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UNITED REPUBLIC OF TANZANIA

SYSTEMATIC COUNTRY DIAGNOSTIC

"TO THE NEXT LEVEL OF DEVELOPMENT"
(KUFIKA KWENYE NGAZI NYINGINE YA MAENDELEO)

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US$1.00	=	TZS 2,235

ABBREVIATION AND ACRONYMS

ASIP	Annual Surveys of Industrial Production
ASM	Artisanal mining
BEST	Business Environment Strengthening in Tanzania
BoT	Bank of Tanzania
BRELA	Business Registrations and Licensing Agency
BRN	Big Results Now
BRT	Bus Rapid Transit
CAD	Current account deficit
CCM	Chama Cha Mapinduzi
CCROs	Certificates of Customary Right of Occupancy
CEM	Country Economic Memorandum
COP21	21st Conference of Parties of the UNFCC
CMS	Common Market Score Card
CPF	Country Partnership Framework
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CSA	Climate-Smart Agriculture
DAWASCO	Dar es Salaam Water and Sewerage Corporation
DHS	Demographic and Health Survey
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
EAC	East African Community
EAMU	East African Monetary Union
EBA	Enabling the Business of Agriculture
EITI	Extractive Industries Transparency Initiative
EPPs	Emergency power producers
EPZ	Export processing zone
EWURA	Energy and Water Utilities Regulatory Authority
FCC	Fair Competition Commission
FCT	Fair Competition Tribunal
FDI	Foreign direct investment
FOC	Fiber optic cable
FSDP	Fisheries Sector Development Program
FSDT	Financial Sector Deepening Trust of Tanzania
FYDP	Five Year Development Plan

GDP	Gross domestic product
GNI	Gross national income
GRO	Granted Rights of Occupancy
HBS	Household Budget Survey
HCMIS	Human Capital Management Information System
HDI	Human Development Index
HHI	Herfindahl-Hirschman Index
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
HRMIS	Human resource management information system
ICT	Information and communication technology
IT	Information technology
ILFS	Integrated Labor Force Survey
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
IPPs	Independent power producers
kg/ha	Kilograms per hectare
LGA	Local Government Authority
LIC	Low income country
LNG	Liquefied natural gas
LVHV	Low-volume high-value
MDA	Ministries, departments, and agencies
MDGs	Millennium Development Goals
MFIs	Microfinance institutions
MIC	Middle-income country
MSMEs	Micro, small, and medium enterprises
mt/ha	Metric tons per hectare
MW	Mega-watt
NAPA	National Adaptation Program of Action
NBS	National Bureau of Statistics
NCCS	National Climate Change Strategy
NEMC	National Environmental Management Council
NPS	National Panel Survey
NSDS	National Skills Development Strategy
NTBs	Non-tariff barriers
NTMs	Non-tariff measures
OGP	Open Government Partnership
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public financial management
PHC	Population Housing Census
PPPs	Public private partnerships
PPP	Purchasing power parity
R&D	Research and development
REA	Rural Electrification Agency
REC	Regional economic community
REER	Real effective exchange rate
SACCOs	Savings and credit cooperatives
SADC	Southern African Development Community
SCAD	Social Conflict in Africa Database

SCD	Systematic Country Diagnostic
SDI	Service delivery indicators
SDL	Skills Development Levy
SEZ	Special economic zone
SME	Small and medium-sized enterprises
SOE	State-owned enterprise
SPILL	Strategic Plan for Implementation of Land Laws
SSA	Sub-Saharan Africa
TANESCO	Tanzania Electric Supply Company
TASAF	Tanzania Social Action Fund
TAZARA	Tanzania-Zambia Raiway Authority
TCF	Trillion cubic feet
TDV	Tanzania Development Vision
TSIP	Transport Sector Investment Programme
TFP	Total factor productivity
TFR	Total fertility rate
TIC	Tanzania Investment Center
TIMSS	Trends in International Mathematics and Science Study
TIN	Taxpayer Identification Number
TODI	Tanzania Open Data Initiative
TPA	Tanzania Ports Authority
TRA	Tanzania Revenue Authority
TRL	Tanzania Railways Limited
TVET	Technical and vocational education and training
TZS	Tanzanian shillings
UNFCC	United Nations Framework Convention of Climate Change
US$	United States dollar
VAT	Value-added tax
WBES	World Bank Enterprise Survey
WBG	World Bank Group
WGI	Worldwide Governance Indicators
WMAs	Wildlife Management Areas
WWTC	World Travel and Tourism Council
ZCCS	Zanzibar Climate Change Strategy

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EXECUTIVE SUMMARY

The unique characteristics of Tanzania—strategic location, rich and diverse resources, and sociopolitical stability—are valuable for the country's growth.

Tanzania's assets offer it unique economic opportunities compared to many other African countries. First, it is endowed with rich and diverse natural resources, both renewable and nonrenewable, that can provide the basis for current and future economic development and people's livelihoods. Second, as a coastal economy bordering eight countries, six of which are nearly or completely land-locked, the country is well-situated to expand as a regional hub. Third, it has enjoyed decades of sociopolitical stability, with significantly fewer and shorter conflicts than any other East African country.

Tanzania has recorded solid growth in the past decade and signs of economic diversification are emerging.

For the past 10 years the country's macroeconomic performance has been robust, with GDP growing annually at an average of 6.5 percent—higher than the Sub-Saharan African average and that of many regional peers. The growth of the economy has also been quite steady. The economic reforms that started in the 1980s and accelerated in the 1990s and early 2000s facilitated growth in both private and public investments. For example, the national road network expanded by more than 20 percent between 2003 and 2013. As a consequence, Tanzania saw productivity grow in the 2000s. This helped to create a buffer against external shocks like the 2008–09 global financial crisis.

The economy has also become more diversified. While agriculture continues to be the mainstay for the vast majority of the population, emerging dynamic sectors, such as finance and communication, are propelling the economy forward. Mobile phone subscriptions grew 10-fold between 2005 and 2015; by numbers of users and of transactions Tanzania has become one of the largest markets in the world for mobile finance. Meanwhile, its exports have substantially diversified from the country's earlier dependence on traditional exports of raw commodities. Manufactured exports to regional markets are now growing.

Pro-poor growth has helped reduce poverty and narrow the income gap between poor and rich.

After plateauing between 2001 and 2007, the poverty rate fell from 34 to 28 percent in 2012 and extreme poverty dropped by about 2 percentage points. The decline in poverty has been accompanied by a reduction of inequality between income groups, with a substantial drop in the Gini coefficient. In fact, signs are emerging that growth has been pro-poor, with the incomes of poorer households rising faster than those of richer households. For people in the bottom 40 percent, consumption has gone up by about 14 percent.

Driving this reduction in poverty have been engagement in commercial agriculture and nonfarm activities, ownership of communication and transport equipment, and rural access to roads and markets. Financial transfers also contributed to alleviation of poverty. To reduce extreme poverty, the Government has put in place a nationwide productive social safety net program, the Tanzania Social Action Fund (TASAF).

The gains in human development have also been clear.

Tanzania's Human Development Index improved from 0.392 in 2000 to 0.521 in 2014, with gains in health the driving force but also robust gains in education and incomes. Between 2000 and 2014, the life expectancy of Tanzanians rose by 15 years. Access, completion, and equity in primary education have improved. Progression to secondary school surged from about 20 percent in 2000 to almost 60 percent in 2012.

But if Tanzania is to move up to the next level of development, there is still much to be done.

With population growth high, per capita income—about $900 today—is growing only slowly. If economic and population growth continue at the same rates, in 2025 Tanzania's per capita income will have reached only about the same level as Kenya's today. Even though Tanzania's poverty rate has gone down, the absolute number of its poor is high; about 12 million people are still under the national poverty line, almost the same as in 2007. If Tanzania is to see faster per capita income growth, which it needs to reach middle-income-country (MIC) status, growth of the economy must accelerate.

It is well to keep in mind that poverty reduction is not a one-way path: A large number of Tanzanians live just above or below the poverty line. Poverty would be substantially reduced if those just below the line were to receive more income. However, if there is an economic shock, many of those just above the line are at risk of slipping back into poverty. Further, while the poverty rate has declined rapidly in Dar es Salaam, it is still persistently high in rural areas. Therefore, as growth accelerates, inclusion must be ensured.

To sustain its gains in human development, Tanzania must now deal with problems of both access to and the quality of services. It must also deal with pervasive gender disparities. For example, despite the growth in mobile finance, female entrepreneurs still find it difficult to acquire land and access financing. Tanzania is still a pre-demographic-dividend country. Population growth due to the high fertility rate is putting structural pressure on many dimensions such as job markets and service delivery

Other risks to the sustainability of growth are emerging. Population growth, climate changes, and weak governance of natural resources are exacerbating the depletion of nonrenewable resources. If the current pace of water depletion continues, in 10 years Tanzania will become water-stressed. Climate change is already causing problems: changing rain patterns are affecting a variety of sectors but particularly agriculture and power, and a rise in sea level could have a devastating impact on the landscape and livelihood of Mainland coastal areas, Zanzibar, and other islands. Among emerging global macroeconomic risks to the economy are the fluctuations in world commodity prices and the slowing of Chinese economic growth, but there are also domestic fiscal risks to be dealt with.

There are three pathways to reach the national development goals by which the country can accelerate growth, make growth more inclusive, and ensure sustainability of growth and poverty reduction.

Structural transformation: *leveraging Tanzania's natural assets and capturing latent comparative advantage to create more jobs.* If the economy is to generate more—and more productive—jobs, it must undergo structural transformation by facilitating the movement of resources from lower- to higher-value-adding activities, and by raising productivity, both in general and in crucial sectors. There are some signs that this is already beginning as labor moves from less productive agriculture to more productive manufacturing and services. But so far labor has mainly shifted to informal and nontradable services in urban areas and is not yet generating any productivity growth.

Tanzania does have potential to add value to its agricultural products through more agro-processing. This will require strengthening agricultural production through sustainable intensification to boost productivity and also foster commercialization and value-addition. Encouraging light manufacturing, such as agro-processing, requires both a productive private sector that has more capacity to export and an enabling business environment that ensures a reliable power supply, access to credit, a skilled labor force, and a lower regulatory burden. Tourism also has potential for job creation in both the Mainland and Zanzibar. Local content development around large foreign investments in extractive industries also presents unique opportunities to create local value chains, with the right policy incentives and with more local capacity.

A success in structural transformation in Tanzania critically hinges on the three essential factors. First, for the private sector to drive structural transformation successfully, improvements in the business environment generally and fostering market competition are fundamental. Second, large infrastructure gaps, particularly in power and transport, need to be filled. Third, sustainability of natural resources is a critical condition for the country to better leverage its rich natural assets for successful structural transformation.

Spatial transformation: *leveraging Tanzania's geographic advantages and maximizing benefits from spatial integration and agglomeration.* The unique setting of the country makes it imperative to leverage that advantage to realize economies of scale in terms of economic geography. Agglomeration offers Tanzania both opportunities (clustering) and challenges (urban congestion and spatial inequity in resource distribution). The country is urbanizing rapidly, but the resultant worsening congestion, deterioration of urban infrastructure, and inadequacies in urban planning are preventing realization of the potential of industrial agglomeration for productivity growth. With its cross-border trade equal to just 50 percent of GDP, Tanzania is not trading as much as its peers.

Spatial transformation can also enhance physical connectivity and economic integration not only across its borders but also within Tanzania, empowering rural areas and secondary cities. While the past decade's investment in trunk roads and the rapid growth of mobile money have allowed the Tanzanian economy to be internally more integrated, persistent rural-urban divides affect living conditions and access to infrastructure and social services. Regional integration is deepening, particularly within the Eastern African Community, but nontariff barriers make border crossing cumbersome despite efforts to remove them. Regional corridors could be made more competitive if transport was better connected.

Institutional transformation: *upgrading the strength and the quality of public institutions and organizations.* If it is to move up to the next level of development, Tanzania needs solid public institutions that can deliver quality products and services. Although there was good progress in public sector reforms in the early 2000s, there seems to be growing dissatisfaction among Tanzanians with the public sector's ability to deliver services. Reform needs to be reinvigorated to ensure that the public sector is capable of delivering quality services and making public investments that are effective in boosting productivity.

The quality of service delivery hinges on the financial performance of the public sector including the credibility of the government budget and financial sustainability of SOEs, increased equity in resource allocation among districts for social services, and improved transparency and accountability. The role of state versus market needs to be balanced with the Government's ability to provide enabling environment for the private sector strengthened and robust public-private dialogue established.

Growth and poverty reduction through those three pathways can be sustained by building solid foundations.

Human capital and gender equity: The quality of Tanzania's human resources is worrisome despite past human development gains. The magnitude of stunting affects both the cognitive skills of very young children and their future productivity. Entrepreneurial capacity to raise productivity and government capacity to deliver services are ultimately about building human capability to manage and innovate. In all those aspects, it is crucial to emphasize gender equity and the importance of building the human capital, and thus the contribution, of women.

Macroeconomic stability: While Tanzania has had a good track record of success in maintaining macroeconomic stability, it cannot be taken for granted that this will continue. Assuring macroeconomic and financial stability is central to protecting the income and wellbeing of the less well-off and creating the basic conditions for private investment, growth, and shared prosperity. No enhancement of growth or shared prosperity can be expected without macroeconomic stability, and in that sense this is a foundational step that is necessary for other reforms to work.

What are the priorities for removing bottlenecks and maximizing pathway opportunities as the country moves forward with its Second Five-Year Development Plan (FYDP II)?

Using the three pathways, the following specific **priorities for policy actions** can accelerate sustainable growth and poverty reduction to achieve FYDP II objectives. **Nine specific priority areas** that require policy actions through reforms and/or investments have been identified based on criteria related to how these actions will contribute to growth acceleration, inclusion, sustainability of growth, and poverty reduction. Consideration is also given to externality—how actions in such priority areas remove blockages in other areas.

1. **Develop a competitive business environment to boost private sector growth, particularly in agribusiness and other job-creating sectors.** The business environment in Tanzania is still not as attractive as in other countries and state interventions in the market persist while competition is limited. The Government needs to allow the private sector to become more competitive and drive industrialization while it works to become a more efficient and effective regulator. It needs to provide an enabling environment through reduction in regulatory burdens, which includes the multiplicity of taxes and licenses in agribusiness and other job-creating sectors such as tourism. Access to land, technologies and quality inputs are important to boost their productivity.

2. **Improve the performance of the power sector through better planning and ensuring the financial sustainability of the sector.** Tanzania has a huge infrastructure gap in energy, a sector that is critical to industrialization and improvement of the welfare of the poor. Action is urgently needed to restore the financial sustainability of state-owned power utility Tanzania Electric Supply Company (TANESCO), starting with implementation of the gas-to-power strategy to lower the cost of power generation. Better advance planning and investment choices are vital to avoid a future power crisis; private sector participation, through a competitive process, should be promoted.

3. **Expand access to finance by addressing unmet needs for financial inclusion.** Despite the recent opening of access by the mobile banking revolution, financial services are still largely informal. Small businesses identify access to finance as their most binding constraint. Further efforts are needed to improve the access to formal credit for women, the poor, and microenterprises. Financial inclusion needs to be supported by a stronger domestic financial market, which would help to lower the cost of credit for the private sector and make long-term financing available.

4. **Enhance sustainability of natural resources through effective policy and institutional frameworks.** Leveraging natural resources for industrialization requires sustainable management of natural resources, some of which are facing risks of depletion. Institutional capacity to manage natural resources, both renewable and non-renewable as well as land, needs to be reinforced. This includes building strong institutional capacity and inter-sectoral coordination to manage competing demands, improved sectoral transparency and effective regulatory regime. The institutional framework for gas also needs to be strengthened.

5. **Strengthen rural-urban connectivity through enhanced rural transport and market linkages between villages and secondary cities.** Shared prosperity in Tanzania cannot be promoted unless the current rural-urban divides in access to economic assets and opportunities are addressed. Farmers in rural areas need to be better connected with markets in urban areas through adequate development of rural roads. Also, linking rural areas with secondary cities near rural areas can be fostered through development of regional value chains and key infrastructure in secondary cities.

6. **Boost urban productivity through better urban planning and reduction in urban congestion.** Despite its rapid pace, urbanization in Tanzania is not generating productivity gains due to weak management of the urbanization process. Better urban planning, proper infrastructure to facilitate

industrial agglomeration, and addressing urban congestion and environmental problems are key to increase urban productivity.

7. **Remove bottlenecks in trading across borders by building infrastructure for regional connectivity and improving the business environment for trade.** Despite its locational advantage, Tanzania still faces challenges in business environment in trading across borders with a number of behind-the-border bottlenecks. Efforts to remove both physical and institutional barriers (nontariff barriers) needs to be scaled up. Trade logistics must become more efficient to build Tanzania's competitiveness as a transit hub; there is a particular need to enhance the capacity and efficiency of its principal gateway, the Port of Dar es Salaam.
8. **Improve delivery of public services by ensuring equitable allocation of resources, strengthening accountability and leveraging ICT.** The quality of social services is increasingly challenged. The system for allocating resources across districts needs to be rectified and move beyond the current spatial inequity in social services. Strong accountability framework for service delivery needs to be put in place. ICT should be leveraged to improve efficiency and transparency in service delivery.
9. **Enhance mobilization of government revenue.** Notwithstanding the recent effort to scale up revenue collection, Tanzania still has a low tax revenue-to-GDP ratio by international standards. The Government needs to step up its efforts to improve revenue collection through a combination of tax policy and administration reforms, including rationalizing tax exemptions. Leveraging the private sector through PPPs would complement tax revenue for financing public investments and service provision.

In addressing those nine priorities, there are **two foundational areas** which the Government needs to tackle to support Tanzania's transformations through the pathways.

- **Strengthen human capital development by promoting health, education, skills, and early childhood development.** Strengthening labor productivity and capability of human resources in private and public sectors is fundamental in driving economic and institutional transformations. The quality of human capital needs to be raised both in the current and future labor force through effective and efficient health and education systems and skills development programs. With nearly half of Tanzanian children under 5 still suffering from stunted growth, early childhood development is an urgent agenda to build strong future labor force. Ensuring sufficient water and effective sanitation will reduce stunting through preventing diarrhea and childhood infections. Gender equity should be promoted through human capital development.
- **Ensure macroeconomic stability in order to ensure fiscal sustainability for the implementation of FYDP II.** While Tanzania has kept its overall macroeconomic stability so far, the country needs to step up its ability to steer macroeconomic policies in the increasingly turbulent global economy including fluctuation of commodity prices and the slowdown of the Chinese economy. A successful achievement of FYDP II objectives critically hinges on sound macroeconomic policies that ensure fiscal sustainability in the implementation of the plan, including debt sustainability for financing plans, while addressing prevailing fiscal risks in the country such as the mounting level of arrears in the Government and in parastatals.

I. INTRODUCTION

1. **The United Republic of Tanzania is a low-income country in Sub-Saharan Africa (SSA) on the Indian Ocean.** For SSA it is relatively large in terms of area (11th largest), population (5th largest), and the economy (6th largest). With per capita gross national income (GNI) of US$910 as of 2015, Tanzania is still a low-income country but is moving toward middle-income country (MIC) level of development.

2. **Tanzania began its independence as a socialist country, but in the 1980s economic difficulties pushed it to adopt macroeconomic reforms,** among them removing direct controls on prices and exchange and interest rates and opening up industry to private investment. Reforms intensified in the second half of the 1990s with steep cuts in public spending, which helped the Government to move from fiscal deficits to surpluses. Inflation was brought under control. Exchange rate stability was restored, and the Government carried out structural reforms to boost exports, liberalize domestic markets, and reduce public sector involvement in the economy.

3. **In the early 1990s the country also adopted a multiparty democratic system although the Chama Cha Mapinduzi (CCM) party has maintained its dominance.** Julius Nyerere, Tanzania's first president, initially formed CCM as the sole legal political party for Tanzania. Once the multiparty system was adopted, CCM secured the presidency and has held the majority in Parliament through five multiparty general elections. Despite its continuous dominance, there has been an orderly rotation of the presidency, with each president, after winning the initial presidential election as the CCM nominee and being reelected for the second term, leaves the office after serving two terms (10 years), the maximum allowed by the Constitution.

4. **Tanzania has recorded solid growth and reduced poverty substantially in the past decade.** The economy has grown steadily at a relatively high annual rate of 6.5 percent, far above the SSA average, and the most recent Household Budget Survey (HBS) found that the poverty rate declined from 34 percent in 2007 to 28 percent in 2012. It also appears that growth has become more pro-poor in the sense that the poorest income groups have experienced higher income growth than the richest.

5. **However, the country needs to accelerate growth and poverty reduction as it strides toward MIC status.** Because annual population growth is relatively high at 3 percent, annual per capita income is growing slowly at 3.5 percent, and despite recent improvements, poverty is still prevalent. Tanzania is one of the 10 countries in the world with the highest absolute number of poor in its population and in the top four in SSA based on the international poverty line.

6. **Tanzania Development Vision (TDV) 2025 describes the country's planned route to MIC status and high-quality livelihoods** through peace, stability, and unity; good governance; a well-educated and learning society; and a competitive economy capable of producing sustainable growth and shared benefits.

7. **With a goal of transforming Tanzania to a semi-industrialized economy, the Government of the United Republic of Tanzania recently adopted the Second Five Year**

Development Plan (FYDP II) 2016/17–2021/22.[1] To further the objectives set by TDV 2025, FYDP II has a dual focus: accelerating growth by transforming Tanzania into a middle-income semi-industrialized economy, and accelerating poverty reduction, thus promoting human development, by expanding access to social services and enhancing income security, social protection, and responsive governance. A development strategy has also been under preparation specifically for Zanzibar and expected to be finalized in 2016/17.[2]

8. **The clear priorities of the current Tanzanian administration, led by President John P. Magufuli, are scaling up investment in infrastructure and human development; mobilizing more domestic resources, and ensuring public sector accountability.** The pro-growth FY2016/17 budget raised development spending to the equivalent of 10 percent of GDP. The Magufuli administration is making a real effort to boost tax revenue and eliminate corruption.

9. **This Systematic Country Diagnostic (SCD) provides an informed and integrative perspective on what Tanzania can do to move its national goals forward.** The primary aim of the SCD is to analyze the country's current opportunities and challenges and identify priority areas for policy action. The findings will be the foundation for the Country Partnership Framework (CPF), which will guide the engagement of the World Bank Group (WBG) with Tanzania for the next five years.

10. **The SCD builds on a wide range of analyses conducted by the WBG, the Government, and other institutions.** The World Bank's Country Economic Memorandum (CEM) 2014 and Poverty Assessment 2015 have contributed to the diagnostic, and the Policy Notes for the New Administration, presented in December 2015, helped set the sector-specific policy agenda and informed the analysis of binding constraints and potential solutions. Consultations for the SCD brought in a broad range of stakeholders.

11. **Among comparator countries used to benchmark Tanzania's performance in this SCD are SSA peers** Cameroon, Ethiopia, Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Zambia, and Uganda. Many of them have structural features similar to Tanzania's, such as geography, income, and development experiences. Other comparators are benchmark countries with successful growth histories to which Tanzania aspires, particularly Indonesia, Malaysia, South Africa, Thailand, and Vietnam.

[1] FYDP II is also a successor strategy of the Second National Strategy for Growth and Reduction of Poverty (known as MKUKUTA II in a Kiswahili acronym) as well as the First Five Year Development Plan.
[2] This will be a successor strategy of Zanzibar's poverty reduction strategy, MKUZA II.

II. TANZANIA'S UNIQUE CHARACTERISTICS

13. **Tanzania can leverage unique characteristics to maximize its growth and poverty reduction potential.** The SCD focuses on three: rich and diverse natural resources, advantageous location, and sociopolitical stability.

A. Rich and Diverse Natural Resources

Tanzania is endowed with rich and diverse natural resources, renewable as well as nonrenewable.

14. **Natural resources are the basis of many of Tanzania's industries.** A large expanse of fertile land conducive to agriculture has high potential for future development. Among its diverse renewable resources are also wildlife, forestry, and marine and inland fishery resources, which create a comparative advantage both for tourism and to support livelihoods both in the Mainland and Zanzibar. Water resources make it possible for hydroelectric power to supply about a third of Tanzania's electricity needs, while also serving agriculture.

15. **Topping Tanzania's wealth of nonrenewable resources are gold, diamonds, base metals, and gemstones**. Its top export is gold, which in 2014 supplied 20 percent of total export value. Proven near and on-shore gas reserves at Songo Songo and Mnazi Bay and some smaller fields are estimated at 1.4 trillion cubic feet (TCF) and may be as high as 8 TCF. The recent offshore gas discoveries—estimated at about 50 TCF gas-in-place—could attract a large volume of foreign direct investment (FDI) and also bring in substantial revenue once production starts. Natural gas is also important as an alternative source of power generation.

16. **It is estimated that in 2011 natural resource rents—their value net of extraction and production costs and normal economic returns—added up to more than 9 percent of gross domestic product (GDP)**.[3] While declining commodity prices have reduced rents, particularly from minerals and natural gas, the magnitude of Tanzania's is still large for non-oil-exporting SSA countries. These rents represent an additional substantial tax base from which to raise revenues.

B. Advantageous Location

Tanzania has a geographic advantage as a coastal economy, with many landlocked neighbors at its borders.

17. **Tanzania benefits from its strategic maritime location**. Across the world, coastal economies have been found to be likely to see faster economic growth than landlocked economies because for them accessing global markets is faster and transports cost lower, which attracts investment (Gallup, Sachs, and Mellinger 1999 and Collier and O'Connell 2008). With 1,424 kilometers of Indian Ocean coastline, Tanzania is well-situated for the growing South-South trade: the Port of Dar es Salaam, which handles 95 percent of Tanzania's container traffic, is on direct shipping routes to East, Southeast, and South Asia and the Gulf. The location of Zanzibar, in the

[3] World Development Indicators, based on the methodology by the World Bank (2011).

ocean and near the Mainland, means its economy can be integrated with both the rest of Tanzania and regional and global markets.

18. **Tanzania can become the maritime gateway for many landlocked neighbors.** Except for Kenya and Mozambique, all bordering neighbors are nearly or completely landlocked.[4] Dar es Salaam is the port of entry and exit for two of the three major Eastern Africa transport corridors, the Central and Southern Corridors. About 36 percent of the cargo volume handled at the port in 2013 was in transit to neighboring countries like Zambia and the Democratic Republic of Congo (DRC). At 1 million square kilometers, Tanzania's land area is relatively vast; the corridors help connect Tanzanian cities as well as connecting the country with its neighbors.

19. **The fact that Tanzania shares access to the three major African Great Lakes—Victoria, Tanganyika and Nyassa (Malawi)—also facilitates trade with neighbors.** Reviving transport on the lakes will reinforce transport links in the region and allow Tanzania to better reap the benefits of integration with landlocked neighbors (World Bank and EAC 2015).

20. **But to attract regional transit flows, Tanzania will have to compete with other coastal neighbors.** The Port of Dar es Salaam competes with the Ports of Nacala (Mozambique), Beira (Mozambique), and Durban (South Africa) for Zambian and DRC traffic and with Mombasa (Kenya) for containers to Rwanda and Burundi. In 2013, Mombasa accounted for 77 percent of the cargo to Rwanda and 98 percent of that going to Burundi. On the other hand, Uganda is very keen to maintain an avenue to the Indian Ocean other than through Mombasa. Recently Uganda reversed an agreement with Kenya to construct a crude oil pipeline through Mombasa and signed an agreement with Tanzania to run it through Tanga. Rwanda is also turning to Tanzania for rail access to a maritime port.

C. Sociopolitical Stability

Tanzania's long-term sociopolitical stability provides a sound foundation for economic growth.

21. **Since independence Tanzania has been sociopolitically stable, with an inclusive society.** Under the slogan "one nation, one language, one people," Nyerere's social policies forged a powerful Tanzanian national identity that took priority over ethnic, regional, or linguistic identities despite a social mosaic of 120 different ethnic groups. The dominance of the CCM party, even in the current multiparty system, has reinforced political stability in a way unique in East Africa. The number and the cumulative duration of conflicts in Tanzania between 1990 to 2011 was much smaller than that of other East African countries (figure 1).[5, 6]

22. **Sociopolitical stability has provided a solid foundation for economic growth.** Political stability has been found to be a major determinant of growth in SSA (Easterly and Levine 1997; Collier and Hoeffler 1998, 2004). While there are cases where growth has accelerated growth with

[4] Landlocked neighbors are Uganda, Rwanda, Burundi, Zambia, and Malawi. The Democratic Republic of Congo is nearly landlocked.

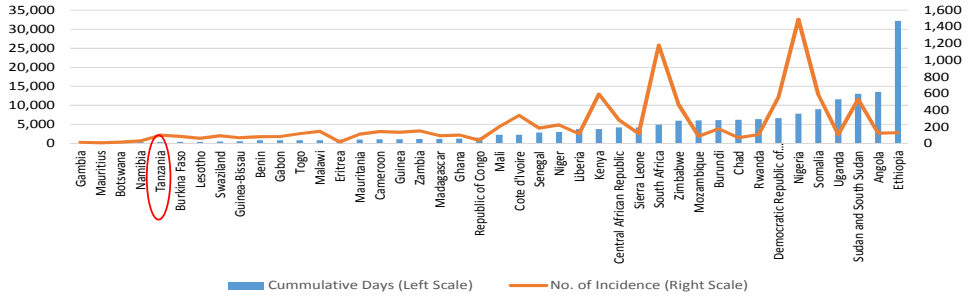
[5] The Social Conflict in Africa Database (SCAD) includes over 7,900 social conflict events across Africa from 1990 to 2011, among them riots, strikes, protests, coups, and communal violence.

[6] It has to be noted, however, that land-related conflicts among agriculturalists and between agriculturalists and pastoralists are common.

determined post-conflict reform drives or political regime changes, sociopolitical stability is still crucial to avoid growth collapses. Uncertainties associated with an unstable sociopolitical environment have been shown to reduce investment and trade and slow the pace of economic development**.** Tanzania's history of stability has proved conducive to growth in private investment, which has helped underpin its economic performance for the past two decades.

23. **The stability has also made it possible to preserve and consolidate key public and private institutions.** One of the most serious costs of conflict is the damage to such institutions as domestic businesses, which are important for employment and income generation, and public institutions, which provide necessary social services, make essential investment in public goods like infrastructure, and ensure orderly functioning of private markets through regulation. In Tanzania, long-term stability has allowed those institutions to evolve gradually as the country shifts from a socialist to a more market-oriented economic system.

Figure 1. Internal Conflicts and Incidents of Violence, SSA, 1990–2011



Source: Social Conflict in Africa Database, University of Denver.

D. Pathways to Growth and Poverty Reduction

The three unique characteristics underpin the three transformational pathways for Tanzania's growth and poverty reduction presented in this SCD.

24. **This SCD identifies pathways for Tanzania to move to the next level of development, which will accelerate growth, make growth more inclusive, and ensure sustainability of growth and poverty reduction.** As the country aims to achieve MIC-level of development as envisioned in TDV 2025, those three are key priorities in considering how to foster growth in the next decade.

25. **The above three characteristics unique to Tanzania open up three transformational and mutually reinforcing pathways to accelerated growth and development progress.** The three pathways are not mutually exclusive, but do overlap each other. Therefore, the set of those three pathways has strong synergetic impacts on growth and poverty reduction.

- **Structural transformation:** Tanzania's rich *resource endowments* offer high potential for growth and poverty-reducing economic transformation through diversification and productive upgrading. The first pathway can promote such a transformation, particularly by identifying resource-based and labor-intensive sectors (e.g., agriculture, light manufacturing) in which Tanzania has a comparative advantage, and determining how the

economy can diversify into more productive activities. *Sociopolitical stability* also invites in FDI, which provide not only capital but also technology and know-how.

- **Spatial transformation:** The second pathway is realizing economies of scale by leveraging Tanzania's advantageous *location* and fostering economic integration both internally and with neighboring countries (regional integration). Economies of scale can also by realized by fostering industrial agglomeration as the country becomes more urbanized. Empowering rural areas and boosting the development of secondary cities can also help ensure equitable growth, which generates accessible opportunities for unskilled labor.

- **Institutional transformation:** As the country moves to a higher development level, the adequacy of institutions matters more. Tanzania's *sociopolitical stability* has allowed the country to build institutional capacity gradually. The third pathway is to make its institutions more effective and efficient by building their capacity to deliver services and make the public investments necessary to enhance the productivity of the entire economy.

26. **The three pathways are supported by human capital and gender equity and macroeconomic stability as their foundations.** Each of the two foundations provides critical bases for those pathways to successfully transform the country to the next level of development. The country's performance under the three pathways is dependent on adequate attentions to those foundations.

27. **The growth, poverty, and inclusion diagnostics discussed in the next chapter underscore why Tanzania needs transformational pathways to accelerate growth, expand its inclusiveness, and ensure its sustainability.** For Tanzania to grow faster depends on economic transformations that could leverage its advantages. However, given the country's continuing challenges, the transformations must ensure that growth and poverty reduction are inclusive and sustainable.

III. GROWTH, POVERTY, AND INCLUSION

A. Growth

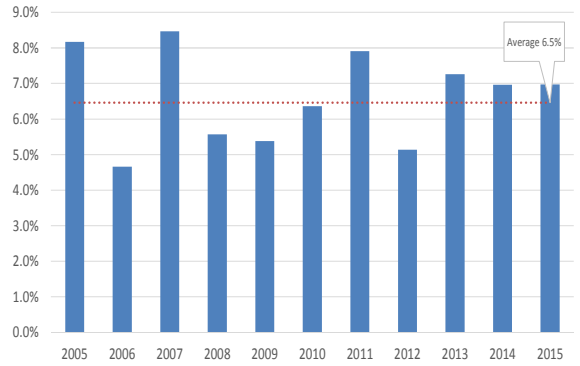
Key Points on Growth: Tanzania's relatively high and stable growth in the past decade has been driven by several modern service sectors. On the other hand, such labor-intensive sectors as agriculture and light manufacturing contributed less to growth. Economic reforms in the 1990s led in the 2000s to growth in investment and consequently in productivity. The growth impacts of the productivity gain were sustained through the 2010s, helping the economy build growth buffers and offset the negative external shocks caused by the global financial crisis. The country's exports have become more diversified, making the economy more resilient. On the other hand, investment, both public and private, contributed less to growth in the 2010s than it had previously. To deal with Tanzania's substantial infrastructure deficits, reinvigorating investment is crucial.

Tanzania has enjoyed relatively high and stable growth in the past decade, but growth in per capita income has been modest as population growth surged.

28. **For the past decade Tanzania has averaged relatively high and stable annual economic growth of 6.5 percent, even as the average growth rate for SSA was just 4.8 percent.** Compared to low- and middle-income countries, its track record was good (figures 2 and 3), but its growth did trail SSA peers Ethiopia, Rwanda, Zambia, Mozambique, and Ghana (figure 4). Zanzibar's growth trend has been similar to, though slightly lower than, the national trend in terms of both GDP and GDP per capita. Average annual growth between 2007 and 2015 was 6.2 percent; thus with the island's population growing at slightly less than 3 percent, per capita GDP was growing annually at an average of 3.2 percent.

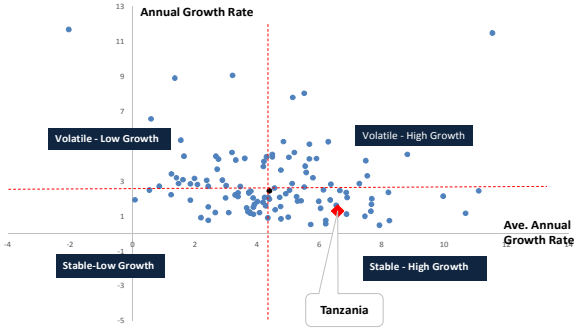
29. **Because population growth has been rapid, however, per capita income growth is still modest.** The Tanzanian population is currently growing at just above 3 percent a year, higher than the SSA average of 2.7 percent but lower than such regional comparators as Ethiopia, Rwanda, Mali, Mozambique, and Ghana (figure 5). If the country maintains both high growth in both average GDP and population, by 2025 GDP per capita will be about $1,450—approximately the current level for Ghana and Kenya, and significantly lower than the current levels in South Africa, Indonesia, and Thailand.

Figure 2. Real GDP Growth, 2005–15



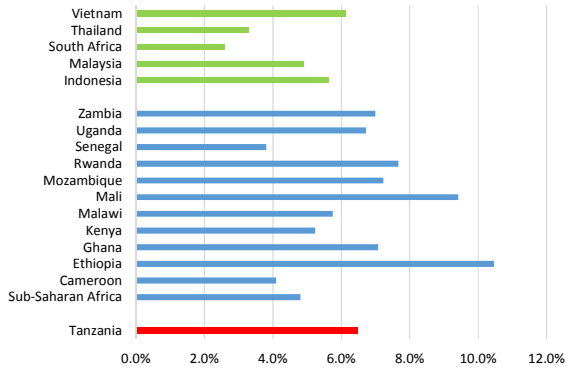
Source: National Bureau of Statistics.

Figure 3. Growth among Low- and Middle-Income Countries, 2004–14



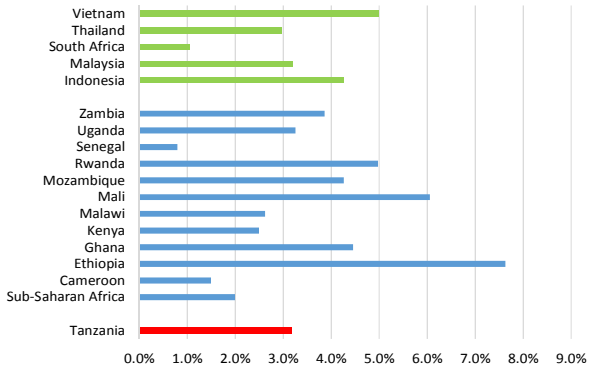
Source: World Development Indicators.

Figure 4. Annual Average GDP Growth, Compounded, 2005–15



Source: World Development Indicators.

Figure 5. Annual Average Per Capita GDP Growth. Compounded, 2005–15



Source: World Development Indicators.

Economic growth in the last 10 years has been driven by modern services on the supply side and consumption on the demand side; agriculture and investment have contributed little.

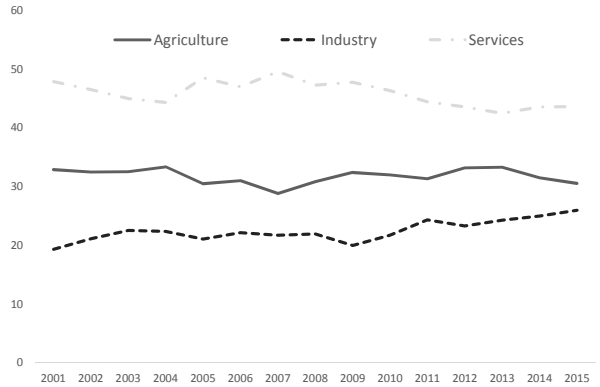
30. **Economic growth in the past decade has been driven by expansion in communications, financial services, and construction, with a contribution from agriculture being limited.** For example, the mobile phone subscription rate grew almost ten-fold between 2005 and 2015. More recently there has been some growth in manufacturing—in particular agro-processing and basic metal industries—and retail trade, but growth in agriculture—the sector upon which about 73 percent of Tanzanian households depend—is lower than it was 20 years ago (figures 6 and 8; Integrated Labor Force Survey ILFS 2014). The services sector has outpaced agriculture as the largest contributor to the national economy, accounting for about 45 percent of total output (figure 6).

31. **Tanzania's export basket has also diversified considerably, adding resilience to the economy.** Figure 7 clearly shows how it has moved from raw commodities to manufactured products, including food. African regional markets and Asia are primary destinations for the manufactured products. Starting in 2009 gold exports expanded rapidly for a few years but then fell along with commodity prices worldwide. As discussed later, Tanzanian manufactured products have begun to be exported to the regional markets such as Eastern African Community (EAC) and Southern African Development Community (SADC) countries. Regional manufactured exports helped the country balance negative shocks on commodity exports to global markets during the global demand shocks due to the global financial crisis in 2008-2009.

