UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Technical and statistical report

Combating inequality and poverty in the United Republic of Tanzania

Policy analysis and options

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Executive Summary

Tanzania has achieved average growth exceeding 6 per cent in the first two decades since the turn of the Millennium, making it the third-fastest growing country in East Africa. Its political stability, natural resources, and longstanding commitment to development have also allowed it to achieve significant human development gains, especially in terms of access to education and healthcare for the population. However, despite rapid growth, Tanzania's poverty rate remains high, and income inequality is increasing.

This report analyses the trends in poverty and inequality, revealing that the growth elasticity of poverty and inequality has changed over time. It then examines some of the potential explanations for the different growth patterns. The report goes on to examine four policy-areas that have a direct impact on the reduction of poverty and inequality, and makes recommendations on how to strengthen their impact. The four policy-areas are tax policy, social protection, agriculture and gender equality.

The growth-elasticities of poverty and inequality **have changed**

An analysis of the evolution of poverty and inequality in Tanzania since the year 2000 shows that the virtually constant high GDP growth of 6 per cent exhibited three distinct patterns: A first phase where growth was accompanied by poverty reduction, but rising inequality. A second phase of more inclusive growth, where both poverty and inequality were falling, and – since about 2012 – a pattern of non-inclusive growth, with stagnating poverty reduction and rising inequality. These patterns imply that the growth-elasticities of poverty and inequality have changed, holding potential lessons for policymakers striving to foster inclusive growth.

The report examines different possible explanations for the change in the growth elasticities of poverty and inequality, including external shocks, public services expansion, changes in the sectoral distribution of growth and the role of official development assistance as well as measurement error. It finds that the changing composition of growth, especially the slowdown in the growth of agriculture, is likely to explain a part of the shift in the growth elasticity of poverty, while more research is needed to fully account for the changes in inequality.

The report then considers four policy areas where reforms could bring progress to reduce poverty and inequality in the short- to medium-term.

Tanzania's tax system is progressive and already makes a significant contribution to reducing income inequality. However, Tanzania collects less tax revenue than its peers, and some of its excise taxes disproportionately hurt the poor. To strengthen the inequality- and poverty- reducing impact of the tax system, Tanzania could consider reducing exemptions on the Corporate Income Tax and expanding the use of the property tax. Tanzania could also consider the introduction of a wealth tax, and broaden the tax-base by lowering the threshold for VAT. The revenue collected should then be spent on targeted pro-poor interventions.

Expanded social protection with more pro-poor targeting can complement tax policies to reduce inequality and poverty. Tanzania has already made efforts to reform its social protection systems, but its coverage remains limited. The large size of the informal sector reduces the reach of social protection programmes. To better meet the needs of the most vulnerable populations, the government should consider expanding and reforming the Productive Social Safety Net (PSSN) system, which offers conditional cash transfers to the poor. An expansion of the coverage should include reforms to strengthen its impact and sustainability through training on entrepreneurship and livelihoods as well as programmes providing access to finance. The PSSN would also benefit from a stronger focus on the health outcomes of adult beneficiaries, and better targeting. In addition, Tanzania should expand its National Informal Sector Scheme offering social security coverage for informal sector workers.

The agriculture sector continues to hold the key for sustained poverty reduction in Tanzania. Accounting for 65 per cent of employment, agriculture provides the primary livelihood for more than two-thirds of the poor, especially in rural areas. Yet, recent growth in the sector has largely been driven by the expansion of land under cultivation, while productivity-growth remains low. Key obstacles to faster productivity growth include the low use of improved technologies (fertilizers, irrigation, non-manual traction, improved seeds, etc.), soil degradation, lack of access to finance, poor road-, electricity- and storage-infrastructure, lack of economies of scale, and pests and diseases. After decades of slow growth, the government of Tanzania has increased its agricultural budget significantly to implement its Agenda 10/30, aiming to achieve 10 per cent growth in the sector by 2030. To achieve this goal, the focus of interventions should not be only on extending the land under cultivation, but also on increasing labour productivity through investments in irrigation, extension services, supporting fertilizer use, mechanization, and building infrastructure to reduce post-harvest losses. The government should also promote greater coherence between its agricultural and industrial policies and address the impact of trade measures on poor agricultural producers.

The agriculture sector continues to hold the key for **sustained poverty reduction in Tanzania**

Tanzania has made considerable progress towards gender equality in many policy-domains, including political representation at the national level, school enrolment at primary and lower secondary levels, economic empowerment, and equal rights. However, further efforts are required to achieve the full benefits of gender equality. In the political arena, better gender representation should be expanded to lower levels of government and the private sector. In the economic sphere, despite their formal equal rights, women are still more likely to be unemployed, and face obstacles to land ownership and access to finance, leading to a productivity-gap and lower asset ownership. While gender-parity has been achieved in primary and lower secondary education, female enrolment rates in higher education continue to be lower. In the area of health, the report identifies the issue of child marriage and adolescent fertility, which is associated with lower educational attainment and poverty. Tanzania should also address the persistent problem of gender-based and sexual violence and build on the progress achieved in reducing female genital mutilation/cutting.

While action in the four areas identified will bring immediate benefits in reducing poverty and inequality, in the long-term, the only way to achieve sustainable poverty and inequality reduction is through building productive capacities and fostering inclusive growth. The report references an UNCTAD-developed strategy for Tanzania to enhance its productive capacities as a base for inclusive development, including policy recommendations in areas such as energy and transport infrastructure, structural transformation, human and natural capital, private sector, institutions and Information and Communications Technologies.

The only way to achieve sustainable poverty and inequality reduction **is through building productive capacities**

In 2020, the Covid-19 pandemic led to a global health crisis and plunged the world economy into a recession. However, the economic effect on the country was relatively muted. While employment and revenues in the tourism sector fell by 50 per cent and 77 per cent respectively, the lack of domestic lockdowns and rising gold prices helped Tanzania avoid a recession, while growth decreased by 2 percentage points. The pandemic is estimated to have increased poverty in Tanzania by 1 percentage point and pushed an additional 600,000 people into poverty. The most affected were urban informal workers, while most of the rural poor were more shielded from the direct effects of the crisis through their involvement in subsistence agriculture. In 2022, the conflict in Ukraine led to increases in the global prices of food, fuels and fertilizers, which filtered through to significant increases in agricultural commodities and fertilizer prices as well as transport costs in Tanzania. The government implemented support programmes to stabilize prices, and the crisis is estimated to have increased the number of the poor, though the poverty rate is expected to remain unchanged.

Together, the Covid-19 pandemic and the impact of the conflict in Ukraine highlight the need to build the resilience of the most vulnerable through greater focus on rural agriculture and strengthening social protection systems.

1. Introduction

The United Republic of Tanzania has achieved significant economic growth and poverty reduction since the turn of the millennium. With its political stability, ample natural resources, long coastline, unique wildlife-parks, and long-standing commitment to achieving inclusive human development, Tanzania holds significant potential for achieving the Sustainable Development Goals.

However, despite relatively rapid growth, its poverty-rate remains high, indicating that the benefits of growth have not sufficiently filtered down to the most vulnerable population. Tanzania is also experiencing an increasing level of income inequality, further reducing the power of growth to reach the poorest.

The Sustainable Development Goals recognize the importance not only of eradicating extreme poverty (SDG 1), but also of reducing inequalities within and among countries (SDG 10). The reduction of inequality is important both intrinsically and for instrumental reasons. Excessive levels of inequality can undermine social stability and the effective exercise of equal rights of all citizens. In addition, inequality reduces the power of growth to achieve poverty reduction, slows economic development, and can undermine the broad achievement of better health and educational outcomes.

This paper will analyse the trends in poverty and inequality in Tanzania and examine their causes. It will further discuss policies and measures that impact the reduction of poverty and inequality and provide recommendations on how to enhance the poverty- and inequality-reducing impact of growth, so as to enable Tanzania to achieve more inclusive prosperity. While poverty and inequality are affected by both domestic and international factors, this paper will focus on domestic policies, as these are within the control of the government of Tanzania. However, it also briefly considers the impact of Official Development Assistance.

Following this introduction, the second chapter will provide a brief snapshot of the economy of Tanzania and its recent growth performance. The third chapter analyses the poverty- and inequality-trends in Tanzania. The fourth chapter will consider different possible explanations for the evolution in poverty and inequality. The fifth chapter will examine a number of social and economic policies that have a significant impact on poverty and inequality, and make recommendations for strengthening their effectiveness. The sixth chapter will address the prerequisites for achieving a more inclusive growth-pattern in the longer term. The seventh chapter briefly considers the impact of the Covid-19 pandemic and other recent crises in Tanzania, while the last chapter concludes.

Inequality reduces the power of growth to **achieve poverty reduction**

2. Overview of the economy of Tanzania

Tanzania is a coastal country in East Africa, with a landmass of 945,087 sq.km[1] and a population of 61,7 million as of 2022[2], making it the largest and most populous country in the East African Community. With an estimated total GDP of US$ 81.8bn and a GDP per capita of US$ 1213 (current prices, 2023)[3], Tanzania is part of the United Nations Least Developed Countries category. In light of its economic growth, in 2020, the World Bank reclassified Tanzania from a Low-Income Country to a Lower Middle-Income Country.

Tanzania has benefited from significant GDP growth over the past two decades, with average annual growth exceeding 6% between 2000 and 2019. In this regard, Tanzania performed better than the average of the Sub-Saharan African and Least Developed Countries. (See Figure 1) Within East Africa, only Rwanda and Ethiopia achieved higher average growth rates in the same period. In per capita terms, Tanzania managed to maintain an average growth rate exceeding 3% (Figures 2 and 3). Between 2000 and 2005, Tanzania achieved an average per capita GDP growth of 4.26%. Growth slowed somewhat after the Global Financial Crisis, but was still at a solid 3.3%, allowing the country to more than double its average income per capita from US$ 545 in 2000 to US$ 1134 in 2023 (measured in constant 2015 US$). (Figures 3 and 4). Even during the Covid-pandemic, per-capita GDP growth remained positive. Today, Tanzania's per capita GDP is higher than the East African average, but below that of the averages for Sub-Saharan Africa or the LDCs. (Figure 4)

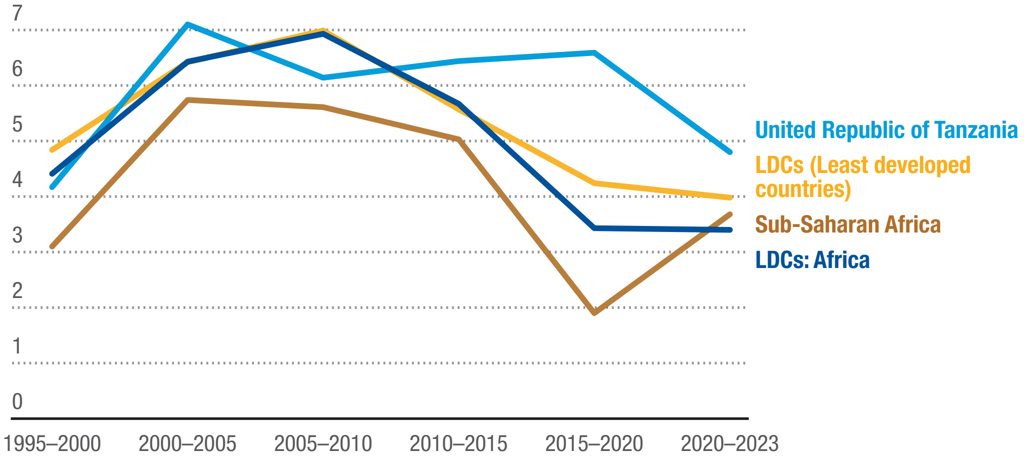
Tanzania has benefited from **significant GDP growth over the past two decades**

Tanzania's economy is primarily rural, with 65.1% of the population living in rural areas in 2022[4], most of whom are engaged in agriculture. In the same year, the agricultural sector accounted for 65.5% of employment[5] and 28.3% of GDP. The main food crops in Tanzania are maize, sorghum, millet, rice, wheat, beans, cassava, potatoes, and bananas, while the main cash crops are coffee, sisal, cashew nuts, tea, cotton, and tobacco.[6]

The industry sector, comprising manufacturing, mining and construction, employed 8.5% of the working population in 2022[7], but accounted for a total of 33.1% of GDP. The main manufacturing sectors are agrifood processing, textiles and clothing, footwear, chemicals, pharmaceuticals, and construction materials. Together, manufacturing accounted for roughly 7.75% of GDP in Tanzania in 2022[8].

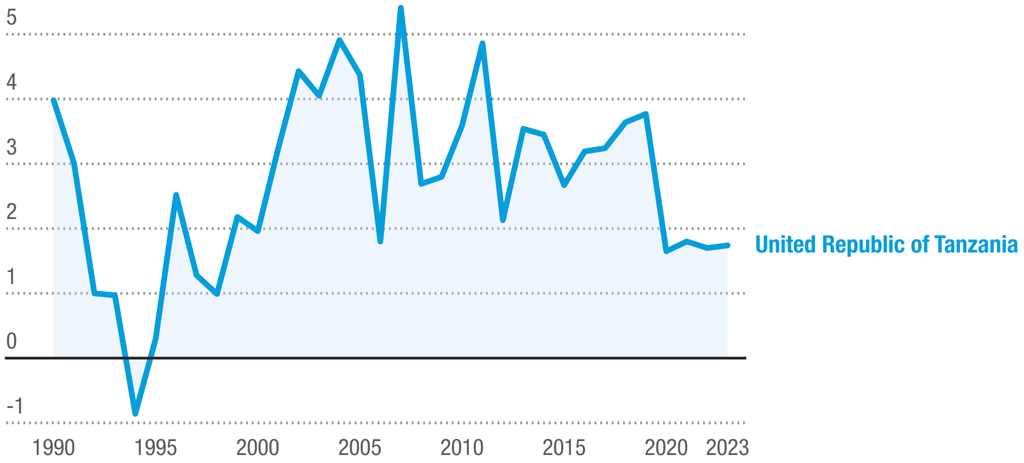
1 https://www.foreign.go.tz/tanzania/category/country-profile#:~:text=Tanzania%20has%20a%20total%20area,area%20of%20988%20sq.km
2 Tanzania National Bureau of Statistics – Census Information Dissemination Platform: https://sensa.nbs.go.tz
3 All figures from UNCTADStat, unless otherwise acknowledged.
4 Tanzania National Bureau of Statistics – Census Information Dissemination Platform: https://sensa.nbs.go.tz
5 Data from the World Development Indicators (modeled ILO estimate)
6 Tanzania Agricultural Map, available on: https://asdp.kilimo.go.tz/index.php/resources/view/tanzania-agriculture-map
7 Data from the World Development Indicators (modeled ILO estimate)
8 Figures from UNCTADStat.

