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Tanzania Economic Update

Money Within Reach

Extending Financial Inclusion in Tanzania

WORLD BANK GROUP

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Foreword

This Ninth Edition of the Tanzania Economic Update series provides the World Bank's regular review of the economy, while the special focus of this edition is the important issue of financial inclusion. The broad story of Tanzania's growth and poverty reduction over the past decade is now well known. With strong and consistent growth rates of 6-7 percent, Tanzania has performed very well by regional standards. Similarly, over the same period, the poverty level in Tanzania has declined significantly, from 60 percent to 47 percent based on the US$ 1.90 per day global poverty line. However, today 12 million Tanzanians live on less than TZS 1,300 per day, with many others living just above the poverty line – so an economic shock could have a significant impact on the number of poor households. Likewise, a jump in growth could bring a substantial number of the poor clustered just below the poverty line out of poverty. Another key feature of Tanzania's economy is the estimated 800,000 young women and men who enter the job market annually, with only limited opportunities to find a productive job. Higher levels of growth are badly needed to create a greater number of productive jobs and to significantly reduce poverty.

Maintaining and accelerating growth demands the right policies. The impressive growth path of Tanzania to date has been driven by the decisions of the past. Future growth will be driven by the decisions of today's leaders. The Government is clear that its focus is industrialization, but for this to occur in a way that creates jobs and reduces poverty, **Part One** of this economic update points to three key areas that require attention for building on the growth momentum. **Firstly, continue with prudent macroeconomic policy management.** This is the basis of stability and growth. The improvements in revenue mobilization and tighter anti-corruption controls will assist with the implementation of effective fiscal policy. Measures to utilize natural gas for power generation will reduce the import bill and improve the external balance over the medium to long term future. And the continued implementation of a prudent monetary policy should provide the necessary support to maintain a growth-supporting low rate of inflation.

Secondly, manage the expansion in public investment projects effectively to ensure maximum impact on growth and reduction of poverty. To achieve its ambitions, Tanzania needs to scale up investment in infrastructure and human capital. The Government has reoriented resources through higher commitments to the development budget, but outturns in this fiscal year have not been as anticipated. Speeding up public investment is critical even just to maintain current growth rates. Achieving higher growth may require an adaptation of the current approach. Public investment projects need to be prioritized for growth and poverty reduction impact, and they need to be fully funded. The Government must sustain efforts to mobilize domestic revenue and control recurrent expenditures, and make additional efforts to secure external financing of the budget, especially through maximizing the use of concessional resources and grants. Private sector resources must also be leveraged into key infrastructure investments, especially in energy and transport. Lessons need to be learned from past experiences, and the private sector engaged in transparent, win-win public private partnerships.

Thirdly, Tanzania needs to unlock the growth potential of the private sector. There is no alternative to private sector-led growth to reach the levels of investment, employment and poverty reduction that will fulfil the aspirations of the Tanzanian people. But reforms are needed in the following areas: predictability of policy making is central – without that, private sector actors will not have the confidence to invest and create jobs; streamlining taxes and regulations will unleash the ability of businesses, especially small businesses, to grow; expanding access to reliable infrastructure (such as a reliable and affordable power supply and an efficient port, road and railway network); strengthening the education and training system to produce skilled workers; and access to affordable finance, which emerges consistently in the top three constraints to business growth in Tanzania and is a special theme of this economic update.

In less than eight years, Tanzania has made significant progress towards creating an efficient, low-cost mobile money transfer system, which has increased financial inclusion for the benefit of many. However, the much larger formal financial system, which is critical for the growth of the business sector, is still lagging behind. The analysis in the report shows that Tanzania needs to make further steps in order to improve its ability to mobilize savings and to provide access to affordable credit to the real economy. Interest rates remain high and access to credit very restricted, hence resulting in a lower ratio of credit to the private sector relative to its GDP. This is true when we compare Tanzania with other countries in the region.

Part Two presents three areas of particular attention to deepen Financial Inclusion. **Firstly, efforts should be made to expand access to those still not participating in financial services, including women and youth.** Similarly, the range of services available to those who are already active in the financial sector should be expanded. A complete roll out of the National ID system and the shift towards electronic payments for government-related transactions, including for social transfers such as TASAF, could greatly facilitate the expansion and deepening of financial inclusion, particularly for women and youth.

Secondly, deepening inclusion by broadening the use of more advanced financial products and services will help Tanzania move towards a more formalized, transparent, and dynamic economy. This can be achieved through measures that include facilitating the full-scale sharing of infrastructures amongst banks and other retail payment service providers, as well as enhancing the overall consumer protection framework and extending a deposit insurance mechanism to Mobile Financial Services.

Thirdly, Tanzanians need expanded access to affordable long-term credit by lowering the cost of risk through better selection of borrowers and by reducing the disincentives on lending to the private sector. In this area, measures to reduce the pressure of public borrowing, improve information sharing by credit bureaus, and redefine collateral requirements should be high on the agenda. High collateral requirements impact SMEs and entrepreneurs with insufficient fixed assets, and this is particularly constraining for women. One of the key messages of the report points to paying greater attention towards bridging the gender gap in access to finance in rural areas where women involved in agricultural activities suffer significant limitations. As we know, this also limits the positive effects of increased access to finance on the overall economy, hence posing serious constraints to poverty reduction and increased shared prosperity.

Bella Bird
Country Director for Tanzania, Malawi, Burundi and Somalia

Abbreviations and Acronyms

ATM	Automated Teller Machine
BoT	Bank of Tanzania
CICO	Cash-in, cash-out
CFA	Connected Farmer Alliance
CGAP	Consultative Group to Assist the Poor
CMC	Community Management Committee
CDD	Customer Due Diligence
DAWASCO	Dar es Salaam Water and Sewerage Corporation
DB	Doing Business
EAC	East African Community
EU	European Union
FDI	Foreign Direct Investment
FL	Financial Literacy
FSDT	Financial Sector Deepening Trust
FYDP	Five-Year Development Plan
GDP	Gross Domestic Product
GPFI	Global Partnership for Financial Inclusion
ID	Improved Identification
ICT	Information and Communication Technology
KYC	Know-Your-Customer
LGA	Local Government Authority
LGD	Losses Given Default
MFI	Microfinance Institutions
MNO	Mobile Network Operators
MFS	Mobile Financial Services
MSME	Micro, Small and Medium Enterprises
NEC	National Election Commission
NBFI	Non-Bank Financial Institution
NPL	Non-Performing Loans
OPEC	Organization of the Petroleum Exporting Countries
PAFI	Payment Aspects of Financial Inclusion
P2G	Person-to-Government
P2P	Person-to-Person
PPP	Public-Private Partnership
PSSN	Productive Social Safety Net
ROA	Return on Assets
ROE	Return on Equity

SACCOs	Savings and Credit Cooperatives
SOE	State Owned Enterprise
TANESCO	Tanzania Electric Supply Company Limited
TIB	Tanzanian Investment Bank
TASAF	Tanzania Social Action Fund
TDV	Tanzania Development Vision
TZS	Tanzanian Shilling
USAID	United States Agency for International Development
UK	United Kingdom
UIDAI	Unique Identification Authority of India
UFA	Universal Financial Access
USD	United States Dollar
WBES	World Business Environment Survey
WBG	World Bank Group

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Executive Summary

In 2016, the global economic environment remained subdued, with growth performance in Sub-Saharan Africa the weakest in over 20 years. Economic conditions across most advanced economies remained challenging, while emerging and developing economies as a whole are set to maintain their growth momentum. However, there is a lot of variation between developing countries. Growth in Sub-Saharan Africa slowed down significantly, dropping from an average real GDP growth rate of 4.5 percent in the 2010-15 period to an estimated 1.5 percent in 2016, the lowest rate in more than two decades. The decline in the region's average growth rate is the result of a number of factors, most notably the ongoing adjustments to sluggish commodity prices, the slowdown in export demand, and the tightening of global financial conditions.

In the context of these developments, the ninth addition of the Tanzania Economic Update describes the current state of the economy, with the special topic focusing on financial inclusion. The report aims to stimulate policy analysis and debate around the key economic and development challenges that Tanzania faces as it strives to fulfill its aspirations of becoming a middle-income country. In addition to describing key aspects of macroeconomic performance and fiscal management, the report presents a timely analysis of the impact of financial sector deepening on economic activity and on the livelihoods of Tanzanians.

Part I. State of the Economy

In the context of a fragile global economy, Tanzania has maintained a relatively high level of stability. Tanzania is one of the few resource-intensive African economies that have remained resilient in the face of volatile global conditions. The decline in average global oil prices has been favorable for Tanzania's fuel import bill, which declined by about 3 percent in the period from 2015 to 2016. In contrast to the price of oil, the price of gold, which is one of Tanzania's most significant exports, has declined by much less, cushioning the country from a significant terms of trade shock. Indeed, Tanzania's terms of trade index improved in the period from 2013 to 2015, with this improvement standing in sharp contrast to the decline experienced by net oil exporters such as Angola and Nigeria.

The Tanzanian economy has continued to record a strong performance, maintaining high growth and low inflation rates. Over the year, Tanzania recorded a real GDP growth rate of nearly 7 percent, among the highest in the region, despite a slight decline in the third quarter of 2016. The inflation rate has remained low and near the authorities' medium-term target of 5 percent, although it has trended upward in recent months, following a tightening of the food supply and rising energy costs. The overall external balance continued to improve, with foreign reserves remaining stable at the equivalent of four months of import cover. The value of the shilling has also remained stable and the fiscal deficit has been contained, standing at 3.5 percent of GDP at end-June 2016.

However, the Government's tight fiscal and monetary stance may have weighed on economic performance. The 2015/16 budget saw overall spending fall below target mainly because of under-execution of development projects. External borrowing also fell short of expectations due to delays in securing funds from foreign lenders. A decline in foreign financing of the budget has in turn slowed both money supply growth and credit growth to both the public and private sector. In response, the Bank of Tanzania has recently lowered the discount rate in order to boost domestic credit growth, especially to the private sector.

The medium term outlook remains favorable, though the economy continues to adjust to Government policies including tighter fiscal controls and improving accountability of public institutions. The new administration has embarked upon a strong policy direction of improving public administration and clamping down on corruption. While these public administration reforms are instrumental in strengthening accountability, they could also impact the private sector via two channels. First, the private sector relies significantly on Government demand for goods and services, and policies that limit this demand will decrease private sector activity. Second, policy adjustments, if they occur frequently, could cause uncertainty for the private sector, and this uncertainty could dampen private sector investment decisions, with negative implications for future growth. These implications would mean that the Government should pay more attention to, and be more explicit about, the potential unintended consequences of Government policies on the private sector.

To maintain the growth momentum, the Government will need to focus on three key growth enablers. The challenge is to increase growth rates to achieve higher levels of poverty reduction and the creation of a sufficient number of productive jobs to absorb new entrants to the labor market. Toward this end, the Government forecasts growth rates to increase to 8.2 percent by 2019. The good news is that, as shown by Tanzania's recent resilience to the sluggish global economic conditions, the economic outlook will be largely dependent on domestic policy and performance. The three growth enablers that could lay the foundation for achieving the Government's vision of higher real economic growth include:

i). Continued prudent macroeconomic management to promote stability: The authorities have a strong track record of macroeconomic policy management, which will need to continue. The improved revenue mobilization and tighter anti-corruption controls will aid fiscal policy implementation. The continued progress towards the use of natural gas for power generation will reduce the import bill and current account deficit. The continued implementation of prudent monetary policy should provide the necessary support for maintaining relatively low inflation, which is important for growth.

ii). Effective implementation of public investments to address key infrastructure gaps, including transport and energy: Tanzania plans to scale up investments in infrastructure and human capital to reduce large existing infrastructure and skills gaps. Addressing these gaps should constitute the basis for a higher growth trajectory into the future. In particular, it would promote industrialization, which would create productive jobs. However, this will require greater efforts by the Government to unlock external financing of the budget, in addition to tapping financing from private sector resources, including through PPPs.

iii). Supportive policies to promote private sector investment and growth: Reforms are required to unlock Tanzania's private sector growth potential. These reforms should foster the supportive business environment that is needed to crowd in private sector investment. Such reforms include policy predictability, expanding access to affordable finance, streamlining taxes and regulations, expanding access to reliable infrastructure (such as power supply and good road and railway networks), and improving the education and training system to produce skilled workers to promote industrialization. In addition, the private sector should be accorded enough space to play its part, including partnering with the public sector through PPPs.

Part II. How does the financial sector contribute to Tanzania's economic development: the role of Financial Inclusion?

Tanzania has made great progress towards increasing financial inclusion[1], however access to finance remains challenging. In less than eight years, an efficient and low-cost mobile money

[1] Financial inclusion can be defined as the uptake and use of a range of appropriate formal financial products and services that are provided in a manner that is accessible and safe to the consumer and sustainable to the provider.

transfer system has significantly increased the financial inclusion of Tanzanians. More than 60 percent of the population now has a financial account, compared to 11 percent in 2006, with most of these accounts being held with mobile money services. However, the much larger formal financial system, critical for the business sector, is lagging behind in terms of its ability to mobilize savings and to provide access to affordable credit to the real economy. Interest rates remain very high and access to credit very restricted, as evidenced by the low ratio of credit to the private sector over GDP. This ratio stands at less than 15 percent, a very low level compared to other emerging economies and less than half the level of Kenya (36 percent).

As a result, Tanzania's financial system is increasingly bifurcated. On the one hand, a rising and dynamic mobile financial sector is opening the door to the provision of a broader range of financial services to the larger public. On the other hand, despite the large number of players, the formal banking sector services a very small group of individuals and companies, operating with high lending rates and service fees, as well as wide interest spreads. To compound the problem, the competitive landscape for mobile and traditional financial services does not facilitate the gradual upgrading of customers from transactional services to savings and credit services, which remains the domain of the banking sector. Furthermore, the recent deterioration of credit quality needs to be closely monitored and addressed in order to maintain public confidence in the system, preserve the gains achieved through greater inclusion, and provide finance for growth.

Tanzania lags behind most comparator countries in terms of availability of credit, particularly long-term credit. A lack of credit to invest in real capital assets limits productivity increases and therefore growth. Small and medium enterprises are particularly under-served, limiting their capacity to fuel much needed job creation. High collateral requirements negatively impact entrepreneurs with insufficient fixed assets, particularly women. In addition to access constraints, businesses face high loan costs and short tenures which are not suitable for investment purposes. Consequently, only 13 percent of small formal enterprises have a bank loan.

Tanzania should take three steps towards improving financial inclusion:

i). Reaching last mile customers, particularly women and youth, to achieve universal access through:

- The use of electronic payment systems by the Government for transfers to citizens for purposes such as social protection and conditional cash transfers. This would reduce costs and risks, while increasing volumes to the point where it could be cost-effective to extend coverage to under-served areas.

- The acceleration of the roll-out of the national ID system. This could be facilitated through the use of developments in biometric and mobile technology to provide a platform for the provision of financial accounts at low costs.

- Women and youth in particular would benefit from increased financial literacy to the underserved. This could be achieved by implementing the National Financial Education Framework in partnership with financial institutions and MNOs, leveraging their networks and technical experts to reach the poorest.

ii). Deepening inclusion by consolidating progress and leveling the playing field by:

- Implementing a deposit insurance scheme. This should cover mobile money deposits and provide an adequate consumer protection framework for financial services.

- Facilitating the convergence of retail payment services. The Government, in consultation with the private sector, should foster the full scale interoperability of retail payments also when appropriate through shared infrastructure.

- A uniform risk-based approach to compliance. In-line with international standards, the AML/CFT law and regulations should be amended so that all financial institutions can adopt a risk-based approach to compliance, creating a level playing field between providers.

iii). Expanding access to credit by lowering costs and risk, and by reducing disincentives to lend to the private sector by:

- Reduced pressure of Government borrowing on the domestic market. Measures should be implemented to limit the crowding out of private credit due to Government borrowing. One measure to consider in this area would be the opening of the Government securities market to international investors. In parallel, improvements to the cash and debt management process could have a significant positive impact.

- Increased and improved information to credit bureaus. The quality of the data provided to the credit bureaus should be improved, also thanks to the complete roll out of the single national ID (see recommendation 1.A). In addition, Mobile Network Operators (MNOs) and Non-Bank Financial Institutions (NBFIs) should be included in the reporting system.

- Women in particular would benefit from redefined collateral requirements. Measures should be implemented to expand the range of assets that can be used as collateral and to improve the efficiency and efficacy of the judicial system for contract enforcement and credit recovery.

1 The State of the Economy

Part 1: The State of the Economy

Key messages

- Tanzania's economic growth rate remains higher than that of most neighboring countries, while the inflation rate remains relatively low. The current account deficit has significantly improved, with gross reserves sufficient to cover four months of imports. The shilling has also remained stable in 2016, following significant depreciation and volatility in 2015.
- The new administration continues to implement tight fiscal and monetary policies. The Government is increasing its domestic revenue mobilization, but shortfalls in external borrowing are constraining the full implementation of the development budget. Government has also reduced the discount rate in order to boost domestic credit growth, especially to the private sector, which has experienced significant deceleration. The financial sector remains stable, though the ratio of non-performing loans to total loans has increased.
- The short to medium term macroeconomic outlook remains stable. However, the full implementation of the public investment program is challenged by shortfalls in external financing and implementation of reforms that will support private sector development. The most significant external risks relate to a possible rebound in oil prices and tight global financial conditions.
- To maintain and increase the growth momentum, Government will need to focus on three key growth enablers: continued macroeconomic stability; the effective implementation of public investments; and supportive policies to promote private sector investment and growth.
- The private sector should be encouraged to play a more significant role in investment and job creation, including through industrialization. This could be facilitated through measures to improve access to affordable credit and reliable infrastructure such as power and transport. Government efforts to streamline the regulatory environment are also critically important.

1.1 Recent Economic Developments

Global conditions remain sluggish

The global economic environment remains challenging for many developing countries. Economic conditions across most advanced economies remain subdued, while emerging and developing economies as a whole are set to maintain their growth momentum. There is, however, significant heterogeneity among developing countries. Growth in Sub-Saharan Africa slowed down significantly, with average growth rates dropping from 4.5 percent in 2010-15 to an estimated 1.5 percent in 2016, the lowest level in more than two decades.[2] The decline in the region's growth rate is due to several factors, most notably the ongoing adjustments to weak commodity prices, the slowdown in export demand, the tightening of global financial conditions and, to a lesser extent, Brexit.

Commodity-intensive African economies in particular have borne the brunt of sluggish global growth. The decline in commodity prices since 2014 has taken a particularly heavy toll on oil exporters in the region. The downturn has been compounded by a tightening of financial conditions and adverse weather shocks in some countries. Although many commodity exporters remain under severe economic strains, the hardest-hit include the region's three largest economies, Angola, Nigeria, and South Africa. Globally, commodity-exporting emerging market and developing economies are experiencing a protracted slowdown, with growth estimated at 0.3 percent in 2016. By contrast, commodity importers are estimated to record growth rates of about 6 percent.[3]

In the context of a fragile global economy, Tanzania has continued to enjoy relative stability. Tanzania is one of the few resource-intensive African economies that has shown strong signs of resilience in the face of volatile global conditions. The above mentioned risks, which have been described in previous Tanzania Economic Updates, remain important. In particular, China is the third largest market for Tanzanian exports, absorbing 13 percent of total exports in recent years, with most of these exports consisting of minerals and precious metals exports. In addition, China is a significant source of development finance. Therefore, a sharper-than-expected downturn in export demand could have adverse effects on the Tanzanian economy.

Lower oil prices continued to suppress the energy import bill in 2016. Fuel prices remain relatively depressed and are projected to remain so in the foreseeable future, with muted demand, resilient supply, and high inventories (see Figure 1). The price of Brent crude oil averaged at US$ 44 per barrel in 2016, US$ 8 lower than in 2015. This has been favorable to Tanzania's

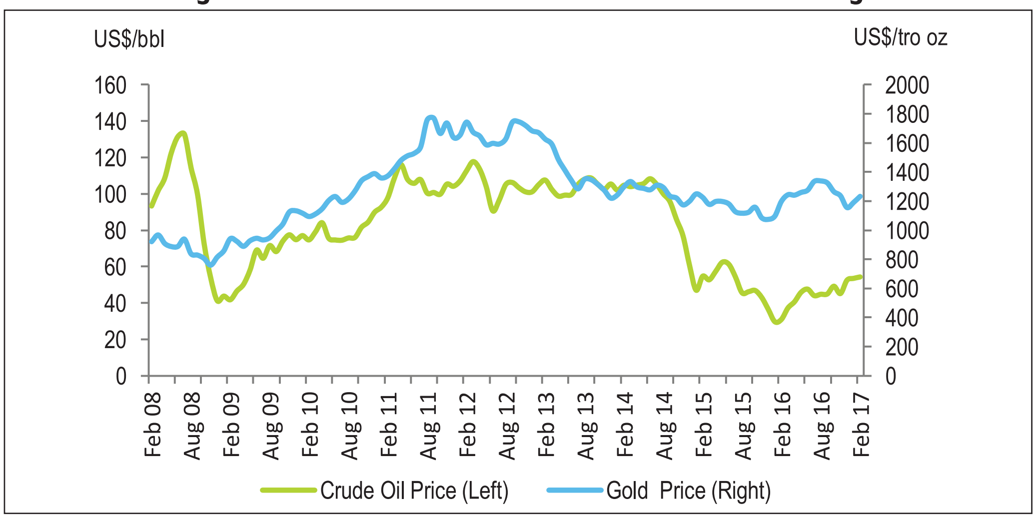
[2] World Bank, Global Economic Prospects, 'Weak Investment in Uncertain Times', January 2017.

[3] Ibid.

fuel import bill, which declined by about 3 percent in the period from 2015 to 2016. On the other hand, the relative stability of gold prices has cushioned the country from the terms of trade shock experienced by oil exporters. However, uncertainty in the global commodities markets around issues such as the impact of OPEC supply cuts[4] and increases in shale oil production presents risks of either a significant drop in gold prices and/or a sharp rebound in oil prices, which could be a drag on Tanzania's economic growth. As a signal of this uncertainty, oil prices ended on a rising trend in 2016, with Brent crude expected to average US$ 55 per barrel in 2017.[5]

Brexit is expected to have only a modest impact on the Tanzanian economy. The initial impact[6] of the UK's vote to leave the European Union (EU) turned out to be short-lived and largely localized to the UK. However, the medium- to long-term repercussions are difficult to determine, with these repercussions partly depending on how trade relations and financial flows unfold between the UK and the EU in the years to come. For example, two UK-based banks, Standard Chartered and Barclays, collectively hold roughly 15 percent of banking assets in Tanzania. Brexit could reduce investment and financial flows from the UK and European firms. In recent years, the UK and Switzerland accounted for more than 50 percent of the total FDI inflows to Tanzania. Under the unlikely scenario of a sharp Brexit-induced turbulence in the UK and other European economies, the impact on the FDI channel may be significant.

Figure 1: Global Prices of Fuel and Gold are Rebounding



Source: World Bank Commodity Prices.

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4 On November 30, 2016 OPEC members agreed to reduce production by approximately 1.2 million barrels per day (b/d) from the October baseline to lower OPEC's production ceiling to 32.5 million b/d beginning January 1, 2017. Non-OPEC countries met following OPEC's agreement and agreed to cut production by 558,000 b/d, with Russia making the largest cuts of approximately 300,000 b/d.

5 US Energy Information Administration, Short Term Energy Outlook brief, March 7, 2017.

6 In the immediate aftermath of the Brexit, a substantial number of emerging economies experienced a decline in stock markets and exchange rate depreciation. The Brexit has particularly affected countries with stronger trade links with the EU and the UK.

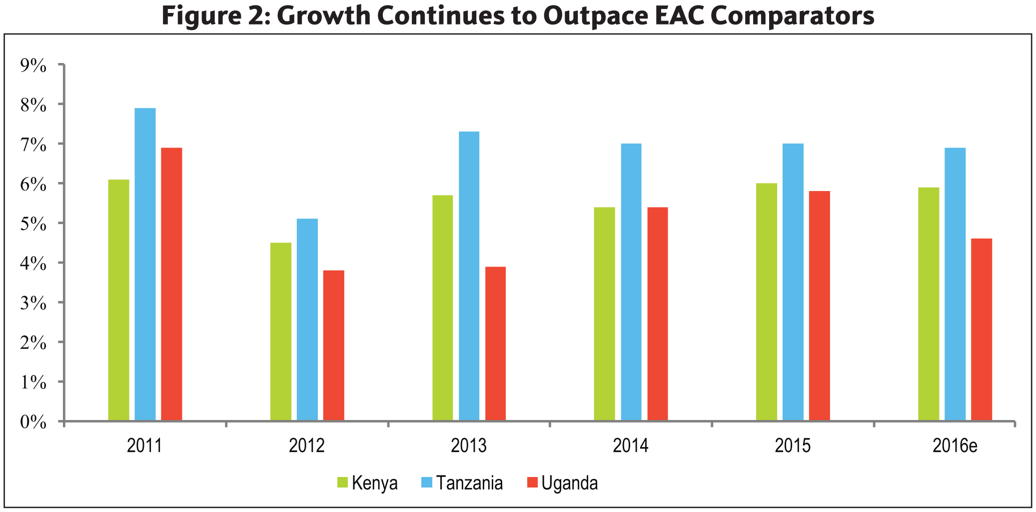
Tourist visits from Europe may also decline, hurting the country's booming tourism sector which employs more than half a million people and generates well over US$ 1.5 billion in foreign currency.

Tanzania's economic performance remains strong

Tanzania's economic growth remains high relative to other developing countries, despite some softening in the third quarter of 2016. Tanzania's economic performance continues to rank among the highest in the region. The real GDP growth rate has consistently outpaced its EAC peers (see Figure 2). During the third quarter of 2016, the real GDP growth rate declined to 6.2 percent, down from 7.9 percent recorded in the previous quarter and 7.3 percent in the same quarter in 2015. High frequency data suggest a difficult environment for Q4 growth, including weakening business sentiment, slowing credit growth and a slow pace of budget implementation, particularly for development expenditures. Growth in 2016 is estimated at 6.9 percent, slightly below the Government's forecast of 7.2 percent.

The economy continues to adjust to Government policies including tighter fiscal controls and improving accountability of public institutions. Since taking office in October 2015, President Magufuli has spearheaded a strong policy direction of improving public administration and clamping down on corruption. Improved tax administration has led to a substantial increase in the domestic revenues collected in 2016. In the past year, the central Government has put in place legislation to regulate compensation and wages for the broader public sector. This has strengthened the capacity of the core administration to regulate the broader public sector. The President has banned unnecessary travel, especially foreign travel, and reduced the use of allowances and honorarium as a mechanism of supplementing pay. There has also been a nationwide drive to weed

Figure 2: Growth Continues to Outpace EAC Comparators



Source: World Bank.

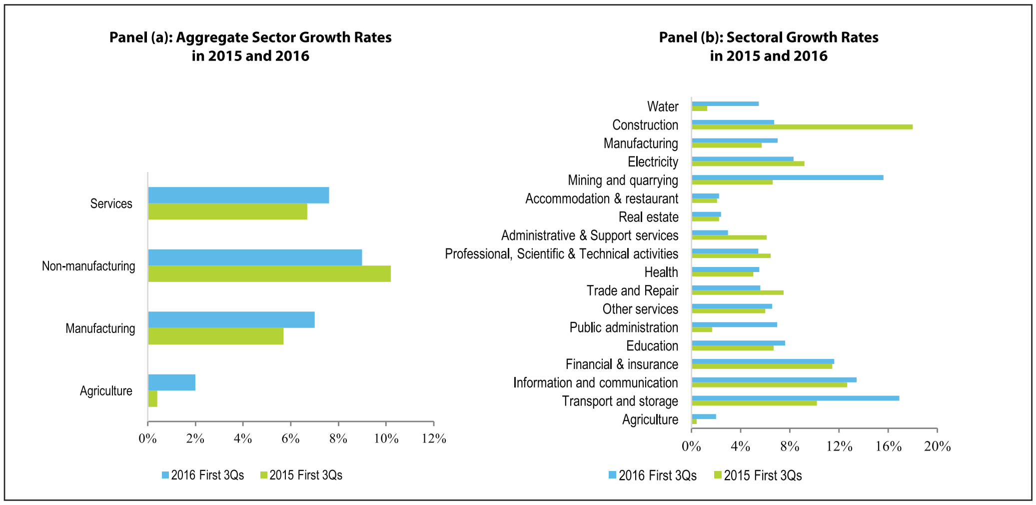
out ghost workers in the public sector, and more than 15,000 have been identified. Government meetings in tourist resorts have been banned - an example of how public administration reforms could also impact the private sector, which relies significantly on Government demand for goods and services.

While these public administration reforms are critical in strengthening accountability, they could also impact the private sector via two channels. First, the private sector relies significantly on Government demand for goods and services, and policies that limit this demand will decrease private sector activity. Second, policy adjustments, if they occur frequently, could cause uncertainty for the private sector, and this uncertainty could dampen private sector investment decisions, with negative implications for future growth. These implications would mean that the Government should be more explicit about, and pay more attention to, the potential unintended consequences of Government policies on the private sector.

Growth in agricultural production increased in the first three quarters of 2016 compared to the same period in 2015, while non-manufacturing industry growth decelerated (see Figure 3, panel a and b). Over the first three quarters of the year, agriculture registered a growth rate of about 2 percent, 1.5 percentage points higher than recorded in the corresponding period in 2015. Growth in Q1 and Q2 was helped by favorable rainfall, while rain shortfalls in Q3 negatively affected crop production in most parts of the country. Industry (both manufacturing and non-manufacturing) grew by 8.6 percent in the Q1-3 2016 period, compared to 8.1 percent in the same period the previous year, with higher growth in manufacturing more than offsetting slower growth in non-manufacturing industry. The softening of the non-manufacturing industry sub-sector stems from the substantial deceleration of construction and a slump in the generation of electricity. The mining and quarrying sub-sector recorded strong growth, with a rate of 15.6 percent in Q1-3 2016 compared to about 6.6 percent in Q1-3 2015. This increase can be attributed to the increased production of almost all types of minerals and natural gas. The increased production benefitted from the continued low fuel costs and the modest recovery of commodity prices.

The service sector expanded by 7.6 percent in the Q1-Q3 2016 period, roughly a percentage point higher than recorded in the same period in 2015. The service sector has been buoyed by a number of factors: growth in transport and storage due to increased gas production activities; a boost to public administration supported by increased public spending in legal and legislative activities; burgeoning financial services due to increased use of financial and mobile services; and significant growth in education that reflects a change in policy to the provision of fee-free public education.

Figure 3: Sector Growth Rates



Source: National Bureau of Statistics.

The poverty rate has fallen from 60 percent in 2007 to an estimated 47 percent in 2016, based on the US$ 1.90 per day global poverty line. Despite this remarkable progress, about 12 million Tanzanians still live in extreme poverty, earning less than US$ 0.60 per day. Many others live on the edge of poverty and are thus at risk of slipping below the poverty line in the case of economic shocks. In fact, in terms of absolute numbers of poor citizens, Tanzania ranks in the top ten countries in the world, and in the top four in SSA. Tanzania's persistently high poverty rate, despite its high economic growth, reflects the fact that marginally productive economic activities and expansions in non-labor intensive sectors have underpinned much of the economic growth during the last decade. The current growth momentum is expected to lead to only a slight drop in poverty. A higher growth rate could contribute to the eradication of extreme poverty, in line with the TDV 2025 objective of becoming a middle income country with a competitive economy capable of producing sustainable growth and shared benefits. Toward this end, investments in infrastructure and the social sectors and the modernization of agriculture could be critical for the achievement of significant poverty reduction. It is also important to ensure that these investments are prioritized and fully funded so that they can be completed on time. Additionally, it is important to ensure the full funding of critical non-salary recurrent spending on items such as TASAF and capitation grants and medical supplies to ensure good quality education and health services that directly benefit the poor.

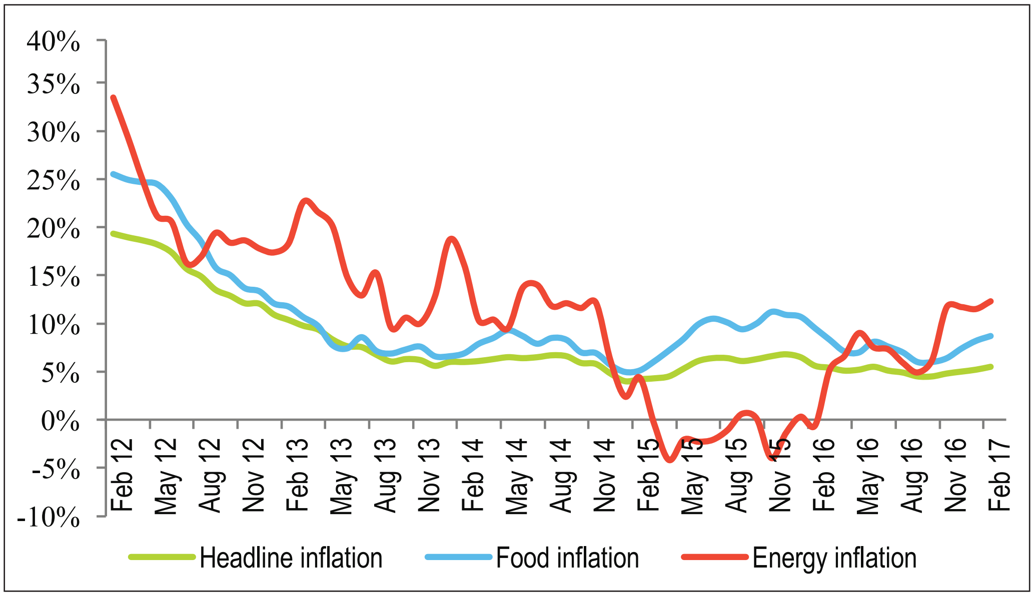
The Government continues to provide support for social safety nets for poor and vulnerable households. About 1.1 million extremely poor households have enrolled in the Productive Social Safety Net (PSSN)[7] program, with TZS 42.6 billion having been disbursed to beneficiaries in April–June 2016. Of the beneficiaries, four-fifths belong to the poorest 40 percent of the population

[7] PSSN aims to reduce and break the intergenerational transmission of poverty in Tanzania.

and almost two-thirds are among the poorest 20 percent. The Tanzania Poverty Assessment 2015 shows that cash transfers to poor households can make a significant contribution to poverty reduction, including to improvements to human capital as a result of improved school attendance and access to better healthcare. The Government has also taken steps to review and clean up the database of beneficiaries to ensure ineligible households are removed. Coupled with the close collaboration between TASAF and LGAs to identify unqualified households, the exercise will strengthen program supervision and accountability mechanisms. The Government should also consider making all payments to TASAF beneficiaries through electronic channels to reduce the costs and risks of cash payments processing, and as a tool to further strengthen financial inclusion (see Part Two).

Headline inflation has remained low and around the authorities' medium-term target limit of 5 percent. At the end of February 2017, the rate stood at 5.5 percent, up from the figure of 4.5 percent recorded in October and remained almost unchanged from the rate recorded in February 2016 (see Figure 4). The recent gradual increase in headline inflation has been driven by upward trending food and energy prices. The rate of food inflation notched up from 5.1 percent in February 2016 to 8.7 percent in February 2017, due mainly to increases in prices of cereals, such as maize grains and flour, rice and beans. Moreover, energy and fuel inflation edged up from 4.4 percent at the beginning of 2016 to about 9 percent in May 2016 and to nearly 12 percent in February 2017 on account of rebounding global oil prices.

