National Bureau of Statistics, World Bank, OANDA corporation
Monetary	Monetary aggregates of deposit corporations and Central Bank of Tanzania, interest rates	December 2020	Bank of Tanzania
Financial	Bank assets and liabilities, nonperforming loans	December 2020	Bank of Tanzania
Mobility	Mobility Indexes to workplaces, transit stations and retail	December 2020	Google
Business conditions and jobs	Sales, labor adjustments, liquidity and insolvency, government support, performance expectations	June-July 2020	WB COVID-19 Business Pulse Survey (COV-BPS) for Tanzania, 1 st round
Tourism	Sales, jobs, cash flow, access to finance, government support	October 2020	IFC and Dalberg Tourism Survey
Stringency of policy measures	Government response index, containment and health index, economic support index, stringency index	December 2020	Oxford University

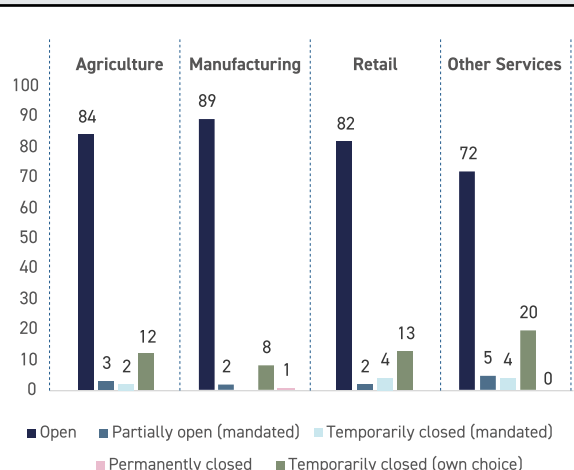
Box 2**Not Immune: The Impact of COVID-19 on Tanzanian Firms**

The results of the COV-BPS highlight five channels thorough which the COVID-19 crisis has impacted Tanzanian firms. These include:

- **Lockdown effects** arising from the mandatory suspension of nonessential businesses or changes in business hours, which primarily affected retailers, hotels and restaurants, education institutions, and personal service providers;
- **Demand shocks** arising from the slowdown in external and domestic economic activity, which primarily affected producers of durable goods, manufacturers (e.g., textiles and apparel), and export-oriented service firms;
- **Supply shocks** caused by reduced access to labor and intermediate goods, which primarily affected labor-intensive firms and those that rely on imported inputs;
- **Financial shocks** resulting from the combination of increased demand for financing and the diminished availability of credit, which primarily affected small business; and
- **Uncertainty**, which inhibited investment, innovation, and the deployment of technological solutions, with negative implications for firms of all types.

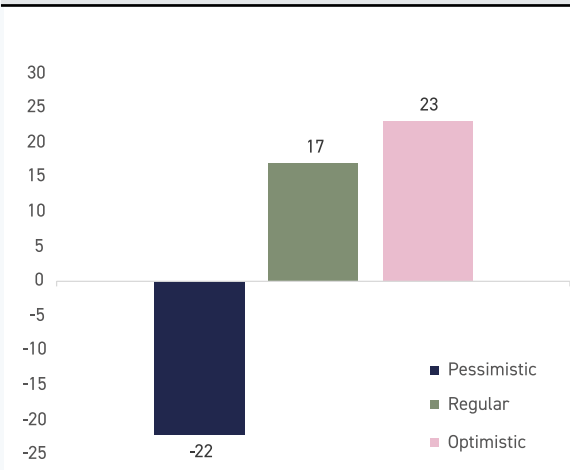
The combination of demand, supply, and financial shocks proved especially challenging. The median firm reported having sufficient cash on hand to cover its business costs for about 52 days. Firms in the service sector were particularly vulnerable and faced a large reduction on sales, especially relative to agricultural producers. While 5 percent of firms reported hiring new workers, 14 percent laid off workers, 13 percent reduced working hours, and 11 percent reduced wages. Overall, firms remain broadly optimistic about their outlook, though uncertainty remains acute (Figure 6).

Figure 6: The Impact of the COVID-19 on Tanzanian Firms



Source: WB COV-BPS.

Figure 7: Average Change in Sales Expected over the Next Six Months (percent)

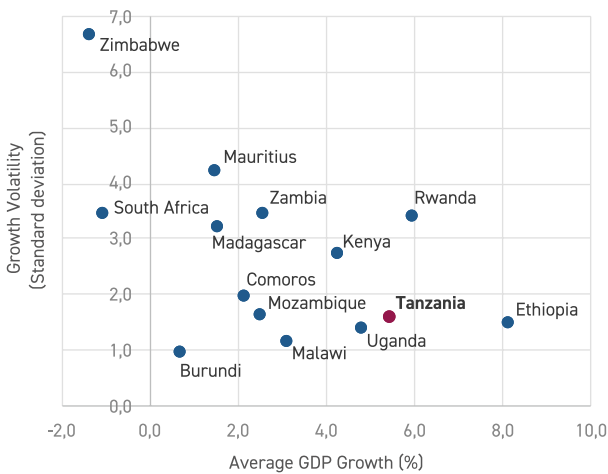


Source: WB COV-BPS.

Firms have adapted slowly to the changing environment. Relatively few firms report adjusting their business models to reflect new norms around social distancing. For example, just 4 percent of microenterprises and about 35 percent of all other firms reported adopting or increasing the use of digital platforms in response to the crisis. Large firms were also more likely than MSMEs to have adjusted their product mix. Only a small share of firms reported receiving government support of any kind, and most firms expressed a desire for relief and for access to subsidized financing.

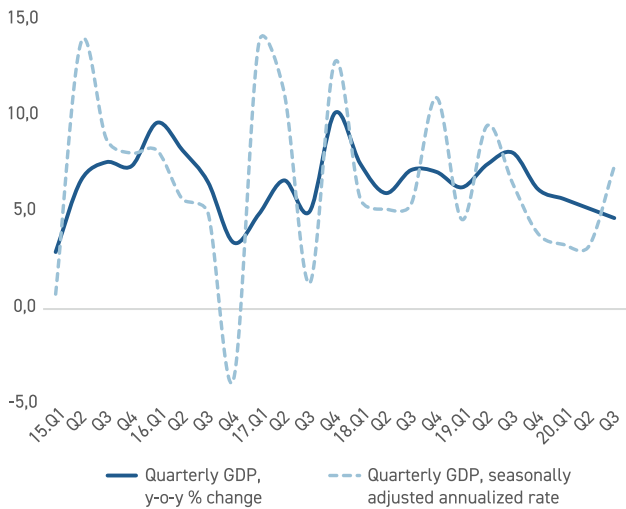
Tanzania's economy has fared better than those of its regional peers, and the country avoided recession in 2020. Despite concerns about the quality of the official GDP data,¹⁰ World Bank estimates suggest that by the end of 2020 Tanzania will remain one of the top three growth performers in East Africa. Over the last five years, its average GDP growth rate averaged 5.5 percent, ranking it third in the region behind Ethiopia (7.6 percent) and Rwanda (6.9 percent). Tanzania's economy is also expected to remain among the most stable in the region. Nevertheless, the COVID-19 crisis has had a deeply negative impact on employment and welfare, especially among lower-income households.

Figure 8: Economic Growth and Volatility, East Africa, 2016–20



Source: GEP, Africa Pulse, and WB staff estimates.

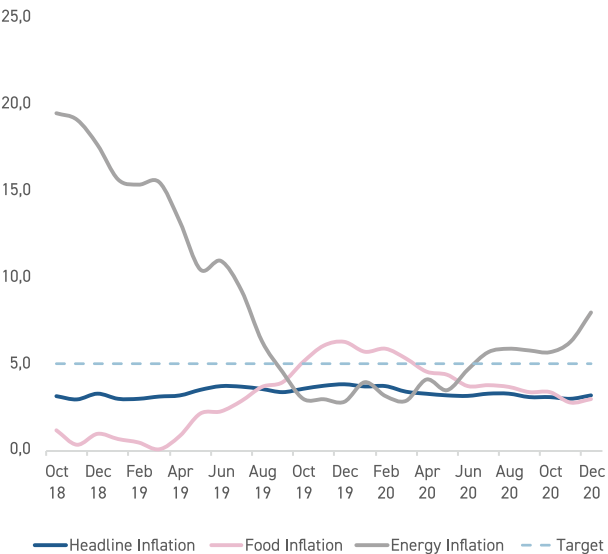
Figure 9: Official Quarterly GDP Growth Rates, Tanzania, 2015–20



Source: NBS, WB staff estimates

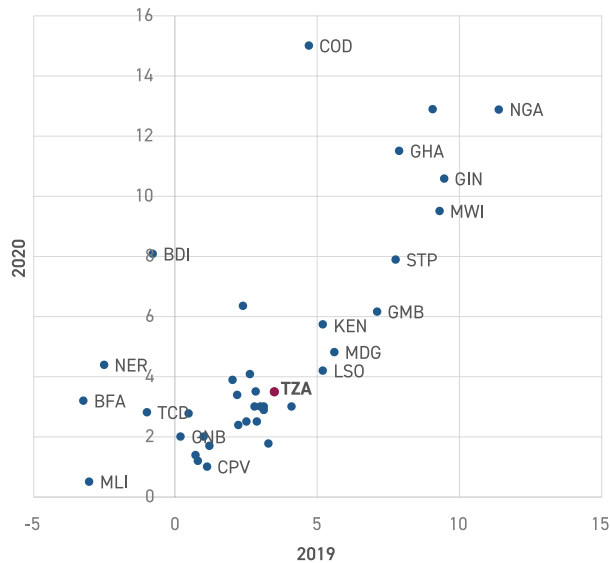
Inflation rates remain low and stable. In December 2020, the annual inflation rate hovered around 3.2 percent, its lowest level since the 2000s and below the 2018–19 average of 3.5 percent, reflecting robust food production and low oil prices (Figure 10). However, while the overall food inflation rate is below 5 percent, prices for staple products such as beans, sorghum, and potatoes have been increasing since July. Moreover, energy and fuel prices ticked up in the second half of the year, as global oil markets gradually recovered. Overall, Tanzania's inflation rate has been among the lowest and least volatile in the East African Community (EAC), and by the end of 2020 it was among the lowest in SSA (Figure 11).

Figure 10: Annual Inflation, 2018–2020 (percent)



Source: NBS.

Figure 11: Annual Inflation Rates, Sub-Saharan Africa, 2019–20



Source: Macro Poverty Outlook October 2020, World Bank.

The COVID-19 crisis has reversed some of the gains in poverty reduction achieved over the last decade.

Tanzania's recent economic growth has had limited effects on poverty reduction. A large share of the population is clustered around the national poverty rate of 49,320 Tanzanian shillings (TZS) per adult equivalent per month, or about US\$1.35 per person per day in purchasing-power-parity terms. The

national poverty rate is estimated to have declined slightly from 26.4 percent in 2018 to 26.2 percent in 2019. However, due to rapid population growth the number of Tanzanians below the poverty line rose by an estimated 250,000 during the period.

The decline in overall economic activity caused by the COVID-19 crisis has had an immediate and sizable impact on employment and incomes. In the first round of the COV-BPS, about 8 percent of formal wage workers reported having lost their job in the 30 days preceding the interview, representing a total loss of 140,000 formal jobs (see Box 2 and Annex 1). Rapid-response telephone surveys conducted in several countries across SSA have found that the crisis has had an especially negative effect on household businesses, with 70 percent reporting a decline in revenue, and one-third having stopped operating. In Tanzania, households that rely on small, informal nonfarm businesses for their livelihood are likely to have been the most impacted by the crisis. Many of these households have limited financial buffers to cushion income shocks. Of the roughly 2.2 million working-age individuals (15 to 64 years) in Tanzania's nonfarm informal sector about 1.4 million are self-employed in small family businesses. In 2018, just 3 percent of households in this group benefitted from a social protection program.¹¹

The crisis has had especially negative implications for informal urban workers and women. The COV-BPS found that the decline in sales was sharpest in the manufacturing and non-retail services sector (-40 percent), followed by the retail sector (-33 percent), and the agricultural sector (-23 percent). The share of informal employment in the most-affected sectors ranges from 50 percent in retail to 15 percent in construction.¹² Urban households are much more reliant on the non-farm informal sector than are rural households: 30 percent of urban households have at least one household member aged 15-64 working in the non-farm informal sector, versus 11 percent of rural households. The share of women employed in informal nonfarm activities is 48 percent, compared to 30 percent of men. The largest share of urban household heads working informally in an impacted sector is in Dar es Salaam (40 percent), followed by Morogoro (13 percent), Mtwara (9 percent), and Mwanza (5 percent).

Simulations using the available survey data suggest that the COVID-19 crisis has pushed an additional 600,000 Tanzanians below the national poverty line in 2020. Using income projections based on estimated per capita growth rates and data from the 2018 Household Budget Survey (HBS), the COVID-19 crisis is expected to increase the poverty rate by 1.1 percentage points, whereas the no-pandemic baseline projection anticipated a decline of 0.4 percentage points. The relative increase in poverty rates is expected to be higher in urban areas (+5.0 percent) than in rural areas (+1.9 percent). While population growth would have caused the number of people living below the poverty line to rise by 400,000 even in the absence of any major shocks, the COVID-19 crisis is expected to increase the poor population by an additional 600,000 Tanzanians by the end of 2020. A substantial share of the population remains at risk of at least transitory poverty, and even a mild shock to economic activity could push a large number of households into poverty.

Tanzania's external sector has benefitted from higher gold prices and lower oil prices.

The current-account deficit has narrowed. As of December 2020, the decline in imports outpaced the decline in exports, reducing the current-account deficit (CAD) from 1.9 percent of

GDP at the end of 2019 to an estimated 1.6 percent in December 2020. The year-on-year improvement in the trade balance reduced external financing needs, which have been covered primarily by external debt.

The COVID-19 pandemic reduced Tanzanian exports of goods and services. Gold and manufactured goods pushed total exports to a historic peak of US\$9.9 billion in 2019, but exports declined by 8.8 percent in 2020. Exports of tourism-related services, such as transportation and hospitality, fell by 44.4 percent due to global mobility restrictions, heightened risk aversion, and weak global demand. Tanzania's peak season was largely lost, and a quick recovery in the first half of 2021 appears unlikely (Box 2). Traditional exports also declined, with lower sales of cashew nuts, tobacco, cotton, and sisal. Meanwhile, Tanzania's main export, gold, was one of the few commodities that experienced a price increase during the crisis, as global uncertainty increased appetite for safe assets. Rising production volumes and elevated global prices drove a 33.5 percent increase in gold exports, which partially offset the decline in total exports.

Table 2: Trade Balance, 2018–2020

	(Millions of USD)			(Annual percent change)		(Shares)	
	2018	2019	2020	2019	2020	2019	2020
Total Exports	8394	9659	8809	15.1	-8.8	100.0	100.0
Goods	4380	5378	6429	22.8	19.5	55.7	73.0
Of which							
Gold	1524	2215	2958	45.3	33.5	22.9	33.6
Manufactured goods	795	805	912	1.3	13.3	8.3	10.4
Traditional exports	772	835	819	8.1	-1.9	8.6	9.3
Services	4015	4281	2381	6.6	-44.4	44.3	27.0
Of which							
Travel	2449	2604	1062	6.3	-59.2	27.0	12.1
Transport	1228	1350	1167	10.0	-13.5	14.0	13.2
Total Imports	10201	10362	8908	1.6	-14.0	100.0	100.0
Goods	8299	8600	7657	3.6	-11.0	83.0	85.9
Capital goods	3501	3713	3164	6.1	-14.8	35.8	35.5
Intermediate imports	2618	2662	2178	1.7	-18.2	25.7	24.4
Of which: Oil	1677	1801	1253	7.4	-30.4	17.4	14.1
Consumer goods	2177	2223	2315	2.1	4.1	21.5	26.0
Services	1902	1762	1252	-7.4	-28.9	17.0	14.1

Source: BoT.

Box 3**Coming back? Tourism in Tanzania**

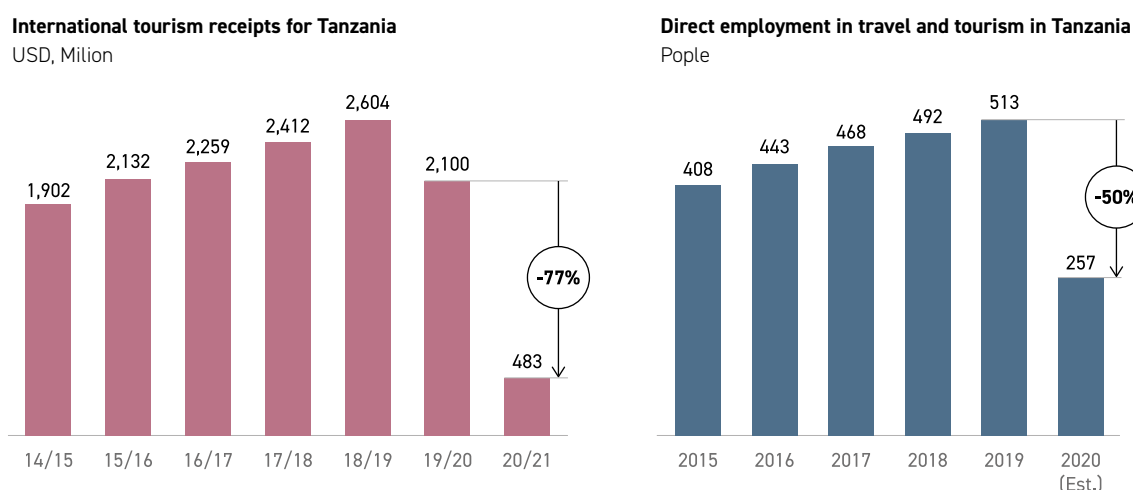
Before the global shocks caused by COVID-19, tourism was a major driver of exports and economic growth in Tanzania. One of the country's fastest-growing economic sectors, tourism contributed at least 17 percent of GDP in 2019 and attracted about 25 percent of FDI inflows in 2017 (US\$247 million). Tanzanian tourism exports are significantly higher than those of other EAC countries. Between 2014 and 2018 the number of non-African tourists rose by 31.1 percent, and in 2018 Tanzania became one of the 10 most-visited countries in SSA, attracting more than 1.5 million visitors for the first time. Tanzania tourism operators are concentrated in Dar es Salaam, Zanzibar, Arusha, and Moshi, and over half are in the accommodations sector.

The COVID-19 pandemic has taken a heavy toll on the tourism sector. According to a survey of private sector operators conducted by IFC and Dalberg Advisory in October 2020 the tourism industry is projected to lose 77 percent of its revenue in 2020/21 and 50 percent of direct jobs from COVID-19. Before the pandemic, almost all businesses reported that their operations were stable or growing, whereas 80 percent now report being suspended or partially open. Transportation services have been the most affected. Utilization rates have fallen across all tourism subsectors, from 49-60 percent in late 2019 to just 9 percent in mid-2020, and sales have plunged by as much as 85 percent among MSMEs. Tanzania's tourism sector is particularly vulnerable to external shocks due to its dependence on international leisure tourism, one of the market segments hit hardest by the COVID-19 crisis. Moreover, about 80 percent of Tanzanian tourism firms are MSMEs, which have a limited capacity to absorb financial stress.

The impact of the pandemic on the tourism sector worsened during the second half of the year. The adverse effect of the pandemic was still modest in the first quarter of 2020, and revenues generated between January and March partially alleviated the decline in the second quarter of the year. However, small enterprises are projecting a drop in revenues of almost 100 percent during the second half of 2020, compared to 52 percent among medium enterprises and 74 percent among large enterprises. Moreover, transportation providers, travel agents, and accommodations firms are expecting an average drop in revenues of 80 percent. As of October 2020, businesses were spending an average of US\$7,000 per month, and about 80 percent had sufficient cash reserves to cover one to three months of operations. These figures suggest that just 16 percent of businesses have sufficient reserves to survive through 2021.

The contraction of tourism is impacting other economic sectors. Tourism-related suppliers and subcontractors are facing severely reduced demand, and these firms report a 50 percent decline in their total number of employees and a 30 percent drop in the share of full-time employees. The loss of income among workers in tourism and related sectors is weakening domestic demand, and informal workers with little savings and limited credit access are facing the prospect of sharply reduced consumption. The tourism sector also provided training and professional development opportunities, implemented conservation efforts, and supported community projects, all of which are now imperiled by the crisis.

Figure 12: The Impact of COVID-19 on Tourism Sales and Employment



Source: Ministry of Natural Resources and Tourism and World Travel and Tourism Council Data (2020).

To recover from the crisis, tourism firms will need adequate public support, as well as efforts to ensure that tourists view Tanzania as a safe environment. Over 90 percent of businesses require grants, loans, bridge financing, or other forms of financial support. Firms have also expressed interest in reducing licensing fees and other payments owed to the government in 2021. Because a large share of 2021 bookings are postponements from 2020 and reflect the costs that prevailed at the time, tourism operators have requested that the recent increase in park fees be suspended until 2022. Despite the mounting financial needs of tourism firms, only about one-third reported applying for bridge financing, of which just one-fifth ultimately received it.

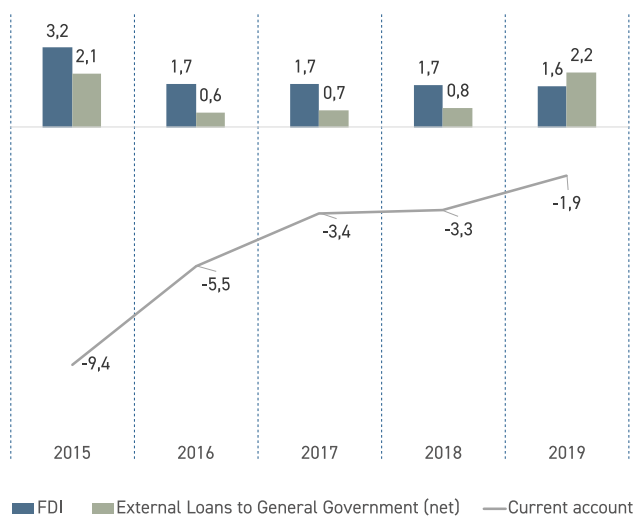
Even if tourism firms are able to obtain adequate support, a combination of travel restrictions, health advisories in countries of origin, precautionary behaviors by consumers, and slower global growth is expected to inhibit the sector's recovery. Tanzanian firms believe it will take at least 1.5 years for tourism activity to recover, and the sector's future will largely depend on widespread vaccine availability. Greater transparency around COVID-19 statistics combined with smart containment measures could encourage source markets to rescind their travel advisories and ease concerns among prospective tourists. Concessional interest loan facilities and the consolidation of firms could also accelerate the pace of recovery during 2021.

Source: IFC, Dalberg.

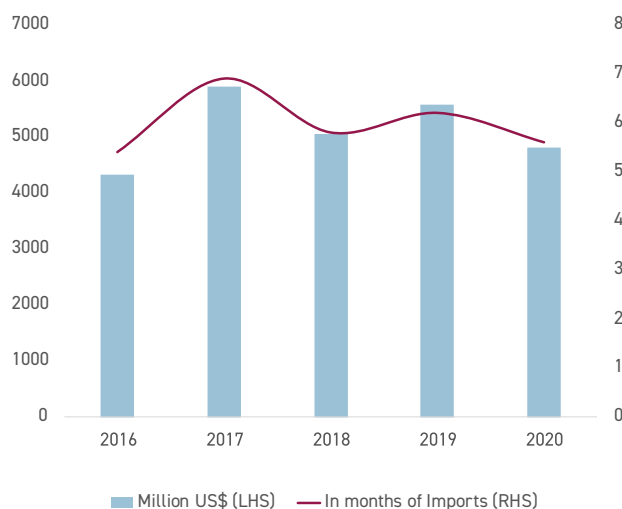
Note: The IFC/Dalberg survey was conducted with and through the industry associations, such as Hotels Association of Tanzania, Tanzania Association of Tour Operators, and the Tourism Confederation of Tanzania. IFC supervised and jointly developed the questionnaire and Dalberg followed up with person to person calls.

A combination of weak domestic demand, trade disruptions, and low oil prices caused imports to decline faster than exports. Goods imports fell across almost all categories in 2020, as shrinking levels of disposable income, rising economic uncertainty, and trade disruptions in the second quarter of the year reduced the demand for imported capital goods and slowed the growth of consumer-goods imports. Purchases of capital goods fell by 14.8 percent due to diminished orders for construction materials and machinery, demand for durable goods weakened significantly, and imports of services declined as a consequence of lower demand for travel and transportation. However, falling oil prices reduced the import bill by 30.4 percent, easing pressure on the external accounts.

