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Human Development
Report 2022/23

Financing for Development: Opportunities and Options for Enhancing People-centered Development

TANZANIA HUMAN DEVELOPMENT REPORT **2022/23**

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Financing for Development:

Opportunities and Options for Enhancing People-centered Development

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Foreword

Since 1990, the United Nations Development Programme (UNDP) has produced a series of global Human Development Reports (HDRs) that analyze and propose ways for countries to advance human development. Each global report has explored a different theme, but all are underpinned by the Human Development Approach, which aims to put people's lives and well-being at the centre of development policies and programmes. Through consultation, the reports advocate for timely, evidence-based interventions to support sustainable development, good governance and peacebuilding as well as climate and disaster resilience, while addressing the impacts of global imbalances, evolving geo-political developments and unforeseen events on human development across countries. In addition, UNDP has actively supported the production of various regional and national human development reports, which bring together national and international expertise, in close collaboration with government structures, to scrutinize critical human development gaps and devise practical measures to increase and protect social spending.

From independence in 1961, public policy in Tanzania has placed human development at the centre of economic development. Since 2000, following the period of structural adjustment programmes, the Government has emphasized the importance of socio-economic transformation to drive poverty reduction and achieve the aspiration of the Tanzania Development Vision to become a competitive, semi-industrialized, middle-income country by 2025. Most recently, a long-term perspective plan (LTPP) was formulated to steer efforts towards Vision 2025. In turn, the LTPP has been implemented as a series of three five-year development plans (FYDPs) which seek to nurture industrialization *with* a high level of human development. Vision 2025 and all accompanying plans and strategies maintain a people-centered approach. The Government continues to strive to translate Tanzania's impressive macroeconomic performance into better livelihoods and more inclusive human development outcomes.

With support from UNDP, the Government has produced a series of three Tanzania Human Development Reports (THDR), each with a pertinent theme to inform national development. *THDR 2014: Economic Transformation for Human Development* examined the character of growth required to achieve the ambitious goals of Vision 2025. Along with economic growth, the Government recognizes the need to transform the structure of the economy from one that is predominantly reliant on the export of agricultural and mineral commodities to one that is driven by value-added industrial outputs and services. The report emphasized that the transformation process required improvements in productivity while ensuring that disadvantaged populations and areas of the country were enabled to contribute to national growth through the creation of decent jobs, income growth and the provision of goods and services to meet their basic needs. In turn, *THDR 2017: Social Policy in the Context of Economic Transformation* investigated the vital links and synergy between social and economic policy within Tanzania's ongoing transformation to protect and expand the resources allocated for social provisioning. The report cogently argued that social policy is not only an end but a strategic means to achieve sustained growth with human development.

THDR 2022: Financing for Development: Opportunities and Options for Enhancing People-Centred Development builds upon the analysis of the two preceding reports. It explores the scope for expanding the mobilization of financial resources to support Tanzania's ongoing economic transformation, safeguard and expand the country's gains on human development, and finance measures to counter the adverse effects of climate change and regional- and global-scale conflicts. The turbulence and instability arising from these complex issues are already negatively impacting world food and energy prices as well as trade and investment flows, and these effects are more serious for aid- and commodity-dependent countries like Tanzania.

Given the global uncertainty, the analysis of THDR 2022 prioritizes domestic resource mobilization (DRM). On the one hand, growth-promoting investments, for example, investments in basic national infrastructure, provide a foundation for income growth and expansion of the tax base. The expansion of basic infrastructure through which livelihood activities can take place also increases the 'inclusiveness' of growth. In turn, an expanded tax base allows for improved DRM and reduces reliance on domestic and foreign borrowing. On the other hand, spending on human development ensures a healthy and productive workforce which improves the efficiency of growth-promoting investments.

While at a higher public-sector level the relative allocation between growth-promoting investments and social spending is mediated through the budget process, additional effort in resource mobilization is directed at: (i) more 'inclusion-promoting' interventions to expand the role of the private sector in the financial sector; (ii) better use of international multi-stakeholder assistance that address human development causes; and (iii) exploration of ways to introduce emerging/innovative financing mechanisms. The proposed mechanisms involve combinations of the public sector, international development and financial institutions, domestic and foreign corporate players, and civil society and philanthropic organizations that share compatible views on the significance of economic, social, and environmental sustainability when making investment decisions.

The report emphasizes the importance of raising the levels of resource mobilization from the proposed new (alternative) financing mechanisms to support significant increases in spending on human development interventions in the third national Five-Year Development Plan 2021/22–2025/26 (FYDP III).

Acknowledgment

UNDP and the Government of the United Republic of Tanzania reaffirm their ongoing commitment to work together to devise ways of mobilizing resources for people-centred development. This report is a collective effort by UNDP and the Tanzanian Government. It was coordinated by the President's Office - Planning Commission(POPC) with expert assistance provided by the planning and policy departments of social sector ministries. Other key inputs to the report were drawn from experts in UNDP and Think Tanks. The main institutions involved were the National Bureau of Statistics (NBS), the Institute for Rural Development Planning (IRDP), Economic and Social Research Foundation (ESRF), University of Dar es Salaam (UDSM), University of Dodoma (UDOM) and Research on Poverty Alleviation (REPOA).

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Abbreviations

AAAA	Addis Ababa Agenda for Action
ADB	Asian Development Bank
AfDB	African Development Bank
CHF	Community Health Fund
DCF	Development Cooperation Framework
DFA	Development Finance Assessment
DPs	Development Partners
DRM	Domestic Resource Mobilization
DSA	Debt Sustainability Analysis
EAC	East African Community
EYS	Expected Years of Schooling
FDI	Foreign Development Investment
FYDP	Five-Year Development Plan
GDI	Gender Development Index
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GER	Gross Enrolment Rate
GII	Gender Inequality Index
GPI	Gender Parity Index
HDA	Human development approach
HBS	Household Budget Survey
HDI	Human Development Index
HDR	Human Development Report
ICT	Information and Communications Technology
IDFIs	International Development Financing Institutions
INFF	Integrated National Financing Framework
LGAs	Local Government Authorities
MSEs	Micro- and Small-sized Enterprises
MSMEs	Micro-, Small- and Medium-sized Enterprises
MDAs	Ministries, Departments and Agencies
MPI	Multidimensional Poverty Index
MTEF	Medium-term Expenditure Framework
MYS	Mean Years of Schooling
NBS	National Bureau of Statistics
NER	Net Enrolment Rate
NHIF	National Health Insurance Fund
ODA	Overseas Development Assistance
PTR	Pupil-Teacher Ratio
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SMEs	Small- and Medium-sized Enterprises
SPV	Special Purpose Vehicle
TDV	Tanzania Development Vision
THDR	Tanzania Human Development Report
TZS	Tanzania Shillings
U5MR	Under-Five Mortality Rate
UNDP	United Nations Development Plan
URT	United Republic of Tanzania
US$	United States Dollars
WHO	World Health Organization

Executive Summary

Tanzania and the Human Development Approach

People are the real wealth of a nation. The basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This may appear to be a simple truth. But it is often forgotten in the immediate concern with the accumulation of commodities and financial wealth. - (UNDP 1990: 9)

In 1990, the first global Human Development Report introduced the Human Development Approach (HDA) as a new way of understanding and advancing human well-being. The HDA views development as a process of enlarging people's choices, expanding their freedoms, and enhancing their capabilities. It encourages governments and policymakers to look beyond monetary metrics of poverty and pay greater attention to the things that people intrinsically value, such as high-quality schools and health services, secure housing, clean drinking water, improved sanitation, reliable electricity, and safe and peaceful communities.

In Tanzania, the pursuit of human development has been central to the country's development process since independence in 1961. The late Mwalimu Julius Nyerere, Tanzania's first President, identified poverty, ignorance and disease as the main development challenges facing Tanzania. He argued that freedom and development are intimately linked, and that all development must be people-centred. Today, 60 years on, the Government of Tanzania is implementing its third national Five-Year Development Plan (FYDP III) 2021/22–2025/26, which seeks to realize the goals of the Tanzanian Development Vision 2025 to build a competitive, semi-industrialized economy with a high-level of human development, thereby endorsing Tanzania's commitment to the integrated and indivisible goals of the 2030 Agenda for Sustainable Development and the African Union's Agenda 2063.

The Tanzania Human Development Report (THDR) 2022

The Tanzania Human Development Report (THDR) 2022 is the third in a series of national reports for Tanzania produced in collaboration with the United Nations Development Program (UNDP). As for the two preceding reports published in 2014 and 2017, the opening chapter of THDR 2022 examines the current status and trends in human development in Tanzania, including the Human Development Index (HDI), Multidimensional Poverty Index (MPI), Gender Development Index (GDI) and Gender Inequality Index (GII) as well as an analysis of the key components and drivers of human development and multidimensional poverty. The analysis shines the light on areas where low human development continues amidst the country's improving macroeconomic performance.

The status chapter is followed by three chapters focused on the theme of this year's report, "financing for development." To support the country's development agenda and improve the lives and the well-being of all Tanzanians, diverse sources of finance will be required—public and private, domestic and external, traditional and emerging. In particular, domestic financing capacity needs to be bolstered. Both Agenda 2063 and the financing strategy for the East African Community (EAC) Vision 2050 urge African states to mobilize a greater share of financing from domestic sources—by an estimated 75 percent to 90 percent—and act to curb illicit financial flows, improve efficiency, and reduce waste and leakages. External sources, such as foreign direct investment (FDI) and official development assistance (ODA), will be required to fund the remainder. In addition, there are global partnerships for selected country-driven priorities, for example, the Global Environment Facility (GEF), which provides finance for environmental issues, the Global Alliance for Vaccines and Immunization (Gavi), and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

But the report also encourages the Government to take full advantage of a growing number of emerging mechanisms that are supportive of specific human development causes as well as social and environmental sustainability. Countries like Tanzania that are commodity-dependent and, until now, have received substantial foreign aid will need to learn and understand the working arrangements for these new mechanisms—which bring together domestic and foreign governments and the private/corporate and civil society sectors in partnership—and build its capacity to organize and coordinate the different actors involved.

Status and Progress of Human Development in Tanzania

Human Development Indices (HDI, GDI, GII and MPI)

Tanzania has made significant progress in human development evidenced by the improvement in its HDI score from 0.371 in 1990 to 0.549 in 2021, an increase of 48 percent over this 30-year period. Globally, Tanzania is ranked 160 out of 191 countries in 2021 and is on the cusp of transitioning to the medium human development group. The country's score is above both the average for countries in the low human development group (0.518) and for Sub-Saharan African countries (0.547). Compared with neighbouring states in East Africa, Tanzania's HDI rank is below Kenya (ranked 152 globally with a HDI value of 0.575) but above Rwanda (ranked 165 with a HDI value of 0.534) and Uganda (ranked 166 with a HDI value of 0.525).

All three components of the HDI score—health, knowledge and standard of living—have improved since 2015. Life expectancy at birth has increased from 64.7 years in 2015 to 66.2 years in 2021. Expected years of schooling has risen from 8.5 years in 2015 to 9.2 years in 2021, and mean years of schooling has increased from 5.8 years to 6.4 years over the same period. In terms of income, GNI per capita (constant 2017 PPP$) has increased from US$ 2,061 in 2011 to US$ 2,694 in 2019, before falling slightly to US$ 2,664 in 2021 due to the impact of the Covid-19 pandemic and accompanying global economic recession. Significantly, based on the improvement in GNI per capita, in July 2020, the World Bank announced that Tanzania had been upgraded from a low-income to a lower-middle-income country.

However, analysis of localized HDI scores calculated for this report reveal stark and persistent disparities in human development outcomes across the 26 administrative regions of Tanzania Mainland.[1] For example, Kilimanjaro region in the north-east of the country recorded the highest localized HDI score (0.759), while Kagera region located in the north-west of the country recorded the lowest localized HDI score (0.445).

Due to the lack of new indicator data, localized scores for the Multidimensional Poverty Index (MPI) were not calculated for THDR 2022. However, data from UNDP's latest global report indicates that multidimensional poverty in Tanzania has declined from 0.335 to 0.284 between 2016 and 2022. In contrast to the results for HDI, Tanzania has higher rates of multidimensional poverty than its peers in East Africa. Apart from Burundi, whose MPI score is 0.409, other EAC countries have lower MPI scores than Tanzania: Uganda (0.281); Rwanda (0.259); and Kenya (0.171). Over the period from 2016 to 2022, the multidimensional poverty headcount in Tanzania declined from 66.4 percent to 57.1 percent, while the share of the population living in severe multifaceted poverty declined from 32.1 to 27.5 percent over the same period.

Results for both the Gender Development Index and Gender Inequality Index indicate slowing progress in closing the gender gap in human development in Tanzania in recent years. Between 2015 and 2021, the GDI improved marginally from 0.936 to 0.943. The disaggregated data for the GDI, show that Tanzania is doing well in closing the gender gap in life expectancy and in access to education, but GNI per capita for women (US$2,247) is still significantly lower than for men (US$3,092). The GII—which is a broader measure of gender-related inequalities—also improved slightly from 0.569 in 2015 to 0.560 in 2021.[2] Component data for the GII indicate that maternal mortality rate remains stubbornly high and women's access to secondary education, labour force participation and representation in political decision-making positions all still lag that of men.

Drivers of human development in Tanzania

As done in preceding reports, THDR 2022 analysed key indicators that underpin the state of human development in Tanzania. Notable findings are summarized in the sub-sections below.

Income poverty

Based on headcount data from the most recent Household Budget Survey (HBS) 2017/18, the rates of basic needs poverty and food poverty in Tanzania have both declined. The basic needs poverty rate declined from 28.2 percent in 2011/12 to 26.4 percent in 2017/18 and is projected to have fallen to 25.7 percent in 2020. Food poverty also fell from 9.7 percent in 2011/12 to 8.0 percent in 2017/18 and is projected to have fallen to 7.3 percent in 2020. As found in THDR 2017, poverty is much more common in rural areas than urban areas. In 2017/18, the incidence of basic needs poverty was 31.3 percent in rural areas of Tanzania, almost twice the percentage of 15.8 percent in urban settings.

At the present rates of decline in poverty incidence, Tanzania is on target to achieve the 5.8 percent target set for food poverty in FYDP III but will not meet the corresponding target of 22 percent for basic needs poverty. Additionally, although the percentage of the

[1] Due to differences in indicator data used to calculate localized HDI scores, they are not comparable with HDI scores in the global Human Development Report.

[2] The Gender Development Index (GDI) is the ratio of the female to male HDI and is used as a measure of the gap between men and women in human development. The aim is to attain the GDI value of 1, which indicates perfect equality between men and women with respect to human development outcomes. In contrast, the Gender Inequality Index (GII) is measured between 0 and 1; the closer that the GII approaches zero, the lower the inequality between men and women.

population in poverty is falling, the country's strong population growth means that the total number of people in poverty is increasing over time. In 2017/18, an estimated 15 million Tanzanians were experiencing basic needs poverty compared with 13 million Tanzanians in 2011/12, indicating that the country's remarkable economic growth over the last decade has not been sufficiently pro-poor to facilitate the trickle-down effect of poverty reduction.

Health

Child mortality and nutrition are two key indicators for determining a country's multidimensional poverty level and overall human development. Despite significant progress in recent decades, childhood mortality in Tanzania remains high. The under-five mortality rate (U5MR) has declined by 27% over the last five years from 67 deaths per 1,000 live births in 2015/16 and to a projected 49 deaths per 1,000 live births in 2020, while the neonatal mortality rate (i.e., the probability of a child dying in the first 28 completed days of life) has shown a more gradual improvement from 25 deaths per 1,000 live births in 2015/16 to a projected 20 deaths per 1,000 live births in 2020. Improvements in health service delivery, such as antenatal care, malaria prevention and routine immunization, have driven the declines in childhood mortality. However, given that newborn deaths now account for approximately 40% of all deaths of Tanzanian children under five years, further reductions in childhood mortality will depend upon improvements in maternal and infant care during labor and delivery and after birth. Improvements in perinatal care will also be crucial for bringing down the maternal mortality rate which remains very high at 524 deaths per 100,000 live births in 2020/21.

Under the human development approach, nutritional deprivation is considered a form of injustice, therefore, child nutrition is one of the key non-income indicators used to calculate the MPI. Again, despite improvements, rates of under-nutrition among Tanzanian children remain a serious and widespread concern. The most recent Tanzania National Nutrition Survey in 2018 found that 14.6 percent of children under five years of age were underweight (up from 13.4 percent in 2014) and 3.5 percent of under-fives suffered from wasting—a sign of acute malnutrition (down from 3.8 percent in 2014). Nutritional status also varied widely by region. For example, the prevalence of stunting (height-for-age) among under-fives was equal to or greater than 30 percent in 15 out of the country's 26 regions, which is the level categorized as "very high" according to the new 2018 UNICEF-WHO classification. Nationally, approximately 32% of Tanzanian children under five were undernourished in 2018.

Education

Education is another key driver of human development, hence, a core dimension of both the HDI and MPI. A sound education gives individuals the knowledge and skills for entering the workforce, securing decent employment, and leading full and fulfilled lives.

Adult literacy rates have plateaued in recent years; the HBS 2017/18 found that 77.6 percent of adults Tanzanians (aged 15 years or over) were able to read and write a short or straightforward statement in Kiswahili, English or both, up marginally from 77.2 percent in 2011/12. Marked disparities in literacy rates were also found by place of residence, gender and region. For example, 83.2 percent of adult males were literate compared with 72.7 percent of adult females, and the literacy rate recorded in Dar es Salaam region was 94.2 percent compared to 62 percent in Katavi region, which had the lowest rate in the country.

National education indicators, particularly school enrolment, show an upward trend at primary and secondary levels. However, enrolment at higher levels of education has fluctuated, while the quality of education at all levels remains a significant challenge. In 2016, the Government of Tanzania introduced fee-free primary education. As a result, the HBS 2017/18 reported that the gross enrolment ratio (GER) for primary school among children aged 7 to 13 years in Tanzania Mainland stood at 100.9 percent, and the corresponding NER was 83.4 percent up from 77.4 percent in 2011/12. In 2020, the Gender Parity Index (GPI) in primary school was 1.01—i.e., enrolment numbers by sex were nearly the same—highlighting the success of the government's efforts to attain equality of access to education. However, the pupil-teacher ratio nationally has increased substantially from 42 students per teacher in 2016 to 56 students per teacher in 2020. This decline is attributed to the decrease in the total number of teachers from 206,806 in 2016 to 194,736 in 2020, due to government efforts to ensure all teachers recruited had valid teaching certificates. But such large class sizes can severely affect the quality of education provided to individual students.

On a positive note, significantly more pupils are completing primary school. The primary survival rate was 81 percent in 2019 up from 49 percent in 2016. By sex, more girls (84 percent) than boys (78 percent) were finishing their primary education. In addition, the GER for lower secondary increased from 36 percent in 2016 to 44 percent in 2020, indicating that more students are transitioning from primary to secondary education.

Living standards

To measure people's living standards, the MPI assesses six household-level indicators: availability of clean and safe water, access to sanitation facilities, ownership of assets, type of cooking fuel used, access to electricity, and type of flooring in the dwelling. Recent trends for these indicators are encouraging but much remains to be done to improve living standards for the majority of Tanzanians. For example, the percentage of households with access to improved sources of drinking water (in the dry season) increased from 61 percent in 2011/12 to 73 percent in 2017/18. However, use of unimproved sanitation facilities—with their attendant health risks—remains very high. HBS 2017/18 indicated that more than half (54 percent) of all households in Tanzania Mainland still use unimproved sanitation facilities and about 6 percent have no toilet facility. Poor sanitation is far more prevalent in rural areas.

HBS 2017/18 also found that three-quarters of households in Tanzania owned their dwellings, and the use of modern materials for house construction (for roofs, walls and floors) and ownership of modern assets (especially mobile phones, motorcycles and televisions) has increased significantly. Overall, the marked improvements in housing conditions and asset ownership over the six-year period from 2012 to 2018 have been an important driver of well-being and human development in Tanzania. Access to electricity—a priority area for FYDP III—has also improved but greater efforts will be needed to reach the target of connecting 60 percent of households to electricity by 2025/26 up from the current level of household connectivity of 40 percent in 2020.

Financing for Human Development in Tanzania

As found in Chapter 1, many indicators of human development in Tanzania remain low by global standards. Despite good progress over the last ten years, increasing and sustained investments in people, infrastructure, technology, and broader social change will be required to transform lives. This will depend upon identifying, securing, mobilizing and allocating sufficient financing for development. To contribute to this effort, THDR 2022 explored the concept and trends of financing for development with the aim to inform the implementation of FYDP III with its goals to create an inclusive, competitive semi-industrialized economy, increase the coverage, equity and quality of public services, expand critical infrastructure (transport networks, water, power and ICT), and achieve a high-level of human development.

The report considered all potential development financing options as proposed in the Financing Strategy for FYDP III a well as the *Tanzania Development Finance Assessment 2021 (DFA)*, a national-level situation analysis, supported by UNDP, to assist the Government to establish and manage different sources of finance for the SDGs through integrated national financial frameworks (INFFs). This exercise was guided in the first place by the realization that domestic sources of finance alone were inadequate and official development assistance (ODA) as a proportion of the total resource envelope had declined from nearly 30 percent in 2010/11 to less than 10 percent in 2019/20. This decline in ODA also coincided with the rise in external non-concessional borrowing—and a decline in concessional loans, which are likely to drop further since the country graduated to lower-middle-income status in July 2020. All of these trends underline the need to increase reliance on domestic revenue efforts along with the prudent use of external financing.

The national debt, which comprises external debt (public and private) and domestic debt, has increased over the last five years. As of the end of June 2020, the total national debt stood at USD 29,675.6 million, which is equivalent to 47.4 percent of GDP in nominal terms. On average, the external debt hovers around 77 percent and domestic debt at 23 percent of Tanzania's total national debt over the past five years. Domestic debt is primarily used to finance development projects. In Tanzania, borrowing is predominantly through the issue of government bonds; in 2018/19, bonds accounted for 66.2 percent of total domestic borrowing rising to 72 percent in 2019/20. Based on the latest debt sustainability analysis (DSA) completed in 2021, Tanzania's debt burden is within 'sustainability thresholds.' This implies that Tanzania may continue to borrow from domestic and foreign sources and to service those debts, but it is imperative to act beyond domestic resource mobilization measures and promote new productive investment activities, given the country's growing population and extensive natural resources.

Key messages

The following key messages and recommendations emerged from the analysis in the THDR to optimize the resources available for Tanzania to finance national development and continue to improve the human development outcomes for its growing population.

Strengthen public finance and build capacity in public investment management

Under the leadership of the President's Office - Planning Commission, the priorities for FYDP III have been aligned with the SDGs and a National SDG Coordination Framework was set up in March 2022 to provide top leadership and coordination on implementation, monitoring and reporting on SDGs.

Going forward, public finance measures and reforms will be required to integrate national priorities and the SDGs into the budget process and budget execution—including procurement and monitoring (reporting and auditing activities)—across all key stakeholders. Key recommendations for the Government to strengthen public finances are as follows:

- *Ongoing reform of the taxation system to enhance efficiency and effectiveness in the collection of tax and non-tax revenue.* Tax laws and regulations will need to be reviewed and new measures implemented as economic circumstances demand. The Government will need to continue to build the capacity of the Tanzania Revenue Authority and local government authorities (LGAs) to collect revenue and monitor tax evasion, including ongoing expansion of automated systems of collection and use of ICT to improve security, harmonization and institutional coordination. Further rationalization and consolidation of existing taxes, levies and fees—and the setting of stable rates—will simplify collection, increase transparency, reduce taxpayer compliance costs and enable investors to plan appropriately. The review and reform of collection modalities should encompass ways to promote voluntary compliance and establish a simple but secure integrated collection system.
- *Optimize natural resource rents* through regular review, negotiation, revision and updating of existing agreements and contracts to secure a greater (more equitable) share of revenue from the country's natural resources.
- *Optimize government borrowing* through selection of high-impact projects that ensure skills and technology transfer. Prudent economic management will be required to maintain and improve the Tanzania's sovereign credit rating, which, in turn, provides a benchmark for measuring and setting private sector ratings.
- *Enforce spending efficiency and expenditure commitment controls* for development and recurrent expenditures per budget allocation.
- *Support LGAs to formulate new revenue generation strategies* to reduce dependence on subventions from central government and encourage LGAs to take advantage of the recently compiled Regional Investment Guides in Tanzania.

Boosting Tanzania's domestic finances will necessarily require concurrent efforts to strengthen the financial and management skills of officials within responsible national-level ministries, departments and agencies (MDAs) and local authorities. In particular, the analysis identified several important areas to focus capacity-building efforts:

- *Strengthen the capacity of central and local government officials in investment planning and management*, including financial analysis of investments and preparation of professional bankable project documents.
- *Sharpen negotiation and contract management skills* by knowing in advance the financial conditions being offered by different creditors.
- *Promote LGA leadership for local economic development initiatives* working with business enterprises and civil society organizations to promote community-wide, self-help projects that utilize resources within their jurisdictions.
- *Train LGA office holders in the supervision of projects* in partnership with the private sector and the use of ICT-based management information systems in collecting revenues and improving business conditions by making the collection process more transparent.

Enhance domestic private finance

As envisaged in FYDP III, the private sector will have an increasingly important role in providing finance for Tanzania's development. It indicates that the total financing of the private sector for implementation of the Plan will be TZS 40.6 trillion, generated through public-private partnerships (PPPs) and joint ventures (JVs).

The financial sector plays a key role in mobilizing finance for private sector development. In Tanzania, the financial sector is dominated by the banking sub-sector (70 percent), while non-bank financial institutions, including pension funds, insurance companies, and securities exchanges, for example, the Dar es Salaam Stock Exchange (DSE), make up the other 30 percent. The basic source of funds for domestic investment are savings. In Tanzania, banks rely on savings by households and enterprises. These deposits are then used by banks to provide credit to customers (firms and individuals) at lending interest rates.

The banking sector has been expanding following the liberalization of the financial sector in the early 1990s. However, as of 2020/21, only 17 percent of the adult population were using bank services, but this is expected to rise to 33 percent by 2025/26. In particular, micro- and small-sized enterprises (MSEs) as well as low-income and less-advantaged groups, such as youth and women, who cannot meet collateral requirements and other loan conditions, are perceived as risky to do business with, hence, underserved by financial services.

Apart from traditional financing options (e.g., personal savings, bank loans), the Government is encouraging private sector financing through foreign direct investment, joint ventures and public-private partnerships (PPPs). Investors' perceptions of Tanzania's investment climate for industrialization will affect how attractive Tanzania will be to both domestic and foreign investors.

Key recommendations for the Government to attract and expand the financial resources available for development from domestic private finance include:

- *Continue to improve the business/investment climate in Tanzania* by putting in place a stable policy environment for investors (both domestic and foreign), simplifying licensing procedures and reducing compliance costs, creating a fair, transparent and effective incentives system, offering requisite public services and physical infrastructure, and reducing mistrust between public and private sector actors. The private sector is expected to reciprocate with mutual respect and trust and engage in open (transparent) and fair competition practices.
- *Encourage and support the formalization of micro-, small- and medium-sized enterprises (MSMEs),* which has the potential to unleash income generation and tax capacity from this huge but largely under-developed sector of the economy. Public policy towards the informal sector must be designed and implemented in ways that build trust among its participants, i.e., through tangible and transparent incentives to register businesses not high-handedness by authorities.
- *Promote financial inclusion*. Alongside the expansion of agency banking and mobile telephony to more remote areas of the country, the Government should consider partnering with private and civil society actors on awareness-raising campaigns for rural and low-income urban households and small enterprises on accessing banking services and insurance.

Optimize external sources of finance for development

For many years, Tanzania has received significant official development assistance inflows for its recurrent and development expenditures. At present, multilateral institutions are still the country's major creditors followed by bilateral institutions. However, as noted above, ODA as a proportion of the total resource envelope has declined to less than 10% percent in 2019/20. At the same time, concessional sources of finance have declined, meaning that the Government has had to take on more non-concessional external loans. Based on projected borrowing over the duration of FYDP III, non-concessional loans are going to account for 51.2 percent of external finance, followed by project support loans (48.7 percent), while budget support loans will account for only 0.1 percent of total borrowing.

Foreign direct investment (FDI) inflows into Tanzania have also remained relatively low in comparison to Kenya and Rwanda over the past decade. According to the DFA report, FDI inflows slowed to under $1 billion in 2019, but are expected to grow to $1.9 billion by 2025/26. This will depend on the global FDI trend that have been influenced by slow recovery from the pandemic and how long it will take for the current geopolitical tensions to subside as they affect trade and investment flows.

In recent years, (foreign) national and international development finance institutions (IDFIs) or their subsidiaries have supported private sector financing in developing countries. These institutions are normally majority state-owned, obtain capital from their nation states or international development agencies, and enjoy their nation state's guarantee. Known as enterprise challenge funds, these arrangements aim to channel matching funds to support private sector enterprises mainly through equity investments, long-term loans and guarantees. These institutions will be an increasingly important source of finance for social and environmental sustainability issues, and human development and poverty reduction initiatives. Generally interested in the development impact of their financing, IDFIs support local economic growth/development initiatives, job creation, SMEs, trade and other sectors. They bring innovation and know-how and create opportunities for technology transfer, business networking and financial inclusion for excluded populations.

With respect to external sources of finance for development, the following recommendations are offered for Government consideration.

- *Deploy all aid inflows on growth- and/or productivity-enhancing investments*.
- *Work with international multi-stakeholder partnerships to strategically incorporate agreed financing and/or capacity support from development partners into the country's sector plans and budgets*.
- *Actively seek all financial resources and technical support offered through international*

development financial institutions (IDFIs).

- *Increase engagement with new and emerging development partners, including South-South cooperation* to diversify sources of finance and secure the best terms for loans.
- *Continue to access the financial and technical support from active participation in international multi-stakeholder coordination forums that are working to combat money laundering, corruption, drug trafficking, human trafficking and the financing of terrorism.*

Explore alternative/innovative financing sources

Innovative financing sources have the potential to complement traditional sources such as aid, foreign direct investment, and overseas remittances to mobilize additional resources for development and address specific market failures and institutional barriers. Indeed, innovative financing is becoming essential for human development since it strives to eliminate poverty, raise living standards and protect the environment.

Innovative financing instruments can also be used to finance projects that cannot be funded through the government budget or commercial windows, which are expensive. According to an analysis by UNDP in 2012, innovative financing mechanisms depart from traditional approaches by mobilizing development finance through budget outlays from established sovereign donors or bonds issued by multilateral and national development banks exclusively to achieve funding objectives. While on the rise, the actual volumes raised through innovative approaches are still very small, both in absolute and relative terms. And mostly large middle-income (and a few developing countries) have successfully actualized some of these alternative sources of financing. The health and environment/climate sectors have been the primary beneficiaries of globally innovative finance initiatives, for example, the Global Alliance for Vaccines and Immunizations (Gavi). But evidence suggests that innovative development financing can be applied to other human development sectors.

Until now, innovative financing for development has been dominated by bonds and guarantees. These models focus primarily on resource mobilization by leveraging the balance sheets of international financial institutions to make loans to a national government which promised to repay those loans. However, innovative financing has recently encouraged alternative models where private sector actors share the risks and rewards, for example, through results-based financing mechanisms such as performance-based contracts.

As discussed in greater detail in Chapter 3, the Government is determined to fully exploit alternative financing mechanisms that are dedicated to the social and environmental sustainability causes which align with Tanzania's long-term development choices. Instruments with potential for financing human development in Tanzania were identified. These include the bond market, municipal bonds, diaspora bonds, Eurobond, Sukuk and green bonds, crowdfunding, and private equity financing. Other mechanisms described are social and development impact bonds, impact investing, infrastructure bonds, SDG sovereign bonds and blue bonds.

Based on the analysis, the following key actions for the consideration of the Government are proposed:

- *Review the experiences of other countries that have successfully designed and introduced new financing mechanisms* to learn how and where they worked (or failed).
- *Put in place the policy, legal, regulatory and institutional frameworks required for each new instrument.* Sufficient lead time will be needed to enact/formulate appropriate legislation and regulations, ideally, in close consultation with all potential stakeholders for each scheme. Associated risks need to be known in advance and risk mitigation strategies put in place.
- *For each new financing mechanism, national capacity (institutional know-how and technical systems and infrastructure) will need be strengthened to manage and monitor operationalization.* Key players will need to be engaged and work plans developed. Comprehensive financial projections for each source or instrument are also vitally important to ensure that the benefits to the country outweigh the costs and risks involved.
- *Given their relative newness to Tanzania, awareness-raising campaigns will need to be designed and implemented.* A thorough understanding of the instruments, their pros and cons, and the best ways of tapping these sources will be essential to enable their optimal use.

Conclusion

One of the key requirements for the successful and sustainable realization of national and international development plans and frameworks is reliable, predictable, and steady financial resources. However, given the precarious state of the global economy and escalating geopolitical tensions, securing sufficient resources is a difficult challenge. The Government of Tanzania is fully aware of the risks of over-dependence on declining traditional sources of finance.

As part of Tanzania's effort to work out the best approach to financing the country's sustainable development, emerging financing mechanisms and their sources merit attention because they are known to be supportive of human development as well as social and environmental sustainability. In particular, the Government is encouraged to investigate mechanisms that support the goals of the United Nations 2030 Agenda for Sustainable Development and Agenda 2063, and to explore other regional/ global initiatives and partnerships that are focused on promoting human development in health, education, environment and climate change, security and justice.

The Tanzania Human Development Report 2022 explored this important link between 'financing for development' and 'human development' and offered recommendations on how best to integrate financing opportunities for competitive industrialization and human development outcomes as envisioned in FYDP III. As it has amply articulated, the Government needs to ensure that the financed development projects are well-planned, not only as the means to reach the majority of the population in more remote areas but also that the projects have overall multiplier effects on employment and income generation and will enable the country to service its national debt.

Insights from the experiences of other middle-income and developing countries will provide useful lessons for Tanzania as it seeks to partner with the right institutions on the right projects in the right sectors. However, regardless of the experience elsewhere, prudent groundwork and management by the Government will be essential to coordinate the different actors for all financing mechanisms selected—public and private, domestic or foreign, traditional or emerging— and to operationalize and optimize their use in the Tanzanian context.

CHAPTER ONE: STATUS AND PROGRESS OF HUMAN DEVELOPMENT IN TANZANIA

1.1 Introduction

> *Human development is the ultimate aim of any development plan in Tanzania. To catalyse the realization of this long-term endeavour, FYDP III seeks to raise both availability and quality of health, education, skills development, water, nutrition, human settlements development, urban planning, and social security required by an individual and society at large for sustained welfare improvement (URT 2021a: 111).*

The Tanzania Human Development Report (THDR) 2022 explores this important link between 'financing for development' and 'human development' by examining the role and space for alternative financing sources and instruments to enhance both economic growth and human development. It offers recommendations on how best to integrate and optimize financing opportunities for competitive industrialization and human development outcomes as envisioned in FYDP III.

As a foundation for this analysis, this chapter provides a snapshot of the status and progress of human development in Tanzania and examines the progress and trends in key dimensions of human development, including the Human Development Index (HDI) and the Multidimensional Poverty Index (MPI). Other important yardsticks discussed in the report include the Gender Development Index (GDI) and Gender Inequality Index (GII), as well as the headcount and vulnerability to poverty from the most recent Household Budget Survey (HBS). In addition, the chapter outlines key components and drivers of human development and multidimensional poverty in Tanzania. An implicit message of the chapter is that the effectiveness of non-traditional sources of development financing depends on the successful integration of human development concerns in plans and budgets.

1.1.1 The meaning and context of human development

The human development approach (HDA) was first introduced in 1990 with the publication of UNDP's first global Human Development Report (HDR). The report focused on the *'Concept and Measurement of Human Development'* with the explicit purpose of shifting the focus of development economics away from the national income accounting approach toward people-centered policies. The basic tenet of the human development approach is the simple notion that people should be at the center of development and that development must enhance people's choices and improve their well-being. The HDA builds on Amartya Sen's capabilities theory of development, which sees development as expanding people's freedoms and enhancing their capabilities to lead the kinds of lives they value (Sen 1999).

Further, the HDA distinguishes between the *means* for achieving development and development *ends*. It encourages policymakers to look beyond achievements in monetary outcomes and pay greater attention to the ends of development that are intrinsically valued by people. Human development manifests in a long and healthy life, knowledge, and decent living standards. Human development is less about increasing gross domestic product (GDP) per capita and more about removing obstacles to well-being such as illiteracy, ill health, lack of access to resources, lack of civil and political freedoms, and exposure to environmental hazards.

In just over three decades, the HDA has proven to be a powerful conceptual framework for informing policy choices in poverty reduction, sustainable development, addressing gender inequalities, governance, environmental protection, and globalization (URT, UNDP & ESRF 2018). Further, the meaning and emphasis of the HDA have evolved to reflect changes in the challenges facing societies. Underpinning the HDA is the observation that without resolute policy direction, economic growth does not automatically translate into desirable human development (UNDP 2013: 22-23).

1.1.2 Measurement of human development

In this report, the HDI and MPI are the leading indicators used to measure human development. The following sections identify the dimensions and indicators used to calculate each index.

Human Development Index

The HDI was introduced in the first Human Development Report (UNDP 1990). The HDI is a summary measure of a country's average achievement across three basic dimensions of human development:

i) a long and healthy life, as measured by life expectancy at birth;

ii) knowledge, as measured by two indicators—expected years of schooling (EYS) for children, and mean years of schooling (MYS) among the adult population; and

iii) a decent standard of living, as measured by Gross National Income (GNI) per capita in purchasing power parity (PPP) terms in United States dollars.

As such, the HDI can measure the progress and trends in human development within and across countries (and other population groups) to enable the constructive discussion and enhancement of development policies and programs. The three dimensions used in the computation of the HDI in UNDP's global Human Development Reports are presented in Box 1.