Figure 1
5-year average GDP growth rates in Tanzania and comparison groups
(Per cent, GDP at constant 2015 US$)



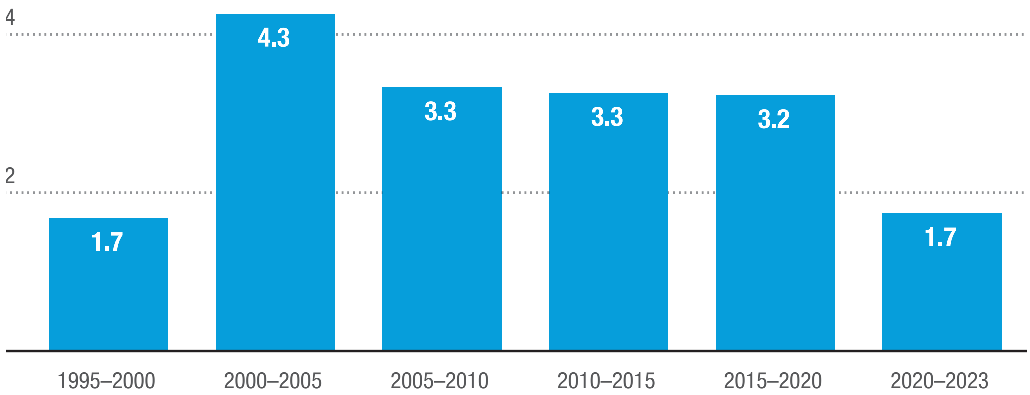
Source: UNCTAD/Stat

Figure 2
Average annual GDP per capita growth in Tanzania
(Per cent, GDP at constant 2015 US$)



Source: UNCTAD/Stat

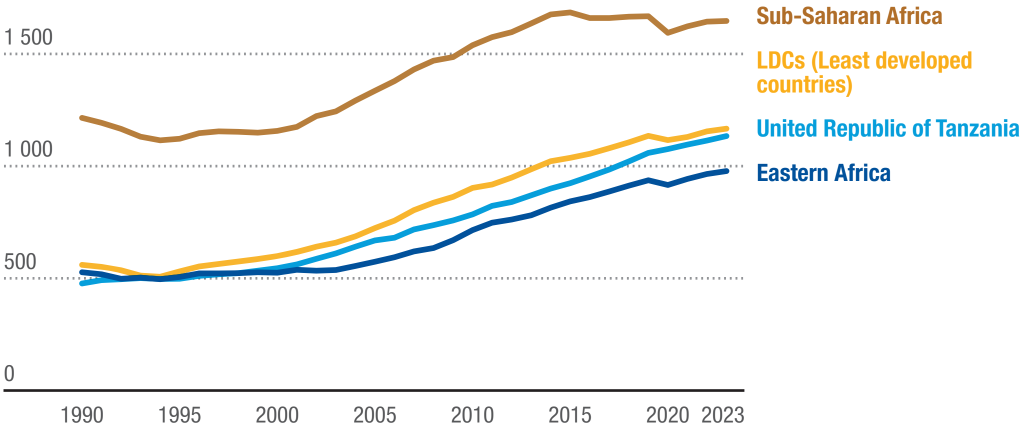
Figure 3
5-year average GDP per capita growth in Tanzania
(Per cent, GDP at constant 2015 US$)



Source: UNCTAD/Stat

Figure 4

Evolution of GDP per capita in Tanzania and comparison groups
(Constant 2015 US$)



Source: UNCTAD/Stat

Mining and quarrying accounted for an additional 10% of GDP, with key products including gold, tanzanite, diamonds, gemstones, coal, and limestone.[9] The construction sector accounted for an additional 15% of GDP, largely supported by public investments in infrastructure projects.

The largest sector in terms of value added continues to be the services sector, which in 2022 accounted for 38.5% of GDP. A total of 26% of the workforce were employed in the service sector in the same year[10]. Tourism is a key foreign exchange earner and a major source of employment, but most services workers are engaged in small trading activities, often in the informal sector. The evolution of the sectoral value-added shares can be seen in Figure 5.

The expected pattern of development through structural transformation is for the share of agriculture in total GDP to fall as incomes rise, while the share of manufacturing increases. This reflects in part a movement of labour from agriculture to more productive employment opportunities in manufacturing. Eventually, in more mature industrialized economies, the share of manufacturing in GDP falls again and high value-added services become the driving sector in the economy.

However, in many African countries, the share of manufacturing in total value added has been decreasing in the past two decades, while most of the labour moving out of agriculture has been absorbed by the services sector, whose contribution to GDP has risen. This phenomenon has been called "premature deindustrialization."[11]

This also applies to Tanzania. While the industry share of GDP has grown significantly in the past two decades, most of this growth was due to the construction sector. The share of the manufacturing sector has seen a decline from around 10% of GDP in 2000 to 7.75% in 2022. (See Figure 6)

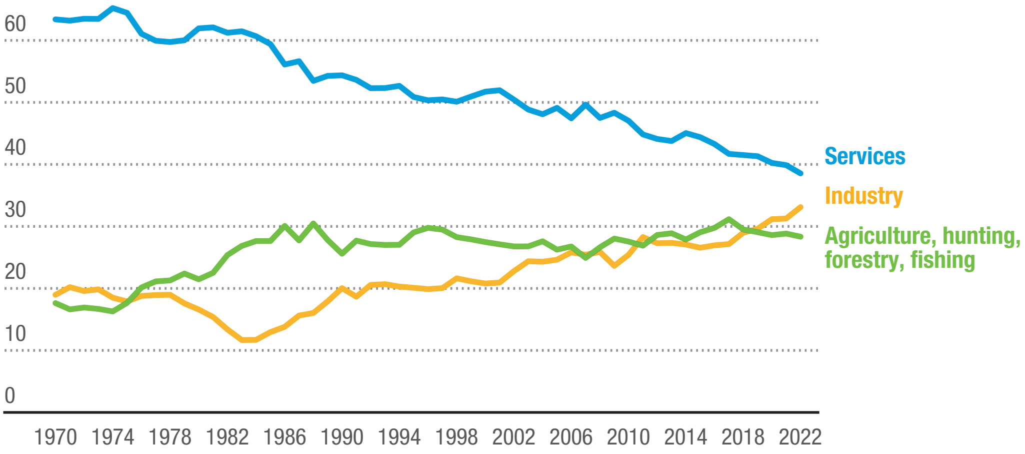
Tourism is a key foreign exchange earner and a **major source of employment**

9 https://www.tanzaniainvest.com/industry
10 Data from the World Development Indicators (ILO modeled estimate)
11 See for example Rodrik, D. (2016)

Figure 5

Tanzania: Sectoral value-added shares in GDP

(Agriculture, services, industry)
(Per cent)

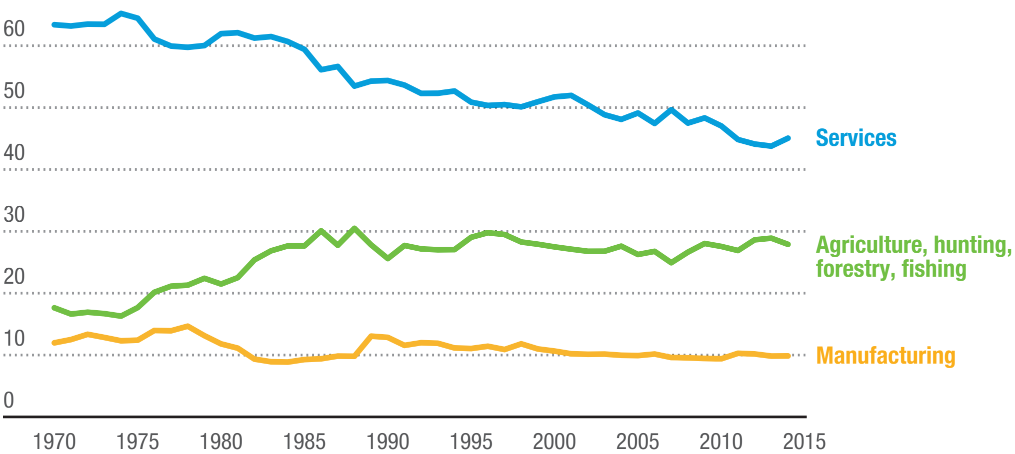


Source: UNCTAD/Stat

Figure 6

Tanzania: Sectoral value-added shares

(Agriculture, services, manufacturing)
(Per cent)



Source: UNCTAD/Stat

The share of employment in agriculture in Tanzania decreased from more than 83% in 2000 to about 72% in 2006. The pace of movement of labour out of the agriculture sector then slowed and decreased to 65.8 % in 2019 and has remained broadly steady since then. And most of the labour leaving the agriculture sector has been absorbed by the services sector, whose share in total employment increased from 14% in 2000 to 26% in 2022. The share of industry in total employment has increased from broadly 2.8% in 2000 to around 8.5% in 2022.[12]

With regard to its trade profile, Tanzania's main merchandise exports are minerals such as gold (which alone accounts for 33% of export revenue), raw and refined copper (accounting for about 17%) and copper ore, as well as agricultural products such as coconuts, Brazil nuts and cashews.

[12] World Development Indicators, based on ILO modeled estimates

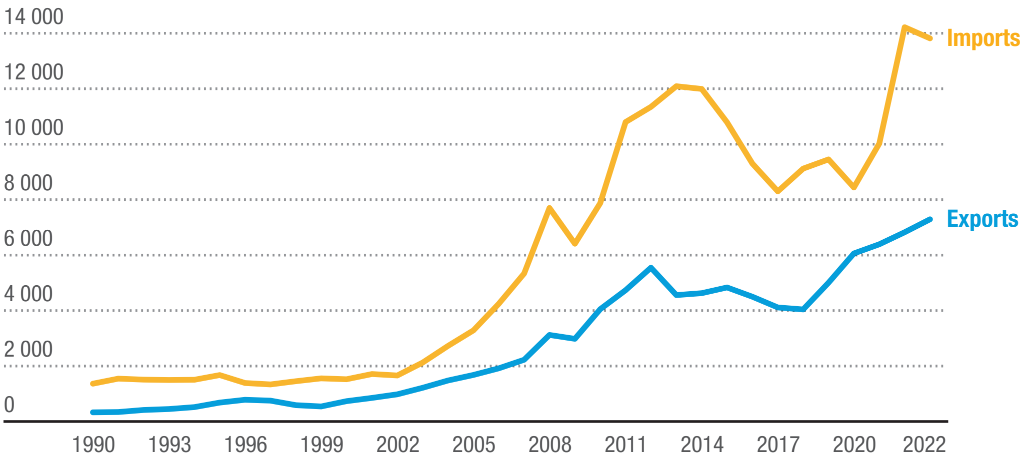
Its main export destinations are India (27%), U.A.E (10.7%), South Africa (9.3%), as well as its regional neighbours Kenya and Rwanda (about 4.8% each). Merchandise exports have expanded rapidly between 2000 and 2012, despite a short dip during the Global Financial Crisis in 2008/9. In 2012, export growth reversed, with exports remaining high but falling to a low of US$ 4bn in 2018. Since then, merchandise exports have expanded again, despite the pandemic.

Tanzania's main merchandise imports are refined petroleum (23.4%), refined copper (5.3%), vaccines (2%), medicaments (1.7%) and cars (1.4%). Most of its imports are sourced from China (29.6%), India (18.3%), the U.A.E. (11.2%), the D.R.C. (5.3%) and Saudi Arabia (2.5%). Merchandise imports values have exceeded exports for more than 30 years, but the trade balance has deteriorated since 2002, when imports grew significantly faster than exports. The merchandise trade deficit reached a peak in 2013 at US$ 7bn, before contracting to US$ 2.4bn in 2020. However, since then, it has widened again, with imports soaring in 2021 and 2022, before falling slightly in 2023. (see Figures 7 and 8)

Merchandise imports values **have exceeded exports for more than 30 years**

Figure 7

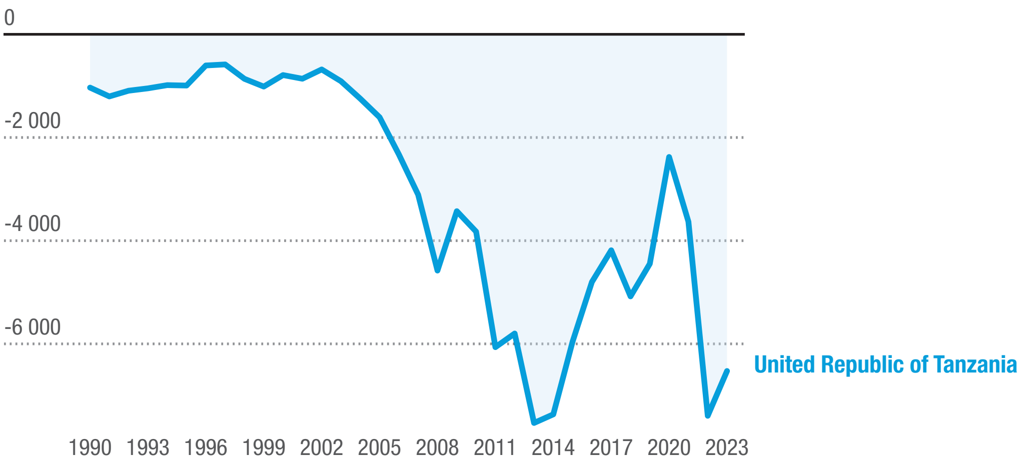
Tanzania merchandise exports and imports in current US$ millions



Source: UNCTAD/Stat

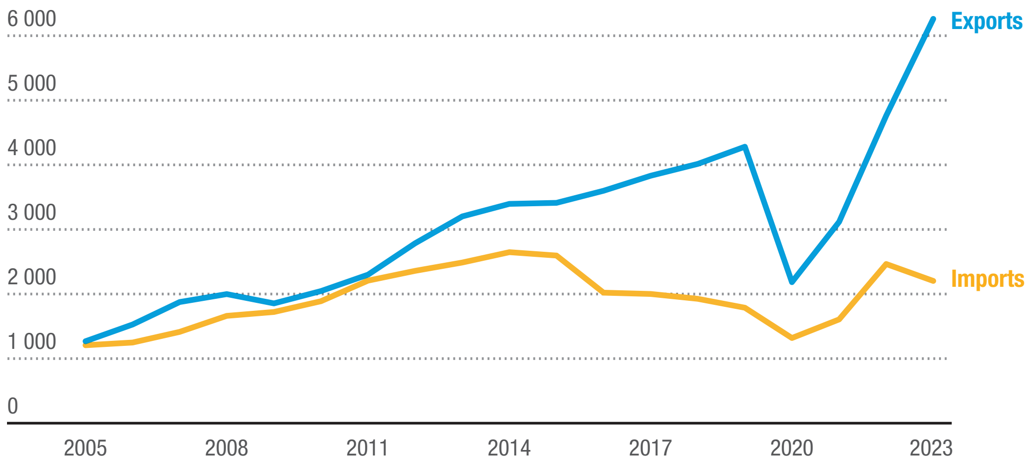
Figure 8

Tanzania merchandise trade balance in current US$ millions



Source: UNCTAD/Stat

Figure 9
Tanzania: Exports and imports of services in current US$ millions



Source: UNCTAD/Stat

The overall trade balance is improved by a services trade surplus. Tanzania's main services exports are related to tourism, including personal travel services (61%), and transportation (30.6%), as well as other business services (6.2%). In 2023, services exports exceeded US$ 6bn, about three times the level of services imports. Tanzania's main services imports were also transportation (40%), as well as personal travel (35%). (see Figure 9)

Tanzania's rapid growth has enabled the country to make progress on key human development dimensions such as health and education. UNDP's Human Development Index (HDI) is a composite index that provides an aggregate measure of progress achieved in standards of living (as measured by GNI per capita), health (as measured by life expectancy at birth) and education (as measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age). An increase in the HDI score is indicative of an improvement in human development. Between 1990 and 2022, Tanzania's HDI value changed from 0.366 to 0.532, an improvement of 45.4 per cent.