Figure 4: Inflation has Remained Low

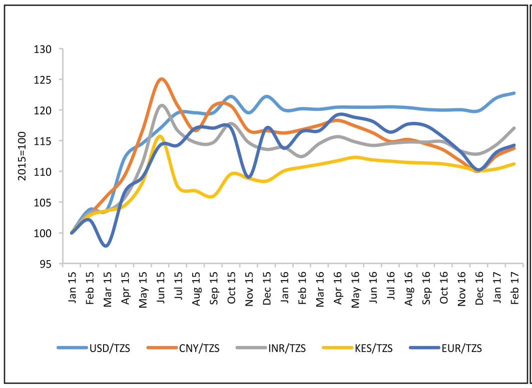


Source: National Bureau of Statistics.

In 2016, the value of the shilling stabilized, following significant volatility and depreciation in 2015. Figures 5 and 6 show that the value of the shilling remained stable in 2016, especially against the US dollar, Indian rupee and Kenyan shilling. There has been notable appreciation against the euro and Chinese renminbi towards December. From January, the shilling depreciated against these four currencies, except the Kenyan shilling. The stability of the shilling can be largely attributed to the Government's implementation of a conservative monetary policy, supported by improved export earnings and reduced demand for foreign currencies to finance imports. The real effective exchange rate[8] stabilized in 2016 after a significant adjustment in 2015. It is now close to its equilibrium level.

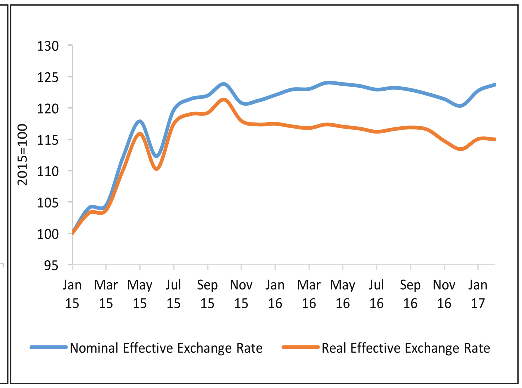
The current account has narrowed significantly, as exports grew modestly and imports fell significantly, especially for capital and transport goods. The current account deficit stood at US$ 1.8 billion for the year ending January 2017, down from US$ 3.8 billion recorded for the year ending January 2016. The total value of exports of goods and services increased by 5.1 percent, led by strong performance in the export of minerals, traditional crops and tourism receipts (see Figure 7). In particular, the value of gold exports recorded considerable growth of 29.8 percent due to increases in both export volume and prices.

Figure 5: The Shilling Stabilized After Significant Fluctuation in 2015



Source: World Bank.

Figure 6: Nominal and Real Effective Exchange Rates Remained Stable

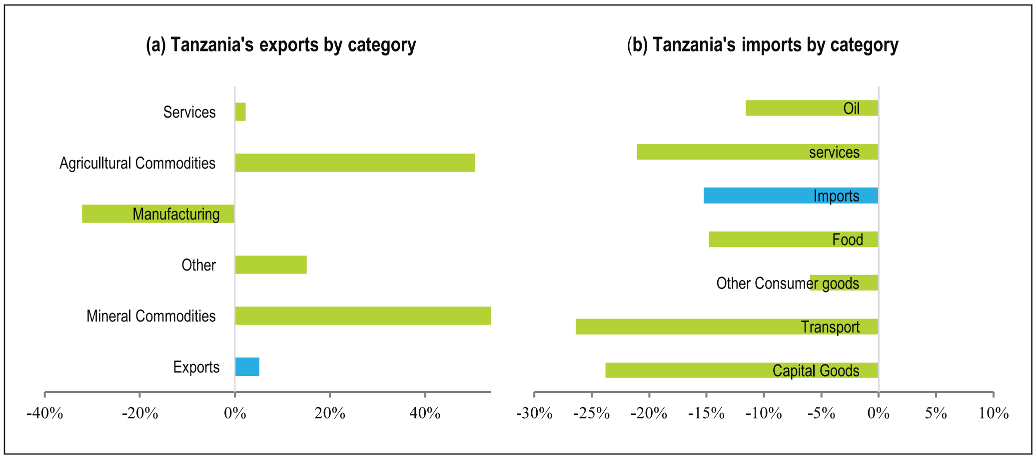


Source: World Bank.

Moreover, during the same period receipts from tourism and transportation increased by 5.2 percent due to an increased number of tourist arrivals and volume of transit goods to neighboring countries. The total value of imported goods and services declined by 15.3 percent between the year ending January 2017 and the corresponding period in 2016. All major import categories showed declines, especially in capital and transport goods, except for industrial raw materials. The slow execution of budgeted development spending partly explains the decline in capital imports.

[8] Real effective exchange rate is calculated as a weighted average of bilateral real exchange rates with 5 major trading partners of Tanzania.

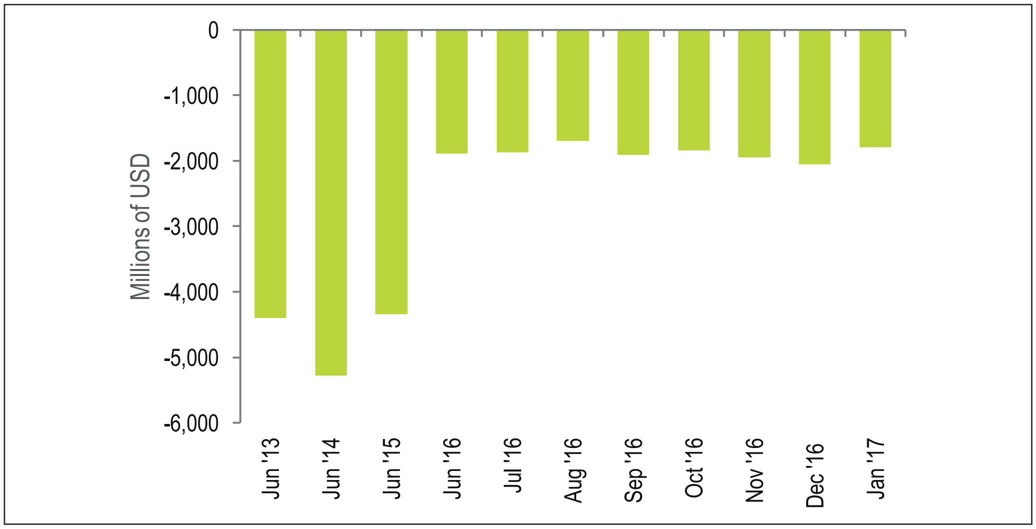
Figure 7: Shifts in the Composition of Trade Flows (January 2017, year-on-year changes)



Notes: "Other Consumer goods" exports include edible vegetables, oil seeds, cocoa, raw hides, cereals, raw hides and skins, and wood.
Source: Bank of Tanzania and Tanzania Revenue Authority.

Capital inflows have fallen, though remain adequate to finance the shrinking current account deficit. During the year ending November 2016 capital inflows, especially official transfers, decreased markedly by 68.7 percent. By contrast, direct investment flows picked up modestly. However, official aid, at 1.4 percent of GDP in 2015/16, remained an important source of financing of the current account deficit especially in the context of the high cost of non-concessional external loans. Gross international reserves stood at US$ 4.3 billion by end of January 2017, a level sufficient to finance the equivalent of approximately four months of projected imports of goods services. This was a significant increase compared to the level of about three months at the same point over the preceding three years.

Figure 8: Current Account Deficit has been Narrowing



Source: Bank of Tanzania.

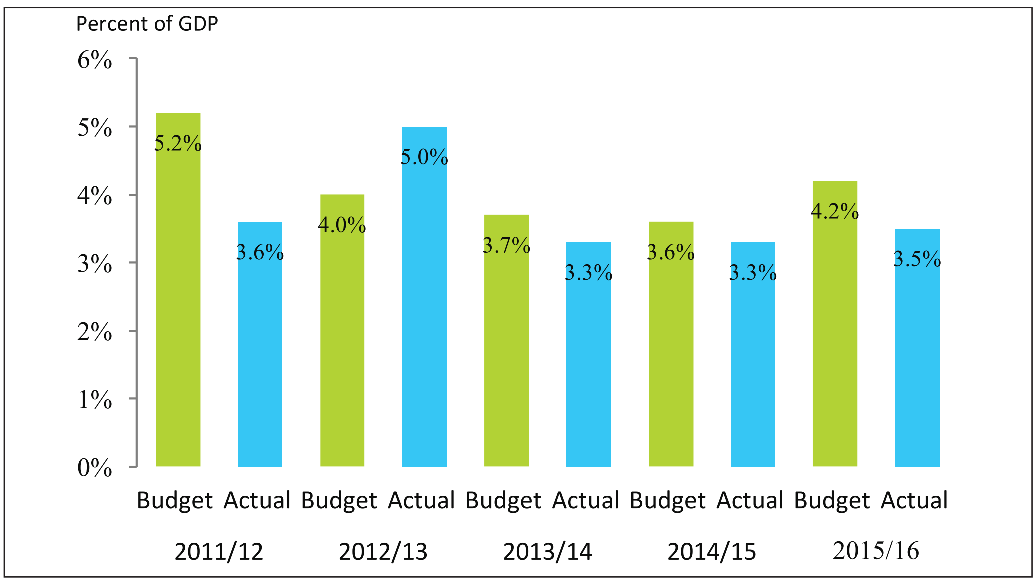
Growing Challenges in Fiscal and Monetary Policies

Fiscal policy

The fiscal deficit in 2015/16 was lower than budgeted and largely financed by domestic borrowing (see Figure 9). The overall fiscal deficit in 2015/16 stood at 3.5 percent of GDP, slightly higher than the figure of 3.3 percent recorded in 2014/15 but significantly lower than the budget target of 4.2 percent. The Government achieved this fiscal deficit through increased domestic revenue collection, postponing some development spending and controlling recurrent expenditure and corruption, especially during the second half of the fiscal year. The fiscal deficit was largely financed by increased domestic borrowing which partially compensated for shortfalls in external borrowing (see Figure 10 and Figure 11). The shortfalls were due to delays in concluding negotiations with international lenders, in addition to the Government's cautious approach to external non-concessional borrowing that incurs high service costs.

The 2015/16 Budget saw significant overruns in recurrent spending and significant shortfalls in development spending. Despite Government efforts to control expenditures, recurrent expenditure was higher than budgeted, driven largely by increased spending on goods and services as well as salary and wages. Election year spending pressures explain a large share of this overrun. Recurrent spending in 2015/16 stood at 14.2 percent of GDP, 1.3 percent higher than in 2014/15 and amounting to 77 percent of total public spending. On the other hand, development spending was lower than budgeted, due

Figure 9: Fiscal Deficit Remains Below 4 percent of GDP



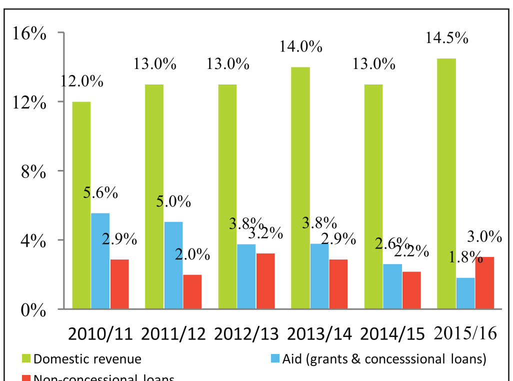
Source: Ministry of Finance and Planning.

in part to shortfalls in external borrowing, with these shortfalls not fully compensated for by increased domestic borrowing. Development spending in 2015/16 stood at 4.4 percent of GDP, the same level as recorded in 2014/15 but significantly lower than the budget target of 6.3 percent of GDP. At about 23 percent, the share of development spending to total public spending declined slightly in 2015/16 compared to 2014/15 when the proportion stood at 25 percent. This decline was driven by under-execution of the budget. However, by the end of 2015/16, about 69 percent of development funds were released, an improvement compared to previous years when not more than 60 percent of development funds were released.

high execution rates (such as 141 percent for roads, 157 percent for energy and 111 percent for education), though these high rates are partly attributable to arrears clearance.

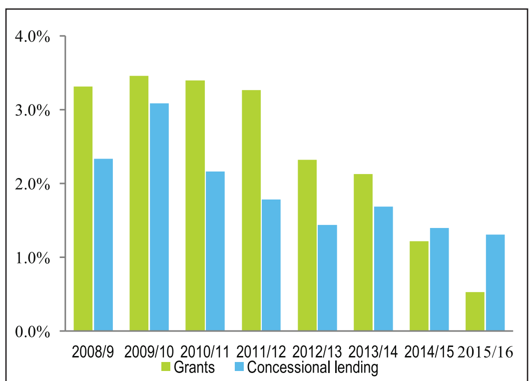
Strong measures to reduce tax exemptions and to curb tax evasion and corruption, especially during the second semester of 2015/16, resulted in a significant increase in domestic revenue collection. Domestic revenue stood at 14.4 percent of GDP in 2015/16, slightly lower than the budget target of 14.6 percent but higher by 1.6 percentage points compared to the figure recorded in 2014/15. The increased revenue collection in 2015/16, especially during the second semester, was on account of significant effort by the Government to

Figure 10: Declining Aid Flows have Been Offset by Increasing Non-Concessional Borrowing



Source: Ministry of Finance and Planning.

Figure 11: Decrease in Grants and Concessional Borrowing



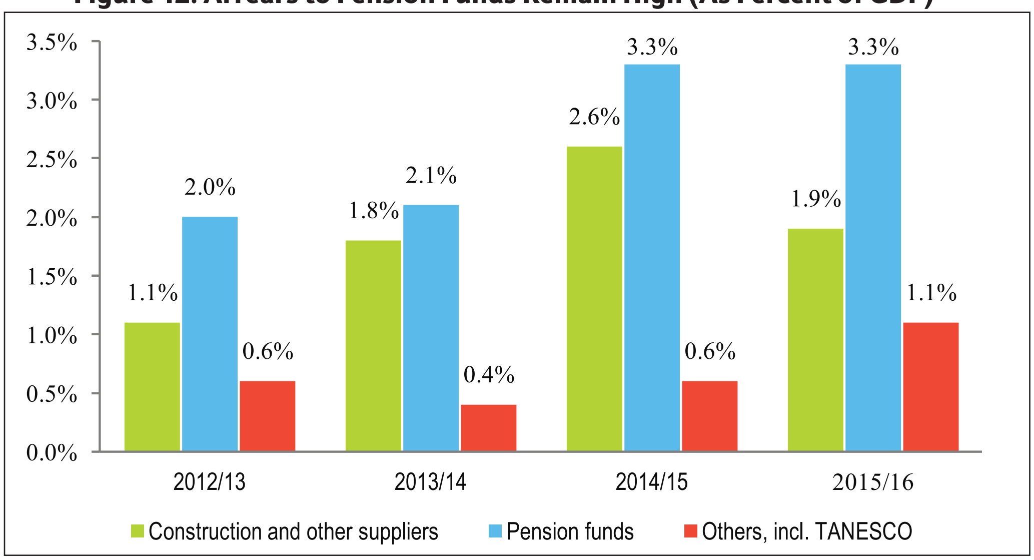
Source: Ministry of Finance and Planning.

Moreover, in 2015/16 development funds were released earlier in the fiscal year, with more than 50 percent released during the first semester. Some sectors experienced

reduce exemptions and to curb evasion and corruption. In 2015/16, domestic revenue was sufficient to cover 104 percent of the recurrent budget, slightly higher than the figure of 101 percent recorded in 2014/15. The contribution of aid (grants and concessional loans) to the financing of the budget in 2015/16 continued to fall, amounting to only 1.4 percent of GDP, compared to the figures of 2 percent and 3.8 percent recorded in 2014/15 and 2013/14, respectively. As a result, grants and concessional loans financed only 7 percent of the budget in 2015/16, compared to 12 percent in 2014/15.

Arrears remain high and pose a serious credibility challenge. Although there has been a significant increase in revenue collection since November 2015, progress toward clearing arrears has been slow (see Figure 12). Arrears to constructors and other suppliers, pension funds, and SOEs amounted to 6.3 percent of GDP (equivalent to TZS 6.5 trillion) at end-June 2016, which is 0.2 percent of GDP lower than the figure recorded in June 2015. The stagnant level of total arrears conceals a significant reduction in arrears to contractors and other suppliers, which was mostly offset by the increase in arrears of SOEs, especially TANESCO, to its suppliers. Arrears to pension funds remained at 3.3 percent of GDP, pending the Government's issuance of non-cash bonds to clear the verified arrears. The accumulation of domestic arrears is a symptom of dysfunctional budget implementation, with sustained arrears undermining the trust of private sector suppliers, pensioners and potential investors considering partnering with Government. The Government needs to clear these arrears as a matter of urgency in order to restore budget credibility and the confidence of suppliers and potential new investors, especially in infrastructure investments.

Figure 12: Arrears to Pension Funds Remain High (As Percent of GDP)



Source: Tanzania Authorities and World Bank estimates.

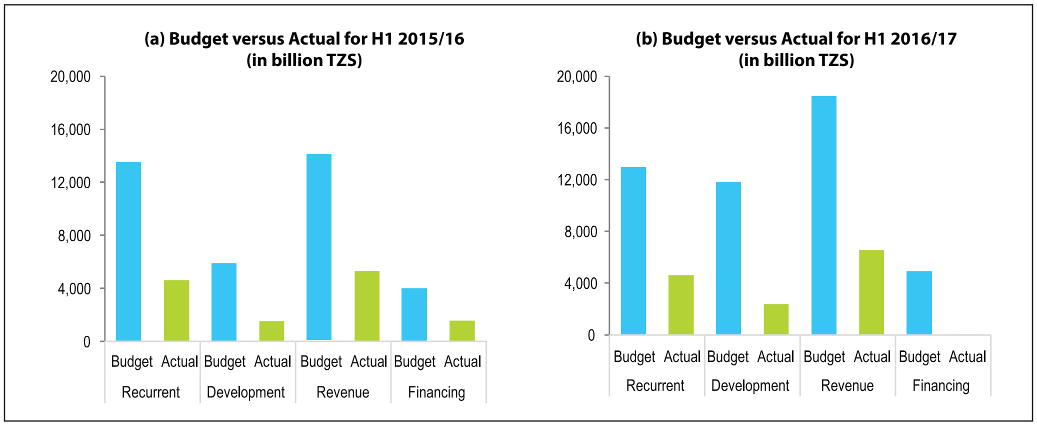
The 2016/17 budget called for a fiscal deficit increase to accommodate higher levels of public investment and the clearance of verified arrears. The deficit target of 4.5 percent of GDP was one percentage point higher than in 2015/16, reflecting plans to control recurrent expenditures, increase revenue and borrow more to invest in development projects. Recurrent spending is slated to decline by about 2 percent of GDP. Domestic revenue collection is budgeted to increase to 16.9 percent of GDP from the 14.8 percent outturn in 2015/16. The target for overall public expenditure is 22.7 percent of GDP, 3.4 percentage points higher than in 2015/16. Moreover, the budget reprioritized resources toward increased development spending, with a target of 46 percent of overall spending compared to the figure of 23 percent recorded in 2015/16.

Development spending is budgeted to more than double this fiscal year, if realized. Full implementation of the 2016/17 development budget would result in an equivalent of roughly 10 percent of GDP in development spending, which is 6 percentage points higher than realized in 2015/16. The planned increase in development spending is set to be directed to projects identified under the FYDP II, including the construction of the Central Corridor Standard-Gauge Railway and the expansion of the Dar es Salaam port. However, the overall budget figure for development spending somewhat overstates the shift, as it includes some funds allocated for the clearance of verified arrears, as well as budget lines previously defined as recurrent spending.

Development budget underspending is largely explained by external financing shortfalls. Half-way through the fiscal year, the Government has managed to raise only 12 percent of planned external financing from both concessional and non-concessional sources. Of the major financing sources, concessional borrowing realized in the first half of 2016/17 was 21 percent of the target for the whole fiscal year. This low disbursement of concessional loans is largely explained by delays in project preparation and implementation. Non-concessional external loans disbursed by December 2016 was only 2 percent of the target for the whole fiscal year, partly explained by a cautionary approach by the Government to borrow from external markets due to high costs. Domestic borrowing, by contrast, has been negative on net terms for the first half of the fiscal year. Mobilizing concessional external financing going forward remains critical to execution of the budget and realizing investment plans. However, this requires accelerated preparation and implementation of planned projects and programs, including policy and institutional reforms.

While public debt remains at manageable levels, it should be monitored closely due to significant increases in recent years. The public debt to GDP ratio, which stood at 37.7 percent in June 2016, increased by 2.5 percent

Figure 13: Financing Shortfalls are Constraining Budget Execution

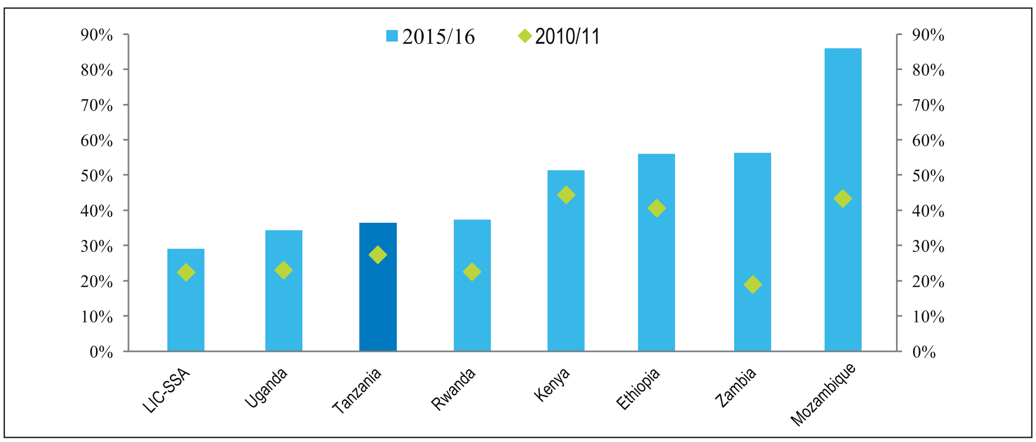


Source: Ministry of Finance and Planning.

of GDP compared to the ratio recorded in June 2015 (see Figure 14). This large increase is attributable to increased commercial borrowing, both from domestic and foreign markets, to finance the Government's ambitious public infrastructure program and to compensate for the decline in foreign aid. By June 2016, commercial debt constituted 23.3 percent of total debt, with external its debt, especially the external debt which is vulnerable to exchange rate movements and a failure to achieve fiscal consolidation.

Domestic debt has increased in the past few years, as have shorter-term and more expensive instruments. Domestic public debt only accounts for 8 percent of total debt, with this mainly composed of

Figure 14: Public Debt in Selected SSA Countries (percent of GDP)



Source: International Monetary Fund.

non-concessional loans amounting to 64.4 percent of total commercial debt. Despite the increase in the level of debt, Tanzania remains at low risk of debt distress. However, Tanzania will need to monitor and manage Treasury bonds, mostly held by commercial banks and more recently by pension funds. However, in the year ending in November 2016, domestic debt increased 21 percent to a new record level of over TZS 10 billion, compared to an increase of 5 percent for external debt. Budget financing requirement is the main driver of the increase in domestic debt during this period. The share of longer-term instruments (Treasury bonds) continued to decline, from 70 percent to 62 percent year-on-year. Additionally, the share of debt held by commercial banks fell from 51.8 percent to 39.8 percent between November 2015 and November 2016. During the same period, pension funds increased their share of domestic public debt holding from 16 percent to 26 percent while and other institutions increasing their share from 3.7 percent to 6.9 percent. The increased holding of Government securities by pension funds, especially those which are financially stable, was aided by the Government making full payment of monthly employer's pension contribution since 2015/16.

Public debt service has increased significantly as a result of increased non-concessional borrowing. In 2016/17, total public debt service due is about 5.9 percent of GDP. A large share of this is principal repayments on domestic debt that is expected to be rolled over. Actual principal repayments is 1.8 percent of GDP, which is largely for non-concessional external loans, while interest payment is about 1.7 percent of GDP. At this levels, debt service is equivalent to about 38 percent of domestic revenue in 2016/17, up from about 36 percent in 2015/16. Moreover, interest payments alone are set to consume nearly 10 percent of total public expenditures in 2016/17, which is almost the same level as in 2015/16. More than two-thirds of the total interest payments are for non-concessional debt from both domestic and external markets, underscoring the importance of closely monitoring any new non-concessional obligations. In the year ending January 2017, US$ 601.9 million was paid by Government for external debt service while TZS 1056.4 billion was paid for domestic debt service, which in total is equivalent to about 2.2 percent of GDP.

Monetary Policy

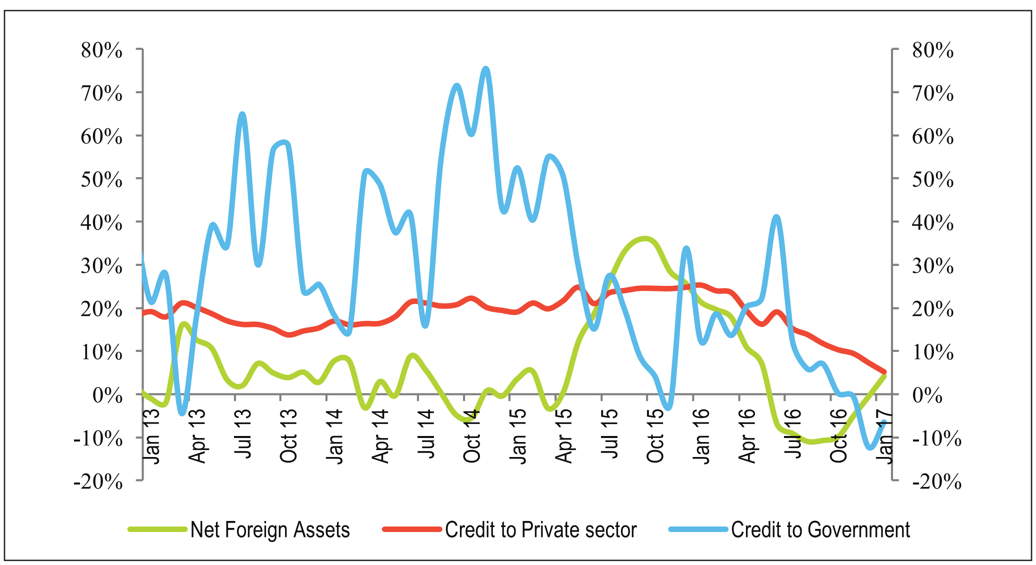
Monetary policy has remained tight. The year-on-year growth of extended broad money supply (M3) decelerated sharply from 16.2 percent in January 2016 to 4.0 percent in January 2017. Similarly, the year-on-year growth of reserve money contracted by about 1.0 percent in January 2017 from an increase of 16.3 percent in January 2016. The contraction in M3 growth occurred on the back of a decline in net foreign assets of the banking system and, to a lesser extent, a slowdown in domestic credit growth both to the Government and private sector. (See Part Two on Financial Inclusion for related analyses.)

The deceleration in domestic credit growth to both the Government and private sector has prompted the Bank of Tanzania to reduce the discount rate recently. Net credit to the Government contracted by 6.4 percent (year-on-year) in January 2017 compared with 12.4 percent increase in the corresponding period in

2016 (see Figure 15). Similarly, credit to the private sector declined from 25.3 percent to 5.1 percent between these two periods. From March 2016 private sector credit growth has stopped, which poses a risk for the growth prospects, in particular, the decline in Government credit was largely due to a decline in the Bank of Tanzania's advances to the Government and lower net Government borrowing from commercial banks as a result of improved revenue collection. In reaction to this, the Bank of Tanzania has since March 2017 reduced the discount rate from 16 percent to 12 percent.

The financial sector remains stable, though the deteriorating quality of lending and the poor performance of some smaller banks is noteworthy. The fundamentals of the sector remain sound, with commercial banks' capital ratio (total capital to risk-weighted assets plus off-balance sheet exposure) at end-December 2016 remaining stable at around 17.8 percent and the ratio of liquid assets to demand liabilities at 42.4 percent. These levels are well above the regulatory thresholds of 10 percent and 20 percent, respectively. The sector continues to grow, with return on equity (which measures how effectively the bank can use shareholders' money to generate profit and expand banks' operation) standing at 10.5 percent at end-December 2016. However, the ratio of non-performing loans (NPLs) to total loans edged up to 9.5 percent at end-December 2016 from 6.4 percent at end-December 2015, reflecting a downward risk to banks' profitability and future lending. Moreover, banks have been navigating the new environment created by Government's decision to centralize public institutions' bank accounts at the Bank of Tanzania rather than at commercial banks, leading to a decline in deposits estimated to be around TZS 600 billion. The directive has affected banks' liquidity at least in the short term. Two major banks, CRDB and TIB,

Figure 15: Low Monetary Growth Heralds a Slowdown in Credit to both Government and Private Sector

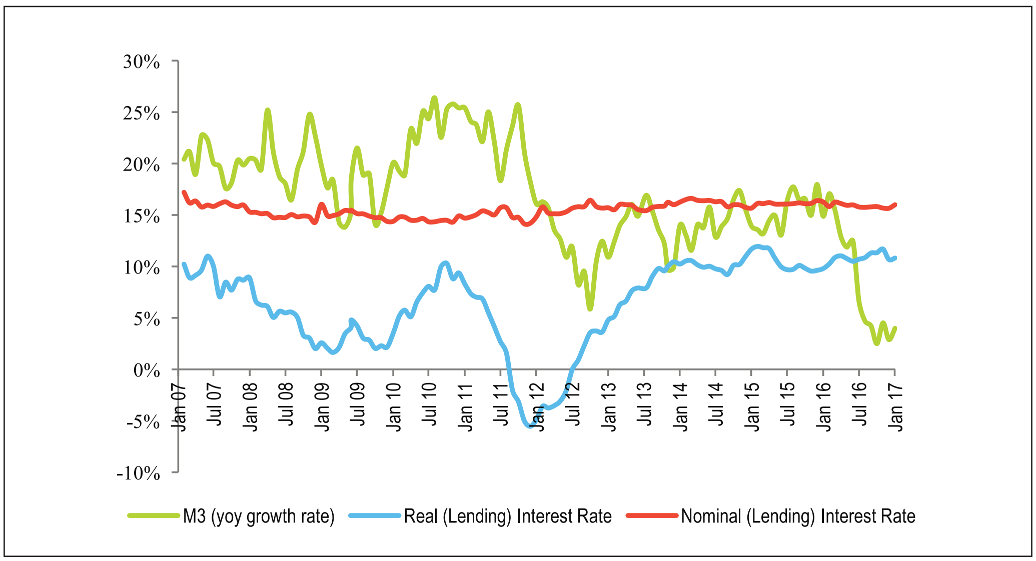


Source: Bank of Tanzania.

have posted losses during Q2 of 2016 while TWIGA Bancorp, a state owned commercial bank, was put under the receivership of the Bank of Tanzania due to inadequate capital.

The real interest rate remains high but stable, reinforced by steady inflation. The real cost of credit to the private sector has remained fairly stable, staying within a narrow band of 10 to 11 percent since January 2016 (see Figure 16). This reflects stagnant nominal interest rates which have remained stable at around 16 percent, and a low and stable inflation rate standing around 5 percent. Stability in real interest rates over the past three years contrasts with the wide fluctuations experienced following the global crisis, with the inflation rate reaching as high as 20 percent in late 2011.

Figure 16: Monetary Growth Slowed Sharply in 2016 While Interest Rates Remained Stable



Source: Bank of Tanzania.

1.2 Outlook and Risks

Maintaining the growth momentum is a priority for the new administration, driven by the second Five Year Development Plan (FYDP II). The Government's vision is targeted toward industrialization and human development. This will require prioritization of sectors in which the country has a comparative advantage, including those which leverage its rich and diverse natural resources. The strategy can be built around diversification of resource-based industries, including agribusiness, as well as upgrading capabilities of value addition (e.g., food). The prospect of job creation through labor-intensive light manufacturing (e.g., textile and garment) critically hinges on successful improvements in human capital (skills). A special role is envisioned for the private sector, with diversified domestic markets and consolidated State interventions.

According to Government forecasts, growth will accelerate to 8.2 percent per annum by 2019 due largely to

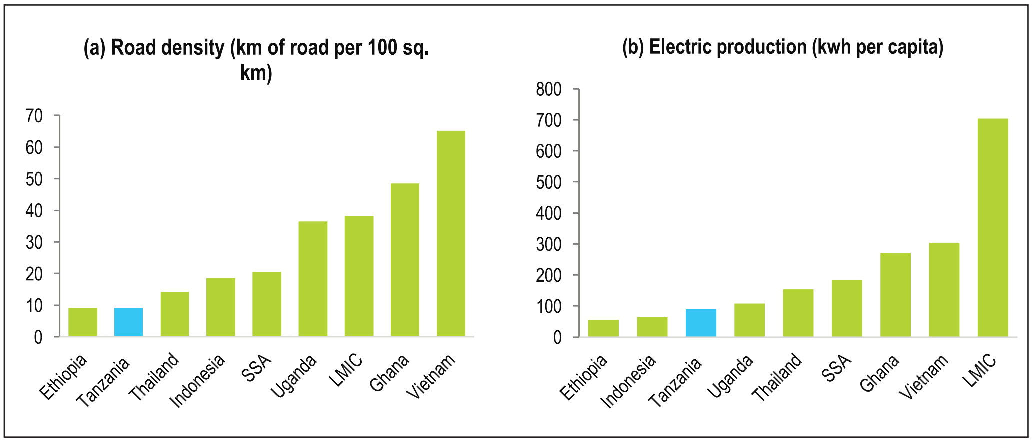
an increase in public investment. The Government's growth outlook is based on full implementation of its fiscal policy, in particular the reorientation of expenditure toward public investment and dramatically increasing the share of development expenditure in the total budget to 40 percent. Development spending is budgeted in 2016/17 to more than double to 11 percent of GDP, up from 4.4 percent in 2015/16, with two flagships projects–the standard-gauge railway and Dar es Salaam port expansion projects–accounting for spending worth about 1 percent of GDP. Achieving the Government's positive growth outlook would also require favorable private sector and external conditions. With about 12 million Tanzanians living on less than US$ 0.60 per day and about 800,000 entering the labor force every year, higher and more inclusive growth is essential to creating much needed productive jobs and reducing poverty.

To maintain the growth momentum, the Government will need to focus on three key growth enablers. There are three areas that can lay the foundation for achieving the Government's vision of higher real economic growth. These include: i) macroeconomic stability; ii) effective implementation of public investments; and iii) supportive policies for promoting private sector investment and growth.

First, continued prudent macroeconomic management is a necessary condition for stability and growth. The authorities have a strong track record of macroeconomic stability, which will need to continue in order to manage future domestic and external imbalances. On the domestic side, improved revenue mobilization and tighter anti-corruption controls will aid fiscal policy implementation. On the external side, rising oil prices and tighter global financial conditions may pose challenges. While the current account deficit is expected to remain stable in the near term under the assumption that oil prices remain near current levels, rising oil prices will have a negative impact on the current account and growth prospects. Moreover, tighter borrowing conditions would have a significant impact on growth prospects, especially through shortfalls in financing the ambitious public investment program. The current account deficit will continue to be partly financed by a combination of aid and private capital inflows, although the former is expected to play a less significant role over time. The overall level of gross international reserves should remain stable in 2017.

