

Tanzania Economic Update



TRANSFORMING AGRICULTURE

Realizing the Potential of Agriculture for Inclusive
Growth and Poverty Reduction



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Abbreviations and Acronyms

ACT	Agricultural Council of Tanzania
ASDP	Agriculture Sector Development Program
BOT	Bank of Tanzania
CAADP	Comprehensive Africa Agriculture Development Program
CAD	Current Account Deficit
CSDI	Centre For Sustainable Development Initiatives
CPI	Consumer Price Index
EAC	East African Community
EPZ	Export Processing Zones
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FSA	Farm Service Agency
FSAP	Financial Sustainability Assessment Program
FYDP	Five-Year Development Plan
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
MAFAP	Monitoring and Analyzing Food and Agricultural Policies
MDAs	Ministries, Departments, and Agencies
MFD	Maximizing Finance for Development
MIT	Ministry of Industry and Trade
MMT	Million Metric Tons
MOFP	Ministry of Finance and Planning
NAIVS	National Agricultural Input Voucher Scheme
NBS	National Bureau of Statistics
NFRA	National Food Reserve Agency
NPL	Nonperforming Loan
NBS	National Bureau of Statistics
NPS	National Panel Survey
QDS	Quality Declared Seed
SSA	Sub-Saharan Africa
SMSE	Small and Medium Scale Enterprises
TANESCO	Tanzania Electric Supply Company Limited
TASAF	Tanzania Social Action Fund
TFDA	Tanzania Food and Drugs Authority
TNBC	Tanzania National Business Council
TOSCI	Tanzania Official Seed Certification Institute
TRA	Tanzania Revenue Authority
TZS	Tanzanian shilling
UNIDO	United Nations Industrial Development Organization
US\$	United States Dollar
VAT	Value-Added Tax



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Overview





State of the Economy

Tanzania was again one of the top growth performers in the region.

Official GDP figures show that growth remained steady in the first half of the year (6.9 percent in 2019 H1 compared to 6.8 percent in 2018 H1), driven by higher public investment and by a recovery in exports. The independent view of World Bank staff also suggests slightly improved economic activity in 2019 but at a lower rate of growth, 5.6 percent, up from our 5.4 estimate for 2018. Inflation has been low and stable and the balance of payments is quite sound despite a widening current account deficit. Exports are recovering from last year's contraction. As of September 2019, gold exports, which account for 40 percent of nontraditional exports, were up 26 percent because of both higher volumes and higher prices, and exports of manufactured goods had risen by 33 percent. Thanks to more arrivals, earnings from tourism also rose 9 percent.

Fiscal management needs to be strengthened, especially given the intensification of spending pressures in advance of elections. Revenue forecasting is weak, undermining budget

credibility and resulting in accumulation of arrears and commercial domestic debt. Moreover, spending pressures are rising as elections near: Tanzania held local elections in November 2019 and will conduct a general election in October 2020. This has pushed up public recurrent spending. In combination with underperforming domestic revenue and the pressure of public investment in large infrastructure projects, the fiscal deficit has widened from 1.9 percent of GDP in 2017/18 to 3.2 percent in 2018/19. Spending pressures are likely to continue, and fiscal management must be firm to ensure that priority services, especially education and health, are adequately funded. The ambitious revenue target of 17.1 percent of GDP (in the previous fiscal year 14.0 percent was actually collected) and the higher budgeted spending may make it difficult to achieve the fiscal deficit goal of 2.3 percent of GDP in 2019/20.

Public debt is still sustainable, despite the recent jump in domestic borrowing. Though Tanzania is at low risk of debt distress, commercial debt as a share of total public debt has risen because domestic debt has risen by 2.3



percent of GDP to finance the 2018/19 budget. This adds to the debt service bill, which already consumes nearly 40 percent of domestic revenue and puts upward pressure on commercial rates for lending to the private sector. Moreover, arrears are not being tracked transparently, which raises concerns about how well the Ministry of Finance and Planning (MoFP) tracks the effectiveness of fiscal policy. It is important for the government to closely monitor the debt portfolio and prioritize concessional borrowing as much as possible.

Progress in reforming Tanzania's business environment has been slow. Tanzania trails its regional peers in terms of actual reforms. According to the World Bank *Doing Business Report 2020*, Tanzania ranks 141 out of 190 economies in ease to doing business, trailing Rwanda, Kenya, and Uganda and Sub-Saharan peers like Zambia, Malawi, and Mozambique. Despite an apparent government turn-around in its work of amending the Statistics Act, opening consultations for drafting the Business Facilitation and Investment bill, and passing the Finance Act 2019, the private sector still finds the business environment unpredictable and calls for faster reforms, particularly in terms of business regulation.

Growth prospects remain positive but sustainability is a concern unless private investment takes a larger role. Accelerating external headwinds make it more urgent for Tanzania to adopt

policies that bolster private investment and improve growth sustainability and resilience. Bank staff expect real GDP to grow by about 6 percent over the medium term, but that will depend on the speed of reforms to improve fiscal management and the business environment for private investment and growth. The main downside risk is continued slow realization of reforms as global conditions weaken. Over the medium term a drop in global demand, tighter financing conditions, higher international energy prices, and more volatile commodity prices could heighten uncertainty, discourage investment, and thus reduce growth.

Special Topic: Transforming Agriculture

The Government's Tanzania Development Vision 2025 and the Five-Year Development Plan (FYDP II) set out ambitious goals for reducing poverty and sustainably industrializing so that the country can achieve middle-income status by 2025. The government recognizes agriculture as central to realizing its objectives of socioeconomic development, which are well-articulated in the *Second Agriculture Sector Development Program (ASDP II)*. Among the goals of ASDP II are to transform agriculture by promoting commercialization, prioritizing high-potential commodity value chains, and mobilizing capital by giving the formal private sector a growing role in agriculture.



Because agriculture and related value chains drive two-thirds of all jobs—three-quarters for the poor—the sector is central to creating more and better jobs at scale and significantly reducing poverty. But such growth will require transforming agriculture, which may explain why the rates of growth and poverty reduction discussed in the first part of this report are not yet high enough to achieve Tanzania’s aspirations. “Transforming agriculture” is typically done by using more purchased inputs per unit of land, hiring more labor, and cultivating more land. Farmers typically become more involved in output markets for higher-value products, and value chains from farm to table lengthen. Agriculture moves incrementally from a low-productivity subsistence activity to a commercialized high-productivity one. Average labor productivity—and thus farm incomes—will always rise with agricultural transformation. Usually, so will returns to land, although how much they rise may depend on whether unused new land is available at low cost to expand cultivation.

A number of factors have been driving the demand side for at least a decade, quietly laying the groundwork for transforming Tanzanian agriculture. After the global food price crisis of 2008, prices of food relative to other consumer items jumped by about 50 percent. Unlike much of the rest of the world, they stayed higher in Tanzania and the rest of East Africa and continue to do

so, leading to a structural realignment of price incentives. Meanwhile, and relatedly, rapid growth in GDP in Tanzania and the rest of East and Southern Africa helped fuel rapid growth in domestic demand for more highly processed foods and higher-priced calories from, e.g. animal products and horticulture. Regional food trade also expanded rapidly, especially for high-value and more-processed items.

Along with these demand trends, there has been significant change on the supply side, especially the proliferation of medium-sized farms in Tanzania, from 23 percent of all farm land holdings in 2008 to 35 percent in 2014. The present report will draw on extensive recent empirical work (listed in Annex 14 and available separately) that documents the growing medium-scale farm segment that employs, invests, and attracts services, in effect launching agricultural transformation at scale. These farms are in the 5–20 hectare (ha) range, compared to the typical smallholding of 1–2 ha. Tanzania also saw a steady decline in the proportion of farms that were primarily subsistence-oriented and small-scale—from 43 percent of all farms in 2008 to 31 percent in 2014. Between 2008 and 2014, the real value of aggregate agricultural production grew by over 8 percent annually, but the absolute share of medium-sized farms in total agricultural products sold rose by about 2 percent annually, ending in 2014 at 33.4 percent, compared to 3.8



percent for large farms (> 20 ha) and 62.8 percent for small farms (< 5 ha).

Most important for scaling and inclusion is that the growth in medium-scale farms has produced strong, positive spillover effects on smallholders that are enhancing their economic inclusion. About half of medium-scale farms have “graduated” from small-scale status and their success stories have potential to pull along other farmers. Medium-scale farmers not only have strong community links, they also have a market orientation and links to other sectors, they invest in technology and knowledge, and they attract commercial services that can provide a basis for agri-food-based tax revenue. In areas with greater concentrations of medium- and large-scale farms, small-scale farms are more likely to use improved seed and fertilizer, to cultivate a larger proportion of their land, and to receive agricultural extension and credit. Medium and larger farms have also been shown to help smallholders in the same zones to increase their incomes by their demand for labor. Medium-scale farms also generate effective demand for local nonfarm production and services that offer options for households seeking to move beyond smallholder farming.

Despite the centrality of agricultural transformation for the success of present national development plans, the favorable demand trends noted, and the encouraging signs from the growth of medium-scale farming, agricultural performance in recent

years has been enigmatic. Private formal agribusiness investments have been modest. Comparison of agricultural census and household survey data for 2007–16 shows that land cultivated expanded by 7.7 percent annually; yet average land productivity in value terms stagnated at less than 0.4 percent annually, and land expansion accounted for most agricultural growth. Average labor productivity in agriculture does appear to be rising modestly at about 1 percent annually, mostly because of a drop in average labor input/ha. According to the official national accounts data, growth in agricultural GDP averaged only 3.5 percent from 2006 to 2016, but it seems to have grown at 6.3 percent annualized in the first half (H1) of 2018 and 5.1 percent in 2019 H1. Thus, for Tanzanian agriculture the signs are promising, but progress will need to accelerate to meet national targets. A review of current sectoral policies in the topical studies listed in Annex 14 and discussed below suggests scope for policy changes that, should the government wish to do so, would over time substantially speed up growth.

Here trade restrictions stand out as an area for further reform, notwithstanding recent government efforts to improve incentives for agribusiness, including local and national fiscal reforms. The most counter-productive case is the use of export bans for maize and rice as a short-term price stabilization tool, often with a domestic food security objective.



Analysis has found that the costs that grain export bans create for farmers and the imposing country far exceed any benefit to domestic consumers. These export bans are sometimes replaced by export taxes, but these also cut incentives to farmers, or by import tariffs to protect local producers. Over time, commodity taxes and tariffs both increase rather than decrease price volatility. Agricultural commodity taxes and tariffs typically benefit traders and processors more than farmers or consumers, to the detriment of expanding trade. From a growth perspective, restrictions on food exports deprive the country of opportunities to expand to serve growing regional markets. Since 2017, central authorities have tried to limit the use of export bans by promoting alternative policies that stabilize the prices of staples, which if maintained will have positive results.

Improving the performance and regulation of private agricultural input markets is vital for improving agricultural productivity. Standards in the informal sector are not regulated, both quality and product labelling are unreliable, and information on fertilizer and seed performance is scarce. Although in the last decade Tanzania has substantially increased the number of farmers using improved seed, there is potential for greater utilization. The average fertilizer application in Tanzania is 8–10 kg /ha, far below the 50 kg/ha target set by African governments at

the 2006 Abuja Declaration on Fertilizer. Only 16.5 percent of Tanzanian rural households applied inorganic fertilizer to any crops, and only 44 percent of households used improved seed.

Private agribusiness investments have been modest, especially from foreign sources, probably due to a discouraging policy environment. On average, between 2007 and 2017 only 4 percent of FDI went into agriculture, fisheries, and forests. Commercial bank lending to agriculture is just 7 percent, down from 10 percent in the past five years. Policy and regulatory reforms to increase private investment in both input and output markets are needed in three areas:

Regulation of output markets and trade policy, to address problems caused by (1) restrictive marketing requirements, such as requirements to sell through closed auctions, that reduce competition; and (2) discretionary trade policies, including reinstatement of export bans or stringent export licensing, that restrict trade and erode producer incentives.

Revised regulation of input markets, to improve (1) arrangements for fertilizer imports and distribution and fertilizer quality control and labelling; and (2) regulation of seeds, plant breeding, variety registration, and seed quality control.

Sanitary and phytosanitary controls, to (1) establish an institutional mandate



for pest surveillance and risk analysis; (2) ensure more efficient issuance of phytosanitary certificates for cross-border trade; and (3) bolster institutional arrangements for risk-based regulation of food safety.

Public spending is also essential for mobilizing private finance for agriculture by providing public goods, such as agricultural research and rural infrastructure, that are essential for productivity growth. The benefits of these are not restricted to any one firm or farm and thus require shared public funding. Public spending on agriculture needs to shift from providing significant private goods, such as subsidies to individual farms or firms, to providing core public goods that mobilize corresponding private investment in agricultural production and distribution. Although in 2014 rural areas housed about 66 percent of the population, in 2017 they received only 20 percent of public spending. Although more than 70 percent of Tanzanians depended directly or indirectly on agriculture for their livelihoods, agriculture was allocated only 2.5 percent of public spending, less than in neighboring countries. And even then, 33 percent of public spending on agriculture was for private goods, such as subsidies for buying fertilizers. No country, especially not one just beginning to transform its agriculture, can hope to grow agriculture with less than 2 percent of public spending on it going to public goods like research, extension, and market institutions vital to raising productivity. Worse,

Tanzania's agricultural budgets are not fully executed, reaching only 83 percent for recurrent expenditures in 2017/18—less than most other ministries but not inordinately so—but only 6 percent for development spending, about 10 percent of the rate in most other ministries.

Critically for their future well-being, the resilience to climate change of the livelihoods of at least 70 percent of Tanzanians depends on the relationship between agricultural productivity and soil and water management. The considerable growth of Tanzanian agriculture, especially since 2008, has been due primarily to rapid expansion of cropped area. Deforestation, erosion, and inadequate fertility have caused the degradation of more than 60 percent of the land presently used for production of crops, livestock, and forest products and services. Tanzania must thus better manage the productivity of agricultural water and land. Climate-smart agriculture requires shifting to adaptive water allocation, modernizing irrigation, and improving water and land management.

Finally, agriculture will continue to be a driver of inclusive growth in the Tanzanian economy and a major source of productivity gains to support the desired structural transformation, and the new jobs it will bring. Although structural transformation is generally characterized by workers leaving farming, successful transformation also requires that the productivity of those remaining



rises sufficiently that agriculture can continue to feed growing urban areas, either directly or through growth in exports. In rural areas, agriculture and its associated value chains will remain the main source of employment for many years to come, particularly for the poor—and agricultural growth has been widely shown to be more pro-poor than nonagricultural growth. As Part 2 demonstrates, the midstream and downstream parts of agricultural value chains are also critical to creating better-paid jobs. Reforming policy and increasing investments will jumpstart the improvements in agricultural productivity that are critical to catalyze inclusive growth and structural transformation. In the past, land available for expansion has allowed growth in production without growth in land productivity, but future growth for agriculture will need to come from sustainably lowering the unit costs of production.



1

The State of the Economy





1.1 Recent Economic Developments

Global growth has slowed.

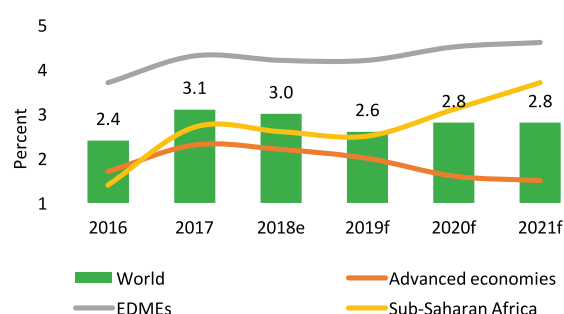
In both advanced and emerging economies, growth has softened. In the second quarter of 2019 (Q2), global growth decelerated as trade tensions between the United States and China escalated and as political uncertainty rose throughout the world. The global economy is expected to grow by only 2.6 percent in 2019, below the 3.0 percent in 2018, and the forecast could be revised downward (Figure 1). The deterioration of global prospects has translated into lower commodity prices and capital flows, putting pressure on the external sector for emerging economies as current account deficits widen and exchange rates depreciate.

Economic activity in Sub-Saharan Africa (SSA) has slackened. Real GDP expanded more slowly than expected across the region in the first half of 2019 (H1) and is expected to grow by just 2.6 percent, barely up from 2.5 percent

in 2018 (Figure 1). The expected deceleration is partly due to softening global growth amid trade tensions, policy uncertainties, and falling commodity prices but also to such domestic factors as the slow pace of domestic reforms and a drop in domestic demand due to sluggish private investment.

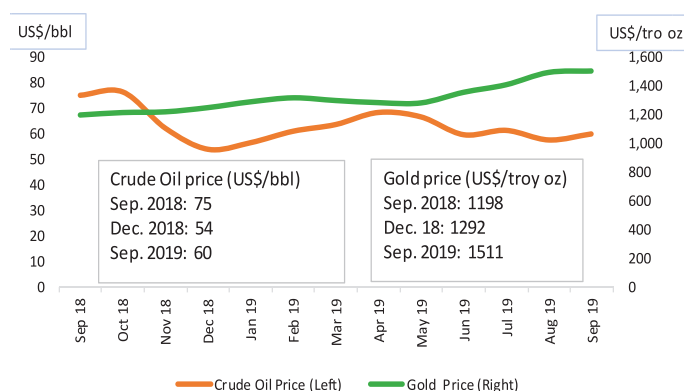
The slow recovery in SSA masks significant divergence between countries. Growth in resource-rich countries was less than expected as investment dropped because of dimming prospects in industry and mining. In 2019 Q2, growth decelerated in Nigeria, South Africa, and Angola, the three largest economies in SSA. Resource-intensive economies are also suffering from fiscal constraints as tax revenues from commodities fall. However, in non-resource-intensive countries, fixed investment has rebounded and growth remains robust.

Figure 1: Global Trends in GDP Growth, 2016–21



Source: World Bank, Africa's Pulse, October 2019.

Figure 2: Energy and Metal Prices



Source: World Bank Commodity Price Data (The Pink Sheet).



Downside risks have intensified. The recurrent escalation of trade tensions between major economies and higher political uncertainty generally could further discourage investors, as could tighter global financial conditions, more volatile commodity prices, and depressed growth globally and in SSA economies because of lower revenues and larger current account deficits (CADs). Narrower fiscal space could heighten debt vulnerabilities, which are already high in SSA—49 percent of SSA countries are either already in debt distress or at high risk of it. Domestically, adverse weather and slowing investment are the main risks to the outlook: SSA is vulnerable to weather shocks, especially drought, which could depress agricultural output and export earnings and stimulate inflation.

Despite more volatile commodity prices and financial flows, Tanzania's commodity trade balance has improved. Its external sector is particularly vulnerable to changes in world prices for oil (20 percent of imports) and gold (16 percent of exports). Recent developments have generally been favorable; the value of gold exports went up by 23 percent in the 12 months ending July 2019 as gold prices bounced back from a low of US\$1,198 an ounce in September 2018 to US\$1,511 in September 2019—a level not seen since 2013 (Figure 2). Oil prices have rebounded this year, though they are still below last year's average; and the oil import bill went up by only a modest 9 percent in the 12 months ending July 2019. However, higher uncertainty and heightened

volatility could continue to undermine investor and consumer confidence and translate into even weaker global growth as external demand drops, reducing Tanzania's gains from higher exports of gold.

In the first half of 2019, growth has remained steady and inflation has been low.

According to official data, real GDP in Tanzania grew by 6.9 percent in 2019 H1, a little higher than the 6.8 percent in 2018 H1. GDP growth was driven by the considerable expansion in construction and mining, but agriculture and service sectors slowed. Nonmanufacturing industry, which comprises construction, mining and quarrying, water, and electricity, grew by a solid 15.3 percent in 2019 H1, double the 7.5 percent of a year earlier (Figure 3). Growth in construction was largely driven by public investment; growth in mining was led by a recovery in gold production and a spike in coal extraction. Manufacturing expanded by 5.0 percent in 2019 H1, compared to 4.4 percent in 2018 H1 as production of industrial goods ramped up. In contrast, growth in agriculture decelerated from 6.3 percent in 2018 H1 to 5.1 percent in 2019 H1, largely because the fishing subsector contracted as fewer fish were caught; there was, however, higher production of maize, beans, sweet potatoes, and millet. In the last five years, agriculture has had the least volatile growth of all sectors, growing on average about 6 percent per quarter. This growth has been accompanied by the rise of medium-scale farms and



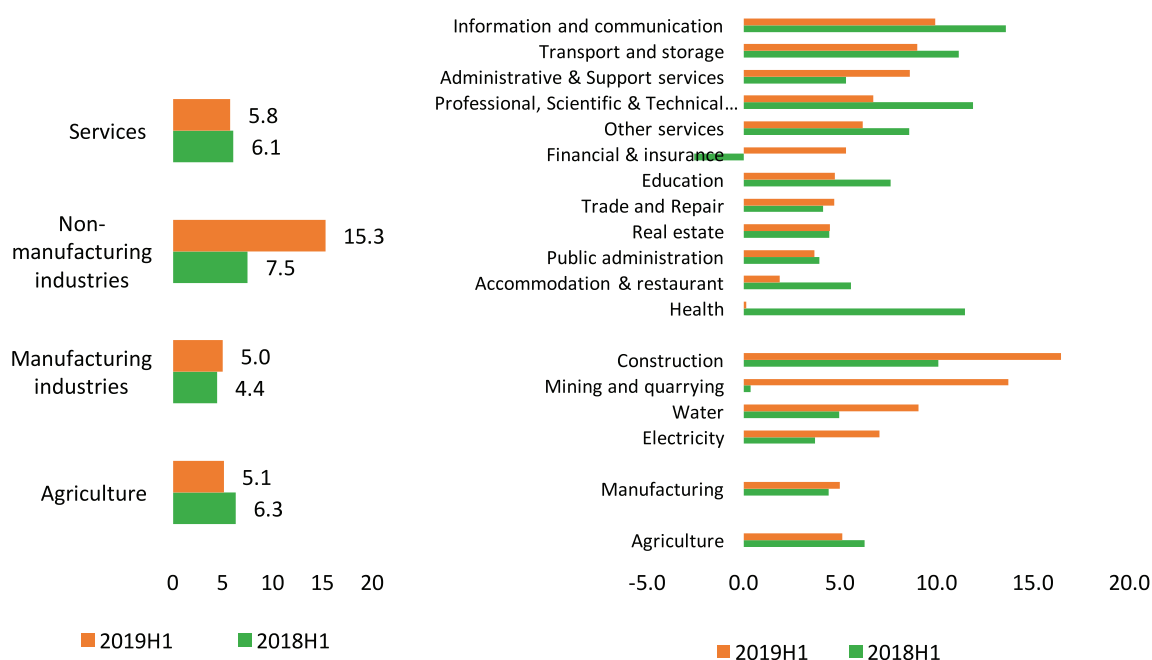
a noticeable jump in land and labor productivity (see Part Two). Meanwhile, services expanded by 5.8 percent, slightly down from 6.1 percent, because most components of the sector slowed.

