Tanzania

Tanzania 2024 Constraints Analysis Report

Millennium Challenge Corporation
United States of America

An Analysis prepared by the Millennium Challenge Corporation of the United States of America for the Development of a Millennium Challenge Corporation Threshold Program

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Table of Contents

Authors and Acknowledgments

Tanzania has an especially well-studied economy. In 2023 both the World Bank and the Harvard Center for International Development (CID) published well-researched growth diagnostics. As these studies are of high quality, and their findings are generally aligned, the MCC country team chose not to undertake a new study. This report summarizes findings from these existing studies and does not claim to represent original research – often drawing text and figures directly from these sources, augmented where useful from additional sources.

From December 2023 through May 2024, the country team and its contractors conducted desk research and held meetings with more than 50 Tanzanian organizations and representatives from government, private sector, and civil society to further support and validate the findings of the above publications.

Bradley Cunningham and Kevin Ross were the economists for the Constraints Analysis (CA) team, with support from Economic Program Analyst Hannah Chu. The CA team also included James Hallmark (Finance, Investment, and Trade), Sharon Rogers (Gender and Social Inclusion), Karen Fadley Craig and Camille Heaton (Environment and Social Performance), and Hannah Haemmerli (American Academy for the Advancement of Science Fellow). Development of MCC's Threshold Program with Tanzania was under the overall leadership of Nilan Fernando. The valuable contributions of the Tanzania National Coordinator Dr. Hamisi Mwinyimvua and the Deputy National Coordinator Muhajir Kachwamba, are also gratefully acknowledged.

Abstract

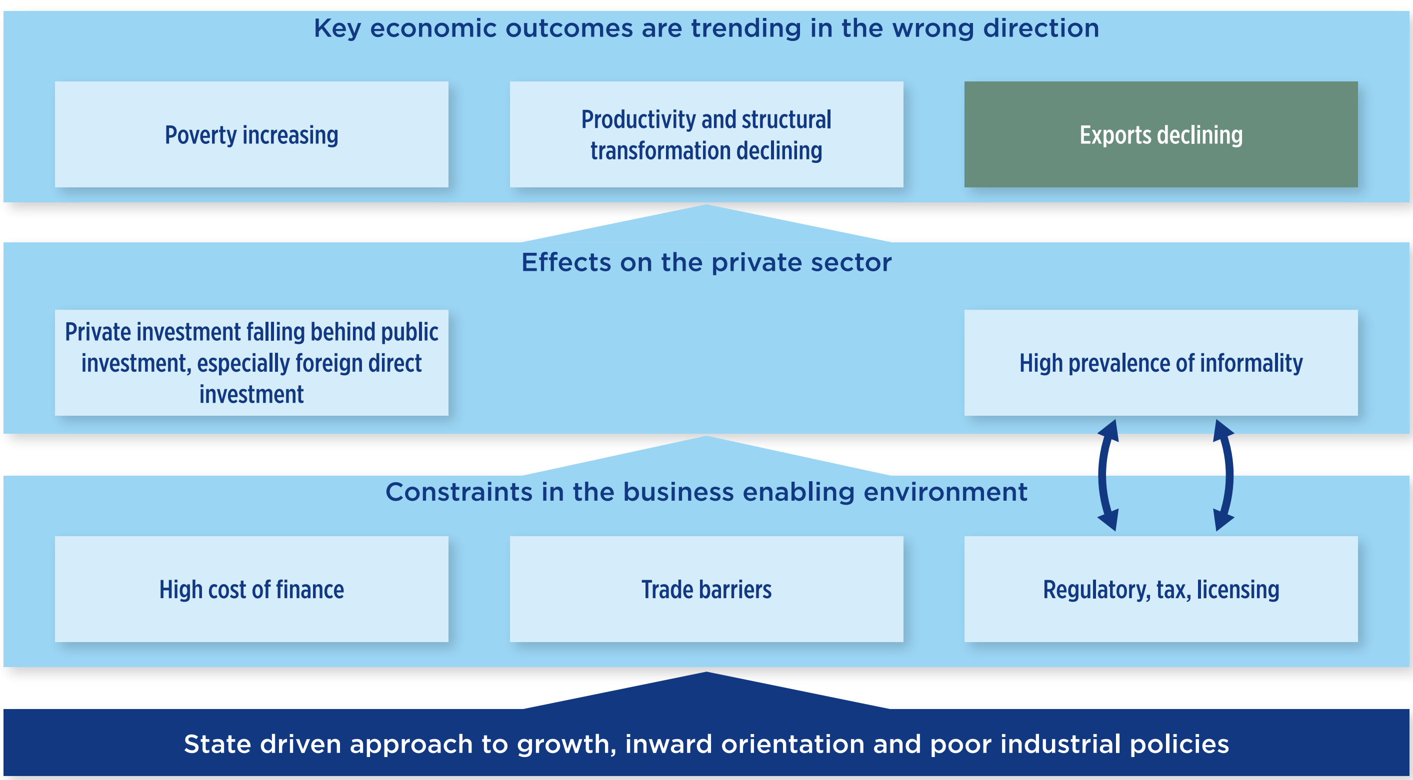
Tanzania achieved Lower Middle-Income classification in July 2020 due to substantial economic growth over the last two decades. However, structural features of Tanzania's economy pose challenges to the sustainability and inclusivity of this growth as it has largely relied on public investment with relatively small contributions from the private sector and job creation.

Tanzania has an especially well-studied economy, thus the MCC Tanzania Threshold Program Country Team chose not to conduct a new study to assess the constraints to economic growth in Tanzania. Instead, the country team accepted the findings of the World Bank Country Economic Memorandum (CEM) as it is the most recent and comprehensive. This report summarizes those findings,1 with some augmentation where the team found useful additional sources, highlighting the following constraints:

High costs of conducting international trade. High trade costs due to poor logistics, infrastructure deficiencies, poor trade facilitation, and tariff and non-tariff barriers hamper the country's export potential.

Unfriendly business environment, particularly burdensome tax burden/policy and licensing regime, that promote informality. Tanzania's tax policy and administration contribute to low levels of domestic resource mobilization and create a significant burden for both domestic and foreign private sector actors. This burden drives much of the preference for informal economic activity.

High costs of access to finance. The exceptionally high costs of borrowing have hampered private investment.



Review of Previous Constraints Analyses

As noted in the acknowledgements section, this report is largely a summary of existing analyses, especially the 2023 World Bank's Privatizing Growth and to a lesser extent the 2023 study by Harvard Center for International Development (CID). In addition to these studies, the United States Agency for International Development (USAID) published a diagnostic in 2019. In February 2024, the World Bank also released results from an enterprise survey of 600 firms across the economy.

