Transforming Tourism

Toward a Sustainable, Resilient, and Inclusive Sector

TANZANIA ECONOMIC UPDATE

JULY 2021
ISSUE 16

THE WORLD BANK GROUP | EAST AFRICA REGION
MACROECONOMICS, TRADE AND INVESTMENT
GLOBAL PRACTICE

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Abbreviations and Acronyms

COV-BPS	World Bank COVID-19 Business Pulse Surveys
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
EAC	East African Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HFWMS	High-Frequency Welfare Monitoring Survey
IFC	International Finance Corporation
IMF	International Monetary Fund
LIC	Low-Income Country
LMIC	Lower-Middle-Income Country
MoFP	Ministry of Finance and Planning
MNRT	Ministry of Natural Resources and Tourism
MSMEs	Micro, Small, and Medium Enterprises
NBS	National Bureau of Statistics
OCGS	Office of the Chief Government Statistician
PMI	Purchasing Manager's Index
PPP	Purchasing Power Parity
PPPs	Public-Private Partnerships
PSSN	Productive Social Safety Nets
RGoZ	Revolutionary Government of Zanzibar
SSA	Sub-Saharan Africa
TTB	Tanzania Tourist Board
UNWTO	United Nations World Tourism Organization
URT	United Republic of Tanzania
VAT	Value-Added tax
WHO	World Health Organization

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

This sixteenth edition of the TEU was prepared by a joint World Bank team that included members of the Macroeconomics, Trade, and Investment (MTI), Poverty (GPV), and Finance, Competition, and Innovation (FCI) Global Practices. The authors of this report are Randa Akeel, Marina Bakanova, Emmanuel Mungunasi (Task Team Leader), Shaun Mann, Cedric Okou, Miguel Saldarriaga (Task Team Leader), Rob Swinkels, and Gilead Teri. The team appreciates the valuable input it received from Arti Grover, Solomon Baregu, Ezio Caruso, Ana Carvajal, Enos Esikuri, Anica Nerlich, and Hazel Macadangdang during the preparation of the report. The analysis also benefitted from advice provided by William Battaile, Inaam Ul Haq, Preeti Arora, Lisa Kaestner, Hannah Messerli, and Miguel Sanchez.

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Executive Summary

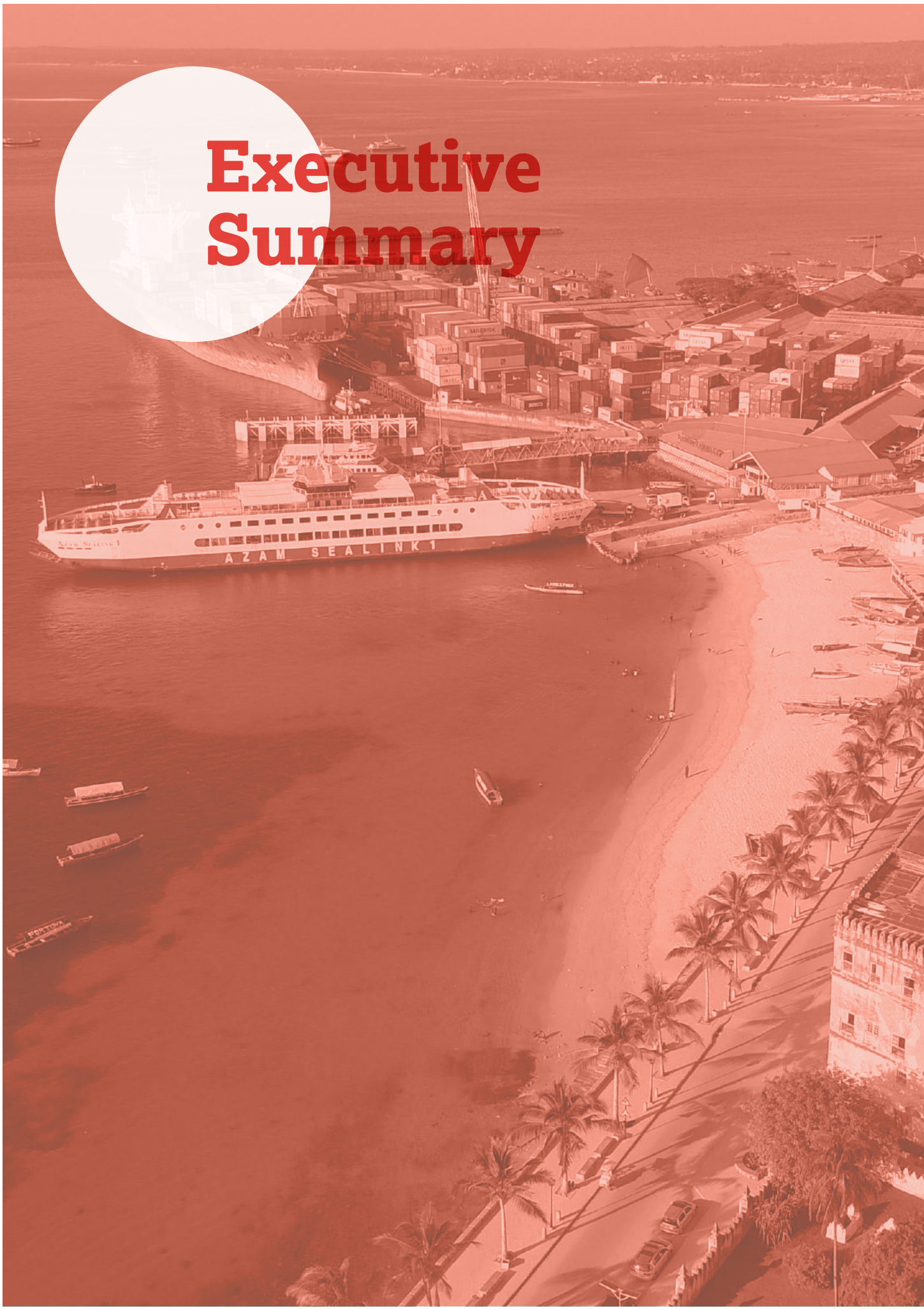


Photo: Christian Morgan-World Bank

New Developments

Vice-President Samia Suluhu Hassan was sworn in as Tanzania's first female president in March 2021, following the untimely death of President John Magufuli. The new administration has maintained the continuity of the political agenda while adjusting its policies and programs to reflect an evolving social and economic context. The broad policy objectives of the new administration remain guided by the Tanzania Development Vision 2025 and its supporting five-year development plans. The administration's initial statements and actions suggest that it will prioritize: (i) altering its COVID-19 policies to more actively manage the pandemic; (ii) proactively engaging with multilateral and bilateral partners, both in the region and worldwide; and (iii) reaffirming the private sector as the engine of economic growth by addressing major constraints on private investment.

Tanzanian policymakers are rethinking their approach to COVID-19. In early April 2021, an expert committee was formed to evaluate the country's COVID-19 situation and advise the new administration. On May 17, 2021, the committee released its report, which acknowledged that Tanzania has experienced two waves of the pandemic and is now at risk of a third wave. The report recommended that the government strengthen its existing mechanisms for managing COVID-19 and urged close collaboration with international and local stakeholders. Tanzania has yet to resume reporting COVID-19 statistics, but the government has announced that it will start sharing data, and it is currently preparing a COVID-19 National Vaccine Deployment Plan. Tanzania has applied to join the COVAX Facility, and the authorities are exploring other options for acquiring vaccines, including through the African Union's Africa Vaccine Acquisition Trust.

The pandemic severely disrupted economic activity in Tanzania, and the World Bank's latest firm-level data suggest that the situation had only modestly improved by the end of 2020. The GDP growth rate slowed to an estimated 2.0 percent in 2020, as shocks to export-oriented sectors such as tourism, manufacturing, and related services diminished business revenue and labor income, which adversely affected domestically oriented firms of all sizes across all sectors. The World Bank's December 2020 COVID-19 Business Pulse Survey (COV-BPS) indicated that the situation had improved since the previous survey in June, but overall business sentiment and expectations indicators remained weak, reflecting both the vast scale of the shock and the sluggish anticipated recovery. Moreover, many firms remain financially precarious and highly vulnerable. In December 2020, 35 percent of surveyed firms expected to experience severe financial problems, down slightly from 40 percent in June.

New data sources show that COVID-19 continues to weigh heavily on employment and income. According to preliminary results from the first round of the Tanzania High-Frequency Welfare Monitoring Survey (HFWMS), conducted by the National Bureau of Statistics between February and March 2021, 18 percent of respondents indicated that they were working in January 2020 but were no longer working a year later. Among those who had stopped working, 4 percent cited the closure of an informal business as the reason. These findings are confirmed by the December 2020 edition of COV-BPS, which found that 14 percent of firms had laid off workers during the month preceding the survey, and another 12 percent indicated that they had reduced working hours or cut the pay of formal workers. Many who were still working in 2020 had seen their incomes drop, especially those who relied on a family business for their livelihood. Dar es Salaam was disproportionally affected by the shock: 42 percent of family business owners reported that their revenue had dropped, driven by declining customers and sales, while another 10 percent indicated that they had no revenue at all. One million Tanzanians are estimated to have fallen below the national poverty line in 2020. According to the HFWMS, social assistance from the Tanzania Social Action Fund (TASAF) program reached 7 percent of the population during the year, but coverage was low in urban areas.

Data for the first quarter of 2021 suggest that recovery remains fragile and uneven across sectors, but economic activity could accelerate in the second half of 2021. World Bank staff estimates based on leading indicators suggest that GDP growth decelerated sharply, year on year, in 2020 and has not yet recovered. In contrast to other East African economies, Tanzania's GDP is not expected to rebound in the first half of 2021 because it did not previously impose strict mobility restrictions. High-frequency indicators from 2021 present mixed signals and suggest that the global pandemic continues to take a toll on Tanzania's external sector, with exports and tourism below Q1 2020 and Q1 2019 levels. Meanwhile, domestic demand is also weak, with cement production, imports of capital goods and raw materials, and electricity generation all below 2019 levels. Other indicators, such as credit growth, mobility, and telecommunications activity have recovered faster and are now expanding at pre-pandemic rates, suggesting that more rapid growth could be achieved across the economy if the pandemic is adequately managed.

The tourism-dependent economy of Zanzibar has been particularly impacted by the COVID-19 crisis. GDP growth in Zanzibar slowed to an estimated 1.3 percent, driven by a decline in tourism activity. The Revolutionary Government of Zanzibar imposed containment measures, and most of the hospitality industry shut down between March and September 2020. Occupancy rates were close to zero over this period, and the number of tourist arrivals plunged from 72,487 and 173,842 in Q2 and Q3 2019 to 884 and 12,867 in Q2 and Q3 2020. The number of jobs that are directly or indirectly linked to the tourism sector is estimated at 850,000 in mainland Tanzania and another 60,000 in Zanzibar. The tourism sector began to recover slowly in Q4 2020, and by December tourist arrivals in Zanzibar (mainly from Europe) had reached almost 80 percent of their 2019 level. Despite this recovery, tourism receipts fell by 38 percent for the year.

Tanzania's macroeconomic framework remains sound, with low inflation and moderate external and fiscal vulnerabilities. The inflation rate remains among the lowest and least volatile in the East African Community. In May 2021, the annual inflation rate was 3.3 percent, the same as the

2020 average. However, the food-price inflation rate has increased consistently since January 2021. Headline inflation is estimated to have accelerated during the second half of the year, but the rate should remain manageable and below the monetary-policy target of 5 percent. In Q1 2021, a sharp drop in exports outpaced a decline in imports, widening the trade deficit. Traditional exports such as cashew nuts, tobacco, cotton, and coffee declined by almost 70 percent, while exports of tourism-related services, such as transportation and hospitality, fell by close to 21.6 percent amid global mobility restrictions, heightened risk aversion, and diminished external demand. Goods imports fell across almost all categories in Q1 2021, as weaker domestic activity reduced demand for imported capital goods and slowed the growth of consumer-goods imports, while service imports also declined. The year-on-year deterioration in the trade balance increased external financing needs, and the external debt stock reached US$24.4 billion, or 31.1 percent of GDP, in March 2021.

A significant reduction in public spending helped the government maintain a sustainable fiscal position. The fiscal deficit widened to 1.1 percent of GDP in the first three quarters of 2020/21, but remained within the government's target due to deep cuts in both recurrent and development expenditures. Domestic revenues missed their target for those three quarters as economic activity slowed: revenue from taxes on domestic income and consumption declined, as did departure fees, hotel taxes, international travel levies, and other tourism-related tax and nontax revenues. The government made progress in preventing and clearing domestic payment arrears, but the stock of value-added tax (VAT) refund arrears remains high. At the end of March 2021, a total of 785 VAT refund claims totaled TZS 759.3 billion, suggesting that the actual deficit is higher than official statistics indicate.

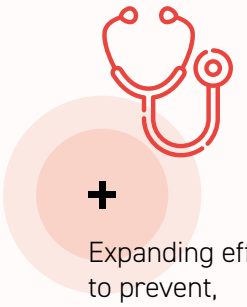
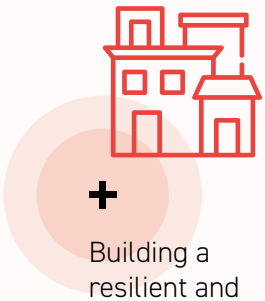
Financing for capital projects has driven an increase in the public debt stock. The total public debt increased by 4.7 percent in the first three quarters of 2020/21, due largely to the financing needs of the Standard Gauge Railway and the Nyerere Hydropower Project, among other infrastructure investments. As of end-March 2021, the public debt-to-GDP ratio had reached 41.6 percent, and debt service equals an estimated 40.5 percent of domestic revenue. The latest official government Debt Sustainability Analysis (DSA), conducted in December 2020, found a low risk of both external and public debt distress, but the debt portfolio is vulnerable to export shocks, contingent liabilities, and shocks to the primary balance.[1]

Risks to Tanzania's economic outlook hinge on expected improvements in external demand, domestic COVID-19 indicators, and support to the private sector. GDP is expected to grow by between 3.5 and 5.5 percent in 2021, below its long-run potential growth rate of about 6 percent. The global evolution of the pandemic and domestic policies to manage the pandemic are the most important sources of risk to the economic outlook. Restrictions on international travel and trade, stress in global financial markets, and elevated sovereign debt levels continue to adversely impact worldwide economic activity—including foreign direct investment—threatening the projected recovery. While vaccination rates are accelerating, especially in advanced economies, the spread of new variants of COVID-19 could extend the duration of the pandemic. The shift in the government's approach to COVID-19, combined with its renewed focus on regional trade facilitation, international economic cooperation, and private-sector-led growth, mitigates these risks, but does not eliminate them. Enabling a sustainable recovery in 2021 and maintaining a robust expansion over the medium term will require well-calibrated policies designed to make growth more inclusive and resilient by fostering an inclusive, efficient, and competitive private sector.

The new administration is at a critical juncture; policymakers must act decisively to address the pandemic in the short term while laying the groundwork for a private-sector-led recovery over the medium-to-long term. The government must implement bold and credible policy actions to save lives, protect the welfare of poor and vulnerable households, attract new foreign and domestic investment, and support an employment-intensive recovery. In line with the conclusions of the previous edition of the Tanzania Economic Update,[2] achieving Tanzania's development vision will require the government to revise, strengthen, and expand its existing efforts to support struggling firms while implementing structural reforms to address longstanding constraints on

private investment, including excessive bureaucracy, predatory taxation, inadequate infrastructure, and skills shortages. The government has established a track record of sound macroeconomic management, but further reforms to revenue policy and administration, public expenditures, and debt management will be critical to create adequate space to increase priority social spending and productive investment without jeopardizing fiscal sustainability. Addressing these challenges will require policy actions in four key areas: (i) saving lives; (ii) protecting poor and vulnerable households; (iii) supporting a jobs-intensive, private-sector-led recovery; and (iv) expanding the available fiscal space while maintaining debt sustainability (Table ES1).

Table ES1: Priority Policy Areas

Saving Lives	Protecting Poor and Vulnerable Households	Supporting a Jobs-Intensive, Private-Sector-Led Recovery	Expanding the Available Fiscal Space while Maintaining Debt Sustainability
			
+ Expanding efforts to prevent, detect, and treat COVID-19 while enhancing the transparency of public health information	+ Building a resilient and inclusive social protection system	+ Supporting viable firms and promoting private investment	+ Improving expenditure efficiency, mobilizing domestic revenue, and borrowing responsibly

This edition of the Tanzania Economic Update includes a special focus section on the tourism sector, which could play a pivotal role in achieving inclusive and resilient growth in Tanzania. It also describes the impact of COVID-19 and identifies policy priorities for transforming a tourism sector that more effectively contributes to private-sector-led growth, social and economic inclusion, and climate adaptation and mitigation.

Realizing the tourism sector's potential for inclusive, resilient, and green growth

Tanzania's abundant nature and rich cultural resources are a considerable economic opportunity. The tourism sector can support the government's broader development objectives by: (i) creating jobs, both directly and through backward linkages to other sectors; (ii) generating foreign-exchange earnings; (iii) providing revenue to support the preservation and maintenance of natural and cultural heritage; and (iv) expanding the tax base to finance development expenditures and poverty-reduction efforts.

The COVID-19 crisis severely impacted Tanzania's tourism sector, as the disruption of global travel and tourism activity resulted in job losses and business closures. Tourism was one of the first sectors to be deeply impacted by the pandemic, as measures introduced to contain the virus led to a near-complete cessation of tourism activities worldwide. The global tourism sector may also be among the last to fully recover, due to the uneven pace of vaccine distribution and the potential for stop/start cycles of demand recovery. Weaker tourism activity also adversely affects many other related sectors. Between 2019 and 2020, Tanzania experienced a 72 percent drop in tourism revenue, and the full consequences for workers and firms, especially small and medium enterprises, are still unknown.

The COVID-19 pandemic has prompted policymakers, investors, firms, and development practitioners to reconsider tourism's underlying sustainability and value proposition. The decline in tourism revenue has compromised value chains and economic relationships built up over decades. While restoring the trade and financial flows associated with tourism is an urgent priority, the disruption of the sector has created an opportunity to realign tourism development with economic, social, and environmental resilience. The transformation of the tourism sector could address longstanding issues around destination planning and management, product and market diversification, the inclusiveness of local value chains, and the weak business and investment climate.

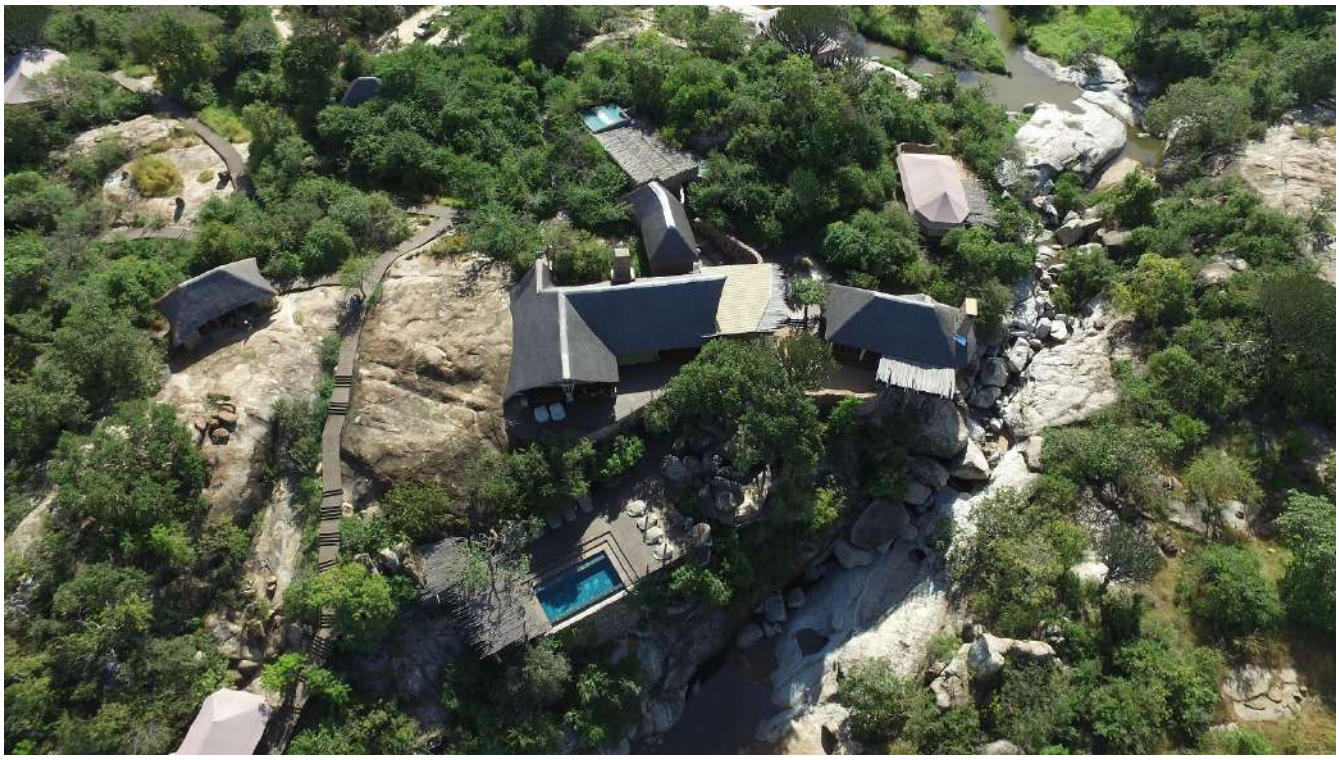


Photo: True Vision Productions

In this context, the Tanzanian government should consider five priorities for a sustainable and inclusive recovery that lays the foundation for the long-term transformation of the tourism sector.

i. ***Creating an efficient, reliable, and transparent business environment.*** Tanzania's tourism sector has long suffered from mutual distrust between the government and private firms, with the former complaining of widespread tax evasion and the latter citing government inefficiencies and misunderstanding of the way the sector functions. The pandemic has created an opportunity to reset this relationship, finally implement long-discussed reforms, and send a strong signal to the market of Tanzania's improving climate for business and investment.

ii. ***Establishing an information-management system that consolidates data from tourists and firms, enabling policymakers to improve sectoral planning and create viable investment opportunities.*** Information management is equally important to private business decisions and public-sector service provision. The past 18 months have seen a huge global shift toward the use of e-commerce and e-government applications. Tanzania has taken important steps in this direction by creating a one-stop licensing portal in the Ministry of Natural Resources and Tourism and a "market command center" at the Tanzania Tourist Board. Further progress should be made at the destination level to expand access to information on valuable demand segments and enable a swift response to changing market conditions.

iii. ***Ensuring that firms across the sector, as well as those in downstream value chains, have access to affordable transitional finance.*** The sharp contraction in tourism revenue has had negative multiplier effects in the Tanzanian economy. Suppliers and subcontractors working with tourist operators, hotels, and restaurants have experienced a severe decline in demand, resulting in a 50 percent drop in the total number of workers and a 30 percent drop in the share of full-time employees in the sector. Job losses have disproportionately affected informal workers, who have limited savings and access to credit. The loss of income among these workers has weakened domestic demand, with negative implications that extend far beyond the tourism sector. Financial support to tourism firms will be critical to shore up employment and mitigate the impact of the shock on poverty.

iv. ***Consistently promoting, monitoring, and reporting on adherence to health and safety protocols.*** The government has recently revised its approach to the pandemic, and the creation of a COVID-19 task force is an important step that should be leveraged to support the recovery of the tourism sector. To reestablish confidence among consumers and the business community, the authorities must demonstrate Tanzania's adherence to global health and safety protocols in close collaboration with the private sector.

v. ***Developing co-investment and partnership arrangements to support nature-based landscape and seascape management.*** Tanzania is a globally recognized destination for nature-based tourism, a competitive market segment in eastern and southern Africa. Beyond attracting tourists, the country's landscapes and seascapes produce a wide range of ecosystem services, including carbon sequestration and biodiversity co-benefits that are not efficiently priced and often generate little or no financial return. The global climate crisis has created significant demand for investment in these forms of natural capital, and Tanzania is well positioned to take advantage of nature-positive investment opportunities. The additional revenue derived from global climate programs could ease the government's fiscal constraints while also supporting the livelihoods of local communities.

Sequenced reforms for building a resilient, competitive, and inclusive tourism sector

2020

COVID-19

- Global tourism brought to a standstill.
- Future demand likely to be lower and different.
- Destination health and safety is paramount.
- Significant temporary (and possibly permanent) job losses.
- Long-term challenges around market concentration, as large firms are less vulnerable than small competitors.

Recovery & Resilience

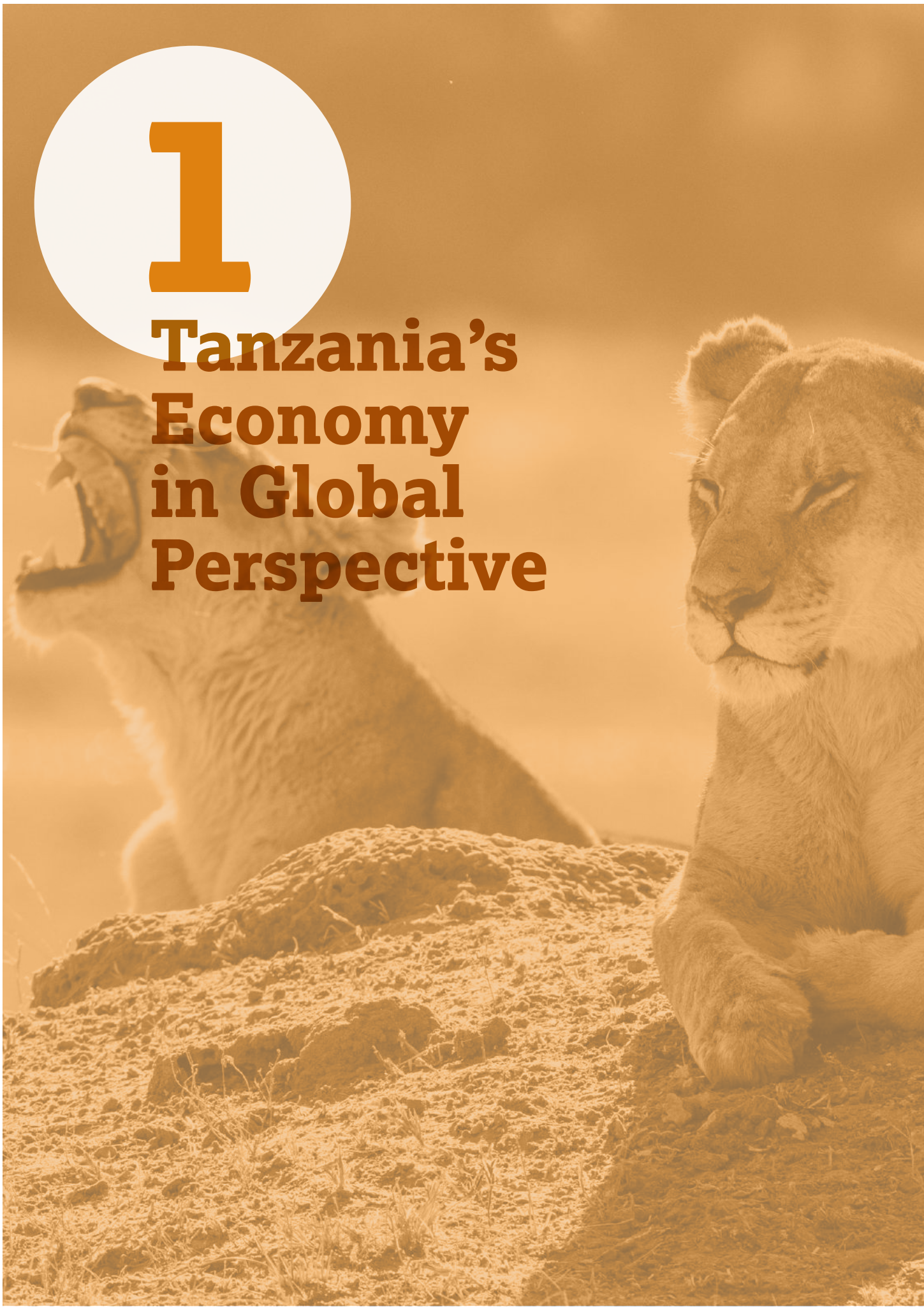
- Positive government policy responses needed to re-ignite investor and consumer demand.
- Tech innovations available to speed up demand recovery and de-risk supply-side investment.
- Lower barriers to entry for small firms foster competition.