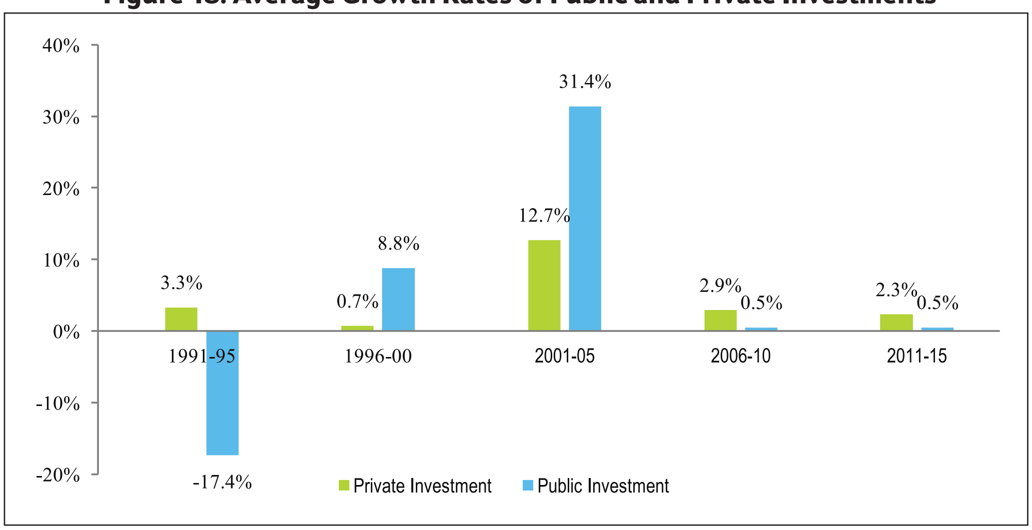
Second, Government needs to effectively implement and manage key public investments. In order to move to a higher growth trajectory, Tanzania will need to scale up investments in infrastructure and human capital, as planned under the FYDP II. This is needed to help address the strikingly low level of power and transport infrastructure compared to other countries (see Figure 17). Moreover, investment has been low, both from public and private sources, and there are large gaps in skills necessary for industrialization (see Figure 18). The good news is that the FYDP-II has rightly emphasized the Government objective of scaling up infrastructure investments in both power and transport sectors as well as upgrading skills and quality of education. The critical projects that have been identified by the FYDP II will need to be prioritized and fully funded in order to be delivered on time. Already a lack of funding is delaying implementation of key projects for additional power generation, even though these are critical to support industrialization in line with the country's ambition of becoming a semi-industrial nation by 2025.

Figure 17: Road Density and Electricity Production in Tanzania and Comparators



Source: World Development Indicators and World Bank Africa Development Indicators.

Figure 18: Average Growth Rates of Public and Private Investments

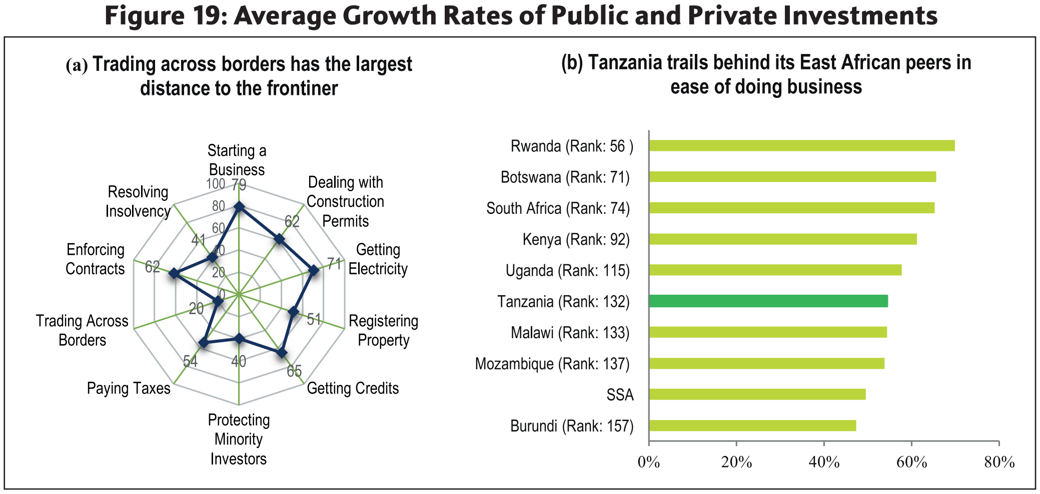


Source: World Development Indicators.

And third, addressing constraints to the private sector is key to unlocking Tanzania's growth potential. Tanzania's ranking in the World Bank's Ease of Doing Business (DB) index jumped 12 positions from last year, to 132nd out of 190 economies. Among the areas where Tanzania performed better than regional peers is the depth of credit information, reflecting expansion of credit bureau borrower coverage and credit data distribution from retailers. In spite of this achievement, several constraints remain:

- The latest DB index released in October 2016 also shows that trading across borders remains difficult (see Figure 19, panel a), due to the high cost of trade now at twice the SSA average, cumbersome import procedures and lengthy documentation requirements at borders.
- Additionally, the recently launched EAC Common Market Scorecard 2016 shows that Tanzania has the highest number of non-tariff barriers among EAC members.[9] Besides, access to financing, tax rates and inadequate supply of infrastructure are other problematic factors.[10] A deteriorating quality of power services is limiting productivity growth of manufacturing firms and the poor performance of the power sector is perceived as a major constraint by larger firms. Tanzania also lags behind its EAC comparators (see Figure 19, panel b), in terms of ease of doing business.
- A survey of business managers of the top 100 mid-sized companies undertaken in December 2016 signals a weakening private sector sentiment (Annex 2).[11] This may partly reflect the recent and planned reforms by the Government, including austerity measures and the drive for increased domestic revenue collection, which have reduced the demand for goods and services.

Figure 19: Average Growth Rates of Public and Private Investments



Source: World Bank, Doing Business report 2017.

[9] The EAC Scorecard is conducted jointly by the World Bank and EAC Secretariat. The previous scorecard in 2014 indicated that Tanzania managed to reduce the number of NTBs, but more have been introduced since then.

[10] World Economic Forum, Executive Opinion Survey 2016.

[11] The survey targets business managers of the top 100 mid-sized companies in Tanzania. There were 55 respondents to the three questions in the questionnaire.

Taken together, these constraints imply that Tanzania will need to do more to improve the investment climate and crowd in private sector investment. Such reforms should include ensuring policy predictability, expanding access to affordable finance, streamlining taxes and regulations, expanding access to reliable infrastructure, such as power supply and a good road and railway network, and improving the education and training system to produce skilled workers to promote industrialization. In addition, the private sector should be given space to play its part, including by partnering with the public sector through PPPs. While the Government recognizes these challenges and is currently working on reforms such as streamlining of the business regulatory environment and adoption of an Electronic Single Window to reduce time and costs at the port of Dar es Salaam, it could speed up as well as expand such reforms. The negative business sentiment indicators point to the need for the Government to promptly engage in public-private dialogue on investment climate, and over the medium term, help restore confidence in the economy by hastening reforms and policy adjustments that would sustain higher private investment and growth.

Finally, reforms are also needed to ease the systemic credit constraints to the private sector, as discussed in the next chapter. In Tanzania, the commercial banks hold the largest share of Government securities, at around 40 percent. As such, they have little incentive to lend to the private sector when they can obtain attractive returns purchasing low risk Government securities. The cost of lending is further exacerbated by the uncertainty, slowness and non-transparent nature of the credit recovery process. Tanzanian banks complain about the difficulties to recover collateral and resolve NPLs, as a symptom of a dysfunctional insolvency and creditor rights system and a slow, costly and unpredictable court system, as well as multiple difficulties enforcing contracts and repossessing collateral.[12] This has an adverse impact on access to credit. Banks therefore try to protect themselves from substantial potential loss-given default (LGD) by creating a large buffer in the form of high effective interest rates (the Government set floor rate plus spreads depending on the riskiness of the operation and the collateral offered by the borrower).

From the supply side, the market is dominated by the three largest banks, which account for 45 percent of total bank lending and face limited competition from the vast pool of smaller banks in the market. Although the number of licensed banks is high in Tanzania (58, compared to for example 43 in Kenya), competition is surprisingly limited. Combined with the common practice of “layering” of funding from large to small banks (reflected in significant interbank deposits and wholesale deposits from pension funds and MNOs), this raises the cost of funding for the latter group up to 6-6.5 percent, versus an average of 2 percent for large banks. This gap is then reflected in higher lending rates charged by medium/small banks.

[12] Judicial recovery procedures are considered very uncertain, lengthy and costly (lasting 4-5 years, on average), characterized by lack of transparency and, in many instances, by corruption and Court injunctions on behalf of delinquent borrowers.

1.3 The Growth-Financial Sector Nexus

Financial development makes an important contribution to the achievement of sustainable growth and poverty reduction. Financial development has been shown to be an important factor for sustaining strong and stable economic growth for many Sub-Saharan Africa countries.[13] However, for financial development to contribute to economic growth it requires the expanded use of existing financial instruments, and the creation and adoption of new instruments for intermediating funds and managing risk (Chami, Fullenkamp, and Sharma 2010). A well-developed financial sector can potentially help to increase economic growth through several ways (Nzotta 2004). First, it helps to mobilize savings and to allocate them to households, business and Government for productive investments. Second, it facilitates the management of liquidity in the system. Third, it helps to reduce the risks faced by firms and business in their production process and improves portfolio diversification. Fourth, it provides a structure to link different sectors of the economy and inspire higher levels of specialization and economies of scale. Fifth, it provides the necessary environment for the implementation of Government policies geared toward macroeconomic stabilization, including price and exchange rate stabilization.

As emphasized in the next chapter, Tanzania has made great strides towards increasing financial inclusion, due to a rapidly expanding financial sector and through the mobile money revolution, but further improvements are required. About 62 percent of Tanzanians now have access to basic financial services through the conventional banking system or mobile money providers, up from a mere 11 percent a decade ago. As a result, in 2014 Tanzania surpassed its own financial inclusion target of 50 percent of the population by 2016, making it well-positioned to achieve the Universal Financial Access Initiative by 2020.

Notwithstanding these achievements, the limited access of the private sector to credit remains a significant constraint, as evidenced by Tanzania's low ratio of credit to GDP compared to its peers. Tanzania trails Kenya and the Sub-Saharan Africa group in terms of the total value of credit relative to the size of the economy. Kenya's credit supply is twice that of Tanzania's while the average for Sub-Saharan Africa is three times that of Tanzania's. Tanzania's banking system is small in terms of the total value of assets, mostly involved in collecting short-term deposits and contracting short-term loans to relatively low risk borrowers (the larger enterprises) and the Government. In Tanzania, although working capital loans are important their economic impact has remained limited since banks obtain a very high return by lending to the Government, which is almost risk-free and which does not require the use of bank capital.

[13] See for example, the IMF Regional Outlook (April 2016).

Improved credit availability can boost MSME growth, which in turn can support inclusiveness and help reduce poverty. The 2013 WBES data show that access to credit is perceived as the top constraint among MSMEs. At the same time the Poverty Assessment 2015 indicates that among the major drivers for poverty reduction during the past decade was the participation of non-agricultural businesses. Moreover, the Findex 2014 data reveal that gender and income gaps may have widened recently despite the increased financial inclusion. Between 2011 and 2014 the gap between men and women account owners went from a 7 to an 11 percentage point difference, and the gap between rich and poor expanded from 16 to 26 percentage points. Therefore, improving access to credit among MSMEs, including reducing the gender gap, can be a conduit for further poverty reduction.

Part Two of this Economic Update presents a description and analysis of Tanzania's achievements in terms of financial inclusion and of the remaining constraints. It then proposes policies that could promote greater financial inclusion and thereby support private investment to facilitate the achievement of greater economic growth and increased poverty reduction into the medium term.

Box 1: An Overview of Tanzania's Financial Sector

Financial Depth and Structure

Tanzania's financial depth is very limited, as shown by its ratio of total financial assets to GDP, which stands at only 43 percent. The ratio for banking system assets to GDP stands at only 30 percent, while the ratio for credit to the private sector to GDP stands at only 17.1 percent (2015).

Tanzania's financial system is bank-centric, with the banking sector accounting for 71 percent of the total financial assets, split evenly between domestic and foreign banks. Pension funds and insurance companies account for 27 and 2 percent respectively, while collective investment schemes accounted for 0.1 percent.

Banking System

Of total banking assets, only about half go into lending, with lending fully funded by customer deposits, with a loan to deposit ratio of 85.8 percent in June 2016. This feature is not exclusive to Tanzania, as other African and lower income countries (LICs) are similarly characterized. However, even in relation to other LICs, Tanzania records a ratio of private sector lending to GDP well below the mean of 60-80 percent (see IMF 2016).

Tanzania's banking sector is small in terms of asset size and the percentage of individuals and businesses served (see table below). It is also crowded, with 58 banks in operation; concentrated, with a skewed distribution (with the two largest banks holding a market share of close to 40 percent of total bank assets). The banking sector is also very segmented in terms of characteristics and products (with a large number of specialized small lenders) and geographically (with 12 local community banks and 7 regional (quasi) monopolies for public sector deposits and captured, civil servant borrowers)14 and a branch network concentrated in the three largest cities in a largely rural country with poor communications. Paradoxically, it can be said that Tanzania simultaneously possibly has too many banks, but not enough competition, or competition only in segments of the market for more common, low-risk financial products.

The large number of banks is partly the result of the low minimum capital requirements: TZS 15 billion (US$7 million) for commercial banks, TZS 5 billion (US$2.3 million) for deposit-taking

[14] Public sector deposits are "auctioned" in 7 regional "lots" – mainly to the larger banks with a nation-wide branch network, creating regional monopolies of this cheap source of funding. However, these regional allocations are not strictly observed.

microfinance institutions (MFIs), and only TZS 2 billion (US$900,000) for community banks. While BoT has already raised capital requirements in the recent past (2014), these levels are still very low compared to other countries (for example, Kenya's minimum capital for commercial banks is equivalent to TZS 100 billion), and have not contributed to stimulating consolidation so far.

Table 1: Number of Borrowers and Loans in the Tanzanian Banking System (as of April 30, 2016)

	Number of Clients in the Banking System	
	Individual	Company
Number of Borrowers	1,242,451	34,007
Number of Loans	1,824,097	57,208

Source: CreditInfo.

Paradoxically, Tanzania might have too many banking institutions (58), but not enough competition, as the skewed structure of its banking has resulted in a very concentrated banking system with a few large banks, and a proliferation of small banks which do not have the scale, nor the sources of funding to perform adequate intermediation functions.

Considering that the 4 largest banks represent about half of total bank assets, loans, deposits and capital, and the following 6 largest bank have a market share of around 20 percent, there is less than a third of the market left to be shared among 48 very small banks, with market shares below 1-2 percent each. Even within the group of the 10 largest banks, the variance is very wide. For example, the total assets of the 10th largest bank represent only about 13 percent of the assets of the largest bank in the country.

This very concentrated structure possibly implies there are high intermediation costs (due to the high fixed cost and lack of scale of the smaller banks), low efficiency, and small banks' dependency on non-deposit funding, with negative consequences for the cost of borrowing in the Tanzanian banking system. Moreover, the liberal licensing policy followed by the BoT is putting a lot of pressure on its capacity to adequately supervise the banking system.

Table 2: Market Shares (as a Percentage of Total Balance Sheet)

Market Share	Assets		Loans		Deposits		Capital	
	2014	2015	2014	2015	2014	2015	2014	2015
4 Largest Banks	49.5	48.6	50.0	49.4	49.5	49.8	48.2	47.1
Next 6 Largest Banks	21.0	20.7	21.7	19.5	22.1	21.9	24.4	18.3
Rest of Banks	29.5	30.7	28.3	31.1	28.4	28.3	27.4	34.6

Source: BoT.

Looking at the profitability of the system: while aggregate figures show overall positive and high return on assets (ROAs) and return on equity (ROE) in the range of 1.5-2 percent and 10-15 percent, respectively, 21 banks, out of 58, are actually making losses. The latter group includes mainly smaller foreign-owned, community and State-owned banks.[15] On the other hand, large banks managed to obtain excellent ROAs of about 3 percent, and ROEs of up to 25 percent (except for one of them, Barclay's, which made losses in 2015).

In the second half of 2016 (from June to November) credit growth has stalled, in stark contrast to the double -digit credit growth experienced over the past years. The slow-down in credit origination is also connected to the build up of credit risk in the banking system: NPLs almost doubling in size and reaching 9 percent as of September 2016. The increase in NPLs was evident across sectors, but was particularly sharp in agriculture (25percent), real estate and manufacturing (10percent). However, the aggregate figures mask a very diversified situation across the 57 banking players active in Tanzania, with the smaller banks presenting signs of increased vulnerabilities (as shown in the case of the state-owned TWIGA Bank). A number of smaller banks now present level of

[15] More worrisome, some banks in the last two groups are reported to have exhausted their capital, with limited or slow BoT intervention to require owners to bring additional capital.

NPLs above 15 percent indicating a point of no-return for the individual institution. Of particular concern is the level of NPLs in the state-owned Tanzanian Investment Bank (TIB), whose level of NPLs reached 30 percent as of September 2016.

The third structural characteristic of the banking system is the very short-term nature of the deposits collected by the banking system, with an average maturity as of December of 2015 of only 136 days, reflecting the high share of "sight" deposits in the system (i.e. deposits which could be withdrawn any time versus time deposits). This makes it very risky for banks to undertake what is called "term transformation," in other words, financing longer-term loans with a short-term deposit base. This feature makes banks a vehicle for funding short-term consumption of individuals and short-term working capital of enterprises, but not able to fund longer-term investment projects.

The fourth feature is the high cost and relative scarcity of bank credit. In Tanzania the key reference interest rate (the T- Bill rate) is determined in a less than perfect Government securities market, where few large banks – the only ones with a major branch network and a large deposit base - buy Treasury paper auctioned by the BoT at very high interest rates. The result is that the reference interest rate (for all floating rates) in the country stands at 14-15 percent. This high rate is the "risk-free" rate, which sets a very high "floor" for all interest rates in the economy. At the same time high T-Bill rates discourage banks from lending, for safety reasons and because banks do not need to put capital lending to the Government or the BoT (zero risk-weight).

Finally, banks do not operate in a vacuum and complementary reforms to the judicial and court systems in the country are essential for banks to be able to collect efficiently on the loans granted and repossess quickly the collateral backing some of their credit exposures. Without an efficient and clean court system the losses given default would continue to be too high and banks will respond by increasing their interest spreads in a perverse system where honest borrowers are penalized by delinquent ones.

Pension Funds

With about 26.5 percent of financial sector assets, the Social Security Funds (Pensions) represent the second largest players after banks. The sector is increasingly under stress: benefit payments increase significantly more than the expected contributions, while the return on assets is limited. PSPF, one of the largest pension funds, has been recording negative cash flows since 2014, to a large extent connected to the payments of benefits for "pre-1999" members on behalf of the Government (for which PSPF is not being compensated). The quality of the asset portfolio continues to remain problematic and the portfolio allocation shows a share of Government loans larger than the regulatory threshold (of 10percent). This is a result of the (past due) loans extended to Government-related projects and institutions (for an amount estimated at TZS 1.9 trillion), whose recovery has not happened. This large exposure risks undermining the longer-term viability of the fund, with possible repercussions on the stability of the overall sector.

Insurance

The sector continued to grow rapidly (19percent increase in assets in 2015), but still it remains extremely small vis-à-vis the rest of the financial sector as insurance assets are less than 1 percent of the overall financial sector. Apparently, the sector remained well capitalized, with adequate solvency ratios.

Capital Markets

The capital market is still at a nascent stage, not playing a major role in resource mobilization and long-term financing. Financial instruments are limited both in the corporate and Government securities market. Market turnover and the level of capitalization are low and over 2015 the market experienced a slow-down, with market capitalization decreasing by 4 percent.

Mobile Financial Services (MFS) and other NBFIs

MFS accounts rose from 1 percent of adults in 2009 to 61 percent in 2015. Over 50 percent of electronic transfers in Tanzania go now through MFS, reaching a volume of transactions of 50 percent of the GDP. This high degree of access to payment services is thanks to the network of 240,000 MFS agents across the country.

2 Financial Inclusion

Part 2: Financial Inclusion

Key messages

- Over the past decade, Tanzania's mobile money revolution has facilitated a dramatic increase in the share of population with access to financial services. Mobile money services are now the vehicle of choice for secure and low cost electronic payments. They also have the potential to offer an expanded range of services that would allow people to formally save and borrow. This would have a positive impact on poverty reduction, including on women and the youth, but it will also contribute to the formalization of the economy, hence spurring economic growth.
- The rest of the Tanzanian financial sector, particularly banking, has continued to grow. However, the role of banks in intermediating savings into credit remains underdeveloped compared to other regional peers. In particular, limited access to finance, as well as its high cost and short tenure remain amongst the critical issues which constrain the development of a vibrant private sector.
- As a result, the Tanzanian financial sector remains increasingly bifurcated, with a very dynamic mobile financial services sector competing against a very concentrated banking sector. The GoT should make efforts to unlock competition in the banking sector, as well as ensuring a seamless integration between mobile and traditional financial services. The full interoperability obtained through an improved payment system infrastructure would set the stage for a better integration.
- Efforts should be made to expand access to those still not participating in financial services. Similarly, the range of services available to those who are already active in the financial sector should be expanded. A complete roll out of the National ID system and the shift towards electronic payments for Government-related transactions, including for social transfers such as TASAF, could greatly facilitate the expansion and deepening of financial inclusion.
- Measures to extend access to credit and reducing its cost are also urgently required to ensure that the financial sector is able to support growth. This requires action on two parallel fronts. On the one hand, measures should be taken to reduce the crowding out of public borrowing on the domestic credit market, which contributes to increased lending rates. On the other hand, improving the credit reporting system and the collateral recovery process, would help reducing the credit risk faced by financial institutions thus stimulating lending to businesses and SMEs.
- Greater attention should also be directed towards bridging the gender gap in access to finance in rural areas where women involved in agricultural activities suffer significant limitations. Although the proportion of women with access to an account has increased, a significant gender gap, particularly in the rural areas, still negatively impacts women's access to financial services. This also limits the positive effects of increased access to finance on the overall economy, hence posing serious constraints to poverty reduction and increased shared prosperity.

Introduction

Hadiya is a vendor selling corn clubs on the streets of Dar es Salaam.[16] Back in 2011, she was one of the more than 20 million Tanzanian adults who worked in the informal sector without access to the formal financial system. This changed in 2014 when a mobile money agent offered services that enabled her to transform her business. Originally from Mbeya, Hadiya moved to Dar es Salaam at a young age looking for a job as a vendor of corn cobs. When she arrived in the capital city back in 2009, she sold her wares in the streets, keeping her monthly profits with her at all times, under her kitenge, as she did not feel that leaving them in her small shared room in Ubungo was safe. Then, at the end of the month, she would go to a transfer office in the city center, which operated with erratic opening hours, to send money to her parents, who lived in a village in Mbeya. On a few occasions, she gave the money to a bus driver heading to her village. However, when she used the bus driver's services, she often worried about whether her parents would actually receive the money and if so, when. However, the cost of the money transfers often amounted to as much as 30 percent of the total value of the transfer. One day, in 2014, Hadiya was approached by a mobile money agent. She was initially reluctant to trust the agent: How could she access her cash in case of an emergency? How could she pay her suppliers at the market if she had handed in the cash to the agent? And how could she monitor her balances? The agent patiently explained to her the processes involved in registering for a mobile account, explaining how she could deposit and collect cash from her account using the network of active agents located around the country.

Since that day, Hadiya has been an active mobile money customer and has managed to expand her micro business to better sustain herself and her family. Hadiya now saves money in her m-wallet. She has also convinced her family to register for a mobile money account so that she can easily send them money with a single click for fees as low as TZS 600 (US$ 0.30) for a transfer to a value of up to TZS 100,000 (US$ 48). Over the past year, she has also taken out a series of monthly micro-loans through her mobile account, which has enabled her to rent a small kiosk in her neighborhood, so that she no longer needs to sell on the street. She has also been able to diversify and stock larger volumes of products. Since she opened her account, Hadiya has accumulated more savings, with a high degree of security. She has become an entrepreneur who borrows to invest in her business. Soon, she hopes to be able to obtain a larger loan from a bank to enable her to open her own shop.

By contrast, Mzuzi is the owner of a small, ten-employee food service company.[17] He has been repeatedly denied access

[16] Her imaginary name means "gift" in Swahili, as financial inclusion can be interpreted as a gift to previously excluded people, as it gives them an opportunity to improve their livelihoods sustainably and to invest in realizing their projects.

[17] We have picked this name, which means "inventive" in Swahili, as small Tanzanian entrepreneurs often need to come up with their own, alternative solutions to raise working and investment capital, due to the barriers to accessing the formal financial system.

to a bank loan due to a lack of sufficient collateral. Returning from the bank branch where he has yet again been turned down, Mzuzi is brainstorming to figure out how he can raise some funds to enable him to accept contracts as a caterer for weddings and other ceremonies taking place in his neighborhood. Once again, the bank has refused to grant him a loan. The reason for the refusal is, because the kitchen he wants for his business is small, he cannot pledge it as collateral. At the same time, however, he needs to find a quick way to scale up operations, to procure some new equipment and to hire a few more cooks and waiters to work at the weddings. Otherwise, larger businesses will outplay him and he will lose the opportunity to expand his business. He has thought about taking out a mobile money micro-loan, but unfortunately these are too small to meet his needs. In any case, he would need to repay these loans within a month – too short a time to service the debt through the additional profits he could expect to generate.

Even if Mzuzi were to find collateral, the cost of bank credit for a new, small-scale borrower would be too high. Thus, his modest service business could not yield the required return to repay the loan and the interest. The floating rate on a loan that Mzuzi would be able to access would be in the order of 24-25 percent, without including the bank's other charges for the study of credit, signing fees, and so on. All of these would have significantly added to the effective cost of the loan. Finally, the bank would require him to repay the loan within 90 days, while Mzuzi would need six months to complete the process, collect, and repay the loan. Thus, Mzuzi is faced not only with an access barrier, but by serious affordability and loan maturity constraints. The only option left for Mzuzi is thus to turn to his uncle Jawaad, who owns a garment manufacturing business, to ask him for an informal loan based on trust.

The stories of Hadiya and Mzuzi exemplify both the problems and opportunities faced by small-scale entrepreneurs at various levels of development in terms of their access to the financial sector in Tanzania. Both Hadiya and Mzuzi needed access to funds for short-term working capital. However, while mobile money services were able to offer a solution to an entrepreneur such as Hadiya, who needed a short-term micro-loan, the formal banking sector was not able to meet the needs of the owner of a small SME such as Mzuzi, who needed access to a loan with a six-month tenure at a reasonable cost. The requirement for collateral, the high cost of loans, and their short tenures, has shut the doors to too many entrepreneurs and SMEs, even those with good business prospects and with attractive expected cash flows.

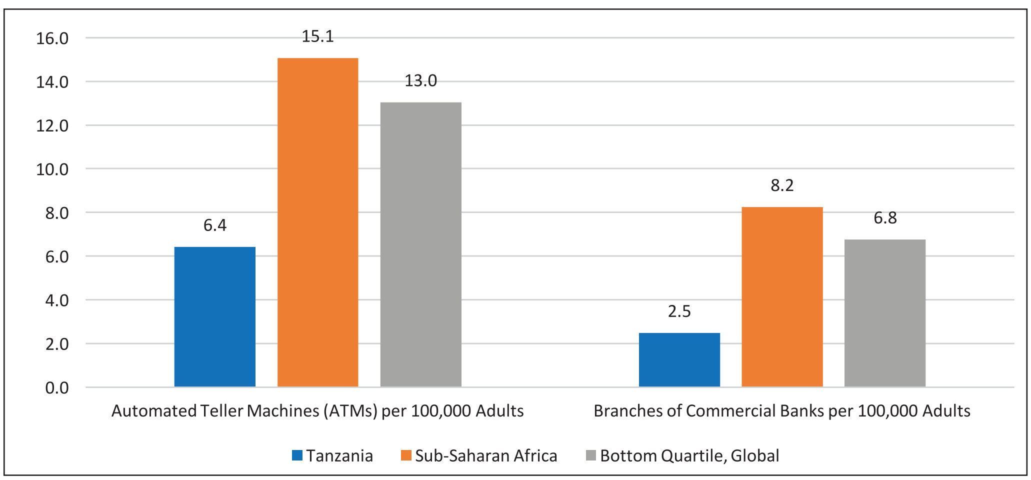
This section of the Tanzania Economic Update tells the story of Tanzania's dual financial system. While it documents and praises the progress Tanzania has achieved in terms of increased financial inclusion, it also highlights a number of infrastructure gaps which need to be addressed to expand and deepen this inclusion. It also investigates the constraints on the ability of the formal banking sector to finance growth. Finally, the Update proposes policy directions and interventions that should be considered to address the identified constraints and to sustain progress in the overall financial development in Tanzania into the future.

2.1 Mobile Money: A (Payment Services) Revolution

The traditional delivery mode for financial services faces significant constraints in a large country such as Tanzania, with its mainly rural and dispersed low-income population having limited pledgeable assets. With 2.5 bank branches and 6.4 ATMs per 100,000 adults, Tanzania ranks in the bottom quartile of countries in terms of access to traditional financial access points (see Figure 20). This low level of coverage is not surprising in a large, low income country with a low population density.[18] In such a context, a traditional bank-centric, branch-based, delivery mode of formal sector financial services can only serve a small share of the population, mostly in the larger urban centers. Thus, more than half of the people without a bank account report that excessive distance from a bank branch is the main reason for their failure to hold an account.[19]

However, over the past few years, the mobile money revolution has facilitated significantly increased access to basic financial services, reaching where banks and traditional financial sector players have not been able to. Since 2008, mobile network operators (MNOs) have introduced innovative mobile financial services (MFS)[20]

Figure 20: Tanzania Lags Well Behind SSA in Terms of Traditional Financial Access Points, 2015



Source: IMF Financial Access Survey, 2015 and Bank of Tanzania, 2015.

[18] 60 people per km2 compared to 81 in Kenya and 195 in Uganda; World Development Indicators, World Bank Group, 2015.

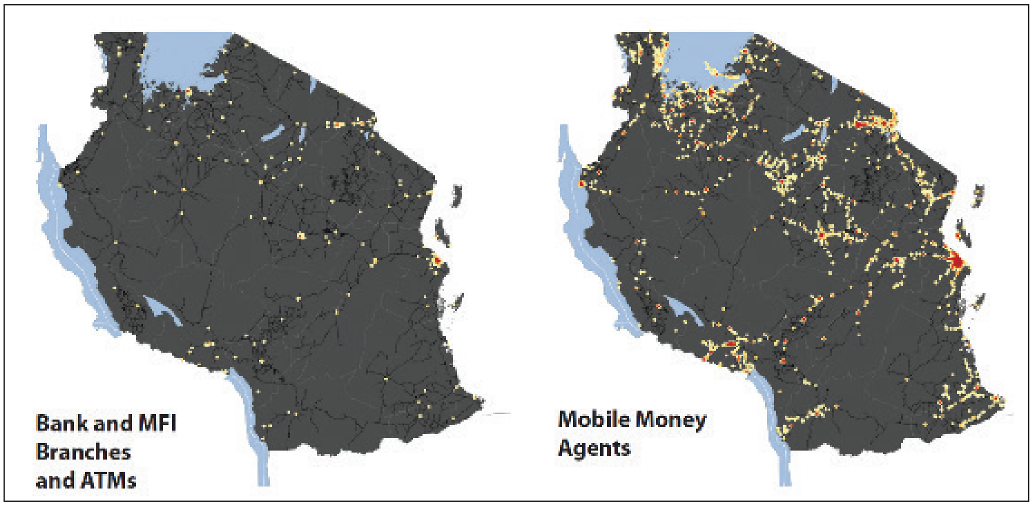
[19] Followed by cost considerations and lack of the necessary supporting documentation (Global Findex 2014)

[20] Mobile Financial Services (MFS) consist in providing access to, and allow customers to perform transactions within, a mobile money wallet or a bank account using a mobile phone.

delivered through mobile phones and through agent networks. Mobile money has helped bridge the vast distances between a sparsely populated country, enabling much lower thresholds for profitable service provision, enhancing convenience of service, and reducing delivery times. By 2016, there were more than 260,000 active mobile money access points throughout the country, or one for every 103 adults. These services have reached out to customers, taught them how to use their m-wallets to transact money transfers, offered them cash-in, cash-out (CICO) and other services (see Figure 21).[21]

rate of use of digital financial services. Back in 2006, only around 11 percent of Tanzania's adult population used formal financial services, with most of these users being well-off city dwellers and formal enterprises (Finscope Survey, 2006). Over just ten years, the proportion of the population with a financial account has increased to 62 percent, with these accounts being held with banks or with a mobile money provider (see Figure 22). With this rate, Tanzania ranks ahead of most countries in SSA in terms of financial access (see Figure 23). As a result of this progress, by the end of 2014, Tanzania had already reached its 50 percent Financial Inclusion target, originally set for 2016.[22] It is now well-positioned to achieve the

Figure 21: Traditional Financial Access Points vs. Mobile Money Agent Locations (yellow and red dots; red=areas of high concentration) in Tanzania



Source: Mas and Elliot 2014 (FSDT).

As a result, more than 60 percent of adult Tanzanians now have a financial account, a dramatic increase that has placed Tanzania at the forefront in Africa in terms of the

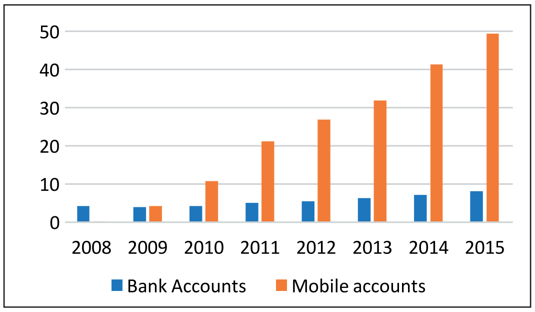
[21] The actual number of mobile money agents (so called "wakala") is estimated to be in the range of 130,000. However, given the absence of exclusivity arrangements, agents serve multiple providers: 260,000 is the aggregate number of agent accounts among all providers.

[22] Target of 50 percent adults making regular (weekly) use of a financial access points. In February 2016, the Financial Inclusion Council endorsed a revised NFIF measurement framework that includes a new target for financial services usage of 70 percent by 2017.

[23] The initiative aims to provide access to financial services to all working-age adults by 2020.

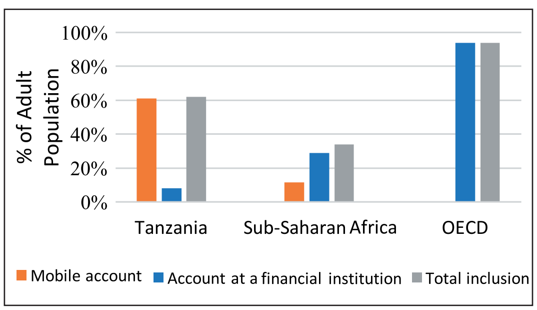
objectives of the Universal Financial Access (UFA) 2020 initiative.[23] Box 2 describes the key success factors behind this mobile money revolution.

Figure 22: Account Penetration, 2008-2015 (millions of accounts)



Note: Figures include retail and wholesale accounts. One individual/firm may have multiple accounts.
Source: Bank of Tanzania.