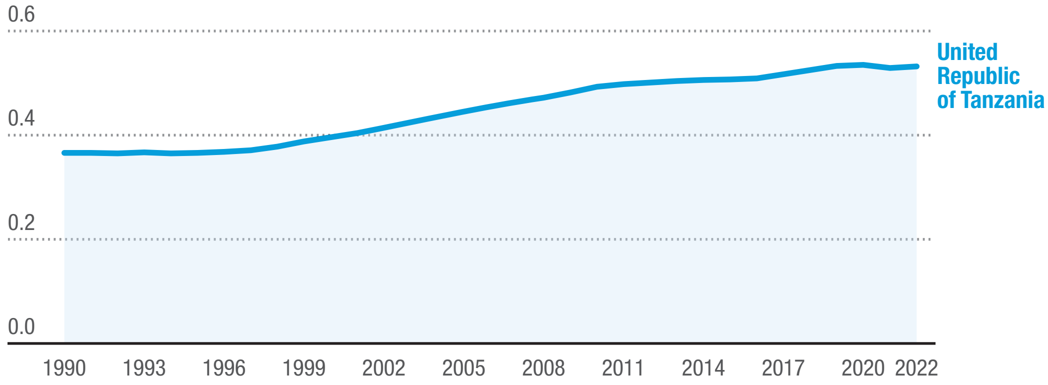
Over this time period, Tanzania's life expectancy at birth increased by 15.3 years, expected years of schooling by 3.2 years and mean years of schooling by 2.3 years. Tanzania's GNI per capita grew by 99.6 per cent between 1990 and 2022.[13] Figure 10 captures the increase in HDI scores for Tanzania over time.

A close examination of the HDI progression shows rapid growth in the HDI score between 1998 and 2010, and then a much slower growth rate between 2011 and 2016, before returning to rapid growth between 2017 and 2019, prior to the Covid pandemic and its adverse consequences for the HDI in 2021 (the only negative growth year).

Tanzania's economic and social development efforts are guided by the "Tanzania Development Vision 2025"[14], which was drafted in a consultative process starting in 1995, and which sets out the principal objectives of Tanzania's development policy, namely: 1.) Achieving high quality livelihoods for all, 2.) good governance and the rule of law, and 3.) building a strong and competitive economy.

[13] https://hdr.undp.org/data-center/specific-country-data#/countries/TZA
[14] URT (1995)

Figure 10
Tanzania Human Development Index 1990 – 2022



Source: UNDP

Among its goals, the document envisions that Tanzania will graduate from Least Developed Country status to a middle-income country by 2025, with a high level of human development. The goals also include the eradication of poverty, and the transformation of the economy from a low productivity agricultural economy to a semi-industrialized one led by modernized and highly productive agricultural activities.

As noted by Tanzanian President Samia Suluhu Hassan in her Foreword to the 3rd National Five-Year Development plan: "The National Development Vision 2025 has been implemented through various Programs and The Long-Term Perspective Plan 2011/12 - 2025/26 whose implementation was divided into three phases of the Five-Year National Development Plans.

The First Five Year National Development Plan 2011/12 - 2015/16 had a theme of unleashing growth potentials by de-bottlenecking binding constraints to growth. The Second Five Year National Development Plan 2016/17 - 2020/21 focused on nurturing industrialization for economic transformation and human development. The Third and final Five-Year National Development Plan 2021/22 - 2025/26 has a theme of realizing competitiveness and industrialization for human development that aims to increase efficiency and productivity in manufacturing using the resources available in abundance within the country."[15]

[15] URT (2021)

3. Trends in poverty and inequality in Tanzania

Poverty

The rapid growth achieved by Tanzania has allowed the country to make significant progress in poverty reduction. Using the national poverty line as a yardstick, Tanzania's headcount poverty rate was 38.6% of the population in 1991 and decreased to 26.4% of the population (roughly 14 million people) by 2018 – a reduction of 31.6%.[16] While the reduction is less than that achieved by regional neighbours Ethiopia and Rwanda, it is higher than the average of Sub-Saharan Africa.

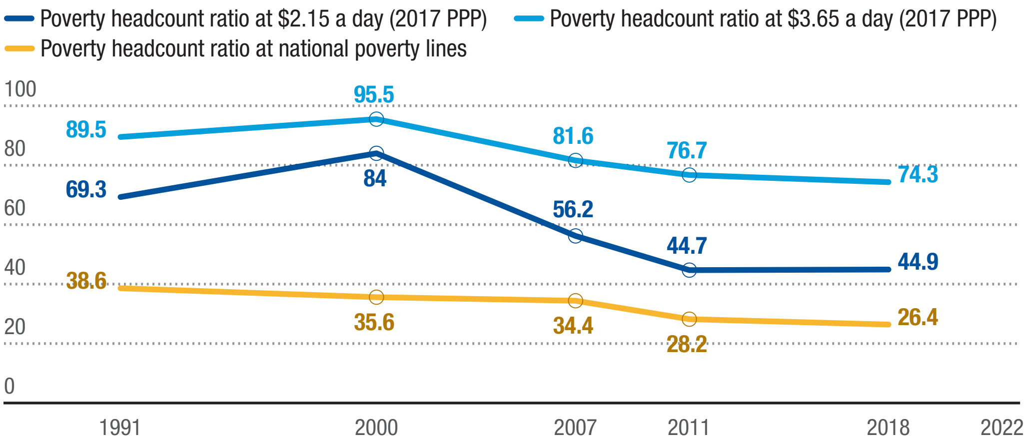
Using the international extreme poverty line of US$ 2.15 per day (in 2017 US$ at PPP), the headcount poverty ratio rose from 69.3% in 1991 to 84% in the year 2000, before declining to 44.9% by 2018.

At higher international poverty rates, such as the income threshold of US$ 3.65 per day (in 2017 US$ at PPP), almost three quarters of the population (79.3%) remained in poverty in 2018. (See Figure 11).

A closer examination of the data shows that – using the international poverty line as a basis – Tanzania achieved the fastest poverty reduction rates during the period between 2000 and 2007 (from 84% to 56.2%), i.e. a compound reduction of almost 4 percentage points per year. The speed of poverty reduction then slowed slightly between 2007 and 2011 (from 56.2% to 44.7%), to 2.9 percentage points compounded per year. However, since 2011, progress in poverty reduction has ground to a halt, and even reversed slightly. The poverty headcount ratio increased slightly from 44.7% in 2011 to 44.9% in 2018.

Tanzania achieved the **fastest poverty reduction rates** during the period between 2000 and 2007

Figure 11
Poverty trends, headcount ratio in Tanzania
(Percentage of population)



Source: World Development Indicators

[16] The national basic needs poverty line was 49,320 Tanzanian shillings (21.2 U.S. dollars) per adult per month in 2018, or about US$ 1.35 per person per day in purchasing-power-parity terms (World Bank 2021).

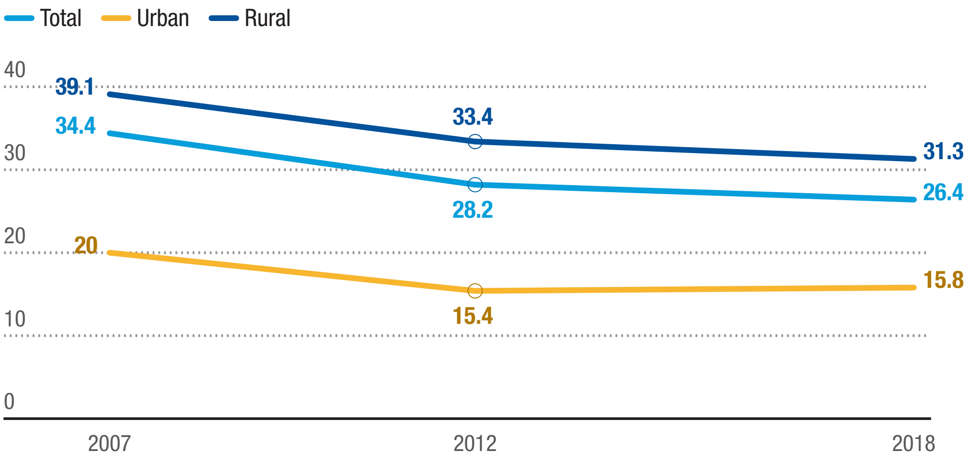
Poverty rates are much higher in rural areas, **where 65.1% of the population lives**

As GDP per capita growth continued virtually unabated at an average of at least 3% between 2000 and 2019, the question arises why the growth elasticity of poverty would have diminished so significantly over the period. According to the World Bank, the growth elasticity of poverty in Tanzania dropped from –1.02 in 2007–12 to –0.45 in 2012–18. This means that a 10 per cent increase in GDP per capita should translate into decrease in the proportion of the poor of a 4.5 per cent. However, the average growth elasticity of poverty for developing countries is higher than -2[17], which would mean a decrease in the proportion of the poor of more than 20 per cent.[18]

Beyond income poverty, some of the broader dimensions of poverty in Tanzania are captured by UNDP's Multidimensional Poverty Index (MPI).[19] According to UNDP, the MPI aims to measure a person's deprivations drawing on 10 indicators across three dimensions: health, education and standard of living. Each of the dimensions is weighted equally. Two indicators are used to measure each of the health and education dimensions, while the standard of living indicator is measured by six indicators. The aggregate MPI has a range from 0 to 1, with higher values denoting higher multidimensional poverty. If a person scores 0.33 or higher, they are considered multidimensionally poor. Individuals with a score higher than 0.5 are considered to be in severe multidimensional poverty. Based on the 2015/16 Household Survey data, UNDP finds that 57.1% of the population in Tanzania qualify as multidimensionally poor (roughly 36.2 million people in 2021), including 27.5% in severe multidimensional poverty, while an additional 23.4% are classified as vulnerable to multidimensional poverty (about 14.9 million people in 2021). The average score of people living in multidimensional poverty is 49.8% - close to the threshold for severe multidimensional poverty.[20]

UNDP also notes that the incidence of multidimensional poverty is 12.2 percentage points higher than the incidence of income poverty, highlighting that there is a large share of the population suffering from deprivations in terms of health, education or standard of living, despite being above the formal poverty line.[21]

Figure 12
Poverty trends, national poverty line, 2007-18
(Per cent)



Source: Data from HBS 2007, 2011/12, and 2017/18, cited in World Bank (2019)

[17] Technically "lower than".
[18] World Bank (2019)
[19] UNDP (2023)
[20] UNDP (2023)
[21] UNDP (2023)

There is also an important difference in the spatial distribution of poverty, with poverty rates differing between urban and rural areas, as well as between different regions in Tanzania. Poverty rates are much higher in rural areas, where 65.1% of the population lives. Using the international poverty line, 59% of the rural population lived in extreme poverty in 2018, while only 29% of the urban population were below the extreme poverty threshold.[22] At the national poverty line, the World Bank notes that poverty in rural areas declined from 39.1% in 2007 to 31.3% in 2018, while in urban areas, poverty declined from the lower level of 20% in 2007 to 15.4% in 2012, before rising again slightly to 15.8% in 2018. (See Figure 12)

Most of the progress in poverty reduction has therefore been achieved at the rural level. The World Bank[23] further notes that there has been very little poverty reduction in urban areas outside Dar-es-Salaam. According to their analysis, the initial reduction in the urban poverty rate between 2007 and 2012 has largely been due to a large reduction in Dar-es-Salaam (from 14% to 4%), while in other cities, the fall in poverty was marginal (22.7% to 21.5%).

This pattern was then reversed in the period from 2012 to 2018, when poverty decreased in other urban areas to 19.5%, while it increased in Dar-es-Salaam to 8%.[24]

Beyond the urban-rural divide, the World Bank poverty assessment notes that the incidence of poverty also differs by region. About a third of the poor live in the rural lake zone in the north of the country, where agricultural activities tend to be less productive.[25] Poverty also tends to be higher in the west and the south of the country. The report argues that this distribution of poverty has to do with the disadvantages in terms of infrastructure (road quality), access to markets (proximity to urban centres) as well as climatic reasons in rural areas, which lead to high post-harvest losses (estimated at up to 35% of agricultural production).

Poverty is also relatively concentrated among vulnerable populations, including women and the disabled. In Tanzania, an estimated 3-6 million people are living with a disability. Table 1 provides the data from the latest population survey of 2020/1 on percentage of persons living with a disability by type of disability. Disability is self-reported based on the Washington Group short set questions on disability, a set of six questions designed to identify people with a disability.

There is a bi-directional relationship **between disability and poverty**

Table 1
Percentage of persons with disability by location and type of disability

Percentage of persons with disability by location and type of disability (5 years and older), Tanzania, NPS 2020/21

	Type of Disability					
	Difficulty seeing	Difficulty hearing	Difficulty walking or climbing steps	Difficulty rememberig or concentrating	Difficulty in self care	Difficulty in communication
United Republic of Tanzania	**1.9**	**0.8**	**1.92**	**0.9**	**0.6**	**0.5**

Source: URT (2022a)

[22] World Bank (2021a)
[23] World Bank (2019)
[24] However, the World Bank (2019) notes that the increase in poverty in Dar-es-Salaam is disputed, as survey using different estimation methods suggest a continuous fall in poverty from 14% in 2007 to 8% in 2012, and no significant change thereafter.
[25] World Bank (2019)

Table 2
Correlation coefficients between disability and various dimensions of poverty

Indicator	No Difficulty	Some Difficulty	Difference between no difficulty and some difficulty	At least a lot of difficulty	Difference between no difficulty and at least a lot of difficulty
Multidimensional poverty headcount	84	91	-7***	98	-13***
Less than primary school	70	86	-16***	94	-23***
Employment population ratio	86	86	0	56	30***
Safely managed drinking water	69	75	-6***	65	4
Safely managed sanitation	71	75	-4**	79	-8***
Clean fuel	3	2	1*	0	2***
Electricity	36	30	6***	23	13***
Adequate housing	1	1	0	1	0
Owns assets	27	23	4***	20	7***

Source: Disability Data Initiative. *** indicates that the difference is statistically significant at the 1% level.