New Policy Agenda for Transformation

- New policy agenda to build economically integrated destinations and landscapes.
- Climate & biodiversity finance offer nature-based solutions.
- Strengthening shared-value opportunities for community involvement in conservation.

2030

Covering transition costs will require co-investment between government, development partners, and the private sector



1 Tanzania's Economy in Global Perspective

1.1 Recent Economic Developments

COVID-19 remains widespread in Sub-Saharan Africa amid uneven progress in vaccination.

The COVID-19 pandemic continues to spread in Sub-Saharan Africa (SSA), adversely affecting lives and livelihoods across the continent. As of late June, over 181 million cases and almost 3.9 million deaths had been confirmed worldwide, of which 5.4 million cases and 140,000 deaths were in SSA. The rollout of vaccination programs is gradually bringing the pandemic under control in most advanced economies, but vaccination rates remain very low in SSA. By late June 2021, a total of almost 2.8 billion vaccine doses had been administered worldwide, with 22 percent of the global population receiving at least one dose of the vaccine, but vaccination rates are highly uneven across regions and national income levels. By late June 2021, less than 5.0 percent of all global vaccinations had been administered in SSA.

Tanzania is expected to resume reporting COVID-19 statistics, and the government plans to design and implement a vaccination campaign. In May 2020, the authorities stopped reporting official figures on COVID-19 case numbers, deaths, and recoveries, and by June 2020 most mobility restrictions had been lifted. In the absence of official data, an accurate estimate of the pandemic's impact on Tanzanian lives is impossible. Moreover, Tanzania has not started a widespread vaccination campaign (Box 1), and the slow pace of vaccination could further delay the return of international travel and tourism, which accounts for more than one-quarter of the country's total exports. The longer the pandemic persists in Tanzania, the greater the damage to human, physical, and financial capital, especially among the poorest households.

Box 1
Charting a new course

During 2020, Tanzania's public health response to COVID-19 was modest by regional standards. Tanzania did not impose a strict lockdown, but the initial response involved mitigation measures such as social distancing; enhanced screening at points of entry; increased surveillance, including contact tracing; quarantine of international travelers, contacts, and suspected cases; investments in laboratory capacity to collect samples and test for COVID-19; and the designation of selected health facilities to treat COVID-19. However, these efforts were scaled down and eventually halted when the government stopped reporting on COVID-19 test results and cases. A second surge of cases and deaths occurred across eastern and southern Africa between December 2020 and March 2021. In Tanzania, this surge was exacerbated by a lack of containment measures and preventive behaviors such as masking and social distancing. The absence of official data makes it impossible to reliably assess the full state of the surge, the human toll of the virus, or the effectiveness of the government's health and economic strategy.

Tanzania's approach to COVID-19 is now being comprehensively reorganized. In early April 2021, an expert committee was formed to evaluate the COVID-19 situation in the country and to advise the president on the way forward. The committee acknowledged that Tanzania has experienced two waves of the pandemic and is at risk of a third wave. It recommended that the government strengthen its response mechanisms for managing COVID-19 and urged close collaboration with international and local stakeholders to accelerate the response efforts. The committee advised the government to: (i) revise and update its contingency and response plans at all levels; (ii) report accurate COVID-19 data both to its citizens and to the World Health Organization (WHO); (iii) take steps toward the deployment of WHO-approved COVID-19 vaccines; (iv) collaborate with international institutions, including the COVAX Facility, to procure and deploy vaccines; and (v) further strengthen laboratory capacity to expand the scope of COVID-19 testing. Since early May 2021, the government has enforced mandatory screening at ports of entry, imposed a ban on travel to and from India, and promoted social distancing.

Tanzania recently joined the COVAX Facility, a global effort aimed at delivering COVID-19 vaccines to low- and middle-income countries. The government is also exploring other options for acquiring vaccines, including through the African Union's Africa Vaccine Acquisition Trust. Tanzania has yet to resume reporting COVID-19 statistics, but the government has announced that it will start sharing data, and it is currently preparing a COVID-19 National Vaccine Deployment Plan.

Tanzania's growth slowed in 2020 and has not returned to its pre-pandemic trend.

Pandemic-induced shocks slowed Tanzania's GDP growth rate from 5.8 percent in 2019 to an estimated 2.0 percent in 2020. External demand weakened for most Tanzanian exports, with the notable exception of gold, while border closures and other trade disruptions pushed up the cost of imports and transportation services in Q2 and Q3. Rising global economic uncertainty reduced capital inflows, especially foreign direct investment (FDI), and the resulting deterioration of domestic business conditions reduced consumer spending on durable goods, tightened credit constraints, and generated delays in implementing private investment projects. Precautionary behaviors by firms and consumers compounded these dynamics, further inhibiting economic activity. Nevertheless, Tanzania's economy fared better than those of its regional peers, and the country avoided a contraction in 2020.

Shocks to export-oriented sectors such as tourism, manufacturing, and related services diminished revenues and labor income, adversely affecting domestically oriented enterprises of all sizes across sectors. In July and December 2020, the World Bank conducted two waves of the COVID-19 Business Pulse Survey (COV-BPS), covering a total of 1,000 firms in each wave (see Annex 1 for technical details). These surveys reveal that firms' sales and revenues were severely affected by the crisis, and that their financial situation is increasingly vulnerable. Three months after the beginning of the pandemic, 81 percent of Tanzanian businesses reported fewer sales, with an average decline of 39 percent, and more than 40 percent of firms expected to fall into arrears on either their financial

obligations or payments to suppliers. In December, the average decline in sales had moderated to 25 percent, but 35 percent of firms expected to face severe financial problems. Firms in the service sector faced an especially steep decline in sales, while agricultural firms fared relatively well. Moreover, between 50 and 80 percent of firms were affected by supply-side shocks (e.g., reduced working hours, limited availability of inputs, depressed demand) and/or liquidity shocks (e.g., diminished cashflow, limited access to finance), and over 80 percent were unaware of any public support or reforms designed to address the crisis. While these figures have improved (Box 2), overall business sentiment and expectations indicators remain weak, with sales expectations unchanged between July and December, reflecting both the vast scale of the shock and the sluggish expected recovery.

Box 2
How are firms coping with the COVID-19 crisis?

The results of the two waves of the COV-BPS reveal how firm performance changed between the beginning of the pandemic and the end of 2020, as well as providing insight into how firms have adjusted their expectations for a post-crisis recovery. Only microenterprises and small firms show consistent indications of recovery in terms of business closures, sales, and financial fragility.

- **Probability of remaining open** increased by about 10 percentage points between the two survey waves and across all firm-size groups.
- **Total sales** are still 25 percent lower compared to the pre-pandemic period.
- The **probability of falling in arrears** has decreased slightly for all firms, especially small firms and microenterprises.
- **Sales expectations** remained unchanged between the two rounds, but **uncertainty about future sales** declined in December.
- The **likelihood of hiring a worker** increased from 11 to 27 percent, while the **probability of firing workers** did not change.
- The **probability of using digital platforms** almost doubled.
- The **probability of accessing public support** rose between the two rounds, which may be explained by improvements in access to support among smaller firms or by the misinterpretation of policy changes that are not specifically targeted at firms.

Figure 1: Sales

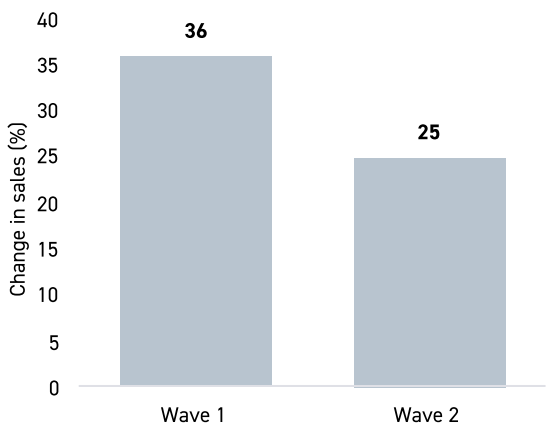


Figure 2: Probability of falling into arrears

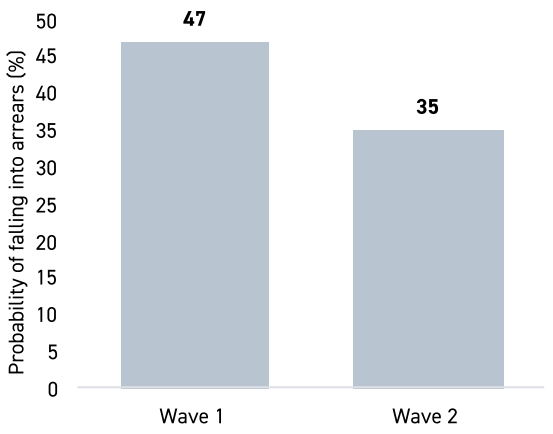


Figure 3: Expected change in sales

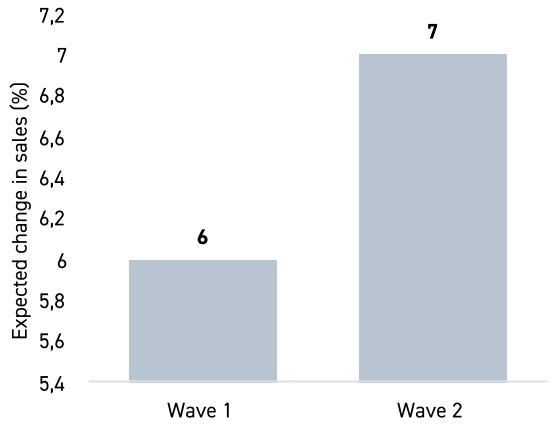


Figure 4: Uncertainty about future sales

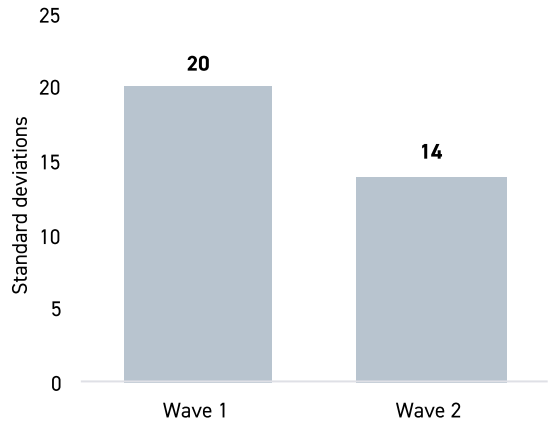


Figure 5: Predicted probability of hiring

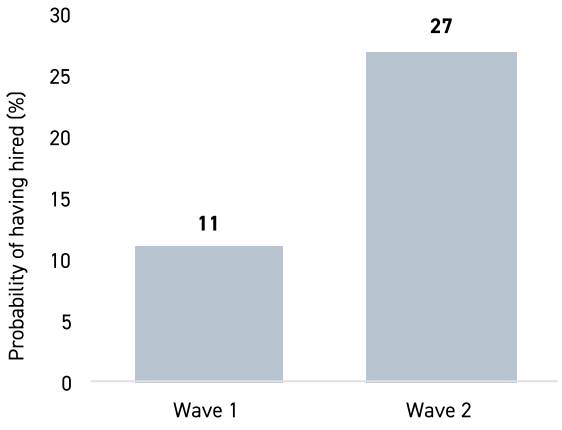
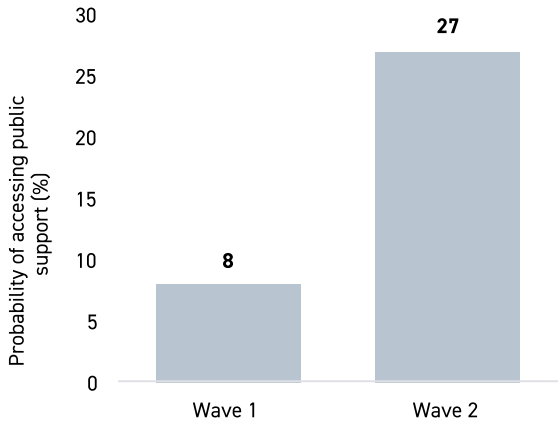


Figure 6: Probability of accessing public support



Source: WB COV-BPS.

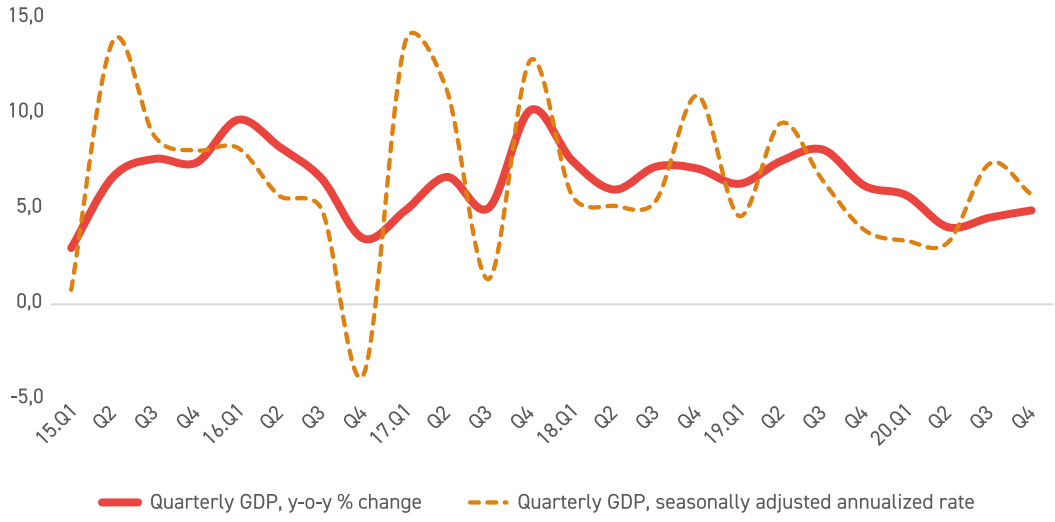
High-frequency indicators, combined with World Bank-led household and businesses surveys, suggest that Tanzania's economic recovery remains uncertain. World Bank staff estimates based on leading indicators suggest that GDP growth decelerated sharply, year on year, in 2020, and that the recovery remains partial and fragile. Official GDP data also show a seasonally adjusted deceleration in Q4 (Figure 7), albeit of a different magnitude. Unlike its East African peers, Tanzania's economy is not expected to rebound significantly in the first half of 2021: because growth remained positive in 2020, the statistical base effect observed in countries that experienced a contraction is absent. The countries that implemented mobility restrictions in Q2 2020 are all expected to experience a substantial rebound in Q2 2021, as their economies reopen, but as Tanzania did not impose significant containment measures, no similar resumption of activity is expected. In addition, high-frequency

indicators from 2021 present mixed signals and suggest that the global pandemic continues to take a toll (Table 1). Tourism services and other exports are below Q1 2020 and Q1 2019 levels, while cement production, imports of capital goods and raw materials, and electricity generation remain below their 2019 levels. Other indicators, such as credit growth, mobility and telecommunications activity have recovered earlier and are expanding at pre-crisis levels, suggesting that growth could accelerate in Q2 and Q3 if the pandemic is adequately managed.

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

Sector	Series	Latest Datapoint	Source
External	*Exports of goods and services, imports of goods and services, the current account, international reserves*	*April 2021*	*Bank of Tanzania and Office of the Chief Government Statistician - Zanzibar*
Fiscal	*Revenues, expenditures, grants, financing, arrears*	*April 2021*	*Ministry of Finance and Planning, Bank of Tanzania, and Tanzania Revenue Authority*
Prices	*Inflation (headline, food, energy), oil prices, exchange rates*	*May 2021*	*National Bureau of Statistics, World Bank, OANDA corporation*
Monetary	*Monetary aggregates of deposit corporations and Central Bank of Tanzania, interest rates*	*April 2021*	*Bank of Tanzania*
Financial	*Bank assets and liabilities, nonperforming loans*	*April 2021*	*Bank of Tanzania*
Mobility	*Mobility Indexes to workplaces, transit stations and retail*	*May 2021*	*Google*
Business conditions and jobs	*Sales, labor adjustments, liquidity and insolvency, government support, performance expectations*	*July and December 2020*	*WB COVID-19 Business Pulse Survey (COV-BPS) for Tanzania, Wave 1 and 2*
Tourism	*Total tourist arrivals; tourism statistics for Zanzibar*	*April 2021*	*Office of the Chief Government Statistician – Zanzibar (OCGS)* *NBS* *TTB, MNRT* *IFC Dalberg Survey* *UNWTO*
Household Welfare	*Employment and income, access to necessities, food security, assistance from government, schools and learning, mental health.*	*February 2021 – March 2021*	*NBS/ OCGS/ World Bank Tanzania High-Frequency Welfare Monitoring Survey, round 1*

Figure 7: Official Quarterly GDP Growth Rates, Tanzania



Source: NBS and World Bank Staff estimates

The pandemic continues to seriously disrupt the collection and publication of Tanzania's national accounts. The National Bureau of Statistics (NBS) released GDP data for Q2 and Q3 of 2020 on January 25, 2021, but no official figures for Q4 2020 have been published by end-June 2021. In contrast, all other countries in the region with similar statistical institutional capacity have published data for Q1 2021 and have begun revising the official figures for 2020. The timely publication of national-accounts data that adhere to international standards is critical for informed decision-making (Box 3) and requires investments in high-quality granular data generation, as well as mechanisms that facilitate the exchange of information within the government and between the government and other stakeholders.

Box 3
Improvements in Tanzania's national-accounts statistics

The quality of Tanzania's national accounts statistics improved substantially when the NBS successfully updated the base year from 2007 to 2015, in line with East African Community (EAC) harmonization efforts. The rebasing of the series in February 2019 produced historical annual GDP growth rates that more accurately reflected the changing structure of the economy. The completion of the 2017 Household Budget Survey, which provided data on household consumption and consumer prices, provided crucial input into the compilation of the national accounts statistics.

Despite recent progress, significant challenges continue to hinder the production and dissemination of national-accounts statistics. The quality of source data used for the compilation is weak in the areas of investment, manufacturing, services, and employment. The quality of business surveys is generally poor, and substantial disparities are evident between firm financial statements and data on value added tax (VAT). Efforts to improve the quality of source data could enhance the transparency and timeliness of national-accounts statistics. The NBS is not always able to meet its deadlines for releasing quarterly and annual GDP estimates despite its participation in the General Data Dissemination System (GDDS). A new policy for revising quarterly GDP estimates should mandate that the preceding quarterly estimates be revised each time the quarterly estimates for a new quarter are made available, as opposed to the current practice of not revising quarterly estimates until data for all four quarters are ready.

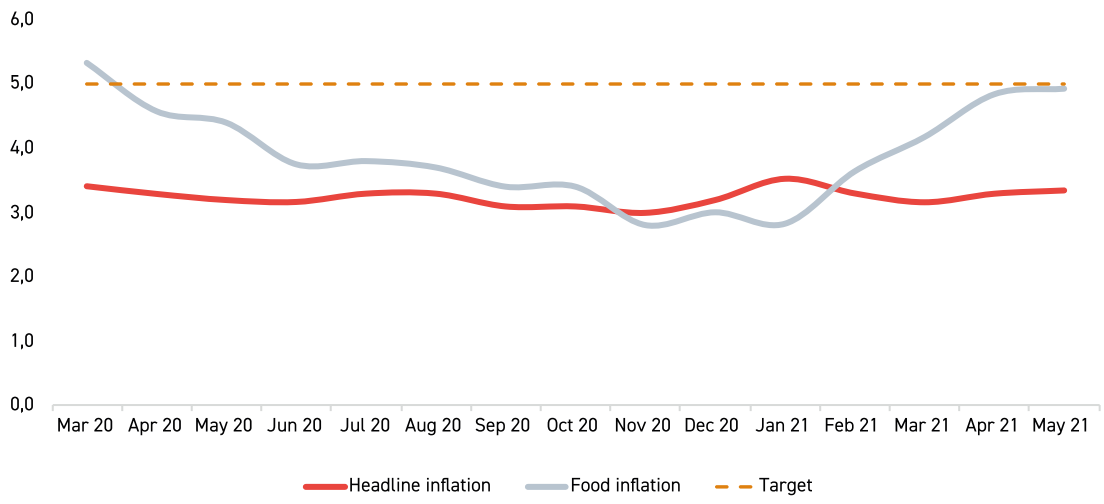
The World Bank and the IMF are committed to providing continued technical support to the NBS to strengthen its national-accounts statistics. The most recent World Bank/IMF joint mission of February 2021 recommended that the NBS focus its attention on three key areas: (i) the importance of establishing a new memorandum of understanding with the Tanzania Revenue Authority for sharing VAT and income tax data; (ii) the need for the NBS to release detailed documentation on data sources and compilation methods, and (iii) the regular and timely publication of the results of both ad hoc and routine surveys.

Source: Authors' compilation based on various technical assistance reports.

Photo: Stevie Mann

Inflation rates are low and stable. In May 2021, the annual inflation rate was 3.3 percent, consistent with the 2020 average (Figure 8). Despite trade disruptions and supply constraints, Tanzania's inflation rate remains among the lowest and least volatile in the EAC. However, while the overall food-price inflation rate remains below 5 percent, it has consistently increased since January 2021, rising from 3.6 percent in February 2021 to 4.9 percent in May 2021 due to higher prices of cooking bananas, dried sardines, fresh cassava, fruits, sunflower oil, wheat flour, and beans. Meanwhile, prices for rent, heating and cooking fuel, and transportation fell, offsetting the increase in food prices.

Figure 8: Monthly Inflation Rates by Component (%)



Source: NBS.

Box 4
Measuring the cost of living

Inflation is measured as the variation of the consumer price index (CPI), a weighted average of the price change of a fixed basket of goods and services. The basket is representative of the spending patterns of the average Tanzanian household, and the weights allocated to each item are meant to reflect the relative importance of the goods and services in the total consumption of households. In most countries, weights are kept fixed for a certain period, which implicitly assumes that consumers allocate the same share of their consumption to each commodity over the period. CPI weights should be updated at least once every five years to ensure that they do not become unrepresentative or irrelevant, and to reflect the introduction of new items or the obsolescence of existing ones.

In Q1 2021, NBS updated its estimation methodology for inflation. The previous update was performed in 2016, using 2015 as a reference year, but after five years the weights had become unrepresentative. Since January 2021, 2020 has been used as the base year. The share of food and nonalcoholic beverages in the consumption based has decreased significantly, while the shares of clothing, housing, transportation, restaurants, and education services have increased—a common pattern among countries moving from low- to lower-middle-income status. The rebased CPI is expected to provide a more accurate measure of overall price changes during the next two-to-three years.

Table 2: Changes in CPI Weights, 2015 and 2020 (%)

CPI Component	2015	2020	Absolute change
Food and non-alcoholic beverages	38.5	28.2	(10.3)
Alcoholic beverages and tobacco	3.7	1.9	(1.8)
Clothing and footwear	8.3	10.8	2.5
Housing water, electricity, gas and other fuels	11.6	15.1	3.5
Furnishings, household equipment and routine household maintenance	6.3	7.9	1.6
Health	2.9	2.5	(0.4)
Transport	12.5	14.1	1.6
Information and communication	5.6	5.4	(0.2)
Recreation, sport and accomodation services	1.6	1.6	(0.0)
Education services	1.5	2.0	0.5
Restaurants and accomodation services	4.2	6.6	2.4
Miscellaneous goods and services	3.1	4.2	1.1

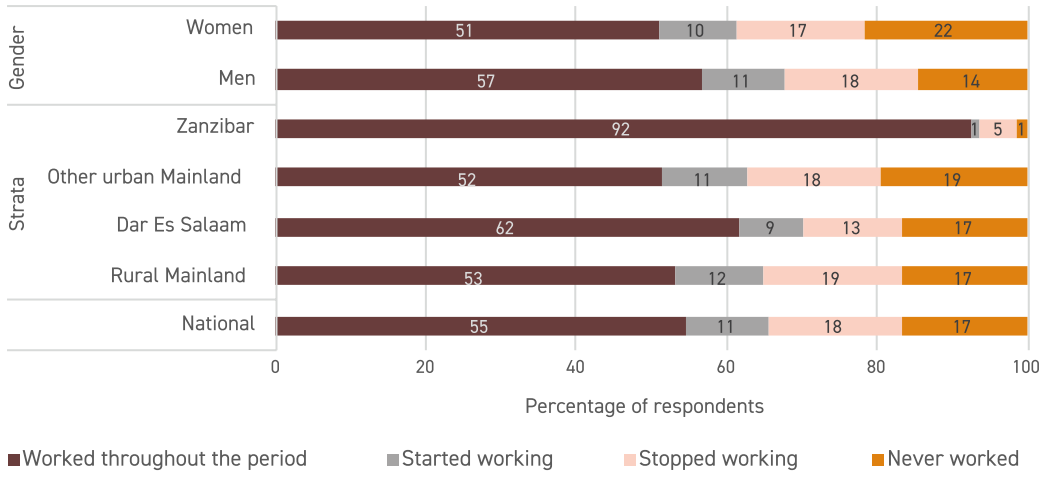
Source: NBS.

In 2020, an estimated one million Tanzanians fell below the national poverty line.

The economic downturn is estimated to have increased the national poverty rate from 26.2 percent in 2019 to 27.1 percent in 2020. The 2020 rate is based on a simulation using household budget survey data and imputing income changes based on estimated real sectoral growth rates and combined with the country's rapid population growth rate. These simulations include that the number of people living below the national poverty line rose by one million in 2020, due largely to the effects of the COVID-19 crisis.[3] However, even in the absence of COVID-19 the poverty rate would have increased, as Tanzania's high population growth rate and low poverty-to-growth elasticity would have caused the number of people living below the national poverty line to rise by about 400,000 in the counterfactual scenario. The increase in poverty rates was sharpest in urban areas, rising by 1.7 percentage points compared to 0.7 percentage points in rural areas. This pattern reflects the losses of wage income and revenue that were heavily concentrated among nonfarm family businesses.