The CAD was primarily funded by external borrowing. The total external debt stock rose from US\$21.0 billion in December 2018 to US\$22.4 billion in December 2019 and reached US\$24.0 billion in December 2020. This trend is being driven by loans to the central government, which in 2019-20 exceeded the average for the past five years, with most financing coming from concessional sources. Meanwhile, other sources of financing, such as FDI and portfolio investment, have continued to decrease (Figure 13). Official gross reserves fell from US\$5.6 billion (or 6.2 months of import coverage) in December 2019 to US\$4.8 billion (or 5.6 months) in December 2020. Import coverage remains well above the government's threshold of 4 months and the EAC requirement of 4.5 months, though it has now fallen below the Southern Africa Development Community (SADC) requirement of 6 months (Figure 14).

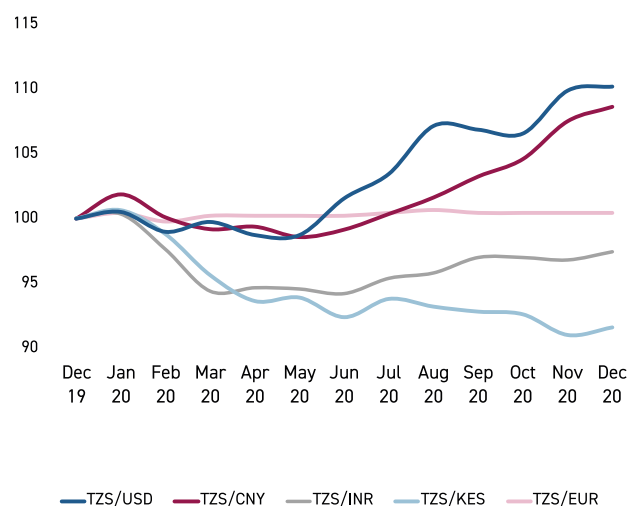
Figure 13: CAD, FDI, and External Loans to the General Government, 2016–19 (percentage of GDP)

Source: BoT.

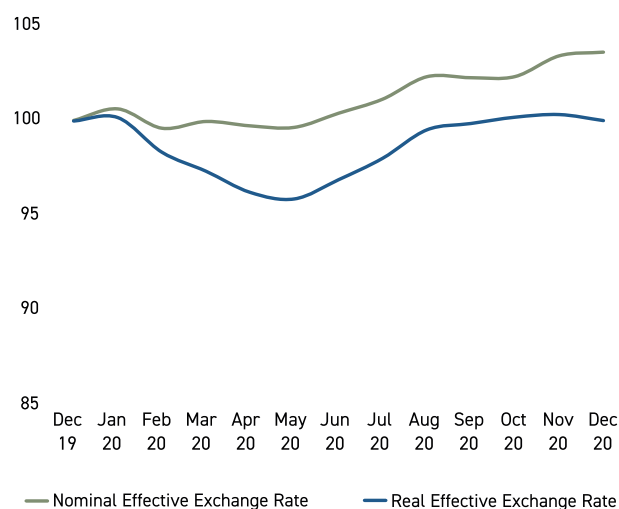
Figure 14: Gross International Reserves, 2016–20 (US\$ millions and months of imports)

Source: BoT.

The Tanzanian shilling has remained broadly stable. From December 2019 to December 2020, the shilling depreciated by 0.4 percent against the U.S. dollar, 8.7 percent against the Chinese renminbi, and 10.2 percent against the euro, though it also appreciated by 8.4 against the Kenyan shilling (Figure 15). Volatility increased during the second quarter of the year, as capital inflows to developing economies sharply declined, but BoT interventions in the foreign-exchange market stabilized the shilling. To achieve its monetary policy objectives, the BoT focuses on maintaining an adequate level of liquidity in the economy and ensuring stable interest and exchange rates. In 2020, the real effective exchange rate depreciated about 0.1 percent (Figure 16), and the inflation differential between Tanzania and its major trading partners partly offset a decline in the nominal exchange rate. The increase in the real effective exchange rate has been accompanied by rising exports of manufactured goods even in a context of lower global demand.

Figure 15: Nominal Exchange Rate, 2019–20 (percent)

Source: OANDA Corporation Exchange Rates.

Figure 16: Real Effective Exchange Rate, 2019–20 (percent)

Source: World Bank staff estimates.

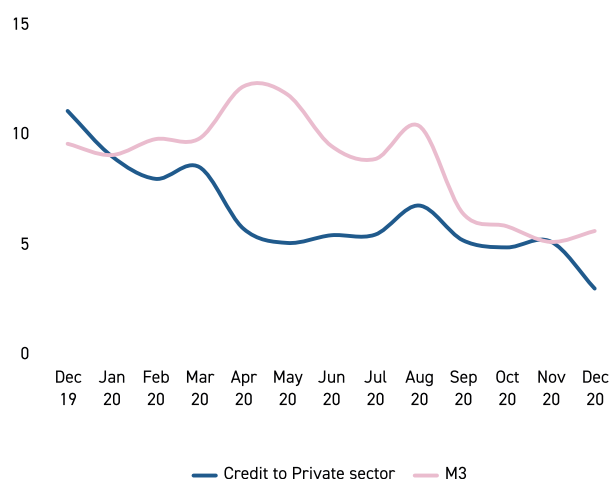
Despite an accommodative monetary policy, the growth of credit to the private sector has slowed, and banking-sector vulnerabilities have intensified.

credit grew by an average rate of 6.0 percent between December 2019 and December 2020, well below both the 13.5 percent target and the 8.6 percent average growth rate observed in the same period of 2018/19. Bank credit to the government contracted at an average rate of 3.8 percent between January and June 2020 before expanding at an average rate of 38.4 percent between July and December. The BoT projects credit to remain broadly stable as a share of GDP in 2020/21, as various accommodative measures are in place to facilitate continued lending to firms during the COVID-19 crisis.

Total credit growth has increased moderately driven by an increase in credit to the government.

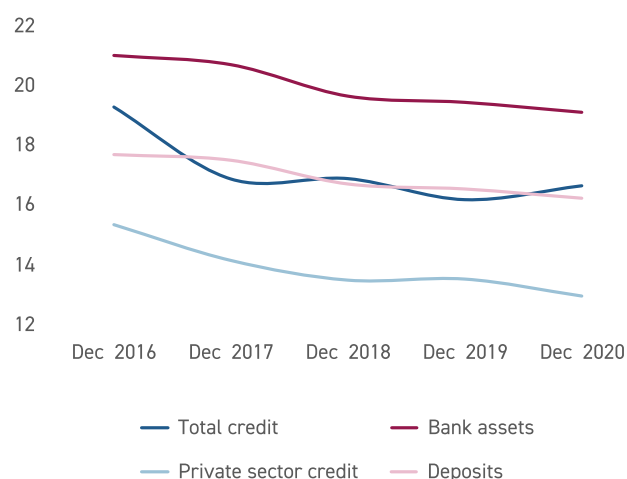
The extended broad money supply (M3) grew at an average rate of 8.8 percent between December 2019 and December 2020, below the target of 10.0 percent (Figure 17). Bank

Figure 17: Growth Rates of M3 and Credit to the Private Sector (percent change)



Source: BoT.

Figure 18: Distribution of Credit and Trends in Bank Assets, Credits, and Deposits (percentage GDP)



Source: WB team calculations using data from IMF IFS.

*Credit to public sector covers SOE's and government.



Credit to the private sector has declined from its already relatively low level. Despite growing continuously in nominal terms, credit to the private sector declined from 13.6 percent of GDP in December 2019 to an estimated 13.0 percent in December 2020 (Figure 18). Growth in credit by banks to the private sector exhibited a steady decline during 2020 averaging an equivalent annual growth rate of 3.0 percent in December 2020, the lowest since May 2018. Sectors linked to global trade and supply chains saw the highest decline in credit growth; manufacturing, trade, agriculture and construction showed negative credit growth rates in the last quarter of 2020.

Policies adopted by the BoT to mitigate the effect of COVID-19 have had a limited impact on commercial lending rates. The overnight interbank cash-market interest rate averaged 4.5 percent during January-December 2020, down from 5.2 percent in the same period in 2019. However, lending rates charged by banks declined only modestly from an average of 17.0 percent in 2019 to an average of 16.7 percent in 2020. Meanwhile, overall Treasury-bill rates declined significantly, falling from an average of 7.9 percent in 2019 to an average of 4.5 percent in 2020.

Lending to MSMEs remains costly and limited due to high risk premiums on loans and the undercapitalization of some banks. Smaller banks and microfinance institutions that often focus on MSMEs have to rely on expensive wholesale funding sources such as the interbank cash market, and they pass on the costs to their borrowers. Innovations in digital financial services combined with greater financial literacy and stronger consumer protections could provide an opportunity for small banks to build retail deposits and increase their liquidity. Micro finance banks (Tier 1) are now regulated and supervised by the BoT. In a positive step forward the BoT has put in place the regulations for microfinance institutions (MFIs) (Tiers 2,3, and 4), as well as the consumer protection framework. The BoT is also in the process of finalizing the National Financial Consumer Protection framework that will render the Consumer Policy operational and is in process of developing the Financial Education Consumer Strategy Guide which will set up the standards for consumer financial education initiatives and activities. Along with advances in mobile money and digital financial services these measures will help facilitate more affordable access to finance for individuals and firms.

COVID-19 has increased risks in the financial sector. The gross nonperforming loan (NPL) ratio remains high despite a slight decline over the last year. The NPL ratio as at end December 2020 was 9.35 percent compared to 10.13 percent at end December 2019 - significantly higher than the prudential threshold of 5 percent. High level of NPLs, as well as the underreporting and under-provisioning of problem loans, can lead to the undercapitalization of banks, which increases pressure on the financial system and constrains the capacity of banks to on-lend to businesses. Per BoT data, the top 10 banks kept their capital levels above the regulatory minimum despite significant NPLs arising from corporates in certain sectors.¹² The BoT directed undercapitalized banks to implement the necessary measures to raise their capital to the minimum requirement within the agreed timeframe.

The implications of the COVID-19 crisis for the financial sector and for credit to the private sector will require robust oversight and a sound policy framework. The Financial Sector Assessment Program (FSAP) conducted in 2018/19 emphasizes the use of credit reports from Credit Reference Bureaus in loan applications and approvals, increased monitoring of the implementation of banks' strategies to reduce NPLs, and the issuance of BoT regulations and guidelines for strengthening risk-management practices in the financial sector. Together with these reforms, the FSAP also highlighted the need to improve the BoT's capacity to address financial crises by : (i) improving the emergency liquidity assistance framework; (ii) designing a robust response strategy to address bank crises; and (iii) assessing and developing bank-resolution funding options for illiquid but solvent banks.

Modest fiscal deficits mask weaknesses in revenue mobilization, financing, and budget execution.

The fiscal deficit in 2019/20 is estimated at 1.4 percent of GDP, its lowest level since 2008/09.¹⁴ The deficit fell by two thirds

from the previous year to about half the level targeted in the budget. A combination of increased domestic revenue collection

and lower expenditures, especially development spending, helped narrow the deficit, though it should also be noted that the high levels of domestic payment and VAT refund arrears, estimated at 3-4 percent of GDP in June 2020, are not factored into the deficit calculation. In 2019/20 domestic revenue increased by 0.5 percent of GDP, while overall public expenditures fell by 0.7 percent from 2018/19. The deficit was largely financed by external concessional and non-concessional loans, which rose from 0.9 percent of GDP in 2018/19 to 1.1 percent in 2019/20. Domestic loans, including Treasury bills and bonds, fell from 2.3 percent of GDP in 2018/19 to just 0.3 percent, well below the budget target of 1 percent of GDP.

The government has set aside funds for clearing arrears, but the verification process remains slow, and monitoring is not adequately transparent. The government allocated TZS 600 billion in the 2020/21 budget for clearing verified domestic payment arrears, in addition to significant funds earmarked for paying VAT refunds. However, the verification process has remained slow: in 2019/20, VAT refund claims amounted to about TZS 574 billion, but just TZS 4 billion were verified. Additionally, arrears monitoring is not adequately transparent per the reporting requirements of the Arrears Management Strategy.

The 2020/21 budget anticipates that the fiscal deficit will widen to 2.6 percent of GDP. This expansion is expected to be financed largely by foreign loans, and most of the funds will be directed to major capital projects (Table 2). The 2020/21 budget also targets 15.3 percent of GDP in domestic revenue collection, which is 1.1 percent of GDP higher than the 2019/20 level. Highly optimistic increases are projected for both tax and nontax revenues, with the former expected to rise by nearly 1 percent of GDP. In 2020/21, budgeted expenditures total 18.4 percent of GDP, 10.3 percent of GDP for recurrent expenditures and 8.1 percent for development expenditures. The budget targets a GDP growth rate of 5.5 percent for 2020 and a recovery of domestic revenue in the second half of the year.

Table 3: Fiscal Trends

	2018/19 Budget	2018/19 Actual	2019/20 Budget	2019/20 Actual	2020/21 Budget	2019/20 H1 Budget	2019/20 H1 Actual	2020/21 H1 Budget	2020/21 H1 Actual
In Percent of GDP									
Domestic revenue	15.5	13.8	15.8	14.2	15.3	7.5	7.0	7.5	6.6
Tax revenue	13.3	11.6	13.0	12.0	12.8	6.4	6.2	6.3	5.7
Nontax revenue	2.3	2.3	2.8	2.2	2.5	1.1	0.8	1.1	1.0
Total expenditure	19.5	16.7	18.9	16.3	18.4	8.5	7.7	8.4	6.9
Recurrent expenditure	10.6	10.4	10.6	9.9	10.3	5.1	4.4	5.0	4.4
Wages and salaries	5.5	5.0	5.2	5.0	4.9	2.5	2.4	2.5	2.3
Interest payments	1.6	1.8	1.7	1.6	1.8	0.8	0.8	0.8	0.8
Goods and services	3.5	3.6	3.7	3.3	3.6	1.9	1.2	1.8	1.2
Development expenditure	8.9	6.4	8.4	6.3	8.1	3.4	3.3	3.4	2.5
Domestically financed	7.3	4.9	6.7	4.7	6.4	2.5	2.4	2.4	1.9
Foreign financed	1.6	1.5	1.7	1.7	1.7	0.9	0.9	1.0	0.6
Grants	0.8	0.3	0.8	0.7	0.6	0.5	0.3	0.3	0.2
Overall fiscal deficit	-3.1	-3.2	-2.3	-1.4	-2.6	-0.5	0.0	-0.7	-0.2
Financing	3.1	3.2	2.3	1.4	2.6	0.5	0.0	0.7	0.2
Foreign (net)	2.3	0.9	1.3	1.1	1.6	1.0	1.2	-0.1	-0.3
Domestic (net)	0.9	2.3	1.0	0.3	1.0	-0.4	-1.2	0.7	0.5

Source: MoFP and BoT.

The COVID-19 pandemic has exacerbated Tanzania's fiscal challenges and undermined domestic revenue mobilization efforts. Despite improvements in 2019/20, domestic revenue mobilization remains below its pre-crisis potential (Box 3). Domestic revenue increased to 14.3 percent on GDP in 2019/20, up from 13.8 percent in 2018/19 but still 1.6 percent of GDP below its target, as the COVID-19 crisis diminished revenue collection in the last quarter of the fiscal year. The rise in tax revenue was largely driven by temporary windfalls, including the settlement of corporate tax disputes and increased mining royalties due to high gold prices. During July-December 2020, domestic revenue amounted to 6.5 percent of GDP, well below both the 7.5 percent target and the 7.0 percent collected during the same period in 2019. During July-December 2020, tax revenue missed its target by 10.9 percent, continuing a trend that began in April-June 2020. In nominal terms, tax revenue has contracted by about 3 percent, year on year. According to the Tanzania Revenue Authority's monthly tax-revenue reports, diminished consumption, imports, and economic activity, due in part to the COVID-19 pandemic, drove the shortfall in collections of income taxes, excise taxes, and import duties.

Box 4**Untapped Potential: Mobilizing VAT, Excise, Informal-Sector Tax Revenue**

Tanzania's tax-collection gap is estimated at 6-7 percent of GDP. The authorities can narrow this gap by implementing policy and administrative reforms across different tax regimes. VAT reforms could increase gross tax revenue by 2.5 percent of GDP, while reforming excise taxes could boost revenue by 1-1.2 percent of GDP. More effectively taxing the informal economy would have a positive revenue impact over the medium term while broadening the tax base and leveling the playing field with the formal sector.

To improve VAT collection, policymakers should strive to safeguard the VAT base while simplifying and modernizing VAT administration, including the refund system. The authorities can protect the VAT base by: (i) extending the VAT to cover on-site piped water services, improved water sources, and petroleum products; (ii) limiting access to VAT exemptions to goods exempted by health and safety codes; and (iii) improving coverage of the digital economy. The VAT refund process can be simplified and modernized by: (i) clearing the VAT refund backlog, which will encourage investment, exports, and compliance while strengthening confidence in the tax system; (ii) and reducing VAT fraud through enhanced refund administration. The VAT administration can be modernized by: (i) reengineering business processes, implementing integrated tax systems, and using electronic fiscal and debt management systems to enable online invoicing and filing; (ii) improving the accuracy of taxpayer records; (iii) introducing staggered monthly compliance requirements to cope with the large VAT register; (iv) improving the Tanzania's Revenue Authority's tax audit and investigative capacities; (v) auditing carried-forward balances of VAT credits; and (vi) strengthening the Domestic Revenue Department's capacity to monitor taxpayer compliance.

Tax revenue from the informal economy can be increased by safeguarding the presumptive tax base and by strengthening institutional and administrative arrangements. To safeguard the presumptive tax base, the authorities should: (i) scale back the threshold and ceiling introduced in the 2019/20 Budget Act; (ii) exclude categories of taxpayers that will be mainstreamed in the account-based tax system; and (iii) normalize the status of informal firms that submit annual audited financial statements into the account-based income tax system. Institutional and administrative measures to improve taxation of the informal sector include: (i) replacing the block management system; (ii) further consolidating tax administration by simplifying procedures and creating a single window for registration and regulation; and (iii) conducting regular research on the core sectors of the informal economy and the impact of different tax-compliance strategies. The objective of simplifying the presumptive tax system is not necessarily to generate immediate revenue gains but to improve tax compliance and broaden the tax base.

The authorities can also improve excise taxation through a mix of policy and administrative reforms. Key measures include: (i) phasing out the use of excise taxes to discriminate against imported goods and applying a single excise duty rate to all categories of goods irrespective of their origin or domestic content; (ii) establishing a single per-kilogram rate for all tobacco products and increasing the rate to a level comparable with those of regional peers; (iii) applying a single excise tax rate to each type of alcoholic beverage (e.g., beer, wine, distilled spirits) and aligning these rates with those of regional peers; (iv) indexing the excise tax rate for petroleum products to the annual inflation rate; (v) introducing a "fit and proper" standard that applies to new licenses and license renewals; and (vi) creating a field-audit program to support the introduction of tax stamps.

Source: World Bank, Tanzania PER FY2020.

Despite increased spending pressures associated with the October 2020 general elections, the government further tightened control over recurrent expenditures in 2019/20. Reduced spending on goods, services, and transfers caused total recurrent spending to fall from 10.4 percent of GDP in 2018/19 to 9.9 percent in 2019/20. Spending on goods, services, and transfers dropped to 3.3 percent of GDP, well below the budget target of 3.7 percent, and this sharp decline could threaten the quality of social service delivery or risk the accumulation of new arrears. Spending on wages and salaries amounted to 5.0 percent of GDP, below the budget target of 5.2 percent, reflecting tight control over new hires and salary adjustments. Interest payments were in line with the budget and slightly higher than the previous year due to rising debt levels, which were driven in part by

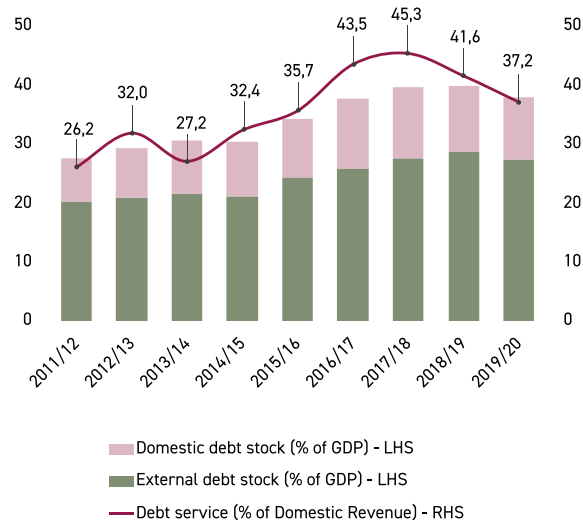
an increased share of non-concessional loans (Figure 19). During first half of 2020/21, recurrent spending was equivalent to 4.4 percent of GDP, the same of 4.4 percent of GDP spent during the H1 of previous fiscal year; demonstrating the government commitment to control recurrent spending. More than half of recurrent spending in H1 of 2020/21 was directed to salaries and wages.

While the execution of the development budget improved in 2019/20, development spending slowed in the first half of 2020/21.

About 75 percent of planned development expenditures were realized, up from less than 30 percent in the previous three years. However, development spending remained at 6.4 percent of GDP in 2019/20, consistent with the previous three years. The locally financed component of development expenditures was under-executed by about 30 percent, while the foreign-financed component was under-executed by about 3 percent.¹⁵ The main causes of the under-execution of the development budget included the delayed preparation and implementation of projects and shortfalls in revenue and financing, largely due to the COVID-19 pandemic. However, development expenditures are expected to remain high at 8.1 percent of GDP in 2020/21, up from 6.4 percent of GDP in 2019/20 but slightly below the 8.4 percent of GDP planned for 2019/20. Most development expenditures will be directed to infrastructure and social services. At the end of the first half of 2020/21, development expenditures amounted to 2.5 percent of GDP, which is lower than the target of 3.4 percent of GDP and lower than 3.3 percent of GDP spent during the same period in previous FY. The lower than targeted development spending during the H1 of 2020/21 suggests that the development budget under-execution challenges are set to continue in this FY, partly because of the COVID-related shortfalls in domestic revenue and external financing.

The public debt remains sustainable, but its composition may increase liquidity risks. In 2019/20, the overall public debt stock increased by 5 percent to US\$23 billion, about 75 percent of which was foreign debt while 25 percent was domestic. Commercial debt, which does not include an estimated 3-4 percent of GDP in domestic payment arrears, increased from just 4 percent of total debt in 2011/12 to about 20 percent in 2019/20, driven by the financing needs of large capital projects. The risk of both external and public debt distress remains low, with an estimated debt-to-GDP ratio of 38.1 percent in 2019/20 (Figure 19). However, liquidity risks have increased as the share of commercial debt has grown. In 2020/21, debt service is expected to consume about 40 percent of domestic revenues, underscoring the importance of: (i) prioritizing concessional financing of the budget to the extent possible; (ii) ensuring that projects financed by non-concessional foreign loans have a large impact on growth and exports; (iii) strengthening public investment management and domestic revenue mobilization; and (iv) improving expenditure management to ensure that no new arrears are accumulated and that verified arrears are cleared. Tanzania's participation in the G20's COVID-19 Debt Service Suspension Initiative (DSSI) should free about US\$148.9 million (0.2 percent of 2019 GDP) in 2020/21. The suspension period now runs through June 2021, and the government has reached out to its bilateral creditors to request an extension. The savings from this initiative should be used efficiently and transparently.

Figure 19: The Public Debt Stock and Debt Service



Source: MoFP.

1.2 Macroeconomic Outlook and Risks

Growth prospects hinge on the successful global rollout of COVID-19 vaccines combined with sound domestic policies to foster a swift recovery.

Uncertainty around the spread and duration of the COVID-19 pandemic persists and will continue to impact household consumption and private investment. The ongoing pandemic and its unpredictable epidemiological trajectory cloud global forecasts. Meanwhile, many countries are also grappling with elevated debt levels that could amplify vulnerabilities in their financial systems and cause financial crises. The heavy debt burden accumulated during the pandemic will likely force some countries to reduce future development spending, lowering their long-term growth prospects. The pandemic could further dampen growth if it leads to a protracted erosion of consumer and business confidence, weakening private consumption and investment, especially in research and development.

The baseline scenario assumes that in advanced economies and major emerging markets, approved vaccines will not reach peak coverage until after the first half of 2021. The rollout process in most EMDEs and low-income countries is expected to lag that of advanced economies by about two to three quarters. However, the advent of a vaccine is expected to support a gradual recovery of consumer and business confidence amid greater financial-market stability. Consumption, particularly of services such as tourism, should strengthen in 2022. Investment should also recover as growth prospects improve and policy uncertainty declines, and commodity prices are expected to rise. In this context, the regional GDP growth rate is projected to increase to 2.1 percent in 2021, albeit below its 2019 level, before accelerating to 3.2 percent in 2022 as investment and domestic consumption recover.