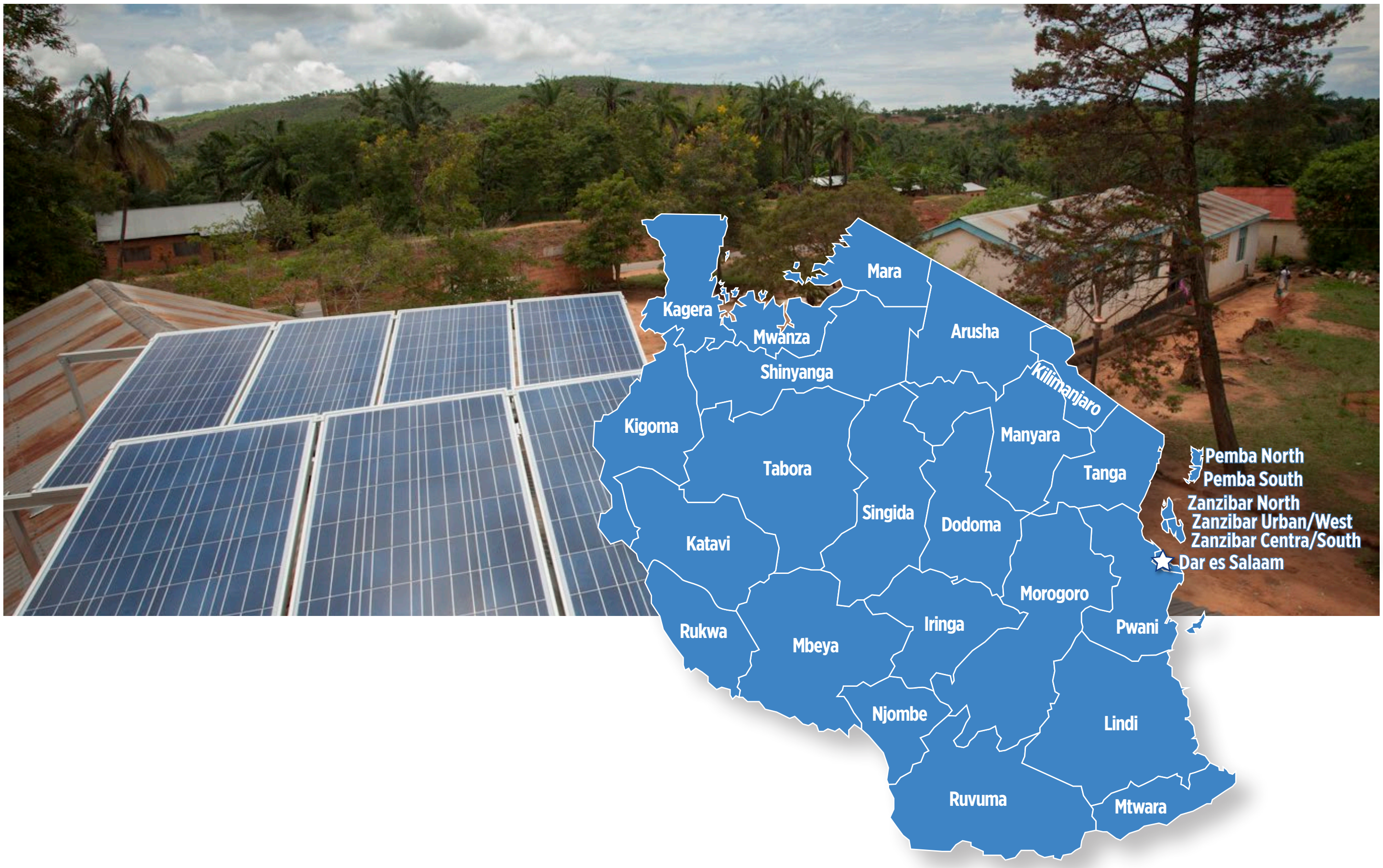
The World Bank study is especially noteworthy for its thorough analysis of the country's recent economic performance -- examining the ways in which the economy has been performing well and the ways in which it has underperformed. This is particularly important, as the ways in which Tanzania's economic growth has been underperforming are as unique as the underlying constraints. The Context section below discusses many of these elements.

A key takeaway from the context analysis in the World Bank study is that multiple sectors will need to contribute to Tanzania's growth. Therefore, in addition to identifying constraints that cut across the economy, the World Bank analysis identifies sector specific constraints in agriculture and tourism. The CID study focuses on constraints to the manufacturing sector, which complements the sectors examined in the World Bank study. The enterprise surveys also provide disaggregation across food manufacturing, other manufacturing, retail, hotels, other services.

The table below summarizes the constraints found in these studies across the relevant sectors.

	World Bank	CID	USAID	Ent. Survey
Tax (and Business Enabling Environment)	Binding constraint across multiple sectors; Tourism-specific constraint	Manufacturing-specific constraint	Binding constraint across multiple sectors	Binding constraint across multiple sectors
Finance	Binding constraint across multiple sectors; Agriculture-specific constraint	Manufacturing-specific constraint (near-binding)	Binding constraint across multiple sectors (near-binding)	Binding constraint across multiple sectors
Trade barriers	Binding constraint across multiple sectors; Agriculture-specific constraint		Binding constraint across multiple sectors	Food manufacturing-specific constraint
Land		Manufacturing-specific constraint		
Electricity		Manufacturing-specific constraint		Food manufacturing-specific constraint; Services-specific constraint
Transport	Tourism-specific constraint		Binding constraint across multiple sectors	
Water				
Digital	Binding constraint across multiple sectors; Agriculture-specific constraint			
Education	Constraint to inclusion			
Health	Constraint to inclusion			
Climate	Agriculture-specific constraint			

- Binding constraint across multiple sectors
- Near-binding or second tier constraint
- Constraint to inclusion
- Agriculture-specific constraint
- Manufacturing-specific constraint
- Tourism-specific constraint
- Services-specific constraint *(including some tourism operations)*
- Food manufacturing-specific constraint



Country Context

Political History

Tanganyika won independence from Great Britain in 1961 and united with Zanzibar in 1964 to become the United Republic of Tanzania (URT). President Julius Nyerere ruled the country from 1961 until he stepped down in 1985. Nyerere subordinated tribal loyalties and created a national identity based on a common language, Swahili. In 1967 Nyerere issued the Arusha Declaration which launched a drive for socialist economic self-reliance. After socialism, economic isolation, and deteriorating terms of trade led to economic collapse in the 1980s, Tanzania moved toward a market economy but the dominance of the state in the economy and mistrust of the private sector persist.

In 1992, Tanzania's constitution was amended to allow multi-party politics. The first multi-party election was held in 1995. The party that Nyerere formed in 1977, the Chama Cha Mapinduzi (CCM), and its predecessor the Tanganyika African National Union (TANU), have governed the country without interruption since independence.

Current President Samia Suluhu Hassan, the country's first woman leader, assumed office in March 2021 after the unexpected death of President John Magufuli. President Hassan has supported economic reforms that give the private sector a greater role in the economy.

Zanzibar is a partially autonomous region of Tanzania with its own constitution, budget, legislative assembly, judicial system, and ministries. The Government of Tanzania holds responsibility for security, some aspects of finance, and trade.

What is a Constraints Analysis?

MCC's evidence-based approach begins with a constraints-to-economic growth analysis (CA). In a CA, MCC works with a partner country to examine and prioritize the issues that constrain its economy. The CA approach builds on the "growth diagnostic" framework put forward by economists Ricardo Hausmann, Dani Rodrik, and Andrès Velasco (HRV). As HRV point out, all developing countries face significant economic and development challenges, but these challenges do not all equally restrict growth. The diagnostic framework provided by HRV helps to structure the investigation of potential binding constraints. It has been refined through application, both within MCC and the broader economic development community.

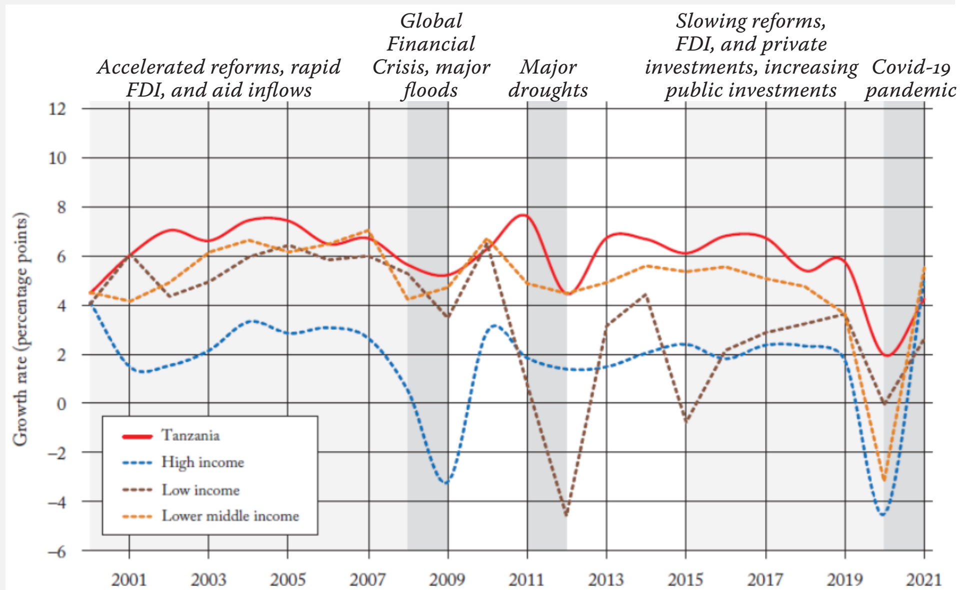
Why Does MCC Use Constraints Analysis?

Identifying the most binding constraints to growth helps MCC target its investment on the areas that, if addressed, are most likely to promote sustainable, poverty-reducing growth in a given country. Prioritization helps maximize the limited financial resources and implementation capacity needed to effect change. As HRV also argue, focusing on the most binding constraints helps to minimize the risk that development interventions create negative unintended economic consequences.

GDP Growth

Tanzania's economy has averaged 6.1 percent GDP growth since 2000 (Figure 1). This is a strong performance by any comparison. However, key structural features of Tanzania's economy raise concerns about the sustainability of their current growth model and its ability to drive poverty reduction.