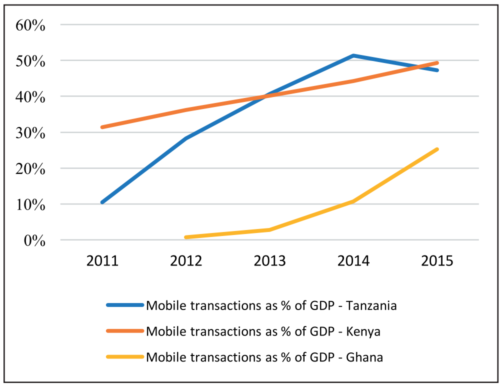
Figure 23: Cross-country Comparison in Financial Access (percent of adults with access to an account)



Note: Includes all adults that have an account personally registered at their name. Data for SSA and OECD from the Global Findex database 2014: "access to an account at a financial institution" is defined as the percentage of adults that have an account at a bank or another financial institution, and "access to mobile money account" is defined as the share of adults that have personally used a mobile money service in the past 12 months.
Source: InterMedia FII data, 2015; Global Findex 2014.

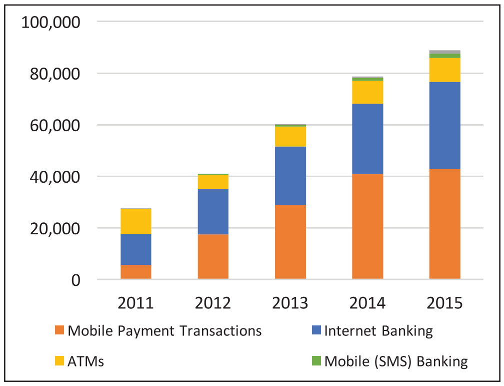
Mobile money has contributed to increasing the share of payments conducted electronically, with mobile money transactions accounting for about half of the overall total of electronic payments in Tanzania. Over time, mobile money operators have become the providers of choice for the majority of Tanzanians to carry out money transfers. Both the total value and number of transactions has grown at double digit rates annually, with the ratio of mobile money transactions to GDP reaching the level recorded by Kenya in 2015 (see Figure 24) and standing at around 47 percent, with a value of TZS 42.9 trillion (US$ 20.7 billion). The large majority of these mobile money transactions were previously carried out in cash (see Figure 24). By 2015, close to half of the total electronic payments in the country were carried out through mobile money services. As a result, the expansion of Mobile Financial Services (MFS) contributed to a general increase (of 35 percent per annum) in electronic payments (see Figure 25).

Figure 24: Trends in Electronic Money Payments 2011-2015 – Cross-country Comparison (percent of GDP)



Source: Central Banks of Tanzania, Kenya and Ghana.

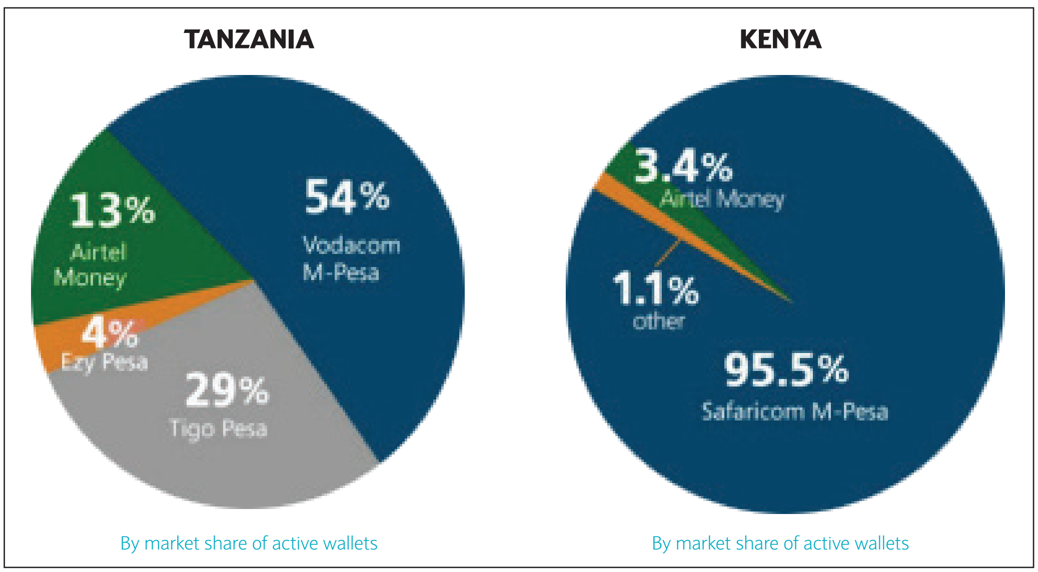
Figure 25: Trends in Electronic Payments 2011-2015 (TZS billion)



Source: Bank of Tanzania 2016.

Competition between MNOs has reduced the cost of money transfers, with these reduced costs being a significant factor in the annual double-digit growth in the market size. The mobile financial services landscape in Tanzania is unique. On the one hand, the four major players actively compete for customers (see Figure 26), while at the same time competition is also enhanced by the sharing of the agent network between MNOs (52 percent of the agents serve multiple providers compared to only 4 percent in Kenya). This has clear benefits for consumers in terms of both the number of access points and service costs (US$ 0.17 for transferring an amount of US$ 20, compared to US$ 0.37 in Kenya).[24]

Figure 26: Mobile Money Service Providers in Tanzania and Kenya, by Market Share



Note: Figures are expressed as market shares of active m-wallets.

Source: CGAP Infographic: Tanzania's Mobile Money Revolution, 2015.

[24] Data from CGAP Infographic: Tanzania's Mobile Money Revolution, 2015.

Box 2: The Mobile Money Revolution in Tanzania

Mobile money services were first launched in Tanzania in 2007 by E-Fulusi (T) Ltd, a local company that introduced a product known as Mobipawa. The product did not perform well, and the company winded up its operations. However, in 2008, Vodacom Tanzania Ltd introduced the M-Pesa product, followed by which Millicom (T) Ltd introduced Tigo Pesa and Airtel (T) Limited introduced Airtel money in 2009. Zantel introduced Ezy Pesa in 2010. In 2014, two more players joined the market, with the Tanzanian Informal Sector Worker Union introducing Dau Pesa and Smart Banking Solutions Limited introducing B-Pesa, although their participation and customer base is still very limited.

From 112,000 subscribers in 2008, the total number of registered mobile money user accounts had grown to reach 53,300,000 by the end of February 2016 (see Figure 8), with 17,600,000 active users who had conducted at least one transaction within a window of thirty days. To facilitate the mobile money business, the providers use a network of agents for cash-in, cash-out (CICO) operations. As of February 2016, there were more than 260,000 agents to support mobile money services throughout Tanzania. All service providers share the agents and their infrastructure to perform money transfers. However, customers still need to refer to their own provider's agents for cash withdrawals. Service providers hold trust accounts in different commercial banks based on their network coverage. Service fees have progressively decreased, with charges currently starting from a minimum of TZS 10 per transaction for small customers. For an average size transaction of TZS 32,500 (US$ 16.25), the average fee for the transfer is TZS 325 (US$ 0.16), or 1 percent of the value of an average transaction.

Several factors have facilitated the development of mobile money in Tanzania.

First, the presence of a thriving and highly competitive mobile telecommunication sector, with five main players, none of whom control more than a third of the market, has been a significant factor. The leading players all have experience of developing mobile money platforms elsewhere in the region. In addition, there have also been new entrants within the last two years, which has driven down prices. Lower prices and service innovation have helped drive increased penetration, with more than 36 million subscribers by September 2016 (around 75 percent of the population). Coverage is high, even in rural areas, despite remaining gaps. The World Bank-financed RCIP (Regional Communications Infrastructure Program) expects to extend coverage to a further 2.5 million people in rural areas by the end of 2017, through targeted subsidies to base station operators.

Second, the interoperability arrangements among the mobile money providers introduced in 2015 have allowed customers to transfer value throughout (most of) the networks. This has made P2P transactions more convenient and provided an additional incentive to people to sign up for mobile money accounts. Despite this important innovation, customers still need to refer to their own provider's agents for CICO operations.

Finally, the Bank of Tanzania has played a facilitating role, carefully balancing the need to ensure adequate supervision, while at the same time avoiding stifling market developments. The BoT initially adopted a test and learn approach to MFS (GSMA 2014) when the market was at its early stage. The 2007 amendment to the BoT Act (2006) gave BoT powers to oversee and regulate non-bank entities offering payment services and was operationalized through the Electronic Payment Schemes Guidelines of 2007, which allowed MNOs to offer payment services. Under this framework, MNOs were required to establish a trust account with a partner commercial bank, where they would deposit funds to cover mobile payments. The commercial bank would in turn seek a letter of no objection (which remained confidential) from the Central Bank that would allow the service provider to operate. Only after witnessing a boom in MFS did the BoT strengthen the regulatory framework through the development of the National Payment Systems (NPS) Act (2015) and the related Electronic Money (E-Money) Regulations (BoT 2015). The NPS Act improved transparency and the homogeneity of the system by issuing licenses to MFS providers, by establishing clear requirements and procedures applicable to all of them, and by imposing penalties for non-compliance.

MNOs have entered into bilateral inter-operability agreements to enable customers to easily transfer funds between accounts across different networks. Since February 2016, the four main MNOs have become inter-operable, enabling users to perform person-to-person (P2P) payments between accounts operated by different service providers.[25] However, this inter-operability still has some limitations. For example, customers can only perform CICO operations through mobile money agents that are directly hired by their own provider (also, see Box 9).

MNOs are also bilaterally connected to banks and aggregators. This enables users to transfer funds between their bank accounts and their mobile wallets in both directions (push and pull); to pay utility bills; and to pay some taxes and other levees. Some of these use cases have proven very successful and have strongly driven the uptake of mobile money in Tanzania (e.g., for the payment of electricity bills). Payment service providers referred to as aggregators (e.g., Selcom, Maxcom) play an important role in this space by filling infrastructure gaps; by enabling mobile phones as an access channel for some banking services; and by adding value to the offer of banks and MNOs.

The increased use of electronic payments creates multiple benefits to the economy and to the people. The increased use of electronic payments can benefit the country in multiple ways. It enhances the safety and efficiency of transactions; it increases the liquidity in the financial sector; and, by increasing the transparency of transactions, it also contributes to reducing the informal economy.[26]

For individuals and small businesses, the use of mobile money has reduced direct and indirect costs[27] and increased safety. It also facilitates the creation of a digital footprint that could progressively support users' access to the broader financial sector and enable their entry into the formal economy. MNOs have a wealth of data pertaining to the financial transactions of users and increasingly use this information to assess client creditworthiness. Such information, if shared with other financial actors, could also contribute to extending bank credit to a larger number of individuals, and to micro and small informal businesses. Over time, this process will support a path towards formalization for these mostly informal businesses.

[25] Some limitations remain in the process of achieving full interoperability in Zanzibar: while Zantel's Ezy Pesa mobile money service – the main provider on the island – is interoperable with Tigo Pesa as a result of the recent acquisition process in June 2015 of Tigo's holding company of an 85 percent stake in Zantel), interoperability arrangements between Zantel and other MNOs are not yet in place.

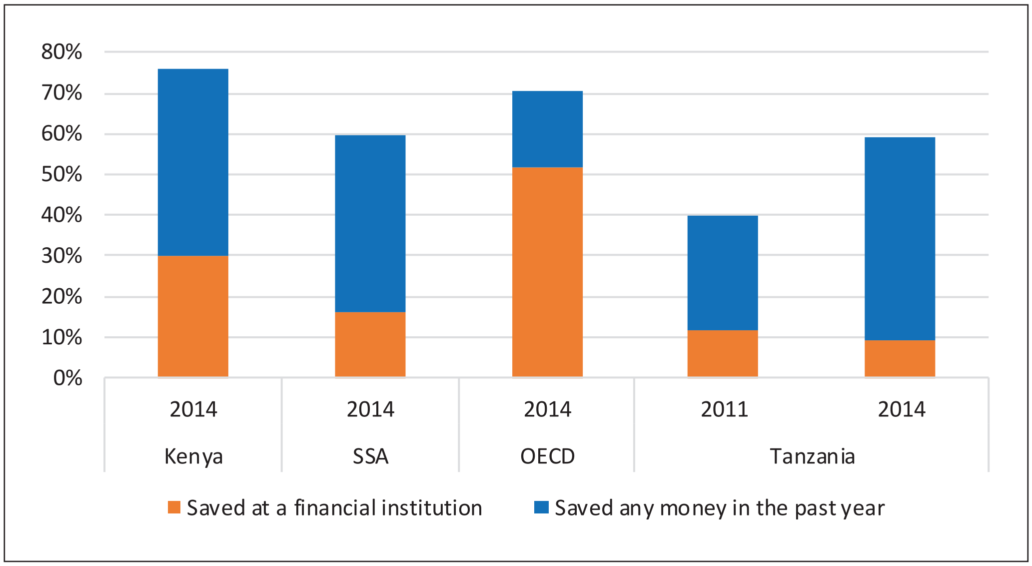
[26] See BIS-WBG 2016, WBG 2012a and WBG 2012b.

[27] Direct costs include the ones associated with remittance transfers or indirect ones, as the opportunity costs of physically moving to bring money to settle payments for small traders.

2.2 From Payments to Deposits: Mobile Money is the Most Popular Saving Channel

Accounts allow individuals to save in a safer manner. In fact, Tanzania's increased financial inclusion has been accompanied by an increase in the number of Tanzanians who save. Savings benefit individuals by providing them with security of funds to plan future purchases and to smooth consumption, thus enabling them to respond to economic shocks that cause unexpected expenses. In turn, this could help them to develop an investment-oriented mindset (CGAP 2016).[28] In the period from 2011 to 2014, the proportion of Tanzanians who saved increased by 20 percent, with the current proportion in line with the rest of SSA (see Figure 27).

Figure 27: Trends in Saving Behavior – Cross-country Comparison (percent of adults)

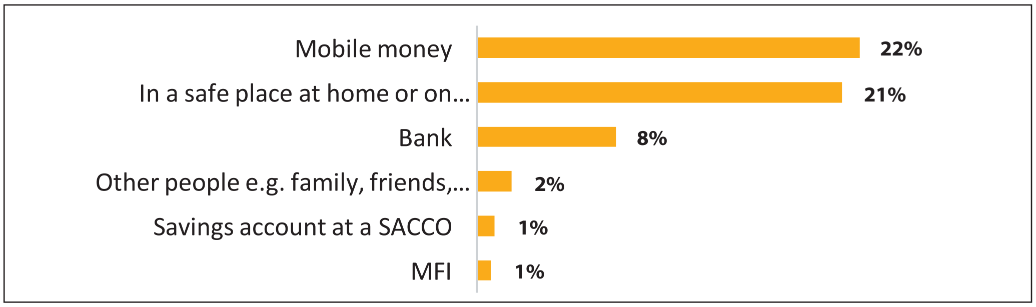


Note: Savings at a financial institution do not include mobile money.
Source: Global Findex, 2014.

Mobile money is now the most popular instrument used by Tanzanians to save. Interestingly, the increase in savings has occurred despite the decline in the proportion of people who saved using services provided by a bank or other financial institutions from 11.9 to 9 percent, indicating that some individuals may have moved away from banks towards mobile money. In fact, mobile money accounts allow account holders to store up to TZS 3 million (US$ 1,400) in their m-wallets, with these savings receiving interest at rates ranging from 2 percent to 5 percent, comparable to the average rate provided by banks (3.4 percent in December 2015). At the end of 2015, mobile money services were the most popular saving instrument, with 22 percent of Tanzanians using these services (see Figure 28).

[28] For example, smallholder farmers who are constrained by their low-income flows and by the seasonality of crops, find it important to save for future purchases such as seeds or tools (94 percent), for health care (94 percent), for unexpected expenses - such as family subsistence in case of a bad yield (85 percent)- and to pay for children's school fees (81 percent). Ninety-three percent (93 percent) of them also confirm that increased savings have a positive impact on their willingness to invest in their farms.

Figure 28: Saving Channel (percent of adults)

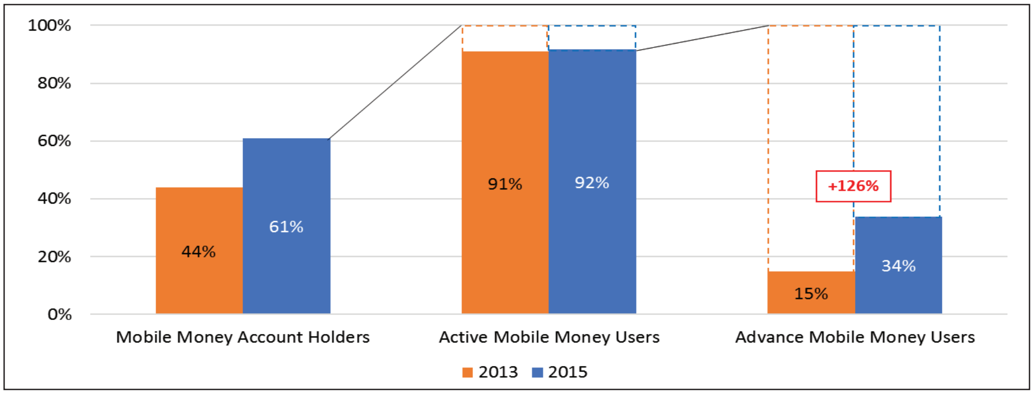


Source: InterMedia Tanzania FII Tracker Survey Wave 3 (September-October 2015).

Saving accounts are just one of a range of financial products offered by MNOs, with these products expanding to include a full range of transactional, saving, insurance and credit products (see Box 3). By leveraging the mobile money infrastructure and by partnering with other financial sector providers,[29] MNOs have created an ecosystem to meet a large spectrum of the more advanced financial needs of their customers at reduced costs. One out of three mobile money users use at least one of a broader set of services provided by MNOs in addition to P2P transfers (see Figure 29):

- **Advanced use cases for mobile money payment services:** These include person-to-business (P2B) payment services for purposes such as utility bills and merchant payments; and person-to-Government (P2G) payment services for purposes such as schools and hospital fees;
- **Savings and insurance products:** Mobile money users can save in their m-wallets and accumulate interest on the balances.[30] In addition, most MNOs have recently started to offer micro-insurance products (mostly health insurance) with affordable premia and coverage ranging from 2 to 13 months; and
- **Credit:** These include micro-loans extended by MNOs to mobile money customers with a monthly maturity.

Figure 29: Mobile Money Advanced Uses – 2013 and 2015 (% of adults and % of each group)



Source: WBG analysis on data from InterMedia Tanzania FII Tracker Surveys Wave 1 (November 2013-March 2014) and Wave 3 (September-October 2015).

[29] In order to provide saving and credit products, MNOs need to rely on financial sector providers.
[30] Calculated daily, but allocated by the provider on a quarterly basis.

Box 3: Examples of Advanced Mobile Money Products Offered in Tanzania

Energy / Utility Bills Payment:

- The Tanzania Electric Supply Company Limited (TANESCO) has reached agreements with all MNOs that allow mobile money customers to **pre-pay electricity** ("Luku") directly from their m-wallets.
- Similarly, the Dar es Salaam Water and Sewerage Corporation (DAWASCO) and other providers including Auwsa in Arusha, Iruwasa in Iringa, Tuwasa in Tabolra, Shuwasa in Shinyanga, Uwasa in Tanga, and Mwauwasa in Mwanza allow **water bills** to be paid via mobile money.
- **M-Kopa,** which operates in Tanzania as well as Kenya and Uganda, has connected 400,000 homes to off-grid solar energy through its digital finance, pay-as-you-go model. Approximately 175,000 positive credit records are another by-product of M-Kopa's finance model, as the firm participates in local credit bureaus.

International Remittances:

- **MoneyGram** allows Tanzanians located in more than 200 countries worldwide to send money to Vodacom's M-Pesa account holders, who will receive it without additional charges.
- Similar services are offered by **WorldRemit** to mobile account holders of Vodacom M-Pesa, Tigo Pesa, and Zantel's Ezy Pesa.

Savings Products:

- **M-Pawa** was launched by Vodacom in partnership with Commercial Bank of Africa (CBA) in June 2014. M-Pawa allows customers of M-Pesa mobile money services to save money through their mobile phones. With over 5 million customers registered since inception, M-Pawa recorded deposits to a total value of TZS 34.6 billion (US$ 17.6 million) in September 2016. Interest on savings is calculated on a daily basis and paid back to the customer every quarter through his/her M-Pesa account.

Insurance Products:

- **Bima Mkononiby** was jointly launched in 2016 by Tigo and Bima Milvik and offers hospitalization, life and personal accident insurance at affordable, flat rates, that can vary from as low as TZS 1,999 (US$ 0.96) for 2-month coverage, to TZS 15,999 (US$ 7.7) for 13-month coverage. Compensation can go up to TZS 3 million (US$ 1,450). The product has already registered more than 500,000 subscribers across the country since it was launched.
- **Linda Mbegu**, offered by Airtel in partnership with ACRE Africa, Seed Co. Tanzania and UAP Insurance Tanzania Ltd. to provide the first mobile crop insurance in Tanzania. The product provides an opportunity for maize farmers to register for insurance against climate risk for free.
- **BimaAFYA,** a health coverage launched by Jubilee Insurance Company Tanzania and powered by Vodacom's M-Pesa, is an affordable and comprehensive medical insurance plan that gives subscribers access to over 150 hospitals. The insured can get in-patient, out-patient and maternity services in the hospitals.

Credit Products:

- **M-Pawa** by Vodacom and CBA also offers its customers unsecured, micro-loans that they can obtain instantly and that they can repay through their mobile phones. The loans start from a minimum value of TZS 1,000 (US$ 0.48) and go up to a maximum of TZS 500,000 (US$ 240), with a maturity period of one month. The total value of loan disbursements reached TZS 5.5 billion (US$ 2.7 million) in September 2016.
- **Timisa,** launched in 2014 by Airtel in partnership with Jumo (a microfinance institution), also offers micro loans to its Airtel Money subscribers, repayable within 7 to 28 days.
- **Nivushe,** launched more recently in March 2016 by Tigo, also in partnership with Jumo, provides micro-loans to its Tigo Pesa customers. The average value of loans is TZS 10,000 (US$ 4.8).

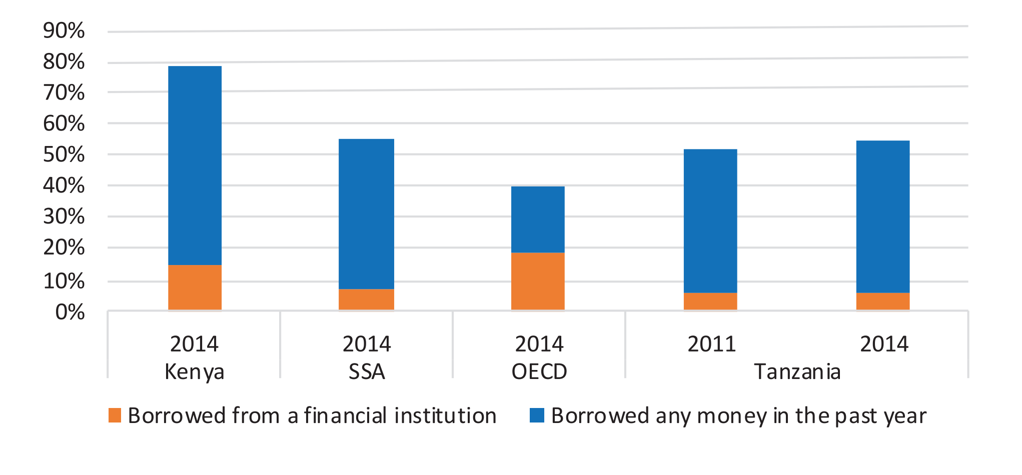
Note: The list of products described is not intended to be exhaustive.

Insurance products are also becoming more popular and are highly valued, in particular by members of more disadvantaged groups. Although penetration of insurance products remains limited (only about 17 percent of the adult population), they are critical in mitigating risk and have a considerable impact on poorer groups' livelihoods and wellbeing, since these groups are more sensitive to crises and unexpected events, as they live close to subsistence levels. For example, farmers show a high level of awareness with regards to the need for insurance against price fluctuations and weather-related events, but also for health issues that may prevent them from working. In fact, almost nine out of ten smallholder households believe that having an insurance plan is important both for their family and their agricultural activities (CGAP 2016). This is why some MNOs have recently started providing mobile insurance products.[31]

2.3 The Backbone of Financial Intermediation: Bank Credit as a Constraint to Growth

About 56 percent of Tanzanians borrow money to meet their consumption needs and to access social services such as health and education, although only a small proportion of these loans come from financial intermediaries. Borrowing allows individuals to smooth consumption over time and to access housing and education and other services. While more than half of Tanzanians borrow money, with this proportion increasing since 2011 and in line with the rest of SSA, only a small share of these loans are contracted through the formal financial sector. Less than seven percent of the population has access to loans through a financial intermediary, with this figure having remained stagnant since 2011 (see Figure 30).

Figure 30: Trends in Borrowing Behavior – Cross-country Comparison (% of adults)

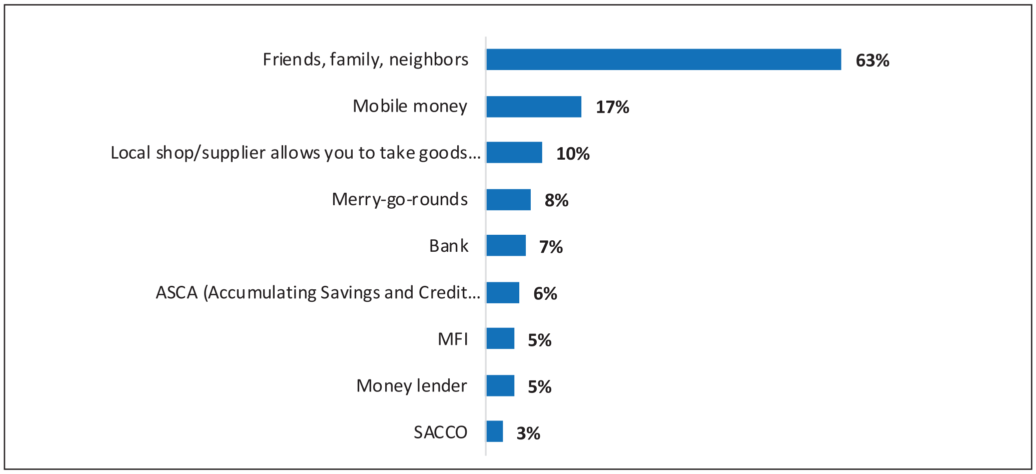


Source: Global Findex 2014.

[31] An example is provided by the Bima Mkononi micro-insurance (see Box 2).

While for individuals, informal channels remain the most common channel for borrowing, loans from mobile money services are becoming increasingly popular. While the majority of borrowers access credit through informal networks of family and friends (63 percent of borrowers), the share of borrowers who access micro-loans offered by MNOs of the type provided to Hadiya (17 percent) is higher than those who access loans from banks (7 percent), but also from other financial institutions such as MFIs, Saccos, etc. (see Figure 31).[32]

Figure 31: Borrowing Channels (percent of borrowers)

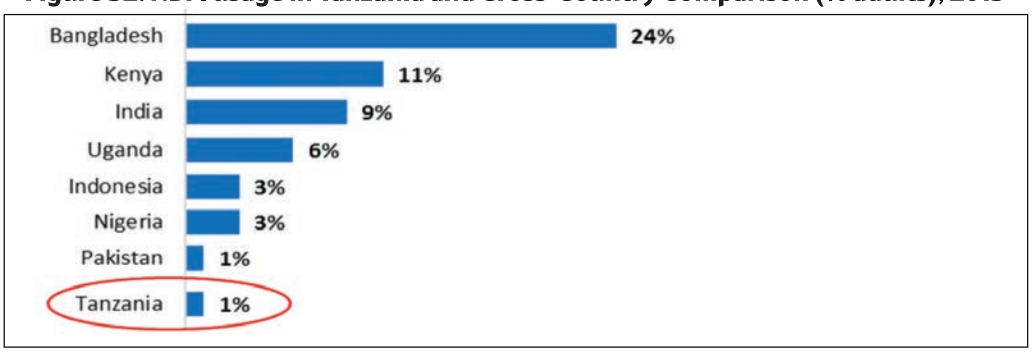


Source: InterMedia Tanzania FII Tracker Survey Wave 3 (September-October 2015).

Box 4: Are MFS crowding out NBFI in Tanzania?

It is estimated that more than 2,000 NBFIs in Tanzania, including microfinance institutions (MFIs), savings, credit cooperatives (SACCOs), the Postal Bank and other NGOs, provide credit in various forms (Eusebius 2010). Despite their large number, NBFIs appear to play a more limited role in Tanzania than in other countries (see Figure 32).

Figure 32: NBFI usage in Tanzania and Cross-Country Comparison (% adults), 2015



Note: Question for usage of different providers in Tanzania allowed for multiple responses.

Note: NBFI mostly serve low- and middle-income households located in urban and peri-urban areas around the main cities, but with the expansion of banks' branch network on the one hand and the advent of MFS on the other, their role has significantly diminished. Interestingly, NBFIs appear not to be very popular among smallholder farmers, with only five percent of farmers having ever used MFI services and only three percent using SACCOs (CGAP 2016). However, some banks are currently working with Village Savings and Loan Associations (VSLAs), which are informal savings group at the community level, to integrate them into MFS through tailored products.

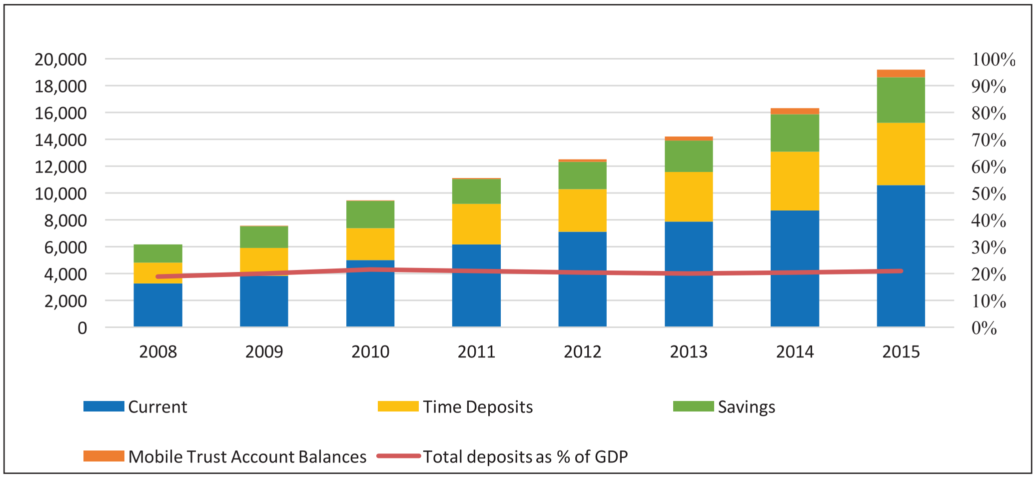
Source: InterMedia Tanzania FII Tracker Survey Wave 3 (September-October 2015).

[32] An example is provided by the M-Pawa product launched by Vodacom in partnership with Commercial Bank of Africa (CBA) in June 2014. M-Pawa provides both savings and micro-loans to customers subscribed to M-Pesa mobile money services (as of end March 2015 the product was actively used by 1.8 million subscribers), who can either disburse or repay through their mobile phones. Monthly loan disbursements have reached TZS 5.5 billion as of September 2016, while monthly deposits stand at TZS 34.6 billion as of the same date (Source: Bank of Tanzania).

In particular, the availability of credit to finance business remains very limited, with Tanzania lagging behind other countries in the region. A limited availability of credit (particularly long-term credit) limits the capacity of countries to invest and push forward their production possibilities frontier, severely limiting productivity increases and economic growth. The financial and real sectors are closely linked, as finance is essential to the ability of enterprises to invest in capital assets. Consequently, the absence of access to financial products constrains economic development. Despite some progress over the last five years, the ratio of credit to the private sector over GDP shows that Tanzania lags behind most comparator countries (see Figure 34).

Despite the expansion of MFS, the banking sector continues to play a central role to intermediate savings and access to credit. Aggregate data show that the volumes intermediated by MFS are very small compared to those intermediated by the banking sector. At the end of 2015, the value of mobile money stocks (i.e., the money deposited in trust accounts by MNOs in commercial banks) accounted for less than three percent of total bank deposits (at around TZS 452 billion[33] or US$ 229 million, with total bank deposits standing at TZS 18.6 trillion or US$ 9 billion – see Figure 33). Similarly, loans extended through mobile money products were estimated to make up less than one percent of the total value of bank credit.[34]

Figure 33: Bank Deposits and Mobile Trust Account Balances (TZS billion and % GDP)

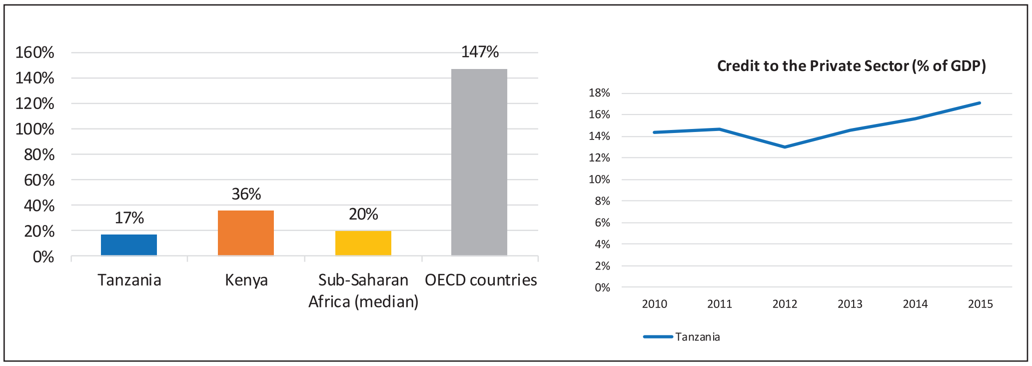


Source: Bank of Tanzania, 2016.

[33] Bank of Tanzania Department of Banking Supervision Report 2015.

[34] While comprehensive data are not yet available, one should consider that for the month of September 2016 Vodacom's M-Pawa monthly loan balance amounted to TZS 5.5 billion (USD 2.6 million), while total credit from the banking sector was TZS 15.2 trillion (USD 7.4 billion).

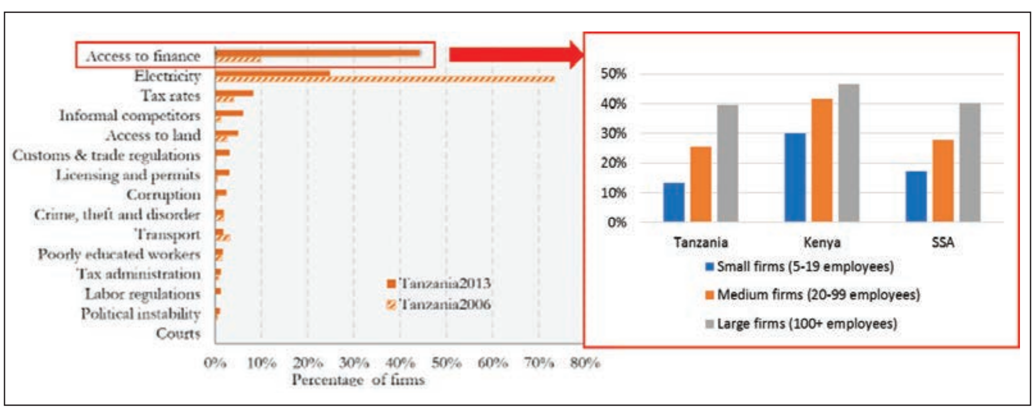
Figure 34: Credit to GDP Ratio – Cross-Country Comparison, 2015



Note: The figure for SSA refers to 2014.
Source: IMF 2016b, World Bank Open Data.