Official high-frequency data also show a slight acceleration of growth in 2019 but at a lower aggregate rate than suggested by the official GDP data. World Bank staff estimates using high-frequency official data on spending suggest that real GDP growth in 2019 will be 5.6 percent, up from 5.4 percent in 2018; data through three quarters of 2019 show that public consumption, gross fixed capital formation, and

exports have risen. Supporting data includes higher recurrent and development spending in 2018/19, expansion of credit to the private sector, and more exports.

Though it remains sensitive to domestic food prices, inflation is low and stable. It has ticked up due to higher food prices but it is well below the official 5 percent target. In recent months headline inflation rose slightly, reaching 3.6 percent in October—up from 3.2 percent a year ago but still below the target (Figure 4). Rising prices pushed food inflation up to 6.0 percent in October 2019, compared to

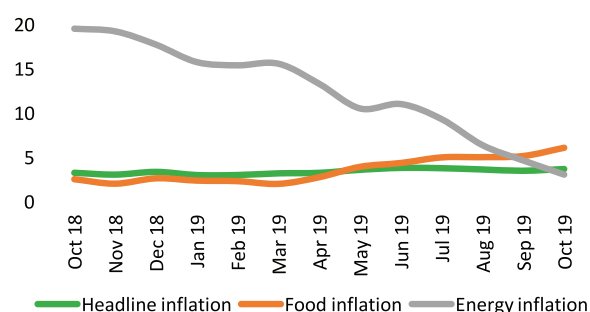
Figure 3: H1 Growth by Sector, 2018–19, Percent



Source: NBS.



Figure 4: Inflation, 2019-19, Percent



Source: NBS.

2.5 percent a year earlier—prices of the main crops in the CPI basket have been rising since June. The price of maize rose 140 percent in the 12 months ending in October 2019 but the price of rice rose by only 3 percent. Meanwhile, with global oil prices falling, energy inflation plunged from 19.5 percent a year ago to just 3.0 percent in October 2019; global oil prices were down from US\$76.70 in October 2018 to US\$57.30. However, falling fuel prices were offset by the fact that the weight of energy and fuels in the CPI basket is only 8.7 percent compared to 37.1 percent for food.

Domestic borrowing has risen in response to shortfalls in both revenues and external financing.

The fiscal deficit for 2018/19 was an estimated 3.2 percent of GDP, close to the 3.1 percent budget target but higher than the 2 percent average of the last two years. The deficit has gone up largely because of revenue shortfalls; as in the previous two years, spending held at 17 percent of GDP. The 2019/20 budget targets a deficit of 2.3 percent of GDP—much lower than last year's

3.1 percent and closer to the 1.8 percent average of the past three fiscal years.

Domestic debt has jumped, exacerbating pressure on commercial lending rates for the private sector.

In 2018/19, with the continuing dearth of external financing, domestic borrowing covered most government financing needs, but it reached 2.3 percent of GDP, far above the planned 0.9 percent and the previous FY actual of 0.5 percent. Heavier domestic borrowing has put upward pressure on treasury bill rates as commercial lending rates are still stubbornly high, about 17 percent in FY2019/20 H2. External borrowing was about 0.9 percent of GDP, far below the 2.3 percent target. Delays in project preparation and concerns about government policies, especially regulation of statistics, were among the reasons for Tanzania receiving fewer concessional loans. It was expected that in 2019/20 two-thirds of the deficit would be financed by nonconcessional loans, both external and domestic, and one-third by external concessional loans.

Revenues have consistently fallen short of target, which implies serious weaknesses in revenue forecasting.

In 2018/19, domestic revenue came in below both budget and previous outturns due to less tax revenue, especially from value-added tax (VAT) and income tax: it constituted 14.0 percent of GDP compared to the budgeted 15.5 percent and the previous year's actual of 14.9 percent. The problem arose from significant tax shortfalls and nontax overperformance.



Table 1: Fiscal Trends, 2016–20, Percent

	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20
	Budget	Actual	Budget	Actual	Budget	Prel. actual	Budget
In Percent of GDP							
Domestic revenue	16.3	15.3	16.2	14.9	15.5	14.0	17.1
Tax revenue	13.3	12.9	13.9	12.6	13.3	11.6	14.2
Nontax revenue	3.0	2.4	2.4	2.4	1.7	2.4	2.9
Total expenditure	21.8	17.3	20.8	17.0	19.5	16.9	20.4
Recurrent expenditure	11.4	10.6	11.0	10.7	10.5	10.4	11.5
Wages and salaries	5.8	5.1	5.9	4.6	5.5	5.0	5.6
Interest payments	1.5	1.6	1.4	1.7	1.6	1.8	1.8
Goods and services	4.1	3.9	3.8	4.4	3.5	3.6	4.0
Development expenditure	10.4	6.7	9.8	6.3	8.9	6.5	9.1
Domestically financed	7.7	4.7	7.3	4.5	7.3	5.0	7.2
Foreign financed	2.7	2.0	2.5	1.8	1.6	1.5	1.9
Grants	1.3	0.5	1.2	0.8	0.8	0.3	0.9
Overall fiscal deficit	-4.3	-1.5	-3.4	-1.9	-3.1	-3.2	-2.3
Financing	4.3	1.5	3.4	1.9	3.1	3.2	2.3
Foreign (net)	2.9	1.6	2.4	1.4	2.3	0.9	1.3
Domestic (net)	1.4	-0.1	1.0	0.5	0.9	2.3	1.1

Source: MoFP.

Tax revenue missed its target by 12.8 percent, with collections lower for income tax, excise duties, and VAT. Nontax overperformance of more than 41 percent was supported in part by the new government Electronic Payment Gateway, which produced higher collection of land rents and some government agency fees. Despite the previous year's depressing revenue performance, however, the government revenue target for this year is an ambitious 17.1 percent of GDP.

Spending pressures are rising as elections near. Though generally as budgeted in 2018/19, this year recurrent spending is expected to rise because of preparation for elections. Recurrent spending was in line with the budget,

but there were considerable variation by component. At 10.4 percent of GDP, spending on wages and salaries was much less than planned because of limited new hiring, retirement of public servants (especially teachers), and lack of salary adjustments. But outlays for both interest payments and goods and services were higher because of preparation for local elections held in November 2019 and general elections in October 2020. As election preparations continue, the 2019/20 budget expects recurrent spending to rise to 11.5 percent of GDP due to higher allocations for both wages and salaries and goods and services.

Execution of the development budget improved in 2018/19 but was still



far short of plans. Spending on development projects and programs was equivalent to 6.5 percent of GDP against a budgeted 8.9 percent, a 73 percent execution rate and up from 67 percent in the previous fiscal year. Foreign-financed projects and programs performed well, but the locally funded component was under-executed. The result has been both delays in work on major capital projects and accumulation of arrears. The 2019/20 budget has allocated about 9 percent of GDP for development spending, up slightly from the previous year's 8.9 percent.

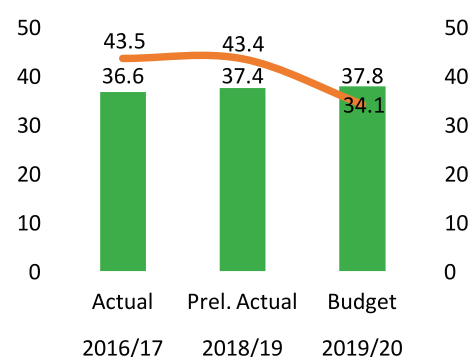
Arrears are not being tracked transparently.

The latest verified arrears in government domestic payments are for arrears accumulated through 2016/17, when it was TZS1.5 billion, equivalent to about 1.5 percent of GDP. The government has adopted a strategy to prevent new arrears and clear the backlog, but progress has been limited. For example, 2017/18 arrears have still not all been verified, and the status of verification of 2018/19 arrears is not known. VAT refund arrears are also very high; about 70 percent have been verified for payment but are pending availability of funds. The government has installed an electronic system to shorten the time taken to verify VAT refund claims; but unfortunately, it is not yet operational.

Public debt is currently sustainable, and Tanzania is at low risk of debt distress, but the rising share of commercial debt, much of it domestic, raises concerns about liquidity risks.

The IMF–World Bank Debt Sustainability Analysis, updated in January 2019, found the country's risk of debt distress is low: at the end of 2018/19 the public debt-to-GDP ratio was an estimated 37 percent, far below the 70 percent threshold but up slightly from about 36.6 percent in 2017/18 (Figure 5).¹ However, commercial financing of the budget, which was just 4 percent in 2010/11, hit about 19 percent in 2018/19. As a result, in 2018/19 debt service consumed about 43 percent of domestic revenues and will consume about 34 percent this fiscal year. In 2018/19 alone, the government borrowed the equivalent of 2.3 percent of GDP domestically.

Figure 5: Public Debt, 2017-19, Percent



Source: IMF and MoFP.

¹ This figure excludes debt for which relief is being negotiated and Treasury bills issued for monetary policy purposes.



Monetary policy has eased and credit growth is recovering.

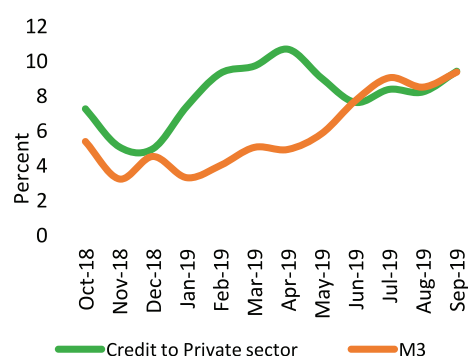
The Bank of Tanzania (BOT) continues to loosen monetary policy. In July 2019, it dropped the minimum statutory reserve requirement from 8 to 7 percent, after cutting the discount rate in August 2018 from 9 to 7 percent. As a result, growth in M3 reached 9.3 percent in September 2019, up from 4.9 percent in September 2018 and 7.7 percent in June 2019 (Figure 6). Total domestic credit to the private sector and the central government grew by 6.3 percent in September 2019, though that is down from 7.2 percent in September 2018.

Credit to the private sector is recovering. In the first nine months of 2019, its growth averaged 8.8 percent, far more than the 2.8 percent in the same period in 2018 (Figure 6). While personal credit to households is still the largest share of outstanding credit to the private sector (29.9 percent at the end of September 2019), credit going to

productive activities has been dynamic; in September 2019, there was growth in credit of 68.5 percent to agriculture, 45.1 percent to mining and quarrying, and 24.0 percent to households. However, for both hotels and restaurants and trade, credit to the private sector contracted in the 12 months ending September 2019. The growth in credit to the private sector² reflects an uptick in consumer confidence that coincides with the liquidity-easing measures of the BoT and a gradual decline in nonperforming loans (NPLs).

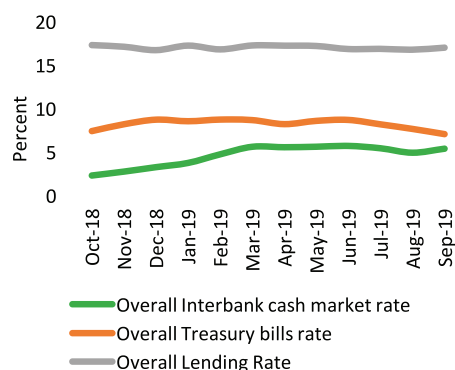
Banks are extending credit to the private sector, but the rates are relatively high. In the first nine months of 2019, commercial lending rates averaged 17 percent, down from 17.5 percent for the same period in 2018 (Figure 7), and the main treasury bill rate averaged 8.3 percent, up from 5.9 percent in 2018, as a result of more government borrowing from the domestic market to finance the 2018/19 budget.

Figure 6: Growth in Domestic Credit and M3, 2018-19



Source: BOT.

Figure 7: Commercial Lending Rates, 2018-19



Source: BOT.

2 At 12 percent, credit to the private sector as a share of GDP is lower than the 14.5 percent of three years earlier.



The banking sector is adequately capitalized, but NPLs threaten financial stability. As of April 2019, the commercial bank core capital adequacy ratio of 17 percent was well above the 10 percent required and the liquidity ratio of 33.6 percent was also comfortably above the required 20 percent. Moreover, BOT closures of failing banks in 2018 helped avoid the risk of contagion to the whole sector and demonstrate the BOT's commitment to keep the financial sector stable. In closing banks, the BOT signaled that failure of any bank to meet operational indicators will not be tolerated. However, as of April 2019, the NPL ratio of 11.1 percent was not much better than the 11.5 percent seen in March 2018, and far above the central bank target ceiling of 5 percent.

Measures to contain NPLs are partly contributing to lower bank profitability. With NPLs high, banks must meet high provisioning requirements, which may be undermining profitability. The BOT now requires that all banks specify NPL strategies and permanent loan recovery functions and has intensified bank supervision. After review of its regulations and guidelines, it has added staff to its bank supervision department. The BOT has also made credit bureau reports mandatory for loan applications and has directed banks and other financial institutions to adopt strategies to build up application processing, management, monitoring, and recovery measures.

As the Financial Sustainability Assessment Program (FSAP) recommended, the MoFP needs to promote more broad-based intersectoral efforts to address NPLs. This is important because of the negative spillovers that can affect the economy beyond the financial sector. The delays and uncertainty linked to court processes impinge on bank efforts to efficiently liquidate collateral and write off bad loans. The FSAP recommended creating a multi-stakeholder public-private working group to identify ways to ensure that legal and tax structures support efficient resolution of NPLs and to deal with companies that hold a significant percentage of NPLs; but that recommendation has not been fully implemented.

Recovery in exports is outpaced by import growth.

The CAD is expanding as import growth outstrips the recovery in exports (Figure 8). The CAD widened to 3.7 percent of GDP in the year ending September 2019, up from 3.4 percent in September 2018, as the 7.3 percent growth in imports exceeded the 5.2 percent growth in exports. The higher import bill was largely driven by oil and by capital goods imported for public investments in transport and energy sectors.



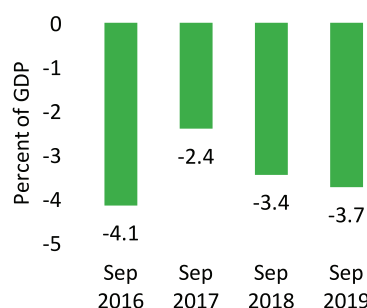
Exports of gold, tourism, and manufactured goods are recovering.

Gold, which accounts for 40 percent of nontraditional exports, went up 26.1 percent because of both higher volumes and higher prices, and exports of manufactured goods went up 32.6 percent. More arrivals supported a rise of 9.9 percent in tourism earnings. The value of traditional exports fell by 106 percent, largely because lower earnings, especially from cashews, more than offset higher earnings from coffee and tea.

Foreign exchange inflows remain low, and official gross reserves are down.

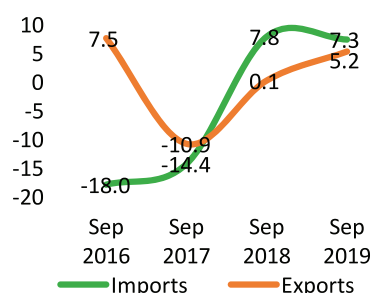
Despite the recent recovery in exports, inflows are still lower than historical averages. For example, external concessional borrowing is half the average of the past five years, and between 2015 and 2018 FDI dropped by a third, from US\$1.5 billion to US\$1.0 billion (Figure 10). As a result, reserves have slipped from US\$5.4 billion in September 2018 to US\$5.3 billion (5.4 months of imports) in September 2019 (Figure 10).

Figure 8: Current Account Deficit, 2016–19



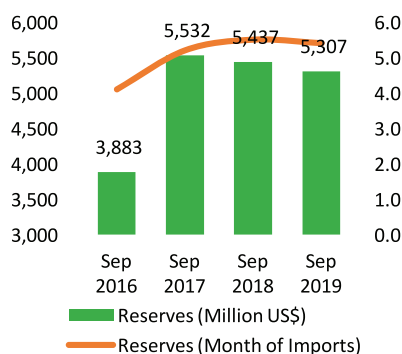
Source: BOT.

Figure 9: Exports and Imports, 2016–19, Percent Growth

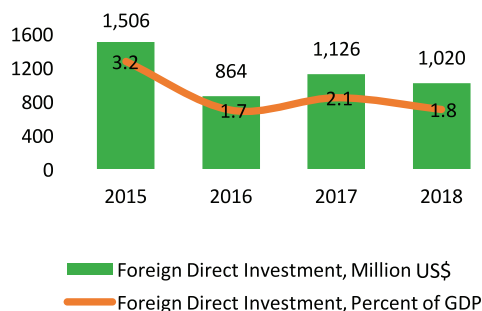


Source: BOT.

Figure 10: Official Gross Reserves and Foreign Inflows, 2015-19



Source: BOT.



Source: BOT.



The shilling has remained stable. From October 2018 to September 2019, it depreciated by 5 percent against the euro and 2–3 percent against the Kenyan shilling and the Chinese yuan, and it appreciated by 1–2 percent against the US dollar and the Indian rupee (Figure 11). To keep the shilling stable, the BOT has intervened to smooth out fluctuations and maintain an orderly interbank foreign exchange market. The real exchange rate appreciated about 2 percent between October 2018 and September 2019; the inflation differential

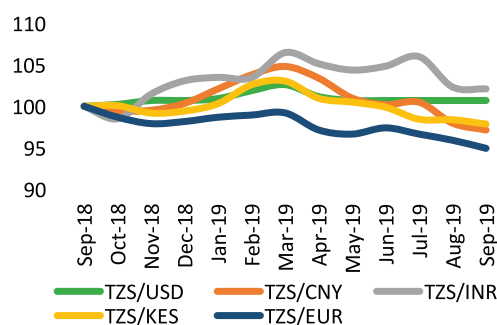
between Tanzania and its major trading partners partly offset the decline in the nominal exchange rate (Figure 12). The recent increase in the real effective exchange rate has been accompanied by higher exports of manufactured goods, such as iron, steel, glass, and fertilizer.

Reforms to improve the business environment are moving slowly.

Despite some improvement, Tanzania ranks below most of its regional peers in ease of doing business. According to the World Bank Doing Business report 2020, Tanzania ranks 141st of 190 economies, a slight improvement from 144th a year before. Tanzania's performance (Figure 13) continues to trail its neighboring peers Rwanda (38), Kenya (56), and Uganda (116), and other Sub-Saharan peers Zambia (85), Malawi (109), and Mozambique (138). Tanzania has serious problems in trading across the border, resolving insolvency, registering property, protecting minority investors, and paying taxes (Figure 14). Though changes in the laws protecting minority investors have boosted Tanzania's overall ranking, the concerns are primarily about such significant indicators as trading across borders, paying taxes and starting a business. The pace of reforms to improve the business environment is still too slow.³

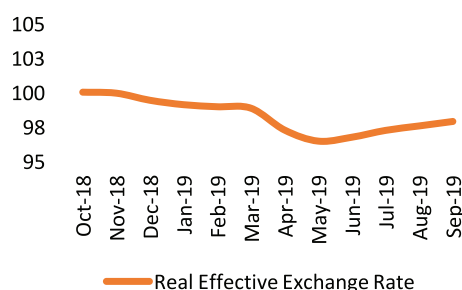
The business environment continues to be a major concern for the private sector. The government has yet to make operational major reforms to improve

Figure 11: Nominal Exchange Rate, 2018–19, Percent



Source: OANDA Exchange Rates.

Figure 12: Real Effective Exchange Rate, 201819, Percent



Source: World Bank staff estimates.

³ Kenya registered seven reforms, which made it easier to resolve insolvency, pay taxes, protect minority investors, get credit, register property, hook up to electricity, and get construction permits; Rwanda registered four, making it easier to hire workers, get electricity, get construction permits, and start a business. Uganda made it easier for businesses to get electricity.



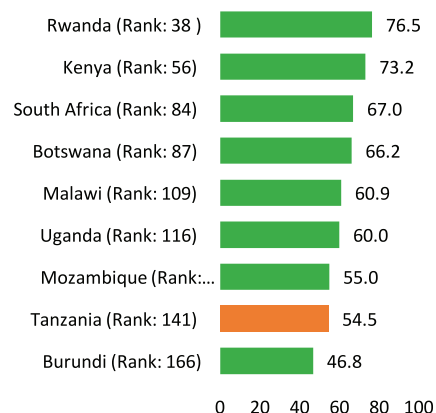
it, particularly legislative changes and cross-ministry actions. Such reforms would enhance the functions of the Tanzania Bureau of Standards, Weights and Measures Department and ease the process for investors to get work and residence permits. Recently, the government started consultations on drafting the Business Facilitation and Investment bill. To mitigate tax measures perceived as predatory it has also amended the Finance Act 2019 to institutionalize the MoFP Tax Dispute Desk and the Office of the Tax Ombudsman at the Tanzania Revenue Authority. However, the private sector still finds the business environment unpredictable and calls for faster reforms, particularly in business regulation.

The business environment has also been affected by delayed payment of VAT refunds to exporting firms and arrears to domestic suppliers. Some of the VAT refund and supplier arrears have been delayed for more than three years due to both a lengthy verification

process and lack of funds. Seen as further delaying VAT refunds is the recent proposal to change the Budget Act to give the Paymaster General power to extend the period for approving spending of funds carried over from the previous financial year from three to six months. Progress in clearing payment arrears to contractors and suppliers and speeding up processing of VAT refund applications would improve private sector liquidity and reduce NPLs.