Box 1

Human Development Index—Dimensions and indicators

- **HEALTH:** Life expectancy at birth
- **KNOWLEDGE:** Expected years of schooling (EYS) and mean years of schooling (MYS)
- **STANDARD OF LIVING:** Gross National Income per capita in purchasing power parity terms in US dollars

It should be noted that modifications have been made in calculating HDI values for the Tanzania country report compared to the standard HDI in UNDP's global reports. First, the HDI computed for this report is intended to provide an intra-country picture of variations in human development across Tanzania's administrative regions. Therefore, it utilizes data which do not require harmonization for international comparisons, as is the case for the global report. Second, income performance in the THDR is captured by GDP instead of GNI. The modification is necessary as data for measuring GNI at the regional level in Tanzania were unavailable. Nonetheless, GDP provides a good proxy for GNI. Third, educational attainment in the computation of the HDI in the global reports includes two components: EYS and MYS. Again, due to the unavailability of data, the calculation of the education index values for the HDI in this report does not include the MYS indicator. Hence, the education dimension is entirely captured by EYS. For these reasons, the HDI values for Tanzania in UNDP's global reports and those computed for the THDR cannot be directly compared. These differences are considered in the interpretation of the findings in sub-section 1.3.1 of this report.

Multidimensional Poverty Index

For many years, the measurement of poverty was one-dimensional, using income or consumption levels. However, people's perceptions and experiences of poverty extend well beyond income. Frequently, poverty manifests as a lack of education, housing and/or employment, poor health, disempowerment, vulnerability and insecurity. Headline money metric measures of poverty traditionally ignored these multidimensional characteristics of poverty. In response, the Human Development Report 2010 introduced the Multidimensional Poverty Index (MPI), which complements monetary measures of poverty by considering the overlapping deprivations experienced by individuals (UNDP 2010; Dotter & Klasen 2014).

The MPI assesses 10 fundamental indicators (sub-components) of multidimensional poverty across three dimensions (see Box 2).[3]

[3] Tanzania is in the process of developing a localized MPI, known as the National Multidimensional Poverty Index (NMPI). The NMPI is grounded on three dimensions of multidimensional poverty (education, health and standard of living) as is the case of the global MPI. The NMPI is yet to be officially adopted, hence, is not included in TDHR 2022. In addition, due to the lack of new data, this report does not capture regional variations in MPI as done in THDR 2017.

Box 2

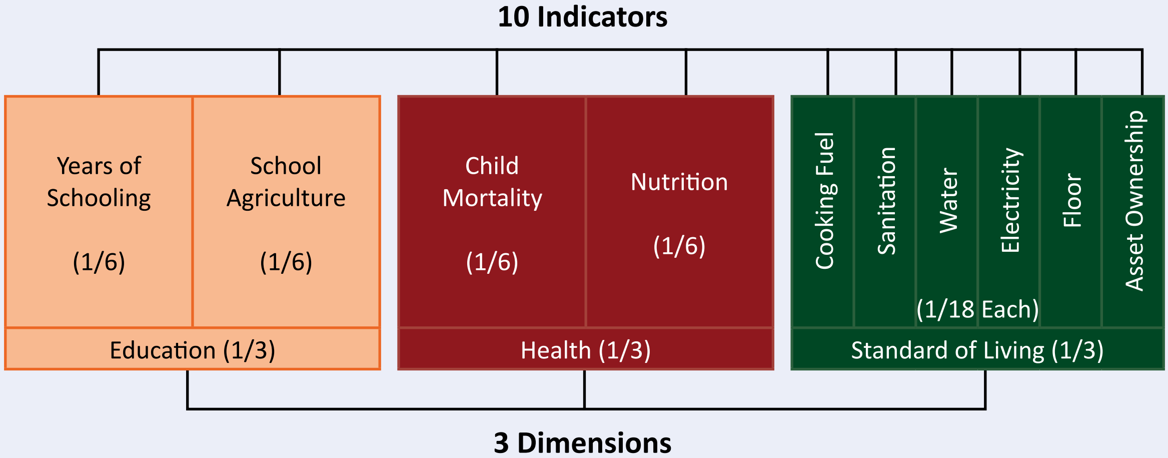
Multidimensional Poverty Index—Dimensions and indicators

The Multidimensional Poverty Index (MPI) measures 10 basic indicators in human development across three dimensions of human development: education, health and standard of living. The indicators for each dimension are:

HEALTH: Nutrition and child mortality

EDUCATION: Years of schooling and school attendance

STANDARD OF LIVING: Cooking fuel, sanitation, availability of clean and safe water, access to electricity, type of floor and ownership of assets.



MPI measures the extent to which individuals are deprived of these three components and subcomponents.

The index measures both the incidence of non-income multidimensional poverty (i.e., the headcount of those in poverty) and the associated intensity of poverty (i.e., the relative number of deprivations that people experience at the same time):

i) The 'multidimensional poverty headcount' refers to the 'percentage of the population with a weighted deprivation score of at least 33 percent, i.e., the percentage of people experiencing deprivations in 33 percent or more of the 10 weighted indicators.

ii) The 'population in severe poverty' refers to the 'percentage of the population with a deprivation score of 50 percent or greater', i.e., the percentage of people experiencing deprivations in 50 percent or more of the 10 weighted indicators.

Through these weighted measures of deprivation, the status of the population below the poverty line can be more comprehensively understood and addressed. If data are available, results can be produced by region, ethnicity and other groupings as well as by dimension and indicator, making it an invaluable tool for policy makers. By identifying people experiencing the greatest intensity of poverty, the MPI can contribute to the effective allocation of resources and the monitoring and evaluation of policy interventions. Findings can also strategically address specific Sustainable Development Goals (SDGs). The MPI can also be adapted to the national level using indicators and weights relevant to regional or country contexts. It can be adopted for national poverty eradication programs and used to study changes over time.

1.2 Tanzania and the Human Development Approach

The defining traits of human development have remained at the heart of Tanzania's development policy since independence. Former President, Julius Nyerere, taught the nation that *"the purpose of all social, economic and political activity must be Man…"* and human equality implied *"…equal rights to a decent life, equal right to take part in Government and equal responsibility to work and contribute to the society to the limit of one's ability"* (International Labour Organization (ILO)/Jobs and Skills Programme for Africa (JASPA) 1982: i).

This people-centered notion of development survived through Tanzania's socialist period with its foundation on Nyerere's *Ujamaa* ideology. Similarly, it was a central premise within the 'basic needs' strategy of the ILO/JASPA towards the end of the 1970s and early 1980s. Perhaps most noteworthy, is that this articulation of human development—as progress toward overcoming poverty and inequality, and realizing the rights of people to decent employment and participation in decision-making as both a means and an end in meeting their basic needs—has tenaciously persisted in Tanzania even through the era of structural adjustment and into the current period of market-oriented reforms.

The 'basic needs' strategy proposed how countries in Africa could respond to and avert the negative impact of the economic crises that set in towards the end of the 1970s on the gains made on the 'basic needs components', which were (then) defined to include health, education, water, sanitation, shelter, transport and participation. 'Basic needs' have continued to feature in one form or another in all national development frameworks, with resources for implementation negotiated in the budget process. *Human development* is more encompassing and more holistic than *human resource development*, which treats human beings as 'human capital' or as a means of production, or *basic needs*, which covers only a subset of minimum requirements but does not include people's choices (Government of Bangladesh 2021: 53).

The economic difficulties that built up towards the end of the 1970s due to internal policy lapses and a slump in world commodity markets forced several developing countries, including Tanzania, to adopt structural adjustment programs (SAPs). Concerned at perceived gross mismanagement of public finances, poor exchange rate and trade policies in protecting import substitution, excessive government intervention, costly subsidization of urban consumers at the expense of rural areas, and corruption in many of the developing countries of Africa, the International Monetary Fund (IMF), the World Bank (WB) and donor nations recommended a reduced State role in economic activity, cuts in public sector workforce and privatization of loss-making public enterprises to reduce deficit financing, reduce regulation and open up economies to market forces (Heidhues & Obare 2011; Ndulu & van de Welle 1996; Taylor 1991; Wangwe 1991). Amidst adjustment and stabilization, at least one concern soon arose which showed sensitivity to human development, i.e., the claim that SAPs did not pay adequate attention to the social dimensions and institutional weaknesses of many developing countries (Heidhues et al. 2011). Consequently, in 1987, the World Bank initiated the Social Dimensions of Adjustment (SDA) to address the adverse effects of SAPs on poor population groups, especially in Sub-Saharan Africa (Taube 1993). This led to calls in the 1990s for the limited public funds available to be focused on improving conditions of the poor to allow them access to critical social services—so called 'adjustment with a human face'—with the State taking a more visible role in guiding the process.

In this light, affected States, especially heavily indebted poor countries (HIPCs), were required to prepare development frameworks, referred to as Poverty Reduction Strategy Papers (PRSPs), as one of the preconditions to receive foreign aid. Under the PRSP approach, countries had to budget more for social services and environmental protection. This was the case for Tanzania's first three-year PRSP from 2000/01 to 2002/03 (URT 2000). In subsequent iterations of the PRSP approach—known as the National Strategy for Growth and Reduction of Poverty (NSGRP) Phases I and II—stimulating economic growth was given added weight in recognition of the potency of growth in raising incomes and expanding future taxable capacity (URT 2005; 2010a). Higher incomes would not only enable the country to repay debts but also increase domestic revenue that would, in turn, increase resources for human development. Social protection as an important outcome of public policy gained ascendancy.

Over the last 15 years, the Government of Tanzania has returned to 'development planning' through a series of three five-year development plans under the Long-Term Perspective Plan (LTPP) (2012–2025) (URT 2012a). The LTTP places explicit emphasis on growth-oriented investments but continues to articulate the goals of human development as demanded by Vision 2025.

Directing resources toward growth-oriented investments, such as infrastructure to open up remote rural areas, promotes both economic growth and inclusion (Asian Development Bank [ADB] 2012). Tanzania still ranks low on basic infrastructure indicators. For instance, in 2018, Tanzania ranked 43rd out of 54 African countries on the *Composite Africa Infrastructure Development Index* (African Development Bank [AfDB] 2018). This index includes electricity, transport, ICT, and water and sanitation. Investment to expand these networks facilitates the provision of social services and reduces spatial (regional) inequalities. It catalyzes multiple income-generating activities from which financial resources are generated for spending on human development. However, investments in such key SDG-related areas as critical infrastructure for transport, energy, water and ICT may not be realized without concerted efforts to mobilize extra financing from domestic, foreign, and public and private sources.

Financing for development, therefore, entails mobilizing more (total) financial resources and allocating them between economic growth-oriented and human development-oriented interventions aiming *"…to create virtuous circles where growth and social policies reinforce each other"* (UNDP 2013: 5).

The concern for human development is understandably heightened by the discomforting poverty levels and inequalities, looming environmental deterioration, and shocks and stresses. For developing countries, including Tanzania, the urgency in securing extra financial resources is driven by the risk of loss of progress in the face of the unfolding climate crisis and increasing human activities that negatively impact the Earth's ecosystems. Further, global-scale shocks such as the Covid-19 pandemic and near-world-scale armed conflicts and other geopolitical tensions have cut down on trade, foreign investments and aid inflows. All these factors negatively impact the capacity of commodity-exporting developing countries to sustain even modest gains in human development. As a result, poor developing countries have experienced shrinking economic activity, slow or no growth in jobs, reduced customs revenue and export earnings, and rising fiscal deficits and public debts, notably the rising cost of debt servicing (Nair et al. 2021).

Yet the temptation to set aside (arguably) disproportionately more to human development can fan fears of constraining the capacity of the economy to grow and create more future resources. Therefore, diverse sources of finance and strategies for better resource mobilization are required. The natural first option is domestic resource mobilization and this report duly recommends actions for improving domestic revenue collection. Strategies are also informed by emerging alternative financing mechanisms—also referred to in the literature as 'innovative' sources of finance—that could be tried in developing countries including Tanzania. Implementing FYDP III, which has integrated the SDGs, would, at the minimum, consider devising far-reaching improvements in the following areas:

i) Domestic revenue sources, which include: traditional sources channeled through national budget and revenue (policy) measures devised to increase efficiency in collection and fairness in allocation; other sources to expand the tax base; and the traditional foreign aid modality, subject to evolving global socio-political relationships.

ii) Improving the financing capacity of the private sector to increase the total level of investment in the country, alleviate unemployment, expand output and incomes and, by implication, the tax base, among other benefits. Deliberation and action to enhance the business and investment policy environments also need to be given ample space.

iii) Continued recognition and support of local (community-based) economic development initiatives with local authorities providing oversight and guidance on local investments and self-help projects for direct human development impact.

iv) Taking full advantage of emerging financing mechanisms globally that are devised to increase the scope of financing for the public and private sectors.

Emerging financing mechanisms and their sources merit attention because they are known to be supportive of human development as well as social and environmental sustainability. Sources include both domestic and international stakeholders from private enterprise and corporations as well as for- and not-for-profit entities within the civil society sector. Financing arrangements are evolving that combine financial return and sustainability objectives (economic, social and environmental) that increasingly will be required for businesses to invest in specific administrative areas or jurisdictions. However, as UNDP (2018: 10) indicates, it is mostly large middle-income and a few developing countries that have successfully actualized some of these alternative sources of financing. Countries like Tanzania that are commodity-dependent and, until now, have received substantial foreign aid will need to learn and understand the working arrangements for these new mechanisms and build the capacities to organize and coordinate the different actors involved.

It may be noted that Tanzania's interest in looking for alternative financing sources for development began with the FYDP I (URT 2012b). In subsequent plans, the Government has identified potential sources of finance and called for more investigation on the feasibility of establishing these mechanisms in Tanzania. This report contributes to that effort.

The THDR 2022 aims to inform the implementation of FYDP III and help to realize its goals of an inclusive and competitive national economy, deepening industrialization and service provision, investment and trade promotion, and human skills development. It considers all potential development financing options as proposed in Development Finance Assessment (DFA) and FYDP III Financing Strategy, giving adequate regard to changes in the global financing landscape.

To begin, the remainder of this chapter will provide a snapshot of human development in Tanzania. Importantly, the analysis will shine the light on areas where low human development continues amidst the country's improving macroeconomic performance and, hence, the critical importance of balancing economic development and human development.

1.3 Status of human development in Tanzania

This section examines the status of human development in Tanzania based upon key indicators of human development including: the Human Development Index, Gender Development Index, Gender Inequality Index, income poverty measures (headcount, vulnerability and inequality) and Multidimensional Poverty Index.

1.3.1 Human Development Index

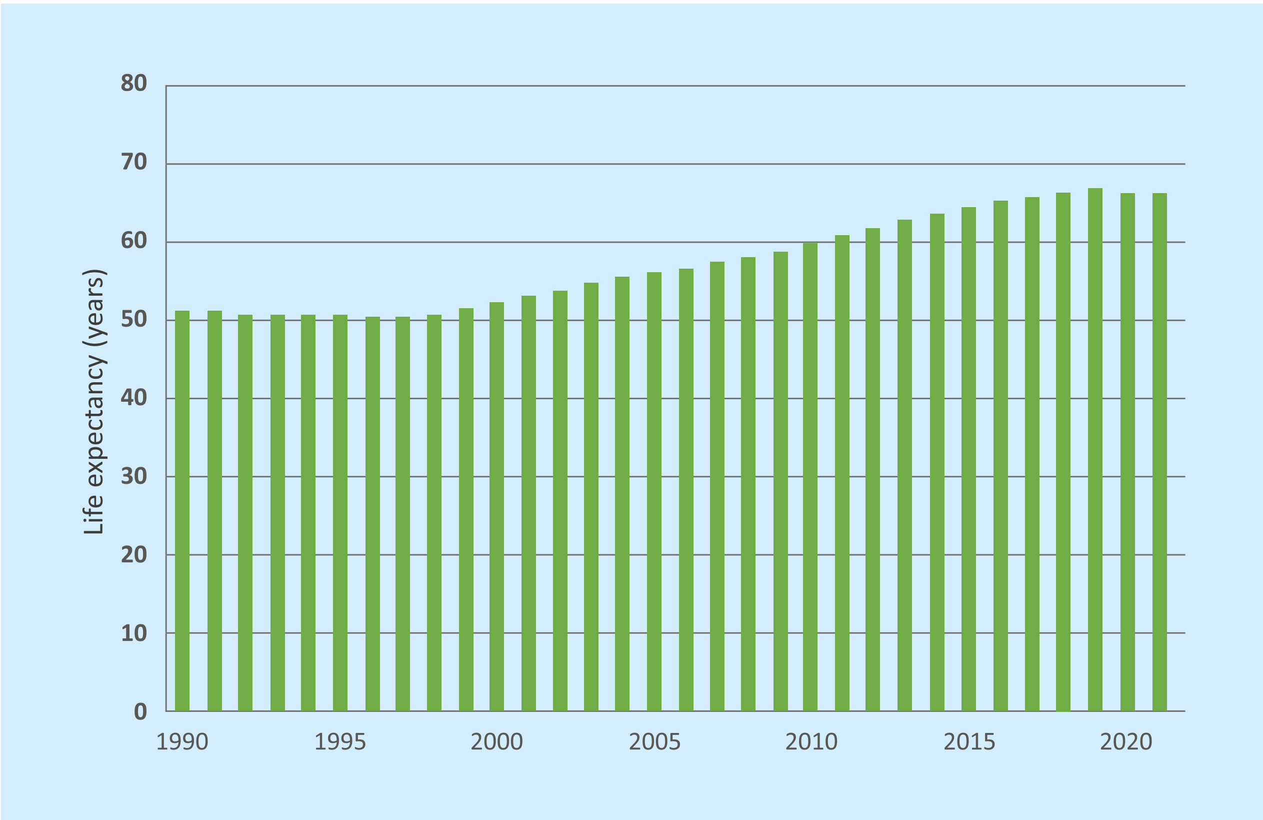
In UNDP's global Human Development Report 2021/22, Tanzania recorded a HDI value of 0.549 in 2021 up from 0.520 in 2015, an increase of 5.3 percent over this period (UNDP 2022: 279). The country's score is above both the average for countries in the low human development group (0.518) and for Sub-Saharan African countries (0.547).

Globally, Tanzania was ranked 160 out of 191 countries in 2021 and is on the cusp of reaching the medium human development group. Compared with neighbouring states in East Africa, Tanzania's HDI rank is below Kenya (ranked 152 globally with a HDI value of 0.575) but above Rwanda (ranked 165 with a HDI value of 0.534) and Uganda (ranked 166 with a HDI value of 0.525).

Based upon comparable data from UNDP's Data Center,[4] the indicators for all three components of the HDI score—health, knowledge and standard of living—have improved since 2015. Life expectancy at birth has increased from 64.7 years in 2015 to 66.2 years in 2021. Expected years of schooling has risen from 8.5 years in 2015 to 9.2 years in 2021, and mean years of schooling has increased from 5.8 years to 6.4 years over the same period. Overall, life expectancy over the past three decades since 1990 has shown an increasing trend in Tanzania with the exception of the mid to late 1990s due to the country's high mortality associated with the HIV/AIDS epidemic and since 2020 due to the Covid-19 pandemic (Figure 1).

Figure 1:

Life expectancy in Tanzania, 1990 to 2021

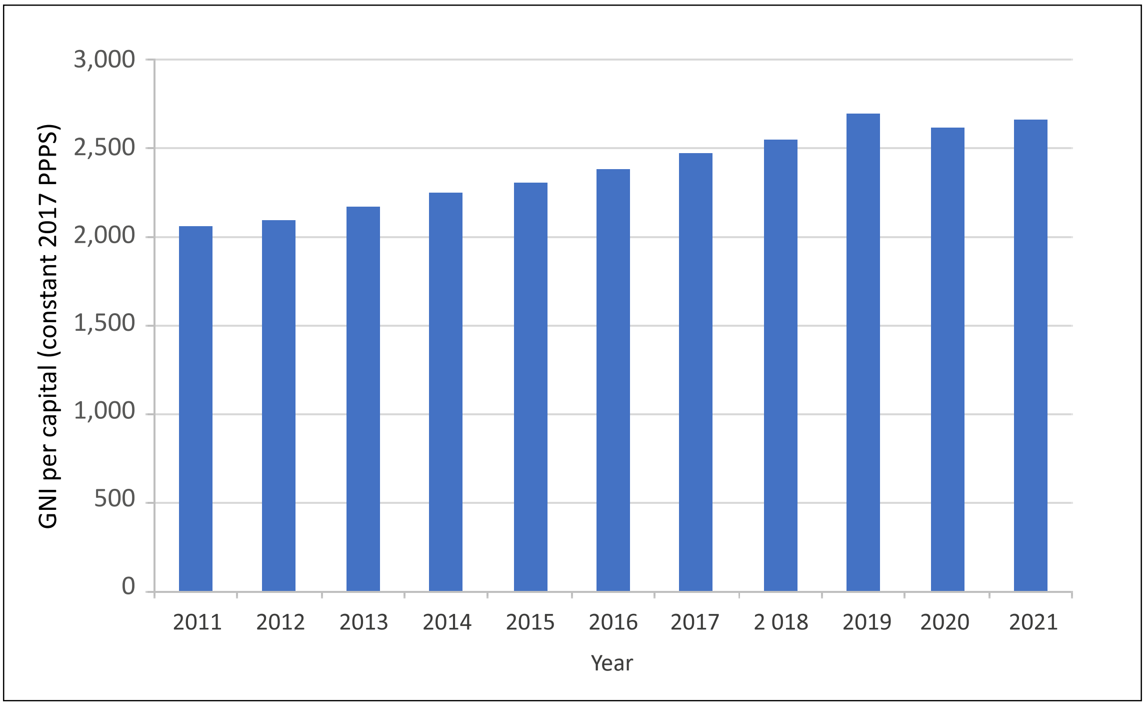


Source: Country data for Tanzania, UNDP Data Center https://hdr.undp.org/data-center/specific-country-data#/countries/TZA accessed 21 October 2022

In terms of income, GNI per capita (constant 2017 PPP$) has increased from US$ 2,061 in 2011 to US$ 2,694 in 2019, before declining marginally to US$ 2,664 in 2021 (Figure 2). Based on the improvement in GNI per capita, in July 2020, the World Bank announced that Tanzania had been upgraded from a low-income to a lower-middle-income country (LMIC).[5] However, this elevation was quickly followed by the Covid19 pandemic which has impacted the GNI per capita, GDP growth rate and human development indicators. The extent to which the country can consolidate its position as an LMIC by 2025/26 will depend upon the country's response to the pandemic and accompanying economic downturn.

Figure 2:

GNI per capita (constant 2017 PPP$) in Tanzania, 2011 to 2021



Source: Country data for Tanzania, UNDP Data Center https://hdr.undp.org/data-center/specific-country-data#/countries/TZA accessed 19 October 2022

At the sub-national level, localized HDI calculations show notable variations in human development between Tanzania's regions. Kilimanjaro region has the highest HDI score (0.759) in Tanzania Mainland, followed by Dar es Salaam region (0.749). In stark contrast, the Kagera and Tabora regions recorded the lowest level of human development measured by the HDI, with scores of 0.445 and 0.499 (Figure 3).

The analysis also revealed notable regional variations in income. GDP per capita in Dar es Salaam region is four times higher than Kagera region, which has the lowest income level among regions in Tanzania Mainland. Kilimanjaro region appears particularly efficient in transforming economic growth as measured by income (*the means*) into human development (*the end*), as the region ranks fifth highest in GDP per capita, but ranks first in the overall HDI score. In contrast, data for Geita region indicates that the region is least efficient in transforming income into human development as it ranks 10th in GDP per capita but ranks 16th in HDI (see Table A2 of the Statistical Annex).

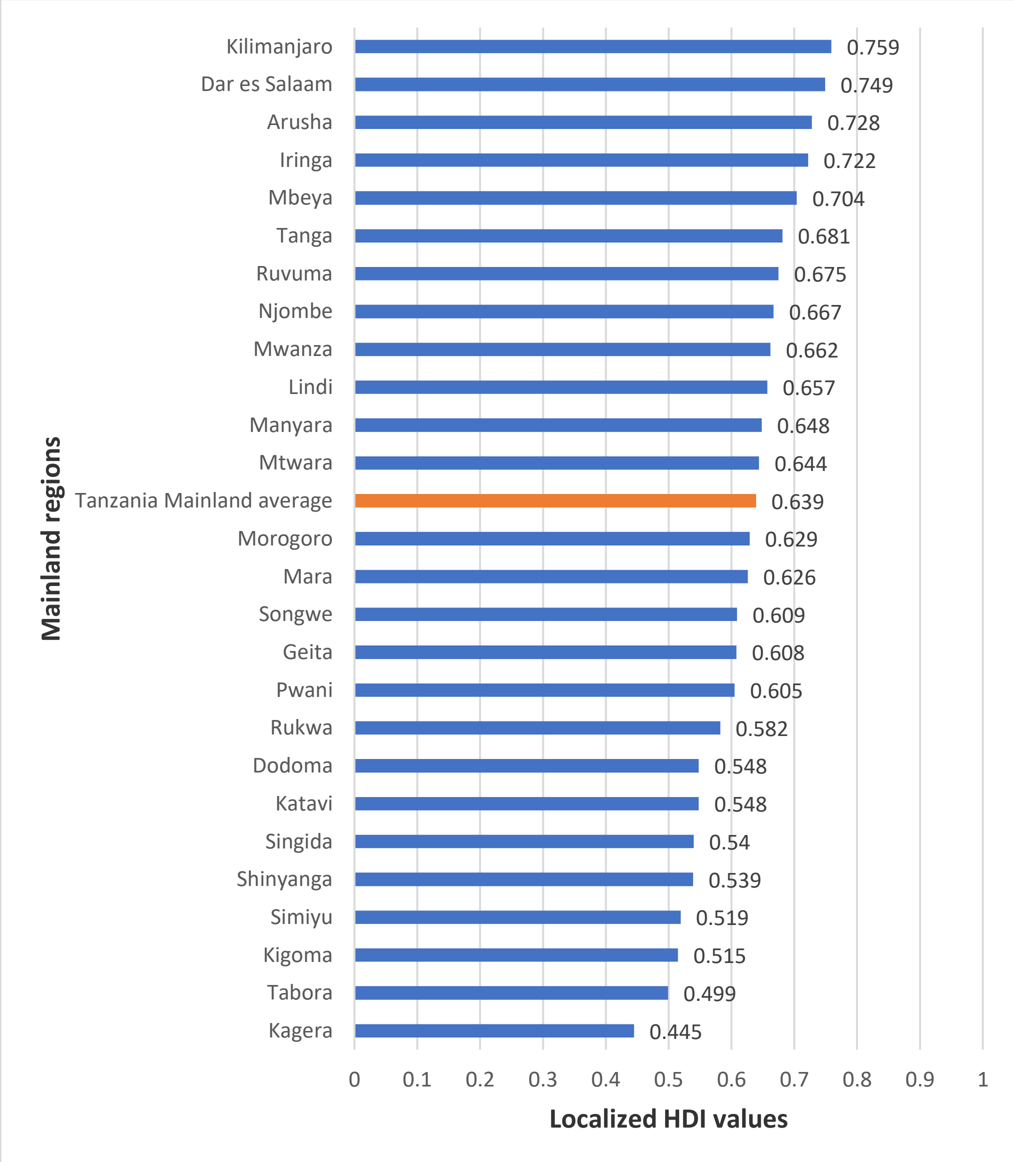
Regional variations in social dimensions of the HDI (health and education) are also pronounced. Kilimanjaro region's EYS of 11.39 years is 83 percent higher than Tabora region (6.24 years). Furthermore, the life expectancy in Arusha region of 73.7 years is 19 percent higher than Iringa region, which has the lowest life expectancy of 61.8 years.

[4] https://hdr.undp.org/data-center/specific-country-data#/countries/TZA accessed 14 September 2022

[5] The World Bank uses the Atlas method (current US$) for GNI per capita. The corresponding values using the Atlas method indicate an increase from US$ 980 in 2015 to US$1,140 in 2021. See World Bank. Databank. https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=TZ accessed 21 October 2022.

Figure 3:

Ranking of regions in Tanzania Mainland by localized HDI scores, 2022



Source: Calculated for THDR 2022 based on data from various sources and years. For detailed source information see Table 1 in the Statistical Annex.

1.3.2 Multidimensional Poverty Index

As measured by the MPI, multidimensional poverty in Tanzania has declined from 0.335 to 0.284 between 2016 and 2022 (UNDP 2016; 2022). Similarly, the multidimensional poverty headcount declined from 66.4 percent to 57.1 percent, while the share of the population living in severe multifaceted poverty declined from 32.1 to 27.5 percent over the same period. In comparison to its peers in East Africa, Tanzania has higher rates of multidimensional poverty. Apart from Burundi, whose MPI score is 0.409, other EAC countries have lower MPI scores than Tanzania: Uganda (0.281); Rwanda (0.259); and Kenya (0.171).

Due to the lack of new data, this report does not capture regional variations in MPI as done in THDR 2017. Nonetheless, data on specific MPI dimensional indicators paint a picture of regional variations. For example, the adult literacy rate ranges from 96 percent in Dar es Salaam to 59 percent in the Tabora region (see Table A5 in the Statistical Annex). Significant disparities in adult literacy by gender in favour of males was also found across the regions. For instance, in the Rukwa region, adult literacy for males is 79 percent compared to a rate of 62 percent for females. Kilimanjaro region has the least gender gap, with adult literacy of 94 percent for males compared to 90 percent for females. Variations were also noted in other education, health, and living standards indicators which tend to favour men and urban residents.

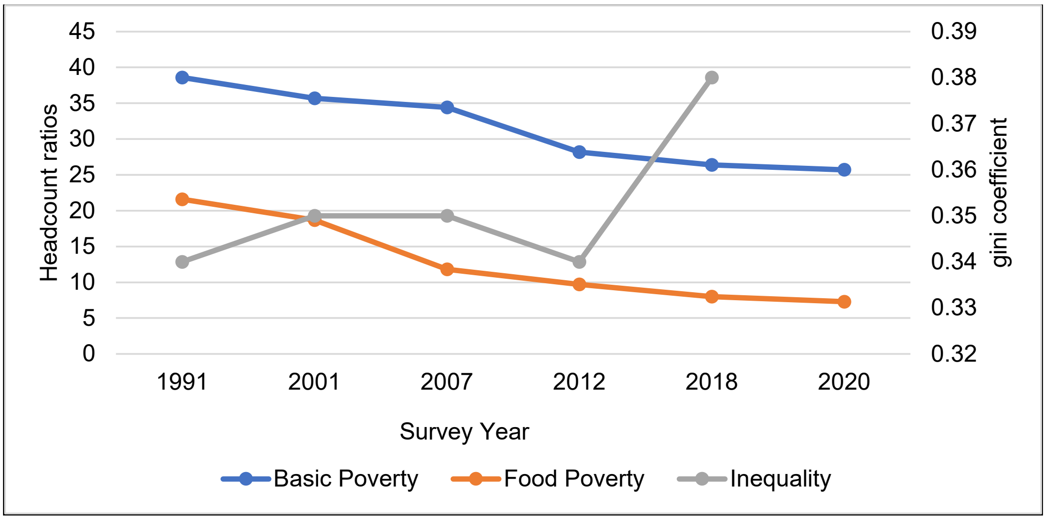
1.3.3 Status of income poverty

Based on headcount data in the Household Budget Survey (HBS) 2017/18 (President's Office - Planning Commission, National Bureau of Statistics [NBS] & World Bank 2020), the rates of basic needs poverty and food poverty have both declined. The national basic needs poverty rate declined from 28.2 percent in 2011/12 to 26.4 percent in 2017/18 and is projected to have fallen to 25.7 percent in 2020 (NBS & MoFP 2021: iv). The rate of decline between 2012 and 2020 (of 0.31 percentage points annually) is not sufficient to attain the target set in FYDP III of 22 percent by 2025/26. Additionally, although the percentage of the population in poverty is falling, the country's strong population growth means that the total number of people in poverty is increasing over time. For instance, an estimated 13 million Tanzanians were experiencing basic needs poverty in 2011/12 compared with 15 million in 2017/18. This demonstrates that the country's remarkable economic growth of about 7 percent over that period was not sufficiently pro-poor to facilitate the trickle-down effect of poverty reduction.

Food poverty also fell from 9.7 percent in 2011/12 to 8.0 percent in 2017/18. The food poverty headcount rate is projected to have fallen to 7.3 percent in 2020 (URT 2021e: iv). If this pace of decline is maintained, Tanzania can achieve the 5.8 percent target set for food poverty in FYDP III. However, the country is unlikely to attain the SDG target of eliminating extreme poverty by 2030. Income inequality, as measured by the Gini Coefficient, notably increased between 2012 and 2018. Figure 4 shows overall trends in basic needs poverty, extreme (food) poverty and income inequality from 1991 to 2020.

Figure 4:

Basic needs poverty, extreme (food) poverty, and income inequality



Source: Calculations based on HBS data

Poverty is much more common in rural areas than in urban areas. For example, in rural Tanzania, the incidence of basic needs poverty was 33.3 percent and 31.3 percent in 2011/12 and 2017/18, respectively, compared with 15.4 percent and 15.8 percent in urban areas for those years.

1.3.4 Gender Development Index

The Gender Development Index (GDI) is the ratio of the female to male HDI and is used as a measure of the gap between men and women in human development. In Tanzania, the GDI has been largely stable over the period from 2015 to 2021, marginally improving from 0.936 to 0.943.[6] The aim is to attain the GDI value of 1, which indicates perfect equality between men and women with respect to human development outcomes. However, at the national level, women have higher life expectancy compared to men. By location, the gap in life expectancy is lowest in Pwani region (women 66.7 years; men 64.3 years). The gap is highest in Njombe region where life expectancy is 63.4 years for women and 56 years for men.

[6] UNDP Data Center https://hdr.undp.org/data-center/specific-country-data#/countries/TZA accessed 19 October 2021. The 2021 female HDI value for Tanzania is 0.532 in contrast with 0.565 for males, which results in the GDI of 0.943.

1.3.5 Gender Inequality Index

The Gender Inequality Index reflects gender-based inequalities across three dimensions of human development: reproductive health, empowerment and economic activity. Reproductive health is measured by maternal mortality and adolescent birth rates. Empowerment is measured by the share of parliamentary seats held by women and the relative percentages of men and women aged 25 years and above that have reached secondary education. Economic activity is measured by the labor market participation rate for women and men. The GII can be interpreted as the loss in human development due to inequalities in opportunities between women and men across the three GII dimensions.

Gender Inequality Index (GII) is measured between 0 and 1; the closer that the GII approaches zero, the lower the inequality between men and women. The GII has decreased from 0.569 in 2015 to 0.560 in 2021,[7] suggesting that gender-related inequalities in human development in Tanzania have changed little in recent years. Intra-country data show that women still lag men for participation in political decision-making with significant regional variations. For instance, in Morogoro, only 17 percent of its members of Parliament are females compared to 74 percent in the Dar es Salaam region (see Table A6 in the Statistical Annex).

1.4 Drivers of human development: Key components of the HDI and MPI

This section analyses the factors driving the state of human development in Tanzania. The following key dimensions of the Human Development Index (HDI) and Multi-Dimensional Poverty Index (both global and national) are examined:

i) National income through the analysis of GDP per capita at national and regional levels;

ii) Health indicators including life expectancy at birth, child mortality and nutrition;

iii) Education and skills development, including adult literacy, school enrolment, primary survival rate and pupil-teacher ratio; and

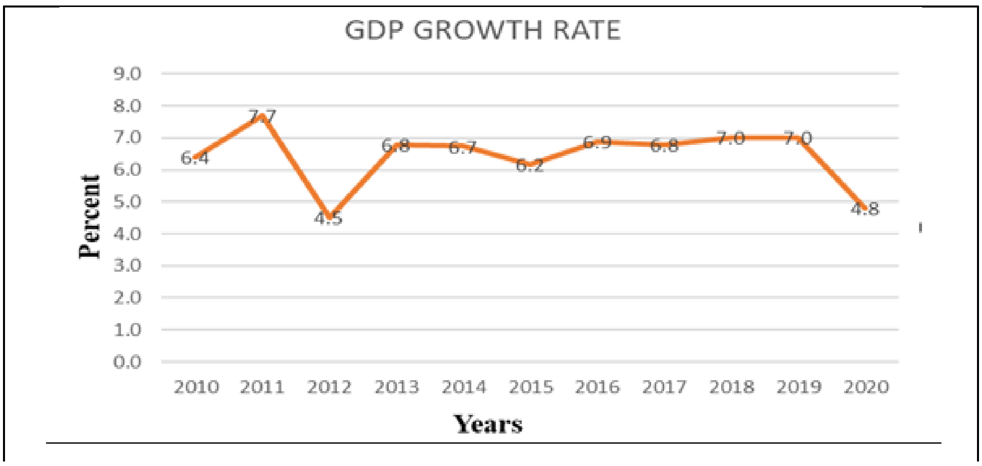
iv) Living standards through such indicators as household sanitation, access to water sources, access to electricity, types of cooking fuel, sources of fuel for lighting, and the ownership and control of assets.