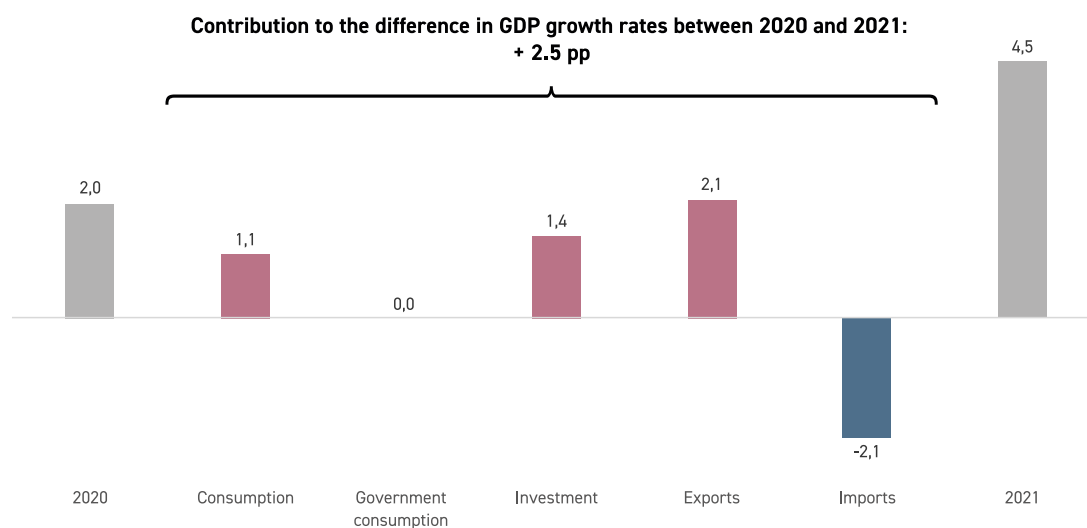
Tanzania's real GDP growth rate is projected to rebound to 4.5 percent in 2021. However, this baseline projection reflects the available data as of February 15, 2021, and in the context of the pandemic it is subject to considerable uncertainty. The global economic recovery is expected to bolster demand for Tanzanian export and increase FDI and capital-project financing. The current account is expected to improve, but the deficit should remain at about 1.5 percent of GDP, as the growth of capital-goods imports for infrastructure projects will outpace export growth. The financing of capital projects is expected to widen the fiscal deficit to about 2.6 percent of GDP, while recurrent expenditures are expected to remain controlled ([Table 3](#)).

Table 4: Medium-Term Outlook, Annual Percent Change Unless Otherwise Indicated

	2018e	2019f	2020f	2021f	2022f
Real GDP growth rate at constant market prices	5.4	5.8	2.0	4.5	6.0
<i>Private consumption</i>	5.6	3.1	1.0	3.3	5.0
<i>Government consumption</i>	2.0	2.3	7.0	7.0	8.3
<i>Gross fixed capital investment</i>	7.7	8.0	2.5	6.2	7.0
<i>Exports of goods and services</i>	-1.7	19	-8.6	6.3	8.5
<i>Imports of goods and services</i>	16.7	-1.4	-7.5	7.7	9.1
<i>Inflation (consumer price index)</i>	3.5	3.8	3.4	3.5	3.8
<i>Current account balance (% of GDP)</i>	-3.3	-1.9	-1.6	-1.5	-2.1
<i>Net foreign direct investment (% of GDP)</i>	1.7	1.6	0.7	1.0	1.4
<i>Fiscal balance (% of GDP in FY)</i>	3.2	-1.4	-2.6	-2.9	-3.1
<i>Debt (% of GDP)</i>	36.7	36.2	38.5	39.4	39.9

Source: World Bank MFMMod.

Consumption, investment, and exports are projected to drive Tanzania's recovery. Income generated by export-oriented activities, combined with declining consumer risk aversion and a recovery in employment in the second half of 2021, is expected to bolster consumption, which accounts for roughly two-thirds of GDP (Figure 20). Investment will be driven by public investment in flagship projects and supported by private-sector-led initiatives, though the latter will hinge on the success of business-climate reforms. A simultaneous recovery is forecast for traditional and nontraditional exports, though both are expected to remain below their 2019 levels. Gold prices are projected to be broadly in line with their 2020 levels, while trade disruptions, especially transportation restrictions, are expected to ease during the first half of 2021.

Figure 20: Projected Drivers of GDP Growth in 2021

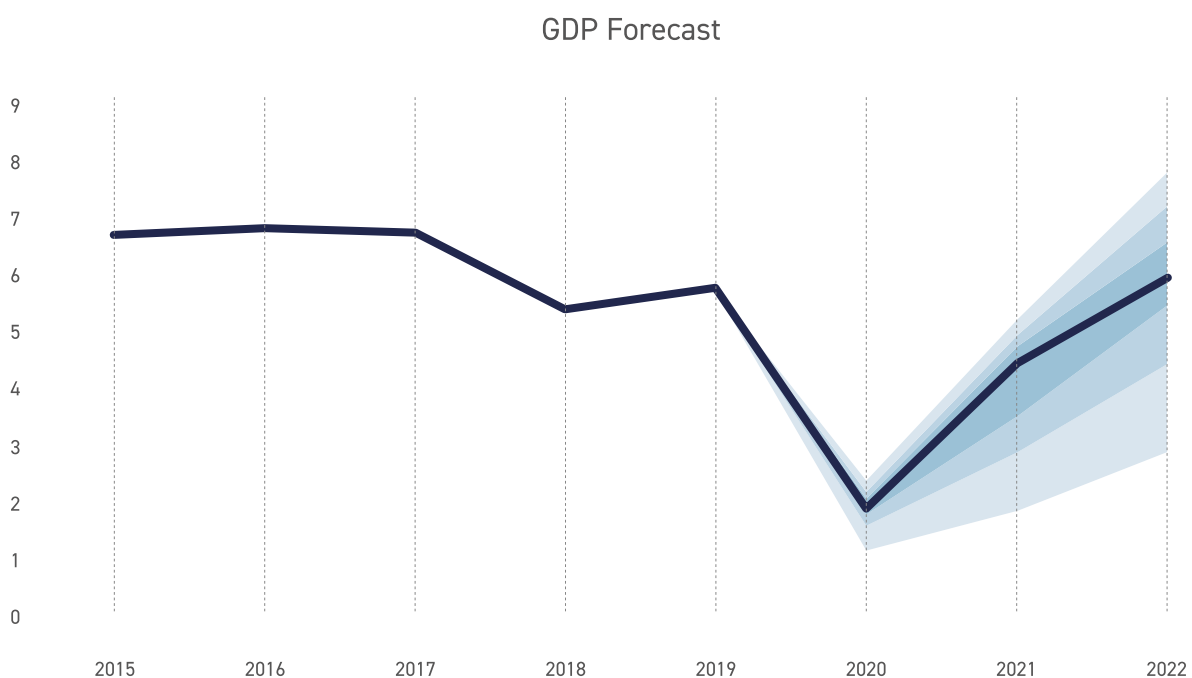
The COVID-19 crisis is expected to slow poverty reduction, and the national poverty rate is projected to decline only marginally in 2021. COVID-19 has made it harder for poor people to transition to more productive activities. During the past decade, economic growth had limited impact on poverty, as it created few employment and income opportunities that were accessible to workers from poor households. COVID-19 is likely to exacerbate this trend, though accelerating economic activity will benefit workers in the informal nonfarm sector and should enable many households in transitory poverty to again rise above the poverty line. The national poverty rate is projected to drop from 27.2 percent in 2020 to 27.0 percent in 2021, but population growth will increase the number of people living below the poverty line by 320,000. The speed of poverty reduction will largely depend on the quality of growth during the recovery. A broad-based expansion will need to create productive jobs, boost the performance of MSMEs, and increase productivity in agriculture, the economic mainstay of many of the country's poor households.

The downside risks to Tanzania's outlook are primarily external, though reform slippages or delays in policy implementation could negatively impact the recovery.

The risk profile of Tanzania's economic outlook remains highly uncertain. GDP is expected to grow by between 3.0 and 5.3 percent in 2021, below its long-run potential growth rate of about 6 percent. The challenging global context threatens even this modest projected recovery. Even without an uncontrolled

domestic outbreak, an ongoing global health crisis would continue to undermine external demand, especially for tourism. A persistently weak global economy would also limit the availability of capital inflows, including FDI. In this context, Tanzania would face pressure to mobilize resources to provide liquidity to the private sector and avoid a financial crisis. Moreover, high NPL ratios and high interest rates could undermine any monetary policy designed to boost credit to the private sector. Given this high degree of uncertainty, the range of projections is unusually wide (Figure 21).

Figure 21: Real GDP Growth Rate Forecasts under Alternative Scenarios (percent)



Note: The fan chart shows the likelihood of different GDP growth outcomes in 2020, 2021, and 2022. The estimates are based on growth scenarios and risk profiles under different assumptions regarding viral spread, containment measures, and economic policy responses. The darker bands indicate the most likely outcomes, and the central black line is the baseline scenario.



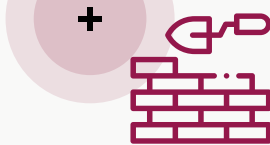
Source: WB staff estimates based on NBS data.

Government actions to protect lives, livelihoods, and the future will influence the pace of the recovery.

No reliable estimates of human cost of the COVID-19 pandemic are available for Tanzania. On May 8th, the government stopped reporting the number of daily cases, and there are no official data on deaths and recoveries. Inadequate transparency

prevents a thorough assessment of either the domestic spread of the virus or the effectiveness of the government's containment efforts, and it complicates the formulation of a vaccination strategy. Greater information-sharing would bolster the credibility of the government's response while enhancing its effectiveness by allowing for more targeted interventions and by facilitating collaboration with local, regional, and international stakeholders.

The World Bank recommends a three-pronged framework for responding to the COVID-19 pandemic and associated economic crisis. This framework focuses on protecting lives, livelihoods, and the future (Table 5). Measures to protect lives include preventing, detecting, and treating COVID-19. Measures to protect livelihoods as economic activity slows include support to households and firms, especially in vital economic sectors, and efforts to sustain key government functions. Measures to protect the future include investments to accelerate the recovery and strengthen resilience to future crises.

Table 5: A Three-Pronged Approach to Addressing the COVID-19 Crisis.			
PILLAR	<div><div>Protecting Lives</div><div></div></div>	<div><div>Protecting Livelihoods</div><div></div></div>	<div><div>Protecting the Future</div><div></div></div>
MEASURES	<p>This pillar encompasses measures focused on the prevention, detection, and treatment of COVID-19, supported by data transparency and timely reporting. The government must also proactively engage with technical partners to prepare a plan for deploying a COVID-19 vaccine.</p>	<p>This pillar includes interventions designed to shield households, firms, and key government functions from the economic impact of the crisis. The authorities must strive to maintain the continuity of vital economic activities while mitigating the effect of income losses on vulnerable households.</p>	<p>This pillar covers actions designed to lay the foundation for robust and inclusive post-crisis growth. To ensure a sustainable, broad-based recovery, the government and its development partners must invest in productivity and resilience.</p>



Adopting this three-pronged approach could consolidate Tanzania's recovery in 2021 and lay the foundation for faster growth in 2022 and beyond. Tanzania has several advantages that would support a robust policy response to counter the negative economic effects of the pandemic. The government's record of low fiscal deficits and low risk of debt distress create fiscal space for emergency spending, and international reserves are relatively high at more than five months of import coverage. Moreover, the combination of low oil prices and high gold prices is mitigating the impact of the crisis on the trade balance.

Building on the experience of the COVID-19 crisis and lessons from previous Ebola epidemics, the government must assess and revise the health and economic components of its response strategy.

The decision not to share essential pandemic-related data with internal and external stakeholders threatens to undermine the effectiveness of the government's public health efforts. By contrast, greater transparency and enhanced surveillance of COVID-19 and other communicable diseases could improve early detection, containment, and public outreach. Establishing an internal process for planning a COVID-19 inoculation campaign would position the authorities to move swiftly as new vaccines become available. Enhancing access to health care in targeted areas under a health-systems approach could increase the availability and use of public health services. Finally, building the adaptive capacity of the health system would enable the authorities to adjust to a changing disease profile and confront emerging challenges.

In the short term, the government should strengthen measures to protect jobs and support MSMEs. According to the COV-BPS, about 80 percent of firms in Tanzania expect a significant decline in sales, but less than 20 percent of those firms have had access to any type of government assistance. Additional interventions will be needed to maintain firm continuity, particularly in the sectors most affected by the crisis. These interventions could include appropriately designed and targeted wage-compensation schemes, loan guarantees, and tax deferrals. Moreover, the regulatory and supervisory responses should strike the right balance between preserving financial stability and supporting economic activity.

Expanding social safety nets could reduce the vulnerability of poor households. The Productive Social Safety Nets (PSSN) program is well-established and run by an effective implementing agency, but its coverage remains limited. The PSSN focuses exclusively on households in extreme poverty, and in urban areas it reaches only 3 percent of households. Moreover, as a rising share of households faces income losses and are increasingly at risk of being pushed into poverty, the program may prove insufficient to meet the burgeoning needs of the population. The government should consider expanding social protection programs and establishing a medium-term financing strategy for the social protection sector, including a clear and sustainable financing strategy for the PSSN. Approving the draft National Social Protection Policy would be a first step in this direction.

A robust recovery in 2021 and beyond will require reforms to improve the business environment.

The COVID-19 pandemic has highlighted longstanding constraints on doing business and provided an opportunity to rapidly implement much-needed structural reforms. Key areas include facilitating the adoption of digital solutions for business resilience and growth, expanding access to finance among MSMEs, and addressing the challenges of the informal sector. The recently adopted Blueprint for Regulatory Reforms to Improve the Business Environment identifies numerous permits, licenses, and procedures to eliminate, but its implementation has been incomplete. While the new administration has announced measures to boost investment, a strong rebound in private investment will be unlikely without major policy reforms.

The drafting of Tanzania's FYDP III offers an opportunity to boost private investment and job creation.

The role of the private sector in job creation, domestic revenue mobilization, and export competitiveness should feature prominently in the FYDPIII. In the short term, the strategy should focus on: (i) prioritizing the payment of verified arrears to private contractors and suppliers; (ii) accelerating the release of verified VAT refunds; (iii) ensuring that tax administration is predictable and

impartial; and (iv) strengthening public-private dialogue around reforms to the business environment, including the preparation of the new business-facilitation and investment laws. Over the medium term, the strategy should strive to: (i) create a more predictable business environment and avoid sudden policy changes; (ii) reduce the high cost of regulatory compliance by fully implementing the Blueprint for Regulatory Reform; and (iii) improve investment policies for non-extractive sectors to support economic diversification.

Dialogue with the private sector should focus on domestic revenue, but it should also encompass growth and jobs. Tanzania's public-private dialogue framework suffers from weak organizations representing the private sector, infrequent high-level meetings, and a lack of follow-up on agreements reached. The Tanzania National Business Council is a crucial trust-building mechanism, but it needs to be adequately resourced to ensure its reliable continuity, substantive content, and broad credibility. Development partners should support the government's efforts to build the capacity of private-sector institutions and create robust mechanisms for public-private dialogue.

Strengthening the country's financial infrastructure and insolvency regime will help improve the capacity of banks and investors to accurately assess the creditworthiness MSMEs, which will lower risk premiums. The government has undertaken efforts to expand credit reporting and the use of credit bureaus, introduce a national switch that will enable customers of any bank to use any ATM, and develop a comprehensive insolvency regime and framework. In the agriculture sector, addressing the risks associated with dependence on rainfall and lack of infrastructure, which increase post-harvest losses, will help expand the supply of credit to the sector. Establishing weather-indexed insurance and investing in irrigation infrastructure could facilitate the growth of agricultural credit. The new government policy of allowing the market to set prices for cash crops has increased returns to farmers and enabled them to repay bank loans. Alternative tools such as factoring/receivables financing, leasing, and credit guarantees can also facilitate access to financing among MSMEs.

Improved fiscal management could enhance the allocative efficiency and effectiveness of public spending. To strengthen the current framework, the government should strive to: (i) increase revenue collection in line with its targets; (ii) improve budget execution, especially for capital expenditures; (iii) prepare and execute a realistic budget backed by a credible revenue forecast and borrowing plan; (iv) clear both the VAT refund arrears and domestic payment arrears and prevent the accumulation of new arrears; and (v) introduce risk-based auditing of VAT refunds.



2

Raising the Bar: Achieving Tanzania's Development Vision



2.1 Aiming High

Tanzania has experienced a remarkable economic expansion over the past two decades. Since the 2000s, Tanzania has been among the fastest-growing economies in East Africa. Following two decades of solid income growth, Tanzania's GNI per capita reached US\$1,080 in 2019, surpassing the \$1,035 threshold for LMIC status.¹⁶ This is a substantial achievement, reflecting sustained macroeconomic and political stability as well as the country's rich natural resources and strategic geographic position. Passing this milestone offers an opportunity to raise the bar for success by emphasizing a wider array of qualitative development goals that extend beyond income per capita.

The TDV 2025 envisages a transition to middle-income status supported by a high level of human capital development and broad-based improvements in livelihoods and living standards. The TDV 2025 aims for Tanzania to become an MIC by 2025, with a society characterized by high-quality livelihoods; peace, stability, and unity; good governance; high levels of educational attainment; and a competitive economy capable of ensuring sustainable, broad-based growth. Tanzania's economic expansion has supported meaningful improvements in life expectancy, infant mortality, primary and secondary school enrollment rates, gender equity, and access to health, electricity, water, and sanitation. While Tanzania has made impressive progress in raising incomes, addressing infrastructure gaps, and improving social indicators, much remains to be done for the country to achieve its development vision.

Realizing the goals of the TDV will require a concerted effort to restore the economy's growth momentum while expanding access to economic opportunities. As articulated in President Magufuli's inaugural speech on November 13, 2020, the key priorities for the next five years are accelerating growth and job creation, private sector investment and development, infrastructure investment, and social services delivery. The administration has targeted an annual GDP growth rate of 8 percent or higher and the creation of at least 8 million jobs over the next five years. A policy agenda capable of achieving these ambitious goals must be underpinned by a thorough analysis of both the quality of previous growth and the evolving challenges Tanzania now faces as an LMIC. The international experience shows that economic mobility and economic security are critical to poverty reduction and shared prosperity in middle-income economies. Addressing this challenge will require improvements in productivity, investments in human capital and labor-market institutions, expanded access to high-quality public services, greater economic equality across regions, and measures to ease mounting pressures on social services.

The COVID-19 crisis has highlighted the unpredictability of global economic trends, and Tanzania's ability to maintain its LMIC status will depend on strengthening its resilience to shocks while investing in human capital. Over the past 10 years, 23 countries have fallen from middle- to low-income status or from high- to middle-income status. Some of these slippages were caused by exogenous factors such as natural disasters and conflicts, but at least half were linked to macroeconomic instability arising from mismanaged commodity price shocks or deteriorating debt profiles. The experience of these countries illustrates the dangers of complacency and underscores the importance of prudent macroeconomic and fiscal management and a consistent focus on strengthening resilience. A highly skilled and productive labor force can access more diverse and remunerative employment opportunities, generating higher levels of income and savings, which strengthen the capacity of households to cope with shocks.

This Special Focus Chapter examines Tanzania's priorities for consolidating its recent gains and setting new development targets as an LMIC. The government's stated agenda for enhancing the quality of growth to ensure that income gains generate broad-based improvements in wellbeing can be organized around three complementary strategic pillars (Figure 22). These pillars provide a framework for assessing the implementation of the FYDP II during 2016-2020, and they can help organize the design of the subsequent FYDP III for 2021-2025 around a consistent long-term strategy.

The chapter is organized as follows. Section 2.2 explores the recent drivers of growth and describes the dual challenge of maintaining robust capital accumulation while boosting labor productivity and overall economic efficiency. Section 2.3 examines the link between growth and poverty and identifies factors that slow the pace of poverty reduction. Section 2.4 sheds light on the role of human capital and access to services in making growth more inclusive and building a resilient middle class. Section 2.5 identifies priority areas for improving the quality of growth and enabling Tanzania to reach the next level of its development.



2.2 Learning from Drivers of Past Growth

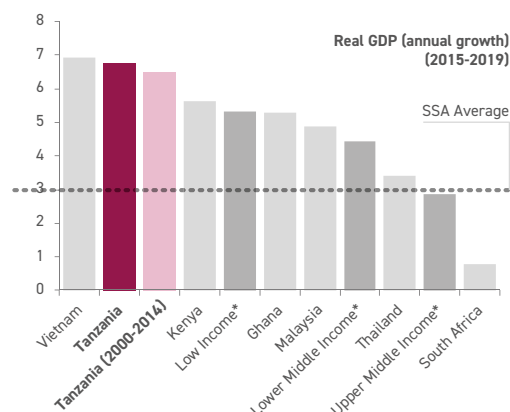
Tanzania's growth performance over the past two decades has been driven by high investment rates.

Tanzania's economy has expanded steadily for two decades. Since 2000, the annual GDP growth rate has averaged 6.5 percent, with an annual per capita GDP growth rate of 3.6 percent (Figure 23). According to official data, the sectors that have contributed most to growth are construction, services, and manufacturing. Together, these three sectors accounted

for almost half of all GDP growth over the last two decades. The agricultural sector, which is the country's largest employer, has grown at the slowest pace, averaging about 5 percent a year, while the relatively capital-intensive industrial sector has expanded the fastest.

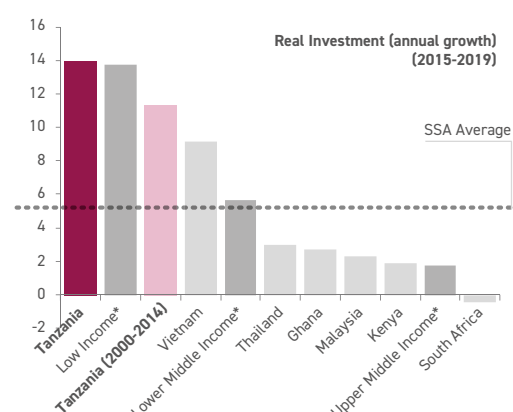
Figure 23: Tanzania's Economic Performance Relative to Selected Comparators

Tanzania's economy has expanded rapidly over the last two decades...



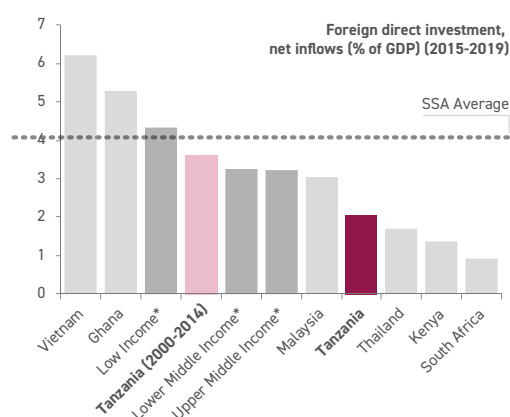
Source: Find My Friends using the IMF WEO

...led by robust investment growth.



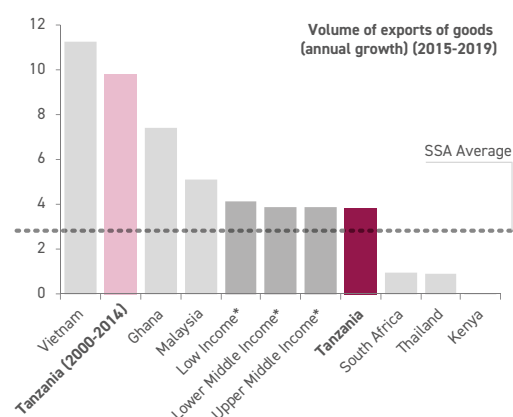
Source: Find My Friends using the IMF WEO

However, FDI inflows have fallen in the last five years...



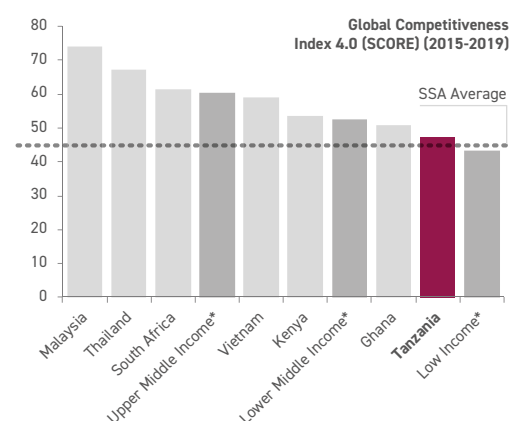
Source: Find My Friends using the World Development Indicators

...and export volumes have declined.