The slowdown in economic activity has reduced employment. According to preliminary results from the first round of the Tanzania High-Frequency Welfare Monitoring Survey (HFWMS), conducted by the National Bureau of Statistics between February and March 2021,18 percent of respondents indicated that they were working in January 2020 but were no longer working a year later, and another 11 percent indicated that they had started working since January 2020, implying a net reduction of 7 percent in the share of respondents who were employed. Declines in employment were lowest in Dar es Salaam and Zanzibar (both down 4 percent) and steepest in other mainland urban areas and rural mainland areas (both down 7 percent). Diminished employment appears to have affected men and women about equally (Figure 9).

Figure 9: Changes in Employment Status between January 2020 and February-March 2021



Source: HFWMS.

The most common reasons for no longer working were seasonality (27 percent), followed by illness (19 percent). However, 4 percent of respondents that had stopped working cited the closure of an informal business, and this share was highest in Dar es Salaam (16 percent) and Zanzibar (14 percent), suggesting the impact of the economic slowdown was especially acute in those areas. These findings are corroborated by the December 2020 COV-BPS, which found that 14 percent of formal firms had laid off workers during the month preceding the interview, and another 12 percent indicating they had reduced working hours or cut the pay of formal workers.

Many who remained working in 2020 saw their incomes drop. The roughly 30 percent of workers who were employed by a nonfarm family business were particularly affected by income losses: one in eight reported having no income at all, and another 44 percent had seen their income decline in the month before the survey. Dar es Salaam, where over one-third of households reported having a family business, was disproportionally affected: almost 10 percent of family-business owners indicated they had no revenue, and another 42 percent reported a decline in revenue due primarily to fewer customers and sales. About one-third of all informal-business owners are in the poorest half of the population,[4] and income shocks threaten to push them below—or further below—the poverty line. Simulations show that a shock that reduces the income of informal businesses by 50 percent would increase the urban poverty rate by 5 percent. According to the HFWMS, social assistance from the Tanzania Social Action Fund reached 7 percent of the population in 2020, but coverage rates were just 1 percent in Dar es Salaam and 5 percent in other urban areas.

Tanzania's external accounts have slightly deteriorated.

The current-account deficit widened in Q1 2021. During Q1, the decline in exports outpaced the decline in imports, widening the current-account deficit from US$466.4 million in March 2020 to US$499.1 million in March 2021, despite a surplus of US$37.5 million recorded in December 2020. The year-on-year deterioration in the trade balance increased external financing needs, which have been covered primarily by external debt.

Exports of goods and services fell due to declines in traditional exports and services exports. In Q1 2021, exports of goods and services dropped by 11.9 percent relative to Q1 2020. Exports of tourism-related services, such as transportation and hospitality, fell by 21.6 percent amid global mobility restrictions, heightened risk aversion, and weak global demand—a shock from which Tanzania's tourism sector has not yet fully recovered. Meanwhile, traditional exports declined by 69.9 percent, driven by lower sales of cashew nuts, tobacco, cotton, and coffee in 2021. By contrast, rising production volumes and elevated global prices drove a 11.2 percent increase in gold exports, which partially offset the decline in total exports. However, trade dynamics are quite different when compared to the previous quarter: although exports continued declining (-18.1 percent), travel services expanded by 20.8 percent while gold exports declined by 18.2 percent, offsetting the effect of higher gold prices in 2020 (Table 3).

Table 3: The Evolution of the Trade Balance, Q1 2019 - Q1 2021

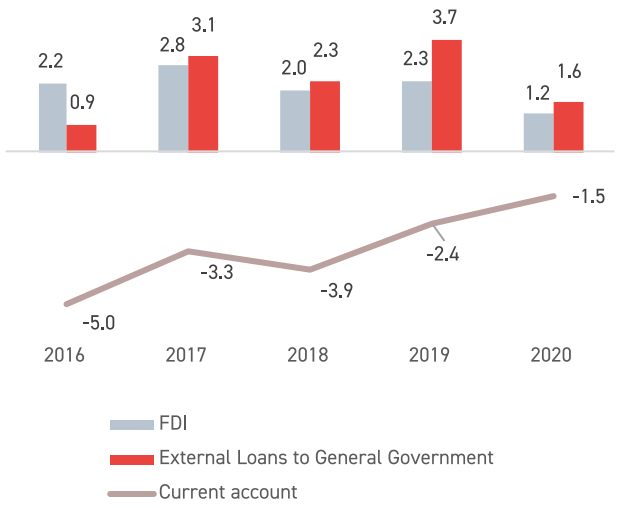
				(Annual percent change)		(Shares)	
	1Q 2019	**1Q 2020**	**1Q 2021**	**1Q 2020**	**1Q 2021**	**1Q2020**	**1Q 2021**
Total Exports	**2135**	**2287**	**2015**	**7.1**	**-11.9**	**100.0**	**100.0**
Goods	**1129**	**1300**	**1239**	**15.1**	**-4.6**	**56.8**	**61.5**
Of which							
Gold	498	607	675	21.9	11.2	26.5	33.5
Manufactured goods	221	219	234	-0.6	6.7	9.6	11.6
Traditional exports	135	311	94	130.2	-69.9	13.6	4.6
Services	**1006**	**988**	**776**	**-1.9**	**-21.4**	**43.2**	**38.5**
Of which							
Travel	585	579	396	-1.1	-31.6	25.3	19.6
Transport	332	347	330	4.5	-4.9	15.2	16.4
Total Imports	**2386**	**2540**	**2439**	**6.5**	**-4.0**	**100.0**	**100.0**
Goods	**1989**	**2152**	**2117**	**8.2**	**-1.6**	**84.7**	**86.8**
Capital goods	950	893	870	-6.0	-2.6	35.2	35.7
Intermediate imports	575	669	615	16.4	-8.1	26.4	25.2
Of which: Oil	420	429	382	2.3	-11.0	16.9	15.7
Consumer goods	464	589	632	27.0	7.2	23.2	25.9
Services	**396**	**388**	**322**	**-2.2**	**-17.0**	**15.3**	**13.2**

Source: BoT.

Imports remain subdued but have declined more slowly than exports. Goods imports fell across almost all categories in Q1 2021, as weaker domestic activity reduced demand for imported capital goods and slowed the growth of consumer-goods imports. Purchases of capital goods fell by 2.6 percent due to diminished orders for construction materials and machinery; demand for intermediate goods and raw materials also weakened significantly (-8.1 percent), and imports of services declined (-17.0 percent) as demand for travel and transportation softened. Despite an increase in the volume of imported oil, falling average prices for retail oil products reduced the oil import bill by 11.0 percent, easing pressure on the external accounts. Relative to the previous quarter, imports grew by 4.7 percent, driven by rising purchases of intermediate goods (12.3 percent) and capital goods (3.6 percent).

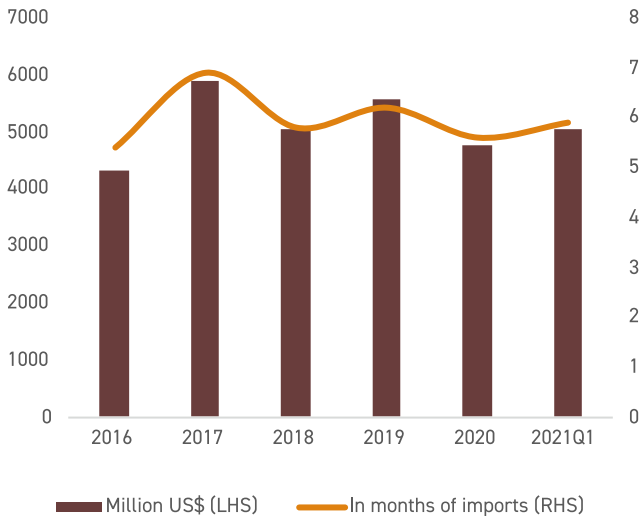
The current-account deficit continues to be funded by external borrowing, largely on concessional terms. The total external debt stock rose from US$22.4 billion in December 2019 to US$24.0 billion in December 2020 and reached US$24.4 billion in March 2021. This trend is being driven by loans to the central government, which in 2019-20 exceeded the average for the past five years, with most financing coming from concessional sources. Meanwhile, other sources of financing, such as FDI and portfolio investment, have continued to decrease (Figure 10). Official gross reserves fell from US$5.6 billion (or 6.2 months of import coverage) in December 2019 to US$4.8 billion (or 5.6 months) in December 2020 before rebounding to US$5.0 billion (5.9 months) in March 2021. Import coverage remains well above the government's threshold of 4 months and the Southern Africa Development Community requirement of 4.5 months, though slightly below the EAC requirement of 6 months (Figure 11).

Figure 10: The Current-Account Deficit, FDI, and External Loans to the General Government (% of GDP)



Source: BoT.

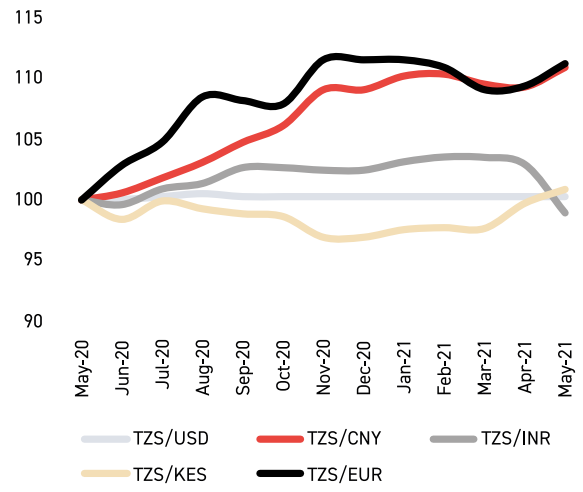
Figure 11: Gross International Reserves (% of GDP and US$ millions)



Source: BoT.

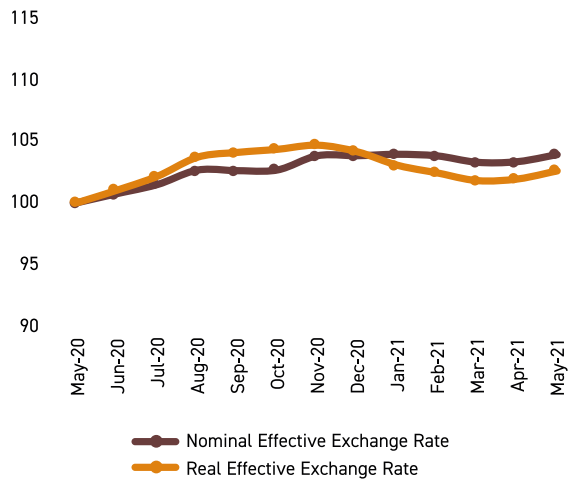
The Tanzanian shilling has remained broadly stable. From May 2020 to May 2021, the shilling depreciated by 0.2 percent against the U.S. dollar, 10.9 percent against the Chinese renminbi, and 11.3 percent against the euro, though it appreciated by 0.8 against the Kenyan shilling (Figure 12). Volatility increased during Q2 2020, as capital inflows to developing economies sharply declined, but the Bank of Tanzania's interventions in the foreign-exchange market stabilized the shilling, and it has remained stable during Q1 2021. To achieve its monetary policy objectives, the central bank focuses on maintaining an adequate level of liquidity in the economy and ensuring stable interest and exchange rates. In May 2021, the real effective exchange rate depreciated by 2.6 percent (Figure 13), and the inflation differential between Tanzania and its major trading partners partly offset a decline in the nominal exchange rate. The increase in the real effective exchange rate has been accompanied by a deterioration in traditional exports, while exports of manufactured goods increased.

Figure 12: Nominal Exchange Rate (%)



Source: OANDA Corporation Exchange Rates.

Figure 13: Real Effective Exchange Rate (%)



Source: : World Bank staff estimates.

Photo: TrueVision Productions

The government's fiscal position remains sustainable despite lower revenues.

The fiscal deficit reached 1.1 percent of GDP in the first three quarters of the 2020/21 fiscal year (FY). The actual fiscal deficit was lower than the target of 1.6 percent of GDP for the period, but significantly higher than the 0.2 percent of GDP achieved during the same period in FY2019/20 (Table 4). The below-target fiscal deficit was achieved through significant expenditure cuts, as both domestic revenues and grants underperformed, due in part to the COVID-19 pandemic. Domestic and external loans financed the deficit in similar proportions, with net external loans amounting to 0.5 percent of GDP and net domestic loans reaching 0.6 percent.

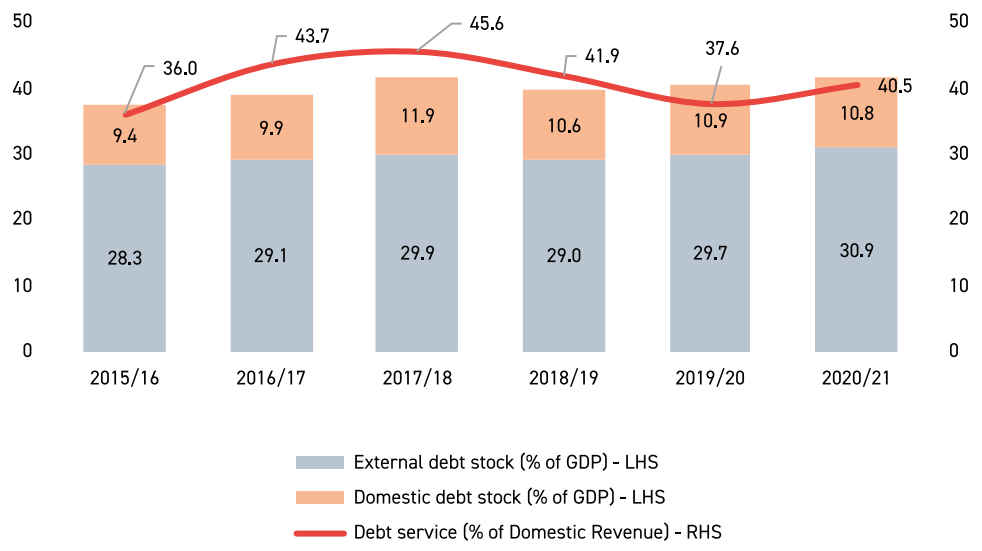
Table 4: Tanzania: Fiscal Trends (% of GDP)

	2019/20 Budget	2019/20 Actual	2020/21 Budget	2019/20 Q1-Q3 Estimates	2019/20 Q1-Q3 Actual	2020/21 Q1-Q3 Estimates	2020/21 Q1-Q3 Actual
Domestic revenue	**16.1**	**14.7**	**16.1**	**11.9**	**10.9**	**11.9**	**10.3**
Tax revenue	13.3	12.2	13.4	9.9	9.3	10.0	8.7
Nontax revenue	2.9	2.5	2.6	2.0	1.5	1.9	1.6
Total expenditure	**19.4**	**16.2**	**19.4**	**13.8**	**11.8**	**14.0**	**11.6**
Recurrent expenditure	**8.0**	**9.8**	**10.9**	**8.1**	**6.9**	**8.1**	**7.0**
Wages and salaries	5.3	4.9	5.2	3.9	3.7	3.9	3.7
Interest payments	1.7	1.6	1.9	1.3	1.3	1.3	1.2
Goods and services	3.8	3.2	3.8	2.8	1.9	2.9	2.1
Recurrent expenditure	**8.0**	**9.8**	**10.9**	**8.1**	**6.9**	**8.1**	**7.0**
Wages and salaries	5.3	4.9	5.2	3.9	3.7	3.9	3.7
Interest payments	1.7	1.6	1.9	1.3	1.3	1.3	1.2
Grants	**0.8**	**0.7**	**0.6**	**0.7**	**0.6**	**0.5**	**0.3**
Overall fiscal balance	**-2.4**	**-1.4**	**-2.7**	**-1.2**	**0.2**	**-1.6**	**-1.1**
Financing	**2.4**	**1.4**	**2.7**	**1.2**	**-0.2**	**1.6**	**1.1**
Foreign (net)	1.3	1.1	1.7	1.3	1.1	0.9	0.5
Domestic (net)	1.0	0.3	1.1	-0.1	-1.2	0.6	0.6

Note: Fiscal year refers to July 1 to June 30.
Source: MoFP.

Large capital projects have contributed to a rising public debt stock. Total public debt, of which 75 percent is external and 25 percent domestic, increased by 4.7 percent in the first three quarters of FY2020/21, driven largely by the financing needs of the Standard Gauge Railway, the Nyerere Hydropower Project, and other infrastructure investments. The public debt stock rose from 40.5 percent of GDP in 2020 to 41.6 percent in Q1 2021 (Figure 14), and debt-service costs are currently estimated at 40.5 percent of domestic revenues. According to the government's latest official Debt Sustainability Analysis (DSA), conducted in December 2020, the risks of both external and public debt distress remain low,[5] but the rising share of commercial debt has increased liquidity risks. Tanzania has requested that its participation in the G20's COVID-19 Debt Service Suspension Initiative be extended until December 2021, which would entail the suspension of TZS 554.2 billion in debt service in the FY2020/21 and another TZS 655.4 billion in the FY2021/22. As of March 2021, the amount of actual debt service suspended was just TZS 26.0 billion.

Figure 14: Public Debt Stock and Debt Service



Source: MoFP.

Domestic revenue mobilization underperformed as tax revenue fell short of expectations. Domestic revenue amounted to 10.3 percent of GDP in the first three quarters of FY2020/21, below both the 11.9 percent target for the period and the 10.9 percent of GDP achieved during the same period in FY2019/20. Tax revenue declined by 1.7 percent in nominal terms and fell below the target by 1.3 percent of GDP as the production and consumption of taxable goods and services declined, especially tourism-related services, many of which are subject to specific taxes and fees. Nontax revenue collection also fell below the target by 0.3 percent of GDP due to diminished revenue collection by local governments. In addition to the fiscal impact of the pandemic-driven slowdown in economic activity, overly optimistic revenue forecasting remains a key challenge, and domestic revenue collection has fallen short of its target by an average of 8-10 percent each year during the past decade.

The slowdown in public spending was driven by falling development expenditures.

Total public spending dropped to 11.6 percent of GDP in the first three quarters of 2020/21, below its target. Although public spending rose during Q2 of FY2020/21, total public expenditures for the first three quarters of the fiscal year remained significantly below the target of 14.0 percent of GDP, as well as slightly below the 11.8 percent of GDP recorded in the same period in FY2019/20. Both recurrent and development expenditures were below their targets. However, in nominal terms and compared to the same period in FY2020/2021, recurrent expenditures increased by 7 percent, while development expenditures declined by 3 percent.

Actual expenditures on all major recurrent spending items, including wages and salaries, interest payments, and goods and services, were below their budget targets during the first three quarters of 2020/21. Delayed hiring drove underspending on salaries and wages, which fell short of its target by 0.2 percent of GDP. Underspending on goods and services by 0.8 percent of GDP could threaten service delivery and result in the accumulation of new arrears. Interest payments were below their target due to the reduced cost of domestic borrowing and delays in non-concessional borrowing.

Development expenditures amounted to 4.6 percent of GDP during the first three quarters of FY2020/21, well below both the 5.9 percent target and 5.0 percent recorded during the same period in FY2020/21. The execution rate for the development budget reached just 78.2 percent, as both domestic and foreign-funded components were underspent by 20.1 percent and 27.4 percent, respectively. Domestic underspending of the development budget was caused by delays in contracting non-concessional loans and shortfalls in domestic revenue collection, while the underspending of the foreign-financed component reflected delays in project preparation and implementation.

Figure 15: Trends in Government Budget Allocations (% of Total)

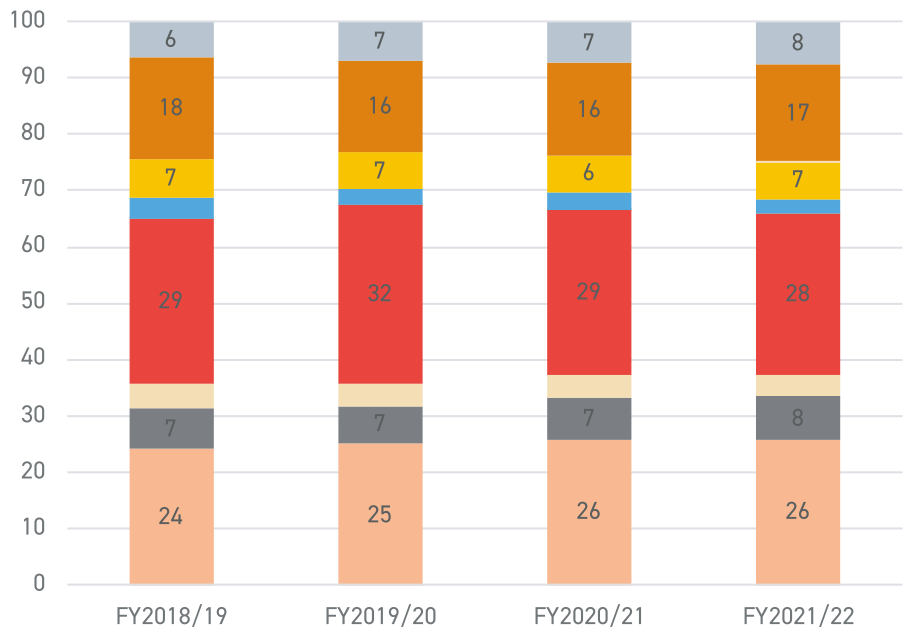
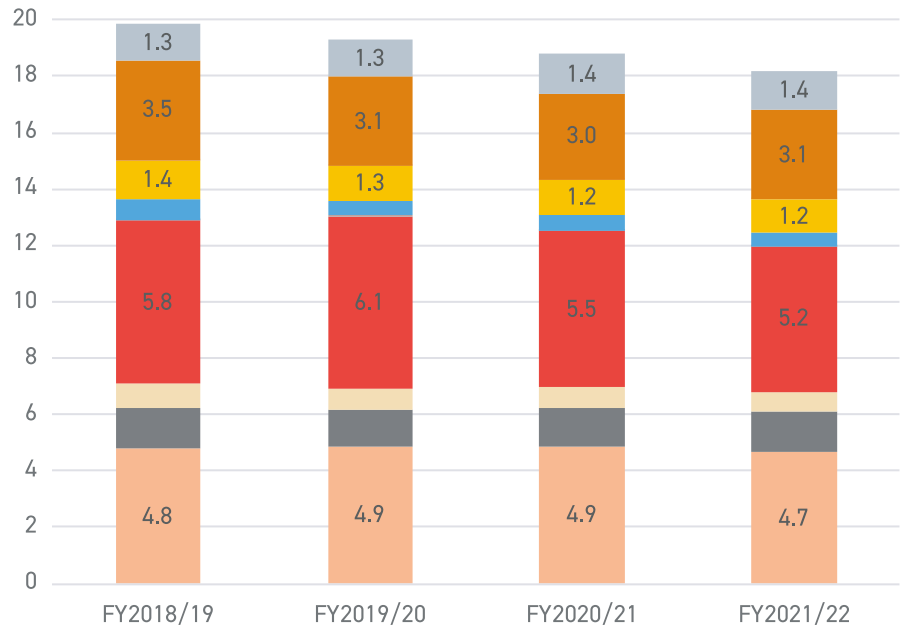


Figure 16: Trends in Government Budget Allocations (% of GDP)



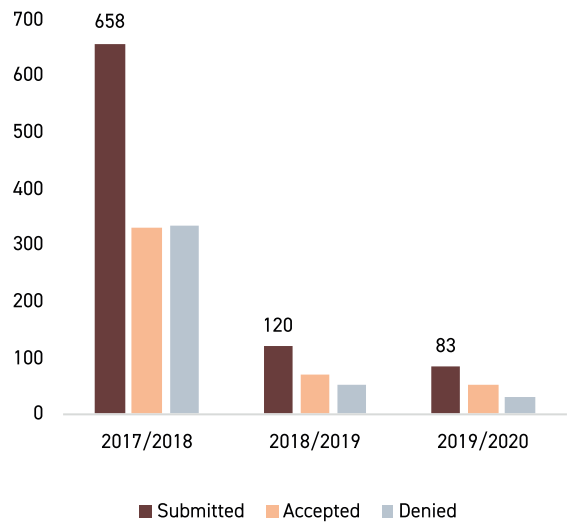
01 General services
02 Defense
03 Public order and safety
04 Economic affairs
05 Environmental protection
06 Housing and community amenities
07 Health
08 Recreation, culture and religion
09 Education
10 Social protection

Source: MoFP.

The government made progress in preventing and clearing domestic payment arrears, but the stock of VAT refund arrears remains high.

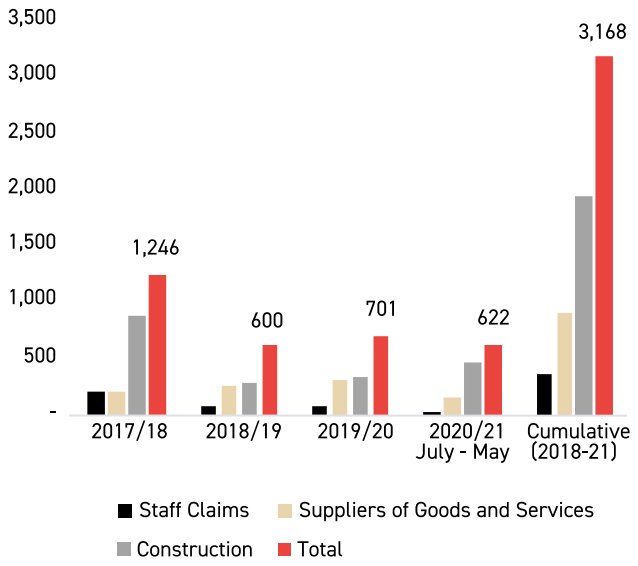
The government has strengthened the implementation of its domestic arrears-management strategy. The Ministry of Finance and Planning has issued circulars advising accounting officers to adhere to the Budget Act of 2017, and the government has allocated TZS 600 billion each year since 2017 for the clearance of verified arrears. As a result of these measures, the amount of annual domestic payment claims declined sharply from TZS 657.6 billion in FY2017/18 to TZS 82.8 billion in FY2019/20 (Figure 17). Moreover, the government has strengthened the arrears-verification and payment process. By March 2021, all claims by contractors and suppliers for FY2019/20 had been verified, with about 60 percent accepted and the rest rejected. As part of its efforts to shield firms from the financial shock induced by the COVID-19 pandemic, the government cleared about TZS 621.8 billion in verified arrears between July 2020 and March 2021, exceeding the annual target of TZS 600 billion (Figure 18). Between FY2017/18 and FY2019/20, domestic payment claims worth TZS 416.9 billion were rejected, often due insufficient documentation.

Figure 17: Trends in Verification of Domestic Payment Claims (TZS Billions)



Source: MoFP.