32. **On the demand side, consumption—particularly private—was the main driver of annual GDP growth from 2006 to 2015**, when it accounted on average for 74 percent of real GDP growth (figure 9). Investment has not contributed much to growth during this period, in contrast to early 2000s when there was a rapid increase in investment as discussed later**.** The negative contribution from net exports (due to a continuing negative trade balance) declined in the early 2010s as exports picked up and import bills fell when fuel prices dropped.

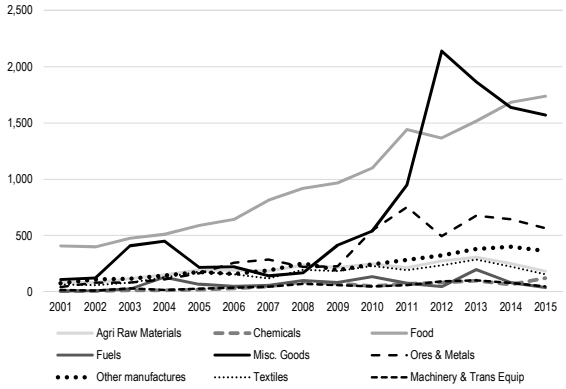
33. **As in the Mainland, in recent years communications, financial services, and construction drove growth in Zanzibar** (figures 10 and 11). The jump in growth in 2011 was driven by construction, which grew by almost 30 percent during the year; in 2014 and 2015 growth was driven by information and communication services and financial services. The drop in growth in 2012 was caused by the drop in the clove harvest, Zanzibar's leading cash crop, which rebounded in 2013.

Figure 6. GDP Share by Major Sector, Percent, 2004–14



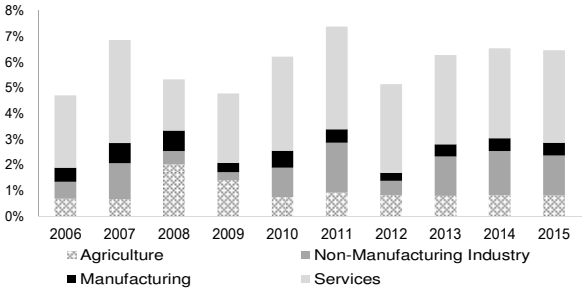
Source: National Bureau of Statistics as of 2015.

Figure 7. Growth of Tanzanian Exports by Product, 2000–14



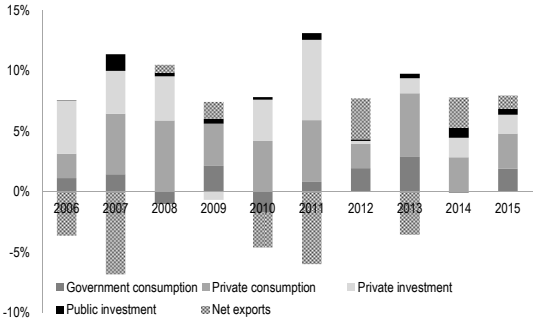
Source: UN-COMTRADE/WITS data

Figure 8. GDP Growth, Contribution by Major Sector, 2006–15



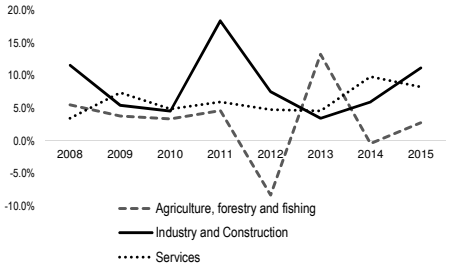
Source: National Bureau of Statistics as of 2015.

Figure 9. Demand-Side Contribution to GDP Growth, 2006–15



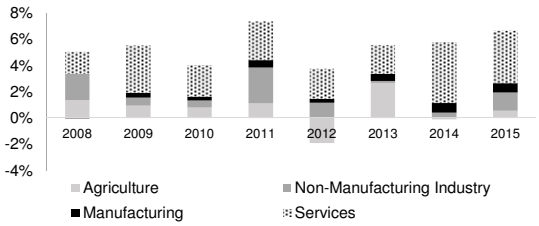
Source: National Bureau of Statistics as of 2015.

Figure 10. Zanzibar: Annual Growth Rate by Major Sector



Source: Zanzibar Office of Chief Government Statistician.

Figure 11. Zanzibar: Contribution to GDP Growth by Major Sector

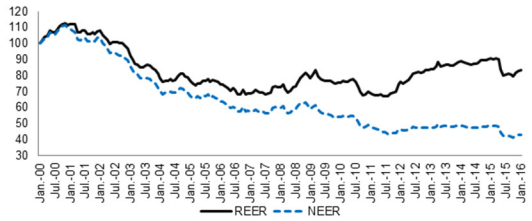


Source: Zanzibar Office of Chief Government Statistician.

34. **Despite recent volatilities in inflation and the exchange rate, overall Tanzania's macroeconomic conditions have remained stable.** The real effective exchange rate (REER) was overvalued throughout the early 2010s, appreciating 35 percent between August 2011 and March

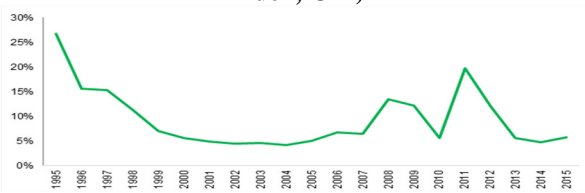
2015 (figure 12). The significant depreciation in the first half of 2015, mainly driven by a strong dollar, brought the REER closer to equilibrium. Headline inflation has declined steadily since the mid-1990s, though inflation shot up in the early 2010s, mainly due to the upsurge in global food and fuel prices, reaching its highest point in two decades in January 2012 (figure 13). Since then, however, inflation has eased steadily to about 5 percent, a reflection of a prudent monetary policy and low imported fuel prices.

Figure 12. Real Effective Exchange Rate



Source: IMF.

Figure 13. Inflation Dynamics (consumer price index; CPI)



Source: World Development Indicators.

35. **The current account deficit in recent years has fallen to less than 10 percent of GDP.** The current account deficit for 2015/16 was 8.6 percent of GDP. The decline reflects an increase in the value of exports (primarily nontraditional) and a decrease in the value of all major imports. As Tanzania is a net oil importer, markedly lower oil prices have represented a net gain. At the same time, recovery of the prices of Tanzania's major export commodities have been relatively significant as well. The price of gold, for instance, in September 2016 was $1,327 per ounce, about 20 percent higher than in 2015.

The overall productivity level increased in the 2000s thanks to economic reforms and capital accumulation in the 1990s and early 2000s, and the sustained growth effects from the productivity growth created a buffer against exogenous shocks.

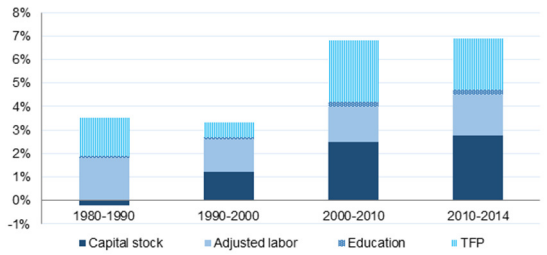
36. **Economic reforms in the 1990s were followed by capital accumulation from the 1990s to early 2000s, laying the foundation for macroeconomic stability.** Following the earlier reforms in the 1980s, the country introduced substantial structural reforms in the mid-1990s in the real and financial sectors, and stabilization measures both reduced inflation and contained the current account deficit and public debt, which lowered the risk of distress. The exchange rate was liberalized and prices were deregulated. Market-oriented economic institutions, such as private banking, were established. In the late 1990s and early 2000s these reforms resulted in rapid capital accumulation (figure 14). Public investments grew annually by 9 percent in the 1990s and 31 percent in the 2000s. For example, the national road network expanded by more than 20 percent between 2003 and 2013.

37. **Such capital accumulation was followed by a large and sustained increase in total factor productivity (TFP), more than doubling average growth in the 2000s.** Throughout the 2000s, TFP accounted for more than a third of growth (figure 14). This was a significant change from the previous decade, when growth resulted mostly from labor and capital contributions and TFP accounted for only about 15 percent. The new pattern was sustained in the early 2010s.

38. **The structural improvements in the early 2000s have had sustained impacts on growth in the 2000s, creating a growth buffer during the global financial crisis in the late 2000s.** Figure 15 shows that in the early 2010s a considerable fraction of growth (persistence) was

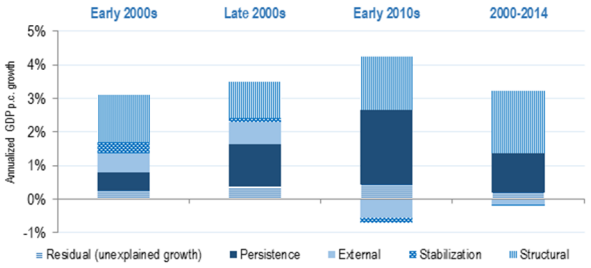
a lagged effect of previous structural improvements (e.g., infrastructure, financial intermediation, education, trade, and governance). This effect and the continued contribution of structural improvements offset the negative impacts associated with the 2008–09 global financial crisis as captured in figure 15 by the negative external stabilization factor.[7]

Figure 14. Solow Growth Accounting, 1990–2014



Source: IMF 2013, Haile 2016.

Figure 15. Determinants of Growth Per Capita



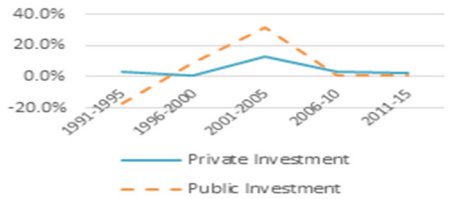
Source: IMF 2013, Haile 2016.

However, both public and private investment have been decelerating since the mid 2000s while Tanzania's large infrastructure deficiency has become more evident.

39. **Since the mid 2000s, both public and private investments have played less role in driving growth.** As shown in Figure 13, consumption—particularly private consumption—was the largest driver of annual GDP growth from 2006 to 2015. On the other hand, the growth contribution from investment was smaller. Comparing the two sub-periods of 2006–2010 and 2011–2015, growth contribution from consumption grew, in particular government consumption. Thus, growth contribution from investment declined (Figure 13). Both public and private investment growth rates have declined since the peak period of 2001-2005 (Figure 16).

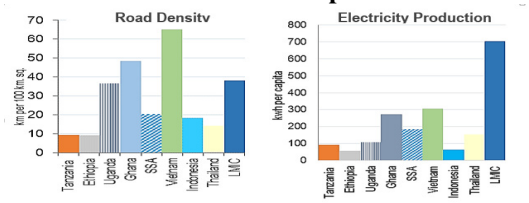
40. **Scaling up infrastructure investments, as also stressed in FYDP II, will support higher growth.** Despite recent improvements, Tanzania still stands out as having comparatively low provision of key infrastructure. The country maintains a strikingly low level of power and transport infrastructure compared to other countries (Figure 17). In this context, FYDP II makes a right emphasis on scaling up infrastructure investments in both power and transport sectors.

Figure 16. Average Growth Rates of Public and Private Investments



Source: World Development Indicators

Figure 17. Average Values of Structural Factors for Tanzania and Comparators



Source: World Development Indicators and World Bank Africa Development Indicators

[7] Relatively limited integration of the domestic financial sector with the global market also provided some insulation for Tanzania during the crisis.

B. Poverty

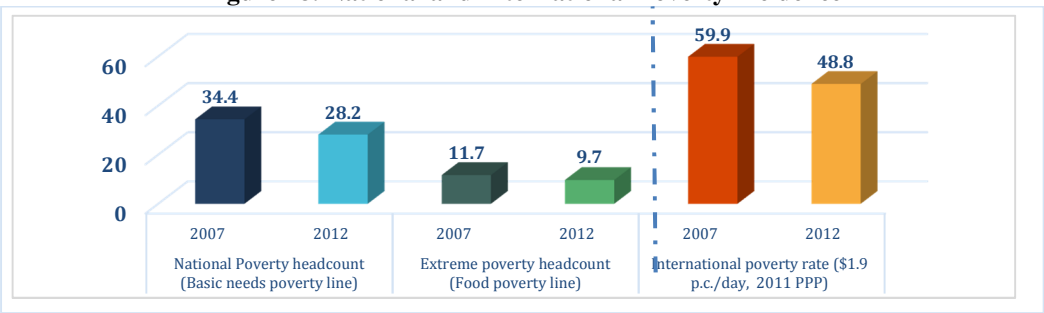
Key Points on Poverty: As the poverty rate fell from 34 percent in 2007 to 28 percent in 2012, equality between income groups improved. Incomes of those in the bottom 40 percent grew at a higher rate than the national average. However, though in Dar es Salaam, the pace of poverty reduction was rapid, it was much slower in rural areas and the secondary cities. Improvements in asset ownership and engagements in nonfarm business activities contributed to poverty reduction, as did financial transfers, including social protection programs. On the other hand, large families, less education, and engagement in subsistence agriculture have been associated with poverty. Despite the lower poverty rate, high population growth has kept the total number of the poor (12 million) almost unchanged since 2007. A large proportion of the population clusters just above and below the national poverty line, which could be either an opportunity or a risk for poverty reduction.

Since 2007, there has been a tangible decline in poverty and inequality among income groups.

41. **In the Mainland, poverty has declined since 2007.** The national poverty headcount declined from 34.4 percent in 2007 to 28.2 percent in 2012 while extreme poverty declined from 11.7 percent to 9.7 percent.[8] The reduction of poverty appears to be even more substantial when using the international poverty line of US$ 1.90 per person per day based on 2011 Purchasing Power Parity (PPP) exchange rate. While the international poverty line shows a higher incidence of poverty, it also reveals a higher pace of poverty decline, with the headcount dropping from 59.9 percent in 2007 to 48.8 percent in 2012 (Figure 18).

42. **The recent household budget survey in Zanzibar (2014/15) also indicates a decline in poverty rate in Zanzibar although at a slower pace.** The Office of Chief Government Statistician of Zanzibar reports a decline of poverty rate from 34.9 percent in 2010 to 30.4 percent in 2015. The extreme poverty rate also dropped from 11.7 percent to 10.8 percent during the same period. See Annex I for details.

Figure 18. National and International Poverty Incidence



Source: HBS 2007 and 2011/12. Poverty Assessment 2015 (World Bank 2015f)

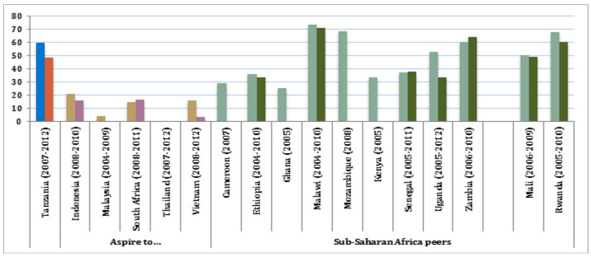
43. **Tanzania's results on poverty reduction compared favorably to its SSA peers.** With the exception of Uganda, poverty in Tanzania declined faster than in most peer countries.

[8] Except for those specifically referred to as figures from Zanzibar, the poverty figures discussed in this chapter are for Tanzania Mainland only and come from HBS for 2007 and 2011/12 and analyzed in the 2015 Poverty Assessment (World Bank 2015f); they are estimated using, respectively, the national basic needs poverty line of TZS 36,482 per adult per month and the national food poverty line of TZS 26,085 per adult per month; the World Bank plans to conduct a separate poverty assessment for Zanzibar in 2017 based on the Zanzibar household budget survey 2014/15.

However, the proportion of people living on less than US$ 1.90 per day remains higher than in most peer countries except for Malawi, Mozambique, Zambia and Rwanda (Figure 19).

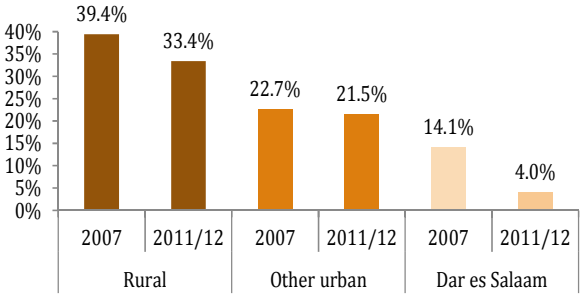
44. **The reduction in poverty was uneven geographically with most of the decline in poverty occurring in Dar es Salaam.** Poverty incidence was reduced by over 70 percent in Dar es Salaam against only 15 percent in the rural sector (Figure 20). Likewise, the poverty level remained almost unchanged in the secondary cities and towns, declining by only 5 percent.[9] On the other hand, in Dar es Salaam, where most of the expanding and flourishing sectors—such as telecommunications and finance—are concentrated, saw a significant decline in poverty.

Figure 19. Share of Population below US$ 1.90 A Day (2011 PPP) (%)



Source: World Development Indicators.
Note: Years between brackets indicate the most recent set of available poverty numbers. For example Uganda (2005-2012) means that the poverty numbers are from the Uganda household surveys for 2005 and 2012.

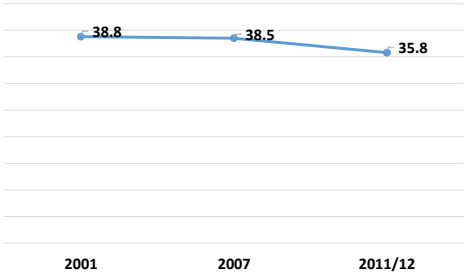
Figure 20. Poverty Rate by Location



Source: HBS 2007 and 2011/12.

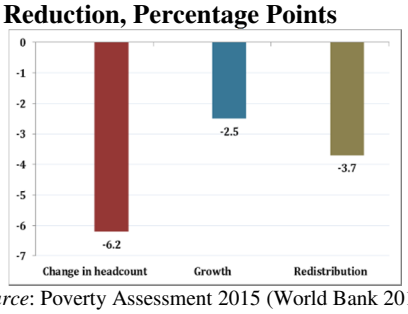
45. **Inequality between income groups was reduced as the poverty rate declined.** Between 2007 and 2012, after previously being stagnant the Gini coefficient dropped from about 39 to 36 (figure 21). As shown in figure 22, less inequality in household consumption (redistribution) explains about 60 percent (3.7 percentage point decline) of the decline in poverty rate during the period while 40 percent (2.5 percentage point decline) the growth in average household consumption.[10]

Figure 21. Inequality by Gini Coefficient



Source: HBS 2007 and 2011/12.

Figure 22. Growth and Redistribution Effects of Poverty Reduction, Percentage Points



Source: Poverty Assessment 2015 (World Bank 2015f)

[9] While Dar es Salaam experienced the greatest decline in the poverty rate, the absolute number of poor people who exited from poverty was higher in the rural areas given that substantially more people in poverty are in rural areas.
[10] The decomposition method proposed by Datt and Ravallion (1992) was used to determine the growth and redistribution components of the decline of poverty.

Increases in asset ownership and nonfarm business activities also helped to reduce poverty.

46. **Ownership of communication and transportation assets and a higher economic return from household business activities also helped reduce poverty**. Unbundling the reasons for household income growth (see annex II) indicates that possession of assets—particularly communication and transportation equipment, larger land plots, and livestock—has increased for the whole population, but particularly the poor. This is corroborated by the rapid growth of mobile phone subscriptions in Tanzania, which grew ten-fold in the past 10 years. The analysis also shows an increased return from household businesses among the poor.

47. **The return to wage employment has increased in urban areas, particularly in Dar es Salaam, explaining the rapid reduction in poverty in the city.** Wage employment increased for the whole population including the poor, who progressively moved away from agriculture and household businesses towards wage employment. In contrast to urban areas, the return to wage employment has declined in rural areas.

48. **In rural areas, improvements in poverty has been observed among farming households with greater commercial orientation and engagement in cash crops**. These results are further supported by the dynamic analysis of poverty using the panel data, which shows that households who transitioned to nonfarm activities or worked in commercial agriculture have been able to move out of poverty.

Large families, less education, and engagement in subsistence agriculture have been associated with poverty.

49. **The poor are concentrated in rural areas and have larger families and dependents, less education, and less mobility.** Annex III presents characteristics of both the poor and the entire bottom 40 percent of Tanzania's population.[11] Of the 70 percent of the population who live in rural areas in 2012, about 10 million were poor, and 14 million were in the bottom 40 percent; in urban areas only 1.9 million people were poor and 2.8 million were in the bottom 40 percent. In the bottom 40 percent, households, both poor and nonpoor, are likely to be large, averaging eight members and four children younger than 15. There is also a considerable poverty gap between households whose head has secondary or upper education and those whose heads have only a primary education.

50. **Wage employees and those in nonfarming businesses are less likely and those employed in agriculture more likely to be poor.** About 80 percent of the poor and those in the bottom 40 percent are self-employed; and half of them depend on agriculture for their livelihoods. Households that own only small plots used for subsistence farming suffer from high poverty rates; those with more land who can commercialize their crops are less likely to be poor. Between 2007 and 2012 poverty among households relying on nonagricultural businesses dropped from 27 to 18 percent, suggesting that nonfarm employment can offer a pathway out of poverty.

Financial transfers, including social protection programs, have also helped reduce poverty.

[11] In Tanzania the characteristics of the poor and the entire bottom 40 percent are very similar (annex III).

51. **Households with transfers as their main source of income seem to have improved their living standards.** The proportion relying on transfers increased from about 5 to 20 percent between 2007 and 2012, and the share of the unemployed and the inactive who relied on transfers shot up from about 16 to over 35 percent. This indicates either that more of these groups are covered by social protection programs (e.g., the Tanzania Social Action Fund, TASAF), or that extended family members are sending more money thanks to expanded mobile transfer technology. The share of the unemployed and the inactive who rely mainly on transfers and who are poor has also declined, suggesting that transfers have helped reduce poverty.

52. **To reduce extreme poverty, the Government has introduced TASAF, a productive social safety net program.** A central feature is conditional cash transfers to heighten the consumption of extremely poor households in return for their utilization of education, health, and nutrition services.[12]

53. **Assessment of some TASAF sites suggests that the well-being of targeted households has improved.** An impact evaluation of the pilot sites shows that it raised education attainment, especially among girls; expanded use of community health insurance; and improved children's health outcomes: the likelihood of children being ill fell by 11 percent for those younger than 4 and by 3 percent for those younger than 18. While beneficiary households did not spend more on consumption, they significantly increased nonbank savings, which suggests that they diversified their assets to better manage risk.

Despite the fall in the poverty rate, the absolute number of poor people remains very high, and a large proportion of population are clustered around the poverty line.

54. **Nevertheless, about 12 million Tanzanians still live in poverty based on the national poverty line.** Between 2007 and 2012 the absolute number of poor people remained almost unchanged, declining by only 10 percent, from 13.2 million to 11.9 million, as the number of extreme poor decreased by 7 percent, from 4.5 million to 4.2 million. Rapid population growth explains the slow pace of reduction in the absolute number of poor people.

55. **Analysis of poverty dynamics using panel data found that between 2007 and 2012 only about 30 percent of the population significantly improved their economic status and moved up in income**. About 12 percent of households at the bottom of the consumption distribution are trapped in chronic poverty, and as their economic situation worsened,13 percent of middle-class households moved down to the lowest quintiles of the consumption distribution.

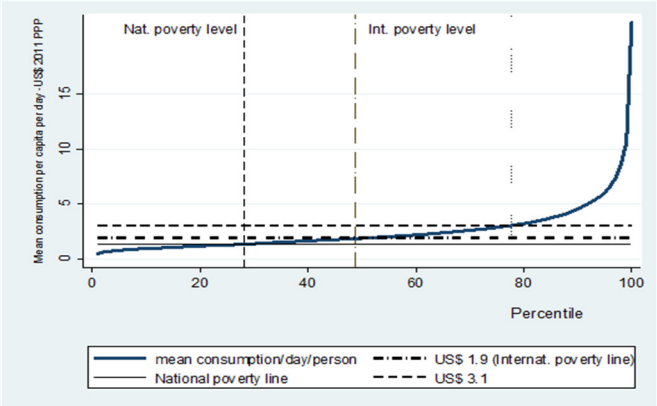
56. **Because a large share of the population is clustered around the poverty line, economic shocks or policy interventions could quickly push the poverty rate either up or down**.[13] About 30 percent of the non-poor population has a consumption level just above the poverty line, within a range of TZS 400 per adult equivalent per day, and is therefore at risk of falling back into poverty if there is an unexpected economic shock (figure 23). On the other hand, the 25 percent of poor

[12] The other components of the TASAF are labor-intensive public works to smooth consumption during the lean season and encourage beneficiary households to reduce negative coping strategies and avoid falling deeper into poverty, and livelihoods enhancement programs to encourage beneficiaries to move intoself-sustaining activities.

[13] Such clustering around the poverty line is common in SSA countries, where national poverty levels average about 30 percent. The pattern is ire similar for Zanzibar (see annex I).

people who live just below the line could move out of poverty if their income were to increase by TZS 400 per adult equivalent per day.

Figure 23. How a Change in the Poverty Line Affects the Poverty Rate



Source: World Bank Poverty Assessment 2015 (World Bank 2015f).

57. **The clustering around the poverty line translates into a significantly higher level of poverty by international standards.** Tanzania's national poverty line is slightly lower than the international line of US$1.90 per person per day in 2011 PPP.[14] Based on the international poverty line, about 48.8 percent of the population lived in poverty in 2012, which represents 20.6 million Tanzanians, which is one of the largest shares of the poor in a country's population not just in Africa but in the entire world. There is a 21 percentage point difference between the poverty rates based on international and national poverty lines, which represents 8.7 million people. This discrepancy is the consequence of a large share of the population being clustered around the national poverty line.

C. Inclusion and Human Development

***Key Points on Inclusion and Human Development*:** Since 2007, signs of pro-poor growth have been emerging, and poorer income groups have experience higher rates of consumption growth. However, there are widening geographic disparities in poverty reduction. Tanzania's Human Development Index improved considerably in the past 15 years; gains in health were the driving force but there were also robust gains in education. Since 2001 the life expectancy of Tanzanians has risen by 15 years. Access, completion, and equity in primary education have improved. To sustain its gains, Tanzania must now deal with problems of both access to and the quality of services as reflected in the Service Delivery Indicators (SDIs) and regional disparities in service availability. Population growth due to the high fertility rate is putting structural pressure on such dimensions as job markets and social service delivery. With a high stunting rate among children, malnutrition is a serious problem. The country must also deal with pervasive gender disparities in access to finance and land.

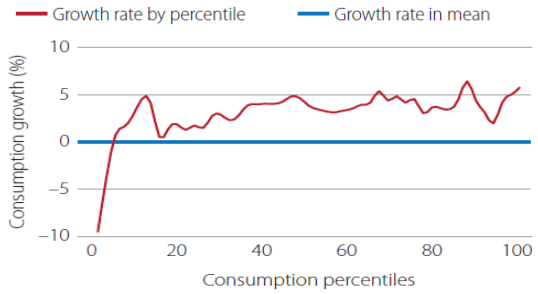
[14] The international poverty line, developed by the World Bank, is used to evaluate a country's poverty record in terms of other low-income countries or developing regions The TZS 36,482 basic needs poverty line translates into about US$1.4 per capita per day at 2011 PPP—in local currency about TZS 430 per adult per day, a lower level than the international poverty line.

In recent years Tanzania's growth has become more inclusive with bottom 40 percent experienced higher income growth rate than the richer groups.

58. **Poverty has become more responsive to growth since 2007.** The growth elasticity of poverty is estimated to have been –1.02 in 2007–12, which implies that a 10 percent increase in the growth of per capita GDP growth would bring down the proportion of people living in poverty by 10.2 percent.[15] This is in sharp contrast to 2001–07 (figure 24), when the growth elasticity of poverty was estimated at only –0.17.

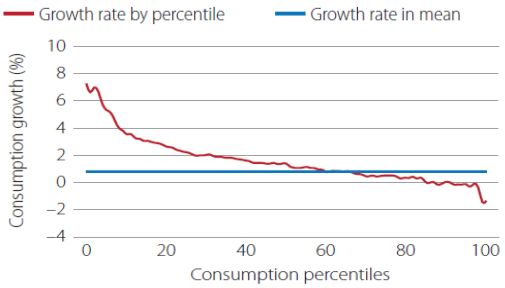
59. **Signs of pro-poor growth have been emerging.** The rate of consumption growth in 2007–2012 (figure 25) was higher among the bottom 40 percent than among the better-off, indicating that poorer households benefitted disproportionately from economic growth.[16] This pattern differs from 2001–07, when growth benefitted mainly the country's richer groups (figure 24). These positive results are, however, tempered by the limited absolute gains accruing to the poor given that their low baseline income. The additional consumption by the poor amounted to just TZS 4,000 per adult equivalent per month (about 10 percent of basic consumption needs).

Figure 24. Growth Incidence Curves, 2001–07



Source: Hoogeveen and Ruhinduka 2009.

Figure 25. Growth Incidence Curves, 2007–12



Source: HBS 2007 and 2011/12.

Although equality between income groups has increased, geographic disparities in poverty have actually widened recently.

60. **The incidence of poverty varies significantly across the country.** The poverty mapping analysis (figure 26) shows higher poverty rates for regions and districts in the South and West than elsewhere in the country.[17] Districts along the border seem to have higher poverty rates; the poorest districts are those bordering Mozambique, Zambia, and Burundi. Districts with the lowest poverty rates often overlap with national parks and game reserves, which are characterized by low

[15] When growth is measured by survey mean consumption, the response of poverty to growth is found to be higher, with an estimated elasticity of –4.

[16] As a result of this progress, in 2012, around one third of the bottom 40 percent were above the national poverty line and considered as non-poor, while in 2007 the bottom 40 percent were almost equivalent to the group of the poor.

[17] The poverty mapping exercise uses the HBS 2011/12 and the short questionnaire of the Population and Housing Census (PHC 2012) to produce welfare indicators and poverty estimates for geographical areas not covered by the HBS and not available in the census data. Using the high-quality expenditure data of the HSB survey and the geographical coverage of the PHC, the Poverty Map was constructed using the small area estimation methodology developed by Elbers, Lanjouw and Lanjouw (2003). The basic idea is to use detailed survey expenditure/income data to project welfare indicators into census records.

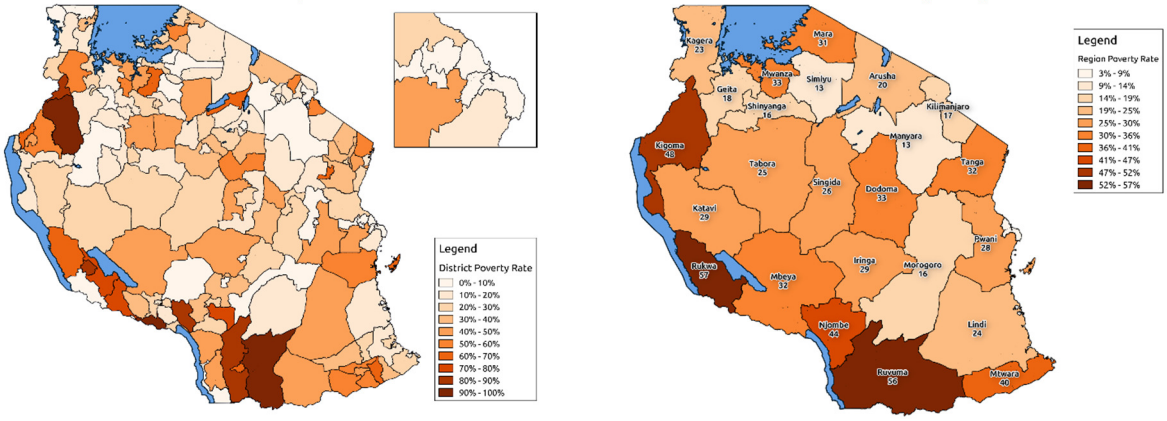
population densities and high tourism.[18] In Zanzibar, regions in Pemba have substantially higher poverty rates—47.7 to 69 percent—than those in Unguja, where poverty is lower than 26 percent.[19]

61. **The uneven decline of poverty meant that geographic inequalities widened.** While economic growth has benefitted the whole population, the nature and composition of this growth induced uneven improvements in regional welfare. Household consumption grew faster in Dar es Salaam and other urban zones than in rural areas. Increases in interregional inequality were observed for all income groups but were much more pronounced among the better-off.

62. **The persistent geographic inequalities are largely driven by differences in household characteristics, mostly due to the intergenerational transmission of poverty.** Urban households have higher living standards essentially because they have smaller families, more education, more assets, and better access to services and employment opportunities. Rural households have been able to partially catch up with their urban counterparts in terms of education and asset ownership, but this has been partly offset by increasing differences in family structure and access to services and job opportunities.

Figure 26. Poverty Map of Tanzania

(A) By District **(B) By Region**



Source: 2012 Population Census data.

Both human development outcomes and living conditions have been improving at the national level.

63. **Poverty reduction has been coupled with significant gains in human development outcomes and modest gains in living conditions.** The momentum of Tanzania's Human Development Index since 2000 has been positive.[20] Gains in health and education and in income have been robust (figure 27). The life expectancy of Tanzanians rose by 15 years between 2000 and 2014, reversing declines in the 1990s caused by HIV/AIDS and surpassing the peak of the mid-1980s (World Development Indicator database). Tanzania made some progress toward the Millennium Development Goals (MDGs; table 1). Access to electricity, clean water, and sanitation

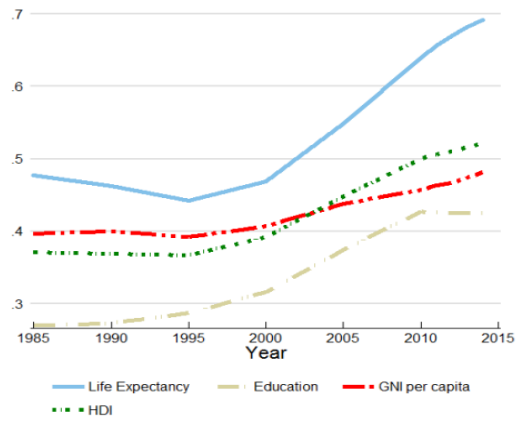
[18] For example, Simiyu region with the Serengeti National Park and Morogoro region with Selous Game Reserve and Mikumi National Park.

[19] HBS 2014/2015, Office of the Chief Government Statistician. See more details in annex I.

[20] The Human Development Index is a summary measure of achievement in human development across three dimensions: health, education, and standard of living.

improved (figure 28). Asset ownership has increased, as has access to social and financial services (see annex IV).

Figure 27. Trends in HDI and its Components for Tanzania, 1985–2015



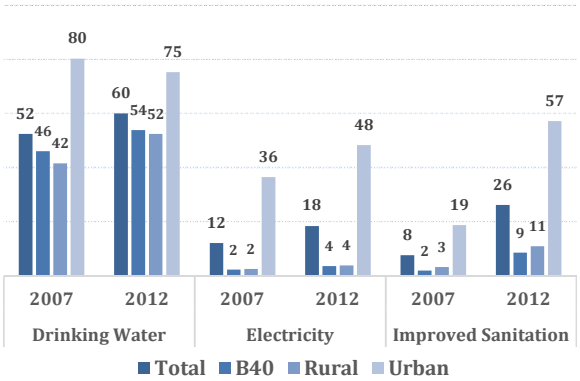
Source: Human Development Report 2015.

Table 1. Progress on Selected MDG Indicators

Indicator	Baseline (1990)	Target (2015)	Status (Year)
Net enrollment ratio in primary education (%)	54.2%	100.0%	89.7% (2013)
Ratio of girls to boys in primary school	0.98	1.00	1.02 (2016)
Under-five mortality rate (per 1,000 live births)	191	64	81 (2010)
Infant mortality rate (per 1,000 live birth)	115	38	51 (2010)
Proportion of children vaccinated against measles (%)	n.a.	90.0%	84.5% (2010)
HIV/AIDS prevalence 15-24 years (%)	6.0%	<6%	2% (2012)

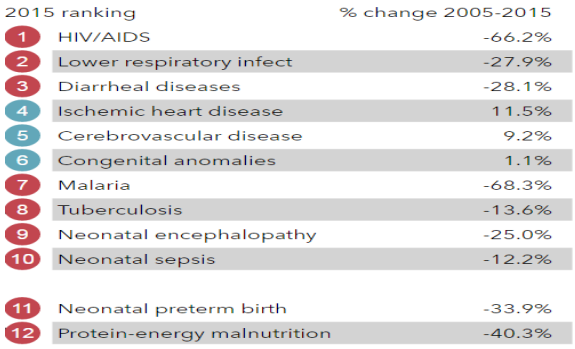
Source: Tanzania Household Budget Survey 2011/2012, Tanzania Demographic and Health Survey 2010, Basic Education Statistics in Tanzania 2013 and UNESCO summary, Tanzania HIV/AIDS and Malaria Indicator Survey 2011/2012, 2015 and 2016 Basic Education Statistics Tanzania (Ministry of Education, Science & Technology

Figure 28. Access to Basic Services



Source: HBS 2007 and 2011/12.
Note: Using WHO definitions, "drinking water" includes piped, public tap, protected dug well, and "improved sanitation" includes flush, ventilated, and pit latrines.

Figure 29. Tanzania: Top 10 Causes of Death in 2015 and Percent Change, 2005–15



2015 ranking		% change 2005-2015
1	HIV/AIDS	-66.2%
2	Lower respiratory infect	-27.9%
3	Diarrheal diseases	-28.1%
4	Ischemic heart disease	11.5%
5	Cerebrovascular disease	9.2%
6	Congenital anomalies	1.1%
7	Malaria	-68.3%
8	Tuberculosis	-13.6%
9	Neonatal encephalopathy	-25.0%
10	Neonatal sepsis	-12.2%
11	Neonatal preterm birth	-33.9%
12	Protein-energy malnutrition	-40.3%

Source: Healthdata.org
Note: Red indicates communicable, maternal, neonatal, and nutritional diseases, blue noncommunicable diseases.

64. **The solid performance in health is partly due to the rapid expansion of preventive and treatment services.** This has helped to prevent many deaths from communicable diseases and nutritional inadequacies. Adult HIV/AIDS prevalence is close to half of its 1997 peak. As access to antiretroviral therapy was scaled up, between 2005 and 2015 HIV/AIDS-related deaths fell by 66 percent (figure 29). The prevalence of malaria—a leading cause of death for Tanzanian children and mothers—has been declining. In the last decade, under-5 mortality was halved to below 50 per 1,000 live births. Reductions in child deaths can be attributed primarily to sustained high immunization coverage and more malaria prevention initiatives.

But there are persistent gaps between urban and rural areas in terms of access to basic services.

65. **Access to electricity in rural areas remains very low.** The Government has adopted the Rural Energy Act 2005 and has established Rural Electrification Agency (REA) to promote rural electrification through the Rural Electrification Fund. However, the pace of rural electrification has been slow. Based on the HBS 2012, only 4 percent of rural households were connected to electricity, only a slight increase from 2 percent in the HBS 2007 (figure 28). This is in a sharp contrast with the rapid expansion of electricity access in urban areas. The current rate of electrification in rural areas is estimated to be 7 percent as of 2015 (World Bank 2016g).

66. **Rural access to water and sanitation is also very limited.** Only about a half of rural population have access to safe water compared to three quarters of urban population (figure 28). For sanitation, only 11 percent of rural population have access to sanitation services while 57 percent of urban population have (figure 28). The limited rural access to water and sanitation is a serious constraint in improving health conditions in the rural areas, particularly among children.

There are also persistent human development challenges in health and nutrition.

67. **Nutritional deficiencies are relatively high among women and children.** Stunting fell by just 2 percentage points between 2004 and 2010 and still affects 42 percent of children under 5 (about 2.7 million), with the proportion reaching more than 50 percent in certain regions. Tanzania's burden of stunting is among the highest in SSA, and levels in the poorest households and in rural areas are almost double those in the wealthiest and urban households. Stunting is also higher among males and the male-female gap widened between 2004 and 2010. Child underweight is high at 16 percent, and micronutrient deficiencies are elevated among children, adolescent girls, and women. Among women aged 15–49, 2 in 5 are anemic and 1 in 10 are undernourished (Tanzania Demographic and Health Survey [DHS] 2010).