1.4.1 Income and human development

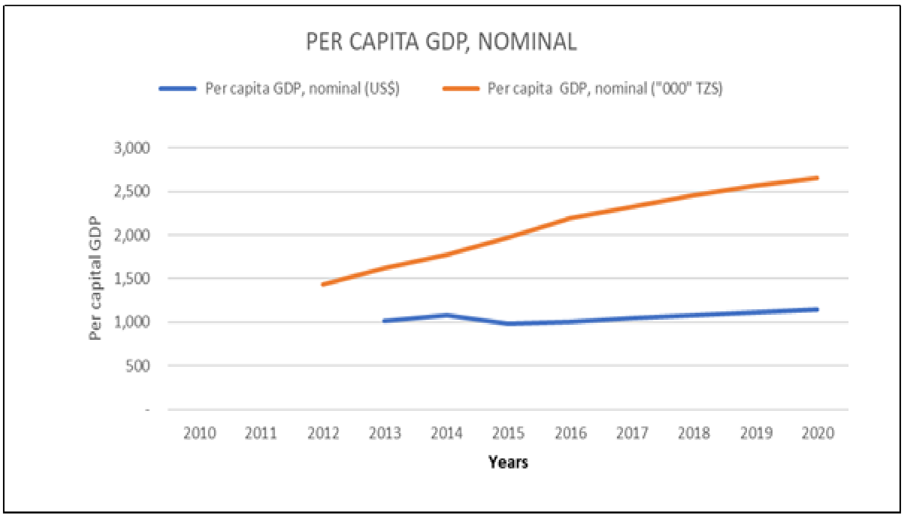
GDP per capita in Tanzania has grown steadily over the decade since 2012. Between 2013 to 2017, the country maintained a growth rate of above 6 percent. For two consecutive years, (2018 and 2019) national growth reached 7 percent per annum before experiencing an abrupt decline in 2020 (Figure 5). The decline was attributed to the negative shocks to the economy brought on by the Covid-19 pandemic. In nominal terms, GDP per capita in Tanzania has grown from TZS 1.42 million in 2012 to TZS 2.65 million in 2020. It should also be noted that the inflation rate in Tanzania has been relatively stable since 2014 and was under 4 percent per annum for the three years from 2018 through 2020.[8]

Figure 5:

Trends in GDP growth rates and GDP per capita growth rates



[7] UNDP Data Center https://hdr.undp.org/data-center/specific-country-data#/countries/TZA accessed 19 October 2021



Source: NBS & MoFP (2021)

1.4.2 Health

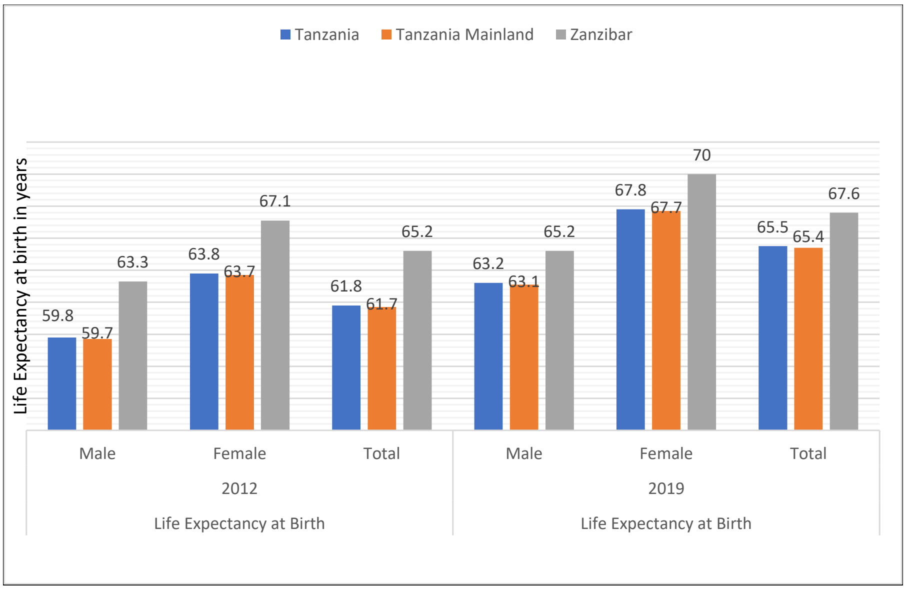
Good health is a fundamental aspect of human development, enabling people to realize their full potential, workers to be more productive, children to learn better at school, and parents to better care and provide for their families. This sub-section examines key health indicators, including life expectancy, child mortality and nutrition.

Life expectancy at birth

Life expectancy at birth is a population-wide estimate of mortality across all age groups at a given point in time. It measures the average number of years a newborn child may be expected to live if the current mortality rate remained the same throughout their lifetime. National projections show that life expectancy in Tanzania Mainland rose by 6 percent between 2012 and 2019, to reach 65.4 years (Figure 6). However, there was a notable gender variation in life expectancy; the average lifespan for a Tanzanian woman is 67.8 years compared with 63.2 years for a Tanzanian man. Notably, the annual number of deaths due to malaria across all age groups have substantially decreased from 6,311 in 2015 to 2,079 in 2019, representing a decline of 67 percent over this four-year period. However, under-five deaths due to malaria accounted for 957 deaths, equivalent to 46 percent of all malaria-related deaths in 2019 (URT 2021a: 25).

Figure 6:

Life expectancy in Tanzania



Source: NBS & MoFP 2021; URT (2020b)

[8] World Bank data. https://data.worldbank.org/country/TZ accessed 29 September 2022

However, despite this notable improvement in life expectancy in recent years, the Covid-19 pandemic could have reversed gains in health outcomes. Since 2020, global and national responses to the pandemic—health funding, human resources, research, and other technical inputs—were overwhelmingly concentrated on the disease at the expense of other existing health sector priorities.

Maternal and child mortality

Childhood mortality adversely affects national life expectancy and is a critical indicator for determining a country's human development and multidimensional poverty level. Despite significant progress in recent decades, childhood mortality in Tanzania remains high. The under-five mortality rate (U5MR) has declined by 27 percent over the last five years from 67 deaths per 1,000 live births in 2015/16 (Ministry of Health, Community Development, Gender, Elderly and Children [MoHCDGEC] et al. 2016) to a projected 49 deaths per 1,000 live births in 2020.[9] This decline may be attributed to health service delivery improvements across the country, including malaria prevention initiatives and routine immunization.

Tanzania has continued to be one of the leading countries in Africa in vaccinating children under one year of age. In 2019/20, 98 percent of all children under one year of age were vaccinated compared to 82 percent in 2015/16, thus exceeding the 90 percent target of the World Health Organization (WHO) (URT 2021a: 24). Moreover, the Government has committed to increasing the number of health facilities. Over five years from 2015, the number of health facilities in the country has increased from 7,014 to 8,783 in December 2020. Along with such effort is the increasing number of pregnant women who made the visits to antenatal clinics for instance, in 2019/20, 81 percent of all pregnant women made at least four visits to antenatal clinics compared to 39 percent in 2015/16, implying that more pregnant women receive quality care (URT 2021a: 24).

However, a more gradual improvement in the neonatal mortality rate (i.e., the probability of a child dying in the first 28 completed days of life) has been recorded from 25 deaths per 1,000 live births in 2015/16 (MoHCDGEC et al. 2016) to a projected 20 deaths per 1,000 live births in 2020.[10] Newborn deaths now account for approximately 40 percent of all deaths of Tanzanian children under five years, hence, further reductions in childhood mortality will depend upon improvements in maternal and infant care during labor and delivery and after birth.

Despite falling in recent years, the maternal mortality rate still remains very high at 524 deaths per 100,000 live births in 2020/21 (UNDP 2022: 293), down from 556 deaths per 100,000 live births in 2015/16 (MoHCDGEC et al. 2016).

Nutrition

Adequate nutrition is an essential foundation of good health, hence, a vital aspect of human development. Under the human development approach, nutritional deprivation is considered a form of injustice, therefore, nutrition is one of the key non-income indicators used to calculate the MPI. According to the Tanzania National Nutrition Survey 2018 (MoHCDGEC et al. 2018) the prevalence of underweight among children under five years of age slightly increased from 13.4 percent in 2014 to 14.6 percent in 2018. On the other hand, a slight decline was recorded in the prevalence of undernourishment among children under five years of age from 34.7 percent in 2014 against 31.8 percent in 2018. In Tanzania Mainland, the level of stunting was equal to or greater than 30 percent in 15 out of the country's 26 regions, which is the level categorized as "very high" according to the new 2018 UNICEF-WHO classification. The prevalence of overweight among children under 5 years declined from 4.5 percent in 2014 to 2.8 percent in 2018. The prevalence of wasting (also referred to as Global Acute Malnutrition) among under-fives declined from 3.8 percent in 2014 to 3.5 percent in 2018. Exclusive breastfeeding of children under 6 months of age increased from 41.1 percent in 2014 to 57.8 percent in 2018.

1.4.3 Education and knowledge

Education is another key driver of human development. A sound education gives individuals the capabilities to lead lives which they intrinsically value. In addition, education provides key inputs in human capital formation, generating knowledge and enhancing skills accumulation. In Tanzania, national education indicators, particularly school enrolment, show an upward trend at primary and secondary levels. However, enrolment at higher levels of education has fluctuated, while the quality of education at all levels remains a significant challenge. As part of an analysis of the contribution of education to human development, four indicators—namely adult literacy, enrolments,

[9] UN Inter-agency Group for Child Mortality Estimation (IGCE). https://childmortality.org/data/United%20Republic%20of%20Tanzania accessed 11 December 2022

[10] Ibid.

pupil-teacher ratios and the primary survival rate—are analysed in the sub-sections below.

Adult literacy

In the HBS 2017/18, the ability to read and write a short or straightforward statement in Kiswahili, English, or both was measured among adults (aged 15 years or more). Based on these data, the literacy rate stood at 77.6 percent in Tanzania Mainland, up slightly from 77.2% in 2011/12 (MoFP et al. 2020: 75). Literacy was higher in Kiswahili (59.4 percent) than in English (17.4 percent). Literacy was also higher in urban areas than in rural areas (Dar es Salaam, 94.2 percent; other urban areas, 88.6 percent; rural areas, 70.5 percent). A marked gender disparity in literacy rates was reported whereby 83.2 percent of adult males were literate compared with 72.7 percent of adult females. Across regions, the data revealed remarkable differences, with the Dar es Salaam region having the highest literacy rate (94.2 percent) and the Katavi region having the lowest rate (62.0 percent).

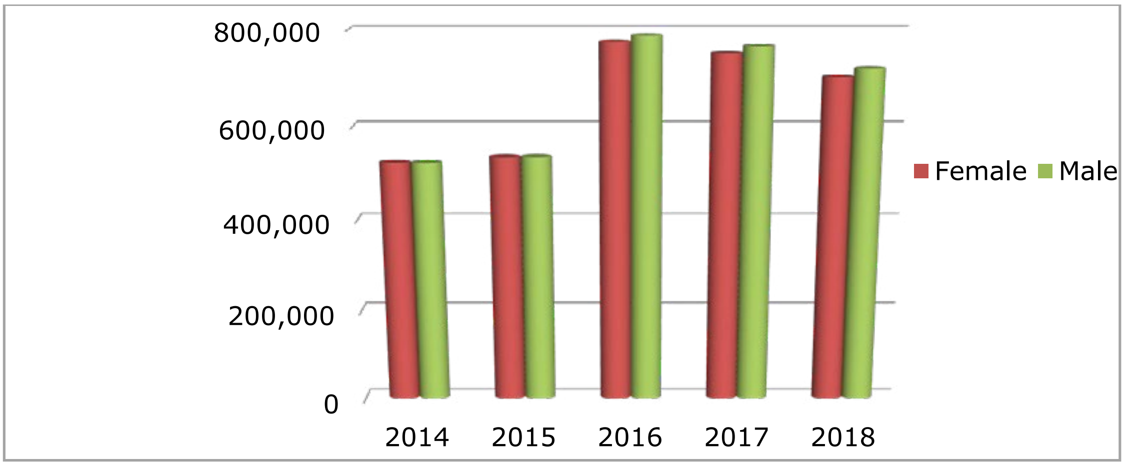
Enrolment

The key indicators of enrolment in Tanzania's formal education system are the gross enrolment ratio (GER) and the net enrolment ratio (NER). The GER measures the total number of pupils enrolled in a given level of education expressed as a percentage of the corresponding school-age population, while the NER measures the school-age pupils enrolled in a given level of education expressed as a percentage of the corresponding school-age population.

At the pre-primary level, the GER declined from 112 percent in 2016 to 76.2 percent in 2020 (URT 2021a: 21). The decline results from the decrease in the number of pupils eligible for enrolment. Similarly, the NER in pre-primary declined from 44.6 percent in 2016 to 38.7 percent in 2019. By sex, the NER for girls stands at 40.3 percent, slightly higher than for boys at 39.6 percent (see Figure 7), which indicates relative gender equality in total enrolments in pre-primary schools. The decline is a result of changes brought by national education policy of 2016, which changed primary school age entry to six years and one year of compulsory pre-primary education for five-year cohort.

Figure 7:

Total enrolments in government and non-government pre-primary schools, by sex, 2014–2018



Source: Ministry of Education, Science and Technology (MoEST) (2018) cited in URT 2021a: 21

In 2016, the Government of Tanzania introduced fee-free primary education. As a result, the HBS 2017/18 reported that GER for primary school among children aged 7 to 13 years in Tanzania Mainland stood at 100.9 percent, and the corresponding NER was 83.4 percent up from 77.4 NER in 2011/12 (MoFP et al. 2020). In 2020, the Gender Parity Index (GPI) in primary school is 1.01, i.e., enrolment numbers by sex are nearly the same, which again highlights the government's success to attain equality of access to education (URT 2021a: 20).

Regarding lower secondary, the GER shows an increasing trend between 2016 and 2020, from 36 percent in 2016 to 44 percent in 2020. The increasing trend indicates more students are transitioning from primary to secondary education (URT 2021a: 20).

Pupil-teacher ratios

A pupil-teacher ratio (PTR) of 1:25 is considered optimal for pre-primary schools, however, average class sizes in Tanzania are much higher. The national PTR for pre-primary improved marginally from 1:114 in 2016 to 1:104 in 2020 (URT 2021a: 21). This improvement reflects the rise in pre-primary schoolteachers from 10,991 in 2018 to 13,227 in 2020.

In contrast, the PTR at the primary level deteriorated from 1:42 in 2016 to 1:56 in 2020. This decline is attributed to the decrease in the total number of teachers by 5.8 percent, from 206,806 in 2016 to 194,736 in 2020. The reduction in the number of teachers has been due to Government efforts to ensure all teachers that are recruited have valid teaching certificates.

Primary survival rate

The primary survival rate predicts the percentage of children currently entering Standard I who will go on to complete the last grade of primary education (currently Standard VII), assuming that current grade-to-grade promotion, repetition, and dropout rates continue unchanged during the child's seven years of primary schooling (URT, 2019b) . The survival rate improves when levels of dropout and repetition decrease. Table 1 below indicates rapid improvement in the primary survival rate since 2016, despite a slight deterioration in 2019. The table shows that girls are consistently retained better than boys in primary school at the nationally aggregated level.

Table 1:

Pupil's survival rate, Tanzania Mainland for selected years, by sex

Year	2016	2017	2018	2019
Boys (%)	45.38	61.65	86.72	78.36
Girls (%)	53.34	67.08	90.53	83.82
Total (%)	49.32	64.39	88.63	81.06

Source: Education Sector Performance Reports 2015/2016, 2016/2017, 2017/2018 and 2018/2019

1.4.4 Living standards

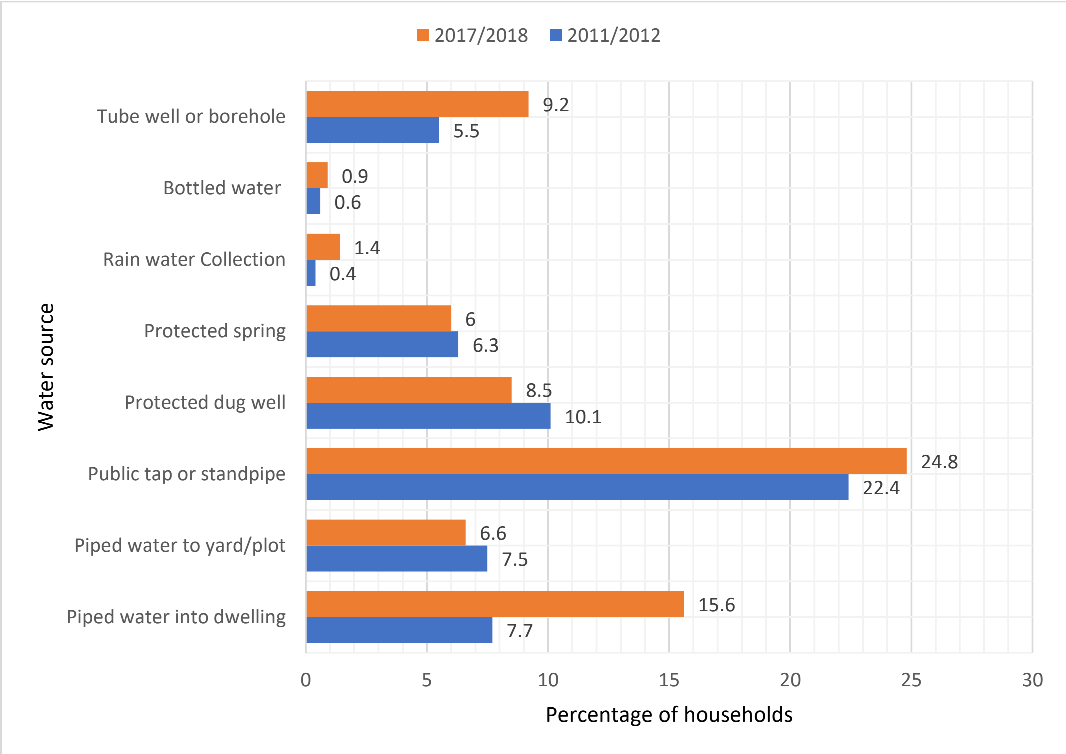
To measure people's living standards, the multidimensional poverty index assesses six household-level indicators: (i) availability of clean and safe water; (ii) access to sanitation facilities; (iii) ownership of assets; (iv) type of cooking fuel used; (v) access to electricity; and (vi) type of flooring in the dwelling. Recent trends in each of these indicators are discussed in the sub-sections below.

Availability and access to clean and safe water

Access to clean and safe water sources is fundamental for good health and human development. Data from the National Five-Year Development Plan 2021/22–2025/26 indicates that 1,423 water supply projects were constructed between 2015 and 2020 with a cumulative number of 131,370 water points (WP) benefiting 25,359,290 people, equivalent to 70.1 percent of the rural population (URT 2021a: 26). In addition, HBS 2017/18 reported that 88 percent of households had access to improved sources of drinking water in the rainy season (up from 69 percent in 2011/12) and 73 percent during the dry season (up from 61 percent in 2011/12) (Figure 8).

Figure 8:

Percentage of households with access to improved source of drinking water in the dry season, Tanzania Mainland, 2011/12 and 2017/2018



Source: HBS 2017/18 (MoFP et al 2020: 39)

Access to sanitation facilities

The absence or use of poor sanitation facilities results in an unhealthy living environment contaminated by human waste, and places households at risk of transmission of preventable diarrheal diseases, such as dysentery and cholera, as well as typhoid. HBS 2017/18 indicated that more than half (54 percent) of households use unimproved sanitation facilities and about 6 percent have no toilet facility. By location, 70 percent of households in rural areas still use unimproved sanitation facilities and 9 percent have no toilet facility compared to 24 percent and less than 1 percent for the same indicators in urban areas (MoFP et al. 2020: 58 [Table 3.11.2]).

Housing conditions

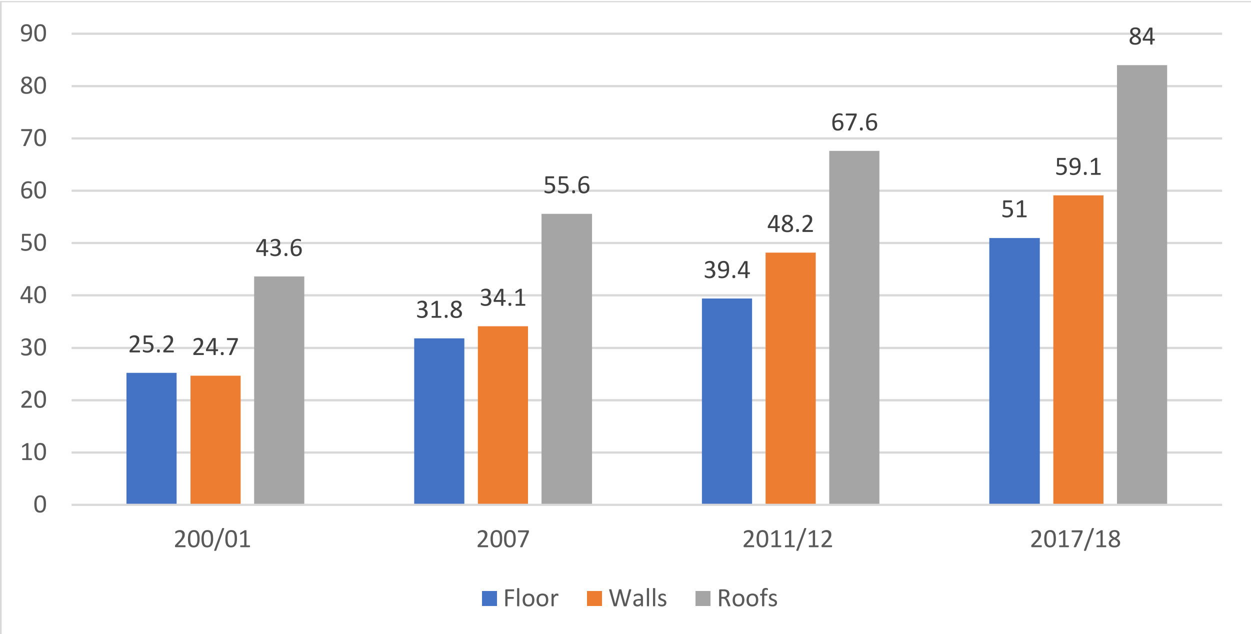
Data from HBS 2017/18 indicate that overall housing conditions have improved since HBS 2011/12. For example, the percentage of houses with roofs constructed with galvanized iron sheets has increased from 67.6 percent in 2012 to 84 percent in 2018. In rural areas, the proportion of houses with roofs built of galvanized metal sheets/iron sheets has increased from 54.8 percent in 2012 to 76.6 percent in 2018 (MoFP et al. 2020).

Houses built with modern floor materials (tiles, cement, bamboo, vinyl or wood) have increased from 39.4 percent in 2012 to 51 percent in 2018. In rural areas, the proportion of households with floors built of modern materials increased from 20 percent in 2012 to 32.1 percent in 2018, while houses with earth floors decreased from 77.5 percent in 2012 to 65.8 percent in 2018.

In relation to materials for the construction of walls, the data indicate that the percentage of houses built of baked, burnt bricks, concrete, cement or stone have increased from 48.2 percent in 2012 to 59.1 percent in 2018. The improvement in modern construction materials is summarized in Figure 9.

Figure 9:

Percentage of houses using modern construction materials, by type of materials and year, Tanzania Mainland



Source: HBS 2017/18 (MoFP et al. 2020: 28)

Tanzania has set a policy objective to reduce overcrowding in households, especially in sleeping areas, as greater numbers of people sharing sleeping areas can be at increased risk of transmission of respiratory diseases. Therefore, Tanzania has set a target of reducing the average number of persons per sleeping room from 2.7 in 2014 to 2.5 in 2020/21 and ultimately 2.0 in 2025/26. HBS data indicate an improvement in the average number of people per sleeping room from 2.7 in 2012 to 2.4 in 2018 (see Table 2).

Table 2:

Progress in reducing overcrowding in household sleeping areas

Year	2012	2014	2018	2020/21	2025/26
National target (%)		2.7		2.5	2.0
Achievement (%)	2.7		2.4		

Source: HBS 2017/18 (MoFP et al 2020)

Ownership of a house is an important economic indicator of household wealth and social status. Tanzania has set a target of increasing the proportion of households living in their own houses from 76 percent in 2014 to 77 percent in 2020/21 and ultimately 79 percent in 2025/26. Against this target, data from HBS 2017/18 indicate that 75.1 percent of households in Tanzania Mainland owned their dwellings. The percentage of ownership of houses was highest in rural areas (85.3 percent), followed by other urban areas (63.2 percent) and Dar es Salaam (42.4 percent) (see Table 3).

Table 3:

Progress in housing ownership

Year	2012	2014	2017/2018	2020/21	2025/26
National target (%)		76		77	79
Achievement (%)	63.2		75.1		

Source: HBS 2017/18 (MoFP 2020: 30)

Overall, the marked improvements in housing conditions over the six-year period from 2012 to 2018 have been an important driver of well-being and human development in Tanzania. These results also indicate greater availability and accessibility to quality construction materials in the country. The challenge for the Government and the people of Tanzania is maintaining and increasing the availability, affordability, and accessibility of construction materials given the significant global headwinds in supply of these resources.

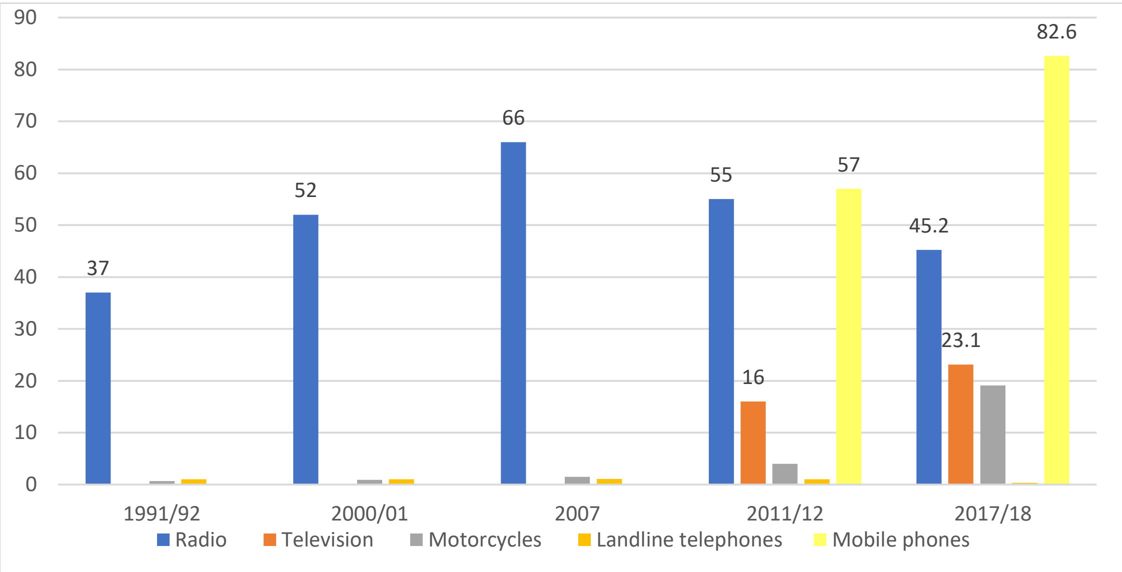
Ownership and control over assets

Ownership of assets is another key indicator of household wealth and economic status, and previous research drawing from Household Budget Surveys and Demographic and Health Surveys indicate the substantial contribution of asset ownership to improving living standards in Tanzania. For example, the Tanzania Human Development Report 2017 estimated a significant decline in the multidimensional poverty index headcount from 64 percent in 2010 to 47.4 percent in 2015 (URT, UNDP & ESRF 2018). Analysis in the report indicated that the reduction in MPI over that period was linked to greater ownership of assets, especially mobile phones, radios and motorcycles. Another factor responsible for driving multidimensional poverty was access to electricity. There was a substantial reduction in poverty in rural areas between 2007 and 2012 due to several factors, including increased ownership of assets by poor households.

HBS 2017/18 provides the most current household-level data on ownership of assets. Data indicate that most households in Tanzania own a mobile phone (82.6 percent), followed by mosquito net (79.2 percent) and a farm (64.2 percent). Furthermore, the analysis indicates a substantial increase in the ownership of modern assets going hand-in-hand with a decline in the ownership of traditional assets. For example, the data demonstrate a considerable increase in the ownership of mobile phones from 57 percent in 2012 to 82.6 percent in 2018. The results also show an increase in television ownership from 16 percent in 2012 to 23.3 percent in 2018. Ownership of motorcycles, bicycles, refrigerators have surged also, and to a small extent, cars and laptops. Over the same period, ownership of traditional assets like radio sets and stoves have declined (Figure 10).

Figure 10:

Ownership of transport and communication assets, by year



Source: HBS 2017/18 (MoFP 2020: 65)

These results on asset ownership suggest the ongoing contribution of assets to improvements in overall living standards and human development in Tanzania. The wider ownership of modern communication assets, particularly mobile phones and televisions also contributes to greater access to information by households in both urban and rural areas. Mobile phones, in particular, are powerful equipment for information, including through social media.

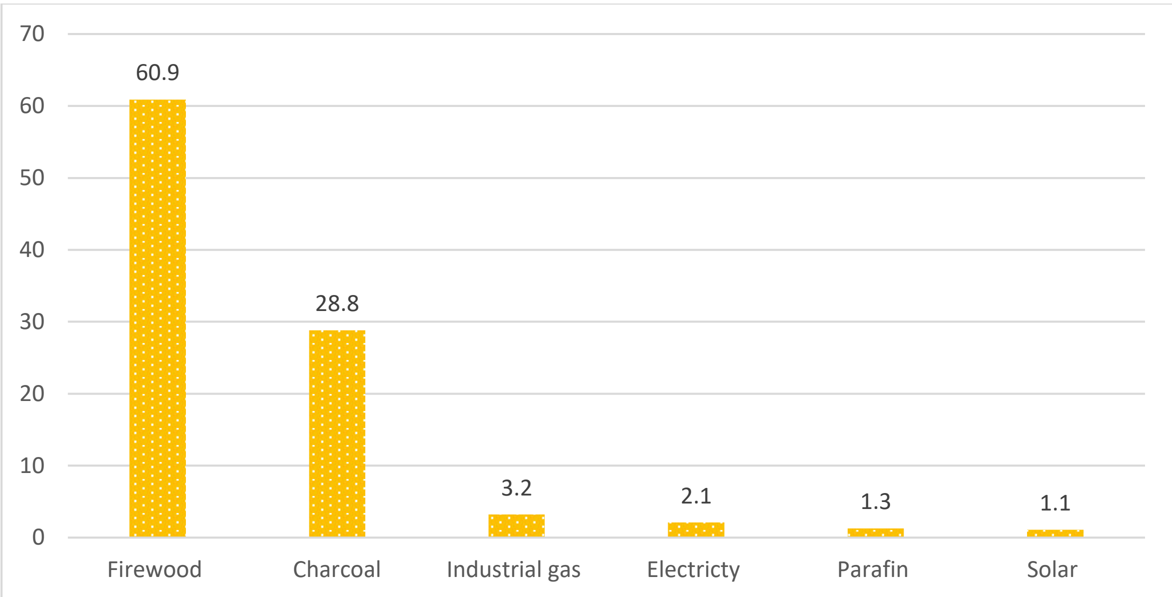
Access to electricity

Improving access to electricity in rural and urban areas is one of Tanzania's priorities for improving access to basic services. According to the National Five-Year Development Plan 2021/22–2025/26, the Government has set a target increasing electricity generation from 1,501 MW in 2015 to 4,915 MW in 2025/26. Tanzania also aims to connect 60 percent of its households to electricity, up from 39.9 percent in 2019/20 (URT 2021a: 82).[11] The *Energy Access and Use Situation Survey II in Tanzania Mainland 2019/20*, which uses TANESCO data, indicates that the percentage of the population with access to electricity has increased from 67.8 percent in 2016 to 78.4 percent in 2020 (Ministry of Energy et al. 2020). The report also found that 37.7 percent of households were connected to electricity.[12] These data seem to agree with the report by the Minister for Energy that up to March 2021, the total number of Tanzanians benefitting from electricity 78 percent of the country's total population of approximately 60 million people, and the proportion of households connected to the national electricity grid in Tanzania Mainland was 42 percent in 2020.

In addition to electricity, the energy sources used by households for cooking is one of the indicators used to calculate the MPI. Data from HBS 2017/18 indicate that the proportion of households using firewood as the primary energy source for cooking decreased from 73 percent in 2007 to 60.9 percent in 2017/18. Charcoal is the next most common energy source for cooking, used by 28.8 percent of households in 2017/18 up from 22.7 percent in 2007. During the same period, households using industrial gas for cooking increased from 0.2 percent to 3.2 percent. The distribution of households by the primary energy sources for cooking is summarized in Figure 11.

Figure 11:

Distribution of households by main source of energy for cooking, 2017/18



Source: HBS 2017/18 (MoFP 2020: 33-34)

[11] Several data sources explain progress towards improving access to electricity in Tanzania. These sources include (a) TANESCO data on citizen's access and connectivity to electricity; (b) Energy Access and Use Situation Survey 2019/20; and (c) Household Budget Survey 2017/18. However, a review of these various data sources reveals discrepancies in definitions, methodology for data collection, and ultimately, the information they tell on access to electricity in Tanzania.

[12] In this survey, "*electricity access*" was defined as *"the percentage of people in a given area that have relatively simple, stable access to electricity"* while "*household electricity connectivity*" was defined as "*an electric pole in the village and an electric bulb in the house. A household connected to electricity was a household whose source of electricity was TANESCO/ REA or a local private entity.*" (MoE et al 2020: vi)

With respect to energy sources for lighting, the use of electricity as the primary energy source for lighting by households has increased from 18.2 percent in 2011/12 to 29.0 percent in 2017/18. At the same time, the use of solar energy as the primary energy source for lighting has increased from 1.6 percent in 2011/12 to 26.5 percent in 2017/18. Other sources of energy for lighting were torch or rechargeable lamp (27.5 percent) and kerosene (7.6 percent).

1.5 Other attributes of human development

As noted in sub-section 1.1.1 above, a holistic assessment of a country's human development needs to encompass other attributes of individual and community well-being, including equitable access to resources, civil and political freedoms, and eliminating exposure to environmental hazards. Such attributes include recognition of space for local community self-help, equity in access to public services, security and justice, and sustainability (both socio-economic and environmental).

Not all of these 'quality-enhancing' attributes are amenable to direct quantification, except indirectly through specially designed surveys of opinions and/or changes in numbers of facilities and manning levels. However, it is valuable to consider them as they can enhance the quality of growth and positively influence the human development outcome indicators. Chapter V of the FYDP III identifies some of these attributes along with relevant interventions, which are overseen by public institutions (ministries, departments and agencies) to deliver social services, good governance, civic freedoms, and peace and security.

FYDP III pinpoints specific interventions for implementation with 2019/20 taken as the baseline and targets specified for 2025/26. Areas covered include social service infrastructure and facilities, rare/specialized skills and tailored-delivery systems for health, education, food security and nutrition, human settlements, water and sanitation, and social security. The plan aims to expand social protection and health insurance to vulnerable groups such as children, youth and women. The plan also alludes to 'productive inclusion' support entailing targeting beneficiary groups/households for support with information on existing livelihood enhancement services such as appropriate skills and community assets (URT 2021a: 4, 120).

As for good governance and the rule of law, both of which demand compliance with laws and procedures, the FYDP III builds on the work of earlier plans. It specifies interventions to push for efficient delivery of government services, such as increasing the number of professional and ethical civil servants, working tools, enabling infrastructure, and use of inclusive ICT in access to and delivery of justice and legal aid services. It also includes interventions to empower voice for representation in public choices (participation), political and social tolerance, and interventions for national defense and security institutions for the country.

With respect to the urban-rural divide, access to public assets, including the means to access information, continues to overwhelmingly favour urban areas. However, the rapid expansion of mobile telephony has greatly facilitated money transfer services in rural areas, but further communication infrastructure is needed. The distances to service points for villages and emerging townships are still prohibitively long, while rural roads are inadequate. Correction of these disparities will require massive financing of rural transport and communication infrastructure and services, so that cost-effective locations for social service delivery points can be established to contribute to the inclusiveness of growth.

Environmental sustainability as a theme has been mainstreamed in national planning frameworks following long-haul efforts from initiatives such as the National Environmental Action Plans 1994 and the National Environmental Policy (1997). Since the early 2000s, the Poverty Reduction Strategies (PRSPs) have elevated the environment to a critical cross-cutting issue (Assey et al. 2007; URT 2010b). Therefore, the environment has been etched more concretely in the development plans for sectors, local government authorities (LGAs), and communities identifying, planning, budgeting for and monitoring response actions. FYDP III continues to amplify environmental sustainability as the country pursues industrial development (Baya & Jangu 2017), promoting renewable, green energy technologies, climate change adaptation and capacity for managing climate change impacts. Climate financing and building disaster risk resilience ought to be part of planning sustainable development.

To further improve prospects for rural farm and non-farm activities, providing insurance cover to predominantly agricultural and informal activities (e.g., crop insurance and micro-insurance for small businesses) may strengthen their resilience against risks to their livelihoods. This is an area that requires further policy attention. Regarding health insurance, the combined coverage of the National Health Insurance Fund (NHIF) and the Community Health Fund (CHF) between 2015 and 2019 is reported to have increased from 20 percent to 33 percent (URT 2021a: 25), and coverage is the lowest in rural areas.

1.6 Concluding remarks

The analysis in this chapter has demonstrated that human development remains at the core of Tanzania's development policy. Although recent progress has been made on key dimensions and indicators, including the major milestone of reaching lower-middle-income country status in July 2020 based on GNI per capita, much more needs to be done. This will necessitate strategic planning, mobilization and allocation of financial resources to improve the country's human development indicators. Recognizing the mutually-reinforcing links between human development and economic growth, the FYDP III embarks on a mission to maintain the momentum of growth lest the country slip back into the low-income category. The plan articulates the high-level human development goals of TDV 2025, paying attention to expanding coverage, equity and quality of public services (URT 2021a: 5).

The projected growth rate of not less than 8 percent per annum requires that the country shall continue to expand its basic economic infrastructure (transport networks, water, power and digital infrastructure) and human capital. Further, due regard is placed on strengthening and modernizing the delivery of social services to increase service reach, quality and efficiency. Modernization is also intended to raise the competitiveness of the capabilities created through human development interventions and productivity in all sectors, including exports of goods and services.

The FYDP III also aims to enhance the role of LGAs in financing productive ventures that raise incomes and create employment and business opportunities for youth and women. Not least, the plan aims to enhance the financing capacity of the private sector. The Government pledges to continue making the private sector *"a strong and reliable partner in development"*. It also considers climate financing and disaster risk resilience as part of the strategy for sustainable development.

The FYDP III Financing Strategy forecasts a total investment of TZS 114.9 trillion to meet the objectives of the Medium-Term Expenditure Framework (MTEF) (MoFP 2021a). This is 6.7 and 17.8 percent higher than the aggregate budget and the share of public spending for FYDP II, respectively. The high cost of meeting national human development challenges calls for careful consideration of alternative modalities of financing development to mobilize higher levels of finances. The attainment of desired outcomes from these outlays hinges on the effective utilization of private sector resources and the integrated national financing framework (INFF), which integrates development priorities/SDGs into public finance and facilitates the monitoring and reporting on the implementation of FYDP III.