Figure 18: Trends in Clearance of Verified Domestic Payment Arrears (TZS Billions)



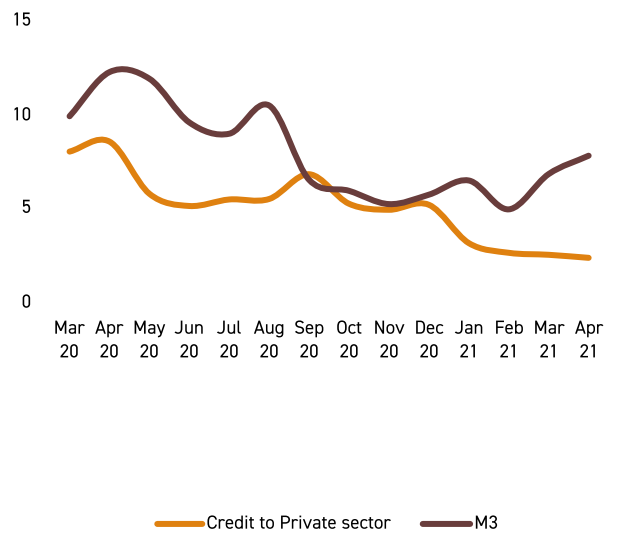
Source: MoFP.

However, the stock of VAT refund claims remains high. The Tanzania Revenue Authority made progress in the system of tracking new VAT refund claims, which has allowed for timely verification and payment of VAT refunds. Additionally, the government has allocated funds to allow for monthly payment of verified VAT refunds. For example, in March 2021 699 VAT refund claims amounting to TZS 79.0 billion were verified and paid. However, by the end of March 2021, the number of outstanding VAT refund claims remained high at 785, amounting to TZS 759.3 billion.

Credit to the private sector is constrained by the high cost of funding and poor quality of banking assets.

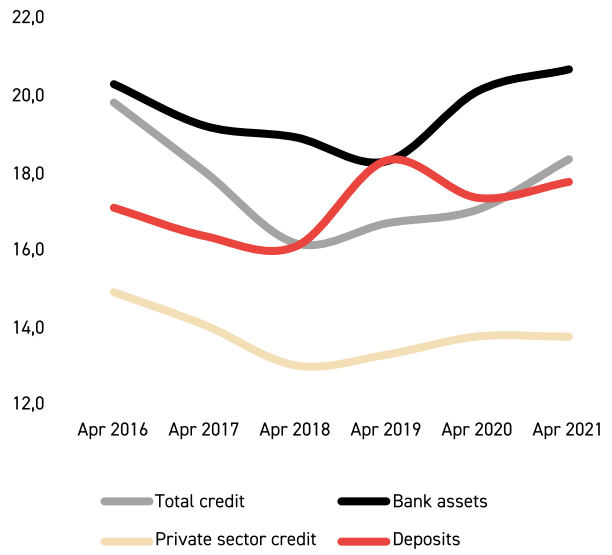
Monetary policy easing has had a limited effect on private-sector credit growth. Credit growth has slowed substantially over the past year due to the negative impact of COVID-19 on sectors exposed to international markets, such as tourism and traditional cash-crop exports. The extended broad money supply (M3) increased at an equivalent annual growth rate of 7.8 percent in April 2021, down from 11.9 percent in April 2020 and below the annual rate of 8.8 percent for 2020. In April 2021, bank credit to the private sector grew by 4.8 percent, just short of the 5.1 percent growth rate observed in April 2020, but unchanged as a share of GDP at 13.8 percent (Figure 20). Credit extended by banks to the central government through the purchase of government securities increased by 47.0 percent during the year ending April 2021, exceeding the borrowing limit set in the FY2020/21 government budget by 0.5 percent of GDP.

Figure 19: Growth Rates of M3 and Credit to the Private Sector (%)



Source: Bank of Tanzania.

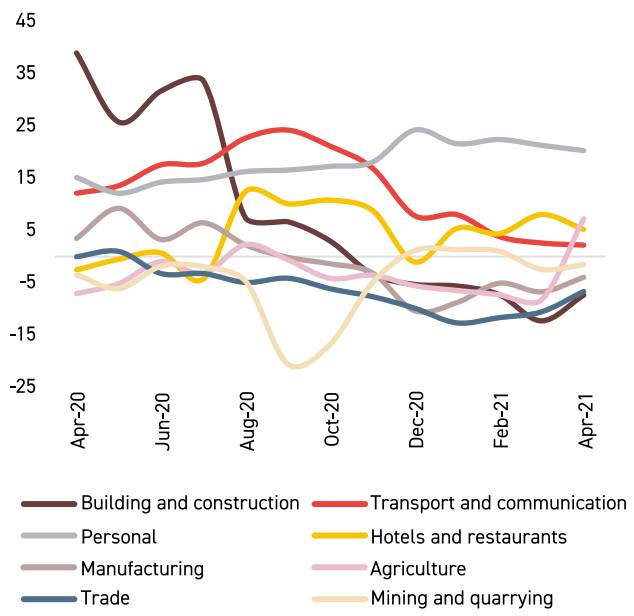
Figure 20: Trends in Bank Assets, Credits, and Deposits (% of GDP)



Source: Bank of Tanzania.

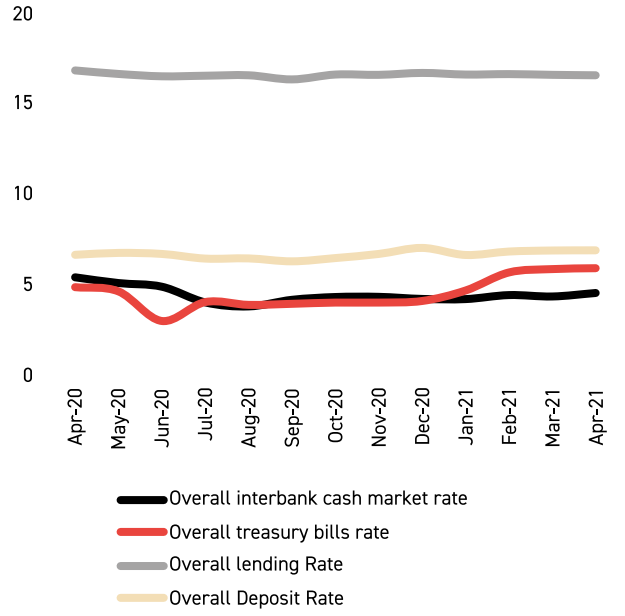
Credit growth for personal use and hotels and restaurants rebounded, but this trend was offset by a contraction of credit for trade, construction, and agricultural activities. Personal credit continues to dominate overall bank credit, but by the end of April 2021 its growth had slowed from the rate of 23 percent observed in December 2020. By contrast, credit to hotels and restaurants rebounded from an average annual growth rate of -1.0 percent at end-December 2020 to a rate of 5.1 percent at end-April 2021 (Figure 21). Other sectors, especially those that depend on international markets, continue to be impacted by the global pandemic, and credit to those sectors has continued to decline.

Figure 21: Annual Growth of Credit to Selected Economic Activities (%)



Source: BoT.

Figure 22: Selected Interest Rates (%)



Source: BoT.

Interest rates on bank loans have not decreased despite recent actions by the Bank of Tanzania. Overall lending rates fell marginally from 16.91 percent in April 2020 to 16.58 percent in April 2021, while the one-year lending rate dropped from 16.37 percent to 16.05 percent during the same period (Figure 22). The interest rates offered on deposits also changed marginally, with the overall deposit rate increasing from 6.69 percent in April 2020 to 6.95 percent in April 2021, while the one-year time-deposit rate increased from 8.1 percent to 8.8 percent during the period. With inflation at 3.3 percent, short-term deposits and lending rates remain positive in real terms.

The low growth rate of credit to the private sector, and to micro, small, and medium enterprises (MSMEs) in particular, reflects longstanding structural issues in Tanzania's financial sector that prevent proper intermediation. These issues include the high cost of financing, which is driven by high interest rates on deposits, with some main banks reporting deposit rates as high as 12 percent. The shallowness of Tanzania's financial sector leaves banks dependent on deposits for funding, which contributes to high lending rates. Large institutional investors (mainly pension funds) demand high interest rates, and banks accommodate their demands because they need the deposits. Elevated deposit rates contribute to the high cost of bank financing, which feeds into the lending terms and conditions extended to consumers and firms. The resulting feedback loop can weaken the effectiveness of monetary policy, because when the central bank reduces official interest rates, banks do not equally decrease the rates charged to borrowers.

Tanzania's domestic capital markets are at an early stage of development. Tanzania's domestic capital market is very small, with just TSZ 13.5 trillion (~US$5.8 billion) in total debt securities outstanding and a total equity market capitalization of TSZ 15.6 trillion (~US$6.7 billion) as of March 2021, equivalent to about 10 percent and 11 percent of GDP, respectively. Government securities account for more than 99 percent of total debt securities outstanding. Institutional investors that play a key role in capital markets, particularly insurance companies, are still underdeveloped. In the

near term, the authorities could lay the foundation for the development of non-sovereign securities markets by maintaining a stable macroeconomic environment, fostering a deep and liquid yield curve for the government bond market, and diversifying the investor base while strengthening existing institutional investors.

The low quality of bank assets and the limited capacity of banks to recover those assets and collect from defaulters further inhibits lending to MSMEs. According to figures from April 2021, the share of nonperforming loans declined from 11-12 percent in 2018 to 9.8 percent in 2020. Trade accounted for 22.2 percent of nonperforming loans, followed by agriculture at 12.8 percent, and personal lending at 11.5 percent. Tanzania's insolvency regime is inefficient and lacks the option of out-of-court settlements. In addition, the law allows defaulters to continue appealing judgements indefinitely, which can drag the appeals process out for years. In the context of an uncertain global recovery, improving the efficiency of the insolvency regime should be prioritized to support resilience in the private sector and encourage the swift reallocation of idle capital. However, other issues also increase financing costs and diminish access to finance, especially among MSMEs. These issues include the high operating costs faced by banks and the maturity mismatch between assets and liabilities, since banks rely mostly on short-term deposits to extend loans. The maturity mismatch increases stress on banks' balance sheets and constrains their ability to extend longer-term loans.

Photo: Christian Morgan

1.2. Macroeconomic and Poverty Developments in Zanzibar

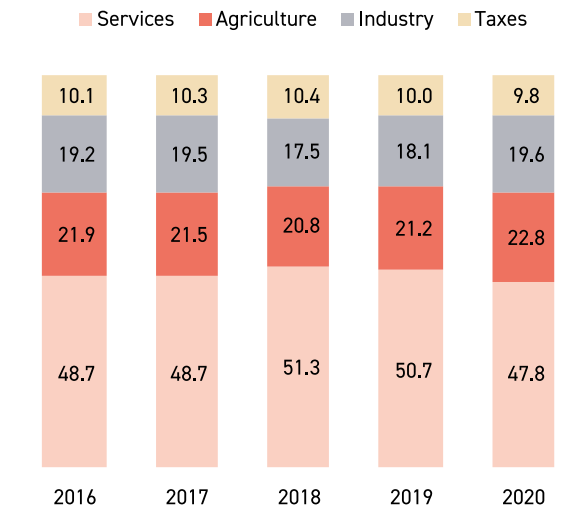
Zanzibar is a semi-autonomous region comprising several islands of the Zanzibar Archipelago. It shares important commonalities with the mainland, but it also possesses some of the distinctive characteristics of a small island economy. The Tanzanian Constitution establishes a unique federal arrangement that allows Zanzibar to enjoy significant autonomy over its internal affairs, including development policies and budgetary matters. Under the federal arrangement, the central government (known as the "Union Government") is responsible for national security, trade policy, and external borrowing, though borrowed funds by the Union Government may be on-lent to the Revolutionary Government of Zanzibar (RGoZ). Zanzibar's population accounts for about 2.5 percent of total population of Tanzania, and its jurisdiction represents just 0.3 percent of the country's total land area. Over 60 percent of Zanzibar's inhabitants live in urban areas—twice the national average—and its population density is more than ten times that of mainland Tanzania. Tourism-related activities account for a large share of employment, business income, foreign-exchange earnings, and the fiscal revenues of the RGoZ.

Zanzibar has separate accounts for macroeconomic and fiscal indicators, as well as its own poverty statistics. Zanzibar's balance of payments, monetary accounts, and financial accounts are included in the central government accounts and were therefore covered by previous editions of the Tanzania Economic Update (TEU). However, this edition has expanded its coverage of Zanzibar's economic and social indicators in the context of the COVID-19 pandemic, which hit the archipelago's tourism-dominated economy especially hard.

Zanzibar's macroeconomic performance has been broadly stable over the past decade, with rapid growth and low inflation. The annual real GDP growth rate averaged over 6 percent during the past 10 years, and Zanzibar's GDP reached US$1.8 billion in 2019. High GDP growth was mostly driven by services, particularly tourism and related activities such as accommodations and food, transportation, and real estate.[6] Tourism-related services now account for 55.5 percent of total services output, followed by public administration (11.7 percent) and trade (11.2 percent). Services accounted for more than half of Zanzibar's GDP during the past five years, and the sector is responsible for the largest share of private-sector employment (Figure 23). Crop cultivation, livestock rearing, and fishing are the major agricultural activities, while the industrial sector includes manufacturing and construction. With a growing population and slow rates of job creation, unemployment is an increasingly pressing economic and social concern.

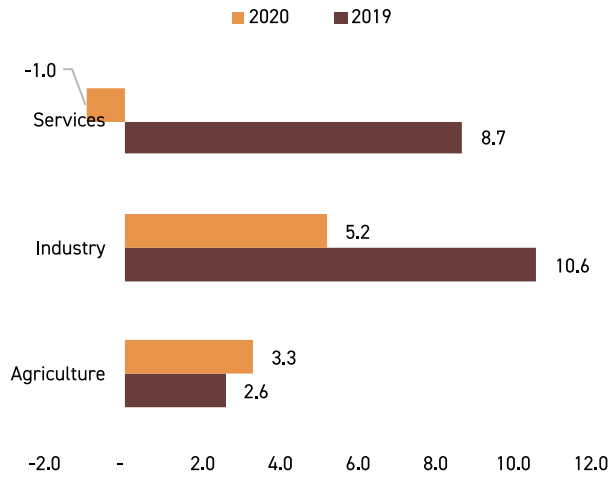
Due to the COVID-19 pandemic, Zanzibar's GDP growth rate slowed to 1.3 percent in 2020. The slowdown was driven by a contraction of the service sector, especially the tourism industry (Figure 24). The RGoZ established containment measures, and most of the hospitality industry shut down between March and September of 2020. Occupancy rates were close to zero over this period, with the number of tourist arrivals declining from 72,487 in Q2 2019 to 884 in Q2 2020 and from 173,842 in Q3 2019 to 12,867 in Q3 2020.[7] Zanzibar's tourism sector supports an estimated 500,000 direct and indirect jobs, and the pandemic had a deeply negative impact on employment and income.[8] The tourism sector began to recover in Q4 2020, and by December tourist inflows into Zanzibar (mainly from Europe) were approaching 80 percent of their 2019 level. Nevertheless, overall tourist arrivals for the 2020 calendar year amounted to just 50 percent of the previous year, and receipts from tourism fell by 38 percent.

Figure 23: Zanzibar – Sectoral GDP (% of Total)



Source: OCGS.

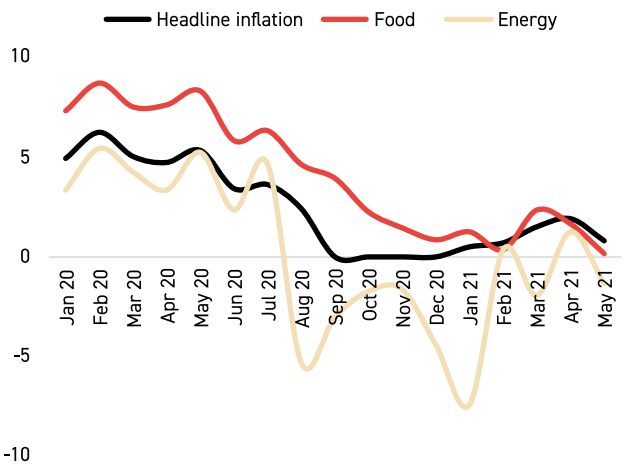
Figure 24: Zanzibar – Growth of GDP by sector (%)



Source: OCGS.

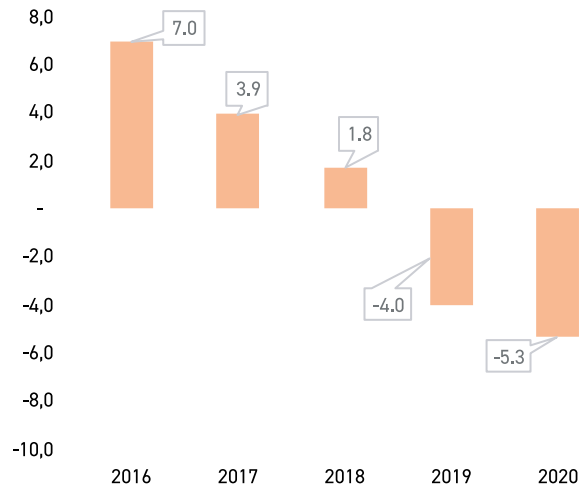
Inflation has slowed over the past five years. The headline inflation rate fell from 6.7 percent in 2016 to 3.4 percent in 2020, averaging 4.7 percent over the period. Falling prices for food and energy slowed inflation to a record low of 0.8 percent in May 2021 (Figure 25), though it has accelerated slightly in the last three months. The headline inflation rate remains below the authorities' medium-term target of 5 percent. The stability of the Tanzanian shilling and the prudent monetary policy of the Bank of Tanzania have contributed to low inflation rates in Zanzibar.

Figure 25: Zanzibar – Inflation Rates (%)



Source: OCGS.

Figure 26: Zanzibar – Current-Account Balance (% of GDP)



Source: OCGS.

The current-account deficit widened from 4.0 percent of GDP in 2019 to 5.3 percent in 2020, largely due to depressed earnings from tourism. Over the past five years, services exports have accounted for 79.1 percent of the total value of exports. Meanwhile, imports of goods, including oil, have contributed 72.2 percent of the total value of imports. In 2020, a combination of lower tourism earnings and increased goods imports expanded the current-account deficit, though this effect was slightly attenuated by increased exports of agricultural goods, including cloves and other spices (Figure 26). The income and current-transfers balances have remained positive, and while the disbursement of current transfers to the RGoZ has increased, they remain too modest to significantly influence the current-account balance.

A relatively large fiscal deficit has been financed primarily by external concessional loans. Between FY2017/18 and FY2019/20, the fiscal deficit averaged 5.7 percent of GDP (Table 5). However, in the first three quarters of FY2020/21, the deficit narrowed to 1.8 percent of GDP, below both the government's target of 2.3 percent and the 2.6 percent level observed during the same period in FY2019/20. External concessional loans, which averaged 4.7 percent of GDP, have remained the major financing source for the fiscal deficit, and domestic financing was limited to about 1 percent of GDP. As noted above, external loans are contracted by the Union Government and on-lent to the RGoZ. The RGoZ has not received any non-concessional external loans.

Table 5: Zanzibar: Fiscal Trends (% of GDP)

	2017/18	2018/19	2019/20	2020/21	2019/20 Q1-Q3	2019/20 Q1-Q3	2020/21 Q1-Q3	2020/21 Q1-Q3
	Actual	Actual	Actual	Budget	Estimates	Actual	Estimates	Actual
Domestic revenue	**19.7**	**19.0**	**18.9**	**22.4**	**18.1**	**15.0**	**17.9**	**15.6**
Tax revenue	17.4	16.6	16.2	19.7	15.6	12.8	15.6	13.2
Nontax revenue	2.3	2.4	2.6	2.7	2.5	2.2	2.3	2.4
Total expenditure	**26.5**	**28.8**	**24.6**	**32.6**	**20.3**	**18.4**	**21.4**	**17.9**
Recurrent expenditure	**17.9**	**17.9**	**17.3**	**19.3**	**14.4**	**13.5**	**16.1**	**13.9**
Wages and salaries	8.1	8.5	8.9	8.3	6.5	6.5	6.6	6.5
Interest payments	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Other expenditures	9.8	9.4	8.5	10.7	7.8	7.0	9.4	7.4
Development expenditure	**8.6**	**10.9**	**7.2**	**13.2**	**6.0**	**4.9**	**5.3**	**4.0**
Domestically financed	3.1	2.6	3.3	4.2	2.8	2.2	2.6	1.9
Foreign financed	5.6	8.3	3.9	9.1	3.1	2.7	2.7	2.1
Grants	**1.2**	**1.1**	**0.8**	**2.4**	**0.3**	**0.6**	**0.3**	**0.5**
Overall fiscal balance	**-5.0**	**-8.4**	**-3.8**	**-7.8**	**-2.7**	**-2.6**	**-2.3**	**-1.8**
Financing	**5.0**	**8.4**	**3.8**	**7.8**	**2.7**	**2.6**	**2.3**	**1.8**
Foreign (net)	4.5	7.5	2.8	6.9	2.5	2.3	2.1	1.5
Domestic (net)	0.6	0.9	1.0	0.9	0.2	0.3	0.2	0.2

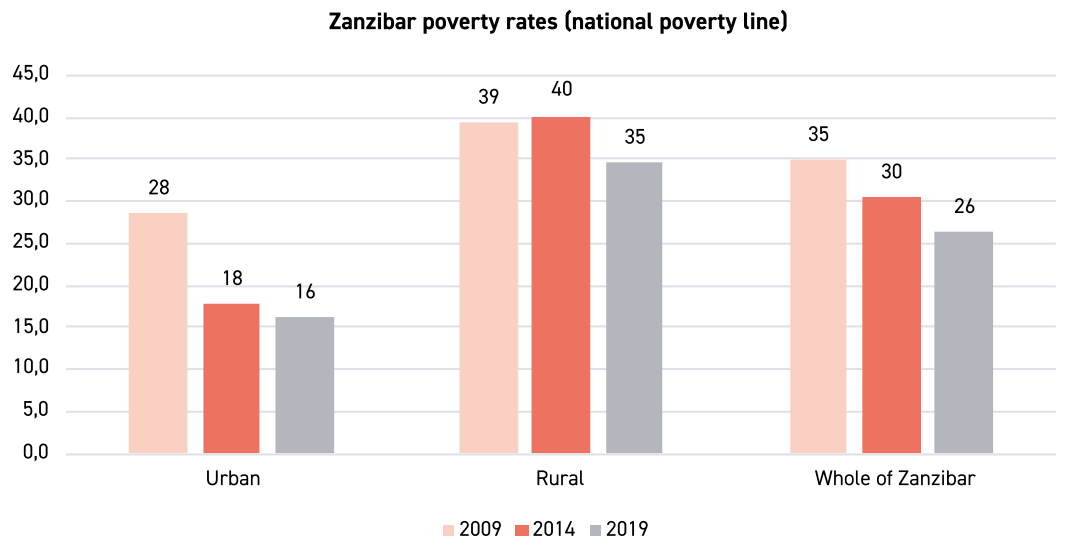
Note: : Bank of Tanzania.

Despite the impact of COVID-19, the RGoZ's revenue-to-GDP ratio remains relatively high. Domestic revenue averaged 19.2 percent of GDP during FY2017/18 and FY2019/20, with tax revenue averaging 16.8 percent of GDP over the period. Nontax revenue remained flat at 2.4 percent of GDP, but the COVID-19 pandemic pushed tax revenue below its target by 2.8 percent of GDP during the first three quarters of FY2019/20 and by 2.4 percent of GDP during the first three quarters of FY2020/21.

The public-spending-to-GDP ratio is high, and recurrent expenditures make up a large share of public spending. Total public spending averaged 26.6 percent of GDP in FY2017/18 and FY2019/20, with 66.5 percent of public spending directed to recurrent expenditures. The payment of wages and salaries and the purchase of goods and services are the largest recurrent-expenditure categories. The RGoZ has made no interest payments during the last three years, but the FY2020/21 budget allocates 0.3 percent of GDP for debt service. Between FY2017/18 and FY2019/20, development spending averaged 8.9 percent of GDP, two-thirds of which was financed by external resources. Partly due to the COVID-19 pandemic, development spending fell short of its target by 1 percent of GDP in the first three quarters of FY2019/20 and by 1.3 percent of GDP during the same period in FY2020/21.

Zanzibar's poverty rate has declined modestly in recent years. The share of the population living below the Zanzibar basic-needs poverty line fell from about 35 percent in FY2009/10 to about 25.7 percent in FY2019/20, close to the level of mainland Tanzania.[9] The poverty rate fell fastest in urban areas, dropping from 29 percent to 16 percent over the period, while the rural poverty rate fell more modestly from 40 percent to 34 percent. However, urban poverty reduction has slowed considerably in the past five years, while rural poverty reduction has accelerated (Figure 27). Although inequality indicators in Zanzibar are lower than those in mainland Tanzania, the poverty rate on largely rural Pemba Island is about double the rate on Unguja Island, the most populous and urbanized part of the Zanzibar Archipelago. Most rural households depend on climate-sensitive activities such as fishing and agriculture for their livelihoods, and they spend an average of 18 percent of their income on energy, water, and housing. With a median age of 17, Zanzibar's population is young and could generate a demographic dividend. However, rapid population growth has impeded poverty reduction and poses challenges around youth employment and the provision of social services.

Figure 27: Zanzibar – Poverty Rates by Location Type, 2009, 2014, and 2019 (%)



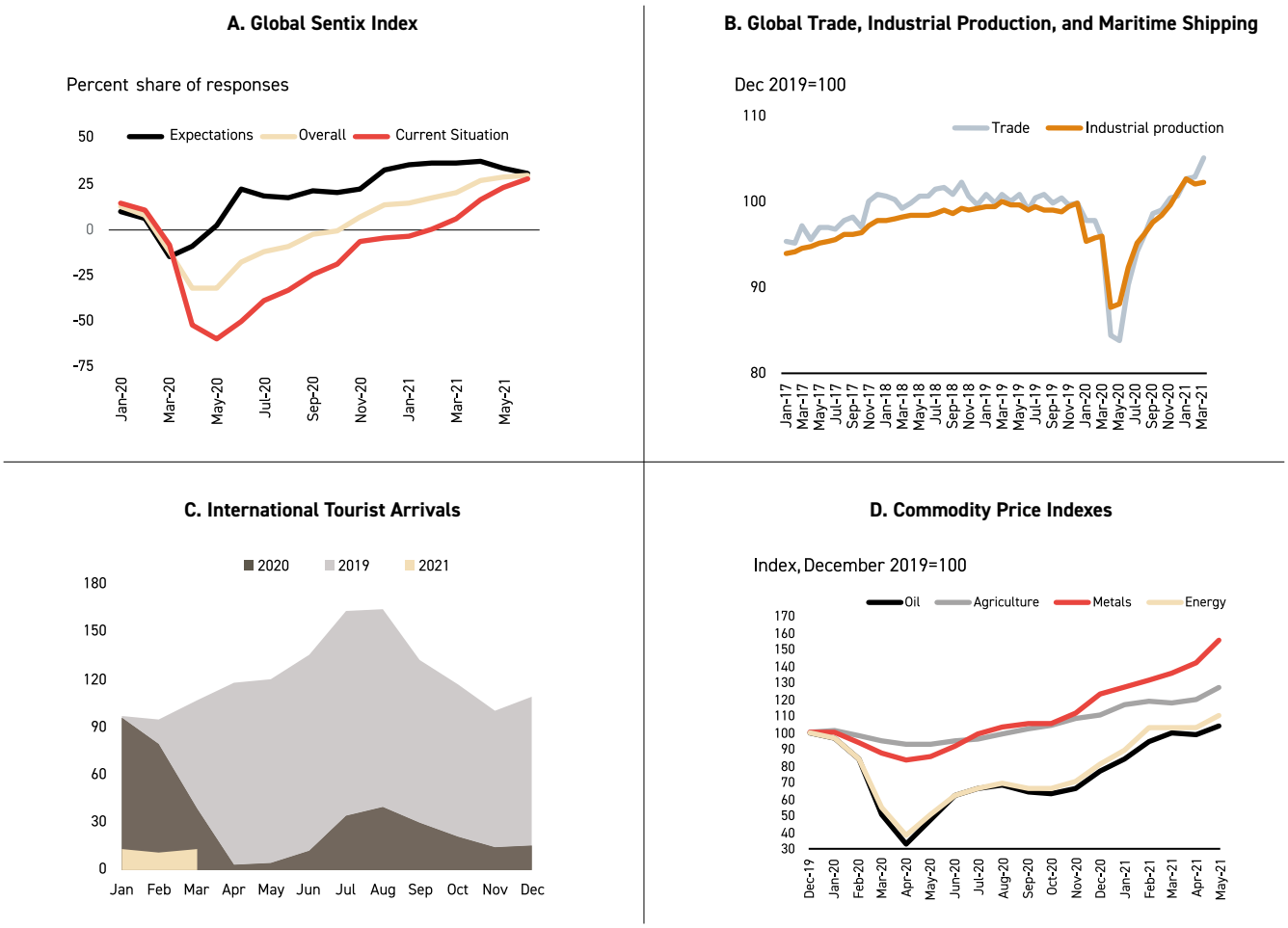
Note: These figures are based on the Zanzibar poverty line of TZS 47,541 per adult per month.
Source: Zanzibar HBS 2019/20 Basic Indicators Report (draft) and based on the Household Budget Surveys (HBS) of 2009, 2014 and 2019.