FIGURE 1: GDP Growth: Tanzania vs. major country groups (actuals, 2000–2020)



Source: World Development Indicators (WDI)

Public versus Private Investment

Since 2010, growth has increasingly relied on public investment. Infrastructure spending has become the primary driver of capital accumulation in Tanzania and public investment is now at the highest level in the region as a percent of GDP (Figure 2). At the same time as public investment has grown, private investment has declined, and foreign direct investment has performed exceptionally poorly – declining from 5.6 percent of GDP in 2010 to 1.3 percent in 2021. The declining contribution of the private sector in Tanzania's growth, combined with falling productivity, casts doubt on the sustainability of Tanzania's growth performance.

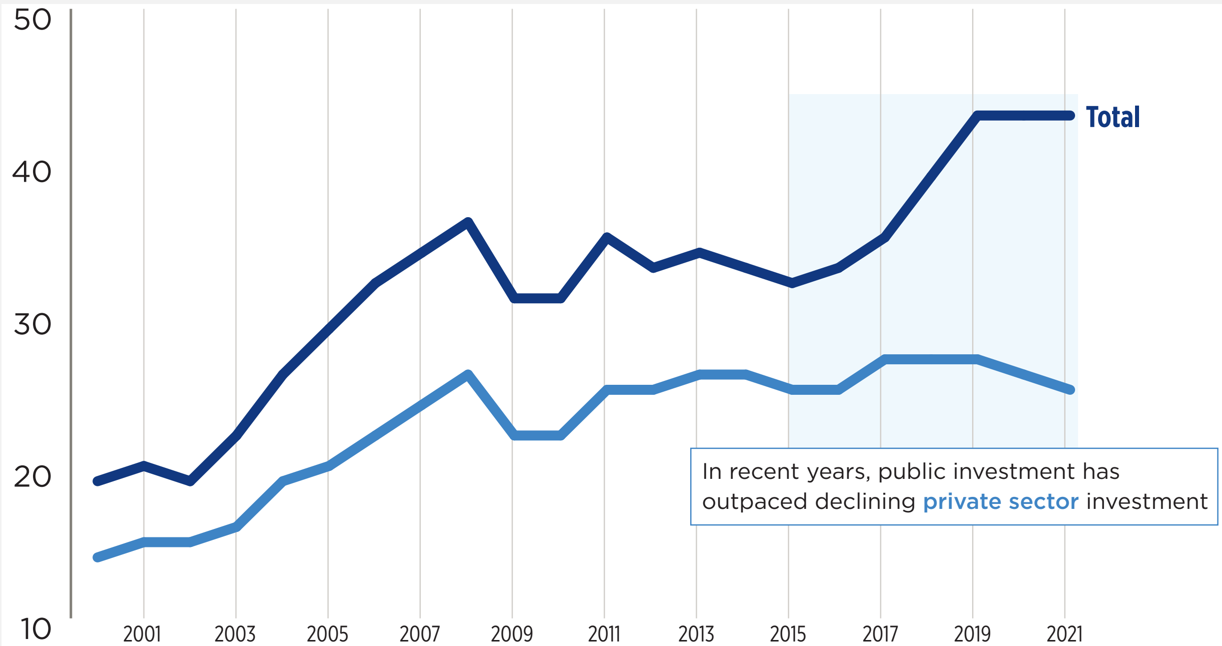
Employment, Unemployment, and Informality[1]

In 2020/2021, the majority (62 percent) of Mainland Tanzanians worked in agriculture, forestry, and fishing, with the remainder working in manufacturing (7 percent) and services (31 percent). The picture in Zanzibar is sub-

1 All data in this section, unless otherwise noted, is from National Bureau of Statistics (NBS) [Tanzania] 2022.

Tanzania Integrated Labour Force Survey 2020/21, Dodoma, Tanzania: NBS.

FIGURE 2: Gross fixed capital formation (percent of GDP)



Source: WDL

stantially different; there, only 36 percent of Zanzibaris worked in agriculture, forestry, and fishing, and the plurality (47 percent) worked in services, with 17 percent working in manufacturing. While there were few gender differences in the proportion of women and men working in agriculture, women were less likely than men to work in manufacturing and more likely to work in services in both Mainland Tanzania and Zanzibar.[2]

There were sharp disparities in the employment and unemployment ratios for women of all ages and for young people aged 15-24, particularly in Zanzibar.

- Women were less likely than men to be employed in both Mainland Tanzania (71 percent vs 81 percent) and Zanzibar (50 percent vs 73 percent). Urban women in Zanzibar had the highest unemployment rates, followed by women in Dar es Salaam and rural women in Zanzibar, all of whom had unemployment rates between two to four times higher than their male counterparts.
- Young people aged 15-35[3] were unemployed at twice the rate of people 35-64 (15 percent vs 6 percent), with young women experiencing the most extreme unemployment rates: 16 percent in Mainland Tanzania and 41 percent in Zanzibar.

Close to a fifth (18 percent) of young people 15-35 were not in employment or education and training (NEET), with higher proportions of youth NEET in Dar es Salaam (30 percent) than in other urban areas (20 percent) or in rural areas (15 percent). Young women were NEET between two and three times the proportion of young men in Dar and in urban and rural Mainland and Zanzibar.

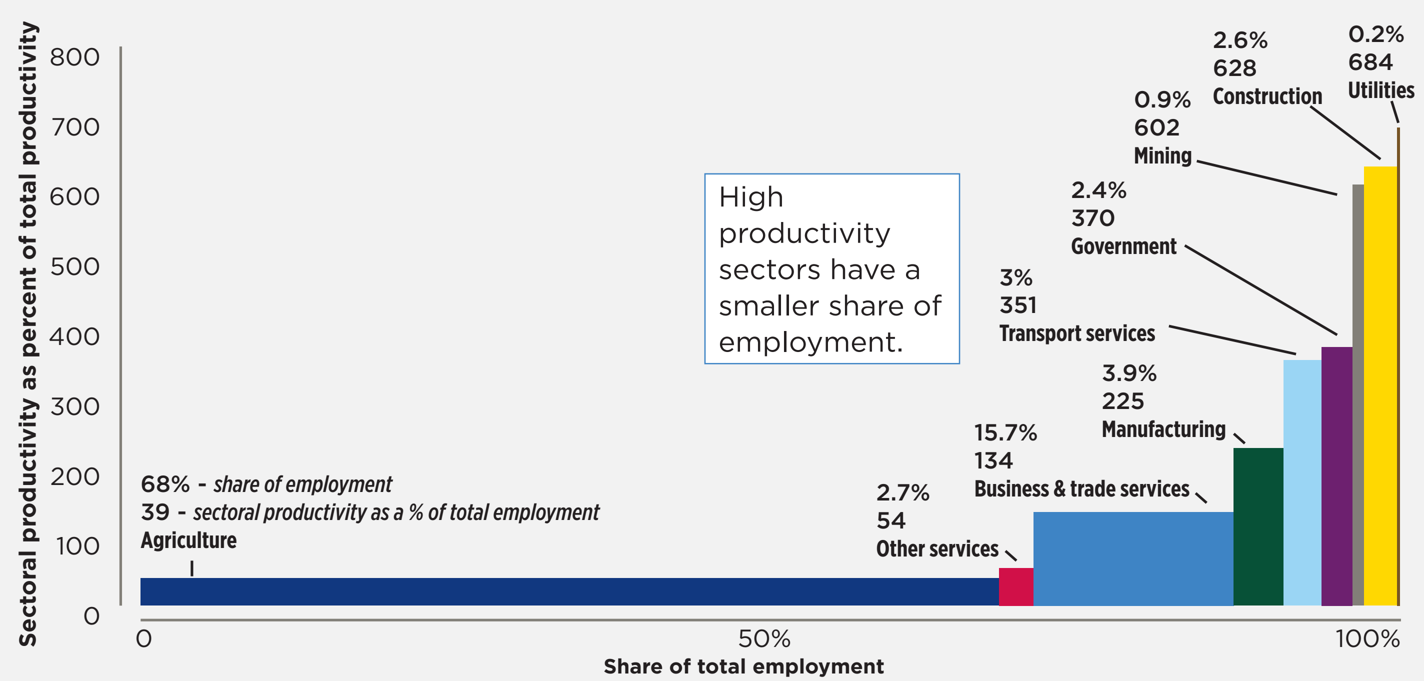
In surveys conducted as part of USAID's 2020 Tanzania Youth Assessment for Strategy Development, youth reported feeling that they do not have the skills needed to enter the workforce or start businesses.[4] Tanzanian private sector representatives and researchers consulted also highlighted a mismatch between the skills young people acquire in university or vocational educational settings

2 Women's employment rates in manufacturing compared to men's were 4 percent vs 11 percent in Mainland Tanzania and 15 percent vs 19 percent in Zanzibar. In services, women's employment rates compared to men's were 35 percent vs 26 percent in Mainland Tanzania and 51 percent vs 45 percent in Zanzibar.