The questions allow for four gradations of functional difficulties (any difficulty, some difficulty, a lot of difficulty and unable).

As noted by Pinilla-Roncanio, M. (2015), there is a bi-directional relationship between disability and poverty. People with disabilities are at risk of poverty because they face additional costs and barriers in accessing health-care services, such as rehabilitation and technical aids, as well as social exclusion from education and employment, and lower income opportunities. At the same time, people in poverty suffer from low levels of nutrition, low access to sanitation and clean water, and from a higher risk of violence, increasing their risk of becoming chronically ill.[26]

This is borne out by an analysis of the relationship between disability and poverty in Tanzania. According to the UN Disability and Development Report, people with disabilities in Tanzania are more likely to be poor, and are less likely to attend school, to have access to electricity, or own a mobile phone.[27] The Disability Data Initiative provides some econometric analysis to show the correlation between disability in Tanzania and various dimensions of poverty and deprivation based on the data provided in the National Population Survey of 2014.[28] As shown in Table 2, people with disabilities (facing at least a lot of difficulty in the Washington Group of Questions) are 13 percentage points more likely to suffer from multidimensional poverty than persons without disabilities. They are also 23 percentage points less likely to have completed primary school and 30 percentage points less likely to be in employment.

[26] See Pinilla-Roncanio, M. (2015)
[27] See UNDESA (2019)
[28] Disability Data Initiative, Tanzania country report, available on: Tanzania country report, available on: Tanzania - Disability Data Initiative (fordham.edu)

Similarly, they are 13 percentage points less likely to have access to electricity, 2 percentage points less likely to have access to clean fuel, and 7 percentage points less likely to own assets. However, they are 8 percentage points more likely to have access to safely managed sanitation.

The disadvantages related to income often affect not only the person living with a disability alone, but also his or her household, as other household members are involved in care-work. The need to care for a disabled household member prevents household members from pursuing work or educational opportunities, reducing income. For example, in a study on Vietnam, Mont. D and Nguyen, C. (2013) find that having a disabled parent reduces a child's probability of attending school by 16% and lowers the expected number of grades completed. Households including disabled people often also incur extra costs for assistive equipment and care.

The government of Tanzania has long recognized the need to address the multidimensional vulnerabilities of disabled people, and instituted a number of policies to support them, addressing issues such as discrimination, access to services as well as care. Particular attention has also been given to supporting access to employment opportunities and addressing discrimination in the workplace.[29] Key policies to support disabled people in the workplace include the Disabled Persons (Employment) Act in 1982[30], which first established a quota stipulating that all companies with more than 50 workers must employ a share of disabled persons (to be determined by the Minister), and which created a National Advisory Council to support the Minister responsible for disability issues.

In 2010, the Persons with Disabilities Act[31] established the quota for employment of persons with disabilities as 3% of the workforce and lowered the threshold for applicability of the quota to all companies employing more than 20 people. It also prohibits discrimination in employment, requiring employers to hire persons with disabilities when qualified, and ensures that workers who acquire a disability cannot be dismissed because of it.[32] In addition, the government has also mandated its Local Government Authorities (LGAs) to use 10% of their own source income to finance a Women, Youth, and People with Disabilities Revolving Fund, which provides loans to members of the three vulnerable communities to support their economic empowerment. Overall, 2% of local council revenue are supposed to be used as a special credit window for people with disabilities.[33]

While both the implementation of the quota and the Revolving Fund face challenges[34], employment among people with disabilities has increased from 59.1% in 2014 to 63.2% in 2020/21, while unemployment among the same group has decreased from 12.4% in 2014 to 6% in 2020/21.[35] Progress is also being made towards the establishment of a comprehensive register of persons living with disability.[36]

Given the bi-directional relationship between poverty and disability, efforts are needed to strengthen implementation of the People with Disabilities Act (2010), including the 3% quota for employment of people with disabilities, as well as the Women, Youth, and People with Disabilities Fund administered by the LGAs.

29 For a detailed overview of the laws, policies and institutional mechanisms supporting employment for disabled people in Tanzania, see Possi, A. (2015)
30 Available on: https://www.parliament.go.tz/polis/uploads/bills/acts/1566456139-The%20Disabled%20Persons%20(Employment)%20Act,%201982.pdf
31 https://natlex.ilo.org/dyn/natlex2/natlex2/files/download/86525/TZA86525.pdf
32 Also see Aldersey, H. (2012)
33 Rugeiyamu, R. (2022)
34 See Aldersey H. (2012) and Rugeiyamu, R. (2022)
35 URT (2020/21)
36 https://tanzania.unfpa.org/en/news/new-era-inclusion-individuals-disabilities-tanzania-underway

In particular, there is a need for greater public outreach and sensitization to counter negative stereotypes about the employability of people with disabilities. The government should also ensure that more companies are aware of their obligations under the People with Disabilities Act (2010). In addition, the government could provide incentives as well as strengthened accountability mechanisms to support implementation of the obligations. Similarly, there is a need to strengthen the administration of the Women, Youth, and People with Disabilities Fund, including through the provision of greater training to LGAs.

Inequality

Income inequality

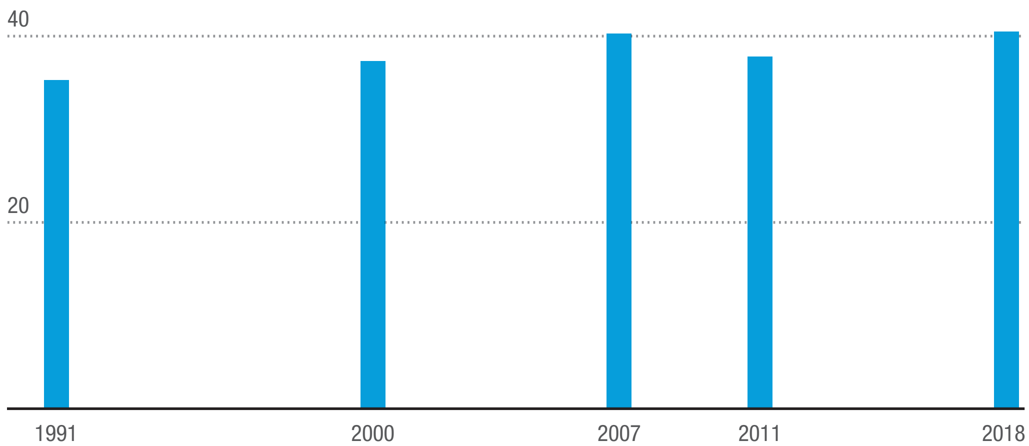
Tanzania's growth performance between 2000 and 2019 was similarly accompanied by a heterogeneous performance on inequality. Considering the Gini-coefficient as an overall measure of income inequality, Tanzania experienced periods of both rising and falling inequality over the past two decades: After rising from a Gini-coefficient of 35.29 in 1991 to 40.28 in 2007, inequality fell back to a Gini-coefficient of 37.78 in 2011, only to rise again, reaching 40.5 in 2018. (See Figure 13):

Like in the case of poverty, the changing direction of Gini-coefficients despite virtually constant economic growth over the period appears to indicate that the growth elasticity of inequality changed over the period of time. Economic growth was accompanied by increasing inequality between 2001 and 2007, falling inequality between 2007 and 2011, and growing inequality again between 2011 and 2019.

The pattern of the evolution of inequality in Tanzania is confirmed by using an alternative measure: the Palma ratio. The Palma ratio is obtained by dividing the income share of the top 10% of the population by that of the bottom 40% of the population. Its use is sometimes preferred to the Gini coefficient, as the Gini coefficient appears to give less weight to the extreme ends of the income distribution, despite their political salience.

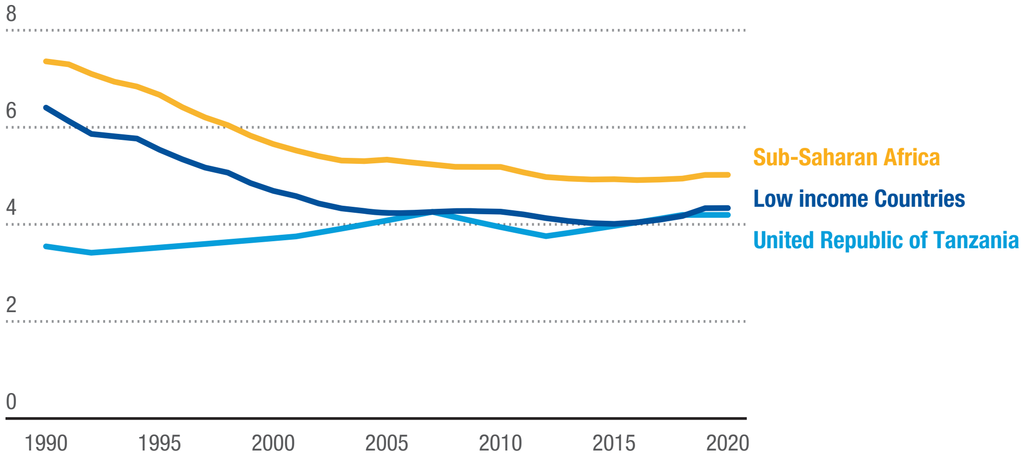
Figure 14 displays the evolution of the Palma ratio for Tanzania (as well as for Sub-Saharan Africa and Low-income countries as a whole). The Palma ratio confirms the information provided by the Gini coefficient, with inequality in Tanzania rising between 1992 and 2007, declining between 2007 and 2012, and then rising again between 2012 and 2018, before flattening in light of the Covid pandemic.

Figure 13
Tanzania Gini Index



Source: World Development Indicators

Figure 14
Palma ratio for Tanzania and comparison groups (1990-2020)

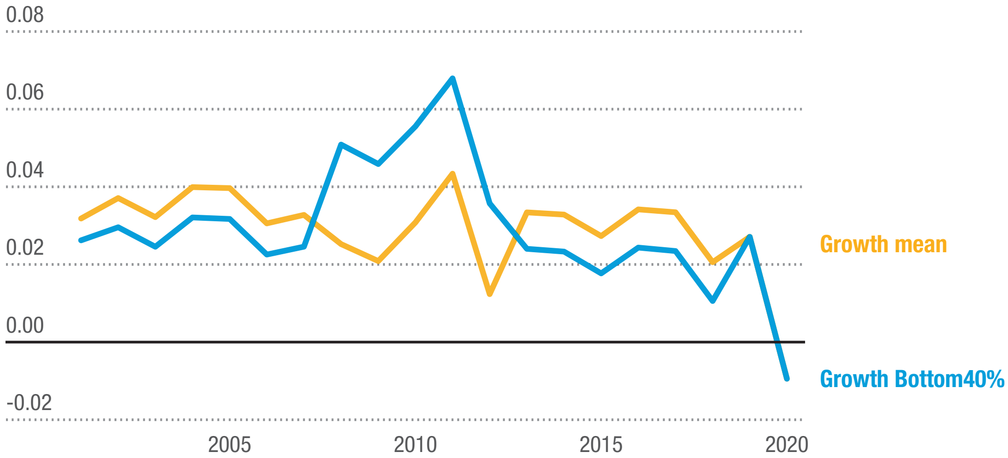


Source: World Income Inequality Database (WIID)

Similarly, an analysis using the World Bank's shared prosperity concept (WB 2016) yields the same results. According to the World Bank, the concept aims to measure the inclusivity of economic growth by comparing the consumption or income growth of the poorest to that of the average for the population. In this context, "shared prosperity" describes "the average annual growth rate in income or consumption of the bottom 40 per cent of the population in a country", while "the difference between the income growth of the poorest 40 per cent and that of the entire population" is defined as the "shared prosperity premium".[37]

If the growth of the income share of the bottom 40% of the population is increasing faster than the average income, then inequality is declining, and vice versa. Figure 15 below is drawn from data of UNU-WIDER's World Income Inequality

Figure 15
Tanzania shared prosperity: Income growth of the bottom 40% compared with growth of mean income



Source: WIID

[37] See https://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity

Database, highlighting the trends of the mean incomes: Between 2001 and 2007, mean incomes grew faster than the incomes of the bottom 40%, meaning that income inequality was increasing. Between 2007 and 2012, this situation reversed, with incomes of the bottom 40% rising faster than the mean income, indicating declining inequality. And from 2013, the situation reversed back to rising inequality.

The graph below (Figure 16) depicts the shared prosperity premium for Tanzania between 2001 and 2020. It shows that the premium was negative of the order of 0.75% between 2001 and 2007, before turning into a positive 2.5% between 2007 and 2012. After 2012, it returned to negative 1% until 2019 – a higher negative prosperity premium than before 2007.

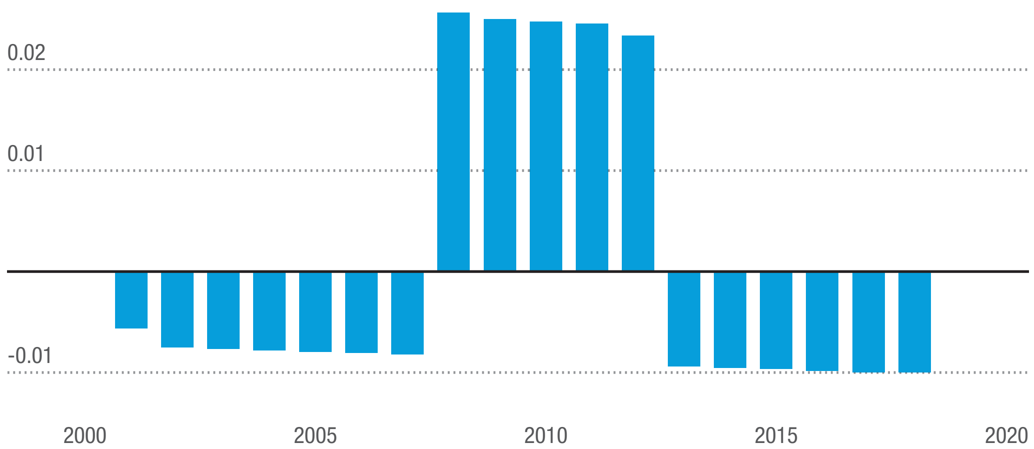
The graph shows that while mean income in Tanzania grew at around 3% per annum for almost two decades prior to the onset of the Covid-19 pandemic, the share of the bottom 40% of the income range has been steadily decreasing at a rate of between -0.75 to -1% per annum, with the notable exception of the period of 2007 to 2012, where the share grew at around 2% per annum.