1.3 Macroeconomic Outlook and Risks

The global economic recovery is gaining momentum.

Following a sharp 3.5 percent contraction in 2020, the global economic growth rate is forecast to accelerate to 5.6 percent in 2021 and 4.3 percent in 2022.[10] The envisioned global recovery reflects a gradual improvement in confidence, consumption, and trade, supported by falling COVID-19 infection rates and large-scale vaccination campaigns in advanced economies. The global Purchasing Manger's Index (PMI) has registered a broad-based increase since the start of 2021, with manufacturing outperforming services. The composite PMI rose by 2.1 points to 58.4 in May amid strong global demand for goods, and the Manufacturing Output Index reached a seven-year high. Investor confidence continues to improve, with the global Sentix Index rising from 26.8 in April to 28.3 in May, a 13th consecutive monthly increase (Figure 28). Highly expansionary fiscal policies in the United States and other major economies have further improved the prospects for a swift global recovery, and rising international demand has lifted commodity prices and boosted fiscal revenues among commodity exporters.

Figure 28: Leading Global Economic Indicators



Source: Sentix GmbH; Haver Analytics; John Hopkins University; World Bank; World Tourism Organization.
Notes:
A. Positive values indicate improvement. Last observation is May 2021.
B. Data are daily for seaborne shipping, and monthly for trade and industrial production.
C. Figure shows international tourist arrivals between 2019 and March 2021.
D. Pink Sheet data for oil, metals, and agricultural prices indexed to December 2019.

Photo: Miguel Saldarriaga

Nevertheless, the projected recovery will be highly uneven across countries and insufficient to return global economic output to pre-pandemic levels in the near term. In 2022, aggregate global GDP is forecast to be 1.8 percent below pre-pandemic projections. In about two-thirds of emerging markets and developing economies, the per capita income losses incurred last year will not be fully recovered by the end of 2022. After contracting by 2.4 percent in 2020, the aggregate GDP growth rate for SSA is expected to rise to 2.8 percent in 2021 and reach 3.3 percent in 2022, though the anticipated recovery is fragile due to the continued spread of COVID-19 and the slow pace of vaccinations in the region.

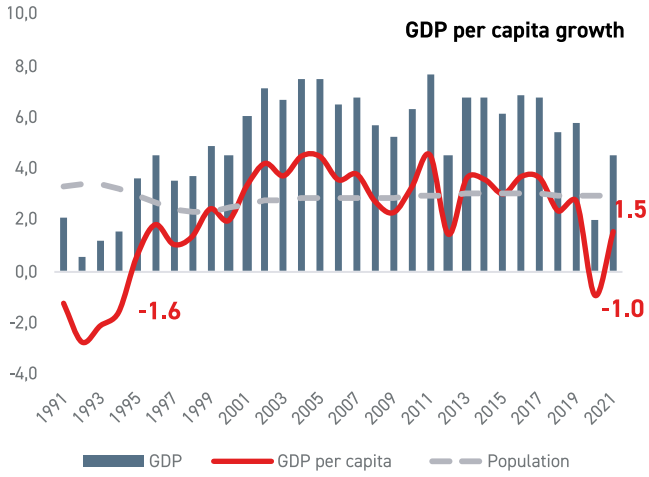
Persistent uncertainty around the duration and trajectory of the COVID-19 pandemic will continue to impact trade, consumption, and private investment in Tanzania. On the upside, a swift end to the pandemic and stronger-than-expected spillovers from policy support and economic recovery in the United States and other major economies could accelerate growth in Tanzania. Downside risks include the possibility of intensifying financial stress, as well as the threat of additional COVID-19 waves, possibly driven by new virus variants. The appearance and spread of new variants that are more transmissible or more severe could significantly set back Tanzania's fight against the pandemic while derailing its economic recovery. At present, the economic outlook for the country's main trading partners is mixed. China—Tanzania's largest trade partner—avoided a contraction in 2020 and is expected to expand by a robust 8.5 percent in 2021, bolstering export demand. Meanwhile, India—Tanzania's second-largest trade partner—has had its growth forecast revised downwards to 7.5 percent in the face of a deadly second wave of COVID-19 infections. Among SSA economies, the challenges of the recovery are exacerbated by slow vaccine procurement and deployment, limited fiscal space, and mounting debt vulnerabilities. The pace and quality of the regional recovery will hinge on the capacity of governments to attract external financing to support the pandemic response, accelerate vaccination, and support the resumption of economic activity while safeguarding price stability and fiscal sustainability.

Tanzania's economy is expected to recover, but its outlook is subject to a high degree of uncertainty.

Tanzania's real GDP growth rate is projected to rebound to between 3.5 and 5.5 percent in 2021, supported by increased domestic demand and exports. The global economic recovery is expected to bolster demand for Tanzania's nontraditional goods and services exports while increasing FDI and capital-project financing. In the second half of 2021, the income generated by export-oriented activities and rebounding employment is expected to bolster private consumption, which accounts for roughly two-thirds of GDP. Government consumption is expected to increase, and investment growth will be driven by public investment in the flagship projects of the Five-Year Development Plan, including the Standard Gauge Railway, the Nyerere Hydropower Project, and Air Tanzania Company Limited. Meanwhile, private-sector-led initiatives are expected to encourage complementary private investment, assuming that business-climate reforms are successful. This baseline projection reflects the available data as of June 30, 2021, and it is subject to considerable uncertainty arising from the global economic context and the effectiveness of COVID-19 containment and vaccination strategies. Tanzania has already experienced two waves of infections and is experiencing its third wave as new variants of the virus continue to spread.

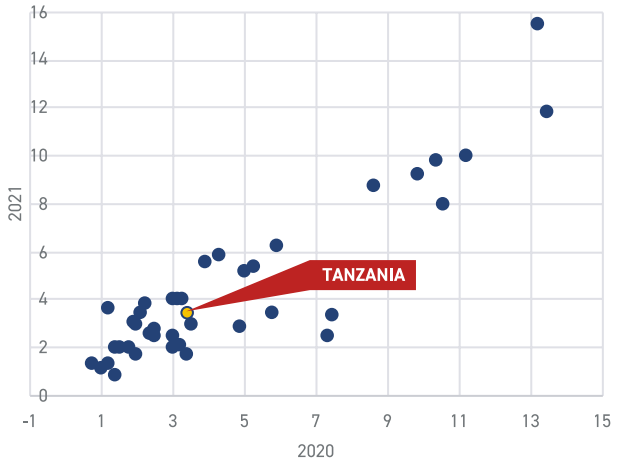
By the end of 2021, Tanzania is projected to be among the top ten growth performers in SSA. Tanzania's economy is also expected to remain among the most stable in the region. In 2020, GDP per capita contracted for the first time since 1994 (Figure 29), but in 2021 it is expected to recover and grow by about 1.5 percent, albeit still below the average growth rate of 3.2 percent for the last two decades. The headline inflation rate is expected to rise in the second half of 2021, but it will remain manageable and below the policy target of 5 percent. By the end of 2021, Tanzania's inflation rate is expected to be among the lowest in SSA (Figure 30).

Figure 29: GDP and Population Growth Rates



Source: NBS, WB staff estimates.

Figure 30: Annual Inflation Rates, SSA



Source: WB Macro Poverty Outlook.

The current-account deficit is expected to widen to 2.6 percent of GDP in 2021 as the growth of capital-goods imports and a rising oil-import bill outpace export growth. Meanwhile, exports are expected to recover slightly, boosted by nontraditional merchandise exports such as gold, agricultural, and manufactured goods. Gold prices have been volatile since the beginning of 2021 and are projected to remain broadly in line with their 2020 levels, but gold exports are expected to remain below their 2019 levels. A higher oil-import bill and rising capital goods imports for infrastructure projects will more than offset export growth and increase the merchandise trade deficit. Brent crude oil prices rose to over US$70 per barrel by early June, up more than 30 percent since the start of 2021, and prices are expected to rise by about 40 percent by the end of the year. In 2021, receipts from tourism and travel are expected to increase relative to 2020, but slow vaccine deployment will weigh on the recovery, which will also be affected by the degree of risk aversion among tourists from advanced economies. FDI and external borrowing are expected to increase and will finance the current-account deficit.

The fiscal deficit is projected to widen to 3.0 percent of GDP, driven by the revitalization of the government's ambitious infrastructure program.[11] Moreover, the fiscal cost of the COVID-19 health response, the ongoing clearance of arrears, and rising interest payments will put pressure on recurrent expenditures, which are expected to increase moderately but remain controlled (Table 6). The deficit will be financed by both domestic and external borrowing, boosting the public debt stock to about 40 percent of GDP in 2021. Debt vulnerabilities are expected to remain moderate. Under the approved budget for FY2021/22, social services (including education, health, and social protection) will represents 32 percent of total spending, up from 29 percent in FY2020/21, while economic affairs (including transportation, energy, and industrial policy) will represent 28 percent of the budget, down from 29 percent in FY2020/21.

Table 6: Medium-Term Outlook (Annual % Change Unless Otherwise Indicated)

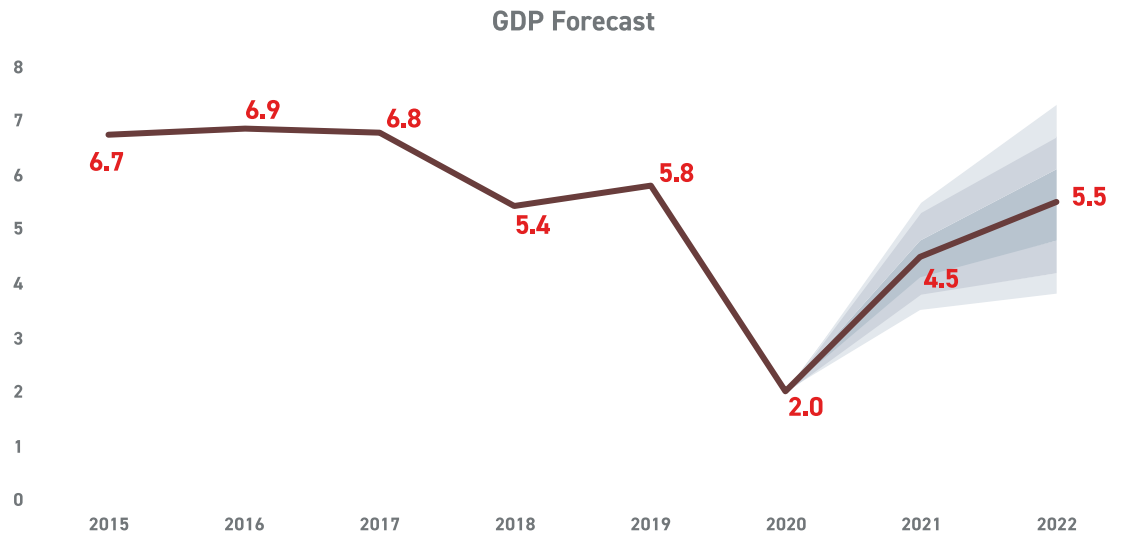
	2018	2019	2020e	2021f	2022f	2023f
Real GDP growth. at constant market prices	**5.4**	**5.8**	**2.0**	**4.5**	**5.5**	**6.0**
Private Consumption	5.6	3.1	1.0	3.9	3.8	4.2
Government Consumption	2.0	2.3	7.4	8.1	8.0	7.8
Gross Fixed Capital Investment	7.7	8.0	2.4	6.5	7.6	8.0
Exports. Goods and Services	-1.7	19.0	-8.6	5.1	7.5	8.4
Imports. Goods and Services	16.7	-1.4	-7.6	10.2	8.7	8.6
Inflation (consumer price index)	3.5	3.5	3.4	3.5	3.7	4.0
Current Account Balance (% of GDP)	-3.7	-2.3	-1.6	-2.6	-2.9	-3.2
Net Foreign Direct Investment (% of GDP)	1.7	1.6	1.0	1.2	1.4	1.7
Fiscal Balance (% of GDP in FY)	-2.5	-1.4	-2.0	-2.9	-3.0	-3.1
Debt (% of GDP)	39.7	38.1	38.1	39.7	40.6	41.3

Source: World Bank staff estimates.

The national poverty rate is projected to decline marginally to 26.9 percent in 2021.[12] The slow pace of poverty reduction reflects Tanzania's high fertility rates and low growth elasticity of poverty. With a population growth rate averaging 3 percent, per capita income growth is projected to reach just 1.5 percent in 2021. In addition, recent economic growth has created few employment and income opportunities accessible to workers from poor households. Thus, even with the national poverty rate declining, the number of poor Tanzanians is expected to rise by about 365,000 in 2021. The poverty rate at the international poverty line is projected to fall from 50.5 percent in 2020 to 49.8 percent in 2021 and 48.3 percent in 2022, significantly above the average for lower-middle-income countries (LMICs). Accelerating economic activity in the informal nonfarm sector should enable some household incomes to recover, and some Tanzanians who fell below the poverty line in 2020 should again rise above it. However, reducing the size of the poor population will require slower population growth rates, the creation of productive jobs accessible to lower-income workers, improved MSME performance, and increased productivity in the agricultural sector, the economic mainstay for many of the country's poor households.

Risks to Tanzania's economic outlook have moderated, but the recovery continues to hinge on external developments and domestic health policies. The evolution of the pandemic and the pace of vaccination, both globally and domestically, will be the most crucial factors driving the outlook. The shift in the government's approach to COVID-19 under the new administration, its renewed focus on regional trade and cooperation, and its commitment to domestic policy reforms designed to improve the business environment have somewhat attenuated downside risks. However, the spread of new variants of COVID-19 could extend the pandemic, while challenges around the procurement and distribution of vaccines could slow the domestic recovery. In the meantime, a difficult global context marked by restricted international borders, financial stress, and elevated debt levels continues to adversely impact trade, travel, and capital flows, threatening the projected recovery (Figure 31).

Figure 31: Real GDP Growth Rate Forecasts under Alternative Scenarios (%)



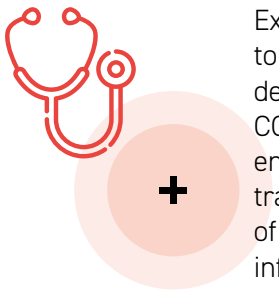
Note: The fan chart shows the likelihood of different GDP growth outcomes in 2021 and 2022. The estimates are based on growth scenarios and risk profiles under different assumptions. The darker bands indicate the most likely outcomes, and the central black line is the baseline scenario.
Source: WB staff estimates based on NBS data.

Immediate action will be critical to protect lives and lay the foundation for a sustainable recovery

The new administration is at a critical juncture. In the short term, policymakers must implement the recommendations of the expert committee and strengthen the country's health response to COVID-19. To support a rapid and sustainable recovery in the second half of 2021, the government needs to protect the poorest households while expanding measures to support job creation and the recovery of the private sector. Extending robust economic growth and poverty reduction beyond 2021 will require a well-calibrated package of policies focused on macroeconomic stability, fiscal sustainability, and more inclusive and resilient growth. The priority challenges facing the new government can be organized into four priority policy areas (Table 7).

Table 7: Priority Policy Areas and Key Actions

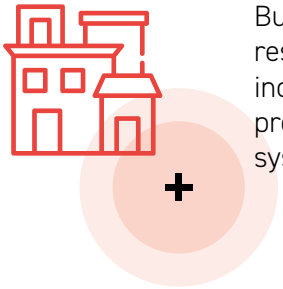
1. Saving Lives



Expanding efforts to prevent, detect, and treat COVID-19 while enhancing the transparency of public health information

- Ensuring the transparent and timely reporting of COVID-19-related information to policymakers and the population at large (short term)
- Procuring and deploying vaccines and guaranteeing equal access to vaccines among poor and vulnerable households (short term)
- Implementing a community-based containment strategy focused on promoting masking, handwashing, and social distancing, as well as the proactive identification, isolation, and management of COVID-19 cases (short term)
- Strengthening key hospital and medical services, including critical care and respiratory care, and refurbishing frontline facilities (short-to-medium term).

2. Protecting Poor and Vulnerable Households



Building a resilient and inclusive social protection system

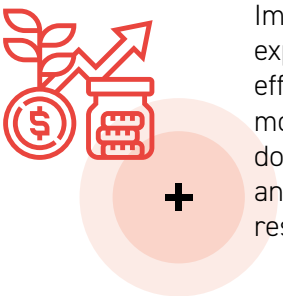
- Expanding the coverage of the PSSN (short term)
- Creating a social insurance program for informal workers and expanding Zanzibar's social pension system to mainland Tanzania (medium term)
- Establishing a medium-term financing strategy for the social protection sector (short term)
- Developing a unified social registry (medium term)

3. Supporting a Jobs-Intensive, Private-Sector-Led Recovery

Supporting viable firms and promoting private investment

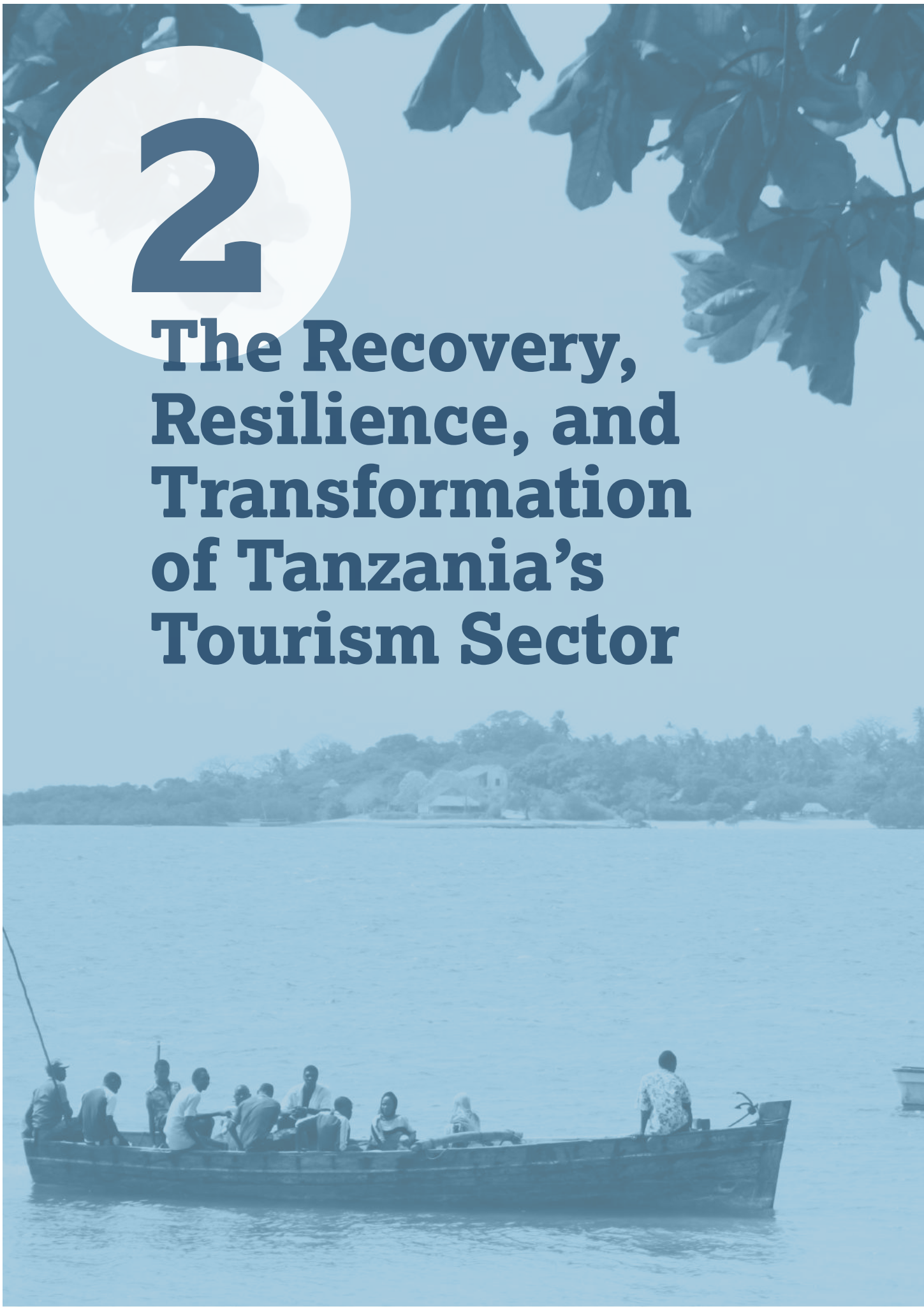
- Evaluating and strengthening existing private-sector support programs, such as the expedited arrears-clearance and VAT-refund efforts, as well as targeted soft loans (short term)
- Enhancing the quality, frequency, and scope of the public-private dialogue (short-to-medium term)
- Addressing administrative inefficiencies in private-sector regulation and streamlining licensing processes (short term)
- Simplifying the process for acquiring work and residence permits (short term)
- Prioritizing public investment in ready-to-invest infrastructure for manufacturing (medium term)

4. Expanding the Available Fiscal Space while Maintaining Debt Sustainability



Improving expenditure efficiency, mobilizing domestic revenue, and borrowing responsibly

- Improving expenditure efficiency and strengthening public investment management to create fiscal space for investments in education, connectivity, and environmental infrastructure (short-to-medium term)
- Continuing to clear existing arrears and prevent the accumulation of new arrears (short-to-medium term)
- Broadening the VAT base while simplifying and modernizing VAT administration (short-to-medium term)
- Increasing revenue collection from the informal sector by safeguarding the presumptive tax base and strengthening revenue administration (medium term)
- Improving excise taxation through a mix of policy and administrative reforms (medium term)
- Prioritizing concessional financing and ensuring that projects financed by non-concessional external loans have an adequately large impact on growth and exports (short-to-medium term)
- Enhancing fiscal and debt transparency through the timely publication of reliable data (short term)



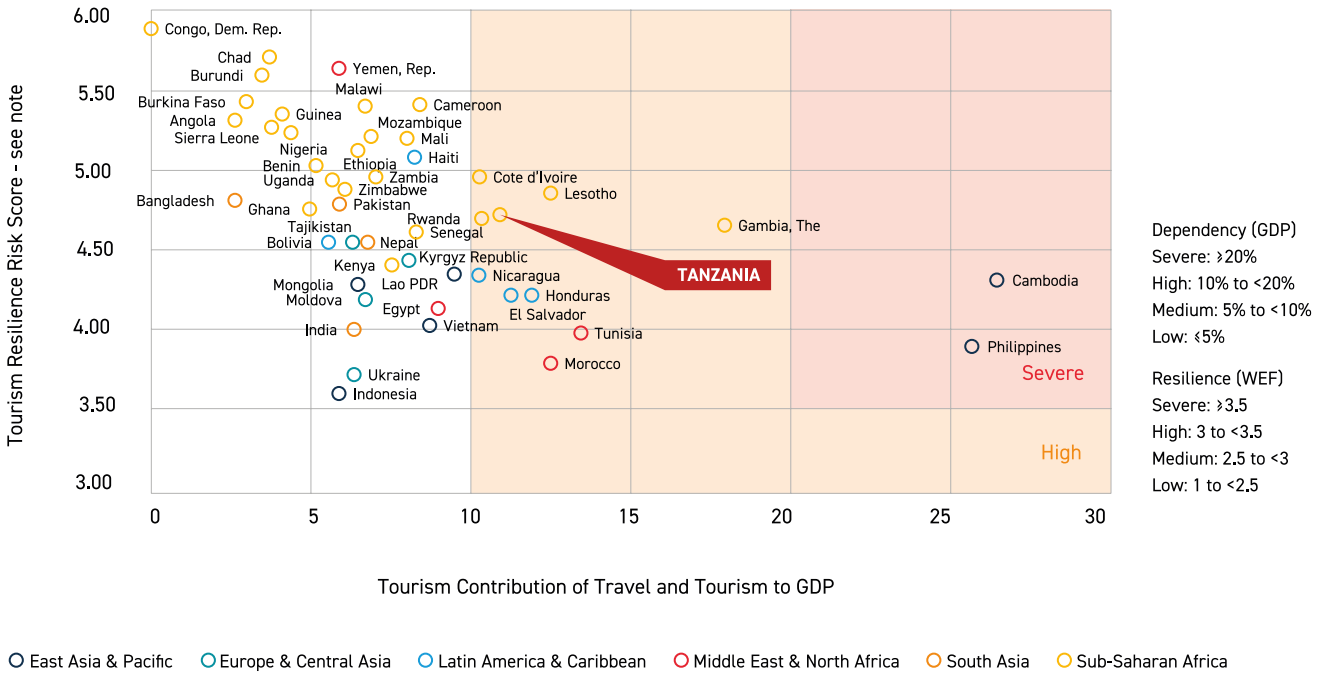
2 The Recovery, Resilience, and Transformation of Tanzania's Tourism Sector

Photo: Tanzania Tourist Board

2.1. The Role of Tourism in Tanzania's Economy

Tourism is a major component of Tanzania's economy. The World Economic Forum's Travel and Tourism Competitiveness Index[14] ranks Tanzania 1st in Africa and 12th worldwide for the quality of its nature-based tourism resources, and 32nd in Africa and 112th in the world for its cultural resources. However, only a small fraction of Tanzania's natural and cultural endowments have been put to economic use through tourism development. A well-managed tourism sector can protect and preserve a country's natural and cultural assets while generating fiscal revenue through taxes, licenses, and fees; creating high-quality jobs; and forming backward linkages with other economic sectors. Despite its relative underdevelopment, by 2019 Tanzania's tourism sector contributed an estimated 17 percent of its GDP and directly employed over 850,000 workers,[15] making it the country's second-largest component of GDP and third-largest source of employment. Tourism has been Tanzania's largest foreign-exchange earner since 2012, and in 2019 it accounted for over one-quarter of the country's foreign-exchange earnings. Moreover, as the tourism value chain is linked to numerous other economic sectors, it plays an outsized role in growth, employment, and poverty reduction. However, the sector's risk vulnerability is high (Figure 32).