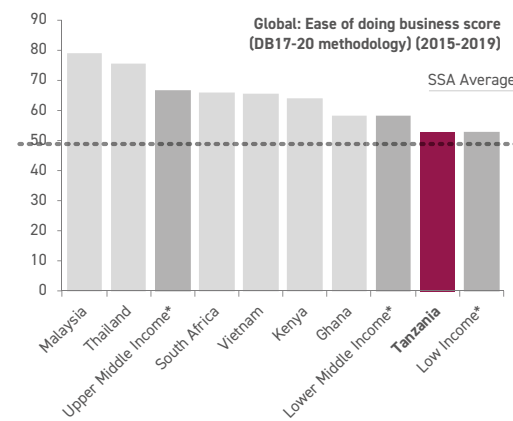
Source: Find My Friends using the IMF WEO

...and export volumes have declined. Global competitiveness is above the SSA average...



Source: Find My Friends using the Worldwide Governance Indicators & WEF Global Competitiveness Index

...but the business environment remains challenging relative to successful transition comparators.

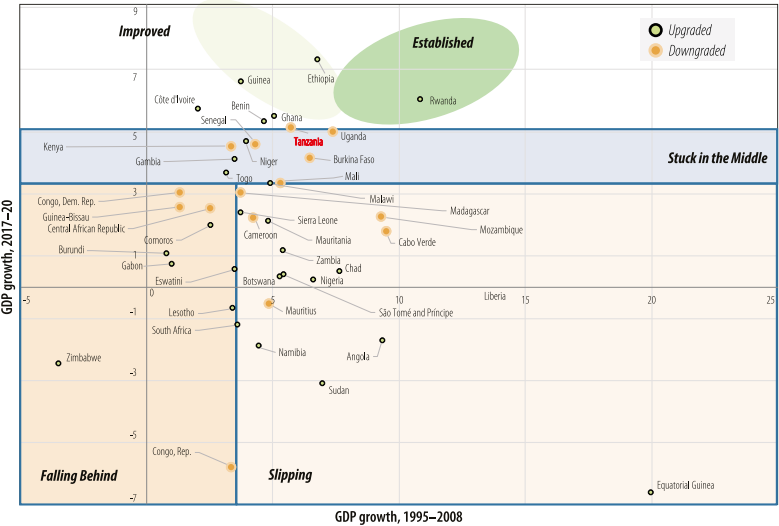


Source: Find My Friends using the Doing Business Survey

Note: Here and where possible, this report benchmarks Tanzania's performance with selected structural and aspirational lower and upper middle income countries in Africa (Ghana, Kenya and South Africa) and in East Asia (Malaysia, Thailand and Vietnam) as well as with the averages for Sub-Saharan Africa (SSA) region and for the following income groups: Low Income Countries (LIC), Lower Middle Income Countries (LMIC), and Upper Middle Income Countries (UMIC). The income group averages exclude Small and Fragile and Conflict Affected States.

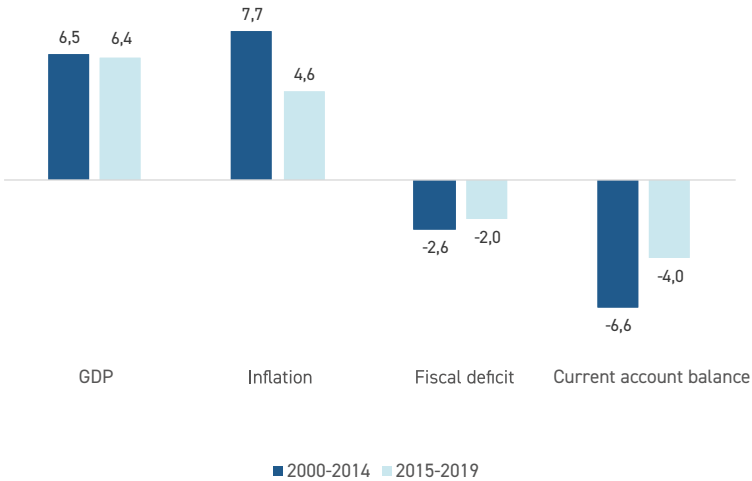
Macroeconomic stability has underpinned Tanzania's resilient economic growth. Tanzania's economic performance has consistently ranked in the top tercile for SSA, and it was categorized as an "established high-growth country" through 2019 before being downgraded to "stuck in the middle" in October 2020 (Figure 24).¹⁷ Macroeconomic stability has been crucial to Tanzania's growth (Figure 25). Inflation rates have been low and declined to just 3.5 percent in 2019-2020. Meanwhile, sustainable fiscal and current-account deficits have been financed by a combination of domestic and external sources.¹⁸

Figure 24: Growth Resilience, Tanzania and Comparators



Source: Africa Pulse October 2020, World Bank.

Figure 25: Macroeconomic Performance, Tanzania



Source: MoFP, BoT and NBS.

Large investment inflows have boosted economic growth. According to official data, total investment has exceeded 30 percent of GDP for the past decade, and a growth-accounting analysis reveals that the increase in total investment was the main contributor to GDP growth over the past two decades. Three-quarters of total investment, including FDI, is from private sources, though the share of FDI in total private investment has declined since 2016. In the last two decades, most FDI inflows have been oriented towards the extractive industries. Consumption has also supported GDP growth, while the contribution of trade has often been negative due to Tanzania's inconsistent export performance. Robust investment inflows generated a sustained increase in the capital stock, and physical capital accumulation has consistently accounted for about two-thirds of real GDP growth.

Public investment growth has substantially accelerated, but the growth of private investment has recently slowed. Over the past five years, public capital spending has averaged 25 percent of total investment, and the accumulation of physical capital has helped narrow the infrastructure gap. Tanzania's position as a top FDI destination in East Africa has weakened over the last decade, and net FDI inflows as a percentage of GDP have recently begun to lag both the LIC and LMIC averages. Private investment and capital accumulation will be crucial to Tanzania's long-term development, as public investment cannot sustain growth indefinitely without jeopardizing the public finances. To attract investment, the government must foster a transparent and predictable business environment underpinned by sound investment policies. However, fiscally sustainable public investment is also necessary to provide adequate public goods and essential services required by private investors.



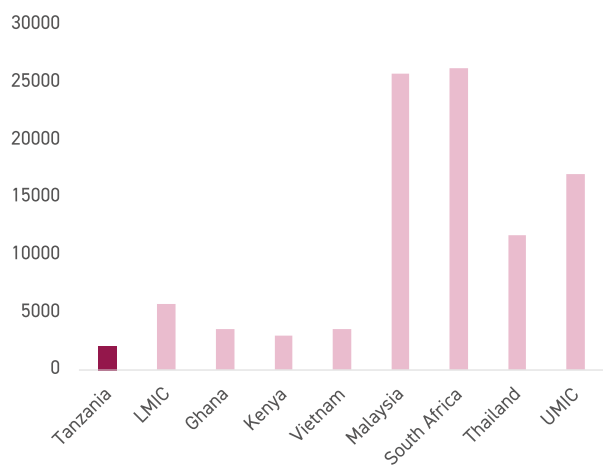
Rising exports were an important source of growth in the 2000s, but Tanzania's export performance has weakened in recent years. Between 2003 and 2012, the value of exports rose by almost 20 percent every year, and exports contributed 1.5 percentage points to the average annual GDP growth of 4.9 percent. However, during 2013-19, the period of Tanzania's fastest growth, the value of exports declined by an average of 4.9 percent every year, while the average contribution of exports to GDP was negative at -0.1 percent. During the same period, exports declined across almost all categories except gold, with exports of non-commodity intermediate goods falling by an average of 4.6 percent. The number of Tanzanian exporters has stagnated, while the average size of exporters has diminished, and exports have become more concentrated both in products and destinations. The erosion of export dynamics was especially acute for manufactures and agricultural products, and it coincided with deteriorating export complexity.

Closing the productivity gap with LMICs will be vital to boost Tanzania's competitiveness, promote export-oriented growth, and create jobs.

Weak productivity growth has hindered Tanzania's competitiveness. Labor productivity has increased over time, but its progress has been slow and uneven (Figures 26-29). In 1993, Tanzania's aggregate labor productivity was approximately the same as that of Vietnam, but by 2018 Tanzania had fallen to less than 60 percent of Vietnam's level. In 2018,

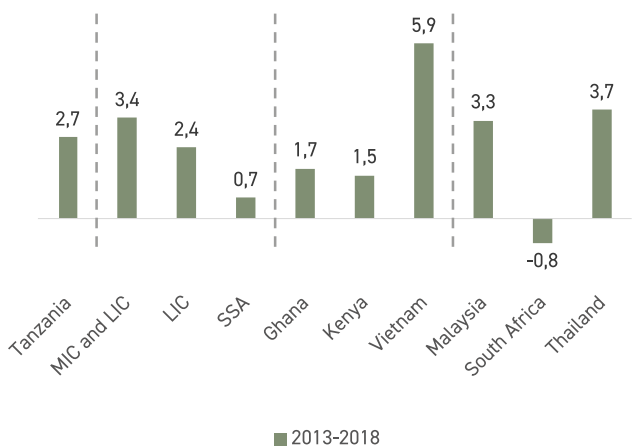
Tanzania's labor productivity was 69 percent of Kenya's level, and its gap with other comparators was even greater. A large majority of GDP growth reflected capital and labor accumulation, rather than improvements in total factor productivity—i.e., the efficiency with which these inputs are utilized. Since the 2010s, total factor productivity has contributed less than 0.2 percentage points to growth on average, with negative contributions in some years. Despite improvements in key human capital indicators (e.g., primary education and under-five mortality rates), Tanzania productivity drivers still resemble those of LICs. More efficient use of capital and labor could better leverage scarce resources, improve competitiveness, and promote export-oriented growth.

Figure 26: Labor Productivity, Tanzania and Comparators, 2018 (constant 2010 US\$)

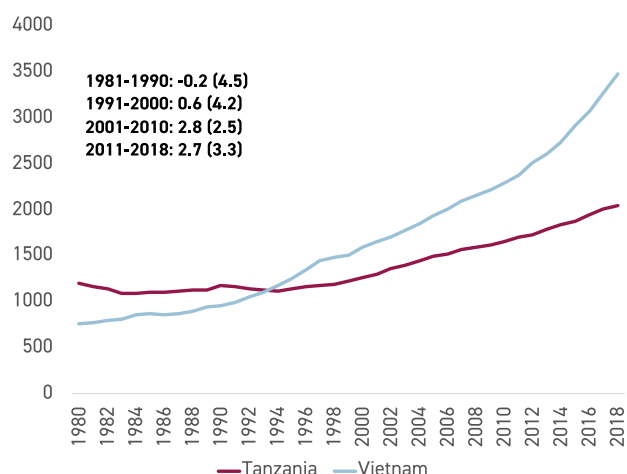


Source: Global Productivity, Trends and Policies. World Bank (2020)

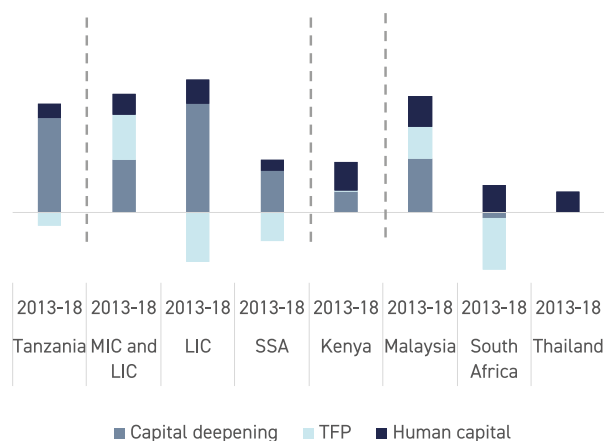
Figure 27: Labor-Productivity Trends, Tanzania and Vietnam, 1980-2018 (constant 2010 US\$)



Source: Global Productivity, Trends and Policies. World Bank (2020).

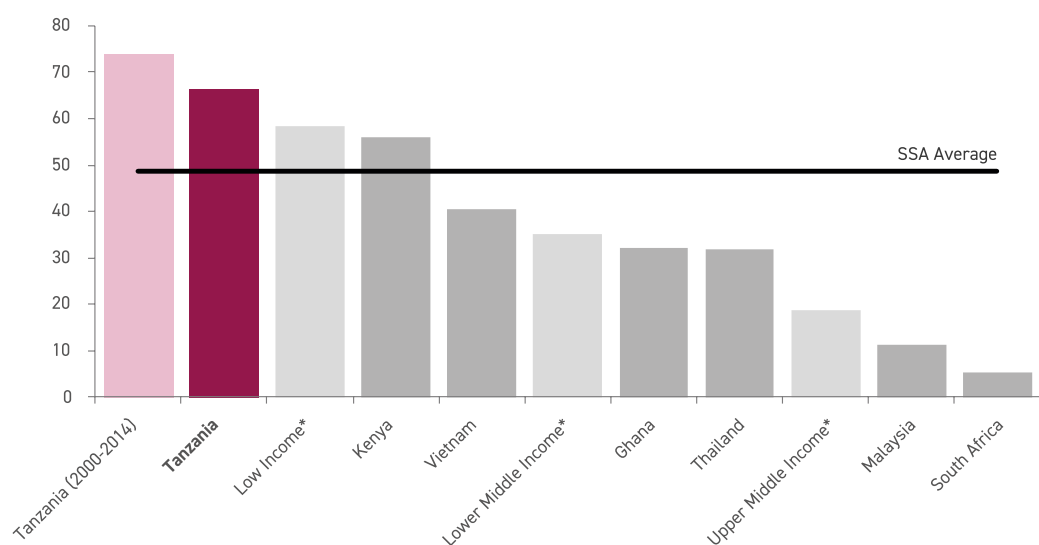
Figure 28: Productivity Growth (percent)

Source: Global Productivity, Trends and Policies. World Bank (2020).

Figure 29: Growth Decomposition

Source: Global Productivity, Trends and Policies. World Bank (2020).

Improvements in labor productivity have been driven by the reallocation of labor and other inputs across sectors through a process known as structural transformation. Labor productivity in the services sector is an estimated 9.5 times higher than it is in the agricultural sector, and labor productivity in the industrial sector is 5.6 times higher than it is in agriculture. The relocation of labor from agriculture to services has boosted overall labor productivity, but agriculture's share in total employment remains high by the standards of comparable countries (Figure 30). Moreover, the potential gains from structural transformation remain largely unrealized, as many former agricultural workers have found limited opportunities to obtain high-productivity jobs. Productivity gains within sectors have been limited, and inadequate workforce skills appear to be a major factor.

Figure 30: Employment in Agriculture as a Share of Total Employment, 2015-19 (percent)

Note: *excludes Small and Fragile and Conflict Affected States

Source: Find My Friends using the World Development Indicators





No economy has sustained middle-income status and transitioned to upper-middle income without significant productivity gains.

Productivity growth has proven critical to countries moving from LIC to LMIC status (e.g., Kenya, Ghana, and Vietnam) and from LMIC to UMIC status (e.g., Malaysia, Thailand, and South Africa). Across countries, productivity growth has been driven by improvements in human capital, as represented by the adult population's aggregate level of education, health, and workforce skills, and by leveraging technology transfer and innovation to increase the efficiency with which inputs are utilized. In contrast to physical capital, the returns to human capital accrue slowly, but in the long run human capital is vital to sustain growth. Human capital is essential to the growth of sophisticated industries and sectors, and a skilled workforce is necessary to attract international investors and maintain global competitiveness. Human capital is also a catalyst for technological upgrading, as more highly skilled workers are better positioned to use new technologies and to develop innovations.

Analyzing the experience of countries that have successfully transitioned to middle-income status offers important insights.

For example, many economies in East Asia were able to achieve middle-income status by investing in human capital, building public sector capacity, narrowing the infrastructure gap, and facilitating private-sector-led growth. The experience of Vietnam, a country that was once among the poorest in the world and is now a thriving middle-income economy, offers especially compelling lessons for Tanzania ([Box 5](#)).

Box 5
An East Asian Model for Sub-Saharan Africa: The Case of Vietnam

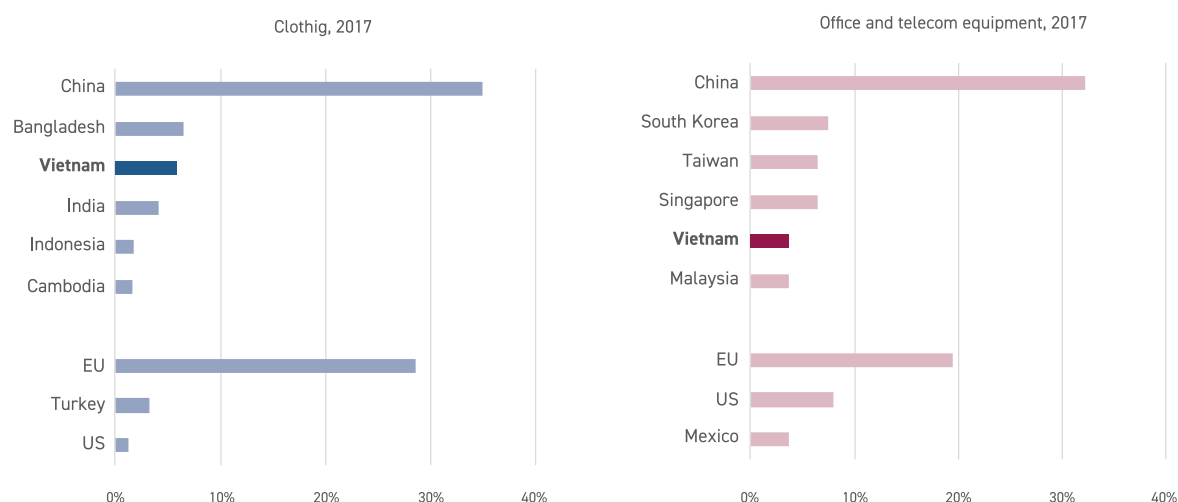
Vietnam’s economic performance since the 2000s offers important insights for LMICs striving to sustain long-term growth and promote economic diversification. Vietnam pursued a policy of economic openness with a focus on export-led industrialization, the dismantling of rural collectives, incentives for international investors, increased participation in the regional economy, and integration into global value chains (GVCs).¹⁹ In 2000, Vietnam’s per capita GDP was US\$390, and poverty was widespread.²⁰ Over the following two decades, Vietnam’s GDP growth rate averaged 6.6 percent, supported by robust domestic investment (which peaked at 40 percent of GDP in 2007), sustained foreign investment, and surging exports. By 2019, a combination of growth and structural reforms had enabled Vietnam to reach LMIC status, with a per capita GDP of over US\$2,700 and a poverty of less than 2 percent.²¹ Meanwhile, the Gini coefficient remained relatively stable, indicating that the distribution of returns to growth was broadly equitable, though not progressive (Figure 24). Vietnam’s exports of goods and services rose from US\$16 billion in 2000 to US\$274 billion in 2018, and processed goods or assembled manufactures represented over 80 percent of total exports.

Vietnam’s high-growth decades lifted 30 million people out of poverty. The government laid the groundwork with a series of reforms starting in 1986, with the transition to a socialist market economy, the abolition of price controls, the withdrawal of a ban on private businesses, and the redistribution of land to farming households. Complementing these reforms were measures aimed at reducing the poverty of ethnic minorities, especially in the highland areas, through the provision of land, improved housing, and farm equipment. Poverty-reduction efforts included investments in food security, healthcare, education, transportation, utilities, and agricultural infrastructure.²² These efforts would not have been successful without the employment-creating expansion of the industrial sector, but the returns to economic growth would have been far less equitable without targeted measures to reduce poverty.²³

Figure 31: Gini Coefficient and Poverty Headcount Rate, Vietnam



Source: WDI.

Figure 32: Share in Global Exports of Clothing and Office and Telecom Equipment, Vietnam and Comparators

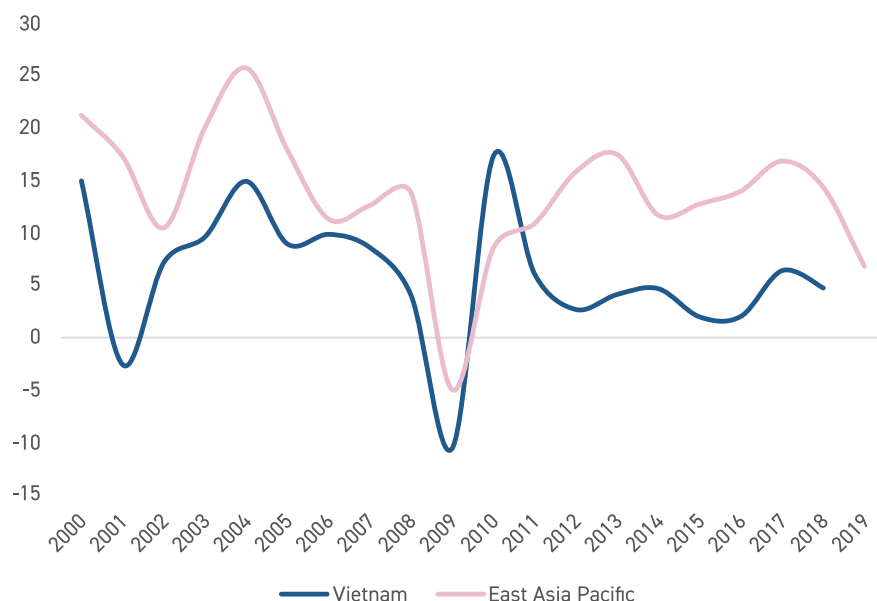
Source: <https://www.weforum.org/agenda/2018/09/how-vietnam-became-an-economic-miracle/>

The rise of labor-intensive manufacturing was accompanied by equally dramatic gains in agricultural productivity.

By the early 2000s, Vietnam had become the world's second-largest coffee exporter, the leading exporter of processed cashews, the third-largest rice exporter, and the top exporter of pepper.²⁴ Vietnam is also a major supplier of wood, aquaculture products, and tropical fruit. The production of agricultural and manufactured exports employs 5 million workers directly and another 7 million indirectly.²⁵ Vietnam's export-led growth was made possible by its integration into global value chains and sustained inflows of FDI. Low labor costs gave Vietnam an advantage in the electronics, telecommunications, and garment industries,²⁶ as did its proximity to major manufacturing hubs in China, other fast-growing regional economies such as Malaysia, Thailand, and Indonesia, and industrialized countries such as Korea and Japan.²⁷ A gravity-model²⁸ analysis confirms that Vietnam's trade relations have been strongly influenced by the GDP, development level, economic openness, and proximity of countries in East Asia, as well as by its trade agreements with these countries. However, Vietnamese policymakers were responsible for attracting the FDI that created Vietnam's manufacturing base and enabled the modernization of its agricultural sector.

To jumpstart diversified export-led growth, Vietnam needed foreign capital and expertise and to connect its manufacturers with global value chains.

The government accomplished this by adopting a policy agenda that prioritized: (i) improving the business environment by creating market-friendly institutions and offering tax incentives; (ii) joining international trade agreements; (iii) building economic infrastructure; (iv) promoting agricultural exports to supplement manufactures; and (v) investing in human capital. As a result of this agenda, foreign investors flocked to Vietnam, manufacturing rapidly expanded, and the country swiftly integrated into global value chains. Since 2000, the growth of Vietnam's exports has exceeded the regional average for East Asia. Between 1995 and 2011, backward integration increased from 20.9 to 36.3, forward integration rose from 13.1 percent to 16 percent, and domestic value added to gross exports grew at an annual rate of 16.6 percent.²⁹

Figure 33: Export Growth, Vietnam and the Regional Average, 2000-2019

Source: WDI.

Policymakers created the legal scaffolding for a competitive business environment through a series of legislative actions.³⁰ These included passing a new Law on Foreign Investment, imposing low or zero tariffs on imported inputs, creating fiscal incentives,³¹ and engaging in targeted outreach to international garment, footwear, and consumer electronics firms seeking a location for product assembly. Meanwhile, a new Enterprise Law stimulated domestic private-sector development and permitted the formation of partnerships, limited liability companies, and corporations with shareholders. Other laws addressed corporate governance, reduced administrative burdens,³² identified strategic sectors reserved for public enterprises,³³ and unified the regulation of public and private enterprises. These efforts are ongoing, and in early 2018 the government created a legal framework that increased support to MSMEs from both the private sector and government agencies.³⁴

As Vietnam's business climate improved, the volume of FDI rose sharply. Annual FDI increased from less than US\$4 billion in 2000-2006 to an average of US\$6 billion in 2007-2018, roughly doubling as a share of GDP. Accession to the World Trade Organization in 2006 encouraged investors and helped bolster FDI in transportation systems, tourism infrastructure, trade zones, and commercial real estate.³⁵

Vietnam accelerated its integration into global value chains by joining multilateral, regional, and bilateral trade agreements. Vietnam has established bilateral trade agreements with 72 countries and trade relations with 165 countries. It is a member of the Association of South-East Asian Nations and a party to the Asian Free Trade Agreement. Over the past decade, Vietnam has signed or negotiated free-trade agreements with Japan, the Republic of Korea, and the European Union, among others. Vietnam joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership in 2020, which is expected to increase its exports by another US\$4 billion over the next decade. A Regional Comprehensive Economic Partnership is currently being negotiated.