In particular, MSMEs are still largely un-served or under-served in terms of their borrowing needs, with this limiting their productivity, growth potential and ability to create jobs. While individuals can compensate for the limited availability of bank credit by resorting to other informal borrowing channels, access to credit remains particularly problematic for micro, small and medium-sized enterprises (MSMEs) that need financing for productivity-enhancing investments. More than 40 percent of Tanzanian formal enterprises identify access to finance as the most significant constraint to doing business (WBG 2013a), with this constraint having its most significant negative impact on small enterprises. Only 13 percent of small, formal firms have a bank loan, a figure considerably lower than the average figure of 17 percent for Sub-Saharan Africa (see Figure 35). Most notably, 97 percent of those loans require collateral, with the value of this collateral standing at up to 265 percent of the loan amount. This considerably restricts the number of eligible applicants, as smaller entrepreneurs, particularly women entrepreneurs, do not have fixed assets of a sufficient value to pledge as collateral.

Figure 35: Access to Finance as Key Business Constraint and Percent of Formal Firms with a Bank Loan

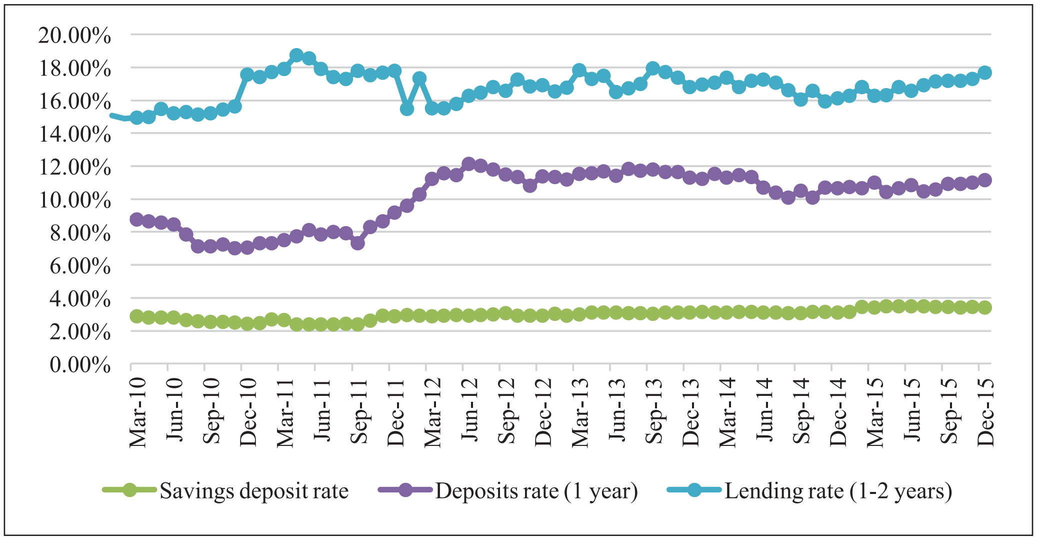


Source: Enterprise Survey (WBG 2013a).

In addition to the limited access, the cost of finance remains high and the tenure of loans is generally short, with both of these factors acting as constraints on business growth. Not only do firms struggle to access bank credit, but those who do so must provide high collateral and pay interest rates of up to 20 percent (see Figure 36).[35] Loans with high interest rates and short durations are mostly suitable for financing working capital, but not for investment purposes. The short-term nature of the available loans on the market, compounded with the high interest rates, makes debt repayment problematic, with loans mostly suitable only for financing working capital.

These constraints also affect informal, self-employed and individual entrepreneurs, who need more affordable and longer-term credit to expand their activities. More than one out of five Tanzanian adults who borrow do so to start, operate or expand a business activity or a farm.[36] Credit is a constraint for most of the 4.5 million informal micro-businesses and for the 12 million self-employed agricultural workers. This is relevant, as data show a positive relationship between the use of financial services and the probability of a firm's purchase of fixed assets (WBG 2016b) that could result in an expanded scale of operations. Credit provided through mobile micro-loans and NBFIs tends to be of limited value and comes with very short periods of tenure, which constrains the potential of these subsistence entrepreneurs to achieve higher levels of business and productivity growth and job creation (see Box 5). Providing these entrepreneurs with access to more consistent and longer-term sources of funding could therefore help enhance private sector development and stimulate economic growth.

Figure 36: Banks' Interest Rates on Domestic Currency



Source: WB analysis on BoT data.

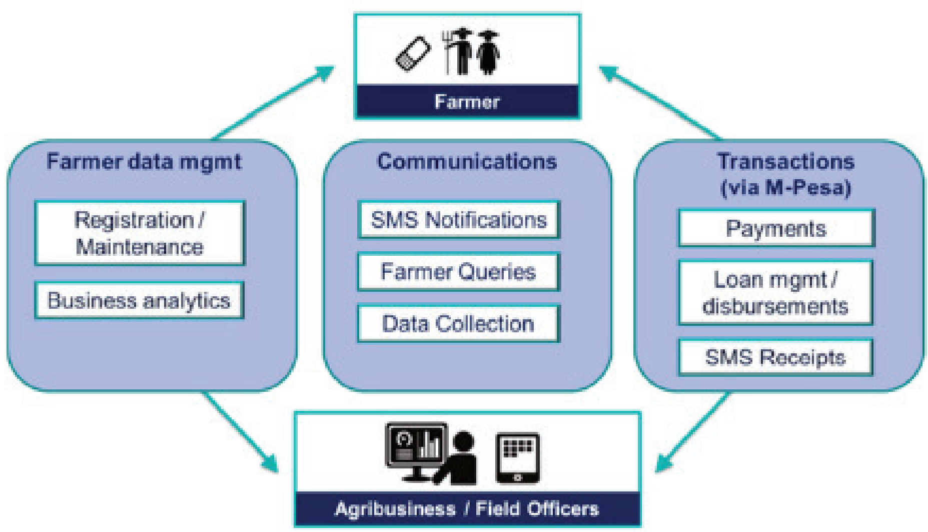
[35] A survey performed by the Tanzanian Banking Association in January 2017 among its members indicated an average "prime rate", i.e. the rate at which banks lend to their best customers, of about 19 percent.

[36] Global Findex, 2014

Box 5: Using Mobile Phones to Boost Productivity of Tanzania's Farmers - A Partnership between Olam International, the Connected Farmer Alliance (CFA) and Vodafone

The Connected Farmer Alliance (CFA) is a public-private partnership that was established in 2012 by the U.S. Agency for International Development (USAID), Vodafone and TechnoServe to increase the productivity, income levels and resilience of farmers, particularly women farmers, in Tanzania, Kenya and Mozambique by developing and scaling mobile solutions tailored for the agricultural sector.In October 2014, the CFA signed its first commercial agreement with Olam International and Vodacom Tanzania in an effort to assist 30,000 smallholder coffee, cotton and cocoa farmers in Tanzania to improve their livelihoods through the use of M-Pesa and M-Pawa mobile finance services. Under the agreement, farmers can benefit from agronomic advice delivered by experts via text messages and from real-time information about market prices. They can also use mobile money transfers to increase the efficiency and security of their financial transactions. At the same time, the mobile-enabled supply chain benefits Olam's business by enhancing communications with farmers, strengthening relationships and mutual confidence and improving overall efficiency. During the set-up phase, TechnoServe business advisors provided technical training to farmers and to Olam staff on the functioning of the new system.

Connected Farmer Modules



Note: By 2016, more than 10,700 smallholder farmers were successfully using M-Pawa mobile finance solutions, and more than 3,800 of them were applying new technologies or management practices as a result of the solutions developed through the program (TechnoServe 2016).

Source: TechnoServe 2016.

2.4 Enhancing Financial Sector Development: three directions

Tanzania is on the right track to make further progress in the area of financial inclusion. However, to address the remaining gaps and challenges, it is necessary to focus future efforts in three main directions, as identified in the Tanzania Financial Inclusion Framework (see Box 7), these being:

1). **Reaching the last mile:** Extending access to financial services access to remaining proportion of the unserved population, particularly women, to achieve universal financial access;

2). **Deepening inclusion:** Consolidating the gains and progressively advancing the use of financial services to increase the benefits of financial access; and

3). **Expanding access to credit:** Making affordable credit available to businesses as a tool to achieve the economic growth envisaged in Tanzania's Five Year Development Plan.

Box 6: The Tanzania National Financial Inclusion Framework

The National Financial Inclusion Framework establishes the context for the Financial Inclusion vision based on the concrete improvements that Tanzania would like to see in the lives of all Tanzanians through the use of financial services. It galvanizes all relevant stakeholders in the financial services sector through the formulation of one common vision of success and provides strategic direction for all initiatives for financial inclusion in the country. The working definition of financial inclusion for Tanzania entails the regular use of financial services, through payment infrastructures to manage cash flows and mitigate shocks, which are delivered by formal providers through a range of appropriate services, provided with dignity and fairness.

In working towards the long-term vision and achieving set targets in the medium term, the Framework has identified fundamental barriers that limit the growth of financial inclusion in Tanzania. These include supply-side barriers ranging from high interest rates, inappropriate services that do not meet demand-side needs, and high costs due to inefficiencies of service delivery. There are also demand-side barriers such as information asymmetry, irregular income patterns, and financial literacy. In addition, structural and regulatory barriers include stringent or disproportionate requirements for client on-boarding, the lack of regulatory framework for broad based micro-finance services, and delays in rolling out a national identification system, to mention a few.

Hence, the Framework attempts to address the broad barriers on financial inclusion through the implementation of key priority areas for identified core enablers to build a robust infrastructure that will enable growth and outreach of all financial services. The key priority areas include:

Proximity: Enhancing and implementing access channels, such as agent banking, mobile telephony financial services, point of sales, stand-alone ATMs etc., and a regulatory framework that creates a conducive environment;

Robust electronic platforms: Improving and developing Information and Communication Technology (ICT) payment platforms that facilitate cost effective access to financial services;

Robust information and easy client on-boarding: Implementing, monitoring and enhancing the use of credit bureaus, proportionate Know Your Client (KYC) requirements, and an improved Identification (ID) system that is linked to financial systems and credit bureaus;

Informed customers and consumer protection: Implementing a financial consumer protection mechanism and a financial education strategy.

The Framework comprises of a monitoring mechanism to ensure that key stakeholders implement the key priority areas. The National Financial Inclusion Council, a policy body, shall ensure that the priority activities stipulated in the Action Plan are implemented and the set targets are achieved within the agreed timelines.

The Framework is a private-public initiative and has been developed through a consultative approach using the various committees encompassing representations from all relevant stakeholder institutions."

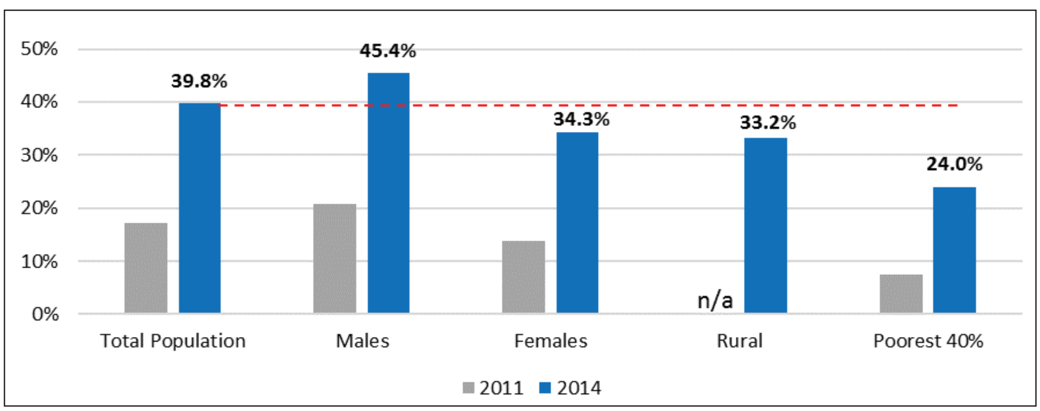
Source: National Financial Inclusion Framework, Tanzania National Council for Financial Inclusion.

1. ***Reaching the "last mile" users – the challenge to serve the most disadvantaged***

Almost 40 percent of Tanzanians still lack access to financial services, with significant gaps remaining in terms of income levels, gender and location. The mobile money revolution has benefitted consumers at the bottom of the pyramid, and a significant portion of the most vulnerable individuals are now financially included, including a significant proportion of the people living below the poverty line,[37] and particularly women and subsistence farmers in rural areas. However, significant gaps in terms of access still persist, including a remarkable 16 percent access gap between people living in urban and rural areas (see Figure 37).

A gender gap is acute in rural areas, particularly among women involved in agriculture activities. Although the proportion of women with access to an account has increased, a significant gender gap remains (45 percent of men compared to 34 percent of women). This has a negative impact at both the individual and societal levels, since research indicates that when women have financial accounts, they tend to spend more than men on food, education, and health care, increasing the welfare and productivity of their family (Doepke and Tertilt, 2011). For example, asset ownership is an important issue that negatively impacts women's access to financial services (AFI 2016).[38] A man is close to three times as likely to be the head of a smallholder farming household in Tanzania and to own the related land titles than a woman (74 percent of men compared to 26 percent women – CGAP 2016). As a result, women are often determined by financial institutions to be ineligible customers due to their lack of physical collateral.

Figure 37: Demographic Trends for Active Mobile Money Account Use (% of adults)



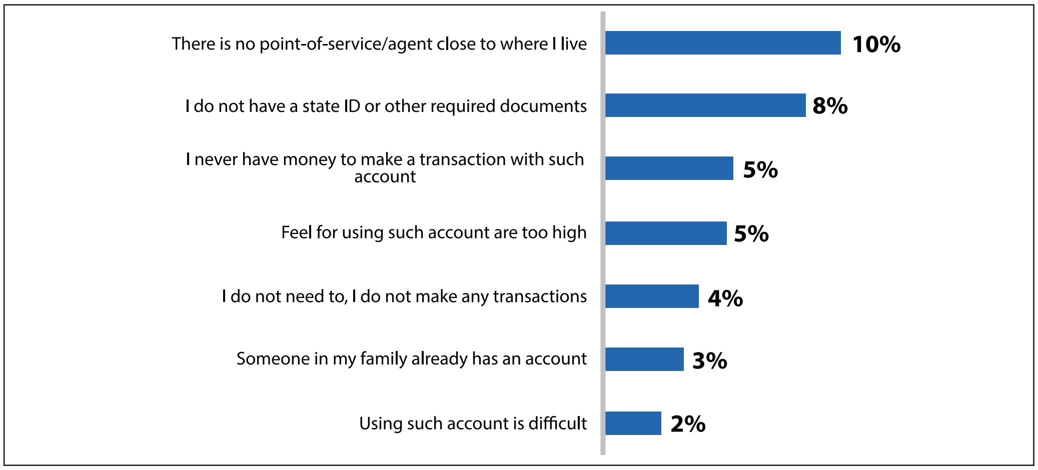
Source: Global Findex 2014.

[37] Approximately 28.2 percent of Tanzania's population still lives below the poverty line, and inequality has widened between urban and rural populations: of the approximately 12 million Tanzanians living in poverty, 10 million are in rural areas (WBG 2015).

[38] In an experimental study carried out in Tanzania, researchers encouraged co-titling of land between husbands and wives through price discounts (AFI 2016). These small financial incentives achieved almost complete gender parity without affecting demand for land titles, representing a low-cost, yet effective way to achieve gender equality in land ownership, and at the same time stimulate access to finance.

Lack of accessibility, bankability, affordability and knowledge of financial products are among the binding constraints most commonly quoted by the unserved population (see Box 5). An interesting perspective regarding why some people remain financially excluded is provided by users who may have had only sporadic access to mobile money through family members or friends. Limitations in accessing agents or POS, lack of identification documents required to open an account, or cost issues are the most commonly quoted reasons for not having a registered account by people who use mobile money, but do not have a personal account (see Figure 38).[39]

Figure 38: Main Reasons for Not Signing Up for a Mobile Money Account (percent of adults who access mobile money but are not registered)



Source: InterMedia Tanzania FII Tracker Survey Wave 3 (September-October 2015).

Accessibility remains an issue, especially for last mile customers living in remote rural areas. Despite the increase in the number of financial access points resulting from the expansion of MFS, there remain areas in the country, in particular in rural and remote areas, that are not reached by financial service providers. Efforts are under way on the mobile telecommunication side to enhance coverage in remote areas, but often, the limited volumes of transactions does not justify a financial access point.

Channeling a large share of Government payments, such as TASAF, through electronic channels could generate volumes, justify new financial access points, and contribute to increased inclusion and efficiency. Payments by the Government to citizens (G2P) and by citizens to the Government (P2G) can be critical in driving individuals' habits and increasing the volume of electronic transactions. If the Government were to redirect more of its payments to people through electronic channels, this could create higher transaction volumes and gradually increase the low rate of penetration of financial access points. This is particularly true for programs such TASAF, which specifically target

[39] "Indirect" access has negative implications on customer care and servicing, for example, in case the person indirectly using a mobile money account registered on another name loses the phone or PIN.

the poor and most vulnerable members of society, often concentrated in specific areas where financial access points are currently lacking. A strategic approach to the digitization of Government payments, including both back- and front-end, could create significant efficiency gains for both the Government and the citizens, while increasing the demand for electronic payment services. In turn, this would increase the scope for expanding access points, significantly contributing to the objective of advancing financial inclusion in Tanzania.[40]

Additional efforts are needed to improve the bankability of these last mile customers. Efforts to expand financial inclusion should be focused on assisting the most vulnerable people, including women, and informal businesses to meet the minimum conditions to become bankable by MNOs and financial institutions, these being identification and basic financial and digital knowledge.

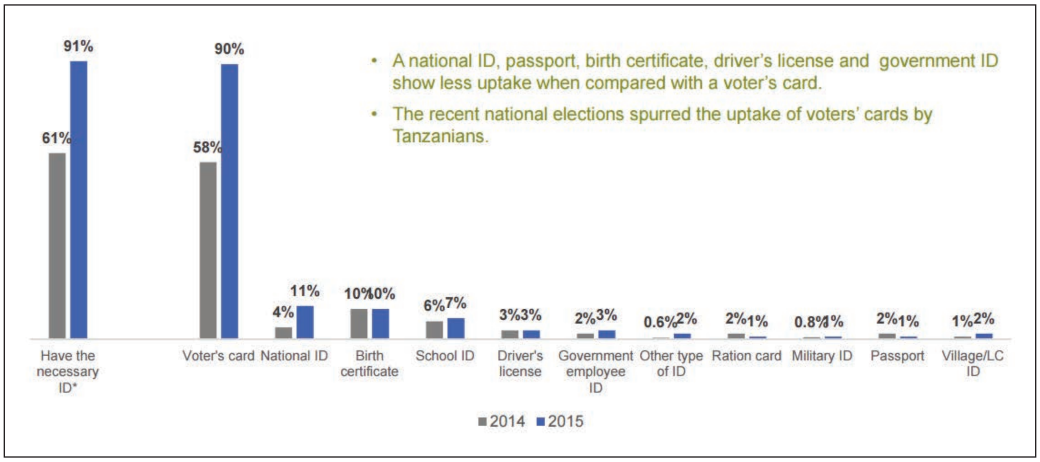
The absence of a universal national ID system increases the costs and risks for financial service providers to fulfill KYC/CDD requirements, while also creating burdens and barriers for customers, especially last mile customers. Although 90 percent of adults in Tanzania were reported in 2015 to have a voter card,[41] this is not a sustainable nor effective solution for providing the population with identification, especially for KYC/CDD purposes (see Figure 39). Voter cards and their underlying systems are designed for a single purpose: to facilitate elections. Unlike a national ID system, voter cards are not accessible on a continuous basis (and thus are difficult to replace and are not always available when individuals turn 18) and do not offer a cost-effective electronic authentication capacity for individuals to reliably verify that they are who they say they are.[42] This is evidenced by the fact that customers opening a bank account in Tanzania must still provide at least two or three documents to verify their identity and personal information, including introductory and ward letters, which should be provided for free but typically cost around TZS 3,000. These are required because of the unreliability of existing identity documents and the difficulties in having them verified by the issuing authorities. The last mile customers are likely to be disproportionately affected by the costs and difficulties of gathering the different documents they need.

[40] A few success cases have been identified in Tanzania – such as the collection of motor vehicle license fee payments (BTCA, 2016) – however, initiatives remain limited to few Government agencies developing dedicated solutions.

[41] Importantly, the figure on voter coverage is biased because the survey was undertaken in the two months before the election and after a mass biometric voter registration drive. The figure that will exponentially go down over time as people lose or damage their voter cards.

[42] For the 2015 Presidential election in Tanzania, voters were registered with fingerprints by the National Election Commission to prevent them from being registered twice. Voters were not verified with fingerprints at the time of voting, since the cost of the necessary equipment and infrastructure could not be justified for use once every five years. On the other hand, a national ID offers enhanced capabilities and economies of scale when it comes to verification because it is designed to be used for any time someone needs to prove they are who they say they are when accessing services, including for future elections, financial services, healthcare etc.

Figure 39: Type of identification reported by adults in Tanzania



Source: InterMedia Tanzania FII Tracker Survey Wave 2 (September-October 2015).

The National Identification Authority (NIDA)[43] is rolling out a national ID system in line with the G-20 High Level Principle on facilitating customer identification for digital financial services. Apart from completing the enrolment,[44] much work still needs to be conducted to develop the underlying infrastructure for the national ID system's core functions and to enable its use by service providers for identity verification. This includes reviewing the legal and regulatory framework (especially as it pertains to privacy and data security), setting up registration centers in all of Tanzania's districts, and developing and publishing standards and fees for verification methods. Once rolled out, the NIN could become the primary unique identifier for people in Tanzania. In the financial services sector alone, seeding NINs on all account records will facilitate the development of a robust and comprehensive credit reporting regime and the streamlining of payments by linking NINs to bank or mobile money accounts. Likewise, the central population database could form the foundation for all Government information systems, which will reduce duplication and ensure that biographic and biometric data is accurate and up-to-date.

[43] NIDA was established in 2008 and launched the current national ID system in 2011, which utilizes biometrics (10 finger prints) to ensure the uniqueness of each person and holds 72 fields of data. By March 2016, approximately 2.5 million adults had registered and received their NINs and smart cards. NIDA has since then changed its approach to use the biographic and biometric data already in the National Election Commission (NEC) database to enroll citizens and generate NINs. As of December 2016, 11.5 million NINs have been generated this way (but not issued) and NIDA has separately enrolled and issued NINs to 500,000 civil servants as part of a Government initiative to remove ghost workers from the public payroll. The adult population of Tanzania is estimated to be 25 million.

[44] The process foresees the initial issuance of unique national ID numbers (NINs) and smart cards to all adult citizens, residents and refugees by June 2017.

Finally, the expansion of MFS to members of the more vulnerable groups calls for broad-based financial literacy (FL) training and community sensitization programs to ensure that all Tanzanians understand basic financial concepts and the value added of the services they are being offered. Financial service providers identify the significant gaps in FL in Tanzania, especially among lower-income earners, as one of the main obstacles to the deepening of financial inclusion (Principle 6 of the G20 High-Level Principles for Digital Financial Inclusion). For example, a recent World Bank survey of maize farmers in Tanzania revealed that less than 10 percent of farmers had ever tried to access any form of credit, while others did not see a need for it or had a fear of debt (WBG 2016d). Some poor people may even not be literate at all. For example, 42 percent of the adult beneficiaries of conditional cash transfer programs cannot read simple text.[45] Even those who have access to finance are often not fully aware of its terms, with almost one out of three individuals who borrow through informal channels not being aware of the interest rate on their loan. Therefore, it is of paramount importance that a push for financial inclusion be accompanied by targeted training to educate people on the principles of basic financial management principles and on how to use mobile money services. This training could also be accompanied by community sensitization programs aimed at explaining the advantages and benefits that electronic payments can bring.

The Government has already committed to raise the level of Tanzania's financial literacy by launching a new National Financial Education Framework (NFIF) in 2016. As part of the broader NFIF, the new framework for financial literacy was launched in February 2016 by the BoT in collaboration with the Financial Sector Deepening Trust (FSDT) of Tanzania. The Framework explicitly targets women, youth and low-income households. [46]

2. *Deepening inclusion – moving beyond payments*

Protecting the trust in MFS and in the financial sector overall is a key pre-requisite to capitalize the gains made in increasing inclusion and to move to the next step. As the range of MFS functions expands and inclusion deepens, there is need for effective consumer protection (CP) and deposit insurance mechanisms that help secure confidence in the financial system. The Electronic Money Regulations 2015 include several consumer protection-related

[45] World Bank feature story: "Tanzania's Conditional Cash Transfer Program Helps Reduce Extreme Poverty", November 2016. http://www.worldbank.org/en/news/feature/2016/11/18/tanzanias-conditional-cash-transfer-program-helps-reduce-extreme-poverty

[46] A financial literacy gap is also to a large extend responsible for lower usage of advanced financial services: for example a gap of as much as 26 percentage points remains between advanced users of in urban as opposed to rural areas. Most people in rural villages, in fact, use their accounts mostly to receive money transfers from their relatives in the cities, and often lack the digital knowledge to explore more advanced uses by their own initiative.

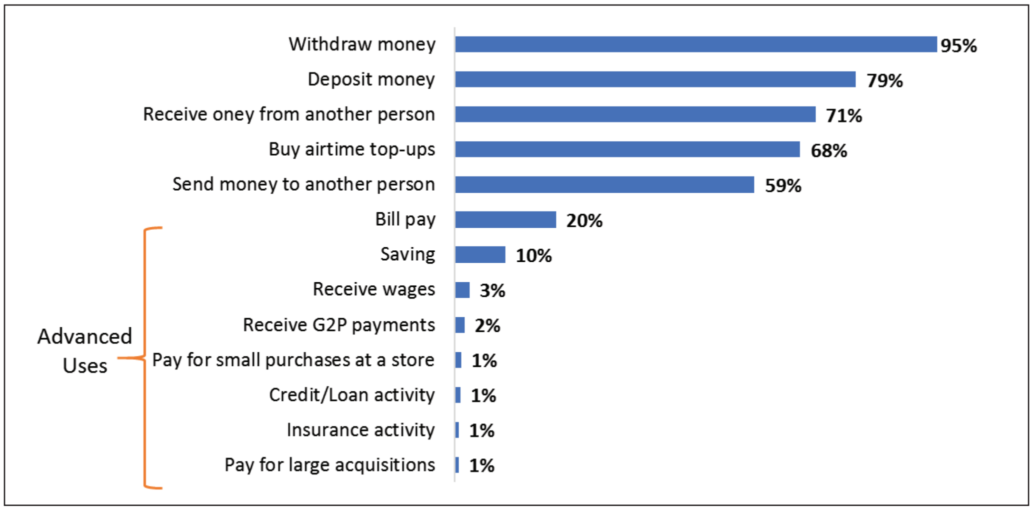
provisions. However, a more comprehensive CP framework needs to be established in line with the directions of the NFIF. The design of CP principles and standards (such as recourse and redress mechanisms, and alternative dispute resolution arrangements) should cover not only banks but also non-bank service providers, given the large share of the population relying on mobile money services. In addition, the new CP framework would need to include explicit gender-specific provisions and indicators that have so far not been addressed. These suggestions are consistent with the G-20 High Level Principle 1, which aims to encourage the provision of a digital approach to financial inclusion through a national strategy and action plans, and Principle 3, which recommends the provision of an enabling and proportionate legal and regulatory framework for digital financial inclusion.

The current lack of deposit insurance schemes for mobile money accounts represents a threat to the stability of the system and risks undermining the progress achieved so far. While MNOs are required to place all e-money balances in trust accounts at banks, these balances are covered by deposit insurance only up to the maximum coverage limit (currently TZS 1.5 million or US$ 720), which de facto nullifies the coverage for the underlying mobile money depositor. In other words, if a deposit bank were to fail, these trust deposits from the MNO would be lost with claims going to the bank's liquidation. Such an event could not only have disastrous consequences at the individual level, with mobile money users linked to those providers losing all their savings, but it would also rapidly result in a general mistrust of the whole financial system, leading to a backward leap to informal transactions. Thus, a case could be made for pass-through of deposit protection of trust accounts held in the banking system to protect the savings of mobile money account holders and to create a level playing field among providers.

Efforts to deepen financial inclusion should be aimed at progressively expanding the use of value adding financial services and supporting the graduation of customers from purely transactional mobile services to other bank products. Financial inclusion can be deepened only if an integrated network of financial and other service providers is in place, with this network creating incentives and tangible benefits for individuals and businesses to switch from cash to MFS. By entering this network, some of the users, particularly the ones with the greatest financial needs, such as small entrepreneurs, should also be able to progressively graduate from an exclusive reliance on basic services to access to a broader spectrum of banking services. At present, only about one third of mobile money holders use it beyond relatively low values (TZS 40,000 or US$ 19 on average) P2P or CICO transactions[47] (see Figure 40).

[47] Source: CGAP 2015b.

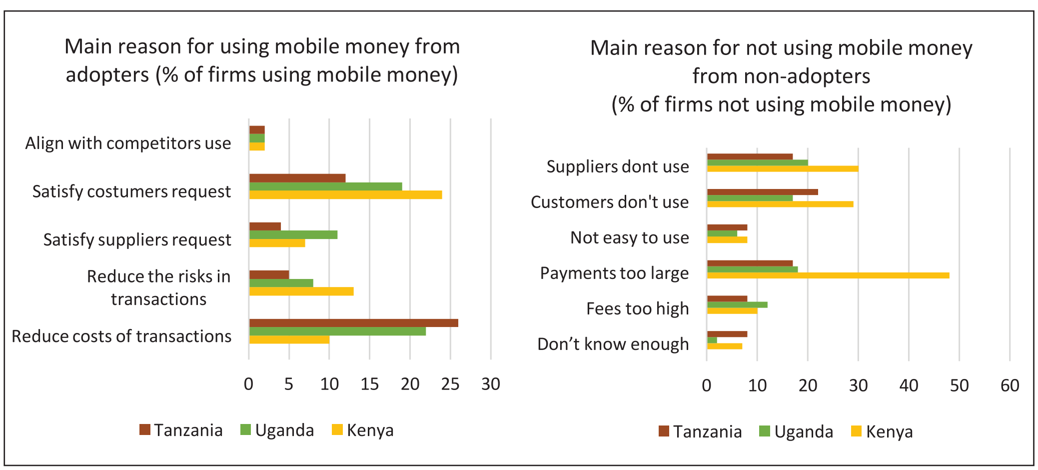
Figure 40: Mobile Money Account Uses – 2015 (% of active mobile money users)



Note: Multiple responses were allowed.
Source: WBG analysis on InterMedia Tanzania FII Tracker Surveys Wave 3 (September-October 2015) data.

In particular, the low penetration of consumer-to-business (or merchant) payment services results in Tanzanian enterprises' broader reliance on cash transactions (see Figure 41). Network effects justify technology adoption in every sector, including financial services, as positive network effects are lost if most users (senders and receivers) of payments do not participate. In fact, Tanzanian entrepreneurs do not use MFS unless their customers or their suppliers do not use or accept mobile payments (WBG 2016b). This creates inefficiencies, as the majority of businesses report that use of MFS result in reduced transaction costs. G2P, P2G and P2B/merchant payment channels need to be strengthened for this access evolution to fully materialize.

Figure 41: Firms' reasons for using / not using mobile money



Source: WBG 2016.

Financial inclusion can be deepened and its benefits made more pervasive by incentivizing the usage of advanced MFS functions among and between consumers and businesses. In turn, this could be enhanced through the establishment of an integrated payment ecosystem. Following the example of countries such as India, which is making efforts to rapidly expand the digitization process to a larger number of services by offering incentives to consumers and businesses,[48] Tanzania could gain substantially from a broader use of MFS. In fact, it is estimated that by promoting the transition from cash-based, traditional financial services to an integrated ecosystem of digital financial services, financial service providers could achieve cost savings of up to 80-90 percent (McKinsey Global Institute 2016 – see Figure 42). In a competitive market, the savings could enable these service providers to make their products more affordable. However, while expanding the financial service ecosystem, providers should also ensure that they meet their customer needs regarding the terms and conditions of the products (for example, interest charges).

To this end, there is a strong case for the achievement of further integration of the fragmented retail payments landscape to encourage a transition from competition in the area of infrastructure to competition in the area of tailored, low-cost financial services. Tanzania is currently characterized by a fragmentation and segmentation of the retail payment platforms. The existing local switch, Umoja (see Box 6), currently connects 27 small to medium-sized banks out of the total 58 financial institutions active in Tanzania. All the larger banks issue VISA/MasterCard cards, for which transactions are switched by VISA abroad.[49] This means that customers of Umoja-linked banks have no access to POS terminals and are unable to use the ATMs of larger banks.[50] Similarly, the customers of larger banks and those such as tourists or business travelers who come from abroad cannot use Umoja ATMs. In addition to Umoja, a few other payment service providers, such as Selcom and Maxcom, are currently competing to provide banks with payment processing services.[51] A number of technical solutions are currently under discussion among the banks and MNOs on how to achieve the increased integration of the retail payments environment in Tanzania, aiming to increase the level of interoperability between payment instruments. It is expected that the resulting business model innovations will result in lower costs due to a sharing of investments, scale and network economies, and reduced capacity redundancies, thus moving away from competition in the area of payment infrastructure, and focusing on competition in the area of the quality and price of payment services.

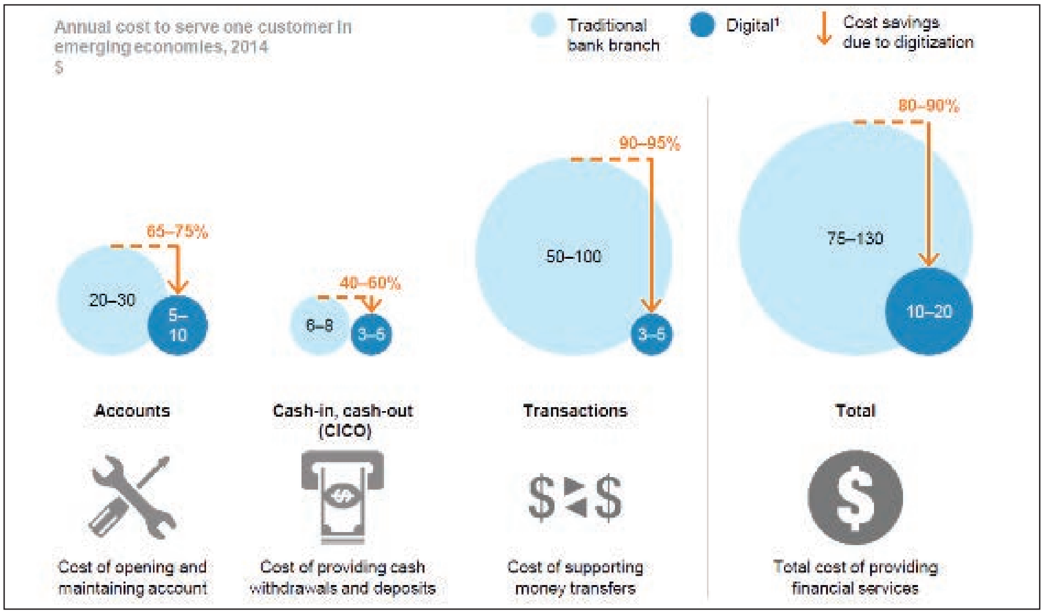
[48] Through the pilot project "Catalyst – Inclusive Cashless Payment Partnership" (a collaboration among USAID, the Indian Government and the non-profit organization IFMR LEAD launched in October 2016), India is supporting the establishment of a platform to expand consumer-to-merchant digital payments, especially among low- and middle-income populations. The project will provide incentives and rewards to consumers and businesses to embrace digital payment mechanisms, such as the availability of digital cash-management tools to gain higher interest on balances, or guaranteed loans (with up to 50 percent insurance against default). Source: USAID 2016.