The Tanzania experience is also out of sync with the rest of the world. While according to the World Bank (2016), 49 out of the 83 countries studied saw a positive shared prosperity premium between 2008 and 2013, World Bank (2022) notes that the majority of countries further experienced shared prosperity in the years prior to the Covid-19 pandemic. The report notes that 65 out of 78 economies reported positive shared prosperity values (although with wide variation across countries and regions), and 48 countries had positive shared prosperity premiums. Tanzania, however, saw the share of the incomes of the bottom-40% of its population shrink between 2013 and 2018.

Spatial inequalities

As in the case of poverty, there are important differences in the levels of income inequalities between rural and urban areas. However, contrary to the case of poverty, income inequality tends to be lower in rural areas, and more pronounced in urban areas. According to Odusola et al. (2019b), in 2014, the Gini in rural areas was 29.9, compared to 36.04 for Dar es Salaam, and 40.12 in other urban centres. The authors argue that this is likely due to the predominance of a more homogenous agricultural economy in rural areas.[38]

Figure 16
Tanzania shared prosperity premium



Source: Author's calculations from WIID data

[38] Odusola et al. (2019b)

Indeed, according to Kinyondo and Pelizzo (2018), the level of inequality in rural areas did not change at all between 1991 and 2007, with a constant Gini coefficient of 0.33. In contrast, they argue that in the same time span, inequality in urban areas increased significantly, from 0.30 in 1991-92 to 0.36 in 2000-01, before dropping slightly to 0.34 in 2007. They therefore argue that the overall fluctuations in the level of inequality were largely determined by fluctuations in urban areas.[39]

Access to social services and infrastructure

The rising level of income inequality in Tanzania is accompanied and perhaps accentuated by high levels of inequalities in access to key social services and infrastructure, including healthcare, education, electricity, and water and sanitation. In large part, this is due to the fact that while Tanzania's population remains predominantly rural (65.1%), the distribution of social services and infrastructure is predominantly urban.

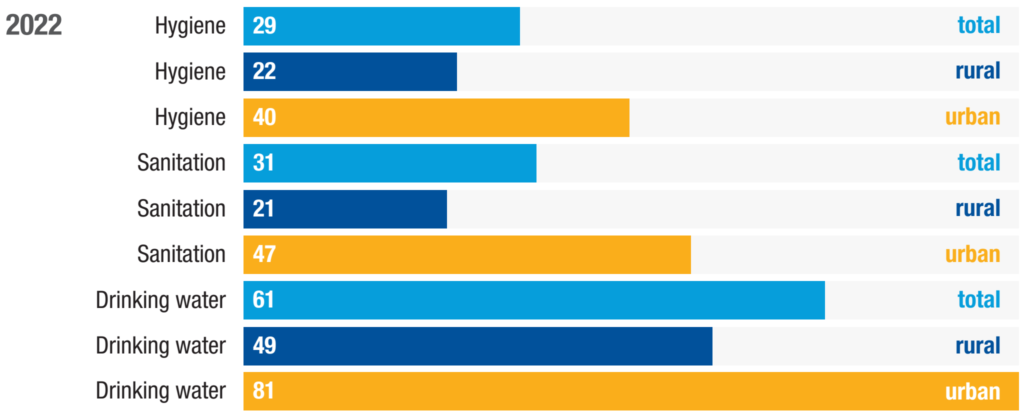
There are also important gender inequalities remaining in Tanzania. The section below provides a brief snapshot of some of the socio-economic inequalities:

In the area of water and sanitation and hygiene services, the national average for access to at least basic service level drinking water was 60.8% of households in 2022, but the urban coverage at 81.1% remains far higher than in rural areas, where it is only 49%.[40] Figure 17 highlights some of the rural-urban disparities in the Water, Sanitation and Hygiene sector.

According to the World Bank, Tanzania has managed to increase the overall rate of electricity access from 7% in 2011 to 37.7% in 2020. However, electricity access rates in urban areas remain significantly higher (73.2%) than in rural areas (24.5%).[41]

Access to schooling and health care show similar disparities: Drawing on the data from the latest National Population Survey in Tanzania, it can be seen that the literacy rate in rural areas remains 20 percentage points lower than in urban areas (69.9% versus 89.4%). (see Figure 18)

Figure 17
Rural and urban sanitation in Tanzania 2022
(Percentage of households with access to at least basic service levels)

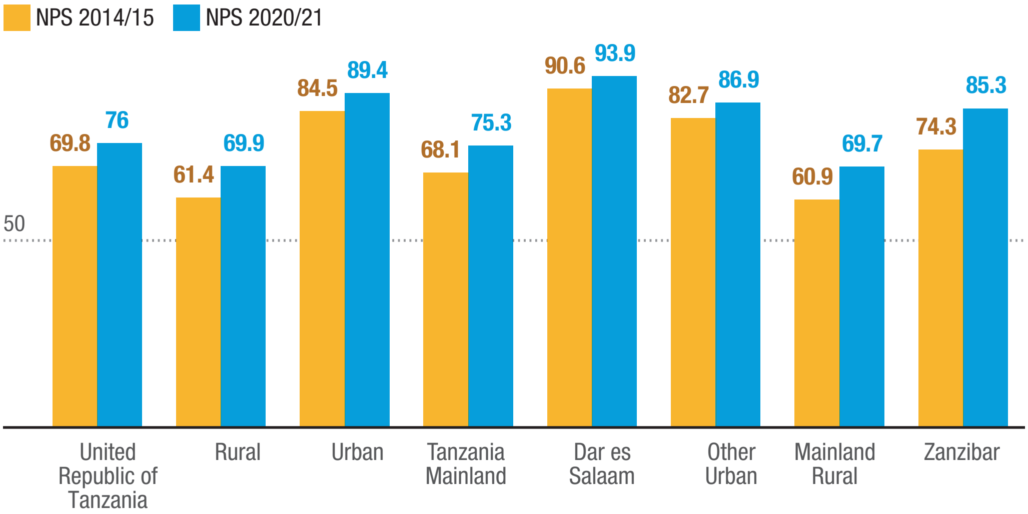


Source: WHO/UNICEF Joint Monitoring Programme

39 Kinyondo, A.; Pelizzo, R. (2018)
40 Data from WHO/UNICEF Joint Monitoring Programme for Water Supply, Sanitation and Hygiene (JMP) (washdata.org, accessed 04/09/24
41 World Bank: "Changing Lives and Livelihoods in Tanzania, One Electricity Connection at a Time", News Story, 28 June 2022, available on: https://www.worldbank.org/en/news/feature/2022/06/28/changing-lives-and-livelihoods-in-tanzania-one-electricity-connection-at-a-time#:~:text=Despite%20this%20progress%2C%20a%20large,or%20connectivity%20rate%20(37.7%25).

Figure 18

Literacy rate of the general population by area, Tanzania
(Per cent)



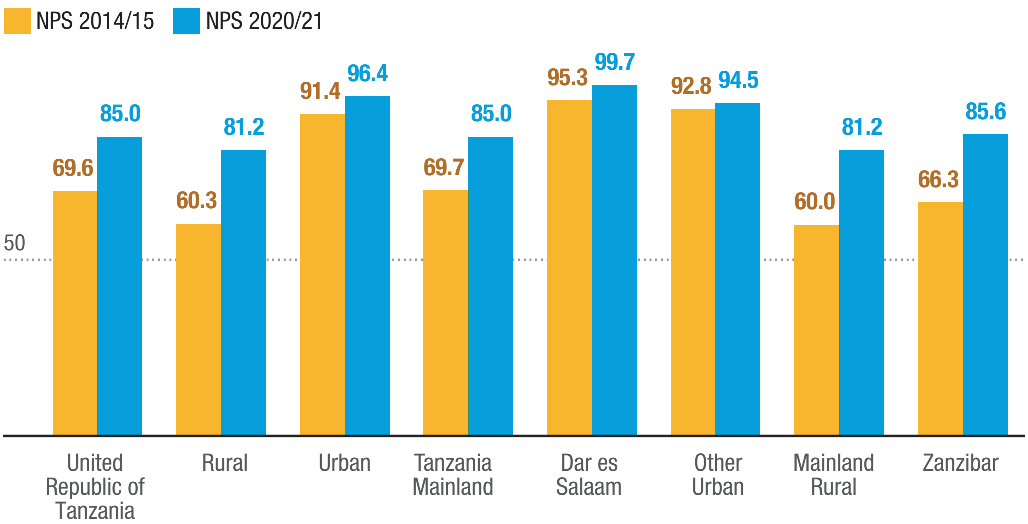
Source: URT (2022a)

Similarly, using the proportion of births attended by skilled health workers as a proxy, access to health services shows a disparity of 15 percentage points between urban and rural areas. While 96.4% of births are attended by skilled health workers in urban areas, the same is true for only 81.2% of births in rural areas. (see Figure 19)

There are also a number of gender inequalities remaining in the areas of health, secondary education, ownership of land and other assets. These will be addressed in the section on gender below.

Figure 19

Proportion of births attended by skilled health worker by area, Tanzania
(Per cent)



Source: URT (2022a)

4. Possible reasons for the changing growth elasticity of poverty and inequality

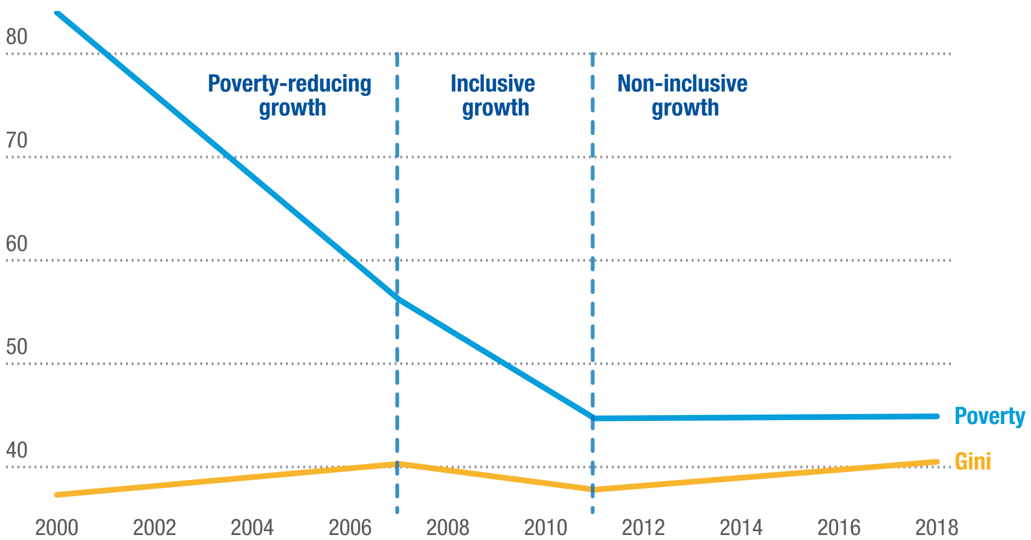
The analysis of the previous chapter has shown that the experience of Tanzania with respect to poverty and inequality in the two decades prior to the Covid-19 pandemic can be divided into three distinct periods:

1. The period roughly from 2001 to 2007, where Tanzania experienced rapid growth, fast poverty reduction, but also increasing levels of income inequality.
2. The period between 2007 and 2011, where Tanzania continued to experience rapid growth, but this growth was now accompanied by fast poverty reduction and falling levels of income inequality. This period exhibited an "inclusive growth" scenario, with broadly shared and equalizing growth, which benefited the poorest.
3. Lastly, there is the period between 2011/12 and 2019, where Tanzania experienced fast growth, static or even rising levels of poverty, and increasing levels of inequality. The last period prior to the Covid pandemic saw the development of a non-inclusive growth dynamic, where growth did not result in poverty reduction, and was accompanied by rising inequalities.

Figure 20 aims to capture this message in a graph that superimposes the evolution of poverty and income inequality, while introducing vertical dividers in 2007 and 2011 to indicate the three distinct periods in Tanzania's recent development history. Table 3 also lists the differing characteristics of the three observed growth patterns.

Figure 20

Evolution of inequality and extreme poverty in Tanzania: Three growth patterns



Source: Data from WDI

Table 3
Three growth patterns in Tanzania 2000-2019

Period	Economic Growth	Poverty reduction	Inequality	Description
2001–2007	High	Fast	Rising	Poverty-reducing growth
2007–2011	High	Fast	Falling	Inclusive growth
2011–2019	High	Stalling	Rising	Non-inclusive growth

Source: Author

Most of the changes in income distribution **occur in the top and bottom deciles**

Against this background, a key focus of inquiry with regard to reducing poverty and inequality in Tanzania should be to understand the reasons for the changing growth elasticity of poverty and inequality. What accounts for the change in Tanzania's growth-pattern from one of poverty-reduction with rising inequality, to a pattern of inclusive growth (with falling poverty and inequality), and then to a polarizing pattern of growth with virtually no poverty-reduction and rising inequality ? The answer to this question could provide key information for policies required to return Tanzania to the inclusive growth pattern enjoyed between 2007-11.

This chapter will therefore consider different possible explanations for the growth patterns experienced by Tanzania between 2000 and 2019.

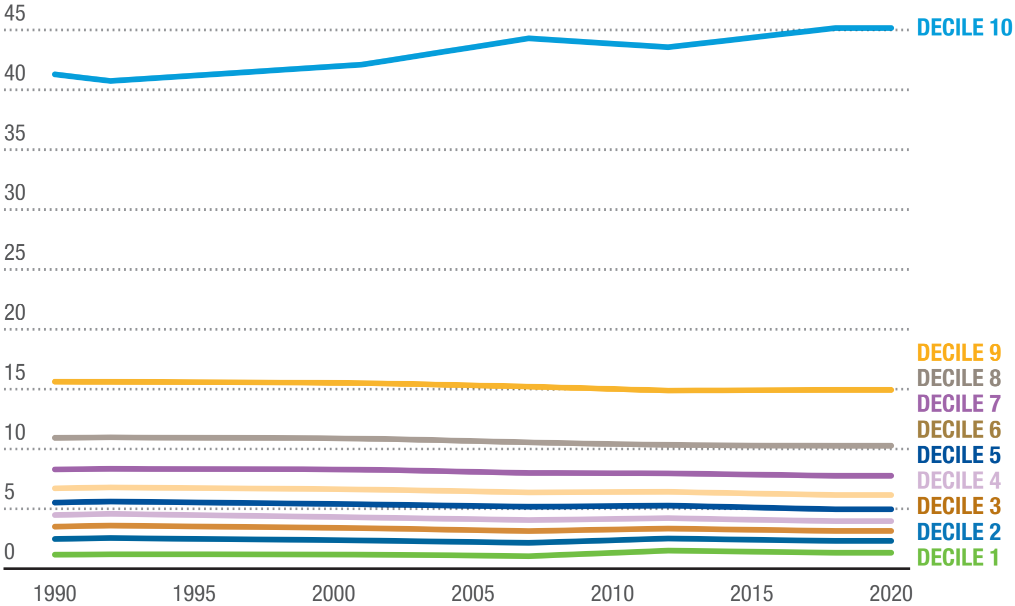
A closer look at the evolution of income inequality

To determine the causes of the changing growth elasticity of income inequality, it is useful to look at the composition of income inequality. Income inequality is determined by the concentration of incomes in different income deciles, and the evolution of the income shares held by different deciles over time can give an indication of the principal causes of the changing levels of income inequality.