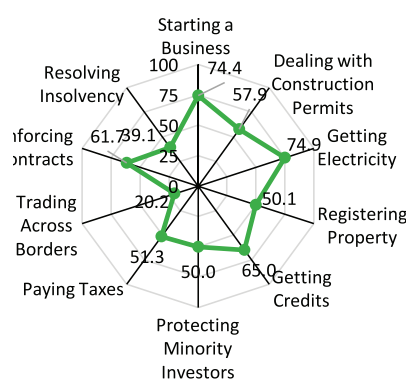
To speed up the pace of business environment reforms, the private sector needs to participate. The Blueprint for Regulatory Reforms drafted after consultations with the private sector and endorsed by the government in May 2018, specifies actions to rationalize, or in some cases abolish, licensing requirements. Some actions have been taken with the abolition of various fees, levies, and duplication of roles, notably those of the Tanzania Food and Drugs Authority. Through the Tanzania National Business Council

Figure 13: Ease of Doing Business Rankings, 2020, Percent



Source: World Bank Doing Business Report 2020.

Figure 14: Tanzania's Doing Business Rankings by Category, 2020



Source: World Bank Doing Business Report 2020.



(TNBC), a Public Private Dialogue (PPD) mechanism, the private sector has recommended streamlining the functions of the Tanzania Bureau of Standards, Weights and Measures and streamlining the process for investors to get work and residence permits. To push forward reforms, particularly those requiring legislative changes or cross-ministerial actions, the Tanzania National Business Council (TNBC) itself needs structural reform.

High population growth is undermining efforts to reduce poverty.

Tanzania is continuing to improve living conditions for its people, but since 2012 the pace of poverty reduction has slowed considerably and the total number of poor people has risen. According to the most recent household survey data, poverty in Mainland Tanzania decreased from 28.2 percent in 2012 to 26.4 percent in 2018.⁴ During this time however, the rate of population growth was higher than the rate of poverty reduction, leading to an increase in the total number of poor. By 2018, about 14 million Tanzanians lived in poverty, up from 12.3 million in 2012 and 13.2 million in 2007 (Figure 15). Since 2012, too, low growth in consumption for the bottom quintiles has exacerbated inequality, particularly in urban areas. Between 2012 and 2018 the Gini coefficient based on per capita

consumption spending rose from 39 to 42 percent in urban areas, primarily because in Dar es Salaam the Gini index of inequality had risen from 36 in 2012 to 43 in 2018.⁵

High population growth limits the growth rate of per capita GDP and reduces the welfare-enhancing effects of growth.

Between 2007 and 2017 Tanzania registered an average annual growth rate of 6.3 percent—but this dropped to 3.3 percent when adjusted for population growth. More important is the fact that the growth elasticity of poverty more than halved, from a low of –1.02 in 2007–12 to an even lower –0.45 in 2012–18. This implies that a 10 percent increase in GDP growth per capita can be expected to reduce poverty by only 4.5 percent. Elasticities for other developing countries are typically four times larger, about –2.0.

Growth in GDP was driven by sectors where few people work and where even fewer of the poor are active.

Fastest-growing are construction, information and communication technology (ICT), real estate, and nonmarket services. Each employs on average no more than 6 percent of the population.⁶ However, they all tend to employ significantly more educated and wealthier Tanzanians. Within agriculture, where most Tanzanians work, particularly the poorest (Figure

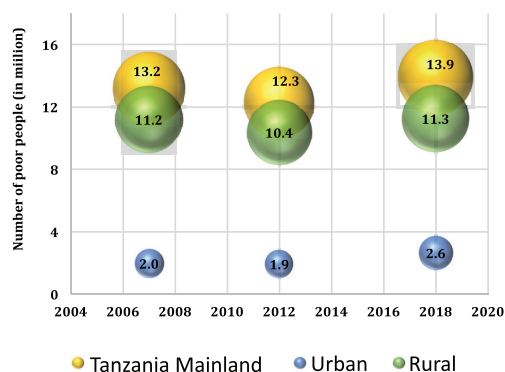
4 Poverty > as also reduced in Zanzibar, from 34.9 percent in 2009–10 to 30.4 percent in 2014–15. The next round of the Zanzibar household survey (2019–20) is occurring currently, > ith completion expected by March 2020.

5 The > elfare aggregate used to estimate poverty in Tanzania is based on per-adult equivalent consumption. Typically, Gini coefficients are reported on per-capita consumption. Gini coefficients based on per-adult equivalent expenditure increased from 0.37 to 0.41 in urban areas and from 0.29 to 0.32 in rural areas.

6 Employment in the fastest-growing sectors: construction 3 percent; ICT 0.3 percent; real estate 0.2 percent; non-market services 2 percent; mining 1 percent; transport 4 percent; and > holesale & trade 6 percent.



Figure 15: Number of Poor People, 2007, 2012, and 2018

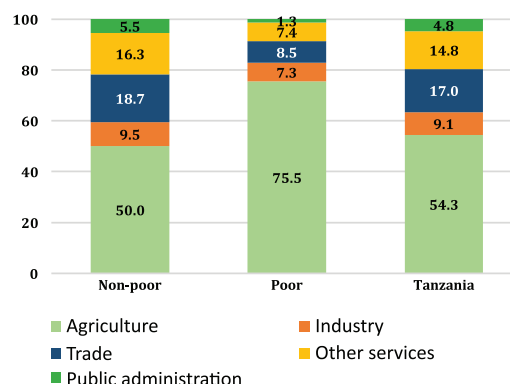


Source: NBS.

16), the crops and livestock subsectors grew relatively fast at about 5 percent, but the subsistence farms that most of the poor operate appeared to benefit only marginally from this growth. Moreover, income and consumption rose much faster for better-educated Tanzanians than for those with less education and fewer endowments. As a result, inequalities widened. This underscores the importance of focusing on productivity-enhancing agricultural investments (e.g., access to finance, access to markets, better production technologies, value chain development) and supporting diversification and building skills in non-farm activities (see Part Two).

Human development outcomes, such as education, have improved only marginally. Net enrollment in primary and secondary schools, both rural and urban, went up slightly between 2012 and 2018, but gross enrollment in both lower and upper secondary went down.

Figure 16: Sector of Employment by Poverty Status, 2018



Source: NBS.

Although chronic undernutrition has dropped—the proportion of children who are stunted (too short for their age) fell from 42 percent in 2010 to 35 percent in 2015/16—it is still above the SSA average.

Social service delivery also improved, but there are still large gaps, especially in rural areas. Access to electricity has risen, but only 29 percent of Tanzanian households have access, far below the 45 percent SSA average. Access to electricity is only 10 percent in rural areas, and 7 percent for poor households. Access to safe drinking water is better, particularly in urban areas, where the percentage of households using safe water has doubled. But in 2018, the drinking water of 34 percent of rural households was still unimproved and unsafe. Though access to basic and limited sanitation has improved considerably in urban areas, it is still highly problematic in rural areas. Between 2012 and 2018



the percentage of urban households with improved sanitation rose from 36 to 51 percent, but in rural areas it went up from just 4.7 percent to a still low 11 percent.

Poverty reduction was driven by better access to basic services and infrastructure and more human capital, but the growth returns on these endowments have been dropping, so that poverty was reduced more slowly than expected.

Because labor market requirements have been changing even as access to education has broadened and the educational attainment of the general population has gone up, the rewards for years of schooling below a certain level have dropped—and the gains in income and consumption associated with primary education are no longer large. Mobile phones still positively affect the livelihoods of the poor, but since 2012 the marginal benefits have narrowed, especially in urban areas and in moderately poor households, for whom ownership of these assets has expanded rapidly but opportunities for their productive use have not.

The disadvantages of poor households are numerous: For instance, less access to infrastructure and community services minimizes the opportunities available to them. Many are highly exposed to food stress and insecurity. Access to markets is limited, particularly in the northwest and southeast areas, where poverty is typically worse. For many, access to the Tanzania Social

Action Fund (TASAF) is essential for meeting basic consumption needs, but its coverage is limited to 10 percent of households and it is not well-targeted to those that need it most.

1.2 Macroeconomic Outlook and Risks

Growth prospects depend on the pace of reforms.

Real GDP growth is projected to rise gradually over the medium term, assuming modest but steady reforms in the business environment and fiscal management. Tanzania has recently adopted new policies to lower the costs of regulatory compliance for businesses, reduce government domestic payment arrears, and prevent new arrears.⁷ When completed, these reforms could help push economic growth higher by mobilizing more private investment. Our outlook for the next two to three years assumes that only part of the reform agenda will be realized—progress to date has been relatively slow, and public investment will continue to be one of the main drivers of GDP growth. As a result, annual growth will gradually pick up, with modest improvement of the business climate and in FDI and other private investment (Table 2). Given continuing financing constraints, execution of the development budget is not likely to improve much. In the medium term the fiscal deficit is expected to widen to about 3–4 percent of GDP, and higher imports to support

⁷ The Cabinet endorsed the Blueprint of Regulatory Reforms on May 18, 2018, and the government also adopted Treasury Circular No. 1 of 2018/19 on the Strategy to Control Government Arrears that was distributed to ministries, departments, and agencies on May 9, 2018.



capital projects will likely expand the CAD to 6–7 percent of GDP.

Poverty reduction is expected to continue to be modest. The poverty rate is predicted to decline by about 3 percentage points (pp) by 2021 and the number of poor Tanzanians is expected to be fairly constant as population growth continues high and steady. The economic prospects of the poor—who mainly work in low-productivity farming or urban informal service jobs—are unlikely to brighten as long as growth is concentrated in capital-intensive sectors and in large urban areas.

To reduce poverty significantly Tanzania may need to aim at annual GDP growth of about 10 percent. Holding all else constant, it will take about 35 years for Tanzania to eliminate poverty if poverty declines at a rate of

0.75 pp a year. Similarly, based on DHS and nutrition surveys, malnutrition (stunting) declined by about 1 pp a year between 2004 and 2014. At the current level of 35 percent stunting, it would take 35 years for Tanzania to eliminate malnutrition. Today the median age for Tanzanians is about 18 years and life expectancy is about 68. If the current generation is to reap the benefits of economic growth in their productive lifetimes, Tanzania needs to step up economic growth and poverty reduction.

Agricultural transformation in Tanzania can do much to drive future growth and employment and accelerate poverty reduction (Box 1 and Part Two). In June 2018 the government launched the Second Agriculture Sector Development Program (ASDP II), which plans to

Table 2: Medium-Term Outlook, Annual Percent Change Unless Otherwise Indicated

	2018e	2019f	2020f	2021f
Real GDP growth, at constant market prices	5.4	5.6	5.8	6.1
Private consumption	7.2	5.5	5.2	5.1
Government Consumption	4.3	5.5	5.7	4.3
Gross fixed capital investment	7.7	8.0	8.8	10.2
Exports, goods and services	-3.9	2.5	3.2	3.5
Imports, goods and services	8.5	8.6	8.9	9.2
Inflation (consumer price index)	3.5	3.4	3.5	3.5
Current account balance (% of GDP)	-3.9	-4.2	-5.9	-7.2
Net foreign direct investment (% of GDP)	1.8	1.8	1.9	2.1
Fiscal balance (% of GDP, in FY)	-1.9	-3.2	-3.5	-3.9
Debt (% of GDP)	36.6	37.4	37.8	38.4
Primary balance (% of GDP, in FY)	-1.0	-1.9	-1.7	-2.1

Source: World Bank staff estimates and forecasts.



transform the sector by promoting commercialization, prioritizing high-potential commodity value chains, and mobilizing capital through a larger role for the formal private sector in agriculture. ASDP II is designed ultimately to meet Tanzania's increasing food requirements, accelerate investment in agribusiness, and reduce poverty and inequality. Despite the central role of agriculture in present national development plans, however, its performance over time and across subsectors has been uneven; private agribusiness investments have been modest; and there are growing concerns about prospects for the sector. Part Two of this update provides insights into four areas aligned with ASDP II that will be crucial for the sector to drive growth and job creation: structural transformation in Tanzania's agri-food system; incentives and public spending; the investment climate for agriculture and the food industry; and management of natural resources and landscapes.

Despite global problems, the risks continue to be largely within government control.

Business Environment

The dilatory track record of business reforms highlights the risk of government inaction. With the environment for private businesses deteriorating, the public sector has been mostly driving the economy—a growth model not likely to be sustainable. Despite adoption of important reforms to support the private sector, such as the **Blueprint for Regulatory Reforms** and the **Strategy to Control Government**

Arrears, those agendas have not been fully executed, and in the immediate future, progress in rolling out the reforms is likely to be modest.

Government should make it a priority to act on measures to foster greater private sector participation in the economy. With global growth softening, government should seize the moment to push reforms before the global context becomes less benign. Table 3 summarizes progress assumed in the baseline outlook on government actions to address issues:

Fiscal Management

The government will need to build budget credibility if it is to fully realize its fiscal policy goal of addressing Tanzania's significant infrastructure and skills gaps. It has launched priority projects in human development and infrastructure to support growth and job creation over the medium to long term. However, to have maximum impact the projects must be adequately financed, and completed on schedule. Shortfalls in financing could add new domestic arrears to an already unsustainable stock.

Poor management of public investments creates debt-servicing problems, especially currency and maturity mismatches. Large infrastructure projects are expected to generate returns that can be used to service the loans that finance them. If projects are not properly vetted or completion is delayed, scheduled loan repayments may begin before the projects generate adequate cash flow



and foreign exchange earnings. That may cause maturity and currency mismatches at a time when Tanzania's fiscal space is already limited by high debt service, falling external grants, and the rising costs of providing services to a growing population.

A worsening of financial sector vulnerabilities could jeopardize macro stability. High NPLs and high interest rates may erode the fragile recovery in credit to the private sector. Tanzania's bank-dominated financial sector is small, concentrated, and at a relatively early stage of development. Asset quality is a continuing concern, and high NPLs are restricting the ability of banks to provide more, and more affordable, financing to businesses. The

current vulnerabilities of the financial sector underscore the importance of strong oversight and regulation of the financial system to gradually lower NPLs to the BOT indicative threshold of 5 percent, grow credit to the private sector, and preserve financial stability.

If the country is to reach its development goals, government must intensify its efforts to improve fiscal policy design and execution. The FYDP II is rightly directed to facilitating an ambitious increase in investment in human and physical capital, but for several years the national budget has been significantly under-executed, delaying completion of priority projects and keeping growth below potential. The baseline outlook assumes modest

Table 3: Government Actions to Improve Business Environment Assumed in the Baseline Outlook, Short- and Medium-Term

Government Actions on:	Short-Term	Medium-Term
Fiscal Policy	<ul style="list-style-type: none">■ Pay verified arrears to private contractors and suppliers first.■ Speed up release of verified VAT refunds.■ Ensure that tax administration is predictable and that tax agents collect taxes from businesses fairly.	
Private Sector	<ul style="list-style-type: none">■ Broaden the current public-private dialogue on how recent government policy changes are affecting private businesses and the business environment.	<ul style="list-style-type: none">■ Reduce the high cost of compliance with regulations by fully executing the Blueprint for Regulatory Reform.■ Avoid unnecessary government interference in markets and improve predictability.
Other		<ul style="list-style-type: none">■ To support economic diversification, improve policies to attract investment in nonextractive sectors.



but steady progress on the following short- and medium-term options to enhance fiscal policy:

Additional Risks

A fragile external environment could push growth below the baseline medium-term projection. This would undermine current reforms and reduce space for continuing to pursue the reform agenda. Among the external threats are more erosion of global demand, tighter financing conditions, higher

international energy prices, and more volatile commodity prices. Slowdowns in major economies, especially the Euro Area and China, are already dampening demand for Tanzania's exports. Higher costs of commercial external loans can delay completion of the capital projects that such loans would have financed. Rising global energy prices could also push up the import bill, worsen the CAD, and further reduce official reserves.

Table 4: Government Action to Improve Fiscal Policy Management Assumed in the Baseline Outlook, Short- and Medium-Term

Short-Term	<ul style="list-style-type: none"> ■ Improve forecasts of revenue and tax collection. ■ Prevent generation of new arrears and clear the current stock, especially VAT. ■ Enhance external concessional financing and reduce commercial borrowing.
Medium- Term	<ul style="list-style-type: none"> ■ Intensify mobilization of domestic revenue to finance investment. ■ Improve the execution of critical projects and prioritize public investments that deliver high returns. ■ Carry out the FSAP recommendations.

**Box 1: Private Investment and Sustainable Growth, Job Creation, and Poverty Reduction****Higher and more inclusive growth is needed to more effectively reduce poverty.**

Based on the latest estimate of Tanzania's poverty elasticity of growth (-0.45 for 2012–18), consistent growth approaching 10 percent a year would be needed to counter the slowing rate of poverty reduction. Besides reducing poverty, this growth rate would also allow Tanzania to catch up with countries like Bangladesh and Vietnam, which at the beginning of the 1990s were at the same level of per capita income but have since significantly accelerated their growth.

Achieving 10 percent economic growth in the next three years would require more than doubling current investment.

To maintain 10 percent growth over the next decade would take growth in investment averaging more than 16 percent a year. Because public investment cannot drive this much growth and also keep debt sustainable, private investment must lead the needed expansion. Moreover, private investment can accelerate job creation. Between 2007 and 2014 the economy grew at an annual average of 6.1 percent and employment grew 3.0 percent, i.e., 640,000 jobs were created every year, more than half in agriculture. In the next decade, nearly 800,000 youths are expected to enter the labor market every year. Given the current structure of the economy, one additional percentage point of GDP growth, led by investment in the most productive subsectors of agriculture, industry, and services, could create 220,000 new jobs a year.

Table 5: Employment, Thousands of Workers

	2007	2014
Agriculture	13,788	16,391
Industry	839	1,568
Services	5,355	6,542
Total	19,982	24,501

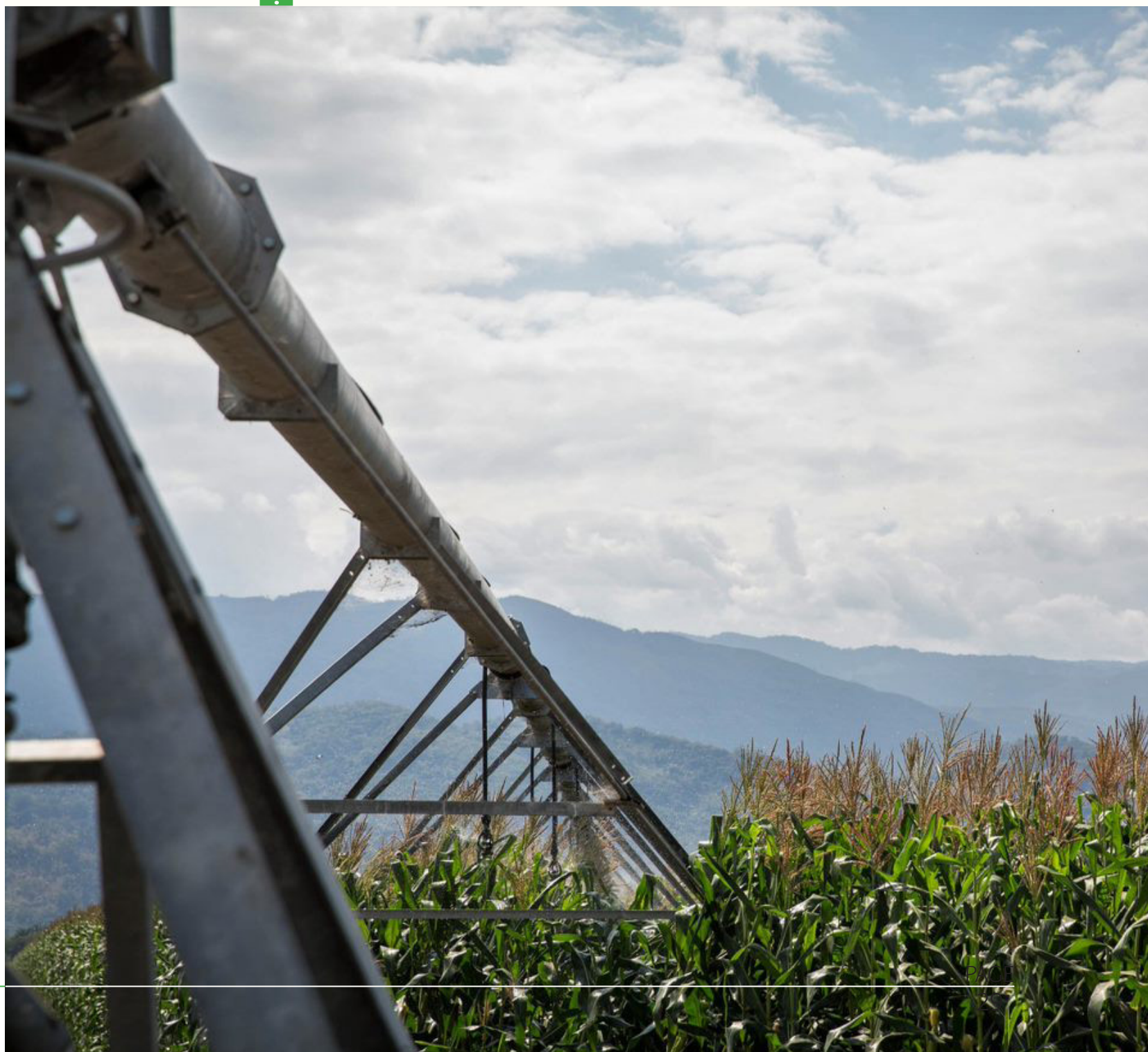
Source: Tanzania Jobs Diagnostics.