CHAPTER TWO: SCOPE OF FINANCING FOR HUMAN DEVELOPMENT IN TANZANIA'S DEVELOPMENT FRAMEWORKS

2.1 Introduction

As reported in Chapter 1, the data for many indicators of human development in Tanzania remain low by global standards. Despite significant progress over the last two decades, increasing and sustained investments in people, infrastructure, technology, and broader social change are required to transform lives (Asangu 2011). These investments will depend upon identifying and securing sufficient development financing. To contribute to this effort, THDR 2022 explores the concept and trends of financing for development with a focus on promoting human development.

Section 2.2 introduces the concepts and implications of 'financing for development' for economic growth and human development and links with regional partnerships and international support around United Nation's 2030 Agenda for Sustainable Development and the African Union's Agenda 2063. Section 2.3 discusses the government's efforts to align the SDGs with the Tanzania's development priorities in FYDP III and the role of the national Development Financial Assessment (DFA). Section 2.4 explores the financing landscape in Tanzania starting with government revenue, borrowing and expenditure and official development assistance (ODA). This is followed by discussion of domestic private financing including the banking and insurance sectors, pension funds and the potential for greater financial inclusion and formalization of the economy. Public-private partnerships (PPP) mechanisms and external (foreign) sources of financing, including foreign direct investment (FDI) and International Development Financial Institutions (IDFIs) are also presented. Sections 2.5 and 2.6 close out the chapter by highlighting the need for Tanzania to explore beyond traditional sources of development financing and to tap into alternative financing mechanisms to support human development.

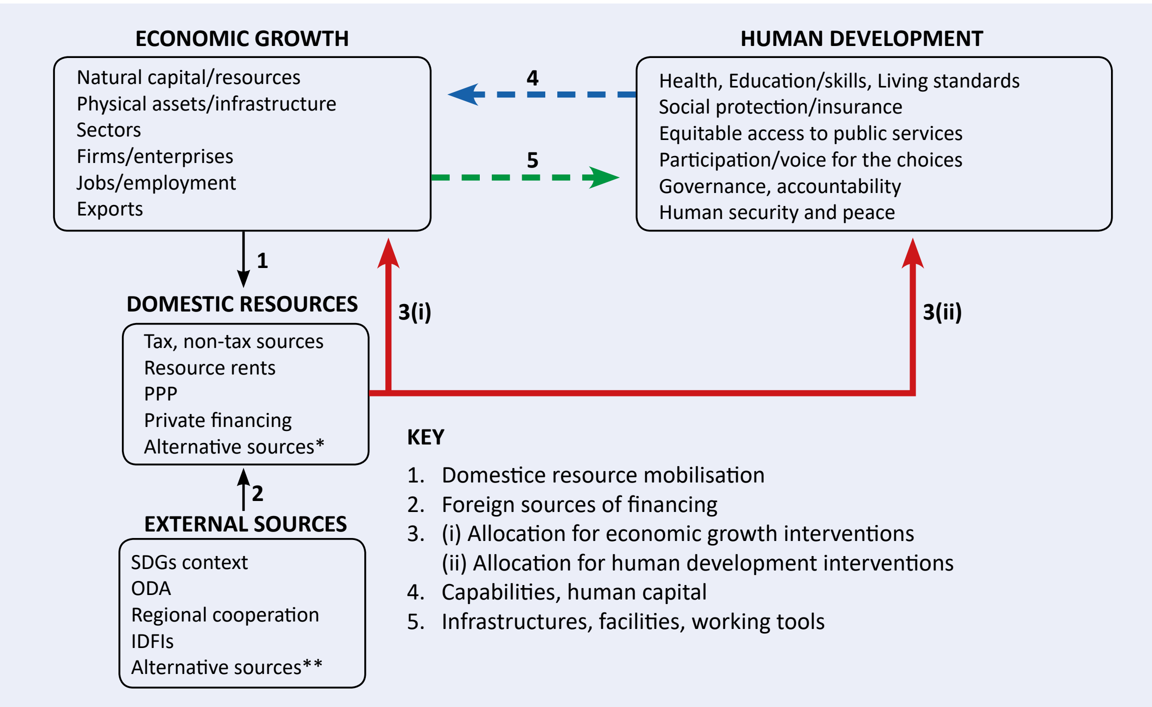
2.2 Financing for development

2.2.1 Economic growth and human development

'Financing for development' may be regarded as the mobilization and allocation of financial resources for economic growth interventions (*'the means'*) on the one hand and human development interventions (*'the end'*) of development policy on the other hand. Figure 12 illustrates some of the major components and interrelationships that underpin financing for development.

Figure 12:

Financing for development



Source: Prepared by THDR22 authors

To start, *domestic resources* and *external (foreign) sources* make up the total financial resources available for allocation. As shown in Figure 11, *domestic resources* may include financing through public-private partnership (PPP) arrangements, private financing and alternative financing sources. The latter refers to new financing mechanisms—largely private or joint domestic-foreign financing arrangements—already in place or under trial in other countries.

Under *external sources*, reference is made to action(s) by the international development community, through various forums, to mobilize financial resources for sustainable development. Multilateral organizations, the private/corporate sector and philanthropists have developed various support arrangements around social, economic and environmental sustainability that are attracting attention as possible sources of financing.

Financing for human development refers to mobilizing and targeting financial resources for human development interventions. The allocations to interventions for economic growth and human development—represented by arrows 3(i) and 3(ii), respectively—are normally negotiated through the national budgetary process.

As indicated by arrow 1, economic growth is a major driver of domestic revenue, hence, the resources available for human development. The economic growth 'block' in Figure 11 'produces', among other things, the physical infrastructure, facilities and tools used to deliver human development interventions, for example, education and health services, institutions for justice and governance, and security and peace measures. However, as indicated by arrows 4 and 5, economic growth and human development outcomes are interdependent. For example, education, which is an essential human development intervention, provides the productivity-enhancing skills and capacities of the labor force in the country's productive sectors to boost economic growth.

This interdependence was highlighted in two early global human development reports. *HDR 1991: Financing Human Development* emphasized the importance of economic growth to human development.

> *Just as economic growth is necessary for human development, human development is critical to economic growth. This two-way relationship must be at the heart of any enlightened policy action" (UNDP 1991: 1-2).*

It argued that *"... developing countries have the resources to meet many of their development goals"*, attributing this view to the existence of *"... the potential for restructuring national budgets and foreign assistance to meet human needs*" (ibid: 1-2, 5-8). Through appropriate policy reforms, countries would be able to secure additional resources for human development interventions. For example, fiscal consolidation would include reallocation (re-prioritizing) within the given budget limit, reducing inefficient public enterprises, avoiding 'prestige projects', checking capital flight, dealing with corruption, and tightening expenditure controls. These options remain open for most countries. Additionally, higher economic growth implies higher domestic incomes, higher exports, and an expanded tax base. If accompanied by the right revenue measures, national revenue capacity would be further enhanced.

HDR 1996: Economic Growth and Human Development similarly emphasized the need to forge and strengthen the policy and operational links between economic growth and human development; economic growth can be a *means* to human development (UNDP 1996). And as already noted in Chapter 1 of this report, with strong policy direction, economic growth and human development will reinforce each other (UNDP 2013).

With respect to sustainable development, financing for development recognizes that all three components of sustainability—social, economic and environmental—matter for economic growth and human development activities (UNDP 2019a). For instance, to engender socio-political sustainability, the equitable distribution of national assets (such as roads and facilities), jobs, political participation and human security are as essential to human development as they are for economic growth. For example, the extraction of natural resources must consider the environmental impacts (e.g., the effects on the ecosystem, health effects on the population, as well as the stock and quality of depletable resources for future generations) as well as governance concerning the fair distribution of proceeds to avoid conflict.

Governments are increasingly allowing/requiring modalities for the participation of private/corporate entities that promote social inclusion and environmental sustainability. Consequently, for-profit investors are taking an interest in 'social giving', such as corporate social responsibility, and in adherence to environmental protection requirements to gain access to investment opportunities in countries, regions, communities or specific sites even at a reduced financial return (UNDP 2019a; UNDP 2019b). In this way, the private sector finances aspects of sustainability. Modalities through which the private/corporate sector and non-state actors, domestic or foreign, are combining financing efforts—with or without government involvement—are emerging and they have become an important subject of interest in development financing. Indeed, countries that abide by or promote the tenets of sustainability have the potential to raise more financial and material resources above and beyond the traditional sources of finance.

2.2.2 Financing for human development in the context of the SDGs

The social sectors of an economy form an important human development 'layer' of the 2030 Agenda for Sustainable Development championed by the United Nations, which most countries, including Tanzania, have integrated into national development frameworks. Countries strive to raise domestic budgetary resources and solicit development partners' support to meet SDG targets. Key players include the national-level ministries, departments and agencies (MDAs) responsible for education, health, water and sanitation, good governance, gender, children, the youth, the elderly, people living with disabilities and other vulnerable groups, the environment and participatory institutions. MDAs are also responsible for exercising control over the collected resources, their allocation as well as accountability for their use. Non-governmental stakeholders include private domestic and foreign organizations and corporates.

The totality of human development amounts to a critical input in production—in terms of quantity and quality of human capital (knowledge/skills), good health, equality of opportunities, decent working conditions, and quality of environment—that drives national prosperity and competitiveness. Spending on human development enhances 'universal economic participation' (Mukherjee & Badola 2021), which, over time, contributes to larger mobilization of public resources, reduces over-dependence on public transfers and increases fiscal space for the government to finance programs for overall economic growth (Roy & Heuty 2009).

Spending on physical infrastructure—such as transport, water supply, health and education facilities, industrialization projects, extractive industries, and works/construction—is consistent with financing another (second) layer of interventions which, though not directly related to human development, contributes to meeting the SDGs. For example, projects like building a new road or expanding the national electricity grid and broadband to remote areas, which provide direct jobs (income and experience) and indirect jobs to various suppliers, not only contribute to SDGs 8 and 9 but also feed into elements of Agenda 2063 Goals 1 and 4.[13] Once projects are completed, social services, such as schools, health facilities, water supply, power, public administration, and law and order, are permanently located closer to people. In turn, income and spatial inequalities are reduced and inclusivity of growth is enhanced, along with beneficial multiplier effects in communities and the broader economy (Narayan 2000: 45-48).

Therefore, the financing of development projects that requires medium- to long-term investments and is aimed at structural transformation, not only significantly contributes to economic growth as envisaged by SDGs 8 and 9 but is also a good basis for generating more domestic financial resources, which can be allocated to finance further progress in human development.

The international community's acknowledgement of the need to mobilize 'extraordinary levels of financing' for the SDGs (and predecessor Millennium Development Goals [MDGs]) rallied nations to develop partnerships and attract more players. Indeed, SDG 17 specifically recognizes multi-stakeholder participation in mobilizing and sharing knowledge, expertise, technology and financial resources (UN 2015). Member states are urged to promote public-private and civil society partnerships to mobilize resources for sustainable development, including human development.

To this effect, the Addis Ababa Agenda for Action (AAAA)[14] identified seven areas of action for governments and non-government actors—(i) public (domestic) resources; (ii) private domestic and international businesses and finance; (iii) international development cooperation; (iv) international trade; (v) debt and debt sustainability; (vi) systemic issues; and (vii) science, technology, innovation and capacity building—all of which aimed to improve the availability and efficient deployment of financial resources for sustainable development. In this regard, the African Union's Agenda 2063 emphasizes thematic social goals aiming for a high standard of living (incomes, employment/decent work), peace and security, eradication of poverty, infrastructure, industrialization,

[13] SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all; SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; Agenda 2063, Goal 1: A high standard of living, quality of life and well-being for all citizens; Goal 4: Transformed economies (see https://au.int/en/agenda2063/sdgs)

[14] Adopted at the Third International Conference on Financing for Development (Addis Ababa, Ethiopia, 13–16 July 2015) and endorsed by the General Assembly in its resolution 69/313 of 27 July 2015.

and the environment (biodiversity, blue economy) (UN 2015). Appendix 1 of this report maps the goals and priority areas of Agenda 2063 with the SDGs.

2.2.3 Foreign assistance and other international cooperation-based initiatives

Global support for investments in social sectors and sustainability can be traced to the engagement of the international development community to end poverty, for example, the commitment by some countries of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) to meet the UN target for official development assistance (ODA) of 0.7 percent of their gross national incomes. According to UNDP (2018: 10) most donors are not likely to meet this target, however, some advanced economies maintain their commitment to financing for developing countries. For example, at the 45th summit of G7 countries in 2019, the member countries pledged to finance sustainable development in line with the 2030 Agenda.[15] In late 2021, the G7 announced the *Partnership for Global Infrastructure and Investment* (PGII) which focuses on raising finance to narrow the infrastructure investment gap in developing countries.[16] These countries support efforts for recovery from the pandemic towards sustainable recovery and support international climate and environmental commitments. Further, in their statement, *Sustainable Finance Roadmap 2021*, G20 member countries outlined their sustainable finance priorities, including scaling up finance for a just and affordable climate transition, nature and biodiversity, and social issues such as energy and poverty reduction.[17]

Overall, ODA targets project-type interventions, with social sectors taking the larger share in least developed countries (LDCs) in Africa, especially following the MDGs. However, there has been notable amplification of allocation toward productive sectors, economic infrastructure and services, as development partners seek to align their assistance with the development priorities of recipient countries and "in line with the broader focus of the SDGs" (UNDP 2019a: 79).

All of these commitments are made within the international context of aid effectiveness (or development effectiveness) and the ongoing dialogue around aid modalities (for example, budget support, direct project financing), monitoring and conditions that must hold for aid to be extended and for it to have intended development outcomes in poor countries.[18] The conditions—which, in some cases, are subject to strong disagreement—revolve around ownership, transparency, governance and accountability, timely delivery on pledges, and alignment of aid with recipient country priorities (Brett 2020). In the case of Tanzania, human development has remained one of the key focal areas in development partnerships (URT 2011).[19]

In addition, there are global partnerships for selected country-driven priorities. Examples include the Global Environment Facility (GEF), which provides finance for environmental issues, the Global Alliance for Vaccines and Immunization (Gavi), and the Global Fund to Fight AIDS, Tuberculosis and Malaria. In liaison with the President's Office - Planning Commission(in relation to financial flows), sector ministries may factor in agreed financing and/or capacity support in their sector plans and budgets.

With respect to efforts to curb illicit financial outflows, the monetary authorities and relevant sector ministries in charge of security and financial integrity of domestic institutions can access support through active participation in international multi-stakeholder institutions aimed at ensuring global financial stability and combating money laundering, corruption, the financing of terrorism, drug trafficking, and human trafficking, particularly of women and children.

To finance Agenda 2063, African nations are urged to take responsibility for mobilizing a greater share of financing from domestic sources (by an estimated 75 percent to 90 percent) through increased fiscal resource mobilization, natural resource rents, pension

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[15] *Financing for sustainable development: Improving measurement, mobilizing resources and realizing the vision of the 2030 Agenda and the SDGs*. Declaration of the 45th G7 summit held on 24–26 August 2019, in Biarritz, France. https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/G7%20Financing%20for%20Development%20Declaration.pdf accessed 20 March 2022.

[16] G7 Leaders Statement Partnership for Infrastructure and Investment | Prime Minister of Canada (pm.gc.ca) accessed 31 October 2022.

[17] *G20 Operational guidelines for sustainable financing*. https://www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/world/G7-G20/G20-Documents/g20-operational-guidelines-for-sustainable-financing.pdf?__blob=publicationFile&v=1 accessed 20 March 2022.

[18] See, for instance, *Busan Partnership for Effective Development Co-operation* https://www.oecd.org/dac/effectiveness/fourthhighlevelforumonaideffectiveness.htm accessed 19 March 2022.

[19] This statement by the Ministry of Finance for the Fourth High Level Forum on Aid Effectiveness in Busan, Korea in 2011 includes a short history of Tanzania's engagement with development partners since Independence until 2011, describing the 'principles' of the aid relationship deriving from the Development Cooperation Framework (DCF).

funds, foreign exchange reserves, sovereign wealth funds and capital markets.[20] Other suggested measures include enhanced retail savings (through expanded financial inclusion), curbing illicit financial flows, enforcing efficiency, checking waste and financial leakages, and enhancing infrastructural services. The remainder—of between 10 and 25 percent depending on the mobilization of domestic resources—would be financed through external sources such as FDI and ODA. South-South Cooperation (SSC) is also identified for the implementation of the SDGs as countries continue to work out high-impact modalities for international development cooperation (UNDP 2019a: 77).

Closer to home, the financing strategy for the East African Community (EAC) Vision 2050 is linked to the agreed outcomes of the Third International Conference on Financing for Development. It adds weight to domestic resource mobilization (DRM), followed by public-private-community partnerships and diversified private-sector sources, including FDI, capital markets development, and venture capital. It encourages teamwork in multilateral financing and bond issuance (EAC 2015). Other strategies include harmonization of the national financial regulatory framework and effective debt management to enhance efficiency in the monetary policies in the EAC region.

In sum, financing for development is looking beyond budget restructuring or fiscal consolidation; it is bringing together domestic and foreign governments and the private/corporate and civil society sectors in partnerships to devise financing mechanisms dedicated to specific human development causes. Besides financing, the partnerships offer technical support to the local private sector and public institutions, technological transfer as well as materials and supplies.

2.3 Aligning financing with SDGs in Tanzania

Tanzania maintains that the quality of economic growth is determined by human development and the Government has consistently kept human development at the center of the country's development policy. The theme for THDR 2014 was *"economic transformation for human development"* (ESRF, UNDP & MoF 2015), whereas THDR 2017 focused on *"social policy in the context of economic transformation."* Both THDRs were instrumental in preparing and implementing the Second National Five-Year Development Plan 2016/17–2020/21 (URT 2016). FYDP II emphasized industrialization and transformation as means to realize the central objective of human development. The current FYDP III (2021/22-2025/26) (URT 2021a), with its primary focus on *"realizing competitiveness and industrialization for human development,"* seeks to raise both availability and quality of health, education, skills development, water, nutrition, human settlements development, urban planning, and social security for individuals and society at large, without losing focus on environmental sustainability (URT 2021a).

The Government aligned the development priorities for both FYDP II and III with the SDGs, with the participation of the National Bureau of Statistics (NBS) and the Office of Chief Government Statistician of Zanzibar (OCGS) to map the indicators of the plans with those of the SDGs.[21] The exercises aimed to localize the SDGs and, in particular, enable the collection, recording and analysis of data to monitor and assess progress on SDG-related interventions. This went hand-in-hand with arrangements to strengthen data collection and analysis capacity. A National SDG Coordination Framework was set up in March 2022 to provide top leadership and coordination on implementation, monitoring and reporting on SDGs.

To guide the mobilization of financial resources, UNDP supported countries to undertake situation analyses and prepare Development Finance Assessment (DFA) reports to help them establish and manage different sources of finance for the SDGs through integrated national financial frameworks (INFFs). INFFs also aimed to galvanize government policy in terms of improvements in monitoring, addressing institutional issues, and governance and coordination arrangements. This way, countries would mainstream the financing of national and sub-national development priorities. Also infused in the INFFs are the values of international and local partnerships in identifying the synergies as well as the inherent risks in managing the mixed sources of finance (public, private, domestic and international) that were evolving. This exercise was guided in the first place by the realization that domestic sources of finance alone were inadequate and official aid had slowed down. At the same time, unacceptably high rates of poverty, hunger, climate change and threats to biodiversity continued to attract the attention of the private and not-for-profit sectors directly or in partnership with the state or local communities in financing human development.

In Tanzania, the INFF inception phase, which concluded with production of the *Tanzania Development Finance Assessment Report 2021* (URT & UNDP 2021) and approval of an INFF roadmap, coincided with the rolling

[20] Financing the SDGs: the Addis Ababa Action Agenda (AAAA) | Ideas for Action - Africa (ideas4action.org) accessed 19 March 2022.

[21] See for instance an annex to the VNR linking the SDGs indicators to plan indicators (URT 2019: 118ff).

out of FYDP III and the linking of the plan's objectives with various sources of development finances. The DFA provides an overview of the global, regional and national capacities to finance the country's development needs. It assesses the record of the main financial flows from external and domestic sources and private and public sectors, and examines how the Government can use the policies and instruments at its disposal to mobilize, invest and influence public and private, domestic and international sources to finance the priorities of FYDP III. The initiative further evaluates monitoring processes and reporting of financial flows for the plans and SDGs, and proposes an array of policy reforms regarding public finance to raise tax efforts and identify new sources of revenue.

The DFA makes recommendations on policies and reforms needed to facilitate and align the required financial flows to achieve the national priorities in FYDP III, including those on:

- Taxes, levies and fees collected by government agencies;
- Review of collection modalities/environment, including ways to promote voluntary compliance and put in place a simple but secure integrated collection system;
- Formalization of the informal sector, e.g., through incentives to register businesses not high-handedness by authorities;
- Making state-owned enterprises less reliant on fiscal subventions;
- Financing of LGAs; and
- Alternative financing options as well as insights on the debt management strategy.

Drawing on the analyses and issues raised in the survey of financing for development concepts and practice, the DFA and other government sources, the next section discusses financing trends in Tanzania over the last five years, in public (government) financing sources, private domestic financing, public-private partnerships, and private foreign sources.

2.4 Financing landscape in Tanzania

2.4.1 Domestic resource mobilization

In the *Voluntary National Review (VNR) 2019* (URT 2019), the Minister for Finance and Planning stated that while upholding the country's commitment to seeking support from international partnerships, greater efforts should be directed *"...towards domestic resource mobilization to ensure that financing of the SDGs is largely met through domestic financing"* (URT 2019: vi). The report also highlighted that recent reforms had enabled the country to increase the proportion of the government budget financed by domestic taxes. The Government continues to exercise expenditure controls to align spending with available resources but is also investigating alternative financing mechanisms.

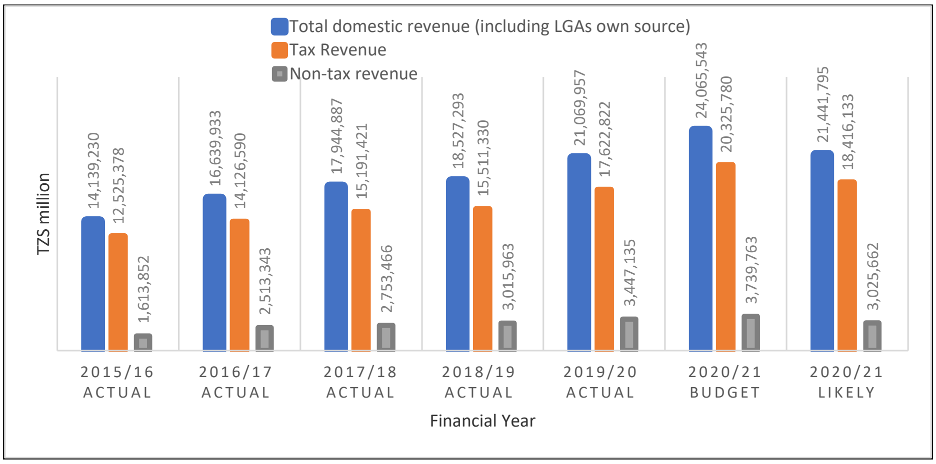
Government revenue

Over the past five years (2015/16–2019/20), total domestic revenue, including local government authorities' own sources, increased from TZS 14.1 trillion to 21.1 trillion in the financial year 2019/20 (Figure 13).

As a percentage of total revenue, tax revenue increased from TZS 12.5 trillion in 2015/16 to TZS 17.6 trillion in 2019/20. Non-tax revenue also steadily rose from TZS 1.6 trillion to TZS 3.4 trillion in 2019/20. Tax revenue dominates, contributing 84.9 percent of total revenue, while non-tax revenue averages 15.1 percent. Of further note, the budgeted (expected) figure for 2020/21 represented an optimistic outlook prior to the onset of the Covid-19 pandemic, while the 'likely' 2020/21 revenue figures in the final column take into account the negative economic impact of the pandemic.

Figure 13:

Trend in domestic revenue 2015/16–2019/20 (TZS million)



Source: URT (2021c) Budget Speech, June 2021.

Domestic revenue has been growing consistently below the set annual target; as a percentage of GDP, it has increased from 13.1 percent in 2013/14 to 14.7 percent in 2019/20 (URT 2021c). The rise in revenue is attributed to improvements in tax administration, use of the *Electronic Fiscal Devices Management System (EFDMS)* and enforcement of the use of the *Government Electronic Payment Gateway System (GePG)* in all government entities.

Tax revenue for the FYDP III period is projected to rise from 22.098 trillion in 2020/21 to TZS 30.658 trillion in 2025/26; non-tax revenue from 3.071 trillion to 4.03, and LGAs' own source revenues are expected to increase from TZS 0.864 trillion to TZS 1.102 trillion (URT 2021b: 14). For comparison, tax revenue rose by about 40.7 percent over the five years from 2015/16 to 2019/20 (see data in Figure 13). Based on the forward estimates in FYDP III, tax revenue is projected to increase at a slightly lower rate of 38.7 percent (comparing the initial and final year figures). However, non-tax revenue is expected to rise by 31 percent. Based on the same data, LGAs' own source revenues are expected to rise by 27.5 percent during the FYDP III period.

Other revenue measures included closer scrutiny of the performance of government institutions, tourism, and returns from extractive sectors, especially mining. Over the five-year period, 2015/16 to 2019/20, total non-tax revenue rose from TZS 1,613,852 million to 3,447,135 million, a rise of 114 percent. Notable revenue measures included efforts by government to secure an increase in the share of revenue from extractive companies. In addition, the Government pushed for higher contributions and dividends from parastatals and ministries, and regions. These contributions increased substantially from 2015/16 so that together, they consistently surpassed LGAs' own source revenue (URT 2021c: Annex 1, p.129).

The Government continues to improve tax administration and enforce revenue measures including raising awareness among traders and citizens on the use of electronic fiscal devices (EFDs). The problems of tax evasion and tax avoidance remain a matter for everyday enforcement by the Tanzania Revenue Authority and other relevant institutions.

Local government authorities

Local government authorities collect revenue from fees, levies and charges on various services. Table 4 shows LGAs' own source revenue trends from 2015/16 to 2019/20.

Table 4:

LGAs' own source revenue (TZS million)

Type of revenue	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Actual	Actual	Actual
Domestic revenue	13,622,182	16,128,215	17,403,388	17,868,195	20,352,708
LGAs' own sources	425,852	511,718	541,499	659,098	717,249
LGAs' own sources / Total domestic revenue (%)	*3.1*	*3.2*	*3.1*	*3.7*	*3.5*

Sources: URT 2021c (ibid)

These revenues mainly cover LGAs' recurrent expenditures but are inadequate to finance LGAs' development expenditures. Hence, LGAs must rely on central government subventions to fund development projects. Going forward, it may be possible to set up arrangements to enable LGAs to raise funds from private investors for viable commercial projects, for example, construction of bus terminals and/or market structures. These projects yield steady flows of revenue and foster an environment for 'decent' income-generation activities for multiple businesses. LGAs also need to train experts in the formulation of strategic projects that can be operated under Special Purpose Vehicles (SPVs).

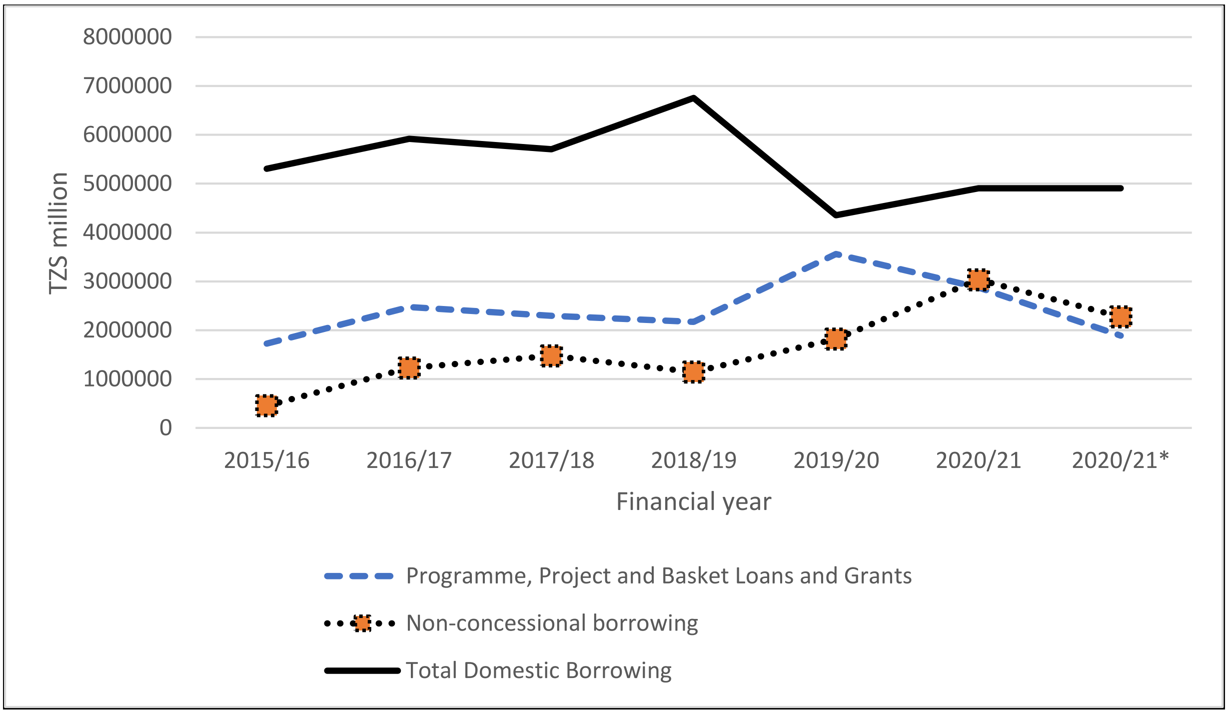
In general, strengthening the capacity of MDAs, regional secretariats (RSs) and LGAs in the preparation of bankable projects would enable them to access development financing from various financial institutions and investors. This would open a wider window for investment for the diaspora and a conducive environment for coordination of incentives for the private sector.

Government borrowing

The growing budget deficit necessitates government borrowing from domestic and foreign sources. On rare occasions, the central bank may have to increase the money supply if other sources are exhausted (Osoro, 1997); but 'printing money' is normally avoided. Borrowing from domestic sources has been widely used in Tanzania. Between 2015/16 and 2018/19, the government's total domestic borrowing—which comprises domestic borrowing for financing new development projects and a sum set aside for financing the rollover of Treasury bills and bonds—peaked in 2018/19, after which it dropped in 2019/20. As shown in Figure 14, government borrowing has barely lifted to the 2015/16 level. The sharp drop between 2018/19 and 2019/20 is matched by a simultaneous rise in financing from foreign sources of loans and grants (itemized as program loans and grants, project loans and grants, basket support loans and basket support grants) as well as non-concessional borrowing. However, beginning in 2020/21, these two external financing sources drop from 'budgeted' to the 'likely' outturn for that year.

Figure 14:

Trends in government borrowing 2015/16–2019/20 (TZS million)



Source: Detailed data can be found in Appendix 2 of this report.

It may be noted, therefore, that even amid the pandemic beginning in 2020, domestic borrowing picked up slightly as foreign sources of financing dropped. And, according to Tanzania's Medium-Term Debt Management Strategy (URT 2021b), concessional sources are likely to decrease further. This implies that the Government will need to focus on increasing sources of domestic revenue, including domestic borrowing. But caution has to be taken to ensure that expanded government borrowing does not crowd out the private sector.

Official development assistance

For many years, Tanzania has received significant official development assistance inflows for its recurrent and development expenditures. Following improvements in domestic revenue collection, ODA as a proportion of the total resource envelope declined to about 8.7 percent in 2019/20 from 28.2 percent in 2010/11 (President's Office - Planning Commission 2021a: 7).

This change coincided with the rise in external non-concessional borrowing. This followed a decline in concessional loans, which are likely to drop further since the country graduated to lower-middle-income status in July 2020. It is projected that grants will decline gradually for the next five years from TZS 1.138 trillion in 2021/22 to TZS 0.52 trillion in 2025/26 (URT 2021b). These trends further underline the need to increase reliance on domestic revenue efforts along with the prudent use of external financing given the rising national debt. The country's push for more development projects further emphasizes the need to opt for concessional loans and the Government's drive for more efficient domestic resource mobilization. Accordingly, development projects for FYDP II and III have been chosen for their high multiplier and income/revenue generating impact, which should, in turn, enable the country to not only underpin structural transformation but also create capacity to service debt.

The Government continues to implement various measures outlined in the Development Cooperation Framework (DCF) for dialogue, disbursement of grants and concessional loans, honoring commitments, mutual accountability and other important issues in managing aid relationships.

National debt

The national debt, which comprises external debt (public and private) and domestic debt, has increased over the last five years. As of the end of June 2020, the total national debt stood at $29,675.6 million (47.4 percent of GDP in nominal terms) (URT 2021b: 6). Trends in external and domestic debt are shown in Table 5 and Figure 15, which includes additional information on the national debt-to-GDP ratio.

On average, the external debt hovers around 77 percent and domestic debt at 23 percent of Tanzania's total national debt over the past five years. After a significant 63 percent rise in 2016/17, the annual percentage change in domestic debt was contained at the average of 1.9 percent in the last three years, rising to $6,756 million in 2019/20.

Table 5:

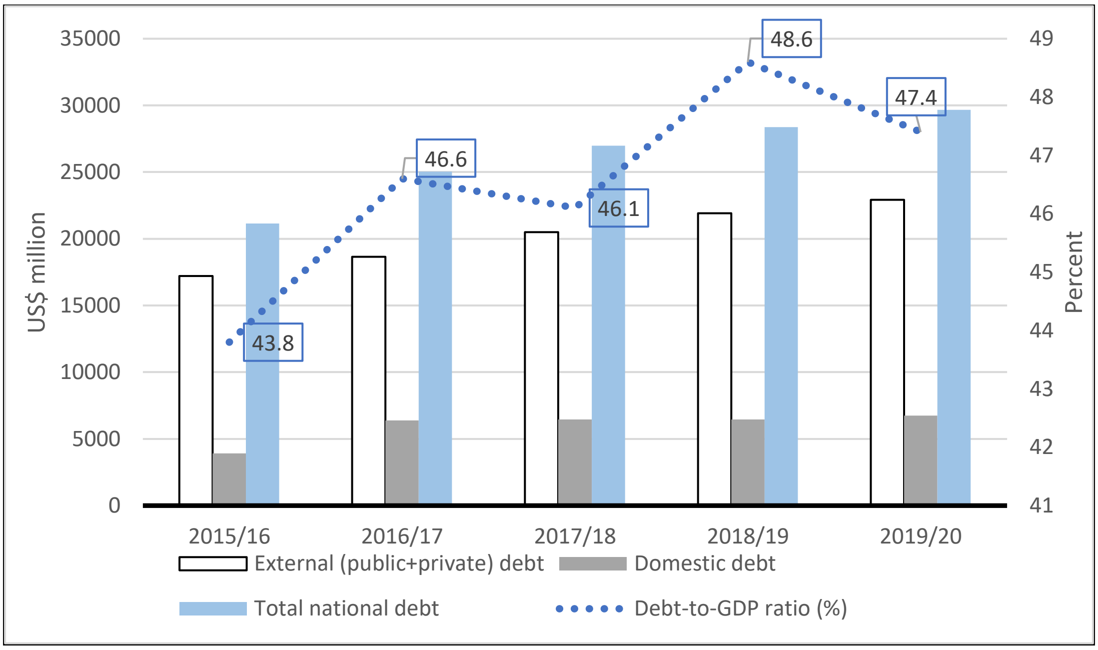
Trends in national debt (US$ million) 2015/16 to 2019/20

Type of debt	2015/16	2016/17	2017/18	2018/19	2019/20
External (public and private) debt	17,223	18,651	20,503	21,921	22,919
Percentage of total national debt	81%	74%	76%	77%	77%
Domestic debt	3,917	6,384	6,468	6,460	6,756
Percentage of total national debt	19%	26%	24%	23%	23%
Total national debt	**21,140**	**25,035**	**26,971**	**28,381**	**29,675**

Source: URT 2021b

Figure 15:

Trends in public debt 2015/16 to 2019/20



Source: URT (2021b)

The principal change with respect to external financing is that concessional sources of finance declined from 66.6 percent in 2015/16 to 55.5 percent by 2019/20. Over the same period, Tanzania has had to take on more non-concessional sources, up from 33.4 percent in 2015/16 to 44.5 percent in 2019/20 (URT 2021b: 9). Multilateral institutions are still the country's major creditors followed by bilateral institutions.

Subject to continued and congenial DCF dialogue, Tanzania will seek external loans for its ambitious development projects, at least in the medium term, through budget support, basket funding and project support. Based on projected borrowing from 2020/21 to 2025/26 (DFA/INFF data), non-concessional loans are going to account for 51.2 percent of external finance, followed closely by project support loans (48.7 percent), while budget support loans will account for only 0.1 percent of total borrowing (TZS 19.539 trillion) until the end of the FYDP III period.

Domestic debt is primarily used to finance development projects. In Tanzania, borrowing is predominantly through the issue of government bonds; in 2018/19, bonds accounted for 66.2 percent of total domestic borrowing rising to 72 percent in 2019/20 (URT 2021b: 10). The government's preference for bonds reflects the desire to have longer-term maturity of debt to reduce refinancing risk. Key creditors to the government are commercial banks, pension funds, insurance, non-bank financial institutions and the private sector. Based on the latest debt sustainability analysis (DSA), Tanzania's debt burden is within 'sustainability thresholds' (see Table 6).