68. **Tanzania currently performs poorly in terms of some of the "best-buys" in nutrition,** particularly exclusive breastfeeding in a child's first six months, appropriate complementary feeding, deworming, micronutrient supplementation, and fortification of food with micro-nutrients. Only 3 in 5 households consume adequately iodized salt, leaving many unprotected from such effects of iodine deficiency as poor physical and mental development. And micronutrient intake is worse in rural and poor households.

69. **Inadequate and unequally distributed water and sanitation services contribute to persistent undernutrition**. Despite some progress, poor and rural households suffer from serious deprivation in access to clean drinking water and adequate sanitation (see figure 28), which heightens the risk of diarrheal disease and environmental enteropathy, inhibits nutrient absorption, and leaves children vulnerable to infections, stunting, and death.[21] Unimproved water and

[21] The odds of stunting at 24 months increases multiplicatively with each diarrheal episode and with each day of diarrhea before 24 months. The adjusted odds of stunting increase by 1.13 for every five episodes, and by 1.16 for every 5 percent unit increase in the proportion of time under diarrhea (longitudinal prevalence). (Checkley, W. et al. 2008).

sanitation are associated with higher rates of stunting among children under 5 (figures 30 and 31). They are also more likely to be stunted the worse the sanitation in their communities.[22]

Figure 30. Stunting by Wealth Status and Access to Improved Water

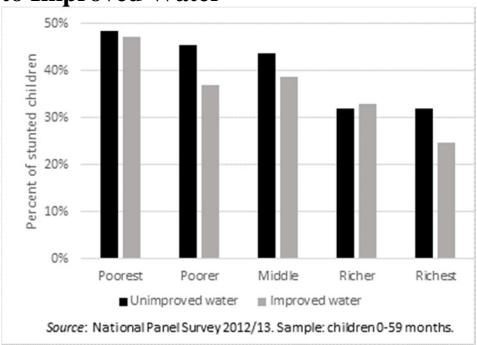
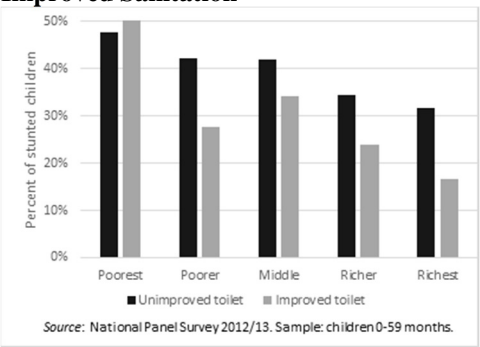


Figure 31. Stunting by Wealth Status and Access to Improved Sanitation



70. **Good nutrition early in life is critical for human development.** When they have been well-nourished, children become smarter, taller, and more productive and healthier adults. Improved nutrition increases the returns to educational investments through its positive effect on cognitive development and sets up children for lifelong health and higher productivity and earnings in the labor market (Heckman 2008, Alderman et al. 2001). In Tanzania, nonstunted children are more likely to start school on time—leading by about half a year—and complete almost a year more schooling than stunted pupils (Alderman, Hoogeveen, and Rossi 2009). Supporting healthy development in early childhood—a critical period for development—is one of the most cost-effective ways to build human capital compared to primary or subsequent schooling alone (Heckman et al. 2006).

71. **Progress in reducing maternal and neonatal mortality has been slow, reflecting the inadequacies of the health care system.** Although maternal mortality per 100,000 births was almost halved between 2005 and 2015, from 687 to 398, that is still far above its 2015 target of 193 and is almost twice as high as in lower-middle-income countries. Unlike the robust declines in under-5 mortality, between 2005 and 2015 neonatal deaths declined only modestly, from 26 per 1,000 live births to 19. In 2015, over half of deaths before a child's first birthday occurred within the first 28 days of life, pointing to deficiencies in both maternal health and the quality of care in the neonatal period.

72. **Inequalities in access to and utilization of maternal and child health services are closely linked to income and location.** Costs and distance to a health facility make it difficult for many Tanzanian women to access health care, and the problems are especially acute for those who are rural residents, of low socioeconomic standing, older, and divorced, separated, or widowed (DHS 2010). Only 3 in 5 births occur at a health facility or are attended by a skilled professional, and the urban-rural differential is substantial—4 in 5 urban women have skilled assistance compared to 1 in 2 for rural women (DHS 2010). Further, the odds of a maternal death in Tanzania resulting from direct obstetric complications rise sharply with a household's distance from the hospital (Hansen et al. 2015).

[22] Spears 2013, Fink et al. 2011, and Quattri 2015.

73. **In the health sector Tanzania suffers from input shortages and imbalances in the distribution of human resources.** Staffing is largely skewed in favor of urban areas and private facilities. Dar es Salaam, which represents 10 percent of the country's population, hosts 45 percent of its doctors; only 9 percent serve rural areas, where the vast majority of poor Tanzanians reside. Only 50 percent of health facilities have access to clean water, improved toilets, and electricity, and the urban-rural gap is immense—43 percentage points.

While Tanzania has made an impressive progress in terms of school enrollments, the quality of education is increasingly challenged with the learning outcomes remain at a low level.

74. **Tanzania has problems in education in terms of progression to higher levels.** Universal primary education is yet to be achieved, and education outcomes suggest that in any case quality is poor at all levels. Despite a marked increase in the net primary enrollment rate to 86.5 percent as of 2016, the completion rate remains low (73.7 percent as of 2013). Despite earlier gains, net secondary enrollment also remains low at 32 percent. Less than half of entrants are completing lower secondary school and enrollment in tertiary education is less than 4 percent—among the lowest in SSA.

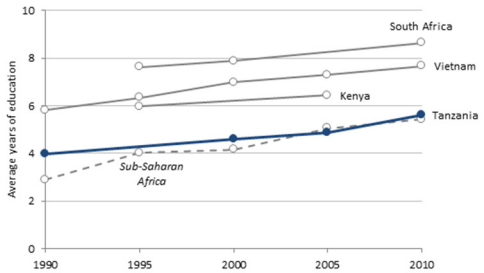
75. **Recent surveys show a worrisome sign of low learning outcomes in schools.** According to a recent Uwezo assessment of children in Standard 3 in 2012, only 26 percent were able to read Standard 2 level stories in Kiswahili, and only 44 percent were able to successfully complete Standard 2 level multiplication problems (Uwezo Tanzania 2013). These poor outcomes mean they have a weak foundation for further learning, particularly in science, mathematics, and management. At the secondary level, Form IV pass rates for Division III and above have fallen continuously since 2006 to almost 10 percent in 2012.

76. **The average Tanzanian worker is still at a low level of education attainment.** In fact, despite steady growth since 1990 average education in Tanzania, a common measure of the average skills of the workforce, is only five years (figure 32). Though that is about the SSA average, it lags behind other middle-income SSA countries, such as Kenya and South Africa. At the current pace, it would take Tanzania 45 years to attain an average of eight years of education. Just 6 percent of the working population has a secondary education and 5 percent a tertiary education. These are very low compared to Tanzania's economic competitors.

77. **The level of enrolment in higher education is low, the quality of the output is poor, and the level of relevance to market needs is weak.** While increasing, the rate of enrolment in higher education is still less than 5 percent, which is lower than most other SSA countries of similar levels of income. The demand for higher education is increasing rapidly with increases in the number of students graduating from Form VI. A variety of technical and higher education facilities need to be provided to build competencies among secondary school graduates and develop their skills that are relevant to the growing sectors of the economy.

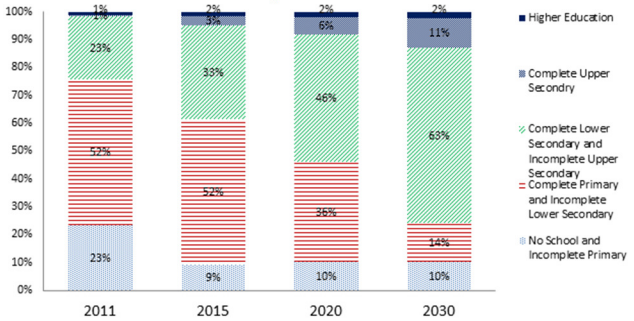
78. **Every year estimated 800,000 youths enter the labor market with limited educational attainments** (figure 33). By 2030 it is projected that each year 1.6 million Tanzanians will enter the labor market. There is thus a need to invest in building human capital and to promote economic activities in which substantial numbers of young people can find decent and productive employment.

Figure 32. Average Years of Education, Tanzania and Comparators



Source: World Bank 2015. "Skill Use, Deficits and Firm Performance in Formal Sector Enterprises: Evidence from the Tanzania Enterprise Skills Survey

Figure 33. Potential New Entrants into the Labor Market by Education Level



Source: Moreno and Tanaka, Education Attainment Projections for Tanzania, 2015.

The challenges in human development are evidenced in the quality of service delivery.

79. **In both education and health, rapid expansion of services is making it difficult to maintain their quality**. On any given day in 2012 one in four teachers was absent (table 2). On average pupils receive 2 hours 57 minutes of teaching a day—half the scheduled time. As for health care, on average, providers could not diagnose a third of such common conditions as malaria, diarrhea, and diabetes. Healthcare facilities lacked a third of the required critical life-saving drugs. Absenteeism is also prevalent among health workers, especially in urban areas. As a result, illness-induced costs put households at risk of falling below the extreme poverty line.

Table 2. Service Delivery Indicators (SDIs) 2014

Health		Education	
Caseload (per provider per day)	7.3	Teacher ability: Minimum knowledge (at least 80% in language and mathematics)	21.5
Absence from facility (% providers)	14.3	Teacher ability: Test score (language, mathematics, and pedagogy)	48.3
Diagnostic accuracy (% clinical cases)	60.2	Teacher effort: School absence rate	14.4
Adherence to clinical guidelines (% cases)	43.8	Teacher effort: Classroom absence rate	46.7
Management of maternal and neonatal complications (% cases)	30.4	Teacher effort: Scheduled teaching time	5h 54min
Drug availability (% drugs)	60.3	Teacher effort: Time spent teaching per day	2h 46min
Equipment availability (% facilities)	83.5	Availability of inputs: Observed pupil-teacher ratio	43.5
Infrastructure availability (% facilities)	50	Availability of inputs: Share of pupils with textbooks	25.3
		Availability of inputs: Minimum equipment availability (90% with pencils and notebooks)	61.4
		Availability of inputs: Minimum infrastructure availability	40.4
		Pupil learning: Test score out of 100 (language, mathematics)	40.1
		Pupil learning: Language test score	36.5
		Pupil learning: Mathematics test score	58.2

Source: Service Delivery Indicators.

The demographic transition has been sluggish with the fertility rate stubbornly high.

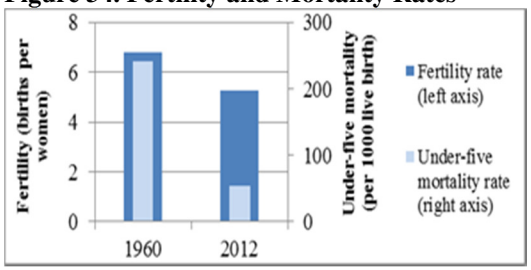
80. **Demographic change can profoundly alter the trajectory of economic development for the better.** However, in Tanzania the demographic transition—the transition from high birth and death rates to low rates—has been sluggish. Tanzania is still classified as a "pre-dividend country" according to the 2015/16 Global Monitoring Report (World Bank 2016a). While its death

rates have been steadily falling, high fertility (5.2 per woman) has prevented a decline in birth rates. Tanzania has one of the highest fertility rates in the world—in the 95th percentile globally—and one of the lowest declines in fertility. Moreover, although the fertility rate is 3.2 for the richest quintile, it is 7.0 for the poorest.

81. **Given the persistently high fertility rate, the demographic dividend is yet to materialize.** The dividend occurs when there are more economically active workers supporting fewer dependents, and the workers are saving more (mainly for retirement) and investing. The economic benefits of a growing labor force can only materialize if the economy can absorb the additional workers productively. The faster the reduction in fertility, the larger the demographic gains. Tanzania would only begin to gain from a demographic dividend starting in 2020–30. However, even if the fertility rate were to decline immediately, high population growth would persist for some time because more women will enter the reproductive age group as the fertility rate surpasses the replacement rate (figure 34).

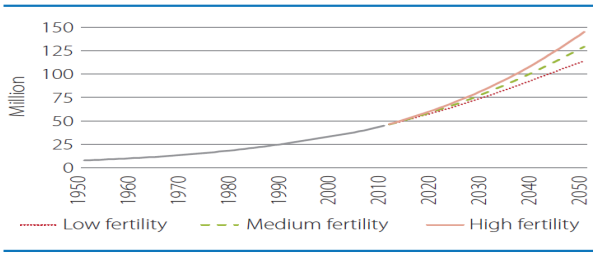
82. **Tanzania's high fertility rate and the resulting high rate of population growth can undermine pro-poor growth prospects.** With the population growing annually by 3 percent—slightly above the average of 2.7 percent for low-income and SSA countries—the country's population would double every 23 years, by 2040 reaching about 100 million (figure 35). Population growth, a youthful age structure, and fiscal and operational burdens will make it hard for Tanzania to deliver public services like education and health. There will also be pressure on labor markets to create productive jobs for new entrants. Rapid population growth increases the risks of land and resources shortages and can severely undermine per capita income growth. Empowering women through education and employment support and family planning services, would help to slow fertility and stimulate per capita economic growth.

Figure 34. Fertility and Mortality Rates



Source: Poverty Assessment 2015.

Figure 35. Population Growth Projection



Source: Poverty Assessment 2015.

83. **With rapid population growth and urbanization, there is a pressing need to Tanzania to create far more productive and decent jobs for the fast-growing workforce, particularly in urban areas.** Generating jobs for the 800,000 new entrants into the labor force every year is a problem for promoting inclusive growth. Because of the large and rapidly growing number of nonfarming businesses in urban Tanzania, unemployment is fairly low, but about 87 percent of workers are still confined to marginally productive nonfarm businesses and subsistence farming, which do not pay enough to alleviate poverty. Agriculture could absorb a significant portion of the new entrants if concerted efforts are made to improve earnings per worker, e.g., through more private investment. Improving the productivity of microenterprises via reduced transaction costs and a lower regulatory burden would also support creation of more decent jobs.

84. **With Tanzania's high rate of population growth and current demographic trends, environmental pollution will rapidly increase unless properly managed early on.** Problems such as solid waste, water and air pollution, and land contamination, are growing in importance, and typically impact the poor disproportionally. In Dar es Salaam, the growing vehicle park, together with road dust, industry and the domestic sector, contribute to increased air emissions. Improper treatment and disposal of solid and liquid wastes, especially in congested areas, bring additional risks to the most vulnerable. The combined results of these problems are that both air and water have been contaminated with pollutants, which are detrimental to human health. The knowledge basis in the country is still scant, and resources and expertise are needed at the National Environment Management Council (NEMC) to improve monitoring networks and data analysis.

85. **Tanzania's high fertility rate and particularly its rapidly growing youth population is putting upward pressure on social services, diluting their quality.** The outcome of surging demand for education and health services and the country's limited supply capacity are now posing challenges. Rapid urbanization and inefficiency in the parastatals that must provide social services also contribute to lowering service delivery in urban areas.

There are numerous remaining gender gaps.

86. **The gender-disaggregated poverty and development profile reveals that in some dimensions poverty has a woman's face.** For example, in 2011/12 the food poverty rate for female-headed households was 10.4 percent, compared to 9.6 percent for male-headed households. The 2010 Tanzania DHS found that 19.1 percent of women aged 20–24 had no education at all, compared with 10.5 percent of men. According to the 2014 Integrated Labor Force Survey (ILFS), the female unemployment rate was 12.3 percent and the male rate 8.2 percent.

87. **There are serious gender inequalities in the agricultural sector**. A recent study of maize markets in Tanzania highlights a number of differences between male and female maize farmers (World Bank 2016b). Female farmers tended to own smaller plots, and have less educational attainment, with more of them having none. Yields for women farmers were lower, likely because of less use of agricultural technologies. Female farmers relied more on hand hoes for preparing land; men were more likely to use improved technologies. Minimal use of improved seeds and fertilizer by women farmers also seems to have lowered their yields.

88. **Women mostly sell their maize to small traders at the farm gate.** This marketing approach is likely more accessible than others for women because they tend to perform the bulk of home-based chores and production activities. Sales made to larger traders were likely to have been made by men in locations away from the home. Men were also able to sell maize to institutions such as the National Milling Corporation, which offer better prices than small traders. However, such transactions can still cause farmers problems, such as delayed payments, lengthy lines, and the requirement to sell in bulk.

89. **There are large gender gaps in the profitability of household enterprises.** In the National Panel Survey (NPS) 2012–13, male-owned enterprises reported much higher net and gross profits than female-owned enterprises (figure 36). Median monthly profits for female-owned enterprises were TZS 56,600 (about US$35)—just 43 percent of male median profits (TZS

130,400, about US$82).[23] The gender gap in profitability has widened since 2010/11, a time when female entrepreneurs reported median profits equivalent to 47 percent of the profits of males.

90. **The profitability of female-owned household enterprises seems to be responsive to access to credit and level of education but limited access to communication and transport equipment lowers their profitability.** Female entrepreneurs were found to have less education and less access to formal credit—only 3.4 percent of them had accessed formal credit over a period of 12 months, compared to 5.7 percent of male entrepreneurs. Education and the receipt of formal credit are more positively correlated with the profits of female-owned enterprises than those of male-owned.[24] Female entrepreneurs also have limited access to productive assets and technology as well as access to market. They were less likely than their male counterparts to reside in a household that owned a cell phone (77 vs. 85 percent), owned motorized transport (8 vs. 18 percent), or had electricity (27 vs. 33 percent).

Figure 36. Profits of Male- and Female-Owned Enterprises

Source: NPS 2012–13
Note: Profits per month. Gross profits are defined as turnover before deduction of input costs.

91. **In terms of legal support for of gender equality, Tanzania has several significant gender gaps.** The intestate inheritance system often deprives women and girls of the opportunity to hold property and assets that could be pledged as collateral for loans. Unlike in Kenya and Rwanda, sons and daughters do not have equal rights to inherit assets from their parents (World Bank 2016b). For example, under customary law, regardless of age female children are third-degree heirs—inheritance rights belong first to the oldest son of the main house, then to other sons, before they are conferred on daughters—and their share of an inheritance is smaller than that of male heirs. Similarly, the rights of surviving spouses to inherit assets are not equal. Women also face tougher constraints in terms of access to land and particularly in rural areas still suffer from the strictures of customary law with reference to property and land rights.

92. **Several Tanzanian laws enhance women's rights, but they do little to protect women against sexual and domestic violence.** Tanzanian law addresses sexual harassment in the workplace but not in the education system or in public places, and Tanzania has no laws on domestic violence.[25] Domestic violence and sexual violence, which disproportionately affect

[23] Based on an exchange rate of 1,600 T Sh/$ in early 2013.
[24] Formal credit denotes that the business owner received a loan from a formal financial institution, including microfinance lenders, over the past 12 months.
[25] A husband is exempt from criminal penalties for rape when the wife is at least 15 years old, except when the couple is separated.

women, are prevalent; an estimated 2 in 5 women aged 15–49 have experienced physical violence at some point in their life and 1 in 5 has experienced sexual violence (DHS 2010).

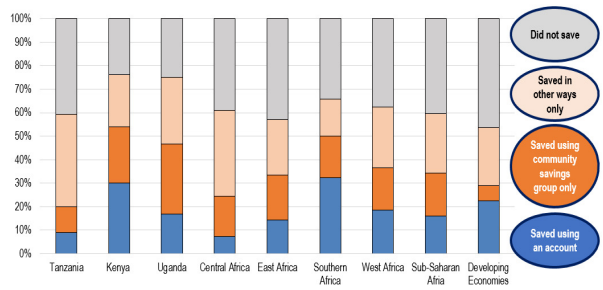
Mobile finance has grown rapidly but there are still unmet needs for financial inclusion among the poor and women.

93. **Thanks to mobile technology, access to financial services has improved considerably in recent years.** According to the nationally representative Finscope 2013 survey, the share of adult Tanzanians who are financially excluded fell by half between 2009 and 2013, from 55.3 to 26.8 percent—mostly thanks to the growth in microfinance institution (MFI) accounts, which rose between 2009 and 2014 from 1 percent of adults to 50 percent. The expansion of MFIs has been associated with a six-fold increase in access to nonbank formal services, cutting in half both financial exclusion and reliance on informal financing.

94. **Despite the recent growth, for the bottom 40 percent of households and micro- and small businesses, access to banks and formal financial services is still very limited and is almost nonexistent in rural areas.** While the access of the bottom 40 percent to informal financial services went up from 27 to 57 percent between 2007 and 2012, their access to formal banking declined from 6 to 4 percent (Financial Sector Deepening Trust 2012).

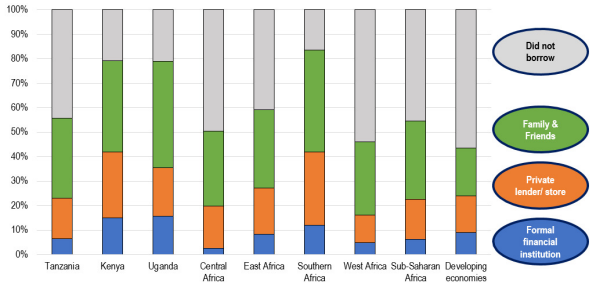
95. **Saving and borrowing in Tanzania are also largely informal.** According to Findex data, Fifty-nine percent of adults reported having saved in the past year, but only 9 percent of them saved using financial system accounts—fewer than in Kenya and Uganda (figure 37). There is also considerable informality on the investment side: 56 percent of adults reported having borrowed in the previous year, close to the SSA average, but only 7 percent borrowed from financial institutions, fewer than in Kenya and Uganda (figure 38). Small businesses depend heavily on informal financial services.

Figure 37. Method of Saving, Percent



Source: Global Findex data 2014.

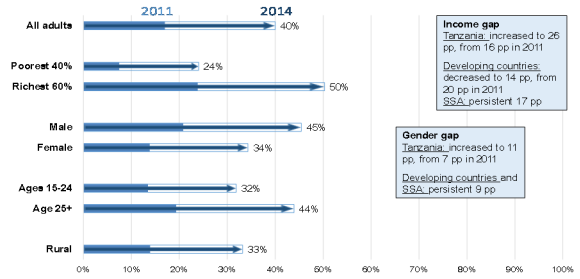
Figure 38. Method of Borrowing, Percent



Source: Global Findex data 2014.

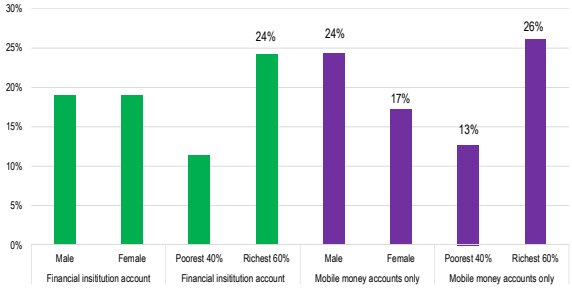
96. **Gender and income gaps have widened.** In 2014, 40 percent of adults had a bank account, up from 17 percent in 2011. However, between 2011 and 2014 the gap between men and women account owners went from a 7 to an 11 percentage point difference (figure 39), and the gap between rich and poor expanded from 16 to 26 percentage points. In fact, mobile money accounts, which have been driving the increase in account penetration, so far do not seem to be disproportionately helping adults traditionally excluded from the formal financial sector, such as the poor and women (figure 40).

Figure 39. Account Penetration by Type, Percent 2011–14



Source: Global Findex data 2014.

Figure 40. Mobile Account Only, Percent, 2014



Source: Global Findex data 2014.

D. Risks to Sustainability

Key Points on Risks: Climate changes, population growth, and poor governance of natural resources are exacerbating the depletion of nonrenewable resources. At the current pace of water depletion continues, in 10 years Tanzania will become water-stressed. Climate change is already causing problems: changing rain patterns are affecting a variety of sectors but especially agriculture and power. The deleterious effects on agriculture could also push up food prices and thus inflation. Among emerging global macroeconomic risks to Tanzania's economy are the fluctuations in world commodity prices and the slowing of Chinese economic growth, but there are also domestic fiscal risks to be dealt with, such as increasing arrears in the public sector, especially among state-owned enterprises and other parastatals.

Pressures on Tanzania's natural resources are heightening, with risks of depletion and emerging climatic variability.

97. **Tanzania's economy depends heavily on natural resource-based sectors like tourism (mostly nature-based), agriculture, fisheries, and mining.** Tourism in 2013 generated US$4.3 billion in revenues and US$1.7 billion in foreign exchange. The majority of the poor depend on natural resources for their livelihoods through agriculture and fishing. Small-scale fisheries—which account for 98 percent of total fish production—represent 1.3 percent of GDP and contribute up to 9.9 percent of fish exports. About 89 percent of the country's water withdrawals are for irrigation, which takes up 6 percent of the land but contributes 20 percent of agricultural production. As much as 90 percent of Tanzania's energy needs are served by water and wood fuels; a third of its power supply is generated by hydropower, and charcoal and fuel wood are the overwhelming source of energy for both urban and rural households.

98. **Tanzania's resources are coming under pressure as the economy and the population grow; per capita freshwater is declining at an alarming rate—**from 2,300 cubic meters in 2002 to 1,952 in 2014. This figure is projected to drop to 1,500 cubic meters by 2025, the level considered to be "water-stressed." Sustainability is a particular risk for water, forest, fishery, and wildlife assets. Environmental pressures on the three Great Lakes are growing (see box 1). With the growing pressure on hydraulic reserves, how to allocate water between agriculture, power generation, and natural habitats is a critical policy choice. Illegal harvesting and poaching has caused a dramatic plunge in wildlife populations, threatening Tanzania's biodiversity. Increasing

anthropogenic pressures from habitat degradation, unsustainable fishing techniques (e.g., dynamite) and rapid deforestation are further undermining the country's unique assets.

Box 1. Tanzania and the Great Lakes

Lakes Victoria, Tanganyika, and Nyassa have some of the world's greatest variety of endemic fish species. They are also prime examples of population and economic pressures on natural resources in terms of both heavier pollution loads within the basins and direct pressure on the fisheries all three lakes sustain. The lakes also have a wider importance in the large-scale development of the country's water resources, which will only be possible if international integrated water resources are better managed. The lakes offers opportunities for enhanced agricultural production and improved access to sanitation services—both necessary for Tanzania.

99. **Resource depletion is exacerbated by both governance issues and increasing climatic variability**. Tanzania's rich untapped resources offer opportunities for private as well as national and foreign investment, but they also tempt corruption and rent-seeking. Climate change can be a risk multiplier, intensifying pressure on water, energy, and food resources, which would heighten societal vulnerability. And climatic variability (box 2) is already causing problems for the natural resource base. A rise in sea level could have a devastating impact on the landscape and livelihood of Mainland coastal areas, Zanzibar, and other islands.

100. **Climatic variability generates significant economic costs because Tanzania depends on climate-sensitive activities.** About 70 percent of current natural disasters in Tanzania are associated with climate change, and the economy is increasingly affected by prolonged droughts, severe storms and floods, and rising temperatures, costing more than 1 percent of GDP. Current annual weather-related losses in agricultural productivity are estimated to be at least US$200 million (World Bank 2013). A 2°C rise in temperature could reduce maize yields by 13 percent and rice yields by over 7 percent (Manneh et al. 2007). Higher temperatures are also likely to worsen the stresses on water resources.

Box 2. Climatic Variability in Tanzania

Across Tanzania's complex landscape the climate varies considerably, from tropical at the coast to temperate in the highlands; the two predominant precipitation regimes average annual rainfall of 600–800mm. The impacts of climate change differ across these areas, with unpredictable variations in when rainy seasons begin (particularly in the south) and seasonal fluctuations. Rainfall is likely to become heavier, particularly in the Lake Victoria basin, coastal areas, and the northeast highlands. Other places, particularly many arid and semiarid areas, are likely to experience less rainfall. Climatic conditions are predicted to continue worsening, with temperatures rising by 1–3°C in the next 50 years, more warming during the dry season and in interior regions, more volatile precipitation, higher drought risks, more frequent and more severe floods, and rising sea levels threatening coastal livelihoods and assets.

101. **Poor and vulnerable groups that rely on rainfed agriculture are particularly susceptible to adverse climatic events, so is the power sector.** Besides the effects on agriculture and food security, climate variability undermines prospects for growth and poverty reduction through its effects on energy supply and demand, human health, water and natural resources, and ecosystem services. The power sector experienced major power shortages in 2005 and 2011, both due to poor rainfalls which reduced hydropower generation.

102. **There are also many second round impacts stemming from negative impacts on agriculture and power through value chains.** For example, given the large weight of food items

on the consumer price index (CPI), climatic variability impacts local inflation. Manufacturing, particularly agro-processing industries are affective negatively for poor agriculture production (raw materials) and power generation (energy source) (Ngowi 2016).

103. **As the cost of adapting to climate change continues to rise, deferring climate adaptation activities will be increasingly expensive.** Tanzania's costs of adaptation are estimated at about US$ 500 million annually and by 2030 could hit US$1 billion annually (World Bank 2015h). Recognizing the looming risks, Tanzania in 2013 adopted the National Climate Change Strategy (NCCS) and Zanzibar launched its Zanzibar Climate Change Strategy (ZCCS). Although these are moves to integrate climate change into development planning, much work must still be done to clearly identify priority investments in building up Tanzania's resilience to climate change in order to leverage and channel climate finance more strategically.

104. **The Government of Tanzania has identified priorities for both mitigation and adaptation.** In its Intended National Defined Contribution (INDC) to the United Nations Framework Convention for Climate Change 21st Conference of Parties (COP21) in 2015, Tanzania committed to supporting adaptation activities in water, agriculture, health, land use, land change and forestry, the environment, energy, and urban and social development—recognizing that it needs to build capacity. Tanzania specified coastal areas, transport, and tourism as priorities for support (see annex V).

Tanzania's macroeconomic risks are both external and internal.

105. **While the economic outlook is generally positive, Tanzania will see numerous macroeconomic and fiscal challenges in the medium term, related especially to fluctuations in commodity prices and the slower and rebalanced growth of the Chinese economy.**

- **A major external risk is slower-than-expected economic growth in Tanzania's major trading partners, China in particular.** Evidence suggests that if growth in investment in China falls by 1 percentage point, Tanzania's export growth would drop by 0.6 percentage point (World Bank 2016c). Briefly, a slowdown in the economies of China and its other trading partners would depress external demand for Tanzania's exports, reduce investment flows, and undermine its economic growth and external sustainability.

- **A generalized economic slowdown in emerging markets could also push down primary commodity prices, with important consequences for Tanzania.** For example, according to the World Bank commodity price database, the drop in the natural gas price (2010=100) from 103 in October 2014 to 46 in March 2016 has delayed the final investment decisions of investors in liquefied natural gas (LNG) development in Tanzania. While commodity prices have been gradually recovering since early 2016, their possible fluctuation adds more uncertainty to the macroeconomic outlook.

- **External risks could also arise from changes in policies and economic conditions in developed or emerging economies other than China.** In particular, adverse shocks to capital inflows, for example, from normalization of U.S. interest rates or negative spillovers from other emerging economies, could also have serious effects on Tanzania's

economy, given is dependence on such flows and its burden of foreign currency-denominated debt.

106. **Although there is very little Tanzania can do to control the exogenous risks, it can put in place measures to mitigate their adverse impact.** They include: (i) a careful mix of monetary and fiscal policy; (ii) structural reforms to stimulate investment, improve private sector competitiveness, and raise labor force participation and employment rates through fiscal and labor market reforms; and (iii) where fiscally affordable, expanding and strengthening social assistance programs to help protect the poor if the external risks do occur.

107. **Internal sustainability risks revolve around fiscal sustainability.** They arise from the low revenue-to-GDP ratio, the significant accumulation of public sector payment arrears in recent years, and rising public debt.

- **Despite vigorous efforts by the current administration, domestic revenue is still relatively low.** The Government's efforts to mobilize more domestic revenue, including monitoring closely the performance of the Tanzania Revenue Authority (TRA) and the Tanzania Ports Authority (TPA), have met with considerable success. Performance accelerated enough in the second two quarters of 2015/16 that domestic revenue achieved the target for the year. Because each tax type performed as expected, domestic revenue edged up from 13.5 percent in 2014/15 to 14.5 percent of GDP in 2015/16. Even at that level, however, domestic revenue as a ratio to GDP is still lower than the low-income country (LIC) average (figure 41).

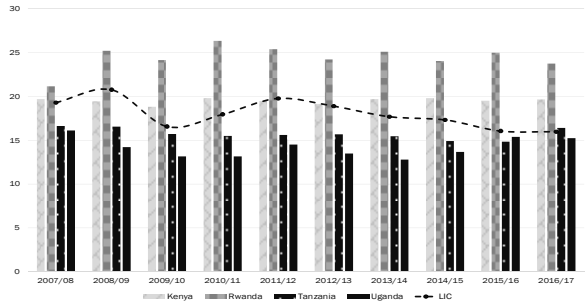
- **For the Government and the public sector as a whole (including parastatals) payment arrears are significant.** Although revenue collection has risen significantly since November 2015, progress on clearing arrears has been slow (figure 43). Arrears to contractors and other suppliers, pension funds, and SOEs, among others, were 6.3 percent of GDP (equivalent to about TZS 6.5 trillion) as of June 30, 2016, only about 0.2 percent of GDP lower than a year earlier. The apparent stagnation conceals a significant reduction in arrears to contractors and other suppliers because it was mostly offset by the rising arrears of state-owned enterprises (SOEs), especially Tanzania Electric Supply Company (TANESCO)'s to suppliers. Arrears to pension funds held steady at 3.3 percent of GDP, pending Government issuance of non-cash bonds to clear arrears verified. It is urgent that the Government clear these arrears to help restore budget credibility and the confidence of suppliers and potential new investors, especially in infrastructure.

- **Domestic debt has grown in importance relative to external debt, as have shorter-term and more expensive instruments.** Domestic public debt accounts for 8 percent of total debt; it is mainly composed of Treasury Bonds held by commercial banks. However, between September 2015 and 2016, domestic debt went up 22 percent year-to-date, while external debt grew only 5 percent. The share of longer-term instruments (Treasury bonds) continued to decline, from 70 percent to 62 percent year-on-year, reflecting weaker performance in debt auctions and the rising cost of debt service. Unfortunately, growth of credit to the public sector carries a risk of crowding out financing for more productive uses by the private sector.

- **Although Tanzania is low risk of debt distress, ambitious borrowing plans make it important to monitor and manage its debt effectively.** Public debt has risen by 10 percentage points since 2010/11, reaching 37 percent of GDP in 2015/16; this is on par with most comparator countries and still manageable. The increase in external debt (figure 44) has in part been attributed to the dwindling of official development assistance in recent years, which meant that Tanzania has been turning instead to nonconcessional external borrowing (figure 42). Although the country's debt distress level based on the World Bank-International Monetary Fund (IMF) Debt Sustainability Analysis (DSA) in July 2016 is low, the very fact that about 29 percent of it is external makes Tanzania vulnerable to exchange rate risks and lack of fiscal consolidation. The rise in external debt tracked the fall in external concessional aid, which has been declining steadily over the past 10 years (figure 42). And with the high cost of borrowing, debt service is squeezing the fiscal space.

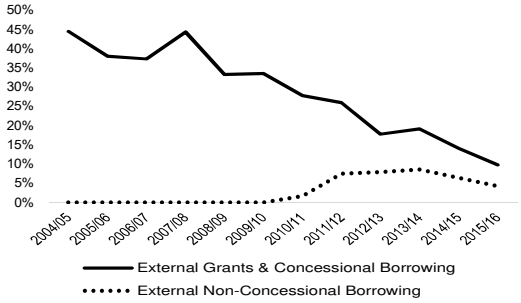
108. **Mitigating internal macroeconomic risks will require a greater tax revenue effort, firmer fiscal management to limit arrears and limit the growth of public debt, and improved government capacity to address development needs through better execution of the public investment contemplated in FYDP II.**

Figure 41. Government Domestic Revenue, Percent of GDP



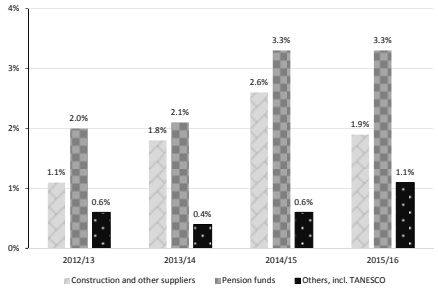
Source: IMF, Fiscal Monitor Database 2016.

Figure 42. External Aid and Nonconcessional Financing, Percent of Total Expenditure



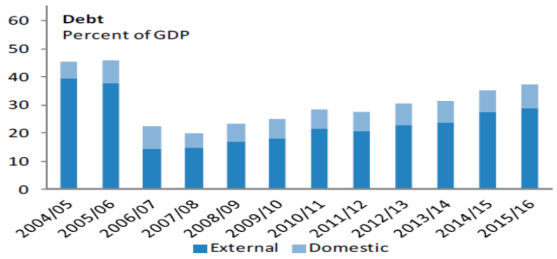
Source: Government of Tanzania, World Bank.

Figure 43. Public Sector Arrears, Percent of GDP



Source: Government of Tanzania, World Bank.

Figure 44. Composition of Public Debt, Percent of GDP



Source: World Bank-IMF DSA 2016.

IV. PATHWAYS TO REDUCED POVERTY AND SHARED PROSPERITY

A. Pathways for Tanzania

109. **In the past 10 to 15 years Tanzania's growth, poverty reduction, and inclusion achievements have been solid, but the country still has much to do to reach the level of development envisioned in TDV 2025.**[26] For growth of per capita income is to accelerate, the economy needs to grow faster than the population. Despite relatively stable and high growth and progress in poverty reduction, this diagnostic found that the economic growth was not necessarily creating jobs and many Tanzanians are still poor. Sequential economic transformations are necessary to speed up growth and poverty reduction.

110. **Given its unique characteristics, of particular relevance for Tanzania are structural transformation, to leverage its resources, and spatial transformation, to leverage its geographic advantages.** Tanzania's rich resource endowments offer high potential for diversification and productive upgrading. Sociopolitical stability also attracts FDI, which would enhance productivity by bringing in capital, technology, and know-how. Tanzania's advantageous location can help foster Tanzania's economic integration both internally and regionally.

111. **Economic transformation is needed to promote more inclusive growth.** The diagnostic of growth, poverty, and inclusion in Tanzania (chapter III) pointed to the need to look for more paths to inclusion. Despite recent achievements, there are still gaps in rural access to services. Geographic disparity in poverty reduction is emerging. Microenterprises could be empowered to raise productivity. Since agriculture is the mainstay of the vast majority of the poor, it needs to be made more productive. Rural-urban divides in terms of poverty reduction and access to services need to be narrowed. Gender gaps remain; despite the recent growth in mobile finance, access to land and finance for female entrepreneurs is still limited.

112. **Building the capacity of public institutions is critical.** Sociopolitical stability has allowed Tanzania to preserve its institutions, but the shift from socialist to more market-based institutions has been gradual. In the meantime, those institutions are confronted with pressures from multiple sources, such as population growth, declining aid, and limited growth in domestic revenue.

113. **Therefore, this SCD identifies three linked and mutually reinforcing pathways of transformation: structural, spatial, and institutional** (figure 45). Each is discussed in detail in what follows.