Source: Authors' compilation based on various World Bank reports.

2.3 Making Growth More Inclusive

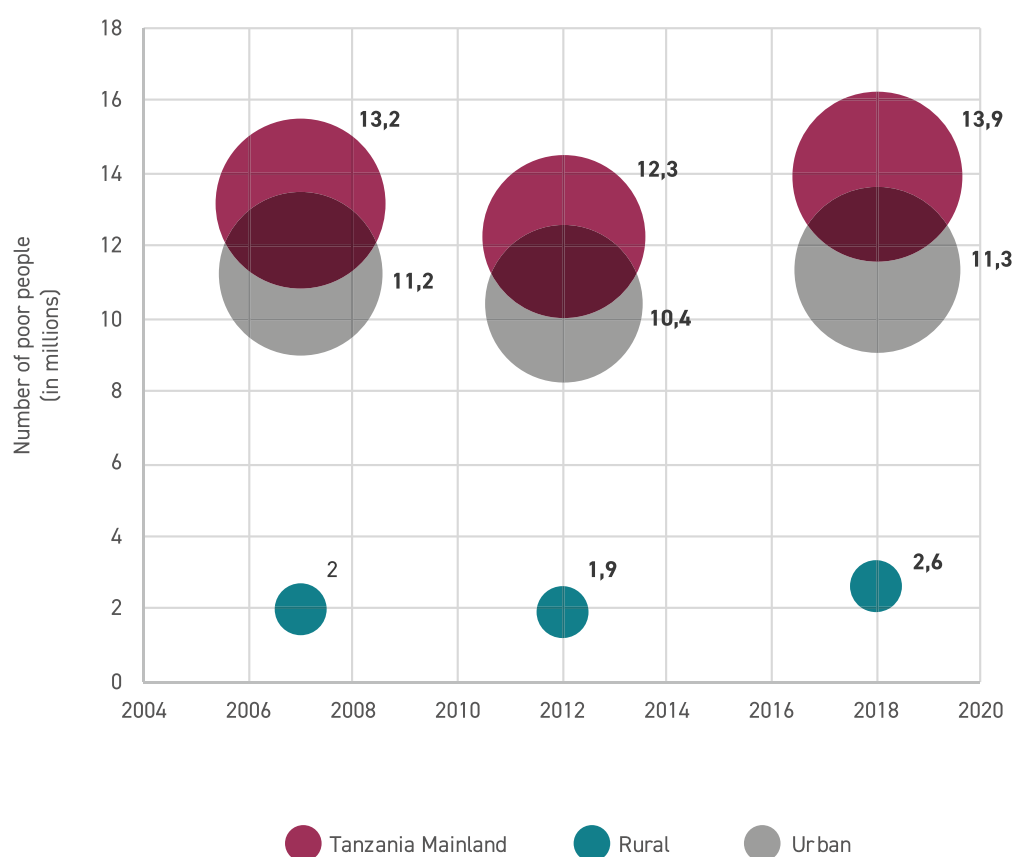
Rapid economic growth has not translated into commensurate poverty reduction.

Poverty reduction has slowed, and the number of Tanzanians living in poverty is rising.

Between 2012 and 2018, the cumulative GDP growth was an impressive 45.5 percent³⁶ while the national poverty rate fell by 6.4 percent only,

indicating a poverty to growth elasticity of -0.26, which is far below the SSA average of -1.9. During the same period, Tanzania's poverty rate at the international extreme poverty line remained broadly stable at about 49 percent. The relatively weak impact of growth on poverty reduction, combined with a rapidly increasing population, caused the number of Tanzanians living below the national poverty line to rise from 12.3 million in 2012 to 13.9 million in 2018 (Figure 34).

Figure 34: The Distribution of Tanzania's Poor Population



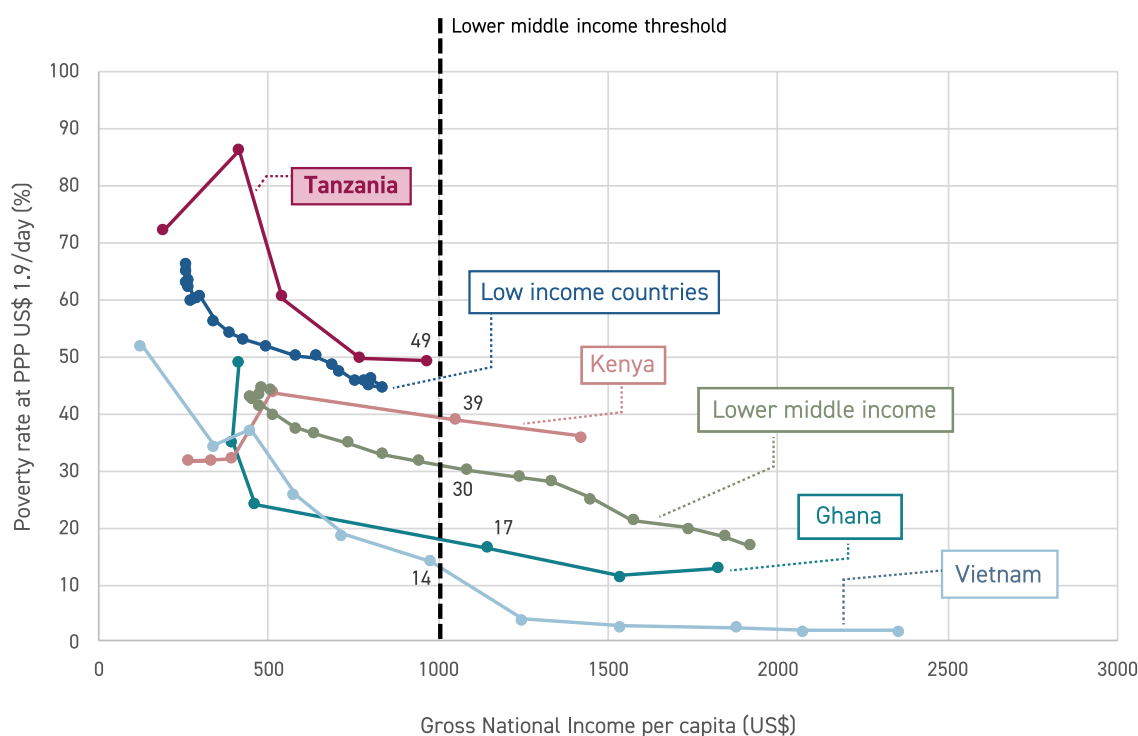
Source: 2019 Poverty Assessment based on HBS 2011/12 and 2017/18.

Poverty in Tanzania is defined by at least four key characteristics. First, poverty rates are much higher in rural areas than urban centers, a common pattern in SSA. Second, households engaged in non-farm businesses have been especially successful at escaping poverty. Third, inter-generational poverty is widespread and difficult to overcome. Fourth, many nonpoor households are clustered just above the poverty line and are vulnerable to falling into poverty in the event of a shock. Addressing its persistently high rates of poverty and vulnerability will be a critical challenge for Tanzania as it strives to raise living standards and sustain its robust economic growth.

Tanzania's poverty rate is high both in absolute terms and by the standards of other new LMICs.

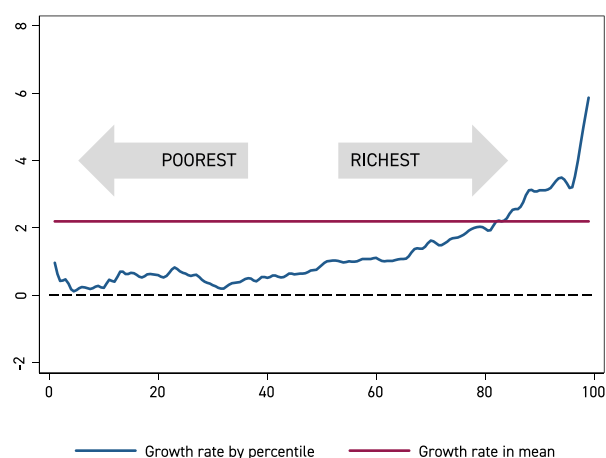
In its first year as an LMIC, 49.3 percent of Tanzania's population was below the international extreme poverty line, far above the average of 30 percent for first-year LMICs (Figure 35). In 2018, an estimated 25.9 million Tanzanians were living below the international extreme poverty line, the fourth-largest poor population in SSA.³⁷

Figure 35: International Extreme Poverty Rates before and after Becoming an LMIC

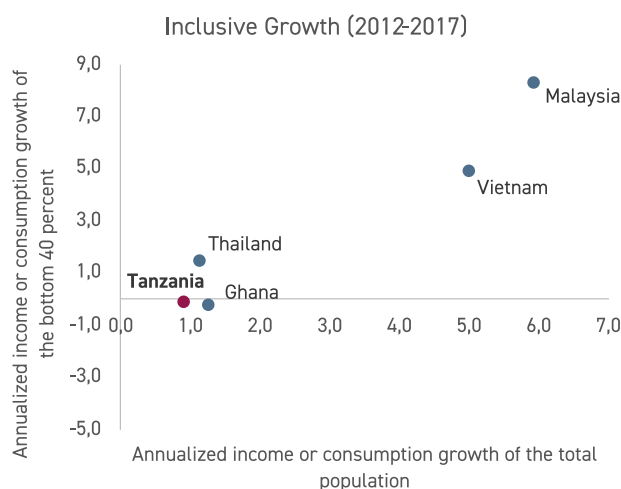


Source: WDI

Most households in the bottom 40 percent of the income distribution have been unable to access the opportunities generated by economic growth, and inequality has risen. Between 2012 and 2018, real per capita consumption grew faster among wealthier households than it did among poorer ones (Figure 36 and Figure 37). The rate of consumption growth among households in the bottom 40 percent of the income distribution was 1 percentage point below the rate for the population, widening inequality and eroding shared prosperity. After falling from 38.5 to 35.8 percent between 2007 and 2012, the Gini coefficient rose to 39.5 percent in 2018. Inequality increased fastest in urban areas, essentially Dar es Salaam, where the Gini coefficient rose from 36 percent in 2012 to 43 percent in 2018.

Figure 36: Gross Incidence Curves, 2012-2018

Source: 2019 Poverty Assessment based on HBS 2011/12 and 2017/18.

Figure 37: Inclusiveness of Growth, 2012-2017

Source: World Bank Global Database of Shared Prosperity.

Rapid population growth, slow and uneven job creation, low levels of education, and lack of access to opportunities have hindered the inclusiveness of economic growth.

Rapid population growth has hindered progress on poverty reduction. Tanzania's population growth rate is around 3 percent, the 12th highest in the world, above LIC average and more than double the LMIC average of 1.4 percent. In 2019, the number of births per woman averaged 4.9, above the LIC average of 4.7 and far above the LMIC average of 2.8. When Vietnam joined the ranks of LMICs in 2011, its population growth rate was 1 percent and it averaged 1.9 births per woman. Declining fertility rates increase the share of the working-age population relative to children and older people and can boost female labor-force participation. Workforce productivity may also increase, as slower population growth enables households and the government to invest more in each child's development.

Tanzania's recent growth has been driven by sectors that employ relatively few workers, especially from poor households. The fastest-growing sectors were construction, information and communications technology (ICT), real estate, and nonmarket services (e.g., education, health, and public administration), followed by mining, transportation, and trade. On average, each of these sectors employs fewer than 3 percent of the population, and workers in these sectors tend to be significantly wealthier and more educated than average. Consequently, workers with more human capital and productive assets were better able to take advantage of the opportunities generated by economic growth, especially those living in urban areas, an advantage that contributed to persistently high poverty rates and widening inequality. An estimated 800,000 new workers enter the labor market each year, and many are consigned to unemployment or underemployment. Pressure on the labor market is expected to intensify over the next decade as rapid population growth continues to swell the working-age population.

High dependency rates, low levels of education, and inadequate workforce skills limit the ability of lower-income workers to access productive employment opportunities, and these constraints are especially acute for women.

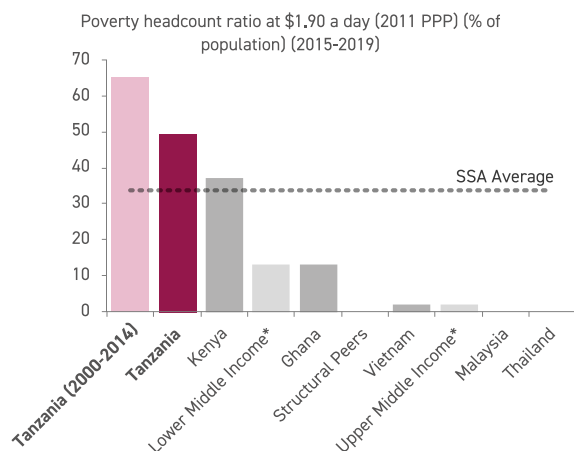
About 44 percent of households with five or more children under the age of 15 are below the national poverty line, far above the national average of 26 percent. Only 3.4 percent of the heads of poor households, and just 1.3 percent of rural household heads, received more than primary education, compared to 20 percent for the heads of nonpoor households. About 35 percent of households headed by a person with incomplete primary education or no education are below the national poverty line. The poverty rate drops to 26 percent for households headed by a person who completed primary school and plunges to 6 percent among households headed by a person with lower secondary education or above. This pattern suggests that the returns to education are high, though there is evidence that the returns to primary education have started to decline. Driven by unequal ownership of assets, poverty rates among female-headed households are higher (20 percent) than they are among male-headed households (14 percent), and poverty rates are about 11 percentage points higher among single women than they are among men. Asset ownership is significantly lower among female-headed households, especially in terms of vehicles and communications technology.

Structural transformation is hindered by a combination of inadequate workforce skills and slow employment growth in the industrial and services sectors.

Agriculture remains the country's largest employer, especially among poor households. Between 2012 and 2018, more than 70 percent of households that rose above the national poverty line still relied primarily on agriculture for their livelihood, though their working hours in the services and industrial sectors tended to increase. The movement of workers away from agriculture accelerated between 2011 and 2015, but the industrial sector created few new jobs, and services absorbed much of the transitioning workforce. Meanwhile, poor rural households experienced only a slight increase in nonfarm self-employment. Few poor rural households produce market-oriented crops and livestock, and most focus on staple crops. Poor urban households outside Dar es Salaam experienced a slight increase in wage employment and household enterprise growth over the period, coupled with a modest improvement in returns.

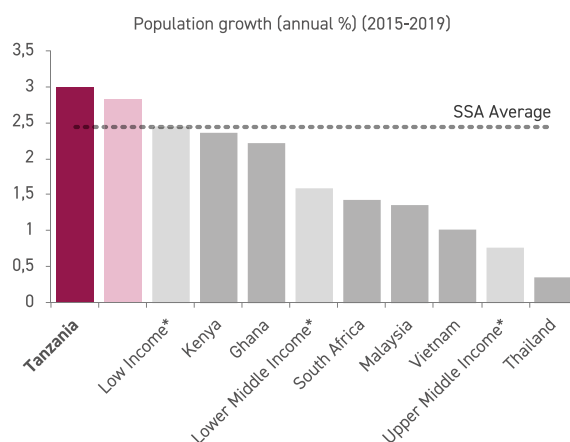
Figure 38: Inclusive Growth and Human Capital, Tanzania and Comparators

Tanzania's poverty rate is more than three times the LMIC average...



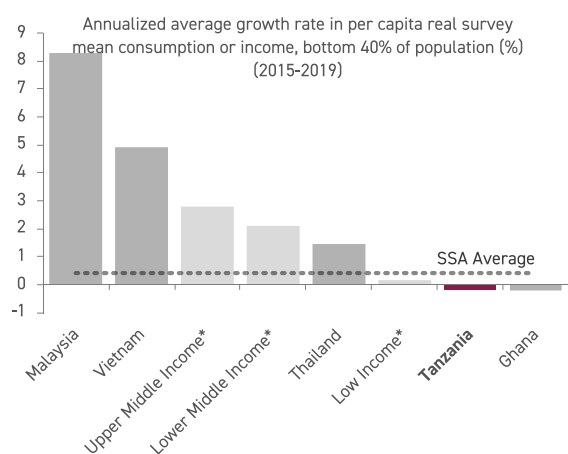
Source: Find My Friends using the World Development Indicators

...due in part to rapid population growth.



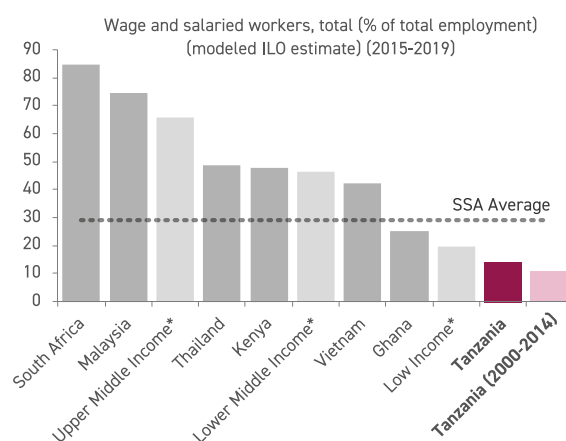
Source: Find My Friends using the World Development Indicators

Recent economic growth was not pro-poor...



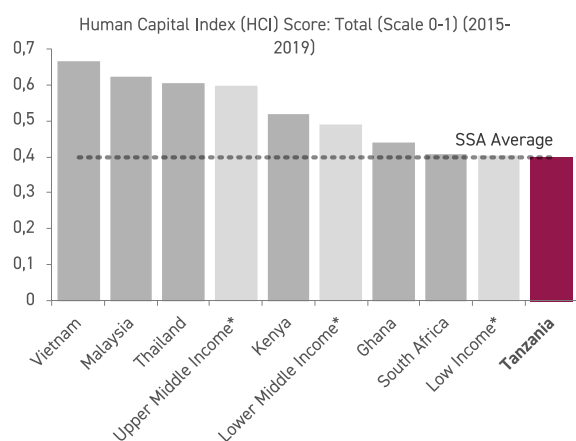
Source: Find My Friends using the World Development Indicators

...and access to high-quality jobs remains very limited.



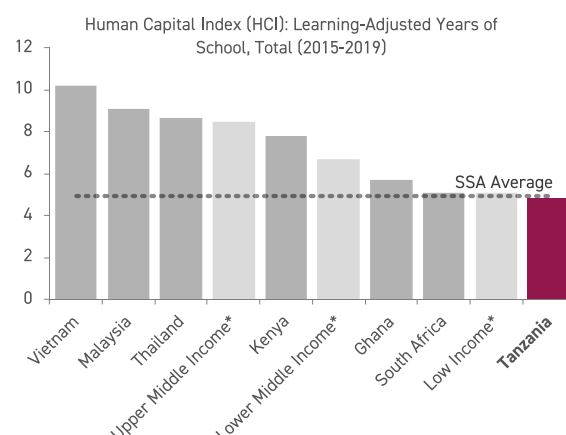
Source: Find My Friends using the World Development Indicators

Tanzania has the lowest levels of human capital among comparator countries...



Source: Find My Friends using the Ed Stats Database

...due largely to weak educational outcomes.



Source: Find My Friends using the Ed Stats Database





Creating high-quality employment will be crucial to reduce poverty and boost shared prosperity.

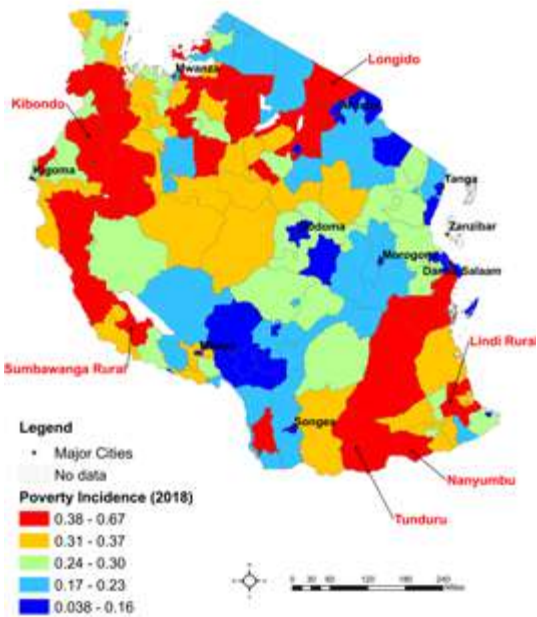
Tanzania's FYDP II identifies accelerating high-quality employment growth as a top development priority.

The international experience shows that growth reduces poverty faster when the government: (i) supports rising levels of labor productivity in agriculture and agribusiness value chains; (ii)

attracts robust private investment in labor-intensive nonfarm activities, including agribusiness, manufacturing, and services; and (iii) ensures that newly created jobs are accessible to relatively low-skilled youth and women.³⁸ Countries that have successfully sustained “growth with equity” were able to expand their export-oriented manufacturing and service sectors while also shifting a large share of the workforce from low productivity self-employment into wage employment. The share of wage employment in total employment in Tanzania has increased in the past five years but remains below the levels of all peer economies, the SSA average, and both the LIC and LMIC averages (Figure 38).

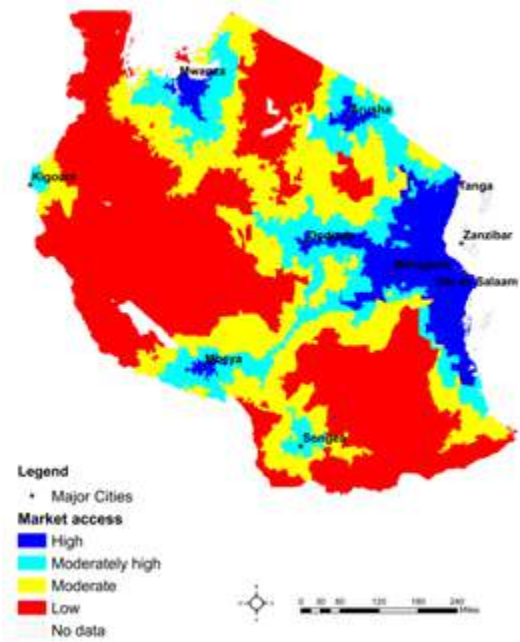
Improving connectivity can lift more Tanzanians out of poverty. Despite improvements in recent years, access to markets is still limited, especially in rural areas, where most poor households are located. Poorly maintained rural roads are a serious deterrent to the development of commercial agriculture, and farmers in rural areas with limited market access face high input prices due to elevated transportation costs and limited competition. In many remote parts of the country, post-harvest losses wipe out as much as 35 percent of total production, as yields cannot be transported to storage facilities, processing centers, or consumers in a timely manner. The districts with the highest poverty rates tend to be poorly connected to markets, and many are concentrated in the northwest and southeast (Figure 39 and Figure 40).

Figure 39: District-Level Poverty Rates, 2018



Source: World Bank Poverty Assessment, using HBS 2017/18 and auxiliary variables.

Figure 40: Access to Major Urban Centers

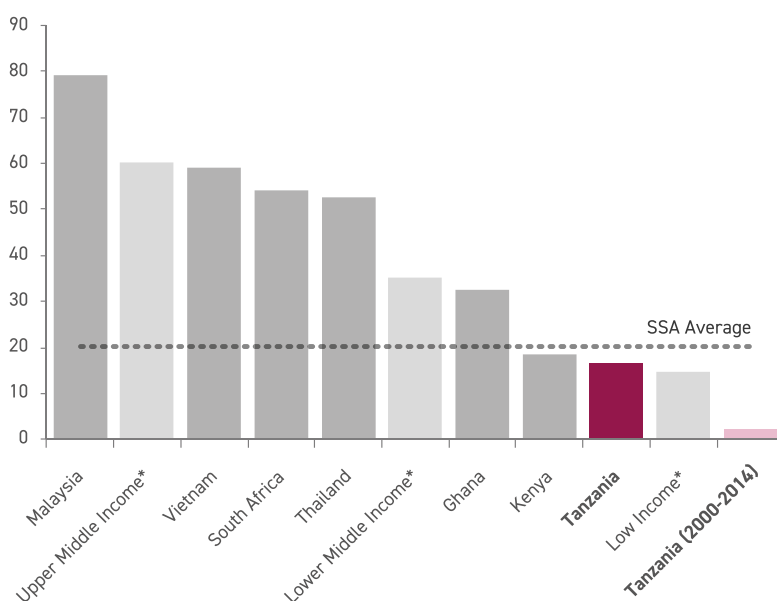


Source: World Bank Global Database of Shared Prosperity.