3 While many countries define "youth" as people aged 15-24, the URT national definition is people aged 15-35.

4 USAID/Tanzania. 2020. USAID Tanzania Youth Assessment for Strategy Development, 24.

FIGURE 3: Labor productivity and employment shares across sectors, 2021



Source: Labor Force Survey (LFS) and National Statistics of Tanzania.

and those needed by industries. In rural areas, where the majority of youth live, the lack of opportunities for paid employment has led to high rural-to-urban migration.[5]

Informal employment increased as a percentage of total employment from 22 to 29 percent between 2014 and 2020/21. Rural areas saw the highest proportional increases: informality more than doubled in Mainland Tanzania (8 percent to 19 percent), with slight gender differences, and in Zanzibar it increased substantially for women (32 percent to 41 percent) and slightly for men (27.8 percent to 28.2 percent). Women were more likely than men to work in the informal sector everywhere except rural areas in Mainland Tanzania.

Productivity and Structural Transformation

The lack of contribution from the private sector has resulted in few employment opportunities that are critical for broad-based growth. Employment in higher paying sectors of the economy like tourism and manufacturing stagnated or declined from 2014 to 2021. The effects of COVID exacerbated this dynamic. Many workers who lost employment in these sectors returned to agriculture, with its share of employment increasing from 67 percent in 2014 to 69 percent in 2021 (Figure 3).[6] Thus, Tanzania has experienced “reverse structural transformation”, with labor moving out of higher productivity sectors and reducing the average productivity of the economy. As a result, total factor productivity in Tanzania has been on a decline in since 2011.

Poverty and Inequality

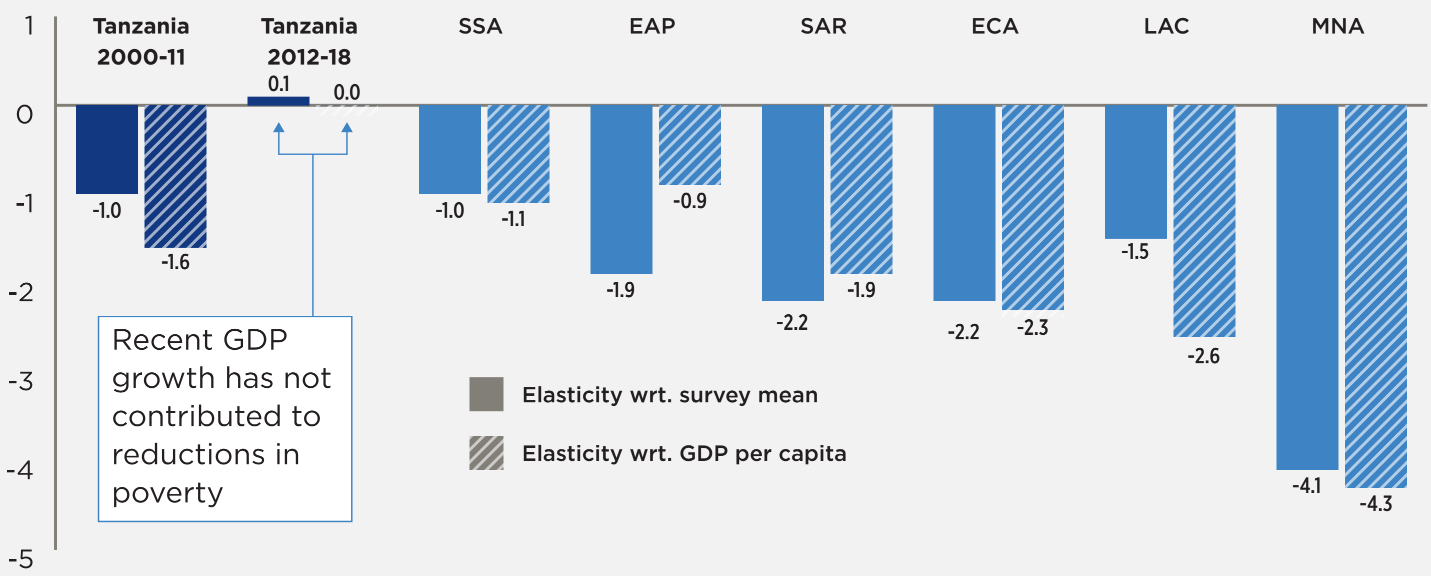
Without broad-based drivers of economic growth since 2012, growth in GDP has had little to no impact on poverty (Figure 4). Although Tanzanians are progressively moving out of agriculture into more productive employment in services and industry, this shift has mainly occurred in urban areas, among better-off, better-educated people taking advantage of jobs in the fastest growing sectors.[7]

5 Dalberg. 2016. Youth Economic Opportunity Ecosystem Analysis. Tanzania Country Report. Available here

6 Based on calculations made by the WB accounting for changes in the definition of agricultural workers that occurred between the 2014 and 2021 surveys, thus these figures do not match the statistics of the individual Labor Force Survey reports.

7 World Bank. 2019. Tanzania Mainland Poverty Assessment Report, 14, 20.

FIGURE 4: Elasticity of poverty (US$2.15 2017 PPP): Tanzania vs. major regions



Source: Atamanov et. al., 2023

In Mainland Tanzania, although the proportion of people living at the national poverty line fell from 34.4 to 26.4 percent between 2007 and 2018, and extreme poverty fell from 12 to 8 percent,[8] population growth outpaced poverty reductions, which resulted in an increase in the absolute number of poor people. In Zanzibar, poverty fell from 34.9 percent to 25.7 percent[9] between 2009 and 2019, and extreme poverty fell from 11.7 percent to 9.3 percent.[10]

Mobility across the income distribution has shown promising dynamism. More than half of the households in the poorest quintile in 2014 had moved to a higher quintile by 2021.[11] Unfortunately, the persistence of poverty means that many households have also been falling back into poverty.

Consumption inequality in Tanzania, measured by the Gini coefficient, rose from .416 to .444 in Tanzania, with the largest increase in rural Mainland (.339 to .429), a small decrease in Dar es Salaam, and a smaller increase in other Mainland urban areas and in Zanzibar.[12]

- Poverty rates are highest in rural areas, where they were roughly double those in both urban Mainland (31 percent vs 16 percent)[13] and Zanzibar (34 percent vs 16 percent) in 2018. This corresponds with higher poverty rates among households where the head's main employment is agriculture (30 percent) compared to manufacturing (19 percent), services (12 percent), or public administration (7 percent).[14] Eighty percent of poor households were working on their own farm[15].

8 World Bank. 2019. Tanzania Mainland Poverty Assessment Report. Note that 2018 was the most recent National Bureau of Statistics Household Budget Survey. The National Panel Survey (NPS) – Wave 2, 2020-2021 covers consumption, but not comparable poverty data.

9 Office of the Chief Government Statistician Ministry of Finance and Planning Zanzibar 2020. 2019/2020 Household Budget Survey.

10 World Bank. 2022. Zanzibar Poverty Assessment.

11 National Bureau of Statistics (NBS) [Tanzania]. 2022. Tanzania National Panel Survey Report (NPS) - Wave 5, 2020 - 2021. Dodoma, Tanzania: NBS.