Table 6:

Debt sustainability indicators (2021)

Indicator	Measures (in %)	Threshold in (%)
Present value of the public debt-to-GDP ratio	27.9	70
Present value of the external debt-to-GDP ratio	17.3	55
Present value of the external debt-to-export ratio	113.2	240
External debt service-to-domestic revenue ratio	13.7	23
Debt service-to-exports ratio	14.0	21

Source: Compiled from URT (2021c: 13-15)

Based on these indicators, Tanzania may continue to borrow from domestic and foreign sources and to service those debts, but it is imperative to act beyond domestic resource mobilization measures and promote new productive investment activities, given the country's growing population and extensive natural resources. The investments that are financed by debt should be ones that stimulate growth and fast-track economic transformation, which, in turn, will bolster the country's capacity to service the debt and reduce dependence on aid. Continued reliance on primary/commodity exports increases vulnerable to the whims of world markets, while domestic supply capacity constraints limit economic growth which, in turn, affect domestic revenue capacity and the capacity to expand exports (Amani 2004). Further, debt sustainability requires careful management of policy variables that affect the magnitude of the debt and debt servicing. The central bank needs to constantly monitor the movements of domestic *versus* foreign interest rates and exchange rates. Changes in interest rates affect the volumes of inward/outward capital flows. Exchange rates affect the magnitude of foreign exchange earnings on exports and payments on imports and debt servicing as well. Consequently, they affect the level of foreign exchange reserves and capacity of the country to meet other external payments obligations. Most of the external balance accounts are normally denominated in a foreign currency (US$).

2.4.2 Government expenditure

UNDP (1991) proposed a set of indicators that would enable a country to measure the extent to which its national budget was spent on human development outcomes. For instance:

- The "s*ocial allocation ratio*" was defined as "*the percentage of public expenditure allocated to social services*";
- The "*social priority ratio*" was defined as "*the percentage of social expenditure to total human priority needs*" and;
- The "*human expenditure ratio*" was defined as "*a percentage of public expenditure devoted to priority human concerns.*"

However, monitoring these indicators depends on the availability of relevant data, and would require careful tagging of the budget codes to targeted social sectors or identified SDG indicator(s) and the sum expressed as a percentage of total expenditure. This analysis is not possible for the current report. Instead, two alternative analyses have been performed: trends in total budgetary spending broken down into recurrent and development expenditure and then development expenditure disaggregated into local and foreign financing.

Trends in total expenditure

Table 7 shows the distribution of total spending by recurrent and development expenditure. Recurrent expenditures are broken into consolidated fund services (CFS) comprising: (i) expenditure on debt service and other CFS debt service; and (ii) non-CFS recurrent spending, including wages and salaries, parastatal personnel emoluments, LGA own sources of revenue, and other charges (OC). Development expenditure is broken into local and foreign financing.

On average, total expenditure as a share of GDP at market prices (GDP_{mp}) for the period 2015/16 to 2019/20 stood at 20 percent of GDP, recurrent expenditure averaged 15 percent of GDP and development expenditure averaged 6 percent.

Table 7:

Recurrent, development and total expenditure (TZS million; % of GDP$_{mp}$)

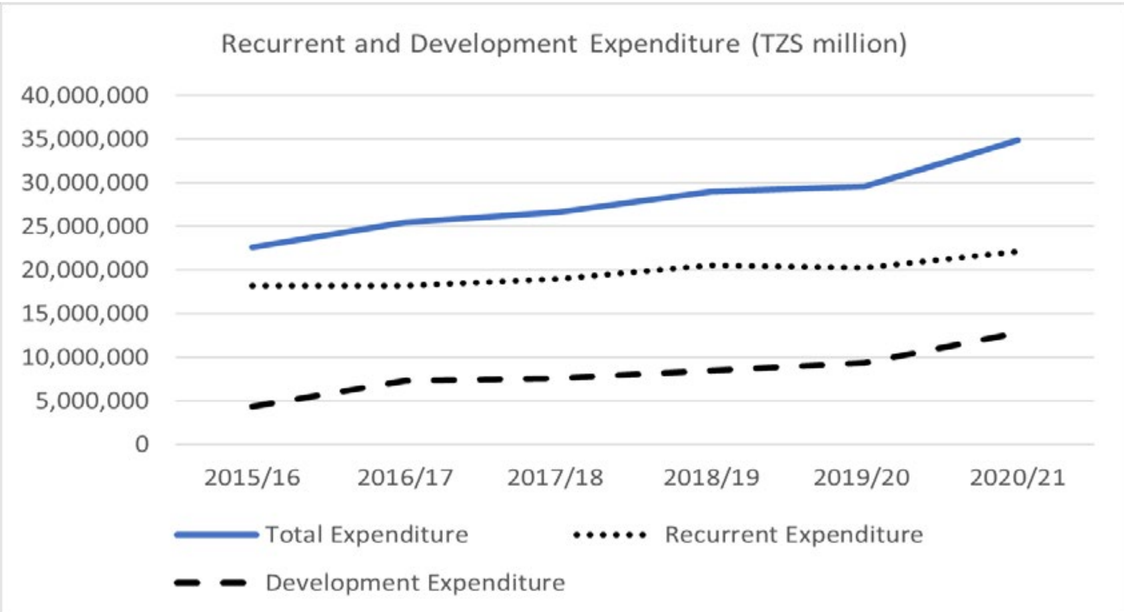
	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Budget	2021/22 Likely	2021/22 Budget
Total Expenditure	**22,543,664**	**25,417,791**	**26,610,843**	**28,962,515**	**29,515,050**	**34,879,793**	**30,059,331**	**36,329,740**
% of GDPmp	*22.2*	*22.4*	*21.7*	*21.9*	*20.6*	*22.1*	*19.4*	*21.7*
Recurrent Expenditure	**18,204,111**	**18,144,967**	**18,995,074**	**20,468,676**	**20,206,266**	**22,100,538**	**21,113,852**	**23,002,951**
% of GDP	***18***	***16***	***15.5***	***15.5***	***14.1***	***14.0***	***13.6***	***13.8***
CFS	*6,480,906*	*8,643,560*	*9,532,987*	*9,113,538*	*9,919,609*	*10,476,832*	*9,976,294*	*10,663,278*
Debt Service	*5,047,764*	*7,234,530*	*8,133,063*	*7,701,842*	*8,304,618*	*8,649,941*	*8,536,619*	*8,878,420*
CFS Others	*1,433,142*	*1,409,030*	*1,399,924*	*1,411,696*	*1,614,991*	*1,826,891*	*1,439,675*	*1,784,858*
Recurrent Exp. (excl. CFS)	*11,723,205*	*9,501,407*	*9,462,087*	*9,663,058*	*10,286,658*	*11,623,706*	*11,137,558*	*12,339,673*
o/w Wages &Salaries	*5,627,497*	*5,599,246*	*5,544,384*	*5,699,188*	*5,939,616*	*6,583,033*	*6,542,126*	*6,912,184*
Parastatal P.E.	*925,760*	*767,901*	*783,292*	*960,385*	*1,066,695*	*1,179,357*	*1,167,563*	*1,238,325*
LGAs own Sources	*170,340*	*251,484*	*216,600*	*349,322*	*419,428*	*481,870*	*457,401*	*532,768*
Other Charges	*4,999,607*	*2,882,775*	*2,917,811*	*2,654,163*	*2,860,918*	*3,379,447*	*2,970,469*	*3,656,396*
Development Expenditure	**4,339,553**	**7,272,824**	**7,615,768**	**8,493,838**	**9,308,784**	**12,779,255**	**8,945,479**	**13,326,788**
% of GDPmp	*4,3*	*6.4*	*6.2*	*6.4*	*6.5*	*8.1*	*5.8*	*8*
Local	*2,904,530*	*5,141,451*	*5,397,034*	*6,535,879*	*6,840,104*	*10,043,206*	*7,030,244*	*10,370,865*
Foreign	*1,435,023*	*2,131,374*	*2,218,735*	*1,957,959*	*2,468,680*	*2,736,049*	*1,915,234*	*2,955,923*
GDPmp	***101,355,820***	***113,553,411***	***122,835,229***	***132,049,549***	***143,297,783***	***157,767,884***	***155,005,471***	***167,286,243***

Source: URT 2021c: Annex 2a, p.130; % of GDP from Annex 2b, p. 131.

Figure 16 shows the trends in recurrent and development expenditures over the last five financial years, while Figure 17 plots the trend in development expenditure disaggregated into domestic and foreign sources for the same period.

Figure 16:

Recurrent and development expenditure



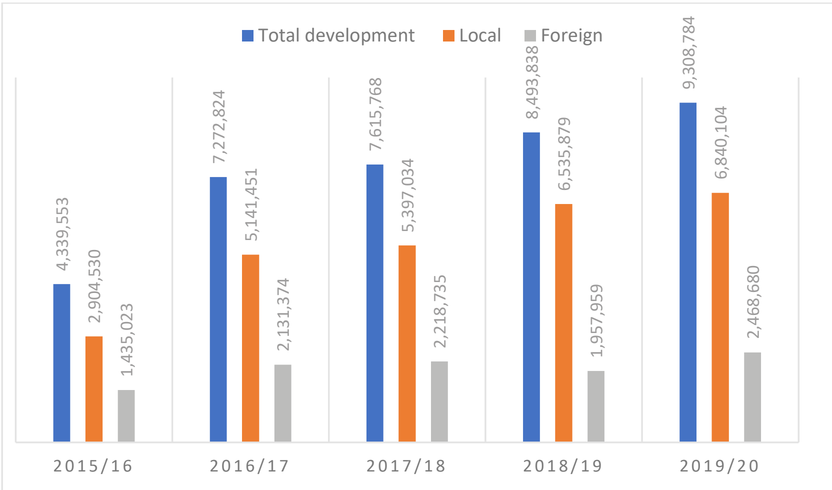
Source: URT 2021c (ibid)

Total expenditure increased between 2015/16 and 2016/17 and maintained a slow increase thereafter until 2019/20 when it rose significantly to the 2020/21 level. Recurrent expenditure, though always higher than development expenditure, did not show marked increase over the same period. According to URT (2021b: 22), expenditure is expected to rise to an average of 22.1 percent of GDP in the medium term up from 21.1 percent of GDP that was recorded in the period 2015/16 to 2019/20.

Figure 17 shows that between 2015/16 and 2016/17 domestic sources of development financing accounted for an increasing percentage of total development expenditure.

Figure 17:

Local and foreign sources of development expenditure (TZS million)



Source: URT 2021c (ibid)

Foreign financing of development moved around the 2016/17 and 2017/18 levels, only showing slight increase in 2019/20. While, in 2015/16, domestic financing made up to 67 percent and foreign financing 33 percent of total development spending, in 2019/20, the domestic share was 73 percent compared to the foreign share of 27 percent in total development expenditure.

2.4.3 Domestic private financing

Credit to the private sector

The financial sector plays a key role in mobilizing finance for private sector development. In Tanzania, the financial sector is dominated by the banking sub-sector (70 percent). Non-bank financial institutions, including pension funds, insurance companies, and securities exchanges, for example, the Dar es Salaam Stock Exchange (DSE), make up the other 30 percent.

The Bank of Tanzania (BoT) is mandated to expand and modernize the sector and ensure financial stability. It regulates, licenses and supervises all commercial banks, microfinance institutions, community banks, development finance banks, mortgage financing companies, representatives of foreign banks, and bureaux de change. BoT also implements measures to instil confidence in the banking system, for example, the establishment of the credit reference databank, and works with commercial banks to reduce the incidence of non-performing loans (NPLs). As a percentage of gross loans, NPLs dropped from 10.8 percent at the end of June 2020 to 9.3 percent by the end of June 2021 (BoT 2021: 25). The central bank exhorts commercial banks and other financial institutions to strengthen their credit risk management, such as improving credit underwriting procedures, and the use of credit reference information to reduce exposures to credit risks and enhance loan recovery measures.

The basic source of funds for investment are savings. In Tanzania, banks rely on savings by households and enterprises. These deposits are then used by banks to provide credit to customers (firms and individuals) at lending interest rates. The deposit rate should be attractive to savers, but at the same time, borrowers are keen on a favourable commercial bank lending rate. These rates, though market-determined in a liberalized market setting, are guided by the central bank rate or discount rate, which is the interest rate at which the central bank lends money to commercial banks and banks extend credit to borrowers in different sectors.[22]

[22] When commercial banks are low on cash reserves, they can borrow from the central bank at this bank rate so they can offer credit to their customers at a comparatively higher rate for a profit. The central bank raises the *bank rate* if it wants to

The data on credit extension from the Bank of Tanzania identifies about 18 sectors/sub-sectors: agriculture, hunting and fishing; financial intermediaries; mining and quarrying; manufacturing; building and construction; real estate and leasing; transport and communication; trade; tourism; hotels and restaurants; warehousing and storage; electricity; gas; water; education; health; and personal and other services.

By the end of 2014, the largest share of bank credit went to personal loans, followed by trade, manufacturing, transport and communication activities (URT 2015: 19-20). Data from the Bank of Tanzania shows average shares for the period 2010 to 2014. The Development Finance Assessment report indicates a similar pattern—personal loans account for the largest share of bank credit while trade, manufacturing and agriculture also receive significant sums (URT & UNDP 2021). Credit is also extended to real estate, building and construction activities. According to the BoT Annual Report in 2020/21, bank credit to the private sector grew at an average of 4.3 percent as opposed to 8.1 percent in 2019/20, attributing the drop to a decline in demand for new loans linked to the negative impact of the Covid-19 pandemic on business and investment activities (BoT 2021: 23).

The banking sector has been expanding following the liberalization of the financial sector in the early 1990s. However, banking services have not grown wide enough to cover all geographic areas of the country, and not all firms and households that need loans have been able to access credit. As of 2020/21, only 17 percent of the adult population were using bank services, but this is expected to rise to 33 percent by 2025/26. Bank deposits as a percentage of GDP are expected to rise from 17 percent to 21 percent over the same period (URT 2021a). FYDP III envisages continuing expansion of banking services to all areas of the country and for all income levels. The central bank further focuses on ensuring stability of the financial sector and payment systems and on modernizing the sector by supporting innovation and the use of advanced technology in the delivery of financial services.

In Tanzania, micro- and small-sized enterprises (MSEs) as well as low-income and less-advantaged groups, such as youth and women, who cannot meet collateral requirements and other loan conditions, are underserved by financial services. Banks perceive MSEs and low-income groups as risky to do business with. This financing gap is partly covered by savings and credit cooperative societies (SACCOS), credit-only companies and microfinance banks, all of which are under the central bank's supervision. In this regard, the central bank aims to improve public confidence in the intentions of government policy to promote financial inclusion and consumer protection (BoT 2021: 54, 185; Balele et al. 2018).

Another issue in the financial sector is the shortage of sources for long-term finance for large development projects. Existing (local) development financial institutions do not have an adequate capital base. Local development banks now include TIB Development Bank Ltd and TIB Corporate Bank (formerly Tanzania Development Bank), Tanzania Agricultural Development Bank (TADB), which provides longer-term loans for agriculture, and Tanzania Mortgage Refinance Company (TMRC) Ltd, which provides long-term loans for financial institutions that, in turn, lend for housing purposes.

Other sources of financing include instruments such as Treasury bills and Treasury bonds managed by the Bank of Tanzania, the corporate bonds market and the Dar es Salaam Stock Exchange in which investors trade securities. The problem here is that there is little public awareness of these instruments as a form of financial resource mobilization compared to banks.

Pension funds

Pension funds (PFs) mobilize financial resources from member contributions, aiming primarily to protect the benefit pay-outs to contributing members. The National Social Security Fund (NSSF) and the new Public Service Social Security Fund (PSSSF)[23], along with the National Health Insurance (NHIF), the Community Health Fund (CHF) and Workers' Compensation Fund (WCF) are the main pension funds.[24]

In general, with collections 'mobilized' from members, PFs invest in liquid assets such as bank deposits, and Treasury bills and bonds, or in illiquid assets, such as long-term, development finance projects. Pension

discourage credit creation capacity of the commercial banks (and thus reduce liquidity in the economy). If the bank wants liquidity in the economy to expand, it may lower the *bank rate*, thus allowing commercial banks to increase their credit creation capacity. Other monetary policy tools at the disposal of the central bank include the cash reserve ratio or *statutory minimum cash reserve requirement*, a policy by which the central bank requires all commercial banks to keep a specified proportion of their customers' deposits with the central bank. Other instruments include open market operations and quantitative restrictions.

[23] In 2018, four pension funds, namely the Public Service Pension Fund (PSPF), Local Government Pension Fund (LAPF), Public Pension Fund (PPF) and Government Employees Pension Fund (GEPF) were merged to form a new Public Service Social Security Fund (PSSSF).

[24] For information on the scale of operations (members and investments) of these funds, see Shemndolwa et al. (2018).

funds find the first option less risky, hence, more appealing than the second option. Though long-term investments can yield high returns, PF finance managers are required to minimize the risk of loss of members' contributions, and relatively illiquid assets cannot be readily converted to cash when member benefits are due. For that reason, investment guidelines set by the Bank of Tanzania require PFs, for instance, to show that a prospective project can yield a return that is higher than the yield on government securities, otherwise permission has to be sought from the Bank for that investment. The guidelines further set limits on the categories of allowable investments, for example, direct loans to government, commercial paper/promissory notes, ordinary and preference shares, unlisted equity, real estate, infrastructure, fixed deposits, and time deposits.[25]

Pension funds are currently grappling with a number of issues that vary in intensity across the funds. To attract more members (and, hence, contributions), PFs are taking image-building steps, such as reducing the length of time to process member benefits, raising cash benefits, and reducing administrative costs, as well as reducing non-performing assets, which have affected some funds. The reforms have also aimed to assure a measure of equity of benefits across funds. The funds need to improve their efficiency—for example, reduce administrative expenses to contributions ratio, among other measures—to sustain their capacity to meet obligations to members while generating sufficient income to make the funds sustainable.

Inclusive insurance

Insurance contributes to the mobilization of financial resources. For this to happen, the number of players in the sector (companies) and types of policies will need to expand, underpinned by trust among their clientele. By offering protection against risks to life, health and assets, inclusive insurance goes beyond financial sector development by providing protection mechanisms for all, mainly income groups generally excluded from the insurance market. Other companies adopt the term "micro-insurance" to describe schemes that target low-income populations; at the minimum, these policies need to be simple in content, with clearly defined coverage, insured sums and benefits, designed to make possible immediate indemnification payments and with minimal documentary requirements.[26] Inclusive insurance aims to extend protection to new segments of the population. But it also entails financial education for these potential clients to raise their demand for insurance.[27] Inclusive insurance policies typically aim to be broader in coverage, including cover for weather-born catastrophes, tectonic shocks (i.e., earthquakes) and climate change impact. Particular attention is paid to help reduce vulnerability, build the resilience of the poor or those in vulnerable situations, and minimize exposure to weather-related risks (Wanczeck et al. 2017).

Like in many developing countries, Tanzania's insurance sector is not well developed. The FYDP III identifies three priority areas for insurance in Tanzania:

i) Raising public awareness about insurance;

ii) Expanding local demand-driven insurance products; and

iii) Creating mechanisms to simplify processing of claims, complaints and settlements.

FYDP III seeks to raise insurance penetration, i.e., contribution of insurance to GDP, from 0.7 percent in 2020/21 to 2 percent by 2025/26. The third action area implies attracting or stimulating demand for insurance and presumes a need for reduced bureaucracy, i.e., rectifying real or perceived bottlenecks in claims processing that have been experienced by policy holders.

Insights on the direction of inclusive insurance in Tanzania have been drawn from a draft diagnostic report produced by the Tanzania Insurance Regulatory Authority (TIRA) in collaboration with UNDP (URT, TIRA & UNDP 2022), which may be read in conjunction with broader discussion on financial inclusion in the next sub-section.

TIRA is mandated to oversee general and life insurance and must ensure that the market is efficient, fair and stable. It has spearheaded the development and modernization of the insurance sector, including microinsurance, digitalization, and use of mobile telephony and bancassurance.

The most common insurance policies taken out in Tanzania include commercial and private insurance as well as health insurance. In the case of vehicle insurance, customers take out compulsory insurance. Insurance against fire is binding for all business premises; but not all business enterprises comply with this requirement. People may—and are encouraged to—take out voluntary health insurance but the government requires employers to contribute for their employees.

Otherwise, insurance is less known in rural areas than in urban areas. Even in urban areas, only a limited

[25] See, for instance, listing in BoT 2019 and Shemndolwa et al. 2020, Table 5.

[26] https://www.mapfre.com/en/insights/corporate/inclusive-insurance-solution-protection-countries-roads-development/

[27] Ibid.

percentage of people understand what insurance can cover other than motor vehicles, health and accidents. Moreover, few urban individuals/households and MSEs would consider it necessary or affordable to seek insurance cover; the same goes for farming households in rural areas.

The TIRA report also examines the types of disaster risks that have befallen Tanzania in recent years, and the types of losses these disaster risks inflict on life, health, property/assets, physical infrastructure and production activities. Such events stress the national budget (for emergency/relief costs) and the health sector, and cause costs of rehabilitation or replacement to rise unexpectedly. The risks further imply output loss to businesses and potential tax revenues, especially when businesses collapse due to a disaster.

The report identifies preventive actions that the Government can undertake to avoid or minimize disaster risks, including better land-use planning and engineering codes for infrastructure and buildings to withstand shocks/disruption. Additionally, residents in disaster-prone areas may be urged to take similar preventive actions when establishing settlements.

Existing disaster risk financing arrangements include the National Disaster Management Fund (NDMF)—a contingency fund set up by the central government for response and recovery for all sectors—and financial and material support provided by private and international relief agencies. The report acknowledges the limited contingency funds available and laments the slow process of raising relief resources.

Overall, the TIRA diagnostic report proposes expanding public awareness of the activities of the insurance sub-sector and steps to integrate disaster risk information into fiscal and public debt management.

Financial inclusion

Financial inclusion is an evolving practice of reaching out to those enterprises and individuals who are, for many reasons, unable to access formal financial services. Financial inclusion aims to expand access to the means to transfer/pay and/or receive money. It enables beneficiaries to participate in productive and exchange activities in real-time, thanks to advances in ICT, mobile banking and mobile telephony.

The Government instituted the National Microfinance Policy 2000 and the First Financial Inclusion Framework 2014–2016. Financial inclusion addresses financing economic sectors such as agriculture, industry, enterprises, gender, youth, and disadvantaged groups. A few issues need to be addressed, including the informality of enterprises, continued concentration of financial service providers in urban areas, and limited access of the majority of the population to financial products and services like insurance, securities, and social security schemes. The policy and framework were reviewed, leading to the development of the National Microfinance Policy 2017 and the Second National Financial Inclusion Framework 2018–2022.

The implementation of the Financial Inclusion Framework led to increased access to formal financial services for the adult population, from 15.9 percent in 2009 to 65 percent in 2017. The growth is mainly attributed to the introduction of mobile financial services and the extension of banks through branchless services (agency banks). According to the FinScope Survey 2017,[28] 16.7 percent of the labor force was served by banks compared to 9.0 percent in 2009 and 14 percent in 2013, while 48.6 percent was served by non-banks—microfinance institutions (MFIs), insurance companies, SACCOS, financial NGOs, and mobile payment services) compared to 7.0 percent in 2009. The trends are summarized in Table 8.

Table 8:

Uptake of Financial Services 2009, 2013 and 2017 (%)

Description	2009	2013	2017
Have or use bank services	9	14	16.7
Don't have/use formal services but use informal services	29	16	6.7
Don't have or use bank services but have / use other formal services	7	43	48.6
Financially excluded	55	27	28
Total	100	100	100

Source: FinScope Survey 2017, p.44, Chart 25.

[28] https://www.fsdt.or.tz/wp-content/uploads/2017/09/FinScope-Tanzania-2017-Insights-that-Drive-Innovation.pdf 02/11/2022. The report makes reference to three surveys, namely, FinScope Tanzania 2017 April-July, FinScope 2013 and FinScope 2009, jointly produced by President's Office - Planning Commission, Bank of Tanzania, National Bureau of Statistics, Office of the Government Statistician (Zanzibar) and Financial Sector Deepening Trust (FSDT).

Likewise, the report indicates that, in 2017, 6.7 percent of those who do not have/use formal services and use instead, informal services, declined sharply from 29 percent in 2009. This would be explained by a sharp rise in uptake of formal microfinance and community banking which made it possible for the proportion of those that have or use banking services and other formal services to rise from 7 percent to 48.6 percent. Overall, financial exclusion fell from 55 percent in the 2009 survey to 28 percent in the 2017 survey.

Another reckonable development in financial inclusion was the establishment of the Women Affairs Committee for Financial Inclusion (WACFI) initiative in April 2021 to "bridge the access and usage gender gap" in both Tanzania Mainland and Zanzibar (BoT 2021: 26).

Issues that are slowing down but not halting financial inclusion in Tanzania include:

i) The high cost of financial products and services in the country. They are expensive due to low competition, infrastructure constraints, information asymmetry, non-performing loans, and enforcement of creditors and debtors' rights.

ii) Limited access to financial services. Access to formal financial services is still low; 28 percent of the adult population was financially excluded in 2017.

iii) Most enterprises, particularly micro-, small- and medium-sized enterprises (MSMEs), remain underserved by the formal financial sector. Most MSMEs are informal, hence, they cannot access finance from many formal financial service providers, including international development financing institutions. This is attributed to strict requirements like formal registration, collateral, credit history, and lack of MSME-tailored products.

iv) Social norms that act as determining factors toward financial inclusion. Certain socio-cultural norms in some rural, tribal areas still prevent a section of the population (women, youth and disadvantaged groups) from accessing financial services and products.

v) An inadequate legal and policy environment to foster innovation hinders the development of appropriate products and models that offer practical solutions for consumers.

vi) The government's introduction of a mobile money transaction levy on sending and withdrawing money, which needs to be further researched to assess the extent it has been a setback for financial inclusion.

Formalization for private sector development

Formalization refers to policy measures to entice and/or enable private enterprises that are engaged in informal economic activities (often at a survival or subsistence level) to register and interact with State institutions not only on tax matters but also on access to capacity building and support programs, credit, marketing and other recommended business standards and practices. The public policy objective is to enable as many of these operators as possible to grow into reckonable enterprises (micro-, small, medium- to large scale), capable of expanding jobs and incomes as well as the taxable capacity of the economy. It also entails enforcing the law against illicit activities or where the informal (or even formal) operators offer products that endanger people's safety, health and environment.

Studies have long established why the informal sector thrives, why some 'come out of' then 'go back' into informal status (for example, to stay away from public/ tax authorities) and what policy actions need to be taken to induce voluntary formalization (George & Olan'g 2022; Skof 2008; Swantz & Tripp 1996, among others). Yet the informal sector remains a daunting challenge in many countries. Increases in informality further undermine prospects for decent formal employment and tax revenue generation.

Swantz & Tripp (1996) researched informal activities in Tanzania during the 1980s and 1990s.[29] Most of the informal activities surveyed are identified by type and sector. They include (legally allowed) rural- and urban-based actions by owners, who rely on those activities as their main source of livelihood. Swantz & Tripp (1996) also noticed the growing number of women entrepreneurs in private business and the informal sector in rural and urban markets during the 1990s as liberalization took hold in Tanzania.

Recommendations that urge formalization are often similar for both rural- and urban-based informal activities. However, the proposed solutions are not always followed through, including enticements such as simplification of registration procedures and/or training on the correct procedures, provision of rental premises at 'affordable rates' as well as change in the attitudes of officials towards the informal sector and private sector, particularly in the manner of administering policy guidance or in enforcing existing laws.

[29] See also the following chapters in this edited book: Ndulu & Bagachwa on the emergence of small-scale urban production Chapter 4); Tripp on urban farming and rural-urban dynamics (Chapter 5); and Omari on rural market women (Chapter 6).

In 2018, the requirement for all petty traders to buy identity cards (*machinga* IDs) in mainly urban areas raised debate, promising improvement, and a call for getting the policy legislated to make the system stable and predictable (Steiler & Nyirenda, 2021). However, challenges to this initiative remained including inadequate IDs for all those who wanted to purchase them at the stipulated official price, inadequate transparent and fairness of the issuance of the IDs.

In other words, there are reservations about public officials demonstrating good governance for individuals and businesses in the informal sector operators.

The recent Integrated Labor Force Survey (ILFS) 2020/21 found that employment in the informal sector increased relative to total employment between 2014 and 2020/21 across all geographic areas, as shown in Table 8.

Table 9:

Percentage of total employment in the informal sector 15+ years (national definition)

	2014		2020/21	
	URT	**Tz Mainland**	**URT**	**Tz Mainland**
Rural	9.1	8.7	19.6	19.4
Other urban areas	39.7	39.6	52.5	52.5
Total	**22.0**	**21.7**	**29.4**	**29.1**

Source: (URT 2021d: 20, Table 9.1)

In particular, informal employment increased sharply from 9.1 percent in 2014 to 19.6 percent in 2020/21 in rural areas and from 39.7 percent to 52.5 percent in other urban areas, which exclude Dar es Salaam. The survey also found that, over the same period, unemployment rose among youth (aged 15 to 35 years), and among graduates from vocational training and tertiary non-university and university institutions. To find employment, even in the informal sector, is relief compared to no employment at all, but the costs can be devastating due to lack of security and limited or no chance of getting insurance.

Formalization policies (including licensing, levies and tax matters) should be designed that are simple to understand and implement and target specific categories of these 'domestic investors' in the informal sector. So long as the informal activities are legal and are located in proper places—i.e., where they do not harm public assets such as infrastructure and do not harm public health—public policy towards the informal sector must be designed and implemented in ways that build trust among its participants. Though, by definition, informal sector operators are not well organized, they need to be approached with 'reassuring' or educative rather than intimidating messages. It has been noted that local economic development (LED) arrangements built around partnerships of (local) government, business enterprises and civil society organizations may also be used to entice informal sector operators (Mmari 2022; Magigi 2013; URT 2010a: 105).

Based on the results of the ILFS 2020/21, the informal sector will continue to attract individuals with higher levels of education and training. Therefore, college graduates will need to be encouraged to develop joint projects or new start-ups that, with good write-ups, can be supported by central and/or local government through special support packages including technical assistance, business development advice and credit arrangements. Formalization needs to be one of the government's priorities at central and local levels.

2.4.4 Public-private partnerships (PPPs)

Public-private partnerships are not new to Tanzania. They are recognized as an important mechanism to attract private investment in areas that yield social and financial returns. Before the release of the National PPP Policy in 2009, projects worth about $1,000 million had been executed in the transport, ICT and energy sectors.

PPPs refer to contractual arrangements between a contracting authority and a private party in which the private party:

- Undertakes to perform a contracting authority's function for specified period;
- Assumes substantial financial, technical and operational risks in connection with the performance on behalf of the contracting authority or use of government property; and
- Receives a benefit for performing on behalf of the contracting authority's function or from utilizing the public property (MoFP 2018).

In 2009, the Tanzanian government formulated the

National PPP Policy to provide an enabling environment for private sector participation in financing public projects and services. To implement the PPP Policy, in 2010, the Government enacted the Public-Private Partnership Act, 2010, which has been amended twice, in June 2014 and September 2018, whereby the Public-Private Partnership, Cap 103 (R.E) came into being to improve the PPP legal and institutional framework. The 2018 amendments resulted from Presidential Instrument (Discharge of Ministerial Duties Act) GN No. 144, issued in April 2016, which directed the Minister responsible for finance to oversee the management of PPP policy, laws and regulations.

The amendments further streamlined the PPP approval process, established the PPP Centre as an institution responsible for coordinating the identification and appraisal of PPP projects, and defined the threshold of small-scale PPPs (projects below $20 million) and large-scale PPPs (projects above $20 million). As a result of the amendments, the President's Office - Planning Commission, in collaboration with stakeholders, has repealed the PPP Regulations of 2015 and subsequently prepared PPP Regulations, 2020, published in the Government Official Gazette, GN. No. 37 dated 21 January 2020. These efforts are expected to accelerate the use of the PPP modality as one of the alternative financing instruments in the country.

During FYDP II's implementation, the national strategy included three significant projects earmarked for PPPs as per government priorities: the Kinyerezi III Power Project ($389.7 million); the Dar-Chalinze-Morogoro Express highway ($1.1 billion); and the construction of a medical equipment factory under the Medical Services Department (MSD) ($175.4 million). PPP projects in the pipeline have grown from about 5 projects in 2018 to over 40 projects by March 2020. These projects are in various stages of preparation. They include:

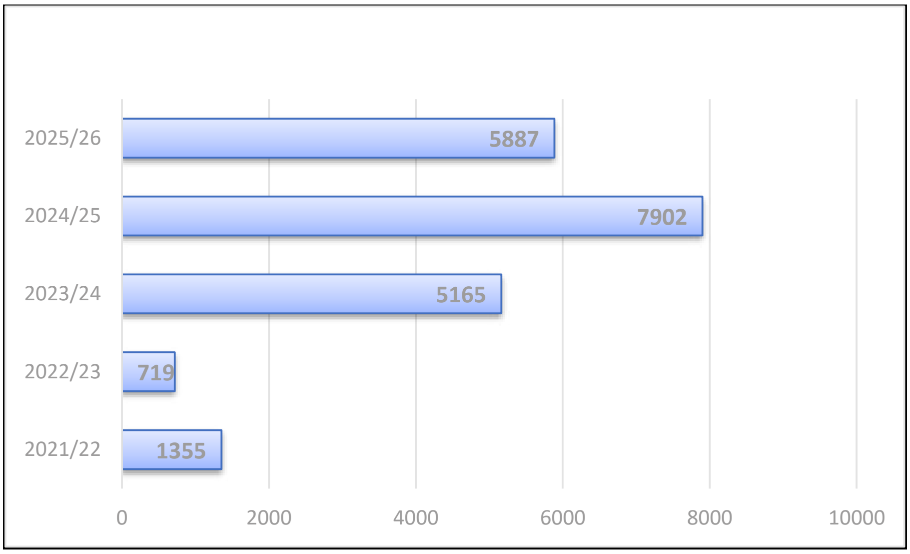
- The Mtwara-Armelia Bay and Tanga-Arusha-Musoma railway lines in which the Tanzania Railway Corporation is preparing the feasibility studies;
- Three pharmaceutical projects in which the feasibility studies have been finalized and the projects are under procurement stage; and
- The DART Project Phase 1 in which the feasibility study for procurement of a permanent service provider for the operation of buses has been completed and approved, and the project is now under procurement.

In addition, over 20 small-scale PPP projects are under preparation covering bus terminals, student hostels, wastewater facilities, and markets.

The Integrated National Financing Strategy for the FYDP III has projected that the PPP model over the next five years will mobilize TZS 21 billion from the private sector, as indicated in Figure 18 (URT & UNDP 2021: 45). The projects will be implemented in various sectors, including water, transport and communication, education, health, energy and LGA projects.

Figure 18:

Projected PPP resources from the private sector (TZS billion)



Source: MoFP (2021a: 28), URT& UNDP 2021)

Therefore, the PPP is a viable instrument and strategic option within the development financing mix to help the government fulfil core public responsibilities in a more efficient and effective manner. By increasing the finance mobilized from the private sector, the fiscal space and scope of the government budget also expand.

Several strategies are recommended to accelerate the use of PPP in Tanzania. These include:

i) Accelerating project feasibility and approval processes;

ii) Strengthening the PPP unit at the President's Office - Planning Commissionwith the requisite human resources and expertise;

iii) Avoiding the reversal of PPP preparations back to the traditional procurement model, including introducing means to prohibit reversals outside PPP life-cycle processes;

iv) Enhancing PPP capacities at the MDA and LGA levels, including requiring the two to include PPP projects during budget preparations (as well as enhancing compliance to PPP Act Cap 103 during budget preparation);

v) Accelerating the development, review and implementation of regulations, guidelines and other instruments to streamline private sector participation through PPP;

vi) Strengthening the investment climate, including macro-economic stability, access to long-term financing, lower interest rates, and enhanced political support; and

vii) Establishing and strengthening the institutional framework for promoting PPP projects as elaborated by the PPP Act, Cap 103 8), including fast-tracking the establishment of the PPP Centre and PPP Project Facilitation Fund.

2.4.5 Foreign private financing

Foreign direct investment (FDI)

Foreign direct investment inflows into Tanzania have remained relatively low in comparison to Kenya and Rwanda over the past decade. Many of the projects registered by the Tanzania Investment Centre (TIC) are owned by foreign affiliates. They operate in the agriculture, manufacturing, tourism, telecommunication, services, petroleum/gas and mining sectors. The benefits for the country include job creation, exploitation/employment of the country's natural resources, increased government (including local government) revenue, and transfer of technology and skills.

According to *Development Finance Assessment Report 2021* (URT & UNDP 2021), FDI inflows have slowed from $1.8 billion in 2010 to under $0.96 billion in 2019, representing a fall of 46.67 percent over this period. Recently, inflows are mainly in equity and investment shares, directed to mining and quarrying, accommodation and food services. The inflows come principally from the United Kingdom, South Africa and the United States. India, Kenya, Mauritius and China have also been among the top five trading partners and sources of foreign investors.

Projections for the next five years indicate FDI will grow by 59.5 percent between 2021/22 and 2025/26, that is, from $ 1,173.5 billion (2020/12) to $ 1,871.1 billion (2025/26) (URT & UNDP 2021: 46). The results will depend on the global FDI trend that have been influenced by slow recovery from the pandemic and how long it will take for the current geo-political tensions to subside as they affect trade and investment flows.

Domestically, investors' perceptions of Tanzania's investment climate for industrialization will affect how attractive Tanzania will be to both domestic and foreign investors. The Government will need to keep a close watch on how the country delivers on 'a well-balanced and competitive package of fiscal incentives to investors both international and domestic (URT & UNDP 2021: 46), reasonable and stable taxation, availability of land for investment, non-bureaucratic and corruption-free administrative procedures, infrastructure, fair competition, and availability of high-level human capital. Other concerns relate to the duration and cost of acquiring permits (environmental, resident, work, building, etc.) and reliability of services/utilities.

International development financing institutions (IDFIs)

One of the significant constraints to private sector development in Tanzania is difficulty accessing credit due to high lending rates, collateral requirements, the high borrower default rate, and other risks. High (and multiple) taxes and levies also detrimentally affect private financial institutions. Consequently, domestic credit as a percentage of GDP was estimated at 17 percent in Tanzania in 2017, far lower than the Sub-Saharan Africa average of 32 percent (Department of Economics, University of Dar es Salaam, [DoE] 2020). Even as authorities continue to implement measures to increase the availability of credit to the private sector, the informality of many enterprises, mainly small- and medium-scale businesses, limits their access to finance, stunting the growth of these enterprises and the country's tax base. Apart from traditional financing options (e.g., personal savings, bank loans), the government is encouraging private sector financing through foreign direct investment, joint ventures and PPPs.