Notes: The Open Source Routing Machine (OSRM) algorithm is used to compute travel time between each village and major cities.

Investing in essential infrastructure and services would increase the returns to growth among poor rural households. In recent years, the government has made substantial improvements in expanding basic service delivery, but gains in urban areas have outpaced progress in rural areas. Between 2012 and 2018, the share of urban households with access to improved sanitation rose from 36 to 58 percent, while the share of rural households with access increased from 5 to 11 percent. Only 7 percent of poor households are connected to the electrical grid, though 23 percent have some amount of solar power. The share of the population with internet access has increased significantly during the last five years, albeit from the low base, but at 16.5 percent it remains just slightly above the LIC average and less than half the LMIC average (Figure 41).

Figure 41: The Share of the Population Using the Internet, 2015-2019 (percent)



Note: *excludes Small and Fragile and Conflict Affected States

Source: Find My Friends using the World Development Indicators

Enabling productivity growth among microenterprises and informal firms could accelerate job creation. Skills shortages are a formidable barrier to the movement of workers to more productive sectors, but so are the small size of Tanzanian firms, their low growth and survival rates, their limited access to financial resources and technology, their high levels of informality, and their general lack of productive capacity and low value added. From 2010 to 2013, microenterprises did not create any new jobs; small firms created 34 percent of new jobs; and medium and large firms created about 67 percent. Firms that were more than 15 years old accounted for more than 50 percent of the jobs created, implying a lack of dynamism of small and medium enterprises. In other LMICs, smaller firms have created the majority of the jobs most closely linked to poverty reduction.

2.4 Enhancing Social Mobility and Strengthening Economic Security

2.4.1

Investing in Human Capital and Expanding Access to Opportunities

Human capital investments enable households at all income levels to access economic opportunities and benefit from growth.

Investments in education, health, and skills development are fundamental to human capital formation, which provides a foundation for long-term growth and the

development of an economically secure middle class. A highly skilled and productive labor force can take advantage of new employment opportunities, increasing their income and savings, which strengthens their resilience against future shocks. A more capable workforce can also attract private investment, presenting opportunities for training and learning-by-doing that further enhance human capital in a virtuous cycle. However, public investment in human capital remains critical: all the successful East Asian economies emphasized improving the supply of public services to build the human capital of their populations ([Box 6](#)). Basic education, health, nutrition, family planning, and maternal and child services were promoted both as a means of raising labor productivity and as a way of enabling the poor to benefit from labor-intensive growth. Educational systems in successful East Asian economies steadily increased school enrollment rates, first at the primary level and then at the secondary level, as a result of which the generation born in the 1980s had average levels of educational attainment almost one-third higher than the generation born in the 1950s. Health ministries focused on diseases that pose a particular threat to the poor and worked to expand primary healthcare in rural areas. Several countries also prioritized access to family planning programs.

In the last decade, Tanzania made significant progress in reducing its human capital gap with other LICs, though its health and education indicators remain far below the levels of its new LMIC peers. Access to healthcare has risen, and child mortality rates have fallen. Free primary education is more widely available; primary and secondary enrollment rates are on the rise, and investment in higher education has increased. The authorities have also established well-targeted social protection programs for households in extreme poverty. The government eliminated school fees for basic education in 2015, and official statistics have recorded impressive progress in expanding enrollment and reducing gender disparities.³⁹ Between 2011 and 2018, the number of children enrolled at all grade levels increased by 3.1 million. Net enrollment rates in primary school rose fastest among the poorest households, where enrollment gains among girls rose from 72 to 82 percent, while rates among boys increased from 69 to 78 percent.⁴⁰

Nevertheless, Tanzania's Human Capital Index (HCI) score is well below the LMIC average. On average, a child born in Tanzania today will reach 39 percent of what her lifetime productivity could have been had she received complete education and full health, slightly below the SSA average of 40 percent and far lower than the LMIC average of 50 percent ([Box 7](#)). In 2020, Tanzania's HCI score ranked 152nd out of 174 countries. Improvements in health indicators have outpaced improvements

in education. Despite important gains in primary enrollment, learning outcomes remain broadly unchanged, and 7.2 years of schooling drops to just 4.5 when adjusted for education quality.⁴¹ The distribution of educational opportunities is highly unequal, learning outcomes are generally poor, and a lack of qualified teachers undermines education quality. In the health sector, a fragmented approach to reducing stunting and stagnant malnutrition indicators slow progress on improving lifetime health outcomes,⁴² while high rates of fertility, teenage pregnancy, and child marriages combined with limited contraceptive use contribute to persistently high levels of maternal mortality.

Expanding educational opportunities to achieve Tanzania's job-creation goals will require reducing gender and regional disparities and more effectively reaching disadvantaged groups.

Tanzania's net secondary enrollment is the lowest in the world, and its lower secondary school completion rate is the fourth lowest in the world. At 27 percent, net secondary enrollment is less than half the LMIC average of 74 percent and a full 10 percentage points below the LIC average. Only a quarter of children from households in the poorest quintile are enrolled in lower secondary education, compared to over a third of children from the wealthiest households. Low perceived returns to post-primary education, and social norms that favor work or marriage over school, weaken demand for secondary education. In addition, late enrollment contributes to high secondary school dropout rates. A significant gender gap emerges at the post-primary level and widens at higher levels. Girls make up only 38 percent of upper secondary students due to a combination of early marriage, low perceived returns, and unaffordability. Although the national average net primary enrollment rate is high, it varies across regions, and about 2 million children, mostly from rural areas, are not in school.



Box 6**Beyond GDP: Tanzania's Performance on the 2020 Human Capital Index**

The HCI is an international standard to assess human capital formation. By measuring the amount of human capital that a child born today can expect to attain by age 18, the index highlights how current health and education outcomes shape the productivity of the next generation of workers. Worldwide, the average child born in 2020 can expect to reach 56 percent of her productive potential. However, a child born in Tanzania today will be 39 percent as productive as she could have been had she enjoyed complete education and full health. This outcome is based on six indicators:

- Probability of Survival to Age 5. Out of every 100 children born in Tanzania, 95 survive to age five.
- Expected Years of School. In Tanzania, a child who starts school at age 4 can expect to complete 7.2 years of school by her 18th birthday.
- Learning-Adjusted Years of School. When education quality is accounted for, the number of expected years of school falls to just 4.5.
- Harmonized Test Scores. Students in Tanzania score 388 on a scale where 300 represents minimum attainment and 625 represents advanced attainment.
- Adult Survival Rate. Across Tanzania, 78 percent of 15-year-olds are expected to survive until age 60 based on the range of health risks that a child born today would experience as an adult under current conditions.
- Healthy Growth. Out of every 100 children in Tanzania, 32 are stunted, putting them at risk of lifelong cognitive and physical limitations.

Source: World Bank Human Capital Index 2020 <https://openknowledge.worldbank.org/handle/10986/34432>

Tanzania's low secondary school enrollment rate is a major obstacle to income growth and economic security among poor households. Education is correlated with a higher probability of employment in non-farm activities and higher income levels. Households headed by a person with educational attainment beyond the lower secondary level saw their mean real consumption increase by about 27 percent during 2012–18, while consumption increased by just 16 percent among households headed by a person who did not advance beyond lower secondary school. Households headed by a person with primary education or less experienced a minimal increase in their consumption, and many less-educated workers remain trapped in low-productivity jobs. Increasing secondary enrollment and completion rates will be vital to enable workers from poor households to increase their income and access more economically secure sectors.

Undernutrition remains a significant human development challenge. Stunting affects 32 percent of Tanzanian children under five, one of the highest rates in SSA. The prevalence of stunting varies by region, gender, and income group. Chronic undernutrition affects more than 50 percent of children in certain regions, and undernutrition levels among the poorest households and in rural areas are almost double those among the wealthiest households and in urban areas. Girls are more likely to experience chronic malnutrition than boys, and the gender gap has widened in the recent decade. The government's response is fragmented: its small, uncoordinated nutrition interventions are not achieving significant progress, and intermediate outcomes such as the coverage of vitamin A supplements are deteriorating. A reinvigorated national nutrition agenda with investments in preventing undernutrition could make a major contribution to human capital development. Such an effort would require strong political leadership, increased domestic investment, and the use of performance-based financing mechanisms to maximize expenditure efficiency. Inefficient public spending hinders gains in health access and quality, and health insurance schemes are fragmented and cover only a small share of the population.

Accelerating the demographic transition could facilitate investment in human capital. Tanzania has experienced a steep drop in mortality rates coupled with persistently high fertility rates, leading to rapid population growth. Harnessing a demographic dividend requires addressing the persisting challenge of a large and growing population with a large number of dependent children who require sustained investment in their health and education. Adopting policies that slow population growth, especially by reducing the incidence of teen pregnancy and early marriage, would ease pressure on the education and health systems and enable greater investment per child.

Empowering women and girls could greatly accelerate human capital formation. Early marriage and low levels of educational attainment among girls lead to high rates of early childbearing, which increases risks associated with infant and child mortality, stunting, and poor maternal and child health. Inadequate birth spacing further increases the risk of stunting and poor overall health, as families are often unable to ensure proper nutrition or adequate access to water, sanitation, and hygiene for multiple infants. Households with many children may be unable to afford schooling-related costs, and allocating childcare duties to girls contributes to their low rates of educational attainment. Maternal mortality rates are higher for young mothers and for mothers with a larger number of children. While Tanzania has made considerable progress in improving educational attainment among girls over the last two decades, as well as more modest progress in reducing the prevalence of early marriage, its gains have been insufficient to achieve the Sustainable Development Goals. Further progress in reducing early marriage and childbearing and improving educational attainment among girls can positively impact a wide range of development outcomes and deliver enormous economic benefits. For example, eliminating early marriage could boost the population's total income by as much as 0.9 percentage points through gains in education and workforce participation.

Expanding access to services can promote upward mobility and reduce inequality.

of new opportunities and to build and stabilize returns to household assets such as labor, land, and capital goods. Between 2012 and 2018, the share of the population with access to the electricity grid increased from 20 to 29 percent, while access to solar lighting rose dramatically from 2 to 26 percent. The share of households with access to an improved drinking water source increased from 60 to 74 percent, with access to piped water doubling from 8 to 16 percent. Improved water access mitigates the risk of waterborne disease, while the expansion of the water grid reduces the time and effort necessary to obtain water.

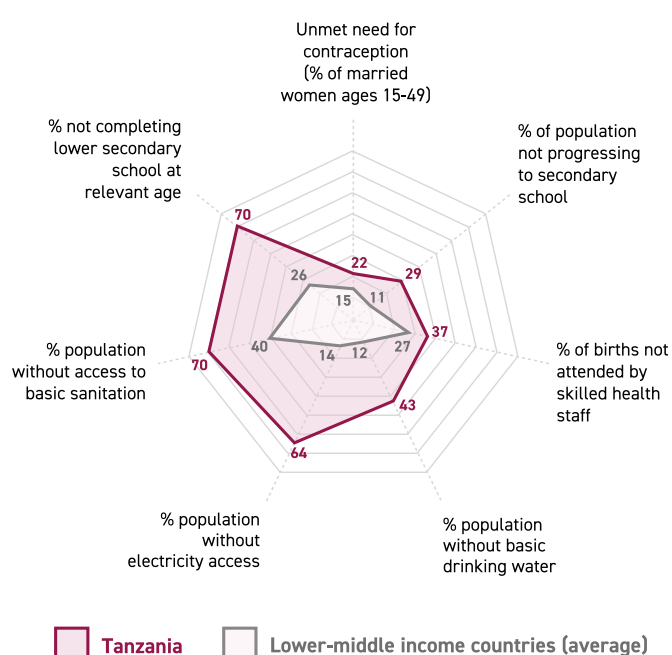
While Tanzania has made substantial progress in expanding access to basic social services, it remains far behind LMIC levels.

The gap with the LMIC average is substantial for many basic social service delivery indicators: 64 percent of the Tanzanian population lacks electricity access, while the LMIC average is just 14 percent; 70 percent of the population did not complete lower secondary, compared to an LMIC average of 26 percent; 70 percent lack access to basic sanitation, versus an LMIC average of 40 percent; and 43 percent of the population lack access to basic drinking water services, whereas the LMIC average is just 12 percent (Figure 42).

Enhancing access to quality basic social services is necessary to maximize the returns of investments in human capital.

Electricity, improved drinking water, health facilities, secondary schools, roads, markets, and communication networks are essential to enable workers to take advantage

Figure 42: Coverage of Basic Social Services, 2017-18



Source: WDI.

2.4.2

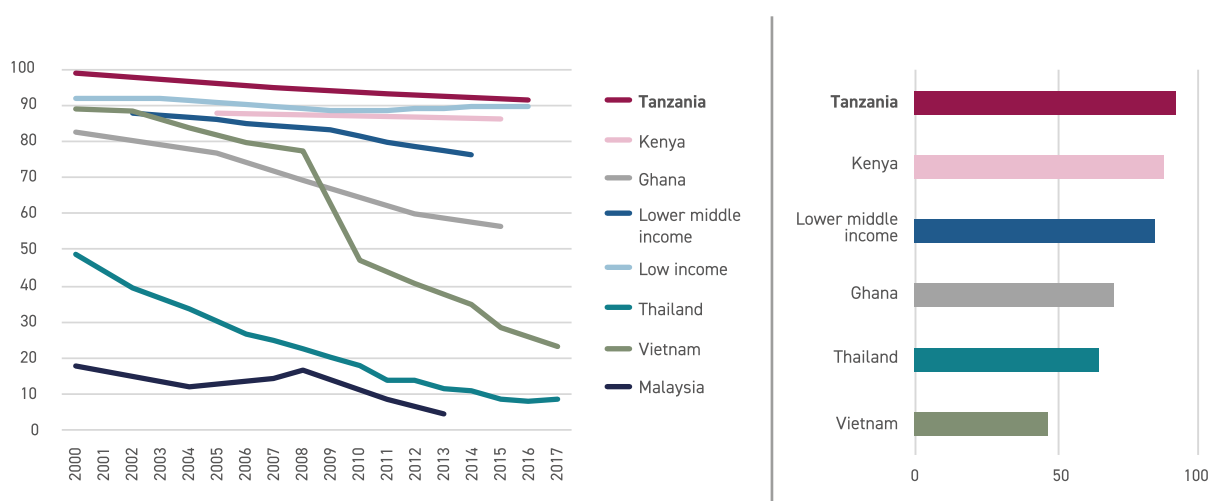
Building a Secure Middle Class

A key feature of successful middle-income economies is the growth of an economically secure middle class.

The share of economically secure population in Tanzania increased slightly over the past two decades, but the gap with other LMICs remains large. Economically secure households have enough income to cover daily expenses, can absorb income shocks, and have additional resources to finance non-essential consumption. Economic security is

defined as having a per capita household consumption level ranging from US\$5.50 to US\$15 per day, while households with a per capita consumption level greater than US\$15 per day are considered part of the global middle class.⁴³ In 2018, 92 percent of Tanzanians were below the threshold for economic security, far higher than the LMIC average of 76 percent, above the levels of other new LMICs, and even slightly exceeding the LIC average of 90 percent (Figure 43).

Figure 43: Share of the Population Facing Economic Insecurity, Tanzania and Comparators (percent)



Source: WDI.

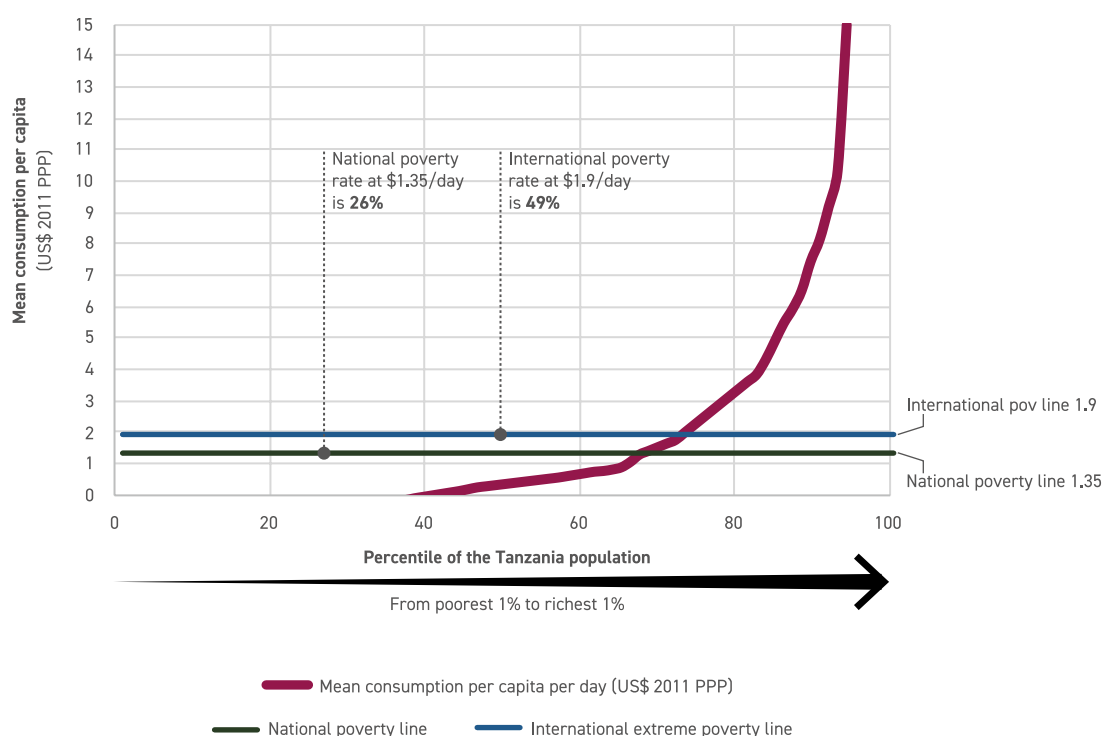
Intergenerational mobility to more productive economic sectors is limited. Agriculture employs 65 percent of the population and 82 percent of the poor, and most Tanzanians born into farming households will become farmers themselves. Even in more productive sectors such as trade, transportation, and accommodation, the livelihood of the household a child is born into substantially influences her employment prospects as an adult. Low educational attainment across generations reduces economic mobility across economic sectors. Among Tanzanian adults whose father had no education, only 7 percent are educated beyond the primary level, and among the poor this share falls to just 3 percent. At all levels, paternal education level is a strong predictor of educational attainment.

Building resilience to shocks will help secure economic gains among the poorest households.

To sustain inclusive growth, the government must not only enable households to escape poverty but also prevent them from falling back into poverty. Around 20 percent of nonpoor households would fall into poverty if their incomes dropped by TZS 550 (US\$0.24) per adult equivalent per day (Figure 44). Income growth and public support appear

to have enabled many households to fulfill their basic consumption needs, but their gains have been insufficient to protect them against unexpected setbacks. Meanwhile, increasing the daily consumption of poor households by just TZS 350 (US\$0.15) per adult equivalent would lift about half of poor households above the poverty line. The clustering of a large share of the population just above or below the poverty line results in high rates of "transitional poverty." For example, according to data from the National Panel Surveys, about 16 percent of Tanzanians significantly improved their economic status and moved out of poverty between 2010 and 2015, while 13 percent of households fell back into poverty during the same period. Movements into and out of poverty appear to be higher in rural than in urban areas, suggesting that rural residents are more vulnerable to income volatility and/or closer to the poverty line.

Figure 44: The Distribution of per Capita Consumption at Different Poverty Lines



Source: 2019 Poverty Assessment.

The poorest areas in the country are highly vulnerable to natural disasters. Drought is the most frequent natural disaster in high-poverty areas, and variable rainfall significantly contributes to food insecurity, crop and livestock losses, and infectious disease transmission. Parts of Tanzania that were previously highly productive, such as the southern and northern highlands, are expected to experience more spatial and temporal rainfall variability due to climate change, and drought has already become more common in parts of the Arusha, Manyara, Shinyanga, Simiyu, and Dodoma regions.

Financial access, especially among women and MSMEs, is critical to boost household savings and enable firms and workers to take advantage of new economic opportunities.

Financial inclusion plays a key role in fostering economic security. Expanding access to financial services, especially among women, will enable businesses and households to save for the future and invest in income-generating activities, supporting broad-based growth and bolstering economic security. Tanzania's persistent low level of financial inclusion leaves a significant portion of the population unable to access savings accounts or lines of credit. World Bank

data⁴⁴ show that 21 percent of all Tanzanians over age 15 have an account at a financial institution, a modest improvement from the 19 percent recorded in 2014 but well below the SSA average of 32.8 percent. Tanzanians with an account at a financial institution tend to be nonpoor, male, employed, and located in an urban area. Tanzania outperforms many other countries in the region in terms of gender parity in financial access, as 42.2 percent of accountholders are women, above the regional average of 37 percent. Tanzania also performs well in terms of mobile-money account uptake: the share of adults with a mobile-money account has risen from 32.4 percent in 2014 to 38.5 percent, well above the regional average of 21 percent.

Multiple challenges in accessing financial services remain, especially for women, youth, and rural households. Lack of formal identification, low levels of financial literacy and numeracy, a nascent culture of savings and pervasive mistrust of financial institutions, high levels of informality, limited knowledge of financial products and know-your-customer (KYC) requirements, and low levels of asset ownership are among the most important demand-side constraints to financial inclusion. Supply-side challenges include significant structural and capacity limitations in the microfinance sector, few financial institutions or services outside of urban areas, costly credit and high transaction fees, a narrow range of collateral accepted by service providers, deficiencies in the financial infrastructure and solvency regime, high NPL ratios that constrain the lending capacity of financial institutions, and limited availability of digital services and other alternative financial products.

Achieving the government's ambitious agenda for financial inclusion will require reforms in multiple areas. While the issuance of the Consumer Protection Policy and Regulations is an important step, the consumer protection framework for the financial sector is still incomplete. In the 2020 Doing Business report, Tanzania ranked 162nd out of 190 countries on the ease of starting a business; facilitating business startup and registration would enable the formalization of firms with high growth potential. Further developing and expanding access to diverse financial tools such as factoring, warehouse-receipt financing, guarantees, leasing, and digital financial services could ease financing constraints among small firms and entrepreneurs. Similarly, developing affordable mortgage financing will help consumers build assets, and an appropriate insurance scheme could shield farmers from seasonal shocks. Infrastructure investment and reforms to facilitate innovation will be necessary to enhance financial inclusion in underserved areas through mobile-money systems, online banking and payment platforms, and other digital services.

2.5 Raising the Bar for Development Success

This concluding section outlines key priorities and policy options for achieving the next level of Tanzania's development. These recommendations are organized around three strategic pillars: (i) sustaining high growth in the medium- and long-term, (ii) improving the quality and inclusiveness of growth, and (iii) fostering upward economic mobility and economic security. While the policy options described below are not meant to be exhaustive, they highlight areas in which the government can leverage its limited resources to advance its development objectives.

Tanzania faces the dual challenge of accelerating private investment while enhancing productivity.

Although physical capital formation has driven its recent growth, Tanzania still requires major investments in productive assets and infrastructure. Reversing the deceleration of private investment inflows, including FDI, will be crucial to achieve Tanzania's ambitious development goals. The TDV 2025

recognizes the central role of private investment, and the FYDP II targets annual FDI of US\$9 billion, equal to about 50 percent of total private investment in 2019. In a speech marking the inauguration of the National Assembly on November 13, 2020, President Magufuli cited private investment as among the government's top priorities for the next five years. Recognizing the importance of business climate reforms, the government has set a target of 14 days for investors to obtain the necessary licenses and permits, among other measures designed to facilitate investment. To maximize the spillover effects of private investment inflows, the government must prioritize public investment in human capital and essential services.

Based on the current economic structure, achieving and maintaining an annual GDP growth rate of 8 percent over the next five years will require increasing annual investment growth from an average of 8 percent in 2018-2019 to 14 percent. Tanzania's economic history suggests that one additional percentage point of GDP growth, led by investment in the most productive subsectors of agriculture, industry, and services, could create 220,000 new jobs a year. However, even under these conditions an 8 percent annual real GDP growth rate may not be sufficient to fulfill the ambitious goal of creating 8 million jobs by 2025. Instead, the annual GDP growth rate would need to reach at least 10 percent, implying an annual investment growth rate of 17-20 percent. Because public investment cannot be increased to this level without creating an unsustainable debt trajectory, private investment must drive Tanzania's expansion.