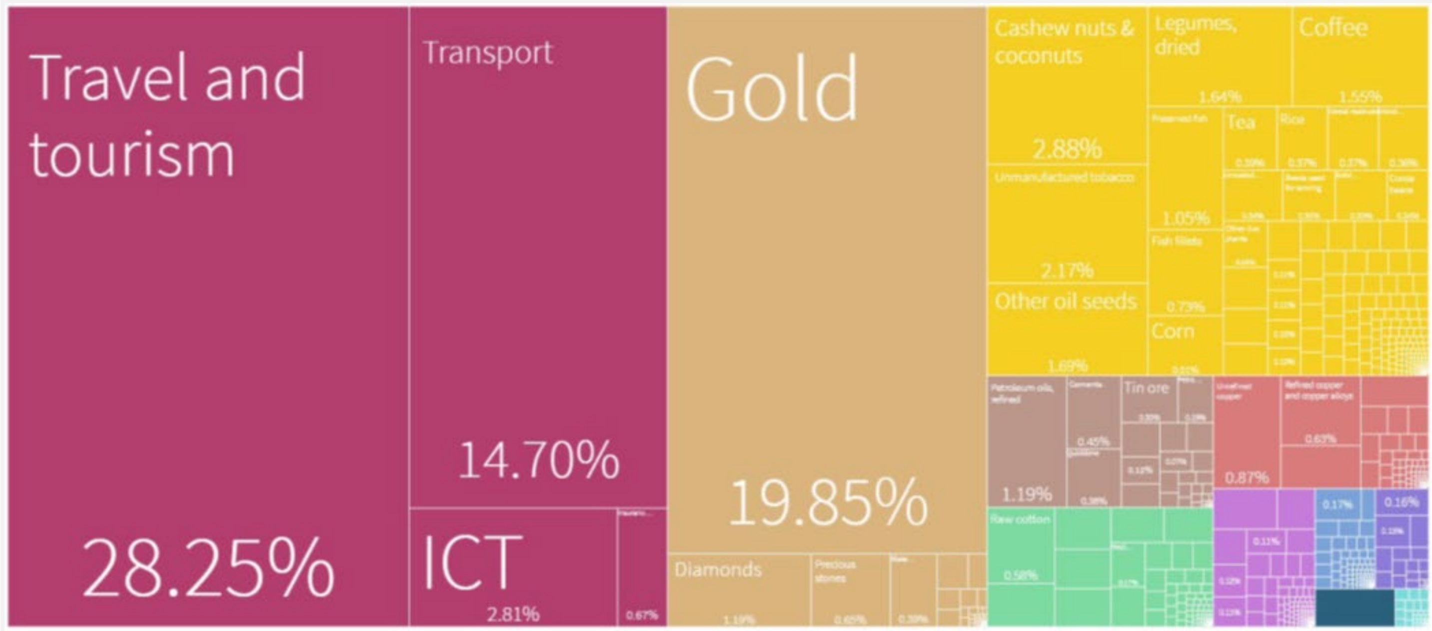
12 National Bureau of Statistics (NBS) [Tanzania]. 2022. Tanzania National Panel Survey Report (NPS) - Wave 5, 2020 - 2021. Dodoma, Tanzania: NBS.

13 World Bank. 2019. Tanzania Mainland Poverty Assessment Report. Available here.

14 Ministry of Finance and Planning - Poverty Eradication Division (MoFP- PED) [Tanzania Mainland], National Bureau of Statistics (NBS) and the World Bank. 2020. Tanzania Mainland Household Budget Survey 2017/18. Final Report Dodoma, Tanzania MoFP-PED, NBS and Washington DC USA, and WB.

15 World Bank. 2019. Tanzania Mainland Poverty Assessment Report.

FIGURE 5: Exports, 2012–2019



In urban areas, more households headed by women, particularly single and divorced women, were poor than those headed by men (20 percent vs 14 percent).[16]

Export Performance

From 2012 to 2019, exports fell from 22 percent of GDP to 16 percent, one of the lowest amongst comparators. Exports also became more concentrated in minerals with declining contributions from manufacturing (Figure 5). The inability of Tanzanian firms to access and compete in international markets limits their ability to create employment opportunities and generate needed foreign exchange.

Growth Question

As discussed in the Context section, Tanzania has had consistent growth over the last decade. However, the economy has performed relatively poorly in the key economic outcomes of export growth, job creation, and poverty reduction. This underperformance of the economy relative to its overall economic growth is largely attributable to the relatively small share of growth driven by the private sector and private investment. Thus, the key growth question is: "what constraints can be relaxed to improve the private sector's ability to contribute to growth and help the economy transition away from public investment driven growth?" This question is reflected in the title of the World Bank CEM – "Privatizing Growth." This relatively broad growth question reflects the diversity of economic sectors that have the potential to contribute to growth in Tanzania.

16 World Bank. 2019. Tanzania Mainland Poverty Assessment Report, 27.

Discussion of Constraints

Given the dynamics of Tanzania's economy, the constraints identified here are those that, if addressed, could help set Tanzania's economy on a more inclusive and sustainable growth trajectory. While there are important issues in many areas, including infrastructure and human capital, the most binding constraints to Tanzania's economic development are concentrated in the "micro-risks" branch of the growth diagnostic tree: trade barriers, high cost of finance, and regulatory burden.

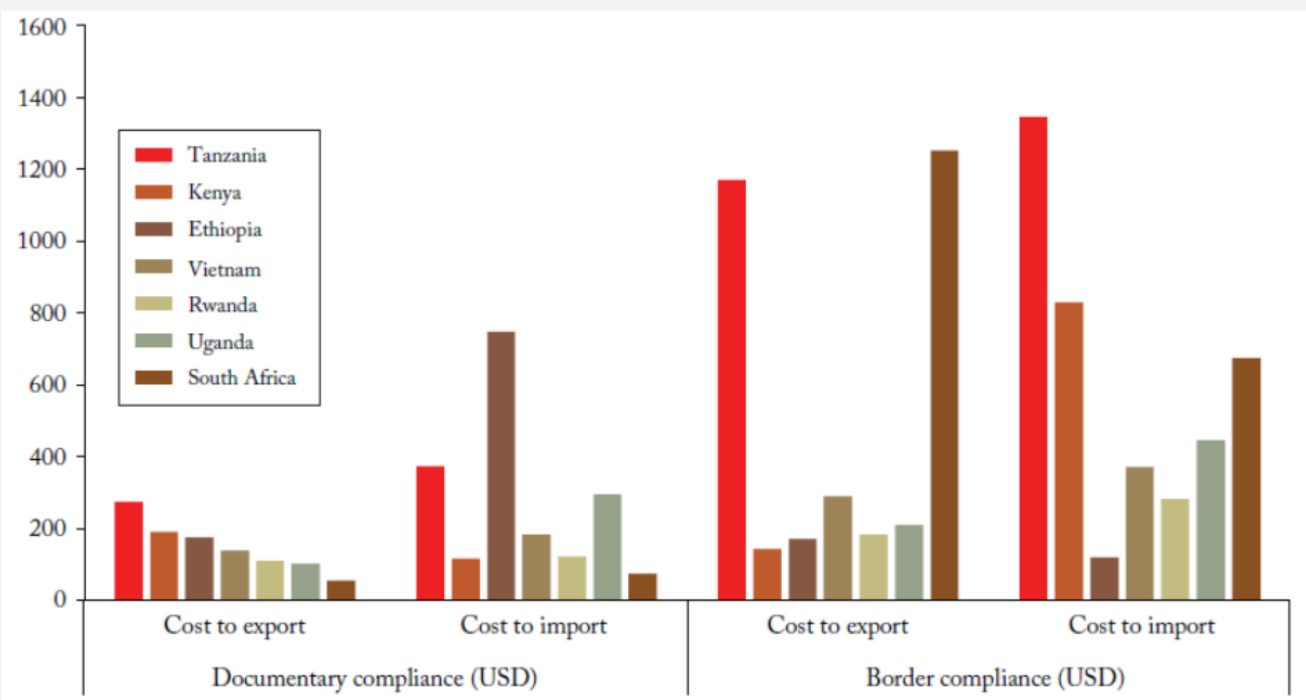
High Costs of Conducting International Trade, Especially Exports

Tanzania's exports are hampered by low productivity growth and high trade costs. The cost of conducting international trade in Tanzania is especially high amongst comparators (Figure 6). This is due to poor logistics, infrastructure deficiencies, poor trade facilitation, and tariff and non-tariff barriers.

These costs are especially problematic in agriculture and food processing, which had the highest proportion of exporting firms in the enterprise survey. The hurdles that exporters face include:

- Exporting fresh fruit requires 28 documents across 14 agencies costing up to $1,000.
- Three-quarters of agricultural firms reported difficulties acquiring product testing and certifications.
- Food processing firms identify trade barriers as their primary constraint at double the frequency of other firms in the economy
- Food exporters struggle to meet packaging requirements due to poor local availability and high costs of importing inputs; and

FIGURE 6: Trade costs, US$



Source: WDI

- Costs of importing inputs has increased as Tanzania's unweighted average tariff rate has increased to 13.5 percent in 2022, in contrast to global trends.

The potential gains from reducing barriers to trade are significant. Computational general equilibrium modelling done by the World Bank finds that with liberalized tariffs, reduced non-tariff measures, and roll out of trade facilitation measures, including those called for by the African Continental Free Trade Area, (AfCFTA), GDP would be boosted by 6.2 to 7.4 percent by 2035.