Figure 32: Tourism Resilience Risk and Dependency Rating: Tanzania and Other Low- and Lower-Middle Income Countries.



Note: Tourism Resilience Risk score is the mean score across seven WEF pillars inverted to identify those with the highest tourism resilience risk scores against those with the highest GDP scores, i.e. a score of 1= lowest tourism resilience risk and a score of 7= highest tourism resilience risk. To facilitate readability, axis was restricted to 2 to 6.

Source: World Bank (2020). Rebuilding Tourism Competitiveness: Tourism response, recovery, and resilience to the COVID-19-crisis.

Tourism is important to livelihoods and poverty reduction in Tanzania. Women make up 72 percent of all workers in the tourism sector, and household surveys show that households with a member employed in tourism are far less likely to experience poverty than other households. Tourism can be an especially important vehicle for poverty reduction in rural areas, where the poverty rate among households with a member employed in the tourism sector (16 percent) is about half the overall poverty rate (31 percent). In urban areas, the difference is just 3 percentage points (13 versus 16 percent), though households with a member employed in tourism are still significantly less vulnerable to poverty. Households with a member employed in tourism are also more resilient to income shocks.

The COVID-19 pandemic has had a deeply negative impact on global tourism. Tourism was one of the first sectors to be affected by the pandemic and will likely be among the last to fully recover. The emergence of COVID-19 was followed by a dramatic decline in global mobility that effectively halted travel and tourism activity across much of the world. In the months since, the uncertain trajectory of the virus and the slow and uneven vaccination process have hindered the resumption of tourism, especially in countries with low vaccination rates. However, the pandemic has also given policymakers, investors, firms, and development practitioners the opportunity to reconsider tourism's underlying sustainability and value proposition. Tourism revenue flows cannot be taken for granted, as their absence threatens the integrity and viability of the assets on which the sector depends, as well as the dense networks of economic, environmental, and social relationships built up around those assets. As tourism gradually recovers, policymakers and private stakeholders have a rare chance to reevaluate the sector's future.

Tanzania has long focused on utilizing tourism as a mean to extract value from natural endowments, but the sector has further untapped potential to drive sustainable development and economic transformation. Current tourism policies are typically designed to facilitate private-sector value addition from an endowment base—for example, a concession contract to build accommodations inside a national park. The pandemic has created an opportunity to reevaluate this approach and introduce policies based on a more holistic understanding of tourism as an engine for promoting the long-term social, environmental, and economic health of communities, regions, and the entire nation.

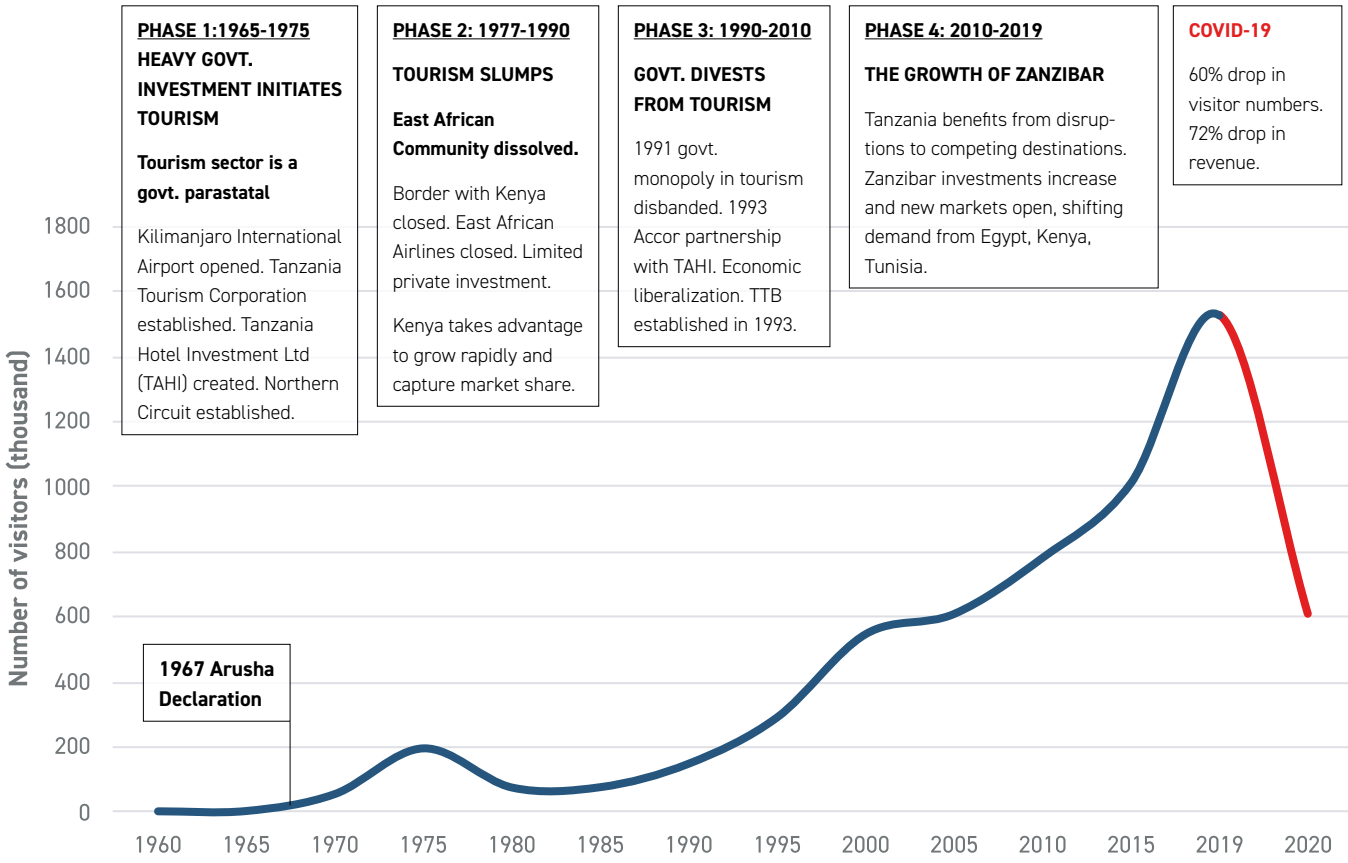
2.2. The Government's Role in Tourism Development

2.2.1. Tourism Policies in Tanzania: The Legacy of the Past

Since Tanzania's independence in 1963, government policies, and market responses to them, have shaped tourism development. The tourism policy formulated by the first independent government focused on using tourism revenues to maintain and preserve natural and cultural endowments to be enjoyed in perpetuity by the people of Tanzania. Tourism development was a government-sponsored business plan for natural and cultural heritage conservation, foreign-exchange earnings, and employment creation that drove successive phases of investment. Encouraged by the rapid growth of international tourism, Tanzania embraced an approach to tourism development based on the government being the sector's primary investor, master developer, and operator, as well as the beneficiary of the foreign exchange it generated. The government developed two tourism circuits, one in the north around Serengeti National Park and one on the coast around Dar es Salaam. The government's objective was to attract international arrivals with a complete product that could compete with the attractions of neighboring Kenya. Between 1965 and 1975, tourist arrivals grew by 22 percent per year, and the government invested the inflation-adjusted equivalent of about US$600 million in tourism infrastructure. Tourism was bound up with the growth of the parastatal sector, which was a major element of Tanzania's development policies at the time.

To attract international tourists, the government outsourced the management of state-owned hotels to a British firm, which partnered with British travel agencies, tour operators, and airlines to develop packages targeted to British tourists. Tanzania's tourism sector languished following the country's embrace of central planning in the 1970s, but after its economic liberalization vertically integrated approaches to tourism development were replicated by German, Italian, Swiss, and French-owned companies. In 1991, the government monopoly on tourism was transferred to the private sector through the first National Tourism Policy of Tanzania, which led to the approval of many new private tourism projects. However, because the government had ceased investing in tourism infrastructure, new investments inevitably clustered around the old ones, where the necessary infrastructure was already in place, including Arusha, Moshi, Dar es Salaam, and gradually Zanzibar. The government pivoted from the role of developer to the role of landlord, and successive governments imposed ever-higher taxes and licensing requirements on the tourism industry. The 2010s were a decade of steady growth for Tanzanian tourism, driven by new investments in hotels and resorts, especially in Zanzibar, which had seen a rapid increase in tourist arrivals since the mid-1990s. Episodes of political instability and popular unrest in competing destinations, especially Kenya, Tunisia, and Egypt, contributed to the expansion of tourism in Tanzania.

Figure 33: Government Policies and Growth of Tourism Visitors in Tanzania.



Source: Authors.

One legacy of these successive policy shifts is a disconnect between local communities, private firms, and the administration of the tourism sector. Over time, the lack of a shared vision for tourism development has eroded trust among the public sector, the private sector, and local communities, with negative implications for the performance of the tourism sector. The COVID-19 pandemic has exacerbated this dynamic, and realizing the developmental potential of the tourism sector will require establishing a common perspective on tourism and its benefits.

The tourism sector is also subject to several longstanding structural issues that hinder inclusive growth in Tanzania. These issues have been documented in numerous analytical reports, including the sixth edition of the Tanzania Economic Update.[16] The pandemic offers an unprecedented opportunity to address these structural challenges, which negatively affect the business and investment environment in the tourism sector and the wider economy.

2.2.2. The Business and Investment Environment in the Tourism Sector

The recovery of Tanzania's tourism sector will require large-scale reinvestment and the extensive reallocation of capital and labor among tourism firms. As many as 30 percent of tourism businesses have closed permanently. As demand recovers, new investments, including FDI, will be necessary to expand the supply of tourism services; firms and assets will be bought and sold; and employers will draw labor back to the sector. The 2020 edition of Doing Business ranked Tanzania 141st out of 190 countries on the overall quality of the business climate. In 2016, the government launched a set of policies intended to raise revenue, encourage the hiring of Tanzanian citizens, and protect local industry. These measures included new taxes (such as VAT on tourism services), which were imposed across many industries and aggressively collected, combined with labor regulations that impede the hiring of foreign employees by creating unclear bureaucratic standards, particularly in terms of formal qualifications. An unpredictable and complex tax administration discourages investment.

Regulatory reforms will be necessary to improve the competitiveness of Tanzania's tourism sector by reducing uncertainty and lowering the cost of doing business. These elements of competitiveness will be vital to the reorganization of firms and the recovery of destinations. Regulatory responsibilities are fragmented across various ministries, agencies, and levels of government, which complicates the development of a comprehensive reform agenda. For example, the government's 2018 "Blueprint for Regulatory Reforms to Improve the Business Environment" did not go far enough in identifying reforms specific to the tourism sector. In addition, the ongoing public-private dialogue, while essential, does not effectively engage all stakeholders in creating a common vision for the sector.

To guide the recovery of the tourism sector, the government could convene a special task force composed of diverse public- and private-sector stakeholders. This task force would review the legal and regulatory framework for the tourism sector and propose reforms to tourism-related taxes and fees, licenses requirements, labor regulations, and investment incentives. Similar review processes have been performed in Indonesia, South Africa, Greece, France, and other tourism-intensive economies, with direct accountability to the highest political office. Once the review is complete, the recommendations of the task force can be incorporated into new draft laws and submitted to the legislature, sending a positive signal to the investment community regarding the government's commitment to reform.

2.2.3. Tourism Data and Information Management

Tanzania's tourism statistics inform the design and implementation of government policies, but they could be improved to better underpin market decisions. The "information command center" created by the Tanzania Tourist Board (TTB) and the one-stop portal for licensing and registration established by the Ministry of Natural Resources and Tourism (MNRT) provide an adequate basis for collecting essential tourism statistics. The Annual Statistical Bulletins published by MNRT are rich in basic demand-side information collected from multiple agencies, but could be improved in order to contribute to private investment decisions or to plan and manage product development, market development, and government investments.

The gaps in the current system are the result of multiple data-collection systems and institutions that do not seamlessly share information through a shared digital platform designed around a common policy objective. The broad objective of tourism statistics is to understand customer behaviors, preferences, and spending patterns and to connect them with demographics and market segments. For example, tracking individual visitors can shed light on how tourism information is recorded (Table 8).

Table 8: The Collection of Tourism Statistics: Official Records of an Italian Couple Vising Tanzania for a Two-Week Holiday

Tourist Activity	Procedure	Agency Collecting Data
Arrival at Kilimanjaro International Airport	Completed immigration card stating intended length of stay, country of origin, etc.	Immigration/Home Affairs
Entrance to Lake Manyara National Park	Recorded as two foreigners in TANAPA data	TANAPA
Camp outside Park	Not captured	TRA in principle, but inconsistent in practice
Entrance to Ngorongoro Conservation Area	Recorded as two foreigners in NCAA data	NCAA
Lodge in NCAA	Registration	TRA
Entrance to Serengeti	Recorded as two foreigners in TANAPA data	TANAPA
Lodge in Park	Registration	TRA
Flight to Zanzibar	Recorded by airline and TCAA	Airline and TCAA
Arrival at Abeid Amani Karume International Airport	Completed immigration card stating intended length of stay, country of origin, etc.	Immigration
Hotel in Zanzibar	Registration	ZRB
Flight to Nyerere NP	Departure Zanzibar	Airline and NCAA
Entrance to Nyerere NP	Recorded as two foreigners in TANAPA data	TANAPA
Lodge in Nyerere NP	Registration	TRA data
Flight back to Zanzibar	Completed immigration card stating intended length of stay, country of origin, etc.	Immigration
Hotel in Zanzibar		ZRB data
Departure from Tanzania	Completed departure card	Immigration

Source: Stakeholder interviews.

Table 8 simply shows the variety of agencies collecting tourist information. Creating a information system that allowed this data to be shared and warehoused on a common platform would enable improved analysis, that in turn would support improved investment decisions.

The official statistics do not clearly distinguish between international leisure tourists and temporary visitors from neighboring countries. A German citizen who flies to Tanzania to go on safari and a Zambian citizen who crosses the overland border to visit relatives or conduct business have very different spending patterns, infrastructure demands, and revenue implications, but both are recorded as "tourists" in the official statistics. Periodic expenditure and motivation surveys help to distinguish these different segments, but they are not conducted at land borders. Developing a digital app to be downloaded when applying for a visa or when arriving in country could help resolve this issue. The initial download would create a unique identification code that would consistently record data for that visitor throughout their stay in Tanzania. Scanning a QR code at tourism facilities, hotels, airports, ferry services, national parks, museums, and other relevant sites would prevent tourists from being counted multiple times as they travel around the country. The app would also provide tourist information in multiple languages and could be used to make reservations and pay for entry to facilities and transportation services (e.g., Ngorongoro Crater, Zanzibar ferry, domestic flights, etc.) on a touchless and cashless basis.

Independent specialists with experience in developing tourism information systems in other countries should be contracted to design a fully automated digital system for collecting, analyzing, and sharing tourism data. The authorities are currently discussing the creation of a Tourism Satellite Account (TSA) with the United Nations Economic Commission for Africa (UNECA), but this is not necessarily the most appropriate course for Tanzania. A TSA is cost-effective when the system of national accounts is operating efficiently, but otherwise a TSA is an expensive undertaking that has value only for the year it is produced. Tanzania would be better served by an improved information-management system that connects existing sources of data.

2.3. Tourism Recovery, Resilience and Transformation

2.3.1. The Road to Recovery

While the global tourism sector shows signs of an incipient recovery, continued public support will be necessary in the near term. The recovery is likely to be especially slow in Tanzania, which has low vaccination rates and depends heavily on international tourists. Measures to support the tourism sector should encompass the entire value chain, as a swift recovery will require the renewed growth of supporting services and ancillary sectors. Demand risks cannot be efficiently absorbed by a few large, full-service companies, and a recovery that favors large firms would result in a less competitive and less inclusive tourism sector.

Due to the expected volatility of demand in source markets, the recovery of supply chains in the tourism sector will likely be inconsistent and unpredictable. Many firms are facing major financial difficulties, and demand will resume intermittently and will be especially sensitive to policy changes and exogenous variables. For example, Tanzania's relaxed COVID-19 travel restrictions caused a temporary spike in demand from Russian and other Eastern European markets between January and April 2021.

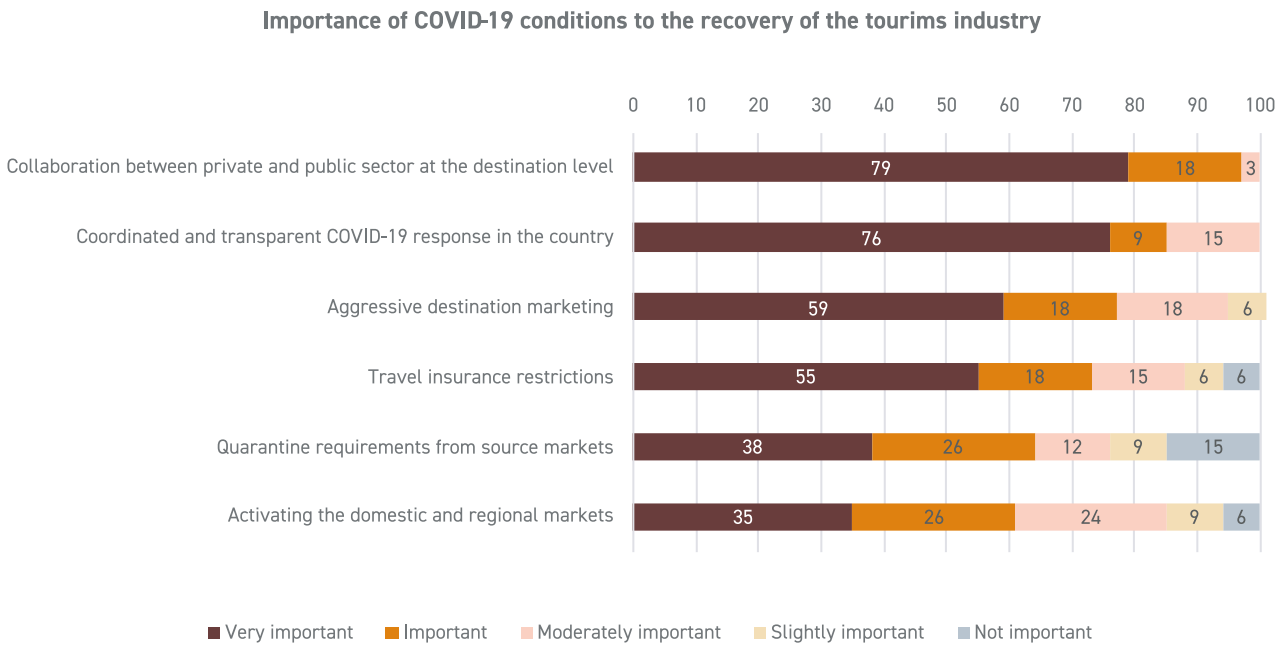
The COVID-19 crisis severely damaged the tourism sector, and its long-term effects on income and employment cannot yet be reliably estimated. A United Nations World Tourism Organization (UNWTO) survey of international tourism experts found that just 15 percent expected the global tourism sector to recover to its 2019 level by 2022; while 43 percent believed it would recover by 2023; and 41 percent did not anticipate a full recovery until 2024 or later.[17] In Tanzania, the 72 percent drop in national revenue that occurred between 2019 and 2020, compounded by the slow and uncertain pace of the recovery, has far-reaching implications for employment levels and small firms, as tourism has dense ties to other economic sectors.

According to a survey of private-sector operators conducted by IFC and Dalberg Advisory in October 2020, 50 percent of direct jobs in Tanzania's tourism sector will be lost by the end of 2021. Before the pandemic, almost all firms in the sector were reporting stable or growth conditions, but by April 2021 70 percent had suspended operations or were partially open, with transportation services sector being the most affected. Sales plunged, with small enterprises reporting a decline of 85 percent. Tanzania's tourism sector is particularly vulnerable to external shocks because of its dependence on international leisure tourists and because most tourism-related businesses are MSMEs, which have limited capacity to cope with financial stress.

Photo: Miguel Saldarriaga

Figure 34: Perceived Policies Needed to Support the Recovery of Tourism in Tanzania.

A survey of 89 travel and tour companies in Tanzania in October 2020 showed transparency and coordinated public-private sector efforts are critical to the tourism industry recovery



The government needs to work with tourism industry stakeholders and assist in terms of:
- Extending licenses and permits to the end of 2021 at no cost.
- Dropping VAT tax on tourism deposits.
- Giving amnesty on tax interest and penalties.
- Lowering park entrance fees and tourist visa fees to encourage tourists to visit Tanzania.
- Providing loans to support business boost.

Source: IFC/Dalberg Tourism Private Sector Survey, October 2020.

COVID-19 has affected revenue collection from tourism activities in protected areas. According to the MNRT, revenues of public sector tourism institutions, e.g. Tanzania National Parks (TANAPA), Ngorongoro Conservation Area Authority (NCAA), Tanzania Wildlife Authority (TAWA), Tanzania Forest Services (TFS) and National Museums of Tanzania (NMT), declined by 72.2 percent in 2020 (from TZS 489.4 billion in 2019 to TZS 136.2 billion in 2020).

In response to the pandemic, governments around the world have employed a range of instruments to support operators in the travel and tourism sector. While some governments have provided support to firms across the economy and the tourism sector in general, others have focused policy interventions on specific tourism subsectors such as hospitality, food services, hotels, and airlines. The instruments employed include debt finance, easing regulatory burdens, waiving taxes and fees, providing cash grants and subsidies, and offering employment and training support (Box 5).

Box 5
Protecting tourism in 2021

The following list of pandemic-response interventions in the tourism sector implemented during 2020 is adapted from the UNWTO's Policy Tracker, which monitors government actions in over 140 countries:

Fiscal Policy

- Support for firm liquidity (e.g., soft loans)
- Fiscal support to tourism-sector employees (e.g., furloughs, waived taxes, deferred social security payments)
- Fiscal support to tourism-sector firms (e.g., suspended rent collection, waived business taxes, waived or deferred licensing fees)
- Targeted support for specific subsectors (e.g., airlines, cruises) or types of individuals (e.g., self-employed guides or artisans)

Employment

- Official online training courses for unemployed or furloughed workers
- Reconstruction funds for sector-specific infrastructure projects

Sectoral Governance and Coordination

- Establishment of a COVID-19 tourism-sector response group
- Online information on support programs and business-support hotline
- Sectoral representation at the central government level
- Government liaison to the tourism sector

Marketing and Outreach

- Surveys measuring the impact of the crisis on the tourism sector
- Public relations and communications support, including analyses of consumer sentiment in key markets (e.g., consumer confidence surveys, travel search patterns, media coverage of destination country in source markets)
- Outreach to source markets publicizing public health measures through social media and official websites
- Marketing campaigns designed to sustain demand until travel restrictions are lifted
- Support for visitors needing to be repatriated (e.g., emergency accommodations, repatriation flights, cooperation with embassies and consulates)

Source: UNWTO Global Tourism Dashboard. COVID-19: Measures to support travel and tourism. https://www.unwto.org/covid-19-measures-to-support-travel-tourism

The Government of Tanzania has opted for fiscal measures such as direct budget support to NCAA, TANAPA and TAWA to cover their operational costs and development expenditures (TZS 288.29 million in FY2020/21 and projected TZS 443.96 million in FY2021/22). In addition, FY2021/22 budget stipulates a reduction of the license fee for tour operator registration from US$ 2000 to US$ 500.

2.3.2. Emerging Trends and Policy Options

The COVID-19 pandemic has profoundly influenced tourism demand, as traveler preferences and behaviors have shifted toward the familiar, predictable, and trusted. Demand for domestic and regional tourism has surged at the expense of long-distance international tourism, and many tourists favor activities conducive to social distancing (e.g., nature-based tourism) over those involving close proximity with other people (e.g., urban tourism). Tanzanian firms and policymakers can take advantage of these trends by adapting their services and policies to these market segments. Proactive efforts to expand domestic and regional tourism could reduce Tanzania's dependence on European source markets, and the country's abundant natural resources are well-suited to low-risk outdoor activities. Tanzanian firms and government agencies such as TANAPA, the TTB, and the MNRT should mobilize promotional packages designed to stimulate demand in these areas.

Market segments that have a higher appetite for risk will yield better returns for Tanzania. A recent survey (World Travel and Tourism Council, October 2020, The Future of Travel and Tourism) found that "fear of exposing others" was the top concern for 39 percent of travelers in the United Kingdom and 31 percent of those in France. Risk tolerance will remain low among consumers living with family members who are elderly or immunocompromised, while less risk-averse consumer types, such as adventure travelers and backpackers, will lead the recovery. Adventure travelers and backpackers tend to be relatively young and may have less purchasing power than middle-aged, family-oriented leisure tourists, but they are also far more likely to travel independently to remote destinations and engage with local communities and MSME operators. Risk aversion also varies across source markets: while only 12 percent of Chinese travelers report that they would travel internationally for their next leisure trip, this share rises to 54 percent among British and 52 percent among German travelers. While Scandinavians have a low level of risk aversion, Japanese and South Korean travelers are more sensitive to risk and are likely to rely on traveler testimonials more than on marketing campaigns.

The health, hygiene and safety of travelers, workers, and local communities will be critical to reopening tourism firms and destinations. The government should embrace global health and safety protocols for COVID-19 and communicate that commitment to source markets. These protocols should apply to all tourist destinations in Tanzania, including airports and high-traffic public areas. Personal experiences, expert advice, and risk aversion will guide consumer behavior in the short-to-medium term. Businesses will have to collaborate even more closely with their extended value chains to ensure the implementation of consistent protocols, including the World Travel and Tourism Council Safe Travels protocols, which have already been adopted by Tanzania. In this context, a steady flow of timely and accurate information between the government and the private sector, travelers and operators, firms and suppliers, and national and local stakeholders will be critical to the recovery of the sector.

COVID-19 is proving to be an unexpected catalyst for innovation and the integration of new digital technologies into the tourism sector. Contactless technologies, including biometrics, are rapidly becoming a prerequisite for a safe and seamless travel experience. Many countries are helping firms, and especially MSMEs, adjust to this transition by providing digital-skills training, establishing online payment mechanisms, tightening cybersecurity laws, and creating or expanding innovation funds to incentivize the development of new digital products and business models. Many countries have also established new e-governance systems for business registration, licensing, and regulation; firm opening and closing procedures; tax administration; and the payment of user fees for public services and infrastructure.