- **Structural transformation**: As an economy endowed with natural resources and abundant labor Tanzania can accelerate structural transformation by harnessing its resource wealth and building economic links between natural resources and higher-productivity activities. Its abundant labor can also be leveraged to promote competitiveness by building skills to raise labor productivity. Transformation strategy can be built around leveraging the country's assets to enhance productivity and diversify natural resource–based and labor-

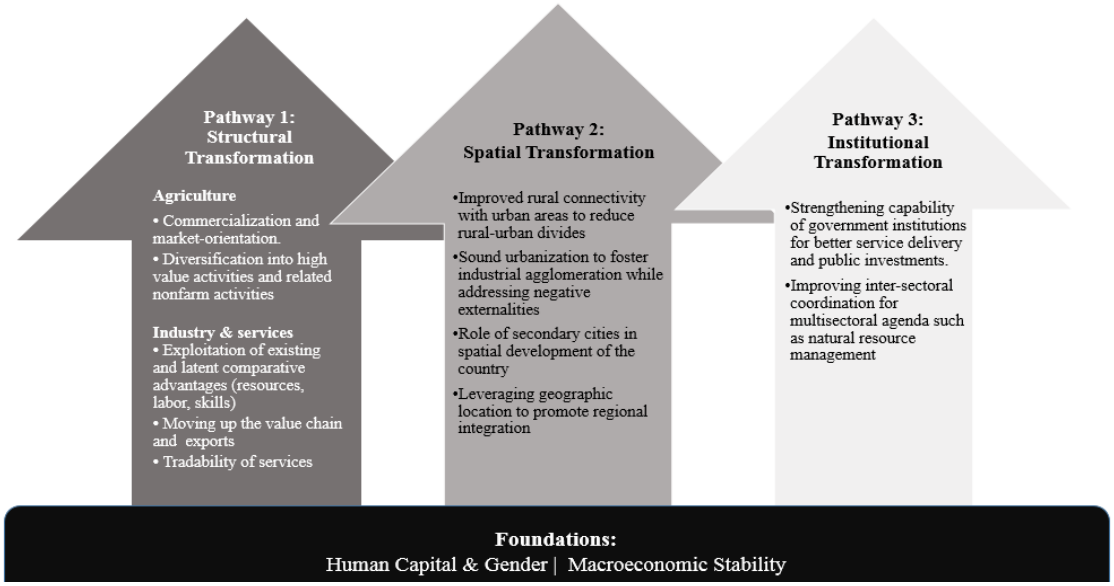
[26] TDV 2025 envisions Tanzania as a middle-income country in 2025, characterized by high-quality livelihoods; peace, stability, and unity; good governance; a well-educated and learning society; and a competitive economy capable of sustainable growth and shared benefits.

intensive sectors like agriculture, light manufacturing, and tradable services while upgrading capabilities to move up the development ladder, such as capacity to export.

- **Spatial transformation:** Tanzania can also leverage its geographic advantages as a coastal economy bordering eight other countries, six of which are nearly or completely landlocked. Regional economic integration with them would enable Tanzania to benefit from wider access to markets, seize opportunities to be a regional hub, and advance its economic transformation. Such structural change is usually accompanied by rural-urban transformation and better connectivity within the country and across the border, which would boost local economies and foster industrial agglomeration and economic integration.

- **Institutional transformation.** As the country develops to a higher level, the capability of institutions matters more. If Tanzania is to move to the next level, government institutions need to be more efficient and more effective so that they can deliver better-quality services and public investments. To drive economic transformations, these institutions must also ensure a sound operating environment for the market and the private sector.

Figure 45. Pathways for Poverty Reduction and Shared Prosperity



114. **Growth and poverty reduction through those three pathways can be sustained by building solid foundations of human capital and gender equity and macroeconomic stability**.

- **Human capital and gender equity**: Productivity growth depends on human capital. As the diagnostic suggests, the quality of Tanzania's human resources is worrisome despite past human development gains. The magnitude of stunting affects both the cognitive skills of very young children and their future productivity. Entrepreneurial capacity to raise productivity and government capacity to deliver services are ultimately about building human capability to manage and innovate. In all those aspects, it is crucial to emphasize gender equity and the importance of building the human capital, and thus the contribution, of women.

- **Macroeconomic stability**. While Tanzania has had a good track record of success in maintaining macroeconomic stability, it cannot be taken for granted that this will continue. In fact, assuring macroeconomic and financial stability is central to protecting the income and wellbeing of the less well-off and creating the basic conditions for private investment, growth, and shared prosperity. No enhancement of growth or shared prosperity can be expected without macroeconomic stability—and in that sense this is a foundational step that is necessary for other reforms to work.

B. Structural Transformation

115. **The structural transformation pathway will accelerate growth through improving overall productivity by reallocating resources to more growth enhancing sectors.** For Tanzania the process will require both transformation within agriculture through fostering commercialization and economic diversification from agriculture to tradable and modern manufacturing and services. The movement of resources toward new and more productive activities will help increase general productivity. It can also generate higher-value agricultural products for both domestic and export markets.

116. **It will promote inclusiveness of growth by emphasizing creation of productive jobs through agriculture and job-creating industry development.** Previous extensive analytical work leads to the conclusion that to address both growth and poverty reduction, Tanzania must create more productive jobs.[27] The emphasis on agriculture-based structural transformation through transformation of the agriculture sector itself, where the majority of poor households are dependent on, as well as through agro-based industrialization (agro-processing manufacturing) also enhance job creation. A successful structural transformation can create both more jobs of higher quality and compensation and higher-value chains.

117. **Its focus on job creation also address sustainability of growth and poverty reduction so does its emphasis on sustainability of natural resources.** Agriculture-based and resource-based structural transformations will expand opportunities for poor households who are dependent on agriculture and natural resources (e.g., livestock, fishery, forestry, artisanal mining) to participate in value chains thereby raising their income earning opportunities. This will make the previous achievement in poverty reduction, which is partly based on financial transfers (see chapter III), to become more resilient to external shocks. The pathway also contributes to sustainability of growth and poverty reduction by internalizing measures to address sustainability of natural resources, which will face more competing demands through the transformation.

118. **As the driver of economic transformation, the private sector has a crucial role in sustaining growth and poverty reduction through job creation.** Substantial reforms are required to balance the roles of the Government and the private sector and bring the latter into the center of development. The priority for the Government is to provide a sound operating environment for the market to operate through improvements in the business environment, including reducing regulatory burdens, and fostering more competition, as well as policies and investments to remove infrastructure bottlenecks in energy and transport, which are constraining

[27] The ILO definition of productive employment used here refers to jobs yielding sufficient returns to allow workers and their dependents a level of consumption that is above the poverty line.

competitiveness of domestic industries. A concerted effort is important to strengthen the public-private dialogue and improve the predictability in enforcing regulations.

There are signs of structural transformation as labor shifts from agriculture to industry and services.

119. **While the sectoral composition of GDP has been relatively unchanged for the past decade, labor has been gradually shifting from agriculture to industry and services.** Between 2006 and 2014, 2.1 million of the 3.4 million jobs created were in services; agriculture accounted for only 0.6 million and industry for 0.7 million (table 3).

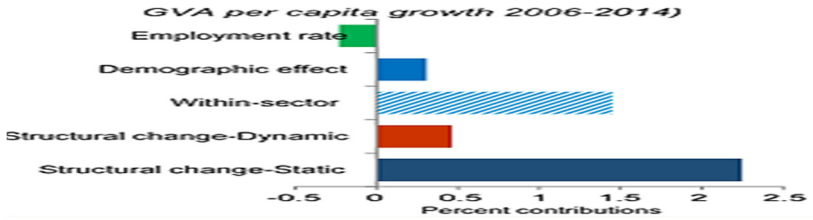
Table 3. Employment and Labor Productivity by Sector

	Employment by Sector, Percent of Total			Employment by Sector. Percent of Annual Growth			Value-Added per Worker, Constant TZS Millions		
	2001	2006	2014	2000–2006	2006–2014	2001–2014	2001	2006	2014
Agriculture	82.4	76.5	66.9	1.0	0.7	0.8	0.48	0.55	0.71
Mining	0.2	0.5	1.1	44.7	19.8	56.7	20.64	10.15	6.15
Manufacturing	1.6	2.6	3.1	17.1	5.3	12.6	5.03	3.88	4.99
Utilities	0.1	0.1	0.2	3.9	11.7	10.1	26.38	26.80	19.62
Construction	1.0	1.1	2.1	4.5	17.0	14.6	6.81	10.47	10.13
Commerce	9.7	9.6	16.6	2.5	13.5	10.3	1.39	1.73	1.42
Transport	0.7	1.5	2.8	25.0	15.8	31.5	12.69	8.45	7.58
Finance	0.2	0.1	0.3	-6.1	30.8	10.8	14.08	35.29	27.78
Other services	4.2	8.1	7.0	23.6	0.6	9.9	7.77	4.63	6.73
Total	100	100	100	6.13	6.29	6.23	1.18	1.42	1.94

Source: Integrated Labor Force Surveys 2001, 2006, and 2014.

120. **The shift away from agriculture has pushed up average labor productivity.** As table 3 shows, average value-added per worker has been rising since 2001 because labor has moved from less productive agriculture to more productive industry and services. Static structural change—productivity growth due to shifts from sectors with below-average to those with above-average productivity—has been shown to be the largest contributor to growth per capita (figure 46). However, the contribution of dynamic structural change was relatively modest.[28]

Figure 46. Shapley Growth Decomposition 2006 –2014



Source: Haile 2016 b.

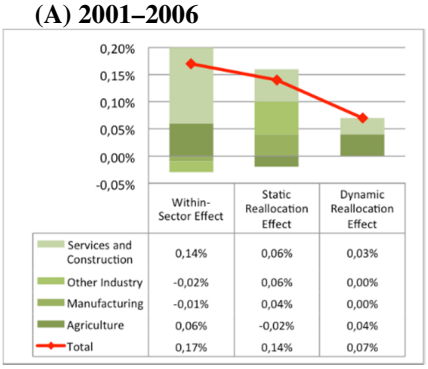
However, labor is shifting mainly to informal and nontradable services without raising productivity growth within the sectors.

[28] Dynamic structural change is defined as productivity gains from labor relocation from sectors with below-average productivity growth to those with above-average productivity growth.

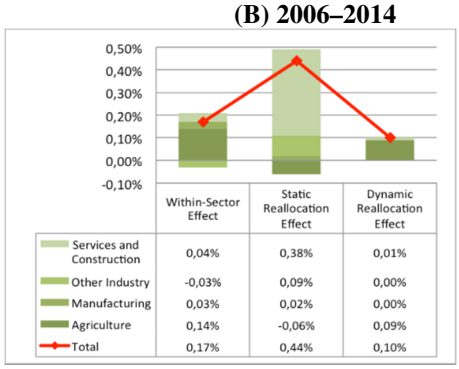
121. **Reallocation of labor has not brought significant productivity growth within sectors.** Figure 47 shows the results of labor productivity decomposition for 2006–14. The modest productivity growth between 2001 and 2006 can be traced to both static reallocation gains and the within-sector effect. The within-sector growth has been due mainly to gains in the services sector. During the more recent period of 2006–14, productivity growth was primarily attributable to static structural change as workers moved from agriculture to services. In fact, wholesale and retail services, where most of the jobs were created, saw very little within-sector increase in labor productivity.

Figure 47. Decomposition of Labor Productivity Growth, Percent

(A) 2001–2006



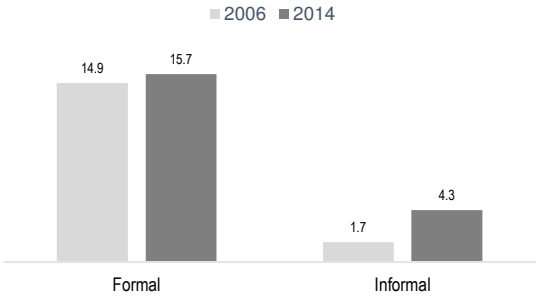
(B) 2006–2014



Source: Integrated Labor Force Surveys 2001, 2006, and 2014.

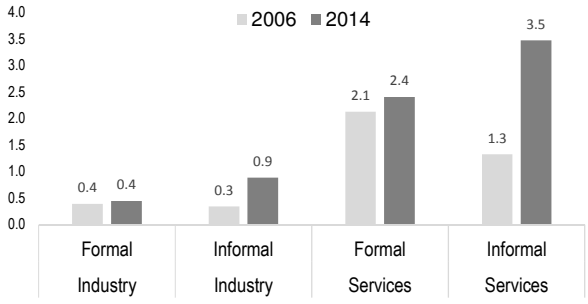
122. **In fact, labor expansion in services was largely in nontradable services, through growth in informal employment.** In 2014, 4.3 million workers were employed informally, up from 1.7 million in 2006 (figure 48). In other words, about 80 percent (2.6 million) of the jobs created between 2006 and 2014 were informal, mainly in wholesale and retail services (figure 49). The pattern of structural change is characterized by the absence of labor movement to high-productivity sectors, unlike in the historically fast-growing Asian economies that saw labor shift rapidly from agriculture to manufacturing (McMillan et al. 2014; Timmer et al. 2014).

Figure 48. Trends in Employment, Formal and Informal



Source: Integrated Labor Force Surveys 2006, and 2014.

Figure 49. Formal and Informal Jobs in Services and Industry



Source: Integrated Labor Force Surveys 2006, and 2014.

With rich agricultural resources, Tanzania has an opportunity to drive agriculture-based structural transformation by heightening agricultural productivity.

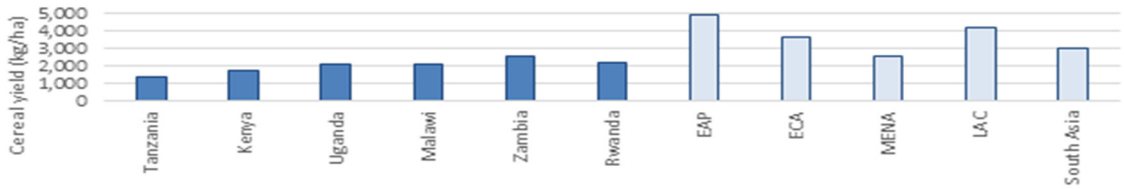
123. **Agriculture continues to be critical to growth and inclusiveness.** Tanzania has huge potential for greater agricultural production and productivity. Agriculture already accounts for

about 33 percent of GDP, provides about 47 percent of exports, and employs about 70 percent of the work force.[29] As the largest employer in the country, it is an entry point for job creation and poverty reduction. Agriculture has also a growth multiplier effect on other sectors and contributes to food security and ultimately to labor productivity (De Janvry and Sadoulet 2010).

124. **Currently, small-scale and subsistence farming dominates agriculture in Tanzania.** According to the most recent census of agriculture in 2007/08, small-scale farms occupy 91 percent of total farmland, with farm size averaging about 2 hectares. Smallholders mainly produce staples, which constitute over 60 percent of their income, but also grow cash crops, mainly cotton, cashew nuts, bananas, and coffee, though their sale brings in only 10 percent of their income. Beyond crop production, about 40 percent of smallholder households engage in livestock, fishing, and forestry production, which constitute about 9 percent of their sales.

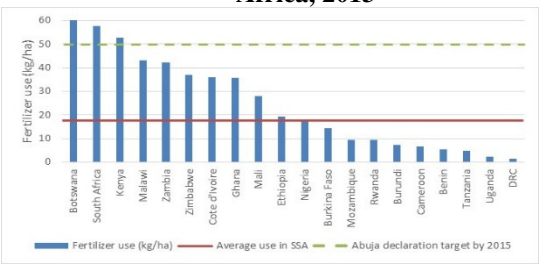
125. **Due to underused capacity and low productivity, agriculture is underperforming.** Growth in agriculture, averaging 4 percent a year for the last decade, was far lower than in the rest of the economy. The lag can be linked to untapped potential: two-thirds of the land suitable for agriculture is still underdeveloped and the vast network of inland water bodies could be harnessed to support irrigation (World Bank 2014). There is still considerable informality, and most villagers—80 percent of the rural population—lack security of tenure (World Bank 2015d). Also, both land and labor productivity are below international levels. Cereal yields have been stagnant since 1990 at an average of 1.4 metric tons per hectare (mt/ha), which is lower than regional peers (figure 50). One factor limiting productivity is the minimal use of quality inputs, essentially fertilizers and improved seeds, and modern technology (figures 51 and 52). Land, knowledge (research and development), climate resilience, and market distortions through nuisance taxes also limit agricultural productivity, as is discussed later and in annex VI.

Figure 50. Cereal Yields, Tanzania, Neighbors, and International, 2013



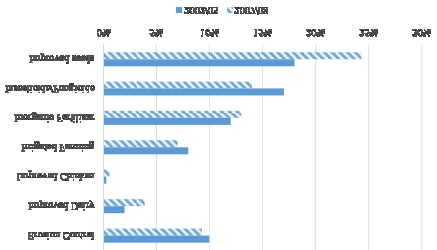
Source: World Development Indicators.

Figure 51. Fertilizer Use, Selected Countries in Africa, 2013



Source: World Development Indicators.

Figure 52. Smallholder Use of Improved Technology, 2007/08, Percent



Source: National Sample Census of Agriculture 2007/08.

[29] World Development Indicators and the International Trade Center.

126. **Tanzania can build a technically modern, competitive, dynamic, and interconnected agricultural sector through structural transformation.** To maximize the potential of agriculture to reduce poverty will require structural transformation of the agricultural sector and building an agro-processing industrial base while improving the value chain. Agricultural development policy should also encourage women and youth (United Republic of Tanzania 2015).

127. **The livestock and fisheries sub-sectors should be incorporated into agriculture-based structural transformation**. Not only does Tanzania have fairly extensive livestock and fishery resources, tourism and population increase have given it a robust domestic market for meat, dairy, and fish, which are also in demand in regional markets. The sector needs improved stock management practices, more modern equipment, more knowledge of sustainable production practices, and investment in transport, storage, and processing facilities.

Agricultural productivity can be boosted through sustainable intensification.

128. **Heightening agricultural productivity will depend on better resource management, enhanced access to quality inputs and technology, local research and development, land reforms, and financial inclusion** (box 3).

Box 3. Key Factors for Agriculture Intensification

Better resource management. Improved land management techniques usually involve enhancing the fertility of cultivated areas through crop rotation, increasing the organic content of soils, leaving land fallow, using cultivation methods that reduce erosion, and other methods that preserve and increase the nutrient content in soils. Water management involves new methods to capture and store water for greater reliability and making use of water in agriculture more efficient and sustainable.

Expanded access to quality inputs and technology. Modern agricultural inputs, implements, and machinery enhance the output per unit of existing resources. In Tanzania investments that complement agriculture, as in irrigation, and can help drive growth in agricultural productivity, are underdeveloped. Sustainable irrigation ensures a more reliable water source for agriculture while building resilience to climate change. Such development would both raise agricultural productivity and stabilize production, resulting in more stable food security and steadier incomes. To date, though there are 7.1 million ha of high- and medium-potential land for irrigation, since 2010 only 331,490 ha have been developed.

Local research and development (R&D). Agricultural R&D has great potential to increase agricultural value-added, e.g., by facilitating introduction of improved seeds, inputs, and technology. The value of returns to agricultural R&D in Tanzania have been estimated at 12 to 1.[1] While there are some encouraging signs of increased government support for R&D, they are not commensurate with the importance of agriculture to economic outcomes in coming years, particularly given natural resource game changers like climate change.[2]

Reform of land tenure security. Progress on land tenure reforms has been slow. Weak land tenure security for smallholders is a major issue, discouraging their investment in sustainable and longer-term solutions to boost productivity. Only 11 percent of land in Tanzania has been surveyed, and only 5 percent is registered—one of the lowest registration percentages in the world for individually owned land—and the process is highly inefficient; it takes days to transfer property. Investors opt out. Disputes between large-scale investors, small-scale farmers, and pastoralists also are a threat to agricultural productivity.

Financial inclusion. A recent World Bank survey found that maize farmers have very little access to finance. Of those who do, most obtained it through saving and credit cooperatives (SACCOs) and groups other than commercial banks or government programs. Moreover, on the demand side, most farmers reported that they did not seek credit for such reasons as lack of ability to repay and fear of loan recovery procedures. Strengthening the supervision and capacity of local SACCOs and promoting financial literacy could be very important for rural farmers.

[1] Fan, Mogues, and Benin 2009.

[2] Agricultural R&D expenditures in Tanzania rose significantly in 2008 after many years of relatively low investment. That year, investment reached US$78 million PPP (in 2005 constant prices) compared with US$ 29 million PPP in 2005. Spending in 2011 was US$ 97.7 million PPP 2005. Total spending on agricultural R&D in Tanzania reached 0.5 percent in 2011 (Beintema et al. 2013). For comparison, Brazil's ratio in 2006 was 1.7 percent.

129. **Tanzanian farmers need more access to technologies.** The process for approving release and registration of new seeds, fertilizers, and agrochemicals is leisurely and the requirements are burdensome even for inputs that have worked well in similar environments elsewhere. Regulations and enforcement should focus more on input quality than input suitability. According to *Enabling the Business of Agriculture 2016* (World Bank 2016d), Tanzania scored 56.3 (out of 100) on seed registration and 60 on fertilizer registration. Each requires five to six procedures, among the highest globally. Tanzania is also among the five surveyed countries that scored lowest in the EBA *Markets* index, reflecting the significant obstacles confronting agri-businesses in Tanzania in producing and marketing agricultural products and accessing foreign markets.

130. **Land laws in Tanzania could provide a sound framework for securing use rights but are not as effective as they could be.** Within the laws, gaps, overlaps, and ambiguities increase tenure insecurity and make it possible to transfer land in an opaque and costly manner that does not benefit local communities and is difficult and potentially risky for responsible investors. The Government drafted a Strategic Plan for the Implementation of Land Laws (SPILL) in 2005 and updated it in 2013 but its application seems random and project-driven—partly due to insufficient funding.

131. **Land administration processes have considerable room for improvement.** As table 4 shows, only 11 percent of Tanzania's land has been surveyed, and only 5 percent is registered—one of the lowest registration records in the world for individually owned land. Moreover, registration is inefficient and takes too much time.

Table 4. Land Transfer System: Cross-Country Comparison

Country	Percent of Land Registered	Days to Transfer Property
Rwanda	70–100	25
Kenya	35	73
Uganda	18	52
Tanzania	5	68
Sub-Saharan Africa	10	65
OECD	70	30

Source: World Bank Country Economic Memorandum 2014.

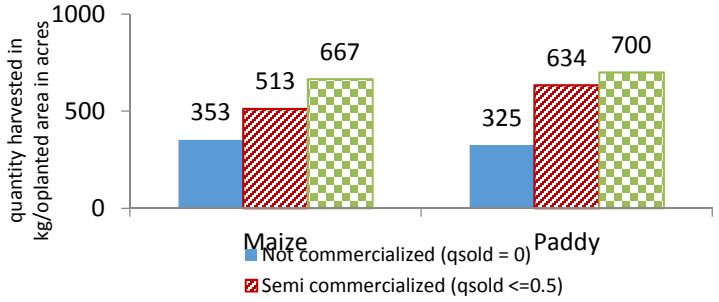
132. **Intensification needs to be supported by an effort to build climate resilience into agriculture.** To build resilience in food systems, adapt to climate change, and sustainably increase food production, climate-smart agriculture (CSA) is a highly promising approach. Tailored to local needs and particularities, CSA can help reduce the emissions intensity of farming and animal husbandry. The Government endorsed CSA prominently in its INDC and has developed a CSA program (United Republic of Tanzania 2015). There is clearly a need for a holistic approach to

agriculture, based on productive partnerships between the public and private sectors, civil society, and citizens.[30]

Structural transformation within agriculture can diversify the sector toward higher-value-added and commercial activities

133. **Encouraging farmers to be integrated into value chains and to become commercialized would promote the growth of agricultural productivity**. In fact, there is a close correlation between commercialization and productivity (figure 53). Equally important is strengthening market institutions to facilitate agriculture marketing, particularly cross-border trade of food products (e.g., to avoid unnecessary overlaps between institutions in implementing sanitary and phytosanitary standards).

Figure 53. Productivity and Commercialization



Source: Wane and Gaddis 2013.

134. **Commercialization of agriculture requires expanding land use based on an accountable and transparent mechanism.** According to the 2007/08 Agriculture Sample Census Survey, the doubling of maize production in Tanzania from 2.6 million metric tons in 2002/03 to 5.4 million metric tons in 2007/08 was attributable to an expansion in cultivated areas as well as to yield increases. It is striking that only about 33 percent of arable land in Tanzania is cultivated compared to over 95 percent in Malawi and Rwanda and more than 80 percent in Ghana, Uganda, and Ethiopia. Large-scale agricultural investors have difficulty finding land due to inefficient land management practices. Land valuation and compensation mechanisms do not function well, which increases safeguard-related risks. The Government is discussing models for involving smallholders in large-scale agricultural investments.

135. **There is considerable scope for generating value-addition by developing the agro-processing industry**. Scaling up agro-processing can help reinforce and deepen the supply value chain because there will be a greater need for post-harvest storage, handling, and transport facilities, warehousing, and services that facilitate business links. A study of vegetable farmers in Arusha showed that farmers would increase their production 71–100 percent if a processing plant

[30] The policy documents build on Tanzania's National Climate Change Strategy (2012) and the National Adaptation Program of Action (NAPA), and focus on the following measures: (1) adopt climate-smart land management practices to foster resilience; (2) adopt climate-smart technologies to increase the viability of The agricultural sector and foster economic growth; (3) improve livestock management practices and more disease-resistant and drought-tolerant livestock breeds to foster livestock resilience; and (4) adopt innovative weather forecast information systems in addition to climate-smart soil and livestock management practices.

were located nearby (Mashinda, Kazi, and Mkenda 2011). At present, most Tanzanian food processors are based in Dar es Salaam, which may limit integration of distant small-scale food farmers into the value chain. Preserving, processing, and packaging agricultural products close to the producers also provides an opportunity to mitigate agricultural waste.

136. **Tanzania needs more efficient agricultural marketing, which must currently deal with distortions from nuisance taxes and inefficient marketing organizations.** Efficient marketing systems encourage farmers to enter the value chains and become commercialized, but, first, expansion of markets requires good transport infrastructure to better integrate rural and urban sectors. Second, it is necessary to address the multiplicity of taxes and fees, including crop cess and the inefficiency of marketing systems.[31] Farmers are penalized by the cess tax collected by local governments on the value of traded merchandise. Even though it is traders who pay the tax, the effective tax burden is passed on to smallholders because the market power traders have allows them to push down farm gate prices. Third, reducing nontariff barriers, such as overlaps between institutions managing sanitary and phytosanitary standards, is equally important.

137. **State interventions in agriculture remain prevalent in the agriculture sector.** Despite efforts since the 2000s to reform their functions, over-regulation and excessive interventions by commodity boards continue to distort markets at the expense of farmers. Commodity boards and other parastatals often engage in marketing and production in competition with the private sector they regulate. Such conflicts of interest often lead to unfair regulations that are detrimental to the sector as a whole. Moreover, government interventions related to particular products often generate unintended consequences, as happened in 2014 when too many zero-tariff import permits were issued for rice, ultimately depressing market prices and the revenue of local producers or the maize export ban in 2011, which gave adverse impacts on maize markets in Tanzania (Baffes, Kshirsagar, and Mitchell 2016). Agriculture trade policies need to be harmonized at the regional level to ensure the consistency of policies related to sensitive items like rice and sugar.

Manufacturing and modern services offer another opportunity for structural transformation.

138. **Transitioning away from agriculture into manufacturing and modern services offers other opportunities.** Manufacturing has been associated with economic growth in developing countries and is still at the heart of catch-up development (Jones and Olken 2008; Gala 2007; Rodrik 2013, 2014). Domestic manufacturing and industrial development are at the core of the government's agenda for FYDP II. While the country's industrial footprint remains small, its rich endowments are a substantial lever for industrialization and rapid economic development. Manufacturing and services are central to sustainable job creation. Accelerated growth in these sectors is critical, particularly given the need to create close to a million new jobs for a rapidly growing young population.

Structural transformation into light manufacturing, notably agro-processing, could significantly heighten job creation.

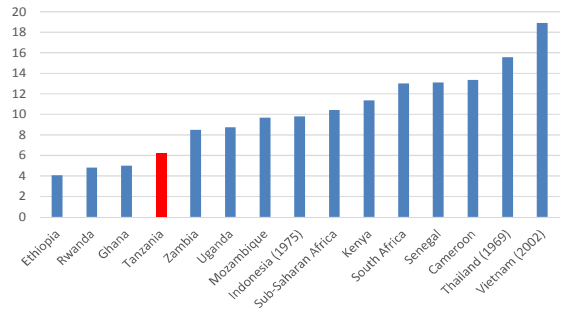
139. **Tanzania's manufacturing sector is small.** At 6.2 percent the share of manufacturing in GDP is below the SSA average and the shares of its comparators (figure 54). Indeed, the

[31] In Tanzania, a trade tax called "cess" has been collected by local government on both cash and food crops as they are traded in markets.

manufacturing share in Tanzania's GDP has been declining since the early 2000s, shrinking from 9 percent in 1990 to about 6 percent in 2015, despite a slight rebound in the early 2010s (figure 55).

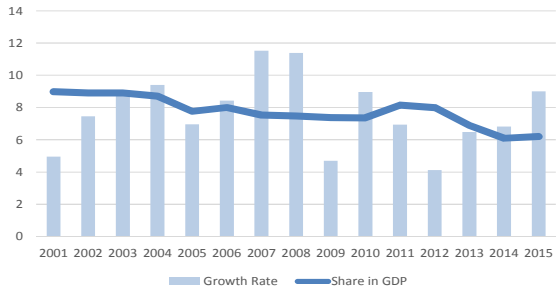
140. **Labor-intensive manufacturing has solid potential for creating jobs and domestic investment.** It could be jumpstarted by promoting addition of value to agricultural products, such as textiles and leather (box 4). Tanzania's light manufacturing potential is supported by an analysis of product space. Applying the analysis, developed by Hausmann, Hwang, and Rodrik (2007), to Tanzanian customs data identified many agro-processed products that Tanzania does not currently export but that are closely related to products Tanzania does export (see annex VII).[32] Among them are products related to leather and other animal-based products (e.g., guts, hair, and wax) and food items (fruits, nuts, vegetables such as cucumber and lettuce, and eggs).[33] In fact, food exports are already growing rapidly while agricultural raw commodities are not (see figure 8 in chapter III).

Figure 54. Share of Manufacturing in GDP, Percent



Source: World Development Indicators.
Note: All figures are from 2015 except for Indonesia (1975), Thailand (1979), and Vietnam (2002). The years for these three are those when they were at the same level of real GDP per capita as Tanzania is today.

Figure 55. Tanzanian Manufacturing: Growth Rate and Share in GDP, 2001–15



Source: World Development Indicators.

141. **The agricultural sector would also benefit from a more fully-developed agro-processing industry and tighter value chain links**. Growing consumer demand for packaged and processed agricultural products requires a shift from minimally processed to higher value-added products. Achieving high standards in product conditioning and packaging could open up more export markets. Since most of Tanzania's agricultural exports are unprocessed, there is ample potential to boost agro-processing by adding value to raw agricultural products.

Box 4. Potential Agro-Based Light Manufacturing Industries

Agro-processing, such as food and beverages, is a dominant manufacturing sector in Tanzania today. It contributes about 55 percent of manufacturing value-added and accounts for over 60 percent of manufacturing employment. Resource-based and labor-intensive, agro-processing has strong backward and forward links with other sectors. Yet most agricultural exports are unprocessed. Tanzania has ample potential to boost agro-processing, but it must first address such constraints as limited commercial farming, inadequate access to agricultural inputs and services,

[32] Proximity to the current export basket is computed as average proximity to products Tanzania is currently exporting weighted by the share of individual products in total Tanzanian exports.
[33] This corroborates earlier World Bank findings on light manufacturing in Tanzania (Hinh and Monga 2013).

broken supply chains, and few agro-processing clusters. Two agro-based light manufacturing industries whose potential Tanzania has not yet tapped are textiles and apparel and leather.

Textiles and apparel. As a major cotton producer Tanzania has a latent comparative advantage in textiles and apparel. It exports more than 80 percent of the cotton produced without processing. The long value chain from cotton to apparel is estimated to have value-added potential of 500–600 percent, for a number of reasons. The sector is highly labor-intensive, and Tanzania's vast pool of underemployed and trainable labor force could absorb for this purpose a significant proportion of the workers leaving agriculture. Tanzania also has direct access to the Indian Ocean and is eligible for duty-free preferential access to EU and U.S. markets, which it is not fully utilizing. Further, its climate and soil conditions are conducive to developing a competitive cotton textiles industry. However, as Tanzania has failed to seize these opportunities, technology and sophisticated global value chain developments are making the global market highly competitive.

Leather and leather products. Although Tanzania has the third largest livestock population in Africa, its small leather and leather products sector offers potential for light manufacturing. It is estimated that the country could produce about 2.6 million hides and 2.5 million skins yearly. However, about three-quarters of the hides and skins it produces are exported raw, and only a tiny proportion of the raw material reaches the high-value segment of the production chain. Sector performance has been low and deteriorating, with persistent declines in production. Revitalizing this sector is of critical importance to kick-start structural transformation, given its considerable potential for value addition and exports.

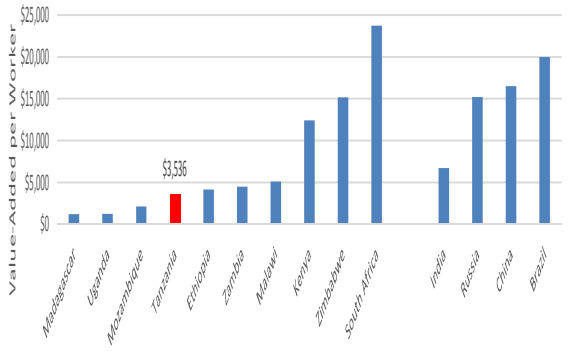
There is also potential to add more value in the wood and wood products sector, which could promote job creation and poverty alleviation. Forests cover about 40 percent of Tanzania's land area. Forest- and wood-based activities are labor-intensive and are already the mainstay of an estimated 800,000 people.

Source: Dinh and Monga 2013.

An enabling investment climate is crucial to drive structural transformation where reliable supply of power, access to credit, and availability of skilled labor are among key constraints in raising the productivity of the domestic manufacturing sector.

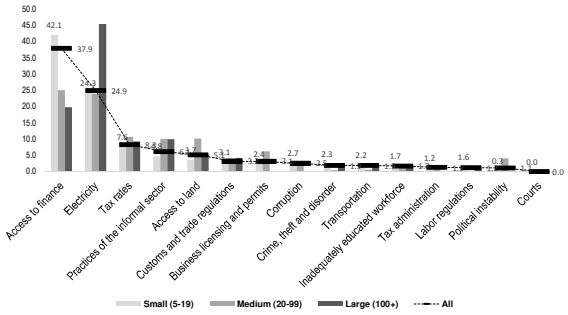
142. **Success in building up manufacturing hinges on improving firm-level productivity, which in Tanzania is low for the region.** The World Bank Enterprise Survey for Tanzania conducted in 2013 found average labor productivity in Tanzanian manufacturing firms to be only 28 percent of that of Kenyan firms (figure 56). TFP in Tanzania is low considering its per capita income. Tanzanian firms are less capital-intensive (Clarke 2016), but the unit labor cost seems to be high compared to labor productivity.

Figure 56. Labor Productivity Compared



Source: Clarke 2016 based on World Bank Enterprise Surveys.

Figure 57. Major Investment Climate Constraints Perceived by Tanzanian Business Owners



Source: WBES 2013

143. **Improvements in security, power supply, access to credit, and information communication technology (ICT) could help heighten firm-level productivity.** Further analysis (table 5) points to potentially promising areas for productivity improvement, which would significantly increase if Tanzania expanded access to bank credit, reduced losses due to power outages, reduced losses associated with crimes, and improved access to the Internet. Improving each of these dimensions to the levels corresponding to the median of over 100 developing countries that the World Bank Enterprise Surveys (WBESs) cover would raise Tanzanian TFP by about 20 percent.

Table 5. Productivity Growth Predicted from Improvements in the Business Environment, Percent

	Tanzania	Median Country	Productivity improvement if Tanzania improved to
Losses to crime (% of sales)	1.72	0.35	4.6
Losses due to power outages (% of sales)	1.62	0.11	3.4
% of firms with bank credit	23.00	60.00	4.3
% of firms with own website	23.00	34.00	3.7
% of firms that license foreign technologies	11.00	14.00	0.4
Firm is an exporter (dummy)	0.15	0.24	1.7
Firm is foreign-owned (dummy)	0.03	0.08	1.3

Source: Clarke 2016 based on World Bank Enterprise Surveys.
Note: Predicted growth in TFP when Tanzania improves from where it currently stands to the level of a median country in the consolidated enterprise surveys conducted by the World Bank in more than 100 countries.

144. **Tanzanian businesses also see access to finance and electricity as major problems** (figure 57)**.** Overall, 38 percent of business owners reported that access to finance is the biggest constraint and 25 percent cited poor electricity service. In 2013, 46 percent of manufacturing firms cited electricity supply as a major constraint (figure 57).

145. **The quality of electricity supply in Tanzania is problematic.** Tanzanian firms faced power outages averaging 45 hours monthly, much higher than the SSA average of 38 (table 6). Large businesses tend to perceive electricity service as most problematic; small businesses were more troubled by the lack of affordable financing options. Tax rates, informal sector practices, and access to land are also perceived as major constraints, with each voted as the biggest constraint by about 10 percent of medium-sized enterprise owners.

Table 6. Electricity as a Major Constraint on Business in Tanzania

	Tanzania	SSA Average
Number of electrical outages in a typical month	8.9	8.3
Duration of a typical outage (hours)	5.1	4.6
Losses due to outages (% of annual sales)	5.5	4.4
Days to obtain an electrical connection after application	52.6	29
Percent of firms identifying electricity as a major constraint	45.8	43.6

Source: World Bank Enterprise Survey (WBES) for Tanzania 201.3

146. **The Government launched the National Financial Inclusion Framework (NFIF) in 2013 and significant progress has been achieved by Tanzania already.** The NFIF identified four priority areas for achieving financial inclusion targets: (i) increasing proximity of financial access points to where people live and transact; (ii) ensuring reliable and secure electronic payment platforms to instill confidence in the store of value and means of payment functions they deliver;

(iii) ensuring robust electronic information infrastructure for individual and business profiles, credit history and collateral; and (iv) ensuring that customers are informed and protected.

147. **However, access to formal and affordable credit remains limited because of high transaction costs for lenders because of limited economies of scale and higher risks, which keep the interest rate high.** For both a small and a large loan, information search and processing time are similar, but for small amounts, the only option banks have to absorb the costs is through high interest rates on loans. That is why loans to small and medium enterprises (SMEs) typically carry interest rates of 18–22 percent, in addition to other fees. This is extremely high for small businesses (Roe and Stone 2013).

148. **The cost of credit also captures the inherent risk of financing small and mostly informal businesses.** Not only are small firms more vulnerable to economic shocks, they also present asymmetric information risks. A commercial bank cannot easily obtain financial information about borrowers who are informal and do not keep good financial records. Tanzania, for example, does not have a consistent national ID system (table 7). The most common form of documentation, held by 81 percent of households, is the voter identification card. Only 33 percent of nonfarm businesses with 5–49 employees have a tax identification number (TIN) and only 14 percent are registered with the Business Registration and Licensing Agency (BRELA).

Table 7. Enabling Credit Environment Indicators Compared

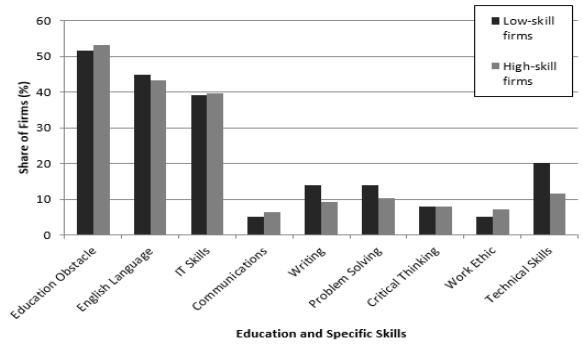
	Kenya	Nigeria	Rwanda	South Africa	Tanzania
Private credit bureau coverage (% of adults)	4.9	4.1	7.1	54.0	0.0
Positive and negative data shared?	No	Yes	Yes	Yes	n/a
Depth of credit information index (out of 6)	4	4	6	6	0
Unique ID perceived as reliable?	Yes	No	Yes	Yes	No
Movable collateral registry functional?	Yes	No	Yes	No	No
Days required to enforce a contract	465	457	230	600	462

Source: Berg and Fuchs 2013.

Building up labor-intensive light manufacturing in Tanzania will require a larger number of skilled workers. About 40 percent of firms identified an inadequately educated workforce as a major constraint on their development (WBES 2013)—much higher than those in the SSA (23 percent) and the world as a whole (24 percent). Sabarwal (2013) found that 63 percent of failed firms rated the shortage of workers with technical, behavioral and numeracy skills as a major factor in their failure. According to the 2015 Skills Focused Enterprise Survey, for about 40 percent of employers, the skills in greatest need were English and information technology (IT) skills (figure 58).