The two recent studies described below suggest that the economic inclusivity of reducing barriers to export-oriented trade will depend a great deal on the extent to which policy, planning, and its implementation of trade's expansion incorporate appropriate inclusion measures for women and youth and the micro, small, and medium enterprises (MSMEs) that most commonly employ them.

A 2020 World Bank book, The Role of Trade in Promoting Gender Equality,[17] identifies several structural conditions under which increasing exports may present opportunities for women, with three particularly relevant to Tanzania. First, exports with global and regional value chains often have fragmented production, with components being produced by workers who need not be in the same physical location. This type of production often raises the demand for the kinds of skills women already have and facilitates access to markets for MSMEs, which women are more likely to manage or own than large enterprises. This is particularly true when large firms integrate MSMEs into their supply chains. Second, trade can play a key role increasing women farmers' livelihoods if they have equal opportunities to participate in increasing production of high-value-added, export-oriented agricultural products, including on production and off-farm packing and processing. One key element of opportunities for women in agro-trade growth is the opportunity for small producers to partner with agro-processors, gaining access to inputs and knowledge that they might not otherwise have. Finally, digitizing exporting and importing removes direct trade barriers for everyone, along with time and mobility constraints that can disproportionately affect female-managed and owned businesses.

A 2023 article, "The impact of trade facilitation on African SMEs' performance,"[18] draws on regression and propensity score matching analysis of the World Bank Enterprise Survey's cross-country panel datasets to test the title's subject in 27 African countries, including Tanzania. It finds that while enabling tax administration and business licensing regulation improves SME's performance and improves some firms' productivity, trade facilitation impedes African SMEs' performance in the short run, because it exposes them to competition for which they are not prepared. The authors argue for fine-tuning business enabling regulations and trade facilitation to avoid disadvantaging SMEs, given their finding that trade facilitation carries some risks and that its benefits depend on firm size, industry, competition, and institutional setting.

Unfriendly Business Environment, Particularly Burdensome Tax Burden/Policy and Licensing Regime, that Promote Informality

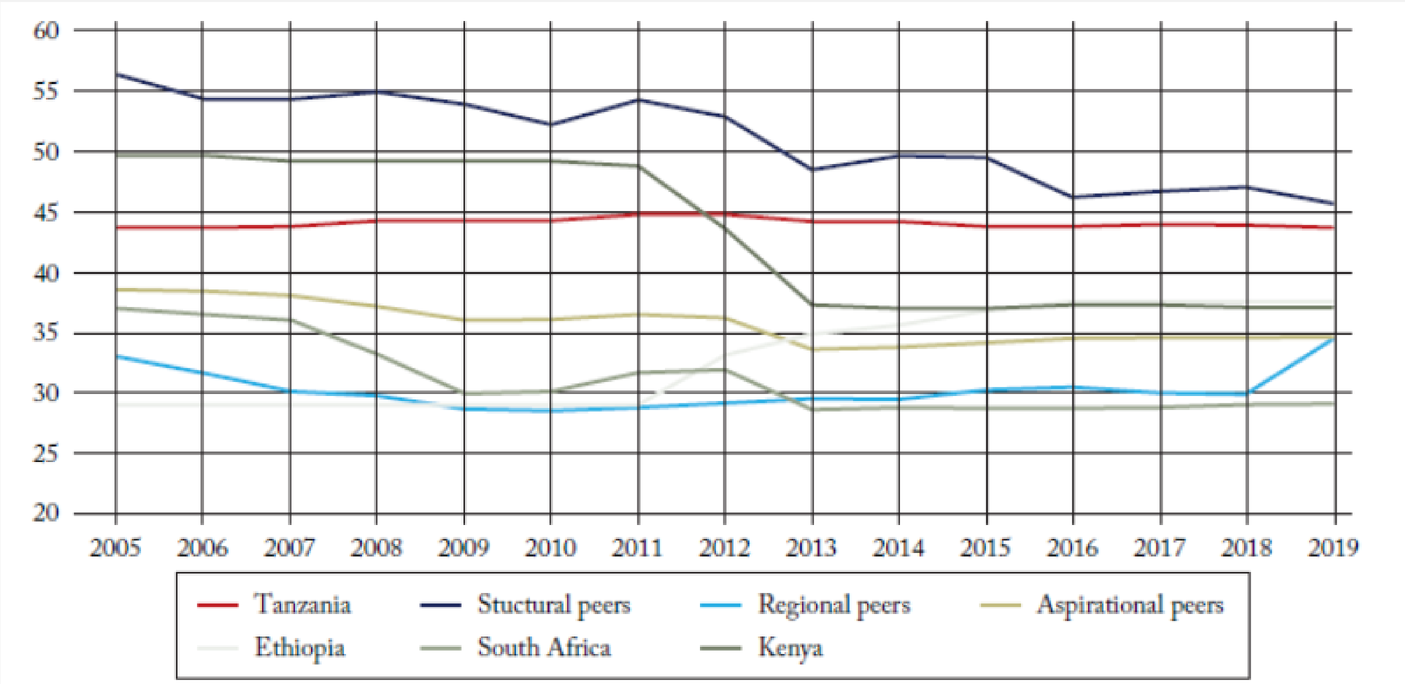
Tanzania's tax policy and administration exhibits low levels of domestic resource mobilization while still creating a significant burden for the private sector. This is in part a result of the relatively small size of the formal economy that bears the brunt of high tax rates and cost of tax compliance. According to the World Bank CEM, "Tanzanian businesses pay significantly more in taxes relative to their profits, with too many tax filings, ever changing requirements, and delays and arrears in reimbursements. These issues strain cashflows, drive informality, and distort firm size distribution." (Figure 7)

In addition to tax rates, firms find the administration of the tax policy to be problematic. Firms regularly report that their interactions with the Tanzanian Revenue

17 World Bank and World Trade Organization. 2020. Women and Trade: The Role of Trade in Promoting Gender Equality. Washington, DC: World Bank. See Chapter 2, "How constraints and opportunities shape women's roles in trade."

18 Hansen-Addy A., Parrilli D., and Tingbani I. 2023. "The impact of trade facilitation on African SMEs' performance." Small Bus Econ (Dordr). 2023 Apr 13:1-27.

FIGURE 7: Taxes and contributions paid by firms as a share of commercial profits



Source: WDI

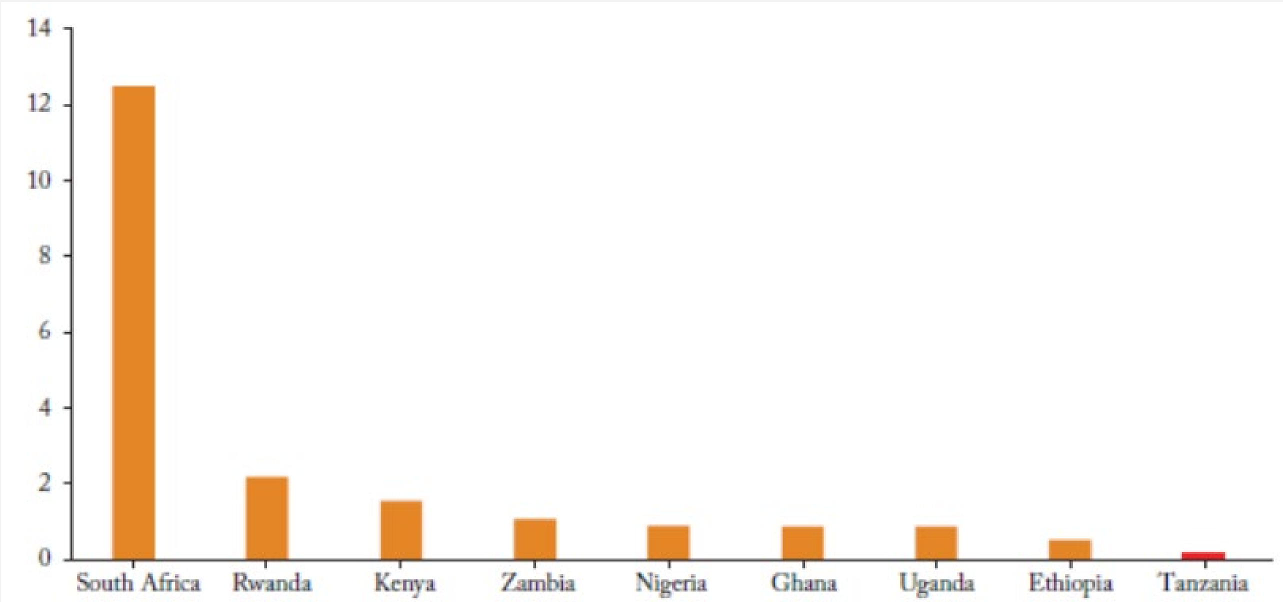
Authority are difficult and unpredictable. Delays in value-added-tax refunds were also noted challenges by tourism operators and agricultural exporters. While these challenges were present across the country, the 2023 World Bank Enterprise Survey found that firms in Zanzibar reported issues with tax and tax administration at a significantly higher rate than other regions of Tanzania.