In recent years, (foreign) national and international development finance institutions or their subsidiaries have supported private sector financing in developing countries (UNDP 2018: 99-102). These institutions are normally majority state-owned, obtain capital from their nation states or international development agencies, and enjoy their nation state's guarantee. They also receive support from philanthropic foundations. Known as enterprise challenge funds, these arrangements aim to channel matching funds to support private sector enterprises mainly through equity investments, long-term loans and guarantees.

To get funding from their national governments and other multilateral financial institutions in the first place, IDFIs must subscribe to social, economic and environmental sustainability and human development/poverty reduction concerns as preconditions for international partnerships. However, as funders, IDFIs inculcate and exert business profitability principles, knowledge and technology transfer, and networking to enable the applicant's project to grow. Funding is availed on a competitive basis and the IDFIs demand assurance that the private enterprise will be able to repay the loan. Thus, they demand that enterprises follow standard information disclosure and transparency practices. To access funding, potential beneficiaries should be from a low-income (developing) country, and their project should be in the areas of interest of the funders.

Generally interested in the development impact of their financing, IDFIs support local economic growth/development initiatives, job creation, SMEs, trade and other sectors. They bring innovation and know-how and create opportunities for technology transfer, business networking and financial inclusion for excluded populations. Other areas of interest for IDFIs include smallholder farmers and access to essential services, including financial services, for under-served communities. Other focus areas include sustainable energy, environment/climate change issues, forestry, farming/agriculture, manufacturing, gender, financial institutions and SMEs, education, water, tourism and ICT. The benefits include higher employment, acquired know-how and innovation capacity and productivity, improved incomes and an expanded domestic tax base. Funders have to be financially cautious and prudent to safeguard against adverse project selection that may result from attracting high-risk applicants, and equally careful to manage the costs of administering the funds.

Further the DoE report provides a list and analysis of IDFIs that have operated/are operating in Tanzania and other developing countries, with examples of beneficiary enterprises.[30] As it turns out, apart from a few SMEs, the majority of the beneficiaries of IDFIs are better-established enterprises and the amount of credit extended is usually large (e.g., a minimum of Euro 1 million in the case of Belgian Investment Company for Developing Countries [BIO]). Nevertheless, as long as this layer of beneficiaries performs successfully and grows further, private sector development will be strengthened, and inspire emerging MSMEs. In the meantime, for most MSMEs, information about these schemes is vital. MSMEs will also need to build their capacity in standard business practices, including professional keeping of books of accounts and establishing local and foreign networks.

[30] The United Kingdom's Department for International Development (DfID) initiated the Business Sector Challenge Fund in 1997, but more players have since taken part; among them, the Bill and Melinda Gates Foundation and the International Labor Organization (ILO). Other providers cited in Tanzania include the Belgian Investment Company for Developing Countries (BIO); FMO, the Entrepreneurial Development Bank of the Netherlands; Finfund of Finland; Norfund, the Norwegian Government Investment Fund for Developing Countries; DANIDA Investment Fund for Developing Countries (IFU), established IFU as a state-owned DFI for promoting industrial development in developing countries by facilitating investments in these countries in cooperation with Danish companies and investors; JETRO, Japan External Trade Organization, a governmental organization, for the promotion of trade and investment between Japan and the rest of the world; FinDev Canada, the Development Finance Institute Canada Inc., under the FinDev Canada brand, dedicated to providing financial services to the private sector in developing countries; DEG – German Association for Economic Cooperation, one of the major development finance institutions for private companies; and the SWEDFUND, Sweden's development finance institution for sustainable investments in developing countries in the implementation of Agenda 2030.

2.5 Towards alternative financing strategies

FYDP II proposed the use of alternative financing sources. Accordingly, the Government undertook feasibility studies for various instruments, including municipal bonds (general obligation and revenue-specific bonds). As a matter of fact, since FYDP I (URT 2012b: 84–86), Tanzania has expressed interest in learning about how to apply these instruments domestically to boost the country's capacity to finance development.

For instance, according to the *Voluntary National Review (VNR) 2019* (URT 2019), the *FYDP II Financing Strategy* set the target of mobilizing additional resources through steps like establishing a National Climate Change Financing Mechanism, mainstreaming climate change in the development policy and planning process, and establishing an Environment Unit at the President's Office - Planning Commissionto handle issues related to climate change and the environment and facilitate accreditation of the Ministry to the Green Climate Fund (GCF) to allow direct access. It also planned to rally the support of non-state actors.

In this light, the VNR 2019 called for continued effort to search for the best emerging financing mechanisms for Tanzania to emulate. Environmental sustainability is just one of various social interventions. Others cover education, health, water and sanitation. For FYDP III, experience domestically and knowledge from international best practices will enable the country to set up and use more of these instruments.

Like the earlier plans, FYDP III recognizes the role of the private sector. It indicates that the total financing of the private sector for the implementation of the Plan will be TZS 40.6 trillion, generated through PPPs and joint ventures (JVs). To realize this, the Government is acting in support of the national and regional business councils and through continued participation in public-private sector dialogue.

In addition to the financing quest per se, the emerging financial instruments and mechanisms are resolutely responsive to social/economic and environmental sustainability causes, as espoused by the SDGs, for instance. They present opportunities that Tanzania ought to explore.

2.6 Concluding remarks

Tanzania continues to work out the best integrated approach to financing sustainable development, emphasizing human development. The Government is fully aware of the risks of over-dependence on declining traditional sources of finances including ODA. Regional intergovernmental initiatives such as the AU Agenda 2063, EAC Vision 2050 and country policies echo the logic of greater reliance on domestic sources of revenue.

Financing for human development and economic growth interventions may compete but not conflict over the limited resources (domestic + foreign) in the national budget. Urgent demand for human development interventions arises mainly when human development (or even 'basic needs') are at risk due to global crises, such as inadequate preparedness and response to climate-related hazards and the negative effects of the Covid-19 pandemic.

In Tanzania, where there are significant geographic distances between points of services for health, education, water, power, and the internet, spending on development projects can have short-, medium- and long-term impacts on human development and reduce inequalities in access to services. In addition, such spending generates multiple economic activities, jobs, an expanded tax base, greater revenue and capacity to repay debts. However, proper management is essential, and the government needs to be mindful of the huge debt servicing implications from loans for large development projects. Since financing from bilateral and multilateral creditors has declined over recent years, the Government, committed to the set development projects, has had to resort to non-concessional loans and domestic sources of finance.

In search for additional financing, therefore, Tanzania has taken note of the emerging alternative/innovative financing instruments or mechanisms. These are more advanced in some countries and too new in others. The mechanisms are built around partnerships in support of specific human development concerns of society at large (e.g., participation, peace, security, and the environment). Countries are making efforts to create awareness and capacities to manage the processes/procedures by which such finances are mobilized and channeled to intended causes. They bring together like-minded actors, including private/corporate entities, the United Nations, and other human development, issue-specific international organizations.

The Government of Tanzania is determined to exploit alternative financing mechanisms. Insights from the experiences of other developing countries will provide useful lessons for Tanzania as it seeks to partner with the right actors and institutions— domestic and foreign, private and public—that are dedicated to the social and environmental sustainability causes which align with Tanzania's long-term development choices.

CHAPTER THREE: UNLOCKING INNOVATIVE FINANCING FOR HUMAN DEVELOPMENT

3.1 Overview

This chapter focuses on innovative financing mechanisms for human development. Section 3.2 provides an overview of the global and domestic contexts to innovative development finance and its linkage to human development. Section 3.3 then outlines promising mechanisms that can be tapped by the Government to enhance resource mobilization and utilization. The requirements for accessing and raising finance through each mechanism, and the potential risks and mitigating strategies are described along with the policy reforms that will needed to enhance mobilization and utilization of these new financial resources.

3.2 Innovative financing for development

One of the key requirements for the successful and sustainable realization of national and international development plans and frameworks is reliable, predictable, and steady financial resources. However, securing sufficient resources remains a key challenge. Consequently, there is a move towards utilizing innovative financing sources to address resource constraints for development that traditional development finance sources cannot address adequately (Konig et al. 2020).

Innovative financing refers to raising new and additional resources of development finance as a complement to traditional resources. Innovative financing mechanisms help create incentives and increase the impact of existing resources, for example, through partnerships with the private sector (UNDP 2019b). They encompass approaches to mobilize resources and increase the effectiveness and efficiency of financial flows and may include initiatives and tools that aim to mobilize new funding sources (innovative sourcing) as well as those which optimize the use of traditional funding sources (innovative spending) (OECD 2014).

Innovative financing sources have the potential to complement traditional sources such as aid, foreign direct investment, and overseas remittances to mobilize additional resources for development and address specific market failures and institutional barriers. Innovative financing instruments complement traditional domestic and international resource flows. Indeed, innovative financing is becoming essential for human development since it strives to eliminate poverty, raise living standards and protect the environment (Zilihona et al., 2020; GIIN, 2019).

Innovative financing instruments can also be used to finance projects that cannot be funded through the government budget or commercial windows, which are expensive. According to an analysis by UNDP in 2012, innovative financing mechanisms depart from traditional approaches by mobilizing development finance through budget outlays from established sovereign donors or bonds issued by multilateral and national development banks exclusively to achieve funding objectives. Innovative development finance involves non-traditional applications of solidarity, public-private partnership (PPP), and catalytic mechanisms that: (i) support fundraising by tapping new sources and engaging investors as partners and stakeholders in development; or (ii) deliver financial solutions to development problems on the ground.

The global context and national context in Tanzania for innovative financing are briefly described in the following sub-sections.

3.2.1 The global context

The UN estimates that at least $4 trillion needs to be invested annually to achieve the goals of the 2030 Agenda for Sustainable Development (UN 2017), but the financing gap for the agenda was standing at around $2.5 trillion per annum (UNCTAD 2014). However, as of 2020, an OECD report estimated an additional shortfall of $1.7 trillion as a result of the drop in external private finance and public spending due to the Covid-19 pandemic.[31] Whereas public resources may bridge about 30 percent of this gap, at least 70 percent of the gap would need to be covered by private capital (Konig et al., 2020). Further, resources provided via official development assistance play a notable but limited role given the current flow of about $150 billion per annum compared with the needs, which reach into the trillions of dollars. The pandemic was also one of the factors contributing to falling aid flows from advanced countries to developing countries.

The consensus is that public sources alone cannot meet the resource needs (UN 2017). Thus, as a

[31] https://www.oecd.org/newsroom/covid-19-crisis-threatens-sustainable-development-goals-financing.htm accessed 28 October 2022

matter of urgency, funds need to be mobilized from other sources, including the private sector, to cover the gap in development financing. This urgency is well articulated in global commitments to promote financing mechanisms for development through the 2002 Monterrey Consensus, 2008 Doha Declaration and 2015 Addis Ababa Action Agenda.

Although finding new and innovative ways to fund human development sustainably is important and urgent, many innovative development financing instruments have remained untapped. Despite its benefits, innovative financing remains a small component of public sector development spending. While on the rise, the actual volumes raised through innovative approaches are still very small, both in absolute and relative terms (OECD 2018). The health and environment/climate sectors have been the primary beneficiaries of globally innovative finance initiatives. Examples of such global health initiatives include the International Financial Facility for Immunizations (IFFIm), Global Alliance for Vaccines and Immunizations (Gavi), and the Advanced Market Commitment (AMC) (Gartner 2015). However, evidence suggests that innovative development financing can be applied to other human development sectors such as education and agriculture (UNDP 2012).

3.2.2 The context in Tanzania

Despite the government's efforts to bridge the financing deficit in Tanzania, demand has continued to expand. Most human development sectors have traditionally been funded through direct financing from traditional sources such as tax and non-tax revenue, grants and loans (MoFP 2021b). However, there is potential for Tanzania to finance human development through innovative financing, creating more budget space and addressing the resource gaps. In addition, innovative financing is now more critical and relevant to Tanzania following its graduation to a lower-middle-income country and the funding opportunities for low-income countries may no longer be available to the country (URT 2021b). Therefore, investing in mobilizing and utilizing these instruments is inevitable because Tanzania must widen its revenue sources to finance projects that can accelerate human development.

To finance the implementation of its third National Five-Year Development Plan 2021/22–2025/26 (FYDP III), the Government envisages securing financing from a wide range of sources, with a visible role played by the private sector, institutional investors and civil society in planning and mobilization of resources leading to multi-actor financing (URT 2021a). Further, the government plans to exploit other opportunities and continue to invest in studies focusing on the feasibility of accessing innovative sources of financing and putting in place an enabling environment, including policy, legal and related institutional issues.

Many innovative financing mechanisms for development are emerging. Until now, innovative financing for development has been dominated by bonds and guarantees. These models focus primarily on resource mobilization by leveraging the balance sheets of international financial institutions to make loans to a national government which promised to repay those loans. However, innovative financing has recently encouraged alternative models where private sector actors share the risks and rewards, for example, through results-based financing mechanisms such as performance-based contracts (Innovative Financing Initiative 2014). The next section outlines some of the promising innovative financing mechanisms for use in Tanzania.

3.3 Innovative financing instruments

Innovative domestic and international private finance can potentially fund Tanzania's development projects. Instruments with potential for financing human development in Tanzania include: the bond market, municipal bonds, diaspora bonds, Eurobond, Sukuk and green bonds, crowdfunding, and equity financing (MoFP 2021b). Others are social and development impact bonds, impact investing and blended finance. The following sub-sections describe the potential and limitations of mobilizing, pooling, channeling, and resource allocation from each of these instruments.

3.3.1 Bond market

The global financing architecture has developed in terms of diversity and sophistication. In their various forms, bonds have been one of the effective modalities for development financing. In 2009, for example, South Africa placed a bond issue to raise approximately $106.5 million from the domestic bond market. In 2021, Nigeria was projected to raise $34.51 billion from market bonds used in infrastructure financing (MoFP 2021b).

The bond market in Tanzania is steadily growing. Still, despite the vital need for long-term enterprise development funding, it remains relatively underdeveloped, at only about 5 percent of GDP compared to double-digit shares in peer countries (MoFP 2018). Opportunities remain for non-financial corporate entities to raise capital through the market, especially with low inflation, macro-economic stability, and the drive to enforce ethical business practices. It is expected that projects for outstanding corporate bonds will reach TZS 915 billion in 2025/26 up from TZS 272 billion in 2020/21.

As a signal for growth of the bond markets in the country, the Capital Market and Securities Authority (CMSA) approved market bonds for NMB Bank Plc (Medium Term Note Program worth TZS 200 billion), Exim Bank (T) Ltd (a six-year Exchange Traded Retail Bond worth TZS 10.0 billion) and Tanzania Mortgage Refinance Company (TMRC) (a Medium, Term Note Program worth TZS 120 billion). All indicated oversubscription of more than 100 percent (ibid).

To effectively utilize this instrument, the following actions are necessary:

i) Introduce a capital market master plan as a platform to identify actions that would advance capital markets in Tanzania;

ii) Incentivize the establishment of other key capital market institutions (private equity (PE)/ venture capital (VC), Initial Public Offering (IPO) transaction underwriters, investment banks, market makers, and liquidity providers);

iii) Create an attractive environment for companies to list on the stock market;

iv) Introduce tax incentives to debt-based capital, particularly those issued by the private sector; and

v) Address policy impediments to the expansion of the credit market, such as high interest rate spreads.

The following risks associated with this instrument may need to be mitigated.

i) Dynamic change in a business environment. This risk will be mitigated by investing in supportive infrastructure and accelerating the ongoing legal and regulatory reforms, including ensuring their proper sequencing.

ii) Lack of reliable market data to allow informed decision-making. Up-to-date data is needed to better forecast the future, hence, the accessibility and reliability of data gathering systems need to be enhanced.

iii) The multiplicity of industry regulations makes the costs of doing business high and causes delays. This can be mitigated by accelerating legal reforms to enhance a conducive environment for the industry.

iv) Low awareness of capital markets and thus limited number of investable projects. This will be mitigated through raising awareness of how the capital market operates and building investors' confidence and trust.

v) Lengthy decision-making processes and inappropriate sequencing of initiatives. Time is a critical resource for implementing innovative instruments but often not recognized as such (i.e., 'time is money'). Here, the risk lies in rectifying any legal impediments. If these reforms take too long, the introduction of an instrument is delayed. Therefore, coordination is needed to make decisions at the right time and in the right sequence.

3.3.2 Municipal bonds

A municipal bond is a promissory note issued by a local government (or local public infrastructure development authority) to finance capital investments in infrastructure made by the issuer on pledges to repay bondholders the face value of the bond plus interest for a specified period of time. The bonds are often issued at a fixed interest rate, albeit variable rate bonds are also possible with a long repayment period that approximates the useful life of the infrastructure being financed. Repayments may be scheduled quarterly, semi-annually or annually (MoFP 2018). Since the bond is a debt instrument, the legal framework is the same as debt financing (URT & United Nations Capital Development Fund [UNCDF] 2021).

Experience shows that municipal bonds have been issued to finance various development projects, especially infrastructure and water projects. For example, Johannesburg City in South Africa has used municipal bonds to raise $1.0 billion in 2020 to finance its development projects. The Government of Nigeria issued municipal bonds to 20 states to finance infrastructure projects, including the construction of townships and regional roads, and water and transport infrastructure (MoFP 2021b).

In Tanzania, local government authorities have minimal sources of revenue to finance development expenditures. As a result, they depend heavily on central government subventions to implement development projects. Therefore, the potential for using municipal bonds is huge. Despite their feasibility and viability, municipal bonds have been virtually non-existent in Tanzania due to structural hindrances, especially the weak capacity of many municipalities to generate revenue.

From 2018 to 2019, the Capital Markets and Securities Authority (CMSA), in collaboration with the Dar es Salaam Stock Exchange (DSE) and United Nations Capital Development Fund (UNCDF), has been piloting the issuance of municipal bonds in four LGAs, namely: Mwanza City Council, Arusha City Council, Tanga City Council and Ilemela Municipal Council (MoFP 2021b).

In July 2021, The President's Office Regional Administration and Local Government Authority (PO-RALG), in collaboration with UNCDF, prepared a user guide for LGAs on how municipal bonds can be used to solicit funds for developing and financing income-generating infrastructure investments (URT & UNCDF 2021). The guide focuses on two types of municipal bond: the Municipal General Obligation (GO) Bond and Municipal Revenue Bond. The former raises funds for various LGA expenditures (often those with no attribution to direct revenue streams), including roads and stormwater drains, and bondholders are paid from the general revenues or budget of the LGA. The latter is a project-specific bond issued to finance one or a portfolio of bankable revenue-generating infrastructure projects. The debt is serviced from project-specific revenues or cash flow. This implies that the project has to service the operations and maintenance (O&M) obligations and debt servicing for long-term sustainability. Generally, municipal revenue bonds are issued and managed by a special purpose vehicle (SPV) established and owned by the LGA to act as the bond issuer. The SPV is established under Companies Act Cap 212. For the bond to be issued, there is a need to have a guarantor who can provide a partial or full credit guarantee covering defaults on debt servicing arising from specified events. Before the guarantee arrangement is finalized, the guarantor conducts due diligence on the structure of the SPV, the Council, the project involved, the transaction team, and any other credit risk perceived. After issuing the bond, the SPV uses the funds for the project activities, manages and operates the project, collects revenues, and ensures repayment to bondholders.

Despite the streamlined procedure for issuing municipal bonds, their use has been minimal and concerted efforts are needed to utilize the opportunity as the majority of LGAs in Tanzania have difficulties raising funds for development. To harness this source, the following measures are required:

i) Facilitate LGAs to establish SPVs that can act as municipal bond issuers and work with the private sector to develop interventions that foster human development

ii) Strengthen the legal framework for SPV operations to make them more independent under the Board of Directors

iii) Facilitate the issuance of municipal bonds. PO-RALG needs to effectively spearhead the issuance of municipal bonds. As the lead agency, PO-RALG will be responsible for working with other stakeholders to stimulate the will and initiative at the municipal level and recruit appropriate experts in financial management to support LGAs.

iv) Provide technical capacity for LGA officials to assess the need for such instruments, assess the economic returns of projects to be financed, and, once issued, properly report debt flows to the Debt Management Department at the Ministry of Finance

v) Provide performance-based grants/transfers towards LGA capacity development, relating to planning improvement, financial management, collection of own source revenues, expenditure prioritization, transparency and accountability

vi) Improve the operation of the Local Government Loans Board as an intermediary for raising finance for development for LGAs, including issuing municipal bonds

vii) Encourage individual LGAs to approach microfinance, saving and credit cooperative societies (SACCOS), and local community banks to fund small-scale municipal projects such as water and sanitation facilities that charge a fee for usage.

3.3.3 Diaspora bonds

Diaspora bonds are a form of government debt that targets members of the national community living abroad based on the presumption that their ties to the country make the investment in such products worthwhile. Expatriates who work in other (wealthier) countries are expected to support home-country development initiatives and receive discounts on government debt (MoFP 2018). The funds raised through diaspora bonds can finance human development-related projects that interest overseas migrants, such as housing, schools, hospitals and infrastructure projects that benefit their families or communities back home (Ratha & Plaza 2011).

Experience shows that diaspora bonds have been successfully used in Israel and India to finance local development for building infrastructure. In Africa, diaspora bonds have been successfully used in Ethiopia and Nigeria. Ethiopia used diaspora bonds to fund the construction of a dam on the Blue Nile in 2011. In addition, the Government of Ethiopia established a diaspora bond program to promote direct investments in the national economy by issuing bonds of maturity of five and ten years. In 2017, the Government of Nigeria issued diaspora bonds for infrastructure projects which were oversubscribed by 130 percent (MoFP 2021b). This source can diversify financial products and be used to finance human development. To effectively utilize this mechanism, the following measures are proposed for implementation by responsible agencies:

i) Conduct studies on prospects for diaspora bonds and develop a roadmap for operationalization in Tanzania; and

ii) Establish sustainable relationships based on mutual trust with diaspora populations.

3.3.4 Eurobonds

Eurobonds are medium to long-term marketable securities sold in any primary currency to investors worldwide, except to investors in the country of the domicile of the borrowers. Eurobonds can be denominated in any primary currency and have differential maturity periods for fixed and floating rate bonds. Fixed-rate Eurobonds have maturities up to 15 years, whereas floating rate bonds have maturities up to 30 years (Kumar 2014). Eurobonds allow corporations to raise funds by issuing bonds in a foreign currency. The primary reason for issuing Eurobonds is a need for foreign currency capital. Since the bonds are fixed-income securities, they usually offer a fixed interest rate to investors.

Eurobonds have a number of stated benefits. They can help to underpin growth and economic transformation. African countries have issued these bonds to manage and finance investment infrastructure to sustain growth and human development (Velde 2014). In Sub-Saharan Africa (SSA) alone, 21 countries had outstanding obligations on sovereign Eurobonds to the equivalent of $115 billion at the beginning of 2020, following a steep increase in their issuance since 2017 (UN 2021). As of July 2021, though, this financial instrument has become a $136 billion asset class, with 21 SSA countries holding one or more outstanding Eurobonds (Icyeza 2021).

South Africa has issued Eurobonds for a number of years. Still, more recently, countries such as Kenya, Ghana, Benin, Senegal, Ivory Coast and Cameroon have raised funds in international debt markets. In 2021 alone, $11.8 billion worth of Eurobonds were issued by sovereign African states. While some of this $11.8 billion was issued by emerging market Egypt ($3.75 billion issuances), the majority of it was issued by frontier SSA economies like Kenya ($1 billion), Ghana ($3 billion), Benin (Euro 1 billion), Senegal (Euro 0.8 billion), Ivory Coast (Euro 0.85 billion), and Cameroon (Euro 0.7 billion) (Icyeza 2021). In 2013, Tanzania issued a $500 million Eurobond for infrastructure projects to speed up economic growth and improve living standards (MoFP 2021b).

To successfully make use of this source, the following measures should be implemented:

i) Use macroeconomic policies (fiscal, monetary and exchange rate) to smooth the potential impact of increased inflows on inflation, exchange-rate appreciation and fiscal expansion and limit the volatility;

ii) Ensure the proceeds of government bonds are invested in developing productive capacities or funding a cost-lowering restructuring of debt flows; and

iii) Monitor global monetary conditions to determine the right timing for bond issuances.

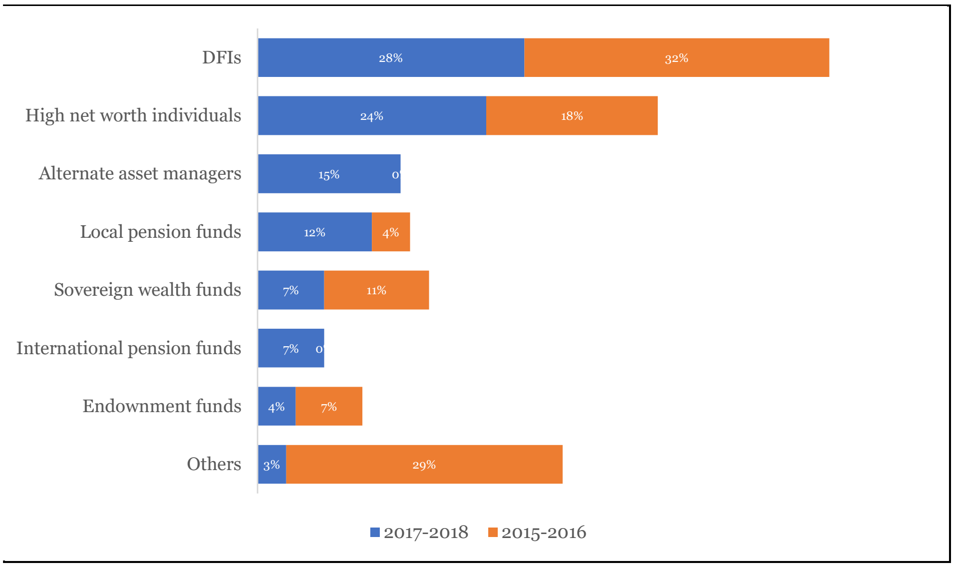
3.3.5 Private equity

Private equity is a private investment asset class not listed on public stock exchanges. This type of investment is done by investing in companies with an exchange of ownership, typically for a given period before exiting and realizing its investment value or used for a complete buy-out of an existing company. Nowadays, private equity and venture capital have emerged as alternative funding sources for SMEs, given their characteristics of non-debt obligations, no collateral requirements, and long-term financing approach. This type of financing is already widespread across East Africa and the continent overall.

Figure 28 reflects the comparative picture of private equity and venture capital sources by investor type in the East African region. Development finance institutions (DFIs) and high-net-worth individuals are the leading private equity sources, accounting for 52 percent of the total funds raised between 2017 and 2018 (KPMG & East Africa Venture Capital Association [EAVCA] 2019).

Figure 19:

Private equity and venture capital sources, by investor type in East Africa



Source: KPMG and EAVCA (2019)

For the past five years, PE and VC have reached $2.4 billion, and Tanzania has attracted only 17 percent of such funding. By September 2021, the market size (i.e., total market capitalization) was TZS 15.24 trillion, out of which TZS 9.48 trillion relate to domestic listed companies (MoFP 2021b).

The current sectoral distribution of PE or VC deals shows that financial services, agribusiness, telecommunications, technology, energy, healthcare, and natural resource sectors have more potential to attract this finance. In terms of business characteristics, PE or VC investors are interested in businesses requiring development, growth and expansion, followed by start-ups and early-stage businesses.

To effectively utilize this instrument, the following actions will be necessary:

i) Accelerate investments in targeted education and training programs to domestic corporate businesses to improve their governance systems, increase transparency, and become more aware of the possibilities of raising long-term finances from capital markets;

ii) Create an attractive environment for companies to list on the stock market;

iii) Introduce tax incentives to debt-based capital, particularly those issued by the private sector; and

iv) Address policy impediments to the expansion of the credit market, such as high interest rate spreads.

Four priority areas have to be addressed to foster the private equity market.

i) Reassess the Fair Commission Competition's (FCC) Merger and Acquisition (M&A) threshold, which currently stands at $1.5 million, since this rate disincentivizes investors;

ii) Evaluate possible tax relief targeting VC-backed start-ups and VC exiting via the Dar es Salaam Stock Exchange's Enterprise Growth Market (EGM);

iii) Incentivize public and private investment in supplying industry market data (including those on gender equality) to facilitate businesses making informed investment decisions; and

iv) Design awareness programs for family and informal business owners to improve their governance systems, increase transparency, and become more PE/VC attractive from a governance perspective.

As for the bond market, potential risks associated with this instrument are as follows:

i) Dynamic change in a business environment. These risks may be mitigated by investing in supportive infrastructure and accelerating the ongoing legal and regulatory reforms, including ensuring their proper sequencing.

ii) Lack of reliable market data to allow informed decision-making. Up-to-date data is required to better forecast the future, therefore, the accessibility and reliability of data gathering systems need to be enhanced.

iii) Low awareness of private equity and thus limited number of investable projects. Raising awareness of private equity operations will help to build investors' confidence and trust.

iv) Government bureaucracy may disincentivize some investors, which can be mitigated by continuing to make improvements in the business environment in Tanzania.

3.3.6 Sukuk and green bonds

The Islamic finance industry has grown rapidly, at more than 15 percent per annum. Despite its remarkable growth, Islamic finance is concentrated mainly in banking. Islamic bonds (Sukuk) markets are still relatively small and underdeveloped in many countries with a significant Islamic finance industry. Well-developed Sukuk markets can create alternative investment instruments and help enhance access to financial services while deepening the capital markets. Nigeria is an excellent example of how Sukuk bonds have been successfully mobilized and used in Africa. In 2013, the federal government, state governments, government-owned enterprises and private sector companies issued a Sukuk bond to finance the construction of infrastructure across the country, including apartments ($2.4 million), construction of 26 schools ($28 million), and construction of roads ($24 million) (MoFP 2021b).

There are different Sukuk modes, including Murabaha (Trade Finance), Salam (Forward Sale), Istisna' (Project Finance), and Quasi-Debt Instruments: Ijarah (Sale & Lease Back). The advantage of this instrument is that it allows the Government to tap into a new source of funding. In 2021, the CMSA in Tanzania approved the Iman Finance Sukuk bond worth TZS 2 billion, which was oversubscribed by 36 percent (MoFP 2021b). This source needs to be further explored to enable its successful mobilization and utilization for financing human development.

The green Sukuk issued by UNDP intends to finance and re-finance projects in renewable energy, energy efficiency, sustainable transportation, waste-to-energy initiatives and waste management, and climate resilience for vulnerable areas. These opportunities need to be explored so that Tanzania can benefit from these opportunities.

3.3.7 Crowdfunding

Crowdfunding is the practice of funding a project or idea by raising capital from a large number of people, usually through online platforms (Bertha Centre for Social Innovation and Entrepreneurship 2016). This alternative financing method could provide an adequate funding source for some private sector initiatives. This is particularly true for start-ups and small and medium enterprises that often have difficulty accessing financing via traditional means such as bank credit. The public makes financial pledges collected through the crowdfunding platform/website and remits the same to the fundraisers. The platform charges a fee when the fundraising campaign succeeds. Thus, crowdfunding takes advantage of the power of the public to help meet a business funding target. The benefits of crowdfunding include the speed and simplicity of fundraising compared with traditional sources. In addition, crowdfunding can help raise the profile of a company.

Globally, crowdfunding is a $40 billion industry and is expected to approach $100 billion by 2025 (Mdadila & Aikaeli 2020). Studies in the UK show that crowdfunding has emerged as a real alternative at the later stages of company growth, with a 10 percent increase in growth-stage crowdfunding (MoFP 2021b). In Tanzania currently, crowdfunding platforms include 'goget funding' and 'WEZESHA Sasa.' Equity-based crowdfunding can be the solution for the country's capital-strained start-ups without access to other financing windows, while lending-based crowdfunding has the potential to finance SMEs. Still, crowdfunding may have limitations associated with mistrust and the scale of resources that can be raised, which may not be sufficient for larger development projects. In addition, donation-based and reward-based crowdfunding are fit for social and charity events, some of which can be used as alternative financing options for human development projects.

As proposed in Mdadila and Aikaeli (2020), to facilitate successful crowdfunding campaigns in Tanzania, the Government will need to put in place a supportive environment including:

i) *Legislation and regulation:* Currently, Tanzania has no specific rules for crowdfunding. Putting regulations in place will reduce risks and build funders' confidence. Industry data and transparency are paramount for crowdfunding to succeed, obtained through a robust regulatory framework.

ii) *Improvement of business climate:* For equity-based and lending-based crowdfunding, investors may be sensitive to a project's prospects as reflected in the business environment of the host country. Therefore, continuous improvement of the business climate is necessary to launch successful crowdfunding campaigns.

iii) *Identification and establishment of appropriate local-based crowdfunding platforms:* Platforms must have secure, high-tech infrastructure to safeguard investors' money before disbursement to companies. In addition, national platforms are necessary instead of depending on the global platforms, which sometimes increases the risks.

Entrepreneurs, on the other hand, have to harness crowdfunding opportunities. Before engaging in a campaign, a prospective entrepreneur must:

i) *Choose an appropriate platform:* The choice of platform is supposed to be dictated by business needs. For example, equity-based and lending-based funding cannot be mobilized in the local platforms of developing countries due to resource constraints and the existence of a few angel investors.

ii) *Tap into complementary resources:* If possible, entrepreneurs should seek to raise complementary resources from 'matching' organizations before engaging in a crowdfunding campaign as this increases the likelihood of success.

iii) *Create contributors' networks:* The Founders of the start-up must spend a reasonable amount of time building contacts as a base that will contribute capital and promote campaigns. Entrepreneurs who can raise funds from their existing networks before their campaigns go live stand better chances of meeting their fundraising goals.

3.3.8 Social and development impact bonds

Social and development impact bonds (SIBs/DIBs) are innovative 'payments for results' financing mechanisms that harness private capital to fund social projects. Under a SIB, the government contracts to repay an investor only if agreed-upon social outcomes are achieved (and after the investor has invested their resources into a project). The demand for these instruments has increased as more individual investors and investment fund managers channel funds toward sustainable investment options (Kasoga et al. 2020).

Since governments often suffer from budget constraints, SIBs offer two major benefits as finance for government programs. First, SIBs aim to improve the long-term well-being of the citizens and communities targeted by the intervention. Second, they engender 'cashable savings' or 'cost avoidance' for the government in the short and long run. Short-term savings are made because the government uses investors' capital to fund an existing or new intervention, filling a service gap in this case. In the long run, the government may also make savings by reducing its budget for a given social issue because the size of the population in need has decreased as a result of a preventive SIB intervention (Dayson et al. 2019). Therefore, SIBs and DIBs give rise to financial resources deployed directly in developmental projects, and, therefore, are appropriate instruments for re-allocating government financial resources. The characteristics of SIBs and DIBS make a very strong case for establishing a conducive environment for introducing these instruments.

To expand access and utilization of these instruments, the Government will need to review the legal framework for operationalization so that investors can have confidence and trust to commit funds. Reforms will enable the private sector to maximize its potential to generate investments and jobs through impact bonds, once any inconsistencies in regulations, taxes and fees have been addressed. Enhancing transparency on the investment outcome is also important. Potential risks associated with these instruments include: a slow process of legal reforms, limited awareness and willingness to execute the instrument, and government bureaucracy in paying investors as per the delivered outcome, all of which may disincentivize investors. Possible mitigation measures include, but are not limited to, awareness creation and an effective coordination mechanism to enable information sharing among actors and stakeholders.

3.3.9 Impact investment

Impact investments are made to generate measurable social and environmental impact in addition to financial return (Saltuk & El Idrissi 2015; Bertha Centre for Social Innovation and Entrepreneurship 2016). Impact investors—individuals, philanthropists, fund managers, financial institutions and insurance companies—aim to finance ventures with a core business model to address social or environmental challenges. Impact investing closely aligns with the resolutions and principles adopted in the Addis Ababa Action Agenda (AAAA) for Financing for Development, in particular the aim of the agenda *to promote and create enabling domestic and international conditions for inclusive and sustainable private sector investment, with transparent and stable rules and standards and free and fair competition, conducive to achieving national development policies* (UN 2015: 12). This effort to encourage private investment rests on the importance of its contribution to implementation of the FYDP III and the 2030 Agenda.

Impact investing is growing globally. Its growth has been fueled by the increasingly entrenched interest within societies for investments that positively impact communities and contribute to economic and environmental sustainability. The returns associated with this type of investment are gradually improving and are catching up with those of traditional investing.

Impact investing is also helpful as private capital innovatively addresses social and/or environmental challenges while pursuing commercial viability. This instrument has worked successfully in various sectors, including education, healthcare, water and sanitation, agriculture and food security, energy access, infrastructure, and access to housing (Zilihona et al. 2020).

The following conditions are necessary to successfully mobilize resources from this source and contribute to financing human development. First, the investor must intend to make a positive social or environmental impact. Second, investments need to generate returns on capital. Third, the investor must be committed to measuring and reporting the impact created by their investment. Fourth, the investor must be committed to measuring and reporting the effect created by their investment (Bertha Centre for Social Innovation and Entrepreneurship 2016).

In Tanzania, impact investing is in its infancy because market investments have focused exclusively on achieving financial returns. However, Tanzania has recently prepared an SDG Investor Map, a market intelligence product to help private investors (funds, financiers, corporations) identify investment opportunities and business models that advance national priorities and realization of the SDGs (URT, UNDP & UNCDF 2022). The Map provides information and tools needed by the private sector to translate country-level SDG gaps and priorities into investment opportunities. It also offers insights into local market conditions and SDG investment opportunities, highlighting both the business opportunities as well as the expected development impact of investments. These impact investments can significantly contribute to filling the current financing gap for the SDGs by mobilizing private capital (ibid).