Structural transformation is crucial to productivity growth, but maximizing productivity gains will require investments in human capital and technology to boost efficiency within sectors. When former agricultural workers moving to manufacturing or services are mostly unskilled, structural transformation reinforces a country's comparative advantage in low-wage, labor-intensive industries, which can diminish long-run growth. Without a sustained increase in workforce skills and technology, export-oriented industries based on low wage rates will be unlikely to invest in capital accumulation, and the country will face continual competitive pressure from other low-wage countries. Conversely, some of Tanzania's most productive sectors are already capital-intensive and absorb few workers, making structural transformation difficult to sustain as a vast agricultural workforce seeks employment in sectors. Meeting the dual challenge of investment and productivity growth will require a consistent focus on human capital formation, including skills training and job matching, supported by a favorable climate for technology transfer and innovation and a proactive trade and investment policy that continually seeks new opportunities.

Investment in high-productivity industries and export-oriented sectors can accelerate economic diversification.

Attracting export-oriented FDI has been the cornerstone of successful industrialization strategies in much of East Asia and in several African countries. Export-oriented firms tend to generate positive spillovers in other domestic sectors while increasing overall competitiveness. In Tanzania, export-oriented firms tend to perform better than those primarily serving the

local market. International investors often utilize sophisticated technologies and have preexisting commercial networks that enable them to access distant markets. Given a more hospitable investment climate, Tanzania's low labor costs and favorable terms under the African Growth and Opportunity Agreement (AGOA), as well as the trade advantages offered under the EAC and SADC regimes, could make it an attractive destination for international firms. In addition to regulatory reforms, targeted public investments in infrastructure could accelerate structural transformation while encouraging export-oriented investment across multiple sectors.

Greater export competitiveness could create new opportunities for diversification. A narrow export base limits the scope for diversification, especially when exports are concentrated in simple commodities. By contrast, a broader export base that includes more complex products offers more opportunities for diversification on both the extensive and intensive margins. However, Tanzania appears to be moving in the opposite direction: in 2008, its potential for diversification included light machinery, iron or steel structures, paints and varnishes, and packing boxes, but by 2017 its diversification potential had shifted to products of lower value added such as fruit juices, honey, bakery products, packing lids, and animal feed. As FDI inflows have declined, the potential for future diversification has significantly decreased.

An effective strategy to boost productivity must encompass the agricultural and ICT sectors.

Agriculture will continue to be an important driver of growth and job creation in Tanzania. Agriculture and related value chains provide two-thirds of all employment in Tanzania, and three-quarters of employment among poor households. However, agricultural productivity is low and volatile, resulting in low incomes

and high prices. Among households in the lower income quintiles, spending on food staples still consumes more than 30 percent of total household spending. To increase and stabilize agricultural productivity, the movement of labor from the rural economy to the urban industrial and services sector must be accompanied by investments in agricultural infrastructure and rural development. Agribusiness accounts for more than half of the value added by Tanzania's manufacturing sector—especially cotton, cashew nuts, and coffee production—and developing agribusiness value chains will require a stable and increasing supply of high-quality produce. Agricultural development and the growth of a vibrant labor-intensive manufacturing sector are complementary objectives, and efforts to facilitate the movement of agriculture workers to higher-value-added employment in manufacturing and services should be accompanied by targeted efforts to accelerate agricultural productivity growth.

Recent studies reveal that the modernization of Tanzania's agricultural sector is already underway, driven by favorable demand trends and a growing medium-scale farm segment that employs numerous workers, invests in technology, and attracts commercial services. The sector is also generating a growing share of tax revenue and export receipts.⁴⁵ Medium-scale farms boost employment in upstream activities by increasing demand for agricultural inputs, financial services, capital purchases and rentals, and transportation services. Between 2008 and 2014, 368,000 medium-scale farms created 13 million days of additional work annually for hired workers, and US\$225–US\$300 million in net backward and forward linkages. The growth of medium-scale farms also produces strong positive spillover effects on smallholder farms, which tend to be more productive the closer they are to a medium-scale farm.

Better leveraging digital technologies can boost total factor productivity and help drive more inclusive growth in Tanzania.⁴⁶ Technological innovations can expand access to credit and increase the flow of information between producers and consumers, improving the efficiency of supply chains, reducing prices, and facilitating market access. The positive correlation between broadband penetration and GDP growth is well documented, with a 10 percent in mobile broadband penetration generating an estimated 0.8-1.5 percentage points of additional GDP growth. Tanzania's ICT costs are no longer low by regional standards; mobile broadband coverage is mediocre; smartphone penetration is relatively low; data usage is limited and concentrated in large cities. This pattern of high prices and uneven coverage prevents remote and impoverished communities from reaping the full benefits of ICT. The expansion of coverage should be accompanied by investments in digital literacy. Moreover, inadequate copyright and data protections effectively exclude digital content creators from both domestic and international markets.

Box 7***Growth for All: Infrastructure, Agriculture and Human Capital in Vietnam***

Vietnam's remarkable economic progress since the early 2000s has been driven by structural transformation, but the country's success in reducing poverty and strengthening economic security reflects policy decisions that determined the quality of growth.⁴⁷ Large numbers of rural workers have moved to more productive urban sectors, boosting overall productivity. However, the government has also adopted policies designed to attract FDI, diversify agricultural and industrial production, integrate Vietnam into global value chains, and build the human capital of the workforce. Supported by an effective policy framework, annual per capita GDP has averaged almost 5 percent since 2000, poverty has declined sharply, and 13 percent of the population is now part of the global middle class.⁴⁸

The liberalization of land rights and agricultural markets combined with rural infrastructure investment and trade openness enabled a rapid increase in agricultural productivity. By removing price controls on agricultural goods, the government incentivized production. Investment in irrigation infrastructure and extension services increased yields by disseminating improved crop varieties and lessening dependence on rainfall. Trade liberalization bolstered the domestic rice industry, and Vietnam switched from being a net rice importer to a net exporter. Coffee production was stimulated by the transfer of technology, inputs, and seed capital from former state collectives to newly established small farmers.⁴⁹ Investments in domestic agribusiness expanded the processing of other cash crops such as pepper and cashews, and Vietnam began importing raw cashews from Côte d'Ivoire, Mozambique, and other African countries⁵⁰ to fill its excess capacity. A hospitable investment climate, a high degree of trade openness, and large and stable surpluses of raw agricultural commodities encouraged multinational firms to integrate Vietnam into global value chains. Value addition has steadily increased, but there is still scope for Vietnamese firms to capture higher segments of the value chain for coffee and other export-oriented cash crops.⁵¹

Agriculture development has also generated negative externalities that the government is still struggling to address. The spread of farming in the highlands has caused erosion and soil degradation,⁵² while the increased use of agrichemicals and fertilizers is polluting watercourses, contributing to the emergence of resistant pests and destroying natural predators.⁵³ Aquaculture (in rice fields and ponds)⁵⁴ and coastal fisheries are valuable source of nutrition and exports, but they also generate large amounts of fish waste and sludge, chemical runoff, and excess antibiotics. Shrimp fishery has eaten into mangrove forests and released pollutants into coastal waters,⁵⁵ and overfishing⁵⁶ in coastal waters is diminishing catch sizes and damaging the environment.⁵⁷

Infrastructure investment has played a major role in Vietnam's economic success. In recent years, public investment in infrastructure has been twice the global average.⁵⁸ The construction of numerous storage reservoirs laid the foundation for a nationwide irrigation system that facilitated the production of rice, coffee, and other cash crops. The construction of trunk and rural roads and the improvement of inland waterways—with support from development partners—eased transportation bottlenecks and ensured that the country's expanding farm and industrial output could be delivered to international markets.⁵⁹ By investing in domestic

and international connectivity and by continually augmenting logistics capabilities, Vietnam further tightened its linkages with global value chains while extending access to new economic opportunities across the country.⁶⁰ The concentration of industrial activity around a small number of production hubs and international gateways (e.g., Ho Chi Minh City, Hanoi, Haiphong) has helped keep transportation costs low while fostering the growth of economies of scale and agglomeration.⁶¹ As a result of these efforts, exports increased by an average of 12.5 percent per year between 2000 and 2018.⁶²

To catalyze foreign investment, the government created 249 active industrial zones. These zones are located close to the country's principal trunk roads, seaports, and airports. The most successful zones provide investors with essential infrastructure and services, such as warehouses, sources of electricity and water, wastewater treatment plants, garbage disposals, fire prevention systems, improved telecommunications, access to banks and post offices, logistic services, and internal roads. Foreign firms have launched some 8,000 projects in Vietnam's industrial zones, with a combined value of about US\$145 billion.⁶³

The government has attached special importance to electrification, which it views as a key driver of economic transformation.⁶⁴ Starting from low levels in the 1990s, rural household electrification rates are approaching 100 percent, with equally high rates of tariff collection. The expansion of electricity access has been financed by donor funding, bank loans, and government bonds. Although the transmission grid infrastructure is publicly owned, the government has established a competitive power market with private-sector participation and competition among power generators. The government is now striving to meet rapidly increasing demand in a sustainable manner through investment in renewables, largely financed by private sources.⁶⁵

Investments in human capital have focused on education, and the authorities have attracted some of the most talented graduates into the teaching profession and built their pedagogical skills through teacher training. The adult literacy rate was already high at 88 percent in 1989, and by 2018 it had climbed to 95 percent.⁶⁶ The average number of years of schooling was 3.9 in 1990, and by 2018 it had increased to 4.3. Over the period, Vietnam's score on the Human Development Index rose from 0.475 to 0.693.⁶⁷ These gains came at a substantial fiscal cost: public spending on education doubled between the mid-1980s and 1990; by the late 1990s it reached 15 percent of total spending, and it currently accounts for 20 percent of total spending or about 6 percent of GDP.⁶⁸ Enrollment in primary education is universal, net enrollment rates are close to gender parity, and over 90 percent of 3-5-year-olds attend preschool. Secondary and tertiary enrollment rates have also risen, though most higher-education staff still lack advanced degrees.⁶⁹ Vietnam's score on the Human Capital Index reached 0.69 in 2020,⁷⁰ and Vietnamese students have outperformed those from neighboring countries and some high-income countries on standardized tests.⁷¹ Knowledge and human capital will only become more critical to productivity, diversification, and growth as technology advances, and the scope for further gains is vast.⁷²

Source: Author's compilation based on various World Bank reports.

Tanzania's recent history and the experience of successful LMICs worldwide reveal several priority areas for policy action.

Based on the three strategic pillars described above, and informed by international experience, prioritizing actions in five policy areas will enable the government to maximize the impact of its limited resources and advance its ambitious development agenda. These areas include: (i) productive investment; (ii) human capital development; (iii) agricultural

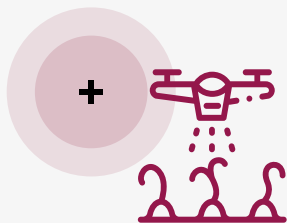
transformation; (iv) digital technology; and (v) institutional capacity-building. The government will need to maintain prudent macroeconomic and fiscal management to ensure that adequate fiscal space is available to finance major investments in physical, human, and institutional capital. In addition, the publication of high-quality granular data and the regular exchange of information between the government and key stakeholders will be critical to monitor development outcomes and integrate lessons learned into the design of future policies. Detailed recommendations are provided in the [Table 6](#) below.



Table 6: Policy Priorities for Improving the Quality of Growth

AREAS	Accelerating productive investment 	Prioritizing human capital development 
RECOMMENDED ACTIONS	<p>The highest-priority reforms relate to investor protection and retention. The authorities must successfully manage the legal risks associated with the transition away from investor-state dispute settlement and establish a strong, transparent, and accessible grievance-redress mechanism that assuages investor concerns before they become disputes or exits. The government should articulate a clear investment strategy that extends beyond the extractive industries and improves the overall regulatory environment to attract export-oriented investment. This will require:</p> <ul style="list-style-type: none"> i. Fostering a robust public-private dialogue through the Tanzania National Business Council, with frequent high-level meetings designed to rebuild investor confidence; ii. Prioritizing reforms that reduce the cost of regulatory and tax compliance by both small and large businesses, starting with those highlighted in the “Blueprint for Regulatory Reforms to Improve the Business Environment,” which include reducing the number of licenses and permits and reconciling overlapping regulations and institutional mandates; and iii. Developing a broad strategy, consistent policies, and follow-on mechanisms to enable private-sector growth and sustain its contribution to employment creation, domestic revenue mobilization, technology transfer, and international competitiveness. 	<p>A more ambitious human capital development strategy is urgently needed to expand access to economic opportunities while increasing the productivity of the workforce. This strategy should reflect the evolving needs of Tanzania's growing population while focusing on poor households, underserved regions, and vulnerable groups such as children, women, and adolescent girls. Improving the quality and length of education, addressing gender disparities, addressing unmet family-planning needs, and creating a child- and gender-sensitive social protection framework would maximize the value of the government's available financial and institutional capacity, and building partnerships with the private sector could augment the government's limited resources. The authorities should prioritize three areas of human capital development:</p> <ul style="list-style-type: none"> i. Investing in girls and increasing the quality and length of education through efforts to change social norms combined with targeted interventions to reduce early marriages and early pregnancies, ease overcrowding at the lower grade levels, reduce dropout rates, build capacity at the secondary level and move toward universal secondary education, increase school resources, and increase the supply of technical and vocational education, as well as higher education; ii. Revamp the national nutritional and demographic transition agenda by refocusing on slowing population growth to ease the demographic burden on education and health systems and basic services and by investing in nutritional support and food security, which will require strong political leadership as well as increased domestic investment and the use of performance-based financing and management techniques; and iii. Strengthening health systems with a focus on improving maternal health and enhancing epidemic preparedness and response, while adopting a health-systems approach to build adaptive capacity to respond to a changing disease profile, address emerging issues, and deliver comprehensive high-quality health services across the lifecycle.

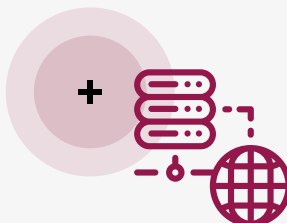
Enabling agricultural transformation



Agricultural transformation is crucial to achieve the government's development objectives. However, an unfavorable policy and regulatory environment continues to hinder private sector investment in agriculture. To address this challenge, the government should concentrate on:

- i. **Reducing barriers to trade** by eliminating commodity taxes and tariffs and by continuing to refrain from ad hoc export bans, which will signal the government's commitment to trade openness and encourage agribusiness investment;
- ii. **Improving the regulatory environment for private agricultural input markets, particularly fertilizer and seed** to increase access to affordable modern agricultural inputs without the need for fiscally expensive subsidies;
- iii. **Improving the quality of public spending in the agricultural sector** to increase the supply of essential public goods and services, encourage the dissemination of agricultural technology, build farm-management skills, and build the rural infrastructure stock; and
- iv. **Increasing household resilience to climate change** by improving water and land management, promoting climate-smart agriculture, and modernizing irrigation, which will also bolster the sustainability and profitability of the sector.⁷³

Leveraging digital technologies

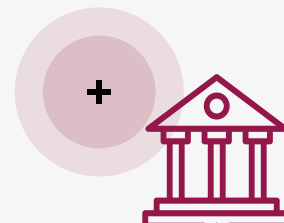


Creating an enabling environment for digital technologies can facilitate inclusive growth.

Underinvestment in backbone network infrastructure and the lack of an effective open-access policy, the incomplete independence and low capacity of the Tanzania Communications Regulatory Authority, low levels of disposable income, inadequate digital literacy, and a small domestic market constrain private investment in Tanzania's ICT sector.⁷⁴ To address these deficiencies and foster the growth of a robust digital ecosystem,⁷⁵ the authorities should focus on the following priorities:

- i. **Making mobile-money services and low-data cellular packages affordable** for poor households and removing barriers that prevent competitive mobile operators from investing in their own infrastructure;
- ii. **Enhancing coverage** of mobile broadband in rural areas;
- iii. **Attracting carrier-neutral data centers** and content distribution networks to facilitate Tanzania's integration in the global digital economy; and
- iv. **Facilitating digital trade** by passing a strong data-protection act with adequate supportive regulations and by reviewing how intellectual property is protected online.

Building public sector capacity



Strengthening economic governance and institutions is a cross-cutting challenge, as effective public agencies will be crucial to success across all priority policy areas.

The government has demonstrated a credible commitment to macroeconomic stability, which must be maintained and strengthened while making further efforts to boost domestic revenue mobilization, improve the efficiency of public expenditures, and mobilize adequate resources to sustain the growth of public investment without jeopardizing fiscal sustainability.⁷⁶ To achieve these goals, policymakers should prioritize:

- i. **Catalyzing private investment, including FDI**, by removing regulatory distortions that inhibit the efficient allocation of resources;
- ii. **Training, attracting, and retaining competent civil servants** by reforming personnel policies and strengthening professional incentives; and
- iii. **Investing in high-quality granular data** and facilitating the exchange of information within the government and between the government and other stakeholders, which is vital to improve public service delivery, enhance transparency and accountability, and accelerate private-sector growth.

ANNEX I

World Bank COVID-19 Business Pulse Surveys

The COVID-19 shock has caused an unprecedented shock to the private sector across the world. The impact on firms and the destruction of existing productive capacities due to the pandemic could have large effects on the growth prospects of developed and developing economies. Unlike previous global shocks, it has affected most countries simultaneously through multiple transmission channels. While some learnings from previous crises have proven useful in the initial response phase, policymakers and development practitioners have been faced with an acute lack of data and evidence on how to design and implement support policies.

The World Bank developed the COVID-19 Business Pulse Surveys (COV-BPS) in order to address this gap. These are rapid, modular phone survey directed primarily to SMEs in developing countries. The sampling frame in most countries where the pulse survey was not a follow-up of the Enterprise Survey was based on censuses from Statistics Agencies, Ministries of Finance or Economy, or business listings from Business Associations, and typically only included registered businesses. In the case of the Enterprise Survey, by design the implementation covers only formal firms. The survey uses a standardized questionnaire to capture the effects of the pandemic on firms through five distinct channels of impact: lockdown effects; supply, demand, financial disruptions, and uncertainty. It also collects information on firms' adjustment strategies and their access to public support programs to mitigate the effects of the pandemic. Questions about the impact of COVID-19 on firms' operations refer to the 30 days preceding the interview relative to the same period of 2019. Questions about expectations and uncertainty refer to the next 6 months (3 months for micro firms). COV-BPS was usually implemented in collaboration with national statistical offices.

Globally, the first round of firm-level data collection took place during May-August in 51 countries, covering all regions and a wide range of country characteristics: size, income per capita, fragility, etc. A second round of data collection begun in October for selected countries (see Apedo-Amah et al., 2020 for details).

In Africa, the World Bank implemented the first wave of COV-BPS in 16 countries (April-August 2020) and is currently implementing a second wave in 12 countries (October 2020-March 2021) ([Table 1](#)). There are ongoing discussions in Cape Verde, Gambia, Mauritania, Seychelles and Uganda but no data collection has been done so far.⁷⁷

Table 1: COV-BPS is being implemented in several African countries

	Western/Central	Eastern/Southern
Business Pulse Survey		
Completed (19)	Cote d'Ivoire, Gabon, Ghana, Liberia, Mali, Senegal, Togo*, Burkina Faso, Cameroon, Nigeria & Sierra Leone	Kenia, Madagascar, South Africa, Sudan, Tanzania, Comoros, Malawi & Somalia
Follow-up Enterprise Survey		
Completed (6)	Chad, Guinea, Niger, Togo*	Zambia & Zimbabwe
Planned/in progress (3)		Mozambique, Rwanda

Note: Togo was covered both by the BPS and the ES survey.

Tanzania in perspective: Results from the first wave

The first round of COV-BPS for Tanzania was implemented in June-July 2020. Comparing Tanzania with the rest of the countries in Africa, and, especially, with neighboring countries for which the results are available, our analysis suggests that:

The impact of COVID-19 felt heavily on firm operations in Tanzania, although it was lower than that in neighboring countries. For instance, 15% of the firms were likely closed during the survey in July compared to 22% in Zambia and 30% in Kenya (Figure 1). The average decline in firms' sales that were open in Tanzania was about 36% compared to 56% in Zambia and 64% in Kenya (Figure 2). Nevertheless, an average firm losing more than a third of its revenue is indicative of alarming levels of vulnerabilities in the region.

Figure 1: Predicted probability of being open

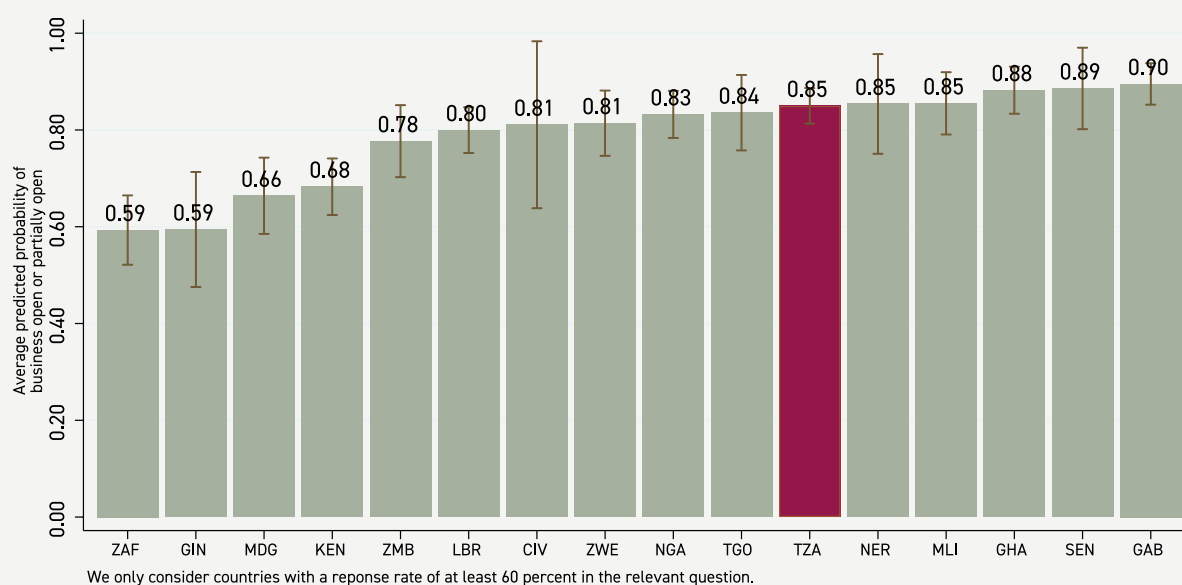
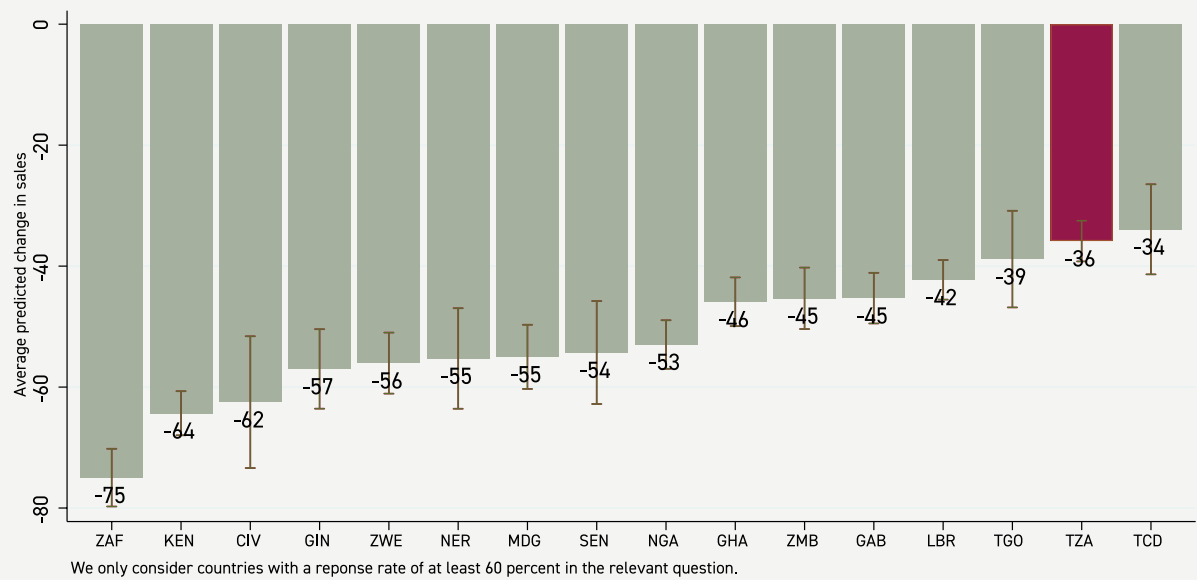
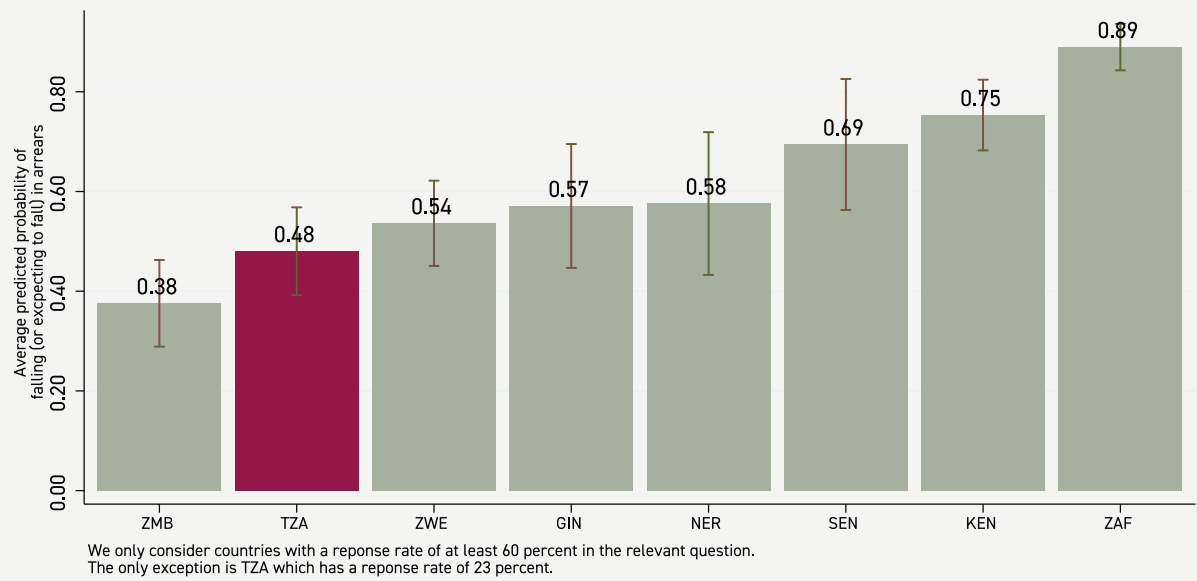