While taxation may be the primary issue, firms are further disincentivized to formalize due to challenges in business licensing and regulation. For example, every tourism firm is required to get a license from the Tanzania Tourism Licensing Board (TTLB). This license was originally designed to help control foreign currency flows, but with the liberalization of the foreign exchange market, the TTLB license fee has become a way to mobilize revenue rather than serve a clear regulatory purpose. Among other countries in the region, only Ethiopia performs worse on the regulatory quality metric of the Worldwide Governance Indicators.

As a result of these challenges in the business environment, firms tend to remain small and informal. In the 2023 Enterprise Survey, larger firms were more likely to identify tax, and tax administration as their biggest obstacle, consistent with anecdotal accounts of the tax authority targeting larger formal firms. Tanzania has an exceedingly small formal private sector and the slowest rate of new business entry amongst all comparators, with less than 0.2 new formal firms created per 1000 population (Figure 8). This creates a vicious cycle of narrowing the tax base, which leads the Government to increase its tax burden to meet its revenue needs, which further incentivizes informality and narrowing of the base.

Informality also appears to create a disproportionate perceived burden for exporting firms (10 percent+ of sales) and for firms with a female top manager. Both categories of firm were more likely than non-exporting firms and firms with a male top manager, respectively, to identify practices of competitors in the informal sector as a major burden: 43 percent versus 29 percent of exporters versus non-exporters and 38 percent versus 27 percent of firms with a female versus a male top manager.

FIGURE 8: New business density rate (new businesses per 1,000 adults)



Source: Entrepreneurship Database, World Bank. Latest year for each country.

High Cost of Access to Finance

Few firms have adequate access to finance in Tanzania and the costs of borrowing are especially high (Figure 9). This is affecting firms of all sizes, including the largest sectors in the economy. Tanzania's level of credit to the private sector is amongst the lowest in the region. Few Tanzanian firms utilize the banking system, with bank lending accounting for only 3.6 percent of investment and 4.2 percent of firms' working capital needs – amongst the lowest rates in the region. Although domestic savings are high, they are not effectively channeled into the financial system, with 33 percent of gross savings remaining outside the financial system.

Prior to the pandemic, real lending interest rates stood at 14 percent, the highest amongst comparators in the Financial Sector Analysis and CEM studies. High interest rates persist despite low deposit interest rates on savings, leading to a high lending-deposit spread of around 12 percent. The high spread stems in part from the high lending risks and operating costs. Tanzania has the highest banking sector cost-to-income ratio in the region, above 60 percent. Underlying these issues, the World Bank CEM identified deficiencies in institutions that support information, risk management, and contract enforcement for the lending market. Growing bank concentration since 2017 may also play a role, although the average return on assets is amongst the lowest in the region at 3.5 percent.[19]

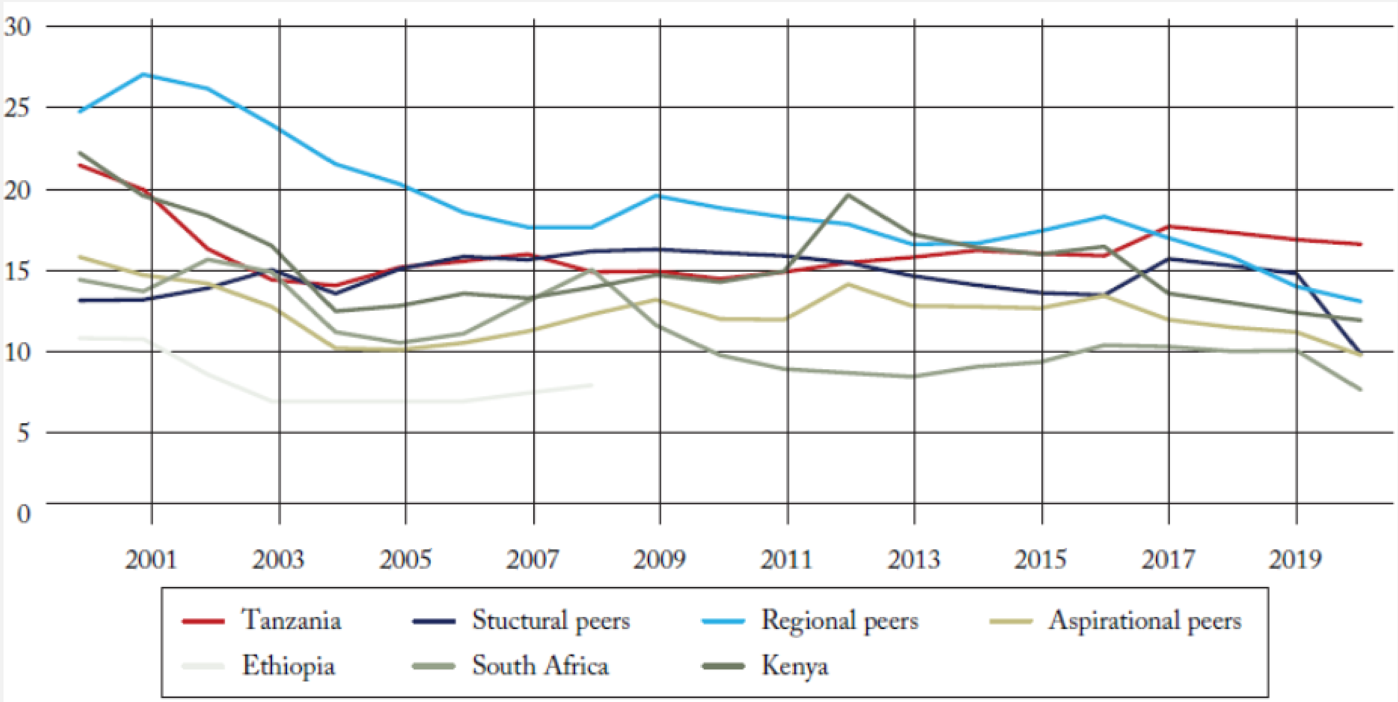
Women and youth-owned businesses and farmers and fishers are among those that face additional obstacles, including discriminatory customary laws, reliance on collateral-based lending, and lack of a personal identification document (PID), particularly among youth. A PID, such as a National ID Number or voters ID card, is necessary to gain an account with a formal financial service provider.

The 2023 Enterprise Survey reports that firms with a female top manager were substantially less likely to use banks to finance investments (2 percent vs 16 percent) or to take loans that require collateral (77 percent vs 98 percent). On an individual level, a banking gender gap persists with just 18 percent of women were banked in 2023 compared to 27 percent of men.[20]

19 Dalberg Financial Sector Analysis, March 2024.

20 FinScope Tanzania 2023, Insights that Drive Innovation. Financial Sector Deepening Tanzania (FSDT), 48.

FIGURE 9: Lending interest rate (percent)



Source: WDI

Among people whose main source of income was farming and fishing, only 17 percent of were banked, compared to 34 percent among people whose main source of income was non-agriculture trading. The majority of agricultural workers continue to depend on financing from contract farming, microfinance institutions, and warehouse receipts.[21]

Gender and Social Inclusion Considerations

This section describes additional considerations for systematic inclusion of women, young people, and poor people.

Cross-cutting considerations affecting labor and employment

- High maternal mortality rates, early marriage, gender-based violence, and attitudes condoning gender-based violence are substantial gender inequality concerns in Tanzania. Women in rural areas may also experience additional challenges that constrain their well-being, economic opportunities, and security, including lack of mobility and increased intimate partner violence compared to women in urban areas.
- Rural populations' livelihood options and abilities to move out of poverty remain limited by lack access to adequate electricity, transport, healthcare, and digital services, including internet.
- Tanzania scores poorly in indices of youth's wellbeing like the Commonwealth's Youth Development Index (YDI), where it ranked 148 among 181 countries in 2020, with the lowest scoring indicators in education and equality and inclusion.