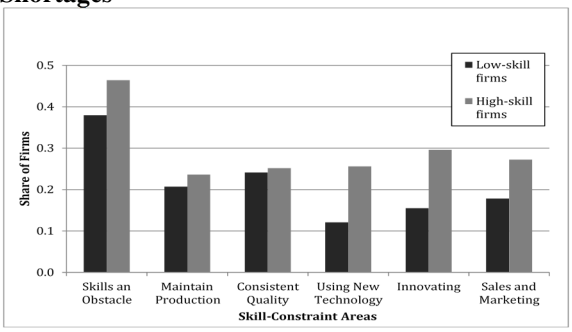
149. **High-skill firms suffer more from skill shortages.** Over 45 percent of employers in high-skill firms identified skills shortages as a major operational obstacle compared to 37 percent of low-skill firms (figure 59). Skill shortages affect production, quality control, and innovation. For high-skill firms, innovation and use of new technologies are the areas where skills shortages are more binding.

Figure 58. Skills Shortages Perceived by Businesses



Source: World Bank 2015a.

Figure 59. Operation Most Affected by Skills Shortages

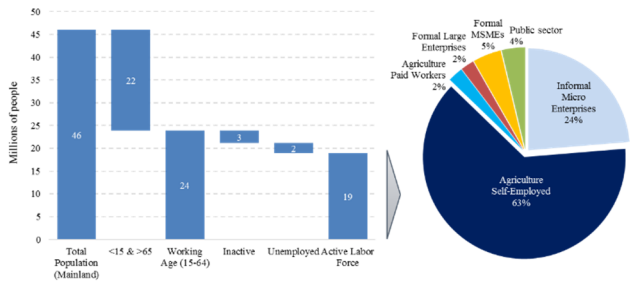


Source: World Bank 2015a.

Raising the productivity of small domestic enterprises is fundamental for long-term sustainable and inclusive growth.

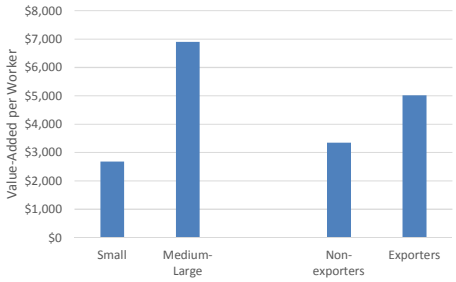
150. **The majority of Tanzanian firms are small, operate informally, and have very low productivity and value-addition**. While 63 percent of the labor force is in agriculture, 24 percent are employed or self-employed in informal microenterprises, and 5 percent in formal microenterprises (figure 60). The average productivity of small firms is less than half that of medium-large firms (figure 61).

Figure 60. Allocation of Workers by Type of Employer



Source: World Bank analysis from NBS "Tanzania in Figures 2014/2015, ILFS 2014, EES 2013/14, NPS 2012/13 and TRA 2011.

Figure 61. Labor Productivity by Firm Size and Exporter Status



Source: WBES.

151. **High transaction costs undermine the growth of informal microenterprises and their formalization.** The limited education and skills of many proprietors lead to inefficient business administration and missed opportunities for growth and diversification. High transaction costs discourage formalization, among them congestion in urban areas which makes it difficult to access suppliers, workers, and final markets, and business-unfriendly regulation with licenses and permits costly in terms of both money and time.

152. **Limited access to skilled labor and capital constrain the growth of formal micro, small, and medium enterprises.** About one million Tanzanians are formally employed in micro, small, and medium enterprises (MSMEs). Many more would do so if some of the informal microenterprises graduate into the formal sector. Financing is also the biggest business constraint in Tanzania (see chapter III). In addition, most MSMEs operate in Dar es Salaam or other urban centers, where lack of access to reliable infrastructure, such as electricity, the absence of industrial zoning, and congestion create unnecessary costs.

Building the export capability of Tanzanian firms is a critical to raising the sophistication of their products.

153. **Tanzanian firms are increasingly active in export markets.** The recent growth of Tanzania exports is mostly explained by the country exporting new products or exporting existing products to new destinations. The extensive margin (new export products and/or new export destination) accounts for 62.1 percent of Tanzania's export growth between 2000 and 2010 (Yoshino et al. 2014). Regional and Asian markets are important destinations, particularly for manufactured products.[34] The recent growth of manufactured exports in the extensive margin, largely driven by regional exports, is associated with higher average intensities in human and physical capital.

154. **Based on product space analysis Tanzanian exports are not very sophisticated.** As shown in figure 65, Tanzanian products with higher density (with more linkages with to other goods) are less sophisticated (figure 62).[35] This is both good and bad news: good because it means fewer barriers to entry or scale-up of those products, but bad because low sophistication means a much shorter segment of the value chain is within Tanzania, which implies lower skills requirements, and lower incomes.

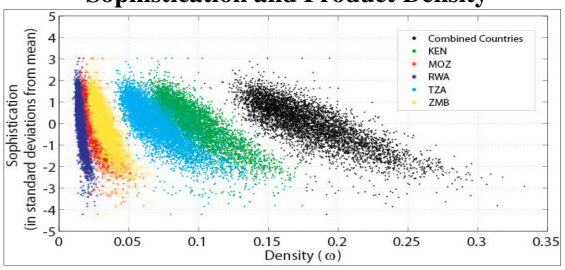
155. **Productivity is essential for export firms.** While it is difficult to conclude whether exporting firms become more productive after they export or are more productive before they export, the correlation between productivity and export performance of firms is a consistent pattern among African countries (see, e.g., Roberts and Tybout 1996; Clerides, Lach, and Tybout 1998; and Fafchamp, Hamine and Zeufack 2002). The pooled EAC firm-level data from the WBES show that firm size and productivity—measured by labor productivity and TFP—are the main factors explaining the success of exporting firms (figure 63). This correlates with the substantial productivity gap between exporting and nonexporting firms in Tanzania (figure 61).

156. **Expanding market access is important for facilitating export penetration.** Foreign ownership is another significant factor influencing firm export propensity because it is often associated with global trade, since the owners' connections reduce search cost (entry barriers) in distant markets. For domestic Tanzanian firms, this implies that government policies to expand market access are crucial. These firms struggle to integrate into global value chains and opportunities provided by the country's preferential trade agreements with Europe and the United States can play a catalytic role (Collier and Venables 2007).

[34] For example, paper, textiles and chemical products.

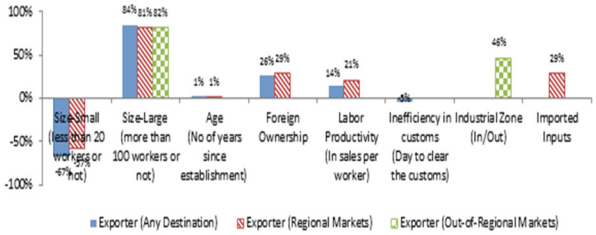
[35] In the product space analysis by Hausman, Hwang and Rodrik (2006), sophistication of a product is a measurement of average productivity calculated as an average of the income per capita of the countries exporting the good, weighted by each country's share in the global exports of the product.

Figure 62. Product Space of Tanzanian Exports: Sophistication and Product Density



Source: Hidalgo 2011.

Figure 63. Factors that Raise Firm's Probability to Export



Source: Yoshino et al. 2014.
Note: The reference group is medium-sized businesses.

Modern tradable services like tourism and logistics can also drive structural transformation.

157. **Building dynamic competitive and exportable services, such as tourism or logistics, is also important to structural transformation.** Tourism, which contributes over 13 percent of GDP, is the largest source of foreign exchange for both Mainland and Zanzibar. Given the locational advantage of Tanzania as a potential regional hub for East Africa and the government's interest in building up the competitiveness of the Central Corridor, there is a potential for growth in logistics services that could be exportable to foreign clients.

158. **Tourism-related services (travel) are growing steadily**. The industry appears to be fully recovered from the global financial crisis in 2009 both in absolute and relative (to GDP) terms. For most of the past decade tourism was Tanzania's top export item, until gold surpassed it in 2010. While the sector's growth performance is impressive, the country has not yet fully leveraged tourism's potential, particularly compared with other countries with similar tourism resources.

159. **Building up tourism will have job-creating potential through the development of local value chains in manufacturing and services.** According to the World Travel and Tourism Council, direct tourism in Tanzania was responsible for 3.8 percent of total employment in 2013, or about a half million direct jobs. Not only do hotels and restaurants provide direct services to tourists but manufacturers also produce products (e.g., handicrafts, food) for sale to tourists, making them are part of local value chains that can be based on tourism.

160. **The highly complex system of taxes and licenses is reducing the competitiveness of tourism.** Tanzania's current tourism policy and regulation does not reflect the good practices necessary for the economy to benefit fully from this sector. The multiplicity and unpredictability of the taxes, levies, and fees collected from the tourism sector are an excessive burden for many operators, discouraging further investment and job generation. There are 53 different taxes, levies, and charges that apply to tourism-related businesses (World Bank 2015g). Yet not many of them generate revenue for the public sector: of the 53 tourism levies, just 29 account for 96 percent of expected revenues.

161. **Diversification of tourism in Tanzania is also important for its growth.** Hobbled by outdated policies, an unclear vision, and a disabling business environment, Tanzania does not benefit fully from tourism. The tourism Master Plan was issued in 2002: since then, there has been no comprehensive tourism strategy to guide policy. As a result, Tanzania trails its neighbors in terms of offering good value for a variety of tourism products that are in demand. Beyond its heavy

reliance on wildlife tourism. Tanzania can generate jobs by offering beach, adventure, conference, and cultural heritage tourism, diversifying beyond the current low-volume high-value strategy and away from the congested wildlife-based Northern Circuit. Vast potential still remains in the much less developed Southern Circuit.

The country can also leverage extractive industries in mining and natural gas to foster structural transformation by capturing opportunities to develop local contents with large investments.

162. **Although extractive industries are capital-intensive and may create few direct jobs, there are opportunities for constructing local value chains or local content around such investments.** Such opportunities are captured through local sourcing of goods and services for investment projects and project staff, such as construction, transportation, catering, and lodging. Economic returns for local communities should be enhanced as well. As the country waits for final decisions on LNG investment, it is important that it begin to design a strategy to capture such local content in relation to LNG. Other investment projects in extractive industries like mining and the new Uganda-Tanzania oil pipeline project may provide similar opportunities.

163. **Experiences from large-scale gold mining show that development of local suppliers, which are capable of producing quality products and services, is important to develop extractive industries' linkages with the local economy.** The 2009 Mining Policy and 2010 Mining Act recognize the importance of creating upstream linkages with the local economy and set a framework for mining companies to prioritize their procurement of goods and services locally.[36] Following the Policy and the Act, supplies for exploration, mine development, mining and refining operations have increasingly been sourced from companies that are registered in Tanzania. However, the reality is that these companies often only act as trade intermediaries with little value added generated domestically. Local value added is limited to few goods and services given that there is a scarcity of domestic suppliers that can satisfy the high standard requirements of large-scale mining companies (World Bank 2016f).

164. **Formalization of artisanal mining (ASM) is another channel of adding more values to natural resources.** The ASM sector is one of the major employers in rural Tanzania, employing about 700,000 according to the 2012 Population Census, 60 percent of which are in gold production. A significant portion of goods and services for ASM is sourced locally—for example, handheld tools, rudimentary grinding mills, blast services, timbering work, and courier services (bags of ore from pits downhill to distribution centers) (World Bank 2016f). In order to address problems of ASM related to conflicts with large-scale mining, environmental degradation, health and safety, and low revenue collection from ASM activities, the Government has embarked on formalization of the ASM sector under the 2010 Act (e.g., provision of mineral rights reserved for the ASM sector). While lack of awareness and other factors hinder the effective implementation of the formalization process, formalization of ASM is also expected to formalize its value-chain linkages with the rest of the economy, thereby improving their efficiency and productivity.

[36] For the petroleum sub-sector (oil and gas), a similar policy framework has been set under the 2014 Local Content Policy for Oil and Gas and the 2015 Petroleum Act.

FDI is a major enabler of structural transformation, presenting opportunities for technological transfers as well as local content development.

165. **Experiences around the world point to a substantial role FDI can play in developing local industrial base.** When southeast Asian economies such as Malaysia and Thailand at the time of their rapid industrial development in the 1980s and 90s, FDI from countries like Japan played a pivotal role in transferring not only capital, but also technology and skills to the host countries. Through backward and forward linkages with the local economy, FDI had made substantial contributions to local industrial development including formation of local industrial clusters (see e.g., Kuchiki and Tsuji 2005 and Sonobe and Otsuka 2006). FDI from an American IT industry also played a similar role in the formation of IT cluster in Bangalore, India (Pack and Saggi 2006).

166. **FDI inflows have a critical role for Tanzania's industrialization**. FDI inflows to Tanzania have so far been concentrated in extractive industries—natural gas and mining accounted for about 50 percent of FDI in 2011, compared to about 15 percent for manufacturing—and the trend will continue in the near future as new gas reserves and unexploited mineral resources are discovered. By improving the local investment climate such as enabling business environment, availability of skilled labor, and reliable infrastructure services particularly power and transport, Tanzania has a potential to attract more FDI in manufacturing given its geographic advantages (chapter II). Even from FDI in extractive industries, there are opportunities for local content development as discussed above.

167. **Comprehensive policies are needed to better harness the technological and employment opportunities FDI carries with it**. Although the country offers low-wage labor to foreign investors, the overall labor cost is high compared to other African countries (e.g., Kenya, Ethiopia) due to lack of skills and low productivity. Beyond the mere offer of factory space and cheap labor, the economy needs front-loaded and well-targeted policy actions to internalize skills, knowledge, and technology transfers. Substantial new FDI, preferably by joint venture, particularly in agriculture, is needed in all stages of the supply chain to replace old equipment and upgrade technology.

A strategy for structural transformation requires a focused approach on industries where the country has comparative advantages.

168. **Structural transformation can be driven by promoting the activities that best build on the country's comparative advantage—both existing assets (natural resources) and assets that can be built (skills)—supported by effective policies to facilitate the process.** Structural transformation can begin by (1) promoting labor- and resource-intensive industries, particularly light manufacturing; then (2) enhancing diversification of production and exports and building competitiveness, and (3) adopting more effective policies to facilitate competitiveness. Latent comparative advantages for industrialization can be realized by assessing existing but underutilized manufacturing bases and industrial assets. It can also be developed through policies to enhance certain assets (e.g., skill development for abundant labor).

169. **Given Tanzania's resource constraints, prioritizing interventions is vital.** The Government will have to make strategic choices for facilitating transformation and industrialization in light of what the private sector itself can provide. The Government needs to redress some market failures by removing barriers to entry, encouraging new entrants, and

increasing competition. Econometric analysis using data from NBS Annual Surveys of Industrial Production demonstrates that concentration lowers the profitability of individual sectors due to inefficiency (see annex VIII). Even though Tanzania has the institutional framework in place, implementation is slow (box 5).

Box 5. A Strategy for Industrialization

A successful forward-looking structural transformation strategy can be adopted in steps. The priority is to identify industries or sectors with high growth potential, given existing resource endowments and production structures; the industry's potential for creating jobs; and likely effects on the environment, gender mainstreaming, etc. The second step is to assess the country's relative performance in the promising industries identified and to explore unused potential and latent comparative advantages as well as future potential that can be enhanced. Given limited resources and the difficulty of simultaneously taking on all lagging manufacturing activities, the priorities are based on how the sector has evolved, its current capabilities, and the feasibility of the reforms.

As a latecomer, Tanzania should move promptly to climb the comparative advantage ladder. Tanzanian firms can leverage their latecomer advantage by diversifying into new sectors or lines of business that are growing fast in more advanced countries and that are consistent with Tanzania's comparative advantages, based on both its natural resources assets and the skills assets it can grow. However, this step requires substantial enhancement of the technological and managerial capabilities to ensure the viability of accumulating the requisite skills and scale economies to promote competitiveness in the globalized world. Targeted infrastructure investments and other incentives can help create clusters and foster links between the new entrepreneurs and domestic producers that strengthen inter-sectoral and inter-industry collaboration and complementarity. Domestic firms can then expand along the value chain, enter new markets, and move up with a new business built on solid capabilities.

Tanzania's vision of a semi-industrialized economy needs to be backed by realistic industrial strategies and private sector involvement. A clear roadmap to industrialization is necessary to inform and guide investors and policymakers, supported by institutional capacity to follow up on the vision. Formulating policies to cope effectively with problems in the era of globalization is still difficult. Production and investment should be led by the private sector; growth should be driven by skills and technology, with the support of the state in coordination with the private sector. How to fund the plans is also problematic since only half of the first FYDP has been funded, limiting its impact. The undertaking can succeed if there is a collaborative decision-making process based on close consultation between government and private sector, with a committed and visionary leader and a supporting technocratic elite to prepare policy decisions.

Lessons can be drawn from successful experiences elsewhere in Africa. The Government of Ethiopia has tailored its policy to support the leather and floriculture industries. In the former, the Government addressed coordination failures by creating training centers to facilitate acquisition of technical capabilities. It also provided infrastructure facilities in industrial zones. For floriculture, the Government addressed the logistic problems by facilitating acquisition of storage facilities close to the airport and providing refrigeration facilities at the airport. Regular flights to Europe helped Ethiopian cut flowers to quickly penetrate European markets. Mauritius had similar experiences in facilitating textile exports and Mali with mango production and export.

For the private sector to drive structural transformation successfully, improvements in the business environment generally and fostering market competition are fundamental.

170. **In Tanzania initial privatization in the 1990s and early 2000s did not bring in enough new domestic market entrants.** Data from the Annual Surveys of Industrial Production (ASIP) by the National Bureau of Statistics (NBS) indicate that formal manufacturing in Tanzania is still highly concentrated (figure 64). Concentration is also evident in rapidly growing services like finance. Although there are now 57 banks operating in Tanzania, their distribution is skewed: the

two largest hold almost 50 percent of total bank assets. The sector is also segmented by client characteristics, products, and geography.

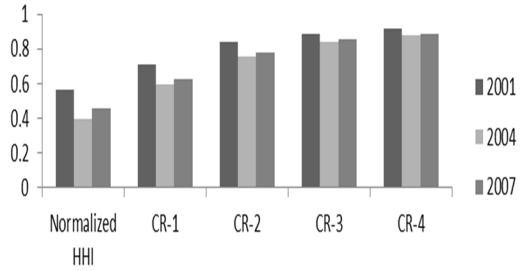
171. **The policy framework for market competition is in place but not fully implemented.** Competition policy was originally launched with the 2003 Fair Competition Act, which established the Fair Competition Commission (FCC) and the Fair Competition Tribunal (FCT). While the institutional framework for competition is in place, the implementation is lagging and not effectively promoting competition in the markets.

172. **While overall level of market competition remains limited, firm-level data show competition fosters investments and innovations.** Without investments and innovation, oligopolistic firms cannot sustain their profitability against import competition without resorting to rent-seeking behavior. Firm-level data from WBESs do show that firms with more competitors on average made more investments in machinery and land acquisition and were more active in introducing new products and new processes (annex VIII).

173. **Heavy regulatory burdens post-privatization have also suppressed growth.** High transaction costs and a segmented market give cost advantages to incumbent large firms, which have the means to overcome the regulatory burdens by exploiting network affiliations with government regulators. Figure 65 shows the distance-to-frontier score for Tanzania and neighboring countries over time. The score helps in assessing absolute regulatory performance and how it improves over time. Clearly, Tanzania has been very slow to improve its business environment.

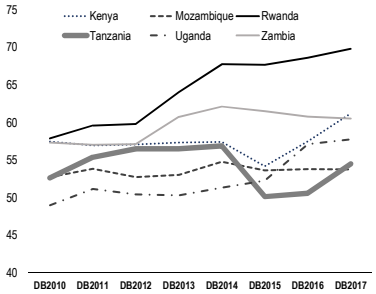
174. **Although Tanzania moved up 12 places in Doing Business 2017, on the cost of doing business it ranks 132nd of 190 countries.** It is also still near the bottom of the Global Competitiveness ranking (125th of 148 countries). According to the 2013 WBES, on average it takes 19 days to obtain an operating license, and 24 days to obtain an import license. Stringent business and labor regulations make it prohibitively difficult to launch new job-creating activities.

Figure 64. Average Concentration among Manufacturing Industries



Source: Yoshino et al. 2014 based on data from NBS Annual Surveys of Industrial Production.

Figure 65. Doing Business Distance-to-Frontier Index, 2010–2017 (est.)



Source: Doing Business (various years).

Tanzania continues to face large infrastructure gaps in power and transport which need to be filled for successful economic transformation.

175. **Despite the progress in the past decades, Tanzania still faces large infrastructure deficits, particularly in power and transport.** Tanzania remains low in some key infrastructure

indicators relative to its peers such as road density and power generation per capita (figure 17). On average, Tanzanian manufacturing firms faced power outages of 45 hours per month, much higher than the SSA average of 38 hours per month (table 6). Similarly, the country's road density (length of roads per 100 sq. km) stands at an average of about 9 km, which is starkly lower than roughly 37 km and 49 km for Uganda and Ghana, respectively. Such infrastructure needs to expand to support the future growth path and improve the welfare of the poor.

176. **For the last decade the Government has been working to reform the power sector.** The Energy and Water Utilities Regulatory Authority (EWURA) became operational in 2006. The Power Sector Reform Strategy drafted in 2007 envisaged the evolution of the sector over time from the market structure in which state-owned power utility, TANESCO, acts as the only buyer and seller of electricity to a more liberalized and more competitive wholesale market in which producers would sell directly (or through a pool or voluntary electricity exchange) to distribution companies and large consumers. This reform was updated in 2014 with a new Electricity Supply Industry Reform Strategy and Roadmap 2014–2025, which envisages gradual unbundling of TANESCO and creation of competitive wholesale and retail electricity markets and greater participation of the private sector in generation and distribution.

177. **However, the reforms introduced in the past decade have still fallen short in putting the power sub-sector on a firmer financial footing.** This has led to lack of proper planning and implementation of an adequate investment program, or establishing a strong, performance-based and transparent sectoral and corporate governance system. The electricity supply is constrained due to delayed investments in generation and suboptimal generation technology mix. Only about 210 mega-watt (MW) in new generation capacity has been installed in the past three years. Investment planning needs to be improved, both institutionally and technically. There is a need for more transparency and competition in selection of investors. The financial situation of TANESCO remains a serious concern. Governance arrangements and practices also need to be improved through stronger separation of the policy, ownership, and regulatory functions, and better public reporting on the progress.

178. **The financial sustainability of TANESCO remains a serious concern.** In FY2010/11, when low rainfall reduced hydropower production, the resultant power shortage pushed TANESCO into a financial crisis. To compensate for the hydropower shortage, TANESCO bought expensive power generated by liquid fuel from emergency power producers (EPPs). Its tariffs were not sufficient to recover these costs, and it was in any case chronically inefficient. By 2012 TANESCO had accumulated arrears to EPPs and other independent power producers (IPPs) as high as $450 million. A 40-percent tariff increase in 2014 brought arrears down to $140 million, but since then, partly due to exchange rate fluctuations, arrears have again accumulated, to $400 million.

179. **Private sector participation in the energy sector has been introduced mostly without proper competition, compromising potential efficiency gains from leveraging private sector resources.** Private sector participation, through independent power producer (IPP) arrangements and/or public private partnerships (PPPs), is rightly viewed as necessary to complement public funding to meet the country's needs in infrastructure, including in the energy sector, over the years to come. However, the private sector participation has mostly materialized without going through a proper competitive selection process, thereby lowering value for money.

180. **Tanzania's transport infrastructure still requires more investment to close the current gaps and improve connectivity within the country and with neighboring countries.** As discussed more extensively under the next section on spatial transformation, connectivity between Tanzania and global markets remains low due to the limited capacity at the Port of Dar es Salaam, the crucial anchor connecting Tanzania and the landlocked neighbors with global markets. Connectivity between Tanzania and regional markets is challenged due to insufficient maintenance. Rural roads are not of adequate quality, contributing to the low performance of agriculture. Transport infrastructure is not catching up with the speed of rapid urbanization.

181. **Coordination and planning within the transport sector remain weak.** There is currently no integrated Master Plan to guide the development of the transport sector in Tanzania over the next 20 years. In a context of conflicting demands, both within and across the sub-sectors, and finite resources, the determination of priorities needs to be given careful consideration, with the involvement of the full range of stakeholders. While a port Master Plan for the maritime and inland lakes was prepared in 2009, this needs to be updated to reflect recent developments and to provide a strategic framework to guide the discrete initiatives.

182. **The distribution of transport demand is skewed towards the road mode, contributing to excessive congestion and other social and environmental costs.** Until 1990, the rail mode was a major mode of transport for freight to and from Dar es Salaam port. During the last two decades, the proportion of freight transported by rail has declined drastically, with this transportation mode now accounting for less than 5 percent of the total volume of transported exports and imports. The performance of the two railways has declined significantly over the past seven years. Operationally, rail transport services are now characterized by slow and unreliable freight and passenger movement, the frequent suspension of services, speed restrictions, a high rate of accidents, and the complete closure of some parts of the network.

Sustainability of natural resources is a critical condition for the country to better leverage its rich natural assets for successful structural transformation.

183. **Natural resources provide critical inputs to the country's structural transformation that is to be based on stronger and more competitive agriculture and job-creating industries.** Land and water are important factors of production, not only for agriculture but also for manufacture. Water has been an important source of power generation as well. Wildlife and other environmental resources (e.g., marine environment) are natural "capitals" for tourism. Forestry and fishery resources also provide raw materials for agro-processing industries. While direct employment creation may be limited from mineral resources (mining products and natural gas) given the capital-intensive nature of the industries, local content development opportunities can be explored as discussed earlier. Onshore natural gas is also a new source of power generation, which will support the industrialization process.

184. **Sustainability of natural resources is of paramount importance, particularly in the context of the emerging risks of depletion for some resources** (see chapter III). Economic growth generates more outputs but at the same time requires more inputs even though economic growth is often accompanied by increased productivity therefore requiring less inputs per output. Lack of sustainability of natural resources will undermine the prospect of resource-based transformations. If not properly managed, the mounting pressures on natural resources will

degrade the very ecosystems and resources on which the economic growth is based and will be based through resource-based structural transformation.

185. **Sustainability of natural resources also has strong poverty implications.** The overwhelming majority of the poor in the country depend on natural resources, through agriculture and other resource-intensive sectors, including artisanal mining. The five coastal regions of Tanzania are home to approximately 10 million people, most of whose livelihoods are dependent to some extent on fishing and who therefore depend directly on the integrity of the coastal and marine natural resource base. Moreover, the rural poor depend overwhelmingly on charcoal and fuel wood from forests to meet their energy needs where access to electricity is still very limited. Therefore, appropriate and sustainable use of natural resources is critically important to maintain their food security and main source of income.

186. **Sustainable use of natural resources requires careful balancing of competing demands over resources, which are expected to increase as the country pursues an industrialization path.** With the economy so heavily dependent on its natural resources base and will continue to be so through economic transformations, pressures on natural resources from competing demands will rise. Water is already facing a visible threat of depletion due to competing demands from agriculture, power generation, and others. A similar tension exists for land. Disputes occur between large-scale investors and small-scale farmers or pastoralists, between smallholders and pastoralists, and between smallholders themselves.[37] For both renewable and non-renewable resources, benefits as well as usage are cross-sectoral. Therefore balancing competing demands require strong inter-sectoral coordination in planning and implementation of sectoral programs.

187. **Environmental sustainability also needs to be ensured in the process of industrialization.** Industrialization inevitably involves environmental pollution, a negative byproduct. The timely management of environmental pollution is essential to avoid costly future health impacts. Population growth and agglomeration around urbanized centers will create additional pressures related to increased environmental pollution and deteriorating public health conditions. A key area demanding immediate attention is air pollution. Ensuring proper safeguard policies to protect the environment and natural resources during the transformation process, including green development strategies, as far as possible.

C. Spatial Transformation

188. **Spatial transformation is another avenue to speed growth by leveraging economies of scale and expansion of markets through from industrial agglomeration in urban areas and economic integration, both domestically and regionally.** The 2014 CEM highlights the need for structural and spatial transformation to create more jobs, shift workers to better and more productive jobs, and improve labor productivity. Rapid urbanization and high density is typical in countries undergoing structural transformation from agrarian to industrial economies. Positive externalities from industrial agglomeration, based on strong urban planning, will raise urban productivity growth. Domestic and regional economic integration through better infrastructure

[37] The World Bank Local Government Assessment Framework study (2015d) found land disputes to be increasing, and land and governance institutions lack resources to address them.

connectivity and reduced regulatory bottlenecks will expand markets for Tanzania's existing and potential industries.

189. **The spatial transformation pathway also enhances inclusiveness of growth by strengthening rural-urban connectivity, which will help reduce the current rural-urban gaps in economic opportunities.** While rapid urbanization in Tanzania is helping the country to reduce the overall poverty rate, there is an increasing divergence between urban and rural areas in terms of poverty, infrastructure, and social services, which then affects human development outcomes. This pathway specifically looks at how to link rural areas with urban growth centers, especially in secondary cities, through strengthening physical infrastructure linkages and developing market linkages. This will facilitate rural households' integration in agriculture value chains and will enhance their income earning opportunities.

190. **It will also make growth and poverty reduction more sustainable by addressing negative congestion externalities from agglomeration.** Rapid urbanization usually increases traffic congestion and urban environmental problems such as air pollution. The spatial transformation pathway addresses those negative externalities from urbanization by emphasizing the importance of proper urban planning and investments in essential urban infrastructure including the quality of infrastructure services (e.g., water and sanitation).

Managed properly, urbanization can generate industrial agglomeration, which by creating jobs fosters sustained growth and poverty reduction.

191. **Urbanization offers major opportunities for sustained growth and poverty reduction through migration and positive urban externalities.** With the right institutional foundations, especially sound property rights, urbanization can foster agglomeration effects within and between industries and economies of scale in production and transport.

192. **Industrial agglomeration promotes creation of more productive firms.** Clustering can help promote information spillovers and foster agglomeration effects that generate economies of scale. Clusters can also facilitate access to infrastructure, such as electricity or roads, reducing the costs of production and commercialization for firms in the cluster. Clusters can be built around products as firms come to see some benefits from working together. They can also be developed around locations, where firms join to cut infrastructure cost.

Rapid urbanization in Tanzania has not yet led to industrial agglomeration that generates sufficient economic density to raise productivity in the cities.

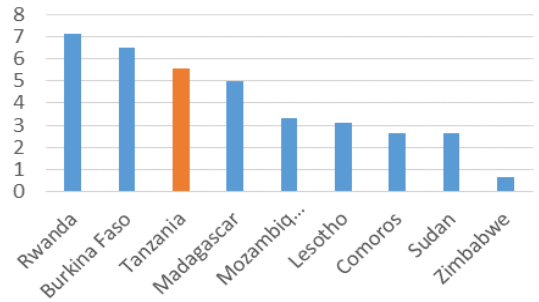
193. **The urban population is growing rapidly.** While Tanzania's population is growing at slightly above 3 percent a year, for the last decade growth of the urban population has averaged 5.5 percent a year (figure 66). In 2012, about 30 percent of the population was living in urban areas; by 2045 this share is expected to reach 50 percent (United Nations 2014). Dar es Salaam is the third-fastest-growing city in Africa.

194. **The urbanization rate in Tanzania is rapid but the country lacks resources to build its cities.** While Tanzania's GDP per capita is higher than most SSA countries with similar urbanization, it is much lower than East Asian countries whose GDP per capita was more than double that of Tanzania when they were as urbanized as Tanzania is now (figures 67). Like other

African countries dealing with rapid urbanization, how to afford the necessary infrastructure to support viable urbanization is a challenge for Tanzania.

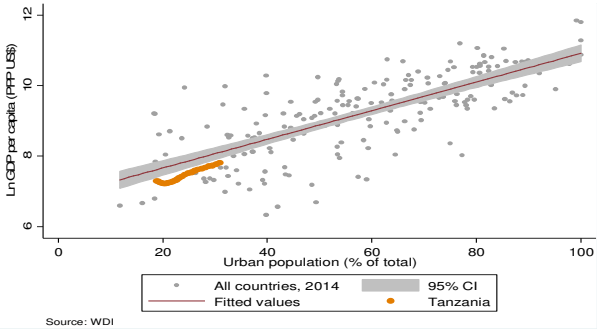
195. **While nontradable services have grown along with urbanization, industrial activities have not yet expanded commensurately.** Firms are dispersed and economic density is low in Dar es Salaam (figure 68).[38] In Dar es Salaam, less than half the firms produce tradables; in many East Asian cities tradable sectors account for about 80 percent (figure 69). The growing concentration of firms in low-value-added services and the informal sector is dampening productivity and the economic benefits of urbanization.

Figure 66. Average Annual Urban Population Growth, 2004–13, Percent



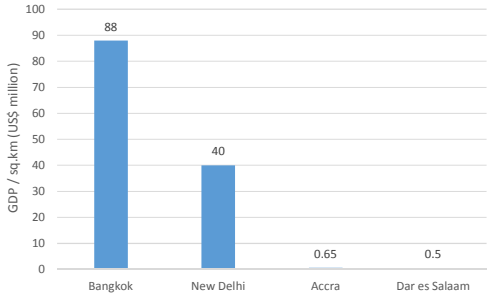
Source: UN World Urban Prospects, The 2014 Revision.

Figure 67: Urbanization Rate and GDP Per Capita, Global Benchmarks



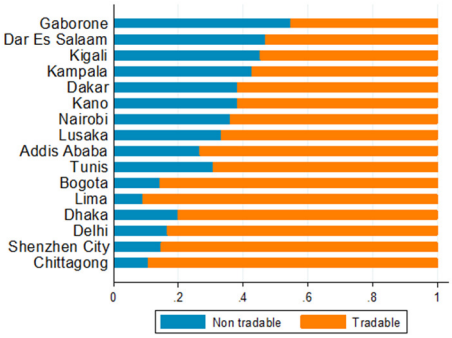
Source: World Development Indicators.

Figure 68. Economic Density



Source: World Bank staff.

Figure 69. Production Mix in Selected Cities



Source: World Bank 2016.

196. **Urbanization is not yet driven by productivity gains from economic density and industrial agglomeration**. Tanzania's urbanization seems to be driven by economic booms from natural resources rather than industrialization. While urban workers earn about 30 percent more in nominal wages than rural workers, when wages are deflated to adjust for cost-of-living differences, the magnitude of the urban wage premium falls and loses statistical significance.[39] This implies that higher nominal urban wages are largely driven by higher prices rather than higher productivity.

197. **Urbanization has led to enormous congestion problems in Dar es Salaam;** the transport problems are particularly challenging. Currently, urban transport in Dar es Salaam, and to a lesser

[38] Over the past 20 years, it is estimated that the Dar es Salaam population grew by more than 263 percent, but "night lights growth" (density of economic activities) grew only 118 percent.
[39] This is based on a study by Jones et al. (2016) drawing on NPS and HBS databases.

extent in other urban areas, is characterized by high levels of congestion; long, uncomfortable journeys; overcrowded buses; substantial air pollution; lack of road safety; a poor pedestrian environment; limited parking facilities; and poor traffic management. Dar es Salaam residents spend an average of 82 minutes commuting one way. The problems are the result of increasing numbers of vehicles coupled with limited resources and weak administration and planning.

198. **Water, sanitation, and other urban infrastructure is also under pressure.** The Tanzania NPS (2010-11) found that 58 percent of households in Dar es Salaam share their toilet facilities, compared to 46 percent in other urban areas and 20 percent in rural areas. Only 12 percent of households in Dar es Salaam and 8 percent in other urban areas have access to a flush toilet. Access to water is not much better: less than 9 percent of urban households use piped water inside their dwellings as the main source of drinking water, compared to 6.3 percent of rural households. The growing medium-sized cities are following these trends.

199. **Urban planning and management are essential for effectively connecting people, industries, and markets and driving productivity growth.** Not only do poor urban infrastructure and limited availability of basic services of adequate quality constrain productivity and adversely affect livability, they also limit further urban densification, which could result in lower unit infrastructure costs and give firms access to larger consumer markets and to labor. Improving the quality of transportation and other infrastructure services in these areas is a critical prerequisite for greater agglomeration benefits and creating many more-productive jobs.

200. **Opening special economic zones (SEZs) is clearly at the center of the Government's growth strategy as reflected in FYDP II.** SEZs in specific geographic areas will promote more competitive industries by making the investment climate more attractive and reducing infrastructure-related bottlenecks (for example, in power supply and other utility connections). As SEZs promote formal work and skill development, human capital and competitiveness will also increase. SEZs have proved their usefulness in many developing countries in offering private enterprises access to land and infrastructure and streamlining administrative procedures when national reforms are likely to move slowly.

201. **Better regulation and infrastructure services are central to the success of SEZs.** In Tanzania export processing zones (EPZs) coexist with SEZs. EPZs are based on tax incentives for enterprises to engage in exporting; most Tanzanian EPZs are single-site factories. SEZs are based on development of physical zones that have improved infrastructure and simplified regulatory procedures. A number of studies have shown that foreign investors are more attracted by a better investment climate than by tax incentives (see e.g., Morisset and Pirnia 2000). The Government intends, according to FYDP II, to develop large-scale SEZs in a few areas. In improving the regulatory environment for SEZs, the Government should gradually prioritize acting as regulator of zones that would be developed by the private sector or through PPPs.

The Tanzanian economy has become more integrated internally through better transport and communication networks but rural-urban divides persist.

202. **Tanzania has succeeded in building a good national trunk road network.** For the last 20 years, the road network has consumed the lion's share of transport investment resources, reflecting its centrality to the transport system. There has also been a significant effort to pave

trunk roads, in line with the Transport Sector Investment Plan and Transport Policy goals of having all regional centers connected by paved roads by 2018.

203. **Mobile telephone-based technology has quickly reinforced economic connectivity.** Tanzania has grown into the largest market in the world for mobile finance by numbers of users and transactions. Kenya still leads in terms of the value of mobile money transfers, but Tanzania is also set to overtake on this indicator. The variety of mobile money products and providers has also led to a much greater innovation: Tanzania was the first country to deliver mobile savings, loans, and interest-bearing products and also the first to develop an inter-operability framework. Figure 70 shows the origin and destination of mobile money flows, highlighting how the technology has established economic links between Dar es Salaam and the regions.

204. **Tanzania needs to put in place connective infrastructure—connecting leading and lagging areas—so that the benefits of economic density are widely shared; however, poor rural roads are deterring connectivity between rural areas and urban markets.** Tanzania has about 56,000 km of tertiary roads. In rural areas most carry few motorized vehicles but a high volume of pedestrians and nonmotorized transport. At least 15,000 km are accessible only by four-wheel drive vehicles, and 20,000–30,000 km are not accessible by motorized vehicles during the rainy seasons (see table 8). Because transport services and facilities are unreliable and inadequate, in many remote parts of the country post-harvest losses are high at an estimated 35 percent of total production. Thus, limited and poorly maintained rural roads are a severe constraint on the development of commercial agriculture.

205. **With the concentration of economic activities and spatial inequalities, achieving inclusive development has been challenging for Tanzania, like many other developing countries.** Regional disparities and income divergences are widening, with Dar es Salaam growing much faster than the rest of the country. The poverty rate has fallen substantially in Dar es Salaam but remains high in rural areas. Social service delivery and public spending also tend to vary considerably across districts. Infrastructure in rural areas needs to be strengthened to improve living conditions and ensure that rural areas are well connected with the rest of the country (World Development Report 2009).

Figure 70. Directions of Money Transfers through Mobile Phones

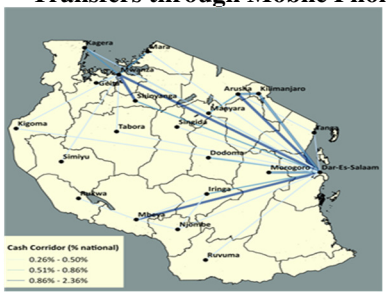


Table 8. Selected Indicators for Different Classes of Roads

	Trunk roads	District roads
Road length (km thousands)	10.6	56.6
National budget for road development (TZS billions)	1,247	12
Road Fund for road maintenance (TZS billions)	365	111
Tarmacking (paved proportion, %)	42	<1
Road condition (good or fair, %)	>90	<60

Source: World Bank Rapid Budget Analysis 2012.