The Tanzania SDG Investor Map has identified five sectors and about 30 investment opportunity areas in the country. The five sectors include agriculture, renewables and alternative energy, infrastructure, education and services (ibid). With the Map now in place, legal reforms are needed to create a conducive environment for impact investments so as to utilize the opportunities in the sectors identified.

3.3.10 Infrastructure bonds

Infrastructure bonds are debt instruments through which finance for infrastructure development can be raised. These bonds may be issued by governments, government-authorized infrastructure companies, or non-bank financial institutions. These bonds offer reasonable interest rates (8.5 percent to 9 percent) and tax benefits. The maturity of these bonds is often between 10 and 15 years, with an option of buy-back after a lock-in of 5 years. These bonds can be listed on the national stock exchange or other authorized financial intermediaries (MoFP 2018).

Infrastructure bonds should be open to purchasing by nationals and non-nationals on predetermined ratios. In 2014, Kenya raised $2 billion by issuing a five-year bond to fund infrastructure projects. In the financial year 2021/22, the Government of Kenya plans to raise $468 million through infrastructure bonds. Opening up infrastructure bonds for local ownership can contribute to government efforts to increase formalization of the informal sector of the economy, by encouraging Tanzanians to open bank accounts to purchase/trade in these bonds.

3.3.11 SDG sovereign bonds

This type of bond can finance specific projects targeting SDG objectives. UNDP has developed a comprehensive framework to issue this type of bond to target specific needs related to the 2030 Agenda, such as illiteracy and school attendance, health services, water and sanitation, and energy. The proceeds are then channeled to identified vulnerable populations fitting the required criteria based on the country's social gap index. Efforts will be made to utilize this opportunity during the second half of the implementation of FYDP III.

3.3.12 Blue bonds

The blue economy is another targeted area for bond issuance. These are debt instruments issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based projects that have positive environmental, economic and climate benefits (International Union for the Conservation of Nature [IUCN] 2019). Some countries have issued these bonds including Cape Verde, where UNDP, the government, stock market and national organizations collaborated to issue and list the country's first Blue Bond to channel private resources to a newly established blue economy pipeline of regional and national projects, as part of a regional platform for sustainable finance instruments dedicated to the blue economy (URT & UNDP 2021: 55). This initiative was developed to take advantage of Cape Verde's natural position as a strategic, oceanic pivot between Africa, the Americas and Europe. The bonds seek to direct private capital in ways that serve people and planet. They also seek to generate or leverage additional resources for the SDGs, realign expenditures towards the SDGs by eliminating subsidies, deliver financial resources more effectively by enhancing the cost-effectiveness/efficiency, synergies and/or favour a more equitable distribution of resources. As for other innovative financing instruments, Tanzania will need to put in place a legal and regulatory framework to enable smooth operationalization of the blue bond.

3.4 Conclusion

Innovative financing instruments hold great potential to finance human development. However, concerted and coordinated government action will be required to operationalize their use, including:

Awareness creation: A thorough understanding of each instrument, their pros and cons, and the best ways of tapping these sources will be essential to enable their optimal use. Better understanding will enable stakeholders to develop strategies for utilizing these sources for financing development. Awareness creation programs, therefore, need to be designed and implemented.

Policy reform. National policy, legal and regulatory frameworks need to be put in place for instruments to be introduced and for them to have their intended impact. Tanzania will need to build its capacity, both institutional know-how and technical systems and infrastructure, to effectively and efficiently operationalize these financing instruments and safeguard the interests of the government, investors and targeted populations.

Projections for innovative finance: Comprehensive financial projections for each source or instrument are vitally important for government decision-making. At present, little information is available on the amount generated from different sources or instruments, hence, innovative finance has less weight in decision-making.

CHAPTER FOUR: MAKING FINANCING FOR DEVELOPMENT WORK FOR HUMAN DEVELOPMENT

4.1 Overview

As described in earlier chapters, Tanzania formally graduated to a lower-middle-income country in July 2020. However, since the start of 2020, the country had to grapple with the impact of the global Covid-19 pandemic on many human development indicators and the unfolding negative effects of climate change on economic, social and environmental sustainability. The economic fallout from the pandemic severely reduced flows of foreign private and public assistance, threatening the gains of recent years toward achieving the SDGs. Amid these significant stresses, it was both timely and urgent that this Tanzania Human Development Report (THDR) 2022/2023 had to examine the scope for raising financing to protect the country's hard-won gains on human development, especially given the context of declining ODA and remittances internationally and the low tax capacity domestically. The THDR's focus on the link between 'financing for development and human development' ties in with the Financing Strategy of FYDP III, which calls for more effective mobilization of financial resources and the exploration of new alternative/ innovative sources of financing.

This chapter summarizes the feasible, practical actions needed to increase the financial resources available to allocate to human development interventions in Tanzania. The synthesis leverages insights from earlier chapters to examine the challenges and opportunities for effective financing of human development for FYDP III. The chapter concludes with proposals for optimizing mobilization and financing for human development in Tanzania.

4.2 Challenges and opportunities for Tanzania's development financing.

Domestic public finance has long been a significant development resource in Tanzania, accounting for 58.6 percent of the cost of FYDP II between 2016/17–2020/21 and expected to rise to 64.7 percent of the cost of meeting the FYDP III over the next five years. Despite the expected growth in contribution to human development, the country's revenue base (and spatial distribution) and tax collecting capacity have remained limited. At 15.14 percent in 2019/20, Tanzania's revenue-to-GDP ratio was above the average for low-income developing economies (12.97 percent), but well below that of advanced economies (34.78 percent) (URT, UNDP & UNCDF (2022: 1).

Due to difficulties in collecting other sources of revenue, trade taxes have remained particularly important in Tanzania owing to their relative ease of collection. Other revenue sources tend to be minor, owing to the large informal sector (currently accounting for 40 percent of unreported GDP) and the political and administrative complexities of levying income tax on a population with very low income levels. Further, the pursuit of FYDP III's aspirations to promote human development through competitive advantages in goods and services for both external and domestic markets may, in the short term, at least reduce the utility of trade taxes to fill the public financing gap.

Corporate taxation plays a key role in the national revenue base, accounting for 19 percent of direct taxation in Tanzania. Action Aid Tanzania (2021: 2) cites a 2018 ActionAid study that found that Tanzania was losing an estimated $531.5 million (TZS 1.1 trillion) per year in corporate tax revenue through exemptions on VAT and Special Economic Zones alone. Moreover, there were problems in accurately estimating revenue loss through tax incentives granted by the Government, in part due to lack of accurate, public data on the tax revenue lost through discretionary tax incentives to companies. Revenue was also lost through capital flight, failure to tax the informal sector, and other forms of tax evasion. Consequently, much scope exists for expanding tax receipts without jeopardizing Tanzania's aspirations for a competitive, productive sector by tackling the significant tax losses from ineffective incentives as well as multinational tax avoidance and evasion. The current status quo of a narrow tax base and tax losses contributes to substantial shortfalls in the resource envelope that could be directed to much-needed productivity-enhancing basic services and social protection.

Further, the status quo also affects efforts to bridge the infrastructure 'investment gap' because of the overwhelming reliance on strained public finances and limited private sector involvement. The latter is a case of missed opportunity. The Government could harness and de-risk private capital in infrastructure and other social investments through joint ventures and other modalities for public-private partnerships.

The three-fold increase in development spending—from TZS 4.3 trillion in 2015/16 to TZS 12.8 trillion in 2020/21—has seen Tanzania increasingly turn to borrowing to finance development in recent years. On the one hand, the move partly reflects the country's increasing growth, creditworthiness and development ambition. On the other hand, the move, which saw a more than doubling of non-concessional borrowing to TZS 12.2 trillion, represented risks in the then climate of reduced export receipts and consumer spending following the outbreak of the Covid-19 pandemic. While the aggregate debt burden remained low at 30 percent of GDP, external debt risk had risen to 'moderate,' indicating limitations in the country's ability to absorb exogenous shocks and stresses caused by the pandemic on its foreign exchange earning sectors.

Renewed efforts are needed to sustain fiscal and debt sustainability through improvements in public investment management, financial transparency, strengthening policy impact assessments, and the search for alternative sources of financing development. As it has amply articulated, the Government ought to ensure that the financed development projects are well-planned, not only as the means to reach the majority of the population in more remote areas but also that the projects have overall multiplier effects on employment and income generation and will enable the country to service its national debt. The industrial development drive coupled with measures to increase the international competitiveness of the country's products and human capital should enable it to further increase the exports of goods and services.

As far as domestic borrowing is concerned, it is well for the Government to resort to commercial banks' purchase of government bonds. But the concerns remain on whether the commercial banks in the country will have adequate resources to lend to the private sector.

A rough sketch of the challenges and opportunities of financing for development in Tanzania is presented in Table 12. Section 4.3 then offers recommendations for government interventions to generate and/or attract more development finance from a greater number of sources, both domestically and internationally.

Table 10:

Summary of challenges and opportunities for financing for development

	Challenges	Opportunities/Options
	Of traditional sources of finance	
1	• A narrow tax base and tax losses through tax avoidance, tax evasion, tax maladministration • Slow progress towards formalization of the informal sector	Reforms to enhance revenue can include: • Implementation of better formalization via investment/ business environment • Mutual trust in public-private sector dialogue • Exploration of new/alternative sources for an expanded tax base
2	• Limited coordination in policy and reform processes	• Increase high-level coordination (central, local government and MDAs) to consolidate the multiple taxes and levies • Apply ICT to link systems while being on the frontier of systems security
3	• Limited (access) long-term credit: The banking sector and capital market are still not fully developed • Access to financial services is low, especially in rural areas, and inadequate for all development projects	• Support development of financial institutions • Continued expansion of ICT, especially mobile telephony and banking, will further widen financial inclusion • LGAs to lead community-based human development interventions
	Of the new/alternative sources	
4	• Limited awareness of the range of most of the new/alternative sources, especially in the private sector	• Advances in ICT and digital communication media • Expansion of national broadband to match speed in the digital revolution
5	• Limited experience in central and local government with the new sources	• Financial resource-saving and knowledge and technology (capacity-building support) from international multi-stakeholder partnerships for selected country-driven priorities, (e.g., Global Fund to Fight AIDS, Tuberculosis and Malaria, Global Environment Facility (GEF), Gavi and others).
6	• Difficulties in accessing foreign origin capacity support from private and public or multilateral institutions	

4.3 Recommended policy interventions

4.3.1 Strengthen public finance measures/ reforms

Under the leadership of the President's Office - Planning Commission, public finance measures and reforms will need to integrate national priorities and the SDGs into the budget process and budget execution—including procurement and monitoring (reporting and auditing activities)—across all key stakeholders.

Key recommendations for the Government to strengthen public finances are as follows:

Strengthen reforms already underway toward enhancing efficiency and effectiveness in tax and non-tax revenue collection

- *Implement and review tax laws and regulations as circumstances demand*
    - Continue building the capacities of tax collectors, and monitor tax evasion
    - Apply automation in collecting revenues, including improvements in the Electronic Fiscal Device Management System (EFDMS)
    - Conduct tax gap analysis on gender-sensitive taxation and property taxes
    - Introduce tax incentives to debt-based capital
- *Rationalize multiple taxes and levies*
    - Improve institutional coordination between the central and local government to consolidate the numerous surcharges and levies
    - Set stable rates to make it more convenient for taxpayers and investors to plan
    - Expand use of ICT to ensure collection systems are secure while continuing to ensure the systems are harmonized
- *Reduce taxpayer compliance costs*
    - Continue to apply ICT for more effective collection, avoid possible corruption through contacts between clients and tax collectors. The use of ICT will reduce time and money lost in tax compliance (long queues, multiple days spent in follow-up, paperwork). This also applies to facilitation of domestic and foreign investors as they go through registration procedures
- *Optimize government borrowing*
    - Opt for high-impact projects that ensure technology transfer to Tanzania
    - Conduct borrowing under the Medium-Term Debt Management Strategy, considering the existing debt portfolio's cost and risk vulnerabilities
    - Improve and maintain Tanzania's sovereign credit rating, which, in turn, provides a benchmark for measuring and setting private sector ratings. Prudent economic management by the Government of specific variables of interest will underpin the stability of the country's credit rating. These include: level of gross public debt stock; debt service ratio; stability value of the country's currency (strengthened by exports and inflows of investment); oversight of the banking sector (including reducing non-performing loans, and ensuring fair capital-adequacy and liquidity ratios) as well as measures to reduce the risks and vulnerabilities inherent in the structure of the Tanzanian economy which is still dependent on primary commodities and extractives.
- *Optimize natural resource rents*
    - Continue to negotiate for and secure a greater (more equitable) share of revenue from the country's natural resources, including reviewing and updating existing agreements/contracts wherever possible
    - Expand tax audits across the board; in the mining sector, conduct inspections jointly with the Ministry of Energy and Tanzania Extractive Industries Transparency International (TEITI)
    - Expand the 'volume' of tourism by improving infrastructure (especially roads leading to and within national parks, improving public and social services, and addressing traffic jams (BoT 2021: 44)
- *Central and local government expenditure*
    - Enforce spending efficiency and expenditure commitment controls for development and recurrent expenditures per budget allocation
- *Improve capacity in public investment management*
    - Strengthen the capacity of central and local government officials in investment planning and management, including financial analysis of investments and preparation of professional bankable project documents,

which will reduce reliance on costly external consultants

- Sharpen negotiation and contract management skills by knowing in advance the financial conditions being offered by different creditors
- Ensure institutional coordination; depending on the nature of the development project or program, team spirit will be critical to obtaining the best overall outcome

- *Local government authorities*
    - Strengthen the capacity of LGAs to formulate new revenue generation strategies to reduce dependence on subventions from central government
    - Include staff from LGAs in capacity-building programs for public investment management
    - Encourage LGAs to take advantage of the recently compiled Regional Investment Guides in Tanzania. These guides provide information on the potential investment areas for prospective local and foreign firms or individual entrepreneurs.32 These can be read in conjunction with Tanzania Investment Centre (TIC) information on investment opportunities and procedures.
    - Promote LGA leadership for local economic development (LED) initiatives working with business enterprises and civil society organizations to promote community-wide, self-help projects that utilize resources within their jurisdictions. LGAs are the foremost facilitators of formalization of the informal sector.
    - Train LGA office holders in the supervision of projects in partnership with the private sector and the use of ICT-based management information systems in collecting revenues and improving business conditions by making revenue collection more transparent
    - Establish clear lines of separation between political and financial/business management structures

4.3.2 Enhancing private sector financing capacity

As noted in preceding chapters, the private sector will likely have an increasingly important role in providing finance for Tanzania's development. In general, to attract financial resources from private investors (both domestic and foreign), the Government will need to continually improve the business environment in the country, including:

- Putting in place a stable policy environment for investors;
- Simplifying licensing procedures and reducing compliance costs;
- Creating a fair and transparent incentives system;
- Offering requisite public services and physical infrastructure; and
- Reducing mistrust between public and private sector actors.

These may be considered as essential policy interventions for all types and levels of private investors. Of note, to help build trust with the private sector, it is recommended that the Government continue to implement the *Blueprint for Regulatory Reforms to Improve the Business Environment of 2018* and the *2017 Tanzania Diagnostic Trade Integration Study (DTIS)* and sustain public-private sector forums to iron out any sticky and emerging issues. The private sector is expected to reciprocate with mutual respect and trust and engage in open (transparent) and fair competition practices.

It was further noted in chapter 3 that the private sector will be a major source of finance for social and environmental sustainability issues, and human development and poverty reduction concerns. In this regard, it is recommended that the Government actively seek all financial resources and technical support offered through international development financial institutions (IDFIs).

On the domestic front, tangible public policy moves to formalize MSMEs will unleash income generation and tax capacity from this huge but largely under-developed sector of the economy. The interventions designed to formalize the sector, including administrative facilitation in registration need to be backed by efforts to ease access for small/micro entrepreneurs. Criteria for selection of beneficiaries need to be transparent, simple and easy to follow.

[32] These include Kilimanjaro, Simiyu, Kigoma, Mwanza, Mara, Dodoma, Geita, Manyara, Lindi, Pwani (Coast), Ruvuma, Mtwara, Tabora, Kagera, Singida, Shinyanga, Arusha, Singida, Mbeya, Iringa, Rukwa, Njombe, Katavi, Songwe, Dar es Salaam and Tanga. https://esrf.or.tz/index.php/regional-investment-guides.

Banking services

The majority of the unbanked population reside in rural areas. However, physical branch expansion (as more remote areas get opened up by roads) is backed by agency banking and mobile telephony. The Bank of Tanzania is also doing well in regulating other non-financial institutions, although informal financial 'enterprises' (informal money lenders) still exist.

Consumer education and promotional campaigns are ongoing but will continue to be needed as many Tanzanians still do not access banking services. To further promote financial inclusion, the Government should consider partnering with private and civil society actors on awareness-raising campaigns for rural and low-income urban households and small enterprises on accessing financial services and insurance policies.

Inclusive insurance

The insurance sub-sector is the least developed (and paid attention to) by ordinary citizens, except lately with respect to health insurance. FYDP III has astutely included three major targets for the plan's terminal year 2025/26 (URT 2021a:104). The targets focus on increasing public awareness about insurance, expanding local demand-driven insurance and creating mechanisms to simplify processing of claims, complaints and settlements. FYDP III also includes disaster risk management and the need for the country to arrange for its financing.

Under the guidance and support of the President's Office - Planning Commissionand the Bank of Tanzania, TIRA, the regulatory authority for the insurance sub-sector, is supposed to play a developmental role by devising and running insurance awareness programs. But the authority will need support to develop an enabling environment and regulatory framework that are conducive to inclusive insurance, with a focus on agriculture and universal health coverage. Such an environment would need to harness modern technology (ICT), partnering with telecom companies, microfinance institutions, cooperative unions and banks. Highly trained experts in actuarial science, claims management and underwriting will be required to guide technical capacity development for the sub-sector.

In addition, the Government is called upon to develop mechanisms to compile disaster risk information (for example, a national database) and assess the likely financial and economic impact to livelihoods and assets. From such data, it is possible to estimating the financial resources required to monitor, record damages and plan for financing mitigation measures.

4.3.3 External sources

With respect to financial flows from official development assistance and international development partners, the following recommendations are offered for consideration by the Government.

i) All aid inflows need to be effectively deployed on growth- and/or productivity-enhancing investments. The dialogue on aid effectiveness should continue within the Development Cooperation Framework setting.

ii) The Government should continue working with international multi-stakeholder partnerships to strategically incorporate agreed financing and/or capacity support from development partners into the country's sector plans and budgets while developing local capacity to receive, internalize and deploy new knowledge and technologies being transferred.

iii) If Tanzania's graduation to a lower-middle-income country is sustained, the country's access to grants and concessional loans will likely decrease over time. Going forward, semi-concessional and non-concessional loans, which tend to carry much higher interest rates, may need to be utilized. To optimally use this source of finance, the Government is encouraged to increase engagement with new and emerging development partners and include South-South cooperation.

iv) Government stakeholders in national security and financial integrity should continue to access the financial and technical support from active participation in international multi-stakeholder coordination forums that are working to combat money laundering, corruption, drug trafficking, human trafficking and the financing of terrorism.

4.3.4 Alternative Financing Sources

As discussed in detail in chapter 3, the Government should continue to explore and tap into alternative/ innovative financing sources to expand the country's available finance for development. This is particularly important given the decline in traditional sources of funding such as ODA.

This report has identified three key actions for Government:

i) The specific requirements for each new financing instrument, including policy, legal, regulatory and institutional reforms, need to be in place for these new funding arrangements to materialize. Associated risks need to be known in advance and mitigating measures identified with respect to each new source.

ii) Given their relative newness to Tanzania, awareness-raising campaigns will be needed, and sufficient lead time factored in to enact/formulate appropriate legislation and regulations. Ideally, reforms will be done in a consultative manner with all potential key players for each new financing scheme.

iii) A review of experiences of other countries that have successfully designed and introduced new financing mechanisms will be invaluable to learn how and where they worked (or failed).

4.4 Conclusion

Given the precarious state of the global economy and escalating geopolitical tensions, securing sufficient resources to finance human development will be an increasingly difficult challenge. In this context, alternative and innovative financing instruments present valuable opportunities to be prudently explored and tapped. In particular, the Government is encouraged to investigate financing mechanisms that support the goals of the United Nations 2030 Agenda for Sustainable Development and the African Union's Agenda 2063, and to explore other regional/global initiatives and partnerships that are focused on promoting human development in health, education, environment and climate change, security and justice.

Efforts to tap into new and emerging sources of financing for development (both domestic and foreign) should be fast-tracked but will necessitate a comprehensive understanding of the prerequisites and risks for each mechanism. To that end, the Government will need to ensure that the appropriate institutional, policy, legal and regulatory frameworks and risk-mitigation strategies are put in place. For each new financing mechanism, national capacity will need be strengthened to manage and monitor operationalization, key players engaged, work plans developed, and indicative estimates of the financial resources available from each source produced to ensure that the benefits to the country outweigh the costs and risks involved.

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Appendix 1:

Linkage of Agenda 2063 and UN 2030 SDGs

	AGENDA 2063 Goals	AGENDA 2063 Priority Areas	UN SDGs
1.	All citizens have a high standard of living, quality of life and well-being.	• Incomes, jobs and decent work • Poverty, inequality and hunger • Social security and protection, including persons with disabilities • Modern, affordable and liveable habitats and quality basic services	1. End poverty in all its forms everywhere in the world 2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture. 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work. 11. Make cities and human settlements inclusive, safe, resilient and sustainable.
2.	Well-educated citizens and skills revolution underpinned by science, technology and innovation.	• Education and science, technology and innovation (STI) driven skills revolution	4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities.
3.	Healthy and well-nourished citizens.	• Health and nutrition	3. Ensure healthy lives and promote well-being for all at all ages.
4.	Transformed economies.	• Sustainable and inclusive economic growth • STI-driven manufacturing, industrialization and value addition • Economic diversification and resilience	8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work. 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
5.	Modern agriculture for increased productivity and production.	• Agricultural productivity and production	2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
6.	Blue/ocean economy for accelerated economic growth.	• Marine resources and energy • Port operations and marine transport	14. Conserve and sustainably use ocean, sea and marine resources for sustainable development.
7.	Environmentally sustainable and climate resilient economies and communities.	• Biodiversity, conservation and sustainable natural resource management. • Water security • Climate resilience and natural disasters preparedness	6. Ensure availability and sustainable management of water and sanitation for all. 7. Ensure access to affordable, reliable, sustainable and modern energy. 13. Take urgent action to combat climate change and its impacts. 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

	AGENDA 2063 Goals	AGENDA 2063 Priority Areas	UN SDGs
8.	A United Africa (Federal or Confederate).	• Frameworks and institutions for a United Africa	
9.	Continental financial and monetary institutions are established and functional.	• Financial and monetary institutions	
10.	World-class infrastructure criss-crosses Africa.	• Communications and infrastructure connectivity.	9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
11.	Democratic values, practices, universal human rights principles, justice and the rule of law are entrenched.	• Democracy and good governance • Human rights, justice and the rule of law	16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions.
12.	Capable institutions and transformative leadership in place.	• Institutions and leadership • Participatory development and local governance	16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions.
13.	Peace, security and stability are preserved.	• Maintenance and preservation of peace and security	16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions.
14.	A stable and peaceful Africa.	• Institutional structure for AU instruments on peace and security • Defense, security and peace	
15.	A fully functional and operational APSA	• Fully operational and functional APSA all pillars	
16.	African cultural renaissance is preeminent.	• Values and ideals of Pan Africanism • Cultural values and African Renaissance • Cultural heritage, creative arts and businesses	
17.	Full gender equality in all spheres of life.	• Women and girls' empowerment • Violence and discrimination against women and girls	5. Achieve gender equality and empower all women and girls.
18.	Engaged and empowered youth and children.	• Youth empowerment and children's rights	4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities. 5. Achieve gender equality and empower all women and girls.

	AGENDA 2063 Goals	AGENDA 2063 Priority Areas	UN SDGs
19.	Africa is a major partner in global affairs and peaceful co-existence.	• Africa's place in global affairs • Partnerships	17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.
20.	Africa takes full responsibility for financing her development Goals.	• African capital markets • Fiscal systems and public sector revenue • Development assistance	10. Reduce inequality within and among countries. 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Linking Agenda 2063 and the SDGs | African Union (au. int) accessed 19/03/2022 SDGs scope is confined to social, economic and environmental dimensions. Agenda 2063 is broader in scope, covering social, economic and sustainability considerations in the broad context, political, cultural and other African priorities. Hence by implementing Agenda 2063, Member States will *ipso facto* meet global obligations under the SDGs.

Appendix 2:

Trends in total resources mobilized by central government (2015/16–2020/21)

Type of Revenue	2015/16 Actual	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Budgeted	2020/21 Likely
Total Resources	22,543,664	25,417,791	26,610,843	28,962,515	29,515,050	34,879,793	30,059,331
Domestic revenue	13,622,182	16,128,215	17,403,388	17,868,195	20,352,708	23,250,582	20,697,193
LGAs Own Sources	425,852	511,718	541,499	659,098	717,249	814,961	744,603
Programme loans and grants	291,381	342,785	246,688	125,396	391,433	138,323	258,205 0
Project loans and grants	1,186,982	1,857,399	1,856,185	1,822,839	2,821,650	2,460,506	1,744,783
Basket support Loans	161,842	104,991	74,681	44,281	166,027	79,005	77,622
Basket Support Grants	86,199	168,984	117,166	181,378	181,091	196,538	68,618
Domestic Borrowing/ rollover	3,005,789	4,615,670	4,835,199	3,718,008	3,976,811	3,316,078	3,316,078
Domestic Borrowing (Financing)	2,299,151	1,300,000	869,200	3,037,177	376,924	1,588,169	1,588,169
Adjustment to Cash	1,010,781	-838,731	-978,745	361,320	-1,290,936	0	-712,663
Non-Concessional borrowing	453,504	1,226,760	1,474,282	1,144,822	1,822,093	3,035,630	2,276,723

Source: URT (2021c) Budget Speech June 2021

STATISTICAL ANNEX

Reader's Guide

The 7 statistical tables (A1 to A7) provide an overview of key aspects of human development in Tanzania. The tables comprise composite indices and other development indicators prepared using data collected for THDR 2022. The annex presents technical notes on how indices and other development indicators for this report were computed.

The tables mainly compare human development achievements across regions of Tanzania Mainland. Regions are ranked by their 2022 HDI value, the most current index in the tables. There are 26 regions on Tanzania's continent (listed in the next section). The Technical notes section provides details of how the estimates were carried out.

Sources and Definitions

IRDP, in collaboration with the University of Dar es Salaam, ESRF, President's Office - Planning Commission, REPOA and the National Bureau of Statistics (NBS), collected data for the THDR 2022. Definitions of indicators and the data sources are given at the bottom of each table, and full source details are provided in the Statistical References.

Discrepancies between Regional and National Estimates

Regional-level estimates, which can be summarized as a national figure, may differ from what is reported for Tanzania in the Global Human Development Report (HDR). Two main factors can explain this possibility. First, the data used in the HDR is harmonized to allow for comparability across countries. Second, most of the indicators in THDR, the country-level report, are computed in a local context, which involves localizing formulas used in the computation of the indicators.

Human Development Classification

HDI classifications are relative based on the distribution of HDIs across the 26 regions included in the ranking. The main classifications for this report are denoted as high (8 regions), medium (10 regions) and low (8 regions).

Statistical Acknowledgements

Constructing the development indicators for this Statistical Annex has been possible due to the availability of data and other information drawn from respected sources. We are particularly grateful to the President's Office - Planning Commission, the President's Office, Regional Administration and Local Government Authorities, Regional Secretariats, Local Government Authorities, the UNDP, the World Bank, the Bank of Tanzania, the Tanzania Revenue Authority, UDSM and IRDP, for taking the lead in the data collection process and the preparation of the Statistical Annex for this report.

Statistical Tables

The first two tables report the composite human development indices and their components; the remaining five tables contain a wide set of indicators measuring human development. This report presents two composite human development indices – the Human Development Index (HDI) and the Gender Development Index (GDI). Due to the nature of the data, difficulty in capturing within-region inequalities in HDI component indicators made it impossible to construct regional IHDIs, GII and MPI. For this reason, these indices are not included in this report.

Table A1 shows the ranking of the regions based on their HDI scores. **Table A2** presents the HDI and its component indicators: life expectancy (health), expected years of schooling (educational attainment) and income. This report presents two modifications to the HDI compared to the standard HDI reported in the HDR. First, income performance is captured by Gross Domestic Product (GDP) because it is impossible to capture Gross National Income (GNI) at the regional level, at least in the Tanzanian context. Second, educational attainment in a standard HDI formula comprises Expected Years of Schooling (EYS), which is schooling life expectancy, and Mean Years of Schooling (MYS), which represents the average educational attainment of the adult population. Regional-level information for the MYS was unavailable, forcing this indicator to be excluded in the computations of the final HDI. The education index, therefore, is computed based on EYS alone. This might have affected the regional ranking in education attainment and thus the final HDI. However, the EYS as a flow variable provides a good measure of trends in progress, unlike the MYS, which is a stock variable that changes slowly over time. Nevertheless, on policy cycles, Tanzania puts attainment in primary and secondary education among its key priorities. The HDI computed in this report takes this fact into account.

The regions in Table A2 and the rest of the tables are ranked according to their HDI scores. The difference between rank by GDP and HDI indicates whether a region efficiently converts its income into education, health attainments, and social outcomes. Non-income HDI provides a means of comparing regions entirely on social indicators of HDI.

Table A3, the Gender Development Index (GDI), measures discrepancies in HDI by gender. The table presents HDI data estimated separately for women and men, and their ratio is the GDI. A GDI value approaching 1 implies a smaller gap between women and men in terms of HDI, and the region is not necessarily performing well in terms of human development. The table also presents the HDI indicators (education and income) disaggregated by gender.

Table A4 captures command over resources at the regional level. It comprises information on GDP standardized by population (GDP per capita), regional shares of national GDP, tax revenues disaggregated by their types (i.e., customs, Indirect (VAT) and Direct (income) taxes) and regional shares of the total tax collected. Indicators in this table can be used to analyse how the variation in economic activities across regions is associated with overall human development.

Table A5 presents standard education performance indicators, including net enrolment ratio, gross enrolment ratio, pass rate, and their associated gender parities. The table also includes the education attainment of the adult population. **Table A6** comprises information on women's decision-making, particularly in regional and district administration and politics. **Table A7** shows environmental variables.

Table A8 pertains to population indicators. It shows the distribution of the country's population across regions, population structure, urbanization, and average annual growth rate, which captures the direction of the change in population, population density, age dependency ratio, fertility rate and sex ratio. Generally, the table describes the characteristics of Tanzania's population at the regional level.

Table A1:

HDI ranking for Tanzania Mainland regions, 2022

Region	HDI Rank
Kilimanjaro	1
Dar es salaam	2
Arusha	3
Iringa	4
Mbeya	5
Tanga	6
Ruvuma	7
Njombe	8
Mwanza	9
Lindi	10
Manyara	11
Mtwara	12
Morogoro	13
Mara	14
Songwe	15
Geita	16
Pwani	17
Rukwa	18
Katavi	19
Dodoma	20
Singida	21
Shinyanga	22
Simiyu	23
Kigoma	24
Tabora	25
Kagera	26

Table A2:

Human Development Index values and components data

HDI Rank	Region	1 HDI	2 Life expectancy (2020 projections)	3 Expected years of schooling (2012 Census)	4 GDP per capita (2020)	5 Non-income HDI	6 Rank (income)	7 GDP per capita rank minus HDI Rank
		Value	Years	Years	TZS	Value		
1	Kilimanjaro	0.759	71.2	11.39	3,393,587	0.726	5	4
2	Dar es Salaam	0.749	64.9	10.32	4,678,751	0.648	1	(1)
3	Arusha	0.728	73.7	9.79	3,300,051	0.690	6	3
4	Iringa	0.722	61.8	10.80	4,028,544	0.639	2	(2)
5	Mbeya	0.704	63.9	9.92	3,788,604	0.628	3	(2)
6	Tanga	0.681	68.8	9.78	2,843,991	0.657	9	3
7	Ruvuma	0.675	65.5	9.01	3,396,983	0.609	4	(3)
8	Njombe	0.667	59.9	10.34	3,183,728	0.611	7	(1)
9	Mwanza	0.662	67.3	9.70	2,670,009	0.644	12	3
10	Lindi	0.657	68.4	8.75	2,885,533	0.619	8	(2)
11	Manyara	0.648	71.8	8.35	2,654,594	0.626	13	2
12	Mtwara	0.644	68.2	8.61	2,725,164	0.613	11	(1)
13	Morogoro	0.629	67.2	8.45	2,623,807	0.601	14	1
14	Mara	0.626	66.0	9.70	2,258,302	0.635	17	3
15	Songwe	0.609	63.9	9.92	2,117,414	0.628	19	4
16	Geita	0.608	67.9	7.27	2,739,023	0.561	10	(6)
17	Pwani	0.605	65.5	8.88	2,251,254	0.605	18	1
18	Rukwa	0.582	64.1	7.43	2,505,705	0.545	15	(3)
19	Katavi	0.548	63.3	6.38	2,478,206	0.500	16	(3)
20	Dodoma	0.548	68.8	7.85	1,759,347	0.589	22	2
21	Singida	0.540	70.8	7.94	1,622,891	0.604	24	3
22	Shinyanga	0.539	65.1	7.47	1,887,800	0.552	20	(2)
23	Simiyu	0.519	68.5	7.39	1,624,905	0.570	23	-
24	Kigoma	0.515	67.1	8.42	1,479,389	0.599	25	1
25	Tabora	0.499	65.9	6.24	1,777,039	0.509	21	(4)
26	Kagera	0.445	63.5	8.80	1,168,661	0.589	26	-
	Tz Mainland	**0.639**	**66.6**	**8.90**	**2,653,790**	**0.613**		**-**

Notes

HDI computed in this report is in a local context; therefore, is not comparable with HDI reported in global HDRs.

DEFINITIONS

Human Development Index (HDI): A composite index measuring average achievements in three basic dimensions of human development – a decent standard of living, long and healthy life and knowledge. HDI ranges human development scores from zero (low) to one (high).

Life Expectancy (LE) at Birth: Number of years a newborn infant is expected to live if prevailing patterns of age-specific mortality rates at the time of birth remain constant throughout the infant's life.

Expected Years of Schooling (EYS): The number of years of schooling a school-age child is expected to receive if the prevailing patterns of age-specific enrolment rates persist throughout the child's life. EYS is also known as schooling life expectancy.

Gross Domestic Product (GDP) per Capita: Sum of gross value added by all producers in the economy (the region in this context) plus any product tax minus any subsidies not included in the product's value, expressed in current market prices, divided by the total population.

Non-income HDI: HDI value computed based on its social dimensions – education and health.

Rank (Income): Values in column 4 ranked in ascending order.

GDP per Capita Rank minus HDI Rank: Difference in rankings between GDP per capita and HDI. A positive value means that a region is ranked higher according to HDI than according to GDP.

MAIN DATA SOURCES

Column 1: THDR team computations based on data from URT (2013) and URT (2020b), and NBS & MoFP (2021).

Column 3: THDR Team computations based on based on data from URT (2013) and URT (2020b), and NBS & MoFP (2021).

Column 4: URT.(2020b)

Column 5: URT. (2013)

Column 6: NBS & MoFP. (2021)

Column 7: THDR team computations based on data from URT. (2020b) and URT.(2013).

Column 8: Ranked based on column 6

Column 9: Calculated based on data in columns 1 and 8.

Table A3:

Gender Development Index

Regions	Life expectancy (Years)		Gross enrolment ratio primary school		Wage (TZS)		Population share	
	Female	Male	Female	Male	Female	Male	Female	Male
Kilimanjaro	72.7	69.6	100.7	102.4	482344.4	451583.3	3.481	3.457
Dar es Salaam	67.4	62.3	94.5	92.3	538556.5	514518.3	9.512	9.430
Arusha	75.7	71.5	105.9	109.2	540589.8	613902.9	3.803	3.785
Iringa	64.4	59.1	125.6	126.1	498111.3	510166.1	2.015	1.972
Mbeya	66.2	61.5	109.1	108.9	600370.0	422043.1	3.890	3.806
Tanga	70.3	67.1	123.3	124.2	580801.5	508789.7	4.747	4.746
Ruvuma	67.3	63.7	121.2	122.2	426638.4	325517.2	3.008	2.995
Njombe	63.4	56.0	127.2	127.7	388888.4	389397.0	1.495	1.399
Mwanza	69.8	64.8	114.6	111.4	491932.3	461127.5	6.867	6.961
Lindi	71.2	65.5	120.3	121.0	605093.8	594870.5	1.858	1.798
Manyara	73.6	70.0	92.6	93.3	598142.2	597483.5	3.268	3.442
Mtwara	70.2	65.9	124.8	123.6	487435.7	501283.4	2.690	2.560
Morogoro	69.6	64.9	116.7	116.1	502159.3	493664.3	4.840	4.910
Mara	68.3	63.6	124.8	125.6	429194	407494.6	4.305	4.273
Songwe	66.2	61.5	102.2	100.7	279732.1	209527.9	2.258	2.207
Geita	70.0	65.8	138.5	135.9	329978.4	267314.8	4.345	4.463
Pwani	66.7	64.3	157.2	157.7	557731.0	522916.9	2.332	2.363
Rukwa	66.8	61.2	110.9	105.5	356620.3	375858.3	2.563	2.554
Katavi	66.9	59.7	126.7	126.5	482648.5	510358.2	1.413	1.432
Dodoma	72.3	65.2	113.9	107.7	454633.2	472609.5	4.791	4.769
Singida	72.5	69.1	116.1	114.7	375825.6	426876.9	3.369	3.475
Shinyanga	68.0	62.1	116.7	111.9	525175.9	500757.4	3.563	3.573
Simiyu	70.0	67.0	103.7	98.2	466720.3	471477.3	4.207	4.201
Kigoma	69.2	64.9	89.4	89.4	437991.4	400333.4	5.295	5.290
Tabora	68.8	63.0	98.5	96.6	508010.5	474575.9	5.666	5.756
Kagera	65.9	60.9	97.0	97.0	467041.1	431485.2	5.684	5.746
Tanzania Mainland	**68.9**	**64.2**	**111.2**	**109.9**			**96.996**	**97.025**

NOTES

a HDI computed in this report is in the local context and therefore not comparable with HDIs reported in global HDRs.

b Since gender disaggregated GDP per capita information is unavailable, the reported figures are estimates. See the technical notes for more details.