The recovery of the tourism sector will depend on firms obtaining adequate support and potential tourists perceiving Tanzania as a safe destination. Over 90 percent of tourism businesses need financial support, mainly in the form of loans and bridge financing (IFC/Dalberg Tourism Private Sector Survey, October 2020.). Firms have also expressed interest in grants, relief from licensing fees and other charges, and the reversal of a recent increase in park fees, as most 2021 bookings are postponements from 2020 and were quoted at the previous rates. Despite the mounting needs of firms in the sector, only about one-third have applied for bridge financing, and just one-fifth of those who applied ultimately received it. Private-sector-led financial interventions, such as concessional-interest loan facilities and firm consolidation, could also accelerate the recovery through the end of 2021. In designing these interventions, Tanzanian policymakers should draw on the experience of other major tourism destinations (Box 6).

Box 6
Response and Recovery in Colombia and Seychelles

Colombia rapidly enacted a comprehensive suite of tourism-support initiatives in 2020, including:

- Drafting a new tourism plan to position Colombia as an innovative, diverse, high-value destination to promote long-term, inclusive, and sustainable growth
- Becoming a signatory to the Future of Tourism guiding principles
- Partnering with commercial and development banks to offer credit guarantees for MSMEs in the tourism sector. The funds can be used to finance operating costs (e.g., payroll and supplier arrears) and the implementation of biosecurity measures.
- Providing online training modules for line-ministry staff and firms. After pivoting to a virtual format, ProColombia's tourism-export training program more than doubled its participation rate, with over 20,000 participants in just three months
- Implementing a successful domestic-tourism campaign, #YoVoy (#IAmGoing), with leading hotel operators, who reported an average occupancy rate of 80 percent in November 2020 (albeit amid steep rate cuts).
- Offering grants for sustainable tourism businesses to upgrade facilities and digitize services
- Focusing on ecotourism (e.g., by creating three birdwatching corridors and offering tax advantages for ecolodges)
- Obtaining internationally recognized biosafety certifications for tourism businesses.

Seychelles has also enacted various measures to rescue tourism jobs and businesses, which are likely to be extended into 2021. These include:

- Committing about US$70 million from the national budget to guarantee salary payments from March to June 2020 for all workers and from March until December 2020 for Seychellois workers
- Deferring all tax payments that were due by March 2020 until September 2020, and suspending payments of Corporate Social Responsibility Tax, Tourism Marketing Tax, and business tax due in April, May, and June.
- Establishing a moratorium on loan repayments for affected businesses for at least six months, including payments on interest and capital
- Offering low-interest loans for MSMEs and self-employed individuals
- Allocating an additional US$1 million to the Unemployment Relief Scheme, a program coordinated by the Ministry of Employment, Immigration, and Civil Status.

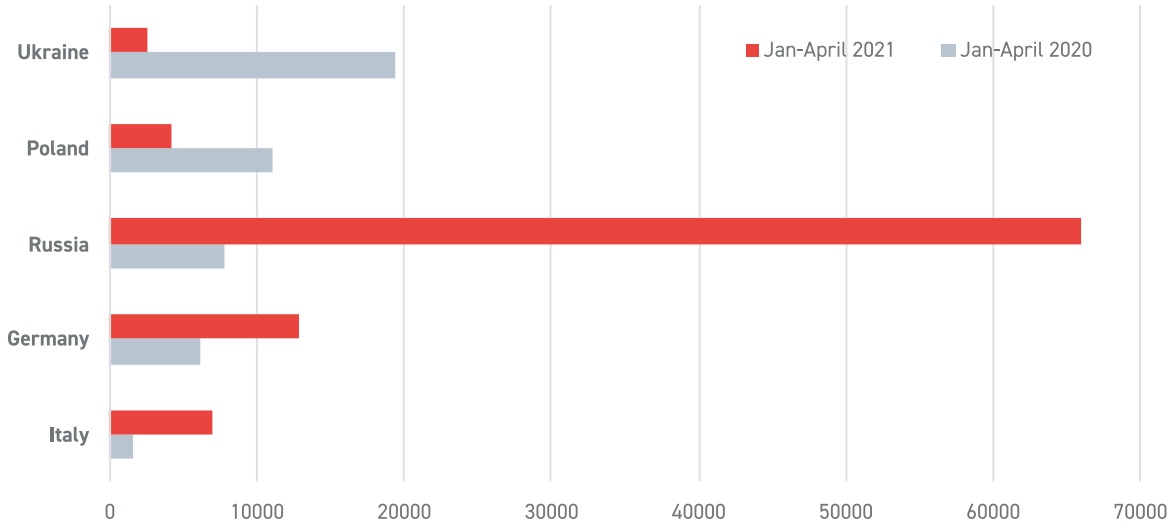
Source: World Bank Group (2020). Rebuilding Tourism Competitiveness: Tourism Response, Recovery and Resilience to the COVID-19 Crisis. Washington, DC: World Bank.

2.4. Diversification and Competitiveness

2.4.1. Package Tourism: An Essential Market Segment for Tanzania

Package tourism is often associated with mass tourism, which offers low cost for the consumer and low value for the destination. This model can be risky for destinations that rely on highly competitive market segments with interchangeable offerings, such as beach tourism. In market segments where multiple destinations offer virtually indistinguishable attractions, large international tour operators can leverage their promotional campaigns and access to charter flights to shift demand from one destination to another to take advantage of price differentials. Tanzania's coastal areas, including Zanzibar, may be susceptible to this kind of price competition. Indeed, a sudden and temporary surge of Eastern European tourists into Zanzibar in Q1 2021 may be evidence of this phenomenon, as Tanzania's lax COVID-19 restrictions, combined with falling demand from Western European source markets, increased its attractiveness relative to similar destinations (Figure 36).

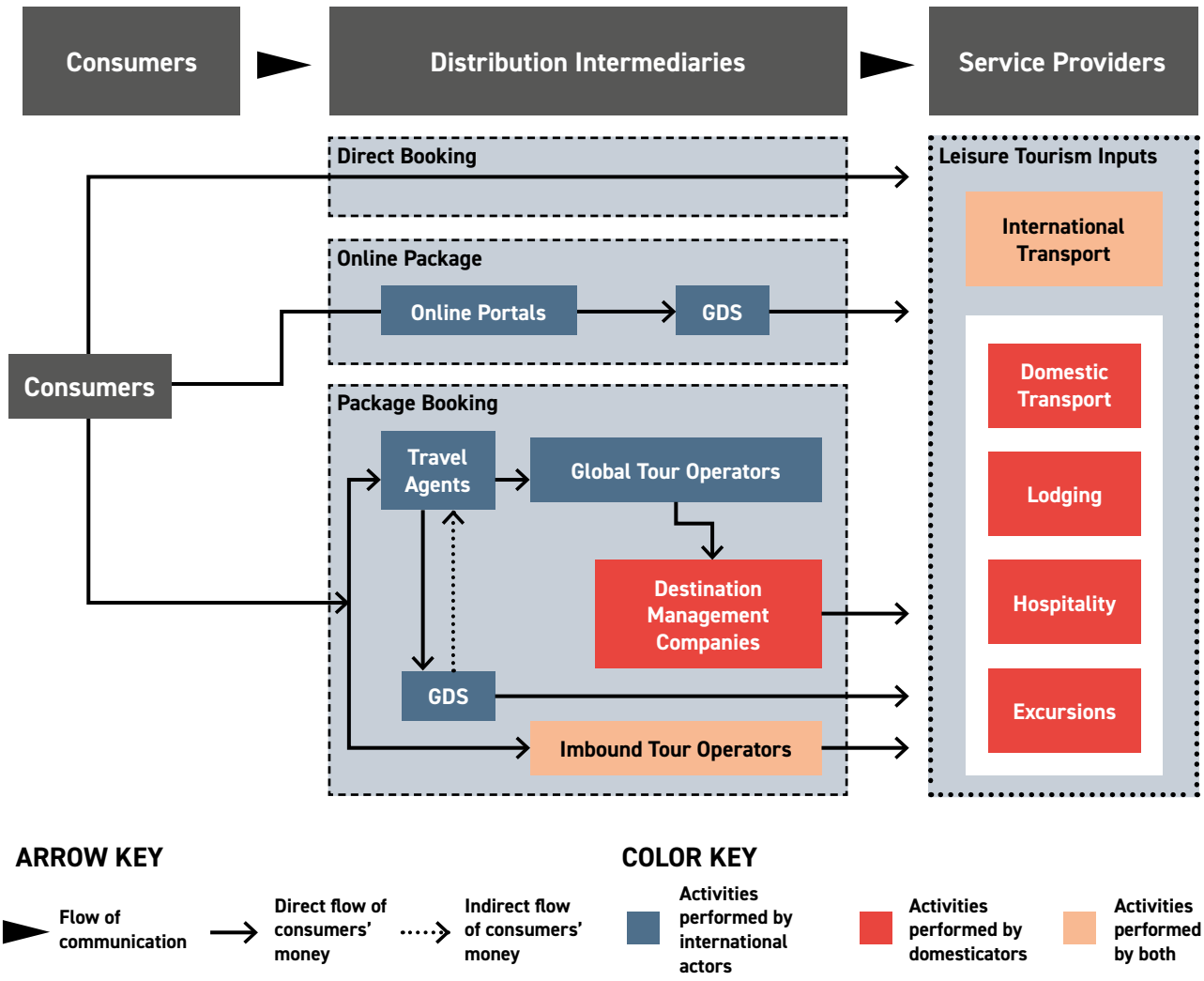
Figure 35: Tourist Arrivals in Zanzibar from Western and Eastern Europe, Q1 2020 and Q1 2021



Source: OCGS.

While package tourism is also the dominant vehicle for nature-based tourism in mainland Tanzania, the business model is very different from package tourism in beach areas. In Tanzania, package tour companies provide an essential means of accessing tourism destinations and products that, because of poor infrastructure, poor information provision, long distances, and the inherent risks of the landscapes and wildlife, would otherwise greatly restrict tourism development. Having a tour operator package these services and market them as a single product is both efficient and appropriate for Tanzania's tourism sector (Figure 37).

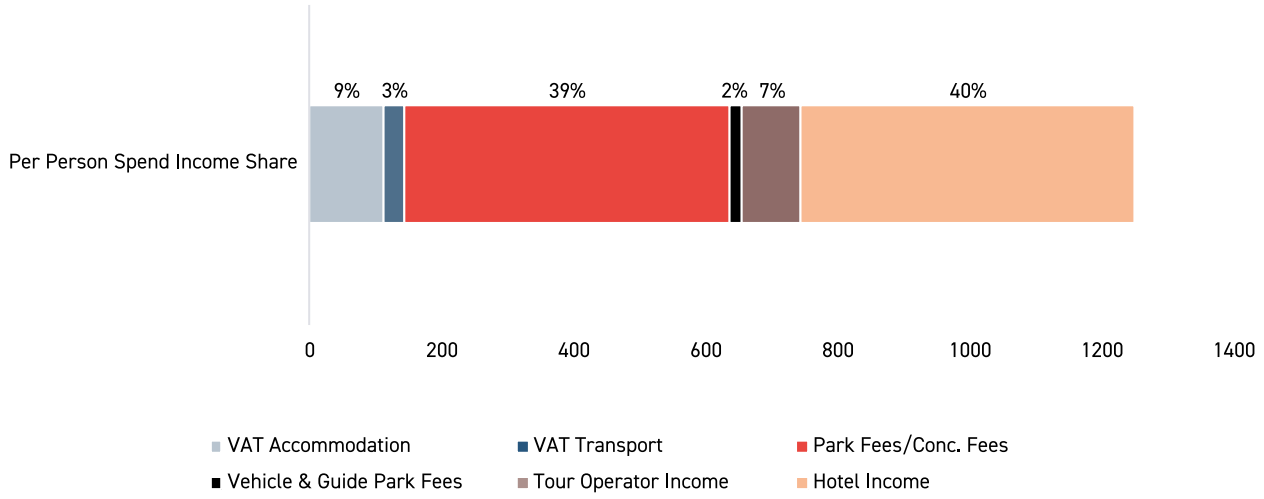
Figure 36: Tourism Distribution Channels



Source: Jack Daly and Gary Gereffi (2017). Tourism and Global Value Chains and Africa. WIDER Working Paper 2017/17, January 2017. https://www.wider.unu.edu/sites/default/files/wp2017-17.pdf

Package tours are a vital segment of the global tourism industry. According to the World Travel and Tourism Council, package tours generate US$25 billion annually in the United States, US$18 billion in Europe, US$19 billion in Britain, and US$21 billion in Asia. In 2019, package tours represented 50 percent of all leisure travel sales worldwide. Consumers often regard package tours as cheaper, safer, and more efficient than independent travel. For Tanzania, uncertainty around COVID-19 will likely strengthen the appeal of package tourism, as consumers will place greater value on information and security. Package tourism also offers governments a very efficient means of collecting fiscal revenue from the tourism sector. The example below (Figure 38) was recently presented to Parliament by the Chairman of Tanzania Association of Tour Operators. This typical tour package illustrates the revenue per person accruing to both the government and the private sector.

Figure 37: Revenue per Tourist Based on a 7-Day Safari Package, Tanzania



Source: 2019 data from Kibo Tours.

Beyond package tourism, Tanzanian policymakers can increase local value addition in the tourism sector by facilitating access to the markets, skills, training, and finance necessary to expand the range of goods and services providers in key destinations. For instance, Stone Town in Zanzibar offers a wider array of goods and services—restaurants, retail, tour operators—than can be easily and safely accessed by an independent traveler. Other tourism centers, such as Arusha, Moshi, Dar es Salaam, and Mwanza, are more difficult for an independent traveler to navigate, which increases reliance on package tours in these areas. The production of tourism experiences, unlike commodities or manufacturing, is inherently inclusive and distributional. As independent travelers move around a destination interacting with landscapes and seascapes, local citizens and communities, they spend as they consume goods and services from local providers, most of which are usually MSMEs. Through targeted interventions, the government can foster the development of independent tourism by offering a safe and hospitable environment for independent travelers.

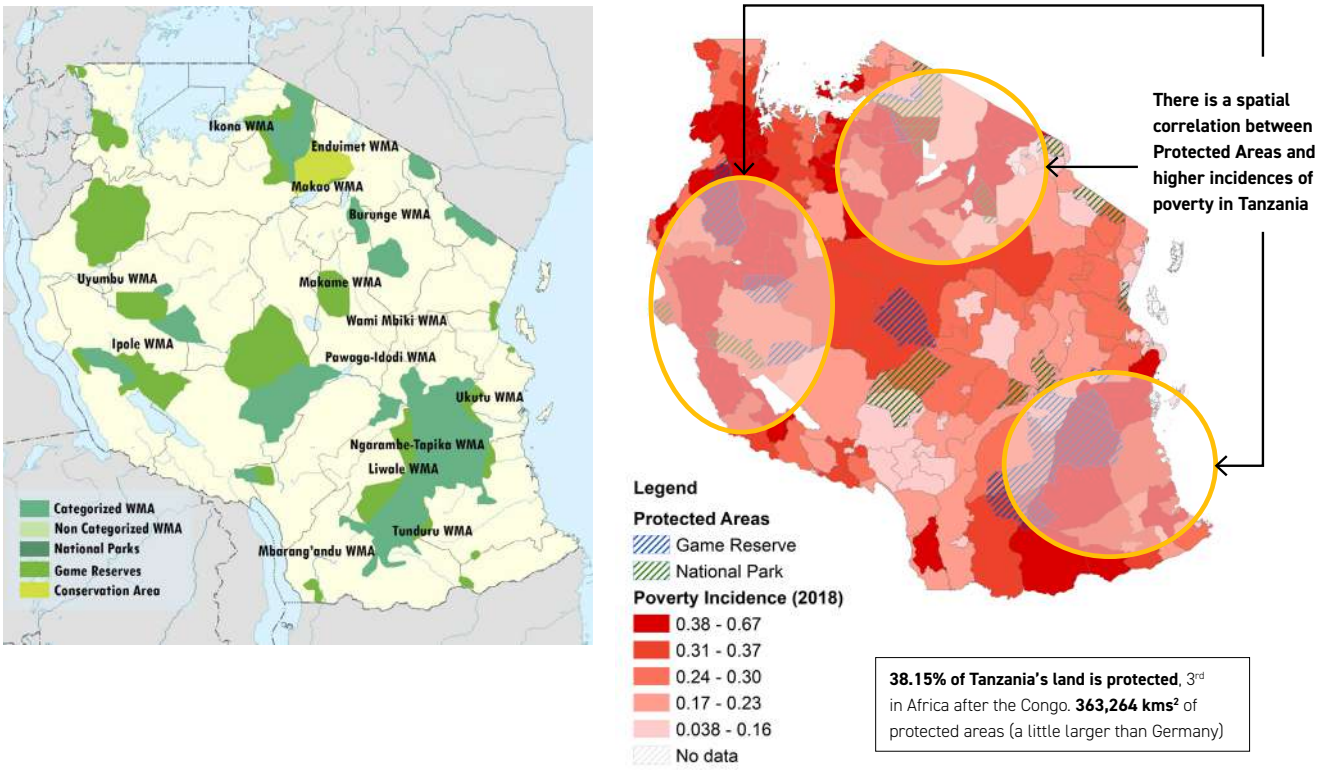
2.4.2. Building Resilience through Sustainable Tourism

Tanzania's ecological resources are vital to its tourism sector, yet they remain underutilized. Successive governments have prioritized environmental and cultural preservation: Tanzania ranks 3rd in Africa in terms of the share of protected land and is home to seven UNESCO World Heritage Sites. However, the costs of maintaining these assets is considerable, and sustainable tourism has untapped potential to generate value for the government, the private sector, and local communities.

Many of the areas near Tanzania's national parks are among the poorest in the country. National parks are often in remote rural areas with limited infrastructure and high poverty rates (Figure 39). Limited connectivity and a lack of physical, financial, and human capital hinders the ability of many local communities to participate in the economic activities supported by national parks. This

challenge is not unique to Tanzania, and since 2000 several African countries, including Morocco, South Africa, Mozambique, Namibia, Uganda, Botswana, Zambia, Rwanda, and most recently Kenya, have adopted policies designed to foster public-private partnerships (PPPs) for the co-management or delegated management of protected areas. These arrangements are designed to alleviate the cost burden of park management and improve development outcomes for local communities.

Figure 38: Poverty Rates and Protected Areas in Tanzania



Source: : Takaaki Masaki (2021). Map of district poverty and national parks in Tanzania. Data on district poverty are from World Bank (2019). Tanzania Mainland Poverty Assessment: Tanzania's Path to Poverty Reduction and Pro-Poor Growth (See appendix G of that report for methodological details). Locations of National Parks and National Reserves are from UNEP-WCMC (2021). Protected Area Profile for United Republic of Tanzania from the World Database of Protected Areas, June 2021. Available at: www.protectedplanet.net

Conservation-oriented PPPs are not designed to privatize natural assets, but to advance the host country's conservation efforts by augmenting its resources. Well-designed PPPs can also increase oversight and accountability by separating the management of natural assets from the government's regulatory and policy functions. The public sector remains the sole owner of the land and resources and is responsible for defining the statutory context within which the partnership operates. The PPP co-management partner, working closely with government counterparts, is responsible for managing the natural asset and is accountable to the government for its performance.

The PPP approach leverages the respective strengths of the public and private sectors, offering an innovative and robust solution to Africa's conservation challenges. PPP management models have become increasingly prevalent in recent years, with examples including the Frankfurt Zoological Society's work in Gonarezhou National Park (NP) in Zimbabwe and North Luangwa NP in Zambia; African Parks' work in Akagera NP in Rwanda, Liwonde NP in Malawi, Zakouma NP in Chad, and elsewhere; the Carr Foundation's work in Gorongoza NP in Mozambique; the Peace Parks Foundation's efforts in Zinave NP in Mozambique; and the Wildlife Conservation Society's efforts in Nouabale-Ndoki

NP in Republic of Congo. These partnerships have attracted significant private-sector investment in securing, restoring, developing, and financing the management of protected areas, alleviating the cost burden on the government while recognizing and upholding the government's role as the ultimate custodian of these areas.

To date, Tanzania's natural assets been valued primarily through their capacity to generate tourism revenues, but the global climate crisis is offering a new perspective on the importance of these resources. The mounting scientific evidence that excessive atmospheric carbon is driving an accelerating process of climate change has resulted in unprecedented financing being made available to either reduce carbon emissions or to protect and expand natural areas that sequester carbon and sustain biodiversity. For example, companies that have committed to net-zero emissions strategies are seeking to finance carbon-sequestration activities such as forest regeneration and the preservation of natural landscapes.

Because most companies cannot eliminate the emissions produced by their activities, they invest in protecting forests and other natural areas that hold large amounts of carbon, creating "carbon credits" to offset their emissions. The same principle applies to ecosystem services and biodiversity, which investors protect to counter the ecological risks associated with their investments, or future risks to those same investments. This approach helps redirect financial flows away from carbon-intensive projects with negative ecological impacts and toward projects that generate environmental co-benefits. Globally, demand for projects and landscapes that can deliver verifiable carbon credits greatly exceeds supply, and several landscapes in Tanzania offer an opportunity to integrate regenerative agribusiness, ecotourism, forest-based initiatives, off-grid renewable energy production, biodiversity preservation, ecosystem services, and carbon offsets. Tanzania can attract investment in verifiable carbon credits and biodiversity co-benefits, but only if the government revises its approach to managing natural assets. Examples from South Africa and Mozambique illustrate how integrated landscape management can strengthen environmental protection while generating greater value for local communities and the private sector (Box 7).

Photo: Tanzania Tourist Board

Box 7
Going Green: South Africa and Mozambique

The Greater Kruger Strategic Development Program (GKSDP)

The GKSDP is an integrated partnership program that aims to use conservation to catalyze inclusive economic development in the Greater Kruger area. The program explicitly recognizes that the protected areas, adjacent communities, commercial farmlands, and nearby urban centers form one interconnected Greater Kruger landscape. The GKSDP is based on the concept that natural capital and ecosystem services are inextricably linked with the socio-economic wellbeing of local households, especially the poorest and most vulnerable. The GKSDP also recognizes that the risks to biodiversity and the sustainability of protected areas—including environmental crimes, diminishing water quality and quantity, and the impacts of development—largely originate outside the protected areas. These risks are increasing over time, driven by climate change and socioeconomic pressure.

The GKSDP is a strategic partnership between the government, local communities, civil society, and the private sector. This partnership seeks to promote inclusive and sustainable rural economic development while protecting natural capital. The GKSDP is designed to align environmental conservation, tourism activity, and the broader socio-economic outcomes set forth in national and local plans and strategies. The six pillars of the program are: (i) securing the natural capital base of the Greater Kruger landscape; (ii) increasing employment and sustaining livelihoods; (iii) integrating economic and land-use planning and management; (iv) strengthening partnerships and governance structures; (v) mobilizing resources and optimizing investments; and (vi) enhancing data quality and knowledge management.

The Gorongoza Project

In 2008, the government of Mozambique signed a 20-year PPP with the US-based nonprofit Carr Foundation for the restoration of the Gorongoza landscape, an area of roughly 3 million hectares with a population of about 400,000. In 2018, this arrangement was extended for an additional 25 years. The co-management contract describes a mission for integrated conservation and development to not only restore the biodiversity and ecosystem services of Gorogoza National Park, but also to utilize the park as an economic value creator, educational resource, and service provider for the communities located in a designated "sustainable development zone" around the park. Already the largest employer in the central Sofala region, the Gorongosa Project is catalyzing a "virtuous cycle" in which environmentally sustainable enterprises create employment, income, and social development opportunities for local households. In turn, those households, recognizing that their livelihoods depend on a thriving environment, support the Gorongosa Project's conservation objectives. 98 percent of the project's employees are Mozambican, and 48 percent are women.

At the core of the Gorongoza Project's approach is the creation of sustainable livelihoods for local communities as part of the development of a broader regional green economy. In the green economy, social entrepreneurs and innovative conservation enterprises create jobs while contributing to the broader protection and restoration of Gorongoza's vital ecosystems. This approach has five main revenue elements: (i) regenerative agribusiness; (ii) "blue" livelihoods based on riverine resources; (iii) ecotourism; (iv) forest-based initiatives; and (v) carbon credits. The Gorongoza landscape has the potential to yield more than 40 million tons of CO2 equivalent by 2040, generating as much as US$2.24 billion in carbon credits.

Source: Direct correspondence with the Carr Foundation.
Note: As of June 2021, the price per ton of CO2 equivalent was US$56.

Market-based systems tend to undervalue environmental resources, as their benefits—though vast and quantifiable—are largely external to market transactions. Consequently, environmental protection has traditionally been the purview of the public sector and civil society. Creating financial instruments that price-in the benefits generated by environmental resources can align private incentives with conservation. Sustainability-oriented loans and bonds can link the cost of capital to the achievement of environmental objectives, and these instruments are increasingly being used to incentivize changes in corporate and institutional behavior (Box 8).

Box 8
Innovative Financing Mechanisms: Paying for Results

Environmental impact bonds (EIBs) can refocus conservation efforts on outcomes rather than on activities. In the traditional conservation model, organizations receive grants based on a pledge to implement specific activities. These grants are typically disbursed in advance and are not tied to the achievement of specific outcomes. If the goal of the grant is not achieved, the donor money is lost. By contrast, EIBs allow donors to link financing directly to the achievement of specific conservation outcomes. If those outcomes are not achieved, the funds are not disbursed.

The World Bank proposed a US$40 million EIB known as the "rhino bond" in 2021. The proceeds from the sale of this bond would allow wildlife agencies to step up anti-poaching operations in two sites in South Africa that are critical to the preservation of the African black rhino. At the end of a five-year period, if the rhino population meets the bond program's target, investors will receive their principal plus an additional coupon payment financed by the Global Environment Facility. If the population target is exceeded, investors will receive an additional contingent payment. Conversely, if the rhino population is below the target, investors will not receive the coupon payment.

By allowing investors to pay for certain pre-agreed conservation outcomes instead of activities that may or may not yield results, a conservation impact bond strengthens the likelihood of success. The investors have a strong incentive to ensure that the intended results are achieved, while the recipients have more flexibility to experiment with new approaches and adapt to changing conditions. This model also brings together a range of actors with backgrounds in finance, conservation, and development, which encourages interdisciplinary collaboration and innovative solutions. For these reasons, EIBs are now being considered to protect a range of endangered species and ecosystems. The EIB model relies on donors to compensate investors for their risk, but an alternative could be to use a combination of revenues from tourism, regenerative agriculture, carbon and biodiversity credits, and income from ecosystem services to finance the coupon payment.