Trade

Women stand to benefit from reducing constraints to export trading both as entrepreneurs and managers of firms and as farmers and other workers. In addition to the other issues noted in this report, there are three im-

21 National Council for Financial Inclusion. 2023. National Financial Inclusion Framework (2023-2028). Retrieved January 2024.

portant structural issues specifically related to women's potential employment in export sectors:

- A substantial proportion of women's employment remains informal, particularly with respect to trade across Tanzania's land borders.[22]
- Women's formal employment in export firms is still low at 37 percent: 26 percent of production workers and 31 percent of non-production workers.[23] This suggests that there may be normative or practical barriers to identify and address to ensure that women benefit from trade expansion. Supply side barriers are likely to include lack of sufficiently educated and skilled workers to fit firms' needs and attitudes and institutions that impede women's choice of employment in export firms, such as those affecting gender equality in mobility.[24] Demand side barriers might include normative issues within firms, including perceptions that women are not suited to given types of work.
- Almost a third of women (30 percent) were employed in agriculture in 2020/21, and of those, most were self-employed workers (27 percent) or working for family members (68 percent). Increasing agricultural exports will thus be critical for women, particularly if it creates opportunities for family farmers and micro and small enterprises.

Opportunities for youth employment will also be critical to identify and address, given the "youth bulge" in Tanzania and extremely high proportions of youth unemployment cited above. Over half of the working age population is 35 or below: 32 percent are 15-24 and 25 percent are 25-35.

Access to finance

Consultations with private sector associations, researchers, civil society organizations, and government ministries indicated that barriers to access to finance constrain many firms' abilities to expand their production and to meet the quality standards necessary for export. As described above, bank account ownership is relatively low among women, youth, and people engaged in farming and fishing compared to men, older cohorts, and people working in other sectors.

Lack of access to digital services is one challenge to keep in mind. Finscope 2023 found that lack of mobile phone ownership is a primary barrier to using mobile money, which has been a key driver of access to finance in Tanzania. While mobile phone ownership increased to 75 percent in 2023, fewer than two in ten Tanzanians own smart phones, and there are gender, age, and rural-urban disparities: 71 percent of women vs 80 percent of men; just 61 percent of youth 16-24, and 69 percent of rural Tanzanians vs 85 percent of urban Tanzanians own phones. Internet access is even lower: only 31 percent of Tanzanians have access to internet.[25]

Environmental and Social Performance Considerations

In February 2024, the Environmental and Social Performance team conducted a natural capital and climate assessment for Tanzania which identified the following cross cutting risks and opportunities that could impact the country's future of sustainable development:

22 UNCTAD 2019, Borderline - *Women in Informal, Cross-border Trade in Malawi, the United Republic of Tanzania and Zambia*

23 World Bank Enterprise Survey 2023.

24 Amin and Islam's (2023) work on the effects of export intensity on women's employment33 finds that social attitudes and institutions -- including the rule of law generally and laws affecting gender equality in mobility -- "are important in affecting the equilibrium increase in women's employment."33 They also find that the positive relationship between exports and women's employment is larger when domestic competition in a given export sector is low, in part because lower domestic competition magnifies the impact of exposure to international markets, which supports reduction in discrimination. Amin M. and Islam A. 2023. "Export intensity and its effect on women's employment." *Kyklos International Review for Social Sciences* 76: 4 (November), 676-704. As cited in Diallo M., Islam A., and Amin M. 2024. "When does exporting increase women's employment in the developing world?" World Bank Blogs, January 31.

25 FinScope Tanzania 2023, *Insights that Drive Innovation*. Financial Sector Deepening Tanzania (FSDT), 28, 46-7.

Potential risks include:

- Exacerbating environmental degradation through agricultural or tourism expansion, or growth in extractive industries like mining
- Threatening achievement of Tanzania's ambitious climate goals outlined in the country's Nationally Determined Contribution to the Paris Agreement, through expansion of agriculture or extractive industries (for example, offshore natural gas reserves)

Opportunities include:

- Integrating improved water management, soil management, input use, and other climate smart agriculture practices into potential agriculture expansion program
- Integrating deforestation free commodity verification into a trade program (e.g., through improvements to environmental data collection, enforcement, monitoring, and verification of areas reserved for agriculture)

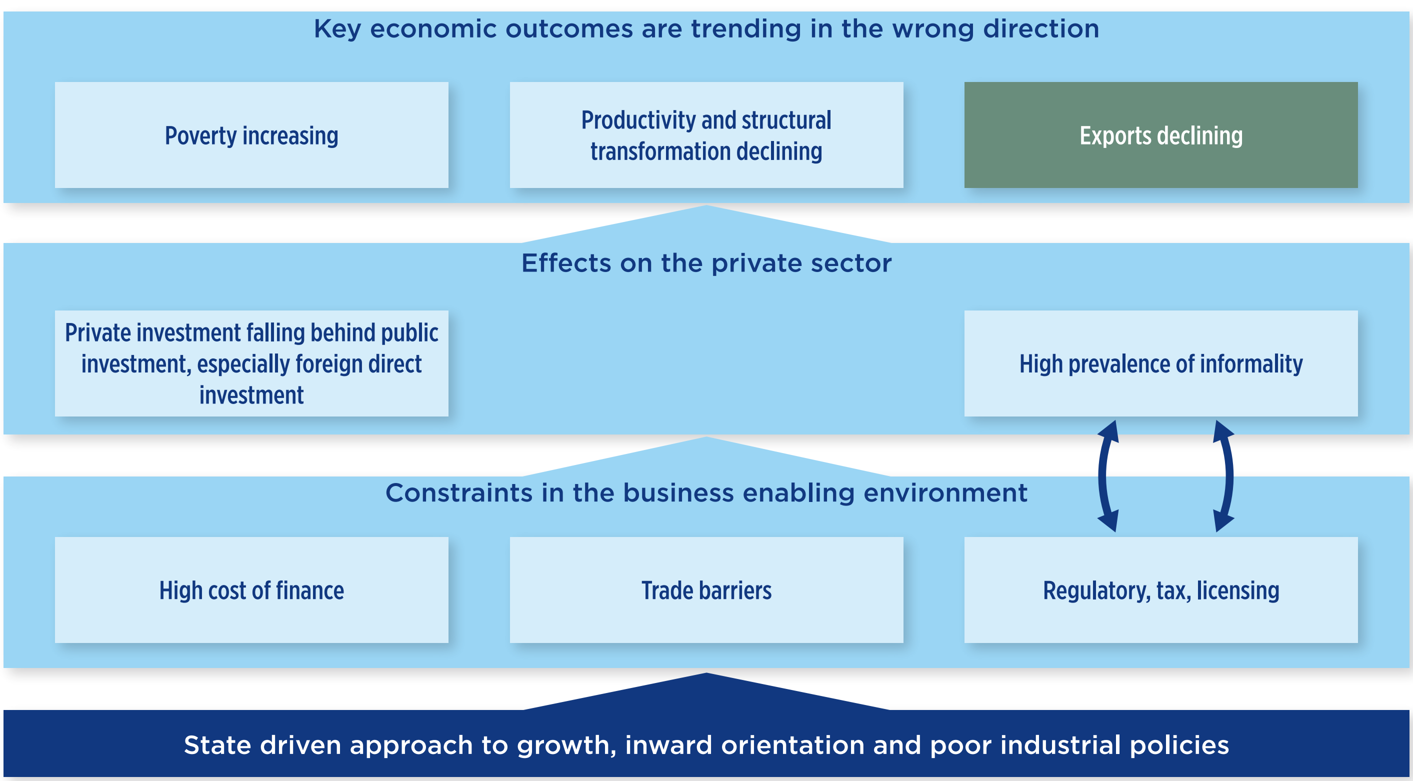
Other Constraints Considered

In addition to the constraints identified above, the World Bank CEM and other studies have found various other potential constraints including infrastructure and human capital. However, these constraints were ultimately not deemed as critical to addressing the country's growth question as the constraints above. The World Bank CEM (among other studies) can provide a comprehensive discussion of the issues not discussed above.

Conclusion

François Bourguignon and Samuel Mwita Wangwe provide an institutional diagnostic in "State and Business in Tanzania's Development" (2023) that examines the historical and institutional roots of the country's poor business environment. They identify multiple challenges associated with Tanzania's transition away from socialism in the 1990s, harmful industrial policies, and strained relationships with the private sector from the previous 5th-phase government (2015-2021). The figure below summarizes how these institutional underpinnings have given rise to the binding constraints and economic outcomes discussed in previous sections.

The three binding constraints described in this report were presented to the Government of Tanzania by MCC in June 2024. Of these constraints, the government selected to address the high cost of conducting international trade through Threshold Program development. Root Cause Analysis and project development began in May 2024.



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