[49] Settled at TISS via a consortium of the issuing/acquiring banks (except for foreign-issued cards)

[50] Which significantly limits their choice of ATMs, as there are only 250 Umoja ATMs over a total of 1,800 ATMs in the country.

[51] These are often referred to as "aggregators", however the definition does not reflect the fact that these providers are adding significant value to the offer of banks and MNOs as well as offering their own services directly to individual customers, such as some closed-loop prepaid cards.

Figure 42: Cost Savings from Enhanced Use of Digital Technologies



Note: To reach full cost savings, sufficient improvements are necessary in system design, scale, and operational efficiencies.
Source: McKinsey Global Institute 2016.

At the same time, advances in biometric, card and mobile technology have made it possible for all of the information required for KYC/CDD purposes to be verified immediately and reliably using a single identity credential. That credential can be a smart card (with offline verification against data stored on the card) or a national ID number (with online verification against data stored on a central database). The simplicity of these forms of verification allow them to be utilized not just for opening an account, but also for initiating or accepting payments and any other transaction, anytime and anywhere.

A standardization in the requirements and processes for the verification of customers' identity could remove barriers to customers' graduation and enhance competition between financial services providers. Although the E-Money Regulations 2015 helped establish a transparent and homogeneous tiered system for KYC/CDD requirements, inequalities persist between MNOs and banks, with the latter lacking the options of a tiered KYC system (see Annex 1).[52] This is one of the main factors for the rapid expansion of mobile money and the inclusion of members of more vulnerable groups who often lack the documentation required to access bank products (such as proof of address). Once the national ID system is fully rolled out, all service providers would be able to access KYC/CDD data through a standardized process, which would help homogenize costs and

[52] For example, banks offering MFS cannot rely on individual agents but are required to license established businesses – active since more than two years – that can operate as agency points.

increase competition. A standardized KYC/CDD regime across all financial services will also make it easier for customers to move between providers and to graduate from mobile money to banking. In addition, such a system would also facilitate the transition of G2P payments such as salaries and pensions, which at present our constrained by governance issues related to recipients' identity, to the electronic channel.[53]

The mobile money network could also be used to develop retirement savings products for informal sector workers and to expand pension coverage. The pension system is currently far from inclusive, covering less than 10 percent of the workforce in the formal sector through the five mandatory social security funds. These funds have been developing schemes designed to attract other groups of workers (traders etc.). Mobile money based pensions savings for informal sector workers have been developed in Kenya (for example, the Mbao scheme), and could be rolled out in Tanzania. Some form of incentive (e.g. a public matching contribution) would likely be required for such initiatives to reach scale.

3. *Expanding credit – making the case for reducing interest rates*

Limited access to credit represents a key constraint on the further development of the Tanzanian private sector. International experience clearly shows that even when the barriers to entry and exit for enterprises are low, companies do not grow or create employment if they do not have access to credit.[54] As seen below, Tanzania's formal credit to GDP ratio remains very low (15 percent) compared not only to industrialized countries but also to other developing ones. Without affordable credit that supports investment in equipment, technology, and quality upgrade, Tanzanian firms cannot grow and be competitive on either regional or international markets. In turn, without a competitive private sector, Tanzania has only limited chances to achieve its industrialization objectives.

The cost of credit is a key constraint to access. Even when borrowers are deemed creditworthy, credit availability is constrained by the level of interest rates. High interest rates have multiple effects on access to credit. First, they may deter borrowers such as Hamzi from turning to the formal financial sector when in need offunds. Second, they may create an adverse selection process according to which only less creditworthy borrowers apply for a loan. Third, prohibitively high rates may push even creditworthy borrowers into default.

Interest rates on loans in Tanzania are largely driven by the upward pressure exercised by Government borrowing on the domestic market, which leads to lending to the private sector being crowded out. Banks have a

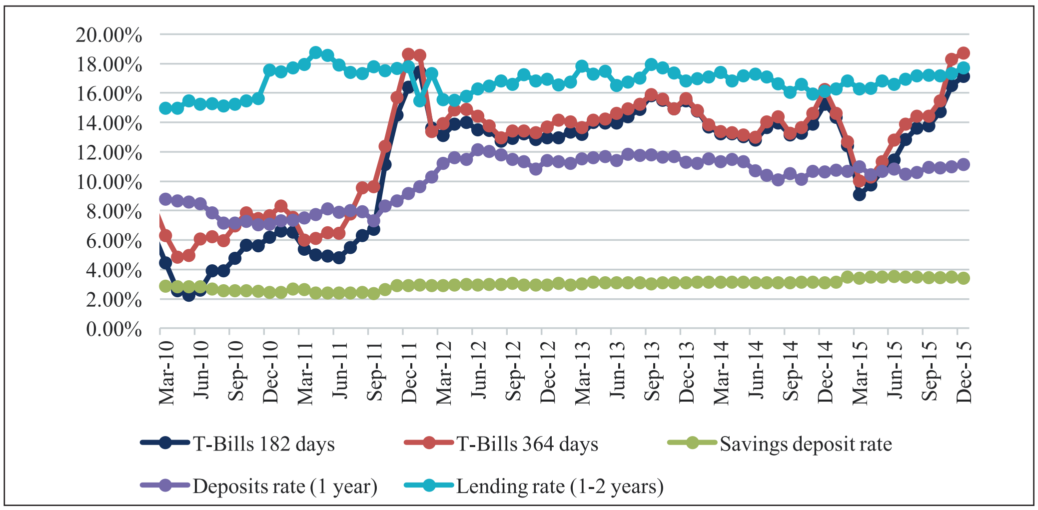
[53] The recent cases of "ghost pensioners" and related losses in public funds call for interventions to increase the transparency in the delivery of G2P payments. A unique, national ID system supported by a centralized database could greatly help in this direction.

[54] Turkey's Investment Climate Assessment (World Bank, 2010).

major disincentive to lend to the private sector, as they can obtain very attractive returns lending to the Government in the form of purchases of Government securities with different maturities (see Figure 43).[55] Public sector borrowing requirements drain liquidity, therefore putting significant upward pressure on interest rates. Returns are particularly high for the larger banks that collect cheap customer deposits (mostly sight deposits) through their large branch networks. T-Bills set the floor or the reference rate for the rest of interest rates on domestic currency in the economy, thus creating upward pressure. As a result, a large number of individuals and businesses are financially constrained. Either they do not have access, or they face very high cost for loans or mortgages (see Box 7).

The cost of lending is further exacerbated by the uncertainty, slowness and non-transparent nature of the credit recovery process. Tanzanian banks complain about the difficulties of recovering collateral and resolving NPLs. This is a symptom of a dysfunctional insolvency and creditor rights system and a slow, costly and unpredictable court system, as well as of the multiple difficulties in enforcing contracts and repossessing collateral.[56] This has an adverse impact on access to credit. Banks therefore try to protect themselves from substantial potential loss-given default (LGD) by creating a large buffer in the form of high effective interest rates, determined with reference to the Government set floor rate plus spreads depending on the riskiness of the operation and the collateral offered by the borrower.

Figure 43: T-Bills and Banks' (Nominal) Interest Rates on Domestic Currency



Source: WBG analysis on data from Bank of Tanzania.

[55] This is not only due to the risk-free interest rate being high, but also because of the zero risk-weight given to these securities in calculating the risk-weighted capital-asset ratio, resulting in credit representing only 55percent of total banking sector assets (the median value for low-income countries is around 70-80percent). .

[56] Judicial recovery procedures are considered very uncertain, lengthy and costly (lasting 4-5 years, on average), characterized by lack of transparency and, in many instances, by corruption and Court injunctions on behalf of delinquent borrowers.

To improve access to credit, Tanzania needs to improve the bankability of its customers, thus lowering the risk of lending for financial institutions. If banks were provided with more and better information about their customers, they would be better able to assess the individual customers' creditworthiness. This would decrease their lending risk, with a positive impact on their willingness to extend credit and on the pricing of credit.

Gaps in the credit information and reporting system constrain the availability of data on customers' creditworthiness available to suppliers and thus limit access to loan products. The absence of a unique ID system undermines the reliability of the data provided to the credit reporting system. Individuals can indeed register with (slightly) different names at various institutions and, in any case, identity verification process remains very cumbersome and imprecise. In addition, the credit information, composed of a Credit Reference Databank ("Databank") managed by the BoT, and of two licensed private credit bureaus (CreditInfo Tanzania and D&B Tanzania), is characterized by a number of shortfalls. First, this model is rather sui generis, as it implies a dual role of the BoT as both regulator and provider of credit information to the bureaus. Second, the quality of the data available remains questionable.[57] Third, the system is fragmented and incomplete, since NBFIs and MNOs are currently not legally required to submit their credit information to the Databank (although they may choose to provide it to the credit bureaus). This poses a significant challenge when it comes to expanding access to loan products, because critical information regarding the credit history of users of mobile money loans or informal micro-loans, possessed by MNOs and NBFIs respectively, is not shared with the rest of the financial system. Instead, such information is kept confidential and customers are thus locked into a limited range of low-value products.

Finally, from the supply side, the market is dominated by the three largest banks, which account for 45 percent of total bank lending and face limited competition from the vast pool of smaller banks. Although the number of licensed banks is very high in Tanzania (58, compared to, for example, only 43 in Kenya), competition is surprisingly limited. This is exacerbated by the common practice of layering of funding from large to small banks (reflected in significant interbank deposits, and wholesale deposits from pension funds and MNOs). This raises the cost of funding for the latter group to up to 6-6.5 percent, compared to an average of 2 percent for large banks. This gap is then reflected through the higher lending rates imposed by medium/small banks.

[57] For example, banks report common mistakes and duplications, while Community Banks are not yet providing information to the Credit Bureau

Box 7: The importance of a stronger banking system: "The tail cannot wag the dog"

While there has been significant progress in providing access to basic financial services in Tanzania, there is a long, pending reform agenda in the banking sector going forward, for the sector to contribute even more to Tanzania's economic development. The IMF's Financial Development Index shows that, with the exception of access to finance, Tanzania has seen very limited progress since the 1980s.

Small size of the Banking System: First, Tanzania's financial system is too small for the needs of the country. Standard measures of financial depth look at the ratio of total financial assets to GDP, and Tanzania's ratio is very low at 43 percent, out of which 30 percentage points are total banking assets, and 15 percent the credit to the private sector. All are well below the levels recorded by other low-income countries. The banking system has not shown much increase over the past decade. Moreover, the latest IMF Regional Economic Outlook for Sub-Saharan Africa (2016) points out that: "The region's median ratio of private sector credit to GDP has increased by almost 10 percentage points since 1995, to about 21 percent in 2014. However, it remains only about half the size of that in the Middle East and North Africa, East Asia, and Latin America and the Caribbean, driven by sub-Saharan Africa's relatively high number of low-income countries in which the median level of credit to the private sector is comparable with other low-income countries."

This is critical because the lack of finance reduces the options to increase economic growth and productivity-enhancing investments. Mobile banking is a good complement to, but cannot replace, the formal banking sector.

Number and concentration of Banks: Paradoxically, Tanzania might have too many banking institutions (58), but not enough competition, as the skewed structure of its banking system is very concentrated. The four largest banks have a 50 percent market share of total loans and deposits, with the ten largest banks having a market share of 72 percent, followed by a proliferation of small banks (47) which do not have the scale or the sources of funding to perform adequate intermediation functions.

Banking Products: The third structural characteristic of the Tanzanian banking system is the very short-term nature of the deposits collected, with an average maturity (as of December, 2015) of only 136 days, reflecting the high share of sight deposits in the system (i.e. deposits which could be withdrawn any time). This makes it very risky for banks to undertake meaningful term transformation: that is, financing longer-term loans with a short-term deposit base. This feature makes banks a vehicle for funding the short-term consumption of individuals and short-term working capital of enterprises, being unable to fund longer-term investment projects.

Intermediation Costs: The fourth feature is the high cost and relative scarcity of bank credit. It should be noted that in Tanzania, interest rates are largely determined in a less than perfect Government Securities Market, where an often cash-strapped Treasury (in view of a structural and rather wide fiscal deficit) seeks short-term funds. Only two or three of the largest banks, each of which has a large branch network and a large deposit base, buy most of the Government securities, yielding very high interest rates. The result is that the interest rate on Government paper is determined in this imperfect market at a very high level: currently, it stands at 14-15percent. This rate is the risk-free rate. As such it sets a very high floor on all (flexible) interest rates in the economy, while at the same time it reduces the incentive for banks to lend to the private sector. The latter is made worse by the fact that banks do not need to put capital in their lending to the Government or the Bank of Tanzania, as the risk-free assets have a zero risk-weight for calculating their capital asset ratio.

Asset Quality: Banks' asset quality has deteriorated, with the NPL ratio for the whole banking system reaching 9 percent as of September this year. However, NPLs have grown to worrisome levels (over 15percent) in some of the smaller, rural, community and cooperative banks. Out of 58 institutions reporting to the BoT, 14 (almost one third in number, but representing only 9 percent of the total value of banks' gross loans) report very high NPL ratios as a group, with an average of 30 percent.

Unique Identifier: Tanzania needs to improve the conditions for the operation of financial institutions with the right measures to have a national identification card with unique identifiers to allow banks to reduce fraud and to improve the collection and dissemination of financial information through the Credit Bureaus. Without these reforms, banks face too many risks in their lending activities. As discussed later, the operation of the two credit bureaus is less than adequate.

Loss Given Default: Banks do not operate in a vacuum. Complementary reforms to the judicial and court systems in the country are essential for banks to be able to collect efficiently on the loans granted and to repossess quickly the collateral backing some of their credit exposures. Without an efficient and clean court system, the losses given default would continue to be too high and banks will respond by lending less to the private sector and increasing their interest spreads in a perverse system where honest borrowers are penalized by delinquent ones.

Financial Stability: Needless to say, financial stability is a precious public good, being essential to reduce poverty and make the financial system an engine of growth and poverty reduction.

2.5 Suggested Actions towards Broader and Deeper Financial Inclusion

Continued efforts are needed to consolidate the progress already achieved in Tanzania, by broadening and deepening financial inclusion and by increasing access to credit to enterprises. To achieve these goals, efforts should be undertaken in the following priority areas:

1. **Reaching the "last mile" users:** Extending access to finance to the 40 percent of Tanzanians currently excluded from the financial system and thus achieving universal financial access would contribute to accelerating Tanzania's poverty reduction process. To this end, three actions to tackle demand and supply-side constraints are proposed, as follows:

- **1.A Channeling Government payments such as TASAF through electronic channels:** This would reduce the costs and risks of cash payments processing and increase the volume of transactions, justifying investments in access points in currently unserved areas. G2P transfers should gradually evolve from a cash-base to payments through electronic channels. This would enable these payments to reach the beneficiaries safely and without leakages, to provide a store of value and in turn to stimulate savings. An increase in the use of electronic payment channels would increase demand and justify coverage of currently unserved areas. For this purpose, individuals could be provided with financial accounts. If needed, additional financial access points could be designed. For instance, the planned transition of TASAF to electronic payments could be used as a pilot initiative to assess the tangible benefits for the beneficiaries. On the other hand, by increasing the automation of Government payment collection, the value added for citizens to have an account would be even higher and the usage of the payments infrastructure would be optimized.

Box 8: Transfers through the Productive Social Safety Net program (PSSN) implemented by the Tanzania Social Action Fund (TASAF)

One potential way to include many of the "last mile" consumers would be to integrate electronic payment mechanisms into conditional cash transfer programs. Currently, the PSSN relies on a manual, cash-based distribution mechanism. Beneficiaries are gathered at the pay-point, typically located outside a local Government office, to attend a community informative session which usually last about 45 minutes. They then wait for Community Management Committee (CMC) members to go to the bank where they collect the program funds. Once the CMC return to the pay point, they organize themselves into stations or 'desks' where a number of payment activities are carried out, including the verification of names against the payroll list, checking program ID cards against beneficiaries' personal IDs, disbursing the cash transfers and issuing payment receipts. The waiting time between the start of the community session and the disbursement can range from between two to four hours.

Moreover, for beneficiaries based in rural areas, it can take up to two to three hours to commute to the pay-point, with a transportation costs of up to TZS 10,000, or 35 percent of the value of their cash transfer (ISPA 2016). Some informal arrangements exist among beneficiaries to share the cost of transport (such as a motorbike fare) or to nominate a single person to travel and collect transfers for multiple peers.

The security required during the cash payment disbursements also raises the costs of the program. CMC members are escorted by the police from the bank branch to the pay-point and then overseen by municipal officials at the pay-point. In addition, gathering large numbers of beneficiaries and paying them in a public setting exposes them to the risk of robbery. This is a higher risk in urban areas where external parties may be aware of who beneficiaries are and when and where payments take place.

A recent study has demonstrated that up to one third of G2P cash payments may be lost through the manual delivery system (CGAP 2015a).

The case could be made for a transition to an electronic payment system, including through mobile services. In fact, Mobile, 2G network coverage is estimated to cover up to 85 percent of the Tanzanian population, with 77 percent of adults possessing a mobile phone (InterMedia FII 2016), placing Tanzania in the top ranks of African countries in terms of mobile phone ownership.[58] An electronic social payments system could be catalytic in providing volume and scale to make it profitable for providers to reach these last mile consumers. [59] In turn, it would allow recipients to save time for more productive, income-generating activities, eliminate the transport costs for collection, and avoid the risks of being robbed of their cash. The transition of such programs to an electronic payment system could not only increase the transparency, cost-effectiveness and security of funds, it could also facilitate the inclusion of vulnerable consumers into the financial system, enabling beneficiaries to become familiar with mobile money and to gradually start using those services for personal or even small business transactions.

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[58] Smallholder farmers in Tanzania – who are largely located in remote, rural areas, seem to reflect the national trend. Two-thirds (66 percent) of them have their own mobile phone, and 82 percent have used a phone. In contrast, only 46 percent of smallholder farmers in Uganda and 33 percent in Mozambique have their own phone (CGAP 2016).

[59] TASAF has been envisaging a transition to electronic payments for some time, and is expected to start piloting the approach in early 2017. The transition should be first implemented in communities with existing presence of financial access points (for CICO services), such as urban and peri-urban areas (ISPA 2016), and then expand towards rural areas. Moving to electronic transfers would also provide greater transparency and hence security of funds, as it would spare people from being exposed to outsiders and to potential corruption instances when collecting their money.

- **1.B Accelerating the universal coverage of the national ID system to: (i) remove a barrier to access and reduce the costs of delivery of financial and public services to underserved populations, including women and (ii) protect financial intermediaries from fraud:** As discussed above, providing proof of legal identity to individuals and enabling that legal identity to be easily, reliably and quickly verified is essential to enable financial service providers and mobile network operators to meet Know Your Customer (KYC) requirements. Recent advances in biometric and mobile technology create an outstanding opportunity for the National Identification Authority (NIDA) to roll-out a system where an individual's identity could be authenticated simply with a unique number and a fingerprint or iris scan (electronic KYC or e-KYC). This could be used to create a platform to provide access to financial accounts to individuals at low costs, reducing a major constraint on serving the unserved population.[60] Granting access to financial institutions, MNOs, and credit bureaux to a central population database through a simple and standardized data request process would not only increase the efficiency and lower the costs of complying with legal requirements to provide financial services, it would also reduce credit risk. Thus, in turn, it could be expected to improve the supply of credit to the economy. India presents a good example of how a low-income country was able to introduce online biometric verification (see Box 8), removing the need for costly smart cards and card readers (as is required for offline verification) and opening up space for innovation and greater investment in network connectivity. With this system, a low-value bank account can be opened instantly in the most remote areas at limited costs (see Box 10).

[60] As a new ID system is implemented, AML Law (art. 15) and corresponding regulations should also be amended to ensure that this can satisfy KYC/CDD requirements, for example by removing the requirement of introductory letters.

Box 9: National ID system in India

In 2009, the Indian Government, through the Unique Identification Authority of India (UIDAI), launched an ambitious biometric identification program named "Aadhaar" (which means "Foundation" in Hindi). Aadhaar assigns a unique 12-digit random ID number to all residents of India based on the secure registration of their personal (name, address, gender and date of birth) and biometric data (fingerprints, iris and face). The data is stored and reduplicated in a centralized database managed exclusively by UIDAI, which service providers can use to verify an individual's identity quickly and easily. For instance, a customer who wants to open a low value bank account or make a transaction requiring verification would present his/her Aadhar number to a bank representative and have their fingerprints/iris scanned using a low-cost machine (as low as US$ 100). The number and biometric data are sent to UIDAI on a GPRS or faster network for verification against the database, and a positive or negative response is returned, usually within five to 60 seconds, and other relevant data for the transaction is made available (in the case of a bank account, this is the name, address and date of birth of the individual – the only additional information that requires verification in Tanzania, according to AML regulations, is the place of birth). This online verification model means that the Government does not have to issue expensive smart cards and that service providers need only have a fingerprint or iris scanner (and not a card or NFC reader as well), which are increasingly common features on regular tablets and smartphones.

Aadhaar has not only facilitated a cost-efficient, accurate and fully electronic KYC (e-KYC) process, it has also improved Indians' access to financial services and social protection. By April 2016, Aadhar had established 1 billion digital identities, linked to 254.8 million bank accounts. Aadhaar has also generated substantial fiscal savings. By utilizing Aadhaar to verify the identity of fuel subsidy recipients, the Government was able to identify individuals who were claiming subsidies in excess of their entitlement or more than once, which resulted in savings of nearly US$ 1.5 billion.

- **1.C Women and youth in particular will benefit from strengthened programs to develop people's financial literacy and digital skills:** With an improved understanding of the benefits associated with financial products, customers will progressively graduate from the use of basic financial products to more complex ones. The recently adopted National Financial Education Framework should be implemented by the Government through the use of innovative instruments and in partnership with financial institutions and MNOs. This would allow leverage of the agent network and technical experts to implement FL programs and ICT skills training that reach members of the poorest groups at limited cost.

2. **Deepening inclusion by consolidating progress and by ensuring a level playing field to reduce barriers to the access and usage of financial products and services:** Broadening the use of more advanced financial services, such as savings and business services, could help Tanzania move towards a cash-lite economy characterized by lower costs, greater transparency and accelerated formalization. This transition needs to be accompanied by a number of priority interventions:

- **2.A Extending a deposit insurance mechanism to MFS and enhancing the overall consumer protection framework:** Attention should be given to preventing cases of fraud or bankruptcy that could undermine confidence in the financial sector and in mobile money in particular, thus unravelling the recent progress made towards higher levels of inclusion. The development of a deposit insurance mechanism to cover mobile money deposits could be complemented by the implementation of an adequate consumer protection framework for financial services.

- **2.B Facilitating the sharing of infrastructures and the achievement of full scale interoperability between banks and other retail payment service providers:** The existing fragmentation of the digital retail payment ecosystem increases costs for providers and users and stifles competition. The de-fragmentation and integration of retail payment platforms and the convergence towards shared infrastructures would reduce costs and develop scale. Most importantly, providers would be able to compete in terms of product/service offerings and competitive pricing, rather than on the basis of infrastructure and access points. In consultation with the market, a number of options should be considered to identify the technical solution most suitable to Tanzania. For example, these may include the upgrading of existing systems (Umoja Switch) and/or the implementation of a new infrastructure. A more advanced level of interoperability is desirable also for mobile money to reduce the inefficiencies of the current model (see Box 10).

Box 10: Interoperability of payment instruments

Interoperability of payment instruments is achieved when users are able to pay through their instrument of choice at any terminal present in the country, regardless of such terminal being affiliated directly with the issuer of the said payment instrument. For example, terminals may include ATMs, POS terminals at merchants' premises, unmanned kiosks, and, in a conceptual sense, the websites of e-commerce merchants.

There are a number of means to achieve the interoperability of payment instruments across a national payment system. In essence, all require that banks and other providers of payment instruments and terminals be somehow interconnected to each other. This can be achieved by participants being directly connected to each other on a bilateral basis or by interconnecting to some sort of multilateral infrastructure. This infrastructure may be domestic or international. It may also consist of a single infrastructure or of multiple infrastructures interconnected to each other. Finally, hybrid models also exist.

In a bilateral arrangement, the authentication and clearing of payments flowing between two financial institutions is handled by the institutions themselves. Multilateral clearing arrangements are based on a set of procedures whereby financial institutions present and exchange data and/or documents relating to funds transfers to other financial institutions under a common set of rules. The following notable differences can be identified between bilateral and multilateral arrangements:

- Bilateral arrangements do not typically provide efficient solutions when large volumes of payments need to be processed by a large number of participants (i.e. issuers and acquirers). Rather, multilateral arrangements make the processing of payment instructions more efficient by coordinating and simplifying the exchange of payment instructions across participants and operating communications networks and by providing processing services.

- In principle, multilateral arrangements could make the access of a new entrant onto the market easier, as a single link needs to be established by the new participant with the central entity. By contrast, where bilateral arrangements are in place, a new entrant needs to negotiate conditions with each existing participant, hence creating a potential barrier to entry.

- Lastly, multilateral netting allows participants to minimize the liquid balances necessary for settlement.

"Payment switch" in general refers to the technical infrastructure, on top of which there are business rules, procedures, branding, and products, defined as a "scheme". A "national payment switch" is an infrastructure mandated to process all card payments and also, in some cases, mobile and internet payments. A country can have one or more switches that operate nationally. National payment switch(es) are a common way to achieve interoperability.

These switch(es) can play a critical role in a retail payment system by facilitating the establishment of direct connections between transactional accounts of multiple payers and payees operated by diverse providers. Direct connections enhance transactional efficiency and reduce friction costs. In this way, national payment switch(es) enable fungibility and ease of use of money balances held in electronic form. In turn, this propels universal financial inclusion and access.

- **2.C Creating a level playing field between various financial sector service providers by standardizing KYC/CDD requirements:** The introduction of tiered KYC requirements for electronic money accounts allowed electronic money issuers, particularly MNOs, to comply with lighter requirements that are sufficient for products that pose a lower AML/CFT risk. However, full KYC continues to be the only option for bank accounts, thereby creating an uneven playing field. The AML/CFT law and regulation should be amended to match the risk-based approach that was adopted for electronic money and to allow traditional financial institutions to also offer bank accounts with basic features and transactional limits, with corresponding lower KYC requirements. Financial institutions will then have to take advantage of the new regime and design products that suit the needs of the low-income population.

3. **Expanding access to credit by lowering the cost of risk through better selection of borrowers and improved recovery and by reducing disincentives on lending to the private sector.** Increasing the number of individuals and businesses that have access to credit is critical to ensuring that informal, micro entrepreneurs have access to access investment and working capital to formalize and expand their operations. It is also critical to support established enterprises' efforts to participate in global value chains. Efforts to expand access to credit should be concentrated on:

- **3.A Reducing the crowding out effect of public borrowing on credit to the private sector:** Actions should be undertaken to reduce the risk-free rates on Government bonds in local currency. In turn, this will result in a reduction to the floating interest rates on bank credit. First and foremost, this requires lowering the funding of the Government's significant recurrent fiscal deficits in the small domestic market. An option that could be considered might be opening up the market for Government securities to international investors. However, significant results could also be achieved through improvements to the cash and debt management process.[61]

- **3.B Improving the quality of the data available through the credit reporting system and extending its reach to include credit information generated through the digital footprint of MFS:** The roll out of the single national ID (see recommendation 1.A) would create the basis for a significant improvement to the credit infrastructure, providing for secure and unique identity validation, which would also lead to more reliable data quality data to the credit bureaus. From the institutional side, BoT's control over the CRD should be eliminated, enabling financial institutions to provide credit information directly to the two credit bureaus. BoT should retain access to the information for supervisory purposes and to regulate the bureaus, as required by law and to ensure the quality of the data provided by individual institutions. In addition, MNOs and NBFIs should be included in the reporting system. A legal framework should be established to facilitate the sharing of information on these institutions' customers to improve assessment.

- **3.C Expanding the range of collateral that can be used for loans, would benefit women in particular.** Extending the range of collateral that can be used to contract a loan to include movable collateral (such as inventory, receivables, etc.) could be expected to expand the range of borrowers and to reduce costs.

- **3.D Improving the efficiency and efficacy of the judicial system to enforce contracts and recover credit:** In the longer run, reforming the judicial system to reduce collusion and to accelerate the NPL resolution and recovery process is a fundamental step to reduce banks' LGD. This would incentivize banks to increase the availability of credit and reduce rates.

[61] The IMF concluded in a recent Report that "Budget credibility needs to improve, and needs to be accompanied by better cash forecasting on the part of the fiscal authorities. This will also allow the authorities to announce and stick to a Government securities issuance schedule, which ultimately would strengthen the Government securities market. Tap sales should be phased out while transparent rules that govern the bidding process in primary auctions should be adopted. Arbitrary changes (changing or even canceling offered amounts) should be eliminated. Greater communication with financial market participants would also help in setting the stage for a more effective Government securities market." IMF, Tanzania. Selected Issues — Macrofinancial Issues, June 30, 2016.

Annexes

Annex 1: Key Macroeconomic Indicators

Indicator	Unit	2010	2011	2012	2013	2014	2015	2016
Population (Mainland)	Mn	43.6	44.8	44.9	46.1	47.4	48.8	48.8
Per Capita Income	US$	725.8	765.3	870.0	969.1	1028.8	968.8	932.0
GDP Growth	%	6.4	7.9	5.1	7.3	7.0	7.0	6.5
Inflation (Period Average)	%	7.2	12.7	16.0	7.9	6.0	5.6	5.2
Exchange Rate (Period Average)	TZS/US$	1432.3	1579.5	1571.7	1597.6	1658.1	2002.8	2179.1
External Sector								
Exports - Goods & Services (f.o.b)	Mn US$	6370.0	7398.2	8675.6	8459.8	8726.8	8921.9	9381.6
Imports - Goods & Services (f.o.b)	Mn US$	-9054.4	-12035.6	-12678.0	-13517.6	-13583.2	-12513.0	-10797.4
Current Account Balance	Mn US$	-2684.4	-4637.3	-4002.4	-5057.9	-4856.4	-4011.6	-2054.8
Balance of Payments (Overall Balance)	Mn US$	369.8	-202.0	326.2	495.7	-233.8	-199.1	305.5
Foreign Reserves	Mn US$	3948.0	3761.0	4068.1	4678.0	4388.0	4093.7	4325.6
External Debt	(as a % of GDP)	28.0	26.3	27.0	29.0	29.0	30.0	29.0
Foreign Direct Investment	Mn US$	991.1	1009.0	1574.3	1836.0	1924.0	2152.0	--
Monetary Sector								
Average Deposit Rate	%	9.1	7.3	9.6	11.4	8.3	8.3	10.8
Average Lending Rate	%	13.8	13.9	13.9	14.1	13.9	13.9	14.2
Growth in Money Supply (M3)	%	25.4	18.2	12.5	10.0	15.6	18.0	9.2
Government Finance[b]								
Total Domestic Revenue	(as a % of GDP)	11.8	12.2	12.6	13.1	13.3	14.1	14.4
Tax Revenue	(as a % of GDP)	11.1	11.2	11.6	12.0	12.1	12.5	12.8
Non-Tax Revenue	(as a % of GDP)	0.6	0.9	1.0	1.0	1.1	1.3	1.5
Total Expenditure	(as a % of GDP)	20.0	19.1	19.1	18.8	18.0	19.2	18.3
Recurrent Expenditure	(as a % of GDP)	13.9	12.9	13.0	13.4	13.2	13.7	13.9
Development Expenditure	(as a % of GDP)	6.1	6.2	6.1	5.4	4.8	5.4	4.5
Grants	(as a % of GDP)	3.5	3.0	2.3	2.1	1.6	1.3	0.5
Fiscal Balance (After Grants)	(as a % of GDP)	-4.8	-4.0	-4.1	-3.6	-2.9	-3.6	-3.5

Note
a Based on first three quarters.
b Fiscal year, which ends June 30th, is used.
-- data not available.
Sources: Bank of Tanzania, Ministry of Finance and Planning, and National Bureau of Statistics.

Annex 2: Real GDP Growth Rates

Economic Activity	2010	2011	2012	2013	2014	2015	2016a
Agriculture and Fishing	**2.7**	**3.5**	**3.2**	**3.2**	**3.4**	**2.3**	**2.0**
Crops	3.7	4.8	4.2	3.5	4.0	2.2	1.1
Livestock	1.4	1.6	1.8	2.0	2.2	2.4	2.6
Forestry and Hunting	3.4	3.3	3.5	4.7	5.1	2.6	4.5
Fishing	0.9	2.6	2.9	5.5	2.0	2.5	3.4
	0.0	0.0	0.0	0.0	0.0		
Industry and Construction	**9.1**	**12.0**	**4.0**	**9.5**	**10.3**	**11.3**	**--**
Mining and Quarrying	7.3	6.3	6.7	3.9	9.4	9.1	15.6
Manufacturing	8.9	6.9	4.1	6.5	6.8	6.5	7.0
Electricity	13.4	-4.3	3.3	13.0	9.3	5.8	8.3
Water	2.2	-1.2	2.8	2.7	3.7	0.1	5.5
Construction	10.3	22.9	3.2	14.6	14.1	16.8	6.7
Services	**7.8**	**8.4**	**7.2**	**7.1**	**7.2**	**6.9**	**--**
Trade and Repairs	10.0	11.3	3.8	4.5	10.0	7.8	5.6
Hotels and Restaurants	10.7	4.4	4.2	12.2	12.5	2.3	2.2
Transport	3.7	4.1	6.7	2.8	2.2	7.9	16.9
Communications	24.4	8.6	22.2	13.3	8.0	12.1	13.4
Financial Intermediation	12.6	14.8	5.1	6.2	10.8	11.8	11.6
Real Estate	1.8	1.9	2.0	2.1	2.2	2.2	2.4
Professional, Scientific & Technical Services	29.9	4.8	-5.8	5.4	0.5	6.8	5.4
Administrative and Support Service Activities	8.6	5.1	23.8	12.2	6.0	4.7	2.9
Public Administration & Defense	-5.0	15.9	9.1	7.8	3.9	4.6	7.0
Education	6.4	5.6	7.4	4.3	4.8	6.3	7.6
Health	3.3	5.3	11.4	8.8	8.1	4.7	5.5
Other Services Activities b	6.0	6.2	6.4	6.5	6.7	6.9	6.5
FISIM (Financial Intermediation Services Indirectly Measured)	7.9	22.6	1.2	0.1	9.7	11.7	11.9
Net Taxes	3.8	12.1	0.4	14.2	7.7	9.6	6.8
	0.0	0.0	0.0	0.0	0.0		
GDP Growth Rates	**6.4**	**7.9**	**5.1**	**7.3**	**7.0**	**7.0**	**6.5**

Notes

a Based on the first three quarters of 2016.

b From Q3 2016, Arts, Entertainment and Recreation and Activities of Households as Employers are aggregated in other service activities

--data not available.

Source: National Bureau of Statistics.