206. **Secondary cities are the connective tissue between rural and urban areas.** They act as markets for agricultural and rural output, as stimulators of rural nonfarm activities, as places for low-skilled job opportunities, and as facilitators of economies of scale in healthcare services and post-primary education. Secondary cities draw sustenance from the agricultural activity of rural areas, but their prosperity also spills over to small villages and rural hinterlands through the

generation of nonfarm employment opportunities, consumption linkages, and remittances. The development of secondary towns can lead to more inclusive and pro-poor growth patterns because the poor find their way more easily to the nonfarm economy and secondary cities, than to distant metropolitan ones.[40]

Effective connectivity both within Tanzania and with neighboring countries fosters economic integration.

207. **Regional integration has already been an important force to the development of firms in Tanzania**, mainly through diversification of destinations and products and growth in regional manufactured exports. Tanzanian businesses could benefit from the EAC common market process. EAC, of which Tanzania is a member, is an entry point for small firms to start exporting, facilitating their access to global markets. Yet, to exploit these opportunities, the infrastructure for domestic and cross-border regional trade and transport must be efficient.

208. **Tanzania's location could be leveraged to help sustain growth**. By providing a virtual landing station for several countries, including landlocked neighbors, Tanzania can gain transit fees from handling Internet traffic to those countries. The concentration of high-value agricultural land near the borders of Kenya, Uganda, DRC, Zambia, and Mozambique also offers opportunities for Tanzanian farmers to access new regional markets.

Regional integration is deepening but the competitiveness of regional corridors needs to be built up.

209. **The EAC is the most integrated regional economic community (REC) in Sub-Saharan Africa.** Intra-EAC exports account for 21 percent of the total exports of EAC members and their volume has been rising since the EAC customs union was established in 2005 (figure 71). The share of intra-REC trade in EAC is much higher than in other African RECs.

210. **The EAC countries are committed to advancing economic integration.** Besides their trade integration through a common market, EAC countries have also decided to move ahead with monetary integration by creating a monetary union: In November 2013, all EAC member states signed the protocol to establish the monetary union and agreed on completing the preliminary stages of integration within two years and laying the fiscal foundation for a common currency in less than 10 years (in 2024). The protocol sets out the process and convergence criteria.

211. **Regional integration has facilitated Tanzania's diversification of manufactured exports,** which today are a larger share of Tanzania's exports to other EAC and SADC countries. For example, in 1993–95 manufactured exports to other EAC countries constituted only 2.4 percent of total Tanzanian exports and to SADC countries just 1.1 percent. In 2008–10 5 percent of total exports went to other EAC countries and 5.5 percent to the SADC.

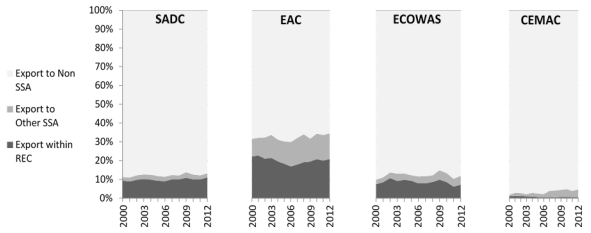
212. **Outbound and inbound transfers of goods with the Mainland constitute a substantial part of Zanzibar's "merchandise trade"** (figure 72)**.** This suggests the importance of transport connectivity between Zanzibar and the Mainland. Relative to Zanzibar's GDP in the past five years, trade and transfers have averaged about 38 percent, almost the same as in the Mainland.

[40] See WDR (2009) and Christiaensen et al. (2013)

However, there are more year-to-year fluctuations due to the small size of the economy (2–3 percent of the Mainland's), they can be a source of vulnerability for Zanzibar.

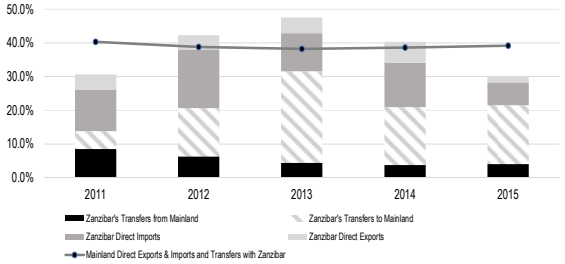
213. **Improving the regional transport network is essential for both competitiveness and closer regional and global economic integration.** Since about 90 percent of Tanzania's international transactions transit through the port of Dar es Salaam, and 35 percent of the total throughput of the port is intended for the landlocked countries of the interior, making this maritime gateway more efficient is essential to regional transport. Recent research points to predictability as being ever more important for logistical performance (Arvis, Raballand, and Marteau 2010). Measured by standard deviation from mean clearance times, delivery of exports in Eastern Africa is only half as predictable as in the average emerging country. The cost of each additional day of delay is estimated to be as high as US$200-400, worsening already high transport costs, and ultimately raising prices.

Figure 71. Export Destinations of Four Major Regional Economic Communities (RECs), Percent



Source: IMF Direction of Trade data.

Figure 72. Zanzibar's Trade and Transfers of Goods with the Mainland and Other Countries, Percent of GDP



Source: Zanzibar Office of Chief Government Statistician and National Bureau of Statistics.

214. **Efficient port infrastructure is a critical catalyst for connecting Tanzania with global markets.** The Port of Dar es Salaam is crucial for connecting landlocked countries to global markets, but it is becoming increasingly unable to do so. Over the last five years, the volume of goods passing through the port has been growing on average by 9 percent a year, with liquid bulk and container volumes increasing even faster. Fourteen percent of the trade of the six neighboring landlocked countries transits through the port, and the volume has been growing at an average annual rate of 16.5 percent. The rapid growth is placing a heavy strain on the port. There is an urgent need to enlarge its capacity, improve its operational efficiency, and heighten the participation of the private sector.

215. **Central Corridor railway infrastructure needs improvements.** The Port of Dar es Salaam is connected by rail to Lake Tanganyika and Lake Victoria and serves Rwanda and Burundi via the Central line, operated by Tanzania Railways Limited (TRL). The port is connected to the Tanzania-Zambia Railway Authority (TAZARA), which serves Zambia, the DRC, and Malawi. However, neither railway operates efficiently or close to its design capacity: Freight carried by TRL fell 87 percent between 2002 and 2011 and now amounts to just 200,000 tons a year; it had peaked in 2002 at 1.5 million tons. The Government is now prioritizing revitalization of both lines and has invested in new locomotives and rolling stock for TRL.

216. **However, integration between the modes has to be closer and a modern logistical chain has to be in place to make the Central Corridor more competitive.** The 2014 Logistic

Performance Index ranks Tanzania 138th out of 160 countries surveyed. Logistics is vital to the economy because it supports the flow of many economic transactions and helps facilitate the sale of practically all goods and services: If goods do not arrive on time, in good condition, in the correct place, at the correct price, customers will not buy. Currently, the links in the logistical chain in Tanzania and the region are essentially operating independently, and there is minimal integration between stakeholders within and outside the port.

217. **In addition to transport connectivity and logistics problems, in Tanzania the business environment for cross-border trade is not good.** The business environment for cross-border trading supports deeper regional integration and increased trade between Tanzania and neighboring countries. The Doing Business 2017 survey ranks Tanzania 180th out of 190 countries for trading across borders, below the median even for the SSA regional average and lowest among the EAC countries. Tanzania performs particularly poorly in terms of the length of time required to export and import. Nontariff barriers (NTBs) are prevalent, but recently Tanzania has made notable progress in strengthening governance to address NTMs.[41] However, further efforts are needed to control NTBs. The EAC Common Market Score Card (CMS) released in October 2016 reveals that of EAC members Tanzania has the highest number of NTBs, having introduced 17 new measures since the previous CMS in 2014 and retained 7 from 2014.

D. Institutional Transformation

218. **The pathway of institutional transformation contributes to growth acceleration through building strong public institutions to provide enabling environment for private sector growth, including effective pubic investments in infrastructure.** In doing so, this pathway complements both structural and spatial transformation, which requires vibrant private sector to drive the transformation process. This pathway helps the country establish strong public sector, which nurtures private sector markets rather than constrains them, and provides a stable predictable policy and institutional environment for private sector operations. It also builds the capability of public sector to make effective public investments in infrastructure to improve Tanzania's investment climate.

219. **The pathway also promotes more inclusion in the country's development by improving the quality of service delivery in social sectors.** The pathway addresses the current unsatisfactory performance in service delivery as reflected in the SDIs in health and education. Inequitable distribution of resources, fiscal and human, among local governments is related to the varying level of quantity and quality of service delivery among different locations in the country.

220. **Sustainability of growth and poverty reduction will be pursued under this pathway by enhancing accountability in the public sector, leveraging ICT.** Improved accountability in the public sector will solidify the relationship between the Government and the public—citizens and private businesses—s the former providing services to the latter in exchange to taxes the latter pay to the former. This will provide a stable basis for the Government to play its role in fostering growth and poverty reduction through its policies and investments.

[41] The Government has set up and is applying mechanisms to address the prevalence and impact of NTBs and nontariff measures (NTMs) through a functional national NTB committee.

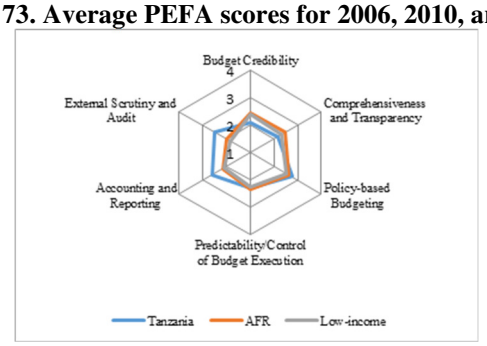
Tanzania has made good progress in reforming the public sector since the late 1990s.

221. **Reforms since the late 1990s have significantly improved management of the public sector.** Four major government programs now address binding constraints and problems within the public service, public financial management (PFM), local governments, and the justice system. Notable progress has been made in installing a Human Resource Management Information System (HRMIS) and an Integrated Financial Management System (IFMS).

222. **The PFM reforms in the 1990s improved expenditure control.** A particular success of this period was roll-out of the IFMS implementation, which helped bring arrears under control. Much of the motivation for reform was due to the need to reach the Highly Indebted Poor Country (HIPC) completion point, which was achieved in November 2001. Such motivation coincided with a reformist presidency.

223. **Tanzania's governance is above average among countries at the same level of income.** Since 2001, the country's scores on the Public Expenditure and Financial Accountability (PEFA) assessments rank it fourth highest of 18 SSA countries, after Burkina Faso, Mali, and Zambia. In 2013, Tanzania performed substantially better than other SSA and low-income countries on external audit and accounting and reporting, though less well on budget credibility and comprehensiveness and transparency (figure 73). The Mo Ibrahim Index of African Governance ranks Tanzania 15th of 52 countries.

Figure 73. Average PEFA scores for 2006, 2010, and 2013



Source: PEFA assessments
Note: Averages were used for each dimension, based on performance as captured in the most recent PEFA and calculated as follows: A=7, B+ = 6, B=5, etc. Higher scores indicate better performance.

Improvements in public sector performance stalled in the mid-2000s but the current administration has committed to improving governance and making the public sector more effective.

224. **The reform momentum began to slow in the mid-2000s and the performance of the public sector generally declined.** It has been difficult to maintain the quality of public services, especially in vital social sectors such as health, education, and water and sanitation (chapter III). Areas of marked improvement between the 2005 and 2013 PEFAs include transparency, competition, and procurement complaints handling; the scope, nature, and follow-up of external audit; and annual budget scrutiny. But many other areas seem to have deteriorated.[42] Since 2008,

[42] Changes in the PEFA methodology and different perceptions of progress and system status make accurate assessments of trends problematic.

as the fiscal deficit grew, aggregate fiscal discipline worsened, and despite the IFMS commitment controls, supplier arrears that had again accumulated.

225. **Both World Governance Indicators (WGI) and the Country Policy and Institutional Assessment (CPIA) show a decline in public sector performance.** According to the WGI, Tanzania's performance has generally declined since 2009 and was most severe in terms of the erosion of political stability, government effectiveness, and control of corruption (figure 74). The CPIA identified a similar decline (figure 75). Public satisfaction with the delivery of government services in health, education, water/sanitation, and other social sectors has been falling in recent years, according to the 2015 AfroBarometer estimates (figure 76).

226. **Public sector reforms will require much more government innovation to adapt to changing development contexts and overcome capacity constraints.** The capacity constraints will also make it hard for Tanzania to implement second-generation reforms. Although more money has been allotted to local governments, their accountability to central authorities has weakened. Measures to curb corruption have also failed to meet their targets. Similarly, few improvements have been achieved in resource management and service delivery.

Figure 74. Worldwide Governance Indicators

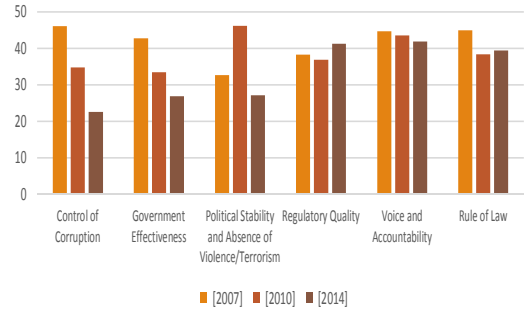
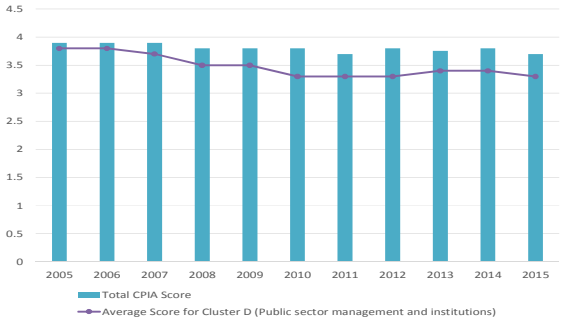


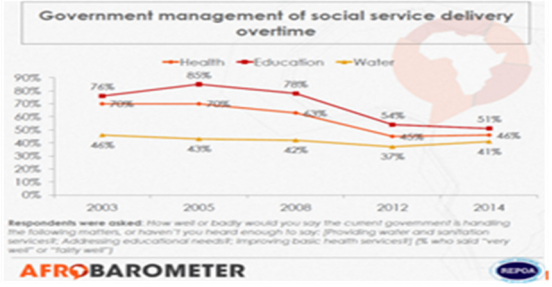
Figure 75. Country Policy and Institutional Assessment



Source: World Governance Indicators.

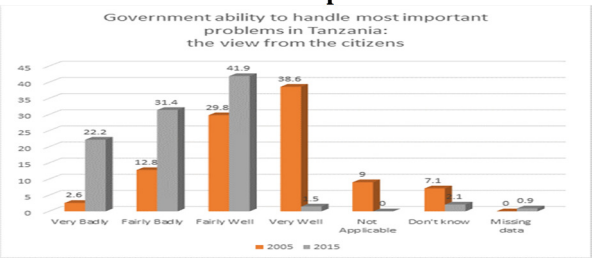
Figure 76. The Afrobarometer Estimate of Tanzania's Performance

(A) Government Management of Service Delivery



Source: Afrobarometer 2015.

(B) Citizen Perceptions of the Government's Ability to Handle the Most Important Problems



Source: Afrobarometer 2015.

227. **Elite capture and rent-seeking are still rife.** The Transparency International Corruption Perceptions Index ranks Tanzania 119 out of 175 countries. Elite capture emerges when there is a concentration of power in the executive, an uneven allocation of economic opportunities, and civil society organizations are unable to take collective action. Inefficient competition within the formal private sector reinforces incentives for rent-seeking behaviors.

228. **The current administration has initiated numerous efforts reform key institutions to fight corruption.** The new administration has started to cut back on nonpriority expenditures, and tax exemptions and evasions have been significantly reduced. Despite its drastic measures to curb corruption, however, anticorruption efforts cannot be fully effective unless they address corruption in service delivery and by senior public officials. It is important to tackle the deep structural issues that have enabled corrupt practices over the past decade.

The quality of service delivery hinges on the financial performance of the public sector including the credibility of the Government budget and financial sustainability of SOEs.

229. **The Government budget credibility has declined in recent years.** The Government continues to experience difficulties in raising the budget execution rate, which is to reduce the gap between actual and budgeted spending. In FY2014/15, the overall budget execution rate was only 86 percent. While the execution rate rose in FY2015/16 partly reflecting the election cycle, the preliminary data for the first semester of FY2016/17 indicates resurgence of underspending. The high level of arrears (chapter III) also undermines the budget credibility. While the 2013 PEFA scores show improvements in some PFM indicators from previous years, key budget credibility measures have declined and remained lower than the SSA average (figure 73).

230. **The under-performance of budget is stemming from continued weakness in some PFM areas including procurement.** The continued problem of under-execution of the budget has been partly due to overly optimistic revenue projection for budgeting, which the current administration is making efforts to rectify. But there are other PFM factors such as inefficiency in procurement and weaknesses in non-salary internal control systems.

231. **The current weakness in budget execution, including procurement, is affecting the quality of service delivery.** Poor predictability in the availability of funds and weak procurement planning and processes have impeded the acquisition of key inputs for service delivery. For example, some donor-funded education projects, which seek to improve the quality of basic education through the provision of capitation grants, have faced difficulty in timely implementation due to lack of counterpart funding. Similar cases have been observed in other sectors.

232. **Weak financial positions of SOEs also affect their delivery of services to the public.** Many SOEs and parastatals, with TANESCO and the Dar es Salaam Water and Sewerage Corporation (DAWASCO) as primary examples, continue facing difficulties in their financial performance. The Treasury Registry in the Ministry of Finance Planning is mandated to oversee financial performance of SOEs through Treasury Registrar, but their oversight function has not been sufficiently strong. The accountability system of SOEs has not been strong enough either although the current administration is making.

Inequitable allocation of resources across districts also affects the overall service delivery performance.

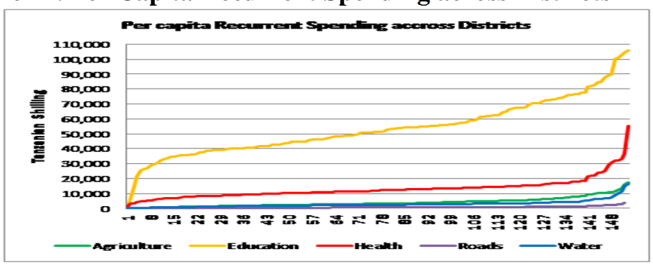
233. **There is a visible disparity in resource allocation in social services among districts** (figure 77)**.** Unequal allocation of public resources in health and education explains the disparities in human development outcomes as discussed chapter III. Those in the poorest and most underprivileged areas receive significantly fewer human and financial resources than more affluent

areas. Over half the regions fall below the national average in terms of the density of clinicians and nurses, and on average, the doctor-population ratio is 17 times higher in urban areas in rural areas. In education, under-resourced districts have worse learning outcomes. Deploying teachers in hard-to-reach areas is difficult; incentive measures and beneficiary engagement and accountability are extremely scarce.

234. **Lack of sufficient incentives for public sector workers has been identified as the main driver of intra- and inter-local government fiscal inequity based on the recent study on fiscal inequity under the Public Expenditure Review (PER) process in Tanzania** (Coffey 2014). The study found that not only are recurrent grants to local government authorities (LGAs) very uneven, in particular salary-related transfers for basic education, health, and agriculture, but that there are similar significant inequities within LGAs: typically, facilities on the periphery of LGAs receive far fewer staff resources than those near the center. The study also found that Central Government staff allocations to relatively underserved areas are often not accompanied with additional incentives and that wage bill resources are closely linked to availability of infrastructure, which further widens existing inequalities by allotting a higher wage bill budget to well-off districts.

235. **The pay incentive system for civil servants still needs more reforms.** Although a new Pay and Incentives Policy was approved in 2010, it is fairly similar to the old one despite its relative emphasis on incentives for public servants working in remote and underserved areas. In particular, insufficient pay and incentives to middle-level public servants continue to demotivate staff. Training and allowances have often been used to compensate staff for a lower salary.

Figure 77. Per Capita Recurrent Spending across Districts in 2014



Source: Public Expenditure Review Rapid Budget Analysis 2014.

Leveraging ICT could help raise public sector capability while also improving the transparency of government activities.

236. **The Government has made significant progress on ICT.** The National ICT Broadband Backbone is up and running, all telecommunications operators have open access to it, and both wholesale and retail Internet connectivity prices have plunged by more than 90 percent. More than 70 percent of ministries, departments, and agencies (MDAs) are now connected to the Government network, and economies of scale are achieved through pre-purchase of international access capacity. The successful government universal access program has resulted in more than 50 unserved or under-served wards in rural Tanzania gaining access to mobile telephony services. In Africa Tanzania is leading the way in pushing forward the Open Data agenda.

237. **Fiscal transparency has improved and budget transparency is reasonable, particularly compared to other SSA countries.** Continued pressure for transparency from civil

society can be credited with bringing about these improvements. Recent reforms include the Open Government Partnership (OGP), which is committed to increasing the transparency of fiscal and budgetary data (box 6). Some difficulties remain, however, as indicated by PEFA scores for transparency, information availability, external audit, and legislative oversight. Some data are not available and those that are often are incomplete and in a form that is not user-friendly.

238. **There are still substantial needs to improve services, leveraging ICT or e-government.** ICT could be very useful in exploiting market opportunities and raising agricultural productivity, for example, through electronic agricultural extension, mobile payments, and using open data to develop sector-specific e-services and applications and learning platforms. Evidence of the impact of Open Data in developed economies shows good returns in sectors like agriculture, transport, and health care, which are of high priority in Tanzania.

Box 6. Tanzania and the Open Government Partnership (OGP) Initiative

In 2011, Tanzania joined the Open Government Partnership (OGP), a unique multilateral initiative where to make government more effective governments pledge to engage citizens, equally and without discrimination, in decision making and policy formulation. The idea behind the initiative is that a more transparent environment with easier access to information would make policy formulation and decision making more transparent and evidence-based, and would create space for mechanisms to foster greater collaboration between governments and citizens. To achieve this open government vision, Tanzania has committed to (1) promoting increased access to information and disclosure about activities at every level of government; (2) increasing efforts to systematically collect and publish data on government performance and spending for essential public services and activities; (3) proactively providing timely high-value information, including raw data, in formats the public can easily locate, understand, and use and that facilitate reuse; and (4) providing access to effective remedies when information or the corresponding records are improperly withheld, and effectively overseeing the recourse process.

The role of state versus market needs to be balanced with the Government's ability to provide enabling environment for the private sector strengthened and robust public-private dialogue established.

239. **In past transitions from a planned economy under a socialist regime to a market-based system, the balance between the state and the market has not always been well-settled.** The Government provides public goods and intervenes to correct market failures; its regulation is necessary to ensure that the market functions properly and efficiently. However, over-regulation pushes up transaction costs for market participants—the private sector.

240. **The still-substantial presence of parastatals in Tanzania is weighing ever more heavily on the government fiscal envelope while crowding out private sector growth by limiting market competition**. State dominance manifests itself in inefficient SOEs that benefit from government-sanctioned market distortions like monopolies, subsidies, and protectionist tax schemes. As with the state-owned power company, TANESCO, SOE operational inefficiency and financial problems are burdens on the government budget.

241. **The Government also has a critical need to make the business environment more supportive by upgrading the quality of regulations and how they are implemented.** Among initiatives the Government has launched to improve the business environment are Business Environment Strengthening in Tanzania (BEST) and the Big Results Now (BRN) Business Environment Lab. However, they have not yet had much impact.

242. **The failure of the private sector to grow post-privatization is due to the compounded effects of anemic market institutions and a poor business environment, which have kept transaction costs high and markets segmented.** High transaction costs and segmented markets give cost advantages to large incumbent firms, some of which were formerly state-owned. They have the means to remain in the market, overcome high regulatory burdens, and possibly network with government regulators.

243. **The country also has a mixed experience in handling PPPs.** According to the World Bank Private Partnership Initiative Database, it has had at least 27 PPP projects in telecommunications, power, water, ports, rail, roads, and airports, in addition to those in local government, health, and other sectors. However, these were generally not very successful (World Bank 2016c). Although the country has a PPP framework in place (2009 PPP Policy and 2010 PPP Act), PPP projects continued to be selected ad hoc. The awards of many of the projects were noncompetitive and nontransparent, which undermined their chances of success.

244. **Predictable and transparent regulation based on strong public private dialogue is of paramount importance to an enabling environment for businesses.** Lack of consistency and reliability in applying formal rules over time raises business transaction costs and is a disincentive to private investment. The private sector in Tanzania continues to voice concerns about ad hoc government interventions and policy reversals. Enterprise surveys show that only half of firms think application of rules is consistent in Tanzania; regulatory inconsistency has been a substantial burden on the private sector. The quality of public-private dialogue needs to be established to foster mutual understanding between the two sectors on objectives and implications of policies which affect the private sector and improve predictability of policy implementation by the Government.

E. Foundations

Building current and future human capital is fundamental for growth and poverty reduction on through all three pathways.

245. **The strength—in terms of both health and education—of the human capital in the population, including children, matters greatly to enhancing the productivity of the current and future labor force.** Today average labor productivity is low in firms and this chapter has already discussed the shortages in skills. While part of the problem is related to the lack of adequate training programs and the low quality of the few that exist, it is also the result of inadequate social services in terms of health and nutrition as well as education. The low quality of human development outcomes has been evident in recent years and the stunting level is high (chapter III). Poor nutrition affects the cognitive skills of very young children and minimizes their future productivity.

246. **Human capital is basic for economic transformations because it fosters innovation and knowledge flows within and across industries.** The empirical analyses in chapter III demonstrated that the education levels of entrepreneurs and farmers are correlated with their productivity and participation in value-addition**.** Building the managerial skills of micro-entrepreneurs in such aspects as finance, marketing, and production management helps make their businesses more profitable by fostering more innovations (e.g., Sonobe and Otsuka 2014).

247. **Human capital is at the core of both spatial and institutional transformation.** Reducing disparities in human development is a key objective of spatial transformation. Despite the national achievements in human development, there are still rural-urban disparities in such central indicators as access to maternity health facilities and services and water and sanitation services, let alone the gap in income poverty (chapter III). The institutional capacity of the public sector also depends on solid human resources. Properly skilled and trained staff resources enhance the quality of services provided by the Government and other public institutions such as SOEs.

248. **Addressing gender gaps is critical to all three pathways.** A number of empirical studies show micro-level evidence from different parts in the world on how empowerment of women contributes to poverty reduction and stimulates growth by improving child well-being and increasing women's participation in productive activities (see Morrison, Raju, and Sinha (2007) for a review). It is crucial to emphasize gender equity in terms of human development outcomes, entrepreneurship development, and access to economic opportunities such as finance and land (chapter III).

249. **Generating more formal employment for women in labor-intensive industries is important for mainstreaming gender aspects in structural transformation.** More women than men are represented in the recent surge in informal employment (table 9), particularly in trade (wholesale and retail) and in hotels and restaurants. Fostering female acquisition of skills and turning their informal employment into formal wage employment, possibly in light manufacturing (e.g., agro-processing, textiles and garments) will have substantial impacts on women's economic opportunities to enhance structural transformation.

Table 9. Contribution to Growth in Informal Employment (%)

	Male	Female	Total
Total	45.0	55.0	100.0
Location			
Dar es Salaam	12.8	14.4	27.2
Other Urban	22.3	29.6	51.8
Rural	10.0	11.0	21.0
Sector			
Mining and quarry	3.8	1.3	5.1
Manufacturing	3.5	3.4	6.9
Construction	8.1	0.1	8.2
Wholesale and Retail Trade	16.1	25.6	41.8
Hotels and Restaurants	2.2	13.4	15.6
Transport	8.6	-0.4	8.2
Other services	3.1	11.7	14.9
Age Category			
15-24	8.6	15.4	24.0
25-34	13.5	16.3	29.8
35-64	22.0	21.9	43.9
65+	0.9	1.4	2.3

Source: Integrated Labor Force Surveys 2001, 2006, and 2014

Without macroeconomic stability, Tanzania's achievements in growth and poverty reduction could be easily lost and its future prospects dissipated.

250. **Given the current external and internal risks, there is no guarantee that Tanzania's stable growth path will be automatically extended.** Although the macroeconomic environment may be positive, the country must still deal with minimizing all the macroeconomic risks discussed in chapter III. External risks mainly relate especially to fluctuations in commodity prices and the

slower growth of the Chinese economy. The low revenue-GDP ratio, mounting arrears throughout the public sector, and high public debt are the main internal risks.

251. **Macroeconomic stability is a prerequisite for economic transformations.** Stability and predictability in domestic prices, the foreign exchange rate, interest rates, and execution of the government budget are important elements of a conducive business environment for the domestic and foreign investors who must drive economic transformations. These transformations will have macroeconomic implications—not only positive implications for growth and the external balance but also potentially negative implications, such as growth in the deficit and higher inflation as the Government scales up its spending to support transformation. Sound macroeconomic management has to be internalized in the transformation process.

252. **With the EAC countries committed to adopting a single currency by 2024, maintaining macroeconomic stability must be part of Tanzania's agenda for regional integration.** Sound macroeconomic policy is crucial if Tanzania is to meet the convergence criteria.[43] A monetary union brings both benefits and challenges. The major benefits are a credibly independent central bank, the reduced possibility of importing recessions, and lower trade costs. But a monetary union also limits the effectiveness of independent monetary policy and raises the risk of sovereign default. Sound macroeconomic policy will become even more important as the EAC countries proceed with monetary integration.

[43] The EAC single currency is expected to be introduced by 2024 by member states that comply with four primary convergence criteria, complemented by three non-binding, indicative convergence criteria that will serve as early warning indicators. Primary convergence criteria are: ceiling on headline inflation of 8 percent; fiscal deficit (including grants) ceiling of 3 percent of GDP; ceiling on gross public debt of 50 percent of GDP in net present value terms; and reserve cover of 4.5 months of imports. Indicative criteria are: core inflation ceiling of 5 percent; fiscal deficit (excluding grants) ceiling of 6 percent of GDP; and tax- to-GDP ratio of 25 percent

V. PRIORITY AREAS FOR POLICY ACTIONS TO ACCELERATE GROWTH AND POVERTY REDUCTION

A. Identification and Prioritization

253. **The SCD seeks to identify priority areas for policy action to enable Tanzania's economic transformation, guided by the FYDP II.** It takes into account Tanzania's unique characteristics; what has been learned about its growth, poverty, and inclusion; and the risks to the sustainability of its growth and the poverty reduction achieved so far. It has also identified three pathways of transformation: structural, spatial, and institutional.

254. **Potential barriers along each pathway were first identified, based on the diagnostic findings and an analysis of pathway performance** (see annex IX for the list). The analyses in the diagnostics and the pathway performance use the results of African country typologies to examine differences between Tanzania and comparators and what factors promote successful transformations. The analyses also use cross-country econometric analyses to investigate determinants of growth by estimating the impact of a large number of explanatory variables on GDP growth. They also call up WBESs and estimation results from micro-econometric analyses using Enterprise Surveys data, ILFS, HBS, and NPS data.[44]

255. **Priorities for action, through reforms or investments, are identified in terms of their relative short- to medium-term contributions to growth acceleration, inclusion, and the sustainability of growth and poverty reduction.** Priority areas for growth are identified based on variables with the most significant impact on investment, employment, and business performance. Those for inclusion are based on how they will affect the income opportunities of the bottom 40 percent and women. Those promoting sustainability and resilience rely on how well Tanzania can mitigate sustainability risks by building resilience into the economy and by generating growth and reducing poverty.

256. **In addition, the analysis considered how the solution to a specific constraint can help unlock or otherwise affect other constraints at the same time.** For example, if the Government mobilizes more revenue, it could invest in more adequate infrastructure to make services more available to the public. The better services resulting will then support better human development outcomes, helping to build a more skilled labor force; such investment will also make services more accessible in rural areas. This kind of "externality" filter helps identify priority areas that have positive spillovers to other areas, maximizing the impact on growth and poverty reduction.

257. **Using these criteria, complemented by consultations with stakeholders, 9 priorities have been identified based on the three pathways presented in chapter IV** (table 10)**.** The SCD team consulted government officials, development partners, and representatives of research institutes, civil society organizations, local community groups, and the private and informal sectors, and met several times with the WBG Tanzania Country Team to validate the selection of priority areas.

[44] See, e.g., the regression results in the CEM (2014) and the Poverty Assessment (2015).

258. **The selection of priorities does not mean that other areas are insignificant**; the priorities were selected with a view to promoting progress toward the WBG's twin goals of eradicating extreme poverty and enhancing shared prosperity. While these goals are closely related to national development priorities, the Government is also working to address other constraints.

259. **Supporting the 9 priority areas are the 2 foundational areas, corresponding to human capital and macroeconomic stability foundations in the pathway framework** (chapter IV).

Table 10. Priority Areas and Foundational Areas

Pathway	Priority Area	Externality	Growth Acceleration	Inclusion	Sustainability
Structural Transformation	1: Develop a competitive business environment to boost private sector growth, particularly in agribusiness and other job-creating sectors.	High	Large	Large	Medium
	2: Improve the performance of the power sector through better planning and ensuring the financial sustainability of the sector.	Medium	Large	Medium	Large
	3: Expand access to finance by addressing unmet needs for financial inclusion.	High	Medium	Large	Large
	4: Enhance sustainability of natural resources through effective policy and institutional frameworks.	Medium	Medium	Large	Large
Spatial Transformation	5: Strengthen rural-urban connectivity through enhanced rural transport and market linkages between villages and secondary cities.	High	Medium	Large	Large
	6: Boost urban productivity through better urban planning and reduction in urban congestion.	High	Large	Medium	Large
	7: Remove bottlenecks in trading across borders by building up infrastructure for regional connectivity and improving the business environment for trade.	High	Large	Medium	Medium
Institutional Transformation	8: Improve delivery of public services by ensuring equitable allocation of resources, strengthening accountability and leveraging ICT.	High	Medium	Large	Large
	9: Enhance mobilization of government revenue.	High	Large	Large	Large
Foundational Area					
F1: Strengthen human capital development by promoting health, education, skills, and early childhood development.					
F2: Ensure macroeconomic stability in order to ensure fiscal sustainability for the implementation of FYDP II.					

B. Specific Priority Areas

Priority 1: Develop a competitive business environment to boost private sector growth, particularly in agribusiness and other job-creating sectors.

260. **Building an attractive business environment is fundamental for structural transformation.** Tanzania's slow progress in business environment reforms, as reflected in its Doing Business scores, dampens the growth of firm and farm productivity (chapter IV). Special attention is needed to the business environment in agriculture, since agriculture is the most critical foundation for structural transformation (chapter IV).

261. **A concerted effort to improve the general business environment is crucial for realizing private sector growth and job creation.** Given that job creation is the most immediate

avenue to promoting pro-poor growth and the private sector employs the bulk of Tanzania's workforce, a significant improvement in the business environment is necessary to accelerate growth and promote shared prosperity.

262. **To facilitate structural transformation and industrialization, the Government should defer to the private sector by limiting its market interventions to its regulator role and ensuring an enabling environment for private sector growth.** As a regulator it can be helpful by enabling the market to function effectively and efficiently**.** Investments in public goods should include building the infrastructure that is crucial for industrialization, such as for power and gas. For government investments in infrastructure investments, global experiences show that leveraging private resources through competitively selected PPPs has often proved successful not only in reducing the fiscal burdens on governments but also in managing projects more efficiently (World Bank 2016c).

263. **To make Tanzania's business environment more attractive for both domestic and international investors, business regulations need to be rationalized and their enforcement needs to be more predictable.** In Tanzania, administrative procedures in taxation, licensing, inspections, and other compliance requirements are burdensome, particularly in agriculture and tourism (chapter IV). Improving how regulations and policies are implemented to ensure predictability would also improve the business environment. Inefficiency in tax administration may be more burdensome for business than high tax rates. Frequent and ad hoc changes in regulations and policies also negatively impact the investment decisions and performance of businesses.

264. **The business environment for agriculture has to be more conducive by reducing regulatory burdens in the sector and state interventions to the market in order to enhance the sector's productivity and commercialization.** Agricultural productivity and commercialization are closely correlated (see chapter IV). Efficient marketing will be particularly important. The Government should minimize its interventions in the sector to reduce market distortions (chapter IV). This includes rationalization of functions of the commodity boards and the market licensing regime in the sector such as export licenses. The multiplicity of taxes and fees, including crop cess, have to be addressed as well in order to raise the prices farmers net. The FY2016/17 Budget Speech (July 2016) expressed a commitment to rationalize agricultural nuisance taxes; speedy action on the commitment is crucial.

265. **Agricultural marketing must be improved through setting up necessary market institutions such as quality standards.** Quality standards and certifications are crucial for building competitive value chains and complying with global market requirements. The national quality infrastructure (e.g., metrology, certification, standardization, and accreditation services) must be modernized. It is also important to address current institutional failures: The lack of harmonization between national and regional standards for agricultural inputs and products and costly regulatory overlaps—such as that of the Tanzania Bureau of Standards and the Tanzania Food and Drugs Authority on food safety matters—compromise the local and international competitiveness of agricultural goods (World Bank 2016e).

266. **Access to land needs to be improved both for agriculture and manufacturing**. Difficulty in securing land is also perceived as a major investment climate constraint, particularly

by medium-sized enterprises (chapter IV), and is often a bottleneck for foreign industrial investors. Commercializing agriculture requires more land, which needs to be based on an accountable and transparent mechanism for registrations and transfers (chapter IV).

267. **The Government should proactively introduce more competition into the market, through a strong competition regime, procurement, and PPPs, in order to improve efficiency and give industries incentives to deliver the best deals for consumers and the Government.** Implementation of the competition policy framework (Fair Competition Act, FCT, FCC) has to be strengthened (chapter IV). The Government should also encourage more competition in its procurement of goods and services as well as in public investments when PPPs is explored.

Priority 2: Improve the performance of the power sector through better planning and ensuring the financial sustainability of the sector.

268. **Earlier diagnostics revealed the fact that unreliable power is a significant impediment to structural transformation** (chapter IV). At the same time, Tanzania still has a large infrastructure deficit in power with access to electricity is still low, in particular in rural areas (chapters III and IV). The poor performance of TANESCO is not only constraining productivity growth of the private sector but also raising fiscal risks in the economy (chapters III and IV).

269. **It is urgent for the Government to adopt a credible strategy to bring TANESCO back onto a sustainable financial path.** This includes clearance of large stock of arrears TANESCO owes to IPPs and EPPs of about $400 million. Rigorous efforts are needed to improve the overall efficiency of the system to reduce technical and commercial losses, enhance its revenue, and reduce the overall cost of power supply.

270. **The Government's strategy to leverage onshore natural gas for power generation has to be implemented without delays to reduce the overall cost of power generation.** The gas pipeline between Mtwara and Dar es Salaam was completed in 2015 and the 150-MW Kinyerezi I gas-fired power plant was commissioned in March 2016. Getting the gas-to-power investment program launched, although with some delay, has improved the operational balance of TANESCO this year. The program will continue under the FYDP II. However, in order to substantially change the cost structure before another major shock arrives, progress in moving the gas-to-power program forward must be expedited.

271. **Given that twice in the past decade, too little rainfall has pushed TANESCO into financial crisis, sector investment planning has to be strengthened to ensure that services are reliable.** Legal, regulatory, institutional, and policy reforms in the past 10 years have failed to put the power sector on firmer financial footing. This demonstrates poor planning and an inadequate investment program. Electricity generation is constrained by delays in investment and a suboptimal technology mix. The past three years have seen only about 210 megawatts in new generation capacity installed. Investment planning needs to be improved both institutionally and technically.

272. **Greater private participation in investments in energy—through competitive processes—will narrow service-delivery gaps and relieve pressures on government resources.** Private participation, through IPP arrangements and PPPs, is rightly viewed as necessary in years to come to complement public funding of the infrastructure needed, especially in the energy sector. However, private sector participation has mostly materialized without a

proper process of competitive selection, which lessens the likelihood of the country receiving value for money.