Figure 2: Average decline in sales



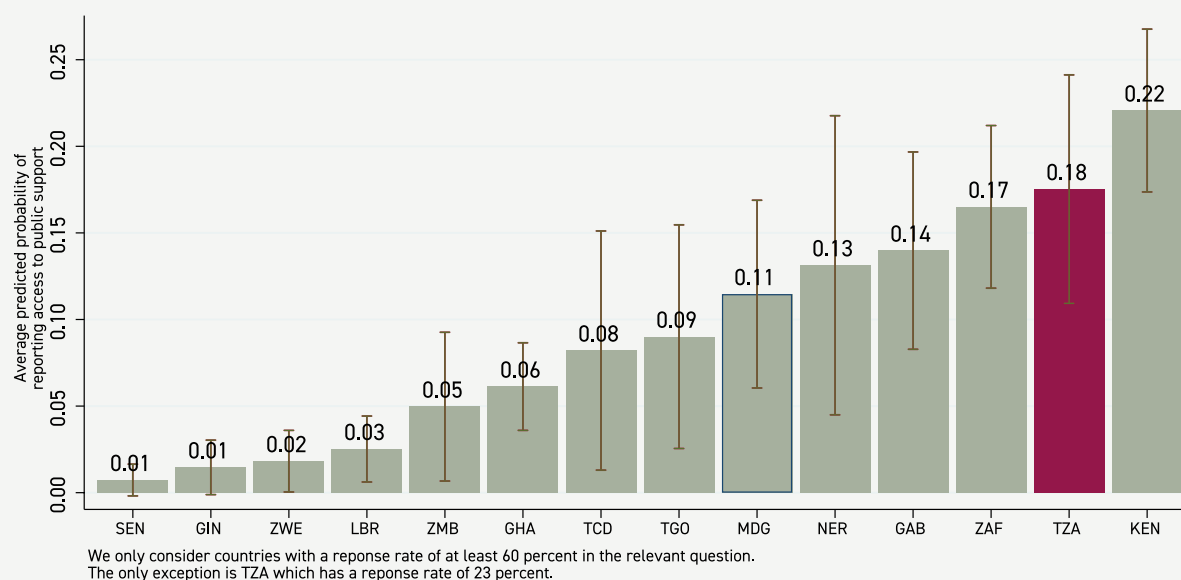
Balance sheet implications loom large. 48% of firms in Tanzania were in arrears or likely to fall in arrears in the next 6 months. Although this is still smaller than 75% in Kenya and larger than 38% in Zambia (Figure 3), nonetheless, it is critical to note that nearly half the firms in Tanzania are expecting to be insolvent in the next six months.

Figure 3: Predicted probability of falling in arrears



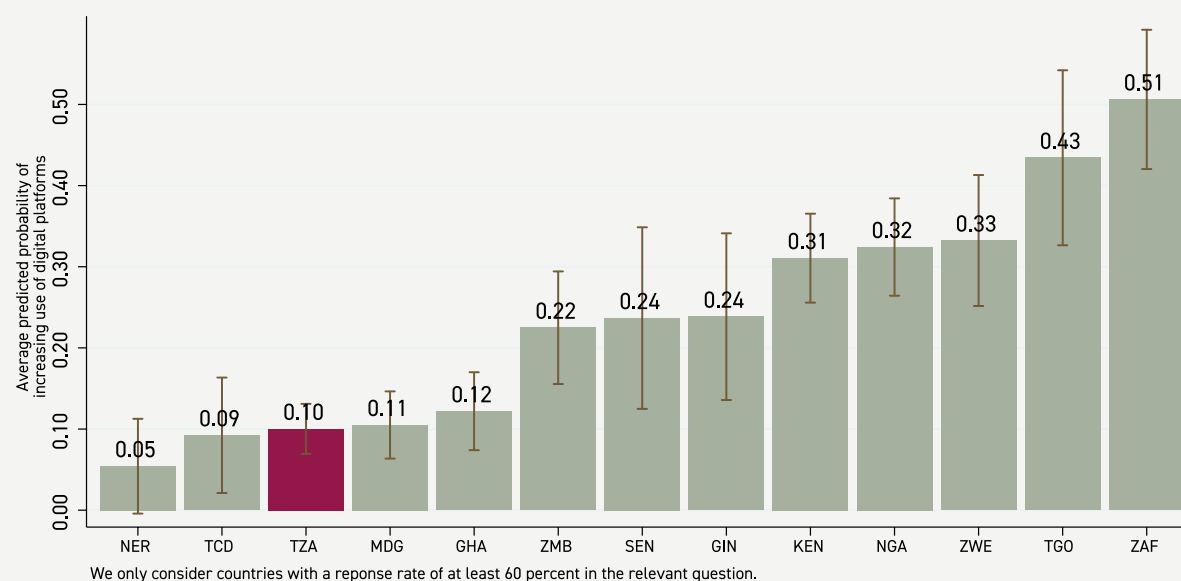
In the near term, a quarter of Tanzanian firms have been firing workers: Most businesses made some adjustments to their payroll by reducing hours, wages, or granting (paid or unpaid) leave to workers. Although a slightly smaller share (25%) of firms fired workers in Tanzania compared to 33% in Kenya and 48% in Zambia, it is noticeably higher than countries in West Africa such as Senegal (6%) (Figure 4).

Figure 4: Predicted probability of laying off workers



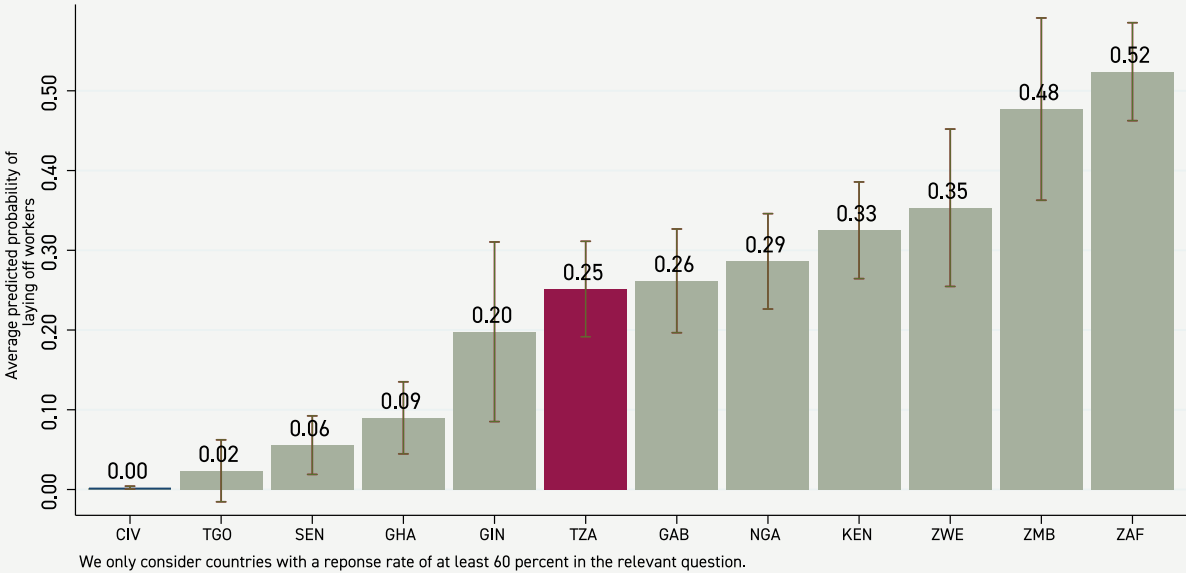
Use of digital technology has increased, but only among a minority of firms in Tanzania. Firms have been responding to the crisis by increasing the use of digital platforms and investing in digital solutions. Only about 10% of businesses started to use or increased the use of digital platforms compared to 22% in Zambia and over 30% in Kenya (Figure 5). Firms in Tanzania will need massive support in adapting to the COVID-19 norms of operating and adjusting their business models.

Figure 5: Predicted probability of increasing the use of digital platforms



The share of firms receiving government support is moderate: The percentage of firms having received any type of policy support from the authorities is only about (18%), which although comparable to Kenya (20%), it is still low (Figure 6). Firms in other regions have better access to public support. Information is key as a large share of firms report lack of awareness of the available support schemes as the main impediment.

Figure 6: Predicted probability of accessing public support



Source: World Bank COV-BPS, 1st round.

Selected Economic and Social Indicators

KEY MACROECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020
National Accounts and Prices									
GDP at constant market price (% change)	4.5	6.8	6.7	6.2	6.9	6.8	5.4	5.8	2.0
Agriculture	3.4	2.8	6.9	5.4	4.8	6.0	4.5	4.5	3.1
Industry	4.2	10.5	6.0	9.7	11.7	10.7	9.1	9.3	2.6
Service	6.4	5.1	9.3	6.4	6.3	5.3	3.5	3.6	1.1
Inflation (e.o.p)	16.0	7.9	6.1	5.6	5.2	5.3	3.5	3.5	3.2
Per capita (in US\$)	870	969	1000	912	934	1005	1056.0	1080.0	-
Fiscal (% of GDP, fiscal year)									
Revenue and grants	15.9	15.4	15.6	14.0	14.8	16.3	15.4	14.1	14.9
Tax and nontax revenue	12.6	12.8	13.5	12.8	14.3	15.3	14.6	13.8	14.2
Grants	3.2	2.6	2.1	1.2	0.5	1.0	0.8	0.3	0.7
Expenditure and net lending	18.9	20.5	18.5	17.1	18.3	17.4	16.6	16.7	16.3
Overall balance (excluding grants)	-6.2	-7.7	-5.0	-4.3	-4.0	-2.1	-2.7	-3.5	-2.1
Overall balance (including grants)	-3.0	-5.1	-2.9	-3.1	-3.5	-1.1	-1.9	-3.2	-1.4
Financing	3.6	5.0	3.3	3.3	3.5	1.5	1.9	3.2	1.4
Foreign financing (net)	3.0	3.9	3.0	3.1	1.4	1.6	1.4	0.9	1.1
Domestic financing (net)	0.6	1.1	0.3	0.2	2.1	-0.1	0.1	2.3	0.3
Money and Credit									
M3 (% change)	12.5	10.0	15.6	18.8	3.4	8.0	4.5	9.6	6.0
Credit to private sector (% change)	18.2	15.3	19.4	24.8	7.2	1.7	4.9	11.1	8.8
External sector (US\$ million unless otherwise)									
Exports (goods and services)	7,987	8,335	8,886	8,877	9,341	8,343	8,460	9,659	8,809
Imports (goods and services)	12,946	12,871	13,966	13,348	11,597	9,592	10,201	10,362	8,908
Gross official reserves	3,797	4,357	4,638	4,285	3,870	5,900	5,045	5,568	4,768
(months of imports)	3.5	4.1	4.0	3.9	4.0	7.5	6.3	6.5	5.6
Current Account Balance (% of GDP)	-13.1	-10.5	-10.7	-9.8	-6.5	-3.4	-3.3	-1.9	-0.9
Exchange rate(Tsh/US\$; e.o.p)	1,569	1,603	1,655	1,974	2,179	2,230	2,281	2,288	2,299
Debt Stock and Service									
Total public debt (% of GDP)	27.6	29.3	30.7	30.3	34.4	37.7	39.7	39.9	38.3
External debt (public sector, % of GDP)	20.3	20.9	21.6	21.1	24.5	25.9	27.7	28.7	27.7
Domestic public debt (% of GDP)	7.3	8.4	9.1	9.2	9.9	11.8	12.0	11.2	10.6
Doing Business Indicators									
Easy of Doing Business Rank (out of 189/190)	134	145	131	139	132	137	144	141	-
Easy of Doing Business Score (out of 100%)	56.3	56.1	56.6	49.7	53.9	54.0	54.3	54.5	-
Poverty Indicators									
Basic Needs Poverty Line/1 = TZS 36,482	28.2	-	-	-	-	-	26.4	-	-
Food Poverty Line/1 = TZS 26,085	9.7	-	-	-	-	-	8.0	-	-

Note /1 Monthly expenditure per adult.

Source: Tanzania authorities, IMF and World Bank Staff.

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FOOTNOTES

- 1 <https://mof.go.tz/mofdocs/overarch/vision2025.htm>
- 2 The international extreme poverty line is US\$ 1.9 per person per day in purchasing-power-parity terms, which is higher than Tanzania's national poverty line (equivalent to US\$ 1.35 PPP per person per day). As a consequence, the poverty rate in Tanzania based on the international extreme poverty line is higher than when using the national poverty line. The international extreme poverty line is used to compare poverty rates across countries and to track global extreme poverty. The latter serves to measure progress along global poverty reduction goals such Sustainable Development Goal (SDG). A country's national poverty line is more appropriate for poverty analysis in the national context.
- 3 World Bank (2019a).
- 4 Here we refer to two productivity indicators: labor productivity and total factor productivity. The former measures the value of the output generated by a single worker, while the latter measures the efficiency with which inputs are transformed into outputs; it is the difference between the aggregate value of the labor and capital used in production and the aggregate value of the goods and services produced.
- 5 See also a special section on the role of ICT in Tanzania Economic Update: Addressing the Impact of COVID-19. Issue no. 14, World Bank, June 2020.
- 6 These policies are being discussed in the context of annual Programmatic Public Expenditure Reviews.
- 7 World Bank Global Economic Prospects, January 2021
- 8 ILO 2020; World Bank 2020a
- 9 World Bank 2020b
- 10 See TEU #12 for a more extensive discussion of data issues.
- 11 HBS, 2018
- 12 Ibid.
- 13 Loans to firms in the trade, transport and agriculture sectors are at high risk with the projected economic slowdown and they had the largest shares in total bank loans as well as the highest rate of NPLs in among total sectoral loans in 2019. The manufacturing sector had also had a high share in total loans, but only around 5% of loans to that sector were non-performing.
- 14 The lower deficit has also been contributed by slightly higher GDP figure (denominator) since the government has not reflected fully the impact of the COVID-19 in their GDP figures, especially in the second half of FY2019/20.
- 15 Domestic revenue and non-concessional loans from both domestic and foreign markets fund the local component of development expenditures while external concessional loans and grants fund the foreign component of development expenditures.
- 16 <https://blogs.worldbank.org/opendata/new-world-bank-country-classifications-income-level-2020-2021>
<https://blogs.worldbank.org/africacan/what-does-tanzanias-move-lower-middle-income-status-mean>
- 17 The taxonomy of growth resilience, introduced in volume 14 of Africa's Pulse, describes different groups of growth performers in the region according to the speed and persistence of the rate of growth of their GDP (World Bank 2016). This analysis provides a broad picture of recent economic performance in Sub-Saharan Africa. Since the introduction of the taxonomy and through volume 20 of Africa's Pulse (World Bank, 2019) Tanzania consistently categorized as 'established' high growth country'. External headwinds—driven by lower external demand, disruption of global value chains, and declining flows of foreign financing—and the containment measures to combat the spread of the COVID-19 pandemic have taken a toll on Sub-Saharan African countries: compared with the taxonomy reported in volume 20 of Africa's Pulse (World Bank 2019), 15 countries have been downgraded. Tanzania (along with Burkina Faso and Uganda) was downgraded from established to stuck in the middle.
- 18 See also Part 1 and Annex 1 of this report.
- 19 Hollweg et al (2017).
- 20 In 2002, Vietnam's poverty rate was 37 percent according to the international extreme poverty line of US\$1.90 per person per day in 2011 purchasing-power-parity terms. See: <https://data.worldbank.org/indicator/SI.POV.DDAY?locations=VN>
- 21 By 2018, the poverty rate had fallen to 1.8 percent according to the international extreme poverty line. See: <https://www.worldbank.org/en/country/vietnam/overview>
- 22 World Bank (2018a).
- 23 Poverty reduction remains work in progress with poverty persisting among the minorities. Malnutrition is an issue with a quarter of women suffering from anemia and a quarter of children under the age of five show symptoms of stunting. <https://globalnutritionreport.org/resources/nutrition-profiles/asia/south-eastern-asia/viet-nam/>; <https://www.unicef.org/vietnam/nutrition>
- 24 <https://www.yahoo.com/now/world-pepper-market-2020-historic-145912603.html>
- 25 <https://www.brookings.edu/blog/order-from-chaos/2019/04/15/how-global-value-chains-open-opportunities-for-developing-countries/>
- 26 World Bank, WTO (2019).
- 27 World Bank (2020e).
- 28 Narayan, S., & Nguyen, T. T. (2016).
- 29 Hollweg et al (2017).
- 30 UNCTAD (2008).
- 31 <https://asiaperspective.net/2020/02/26/lucrative-vietnamese-tax-incentives-foreign-investors/>
- 32 https://www.bakermckenzie.com/-/media/files/insight/publications/2016/10/2016-doing-business-in-vietnam/bk_vietnam_doingbusiness_oct16.pdf?la=en; These laws define the current investment regime in Vietnam. <https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2018/07/vietnam-foreign-investment.pdf>
- 33 In Vietnam's case, limiting the scope of SOE activity has helped carve out space for private firms. However, SOEs remain a major albeit inefficient force in the economy. The process of equitization is making slow progress because the political support for SOEs remains firm and "equitized SOEs still lack appropriate corporate governance protocols and continue to operate under the mandate of state-owned enterprises". <https://www.vietnam-briefing.com/news/decline-state-owned-enterprises-vietnam.html/>; The case of the SOE Vinatex highlights the emergence of an equitized, hybrid quasi private corporation that remains subject to the influence of the state. Mai (2017)

- 34 http://www.oecd.org/dev/asia-pacific/saeo-2019-Viet_Nam.pdf
- 35 Tran, T. Q. (2009)
- 36 Between 2012 and 2018 growth in household consumption as measured through household surveys was lower than per capita GDP growth. GDP per capita grew at an annual rate of 3.3 percent (or 24 percent between 2011/12 and 2018) while household per capita consumption per capita as measured through the household budget surveys grew at an average annual rate of 1.5 percent.
- 37 The difference of 22.7 percentage point (or 12 million people) between poverty based on the international poverty line and national poverty line is because a large share of the population is clustered around the national poverty line.
- 38 World Bank 2019a.
- 39 Ministry of Education. Education Sector Development Plan 2016/17-2020/21
- 40 World Bank. Fee-Free Basic Education Policy and Equity in Tanzania. World Bank Policy Note (forthcoming).
- 41 Recent progress on learning outcomes is not being captured due to lack of recent data on quality of education (Harmonized Test score data is as old as 2013).
- 42 World Bank Inclusive Growth Study Phase 2 (forthcoming).
- 43 These US dollar figures are expressed in 2011 purchasing-power-parity terms.
- 44 World Bank (2018b).
- 45 World Bank (2019b).
- 46 See also a special section on the role of ICT in Tanzania Economic Update: Addressing the Impact of COVID-19. Issue no. 14 World Bank (2020d).
- 47 Almost two thirds of the workforce were engaged in agricultural activities in 2000. By 2020, the share was down to 36 percent.
- 48 World Bank (2018a).
- 49 World Bank (2004)
- 50 <http://ven.vn/cashew-exports-tough-nut-to-crack-due-to-global-fluctuations-42139.html>; <https://www.globaltrademag.com/featuring-the-strong-processing-industry-vietnam-and-india-dominate-global-raw-cashew-nut-market/>
- 51 "Tariffs in importing countries tend to increase as the product becomes more refined, with higher taxes on soluble coffee than on green beans, discouraging the development of a local processing industry in exporting countries". <http://www.ico.org/documents/icc-107-7e-tariffs-trade.pdf>. Non-tariff barriers include product quality standards, food hygiene and safety standards, environment standards, and labor standards.
- 52 <http://www.un-csam.org/Activities%20Files/A0711/02vn.pdf>
- 53 Untreated wastewater from industries in Ho Chi Minh City that is discharged into Dong Nai River, may be reducing rice yields and contaminating the rice grown in the delta with heavy metals. Khai, H. V., & Yabe, M. (2013).
- 54 J. Lazard and P. Cacot (1997)
- 55 Cong (2017).
- 56 Climate change is beginning to deplete fish stocks in warming and acidifying South China Sea waters. https://climateandsecurity.org/wp-content/uploads/2012/04/climate-change-and-vietnamese-fisheries-opportunities-for-conflict-prevention_briefer-263.pdf
- 57 <https://www.worldfishcenter.org/content/management-coastal-fisheries-vietnam>
- 58 <http://blogs.worldbank.org/voices/accelerating-vietnams-path-prosperity>; 97% of households had access to electricity by 2013.
- 59 <https://blogs.worldbank.org/voices/accelerating-vietnams-path-prosperity>
- 60 <https://lpi.worldbank.org/international/global/2018>
- 61 Another factor containing internal transport and logistics costs for exporters is that almost 40 percent of trade is channeled through air gateways while that through sea gateways has fallen from 79 percent in 2011 to 56 percent in 2016.
- 62 <http://wdi.worldbank.org/table/4.9>
- 63 <https://www.vietnam-briefing.com/news/vietnam-industrial-zones-how-to-pick-location-for-your-business.html/>
- 64 G. Altinay and E. Karagol (2005); K. Lee et al (2020); D.I. Stern et al (2019)
- 65 <https://www.worldbank.org/en/news/press-release/2020/02/13/new-strategy-to-help-vietnam-scale-up-and-better-utilize-solar-power>; <https://www.worldbank.org/en/news/press-release/2019/01/24/private-capital-is-key-to-vietnams-future-energy-development>
- 66 <https://data.worldbank.org/indicator/SE.ADT.LITR.ZS?locations=VN>
- 67 UNDP (2019).
- 68 A. Baum (2020).
- 69 Bodewig et al (2014).
- 70 <https://data.worldbank.org/indicator/HD.HCI.OVRL?locations=VN>
- 71 However, the validity of the results has been challenged. See <https://www.cgdev.org/blog/pisa-2018-few-reactions-new-global-education-rankings>
- 72 The World Bank's Vietnam Development Report for 2014 fleshes out the agenda; Bodewig et al (2014).
- 73 Agriculture in Tanzania is highly vulnerable for climate related weather variabilities (droughts and floods), while increasing temperatures are expected to reduce the yields of current crop varieties. Over 60 percent of the agricultural land in use is affected by degradation.
- 74 WEF ranks Tanzania 133rd out of 141 countries for ICT adoption. (World Economic Forum, 2019).
- 75 World Bank (2020d).
- 76 These policies are being discussed in the context of annual Programmatic Public Expenditure Reviews.
- 77 In addition, the World Bank Enterprise survey (WBES) ran COVID-19 follow-ups for countries surveyed in 2018 or 2019. These include Chad, Guinea, Mozambique, Niger, Somalia, Togo, Zambia and Zimbabwe. The remaining countries in Africa have not been covered by either the COV-BPS or COVID follow-ups of WBES and could be potential candidates for COV-BPS implementation, if of interest.