Annex 3: Shares of Economic Activities in GDP

(Current Market Share)

Economic Activity	2010	2011	2012	2013	2014	2015	2016
Agriculture and Fishing	**26.3**	**25.2**	**24.8**	**23.8**	**23.0**	**22.3**	**28.3**
Crops	13.4	13.0	12.9	12.5	12.1	11.7	--
Livestock	9.2	8.6	8.4	7.9	7.6	7.3	--
Forestry and Hunting	2.3	2.2	2.1	2.1	2.1	2.0	--
Fishing	1.5	1.4	1.4	1.3	1.3	1.2	--
	0.0	0.0	0.0	0.0	0.0		
Industry and Construction	**20.5**	**21.3**	**21.1**	**21.5**	**22.2**	**22.7**	**--**
Mining and Quarrying	3.4	3.3	3.4	3.3	3.4	3.4	4.7
Manufacturing	7.5	7.5	7.4	7.3	7.3	7.3	4.5
Electricity and Water	1.8	1.6	1.6	1.6	1.6	1.6	1.3
Electricity	0.9	0.8	0.8	0.9	0.9	0.9	0.9
Water	0.8	0.8	0.7	0.7	0.7	0.7	0.4
Construction	7.8	8.9	8.7	9.3	9.9	10.4	15.4
	0.0	0.0	0.0	0.0	0.0		
Services	**47.6**	**47.8**	**48.8**	**48.7**	**48.8**	**48.9**	**--**
Trade and Repairs	10.0	10.4	10.2	10.0	10.2	10.5	10.3
Hotels and Restaurants	6.0	5.8	5.7	6.0	6.3	6.6	0.9
Transport	1.6	1.6	1.6	1.5	1.5	1.4	4.5
Communications	3.4	3.4	4.0	4.2	4.3	4.3	2.0
Financial Intermediation	3.8	4.0	4.0	4.0	4.1	4.3	3.8
Real Estate	5.3	5.0	4.9	4.6	4.4	4.2	2.9
Professional, Scientific & Technical Services	2.0	1.9	1.7	1.7	1.6	1.5	1.2
Administrative and Support Service Activities	2.7	2.6	3.1	3.2	3.2	3.0	2.2
Public Administration & Defense	6.1	6.5	6.8	6.8	6.6	6.6	6.0
Education	3.4	3.3	3.4	3.3	3.3	3.2	2.4
Health	1.6	1.6	1.7	1.7	1.7	1.7	1.4
Other Services Activities	1.0	0.9	0.9	0.9	0.9	0.9	1.1
	0.0	0.0	0.0	0.0	0.0		
FISIM	-1.4	-1.6	-1.6	-1.5	-1.5	-1.5	-1.2
Net Taxes	7.1	7.3	7.0	7.5	7.5	7.7	8.2
Total GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

-- data not available.

Source: National Bureau of Statistics.

Annex 4: Fiscal Framework

(Percent of GDP)

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17a
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Total Domestic Revenue	12.2	12.7	13.8	12.9	15.6	13.8	13.3	13.0	14.5	14.4	15.8
Total Expenditure	22.2	18.9	20.9	20.6	22.7	18.9	18.6	17.3	18.7	18.3	21.8
Overall Deficit Before Grants	-10.0	-6.2	-7.1	-7.8	-7.0	-5.1	5.3	-4.3	-4.2	-4.0	-5.9
Grants	4.8	3.3	3.1	2.6	3.2	2.2	1.3	1.2	1.0	0.5	1.3
Overall Deficit After Grants	-5.2	-3.6	-4.0	-5.0	-3.8	-3.4	4.0	-3.3	-3.3	-3.5	-4.6
Overall Primary Balance	-5.2	-3.6	-4.0	-5.0	-3.8	-3.4	4.0	-3.3	-3.3	-3.5	-4.6
Financing	5.2	3.6	4.0	5.0	3.8	3.4	4.3	3.1	-3.3	-3.5	-4.6
Foreign (Net)	4.2	3.0	5.5	3.9	3.8	3.1	4.3	3.1	1.9	1.5	3.7
Domestic (Net)	0.7	0.6	-1.4	1.1	0.0	0.3	-0.3	0.2	1.3	2.1	0.9

Source: Ministry of Finance and Planning.
a Actual data are not available at this time.

Annex 5: Balance of Payments

(Percent of GDP, except where noted otherwise)

Column1	2010	2011	2012	2013	2014	2015	2016
1. Curent Account Balance (Including Transfers)	**-7.2**	**-11.6**	**-9.6**	**-11.0**	**-10.7**	**-7.3**	**-3.5**
Exports of Goods	13.9	13.5	14.9	11.6	10.4	9.8	9.7
o/w Gold	4.9	5.9	5.4	3.8	2.7	2.2	2.5
Import of Goods	-23.0	-26.0	-26.2	-24.4	-21.9	-17.9	14.7
Services (Net)	0.5	0.2	1.1	1.6	1.5	1.5	2.6
Trade Balance	-8.6	-12.3	-10.1	-11.2	-10.0	-6.5	-2.4
Income (Net)	-2.0	-1.7	-1.5	-1.6	-1.7	-1.6	-1.7
Current transfers (Net)	3.4	2.4	2.0	1.7	1.0	0.9	0.6
2. Capital and Financial Account	**11.5**	**9.3**	**11.8**	**12.6**	**8.1**	**6.2**	**--**
Capital Account	1.7	1.8	2.0	1.5	1.0	0.6	--
Financial Account	9.8	7.5	9.8	11.1	7.0	5.6	--
o/w Direct Investment	5.8	3.3	4.6	4.6	3.4	2.9	--
3. Overall Balance	1.2	-5.3	0.8	1.1	-0.5	-0.4	--
Gross International Reserves (Mn US$)	3948.0	3744.6	4068.1	4689.7	4377.2	4093.7	4331.7
In Months of Imports (Current Year)	5.2	3.5	3.6	4.1	4.2	4.5	4.2

-- data not available.
Source: Bank of Tanzania.

Annex 6: Monthly Imports of Goods and Services

(Mn US$)

	2015												2016											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total Imports of Goods and Services	**1106.2**	**1105.4**	**1136.0**	**978.7**	**1018.9**	**1216.8**	**1229.3**	**1229.3**	**970.4**	**1004.1**	**851.5**	**880.4**	**930.3**	**871.2**	**849.9**	**848.8**	**857.2**	**1003.4**	**849.2**	**959.3**	**908.1**	**868.3**	**890.6**	**870.5**
Imports of Goods (f.o.b.)	874.4	858.0	917.7	788.8	813.4	987.0	975.5	975.5	751.1	777.6	643.7	670.0	730.2	686.8	650.6	667.0	693.7	810.4	709.4	812.1	755.9	716.8	733.4	694.9
Capital goods	**360.8**	**381.4**	**357.3**	**351.8**	**345.6**	**312.9**	**325.2**	**325.2**	**289.2**	**315.3**	**238.7**	**237.9**	**235.6**	**211.4**	**200.8**	**200.0**	**195.5**	**213.2**	**205.6**	**249.1**	**240.7**	**222.3**	**226.4**	**229.5**
Transport Equipment	105.5	98.0	107.5	90.3	102.3	106.0	108.3	108.3	70.6	105.7	66.9	57.0	70.7	56.4	65.2	64.9	59.8	61.1	50.4	78.0	86.9	47.5	70.5	87.1
Building and Construction	96.3	80.7	91.1	71.5	67.2	62.3	66.9	66.9	75.8	74.5	74.7	69.2	60.4	51.8	43.6	52.2	52.6	44.9	56.1	64.5	60.9	50.5	55.4	48.6
Machinery	159.0	202.7	158.7	190.1	176.1	144.6	149.9	149.9	142.8	135.0	97.1	111.7	104.5	103.2	92.0	83.0	83.1	107.1	99.2	106.6	92.9	124.3	100.5	100.6
Intermediate goods	**290.8**	**338.3**	**346.5**	**231.7**	**268.9**	**461.3**	**397.9**	**397.9**	**276.6**	**284.6**	**228.3**	**254.1**	**347.1**	**326.1**	**325.5**	**335.9**	**339.1**	**411.4**	**336.7**	**382.5**	**378.8**	**357.6**	**347.4**	**340.3**
Oil Imports	211.8	269.8	280.8	172.0	211.0	322.6	290.3	290.3	190.6	204.0	163.6	183.3	247.9	245.7	244.4	243.5	247.1	282.1	261.1	292.4	286.4	278.3	275.4	275.4
Fertilizers	6.0	2.3	1.1	6.2	8.8	9.2	37.4	37.4	25.4	19.4	10.8	7.8	13.9	11.6	4.0	9.9	3.0	11.8	10.5	13.9	3.3	10.6	15.2	10.9
Industrial Raw Materials	73.0	66.3	64.5	53.4	49.1	129.5	70.3	70.3	60.5	61.1	53.9	63.0	85.3	68.9	77.0	82.5	89.0	117.5	65.1	76.2	89.0	68.7	56.8	60.9
Consumer Goods	**222.7**	**138.1**	**213.7**	**205.1**	**198.7**	**212.5**	**252.2**	**252.2**	**185.1**	**177.5**	**176.6**	**177.8**	**147.3**	**149.1**	**124.1**	**130.9**	**158.9**	**185.7**	**166.9**	**180.2**	**136.3**	**136.9**	**159.5**	**125.0**
Food and Foodstuffs	**63.4**	**33.7**	**71.9**	**61.7**	**64.3**	**54.5**	**19.9**	**19.9**	**37.8**	**30.8**	**36.8**	**27.3**	**42.2**	**22.5**	**33.7**	**31.9**	**44.8**	**67.4**	**42.1**	**41.0**	**32.6**	**27.5**	**40.1**	**19.7**
All Other Consumer Goods	**159.3**	**104.5**	**141.8**	**143.4**	**134.4**	**158.1**	**232.3**	**232.3**	**147.3**	**146.7**	**139.8**	**150.4**	**105.1**	**126.7**	**90.5**	**99.0**	**114.1**	**118.3**	**124.8**	**139.2**	**103.7**	**109.4**	**119.4**	**105.3**
Imports of Services	**231.8**	**247.4**	**218.3**	**189.9**	**205.5**	**229.8**	**253.8**	**253.8**	**219.3**	**226.5**	**207.8**	**210.5**	**200.1**	**184.3**	**199.3**	**181.7**	**163.6**	**193.0**	**139.8**	**147.3**	**226.5**	**152.2**	**157.2**	**175.6**
Transportation	96.5	95.3	97.0	83.6	94.3	107.3	107.4	107.4	83.0	83.8	67.9	72.8	76.7	72.4	69.8	84.8	72.9	82.4	73.9	83.0				
Passenger	12.6	12.8	8.8	7.8	15.9	10.3	13.5	13.5	12.0	10.2	7.4	8.3	6.1	6.3	6.8	5.4	5.7	4.5	5.8	4.7	--	--	--	--
Freight	83.9	82.3	88.0	75.7	78.0	94.7	93.6	93.6	70.1	72.7	59.8	64.3	70.0	65.9	62.4	79.1	66.5	77.7	68.1	77.9	--	--	--	--
Other	0.1	0.2	0.2	0.1	0.4	2.3	0.3	0.3	0.9	0.8	0.6	0.3	0.6	0.2	0.6	0.4	0.6	0.1	0.1	0.4	--	--	--	--
Travel	99.0	123.6	85.7	80.4	79.1	93.1	116.8	116.8	100.0	105.7	102.4	100.1	94.7	85.0	78.3	69.6	64.5	63.2	42.9	40.6	--	--	--	--
Communications Services	3.8	2.1	2.8	4.7	4.5	3.3	4.0	4.0	6.0	4.2	6.4	6.1	3.5	3.4	3.7	3.3	3.3	1.8	2.5	2.6	--	--	--	--
Construction Services	3.6	0.2	0.1	0.0	0.0	1.7	0.3	0.3	1.6	1.9	1.7	1.2	1.1	1.9	1.8	1.7	1.1	1.3	2.4	1.6	--	--	--	--
Insurance Services	3.6	3.4	3.3	2.9	2.8	3.3	5.9	5.9	5.3	5.7	5.3	3.5	0.9	1.4	1.7	1.6	1.3	1.7	1.5	1.4	--	--	--	--
Financial Services	0.9	0.0	0.3	1.0	0.4	0.2	0.6	0.6	0.7	0.5	0.6	0.5	0.3	0.7	0.7	0.6	0.5	0.4	0.3	0.5	--	--	--	--
Computer and Information Services	2.2	2.5	2.1	0.2	1.0	0.8	1.1	1.1	1.2	0.1	1.3	0.5	1.2	1.4	0.9	0.8	0.6	0.9	0.8	0.8	--	--	--	--
Other Business Services	22.3	20.1	27.0	17.0	23.5	20.2	17.3	17.7	16.0	17.1	18.4	20.5	16.4	11.5	37.0	17.2	14.6	33.0	12.5	13.2	--	--	--	--

-- data not available.

Sources: Bank of Tanzania (BoT) and International Monetary Fund.

Annex 7: Monthly Exports of Goods and Services

(Mn US$)

	2015												2016											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total Exports of Goods & Services	738.5	819.2	848.3	705.8	635.0	670.9	647.0	822.7	782.8	840.0	917.7	934.3	995.3	913.4	980.0	807.1	768.0	795.6	698.7	884.9	815.9	779.4	856.2	940.9
Exports of Goods	428.0	518.2	548.9	438.1	378.9	379.7	344.9	414.7	402.4	391.3	500.9	548.1	428.0	518.2	548.9	438.1	378.9	379.7	344.9	414.7	472.3	492.5	546.4	608.4
Traditional Exports	111.6	94.6	52.1	25.7	37.3	13.7	13.6	50.0	54.1	73.4	100.9	154.0	111.6	94.6	52.1	25.7	37.3	13.7	13.6	50.0	83.8	100.6	194.3	96.3
Coffee	19.2	17.7	15.1	10.5	11.1	5.4	4.4	9.5	10.6	14.0	17.2	17.4	19.2	17.7	15.1	10.5	11.1	5.4	4.4	9.5	17.2	13.6	16.5	13.9
Cotton	2.3	2.1	0.6	0.7	0.8	0.3	3.7	12.5	7.8	4.1	4.3	2.7	2.3	2.1	0.6	0.7	0.8	0.3	3.7	12.5	17.2	5.0	1.6	0.1
Tea	5.5	6.1	5.4	4.6	5.2	3.6	2.6	2.1	2.4	2.2	3.2	4.8	5.5	6.1	5.4	4.6	5.2	3.6	2.6	2.1	1.4	1.9	3.5	2.8
Tobacco	18.9	48.5	22.7	7.5	16.7	1.5	0.3	19.6	29.7	43.1	20.5	52.9	18.9	48.5	22.7	7.5	16.7	1.5	0.3	19.6	45.7	60.2	47.6	11.1
Cashewnuts	48.2	12.3	4.1	0.3	1.1	0.3	0.0	0.1	0.0	6.0	49.7	59.7	48.2	12.3	4.1	0.3	1.1	0.3	0.0	0.1	0.3	13.2	123.7	66.9
Cloves	16.5	6.9	3.8	1.3	0.4	0.2	0.0	3.8	1.8	0.3	1.9	13.1	16.5	6.9	3.8	1.3	0.4	0.2	0.0	3.8	1.5	4.9	0.0	0.1
Non-Traditional Exports	316.5	423.6	496.8	412.4	341.6	366.1	331.3	364.8	348.3	317.9	400.0	394.1	316.5	423.6	496.8	412.4	341.6	366.1	331.3	364.8	326.9	327.7	280.9	432.7
Minerals	95.8	113.5	146.1	105.6	119.1	142.9	164.2	200.7	119.6	80.3	90.5	136.3	95.8	113.5	146.1	105.6	119.1	142.9	164.2	200.7	137.8	173.5	141.2	169.1
Gold	83.7	85.4	129.6	99.5	116.9	127.3	162.2	183.9	101.5	71.4	89.2	122.1	83.7	85.4	129.6	99.5	116.9	127.3	162.2	183.9	123.0	171.1	133.4	165.7
Diamond	9.3	25.2	12.0	0.5	0.0	12.7	0.0	14.0	12.2	0.0	0.0	12.3	9.3	25.2	12.0	0.5	0.0	12.7	0.0	14.0	6.3	0.0	0.0	0.4
Others	2.9	3.0	4.5	5.6	2.3	3.0	2.0	2.9	5.9	8.9	1.3	1.9	2.9	3.0	4.5	5.6	2.3	3.0	2.0	2.9	8.5	2.4	7.8	2.9
Manufactured Goods	66.2	162.0	184.1	141.9	97.0	74.6	71.4	61.0	81.6	147.8	153.0	126.7	66.2	162.0	184.1	141.9	97.0	74.6	71.4	61.0	55.2	64.3	56.2	58.1
Cotton Yarn	0.2	0.1	1.6	0.8	0.9	0.2	0.8	1.0	0.1	1.9	2.3	0.8	0.2	0.1	1.6	0.8	0.9	0.2	0.8	1.0	1.3	0.2	0.8	1.8
Manufactured Coffee	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufactured Tobacco	1.1	3.4	3.1	3.6	2.6	3.0	3.5	2.8	2.2	4.1	3.7	2.8	1.1	3.4	3.1	3.6	2.6	3.0	3.5	2.8	2.1	0.0	0.1	0.0
Sisal Products	1.3	2.4	3.1	1.5	1.6	1.5	2.0	2.1	1.0	0.8	1.2	1.4	1.3	2.4	3.1	1.5	1.6	1.5	2.0	2.1	1.9	2.1	2.5	2.8
Others	63.5	156.0	176.4	135.9	91.9	69.9	65.1	55.1	78.3	141.0	145.8	121.7	63.5	156.0	176.4	135.9	91.9	69.9	65.1	55.1	50.0	62.0	52.8	53.5
Fish and Fish Products	12.0	15.0	16.3	12.7	15.1	13.2	9.3	12.5	12.5	19.3	10.5	10.3	12.0	15.0	16.3	12.7	15.1	13.2	9.3	12.5	8.7	7.5	10.3	9.7
Horticultural Products	2.0	2.4	1.9	2.3	2.1	2.2	2.0	2.0	1.4	2.2	2.1	2.0	2.0	2.4	1.9	2.3	2.1	2.2	2.0	2.0	2.1	2.0	1.9	1.9
Other Export Products	57.7	99.4	92.7	106.4	93.6	107.9	68.6	78.7	106.9	42.7	109.2	86.2	57.7	99.4	92.7	106.4	93.6	107.9	68.6	78.7	10.3	8.8	62.2	20.7
Re-Exports	82.7	31.3	55.6	43.5	14.6	25.2	15.8	9.8	26.4	25.6	34.8	32.5	82.7	31.3	55.6	43.5	14.6	25.2	15.8	9.8	112.8	71.5	9.0	173.3
Services Receipts	310.5	301.0	299.5	267.7	256.1	291.1	302.1	407.9	327.9	326.0	326.4	326.9	310.5	301.0	299.5	267.7	256.1	291.1	302.1	407.9	343.6	286.9	309.7	332.5
Transportation	78.3	79.4	77.7	78.8	74.9	92.7	96.6	103.4	88.4	80.9	90.1	88.0	78.3	79.4	77.7	78.8	74.9	92.7	96.6	103.4	--	--	--	--
Passenger	0.8	1.2	0.7	1.6	1.2	1.7	1.8	4.6	1.5	1.5	3.1	2.1	0.8	1.2	0.7	1.6	1.2	1.7	1.8	4.6	--	--	--	--
Freight	56.5	58.1	56.5	56.0	55.7	71.0	73.7	78.5	65.6	61.3	63.5	65.1	56.5	58.1	56.5	56.0	55.7	71.0	73.7	78.5	--	--	--	--
Other	21.0	20.1	20.5	21.2	18.0	20.1	21.1	20.3	21.4	18.1	23.5	20.8	21.0	20.1	20.5	21.2	18.0	20.1	21.1	20.3	--	--	--	--
Travel	198.3	189.3	180.5	150.3	143.5	164.0	172.3	267.8	202.1	198.8	189.9	203.7	198.3	189.3	180.5	150.3	143.5	164.0	172.3	267.8	--	--	--	--
Communications Services	4.5	4.3	4.7	4.5	3.0	1.5	2.3	2.8	5.0	7.1	5.3	4.6	4.5	4.3	4.7	4.5	3.0	1.5	2.3	2.8	--	--	--	--
Insurance Services	2.6	2.3	6.0	3.8	2.8	3.5	3.9	4.4	3.4	2.4	4.2	2.8	2.6	2.3	6.0	3.8	2.8	3.5	3.9	4.4	--	--	--	--
Financial Services	3.0	2.2	2.8	2.4	2.6	0.6	0.8	0.7	1.2	1.6	1.5	1.2	3.0	2.2	2.8	2.4	2.6	0.6	0.8	0.7	--	--	--	--
Computer & Information Services	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.8	1.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	--	--	--	--
Other Business Services	22.7	22.5	25.7	25.3	28.0	26.9	24.9	26.5	24.1	29.0	30.0	24.1	22.7	22.5	25.7	25.3	28.0	26.9	24.9	26.5	--	--	--	--

-- data not available.
Source: Bank of Tanzania and International Monetary Fund.

Annex 8: Inflation
(Mn US$)

Month	Headline Overall Index	Food & Non Alcoholic Beverages	Transport	Housing, Water,Energy	Furnishing, Housing Equipment & Maintenance	Clothing & Footwear	Restaurants & Hotels	Miscel. Goods & Services	Alcoholic & Tobacco	Communication & Entertainment	Education	Recreation & Culture	Health
Jan 2012	19.7	27.8	10.9	18.8	14.4	12.5	12.8	9.1	6.3	-0.4	2.9	4.5	3.4
Feb 2012	19.4	26.7	10.9	19.5	8.2	13.9	15.8	12.1	8.3	-0.8	4.8	8.7	2.5
Mar 2012	19.0	25.7	9.7	17.4	9.0	15.0	18.2	12.3	9.3	-0.7	4.8	9.1	2.8
Apr 2012	18.7	25.3	8.6	16.2	9.1	15.4	18.8	12.8	9.3	-0.7	4.7	9.1	3.2
May 2012	18.2	25.3	6.7	14.7	9.1	15.5	17.5	13.2	8.7	-0.7	4.7	9.2	3.2
Jun 2012	17.4	23.5	5.9	14.6	9.0	15.1	17.8	13.1	11.7	-0.9	4.7	11.7	3.3
Jul 2012	15.7	20.8	4.7	12.5	8.7	15.0	16.1	10.8	18.0	-1.6	4.7	11.9	3.7
Aug 2012	14.9	18.8	3.8	14.4	8.6	14.4	16.0	11.6	20.4	-1.7	4.7	11.0	3.3
Sep 2012	13.5	15.6	1.7	16.5	8.3	13.4	17.5	8.3	20.3	-1.7	4.7	11.3	3.0
Oct 2012	12.9	14.9	2.7	17.4	7.9	12.4	16.3	8.4	20.3	-1.8	4.7	11.1	2.3
Nov 2012	12.1	13.4	2.3	17.3	8.4	12.0	16.1	8.0	21.3	-1.7	4.7	10.8	2.9
Dec 2012	12.1	13.1	3.2	17.1	8.2	11.6	15.7	9.1	22.8	-1.9	4.7	10.5	3.4
Jan 2013	10.9	11.9	2.7	15.3	7.2	9.8	13.5	8.8	23.0	-1.9	4.2	8.9	2.9
Jan 2013	10.4	12.0	2.5	16.3	6.1	7.9	9.0	6.6	18.9	-0.4	2.1	3.6	3.0
Jan 2013	9.8	11.1	1.3	20.4	5.1	6.4	6.8	5.0	17.4	-0.4	2.2	3.1	3.7
Jan 2013	9.4	10.2	4.2	19.9	4.6	5.8	5.9	5.2	17.7	-0.6	2.2	3.5	3.2
Jan 2013	8.3	8.0	7.5	19.0	4.4	5.3	5.5	4.9	18.0	-0.7	2.2	3.5	3.0
Jan 2013	7.6	7.6	7.1	15.4	4.0	5.2	5.5	4.8	15.0	-0.6	2.2	0.3	2.9
Jan 2013	7.5	8.0	7.5	14.4	3.8	5.2	5.9	5.9	12.0	-0.1	2.4	0.2	2.7
Jan 2013	6.7	6.5	9.0	14.3	3.5	5.2	4.9	4.9	10.6	0.0	2.4	0.7	2.9
Jan 2013	6.1	6.5	7.8	9.6	3.2	4.9	2.2	6.5	10.4	0.0	2.4	0.4	2.9
Jan 2013	6.3	6.9	9.3	9.0	3.3	4.6	2.9	6.0	10.7	0.2	2.4	0.5	2.8
Jan 2013	6.2	7.2	8.6	8.7	2.5	4.4	2.7	5.6	9.9	0.1	2.4	0.7	2.1
Jan 2013	5.6	6.0	8.2	10.2	2.3	3.9	2.2	4.0	7.8	0.5	2.4	1.0	1.5
Jan 2014	6.0	6.0	8.9	14.9	2.0	3.9	1.7	4.1	7.1	0.5	5.9	0.6	1.8
Feb 2014	6.0	6.2	9.0	13.3	1.8	3.5	1.5	4.6	7.1	0.5	5.3	1.2	2.0
Mar 2014	6.1	7.2	8.7	9.0	1.8	3.3	1.7	5.2	7.1	0.5	5.3	1.3	2.1
Apr 2014	6.3	7.8	5.3	9.2	2.5	3.2	2.2	7.7	6.8	0.7	5.3	0.8	3.6
May 2014	6.5	8.7	2.3	8.3	2.4	3.1	2.6	8.3	6.6	0.7	5.3	0.6	3.6

Jun 2014	6.4	8.1	2.7	11.3	2.2	2.9	2.6	8.1	5.4	1.6	5.3	0.8	4.2
Jul 2014	6.5	8.1	2.4	11.7	2.1	2.8	2.4	6.8	4.7	1.1	5.1	0.6	3.9
Aug 2014	6.7	8.8	2.1	10.3	2.0	2.4	2.7	6.6	4.6	1.0	5.1	0.5	4.0
Sep 2014	6.6	8.5	2.0	10.7	1.7	2.2	4.1	5.6	5.0	0.7	5.1	0.6	4.7
Oct 2014	5.9	7.1	1.6	10.8	1.5	2.7	3.6	5.5	5.4	0.7	5.1	0.7	4.6
Nov 2014	5.8	7.0	1.6	11.3	1.4	2.8	3.2	5.6	5.4	0.6	5.1	0.7	4.6
Dec 2014	4.8	5.7	0.5	7.8	1.2	3.2	3.5	5.3	5.5	0.4	5.1	0.6	4.5
Jan 2015	4.0	4.9	0.0	4.9	1.5	3.1	3.6	5.3	5.4	0.5	1.2	0.6	4.7
Feb 2015	4.2	4.9	-1.4	6.6	1.5	3.4	5.2	5.2	5.4	0.7	2.2	0.7	4.4
Mar 2015	4.3	5.9	-2.4	3.6	1.0	3.7	5.1	4.8	5.4	0.6	2.2	0.3	3.2
Apr 2015	4.5	7.1	-2.3	0.6	0.3	3.6	5.3	1.6	5.3	0.6	3.3	0.3	2.1
May 2015	5.3	8.5	5.0	2.0	0.9	4.1	4.8	1.4	5.2	0.9	3.5	0.9	2.3
Jun 2015	6.1	10.1	-1.3	1.0	0.9	4.5	4.3	1.1	5.9	-0.1	3.3	1.5	1.9
Jul 2015	6.4	10.6	-0.5	0.2	1.6	4.5	5.6	1.6	3.4	-0.2	3.3	1.3	2.8
Aug 2015	6.4	10.2	0.9	0.2	1.9	5.3	5.2	1.8	2.6	-0.4	3.3	1.5	3.0
Sep 2015	6.1	9.6	0.7	1.3	2.2	4.6	3.7	2.5	2.0	0.0	3.3	3.3	2.4
Oct 2015	6.3	10.2	-0.1	1.3	2.0	4.5	3.9	3.0	1.2	0.2	3.3	3.3	2.9
Nov 2015	6.6	11.2	-0.2	-1.7	2.4	4.5	4.4	3.3	1.1	0.2	3.3	3.2	3.3
Dec 2015	6.8	11.1	1.0	-0.3	3.0	4.1	3.9	3.4	1.2	0.4	3.3	3.2	4.0
Jan 2016	6.5	10.7	1.3	1.1	3.5	4.8	4.3	4.0	1.7	0.5	3.4	3.6	4.4
Feb 2016	5.6	9.5	2.0	0.8	3.1	4.5	2.8	3.9	1.8	0.4	3.6	3.3	6.0
Mar 2016	5.4	8.3	2.6	5.5	3.8	4.2	2.8	3.6	2.1	-1.0	2.6	4.1	6.2
Apr 2016	5.1	7.1	2.0	7.0	4.9	4.3	4.8	3.9	4.1	-1.0	2.6	4.1	6.4
May 2016	5.2	7.0	1.6	8.8	4.4	4.5	4.9	3.9	4.9	-0.6	2.7	3.9	6.6
Jun 2016	5.5	8.1	1.3	7.6	4.2	4.6	5.3	3.7	4.9	-0.6	2.7	3.4	6.8
Jul 2016	5.1	7.6	0.4	7.4	3.4	4.2	4.3	4.0	5.5	-0.4	2.8	3.3	6.0
Aug 2016	4.9	6.9	-0.4	6.8	3.6	3.7	5.2	3.9	5.2	-0.2	3.0	3.5	5.9
Sep 2016	4.5	6.0	-0.8	6.5	3.5	4.2	5.2	3.3	5.3	-0.4	2.9	1.2	6.0
Oct 2016	4.5	6.0	0.1	7.2	3.6	3.8	4.3	3.2	5.3	-0.7	2.9	1.5	5.8
Nov 2016	4.8	6.2	0.7	10.9	4.3	3.9	4.4	3.1	5.6	-0.6	2.9	1.8	5.5
Dec 2016	5.0	7.0	0.3	9.9	4.0	3.7	4.2	2.9	5.1	-0.9	2.6	1.8	4.7
Jan 2017	5.2	7.6	0.6	9.5	3.3	3.4	3.9	2.3	5.0	-0.9	1.8	0.7	4.8
Feb 2017	5.5	8.7	0.6	8.7	3.8	3.2	3.9	1.9	5.2	-1.5	0.8	1.4	3.3

Source:National Bureau of Statistics.

Annex 9: Food Crop Prices

(TZS per 100kg)

	Maize			Rice			Wheat			Beans			Sorghum	
Month	Arusha	DSM	Mbeya	Arusha	DSM	Mbeya	Arusha	DSM	Mbeya	Arusha	DSM	Mbeya	Arusha	DSM
Jan 2014	50,250	54,792	44,625	130,000	143,958	114,167	80,688	108,750	105,000	132,625	156,458	132,708	62,333	69,167
Feb 2014	50,773	53,864	45,364	127,727	128,182	114,318	79,318	109,091	107,000	139,545	157,727	135,000	60,773	70,364
Mar 2014	49,750	57,750	47,458	130,000	148,042	128,750	78,667	98,542	110,000	146,875	167,708	135,000	56,417	70,364
Apr 2014	50,400	56,000	41,850	130,000	143,625	139,000	77,900	115,625	113,500	136,500	164,250	135,100	57,000	72,375
May 2014	53,654	57,789	39,923	133,846	146,931	139,038	82,500	130,673	115,000	144,615	171,298	134,654	59,462	72,572
Jun 2014	49,192	54,692	44,077	129,231	134,923	121,731	81,423	129,808	111,923	132,500	174,872	132,500	54,808	73,395
Jul 2014	45,227	49,700	40,364	135,000	131,492	117,591	77,318	123,045	106,591	127,955	157,007	125,000	52,227	68,583
Aug 2014	40,458	42,398	34,958	127,083	123,750	107,292	73,375	121,389	97,500	127,917	146,250	115,000	52,500	66,181
Sep 2014	38,577	34,212	36,615	128,846	123,173	104,423	75,577	120,193	102,308	137,885	159,423	116,538	54,346	66,539
Oct 2014	36,250	35,107	39,714	131,071	131,126	116,786	78,036	118,956	111,429	136,786	165,119	118,571	54,893	66,742
Nov 2014	35,125	37,334	34,375	140,000	145,729	128,750	76,792	121,875	112,500	152,083	168,646	123,125	50,667	66,771
Dec 2014	35,712	39,452	33,538	143,846	151,538	134,731	76,923	122,116	115,000	149,423	165,866	123,462	46,808	59,308
Jan 2015	36,521	36,136	32,727	150,625	155,682	126,818	77,500	130,000	115,000	162,083	167,500	127,273	53,792	57,273
Feb 2015	35,500	37,444	32,625	150,000	162,778	139,375	77,000	146,111	115,000	161,250	178,333	161,250	49,250	58,889
Mar 2015	40,167	41,850	32,000	156,250	179,500	143,333	83,833	140,750	115,000	151,458	181,250	122,500	47,958	59,500
Apr 2015	52,909	52,636	39,955	159,455	180,909	154,182	83,955	122,727	115,000	157,955	174,818	122,500	50,955	64,545
May 2015	52,563	51,333	44,667	175,000	178,333	141,667	78,875	120,417	117,083	171,875	188,333	122,500	53,750	68,958
Jun 2015	55,083	53,813	44,667	171,667	170,000	139,833	78,833	110,000	127,500	174,167	205,625	122,500	55,333	80,000
Jul 2015	58,964	58,730	42,238	169,345	175,411	134,792	77,500	120,833	101,539	138,897	175,411	117,024	59,940	76,486
Aug 2015	71,455	59,115	46,676	159,470	166,563	136,167	77,848	117,090	97,611	130,540	175,000	113,259	69,500	75,146
Sep 2015	67,402	58,872	49,667	162,803	162,969	133,954	77,273	113,250	98,796	136,800	171,042	127,500	75,515	67,663
Oct 2015	60,883	62,457	51,100	170,333	170,313	149,200	77,389	111,200	97,500	145,063	164,563	133,500	78,944	80,825
Nov 2015	66,731	67,325	57,208	182,212	183,194	151,125	77,500	118,120	102,500	170,128	186,768	142,500	80,000	73,029
Dec 2015	69,600	65,027	61,091	174,000	190,581	161,909	77,861	121,364	104,773	161,000	194,773	142,500	78,500	76,742
Jan 2016	70,515	64,942	68,000	158,859	193,322	162,500	83,364	129,195	116,818	168,208	201,097	143,182	83,542	88,276
Feb 2016	66,269	66,122	64,455	183,942	194,093	162,500	78,917	134,880	122,273	145,756	194,802	145,000	71,109	106,756
Mar 2016	59,908	64,428	60,400	185,250	191,493	171,000	75,967	124,484	125,000	131,617	183,556	157,000	74,733	109,673
Apr 2016	54,612	63,417	53,875	168,846	187,139	163,333	73,000	120,833	131,875	124,833	177,618	152,500	68,038	117,167
May 2016	47,955	58,881	53,400	161,515	173,144	154,250	88,894	109,630	119,500	131,970	176,486	137,500	63,773	111,074
Jun 2016	50,972	59,974	50,923	158,194	162,884	136,346	77,806	115,019	110,385	122,472	177,866	135,192	68,042	99,103
Jul 2016	52,188	60,000	48,708	163,146	164,730	135,375	77,667	119,286	113,750	133,035	178,585	135,000	62,542	99,405
Aug 2016	49,625	58,840	49,038	164,167	163,770	138,846	75,104	117,708	110,000	137,660	185,470	135,000	55,389	95,833
Sep 2016	51,514	59,702	49,833	160,451	161,635	136,250	74,986	116,667	114,792	151,354	179,110	135,000	71,264	96,167
Oct 2016	59,674	65,310	53,364	159,410	163,929	140,000	77,625	119,643	116,818	153,299	188,095	135,000	69,208	102,500
Nov 2016	67,389	74,566	59,583	162,708	162,866	140,000	77,764	114,848	117,500	152,882	188,923	135,000	65,215	101,852
Dec 2016	77,381	92,193	62,800	156,845	163,115	140,000	77,500	115,167	118,500	155,952	188,079	136,400	65,262	99,071
Jan 2017	97,833	98,298	79,031	165,000	172,443	146,500	76,667	117,413	116,241	176,875	194,732	140,583	73,500	106,424
Feb 2017	96,833	111,000	80,556	168,750	191,413	160,889	81,417	131,250	118,375	168,750	205,357	152,188	71,875	120,435

Source: Ministry of Industry, Trade, and Marketing.