Figure 21 provides an overview of the evolution of income shares by decile in Tanzania. A brief examination of the evolution of the shares shows that most of the changes in income distribution occur in the top and bottom deciles.

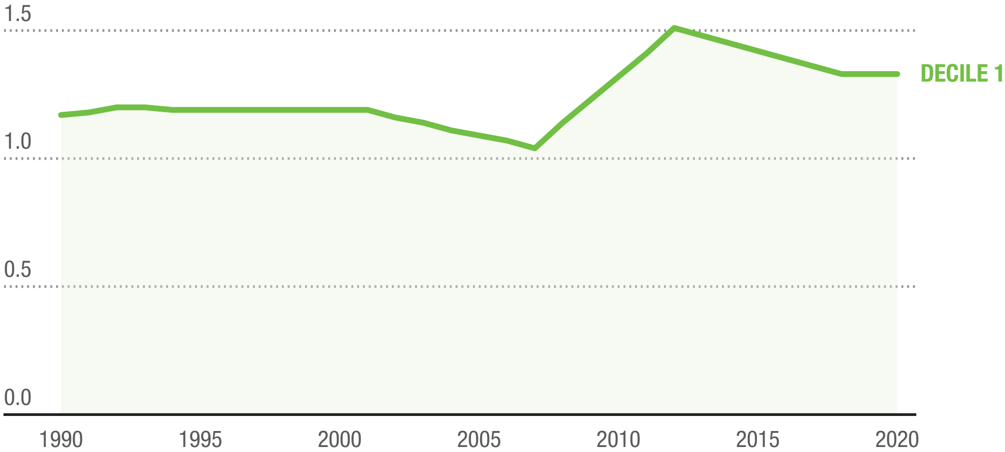
Figure 22 therefore provides a more detailed view of the evolution of the income share accounted for by Decile 1 (lowest income). The share in total income of the lowest 10% of earners in Tanzania was about 1.2% of total income between 1992 and 2001. It then declined to 1.0% by the year 2007. Between 2007 and 2012, the share climbed to 1.5%, before starting to fall again to 1.3% in 2018. The share of the bottom decile follows the expected trend considering Gini coefficient changes. However, it does not correspond to the measured progress on poverty reduction between 2001 and 2007, with income shares in the bottom decile falling between 2000 and 2007. This result is even borne out when considering the 2nd or 3rd lowest decile, all of whose share in total income is falling in this period.

Figure 21
Tanzania income shares by decile
(Per cent)



Source: WIID, UNU-Wider

Figure 22
Share of total income received by decile 1 (lowest income)
(Per cent)



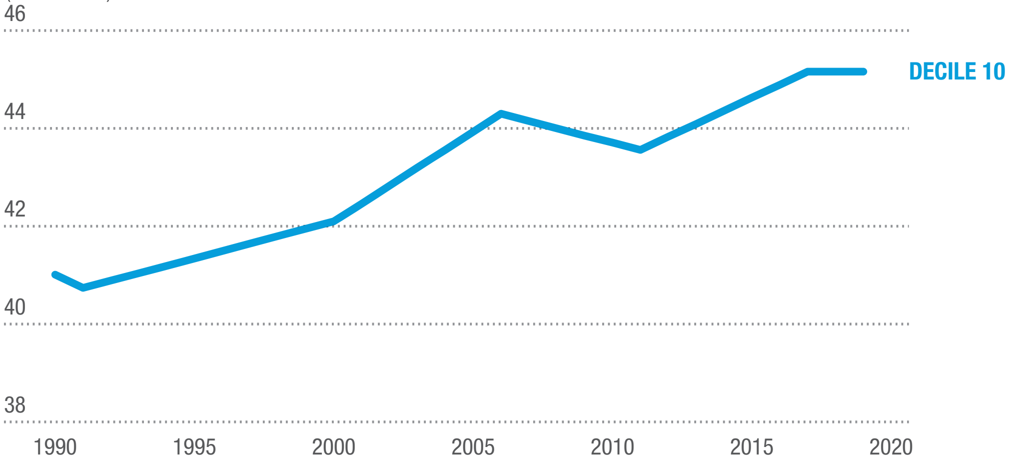
Source: WIID, UNU-Wider

In contrast, Figure 23 below shows the evolution of the income share of the top income decile in Tanzania. The share of total income accounted for by decile 10 (top earners) increases from about 40.7% in 1992 to about 42.1% in 2001 and 44.3% in 2007, before falling back to about 43.6% in 2012, and increasing again to about 45.2% in 2018. The share of top decile broadly follows trends observed in the evolution of the Gini coefficient over the same period.

Figure 23

Share of total income received by decile 10 (highest income)

(Per cent)



Source: WIID, UNU-Wider

If the share of the bottom decile in total income was falling during a period of rapid poverty reduction, this could indicate that total GDP was growing even faster, and most of the gains in GDP were captured by the top end of earners between 2001 and 2007. In other words, the poor benefited from growth, but the rich benefited disproportionately more. Indeed, this appears to be borne out by examining the performance of the top decile, which experienced the most rapid increase in its share of total income between 2001 and 2007.

While the changes in the share of total income of the top decile are the largest in absolute terms, in relative terms they are dwarfed by the changes in income shares of the bottom decile. Between 2007 and 2012, for example, the bottom decile increased its share in the total income of Tanzania by 50% (from 1% to 1.5%). Of course, as noted by the World Bank (2016), in absolute terms of gains per capita, these changes were quite small.

Lastly, we consider the middle deciles, where it is interesting to observe a secular decline in their shares of total income. None of the income deciles other than the top or the bottom decile have a higher share of income in 2018 than they had in 2001.

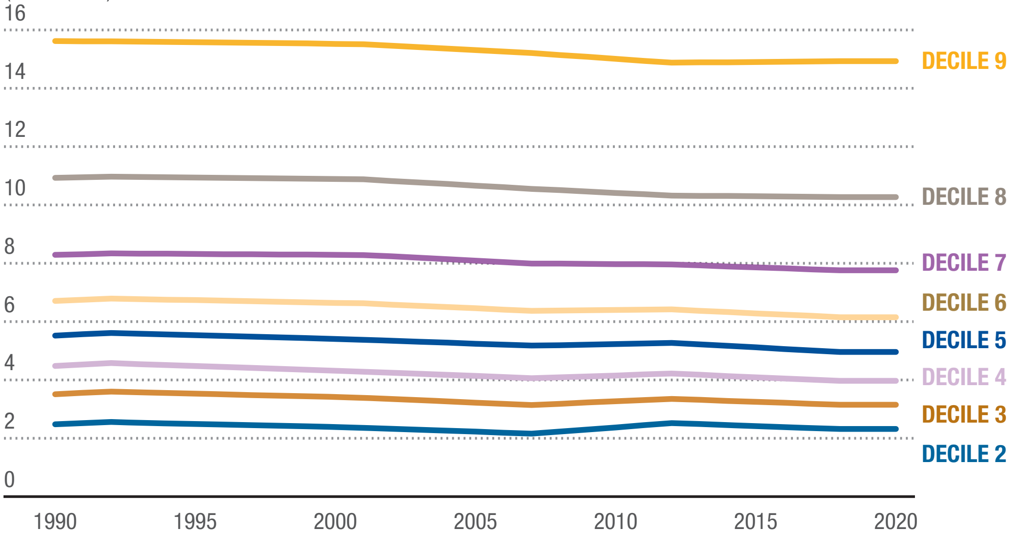
Each of the intermediate deciles suffered a decline in their income share between 0.2 and 0.8 percentage points. And all income deciles experienced an increase in their share between 2007 and 2012, except for the top three deciles. Figure 24 shows the evolution of the income shares for deciles 2 to 9.

Thus, the pattern observed in the income distribution of Tanzania is one of progressive concentration of income shares in the top decile, with a brief interruption in the period of 2007 to 2012, where the share of the top decile declined, while the income shares of the bottom 7 income deciles increased briefly.

This analysis is in line with the findings of the World Bank (2016), which analysed the incidence of growth between 2007 and 2012, noting that the largest relative increase in consumption took place among the poorest 20% of the population, while the increase in consumption was more moderate among other middle-income groups, and negative among the top 15%.

However, the World Bank (2016) also notes that, since the gains for the poorest 20% were from a low base, the absolute gains were modest, i.e. an additional consumption value of only TZS 4,300 per adult among the

Figure 24
Evolution of income shares for deciles 2 to 9
(Per cent)



Source: WIID, UNU-Wider

poorest quintile, equivalent to less than 10% of the cost of basic consumption needs (less than US$ 3). According to the same report, poverty reduction achieved between 2007 and 2012 is due more to the distribution effect than to the growth effect: Household consumption growth contributed about 40% (or 2.5 percentage points) to the total poverty reduction, while narrowing inequality contributed 60% (3.7 percentage points).

In 2019, the World Bank (2019) carried out the same analysis for Tanzania's growth experienced between 2012 and 2018, and notes that "the pro-poor growth signs that emerged in 2012 seem to have reversed". The report adds that the growth pattern observed between 2012 and 2018 replicated that of 2001 to 2007, but not that of 2007 to 12, when growth mainly benefited poorer people. Instead, they note that, between 2012 and 2018, growth largely benefited the top income deciles. According to their analysis, this is largely due to a negative redistribution effect, which offset the positive effect of growth on poverty reduction over the period.[42]

Outlining possible explanations

As the growth elasticity of both poverty and inequality in Tanzania changed over the period between 2000 and 2019, it will be important to consider the causes of these changes. Explanations for the phenomenon could provide useful input to the question what is necessary to return to a growth pattern that is more inclusive and has a greater impact on poverty reduction. Against this background, this section will briefly discuss different possible explanations for the changing growth elasticity of inequality and/or poverty.

The patterns of growth in an economy, and its impact on poverty and inequality can be impacted by a number of factors, ranging from changes in international conditions or external shocks, to changing domestic market dynamics, or domestic policy changes. Even if the change was due to external events, understanding its nature could help identify the drivers of the emerging growth patterns, and thus provide information on how to steer the economy back to a more inclusive pattern through policy-measures.

[42] World Bank (2019)

External shock

The change in the growth elasticity of poverty and income inequality could be linked to the impact of an external shock, e.g. the collapse of the price of a major export product. Such an external shock would likely affect external trade figures, as well as overall GDP, and especially the income shares of the top decile of income earners (most likely associated with major export industries). As a result, the smaller GDP as well as the compressed share of income held by the top decile would lift the income share of the lower deciles, even if their nominal incomes were not affected substantially.

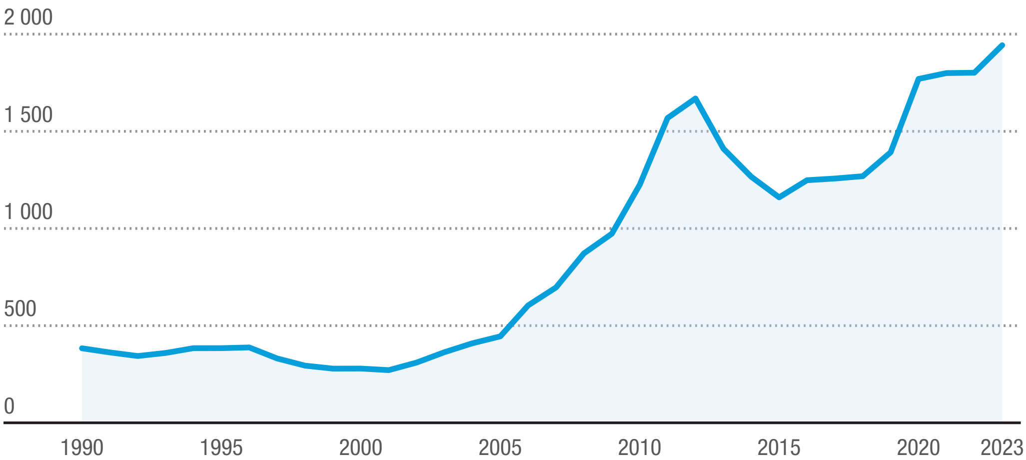
Yet, the GDP and export data does not appear to indicate the presence of a sustained external shock over the period from 2000 to 2012 (accounting for the first change in the growth elasticity of income inequality). While the period includes the time of the global financial crisis (2008/9) and includes a small slowdown in the growth of GDP per capita for those two years, no extended effect on GDP per capita can be seen beyond those two years (Figure 4). Similarly, merchandise export figures show a small drop in 2008/9, but then continue their growth trends from prior years, and even grow at faster rates than during the period of 2000 – 2007 (Figure 6).

Looking at the evolution in the price of Tanzania's key export product of gold yields a similar result. While a fall in the price of gold, which alone accounts for 33% of export revenue, would likely lower the income share of the top decile and lead to a fall in GDP growth, the price of gold continued to rise throughout the period between 2000 and 2012, once again with a small interruption around the financial crisis (despite its anti-cyclical reputation). (See Figure 25).

It is also possible to examine whether an increase in the export revenues from gold could have contributed to inclusive growth. As an enclave sector that employs relatively few workers, revenue increases from the gold mining industry are likely to only affect poverty and inequality positively through their potential positive effect on fiscal revenue and spending.