The current transformation of agriculture offers an excellent opportunity to catalyze private investment and raise the incomes of the poor. Since agriculture accounts for 27 percent of total GDP and 67 percent of jobs, agricultural growth must be part of the strategy to create more and better jobs and alleviate poverty. As Section 2 shows, medium-scale farms could use more hired labor, purchased seed, credit, and chemicals than do smallholders, and they rent more traction services. The rise of medium-scale farms also creates jobs through higher demand for agricultural inputs and financial and transport services. Moreover, public investment in core public goods, such as agricultural research and more efficient irrigation, could also mobilize private investment in agricultural production and distribution, and could boost the transition to a modern agriculture that is based on medium-scale farms. It is estimated that 13 million days of additional work for hired agriculture labor annually have been created by the 368,000 medium-scale farms added in Tanzania between 2008 and 2014. By 2014 the additional work days were equivalent to US\$225–300 million in net additional backward and consumer links. These results demonstrate that supportive policies and public investments that crowd-in private investment have tremendous potential to create jobs and boost the incomes of many Tanzanians.



2

TRANSFORMING AGRICULTURE





2.1 Strategic Needs, Opportunities, and Challenges for Agriculture

The discussion thus far has argued that high overall growth has not delivered poverty reduction fast enough to be effective, and that higher and more inclusive agricultural growth is needed to make substantial progress in creating more and better jobs and reducing poverty. Agriculture is central to Tanzania achieving economic growth that is both higher and more inclusive, and will remain so for decades. It supports the livelihoods directly to about 55 percent of Tanzanians (and 75 percent of the poor) and indirectly to another 15 percent. The indirect beneficiaries are concentrated in the midstream and downstream parts of value chains, where, as will be seen, emerging demand is creating the most visible changes in the jobs being created. Among midstream functions dependent to some extent on agriculture are traders, transporters and processors; retailing is the most obvious downstream function (AGRA 2019).

Yet in recent years, on the whole the performance of agriculture has been less than stellar, little private investment has gone into agribusiness, and there are growing concerns about the future. Growth in agricultural GDP averaged only 3.5 percent from 2006 to 2016—though 6 percent annual growth is generally considered necessary to

reduce poverty sustainably. Labor productivity in agriculture has gone up slightly, but land productivity has stagnated. If it is to help Tanzania to meet its growth and job targets, how the country views agriculture must change. It can no longer be content with a predominance of family farms of 1 to 2 ha that are barely connected to markets but simply using hand tools and traditional practices to produce food for subsistence as the land degrades.

This has been recognized by the government, which identified agriculture as a central vehicle for realizing the socioeconomic development objectives laid out in Tanzania Development Vision 2025 and the Five-Year Development Plan (FYDP II). These strategic documents formulate ambitious goals for reducing poverty and industrializing sustainably to achieve middle-income status by 2025. In June 2018 the government launched the **Second Agriculture Sector Development Program (ASDP II)**, which maps the path for agriculture through 2028. It plans to transform the sector by promoting commercialization, prioritizing high-potential commodity value chains, and mobilizing capital by expanding the role of the formal private sector in agriculture. Thus, through ASDP II the government seeks to more easily meet Tanzania's increasing food requirements, accelerate agribusiness investment, and reduce poverty and inequality.



Fortunately, new research⁸ indicates that in about 2008 an agriculture transformation began in Tanzania that opens new paths to achieving growth and alleviating poverty. “Agricultural transformation” is common shorthand throughout the world for structural changes occurring as generally lower-income agriculture-dominant economies evolve into more diversified middle-income countries.⁹ Typically, farm populations move into the non-farm economy both locally and far away; often, but not always, average farm sizes are scaled up as those who remain expand and intensify operations by using more purchased inputs per unit of land, hire more labor, and cultivate more land. Farmers become more involved in output markets, producing higher-value animal products and horticulture as demand for them rises, and value chains from farm to table lengthen.

In Tanzania, agricultural transformation is indicated by changes in farm sizes and ownership structure as urban capital gradually enters into agriculture. As will be seen below, medium-scale farms have higher labor productivity, use more purchased inputs, and are significantly more market-oriented. They also hire labor and spend in local markets. In many respects they are similar to highly commercialized smallholder farms, but quite different from noncommercialized smallholders.

Most important for Tanzania, the spread of medium-scale commercialized farms has significant positive spillover effects on the jobs, incomes, and skills of smallholder farms. While one-third of Tanzania’s farms are now medium-scale (over 5 and less than 20 ha), two-thirds of these are farmed by people from the same locality and half are on land inherited by the operator. Thus, medium-scale farms tend to be in closer cultural and physical proximity to their smallholder neighbors than is often assumed. And the research has established that smallholders near medium-scale farms are significantly more productive and earn more than they had previously. They are also better-off than smallholders where there are fewer medium-scale farms. Moreover, empirical analysis has identified very plausible ways that smallholders in medium-scale farming zones are already benefitting from the success of their medium-scale neighbors. Nationally, Tanzanian farm households that were traditional noncommercial smallholders living mainly on the low incomes their farms generated went from 43 percent in 2008 to 31 percent in 2014, and the share of commercialized and more productive smallholders living mainly from their higher farm income went from 19 to 25 percent of all farms.

8 This chapter is based on recent analytical work by the World Bank and its partners at the request of the government. Annex 14 lists the briefs and two detailed reports available from the World Bank Advisory Services & Analytics Project “Closing the Potential-Performance Divide in Tanzanian Agriculture” (P165427).
 //Make this an author-date cite and add it to refs.¥

9 The classic reference on this is Timmer 1988.

**Average labor productivity will always rise with agricultural transformation.**

Usually, so will returns to land, although how much may depend on whether unused new land is available at low cost to expand cultivation. What happens to the marginal productivity of labor and thus agricultural wages in a market system depends on the supply of labor and its opportunity cost beyond agriculture. In Tanzania, we would expect livelihoods of farm households to rise, with modest returns on land away from cities as cultivated area expands, the returns also rising once land expansion becomes more difficult. Based on data from the Tanzania National Panel Survey (NPS) from 2008/2009 (2008) to 2014/2015 (2014), average labor productivity per agricultural worker across all farm categories has risen slightly, at about 1 percent a year, but land productivity has stagnated at about 0.4 percent.¹⁰ By 2014, the labor productivity of commercialized smallholders and medium-scale farms were substantially similar, but 50 percent higher than that of smallholders who were not commercialized but trying to live by farming, and 200 percent that of smallholders whose main livelihood came from the farm.

The promise of Tanzania's embryonic agricultural transformation is real, but not yet realized. Delivering on the promise requires understanding the

context in which agriculture can most easily contribute to national growth and job creation, the topic of the next section. The following section then looks at the specifics of Tanzania's agricultural transformation and how it can be supported. Policy and regulatory issues are central, as is explored in the next section, which identifies changes necessary to take advantage of the opportunities structural change presents. Finally, investment issues are discussed in terms of how much is still needed to move agriculture to where it needs to be.

2.2 Strategic Considerations in Carrying Out Agriculture Strategies

Ambitious economic growth and employment targets like Tanzania's require growth in manufacturing, for which agricultural outcomes matter in three ways: (1) Urban Tanzanians with lower incomes consistently spend about one-third of their disposable incomes on food staples and minimally processed goods made from staples, such as cereals.¹¹ That is why rising relative prices of cereals tend to spark wage demands by workers, raising national manufacturing costs in a competitive regional and world trade environment.¹² (2) Rising incomes in rural areas are critical to provide a broad-based consumer market for local

10 Results for Tanzania in the rest of this section are from Wineman et al. 2019a, 2019b, which are based on Tanzania's National Panel Survey (NPS) data for 2008/09 to 2014/15.

11 (Tschirley et al. 2015).

12 It is no coincidence that Asian countries that have been successful at labor-intensive industrialization first boosted agricultural productivity to keep food prices low even as urban demand soared. China is a primary example.



manufactures and assembly plants.¹³ (3) Agriculture provides the main raw materials for Tanzanian manufacturing, as illustrated next.

Adding value in natural resource-based industries by enhanced processing, especially mass production of processed food products for consumers, is recommended as a starting point for Tanzania to stimulate growth in manufacturing.¹⁴ By 2012, in fact, almost 25 percent of all registered manufacturing enterprises in Tanzania were in food processing, producing beverages, sugar and milk-based products, edible oils, fish products, grain milling, tea and coffee, and bakeries and confectionery. Agri-processing accounted for 55 per cent of total national formal manufacturing output and up to 65 percent of total formal employment. More than 80 percent of agri-processors are small and serve only the domestic market. Horticultural processing is typically directed to export markets. In 2012 the 287 formal agri-processing companies each had 10 or more employees. Together, they employed 58,000 people, about two-thirds of them women—a startling number considering that in formal employment generally in Tanzania, women hold only about one-quarter of the jobs. Most food processors are based in Dar-es-Salaam, probably due

to the need for a reliable electricity supply, but draw material from 450,000 farms throughout the country.¹⁵

These trends in agricultural value chains are seen today throughout Africa. Africa-wide, farms contribute about 40 percent of agricultural value-addition, the midstream of value chains (traders, transporters, processors) another 40 percent, and the final retail segment downstream about 20 percent¹⁶. Most significantly, about 80 percent of midstream value-addition is from small- and medium-scale enterprises (SMSEs), mainly outside the largest cities; these also tend to be more labor-intensive than larger formal firms engaged in similar lines of business. The rapid growth of these agricultural and food SMSEs offers the most immediate prospects of creating more and better jobs in agricultural value chains.

Like the rest of the region, Tanzania needs competitive labor-intensive sectors to absorb the growing youth labor force. Rapid migration of young people from remote or land-constrained agricultural areas adds to the ranks of those underemployed in low-skill urban services.¹⁷ The low-productivity growth of traditional smallholder agriculture can absorb only a small share of entrants to the labor force, provoking both migration and rapid growth in unpaid youth on farms. More and better jobs need to

13 This thesis is strongly supported by a Social Accounting Matrix model fitted to Tanzanian data in Delgado et al., 2000. Similar results have been shown for a large number of countries where domestic manufacturing has grown.

14 UNIDO 2013.

15 Kumar and Agarwal 2016; World Bank 2014, 2013; Sutton and Olomi 2012.

16 AGRA 2019.

17 There was a nearly 2.5 times increase in the numbers of unpaid urban youth from 2006 to 2014. See Petracco and Sanchez-Reaza 2018.



be created, along higher-productivity agricultural value chains, to realistically confront issues of youth employment and expectations for a better life; for the foreseeable future, no other sector can do this at the necessary scale.¹⁸

Meanwhile, demand in Tanzania is expected to continue to shift dramatically from rural diets of barely transformed staples to urban diets of highly processed and pricier horticultural and animal-sourced food products.¹⁹ The value of food consumption in Southern and Eastern Africa is expected to nearly triple by 2050, when 80 percent of foods purchased in the region are expected to be industrially processed.²⁰ By 2050, it is projected that SSA as a whole will need to import one-third to one-half of its food supplies by value, raising the import bill by about US\$150–US\$200 billion annually in present dollars. With its endowment of agricultural resources and favorable location, Tanzania is well-placed to exploit these growing regional markets, which are increasingly being serviced by non-African exporters. Tanzania borders on eight countries, several of them likely to be significant food importers.

Yet despite its agricultural resources and market opportunities, Tanzania itself is a major importer of cereals, having brought in nearly 3.5 million metric tons (MMT) of maize, wheat,

and rice in 2017. In that year, wheat, palm oil, sugar, and maize amounted to 7.1 percent of total imports by value.²¹ Agriculture in Tanzania is also largely a price-taker in regional and global markets because it is small, and its trade, exchange rate, and fiscal policies are mostly set outside agriculture.²² This leaves it relatively little latitude to use domestic price policies alone to affect agricultural incentives, especially over time.²³ Furthermore, much of Tanzania's high agricultural growth since 2000 was due to expansion of cultivated areas.

The inescapable conclusion is that to meet the challenge of becoming a leading rather than a lagging sector in national economic growth and job creation, as detailed in Tanzania's national strategies, growth in agriculture must come from intensification to lower the unit costs of production. Smallholders currently not part of these trends will need to be brought in by widespread market-led processes; and value should be added by jobs in storage, marketing, transport, processing, wholesaling, and retailing within Tanzanian agri-food value chains. Rapid growth in value chains midstream and downstream depends fundamentally on the competitiveness of producers upstream, as a necessary, if not sufficient, condition—a serious challenge, especially for many smallholders, that must be addressed.

18 Seboah and Jayne 2018

19 Tschirley et al. 2015

20 Seboah and Jayne 2018

21 MIT 2017

22 World Bank Group 2019

23 This argument, not necessarily but still valid, is set out at length in Delgado et al. 2000.



To meet the productivity challenge, all farmers, including smallholders, will have to

- Acquire complex new knowledge about technology, its use, and markets.
- Invest in technology that makes soil more productive through both organic and conventional means.
- Better manage water, soil, and agricultural technology for increased resilience to climate change.
- Unlock financing to purchase inputs and locate sources.
- Build credit histories through mobile payment and other new finance platforms.
- Identify and understand shifting market opportunities.
- Decide which products will offer the best rate of return for their investments.

The agricultural transformation currently underway in Tanzania illustrates how current policies to further national agricultural strategies can be improved to achieve widespread and sustainable intensification, especially of smallholder agriculture.

The next section looks at agricultural transformation in this light, and those that follow assess the implications of changes in emphasis in national agricultural policies to accelerate what present national strategies require.

2.3 Tanzania's Agricultural Transformation in Practice, 2008–14

Indicators of change by farm type, 2008–14.

Trends from 2008 to 2014 clearly show the start of agricultural transformation; they also support a view that medium-scale farms are at the forefront of the trends. This has become obvious in the rise of average labor productivity in agriculture, greater use of purchased inputs and mechanization, more involvement in markets, use of hired labor, and rising incomes per farm. There are also significant contractions in the number of traditional subsistence-oriented small farms and migration of the landless, and the number of farms is growing.

The numbers of both rural and agricultural households are growing in Tanzania, but the share of rural household income from agriculture is declining. From 2008 to 2014, as the population grew rapidly the number of rural households rose annually by nearly 4 percent and the number of agricultural households by 2 percent, compounded. However, rural households deriving most of their livelihoods from agriculture fell from 97 to 91 percent, and households engaged in agricultural activities fell from 82 to 73 percent. Nationally, household incomes are increasingly leaning away from agriculture, with income derived from on-farm production falling from 47 to 37 percent—even agricultural households are relying less on food



produced on the farm. These trends are consistent with farms becoming more specialized, rising consumption of commercially processed food in rural areas, and food markets becoming more reliable.

Farmers are becoming more likely to engage in agricultural land and labor markets and to practice some form of agricultural intensification. Between 2008 and 2014 farms hiring laborers for at least one day rose from 45 to 50 percent. There are also indications that the land market is becoming more active, as farmers renting land rose from 12 to 16 percent. And in 2014, 38 percent of farming households owned some farmland acquired through purchase.

Growth in labor and land productivity in cropping often involves more modern inputs, such as improved seeds or agrichemicals, and the use of machinery. By 2014, the percent of crop farms that used only family labor and only land they had customary (not rented) rights to, with no other inputs, had declined from 33 to 24 percent. As for mechanization, by 2014, 7 percent were using a tractor to prepare land, 40 percent were using improved seed, and 28 percent had bought the improved seed.

However, indicators of agricultural intensification linked to investment in cropping were weak or flat. Just 16 percent of farms applied inorganic fertilizer in 2014, and just 2 percent bought agricultural inputs on credit. Among livestock farmers, the trend, if

any, is negative in terms of likelihood of possessing an improved breed. It appears that patterns of intensification differ, with cropping displaying more dynamism than animal husbandry.

Despite little use of purchased inputs, farms seem to have an increasingly commercial orientation to crop production. Farmers are marketing a larger share of their crops; between 2008 and 2014 the average rose from 36 to 41 percent. That is not happening with livestock products. Farmers who sell some crops are increasingly likely to sell at the farm gate, where the share has risen from 57 to 67 percent. This suggests greater penetration of traders into villages, improving market access for crop farmers.

The size and real value of agriculture have grown very rapidly but average productivity per hectare has gone up only marginally. Between 2008 and 2014 the value of main-season crop production rose from TZS.3.2 trillion to 5.1 trillion in real inflation-adjusted 2015 values, a compound annual growth rate of 8.1 percent.²⁴ Meanwhile, the area cultivated grew from 8.3 to 13.0 million hectares, 7.8 percent annually, but there was an annual increment of only 0.3 percent (compounded) in average productivity of land. Land expansion generally occurred on land that had been left fallow.

As is expected with agricultural transformation, average labor productivity is rising nationally; in 2014 the inflation-adjusted value of

24 At the June 30, 2015 exchange rate, the latter figure is equivalent to US\$2.3 billion.



crop production per labor-day was up from TZS 3,962 to TZS 4,741—a compound annual growth rate of 3 percent. The rise is explained by a drop in the number of work days applied to a unit of cropped land in the main season, from 98 to 83 days per hectare (ha). The increased use of purchased inputs and mechanization basically kept land productivity constant even with less labor.

Since the global and regional price rises for food staples in 2008, farming has become more oriented to staple food crops (maize, rice, legumes, and oilseeds), and specialization has gone up slightly. Farmers are increasingly likely to derive at least 75 percent of their income from staple food crops, cash crops, fruits and vegetables, or livestock, with farms specializing in one of these groups rising slowly but consistently over the study period, from 62 to 65 percent.

There has been a steady and significant decline in the proportion of farms categorized as primarily subsistence-oriented, farm-focused, and small-scale, down from 43 percent of all farms in 2008 to 31 percent in 2014. The share of Tanzanian farms (by number of farms) categorized as small-scale (less than 5 ha) slipped from 91 to 88 percent, and medium-scale farms (5–20 ha) went up from 8 to 10.5 percent.

During the study period medium-scale farms became considerably more important to national agricultural

output, and there was noticeable growth in land productivity. Although by 2014 the absolute number of medium-scale farms grew by just 2.5 percent, to 10.5 percent of all farms, their share of total cultivated farmland rose from 23 to 37 percent, an 8.2 percent compound annual rate, and their share in the total value of agricultural production rose from 18 to 30 percent, an 8.9 percent compound annual rate. Their share in the total value of marketed agricultural products rose from 20 to 33 percent, a compound rate of 8.7 percent annually. Thus, on average medium-scale farms not only accounted for a sizable share of national agriculture through the period, but average productivity of their land grew by 0.7 percent compounded annually—more than twice the rate for all farms. In 2014, there were about 9 medium-scale farms for every large one (more than 20 ha), and more than 8 small farms for every medium one.

In 2014 average gross income per farm was higher on large farms than on small and medium, but not nearly as much higher as might be expected. Average income per large farm (>20 ha) was TZS 4.47 million (about US\$2,500 at the time), only 3.1 times higher than on commercially oriented small farms and 1.7 times higher than medium farms. When nonfarm income (from self-employment, wages, transfers, and any other sources) is factored in, large farms made 2.1 times as much as medium farms (TZS 17.6 million, US\$10,000 at the time), and about 8 times as much



as commercially oriented small farms. However, they only made 1.7 times as much as commercially oriented small-farm households engaged in nonfarm activities, because the latter had relatively high nonfarm income. Livestock accounted for more farm and total household income for large farms.

Tanzania's medium-scale farms link to and affect small farms.

Growth in the number of medium-scale farmers in Tanzania opens up opportunities for a market-led model for reducing poverty among smallholder farmers through positive spillovers. Medium-scale farmers are highly market-oriented. They also have additional advantages as an engine of sector transformation: they hire, invest in technology and knowledge, and attract commercial services that can provide agri-food-based tax revenue.

Because most medium-scale farms were previously small-scale, they offer models of success their communities can emulate. The immediate community (nonmigrant) produces 65 percent of medium-scale farms, compared to 68 percent of small-scale farms; and half of the medium-scale farmers possess land they inherited. However, 54 percent of medium-scale farmers bought land and stayed in their communities, reinforcing their community ties. This suggests that one path for farmers to transition to medium-scale status is by buying land adjoining their own holdings in the growing informal land market.

Medium-scale farms are more likely than other farms to be in rural areas, farther away, on average, from a town or a major road. They also tend to be held by farmers who reside in less densely populated areas and cluster where there is space for expansion—mostly in the Singida, Tabora, and Shinyanga regions, in the Western and Central zones. They use mechanical or animal traction and improved seeds, seek agricultural credit and extension advice, and sell their crops. This suggests that they may be able to attract services to their communities, deepen the markets for agricultural inputs and outputs, and diffuse knowledge and new technologies.

Even though spillover effects from medium- and large-scale to small-scale farms are similar in magnitude, those from medium-scale farms may be greater because of stronger local ties, and they can be found in more locations than large-scale farms. They are only slightly more likely than small-scale farms to have a household head that immigrated into their present community (35 versus 32 percent). Large-scale farmers are significantly more likely, at 51 percent, to have migrated into the community. Local communities may have more trust in medium-scale than in large-scale farms.

Growth in the number of medium-scale farms and other positive trends in the study period may have been influenced by higher investment and more agricultural reforms. The analysis period overlaps with the global food price crisis of 2007/08 and falls within the first phase of the Tanzania



Agricultural Sector Development Program (ASDP-I, 2006/07–2014/15) and the fertilizer subsidy program (National Agricultural Input Voucher Scheme [NAIVS] 2008/09–2014/15). These all led to more investment in agriculture, though they have since been scaled back.

Small-scale farms on average improved their agricultural outcomes the nearer they were to medium- and large-scale farms.

The presence of medium-scale farms in a district generally builds and deepens markets for agricultural inputs and outputs by augmenting local demand, which draws suppliers.²⁵ Such positive spillovers are obvious in Tanzania. Small-scale farms are more likely to use improved seed and fertilizer, cultivate a larger proportion of their landholdings, and access agricultural extension services and credit in areas where there are more medium- and large-scale farms.

Spillovers from medium to small come in different forms.