273. **The country also needs to strengthen the power sector structure and the governance.** The Government has adopted its strategy to unbundle the power sector in the long run (chapter IV). In implementing such strategy, a plan for strengthening corporate management and performance of TANESCO has to be prepared. Such plan should contain governance and efficiency improvements measures, including management reorganization, competitive appointments, internal decentralization, reduction in technical, billing and collection losses, strengthening of management information systems, and increased use of pre-paid meters and advanced metering.

274. **The Government should also scale up efforts to improve rural access to electricity, which remains low** (chapter III)**.** This includes ensuring adequate budget contributions to the Rural Energy Fund to implement projects outlined in the National Electrification Prospectus and complete the National Rural Electrification Master Plan to lay out an annual investment plan.

Priority 3: Expand access to finance by addressing unmet needs for financial inclusion.

275. **Although access to financial services is much better today, it has been dominated by informal financial services, and the needs of the poor and women are still unmet while limited access to finance is one of the top business constraints.** There are still not enough banks and formal financial services, and according to the 2014 Findex Survey (chapter III), gender and income gaps have even widened. Given their limited access to formal banking and high interest rates they would face, small businesses consider access to finance to be their top constraint (chapter IV).

276. **Scaling up access to finance through the implementation of NFIF is of high priority.** Access to finance is basic to economic activities, especially investment. If private businesses are to grow or poor households to generate income to break the cycle of poverty, both need external financing to invest. The effective implementation of NFIF, which was launched in 2013 (chapter IV), is critical in scaling up access to finance in the country, particularly among women and SMEs.

277. **As a key pillar of NFIF, reliable and secure electronic payment platforms have to be established.** In Tanzania, the payment ecosystem is fragmented with multiple platforms and limited interoperability for financial institutions. This is keeping the cost of access to electronic payments high. A national switch could be established as a common electronic platform among all other existing switches in the country, thus increasing the degree of inter-connectivity among providers.

278. **Measures should be taken to address information asymmetry between potential lenders and borrowers, in particular by strengthening credit reference bureaus or credit verification systems, which will lower the cost of credit**. Recent initiatives in Nigeria, South Africa, and Rwanda have proved the benefits of establishing private credit bureaus (Berg and Fuchs 2013). In Tanzania, the Credit Reference System was created by BoT in 2012 consisting of the Credit Reference Databank administered by the BoT itself and private credit reference bureaus. The coverage of credit reference bureaus has expanded recently as reflected in its recent positive

outcome in Doing Business 2017 ranking. Further efforts are important to scale up the coverage. Availability of a robust national ID system is also an important infrastructure for credit verification systems.

279. **A robust legal and regulatory framework to govern secured transactions in the country, including development of a central collateral registry, should be established.** Tanzania currently lacks an effective collateral management system. As a result, financial service providers are forced to rely on a fragmented and rudimental process of registering collateral thus negatively impacting their credit risk mitigation measures and increasing the cost of credit to borrowers. Lenders are averse to using movable assets as collateral and largely demand immovable property, which most MSMEs do not have. It is essential to ensure the enactment of an appropriate legal and regulatory framework and the establishment of a centralized electronic collateral database that will create efficiency in the registration of collateral, making it accessible to all providers.

280. **Financial inclusion efforts must go beyond financing to promote financial literacy.** In addition to expanding access to credit to the poor or microenterprises, inclusion implies a need to empower them by heightening their financial literacy, and educating them on the best available financial options, saving for life events, and using insurance or other insurance products to anticipate unexpected events.

281. **Availability of term financing in Tanzania should be enhanced to improve access to finance in Tanzania for SMEs.** The availability of financing for investment remains critical, as shown by the enterprise survey data which indicate that access to finance is the biggest constraint for SMEs. The mortgage market has developed very quickly as a result of the credit line managed by Tanzania Mortgage Refinance Company Limited. Pension funds can provide a very important source of long term assets which could be used to finance the rest of the economy.

Priority 4: Enhance sustainability of natural resource through effective policy and institutional frameworks.

282. **Sustainability of natural resources is critically needed for structural transformation while the country faces risks of resource depletion for some resources** (chapters III and IV)**.** The average annual per capita volume of renewable freshwater is falling alarmingly to a level characterized as water-stressed (chapter III)**.** Climate variability, resource degradation, and pollution threaten the sustainability of such critical water-using sectors as hydropower, irrigation, mining, tourism, livestock, and urban and rural water supply.

283. **The country must strengthen its natural resource management by carefully balancing competing demands on the resources through effective inter-sectoral coordination in resource uses.** As the country continues to benefit from its rich natural resources, such frameworks should ensure a higher level of efficiency in managing and leveraging natural resources. This includes well-coordinated planning of resource uses across sectors given the risk of resource depletion has been propelled by uncoordinated resource exploitation in the context of resource-based economic growth (chapter IV). For instance, the planning and development of water basins needs to be synchronized with the plans of other sectors.

284. **Institutional capacity of managing natural resources has to be strengthened particularly at the central level**. The Government's environmental agency (Vice President's Office – Environment) has a cross-sectoral mandate and works to mainstream environmental issues across government. Some sectoral ministries have developed sectoral environmental action plans. However, ministries lack sufficient capacity in terms of budget, staffing, and expertise to adequately address the issues related to environment and natural resource management, including climate change. Having strong institutions, capacitated with the right skill set to integrate natural resource into the Government's implementation of its development policies. In addition, the agency entrusted with environmental protection and stewardship, and oversight of environmental impacts assessments (NEMC) needs substantial support to keep pace with other developments at the sector level.

285. **Transparency in the natural resource sectors has to be strengthened.** For example, the effectiveness of Wildlife Management Areas (WMAs), which are designed to promote community-level stewardship of natural resources, can be enhanced by increasing transparency of the flow of funds to involved stakeholders. Given the significance of the tourism industry to Tanzania's economy, enhancing the effectiveness of WMAs to achieve the better protection of wildlife and to indirectly tackle the poaching crisis is critically important. The experiences from the Extractive Industries Transparency Initiative (EITI) in Tanzania as well as elsewhere in the world show that the improved transparency in revenue collections also lead to improved revenues for governments.

286. **Regulations to govern natural resources have to be well designed for effective impacts for conservation while avoiding unnecessarily burdens on the side of private sector.** For example, controlling fishing activities through the imposition of a well-designed licensing system and of spatial and/or temporal closures will reduce the current pressures on fishery resources. Using stock assessments as the basis for determinations, limiting licensing and strengthening the management of priority fisheries will ensure maximum levels of sustainable production and revenues into the future. At the same time, regulations in managing natural resources also need to be designed in a way to avoid excessive burdens on the private sector. The Government needs to take a holistic approach in setting an effective regulatory regime so that overlaps among regulations are removed to address multiplicity in taxes, licenses, and fees in tourism (chapter IV).

287. **There is a need for concerted and sustained efforts to establish a growth strategy that is resilient to climate variability**. The Government identifies that priority sectors for adaptation are agriculture, livestock, coastal and marine environments, fisheries, water resources, forestry, health, tourism, human settlement and energy, while priority sectors for mitigation are energy, transport, forestry and waste management. Therefore, implementation of Tanzania's INDCs (annex V) requires substantial coordination of efforts across ministries. Tanzania is highly vulnerable to climate change, with the average temperature rising and precipitation becoming increasingly unpredictable. Given these threats, Tanzania needs to further develop its strategy for climate change adaptation and to implement the strategy effectively through targeted programs and investments.

288. **Inter-sectoral coordination needs to be strengthened for non-renewable resources such as natural gas as well.** Effective development of gas requires the consideration of fiscal issues, environmental issues, educational issues and more. For example, the environmental

obligations placed upon oil and gas companies must be harmonized with the Government's broader environmental management goals and priorities (see box 7). Similarly, local content and local training obligations placed on oil and gas companies should be coordinated with the Government's broader goals to increase skills and capacity that will be applicable beyond the gas sector.

Box 7: Integrating Environmental and Social Sustainability Issues in Extractive Sector Investments.

Many of the oil and gas concessions in Tanzania overlap with protected areas. Several offshore concessions overlap with areas designated as wetlands of international importance under the RAMSAR convention, and several others could affect key biodiversity areas. A number of onshore concessions fall within the boundaries of national parks and several could affect the Serengeti and Selous World Heritage Sites. More coordinated approaches are needed to ensure proper implementation of Environmental Impact Assessments before investments are made and provide incentives to investors on corporate social responsibility to address investment-induced risks to the local environment and social structure (e.g., local inflation, in-migration, and related health problems).

289. **Further strengthening of the legal and institutional framework is required for natural gas.** Tanzania has recently adopted the Petroleum Act and the Oil and Gas Revenues Management Act. The new Petroleum Act is intended to introduce a long-awaited and comprehensive legal framework for the petroleum business chain. However, the Act includes a series of elements which are likely to discourage or delay the massive investment needed in petroleum exploration and development as well as implementing the LNG project. The legal, fiscal and institutional framework in the Act will still need to be updated and benchmarked to ensure that it is internationally competitive and in line with best practices, whilst taking into account the Government's need to maximize potential revenues from gas.

290. **Implementation of land laws needs to be strengthen to ensure not only improved access to but sustainable management of land.** The weak implementation of land laws is the primary problem in enhancing effectiveness in land management (chapter IV). Large-scale agricultural investments need to be accountable and transparent and, where appropriate, to operate in collaboration with smallholders to expand economic growth and benefits. Foreign companies can obtain rights of occupancy or Tanzania Investment Center (TIC) derivative rights on general land only. Any village land in which they are interested must first be transferred to general land before it is allocated to them; these transfers in particular need to be accountable and transparent (box 8).

Box 8: Transfers of Village Land to General Land.

While derivative rights may be easier to obtain than rights of occupancy, in practice very little land is readily available in the TIC Land Bank, whose land parcels are too few and too small. Property rights in land that might be available for investment need to be clarified before the Government takes land from villagers to lease it to investors; otherwise, the consequence, as recently in Ethiopia, may be upheaval and outbreaks of violence. If both villagers and investors are to benefit, transfers must be based on voluntary and informed agreements, fair compensation, and avoidance of resettlement. The internationally accepted Principles for Responsible Investment in Agriculture provide a framework for avoiding possible pitfalls. The Government of Tanzania is already discussing options for business models that include and benefit both small- and large-scale farmers

291. **Smallholder land security needs to be more reliable to encourage farmers to invest in long-term sustainable solutions**. Farmers claim to have title to 12 percent of the plots they own, but only a third of the titles are officially recognized, among them Certificates of Customary Rights

of Occupancy or Granted Rights of Occupancy. Others are semiformal inheritance letters or letters of allocation from the village government, which do not provide full security. This limited recognition of land holdings undermines farmers' ability to buy and sell land and use it as collateral. Secure land tenure could help not only to build agricultural productivity—and therefore food security—but also to mitigate climate change.

Priority 5: Strengthen rural-urban connectivity through enhanced rural transport and market linkages between villages and secondary cities.

292. **Having achieved substantial national trunk road improvements in the past decade, Tanzania now needs to turn its attention to linking local roads effectively to the trunk road system to facilitate farmers in rural areas better connected with markets in urban areas.** Access to roads is identified as an important factor for growth in rural incomes based on 2012 Household Budget Survey data (chapter III). Better rural roads will reduce the costs of moving agricultural products and foster agriculture marketing and commercialization, thus increasing farm-gate prices.

293. **The Government needs to prioritize improvements in the quality and quantity of rural roads, which will enhance living conditions and economic opportunities in rural areas.** Both the quantity and the quality of rural road development is far behind those of trunk roads (chapter IV). Rural transport is crucial for local communities to access not only goods but also services such as health care, education, business facilities, and governmental and nongovernmental development projects. Limited and poorly maintained rural roads deter the development of commercial agriculture by raising the costs of producing and marketing agricultural products and worsen post-harvest losses.

294. **Adequate financial resources need to be secured for rural road development.** Rural roads are seriously underfunded (chapter IV). It is important to allocate a sufficient, reliable level of budgeting to upgrading and maintaining these facilities. The allocation of these funds is essential to reduce or eliminate the extent of the network that is impassable during the rainy seasons. PPPs and a dedicated rural road fund could be considered as options to fund the construction and maintenance of transport infrastructure.

295. **Regional value chains should be developed to strengthen connectivity between secondary cities and surrounding rural areas.** Investments in rural roads will not themselves improve the economy. Tanzania should support the creation of value chains by focusing on processing industries in secondary cities that are reliant on rural agricultural or natural resource inputs (chapter IV). These industries should be selected and specialized to the specific advantages and disadvantages of the urban center and its transport conditions. Strategic investments in infrastructure and public goods in promising cities (that promote access to markets) can accelerate their potential for economic growth and shared prosperity, while limiting the negative externalities of urbanization such as congestion, geographic concentration or poverty.

296. **Sustained investments in basic infrastructure, solid institutions, and adequate financing systems will be required in secondary cities to facilitate their transformation into more productive, job-creating cities that can connect with rural areas.** Some medium-sized cities are already making significant gains. For example, Arusha has adopted new e-government

systems for its own-source revenue collection, which has significantly improved revenue collection, almost doubling revenues within one year. Together with well-designed strategic investment plans, improvements in transport infrastructure, logistics, and connectivity can facilitate more balanced regional growth. A network of efficient cities across the country will also support delivery of services to rural areas.

Priority 6: Boost urban productivity through better urban planning and reduction in urban congestion.

297. **Given its critical role in the national economy and in job creation, transforming Dar es Salaam, which will have about 10 million population in 15 years, into an efficient metropolitan area is a major national priority.** The quality of its recent growth is questionable given its inability to provide the services and infrastructure required to meet the needs of its burgeoning population (chapter IV). Global experience shows that only a very small number of cities have been able to address the issues associated with urban growth once they reach that size. Without swift action to address gaps in investments, planning, and institutions, the city is likely to become simply a sprawling network of informal settlements.

298. **There is an urgent need to address problems created by badly managed urbanization by building appropriate institutions, better planning, and sound enforcement of zoning and related laws.** Dar es Salaam has outgrown its current governance model. None of Tanzania's largest cities has a valid master plan or a strategic development plan. The problem is especially acute in Dar es Salaam, where the last formal strategic development plan was approved in 1978. Implementing evidence-based plans and more robust enforcement of zoning and building permits will help guide major investments, support private enterprises, and enable better land administration.

299. **Reduction in urban congestion continues to require serious attentions to improve to boost urban productivity and strengthen rural-urban connectivity.** Better urban transport systems, particularly in Dar es Salaam, will help reduce congestion The Dar es Salaam Bus Rapid Transit project, launched in 2015, has made a noticeable contribution to resolving the ever-growing challenge of congestion. However, most initiatives to deal with highly congested urban transport systems, especially in Dar es Salaam, still are not incorporated into the broader context of urban planning. A strategic approach to identifying, planning, and effectuating urban transport interventions is vital.

Priority 7: Remove bottlenecks in trading across borders by building up infrastructure for regional connectivity and improving the business environment for trade.

300. **If Tanzania is to exploit its potential as a regional transit hub, it is urgent that it address behind-the-border constraints on regional and international trade.** This includes both trade logistics and the general environment for trading within Tanzania (chapter IV).

301. **The capacity and the efficiency at the Port of Dar es Salaam have to be improved to raise the competitiveness of the Central Corridor.** Connectivity between Tanzania and global markets is low due to the limited capacity of the port—which is central to connecting Tanzania and its landlocked neighbors with global markets (chapter IV). Urgent actions are needed to

expand the port capacity while improving efficiency of the port management function by the Government through TPA.

302. **As an important trade facilitation system, the Government should expedite the introduction of electronic single window (ESW) at the Port of Dar es Salam, which will improve efficiency and transparency of port operations.** The introduction of ESW, a critical platform to promote inter-agency coordination at the port, would substantially accelerate the transactions required by several agencies and reduce cost for traders. Total ESW will integrate the existing platforms of the Port Community System managed by TPA and the customs-clearance system called TANCIS managed by TRA. The Government has set up the inter-agency task force to implement ESW and identified 31 core institutions to participate in the system. However, the overall pace of the preparation has been slow.

303. **A competitive inter-modal transport system has to be developed to effectively link the Port of Dar es Salaam with other modes of transport.** In particular, the railways need to be revitalize in order to establish linkages with the ports on the inland lakes and to strengthen the overall efficiency of the Central Corridor**.** Development of feeder roads around the Port of Dar es Salaam also improves the regional connectivity while alleviating traffic congestion in Dar es Salaam.

304. **The Government needs to make rigorous efforts to control NTBs to improve the marketing environment at the border.** On the Doing Business indicators, Tanzania is doing particularly badly on trading across borders (chapter IV). Despite recent efforts to improve processing through the One-Stop Border Posts Initiative, inadequate policy and institutional incentives (such as less-transparent NTBs) continue to cause market distortions. On the recent EAC CMS, Tanzania had the largest number of NTBs (chapter IV). NTBs are particularly restricting agriculture trade. Addressing such barriers will enhance competitiveness of agriculture sector in Tanzania.

Priority 8: Improve delivery of public services by ensuring equitable allocation of resources, strengthening accountability and leveraging ICT.

305. **Tanzania continues to find it difficult to deliver high-quality health and education services, which has deleterious effects on progress on human development.** This is reflected in the service delivery indicators (SDIs; chapter III).

306. **To improve the quality of basic services, the Government needs to ensure an efficient public finance system is in place particularly at the local level.** With the funding of social services decentralized, about 72 percent of the total LGAs budget is allocated to education and health sectors, with the rest going to other sectors and general administration. With increased national resources directed to LGAs, it is important to ensure that they are used efficiently through a sound system of local government finance and consistent on expenditures. It will also be necessary to resolve the chronic problem of delays and wide variability in social science resource transfers to districts and schools.

307. **Distribution of resources for social services has to become more equitable across districts by restoring functionality and consistency in applying formula-based system for allocations to LGAs.** The formula for allocating development grants and other charges among

LGAs is both need- and performance-based. Salaries and wages are largely allocated on the number of current staff, which is simple but highly inefficient. The inequity in recurrent allocations indicates not only that the formula based system is inconsistently applied and not well understood but also that staffing varies by region, with more staff in urban areas (Tanscott Associates 2013).

308. **The Government should also review the current incentive framework of service providers and introduce a robust performance-based HR management system to improve the quality of service delivery.** Currently, salaries and benefits for public servants encourage absenteeism and minimal effort (see the SDIs for health and education, chapter III). Accordingly, addressing systems both for providing incentives and for supervising and overseeing how public services are delivered is of paramount importance to ensure enough services of appropriate quality. Overhauling incentive systems and strengthening oversight and supervision of public service performance is important to ensure sufficient quality and quantity of services. Instituting performance-based criteria for hiring managers and staff and ensuring adequate funding for social services through transfers to local governments are also critically important.

309. **Information technology has to be leveraged more effectively in the public sector to improve the overall efficiency and transparency of service delivery.** Major investments have been made in the IFMS and the HCMIS, among many others. The Government also laid the fiber optic cable that now links all regional headquarters. It should now scale up these initiatives to improve efficiency, reduce service transactional costs, and minimize discretionary behavior. Future efforts could focus on lowering service transaction costs by improving HCMIS, IFMS, and other systems and fiber optic connectivity. More robust ICT systems can also improve government-citizen dialogue through both service delivery dashboards and ICT-enabled citizen voice platforms.

310. **The Government needs to make rigorous efforts to ensure transparency and accountability in the use of public resources and the delivery of public services.** Studies by nongovernment organizations like Twaweza and Research on Poverty Alleviation (REPOA) found that in recent years citizens have increasingly spoken up on major issues of concern. This has led them to demand more information from the Government, which in coming years will need to be more responsive and accountable to citizens. Government commitment to the Open Government Partnership and the Tanzania Open Data Initiative are major steps in the right direction. The Government has also adopted an Access to Information Act. Making data on service delivery available to both decision makers and citizens will enable honest discussion and appreciation of government performance and improve accountability and service.

Priority 9: Enhance mobilization of government revenue.

311. **The Government's revenue constraint is a binding constraint in many aspects that are key to the three pathways and limits the prospect of accelerating pro-poor growth.** Notwithstanding recent government efforts to enhance revenue collection, the tax revenue ratio in Tanzania is among the lowest anywhere (chapter III). The Government's budget allocation continues to emphasize fiscal decentralization, particularly for health and education. However, with the fiscal situation tight, transfers to LGAs are often delayed, as has happened in the last few fiscal years, which negatively affects delivery of those services. The tight fiscal situation could

also undermine the effectiveness of targeted social safety net programs. Significant scaling up of public investments as FYDP II envisaged will also require growth in domestic revenue.

312. **The Government needs to continue scaling up efforts for mobilize domestic revenue through a combination of tax policy and administration efforts.** Such reforms include further elimination of exemptions, rationalization of a number of taxes and fees, and an efficient taxation regime for the natural resource sector, will be needed to broaden the tax base and raise more revenues. Specifically, the value-added tax (VAT) system would benefit from elimination of some remaining exemptions and strengthening of the refund mechanism; income taxes could be simplified, exemptions (including for export processing and special economic zones) minimized and the tax base broadened; and for excise duties, some distortionary exemptions should be removed.

313. **The efforts to increase domestic revenue has to be based on robust public-private dialogue.** While the Government should strengthen measures to improve tax collection, these measures should be implemented in a business-friendly way in order to ensure that taxation does not become a heavy burden on businesses to the extent that it depress their growth. Also, changes in taxes without proper prior consultations will also reduce policy predictability and weaken investment climate. In order for businesses to collaborate with the Government in scaling up tax collections, they have to have confidence in the Government making sound public investments and properly delivering services to the citizens. Therefore, any government measures to scale up revenue mobilization has to be underpinned by strong public-private dialogue.

314. **The capacity to develop and manage PPPs has to be built urgently.** PPPs could supplement limited public resources. However, the country has not been fully successful in leveraging PPPs (chapter IV). It is important that Tanzania's experience and its comprehensive PPP framework be informed by lessons from global best practices to ensure that PPPs contribute fully to Tanzania's economic development.[45] The current administration has decided to mandate the Ministry of Finance and Planning to provide the overall oversight on PPPs. This will facilitate the Government to ensure that PPPs are well integrated in the Government's public investment strategy (as reflected in FYDP II) and annual budgets. However, substantial capacity gaps remain both at the Ministry Finance and Planning and sectoral ministries in developing and managing PPP projects.

C. Foundations

Foundation 1: Strengthen human capital development by promoting health, education, skills, and early childhood development.

315. **Health and education systems need to become more efficient and effective to raise the quality of human capital and therefore current and future labor productivity.** High- and medium-skilled workers currently account for less than 20 percent of Tanzania's labor force (chapter III). It is possible that, by 2030, this figure can reach almost 35 percent because of increased use of technology and more workers having the skills needed to heighten productivity.

[45] See, for example, 8th Tanzania Economic Update (World Bank 2016c).

However, skills enhancement will require significant improvements in the quality of Tanzanian education and health outcomes.

316. **Orientation on results needs to be given priority to improve the quality of education and health services, including family planning.** One way to achieve this would be to realign incentives to require attainment of tangible results. The Government needs to intensify its efforts to emphasize service orientation and expected results by introducing results-based financing. This should provide incentives for good performance and increase the accountability of local governments.

317. **More equitable and timely budget disbursements and deployment of human resources to local governments need to be ensured for more effective health and education systems.** For example, the current delays in distribution of capitation grants to schools constrain effective delivery of education services at those delivery points. Improving health and education outcomes for the poorest and most underserved will require reforms in the collection and redistribution of revenues and a revision of the current regional allocations of public resources across regions (see earlier discussion on service delivery (priority 8).

318. **Gender equity must be ensured in human development efforts.** Gender gaps are prevalent in many aspects of human development (chapter III). For example, the 2010 Tanzania Demographic Health Survey (DHS) found that 19.1 percent of women aged 20–24 had no education at all, compared with 10.5 percent of men. Efforts are needed to improve access to maternal health services, particularly in rural areas where only half of births occur at health facilities or are attended by skilled professionals (chapter III).

319. **A determined multisectoral effort must be high on the early childhood development agenda.** To reduce the persistently high stunting rate, Tanzania first needs to capture the "best-buys" in nutrition quickly, including exclusive breastfeeding in the first six months of childhood, and micronutrient supplementation (chapter III). Tanzania will soon launch its Multisectoral Nutrition Action Plan, which calls for investments in nutrition interventions in the health sector and beyond, such as community-centered investment in, e.g., early education, access to better water and sanitation, food fortification, and nutrition-smart agriculture. Also needed are cross-sectoral actions to make better nutrition a national priority.

320. **Sufficient water and effective sanitation need to be ensured for preventing diarrhea and childhood infections and therefore reducing the high stunting rate.** There are wide gaps between urban and rural areas in terms of access to water and sanitation (chapter III). A rural water-point mapping exercise showed that about 38 percent of water points in rural areas are not functional. In a country where more than 75 percent of the population live in rural areas and rural water supply coverage is only about 50 percent, clearly a considerable number of rural residents do not have access to a safe water supply.

321. **Substantial skill shortages and gaps need to be filled for successful structural transformation.** About 40 percent of all firms identified an inadequately educated workforce as a major constraint—much higher than the SSA average of 23 percent (chapter IV). For faster growth and creation of high-productivity jobs it is thus imperative to improve the quality, quantity, and relevance of skills.

322. **Significant expansion and diversification of both formal technical and vocational education and training and university pre-employment training are needed to ensure an appropriately skilled labor force.** This will require national and sectoral coordination by the private sector and the Government to define skills priorities; direct resources accordingly; improve education system governance and regulation; and build partnerships between training providers and employers to ensure that programs, curricula, and standards are relevant.

323. **The private sector needs incentives to invest in skills development.** On-the-job training is an important alternative source of training, though few firms currently offer it: WBES 2013 found that only about 30 percent of firms provided training to at least some employees, and this rate had not significantly changed by the 2015 TESS (World Bank 2015a).[46] It is important that substantial opportunities be created for the private sector to advise on management of the Skills Development Levy and to access the fund for employee training.

Foundation 2: Ensure macroeconomic stability in order to ensure fiscal sustainability for the implementation of FYDP II.

324. **While it has kept its overall economy stable so far, Tanzania needs to heighten its ability to steer macroeconomic policies in the increasingly turbulent global economy.** The global uncertainties include fluctuations of commodity prices and the slowdown of the Chinese economy (see chapter III). The Government needs to build up its macroeconomic monitoring capacity in order to make robust macroeconomic projections, analyze the potential impacts of changing external factors on the Tanzanian economy, and better inform macroeconomic and sectoral policies to support FYPD II.

325. **The Government needs to address its external vulnerability because of the current account deficit (CAD), which is increasingly financed on market terms.** After a surge in 2011/12 partly related to the energy crisis, the CAD has come down to about 9 percent of GDP (chapter III), but part of the still-high deficit reflects FDI-related import flows. However, CAD financing increasingly comes from commercial sources, and the falling share of aid brings new risks. Gross official reserves have grown steadily since 2000 in dollar terms, but their ratio to prospective imports of goods and services is still low (less than 4 months). Further accumulation of reserves must be facilitated to address this vulnerability.

326. **Successful achievement of the FYDP II objectives hinges critically on sound macroeconomic policies that ensure fiscal sustainability as the plan is implemented.** That will require annual financing of about 20 percent of GDP—twice as much as what the Government is current spending on development (development expenditure). While the Government intends to leverage private sector and external donors to finance the gap, inevitably the Government will need to closely monitor fiscal and debt sustainability as it proceeds with FYDP II. This will be in addition to its current fiscal risks, such as the mounting arrears.

327. **It is also important that the budget is properly executed to ensure that the underlying growth assumption of FYDP II materializes.** The Government's assumption of 8-10 percent growth per year depends on successful implementation of FYDP II through annual budget, in

[46] The prevalence of training was slightly higher in manufacturing than in services, and large and medium-sized firms were more likely to train than small firms with fewer than 20 employees.

particular execution of development expenditure. The much more substantial development budget for FY2016/17 compared to previous FYs is expected to provide a major boost to the economy in both the short and long runs. The Government revenue performance is successfully increasing in FY2016/17, but the recent slowdown in budget execution poses a risk of underspending, which could take a toll on economic growth.

328. **Sound monetary and foreign exchange policies are necessary key to ensure macroeconomic stability.** Better policy coordination between the Bank of Tanzania (BoT) and the Ministry of Finance and Planning will facilitate liquidity management and minimize the need for monetary financing of the deficit. This in turn will provide more stable financial conditions for the private sector, which should be the principal driver of economic transformations. The exchange rate should continue to be market-driven, with BoT intervention in the foreign exchange market limited to smoothing excessive fluctuations.

VI. REMAINING KNOWLEDGE GAPS

329. **Preparation of this SCD has identified gaps in both data and analysis that should be filled in to facilitate more evidence-based policymaking.** Additional knowledge will also attract more targeted support from the WBG and other development partners.

D. Data Gaps

330. **Tanzania still has massive needs for quality data that allows for comparability.** This is particularly true for household data, much of which seems available but suffers from serious comparability problems over time and between surveys that often result in misleading statistics. For instance, NPS and HBS that collect data on household living standards give significantly different pictures of poverty levels and trends. Due to changes in survey methods HBS and ILFS also suffer from comparability problems over time. While this is inevitable as the quality of the surveys is improved, there should be methods to better record and address how the changes affect the statistics. None of the household surveys (NPS, HBS and ILFS) is representative of either rural or urban areas except for Dar es Salaam, which causes serious problems for policy design and operational work for targeted regions or districts. Data allowing assessment of the quality of education is very rare. There is no survey similar to the Trends in International Mathematics and Science Study database that allows assessment of students' cognitive skills in mathematics and sciences and comparison with other developing countries.

331. **The quality of administrative data also falls short.** Institutional transformation to build government capacity to deliver quality services and make sound investments hinges critically on the quality of the data on which it relies. The Open Data Initiative as piloted in health, education, and water has revealed the magnitude of the need to improve data quality.

332. **It is also necessary to collect better data on the private sector.** Private industry and firm data are limited in coverage and availability, especially in the informal sector. Gaps are particularly serious in data on (1) the manufacturing base; (2) informality in manufacturing, services, agriculture, fisheries, forestry, and livestock and in cross-border trade; (3) geo-coded data on enterprise activities; (4) private sector financing channels; and (5) employment data. All are crucial to facilitate better understanding of market dynamics and firm-level constraints in raising productivity, making investments, and expanding employment opportunities.

333. **As Tanzania moves to middle-income-country level, it is important that high-frequency data be made available.** There is a particular need for more frequent data on (1) the poverty trajectory; (2) industrial production; (3) labor surveys, including informal labor and entrepreneurship; and (4) agricultural surveys.

E. Analytical Gaps

334. **A common and widespread knowledge gap relates not to what the blockages are but how to dismantle them.** There is considerable agreement in Tanzania about what stands in the way of alleviating poverty and promoting shared prosperity. Policy makers are increasingly seeking answers for how to remove the bottlenecks, which is not always straightforward because it requires coordinated actions and incentives for a variety of parties in the economy and the

society. Therefore, there needs to be more knowledge of how to eliminate the constraints, such as use of technology and more frequent collection of data.

335. **New knowledge work in Tanzania needs to look at solutions to problems rather than diagnostics and could be operations- rather than research-oriented.** Among topics for which there are analytical gaps are how to (1) build up public sector capacity; (2) improve coordination within the Government; (3) speed up land reforms; (4) promote competition and accelerate application of the institutional framework for competition; (5) collect more domestic revenue; (6) quickly reduce business-related transaction costs; and (7) speed up government procurement.

336. **Analytical work should also help policy-makers to collect enough evidence to make informed policy decisions in specific areas.** High priorities for Tanzania are analysis of (1) the extent, evolution, and drivers of the gender wage gap; (2) how social protection programs (e.g., TASAF) are affecting poverty and welfare; (3) how to identify fast-growing and promising entrepreneurs and firms; and (4) the costs and benefits of fiscal incentives for investment.

337. **More multisectoral and integrative analytical work should be encouraged to help policymakers make informed judgements about competing demand for the same resources.** While there have been a number of studies of specific sectors, little work has been done in Tanzania at the inter-sectoral level, except for macroeconomic work. Good general equilibrium analyses are necessary to answer such questions as how to balance competing needs for water resources and the best uses of offshore gas reserves.[47] Such multi-sectoral and integrative work could also help the Government improve its coordinating functions to handle such issues.

338. **With demographic dynamics influencing the country's development path, inter-generational analysis has to be strengthened.** Existing analytical work is still largely looking at static pictures of specific issues even across time, by comparing snapshots of the past, the present, and the future (comparative statics). What is still weak is dynamic analysis that captures inter-generational trade-offs in certain policy choices to be made. For example, what kind of education and health financing schemes would make it easier for households to invest more on those? What types of government fiscal rules would maximize the growth impacts over time?

339. **There are increasing opportunities to conduct spatial analyses of different policy choices.** Geo-coded data availability, facilitated by ICT, has substantially reduced the cost of conducting spatially disaggregated analyses with a higher level of resolution. With the country becomes more integrated internally and externally with neighboring countries with people and businesses become more mobile, spatial dynamics of the country's development agenda would become highly relevant, including impacts of the relocation of government offices to Dodoma or of development of growth corridors across the country under FYDP II.

[47] An exception is the forthcoming World Bank study which looks at how water resources are likely to be affected by expansion of irrigations and hydropower generation in Tanzania.

VII. CONCLUSION

340. **While for the past decade Tanzania has recorded solid growth and poverty reduction, a business-as-usual model will not bring the country to the next level of development.** There is no guarantee that growth and poverty reduction will automatically continue given the current volatile global economic environment, increasing climate variability, and the country's high population growth. Despite recent impressive improvements in human development, there are issues, both old and new, to be dealt with, such as the persistently high stunting rate and the declining quality of service delivery. Tanzania needs to accelerate growth to boost per capita income, but the growth needs to be more inclusive to ensure further progress on reducing poverty. Sustainability in growth and poverty reduction need to be reinforced by building the country's resilience to exogenous shocks.

341. **If Tanzania is to move to the next level of development, this SCD argues, the paths it could take would be structural transformation, spatial transformation, and institutional transformation.** Leveraging its rich natural resources and advantageous geographic setting, those pathways can transform Tanzania into a more value-adding, diversified, and geographically more integrated economy. In complementing these economic transformations, the country also needs a public sector that is more capable of delivering quality services. Higher human capital and gender equity, natural resources, macroeconomic stability, and the social safety net must be the foundations for economic transformation.

342. **Drawing on what has been learned about growth, poverty, and inclusion and assessment of Tanzania's likely progress along the pathways, this SCD has identified 9 specific priorities and 2 foundations.** The 9 priorities are the business environment for agribusiness and other job-creating sectors, power sector performance, access to finance, natural resource management, rural-urban connectivity, urban planning, business environment and regional connectivity infrastructure for trading across the borders, service delivery, and government mobilization of revenue. Those are supported by human capital development and macroeconomic stability as foundations.

343. **The Government's FYDP II expresses the intention to break away from business-as-usual.** Whether Tanzania can succeed in moving up the ladder to the next level of development depends on whether FYDP II can successfully deliver the results it envisions. With the pillars of industrialization, human development, and implementation effectiveness, there is a substantial synergy between FYDP II and the SCD. The analytics as synthesized here will inform the realization of FYDP II and identify areas where further knowledge is necessary.

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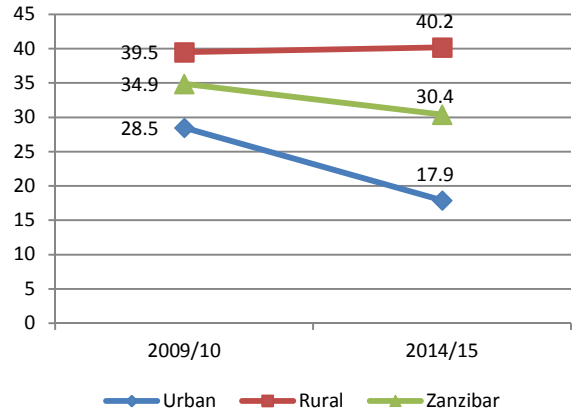
ANNEX I. KEY FINDINGS FROM THE 2014/15 ZANZIBAR HOUSEHOLD BUDGET SURVEY

This annex presents the main findings from the 2014/15 Zanzibar Household Budget Survey (HBS) as reported by the Zanzibar Office of the Government Chief Statistician. Based on the survey data, the World Bank will conduct its Zanzibar Poverty Assessment in FY17.

In Zanzibar, poverty and extreme poverty have slightly declined since 2009/10 but many people are still vulnerable. The poverty rates of Zanzibar and the Tanzania Mainland are not comparable because of both differences in living standards and socioeconomic conditions and differences in the design of household surveys. It is therefore necessary to analyze Zanzibar's figures independent of the rest of the country. According to the HBS consumption-based headcount index, basic-needs poverty declined from 34.9 to 30.4 percent between 2009/10 and 2014/15 and extreme poverty from 11.7 to 10.8 percent. The depth of poverty also been slightly reduced, suggesting that households were able to narrow their consumption shortfall relative to the poverty line.

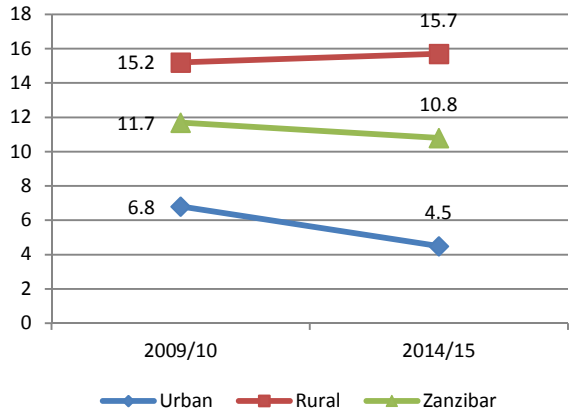
As in the Mainland, the majority of people in Zanzibar, nonpoor as well as poor, are clustered around the poverty line, so that it is equally possible that they could escape poverty or fall into it. A sensitivity test shows that a 20 percent increase in the poverty line equates to a 50 percent increase in the poverty rate (46 percent). The discrepancy between rural and urban areas is quite striking: Although in urban areas both poverty and extreme poverty rates have fallen dramatically, in rural areas they have gone up slightly (figures A.I.1 and A.I.2). Overall, the slight decrease of the poverty and extreme poverty rates observed between 2009 and 2015 is largely due to dramatic improvements in Zanzibar's cities and urban areas. Meanwhile, the situation in rural areas is increasingly worrying because the share of poor people living in Zanzibar's rural areas in went up between 2009/10 and 2014/15, from 69 percent in 2009/10 to 75 percent five years later. In 2015, 81.8 percent of the extreme poor in Zanzibar lived in rural areas.

Figure A.I.1. Zanzibar Poverty Headcount, Percent, 2009–15



Source: Zanzibar HBS, 2015.

Figure A.I.2. Zanzibar Extreme Poverty Headcount, Percent, 2009–15

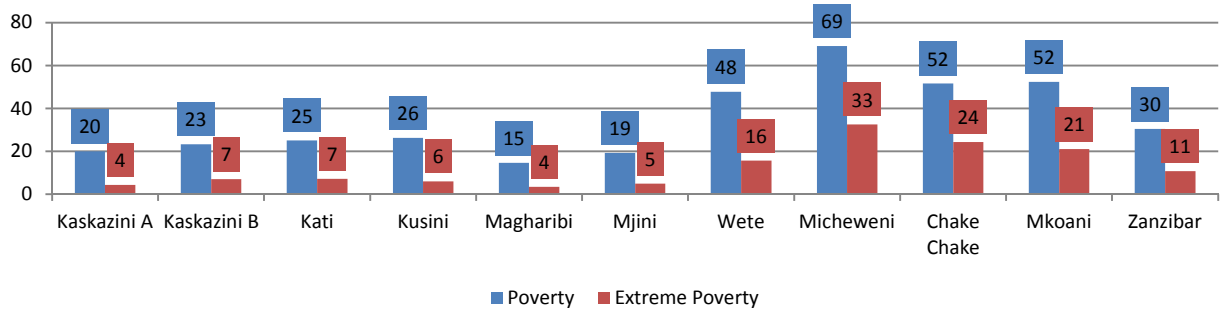


Source: Zanzibar HBS, 2015.