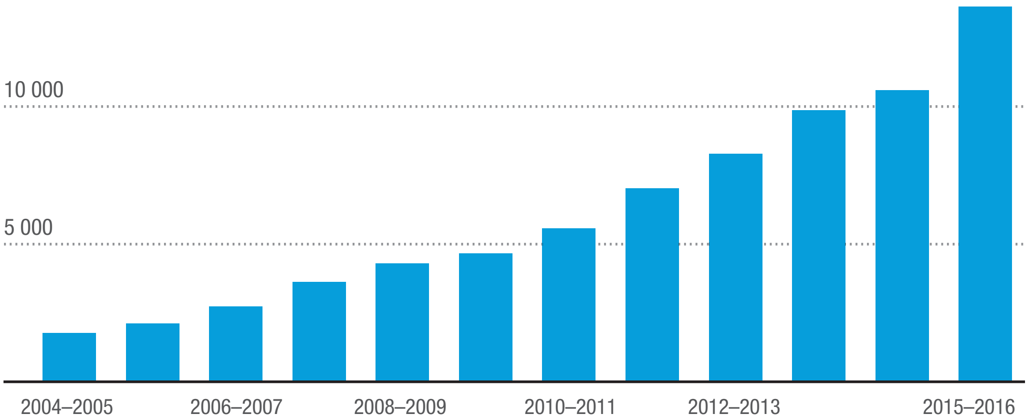
However, when we consider the tax receipts for the period in question (see Figure 26) we do not see a clear increase in the tax receipts for the period of inclusive growth (2007-2011/12), when compared to periods prior or thereafter. Instead, we see a pattern of a steady increase in the government revenue from internal sources, which continued after 2012.

Figure 25
Gold price 1990-2023
(US$/oz)



Source: IMF

Figure 26
Total government finance from internal revenue
(TZS billion)

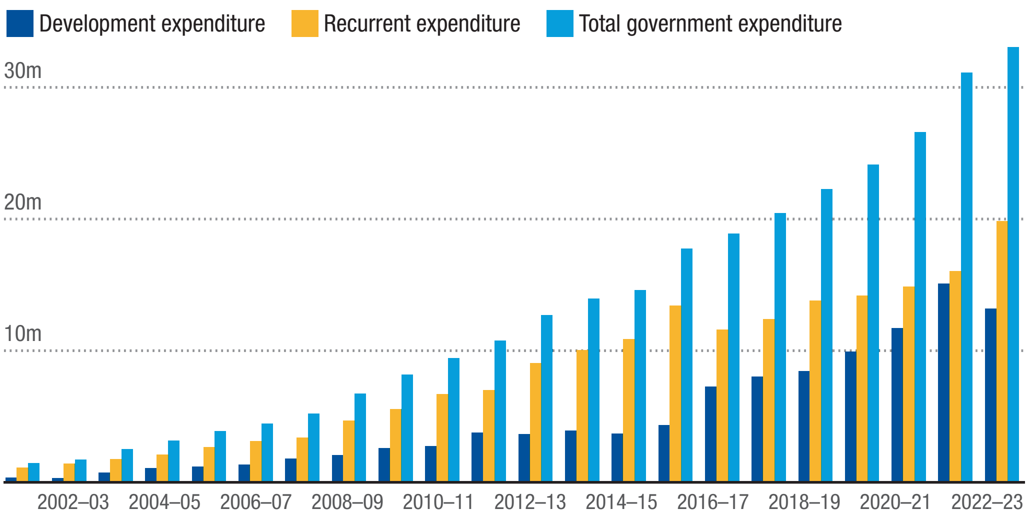


Source: URT (2017) (Data for Tanzania Mainland only)

Similarly, a look at the expenditure side (see Figure 27) reveals that total government expenditure was almost steadily increasing throughout the period. The development portion of this expenditure as well as the recurrent expenditure portion (wages, etc), saw a steady increase from 2000 to about 2011/2, in light of the implementation of the MKUKUTA I And MKUZA I poverty reduction strategies as well as the support programs after the 2008/9 financial crisis. However, development expenditures saw a step-change upwards in 2016/7, and have increased from there, before falling for the first time in 2022/3. Thus, the expenditure patterns are not well-aligned with the observed pattern of poverty reduction.

The same is true for services trade. Tourist arrivals play a key role in determining Tanzania's services exports and the overall services sector performance. However, as can be seen in Figure 28, the number of tourist arrivals in Tanzania has been steadily rising between 2000 and 2019, with short breaks between 2008 and 2009, and between 2014 and 2015.

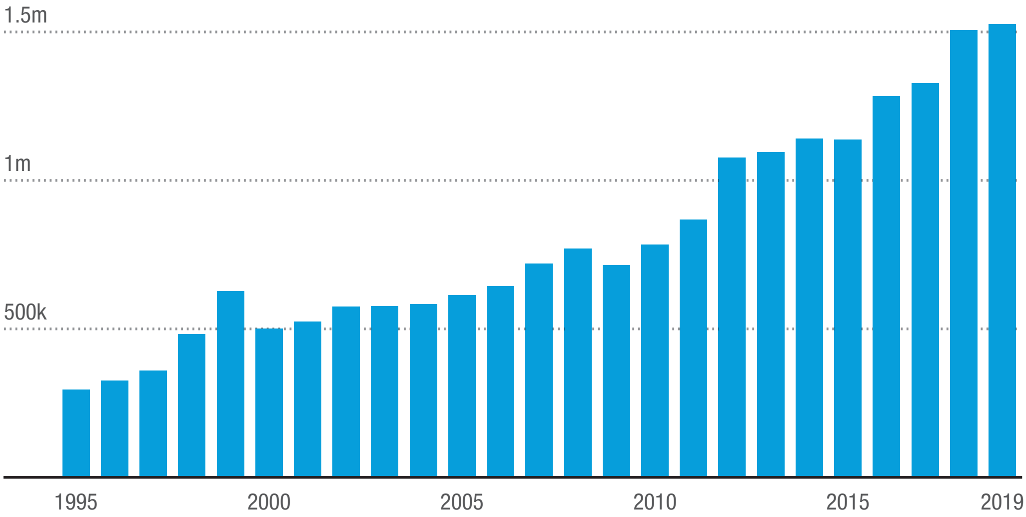
Figure 27
Tanzania government expenditure
(TZS million)



Source: Bank of Tanzania

Figure 28

Tanzania: International tourist arrivals



Source: World Bank, UN Tourism

This is also reflected in Tanzania's services trade statistics (Figure 9), which show an increase in services exports, despite a short fall in 2008-9.

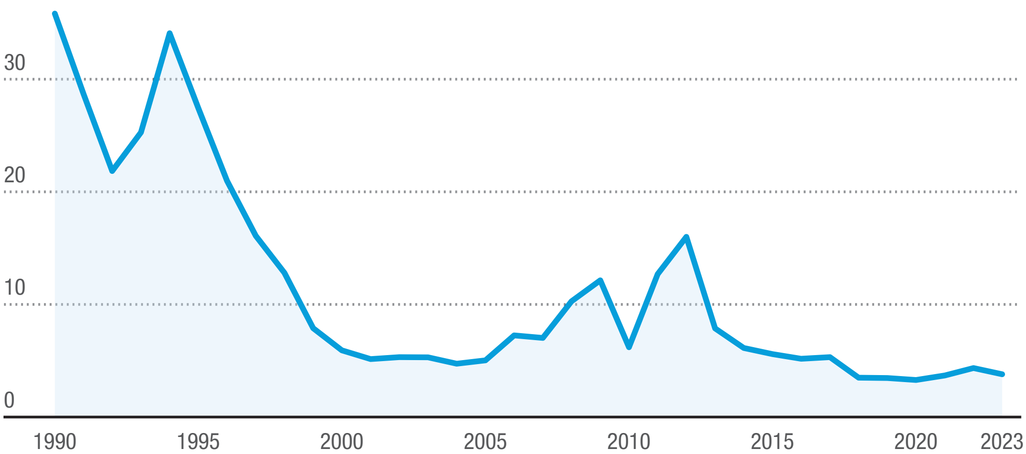
Inflation

An examination of changes in economic variables between 2000, 2007, 2011, and 2019 that would coincide with the experienced changes in the growth elasticity of inequality and poverty yields a notable increase in inflation rates in Tanzania, roughly coinciding with the period of inclusive growth in Tanzania between 2007 and 2012. (See Figure 29).

Figure 29 shows that Tanzania managed to progressively reduce annual inflation from a high of 34% in 1994 to around 5% in 2002 and managed to maintain the low inflation rate up to about 2005. In 2006, inflation rose to around 7.5% and remained higher than 5% until about 2014.

Figure 29

Tanzania: Consumer price inflation
(Annual per cent)



Source: WDI/IMF

While it is interesting that a period of higher inflation would coincide with the period of inclusive growth, the transmission mechanism for this is not entirely clear. Normally, inflation is a regressive influence, hurting the incomes of the poor relatively more than the incomes of the rich.[43] This is particularly the case as this bout of inflation is likely due to the consequences of the food and fuel price increases experienced in 2008, which affect the poor disproportionately. Yet, as shown above, the share of the bottom two deciles in Tanzania's overall GDP rose significantly during this period.

Another explanation that could account for both the rise in inflation and the improvement in the share of the incomes of the bottom deciles would be a spending boom by the government, e.g. to meet the goals of the poverty reduction strategy MKUKUTA I (and MKUZA I) and/or as part of a support programme in the aftermath of the financial crisis. Such a spending boom would likely result in broader price rises beyond food and fuel prices.

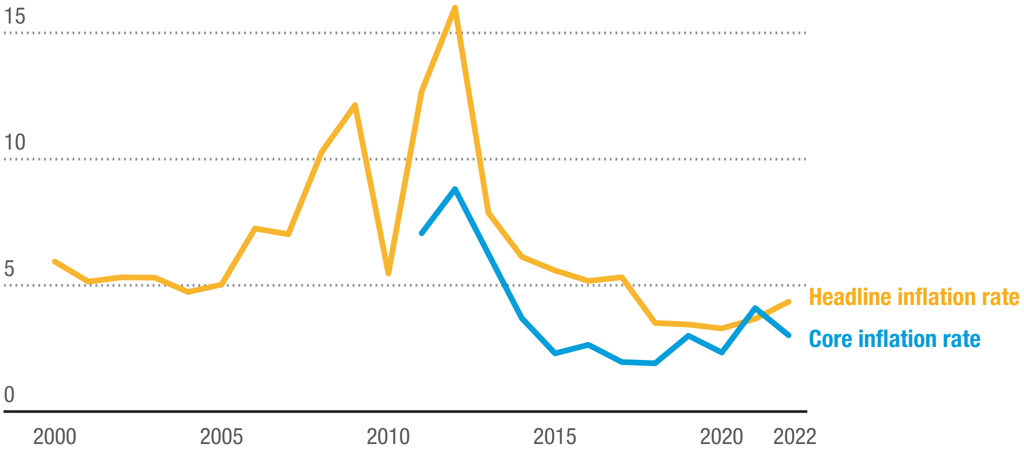
To identify the principal causes of the rise in inflation, it would be useful to consider the difference between core inflation (leaving out volatile food and fuel prices) and headline inflation (which measures the price-level of all goods). As can be seen in figure 30, the Bank of Tanzania did not start publishing figures for core inflation until 2011. Nevertheless, most of the increase in inflation experienced in 2011/12 was attributed to rising global food and fuel prices, along with the drought affecting Tanzania, which further raised domestic food prices, and reduced the capacity for power generation.[44] In addition, we have already seen that there is limited evidence of a spending boom coinciding with the period of higher inflation.

However, a third explanation of the possible relationship between higher inflation and the reported growth figures relates to the role of GDP deflators and CPI in measuring real growth.[45] In a period of inflation, the measurement errors related to these factors are likely to be exacerbated.

Figure 30

Tanzania: Core and headline inflation

(Per cent)



Source: Bank of Tanzania

[43] However, in specific circumstances, inflation can benefit the poor, e.g. if the majority of the poor are indebted.
[44] See for example: "Rising Food and Fuel Prices Take Their Toll on Eastern Africans", World Bank Feature Story, 13 April 2011, available on: https://www.worldbank.org/en/news/feature/2011/04/13/rising-food-fuel-prices-take-toll-eastern-africans
[45] On these and related measurement issues, see Arndt et al. (2015) and Atkinson et al. (2010).

Tanzania has achieved a significant **increase in access to education and health care** between 2000 and 2012

Poverty reduction through public services expansion

A third explanation advanced for the evolution of poverty reduction in Tanzania is that poverty reduction between 2000 and 2012 was largely driven by the expansion of public services, such as education, health care and other infrastructure.[46] The eventual slowdown in poverty reduction after 2012 is then explained by the fact that the returns to basic education diminished as labour market requirements in fast-growing sectors changed.

Tanzania has achieved a significant increase in access to education and health care between 2000 and 2012, which has contributed to increased levels of education achievement, and better health outcomes.

However, the benefits of access to public services such as health and education for the reduction of income poverty (as opposed to multidimensional poverty) are largely indirect and long-term. While access to education and health support greater productivity of the poor over the medium- to long-term, in the short term, they contribute only indirectly to their incomes. For example, access to health care can lead to an increase in the number of hours and days worked (due to reduced absences for health reasons). Similarly, the provision of access to health care and education can support their incomes to the extent that they substitute previous expenses on health and education. However, the overall effect of these indirect effects on income in the short run is likely to be small. Thus, the expansion of health and education access - while providing a valuable expansion of human capabilities and significant potential for long-run productivity growth – is unlikely to be sufficient to explain the change in income-poverty in the short-run.

The same is not the case for public infrastructure investment, which can be a key enabler of income growth for the poor by creating new market opportunities (e.g. by providing paved roads to market centres) or enabling new production techniques (e.g. through access to electricity). The benefits of infrastructure investments could therefore account for a share of the poverty reduction achieved. At the same time, public infrastructure investments have continued beyond 2012[47], when progress on poverty reduction stalled.

Change in the domestic composition of growth

A fourth explanation is related to a shift in the domestic composition of growth. According to World Bank (2016), the reason for the narrowing in inequality and faster rate of poverty reduction in Tanzania between 2007 and 2012 was a shift in the drivers of growth from less inclusive sectors (such as communications, financial services and construction) to more inclusive sectors (such as basic metal industries (e.g. construction materials), and in retail trade and manufacturing, especially agro-processing of food, beverage and tobacco products. These sectors absorbed a greater proportion of low-skilled workers.

With regard to the third period of 2012-2018, the World Bank (2023) argues that robust economic growth achieved only minor progress on poverty reduction, because growth was again focused in sectors that are not labour-intensive. It notes that despite an increase in GDP per capita of 21 per cent over the period, poverty fell by just two percentage points.[48]

Tables 4 and 5 provide data on the sectoral growth patterns across the three periods identified in this paper. Table 4 compares the average sectoral growth in the period from 2001 to 2006, where we saw falling poverty but rising inequality, to that of the average sectoral growth between 2007 and 2011, when both poverty and inequality were falling. In order to gauge

[46] See World Bank (2019)
[47] See also Figure 37
[48] World Bank (2023)

the relative importance of the changes in growth in the sectors for the evolution of poverty, the growth differential is then multiplied by the sectoral employment share, to get an indication of the relative importance that this growth differential is likely to have on employment, and – by extension – the poor. Table 5 repeats the same exercise for the second and third periods, i.e. comparing the average sectoral growth rates of the period 2007-2011 to those of the period 2012 -2017.[49]

A brief look at table 4 indicates that the major changes in the sectoral growth-patterns between the period of 2001-2006 and 2007-2012 are related to accelerations of growth in the sectors of electricity, communications and education services. In contrast, the mining sector saw a severe contraction in average growth. Growth also slowed in public administration, fishing and construction. The deceleration of growth in the mining sector may account for the relative loss of income of the top decile of earners in Tanzania in the period 2007 to 2012, which accounts for a part of the falling income inequality in this period. However, it is unclear how change in sectoral growth dynamics would have affected poverty rates.