They may come as skills or knowledge; after working for a medium-scale farmer, small-scale farmers can apply the skills they have learned to their own farms; 57 percent of medium-scale farms hired some agricultural labor, compared with 42 percent for small-scale farms, and on average they used hired labor 47 days a year, compared with 12 for small-scale farms. Medium-scale farms are almost twice as likely as small-scale farms to use oxen or tractors to prepare land. About half of the small-scale farms that

use tractors (or, rarely, oxen) rent them. An increase of 10 percent in the share of farms in the region that are not small-scale is associated with a 9 percent higher likelihood that a small-scale farm buys improved seed and 5 percent more likely to buy fertilizer. A larger number of medium- and large-scale farms is also positively correlated with the likelihood that a small-scale household ceases to engage in agriculture—which is consistent with the theory that larger farms generate off-farm multipliers that produce options for small-farm households looking to quit farming.

Medium-scale farms are leading the translation of policy to a form that can best mobilize smallholders to use new knowledge and new commercial outlets.

Their forward and backward links in the rural economy benefit smaller-scale neighbors. It is therefore important to better understand how policies and regulations influence farmer incentives and investment. Policy attention should be directed to meeting the diverse needs of farmers. The next section discusses reforms to sustain and catalyze further agricultural transformation in Tanzania.

Agricultural transformation in Tanzania is affecting jobs.

Medium-scale farms in Tanzania use more hired labor, purchased seed, credit, and agricultural chemicals than do smallholders and they rent more traction services. As the share of medium-scale farms increases relative

25 Deininger and Haggblade 2018



to smallholders, other things being equal all those input sectors provide more employment. In the case of hired labor, the number of medium-scale farms in Tanzania is estimated to have grown from 408,000 to 776,000 between 2008 and 2014.²⁶ At the same time, research shows that medium-scale farms hired 35 days more agricultural labor on average than did small-scale farms.^{27,28} It appears that growth alone in the number of medium-scale farms created nearly 13 million additional days of hired wage work annually on those farms, compared to no change in farm sizes and no change in smallholder hiring practices.

The rise of medium-scale farms also created jobs through their demand for extra agricultural inputs and financial, traction rental, and (critically) transport services. Throughout 2008–14, average gross farm margins per medium-scale farm were more than double those of small-scale commercial farms and more than triple those of farm-oriented noncommercial smallholders. In 2014, the difference in the gross margin of medium-scale farms compared to commercialized smallholders was TZS 1.33 million (about US\$810) per medium-scale farm.¹⁶ This leads to an estimate that the additional gross margin of the 368,000 medium-scale-farms that came into existence between 2008 and 2014

was about US\$300 million. If net cash production costs per farm other than for hired and family labor and land are taken as amounting to about half of the gross margin,²⁹ it would appear that the rise of medium-scale farms in Tanzania produced about US\$150 million in additional demand annually for farm inputs and services other than hired agricultural labor by 2014. (Note: this is a crude estimate of backward links for the net addition to a much higher figure, one solely attributable to the addition of more medium-scale farms.)

Finally, there are the effects of the growth of commercial farming in rural areas on demand for local consumption services that arise through circulation of additional local incomes that would not be present if medium-scale farms had not appeared. Where local areas contain underemployed labor and land, as in not only Tanzania but much of rural Africa, net new local demand for what those underemployed resources can produce stimulates net new employment. This growth multiplier for commercial agriculture was previously estimated to be about 1.5–2.0 for both Tanzania and four other African countries.³⁰ This range of multipliers implies that by 2014 an increase in net agricultural margins of US\$150 million for the 368,000 new medium-scale farms would have consumption-link effects of about US\$75–150 million of additional value

26 Wineman et al. 2019a

27 Wineman 2019b

28 The 15 days in question are shown to a statistically significant difference (1 percent) from smallholders.

29 Admittedly a guess, but consistent with farm budgets for small-scale commercial farms in Kenya, see for example: Opio et al. 2015. Also see Ingosi n.d.

30 Delgado et al. 2000, 1998



in rural areas from consumer industries (primarily SMSEs) producing, e.g., locally processed and perishable foods, construction materials, and furniture.³¹

In sum, the 368,000 medium-scale farms added in Tanzania between 2008 and 2014 can reasonably be considered to have created 13 million days of additional work annually for hired workers, and US\$225–US\$ 300 million in net backward and consumer links. The total effect of the 776,473 medium-scale farms estimated to have been operating in 2014 would be proportionately higher. Absent from this estimate is a component for forward links, as in, e.g., additional benefits for the agri-processors that account for half of Tanzania's manufacturing value-added. Having cheaper and more reliable raw materials is essential for their profitability and hiring, as it is for retail establishments.

2.4 Policy and Regulatory Issues in Sustaining Agricultural Transformation

Because agriculture mainly produces tradable outputs like food and export crops and livestock, using mainly nontradable inputs like land and labor, agricultural incentives are very sensitive to macroeconomic and trade policies that affect the trade-offs in prices between tradable

and nontradable goods.³² Although agriculture has relatively little input into or impact on macroeconomic policies that affect inflation and exchange rates, it often must deal with the consequences. Changes in real exchange rates (adjusted for inflation relative to that of trading partners) affect the relative prices and costs of agricultural output, and the returns on investing in agriculture rather than other sectors. High interest rates on agricultural loans stemming from events outside agriculture can also negatively affect agricultural growth. Among direct effects are higher prices for capital goods and therefore a higher cost of production. Expansionary fiscal policy also often tends to push up both domestic interest rates and domestic inflation, which is discouraging to producers of food and other tradable agricultural goods. Thus, although macroeconomic policies typically are not designed to address agricultural issues, they can significantly affect incentives for agriculture that farmers have to take as given.

Conversely, very much of concern to farmers are trade, domestic marketing, and regulation policies that are focused on agricultural outcomes. These can give policymakers scope to exacerbate or alleviate the impacts of macroeconomic policies on agricultural incentives, which can influence farm prices and costs, at least within certain

31 The key to the multiplier idea is that local underemployed residents will be able to work producing something that was not previously in demand, but now is. That would include goods that are too bulky relative to value to be sold beyond the local area or imported (i.e. nontradables); hence there is little local supply until local purchasing power increases (See Delgado, 1998, 2000).

32 Or conversely the ratio of agricultural revenue to costs; usually referred to as the real exchange rate and calculated as the nominal trade-weighted exchange rate adjusted by the trade-weighted rate of foreign currency inflation to domestic inflation. A nominal devaluation of domestic currency that would normally favor exports can be overcome by a higher domestic inflation than trading partners, which encourages imports instead (see Krueger, Schiff, and Alderson 1988).



limits and for specific activities. However, they may or may not be effective in achieving strategic goals, tend to have unintended consequences, and often imply a nonmarket redistribution of resources within the agriculture value chain as a whole, covering inputs, production, transport, processing, and retailing.

Trade policy affects agricultural incentives.

Shifts in agricultural price policies—such as those driven by valid short-run food security concerns—affect the production and consumption choices of both farmers and consumers. Low-price policies may help poor urban and rural landless consumers in the short term but in the longer term they discourage agricultural production and trade, undermining food security.³³ We measured trade and market policies that affect agriculture, among them export bans, import traffic, export taxes, and market inefficiencies, in terms of relative price incentives for farmers and others in five commodity value chains: maize, rice, cashews, coffee, and cotton. Standard price incentive indicators, such as the nominal rate of protection, the nominal rate of assistance, and the market development gap, were calculated for 2005–17.

Export bans, export taxes, and other types of trade restrictions exacerbate domestic price volatility, create

a perception of high agricultural risk, and discourage investments in agricultural production. Tanzania has intermittently used maize export bans for food security objectives to protect consumers from high and rising prices. These bans depressed prices to farmers throughout the country by 7–26 percent.³⁴ Mitigation efforts did not relieve the financial suffering of farmers. The efforts included input subsidies through the NAIVS program (2008/09–2014/15) and output subsidies through the National Food Reserve Agency. After high transportation costs, margins for intermediaries along the maize value chain, and a local crop produce cess of 3 percent, farmers received less than 50 percent of the average wholesale price in the periods examined. Maize export bans alone were estimated to have raised national poverty by 0.4 percent when all direct and indirect impacts were worked out in a general equilibrium context.³⁵ Since 2017, central authorities have tried to limit the use of export bans by promoting alternative policies for stabilizing the prices of staples.

The agricultural processing industry is best promoted by a favorable investment environment rather than by taxes on export of raw materials. Making such investment more attractive might be a commodity-specific focus on access to financial services, private investment in processing through partnerships with international

33 The reverse is also true, with high price policies designed to encourage food production affecting the poor negatively if other means of sustaining them are not found.

34 Diao, J., Kennedy, A., Mabisso, A. and Pradesha, A.. 2013. «Economy» ide Impact of Maize Export Bans on Agricultural Growth and Household Welfare in Tanzania: A Dynamic Computable General Equilibrium Model Analysis, IfPRI Discussion Paper 01287, International Food Policy Research Institute, Washington, D.C.

35 Diao et al. 2013



entrepreneurs, and trade channels more conducive for agents along the value chain, such as fair enforcement of legislation. Cashew processing could be a case in point: Taxes on agricultural export crops like cashew are passed down to farmers, significantly reducing farmgate prices. The 15 percent export tax on raw cashew values (f.o.b.), which was designed to encourage domestic processing, depressed farmgate unit prices by an average of 14 percent between 2005 and 2017. With about 90 percent of cashew exported raw and about a 6 percent global market share for its exports, Tanzania is a price-taker in international cashew markets. Thus, over time an export tax of 15 percent on raw nuts, if enforced, would lower producer prices by about the same amount. How effective the export tax would be in promoting addition of domestic value for cashews should be evaluated in terms of the costs to the sector, such as lower on-farm investment in productivity and declining output.

Improving price incentives for rice farmers, and improving food security in urban areas, is better achieved by moving to decrease the costs of domestic marketing and production.

For rice, that could include warehouse receipt systems, contract farming for millers, better access to market information, keeping policy stable for producers and investors in milling and storage, decreasing transport costs, and improving irrigation. Import tariffs on rice intended to protect producers from low prices and consumers from price shocks were not effective. Between 2005 and

2017 variable import levies of 25 to 75 percent were applied to rice imports to protect domestic producers. This raised domestic rice prices in Dar es Salaam, to the detriment of domestic consumers. However, rice farmers tend to be far inland, and transfer and transaction costs to coastal markets where imports arrive are high. Our study, conducted with the UN Food and Agriculture Organization, found that explicit tariffs on imports only raised inland farmgate prices by about 14 percent on average, with most of the price margin wrought by protection—about 51 percent—going to urban wholesalers and traders.

Farmers are unable to capture domestic price increases caused by protection for a number of reasons:

(1) Vast distances to markets and often poor rural roads translate into high per-unit transfer costs that deplete what the commodity can be sold for in urban coastal markets. (2) Small and unpredictable volumes of unbranded quality limit capacity to negotiate terms with traders. (3) Minimal access to storage and financing narrows alternative marketing options. This leaves considerable room for other players to charge higher margins that siphon off the effect of the tariffs along the value chain before they reach the farm gate.

Domestic marketing policy and regulation depress agricultural incentives.

As with rice, in agriculture generally reducing marketing costs will likely be the fastest and most durable way to improve prices for both producers



(higher than now) and consumers (lower than now). High transport and other transfer costs severely reduce the competitiveness of Tanzania's agricultural exports. Policies that increase these costs are also inconsistent with the government's goal, expressed in ASDP II, of making Tanzania a major maize exporter.

Agricultural taxes contribute to local government revenue but severely erode agricultural profits—a major disincentive for farmers. Produce cess (a local tax typically collected close to the point of production) and other official fees and charges often amount to more than 10 percent of farmgate prices; total taxes and fees amounted to 12 percent of chargeable prices for cashew farmers in Mtwara and 12.6 percent for coffee producers in Moshi.¹⁷ For cashew, these charges can be added to the effects of a 15 percent export tax on raw cashew exports (see above). Considering that net farm revenue is often only half of gross revenue due to high costs, average taxation of the gross revenue (farmgate price) of cashew farmers approaches about 50 percent of net revenue, a level confronting few other enterprises anywhere in any sector.

The government has recently made efforts to improve the fiscal regime in agriculture by removing over 100 fees and charges and enacting numerous reforms to reduce production costs, promote investments, and protect domestic industries. The Finance Act

Supplement No.4 (2017) also reduced the crop cess to a maximum of 3 percent of farmgate prices for both food and cash crops. Further reforms have since been introduced pursuant to the **Blueprint** initiative for improving the business environment. However, policy inconsistency and limited predictability continue to create uncertainty for businesses.

Making policies more predictable and removing trade barriers, price controls, and export restrictions, such as complex licensing systems or documentation requirements, will enhance the total volume of legal trade flows through both additional effort and less evasion. Lifting market access requirements that do not relate to food safety or other public policy concerns can help new suppliers, particularly those in remote rural areas, to enter growing urban markets. Restrictive marketing requirements, such as mandatory auctions or fixed physical marketplaces can also entrench interests that reduce competition and lead to higher consumer prices that are not passed down to the farmer.³⁶

Food security objectives are best addressed in advance, by interventions not focused on prices. Policies to consider are (1) establishing a monitoring and early warning system that provides information on production, trade, stocks, prices, climatic conditions, and nutritional needs, preferably at the local and district levels, given the heterogeneity of sector performance and

36 Kapur and Krishnamurthy 2014



food security situations; (2) maintaining enough emergency food stocks to address short-term volatilities due to, e.g., weather shocks, food production shortfalls, and price shocks; (3) targeted safety net programs ensuring access to food during shortages for predetermined vulnerable populations; and (4) coordination of trade arrangements put in place in advance between countries. Price-based policies to manage food security are necessarily short-term, can have high fiscal costs, and often backfire by discouraging production and optimal distribution of food.

Regulatory issues affect input markets and food safety.

Effective private-sector input markets, particularly for improved seed and fertilizer, can greatly influence agricultural productivity and the competitiveness of Tanzania's agriculture. The Customs Tariff Act of 1976 exempted all agricultural inputs from import duty. A number of tax incentives also were granted in the Income Tax Act of 2004, including a 100 percent capital allowance for agriculture and income tax exemption for export-processing zones. Since then further reforms have been introduced, including VAT exemptions for selected agriculture products and selected capital goods such as machines and production plants, and corporate tax holidays on strategic industries like leather. These policy reforms were meant to reduce production costs, make agricultural

commodities more competitive, and increase profits for both producers and distributors of agricultural produce.

Improving the performance and regulation of private-sector agricultural input markets will be vital to agricultural productivity.

Standards in the informal sector are not regulated, both quality and product labelling are unreliable, and information on fertilizer and seed performance is scarce. Although in the last decade the number of Tanzanian farmers using improved seed has substantially increased, there is potential to further increase utilization. The average fertilizer application in Tanzania is 8–10 kg/ha,³⁷ far below the 50 kg/ha target set by African governments at the 2006 Abuja Declaration on Fertilizer; only 16.5 percent of Tanzanian rural farms applied inorganic fertilizer to any crops, and only 44 percent use improved seed.³⁸

The good news is that objective international assessments score Tanzania's regulation higher than comparator countries in relation to seed, finance, transport, water, and ICT).³⁹ However, it has below-average scores in variety registration; fertilizer import and distribution; tractor operations; plant protection; and agricultural trade. This helps identify regulatory weaknesses to target. Given their importance, we would give priority to seeds.⁴⁰

Public support for seeds should be directed to investments that reduce

37 United Republic of Tanzania 2018

38 Tanzania National Bureau of Statistics 2017

39 World Bank 2017a

40 World Bank 2017a



the costs, improve the quality, support diversification and climate change resilience, and encourage private sector participation. Public investments should therefore (1) upgrade breeding, certification, and measures to combat counterfeit seed to improve the quality and reduce the costs of seed; and (2) encourage breeding of nonmaize crops and climate-smart varieties to help create markets for these seeds and encourage greater private investment. Improving regulatory performance will be critical to leveraging the private investment that ASDP II envisages.

Mobilizing the private sector through better policies and better application of regulations should be a priority. Our analysis identified eight ways to enhance seed performance:

- Reduce the time required for release and registration of new varieties.
- Increase the number of new climate-smart varieties released.
- Build institutional capacity for inspection, certification, and labelling of seeds and combatting counterfeits.
- Make early generation seeds (pre-basic, basic) more widely available.
- Encourage diversification beyond maize seed.
- Facilitate regional harmonization of seed regulations to improve access to seed and make more varieties available.

- Use the Quality Declared Seed system to help fill the gap between formal certified and informal seeds.
- Hold clinics on laws and regulations that apply to seed.

Regulation of the fertilizer market could be improved by incorporating known regional good practices for fertilizer registration, import and distribution, and quality control. This will increase access to and use of quality synthetic fertilizer in Tanzania.

Ensuring the safety of food supplied to domestic and export markets is critical to building human capital, improving trade competitiveness, and attracting private investment to Tanzania. Tanzania is one of seven African countries that have suffered productivity losses from foodborne disease; in 2016 the cost exceeded US\$500 million.⁴¹ The economic losses result from productivity losses, treatment costs, the costs of mortality and suffering, and losses to business from food recalls and lost exports. Institutional arrangements for enforcing food safety laws in Tanzania are complex and fragmented. There is also considerable duplication of institutional mandates. Both factors increase compliance costs for businesses.

Because Africa's regional markets are fast becoming the main targets for both African and non-African food exporters, belief in the quality and integrity of Tanzania's food safety

41 Jaffee et al. 2019



certification for exports will be critical to commercial success. The recent successes of both Rwanda and Uganda in growing market share in regional inland markets for high-nutrition baby foods illustrates what can be done.¹⁸

Approaches to ensuring food safety systems have been identified:

- Build up leadership and address duplication of institutional mandates.
- Prioritize public spending.
- Shift to a risk-based food safety system.
- Over the long term, move from compliance with compulsory regulation to facilitation and creation of incentives for compliance with voluntary regulation.
- Harmonize rules and processes within the East African Community (EAC).

More efficient phytosanitary inspection and certification procedures in an exporting country like Tanzania can reduce the burden on export businesses and possibly encourage more trade. Initiating the phytosanitary certification process electronically and enhancing on-site inspection and issuance of certificates would allow products to be packed and sealed in the same place as they are inspected. This would reduce transport and logistics costs and allow for immediate export after inspection.

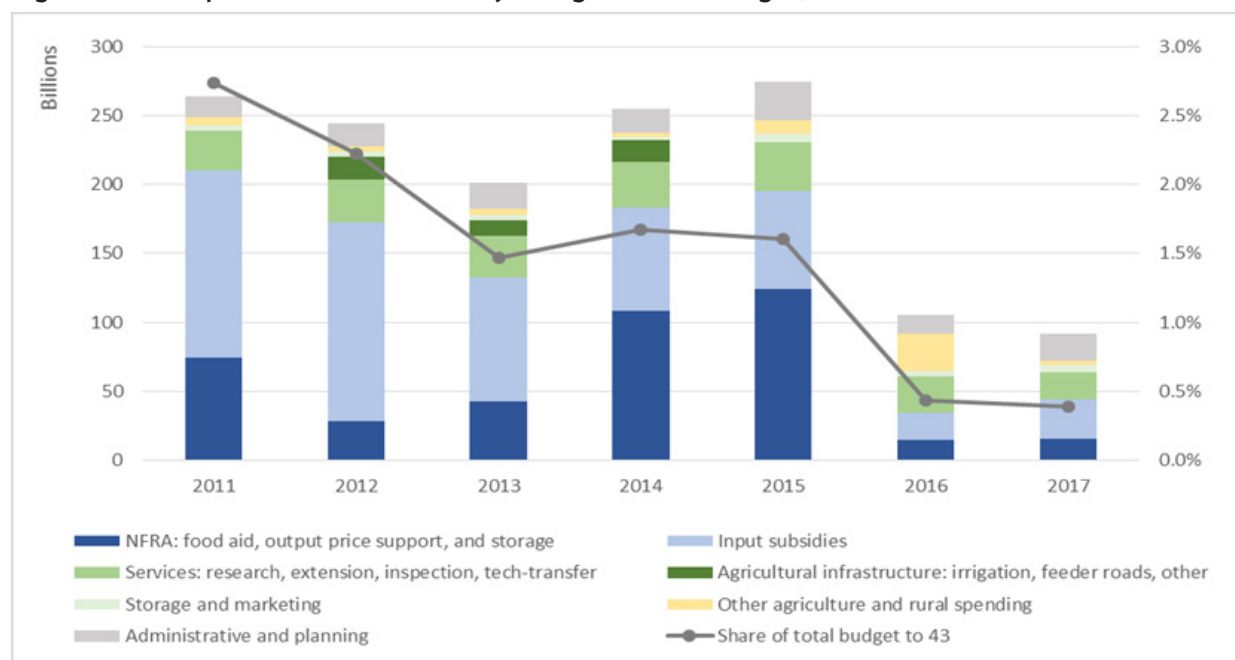
2.5 Increasing Investment in Agriculture

Whether the owners are smallholders or large corporate farms, agriculture and increasingly its support services are private businesses. Private investment is central to financing Tanzania's strategy for sustained growth, and to its economic transformation. According to ASDP II, private investment is expected to contribute US\$20 billion of the total needed financing of US\$45 billion. ASDP II also recognizes that public funding will not be sufficient to meet its objectives and that private investment is therefore essential. This section considers the policy, regulatory, and public investment issues central to catalyzing private investment; smallholders and especially medium-scale farmers can be effective models for smaller-scale investment.

In most countries, among them Tanzania, spending on public goods is essential to create an environment that enables private-sector-driven agriculture, including smallholder farms, to flourish. Thus, among public goods are agricultural research, standards-setting institutions, the rule of law, and infrastructure, such as roads, whose benefits are available to all. Public goods are thus fundamentally different from private goods, such as subsidies to specific parties, whose benefits are mainly captured by the receiving parties.



Figure 17. Composition of the Ministry of Agriculture Budget, 2011–17



Source: fiAO-MAfiAP based on MAfiAP Database (September 2018 version).

Private investment can be promoted by more thoughtful public spending on agriculture and rural development.

It has long been recognized that there is a need for public investment in agriculture and rural development to provide the public goods necessary to crowd in private investment and help rural people help themselves. That is why in the Maputo Declaration African Union (AU) member states committed to allocating at least 10 percent of total national budgets to agriculture. It also led to AU support for the Comprehensive Africa Agriculture Development Program (CAADP) to encourage increased and more effective

public investment in agriculture. Using a broad definition that includes supportive services and infrastructure like rural roads, Tanzania's spending on agriculture and rural development increased in absolute terms between 2011 and 2018 but declined as a share of the government budget. The share of Tanzanian spending dedicated to the rural sector generally, including agriculture, averaged 20 percent, but more than 75 percent of it was for projects and programs for education, health, and infrastructure.