The geographical distribution of Zanzibar's poverty shows major differences between districts. Poverty and extreme poverty are concentrated in a few rural districts while in the rest poverty rates were far below the Zanzibar average (figure A.I.3). The Gini coefficient for Zanzibar did not change significantly between 2009 and 2015, settling at 30. Inequalities are slightly higher in urban areas (Gini 31) than in rural

(Gini 27). Overall, inequality in Zanzibar is not only moderate but also compares favorably with that of the mainland.

Figure A.I.3. Zanzibar Poverty and Extreme Poverty Headcount by District, 2015, Percent



Source: Zanzibar HBS, 2015.

Zanzibar's poor household characteristics are typical of those of poor households generally. They tend to be characterized by large household size, many dependents, and a head of household with little education and are usually engaged in farming. HBS 2014/15 underscores the fact that households that have employment other than farming are less poor, which suggests that nonagricultural employment can offer a pathway out of poverty. Nevertheless, Zanzibar has seen significant improvements in housing, with more people having access to electricity, water, and sanitation and houses being built of more modern materials; in education, primary school enrollment has reached 96.5 percent for households living less than two kilometers away from the nearest primary school; and in health, the incidence of malaria has been successfully reduced and 100 percent of households now live less than five kilometers from a health center.

ANNEX II. UNBUNDLING THE DROP IN THE POVERTY RATE

To explore the basic factors behind the decline in poverty, changes in household-level consumption have been decomposed into two components. One is due to improvements in household characteristics or endowments (for example, more education of the head of the household, ownership of land and other assets, and access to employment opportunities and basic services), and the other is attributable to changes in the returns to those characteristics (for example, to education, land productivity, and business). These two components have been further decomposed to identify the specific attributes that contribute to changes in consumption, and the decomposition has been applied at each decile of the consumption distribution to understand differences in the patterns of change for different income groups.[48]

Table A.II.1 makes it clear that while household endowments have improved for all population groups, the poorest 30 percent have benefitted significantly more. The difference is mainly driven by a significant expansion of asset ownership, mainly means of transportation and communication and to a lesser extent agricultural land. The improvements in endowments were coupled with higher returns to economic activity—essentially nonagricultural businesses. While household engagement in business activities seems to have declined over time, particularly among the poorest groups, the gains from such businesses, essentially nonfarming activity, appear to have gone up quite significantly, particularly for those in the three lowest deciles. Returns to land also seem to have improved over time, though less significantly for the poorest. The improvement in returns to community infrastructure indicates that in recent years access to local markets and roads has had a positive effect on household living standards.

Table A.1I.1. Returns Effect and Endowment Effect over Time

	Extreme Poor	Poor	Middle Class	Richest
Total	**0.147*** **	**0.058*** **	**0.019***	**-0.076*** **
Endowments	**0.075** **	**0.178*** **	**0.125*** **	**0.043**
Education	-0.001	0.003*	0.003**	0.011***
Wage work	0.001	0.002*	0	0
HH business	-0.024***	-0.022***	-0.009***	-0.005
Assets	0.124***	0.114***	0.103***	0.054***
Land	0.006*	0.005*	0.007**	0.011***
Access to local markets	-0.005**	-0.004**	-0.002**	-0.002
Access to local roads	0.037***	0.052***	0.028***	0.005
Returns	**0.072** **	**-0.120*** **	**-0.106*** **	**-0.119*** **
Education	-0.186***	-0.017	-0.003	0.066*
Wage work	-0.003	0.010	0.001	0.012
HH business	0.123**	0.162***	0.056	0.077
Assets	-0.266***	-0.169***	-0.156***	-0.244***
Land	0.016	0.022**	0.019**	0.035**
Access local markets	0.055***	0.049***	0.021**	0.030*
Access local roads	0.011	0.045***	0.011	-0.022

Source: HBS 2007 and 2011/12.
Note: The extreme poor are those in the bottom 10 percent of the welfare distribution; the poor are in the third decile, middle class in the fifth, and the richest in the top.

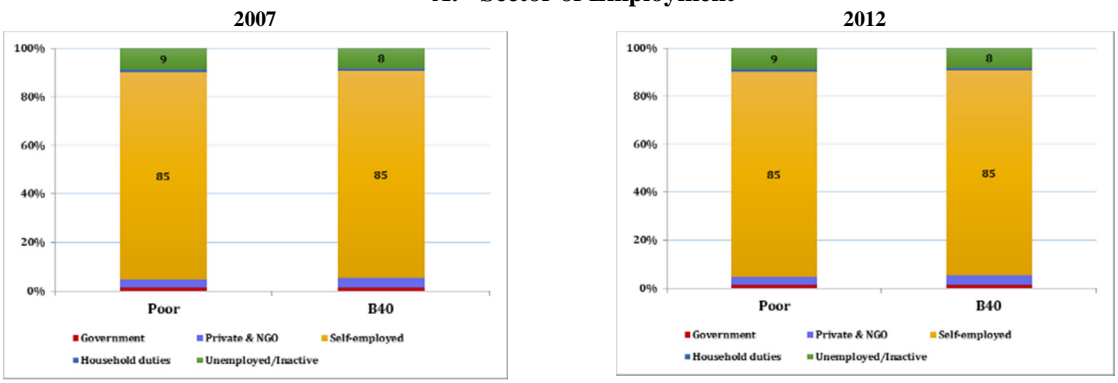
[48] The decomposition approach is based on the Recentered Influence Function and unconditional quantile regression method proposed by Firpo, Fortin. and Lemieux 2009.

ANNEX III. CHARACTERISTICS OF THE POOR AND THE BOTTOM 40 PERCENT

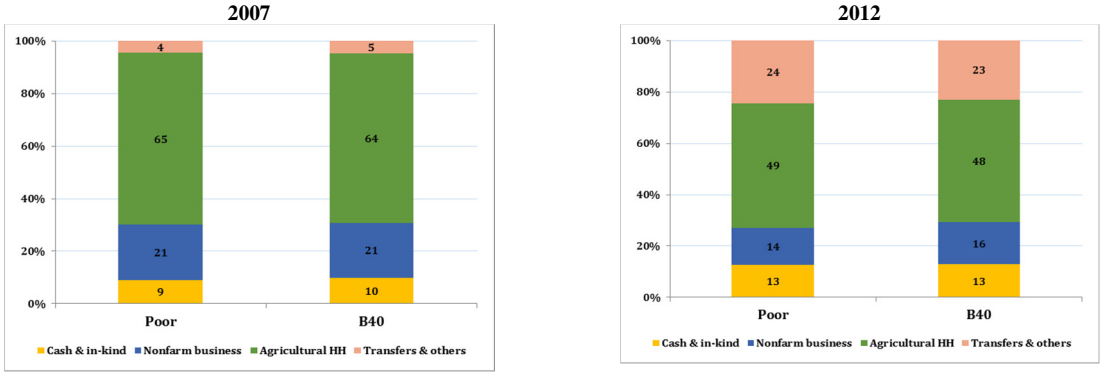
Although about a third of the bottom 40 percent were not considered poor in 2012, the profile of the entire group, in terms of demographic and economic characteristics, closely tracks that of the poor (figure A.III.1). This suggests that policies for improving the welfare of poor Tanzanians may apply to the entire bottom 40 percent, substantive benefits for whom would significantly enhance shared prosperity.

Figure A.III.1. Profile of the Poor and Bottom 40% (2007-2012)

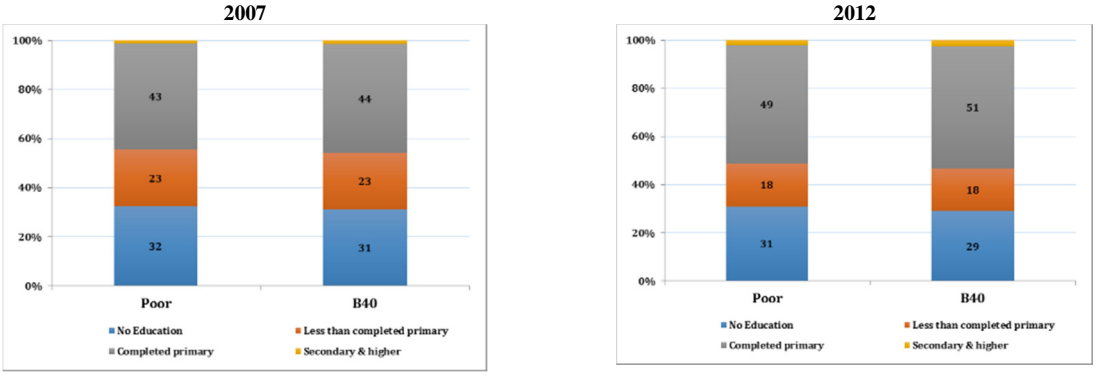
A. Sector of Employment



B. Source of Income



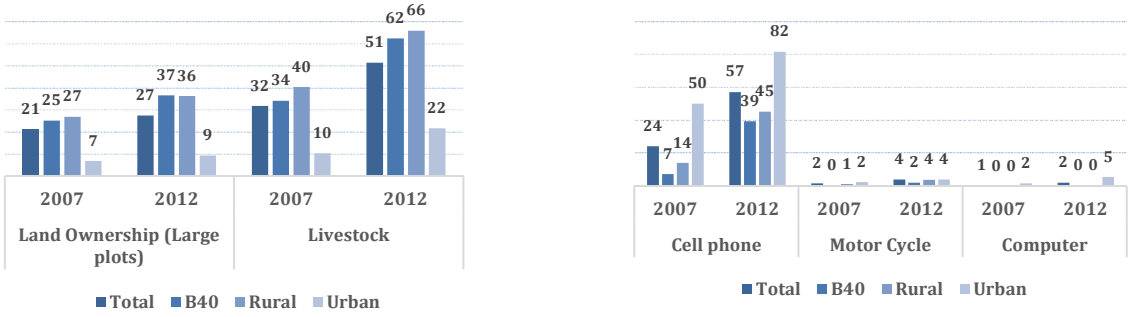
C. Education Level of Head



ANNEX IV. INDICATORS OF LIVING CONDITIONS (MAINLAND)

The reduction in poverty discussed in the main text was coupled with improvements in asset ownership and living conditions, though access to these continues to be low. All households experienced improvements in ownership of agricultural land and livestock, means of transportation, and modern amenities as well as housing conditions (figure A.IV.1). Possession of productive assets like mechanized equipment and large livestock, however, is still limited. The improvements were experienced primarily by the bottom 40 percent of households, but more than half of the poor and rural dwellers still lack major assets and live in pitiable housing conditions.

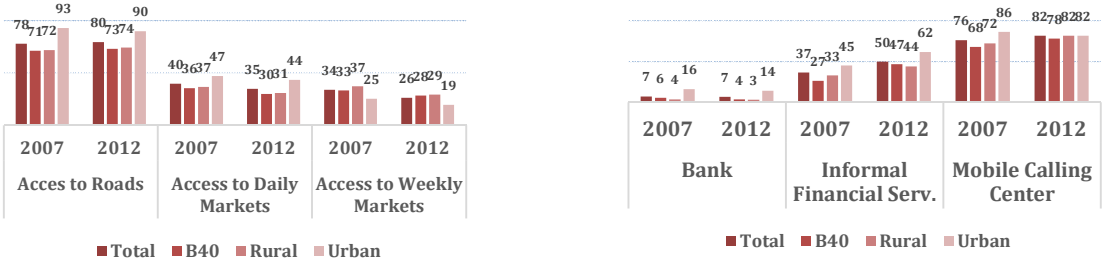
Figure A.IV.1. Asset Ownership



Source: HBS 2007 and 2011/12.

Expansion of access to basic infrastructure and services has been slow. Access to roads and markets is still limited. While there has been a slight increase in the share of rural and bottom 40 percent households benefitting from access to roads since 2007, in 2012 less than 18 percent had access to paved roads, and less than 30 percent had daily or even weekly markets in their villages (figure A.IV.2). Access to financial services and mobile phone services improved quite considerably but the majority of people still depend mainly on informal financial services. The availability of banks and formal financial services is still very limited generally and they are almost inexistent in rural areas (figure A.IV.2). Despite the surge in mobile banking, access to formal financial services has witnessed a miniscule increase, from about 17 percent in 2011 to 19 percent in 2014 (Global Findex 2014). Limited access to formal finance services has led entrepreneurs to become concentrated in microenterprises; growth in medium and large enterprises is very limited.

Figure A.IV.2. Access to Basic Infrastructure and Financial Services

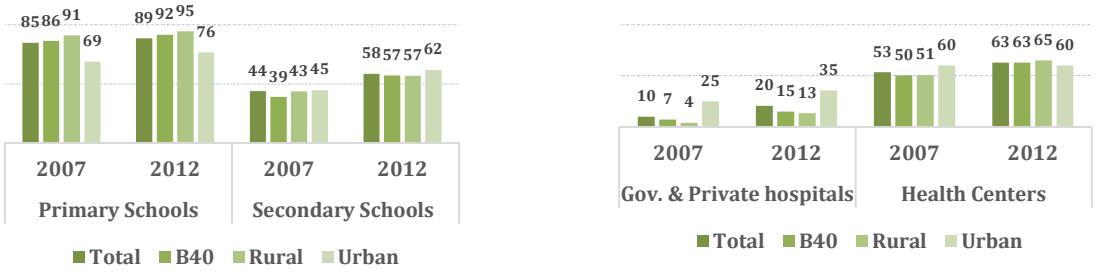


Source: HBS 2007 and 2011/12. *Note:* "Access to roads" applies to all types of roads.

Access to schools has opened up, but access to hospital and health services is still very limited (figure A.IV.3): In 2012, over 90 percent of rural and bottom 40 percent households had a primary school in their community or village and about 60 percent had access to secondary schooling. While access to schools in general may seem lower in urban areas, access to private schools there is five times higher than in rural

areas. Hospitals and health centers did become somewhat more accessible between 2007 and 2012, but access to public or private hospitals remains limited. About 20 percent of Tanzania's households have access to hospitals in their community or village. The rate falls to less than 15 percent for rural and bottom 40 percent households.

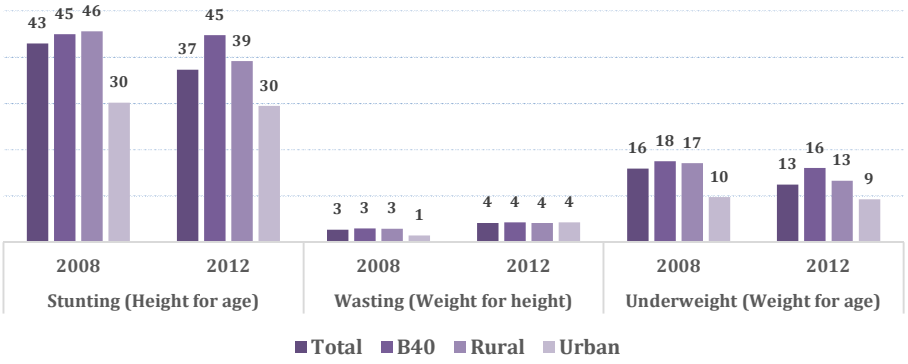
Figure A.IV.3. Access to Social Services



Source: HBS 2007 and 2011/12

Despite some progress, undernutrition and infectious disease are still major problems. Anthropometric indicators for young children show some improvement between 2008 and 2012, but the trends are uneven. Malnutrition is widespread, and stunting, which measures chronic malnutrition, is consistently high among poor and bottom 40 percent households. In 2012, about 37 percent of Tanzanian children under 5 were stunted and the rates are as high as 45 percent among the bottom 40 percent. Wasting, the indicator for acute food shortage or infectious disease, went up from 3 to 4 percent between 2007 and 2012 (figure A.IV.4). With an estimated 10 million malaria cases in 2010, internationally Tanzania continues to be one of the most affected countries. In 2012 HIV/AIDS prevalence was estimated at 5.1 percent among Tanzanians aged 15–49 years, slightly above the SSA average (4.7 percent) but somewhat below rates in other East African countries (e.g., 7.2 percent in Uganda and 6.1 percent in Kenya).

Figure A.IV.4. Anthropometric Outcomes



Source: National Panel Surveys 2008, 2010, 2012.

ANNEX V. CLIMATE CHANGE INTENDED NATIONAL DETERMINED CONTRIBUTION (INDC) HOT SPOT ANALYSIS FOR TANZANIA

INDC submitted on	**09/29/2015**
Involvement of sector ministries	n/a
Planning process	Technical experts, multisector commissions, and other stakeholders engaged
Mitigation target	Relative Target: -10 to -20% compared to BAU: 138 to 153 in MtCO2eq (2030)
Emitter ranking	Top 69 (*Source*: Australian-German Energy and Climate College); app. 235.35 MtCO2eq per year (Source: EDGAR, EU)
Share of national GHG emissions aimed at by mitigation actions	As for GHG data of UNFCCC, LULUCF accounts for nearly 100% of emissions in Tanzania.
Cost of implementation	Total: **US**$61 billion Mitigation: US$60 billion Adaptation: US$1 billion
Support needs (international)	Technologies needed to implement INDC: n/a Capacity building needed to implement INDC: n/a Potential financing sources identified in INDC: n/a
Conditionality	Conditional upon international provision of means of implementation: capacity building, technology development, and transfer financing
Lending group	IDA/IBRD

Mitigation

Sectoral targets	n/a
Upstream policies identified	n/a
Downstream actions identified	n/a
Sectors covered by INDC	Energy: Renewable energy: solar, geothermal, wind, hydro, biofuels - Gas : gas-to-power - Enhanced use of natural gas - Energy efficiency: supply-side efficiency, demand-side efficiency o Power generation efficiency improvement o Grid/energy loss reduction (transmission and distribution) o Demand-side efficiency: promote behavioral change in energy use Transport: - Mass rapid transport systems Waste: Promoting cogeneration activities - Waste-to-energy - Landfill gas recovery; encouraging private sector and community involvement LULUCF/forestry: - Conservation - Conservation of forest carbon stocks

Adaptation

Sectors covered by INDC	Agriculture: - Climate-smart agriculture o Increase yields through, inter alia, climate-smart agriculture.

	o Protect smallholder farmers against climate-related shocks, e.g., through crop insurance. o Strengthen the capacity of agricultural research institutions to conduct basic and applied research. o Strengthen knowledge, extension services, and agricultural infrastructure to target climate actions. - Land and soil management o Up-scale improvement in management of agricultural land. o Promote climate-change-resilient traditional and modern knowledge on sustainable pasture and range management systems. - G tvIrrigation o Up-scale improvement of agricultural water management. - Livestock o Enhance the development of livestock infrastructure and services. o Promote diversification of the livelihood of livestock keepers. o Promote development of livestock insurance strategies. - Fisheries and aquaculture o Enhance management of conservation and fishery resources. o Strengthen key fisheries management services for sound development and management of the fishery sector to create resilience. LULUCF/Forestry: - Sustainable forest management o Enhance participatory fire management. o Enhance forest governance and protection of forest resource. o Enhance sustainable forest management. o Enhance efficiency in the use of wood fuel. Energy: - Renewable energy o Explore and invest in energy diversification systems. o Enhance the use of renewable energy across the country. - Energy efficiency o Promote use of energy-efficient technologies and behavior. - Hydro energy o Enhance integrated basin catchment and upstream land management for hydro sources. Coastal Zone: - Coastal management o Strengthen management of coastal resources and systems to control beach erosion and sea level rise. o Promote diversification of the livelihoods of residents in coastal communities. o Enhance the program for management of saltwater inundation and intrusion. - Mangroves o Promote the mangrove restoration program. o Engage in programs to protect against sea-level rise o Establish a shorelines restoration program. Water: - Water management o Promote integrated water resources development and management practices. - Infrastructure o Invest in protection and conservation of water catchments. - Water conservation and reuse o Promote waste water reuse and recycling technologies. - Water supply

	o Develop and exploit groundwater resources. Urban: - Emphasize sustainable urban planning. o Promote sustainable land management systems and climate-sensitive human settlement developments. Social Development: - Safety net o Facilitate provision of, and access to adequate, affordable and climate-sensitive shelter to all income groups. Disaster Risk Management: - Early warning system o Improve monitoring and early warning systems. - Disaster preparedness o Construct and rehabilitate drainage systems to respond to frequent and high-intensity floods. Tourism: o Promote sustainable tourism to consolidate growth and ensure that tourism is climate-resilient o Promote diversified tourist attractions (e.g., eco-tourism and cultural tourism). Health: - Health services and assessment o Promote sustainable and climate-sensitive health and sanitation infrastructure. o Integrate climate change adaptation action into health sector policies, plans, and programed. Cross-cutting Area: - Capacity building and knowledge transfer o Enhance awareness on the impacts of climate change in the context of human settlements. - Climate risk management o Conduct a vulnerability assessment to support a comprehensive action plan in the health sector.

ANNEX VI. AGRICULTURAL SECTOR PERFORMANCE IN TANZANIA

Tanzania's agricultural sector is dominated by small farms. Estimates from the most recent census of agriculture in 2007/08 counted 11.4 million hectares (ha) farmed by 5.84 million households and just 1.1 million ha farmed commercially on 1,006 large-scale farms. Although households on average had access to only 2 ha of land in 2007/08, together small-scale farms occupied 91 percent of Tanzania's total farmland. Average farm size and household/commercial proportions were relatively unchanged from 2003 to 2008.

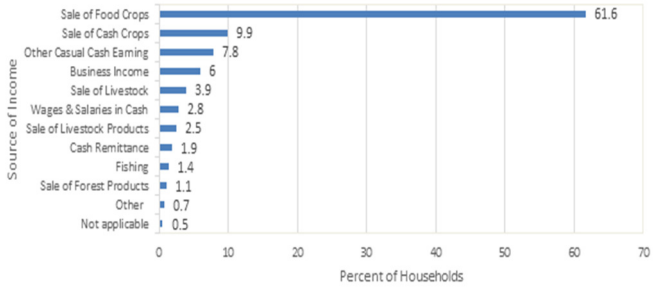
While small-scale as well as large-scale farms can engage in commercial activities, subsistence farming is at the heart of smallholder activity. Smallholders produce staples like maize, paddy, sorghum, millet, cassava, sweet potatoes, pulses – mainly beans – and wheat. They also grow cotton, tobacco, pyrethrum, cashew nuts, and coffee for cash, but cash crops are not a main source of income for most smallholders (figure AVI.1). Rather, the sale of staple foods is the main income earner (61.6 percent) followed by cash crops (10 percent) and livestock, fishing, and forestry products (9 percent combined).

Most farms, large and small, produce crops, with 60 percent of small farms and 52 percent of large farms producing crops exclusively (figure AVI.2). After crop production, livestock production is a major activity for an estimated 40 percent of smallholder households and 47 percent of large-scale farms. Only a small share of the former deal exclusively in livestock (including pastoralism) compared to 19 percent of the latter. Nevertheless, smallholders contributed 99.6 percent to the livestock population in 2007/08. A total of 25.9 million livestock units were reared by Tanzanian smallholders in 2007/08, mostly cattle, goats, sheep, and pigs.

Smallholders use their land primarily to produce annual crops. Over two-thirds of their cropland is planted with annual crops—almost four times the proportion planted with annual crops on large farms (figure AVI.3). Despite the disparities in land use, the importance of annual cereals is evident from the large share of land allocated to it by both types of farms. Almost 70 percent of land producing annual crops on both small and large farms was used for cereal production in 2007/08. Large farms mainly produced (in diminishing order of importance) maize, wheat, and rice, which together accounted for 97 percent of their cereal production. The priorities for smallholders were maize, paddy, sorghum, and millet. Maize alone was grown by an estimated 88 percent of crop-growing households, accounted for 70 percent of land area planted with cereals, and in 2007/08 contributed 71 percent to total small-farm cereal production. The second most popular cereal crops for smallholders were rice, sorghum, and millet (National Sample Census of Agriculture 2007/08).

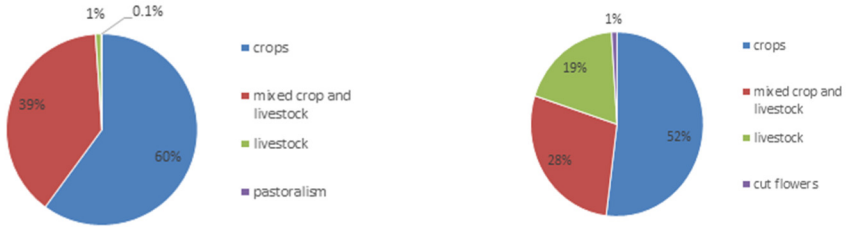
Strikingly, perennial crop and fruit tree production is also dominated by smallholders. In 2007/08, they cultivated 96 percent of the total area used for permanent crops (National Sample Census of Agriculture 2007/08). The substantial allocation of smallholder land used for cashews and coffee illustrates their importance to smallholders as cash crops (figure AVI.4). Cotton – which the census considers an annual crop – is also important to smallholders as a cash crop, and occupied the largest share of land allocated to annual crops. Tanzania's smallholders also produce a variety of fruit, mainly bananas, coconuts, mangoes, and oranges. Large farms mainly produce sisal, sugarcane, tea, cashews, coconuts, and coffee for export; they also produce for export cotton, flowers, and a variety of fruits and vegetables.

Figure AVI.1. Main Sources of Cash Income for Smallholder Agricultural Households, 2007/08



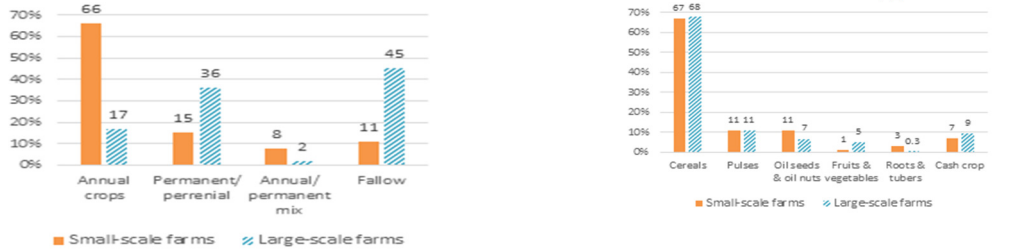
Source: National Sample Census of Agriculture 2007/08.

Figure AVI.2. Activities of Smallholder Households and Large-scale Farms, 2007/08
(A) Smallholder Households **(B) Large-scale Farms**



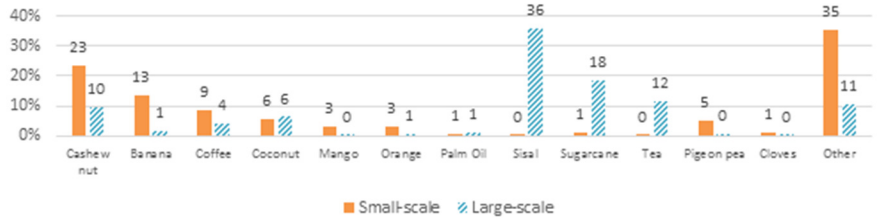
Source: National Sample Census of Agriculture 2007/08.

Figure AVI.3. Land Use on Small and Large Farms, 2007/08, Percent
(A) Annual, Permanent, and Fallow Crops **(B) Types of Crop**



Source: National Sample Census of Agriculture 2007/08.

Figure AVI.4. Permanent Cropland on Small and Large Farms. Percent of Total Permanent Cropland, 2007/08



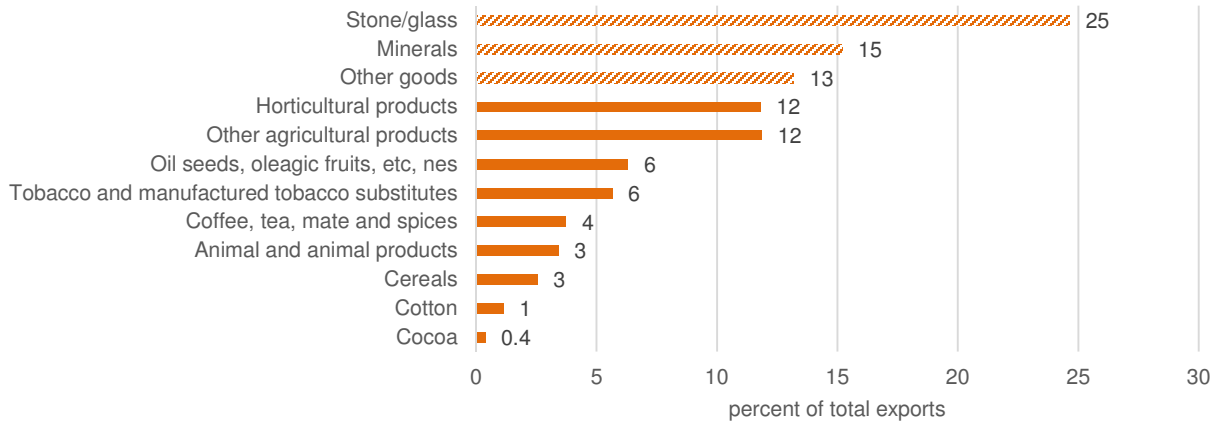
Source: National Census 2007/08.

Fisheries and aquaculture are currently small-scale operations but have potential to grow. The fisheries sector has some 400,000 operators and employs more than 4 million. The sector contributes to food security and poverty alleviation, but the lack of knowledge and capacity, transportation options, storage and processing facilities, and markets limit its development. Because of inadequate infrastructure

and limited capacity of people engaged in fisheries, post-harvest losses amount to 20 percent of the total catch. The National Fishery Policy and the Fisheries Sector Development Program (FSDP) envision developing a more competitive and productive fisheries and aquaculture sector while ensuring that the environment is preserved. The sector could also benefit from greater regional cooperation and economies of scale through a more cohesive approach to monitoring, control and surveillance, and safety at sea as well as more sharing of knowledge and technology.

Agriculture is responsible for about half of Tanzania's total exports. Crops generate the largest revenues, leading with horticultural products, tobacco, oil seeds, coffee, and tea. Other important agriculture exports are sisal, cut flowers, and pyrethrum (figure AVI.5). Since most agriculture exports are unprocessed, mainly because Tanzania's agro-processing industrial base is minimal, exporting goods with little value-added does not have much impact on job creation and technological development in the domestic economy.

Figure AVI.5. Tanzania's Product Exports, Percent of Total Export Value, 2014



ANNEX VII. PRODUCT SPACE ANALYSIS OF TANZANIA'S EXPORTS

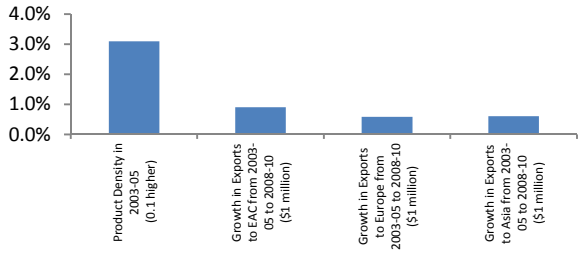
Tanzania has gained comparative advantage in a few products over the past ten years. Revealed comparative advantage (RCA) is the concept developed by Balassa (1965) to measure a country's comparative advantage in certain products by measuring how much the country exports the products proportionately more than the averages of all other countries in the world. While newly exported products from 1998 to 2010 constitute only about 9 percent of total export value in 2008-10, about a third of total export value of 2008-10 comes from products which Tanzania newly gained comparative advantage with RCA turning from less than 1 in the beginning of the decade (1998-2000) to more than 1 at the end of the decade (2008-2010).

At the same time, Tanzania's export products have increased their likelihood to gain comparative advantage. In their product space analysis in Hausmann, Hwang, and Rodrik (2007), they have introduced a concept of "product density." Product density indicates how likely a particular product gains comparative advantage (RCA>1) in the future by estimating how the product is close to products which already have comparative advantage.[49] In other words, product density of product *i* is an empirical predictor for that product *i* to gain RCA in the future.

Particularly during the second half of the 2000s, Tanzania gained comparative advantage on products with high product density, implying that the economy has leveraged product clusters in product space for expanding its exports. There was a stronger tendency that products with higher product density gained comparative advantage. A probit model is estimated to see how different factors can explain probability of a particular product gaining RCA higher than 1. The result of the model estimation reveals that if a product had product density 0.1 higher than another product during the mid-2000s, there is 3 percent higher chance that such product gains comparative advantage by the end of the decade compared to the other product (figure A.VII.1).

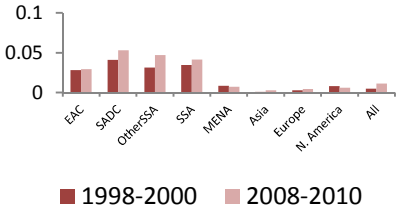
Leveraging product density or clusters in product space is relevant more for smaller export markets such as regional markets than large markets in Asia and Europe. Product density of Tanzanian exports is on average higher for exports in regional markets than exports in non-regional markets because of the contents of exports (figure A.VII.2). Regional exports tend to have more manufactured products, which usually have high product density.

Figure A.VII.1: Probability of Gaining RCA>1 in 2008-10



Source: Yoshino et al (2014)

Figure A.VII.2: Average Product Density by Destination



Source: Yoshino et al (2014)

[49] In their analytical framework, proximity between two products is based on probability of the two products have RCA greater than one in one country.

Many agro-processing products are among products which Tanzania currently does not export but have close linkages to the products which the country is already exporting. Of the 1,240 HS-4 digit products, Tanzania does not export 147, even though a few of them have close proximity to products in which Tanzania has revealed comparative advantage. Table A.VIII.1 lists the top 30 of the products that have not been exported but have relatively high proximity to current exports. The list prompts several observations. First, there are a few products related to leather and other animal-based products (e.g., guts, hair, and wax) and to food items (fruits, nuts, vegetables like cucumbers and lettuce, and eggs), which underscores how much more the agro-processing sector could contribute to fostering Tanzania's exports. There are also some textile (e.g., wool, silk); paper and pulp, and mineral and metal products.

Table A.VIII.1. 30 Products with Highest Proximity to Tanzania's Current Exports

HS	Product Description	Proximity to Current Export Basket	Path	Density
7806	Other articles of lead	0.201	222	--
5805	Hand-woven tapestries	0.190	224	0.171
2716	Electrical energy (optional heading)	0.187	252	0.173
504	Guts, bladders and stomachs of animals (other than fish)	0.185	228	0.179
812	Fruit and nuts, provisionally preserved	0.169	209	0.183
5103	Waste of wool or of fine or coarse animal hair	0.163	212	0.157
2619	Slag, dross, scalings, and other waste from the manufacture of iron or steel	0.162	182	0.184
1522	Degras ***[[is this correct?]]***; residues resulting from treatment of fatty substances	0.152	237	0.147
8904	Tugs and pusher craft	0.142	179	0.173
2529	Feldspar; leucite, nepheline and nepheline syenite; fluorspar	0.141	182	0.166
8902	Fishing vessels	0.140	168	0.186
707	Cucumbers and gherkins	0.140	175	0.174
4108	Chamois leather	0.138	210	0.156
8804	Parachutes and rotochutes	0.138	243	0.143
4111	Composition leather with a basis of leather or leather fiber	0.136	217	0.146
3203	Coloring matter of vegetable or animal origin	0.136	252	0.141
4706	Pulps of fibers derived from recovered (waste and scrap) paper or paperboard	0.135	230	0.140
4109	Patent leather and patent-laminated leather	0.134	161	0.162
7907	Other articles of zinc	0.134	276	0.136
408	Birds' eggs, not in shell, and egg yolks	0.132	257	0.138
5107	Yarn of combed wool	0.122	249	0.133
8002	Tin waste and scrap	0.119	219	0.130
8003	Tin bars, rods, profiles, and wire	0.119	217	0.130
9614	Smoking pipes and cigar or cigarette holders	0.118	206	0.049
5809	Woven fabrics of metal thread and woven fabrics of metallized yarn of heading No. 56.05	0.118	235	0.134
8906	Other vessels, including warships and lifeboats other than rowboats	0.113	200	0.150
4703	Chemical wood pulp, soda or sulphate	0.113	164	0.143
2610	Chromium ores and concentrates	0.109	92	0.213
705	Lettuce and chicory	0.108	212	0.142
5006	Silk yarn and yarn spun from silk waste	0.108	222	0.127

Source: Yoshino et al. 2014.

ANNEX VIII. COMPETITION AND INDUSTRY PROFITABILITY

Table AVIII.1 presents the results of econometric model estimation (fixed effects model) to show how the level of domestic concentration correlates with the average profitability of manufacturing industries in Tanzania based on 2004–07 data. In addition to the level of concentration, the model controls for size of each industry in terms of its total sales volume (to capture economies of scale), imports (to capture import competition), and investment (to capture productive use of rent from concentrated markets). By controlling for both industry size and imports, it also captures the size of the market. It is worth noting that import-competing industries tend to be less profitable than other domestic firms. However, capital investment in an individual industry raises its profitability. Concentration lowers the profitability of individual sectors due to its inefficiency: The results consistently show a statistically significant correlation between more concentration and lower profitability. This is particularly clear in the case of the top three-four concentrations and Herfindahl-Hirschman Index (HHI).

Table A.VIII.1. Fixed Effects Model Estimation of the Profitability of Tanzanian Manufacturing Industries 2004–2007 (Industry x Year Panel)

Dep. Var.=Industry Average Value-Added per Worker (Log)	**Type of Industry Concentration Indicator**				
Independent Variable:	**Normalized HHI**	**CR-1**	**CR-2**	**CR-3**	**CR-4**
Output (Log)	0.825*** (0.109)	0.858*** (0.108)	0.869*** (0.117)	0.986*** (0.116)	1.1*** (0.118)
Imports (Log)	-0.746*** (0.201)	-0.731*** (0.204)	-0.78*** (0.205)	-0.717*** (0.2)	-0.795*** (0.19)
Investment (Log)	0.136** (0.059)	0.145** (0.059)	0.148** (0.06)	0.123** (0.059)	0.113** (0.057)
Industry Concentration	-0.825** (0.393)	-0.851 (0.512)	0.027 (0.304)	-0.805** (0.337)	-1.433*** (0.382)
No. of Observation	132	132	132	132	132
F statistics	25.54***	27.70***	23.29***	26.21***	30.50***

Source: Data from NBS Annual Surveys of Industrial Production, UNIDO, and UN-COMTRADE.
Note: Level of significance: ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$

ANNEX IX. CONSTRAINTS BASED ON THE PATHWAY FRAMEWORK

	Constraints	Chapter
Structural Transformation	Expansion of nontradable services	IV
	Low agricultural productivity	IV
	Inadequate agriculture infrastructure	IV
	Limited R&D in agriculture	IV
	Constraints on livestock and fishery sector growth	IV
	Concentration of FDI in extractive sectors	IV
	Unfavorable business environment with high regulatory burden (nuisance taxes, multiplicity in regulatory licenses and fees)	IV
	Underperforming power sector	III, IV
	Remaining constraints in access to credit	III, IV
	Crime and lack of security	IV
	Under-utilization of ICT among firms	IV
	Underdeveloped tradable services (tourism and logistics)	IV
	Labor force skill shortages	III, IV
	Slow implementation of land laws	IV
	Lack of sophistication in exports	IV
	Weak inter-sectoral coordination for natural resources management	III, IV
Spatial Transformation	Low firm-level productivity in Dar es Salaam	IV
	Expansion of urban informality	IV
	Limited urban planning, Urban congestion,	IV
	Under-competitive Central Corridor	IV
	Underdeveloped special economic zones with conducive regulatory environment	IV
	Rural-urban connectivity	IV
	Spatial inequality in poverty reduction	III
	Limited accessibility of services in underserved rural areas.	III, IV
	Need for further regional economic integration through EAC and SADC	IV
	High cost of trading across the border (weak infrastructure for regional connectivity including port capacity and efficiency and prevalence of nontariff barriers)	IV
Institutional Transformation	Slow public sector reforms	IV
	Prevalence of state-owned enterprises	IV
	Declining quality of service delivery and need to leverage ICT	III, IV
	Declining public confidence in government ability to deliver services	IV
	Elite capture	IV
	Low domestic revenue (relative to GDP)	III
	Inadequate financing for social protection	III
	Declining foreign aid	III
	Rising public debt	III

ANNEX X: MAP OF TANZANIA