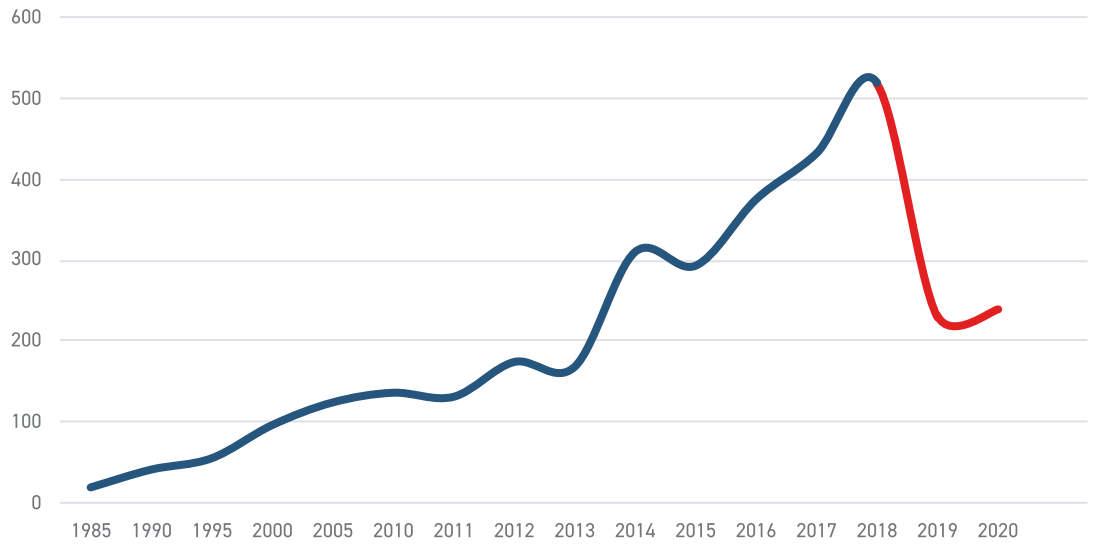
Source: 2021 World Bank Report: Nature-Based Solutions.

Photo: Alessandra Silver

2.5. Tourism and the Blue Economy in Zanzibar

Zanzibar's tourism sector grew rapidly from 2010 to 2019. With 538,000 international visitors in 2019, tourism represented 28 percent of Zanzibar's GDP and supported an estimated 15,000 direct and 50,000 indirect jobs (Figure 40). However, these gains have been uneven, and because growth has been driven by undiversified resorts with limited linkages to the local economy, the sector has underperformed in terms of inclusive revenue and job creation.

Figure 39: Foreign Visitor Arrivals in Zanzibar, All Ports



Source: OCGS.

The medium- and long-term impacts of the COVID-19 crisis on Zanzibar's tourism sector will fall hardest on informal enterprises, women, and low-skilled workers. International hotels and resorts anchoring the sector are less likely to permanently close, but they will sharply cut recurrent and capital expenditures, deferring maintenance, partially closing facilities, laying off staff, and pausing expansions. These spending cuts will affect jobs in tourism and related sectors such as construction and transportation.[18] Tourism MSMEs are the most vulnerable to permanent closures, particularly foodservice providers and non-branded accommodations.[19] Informal workers, women, and low-skilled workers will be most likely to exit the tourism workforce, and in the near term the crisis is likely to lead to increased informality, which will persist even after the recovery is underway.[20] Some microenterprises and tourism suppliers are likely to permanently diversify into other sectors and activities, both to compensate for the loss of short-term revenues and to increase their resilience to future shocks. Meanwhile, the RGoZ's budget—60 percent of which is financed by tourism—is likely to face protracted stress, and many public-sector capital projects may be paused or canceled.[21]

The pandemic has shifted business models and consumer preferences across the global tourism sector, and Zanzibar must keep pace with these changes while addressing preexisting constraints on the development of the tourism sector. Prior to the pandemic, Zanzibar's tourism sector already

faced an array of challenges common to many small island economies, including poor infrastructure, inadequate waste management, pollution, insufficient product development and management, insufficient marketing, weak linkages within the local economy, inadequate institutional and technical capabilities, and a shortage of trained and specialized personnel. Zanzibar is already leading the tourism sector's recovery and is becoming a distribution hub to other domestic destinations, with more tourists entering and leaving through Abeid Amani Karume Airport than any other international airport in Tanzania. However, over the longer term the ability of policymakers, firms, and other stakeholders to address Zanzibar's underlying issues while pivoting to a new post-pandemic environment will determine the pace and quality of the tourism sector's recovery (Table 8).

Table 9: Recovery Considerations

Global Changes	Implications for Zanzibar
Demand is changing → Increased focus on health and safety → Increased domestic and regional tourism, with lower marginal spending → Increased nature-based tourism → Fewer business events → Less demand for urban and indoor activities	**Opportunity to increase appeal to independent travelers in addition to package tourists** → Facilitate independent travel in Arusha, Moshi, and Dar es Salaam, Mwanza **Opportunity to diversify to small-group rural destinations and activities:** → nvest in the sustainable development of Jozani Forest, agritourism, marine tourism
Business models are changing due to consolidation and corporate restructuring → Flexible contracts and conditions for rapid scale up/scale down → High demand for private rental properties (e.g., via Airbnb) relative to traditional hotels	**Opportunity to promote a more balanced accommodation mix** → Adopt policies favoring high-quality private rentals and smaller branded luxury accommodations
Greater automation, innovation, and technology → Fewer customer contact points → Increased real-time intelligence	**Opportunity to gain market share in the package-tour segment** → Strengthen health, safety, and quality regulations relative to those of competing destinations
Widespread financial stress and limited fiscal support → Uncertain duration and scope of public assistance to the tourism sector	**Opportunity to pilot new initiatives to raise revenue and manage tourist flows** → Reduce overcrowding in Stone Town by piloting new taxes applied on either a per-arrival or per night-basis
Greater political and public willingness to implement innovative pilot programs → Increased initiatives around pedestrianization, tax breaks, mobility, sustainability, circular economy, blue economy	**Opportunity to reduce costs through digital solutions** → Create digital applications to facilitate licensing and registration, recordkeeping, and contactless payment

Source: Government of Zanzibar and IFC (2021). Zanzibar Tourism Integrated Strategic Plan.

In October 2020, the RGoZ launched the Zanzibar Blue Economy Policy, a government-wide approach to improving the productivity of fisheries and aquaculture, maritime trade and infrastructure, tourism, energy, and marine and maritime governance. In addition to the economic output of these sectors, Zanzibar's marine and coastal ecosystems represent a significant reserve of untapped carbon-sequestration and biodiversity value. Global interest in investing in marine ecosystems is growing rapidly due to their potential to mitigate climate change. Blue carbon stored in vegetated coastal habitats such as Jozani Reserve (mangroves, seagrass meadows, and salt marshes) absorb roughly four times more atmospheric carbon than terrestrial habitats such as forests.

Marine protected areas are being established by governments worldwide to conserve fish stocks and support habitat restoration. Just 1 percent of Tanzania's marine and coastal ecosystems have any degree of protection, compared with nearly 40 percent of its terrestrial area. Creating a protected area in Zanzibar's territorial waters would represent a major opportunity to strengthen the conservation and management of coastal and marine resources. Countries as diverse as Indonesia, Malaysia, Peru, Ecuador, the United States, Ghana, Nigeria, Liberia, Madagascar, and Seychelles have issued "blue bonds" on capital markets to finance the expansion of marine protected areas (Box 9).

Box 9
Innovative Financing Mechanisms: Blue Bonds

In 2018, Seychelles launched the world's first sovereign "blue bond." The bond has a US$15 million face value, a 10-year tenor, and a coupon rate of 6.5 percent. A US$5 million concessional loan from the Global Environment Facility reduced the coupon rate paid by the Seychelles government to 2.8 percent. The World Bank, which helped develop the bond, also provided a US$5 million guarantee. Three of the main investors are Calvert Impact Capital, Nuveen, and Prudential Financial, Inc.

The public funds raised by the bond provide grants and loans to the real sector, especially the fishing industry, where they help catalyze private investment in conservation and the sustainable management of marine resources. These grants and loans are dispersed by the Blue Grants Fund, which is managed by the Seychelles Conservation and Climate Adaptation Trust, and the Blue Investment Fund, which is managed by the Development Bank of Seychelles. The success of the blue bond demonstrates the potential for countries to harness capital markets to finance sustainable investments, as well as the demand from private investors for sustainable investment opportunities.

Source: World Bank, 2018; World Bank, 2021.

Investments in efficiency could bolster the resilience of the tourism sector, enhance its competitiveness, and contribute to the development of the blue economy. Zanzibar has many opportunities to invest in the efficient use of energy and water, increase productivity, reduce post-harvest losses through better storage and transportation, enhance agro-processing, reduce consumer waste, and improve waste management. All of these are issues discussed in the RGoZ's Blue Economy Policy, but they are also important to address in the context of the growing number of tourists in Zanzibar, who will increasingly strain local production and infrastructure systems as the tourism sector recovers. For example, tourists at beach resorts consume an average of 20 times more water than residents. Solutions for waste management, particularly waste-to-compost systems, are especially urgent, as 60 percent of Zanzibar's solid waste is not properly processed. Addressing this and other issues will present viable opportunities for private-sector investment and job creation outside the tourism sector.

As Zanzibar's tourism sector recovers, the hidden economic, social, and environmental costs of tourism will affect water and sanitation systems, energy resources, natural environments, and the social fabric of local communities. The natural, cultural, and social capital that form the basis of tourism in Zanzibar are under increasing strain from rapid and unplanned growth. Managing the stress of rising tourism inflows on Zanzibar's largely poor and densely populated islands will require careful planning and coordination. Flexible policy solutions are needed to sustain the tourism economy for the duration of the pandemic while also laying the foundation for a sustainable and inclusive recovery.

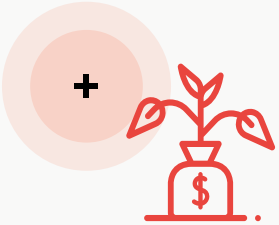
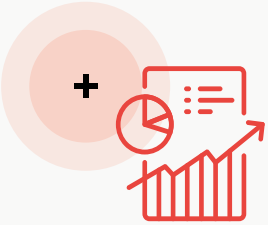
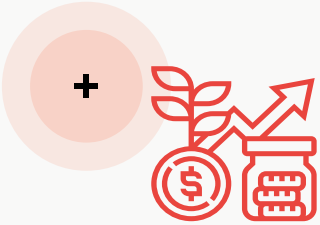
Photo: Stevie Mann

2.6. Policy Recommendations

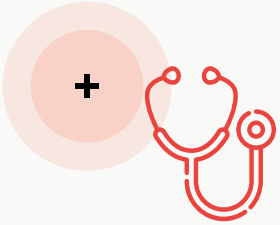
Building a more competitive, resilient, and inclusive tourism sector will require action in five priority areas. These are: (i) creating an efficient, reliable, and transparent business environment; (ii) establishing an information-management system that consolidates data from tourists and firms, enabling policymakers to improve sectoral planning and create viable investment opportunities; (iii) ensuring that firms across the sector, as well as those in upstream value chains, have access to affordable transitional and conditional financial support; (iv) consistently promoting, monitoring, and reporting on adherence to health and safety protocols; and (v) developing co-investment and partnership arrangements to support nature-based landscape and seascape management.

Tanzania is a globally recognized destination for nature-based tourism, but this market segment has become increasingly competitive. To maximize its comparative advantage, the government and other stakeholders must work together to protect the integrity of the landscapes and seascapes on which the sector depends. These natural assets have the capacity to generate value beyond the tourism sector, and their carbon sequestration and biodiversity co-benefits are not efficiently priced. Creating mechanisms to internalize the value of these assets and ensure that they generate adequate financial returns would help align incentives around conservation. The global climate crisis has created significant demand for investments in natural capital, and Tanzania could leverage this opportunity to safeguard its natural resources while using the additional revenue to ease fiscal constraints and support social and economic development among local communities.

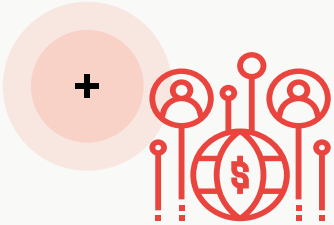
Table 10: Policy Priorities for a Sustainable, Resilient, and Inclusive Tourism Sector

AREAS			
	Creating an efficient, reliable, and transparent business environment	**Establishing an information-management system that consolidates data from tourists and firms, enabling policymakers to improve sectoral planning and create viable investment opportunities**	**Ensuring that firms across the sector, as well as those in upstream value chains, have access to affordable transitional and conditional financial support**
SITUATION SUMMARY AND RECOMMENDED ACTIONS	Tanzania's tourism sector has long suffered from mutual distrust between the government and private firms, with the former complaining of widespread tax evasion and the latter citing government inefficiencies and extensive red tape. The pandemic has created an opportunity to reset this relationship, finally implement long-discussed reforms, and send a strong signal to the market of Tanzania's improving climate for business and investment. **Establish a multi-stakeholder task force on tourism development with a mandate to analyze the legal and regulatory framework and deliver sector-specific reform proposals, including short-term fiscal and monetary support measures.**	Information management is equally important to private business decisions and public-sector service provision. The past 18 months have seen a huge global shift toward the use of e-commerce and e-government applications. Tanzania has taken important steps in this direction by creating a one-stop licensing portal in the Ministry of Natural Resources and Tourism and a "market command center" at the Tanzania Tourist Board. Further progress should be made at the destination level to expand access to information on valuable demand segments and enable a swift response to changing market conditions. **Develop terms of reference for contracting an independent expert to perform a comprehensive review of information-management systems and provide recommendations for improving them.**	The sharp contraction in tourism revenue caused by the pandemic has had negative multiplier effects in the Tanzanian economy. Suppliers and subcontractors working with tourist operators, hotels, and restaurants have experienced a severe decline in demand, resulting in a 50 percent reduction in the total number of workers in the sector, including a 30 percent drop in the share of full-time employees. Job losses have disproportionately affected informal workers, who have limited savings and access to credit. The loss of income among these workers has weakened domestic demand, with negative implications that extend far beyond the tourism sector. Conditional financial support to tourism firms will be critical to shore up employment and mitigate the impact of the shock on poverty. **Work with development partners to establish a short-to-medium term liquidity fund that provides risk-sharing financing for tourism firms to reopen, rehire staff, and build stronger local supply chains.**

AREAS



Consistently promoting, monitoring, and reporting on adherence to health and safety protocols



Developing co-investment and partnership arrangements to support nature-based landscape and seascape management

SITUATION SUMMARY AND RECOMMENDED ACTIONS

The government has recently revised its approach to the pandemic, and the creation of a COVID-19 task force is an important step that should be leveraged to support the recovery of the tourism sector. To reestablish confidence among consumers and the business community, the authorities must demonstrate Tanzania's adherence to global health and safety protocols in close collaboration with the private sector.

In collaboration with the recently established COVID-19 task force, ensure that global standards for health and safety are adhered to across the tourism sector.

Tanzania is a globally recognized destination for nature-based tourism, an increasingly competitive market segment in eastern and southern Africa. Beyond attracting tourists, the country's landscapes and seascapes produce a wide range of ecosystem services, including carbon sequestration and biodiversity co-benefits that are not efficiently priced and often generate little or no financial return. The global climate crisis has created significant demand for investment in these forms of natural capital, and Tanzania is well positioned to take advantage of conservation opportunities. The additional revenue derived from global climate programs could ease the government's fiscal constraints while also supporting the livelihoods of local communities.

Working with development partners and other stakeholders, develop one marine conservation bond and one terrestrial conservation bond or similar instrument; identify and address challenges in the legal and regulatory environment to make these bonds a viable means for conservation financing.

World Bank COVID-19 Business Pulse Surveys

The World Bank developed the COVID-19 Business Pulse Surveys (COV-BPS) in order to measure the impact of COVID-19 on firms and the destruction of existing capacities due to the pandemic. The COV-BPS were rapid, modular phone survey directed primarily to SMEs in developing countries. Globally, the first round of firm-level data collection took place during May-August 2020 in 51 countries, covering all regions and a wide range of country characteristics: size, income per capita, fragility, etc. A second round of data collection took place between the last quarter of 2020 and the first quarter of 2021 as a follow-up for 27 countries.

The sampling frame in most countries was based on the WB Enterprise Survey and on censuses from Statistics Agencies, Ministries of Finance or Economy, or business listings from Business Associations, and typically only included registered businesses. The survey uses a standardized questionnaire to capture the effects of the pandemic on firms through five distinct channels of impact: lockdown effects; supply, demand, financial disruptions, and uncertainty. It also collects information on firms' adjustment strategies and their access to public support programs to mitigate the effects of the pandemic. Questions about the impact of COVID-19 on firms' operations refer to the 30 days preceding the interview relative to the same period of 2019. Questions about expectations and uncertainty refer to the next 6 months (3 months for micro firms). COV-BPS was usually implemented in collaboration with national statistical offices.

In Africa, the World Bank implemented the first wave of COV-BPS in 19 countries (April-August 2020) and the second wave in 9 countries (October 2020-March 2021) (Table 10).

Table 11: COV-BPS in African countries

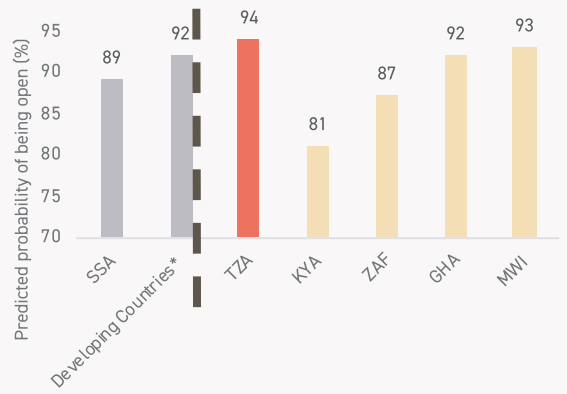
First Wave	Second Wave
Cote d'Ivoire, Gabon, Ghana, Liberia, Mali, Senegal, Togo, Burkina Faso, Cameroon, Nigeria, Sierra Leone, Kenya, Madagascar, Malawi, Sudan, Tanzania, South Africa, Comoros, Somalia	Ghana, Kenya, Madagascar, Malawi, Sudan, Senegal, Sierra Leone, Tanzania, South Africa

Tanzania in perspective: Salient facts from the second wave

The second round of COV-BPS for Tanzania was implemented in December 2020. Comparing Tanzania with the rest of the countries in Africa our analysis finds that:

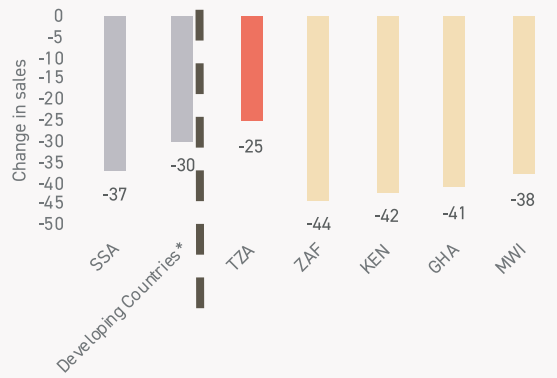
Firms in Tanzania have a marginally higher probability of being open than the average in SSA.

Figure 40: Predicted probability of being open



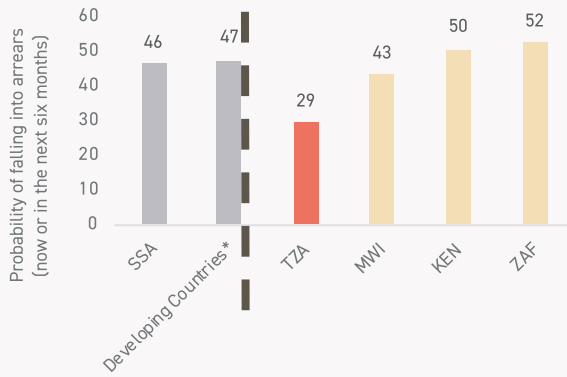
The decline in sales in Tanzania is lower than in other SSA countries.

Figure 41: Change in sales



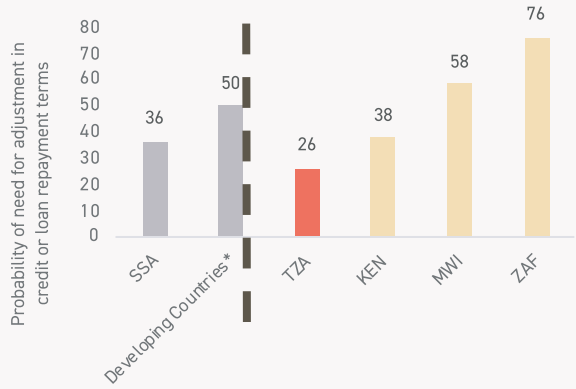
Firms in Tanzania are less likely to fall in arrears relative to those of SSA

Figure 42: Probability of falling in arrears



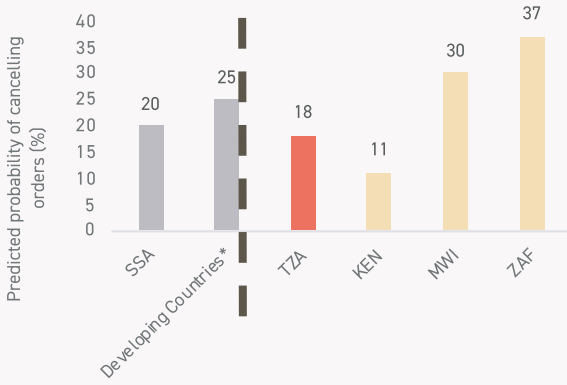
The probability of firms needing adjustments in credit terms is lower in Tanzania than the SSA average.

Figure 43: Probability of adjusting credit terms



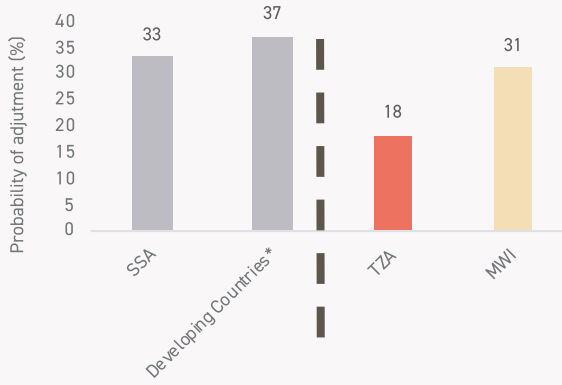
The proportion of firms that cancelled sales orders in Tanzania is lower relative to countries in SSA.

Figure 44: Probability of cancelling sales orders



Relative to firms in other developing countries, those in Tanzania lag behind in the use of digital platforms.

Figure 45: Use of digital technology



Source: World Bank COV-BPS, 2nd round.

*Excluding SSA

ANNEX 2

Selected Economic and Social Indicators

	2016	2017	2018	2019	2020
National Accounts and Prices					
GDP at constant market price (% change)	6.9	6.8	5.4	5.8	2.0
Agriculture	4.8	6.0	3.4	3.5	3.1
Industry	11.7	10.7	9.7	10.3	2.5
Service	6.3	5.3	3.8	4.2	0.9
Inflation (e.o.p)	5.2	5.3	3.5	3.5	3.4
Per capita (in US$)	934	1005	1056	1080	-
Fiscal (% of GDP. fiscal year)					
Revenue and grants	14.8	16.3	15.4	13.5	15.4
Tax and nontax revenue	14.3	15.3	14.6	13.2	14.7
Grants	0.5	1.0	0.8	0.3	0.7
Expenditure and net lending	18.3	17.4	16.6	15.9	16.2
Overall balance (excluining grants)	-4.0	-2.1	-2.7	-2.6	-2.1
Overall balance (including grants)	-3.5	-1.1	-1.9	-2.3	-1.4
Financing	3.5	1.5	1.9	2.3	1.4
Foreign financing (net)	1.4	1.6	1.4	0.9	1.1
Domestic financing (net)	2.1	-0.1	0.1	2.4	0.3
Money and Credit					
M3 (% change)	3.4	8.0	4.5	9.6	6.0
Credit to private sector (% change)	7.2	1.7	4.9	11.1	8.8
External sector (US$ million unless otherwise)					
Exports (goods and services)	9,341	8,343	8,460	9,659	8,809
Imports (goods and services)	11,597	9,592	10,201	10,362	8,908
Gross official reserves	3,870	5,900	5,045	5,568	4,768
(months of imports)	4.0	7.5	6.3	6.5	5.6
Current Account Balance (% of GDP)	-6.5	-3.4	-3.3	-1.9	-0.9
Exchange rate(Tsh/US$; e.o.p)	2,179	2,230	2,281	2,288	2,299
Debt Stock and Service					
Total public debt (% of GDP)	34.4	37.7	39.7	39.6	40.6
External debt (public sector. % of GDP)	24.5	25.9	27.7	29.0	29.7
Domestic public debt (% of GDP)	9.9	11.8	12.0	10.6	10.9
Doing Business Indicators					
Easy of Doing Business Rank (out of 189/190)	132	137	144	141	-
Easy of Doing Business Score (out of 100%)	53.9	54.0	54.3	54.5	-
Poverty Indicators					
Basic Needs Poverty Line/1 = TZS 36.482	-	-	26.4	-	-
Food Poverty Line/1 = TZS 26.085	-	-	8.0	-	-

Note /1 Monthly expenditure per adult.
Source: Tanzania authorities, IMF, and World Bank Staff.

Photo: Miguel Saldarriaga

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ENDTNOTES

1 A new 2021 joint IMF-World Bank DSA is under the preparation and expected to be completed in Fall 2021.
2 World Bank (2021).
3 Based on a national poverty line of 49,320 Tanzanian shillings per adult equivalent per month in 2018 or TZS 52,986 in 2020, which is equivalent to about US$1.35 per person per day in purchasing-power-parity terms.
4 Based on an analysis of the Household Budget Survey 2018.
5 The new joint World Bank-IMF DSA is under the preparation and expected to be released before 2021 Annual Meetings.
6 Bank of Tanzania Annual Report 2019/20.
7 Bank of Tanzania. Economic Bulletin for the Quarter Ending September 2020 Vol. LII No. 3.
8 Summary of Assessments of COVID-19 on Zanzibar Economy, May 2020. Planning Unit, Ministry of Finance and Planning, Zanzibar.
9 The Zanzibar poverty line is TZS 47,541 per adult per month, which is equivalent to US$1.35 per person per day in purchasing-power-parity terms, similar to the poverty line for mainland Tanzania, and significantly below the international extreme poverty line of US$1.90 per person per day. The poverty rates for both Zanzibar and mainland Tanzania at the international extreme poverty line are estimated to be roughly double the rates at the national poverty lines.
10 World Bank (2021).
11 The approved budget for 2021/22 target fiscal deficit of 1.8 percent of GDP, total expenditures of 17.6 percent of GDP, and domestic revenue and grants of 15.8 percent of GDP. The deficit will be financed largely by domestic borrowing (1.1 percent of GDP). Recurrent expenditures are programed at 9.8 percent of GDP while development expenditures are programed at 8.0 percent of GDP.
12 Tanzania's national poverty line is equivalent to US$1.35 per person per day in purchasing-power-parity terms, well below the international extreme poverty line of US$1.9 per person per day. See supra note 11.
13 These recommendations are aligned with the findings and recommendations of Tanzania Joint Private Sector Diagnostics (forthcoming).
14 2019 World Economic Forum, Travel and Tourism Competitiveness Index Report
15 UNWTO
16 World Bank, 2015.
17 UNWTO Panel of Tourism Experts, January 2021.
18 University of Copenhagen, State University of Zanzibar: https://www.coursera.org/lecture/sustainable-tourism/the-impact-of-covid-19-on-the-tourism-in-zanzibar-0og3y
19 Tourism MSMEs: UNWTO Tourism and COVID in SIDS; ILO
20 https://www.thecitizen.co.tz/tanzania/news/-tourism-industry-treads-rocky-path-to-recovery-3237246
21 World Bank: Boosting Inclusive Growth in Zanzibar. Project Appraisal Document. 2020.

Photo: Stevie Mann

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