Thus, agriculture-specific⁴² spending averaged only 4 percent of total public spending and by 2017 had fallen to

42 The fiAO-MAfiAP narrow definition of public spending is more compatible with the CAADP definition of agricultural spending and it includes agriculture-specific spending (excluding some consumers' transfers, such as cash transfers or public works programs and administrative costs). All agriculture supportive spending is also excluded.



2.5 percent, just one-quarter of the 10 percent CAAPD commitment of AU member states. Tanzania's percentage is low on a regional scale and of particular concern considering how much the livelihoods of 70 percent of Tanzanians depend on agriculture. Public spending, on agricultural research and other public goods directly targeted to incentivize private agricultural and food investments, needs to be both higher and more efficient. Even then, of the 2.5 percent of public spending going to agriculture, one-third was for private goods, such as subsidies for inputs.⁴³

No country, especially not one where agricultural transformation is just beginning, can hope to grow its agriculture with less than 2 percent of public spending going to agricultural public goods like research, extension, and market institutions. The problem is compounded by Tanzania's remarkably low execution rates for agricultural budgets: 83 percent for recurrent spending in 2017/18, not inordinately lower than most other ministries, but only 6 percent for development spending—about one-tenth the rate in most other ministries.⁴⁴ Such low execution rates suggest how much the Ministry of Agriculture would benefit from building internal capacity to track and report to policymakers on the progress of programs and projects, and eventually evaluate ways to improve delivery.

The highest share of Ministry of Agriculture spending in 2005–17 went to private goods in the form of input subsidies, largely through the NAIVS.

The Ministry budget allocation declined over the period; as a share of the total budget, it shrank from almost 3 percent to less than 0.5 percent. The second largest share went to the National Food Reserve Agency (NFRA), which is also private-oriented spending (Figure 17).

Policy reforms and public investments targeting infrastructure development will facilitate more private investment for growth in value-addition and creation of more and more-highly-paid jobs. Roads connect farmers to input and output markets, and public investment in more and better market infrastructure in secondary cities and rural towns helps connect farm products to effective demand from processors and consumers. Functional research and extension enable farmers to be more productive and thus more competitive and more resilient. Better policies and regulation will be instrumental in facilitating these processes for more inclusive growth.

Finance for Development can be maximizing for agriculture in Tanzania.

Private investments in agribusiness have been modest, especially from foreign sources. Most of Tanzania's FDI

43 Almost two-thirds of public spending on agriculture narrowly defined is apparently devoted to public rather than private goods like subsidies and transfers to individuals. However, the share attributed to public goods could be an over-estimate, because it includes expenditures that cannot be classified anywhere else, such as spending on agri-processing value chains as part of investments led by the Export Processing Zones Authority. It also includes some spending not disaggregated enough for proper classification, such as subnational spending. Improving collection, management, and harmonization of spending data from the regions to the federal level would support a much more detailed analysis and make it possible to monitor investment indicators for ASDP II.

44 World Bank 2017b



has gone into extractives and supported the export of raw materials; employment links to the domestic economy have been few. On average, between 2007 to 2017 only 4 percent of FDI went into agriculture, fisheries, and forests.⁴⁵ Commercial bank lending to agriculture is just 7 percent, down from 10 percent in the past five years.⁴⁶ Private investment and identifying opportunities for greater private participation will depend on a better understanding of the policy and regulatory reforms needed.

The main barriers to private investment are policy, regulatory, and institutional reforms issues that cost relatively little to remove. Reforms should target improving the business environment to make the country a more attractive investment destination. The reforms could start in areas where Tanzania performs least well in the World Bank Doing Business Indicators: (1) high barriers to business entry; (2) high costs for compliance with tax laws and the incentive for informality; and (3) significant restrictions on cross-border trade.⁴⁷

For agribusiness, policy and regulatory reform should (1) identify areas where the public sector is crowding out the private sector or undermining competition; (2) remove policy distortions and barriers to trade that discourage private investment; (3) reduce regulatory barriers to investment and cut compliance costs; and (4) make land tenure more secure

to reduce risks to investors and lenders. A Maximizing Finance for Development (MFD) approach requires a critical review of each potential investment in infrastructure and services to examine whether it is or can be provided by the private sector, and if not whether that could become possible by changes in policy and regulation, risk-sharing and concessional finance, or performance-based public service contracts

Policy and regulatory reforms to increase private investment in both input and output markets are necessary in three areas:

Regulation of output markets and trade policy, to address problems caused by (1) restrictive marketing requirements, such as requirements to sell through closed auctions, that reduce competition; and (2) discretionary trade policies, including reinstatement of export bans or stringent export licensing, that restrict trade and erode producer incentives.

Revised regulation of input markets, to improve (1) arrangements for fertilizer import and distribution and fertilizer quality control and labelling; and (2) regulation of seeds, plant propagation, variety registration, and seed quality control.

Sanitary and phytosanitary controls, to (1) establish an institutional mandate for pest surveillance and risk analysis; (2) ensure more efficient issuance of phytosanitary certificates for cross-

45 World Bank 2019b

46 Tanzania Agriculture Development Bank 2019

47 World Bank n.d.



border trade; and (3) bolster institutional arrangements for risk-based regulation of food safety.

Private investment can be increased by risk-sharing and public-private partnerships (PPPs). There are both real and perceived risks inherent in agriculture, as demonstrated by high bank lending rates, currently 16.8 percent⁴⁸, and low loan approvals, that discourages investment. Reforms are needed to create incentives for private investment in infrastructure and management. Some risks can be reduced by providing guarantees and concessional financing to encourage private investment in infrastructure that the private sector considers risky, such as investments in downstream irrigation infrastructure, grain silos, and wholesale and retail markets for fresh produce. Possible PPPs in public infrastructure range from design-build contracts to design-build-operate concession agreements, for, e.g., rural roads, upstream irrigation infrastructure, and strategic grain reserve warehouses.

A fundamental paradigm change is required in how services are provided to agriculture, one that promotes a bottom-up, demand-side, output-oriented approach rather than one that is top-down and supply-side-driven. This will help much-needed services for agriculture to become more efficient; for instance, the current coverage and quality of extension services demand attention.

Performance-based public service contracts are another way to provide services to agriculture. Properly designed, they can achieve better results than traditional public-sector, input-based methods. Among areas where public service contracts could be explored are (1) certified seed inspection by the Tanzania Official Seed Certification Institute; (2) food safety inspection and public awareness campaigns; (3) some veterinary services, such as compulsory vaccination, and public awareness campaigns; and (4) provision of extension services. Because effective use of these contractual arrangements will require a legal and administrative structure for enforcement, specific reforms will be needed to ensure they can be carried out and to create incentives for private investment and participation. Performance-based contracting can create a positive dynamic for reform but should not be considered a substitute for the institutional reforms necessary to keep the sector functioning sustainably.

Finally, the government should also ensure that private investment contributes to its strategic objectives of poverty reduction, job creation, food security, and resilience to climate change. The next subsection addresses the related pressing challenges to agriculture.



Policies and investments for better soil and water management can heighten the resilience of rural incomes.

As noted, the considerable growth of Tanzanian agriculture has been due primarily to rapid expansion of cropped area, especially after 2008.

This is not uncommon in Africa but now raises large strategic concerns for a region very vulnerable to the effects of climate change and in 2016 already suffering the consequences of more frequent severe El Nino events. In a global context Tanzania's relatively abundant land and water resources can lead to dangerous complacency about real threats of short- as well as long-term consequences.

Because of removal of biomass, from, e.g., deforestation; erosion from lack of investment in soil and water management; and inadequate maintenance of soil fertility from too little use of fertilizers and manures, more than 60 percent of the land used to produce crops, livestock, and forest products and services is **degraded**. The soil thus has a severely diminished capacity to retain water and soil nutrients, grow crops, provide forest products, support livestock, assure water availability and quality, and provide other essential ecosystem services. This is a huge loss of national natural capital. Moreover, most of the rural poor live on degraded land, which will make it especially hard to break the cycle of poverty.

Box 2: Strategies for Making Agricultural Water More Productive

1. Modernize irrigation while improving water and land management. An increase in crop production per unit of water and land is central to any national water management strategy in Tanzania. Productivity increases, and commensurate increases in income, are made possible through a combination of improvements in water management, land management, and agronomic practices in both rainfed and irrigated cropping systems. While this requires better technologies for water storage and delivery, boosting the organic content of soils and tree cover can also greatly enhance both the soil fertility and the water retention of fields. Profitability is a critical external motivation to comply with new water regulations.

2. Shift to adaptive allocation of water resources based on availability. Water managers and communities need to be able to temporarily but equitably reduce water allocations during droughts in order to protect priority uses and reduce conflicts that could have serious social and economic impacts. Experience has shown that to realize water savings and mitigate drought impact technical measures must be coupled with institutional measures—monitoring, enforcement, land-planning, and agricultural and technical support to farmers.

3. Build resilience into farming on every scale. That means developing, adapting, and extending drought-resilient (and in some cases flood-resilient) cultivars, selecting crops based on current and projected water availability, and improving soil fertility management and plant protection. Food and trade policies can also be critical influences on crop selection; their drafters should take into account how they affect the availability of water.



Component One of ASDP II clearly recognizes the stakes for agricultural productivity.

Policy solutions to growing land degradation vary but typically require better governance of land resources based on local land use plans; they also typically require institutions and enforcement in order to integrate management of whole watersheds. That tends to involve participatory planning, but also conflict management (often between competing uses of land), institutions to help youth access land, and investment in mosaic forest protection, contour bunding protected pathways for seasonal livestock movement, and water management (Box 2). These pathways for protecting natural capital illustrate that climate-smart agriculture cannot be done field by field; it requires community-wide buy-in and action. That can be facilitated not only by effective local government but also by climate finance options that give localities resources to work with in return for monitorable progress.⁴⁹

Agriculture in Tanzania accounts for an estimated 89 percent of national fresh water withdrawals—higher than the global average of about 70 percent and the Africa average of about 80 percent. Though 90 percent is used mainly for irrigation, any serious effort to manage the general efficiency of water use requires thoughtful attention to agricultural use. As is the case in most countries, water, and water use, are unevenly distributed, and

Tanzania has nine river basins. Some areas of Tanzania have experienced frequent severe droughts for years, as has happened, e.g., in 8 of the last 20 years in the Pangani Basin. Climate change has aggravated the already high volatility in annual rainfall (up to 400 percent) in most of the country.

As Tanzania develops, agriculture expands, and the population grows, demand for water, a finite resource, is surging. Tanzania's plans to expand and modernize agriculture should include informed planning and management of agricultural water use that builds resilience to the issues posed by drought and climate change. Tanzania still has a reasonably high per capita endowment of fresh water compared to some neighbors, so its main challenge is to use less water while making agriculture more productive. The three strategic actions outlined in Box 1 can help to make that possible.

2.6 Conclusions

The Government of Tanzania is very clearly committed to a proactive approach to rapid agricultural transformation as a way to reduce poverty and achieve shared prosperity. Agriculture's role in these goals is clearly specified in such strategic documents as the Tanzania Development Vision 2025, the Five-Year Development Plan II, and ASDP II. As of 2017, agriculture was still the main source of livelihoods for more than half the Tanzanian

49 There are numerous examples globally of funding sustainable management of productive landscapes. In East Africa, the ecological transformation of parts of Northern Ethiopia (Tigre) from eroded wastelands to lush areas is a stunning example, and Rwanda has been able to restore some of the most populated and degraded hillsides in the world. Details on worldwide examples can be found in Global Commission on the Economy and Climate 2014.



population. The share rises to 70 percent for all households that receive some direct agricultural income, along with households whose nonfarm livelihoods depends on selling to farmers or processing and trading farm outputs. In 2014, households that depended on agriculture directly or indirectly for their livelihood constituted a large majority of the 47 percent of Tanzania's mainland population estimated to be living below the US\$1.90/day poverty line.⁵⁰

Tanzania's ambitious targets for sustained economic and employment growth will require brisk growth in manufacturing—for which robust agricultural growth is a precondition.

Agriculture provides an increasing food supply, and thus more stable real wages, in a country where, except among the highest income groups, spending on food staples like cereals still consumes more than 30 percent of average total household spending. This is especially important as labor and capital flow from agriculture to other sectors in urban areas. Agricultural incomes also must grow to create broad-based local demand for domestic manufactured consumer goods. Finally, more than half of Tanzania's current manufacturing value-added occurs in agriprocessing, which as it grows will require ever more reliable and higher-quality raw material.

Long-term annual real growth of agricultural GDP by 4 percent is not enough: annual growth rates of 6 percent need to be sustained and better supported by policy and investment.

Agriculture is crucial for further reducing poverty and promoting sustained

economic growth independent of growth in exports of extractives. Most of Tanzania's past agricultural growth has come from expansion of the area cultivated. Since 2000 the value of the country's agricultural output has barely been growing faster than the accelerating growth of the population, as is confirmed by the stagnant average productivity of agricultural land. It is time for a policy regime that is more consistent with the ASDP II focus on agricultural intensification and formalization. A review of well-meaning current sectoral policies suggests scope for changes that could accelerate sustainable agricultural growth, should the government wish to do so.

Trade restrictions are an obvious area for reform.

The most counter-productive example is the use of bans on exports of maize and rice as a short-term price stabilization tool. Grain export bans globally, and in Tanzania specifically, create costs for farmers and the country imposing them that exceed any benefit for domestic consumers. Export bans are sometimes replaced by export taxes, but they also cut incentives for farmers to produce more, or by import tariffs, where the official objective is to protect local producers. However, these taxes and tariffs increase rather than decrease price volatility. Agricultural commodity taxes and tariffs typically benefit traders and processors more than farmers or consumers, to the detriment over time of both production and trade. From a growth perspective, restrictions on food exports are most costly when regional trade partners become unwilling to entrust their own food security to

50 World Bank 2015



Tanzanian producers. Indeed, faced with the possibility of last-minute export bans, neighboring countries with less comparative advantage in grain production persist in trying to grow high-cost maize and rice rather than trade with Tanzania, preventing the development of significant economies of scale in Tanzania's food exports within the region.

Also on the reform agenda are trade and subsidy approaches to food security that are untargeted, high-cost, and not very effective.

Mobilizing the private sector through policies to provide public goods that increase the returns to private investment, and better regulation can improve both the availability of food and the means to purchase it. Though Tanzania's regulation of agriculture shines in some respects, in others there is much still to be done. Beyond what the private sector can do, finer targeting of social protection to those who need it most is much more effective for food security than agricultural price policies. Constructive results are expected, however, once the blueprint for improving the business environment is followed.

Scarce public funds should be better targeted to mobilize private sector finance, including for on-farm investment by smallholders, through institutional and infrastructural development that increases the returns to their labors. Public spending on agriculture needs both to grow and to shift from providing significant private goods, such as input subsidies, to providing core public goods, such as agricultural research and more

efficient irrigation, that mobilize private investment in agricultural production and distribution. Although they housed 66 percent of Tanzanians, rural areas received only 20 percent of public spending in 2014. Although 70 percent of Tanzanians depend directly or indirectly on agriculture for their livelihoods, in 2017 agriculture received only 2.5 percent of public spending. And even then, 33 percent of public spending on agriculture was for private goods captured by specific persons or interests. No country, especially not one just beginning to transform its agriculture, can hope to grow agriculture with less than 2 percent of public spending going to agricultural public goods. It will also be critical for Tanzania to make public spending on agriculture more efficient and to reduce the significant under-spending of public budgets for agricultural development. This is likely to require building capacity within the Ministry of Agriculture.

Despite Tanzania's abundant endowment of land and adequate water, to be successful an agricultural strategy must now pay more thoughtful attention to policies and investments that further the ASDP II goals of making rural livelihoods more resilient by better management of soil and water. Almost all growth in agricultural output in recent decades has come from land expansion, often preceded by deforestation. The vast majority of lands currently in use are significantly degraded, nutrients and soil structure are not being fully replaced, and the capacity of the



land for production and ecosystem services like water retention is declining. Agriculture accounts for nearly 90 percent of water use and the need to increase the productivity of water per crop and unit area has become evident. Solutions require watershed-level approaches to improving land use and building up stakeholder buy-in for better enforcement of agreed rules.

Despite a policy and regulatory regime that does not seem favorable to agricultural growth, it has become clear that after 2008 a structural transformation of Tanzanian agriculture began with the rise of medium-scale farms. The 4 percent annual average growth of agricultural GDP over two decades captures neither the experience since the recovery from the commodity boom in 2015, nor what is happening in the most dynamic one-third of Tanzanian farms. Between 2008 and 2014 the value of main-season crop production rose from TZS 3.2 trillion to 5.1 trillion in real inflation-adjusted 2015 values. This implies annual real growth of 8 percent, a world-class achievement. At least in this period, agricultural stagnation was not due to what was happening on the farm. Simultaneously with this growth rate, 35 percent of Tanzanian farms were medium-scale (5–20 ha per farm) in 2014, compared to 23 percent in 2008—a very rapid size scale-up compared to neighboring countries. Tanzania also saw a steady decline in the proportion of farms categorized as primarily subsistence-oriented, farm-focused, and small-scale, from 43 percent of all farms in 2008 to 31 percent in 2014.

The extent to which the rise of medium-scale farms helped commercialize smallholders as a group is the most significant finding of our work, and the most promising for Tanzanian agriculture. Medium-scale farmers are only slightly less likely than small-scale farmers to originate in their community (65 versus 68 percent), which suggests that many medium-scale farms were once small-scale, and their success has the potential to pull along other farmers. They are more likely than small-scale farms to hire labor, use nonmanual traction, use improved seeds, access agricultural credit and extension services, and sell what their farms produce. This suggests they may also be able to attract services to their communities, deepen the markets for agricultural inputs and outputs, and diffuse knowledge and new technologies.

A rigorous analysis by location found that in areas with greater concentrations of medium- and large-scale farms, small-scale farms are more likely to use improved seed and fertilizer, to cultivate a larger proportion of their land, and to access agricultural extension and credit. An increase of 10 percent in the share of farms in a given region that are not small-scale is associated with a 9 percent greater likelihood that a small-scale farm buys improved seed, and a 5 percent greater likelihood that it will use inorganic fertilizer. More medium- and large-scale farm neighbors is also positively correlated with the likelihood



that a household moves away from small-scale agricultural activities but remains in its home. This is consistent with a view that medium and larger farms generate demand for labor and nonfarm production and services that offer options for small-farm households looking to leave farming.

The increasing prominence in Tanzania of medium-scale farmers presents opportunities for catalyzing agricultural transformation through a market-led model for reducing poverty among small-scale farmers through positive spillovers. Medium-scale farmers not only have strong market orientations and links, they invest in technology and knowledge and attract commercial services that can generate agri-food-based tax revenue. And they have been shown to help neighboring smallholders to also raise their incomes. Efforts that channel policy and regulatory reform and public investments into furthering the ASDP II should be given priority, in the expectation that this will be a pathway for mobilizing both additional private investment in agricultural production and related services and for scaling up the growing pool of commercially-oriented smallholders.

This analysis found that in Tanzania the 368,000 medium-scale farms added between 2008 and 2014 were associated with creation by 2014 of almost 13 million days of additional paid work for hired agricultural labor and US\$225–300 million in net additional back and consumption growth links—with associated employment implications. The total effect of the estimated 776,473 medium-scale farms operating in 2014 would be proportionately higher. Absent from this estimate is what would surely be a sizable component of forward links, such as additional benefits for the agri-processors that account for half of Tanzania's manufacturing value-added. Having cheaper and more reliable raw material is essential for their profitability and hiring, as it is for retail establishments. In general, policies that better support the beginnings of Tanzania's agricultural transformation will be central to both reducing poverty among smallholders and accelerating the creation of more and better jobs along agricultural value chains.





3 Annexes





Statistical Annexes

Annex 1. Key Macroeconomic Indicators

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
National Accounts and Prices										
GDP at constant market price (% change)	5.3	6.3	7.7	4.5	6.8	6.7	6.2	6.9	6.8	5.4
Agriculture	4.2	3.2	2.5	3.4	2.8	6.9	5.4	4.8	6.0	4.5
Industry	3.4	9.2	11.8	4.2	10.5	6.0	9.7	11.7	10.7	9.1
Service	5.5	7.8	8.2	6.4	5.1	9.3	6.4	6.3	5.3	3.5
Inflation (e.o.p)	12.1	5.1	12.7	16.0	7.9	6.1	5.6	5.2	5.3	3.5
Per capita (in US\$)	681.4	726	765	870	969	1000	912	934	1005	1056.0
Fiscal (% of GDP, fiscal year)										
Revenue and grants	16.0	15.2	15.3	15.9	15.4	15.6	14.0	14.8	16.3	16.1
Tax and nontax revenue	12.2	11.8	11.9	12.6	12.8	13.5	12.8	14.3	15.3	15.3
Grants	3.8	3.4	3.4	3.2	2.6	2.1	1.2	0.5	1.0	0.8
Expenditure and net lending	19.6	20.4	19.5	18.9	20.5	18.5	17.1	18.3	17.4	20.0
Overall balance (excluding grants)	-7.4	-8.6	-7.7	-6.2	-7.7	-5.0	-4.3	-4.0	-2.1	-4.8
Overall balance (including grants)	-3.6	-5.2	-4.3	-3.0	-5.1	-2.9	-3.1	-3.5	-1.1	-3.9
Financing	3.4	4.8	4.8	3.6	5.0	3.3	3.3	3.5	1.5	3.9
Foreign financing (net)	2.7	3.4	2.2	3.0	3.9	3.0	3.1	1.4	1.6	2.5
Domestic financing (net)	0.6	1.4	2.6	0.6	1.1	0.3	0.2	2.1	-0.1	1.5
Money and Credit										
M3 (% change)	17.7	25.4	18.2	12.5	10.0	15.6	18.8	3.4	8.0	4.5
Credit to private sector (% change)	9.6	20.0	27.2	18.2	15.3	19.4	24.8	7.2	1.7	4.9
External sector (US\$ million unless otherwise)										
Exports (goods and services)	5,086	5,743	7,051	7,987	8,335	8,886	8,877	9,341	8,813	9,447
Imports (goods and services)	7,876	8,365	9,996	12,946	12,871	13,966	13,348	11,597	9,596	11,519
Gross official reserves	2,930	3,482	3,610	3,797	4,357	4,638	4,285	3,870	5,022	4,944
(months of imports)	4.5	5.0	4.3	3.5	4.1	4.0	3.9	4.0	6.3	5.2
Current Account Balance (% of GDP)	-7.8	-7.1	-7.9	-13.1	-10.5	-10.7	-9.8	-6.5	-3.0	-3.8
Exchange rate (Tsh/US\$; e.o.p)	1,314	1,379	1,572	1,569	1,603	1,655	1,974	2,179	2,230	2,274
Debt Stock and Service										
Total public debt (% of GDP)	22.9	22.9	25.7	26.8	29.1	30.0	32.4	38.6	38.1	37.8
External debt (public sector, % of GDP)	16.2	17.6	20.2	21.1	22.6	23.2	24.7	30.8	22.3	23.9
Domestic public debt (% of GDP)	6.7	5.3	5.5	5.7	6.5	6.9	7.7	7.8	15.8	13.9

Source: World Bank, IMF, and Tanzanian authorities.