DEFINITIONS

Gender Development Index (GDI): A composite measure capturing discrepancies in human development achievements between women and men regarding health, education and living standards. The technical notes provide details on how the GDI is computed.

The ratio of Female to Male HDI: Ratio of female to male HDI scores.

Human Development Index (HDI): A composite index measuring average achievements in three basic dimensions of human development – a decent standard of living, long and healthy life and knowledge. HDI ranges human development scores from zero (low) to one (high).

Life Expectancy (LE) at birth: Number of years a newborn infant is expected to live if prevailing patterns of age-specific mortality rates at the time of birth remain constant throughout the infant's life.

Expected Years of Schooling (EYS): The number of years of schooling a school-age child is expected to receive if the prevailing patterns of age-specific enrolment rates persist throughout the child's life. EYS is also known as schooling life expectancy.

Estimated Gross Domestic Product (GDP) per Capital: Derived from the ratio of female to male earnings, female and male shares of the economically active population and GDP (in 2012 prices). See technical notes for details.

MAIN DATA SOURCES

Columns 2 and 3: Projected based on URT. (2013).

Columns 4 and 5: URT. (2020a).

Columns 6 and 7: URT. (2017a).

Columns 8 and 9: Projections based on URT (2020b)

Table A4:

Command over Resources

Region	Gross Domestic Product (GDP)		Tax collections (TRA 2021)			Share of regional total tax		Regional share	
	Total (million TZS)	Per capita	Direct tax (million TZS)	Customs (million TZS)	Total (million TZS)	Direct tax (%)	Customs (%)	GDP (%)	Total tax (%)
Kilimanjaro	6621744	3393587	61617.29	86650.212	183325	33.611	47.266	4.460	1.867
Dar es Salaam	25273744	4678751	1325055	6789210.413	8921343	14.853	76.101	17.020	90.871
Arusha	6943552	3300051	161770.3	81349.692	327870.1	49.340	24.812	4.680	3.340
Iringa	4630735	4028544	36980.86	345.663	59281.11	62.382	0.583	3.120	0.604
Mbeya	8352140	3788604	38144.44	18809.866	69780.25	54.664	26.956	5.620	0.711
Tanga	6965603	2843991	43151.9	83805.131	154366.8	27.954	54.290	4.690	1.572
Ruvuma	5623511	3396983	11986.63	163.989	16897.33	70.938	0.971	3.790	0.172
Njombe	2666554	3183728	17786.34	247.170	26585.61	66.902	0.930	1.800	0.271
Mwanza	10957916	2670009	75446.7	51385.686	190924.5	39.517	26.914	7.380	1.945
Lindi	2959980	2885533	6144.75	66.543	7651.378	80.309	0.870	1.990	0.078
Manyara	4972333	2654594	16728.94	0.000	28094.36	59.546	0.000	3.350	0.286
Mtwara	4030174	2725164	13893.83	27922.465	51572.12	26.941	54.143	2.710	0.525
Morogoro	7163146	2623807	67428.31	1423.321	85178.85	79.161	1.671	4.820	0.868
Mara	5401508	2258302	18017.27	60761.306	88660.85	20.322	68.532	3.640	0.903
Songwe	2707855	2117414	7346.962	76534.703	92586.08	7.935	82.663	1.820	0.943
Geita	6668974	2739023	19592.95	77.223	30751.25	63.714	0.251	4.490	0.313
Pwani	2984829	2251254	39370.44	22296.543	91821.62	42.877	24.282	2.010	0.935
Rukwa	3182368	2505705	10048.21	2832.283	19630.56	51.187	14.428	2.140	0.200
Katavi	1997154	2478206	4048.11	0.012	5405.942	74.883	0.000	1.340	0.055
Dodoma	4657713	1759347	166399.2	388.465	182789.3	91.033	0.213	3.140	1.862
Singida	2767324	1622891	8280.231	0.500	10460.98	79.154	0.005	1.860	0.107
Shinyanga	7589553	1887800	49573.98	754.700	74821.54	66.256	1.009	5.110	0.762
Simiyu			5504.794	0.000	7847.58	70.146	0.000		
Kigoma	4143648	1479389	13729.15	868.146	17254.82	79.567	5.031	2.790	0.176
Tabora	5475525	1777039	16683.67	0.000	24702.47	67.538	0.000	3.690	0.252
Kagera	3784529	1168661	17259.38	30648.885	73362.6	23.526	41.777	2.550	0.747
Tz Mainland			**1712252**	**7060629.554**	**9817614**	**17.441**	**71.918**		

NOTES

DEFINITIONS

Gross Domestic Product (GDP): Sum of gross value added by all producers in the economy (the region in this context) plus any product tax minus any subsidies not included in the product's value, expressed in current market prices.

GDP per Capita: GDP divided by population. It represents the average resources available to each individual in the population.

Regional Share of GDP: Percentage contribution of a region to the total GDP (national GDP).

Direct Tax: Tax on gains and profits from business, employment and investments of individuals, corporations and other entities operating in the economy.

Customs Tax: Indirect tax levied on imports or exports in international trade.

Indirect Tax: Consumption tax is charged on taxable goods and services whenever value is added at each stage of production and the final stage of the sale.

Total Tax: Sum of income, indirect and customs taxes.

Regional Share of Total Tax: Percentage contribution of a region to the total tax collected in the country.

MAIN DATA SOURCES

Column 2 and 3: NBS & MoFP (2021)

Column 4 to 10: TRA (2021)

Column 11 & 12: NBS & MoFP (2021)

Table A5:

Education

Region	Pre-school participation		Gender Parity Index (GPI)										Adult literacy		
	NER	NER	GER	PR	PLR	PQTR	PLR		PCR		PDR		Percentage aged 15+ years (by language literacy)		
		Prim	Prim	Prim	Prim	Prim	Pre-prim	Prim	Prim	Prim	Sec	Prim	Male	Female	Total (HBS 2018)
	2020	2020	2020	2020			2020		2020	2020		2020	2020		2018
Kilimanjaro	43.6	101.6	88.3	0.983	1.073	0.957	83	35	23	35	34	3	94.4	90.3	87.3
Dar es Salaam	17.1	93.4	81.9	1.024	0.998	0.897	34	41	54	69	44	4	97.6	94.8	94.2
Arusha	50.8	107.6	93.0	0.970	1.029	0.892	74	40	35	50	39	3	84.5	76.7	76.3
Iringa	49.8	125.8	105.5	0.996	1.007	0.967	91	45	29	51	34	3	88.4	76.1	84.7
Mbeya	38.6	109.0	93.6	1.002	1.001	0.927	120	48	40	64	36	3	86.6	75.7	78.7
Ruvuma	50.2	121.7	107.6	0.992	1.042	0.953	269	59	42	58	38	4	88.3	80.8	85.4
Tanga	55.5	123.8	104.7	0.993	1.039	0.943	130	56	52	70	38	3	85.5	74.8	76.0
Mwanza	31.6	113.0	100.1	1.029	0.937	0.972	196	58	71	94	53	4	84.7	75.5	78.0
Manyara	25.8	93.0	82.2	0.992	1.020	0.944	112	55	35	66	36	3	76.8	68.4	75.8
Lindi	37.8	120.7	105.2	0.994	0.949	0.953	279	55	42	55	33	3	76.1	61.0	69.6
Mara	45.1	125.2	109.1	0.994	0.879	0.968	162	64	61	88	43	4	87.2	75.2	75.3
Morogoro	39.3	116.4	102.0	1.005	1.022	0.933	137	54	58	79	43	4	82.2	72.0	79.2
Mtwara	49.3	124.2	108.9	1.010	0.992	1.000	260	57	44	62	39	4	77.9	65.0	75.5
Rukwa	52.6	108.2	94.9	1.051	0.917	0.984	250	67	63	99	27	4	78.8	61.8	74.5
Pwani	42.5	157.4	133.9	0.997	1.026	0.885	86	49	49	68	39	4	80.9	66.9	78.7
Shinyanga	38.6	114.3	99.3	1.043	0.976	0.986	224	70	71	86	47	4	75.4	62.1	65.7
Dodoma	33.6	110.8	95.9	1.058	0.976	0.968	172	65	61	82	41	4	73.5	62.0	73.4
Tabora	26.7	97.5	84.3	1.020	1.014	0.959	142	68	72	97	43	4	65.5	52.9	69.1
Kigoma	37.8	89.4	75.2	1.000	0.833	0.929	238	72	82	96	40	4	82.7	70.2	71.6
Singida	42.7	115.4	101.6	1.012	1.020	0.893	222	72	53	86	41	4	79.6	68.0	77.5
Kagera	31.5	97.0	81.7	1.000	0.998	0.966	130	60	57	81	42	4	81.5	72.5	70.1
Njombe	60.0	127.5	110.1	0.996	1.047	0.920	121	44	24	43	36	3	88.1	76.8	80.2
Katavi	24.0	126.6	111.2	1.002	0.961	0.955	234	86	87	133	45	5	73.6	58.3	62.0

Region	Pre-school participation		Gender Parity Index (GPI)										Adult literacy		
	NER	NER	GER	PR	PLR	PQTR	PLR		PCR		PDR		Percentage aged 15+ years (by language literacy)		
		Prim	Prim	Prim	Prim	Prim	Pre-prim	Prim	Prim	Prim	Sec	Prim	Male	Female	Total (HBS 2018)
	2020	2020	2020	2020			2020		2020	2020		2020	2020		2018
Simiyu	24.5	100.9	87.1	1.056	0.961	0.958	237	72	93	96	42	4	74.3	60.4	66.5
Geita	31.5	137.2	117.9	1.019	0.897	0.969	151	74	97	119	56	5	75.7	60.5	71.8
Songwe	42.9	101.4	86.9	1.015	1.020	0.938	288	60	46	72	35	4			70.2
Tz Mainland	**35.9**	**110.6**	**95.7**	**1.012**	**0.984**	**0.944**	**130**	**57**	**53**	**75**	**41**	**4**	**83.2**	**73.1**	**77.6**

NOTES

a Prim refers to primary education.

b Sec refers to secondary education.

DEFINITIONS

Gross Enrolment Ratio (GER): Specific level of education, regardless of age, expressed as a percentage of the eligible official school-age population corresponding to the same level of education in a given school year.

Net Enrolment Ratio (NER): Enrolment of the official age group for a given level of education expressed as a percentage of the corresponding population.

Pass Rate: Proportion of those who passed the examination out of total sitting.

Gender Parity Index: Ratios of female to male values of a given indicator. Example: GER^{female}/GER^{male}. A value more excellent than 1 indicates better performance for females than males.

Pit Latrine Ratio: Average number of students per latrine at primary level in a given year.

Pupil-Teacher Ratio: Average number of students per teacher at a specific level of education in a given year.

Pupil-Classroom Ratio (PCR): Average number of students per classroom, and PDR refers to the Desk.

Adult Literacy: Percentage of population aged 15 years and above who can both read and write.

Population with at least Secondary Education: Percentage of population aged 25 and above with a minimum of secondary education.

MAIN DATA SOURCES

Column 2 to 17: URT (2020a)

Column 18: MoFP, NBS and World Bank (2020)

Table A6:

Women in Decision-Making

Region	1		2		3		4		5	
	Members of Parliament		Regional Commissioners		Regional Administrative Secretaries		District Commissioners		DED	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Kilimanjaro	9	7	1	0	1	0	6	0	3	3
Dar es salaam	10	29	1	0	1	0	3	2	3	2
Arusha	7	2	1	0	1	0	6	0	3	2
Iringa	8	6	0	1	0	1	3	1	2	2
Mbeya	5	7	1	0	0	1	6	0	5	1
Ruvuma	7	7	1	0	1	0	5	1	5	1
Tanga	10	3	1	0	0	1	8	2	7	3
Mwanza	12	6	1	0	1	0	6	3	6	3
Manyara	6	4	1	0	0	1	3	2	3	2
Lindi	8	3	0	1	0	1	3	2	4	2
Mara	10	4	1	0	1	0	6	0	4	2
Morogoro	10	2	1	0	0	1	6	1	5	2
Mtwara	6	4	1	0	1	0	3	2	4	1
Rukwa	2	3	1	0	1	0	3	0	2	1
Pwani	9	2	1	0	0	1	5	3	5	3
Shinyanga	7	3	0	1	0	1	4	1	4	1
Dodoma	8	4	1	0	0	1	6	1	5	2
Tabora	9	2	0	1	1	0	6	1	6	1
Kigoma	8	5	1	0	1	0	5	1	4	2
Singida	8	0	1	0	0	1	4	2	4	2
Kagera	8	7	1	0	1	0	4	3	6	1
Njombe	4	2	1	0	0	1	3	2	2	3
Katavi	4	4	0	1	1	0	2	2	2	2
Simiyu	4	4	1	0	0	1	3	2	3	2
Geita	6	2	0	1	1	0	4	1	3	2
Songwe	4	1	1	0	1	0	3	2	3	2
Tz Mainland	**189**	**123**	**20**	**6**	**14**	**12**	**113**	**35**	**103**	**50**

NOTES

Includes both special seat members as well as those elected in constituencies.

DEFINITIONS

Members of Parliament: Representatives of the citizens from various political parties in the National Parliament either through special seat selection or through election in constituencies.

Regional Commissioner: Principal representative of the Government in the region appointed by the President of the United Republic. The President of Zanzibar appoints those for Zanzibar.

Regional Administrative Secretary (RAS): Person in charge of day-to-day administrative activities in the Office of Regional Commissioner.

District Commissioner: Principal representative of the Government in the district appointed by the President. They are subject to the directions, guidance or instructions of the Regional Commissioner of their region.

District Administrative Secretary: Person in charge of day-to-day administrative activities in the Office of District Commissioner.

MAIN DATA SOURCES

Columns 1 to 12: NBS (2016b).

Column 13: NBS (2016a)

Column 1: Parliament Website

Column 2 to 3: Regional administration Websites

Column 4: District administration Websites

Column 5: District Council's Websites

Table A7:

Environment and housing conditions

	Improved water sources	Improved sanitation facilities	House materials			Cooking fuels				Sanitation	Forest and woodland (% of total Area)
			Roof	Wall	Floor	Electricity	Gas (Industrial)	Firewood	Charcoal	No toilet	
	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2017
Kilimanjaro	78.6	43.3	98.6	64.2	64.2	3.7	3.8	79.2	6.8	1.7	48.6
Dar es Salaam	89.9	33.5	99.6	97.8	96.6	7.8	13.3	5.9	58.9	1.0	32.5
Arusha	80.5	30.2	80.5	54.7	51.1	1.3	14.7	64.4	10.5	21.8	43.8
Iringa	75.4	30.3	85.9	67.4	52.1	2.3	1.4	73.6	20.3	1.8	52.1
Mbeya	87.7	32.1	87.4	95.2	59.9	4.3	2.0	57.9	30.5	4.0	70.6
Ruvuma	90.8	28.4	82.4	98	51.3	0.7	0.0	74.8	23.3	3.4	74.6
Tanga	58.7	25.4	79.4	52.8	48.2	0.6	0.8	75	18.5	11.8	47.9
Mwanza	73.8	22.6	91.5	95.8	58.7	1.3	3.2	53.7	40	6.3	14.3
Manyara	66.1	19.9	79.7	58.7	30.8	0.2	0.0	80	16.2	7.6	45.5
Lindi	62.7	19.0	63.1	50.6	27.2	0.0	0.5	74.4	20.2	3.5	77.2
Mara	66.8	17.9	81.0	75.0	41.1	0.2	1.3	73.0	23.5	18.1	15.7
Morogoro	75.5	35.1	83.4	84.3	53.8	0.1	4.0	46.8	44.0	6.3	63.6
Mtwara	69.9	28.4	71.4	76.1	49.3	1.3	0.6	68.0	25.2	7.0	41.4
Rukwa	78.6	23.1	77.6	97.9	45.4	1.3	0.2	62.0	35.7	3.6	41.2
Pwani	73.4	25.6	79.8	45.5	60.5	4.7	6.1	54.1	32.0	5.9	58.7
Shinyanga	73.4	13.8	72.3	90.2	33.4	3.2	1.0	77.7	17.6	11.2	17.1
Dodoma	73.3	23.0	86.2	73.4	45.3	2.4	1.1	62.9	28.4	4.8	32.8
Tabora	59.2	19.4	62.9	85.9	36.4	0.4	0.0	71.6	27.7	6.0	61.2
Kigoma	83.2	25.8	77.7	81.8	28.5	0.6	0.2	57.1	35.9	4.8	60.4
Singida	61.2	12.3	74.4	84.9	28.8	0.3	0.0	80.1	10.9	7.9	45.7
Kagera	39.8	7.7	88.7	44	24.6	0.5	0.2	87.5	11	5.6	54.3
Njombe	74.3	46.3	93.8	97.7	56.3	0.0	0.8	75.5	21.8	1.3	37.0
Katavi	64.9	73.3	65.3	94.1	35.6	4.9	1.4	60.8	29.3	10.9	82.7

	Improved water sources	Improved sanitation facilities	House materials			Cooking fuels				Sanitation	Forest and woodland
			Roof	Wall	Floor	Electricity	Gas (Industrial)	Firewood	Charcoal	No toilet	(% of total Area)
	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2017
Simiyu	69.9	81.2	85	95.5	26.2	1.4	0.3	83.8	12.2	12.8	18
Geita	72.6	85.0	86.7	92.0	43.0	0.8	0.1	64.7	33.3	13.4	48.1
Songwe	74.4	89.8	89.7	97.8	49.7	1.3	0.1	69.3	28.7	7.6	[a]
Tz Mainland	**73.0**	**25.3**	**84.1**	**78.8**	**50.1**	**2.1**	**3.2**	**60.9**	**28.8**	**7.0**	**54.6**

NOTES

Data on forest and woodland is unavailable for Songwe region, since it is newly established

DEFINITIONS

Improved Water: Includes piped and protected water source

Improved Sanitation: improved toilet facilities include: flush to the piped sewer system; flush to septic tank; flush to the covered pit; ventilated improved Pit latrine; and Pit latrine with washable with Lid.

Roof: Proportion of houses with a roof built using durable materials including iron sheets; tiles; or concrete

Floor: Proportion of houses with a durable and washable floor made of parquet or polished wood; vinyl or asphalt strips, ceramic tiles, terrazzo, cement/concrete or carpet

Walls: Proportion of houses with durable walls made of cement/concrete, stone with lime/cement, sun-dried bricks/mud bricks, baked bricks, or cement blocks

MAIN DATA SOURCES

Column 2 to 11: MoFP, NBS & World Bank (2020)

Column 12: URT (2017)

Table A8:

Population trends

Region	Population (million) 2020 Estimates	Proportion of the population by age groups				Total Fertility Rate (2020 National population projections)	Sex ratio (M/F)
	Population	0–4 years (%)	5–14 years (%)	15–64 years (%)	65+ years (%)		
	2020	2020	2020	2020	2020	2020	2020
Kilimanjaro	1979954	14.41	21.15	58.62	5.82	3.9	94.900
Dar es Salaam	5,417,075	14.53	21.46	61.81	2.21	3.2	95.43
Arusha	2,158,811	15.30	24.61	57.18	2.91	3.8	95.27
Iringa	1,138,571	14.73	23.66	58.18	3.44	4.0	94.38
Mbeya	2,184,406	17.18	24.65	55.00	3.17	4.7	94.07
Ruvuma	1,709,365	15.38	24.93	56.21	3.48	4.3	95.10
Tanga	2,682,159	18.08	25.33	52.94	3.65	5.5	95.05
Mwanza	3,880,065	20.85	28.00	48.91	2.23	6.5	97.33
Manyara	1,894,908	17.91	27.85	51.35	2.88	5.5	100.98
Lindi	1,045,157	14.19	23.25	57.41	5.15	4.1	93.16
Mara	2,409,334	20.53	29.15	47.74	2.57	6.6	95.17
Morogoro	2,775,962	15.50	24.8	56.07	3.63	4.3	97.37
Mtwara	1,504,589	13.33	22.94	58.00	5.72	3.7	91.05
Rukwa	1,431,490	22.04	29.57	46.44	1.95	7.2	95.43
Pwani	1,339,743	15.06	24.28	56.22	4.43	4.2	96.47
Shinyanga	2,020,068	17.95	28.47	51.15	2.43	5.2	96.71
Dodoma	2,707,166	17.40	26.68	52.38	3.54	5.26	96.16
Tabora	3,203,797	21.09	28.75	47.74	2.42	6.7	98.15
Kigoma	2,972,020	20.88	29.15	47.41	2.56	6.6	95.35
Singida	1,917,467	20.98	27.90	47.86	3.26	7.3	98.04
Kagera	3,229,517	18.43	27.96	51.01	2.60	5.7	97.32
Njombe	828,999	13.89	23.13	59.22	3.76	3.7	90.97
Katavi	796,984	21.71	29.45	46.82	2.03	7.1	98.71
Simiyu	2,340,622	23.49	29.71	44.55	2.25	7.9	94.94
Geita	2,467,796	21.21	29.48	47.44	1.88	6.8	98.35
Songwe	1,267,619	16.55	26.94	53.85	2.66	4.7	94.01
Tz Mainland	**56,680,320**	**17.39**	**26.38**	**53.22**	**3.01**	**5.0**	**96.02**

DEFINITIONS

Population: De facto population in a region as per the 2012 census.

Age Group 0–4 years: Percentage of the population aged 0 to 4 years in the total population.

Age Group 5–14 years: Percentage of the population aged 5 to 14 years in the total population.

Age Group 65+ years: Percentage of the population aged 65 years and above in the total population.

Fertility Rate: Number of children that would be born to each woman if she were to live to the end of her childbearing years and bear children at each age in accordance with prevailing age-specific fertility rates.

Sex Ratio: Number of males in the population per number of females.

MAIN DATA SOURCES

Column 2 to 8: URT (2020b)

Statistical references

MoFP, NBS and the World Bank (WB). 2020. *Tanzania Mainland Household Budget Survey 2017/18.* Final Report. Dodoma, Tanzania: MoFP and NBS and Washington D.C., USA: WB.

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URT. 2017. National Environment Statistic Report, 2017 – Tanzania Mainland. National Bureau of Statistics

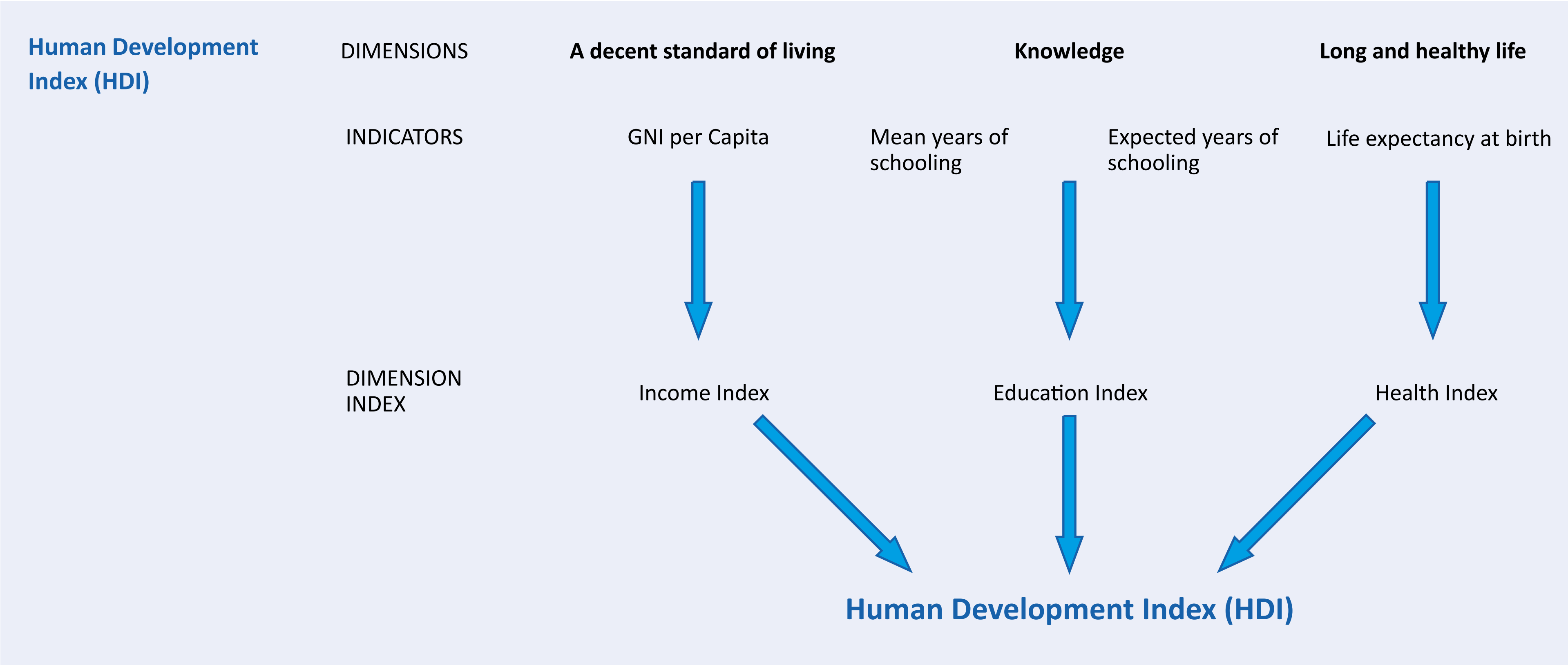
URT. 2020a. Basic Education Statistics in Tanzania 2020. President Office Regional and Local Government Administration, Dodoma.

URT. 2020b. National Population Projections 2020. National Bureau of Statistics.

Technical Appendix:

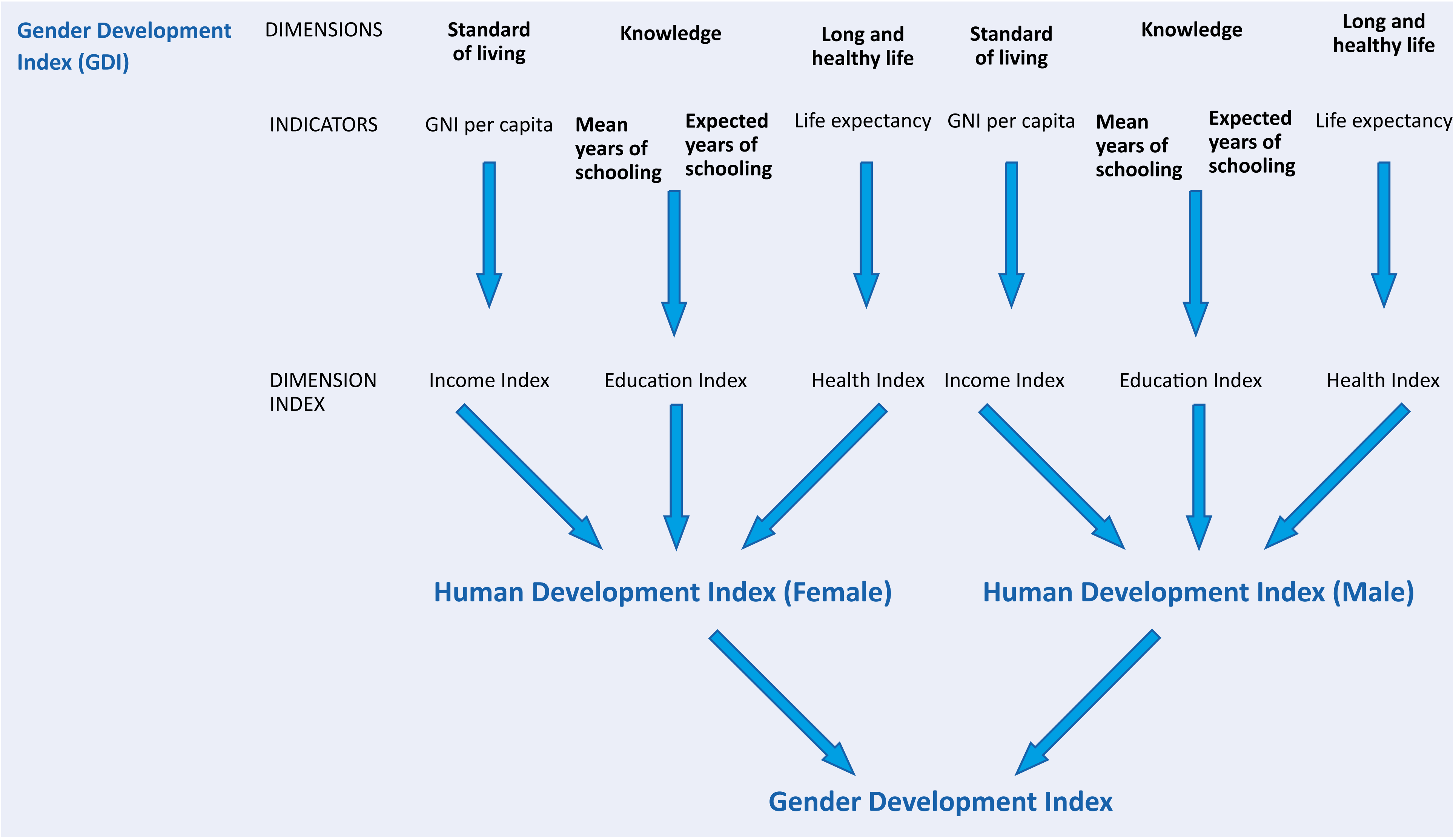
A: Computation of the Indices – Graphical Presentation

Human Development Index (HDI)



Source: UNDP, 2014b

Gender Development Index (GDI)



Source: UNDP, 2014b

B: Computing the Indices – Methodology and Modifications

Technical Note 1: Human Development Index

The Human Development Index (HDI) is a summary measure of key dimensions of human development (UNDP 2014a). It measures a country's achievements in three dimensions of human development: a decent standard of living, access to knowledge and long and healthy life. HDI is a generalized mean of the normalized indices from these three dimensions. This report focuses on regional variations, and hence we compute regional-level HDIs. This technical note describes the steps and assumptions used to compute regional HDIs, and the data sources.

Steps to compute the Human Development Index

Two steps are involved in computing HDI.

Step 1: Creating the dimension indices

The process starts with setting goalposts (maximum and minimum values) to transform the indicators into indices with a 0 to 1 threshold. The maximum is normally supposed to be the highest observed in a time series (in the THDR 2017 context, 2008–2015). The minimum is supposed to be what is considered a subsistence level. In this report, the computation of income and education indices follows this standard practice, where goalposts are set locally based on 2008–2015 time series information for the respective indicators (i.e., GDP per capita and schooling information). For the health index (constructed from life expectancy information), the report follows the 2013 HDR goalposts, with a maximum of 83.6 years and a minimum of 20 years to compare with estimates in THDR 2014. Based on local goalposts for life expectancy, some regions such as Iringa were unrealistically penalized in their final HDI score and hence their rank because of being highly affected by HIV/AIDS-related mortality. Using HDR goalposts provided scores that we consider to be more realistic.

Goalposts for the Human Development Index in this Report (THDR 2022)

Indicator	Maximum	Minimum
Life Expectancy (Years)	73.7	59.9
Mean Years of Schooling*	..	..
Expected Years of Schooling	11.39	6.24
GDP per Capita (million. TZS)***	1.734	0.450

Notes: *Information was unavailable, and this statistic was thus excluded in HDI computations. GDP per capita is used instead of GNI per capita due to the unavailability of regional data for the latter. ***GDP is a proxy for GNI in this report's context, adopted from the 2017 Human Development Report.

Once the goalposts are defined, sub-indices are computed via the following formula:

$$Dimension\ Index = \frac{actual\ value - minimum}{maximum - minimum} \qquad (1)$$

When computing education indicators, it is first necessary to compute MYS and EYS indices and then aggregate the two to reach the final education index. Details follow hereafter.

Computing the sub-indices

Education Index

The education index comprises Mean Years of Schooling (MYS) and Expected Years of Schooling (EYS), collectively measuring people's access to knowledge.

i) *Mean Years of Schooling (MYS)*

Using Barro and Lee's (2010) formula, MYS is computed as:

$$s_t = \sum_{a=1}^{A} l_t^a s_t^a \qquad (2)$$

Formula (2) says that the mean years of schooling at the regional level (s_t) is the sum of the number of years for adults aged 25 years and above in a region, weighted by the population share of adults in the total adult population. After obtaining the MYS, formula (1) is applied for computing the MYS index.

ii) *Expected Years of Schooling (EYS)*

EYS is simply the sum of age-specific net enrolment rates. The standard formula for EYS computation is given as follows:

$$eys_a^t = \sum_{i=1}^{n} \frac{E_i^t}{P_i^t} + \sum_{l=level\_education} \frac{E_{unknown}^t}{P_{age\_6\_level\_l}^t / D_l} \qquad (3)$$

In (3), EYS is the sum of age-specific enrolments plus the non-age-distributed enrolment rate multiplied by the duration of that level of education. Age-specific enrolment information was unavailable in our context, but information on NER for primary, o-level and a-level education was available. Formula (3) collapses to:

$$\sum_{l=level\_education} \frac{E_{unknown}^t}{P_{age\_6\_level\_l}^t / D_l} \qquad (4)$$

Computing EYS involved multiplying the NER of the three levels of education with their respective durations – i.e., 7 years for primary school, 4 for O-level and 2 for A-level. Then the products were summed to obtain EYS and plugged into formula (1) to obtain the EYS index. Enrolment in tertiary education was excluded due to the lack of regional-level information. However, NER at this level of education is minimal and thus does not significantly affect the EYS estimates in this report.

iii) *Final Education Index (EI)*

Since the MYS index is not computed in this report, the education index constructed is entirely based on the EYS index:

$$Education\ Index = \frac{Regional\ EYS - minimum\ EYS}{maximumEYS - minimumEYS} \quad (5)$$

Income Index

Based on a new approach by the UNDP for computing HDI, the Income Index (II) is constructed using the information on GNI. However, that information is not available at the regional level in Tanzania. A close proxy to this indicator is GDP, and regional information for this variable is available. The natural logarithm of GDP per capita by regions is thus used in computing the final income index. The logarithm accounts for income's limited ability to create human capabilities – i.e., beyond a certain level, income becomes redundant in enhancing further human development. Formula (1) is applied using local goalposts.

Step 2: Aggregating the sub-indices to produce the Human Development Index

HDI is the geometric mean of the income, education and health indices:

$$HDI = \sqrt[3]{I * E * H} \quad (6)$$

Technical Note 2: Gender Development Index

The Gender Development Index (GDI) measures inter-gender differences in achievements in three basic dimensions of human development: education, measured by female and male mean years of schooling for adults aged 25 years and above and female and male expected years of schooling for school-age children; health, measured by female and male life expectancy at birth; and living standard (command over resources), measured by female and male estimated earned income.

Steps to compute the Gender Development Index

There are four steps involved in computing GDI.

Step 1: Estimating female and male earned incomes

As suggested by UNDP (2014b), the share of the wage bill is calculated for each gender. The female share of the wage bill (S_f) is given as:

$$S_f = \frac{W_f / W_m * EA_f}{W_f / W_m * EA_f + EA_m} \quad (7)$$

Where W_f / W_m is the female to male wage ratio, is the female share of the economically active population and the male share of the economically active population?

The male share of the wage bill is given as:

$$S_m = 1 - S_f \quad (8)$$

Estimated female earned income per capita is derived from GDP per capita using formula (9):

$$GDPpc_f = GDPpc * S_f / P_f \quad (9)$$

Formula (9) says that the estimated female GDP per capita is a product of GDP per capita and the ratio between the female share of the wage bill (S_f) and the female share of the population ($P_f = N_f / N$).

Estimated male earned income per capita is obtained analogously:

$$GDPpc_m = GDPpc * S_m / P_m \quad (10)$$

To construct the female and male HDIs, we follow procedures similar to those involved in computing the gender-combined HDI (as in Technical Note 1), and we proceed as follows:

Step 2: Normalizing the indicators

Except for life expectancy, the rest of the indicators (income and education) are on a scale of 0 to 1, using the same goalposts used for HDI. Adjustments are made to reflect women's biological advantage over men in survival health. Notably, the life expectancy goalpost (83.6 years) used in constructing the HDI is multiplied by a female factor and a malefactor, respectively, to arrive at a gender-specific life expectancy at birth. The gender factor for females is the ratio between females and males in the total population ($G_f = N_f / N_m$). In contrast, the gender factor for males is the ratio between males and females in the total population ($G_m = N_m / N_f$).

Goalposts for the Gender Development Index in this Report (THDR 2022)

Indicator	Maximum	Minimum
Life Expectancy (Years)	Maximum	Minimum
Female	75.7	63.4
Male	71.5	56.0
Mean Years of Schooling	..	..
Expected Years of Schooling	13	0
GDP per Capita (million TZS)	1.734	0.450

Notes: Information on MYS was unavailable, and this statistic was thus excluded in HDI computations. The maximum value for EYS is capped at 13 since EYS was computed based on primary, O-level and A-level net enrolment rates. GDP per capita is used instead of GNI per capita since there are no GNI data at regional level, at least in Tanzania. Goalposts for life expectancy are derived based on life expectancy goalposts in the 2019 Human Development Report.

After defining the minimum and maximum values, the sub-indices (income, health and education) are computed via formula (1).

$$Dimension\ Index = \frac{actual\ value - minimum}{maximum - minimum}$$

Step 3: Compute the female and male Human Development Index values

The female and male HDI values are the geometric means of the income (II), health (HI) and education (EI) sub-indices:

$$HDI_f = \sqrt[3]{I_f * E_f * H_f}$$ and

$$HDI_m = \sqrt[3]{I_m * E_m * H_m} \qquad (11)$$

Step 4: Compute the Gender Development Index

GDI is the ratio between female and male HDI values (UNDP, 2014a):

$$GDI = \frac{HDI_f}{HDI_m} \qquad (12)$$