Annex 10: Average Food Wholesale Prices

(TZS per 100kg)

Month	Beans	Maize	Rice	Round Potatoes	Sorghum
Jan 2014	137,265	56,152	124,104	72,145	75,425
Feb 2014	137,265	56,152	124,104	72,145	75,425
Mar 2014	141,477	50,632	128,953	69,178	70,264
Apr 2014	138,796	49,970	135,418	67,986	68,285
May 2014	141,767	48,111	134,266	69,551	74,421
Jun 2014	139,049	48,099	123,060	62,664	69,972
Jul 2014	130,472	44,932	116,644	63,838	64,966
Aug 2014	130,656	41,414	113,291	68,420	55,512
Sep 2014	133,970	40,552	115,675	67,112	56,083
Oct 2014	142,283	39,020	123,562	68,639	62,631
Nov 2014	146,785	38,190	135,062	69,846	58,266
Dec 2014	148,541	38,781	141,923	73,360	66,383
Jan 2015	153,210	37,929	144,929	73,316	63,886
Feb 2015	150,431	37,205	149,765	69,975	62,227
Mar 2015	149,534	39,940	161,422	68,249	63,548
Apr 2015	151,733	48,628	166,902	71,221	65,779
May 2015	156,789	47,163	162,702	77,508	69,222
Jun 2015	163,723	47,429	155,360	77,753	69,381
Jul 2015	158,313	52,154	153,402	71,723	67,397
Aug 2015	158,477	56,310	158,170	73,096	78,478
Sep 2015	158,241	56,840	161,727	70,011	69,548
Oct 2015	164,537	58,009	170,589	79,483	76,586
Nov 2015	174,853	63,404	176,644	87,659	73,399
Dec 2015	172,852	65,104	176,237	82,791	81,638
Jan 2016	173,501	67,045	178,803	78,981	85,907
Feb 2016	171,919	67,316	184,137	77,635	92,338
Mar 2016	158,487	64,207	178,886	77,353	91,721
Apr 2016	151,563	57,945	174,746	86,147	90,966
May 2016	150,430	54,992	158,951	91,921	93,854
Jun 2016	149,125	53,987	148,129	89,686	97,811
Jul 2016	149,624	55,803	144,652	84,007	89,777
Aug 2016	149,699	55,855	139,596	82,074	89,886
Sep 2016	151,357	56,984	138,551	77,548	84,896
Oct 2016	164,656	64,054	145,466	81,764	96,778
Nov 2016	169,726	72,620	147,787	81,386	102,691
Dec 2016	171,743	85,160	152,274	79,426	104,545
Jan 2017	175,602	93,356	162,745	83,468	94,900
Feb 2017	183,213	105,108	175,278	79,567	100,626

Source: Ministry of Industry, Trade, and Marketing.

Annex 11: Interest Rates Structure

(Percent)

Item	2015												2016											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
A: Domestic Currency																								
1. Interbank Cash Market Rates																								
Overnight	10.1	6.9	6.4	9.7	6.1	18.0	30.0	9.8	6.3	12.3	10.5	7.1	11.9	13.3	10.1	11.1	12.3	12.8	14.4	16.3	16.2	15.5	13.2	13.7
2 to 7 days	10.7	7.6	6.4	8.9	7.1	21.1	29.4	9.8	7.3	12.8	12.1	14.4	12.5	13.4	11.1	11.6	12.6	13.2	14.6	16.5	16.5	15.9	13.5	13.2
8 to 14 days	9.8	5.4	7.7	9.4	7.9	23.3	33.6	14.7	9.1	9.1	12.4	12.4	15.0	13.7	11.1	6.8	12.5	12.6	15.0	16.7	16.5	15.0	13.5	13.6
15 to 30 days	14.5	8.1	4.3	10.3	10.3	30.0	18.5	18.5	18.5	18.5	18.5	18.5	12.2	18.0	11.5	11.5	11.5	10.5	13.0	14.6	14.5	16.3	16.3	13.0
31 to 60 days	10.0	9.5	9.5	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	16.0	16.0	16.0	16.5	16.5	12.9
61 to 90 days	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	14.6
91 to 180 days	14.0	25.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
181 and above	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
Overall Interbank cash market rate	10.3	7.1	6.4	9.5	6.4	18.7	29.7	9.8	6.6	12.4	10.7	7.3	12.0	13.3	10.4	11.2	12.3	12.8	14.5	16.4	16.2	15.6	13.4	13.5
2. Lombard Rate	12.2	9.0	7.7	11.7	9.1	27.0	45.0	17.7	10.6	18.5	15.7	11.1	17.8	19.9	15.2	16.6	18.4	19.1	21.6	24.5	24.2	23.3	19.9	20.5
3. REPO Rate	4.2	4.2	4.2	6.0	6.0	6.0	22.4	11.8	6.1	6.1	6.3	5.4	5.4	5.4	5.4	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
4.Treasury Bills Rates																								
35 days	8.1	7.5	2.7	2.4	2.6	5.5	6.3	6.8	7.1	7.4	7.4	7.4	7.4	7.4	7.4	7.3	7.4	7.3	7.4	7.3	7.3	7.3	7.0	6.8
91 days	13.9	9.9	7.1	6.9	7.3	7.4	8.0	8.1	8.3	9.5	10.0	9.3	9.0	8.8	8.6	8.2	8.0	7.3	7.6	7.5	7.5	7.5	7.3	7.1
182 days	14.4	12.4	9.1	9.8	10.7	11.5	12.9	13.6	13.8	14.8	16.5	17.2	17.7	17.8	17.1	15.8	14.9	15.1	15.7	15.7	15.5	15.5	14.9	14.5
364 days	14.6	12.7	10.0	10.3	11.4	12.8	13.9	14.5	14.5	15.5	18.3	18.7	18.8	19.0	17.8	16.6	15.5	15.4	15.9	15.9	15.9	16.2	15.9	15.8
Overall Treasury bills rate	14.4	12.5	9.0	9.1	10.6	10.0	11.2	13.8	13.9	14.4	17.8	18.3	18.6	18.5	17.4	16.2	15.1	15.0	15.8	15.8	15.7	15.7	15.3	15.1
5.Treasury Bonds Rates																								
2-years	15.3	15.3	12.3	12.3	14.0	14.0	14.0	15.0	15.0	16.8	16.8	16.8	17.3	17.3	17.5	17.5	17.3	17.3	17.3	17.4	17.4	17.7	17.7	17.7
5-years	16.0	15.3	15.3	11.4	11.4	11.4	16.5	16.5	16.9	16.9	16.9	17.5	17.5	18.8	18.8	17.1	17.1	17.1	17.8	17.8	17.9	17.9	18.0	18.0
7-years	16.3	16.3	16.3	15.6	15.6	16.6	16.6	16.6	16.9	16.9	17.6	17.6	16.2	16.2	18.2	18.2	18.2	17.5	17.5	17.9	17.9	17.9	18.3	18.3
10-years	16.5	16.9	16.9	16.7	16.7	17.0	17.0	17.0	17.6	17.6	18.1	17.6	17.6	18.8	18.8	18.9	18.9	18.0	18.0	18.0	17.6	17.6	17.6	17.6
15-years	17.9	17.9	17.5	17.5	17.5	17.5	17.5	17.5	18.0	18.0	18.0	18.0	18.0	18.0	19.8	19.8	18.8	18.8	18.9	18.9	18.9	18.9	18.9	18.7
6. Discount Rate or Bank Rate	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
7. Savings Deposit Rate	3.2	3.5	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.1	3.5
8. Overall Time Deposits Rate	9.0	7.6	9.3	8.1	8.7	9.0	9.2	9.1	9.1	9.2	9.2	9.3	9.1	9.1	8.6	9.0	9.9	10.2	10.0	8.8	9.0	9.2	8.6	8.8
1 month	9.6	6.6	10.8	9.5	9.2	10.1	10.5	10.2	9.8	10.1	10.1	10.2	10.4	10.0	10.5	10.9	11.5	10.6	11.3	10.3	9.8	10.0	7.7	7.8
2 months	9.5	7.0	10.1	7.4	9.8	9.3	10.5	10.5	10.8	10.7	10.6	10.4	10.0	10.3	7.5	8.6	10.7	11.6	11.2	10.2	9.3	10.4	9.7	9.1
3 months	10.8	8.7	10.9	8.4	9.4	9.7	10.2	9.9	9.7	10.6	10.4	10.2	9.8	11.1	10.2	9.9	10.7	11.0	10.6	9.5	11.0	10.4	10.2	11.5
6 months	10.6	10.5	10.5	9.8	10.1	10.6	10.2	9.8	9.9	9.6	10.0	10.3	10.1	9.8	9.8	9.6	10.6	10.7	9.7	9.2	10.0	10.5	10.1	10.0
12 months	10.8	10.7	11.0	10.5	10.7	10.9	10.5	10.6	11.0	10.9	11.0	11.2	11.0	11.0	11.3	11.6	11.8	12.4	12.4	11.5	11.5	11.4	10.9	11.0
24 months	9.0	6.5	8.7	8.4	9.3	9.4	9.7	9.9	9.8	9.9	9.7	9.9	9.4	9.2	8.6	9.6	11.6	12.7	12.0	8.1	8.6	8.8	8.3	9.4
9. Negotiated Deposit Rate	10.0	9.7	9.4	9.5	9.4	8.6	11.3	11.4	11.7	10.9	10.4	11.2	11.3	11.2	11.0	10.9	11.4	11.2	11.9	11.8	12.0	11.7	12.0	11.3
10. Overall Lending rate	15.7	16.1	16.1	16.2	16.1	16.1	16.1	16.1	16.2	16.1	16.1	16.4	16.3	16.4	16.3	16.1	16.0	16.0	15.8	15.8	15.8	15.7	15.7	15.7
Short-term (up to 1year)	14.2	14.4	14.3	13.7	14.3	14.7	14.3	14.4	14.3	14.1	14.1	14.2	14.3	14.2	14.6	14.0	14.2	13.7	13.3	13.4	13.2	13.4	12.8	12.9
Medium-term (1-2 years)	16.3	16.8	16.3	16.3	16.8	16.6	16.9	17.2	17.2	17.2	17.3	17.7	17.8	17.8	17.6	17.6	16.1	17.1	16.6	16.6	16.9	16.5	16.4	16.7
Medium-term (2-3 years)	15.3	16.9	16.9	17.3	16.5	16.5	16.5	16.4	16.6	16.5	16.6	16.5	16.5	16.5	16.0	15.9	16.3	16.1	15.9	15.9	15.7	15.9	15.7	16.2
Long-term (3-5 years)	15.3	15.0	15.5	15.9	15.4	15.1	15.5	15.4	15.2	15.1	15.1	15.9	15.8	15.7	15.6	15.7	15.7	15.6	15.6	15.7	15.8	15.4	15.6	15.2
Term Loans (over 5 years)	17.3	17.6	17.6	18.0	17.4	17.5	17.2	17.3	17.7	17.5	17.7	17.7	17.1	17.9	17.7	17.5	17.5	17.6	17.4	17.5	17.5	17.6	17.8	17.4
11. Negotiated Lending Rate	12.6	12.3	12.0	12.5	12.7	12.3	12.9	11.8	13.8	13.8	13.7	14.4	12.2	12.0	11.3	12.2	11.8	12.1	12.0	11.9	12.3	12.3	13.1	12.5
B: Foreign Currency																								
Savings Deposits Rate	0.8	1.0	1.0	0.9	1.2	1.2	0.7	2.0	1.8	1.1	0.9	0.8	1.0	1.2	1.0	1.8	1.6	1.6	1.4	1.4	1.4	1.4	1.5	1.7
Overall Time Deposits Rate	3.5	3.6	3.7	3.5	3.3	3.3	2.7	2.9	3.0	2.6	2.7	2.8	2.5	2.7	3.3	2.7	2.8	2.3	2.7	2.3	2.5	2.4	2.5	2.9
1-months	3.2	3.3	3.7	3.6	4.2	4.2	2.5	2.9	3.4	2.2	2.4	2.6	1.7	2.7	2.9	2.4	2.9	3.0	1.8	1.7	2.1	2.6	2.8	3.1
2-months	3.2	3.7	3.7	3.1	3.8	3.8	2.7	2.6	2.6	2.4	2.7	2.5	2.5	2.8	3.4	2.8	3.4	2.3	3.5	2.2	3.1	2.9	2.8	3.4
3-months	3.5	3.5	2.9	3.7	2.6	2.6	2.5	2.9	3.2	2.7	2.8	2.6	2.7	2.3	3.3	2.9	3.3	1.7	2.6	3.1	2.9	2.7	3.0	3.9
6-months	3.4	4.1	4.2	3.6	2.9	2.9	2.6	3.1	2.9	2.7	2.8	3.0	2.8	2.8	3.5	2.5	2.6	2.3	2.7	2.8	2.5	2.2	2.2	1.7
12-months	4.4	3.4	4.0	3.3	2.9	2.9	3.0	3.1	2.8	3.1	3.1	3.4	2.9	3.1	3.3	3.0	1.8	2.2	3.0	1.8	1.7	1.7	1.8	2.5
Overall Lending Rate	6.1	6.0	5.8	5.5	5.4	5.4	6.6	5.8	5.4	5.9	6.4	6.7	6.5	6.8	4.8	6.8	6.9	6.9	7.4	7.4	7.4	7.4	7.5	7.1
Short-term (up to 1year)	3.5	3.4	3.2	3.1	2.8	2.8	4.7	4.0	3.2	3.3	3.2	4.2	3.2	4.2	4.2	3.1	5.1	5.0	5.4	5.4	5.3	5.4	6.2	4.5
Medium-term (1-2 years)	6.6	6.6	6.6	6.0	6.1	6.1	8.2	7.5	6.2	6.0	7.5	7.7	7.7	7.7	7.3	8.7	7.7	7.8	7.9	8.0	7.8	7.8	7.8	7.9
Medium-term (2-3 years)	7.8	7.6	6.1	6.1	6.1	6.2	7.3	8.4	7.6	8.2	8.1	8.1	8.1	7.4	3.5	7.2	7.4	7.8	8.1	8.1	8.1	8.1	7.5	7.4
Long-term (3-5 years)	6.3	6.3	6.1	6.2	7.0	7.1	8.0	4.1	5.1	7.0	7.0	7.6	7.5	8.1	5.7	7.0	6.6	6.6	6.8	6.7	6.8	6.8	7.0	6.7
Term Loans (over 5 years)	6.1	6.1	7.1	6.2	5.1	5.1	5.1	5.1	5.1	5.1	6.1	6.1	6.1	6.5	3.2	7.8	7.4	7.5	8.9	8.9	8.8	8.9	9.0	8.9

Prices for Mbeya not regularly collected.

Source: Ministry of Industry, Trade, and Marketing.

Annex 12: Monetary Aggregates

(Percent of GDP, except where noted otherwise)

Item	2010	2011	2012	2013	2014	2015	2016
Monetary aggregates							
M3	25.3	24.7	24.0	22.7	23.3	24.3	23.4
M2	18.5	17.5	17.5	16.8	17.5	17.4	17.0
M3 Growth Rate (Percent)	25.4	18.2	13.1	10.0	15.6	18.8	2.9
M2 Growth Rate (Percent)	21.8	15.0	16.0	10.9	17.0	13.4	4.7
Domestic credit							
Total Domestic Credit	15.6	17.2	18.1	18.2	20.2	22.4	21.5
Total Domestic Credit (Percent)	32.8	33.8	22.0	17.4	24.3	26.8	2.5
Private Sector Credit		14.4	14.7	2.8	2.5	17.1	17.1
Private Sector Credit growth (Percent)	20.0	27.2	18.2	15.3	19.4	24.8	7.2
Interest rates structure (Percent)							
Overall Tbills Rate (Period Average)	4.8	8.3	13.6	14.2	13.6	12.9	16.2
Average Lending Rate	14.3	15.0	15.6	15.8	16.2	16.1	16.0
Average Deposit Rate	5.4	6.2	8.3	8.7	8.4	8.9	9.2

Source: Bank of Tanzania.

Annex 13: National Debt Developments

(Mn US$)

	2015												2016											
Item	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. Overal Total Debt Committed	19446	18572	18274	19304	19117	20129	20625	20634	20607	20818	20562	22828	23054	23146	23131	22970	22996	23118	23539	24223	24197	23980	23852	23630
Disbursed outstanding debt	13188	13291	13233	13367	13301	13959	13946	14014	13918	13865	13781	14992	15163	15274	15376	15549	15797	15948	15927	16029	16018	15850	15769	15622
Undisbursed debt	6258	5281	5041	5937	5816	6171	6679	6620	6689	6954	6780	7837	7891	7872	7755	7421	7198	7170	7612	8194	8179	8129	8083	8008
2. Disbursed Debt by Creditor Categorya	13188	13291	13233	13367	13301	13959	13946	14014	13918	13965	13781	14992	15163	15274	15376	15549	15797	15948	15927	16029	16018	15850	15769	15622
Bilateral debt	1046	1045	1041	928	916	927	927	930	930	932	928	942	979	1002	1023	1036	1028	1113	1110	1119	1127	1107	1076	1074
Multilateral debt	6658	6774	6679	6771	6744	7149	7134	7154	7162	7190	7196	7815	7742	7835	8001	8076	8065	8044	8091	8184	8243	8116	8071	8002
Commercial debt	4545	4533	4567	4704	4603	4840	4841	4863	4805	4822	4739	5213	5291	5282	5199	5264	5504	5573	5281	5275	5196	5186	5186	5113
Export credits	939	938	947	963	1038	1043	1044	1067	1021	1022	918	1023	1152	1153	1153	1174	1200	1218	1446	1451	1453	1442	1435	1434
3. Disbursded Debt by Borrower Categorya	13188	13291	13233	13367	13301	13959	13946	14014	13918	13965	13781	14992	15163	15274	15376	15549	15797	15948	15927	16029	16018	15850	15769	15622
Central Government	10872	10975	10913	10901	10848	11476	11461	11502	11537	11615	11719	12391	12387	12498	12614	12727	12788	12945	12926	13022	13004	12842	12768	12653
Parastatal Companies	464	464	455	453	459	462	464	432	443	443	406	404	357	358	372	373	370	337	334	336	337	331	327	294
Private Sector	1852	1852	1865	2013	1995	2021	2021	2080	1939	1907	1657	2197	2419	2417	2391	2449	2640	2667	2667	2670	2678	2678	2674	2674
4. Disbursed Debt by Use of Fundsa	13188	13291	13233	2360	2242	2287	2268	2278	2270	2280	2333	14992	15163	15274	15376	15549	15798	15948	15927	16029	16018	15850	15769	15954
BOP & Budget Support	2366	2319	2306	2922	2893	3158	3214	3223	3195	3190	3023	2501	2479	2494	2462	2480	2497	2544	2693	2633	2646	2635	2613	2437
Transport & Telecommunication	2894	2917	2899	573	575	580	575	577	526	537	512	3362	3508	3626	3642	3682	3719	3649	3583	3624	3622	3605	3580	3652
Agriculture	565	583	569	2109	2213	2230	2227	2236	2318	2309	2403	567	556	560	551	568	575	616	612	614	614	611	606	1036
Energy & Mining	2067	2066	2092	325	318	331	329	333	307	310	312	2586	2561	2568	2557	2580	2525	2701	2679	2736	3502	3483	3460	2636
Industries	318	322	324	2114	2084	2164	2144	2153	2004	2038	2003	336	339	340	342	393	397	400	403	405	398	397	395	400
Social Welfare & Education	2071	2121	2098	599	599	611	606	616	666	660	520	2173	2166	2198	2261	2289	2331	2350	2298	2272	1549	1542	1714	2261
Finance and Insurance	469	599	597	93	93	94	93	94	85	87	79	633	676	598	674	637	708	733	763	783	753	750	745	738
Tourism	97	97	93	538	533	533	537	540	548	546	595	83	77	78	67	42	43	47	44	48	54	53	53	65
Others	2340	2265	2255	2271	2285	2504	2491	2503	1999	2010	2002	2176	2180	2184	2181	2230	2311	2175	2139	2169	2149	2046	1871	1939
5. Total Amount of Loan Contractedb	1	0	0	59	2	200	15	2	1	3	4	113	10	32	246	24	20	27	7	76	1	24	146	23
Government	0	0	0	0	0	200	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Parastatal Companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Private	1	0	0	59	2	0	15	2	1	3	4	113	10	32	246	24	20	27	7	76	1	24	146	23
6. Disbursementsb	62	70	61	52	53	536	44	55	8	75	128	171	53	72	173	114	363	199	84	89	64	25	150	146
Government	60	70	60	52	53	488	41	48	7	72	127	69	23	62	151	37	137	164	47	75	46	18	119	133
Parastatal Companies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Private	1	1	1	0	0	48	3	8	1	3	1	102	30	10	23	78	226	35	37	14	18	7	31	14
7. Actual Debt Serviceb	21	16	40	33	14	30	23	18	35	39	23	54	59	122	78	91	64	82	64	28	149	37	15	129
Principal	5	12	4	24	10	28	5	14	8	27	17	17	24	90	38	41	47	73	45	21	95	27	9	105
Interest	16	4	36	9	5	1	18	5	27	12	6	37	35	32	40	51	17	9	19	7	54	10	6	24
Others	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8. Net Transfersb	40	54	21	19	39	506	21	37	-27	36	105	118	-6	-50	95	23	299	117	20	62	-85	-12	135	17
9.Total Arrears by Creditors Categorya	3280	3145	3208	3082	3076	3147	3143	3068	2996	2988	2766	2835	2882	2940	3195	2363	2362	2351	2487	2482	2448	2504	2511	2748
Principal	1822	1677	1744	1768	1775	1811	1814	1720	1593	1581	1286	1342	1305	1353	1591	1135	1125	1118	1236	1233	1190	1192	1192	1369
Bilateral	374	365	427	426	420	427	429	308	309	309	308	319	271	319	325	325	323	328	327	327	329	328	328	336
Multilateral	28	26	27	31	31	35	34	39	59	56	42	46	48	49	61	36	28	28	33	32	36	36	35	34
Commercial	861	726	719	721	740	755	755	782	729	729	521	562	562	562	625	439	431	416	480	495	455	459	458	525
Export Credits	560	560	571	590	585	595	597	590	496	488	416	416	423	424	580	335	342	346	396	378	370	370	371	474
Interest	1457	1468	1465	1314	1301	1336	1328	1349	1402	1407	1480	1493	1577	1587	1604	1227	1238	1233	1251	1249	1259	1312	1320	1379
Bilateral	827	832	827	676	671	678	673	684	684	685	683	685	715	719	724	729	730	730	730	735	738	735	733	759
Multilateral	13	12	11	14	14	11	13	13	15	15	16	16	16	16	17	8	10	8	8	8	9	11	12	12
Commercial	423	427	429	422	421	440	440	437	471	463	460	468	481	481	489	290	297	295	291	285	290	329	333	339
Export Credits	194	197	198	202	196	206	202	215	232	245	321	324	364	371	375	201	201	199	222	220	221	237	242	269
10. External Debt Stock	14645	14759	14698	14680	14602	15295	15274	15362	15320	15372	15261	16485	16740	16861	16980	16777	17035	17181	17178	17278	17277	17368	17332	17333
11. Domestic Debt Stock	4288	4139	4204	4015	4551	4253	3591	3643	3642	3850	3913	3997	4046	4233	4345	4453	4595	4607	4694	4555	4641	4680	4684	4788
12. Total Debt Stock	18933	18898	18902	18696	19153	19548	18865	19006	18962	19221	19174	20482	20786	21093	21325	21230	21630	21788	21872	21832	21918	22048	22015	22122
End Period Exchange Rate	1746	1792	1786	1829	1999	1974	2086	2136	2149	2177	2149	2149	2177	2179	2180	2179	2182	2179	2179	2177	2175	2175	2171	2173

Note: End of Period; b Period Average; P = Provisional Statistics, r = Revised Statistics.

Sources: Ministry of Finance and Planning and Bank of Tanzania .

Annex 14: Poverty by Geographic Regions

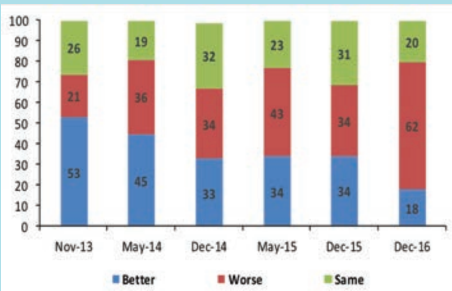
	Poverty Headcount	Distribution of the Poor	Distribution of the Population
	HBS 2011/12	HBS 2011/12	HBS 2011/12
Basic Needs Poverty Line[a]= TZS 36,482			
Rural	33.3	84.1	71.2
Urban (incl. Dar es Salaam)	15.5	15.9	28.8
Regions			
Rural	33.3	84.1	71.2
Dar es Salaam	4.1	1.5	10.1
Other Urban	21.7	14.4	18.7
Total	28.2	100.0	100.0
Food Poverty Line[a] = TZS 26,085			
Rural	11.3	82.3	71.2
Urban (incl. Dar es Salaam)	6.0	17.7	28.8
Regions			
Rural	11.3	82.3	71.2
Dar es Salaam	1.0	1.0	10.1
Other Urban	8.7	16.7	18.7
Total	**9.7**	**100.0**	**100.0**

Monthly expenditure per adult.
Source: National Bureau of Statistics.

Annex 15: Business Sentiment Survey

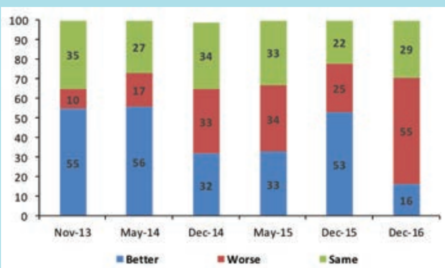
The views of business managers of the top 100 mid-sized companies in Tanzania have been collected every six months since April 2013. However, in December 2016, it was collected after 12 months. This data is collected by KPMG through electronic questionnaires, with anonymous responses. In December 2016, two thirds of responding managers assessed the performance of the economy to be worse than in the previous year, while less than one third reported that it had remained the same. Looking forward, more than half of the managers were pessimistic about the economy and their own businesses, a reversal of the opinions expressed in December 2015.

How do you believe the Tanzanian economy is performing compared to last year?



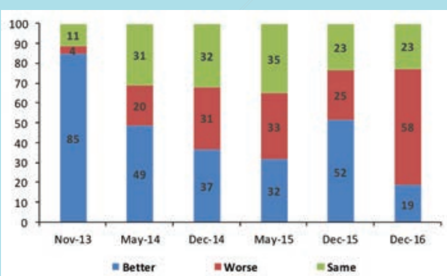
- In December 2016, only 18 percent of the managers believed that the economy performed better in the last 12 months than the preceding year.
- 62 percent of the views were unfavorable, 28 percent higher than in December 2015, also worse since we started the survey in 2013.
- 20 percent of the managers saw no change, which is 11 percent lower in December 2015 but almost the same as in May 2015.

How do you expect the Tanzanian economy to perform in the coming year?



- In December 2016, only 16 percent of the managers expected the economy to perform better in 2017 than in 2016, significantly lower than 53 percent in December 2015.
- 55 percent of the managers anticipated economic to slowdown 2017, which is 30 percentage points higher than December 2015.

How do you think that your own business will perform during the next 12 months compared to its current level of performance?



- In December 2015, 52 percent of the managers expected the performance of their companies to improve during the next 12 months. This rate has decreased significantly to 19 percent in December 2016.
- The rate for those expecting the same performance has remained the same between December 2015 and December 2016, at 23 percent.

Source: KPMG/World Bank.

Annex 16: The CPMI – World Bank Payment Aspects of Financial Inclusion (PAFI)

Having efficient, accessible and safe retail payment systems and services is necessary to be able to extend access to transaction accounts for the 2 billion worldwide people who are still unserved by regulated financial service providers.

The World Bank Group and the Committee on Payments and Market Infrastructures(CPMI) of the Bank for International Settlements convened a task force on Payment Aspects of Financial Inclusion (PAFI) to comprehensively examine how payment systems and services affect financial inclusion efforts.

The PAFI task force, convened in 2014, brought together experts from central banks, development banks and international organizations to examine this issue in a comprehensive manner.

Its mandate was to examine demand- and supply-side factors affecting financial inclusion in the context of payment systems and services, and to suggest what measures could be taken to address these issues. The demand side is comprised by payment service users, like consumers, businesses, and Government agencies and the supply side are payment service providers, like banks and authorized and/or regulated non-banks, as well as payment system operators.

The task force's objectives were to:

- Support the efforts of authorities to expand access to transaction accounts and the use of electronic payment services
- Contribute to the recognition that safe and efficient payment services are important for the well-being of individuals, households and businesses, as well as a gateway to a broader range of financial services
- Advance market efficiency, flexibility, integrity and competitiveness to support financial inclusion and stability
- Facilitate the establishment of a balanced and proportional regulatory environment to facilitate effective, reliable, safe and cost-efficient access to payment services.

The PAFI work is essential to worldwide financial inclusion efforts, particularly to the World Bank Group's UFA2020 initiative, whose goal is ensuring that all working-age individuals and businesses can have access to at least one transaction account operated by an authorized and/or regulated payment service provider to:

- Perform most, if not all, of their payment needs
- Safely store some value
- Serve as a gateway to other financial services

The task force found that certain financial and other relevant infrastructures are necessary for an efficient national payment system also form one of the basic foundations for financial inclusion. They include:

- A large-value interbank settlement system
- An interbank system for retail payments, in specific electronic funds transfers
- A payment card processing platform or platforms and
- An effective and efficient identification infrastructure
- Credit reporting and other data-sharing platforms also play an important role
- Finally, all a robust communications infrastructure and power supply system are essential.

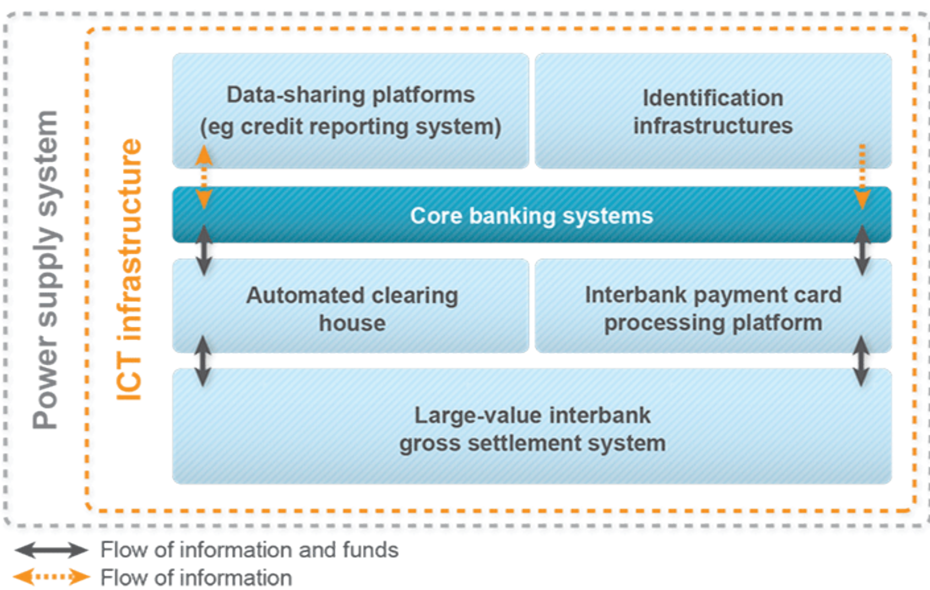
Report on Payment Aspects of Financial Inclusion

In September 2015, the PAFI task force released a consultative report[62v] on Payment Aspects of Financial Inclusion, for a three-month public consultation process which ended in December 2015. As a result of the comments received the report was updated to strengthen the analysis and sharpen the message and the final report was issued in April 2016.

The report analyzes how payment systems and services promote access to and use of financial services.

It examines what elements of retail payments are critical to financial inclusion and how improving the payments infrastructure and services could accelerate access to and use of transaction accounts.

Without these financial infrastructures, the efficient provision of various transaction accounts and electronic would be very difficult.



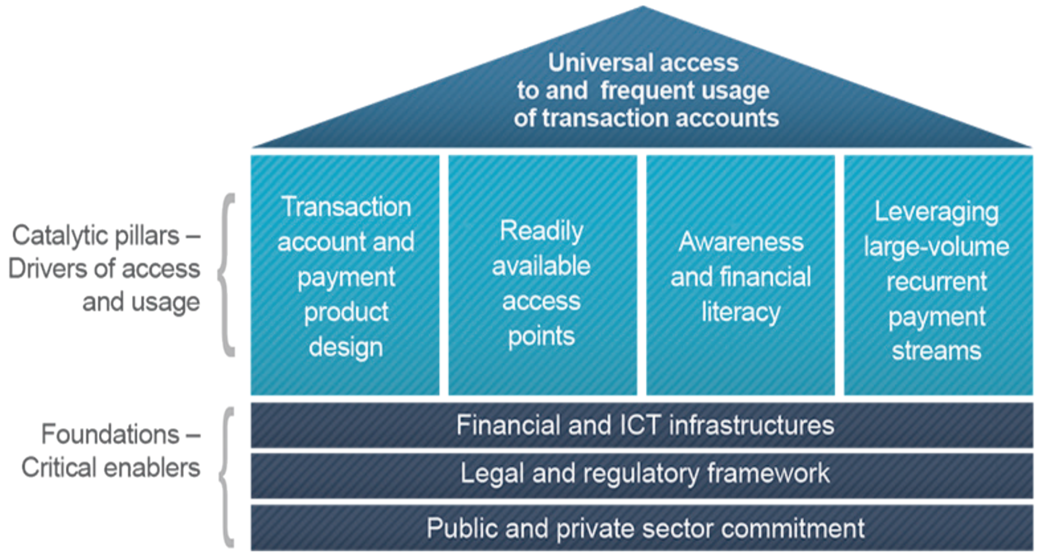
[62] Available at http://documents.worldbank.org/curated/en/806481470154477031/Payment-aspects-of-financial-inclusion.

It also discusses the relevance and importance of measuring the effectiveness of financial inclusion efforts from a payments perspective.

The report outlines seven guiding principles and suggests key actions countries could take to advance access to transaction accounts, which then can serve as a gateway to broader financial inclusion.

These guiding principles are:

- Guiding principle 1: Public and private sector commitment: Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.
- Guiding principle 2: Legal and regulatory framework: The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.
- Guiding principle 3: Financial and ICT infrastructures: Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.
- Guiding principle 4: Transaction account and payment product design: The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.
- Guiding principle 5: Readily available access points: The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.
- Guiding principle 6: Awareness and financial literacy: Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.
- Guiding principle 7: Large-volume, recurrent payment streams: Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.



Public and private sector commitment, legal and regulatory framework, and financial and ICT infrastructures are the basic foundation that countries need to have in place to be able to expand access to transaction accounts. Designing useful payment and transaction accounts products which are made available through widespread access points, coupled with awareness and financial literacy efforts to inform and educate people on how to select and use them, as well as accelerating adoption of transaction accounts by shifting large volume use cases like wage or social benefit payments into those accounts constitute key elements that will make universal access to and frequent usage of transaction accounts possible.

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