Annex 2. Annual Real GDP Growth, Percent Change

Economic Activity	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Agriculture and Fishing	4.2	3.2	2.5	3.4	2.8	6.9	5.4	4.8	5.9	5.3
Crops	4.5	4.8	3.5	4.3	4.4	9.4	7.6	5.4	6.4	5.0
Livestock	5.1	1.3	0.6	1.9	4.8	4.9	4.9	4.9	4.9	4.9
Forestry and Hunting	5.0	3.4	3.1	3.6	4.5	4.8	3.4	3.9	4.8	4.9
Fishing	-0.1	0.9	2.5	3.0	-13.3	1.8	-4.5	1.2	8.3	9.2
Industry and construction	3.4	9.2	11.8	4.2	10.5	6.0	9.7	11.7	10.6	9.3
Mining and quarrying	18.4	7.2	6.0	6.7	4.5	6.4	10.0	7.4	5.3	1.5
Manufacturing	4.5	8.9	6.7	4.2	3.7	10.0	7.1	10.8	8.2	8.3
Electricity supply	4.0	13.4	-4.6	3.4	8.2	12.7	-2.0	8.8	1.0	5.8
Water supply; sewerage, waste management	4.1	2.5	-1.4	2.9	2.7	3.8	2.4	6.9	6.4	7.4
Construction	-3.7	10.3	22.0	3.3	19.1	2.5	12.9	14.5	15.1	12.9
Services	5.5	7.8	8.2	6.4	5.1	9.3	6.4	6.3	5.3	6.3
Wholesale and retail trade; repairs	2.5	10.0	11.0	3.9	4.2	9.9	3.6	5.9	6.1	5.8
Transport and storage	6.7	10.7	4.2	4.2	6.0	8.7	5.4	5.7	6.7	11.8
Accommodation and Food Services	0.8	3.7	3.9	6.8	0.9	3.1	1.7	4.1	3.1	5.2
Information and communication	26.4	24.4	8.3	22.3	11.6	10.3	7.8	2.2	6.2	9.1
Financial and insurance activities	18.1	12.6	14.5	5.2	-1.1	10.5	11.3	1.1	-2.8	-0.5
Real estate and business services	3.2	8.3	3.1	6.5	9.5	10.3	7.6	11.4	4.4	4.4
Public administration and defence	-1.0	-5.0	15.6	9.2	9.7	6.7	7.2	5.4	10.8	5.6
Education	8.9	6.3	5.4	7.5	0.3	13.4	10.4	10.4	7.3	6.6
Human health and social work activities	7.2	3.3	5.1	11.5	-3.1	8.4	5.1	5.6	7.6	8.1
Other Social and Personal services	4.4	5.6	5.6	6.7	8.9	9.8	5.1	11.7	12.0	6.5
All economic activities	4.6	6.6	7.2	4.9	5.7	7.7	6.9	7.3	7.0	6.9
Net taxes	12.8	3.8	12.1	0.4	17.5	-2.2	-1.7	2.0	4.6	8.0
Total GDP	5.3	6.3	7.7	4.5	6.8	6.7	6.2	6.9	6.8	7.0

Source: National Bureau of Statistics.



Annex 3. Share of Economic Activities in GDP, Current Market Prices

Economic Activity	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Agriculture and Fishing	26.0	25.6	25.0	26.6	26.8	25.8	26.7	27.4	28.8	28.2
Crops	12.7	13.1	12.9	14.1	14.4	14.0	14.1	15.2	16.6	..
Livestock	8.5	8.0	7.6	7.4	7.7	6.8	7.6	7.6	7.5	..
Forestry and Hunting	2.6	2.5	2.4	2.8	2.8	3.0	3.1	2.9	2.8	..
Fishing	2.2	2.0	2.0	2.2	1.9	2.0	2.0	1.8	1.9	..
Industry and construction	21.7	23.6	26.4	25.4	25.4	25.1	24.5	24.9	25.0	26.8
Mining and quarrying	2.9	4.1	5.1	4.9	4.3	3.8	4.3	4.9	4.4	5.1
Manufacturing	8.7	8.7	9.5	9.4	9.1	9.1	7.9	7.8	7.7	8.1
Electricity and water	1.6	1.5	1.0	1.3	1.2	1.4	1.3	0.8	0.8	0.7
Electricity	0.9	0.9	0.6	0.8	0.8	1.0	0.8	0.4	0.3	0.3
Water	0.7	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Construction	8.5	9.3	10.7	9.7	10.9	10.8	11.1	11.3	12.2	13.0
Services	44.6	43.3	41.4	43.1	42.8	44.1	43.3	42.5	38.0	37.0
Wholesale and retail trade; repairs	9.9	10.0	10.4	10.3	9.7	9.7	9.3	9.1	9.1	9.1
Transport and storage	8.3	7.8	6.9	6.0	7.2	7.5	7.3	7.0	6.7	6.5
Accommodation and Food Services	2.5	2.3	1.9	2.0	1.8	1.6	1.5	1.4	1.3	1.3
Information and communication	2.1	2.3	2.0	2.1	2.0	1.9	1.8	1.6	1.5	1.5
Financial and insurance activities	3.8	3.9	4.1	4.1	3.5	4.4	4.4	4.9	4.0	3.7
Real estate and business services	7.0	6.6	6.1	6.2	6.1	6.1	6.0	5.9	2.8	2.7
Public administration and defence	4.7	4.3	4.4	4.6	5.0	4.8	4.8	4.5	4.2	4.0
Education	2.9	2.9	2.5	2.4	2.4	2.5	2.6	2.5	2.4	2.4
Human health and social work activities	1.9	1.8	1.7	1.6	1.5	1.5	1.5	1.4	1.4	1.4
Other Social and Personal services	1.5	1.4	1.3	1.3	1.2	1.3	1.2	1.2	1.2	1.3
Activities of households as employers	..	..	..	2.4	2.6	2.8	2.9	3.0	3.2	3.2
All economic activities	92.3	92.5	92.8	95.0	95.1	95.1	94.5	94.8	91.8	92.1
Net taxes	7.7	7.5	7.2	5.0	4.9	4.9	5.5	5.2	8.2	7.9
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: National Bureau of Statistics.



Annex 4. Quarterly Real GDP Growth Rates, Percent Change

Year	Quarter	Agriculture	Mining and quarrying	Manufacturing	Electricity	Water	Construction	Trade and Repair	Accommodation & restaurant	Transport and storage	Information and communication	Financial & insurance	Public administration	Professional, Scientific & Technical	Administrative & Support services	Real estate	Education	Health	Other services	All industries at basic prices	Taxes on products	GDP at market prices
2015	1	4.3	-1.5	6.9	4.9	10.2	11.7	1.9	0.0	1.8	12.7	9.2	2.6	15.5	10.7	4.2	9.3	2.7	4.4	5.1	-18.1	2.9
	2	8.0	10.7	6.6	9.0	-1.9	7.3	5.8	1.7	3.7	8.6	9.0	4.4	15.5	9.0	4.3	9.2	0.8	4.2	6.9	4.7	6.7
	3	4.6	3.3	8.5	-10.2	2.6	16.7	6.3	2.9	4.6	6.6	12.0	11.0	15.7	9.7	4.3	12.0	9.0	5.1	7.6	7.6	7.6
	4	4.6	27.2	6.4	-9.8	-0.6	16.4	0.7	2.2	11.3	4.1	14.7	10.2	16.0	12.6	4.3	10.8	7.9	6.8	8.1	0.6	7.4
2016	1	2.8	10.2	13.4	1.4	-1.1	17.3	9.6	3.3	9.9	3.8	11.5	19.6	16.5	17.8	4.3	20.6	15.7	9.2	9.4	13.0	9.7
	2	8.0	14.9	9.7	5.4	8.6	11.4	5.6	0.6	8.6	2.1	4.1	15.5	16.9	20.5	4.3	17.9	11.2	10.8	9.2	-2.5	8.2
	3	6.0	14.4	7.3	11.7	4.0	23.4	6.4	3.6	5.1	2.2	-2.1	-6.2	17.2	20.9	4.3	1.7	-4.2	12.3	7.7	-3.8	6.6
	4	3.1	-6.3	13.2	17.5	16.0	6.6	2.2	8.8	-0.2	1.0	-7.9	-3.9	17.4	19.1	4.3	3.7	1.1	14.3	3.5	2.9	3.4
2017	1	6.5	9.9	5.2	4.4	1.6	12.0	1.9	4.7	5.3	12.6	-5.8	-5.9	17.6	15.5	4.4	1.3	0.1	12.6	5.5	-3.0	4.9
	2	14.7	-4.6	9.6	-1.0	4.2	21.2	5.1	3.5	5.0	6.4	-2.5	0.1	16.4	12.3	4.4	5.6	6.8	11.4	7.1	0.3	6.6
	3	4.1	4.2	13.7	3.9	10.0	-0.3	5.8	2.5	6.9	1.9	-5.3	7.5	14.0	9.3	4.4	11.3	11.1	9.8	5.1	4.0	5.0
	4	6.4	12.1	4.5	-3.1	16.4	28.8	11.3	2.3	9.6	4.5	2.6	8.3	10.5	6.5	4.4	11.0	12.8	7.7	9.8	15.6	10.3
2018	1	6.5	-5.7	5.3	0.8	3.7	15.6	4.3	4.5	8.8	14.9	-2.9	8.8	12.6	5.2	4.4	11.2	17.4	8.7	7.0	7.0	7.5
	2	6.1	6.8	3.6	6.8	6.1	5.2	4.0	6.7	13.5	12.4	-2.3	-0.7	11.2	5.4	4.4	4.1	5.9	8.4	5.5	5.5	6.1
	3	3.8	1.9	7.0	5.6	10.7	13.9	6.9	7.7	12.1	4.8	3.9	2.8	9.3	5.7	4.4	6.1	7.5	7.8	6.9	6.9	7.1
	4	4.4	3.2	16.7	9.8	8.3	17.3	8.0	1.9	12.6	4.4	-0.5	1.8	6.9	6.1	4.5	5.0	2.2	5.6	7.9	7.9	7.1
2019	1	6.3	10.0	4.8	9.7	8.0	13.2	3.8	1.1	11.1	9.6	5.6	2.7	6.6	8.7	4.5	3.6	-2.1	5.7	7.0	7.0	6.6
	2	4.0	17.2	5.2	4.3	10.0	19.6	5.5	2.6	7.0	10.3	5.0	4.7	6.8	8.5	4.5	5.8	2.4	6.7	7.7	1.2	7.2

Source: National Bureau of Statistics.



Annex 5. Inflation Rates, Percent Change

Month	Headline Overall Index	Food & Non Alcoholic Beverages (Exclude Food consumed at Restaurants)	Transport	Housing, Water/Electricity/Gas & Other Fuel	Furnishing, Housing Equipment & Routine Maintenance of House	Clothing & Footwear	Restaurants and Hotels	Miscel. Goods and Services	Alcoholic and Tobacco	Communication & Entertainment	Education	Recreation & Culture	Health
Weight (%)	100.0	47.8	9.5	9.2	6.7	6.72	6.4	4.5	3.3	2.1	1.7	1.3	0.9
Oct 2017	5.1	8.8	0.2	7.6	2.8	3.4	0.6	3.0	2.6	-0.9	0.8	1.9	2.1
Nov 2017	4.4	7.4	0.1	7.8	1.8	3.1	0.3	2.6	2.5	-1.0	0.8	1.6	2.0
Dec 2017	4.0	6.2	0.0	8.3	1.3	2.9	0.3	2.5	2.6	-1.0	0.8	0.9	2.0
Jan 2018	4.0	6.3	0.3	7.1	1.8	2.7	0.8	2.6	2.6	-1.0	2.5	2.0	1.6
Feb 2018	4.1	5.4	1.6	8.6	1.6	3.3	0.9	2.7	2.3	-0.2	2.5	1.5	1.6
Mar 2018	4.0	4.7	1.4	10.4	1.9	3.2	0.8	1.2	2.0	-0.2	2.4	1.1	1.6
Apr 2018	3.8	3.6	1.8	13.1	2.0	2.6	0.8	0.9	1.6	0.1	2.4	1.2	1.6
May 2018	3.6	2.6	1.9	15.0	2.3	2.4	1.0	1.2	1.3	0.1	2.3	0.7	1.2
Jun 2018	3.4	3.4	1.7	12.0	2.4	2.2	0.7	1.4	0.3	-2.6	2.6	0.5	1.4
Jul 2018	3.3	2.8	2.5	12.3	2.6	2.4	0.8	1.2	0.8	-2.7	2.5	0.4	0.7
Aug 2018	3.3	2.2	3.4	12.3	3.1	2.7	1.1	1.2	1.2	-2.6	2.5	-0.2	1.7
Sep 2018	3.4	2.0	2.8	13.1	3.0	3.2	1.9	1.3	1.9	-2.6	2.5	-0.2	1.3
Oct 2018	3.2	1.2	3.0	14.1	2.8	3.4	1.9	1.6	1.9	-2.7	2.4	-1.0	0.8
Nov 2018	3.0	0.4	5.1	13.4	2.9	3.3	1.9	1.7	1.6	-2.7	2.4	-0.7	0.8
Dec 2018	3.3	1.0	5.1	12.1	4.0	3.6	2.7	2.6	2.2	-2.6	2.4	0.1	1.0
Jan 2019	3.0	0.7	4.0	11.7	3.9	3.7	2.6	2.5	2.2	-2.4	2.0	0.2	1.0
Feb 2019	3.0	0.5	3.3	12.3	4.1	3.3	3.6	2.6	2.5	-2.1	1.8	0.2	1.5
Mar 2019	3.1	0.1	4.1	13.0	4.3	3.4	4.8	3.1	3.2	-1.2	1.9	0.3	1.8
Apr 2019	3.2	0.9	3.4	11.4	4.2	3.6	4.9	2.7	3.2	-1.1	2.1	0.6	2.2
May 2019	3.5	2.2	4.1	8.8	4.3	3.7	4.9	2.5	3.4	-1.1	2.1	3.2	2.0
Jun 2019	3.7	2.3	4.8	8.9	4.1	3.1	4.8	2.4	4.2	1.0	1.8	3.4	1.8
Jul 2019	3.7	2.9	4.1	8.1	3.9	2.7	4.7	2.5	3.6	1.1	1.6	1.6	2.2
Aug 2019	3.6	3.7	2.7	6.3	3.7	2.9	4.6	2.5	2.1	0.7	1.6	1.8	1.4
Sep 2019	3.4	4.0	3.2	4.3	3.7	2.6	4.2	2.4	1.3	0.6	1.6	2.0	1.9

Source: National Bureau of Statistics.



Annex 6. Food Crop Prices, Regional Averages, TZS per 100Kg

Month Year	Maize			Rice			Wheat			Beans			Sorghum		
	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya
Oct 2017	53,714	54,207		200,313	191,389		66,214	121,404		166,875	194,681		62,357	95,148	-
Nov 2017	51,417	52,288	50,333	177,000	188,054	181,667	69,000	118,167	134,167	197,500	201,736	210,833	59,500	89,885	-
Dec 2017	52,625	52,083	53,000	201,563	189,306	188,750	67,071	113,722	192,000	175,000	200,000	200,000	66,222	83,000	-
Jan 2018	51,750	47,828	49,000	210,000	189,643	185,833	73,900	110,889	125,000	160,000	207,917	207,500	62,833	86,917	-
Feb 2018	48,417	49,427		203,000	196,563		72,778	114,115		160,313	197,135		58,429	79,690	-
Mar 2018	48,091	54,958		179,708	194,750		69,850	126,538		145,000	193,281		55,278	79,091	-
Apr 2018	46,333	46,375		216,667	210,000		70,625	128,750			199,375		56,500	101,250	
May 2018	46,500	49,333	35,000	190,000	170,000	195,000	72,500	130,000	141,000	155,000	206,667	147,000	61,000	85,000	
Jun 2018	44,300	49,286	35,000	185,000	171,071	186,667	65,600	126,429	136,833	149,500	185,000	151,583	48,100	92,857	
Jul 2018	43,833	42,167	35,000	185,000	145,000	190,000	63,167	125,833	136,000	137,500	186,667	152,500	46,333	85,000	
Aug 2018	37,250	45,483		181,875	164,188		63,188	127,500		118,750	191,875		44,688	88,083	
Sep 2018	35,182	40,855		360,000	328,788		63,591	119,377		118,409	190,269		47,727	80,758	
Oct 2018	34,071	36,524	31,000	180,000	167,024	180,000	63,857	127,381	100,000	120,000	186,429	170,000	44,000	76,190	90,000
Dec 2018	42,667	52,528	36,000	168,750	158,889	140,417	66,958	117,917	118,750	121,667	185,333	180,833	59,375	75,375	101,208
Jan 2019	43,275	58,200	36,000	177,000	171,333	140,000	66,500	126,667	120,000	123,500	192,567	180,000	39,100	77,667	101,500
Feb 2019	43,111	65,241	39,000	180,000	184,630	180,000	78,000	133,889	120,000	127,778	197,963	170,000	36,556	76,019	101,500
Mar 2019	43,818	55,894	39,455	181,818	184,318	151,818	80,909	133,788	130,000	131,591	190,758	190,000	35,045	77,273	102,500
Apr 2019	65,333	61,361	42,000	181,667	180,278	172,500	88,833	135,000	130,000	132,500	187,500	190,000	43,333	82,222	102,500
May 2019	62,500	68,056	43,875	195,000	173,889	172,500	85,889	132,407	130,000	148,889	187,963	190,000	44,500	87,778	102,500
Jun 2019	64,889	71,185	45,000	181,667	166,481	172,500	92,333	126,296	130,000	148,056	183,333	190,000	42,056	88,148	102,500
Jul 2019	69,667	75,583	52,500	175,417	166,389	148,750	76,875	126,250	130,000	155,417	181,944	..	49,208	85,694	102,500
Aug 2019	72,136	77,432	60,000	191,818	178,864	125,500	89,000	129,318	160,000	147,773	190,000	162,000	55,818	92,955	145,000
Sep 2019	77,432	74,545	64,200	194,091	185,455	127,833	77,500	121,591	160,000	155,000	191,648	160,800	53,591	91,023	102,778

Source: Ministry of Industry, Trade, and Marketing.



Annex 7. Food Crop Prices, National Average, TZS per 100Kg.

<i>Month-Year</i>	<i>Beans</i>	<i>Maize</i>	<i>Rice</i>	<i>Round Potatoes</i>	<i>Sorghum</i>
Oct-17	164,917	54,389	187,154	67,159	88,898
Nov-17	178,769	50,819	184,648	67,466	74,251
Dec-17	175,313	61,403	192,401	70,613	74,916
Jan-18	177,044	49,880	194,294	76,226	76,809
Feb-18	178,078	48,530	199,295	70,096	72,135
Mar-18	166,248	45,876	180,224	69,901	78,402
Apr-18	170,814	42,662	195,546	69,903	76,637
May-18	174,587	41,850	170,953	70,984	91,327
Jun-18	165,421	42,722	160,081	74,153	87,824
Jul-18	161,234	41,283	153,053	77,358	68,168
Aug-18	153,881	40,520	146,181	79,721	80,448
Sep-18	154,304	39,908	247,492	81,736	76,052
Oct-18	158,810	33,865	175,675	81,558	70,063
Dec-18	162,611	43,731	156,019	86,598	78,653
Jan-19	165,356	45,825	162,778	82,434	72,756
Feb-19	165,247	49,117	181,543	75,069	71,358
Mar-19	160,394	49,663	165,725	-	78,159
Apr-19	159,606	54,027	166,172	-	76,864
May-19	163,601	59,160	167,412	-	76,486
Jun-19	162,802	59,851	164,936	-	81,557
Jul-19	161,636	62,560	162,267	-	77,945
Aug-19	159,109	66,110	158,675	-	86,729
Sep-19	167,866	71,046	169,732	-	91,400

Source: Ministry of Industry, Trade, and Marketing.



Annex 8. Balance of Payments, Percent of GDP, Except Where Noted Otherwise

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
1. CA balance (including transfers)	-7.8	-7.1	-7.9	-13.1	-10.5	-10.7	-9.8	-6.5	-3.0	-3.8	-3.9
Exports of Goods	11.7	12.4	15.0	15.5	12.9	12.0	11.1	12.4	9.9	9.0	8.5
o/w Gold											
Import of Goods	-21.6	-20.2	-20.1	-22.4	-25.3	-22.5	-23.5	-23.7	-20.6	-20.9	-21.7
Services (net)	0.6	0.5	0.5	0.2	1.3	1.4	1.7	2.0	3.6	3.2	3.1
Trade balance	-10.6	-9.1	-9.5	-14.1	-12.1	-12.3	-10.9	-7.4	-5.6	-5.9	-5.9
Income (net)	-1.1	-1.5	-1.9	-1.8	-1.5	-1.4	-1.8	-1.9	-1.9	-1.9	-1.9
Current transfers (net)	3.4	2.9	3.0	2.6	1.9	1.6	1.2	0.7	0.9	0.8	0.8
2. Capital and financial account	8.3	8.9	10.3	11.5	12.2	10.1	7.9	6.1	5.3	4.5	4.3
Capital account	1.4	1.7	1.7	2.2	1.8	1.6	0.9	0.7	0.9	0.9	0.8
Financial account	6.9	7.2	8.5	9.4	10.4	8.5	7.0	5.3	4.5	3.6	3.5
o/w Direct investment	3.9	3.2	4.6	4.2	4.6	4.4	3.4	3.3	1.8	1.9	1.8
3. Net errors and omission	-0.4	-0.2	-2.1	2.4	-0.6	1.1	1.4	-0.3	0.1	0.6	0.0
4. Overall balance	0.1	1.6	0.3	0.8	1.1	0.5	-0.6	-0.8	2.4	1.2	0.4
5. Reserves and related items	-0.1	-1.6	-0.3	-0.8	-1.1	-0.5	0.6	0.8	-2.4	-1.2	-0.4
Reserves assets	-0.9	-1.9	-0.4	-0.8	-1.4	-0.5	0.7	0.9	-2.3	-1.0	-0.2
Use of Fund credit and loans	0.9	0.3	0.1	-0.1	0.3	0.0	-0.1	-0.1	-0.2	-0.2	-0.2

Source: Bank of Tanzania, IMfi, and World Bank.



Annex 9. Fiscal Framework, Percent of GDP

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Prel. Actual	Estimates
Revenue and grants	15.3	15.9	15.4	15.6	14.0	14.8	16.3	15.7	14.3	18.0
Domestic revenue	11.9	12.6	12.8	13.5	12.8	14.3	15.3	14.9	14.0	17.1
Tax Revenues	11.0	11.3	11.7	12.3	11.6	12.8	12.9	12.6	11.6	14.2
Non-Tax Revenues	0.9	1.3	1.1	1.2	1.3	1.5	2.4	2.4	2.4	2.9
Grants	3.4	3.2	2.6	2.1	1.2	0.5	1.0	0.8	0.3	0.9
Program grants	2.2	1.8	1.2	0.9	0.6	0.1	0.3	0.3	0.1	0.2
o/w Basket funds	0.7	0.5	0.4	0.3	0.1	0.1	0.2	0.1	0.0	0.1
Project grants	0.8	1.1	1.0	0.9	0.6	0.4	0.7	0.5	0.2	0.7
Expenditure and net lending	19.5	18.9	20.5	18.5	17.1	18.3	17.4	17.0	16.9	20.4
Recurrent Expenditure	13.9	12.2	14.3	13.7	12.8	13.8	10.7	10.7	10.4	11.5
Wages and compensation	4.9	4.8	5.1	5.3	5.4	5.8	5.2	4.6	5.0	5.6
Interest Payments	0.7	0.8	1.2	1.3	1.5	1.5	1.6	1.7	1.8	1.8
Domestic	0.6	0.6	0.9	1.0	1.1	1.0	1.1	1.1	0.0	1.1
Foreign	0.1	0.2	0.3	0.3	0.4	0.5	0.5	0.6	1.8	0.7
Goods, services, and transfers	8.3	6.7	8.0	7.1	5.9	6.5	4.0	4.4	3.6	4.0
Development Expenditure	5.7	6.6	6.2	4.9	4.4	4.5	6.7	6.3	6.5	9.1
Domestically financed	2.0	3.3	2.9	2.5	2.7	3.0	4.7	4.5	5.0	7.2
Foreign financed	3.7	3.3	3.3	2.4	1.7	1.5	2.0	1.8	1.5	1.9
Overall balance (including grants)	-4.3	-3.0	-5.1	-2.9	-3.1	-3.5	-1.1	-1.9	-3.2	-2.3
Financing	4.8	3.6	5.0	3.3	3.3	3.5	1.5	1.9	3.2	2.3
Foreign financing (net)	2.2	3.0	3.9	3.0	3.1	1.4	1.6	1.4	0.9	1.3
Gross foreign borrowing	2.3	3.2	4.1	3.3	3.4	2.0	2.6	2.5	0.0	2.9
Program loans	0.8	0.7	0.8	1.0	0.6	0.5	0.2	0.1	0.0	0.1
Project loans	1.3	1.0	1.1	0.7	0.8	0.8	1.2	1.2	0.0	1.1
Nonconcessional loans	0.2	1.4	2.2	1.6	2.0	0.7	1.2	1.2	0.0	1.7
Amortization	-0.1	-0.1	-0.2	-0.2	-0.3	-0.6	-0.8	-1.1	0.0	-1.5
Domestic borrowing (net)	2.6	0.6	1.1	0.3	0.2	2.1	-0.1	0.5	2.3	1.1

Source: Tanzania authorities, IMF, and World Bank.



Annex 10. Monetary Aggregates, Percent of GDP, Except Where Noted Otherwise

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Monetary aggregates										
M3 as % of GDP	22.9	24.6	24.1	23.5	22.1	22.5	23.4	21.1	20.8	20.3
M2 as % of GDP	17.2	18.0	17.1	17.2	16.3	16.8	16.7	15.3	15.4	15.0
M3 growth rate (%)	17.7	25.4	18.2	12.5	10.0	15.6	18.8	3.4	8.0	4.5
M2 growth rate (%)	20.8	21.8	15.0	16.0	10.9	17.0	13.4	5.3	10.4	3.8
Domestic credit										
Total Domestic credit (% of GDP)	13.3	15.2	16.8	17.7	17.7	19.4	21.6	19.3	17.0	17.5
Total domestic credit growth (%)	21.3	32.8	33.8	21.3	17.4	24.1	26.8	2.5	-3.4	10.1
Private Sector credit (% of GDP)	13.0	13.4	14.1	14.5	14.2	15.0	16.4	15.3	14.2	14.0
Private Sector credit growth (%)	9.6	20.0	27.2	18.2	15.3	19.4	24.8	7.2	1.7	4.9
Interest rates structure										
Overall Tbilis rate (period average, %)	8.3	4.8	8.3	13.6	13.6	13.6	12.9	16.2	11.1	6.4
Average lending rate (%)	15.0	14.6	15.0	15.6	15.6	16.2	16.1	16.0	17.6	17.3
Average deposit rate(%)	6.8	5.9	6.3	8.4	8.3	8.4	8.9	9.2	10.0	8.2

Source: Bank of Tanzania.



Annex 11. Interest Rates Structure, Percent

Item (Percent)	2018					2019							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
A: Domestic Currency													
1. Interbank Cash Market Rates													
Overnight	1.9	1.9	2.1	2.4	3.0	3.5	4.5	5.3	5.2	5.3	5.5	5.0	4.6
2 to 7 days	2.4	2.7	2.6	3.1	3.4	3.9	5.3	5.8	5.8	5.8	5.8	5.4	4.9
8 to 14 days	2.7	3.3	2.9	3.9	4.1	4.8	5.7	6.3	6.4	6.2	6.2	5.6	5.4
15 to 30 days	4.0	4.0	4.3	4.3	4.7	4.5	5.0	7.0	7.2	7.2	6.9	5.5	5.8
31 to 60 days	5.0	5.0	5.0	5.0	5.0	5.0	5.0	6.7	7.0	7.3	7.8	6.1	6.3
61 to 90 days	2.5	2.5	2.5	2.5	2.5	2.5	2.5	8.0	10.0	10.0	10.0	10.0	10.0
91 to 180 days	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	..	..	..
Overall Interbank cash market rate	2.2	2.3	2.3	2.7	3.3	3.7	4.7	5.6	5.5	5.6	5.7	5.4	4.9
2. Lombard Rate													
3. REPO Rate	2.4	2.4	2.4	2.4	2.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
4. Reverse REPO Rate													
3.8	4.3	5.4	6.6	4.8	4.1	4.2	5.7	5.1	5.1	5.3	5.8	5.4	5.4
5. Treasury Bills Rates													
35 days	2.7	2.7	2.7	2.7	3.0	3.0	3.1	3.3	3.4	3.5	3.6	3.8	3.7
91 days	3.0	3.0	3.0	3.0	3.5	3.5	3.7	3.8	4.1	4.1	4.3	4.4	4.4
182 days	5.3	5.1	5.0	5.2	5.3	5.3	5.3	5.2	5.3	5.1	5.2	5.2	5.2
364 days	8.1	8.0	8.1	8.6	9.2	9.3	9.2	9.2	9.1	9.1	9.0	8.3	7.7
Overall Treasury bills rate	7.6	7.2	7.4	8.2	8.7	8.5	8.7	8.7	8.2	8.6	8.7	8.2	7.7
6. Treasury Bonds Rates													
2-years	9.0	9.0	10.5	10.5	10.5	11.4	11.4	11.4	12.0	12.0	12.0	12.0	11.1
5-years	11.9	11.9	11.9	12.0	12.0	12.0	12.7	12.7	12.7	13.0	13.0	13.0	13.0
7-years	12.3	12.3	12.3	12.6	12.6	12.6	13.2	13.2	13.2	13.2	13.2	13.2	13.2
10-years	14.4	14.4	14.4	14.4	14.9	14.9	14.9	15.1	15.1	15.1	15.7	15.1	15.2
15-years	14.8	14.8	15.0	15.0	15.0	15.5	15.5	15.6	15.6	15.6	15.7	15.7	15.7
20-years		17.7	17.7	17.7	17.7	17.7	17.4	17.4	17.4	17.4	17.4	17.4	17.4
7. Discount Rate or Bank Rate													
7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
8. Savings Deposit Rate													
2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.5	2.6	2.5	2.4	2.4	2.5	2.4
9. Overall Time Deposits Rate													
7.6	8.2	7.8	7.7	7.5	7.3	7.2	7.6	7.4	7.6	7.4	7.3	7.0	7.0
1 month	8.2	8.8	9.7	9.8	8.9	9.2	9.7	9.2	8.5	8.9	8.6	8.2	8.3
2 months	8.3	9.4	8.3	7.6	8.2	7.3	7.2	8.3	8.3	7.9	7.4	7.7	4.9
3 months	7.9	8.0	7.3	7.6	7.3	6.6	6.8	8.0	7.4	7.6	7.6	6.8	7.6
6 months	8.4	8.8	8.1	7.4	7.4	7.4	7.5	8.0	8.1	8.3	8.3	8.5	8.0
12 months	7.8	7.4	8.0	7.9	8.4	8.7	8.5	9.0	8.1	8.9	9.1	9.1	8.9
24 months	11.9	13.7	11.4	11.3	10.3	10.1	9.8	9.5	9.7	9.9	9.8	9.8	9.8
10. Negotiated Deposit Rate													
9.4	9.0	8.4	8.9	9.2	8.8	9.1	8.8	9.1	8.7	8.8	8.7	9.0	9.0
11. Overall Lending rate													
17.1	17.5	17.1	17.0	16.7	17.2	16.8	17.2	17.2	17.2	16.9	16.9	16.8	16.8
Short-term (up to 1year)	18.2	18.7	17.8	18.2	17.8	17.0	16.4	17.5	16.9	17.0	16.4	16.3	16.3
Medium-term (1-2 years)	17.9	18.3	17.8	17.7	17.6	18.2	18.0	17.8	18.3	18.2	18.2	18.3	18.2
Medium-term (2-3 years)	17.4	17.8	17.4	17.3	17.1	17.8	17.3	19.0	17.9	17.8	17.6	17.4	17.5
Long-term (3-5 years)	16.8	17.1	16.7	16.6	16.2	17.1	16.9	16.8	16.7	17.1	16.6	16.7	16.6
Term Loans (over 5 years)	15.2	15.8	15.9	15.1	14.9	16.1	15.5	15.1	16.2	15.7	15.6	15.7	15.2
12. Negotiated Lending Rate													
15.9	15.7	14.9	15.9	15.3	14.9	14.8	14.6	14.6	15.3	14.4	14.4	14.3	14.3
B: Foreign Currency													
Savings Deposits Rate													
0.7	1.1	0.7	1.6	1.9	2.0	2.1	1.7	1.8	1.7	2.1	2.2	2.3	2.3
Overall Time Deposits Rate													
3.5	3.5	3.5	3.6	3.6	3.4	3.2	3.1	3.1	2.6	2.8	2.3	2.3	2.3
1-months	3.4	3.4	3.5	3.2	3.4	3.3	2.7	2.8	1.6	1.9	1.8	2.2	2.2
2-months	3.2	3.9	4.0	4.5	4.6	4.5	3.2	2.9	3.3	2.8	3.4	3.0	3.2
3-months	3.8	3.5	3.1	3.3	3.3	3.2	2.7	3.5	3.7	2.3	2.9	2.3	1.9
6-months	4.1	3.5	3.9	3.6	3.3	3.2	3.4	3.1	2.9	2.8	2.4	1.7	1.9
12-months	3.0	3.3	3.1	3.3	3.4	3.1	3.3	3.1	3.1	3.4	3.5	2.5	2.4
Overall Lending Rate													
8.0	5.9	6.9	7.7	8.3	8.0	7.7	7.6	7.5	8.2	8.1	8.0	7.5	7.5
Short-term (up to 1year)	8.7	7.1	7.3	7.5	8.9	6.8	6.8	8.2	8.5	7.9	7.6	7.5	7.5
Medium-term (1-2 years)	8.0	5.7	6.9	8.1	9.2	8.4	8.2	5.9	5.4	8.4	8.4	8.6	8.6
Medium-term (2-3 years)	7.6	4.6	7.2	7.5	7.8	8.0	7.6	7.8	7.9	7.7	7.6	8.3	8.3
Long-term (3-5 years)	8.1	5.6	6.2	8.1	8.2	8.9	8.0	8.0	8.0	8.4	8.3	7.7	7.7
Term Loans (over 5 years)	7.4	6.7	7.0	7.4	7.5	8.0	8.0	7.9	7.9	8.0	8.0	8.0	5.4

Source: Bank of Tanzania.



Annex 12. National Debt Developments, US\$ Millions

USD mn	2018/19										2019/20	
Item	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
1. Overall External Debt Committed/2	27,972	28,292	28,436	28,761	28,909	29,293	28,989	28,882	29,111	29,574	29,516	29,057
Disbursed outstanding debt	18,775	18,891	19,122	19,254	19,370	17,724	19,641	19,715	19,755	20,029	20,287	19,877
Undisbursed debt	9,196	9,401	9,314	9,507	9,538	9,569	9,348	9,167	9,355	9,545	9,228	9,180
2. Disbursed Debt by Creditor Category/2	18,775	18,891	19,122	19,254	19,370	19,724	19,641	19,715	19,755	20,029	20,287	19,877
Bilateral debt	1,003	989	995	1,025	1,034	1,033	1,033	1,035	1,042	1,057	1,052	1,057
Multilateral debt	9,531	9,635	9,596	9,719	9,816	9,862	9,853	9,849	9,885	9,966	9,737	9,664
Commercial debt	6,372	6,276	6,494	6,472	6,484	6,779	6,706	6,818	6,801	6,923	7,422	7,149
Export credits	1,869	1,992	2,036	2,038	2,036	2,049	2,050	2,013	2,027	2,083	2,077	2,007
3. Disbursed Debt by Borrower Category/2	18,775	18,891	19,122	19,254	19,370	19,724	19,641	19,715	19,755	20,029	20,287	19,877
Central Government	14,850	14,957	14,943	15,107	15,216	15,436	15,369	15,441	15,477	15,727	15,804	15,713
Parastatal Companies	168	167	167	137	138	126	125	127	125	95	94	83
Private Sector	3,758	3,767	4,012	4,010	4,017	4,163	4,147	4,147	4,154	4,207	4,389	4,081
4. Disbursed Debt by Use of Funds/2	18,775	18,891	19,122	19,254	19,370	19,724	19,641	19,715	19,755	20,029	20,287	19,877
BOP & Budget Support	2,766	2,727	2,755	2,753	2,765	2,955	2,948	2,931	2,927	2,836	2,822	2,824
Transport & Telecommunication	4,058	4,220	4,280	4,302	4,325	4,312	4,296	4,382	4,425	4,634	4,957	4,794
Agriculture	1,216	1,211	1,224	1,243	1,252	1,251	1,252	1,248	1,246	1,256	1,253	1,258
Energy & Mining	2,990	2,960	2,994	3,016	3,020	3,069	3,093	3,067	3,070	3,105	3,097	3,082
Industries	640	650	664	656	657	657	662	660	658	666	663	640
Social Welfare & Education	2,959	2,967	3,004	3,009	3,049	3,151	3,150	3,201	3,209	3,254	3,237	3,272
Finance and Insurance	1,045	1,042	1,052	1,185	1,193	1,222	1,218	1,193	1,191	1,186	1,182	1,018
Tourism	109	116	118	152	152	152	152	171	171	171	171	169
Real Estate and Construction	1,076	1,078	1,087	1,079	1,091	1,091	1,072	1,071	1,069	1,109	1,117	1,113
Others	1,916	1,920	1,944	1,859	1,866	1,864	1,798	1,791	1,789	1,812	1,788	1,707
5. Total Amount of Loan Contracted/1	7	0	0	19	14	32	12	15	4	1	1	0
Government	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
Private	7	0	0	19	14	33	12	15	4	1	1	0
6. Disbursements/1	95	98	46	183	57	299	64	174	61	292	335	25
Government	86	98	45	183	43	261	62	174	61	262	335	24
Parastatal Companies	0	0	0	0	0	0	0	0	0	0	0	0
Private	9	0	2	0	14	38	2	0	1	30	1	1
7. Actual Debt Service/1	139	29	74	150	44	83	131	55	60	161	4	388
Principal	102	16	46	108	18	70	98	38	27	114	1	365
Interest	37	12	29	42	26	13	34	17	33	46	3	23
Others	0	0	0	0	0	0	0	0	0	0	0	0
8. Net Flows on debt/1	-7	81	1	75	39	229	-34	136	34	177	334	-340
9. Net transfers on debt¹	-44	69	-28	33	13	216	-67	119	1	131	331	-363
10. Arrears by Creditors Category/2	4,428	4,386	4,448	4,436	4,506	4,603	4,729	4,733	4,726	4,789	4,863	4,604
Principal	2,647	2,587	2,643	2,630	2,684	2,752	2,850	2,860	2,845	2,898	2,918	2,726
Bilateral	321	311	309	316	321	321	318	321	319	621	320	316
Multilateral	104	114	115	119	123	133	142	117	118	117	118	111
Commercial	1,183	1,176	1,174	1,097	1,131	1,156	1,224	1,264	1,260	1,282	1,286	1,242
Export Credits	1,039	986	1,045	1,098	1,109	1,141	1,166	1,158	1,148	1,178	1,194	1,058
Interest	1,780	1,799	1,805	1,807	1,823	1,851	1,879	1,873	1,881	1,892	1,945	1,878
Bilateral	847	850	847	883	889	891	893	893	895	901	900	902
Multilateral	33	38	38	40	40	42	43	29	29	25	25	29
Commercial	537	569	572	508	516	534	550	554	553	536	590	587
Export Credits	363	342	349	376	378	384	393	397	404	429	430	361
11. External Debt Stock	20,556	20,690	20,927	21,061	21,193	21,575	21,520	21,588	21,636	21,921	22,232	21,755
12. Domestic Debt Stock	6,181	6,162	6,300	6,382	6,223	6,146	6,162	6,484	6,779	6,492	5,957	61,448
13. Total Debt Stock	26,737	26,852	27,226	27,443	27,416	27,721	27,682	28,071	28,415	28,413	28,190	27,903
End Period Exchange Rate	2,289	2,291	2,290	2,293	2,295	2,290	2,290	2,290	2,289	2,290	2,289	2,289

Source: Ministry of finance and Bank of Tanzania.

Note: ¹During the period. ²Position at the end of the period.



Annex 13. Poverty by Geographical Region

	Poverty Headcount	Distribution of the Poor	Poverty Headcount	Distribution of the Poor
	HBS 2011/12	HBS 2011/12	HBS 2017/18	HBS 2017/18
Basic Needs Poverty Line¹ = TSh 36,482				
Urban	15.5	15.9	15.8	19.0
Rural	33.3	84.1	31.3	81.0
Regions				
Urban	21.7	14.4	15.8	16.0
Rural	33.3	84.1	31.3	81.0
Dar es Salaam	4.1	1.5	8.0	3.0
Total	28.2	100.0	26.4	100.0
Food Poverty Line¹ = TSh 26,085				
Urban	6.0	17.7	..	..
Rural	11.3	82.3	..	..
Regions				
Urban	8.7	16.7	..	..
Rural	11.3	82.3	..	..
Dar es Salaam	1.0	1.0	..	..
Total	9.7	100.0	8.0	100.0

Source: National Bureau of Statistics.

Note: ¹ Monthly expenditure per adult.

Annex 14: Papers and Policy Briefs produced by the World Bank Advisory Services & Analytics Project, “Closing the Potential-Performance Divide in Tanzanian Agriculture” (P165427).

1. The Changing Face of Agriculture in Tanzania: Indicators of Transformation¹.
2. Characteristics and Spillover Effects of Medium-Scale Farms in Tanzania².
3. Agricultural Policy and Market Distortions in Tanzania: A Synthesis of The Evidence.
4. Trade Policy and Agriculture Performance.
5. The Agribusiness Enabling Environment in Tanzania.
6. Opportunities to Strengthen Performance of The Seed Sector.
7. Addressing the Food Safety Threat to Human Capital Development & Private Investment in Tanzania.
8. Maximizing Finance for Development of Agriculture in Tanzania.
9. Building a Climate-Resilient Agri-food System in Tanzania.
10. Pathway to Improved Production Runs Through Water Security.
11. Beyond Rock Bottom: Cultivating Integrated Soil Fertility Management in Tanzania.

¹ Available in full report format and in policy brief format.² Ibid.



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