In order to better estimate the importance of relative growth changes on employment, table 4 also presents an employment-adjusted estimate of the growth differential[50], which provides an indication of how important the growth changes in a certain sector are for employment. For example, small changes of growth in a sector employing a large number of the poor are likely to have a bigger effect on poverty than large changes of growth in sectors with little employment.[51] And an analysis of the employment-adjusted data bears this out. In this case, the most significant difference in growth between the periods of 2001-06 and 2007-12 from an employment perspective was the comparatively slight slowdown in the agriculture sector. This was in part compensated through an increase in growth in the trade and repairs sector as well as in education services. The increase in growth of the communications sector is likely to have only a marginal impact on poverty – judging by the employment intensity of the sector.

This analysis is therefore in line with the evolution of the international poverty line, which sees a continued, if slightly slowing, rate of poverty reduction, in the period from 2007-11, when compared to the period of 2001-2007. In contrast, if measured by the national poverty line, poverty reduction actually accelerated in 2007-12, when compared to the prior period. This could indicate that the sectoral shift to trade and repairs and education services had a significant impact on extreme poverty, which compensated for the (much larger) aggregate effect of falling growth in agriculture.

When we compare the period of 2007-11 with the period of 2012-17 (Table 5), we see significant growth decelerations in the sectors of professional, scientific and technical activities, financial and insurance activities, as well as information and communications. On the other hand, we see growth increasing in administrative support activities, transport and storage, as well as public administration and defence.

Once again, the picture looks different when we consider the employment-weighted data. Now, the most significant growth deceleration is once again in agriculture and livestock, which saw a more significant slowdown than between

The sectoral analysis highlights the central importance of the **agriculture as well as the trade and repair sectors** for poverty reduction efforts

[49] It was impossible to present all three periods in one table. As the National Bureau of Statistics does not present the data in comparable fashion, by using different base years and using slightly different categories for reporting.

[50] This is calculated by multiplying the growth differential of a sector in percentage terms by the employment share of the sector.

[51] The employment intensity of growth depends on multiple factors, and differs by sector. However, the adjustment of the growth data by multiplication with the employment share of the sector provides a rough estimation of the potential importance of the growth differential for employment, and - by further extension - poverty reduction.

Tanzania has benefited from significant volumes of aid and is the **second-largest recipient of aid in Africa**

the first two periods. The second most relevant deceleration is in trade and repairs. In contrast, the sectors seeing the most relevant increase in growth are transport and storage, as well as public administration. From an inequality point of view, we also see that the mining sector saw an increase in growth.

If the period from 2007 to 2011 was characterized by falling inequality and poverty, while the period from 2012 to 2017 was characterized by rising inequality and stalling poverty reduction efforts, some of the sectoral shifts may provide explanations for this shift. Firstly, the slowdown in agriculture is likely to account for a large part of the slowdown in poverty reduction. Its effect is likely to have been amplified by the slowdown in trade and repairs, which had absorbed some of the poor in the previous period.

However, the explanation of the varying pattern of inequality poses greater challenges. One may be tempted to consider fast-growing sectors with low employment intensity, such as mining, information and communications or financial and insurance services. However, the growth patterns of these sectors do not coincide fully with the observed inequality patterns. For example, while the mining sector saw a fall in growth in 2008/9, it quickly recovered thereafter. Similarly, the sectors of information and communications and financial services saw growth accelerations in 2007-11, while they saw decelerations in 2012-17 – a period of rising inequality.

Thus, the sectoral analysis highlights the central importance of the agriculture as well as the trade and repair sectors for poverty reduction efforts. At the same time, further analysis will be required to better understand the causes of the changes in inequality.

And – perhaps more importantly from a policy perspective – it is not clear what caused the shift in the composition of growth. More in-depth research based on comparable datasets for all three periods should be devoted to this question, which holds important information to guide future policy direction.

The role of Official Development Assistance

A further explanation of the observed pattern of poverty and inequality in Tanzania could be related to Official Development Assistance (ODA), and related development policies. A marked increase in ODA, or a significant shift in the areas of focus, could have an impact on the speed of poverty reduction efforts, and – by impacting the relative growth of different sectors – on inequality.

Tanzania has benefited from significant volumes of aid and is the second-largest recipient of aid in Africa (after Ethiopia). In absolute terms, ODA to Tanzania has seen an overall rising trend up to a peak of 3.5 billion US$ in 2013, since when ODA has fallen back to 2 US$ billion in 2019, before rising again in 2021 after Covid-19 (see Figure 31). Despite the overall rising trend, there have been prior periods of decline, especially between 1981 and 1985, and between 1992 and 1995. Looking at the numbers in constant US$ shows the same overall trends, though in slightly more moderated form. (See Figure 32)

A more meaningful measure of the importance of ODA in supporting the development trajectory of a country is the share of ODA in overall Gross National Income (GNI), or in government expenditure. Figure 33 shows the share of net ODA received in Tanzanian GNI. According to the data by the OECD, the share reached a peak at more than 20% in 1992 and has been on a declining trend ever since – despite continuing increases in absolute amounts of aid - highlighting the growth achievements of the Tanzanian economy since the early 2000s. In 2022, net ODA received accounted for only 3.5% of GNI. The declining share is likely to diminish the relative influence that ODA will have on development outcomes.

A similar picture emerges when considering

Table 4
Comparison of sectoral growth between 2001-06 and 2007-12

Economic Activity	Average growth 2001–06 (per cent)	Average growth 2007–12 (per cent)	Difference	Employment shares (2014)	Employment adjusted growth difference
Agriculture, Hunting and Forestry				0.681	-0.32
Annual growth	4.40	3.92	-0.48		
Crops					
Annual growth	4.78	4.18	-0.60	0.670	-0.40
Livestock					
Annual growth	3.19	2.93	-0.26		
Forestry and hunting				0.001	0.00
Annual growth	3.45	3.48	0.03		
Fishing				0.010	-0.03
Annual growth	6.09	2.97	-3.12		
Industry and construction				0.062	-0.12
Annual growth	10.01	8.03	-1.98		
Mining and quarrying				0.010	-0.12
Annual growth	16.34	3.87	-12.47		
Manufacturing				0.030	-0.01
Annual growth	8.80	8.47	-0.33		
Electricity, gas				0.001	0.00
Annual growth	5.66	7.28	1.62		
Water supply				0.001	0.00
Annual growth	4.61	5.80	1.19		
Construction				0.020	-0.05
Annual growth	11.63	9.38	-2.26		
Services				0.255	0.04
Annual growth	7.83	7.98	0.15		
Trade and repairs				0.122	0.09
Annual growth	8.00	8.72	0.72		
Hotels and restaurants				0.038	0.01
Annual growth	4.65	4.81	0.15		
Transport				0.025	0.01
Annual growth	6.31	6.62	0.31		
Communications				0.002	0.01
Annual growth	16.30	20.72	4.42		
Financial intermediation				0.003	0.00
Annual growth	10.25	10.38	0.13		
Real estate and business services				0.001	0.00
Annual growth	7.04	6.88	-0.16		
Public administration				0.009	-0.03
Annual growth	10.06	6.29	-3.77		
Education				0.020	0.04
Annual growth	4.56	6.83	2.27		
Health				0.008	-0.01
Annual growth	8.33	7.35	-0.98		
Other social and personal services				0.029	0.01
Annual growth	2.68	3.19	0.51		
Gross value added before adjustments				0.998	-0.36
Annual growth	7.24	6.88	-0.36		
less FISIM					0.00
Annual growth	11.42	11.06	-0.36		
Gross value added at 2001 basic prices					0.00
Annual growth	7.19	6.83	-0.37		
Add Taxes on products					0.00
Annual growth	**7.24**	6.73	-0.51		
Gross Domestic Product at 2001 market prices					0.00
Annual growth	7.20	6.82	-0.38		

Source: Author's calculations from data from the National Bureau of Statistics, Employment shares are from ILO stat. For the employment shares, data from 2014 is used as previous datasets are less complete.

Table 5
Comparison of sectoral growth between 2007-11 and 2012-17

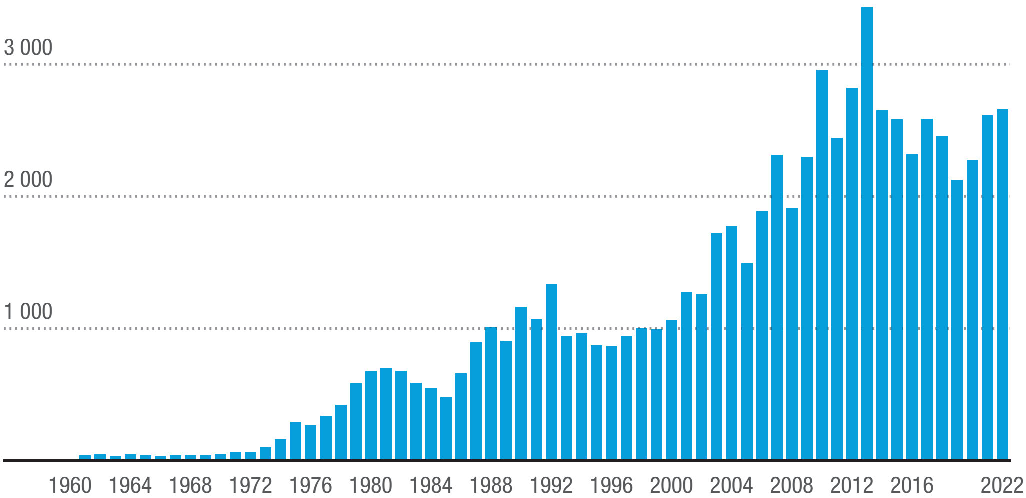
Economic Activity	Average growth 2007-11 (per cent)	Average growth 2012-17 (per cent)	Difference	Employment shares (2014)	Employment adjusted growth difference
Agriculture, Forestry and Fishing				0.68	-1.17
Annual growth	4.69	2.97	-1.72		
Crops					
Annual growth	5.45	3.16	-2.30	0.67	-1.21
Livestock				Crops & livestock)	
Annual growth	4.11	2.30	-1.81		
Forestry				0.00	0.00
Annual growth	3.91	4.27	0.36		
Fishing				0.01	0.00
Annual growth	2.81	3.29	0.48		
Industry and Construction				0.06	0.12
Annual growth	7.74	9.67	1.92		
Mining and quarrying				0.01	0.04
Annual growth	5.61	9.66	4.05		
Manufacturing				0.03	-0.05
Annual growth	7.99	6.47	-1.52		
Electricity supply				0.00	0.00
Annual growth	5.35	7.00	1.65		
Water supply; sewerage, waste management				0.00	0.00
Annual growth	1.95	5.05	3.10		
Construction				0.02	0.06
Annual growth	9.80	12.63	2.83		
Services				0.26	0.15
Annual growth	6.53	7.10	0.57		
Wholesale and retail trade; repairs				0.12	-0.14
Annual growth	7.62	6.44	-1.17		
Transport and storage				0.03	0.12
Annual growth	5.98	10.87	4.89		
Accomodation and Food Services				0.04	0.02
Annual growth	3.04	3.49	0.45		
Information and communication				0.00	-0.01
Annual growth	17.88	13.89	-3.99		
Financial and insurance activities				0.00	-0.02
Annual growth	16.15	7.76	-8.39		
Real estate				0.00	0.00
Annual growth	1.80	2.18	0.38		
Professional, scientific and technical activities				0.00	-0.03
Annual growth	20.27	3.21	-17.06		
Administrative and support service activities				0.01	0.03
Annual growth	3.07	8.76	5.69		
Public administration and defence				0.01	0.04
Annual growth	0.96	5.15	4.19		
Education				0.02	-0.02
Annual growth	7.67	6.56	-1.11		
Human health and social work activities				0.01	0.02
Annual growth	5.41	7.37	1.96		
Arts, entertainment and recreation				0.00	0.01
Annual growth	6.12	7.51	1.39		
Other service activities				0.01	0.01
Annual growth	5.97	6.82	0.85		
Activities of households as employers;				0.01	0.00
Annual growth	2.65	2.74	0.09		
FISIM, unallocated					
Annual growth	14.33	6.70	-7.63		
All Economic Activities				1.00	
Annual growth	6.15	6.74	0.59		

Source: Author's calculations from data from the National Bureau of Statistics, Employment shares are from ILO stat. For the employment shares, data from 2014 is used as previous datasets are less complete.

Figure 31

Tanzania: Net official development assistance and official aid received

(Current US$ million)

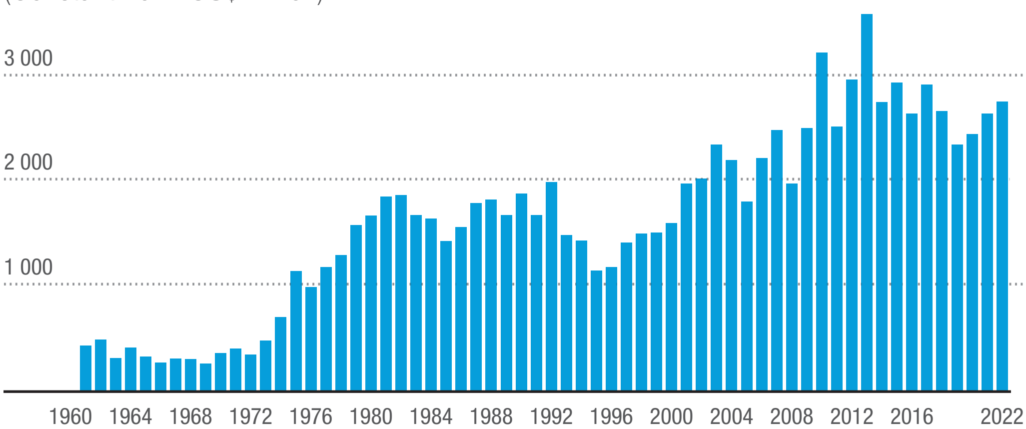


Source: World Development Indicators

Figure 32

Tanzania: Net official development assistance received

(Constant 2021 US$ million)



Source: World Development Indicators

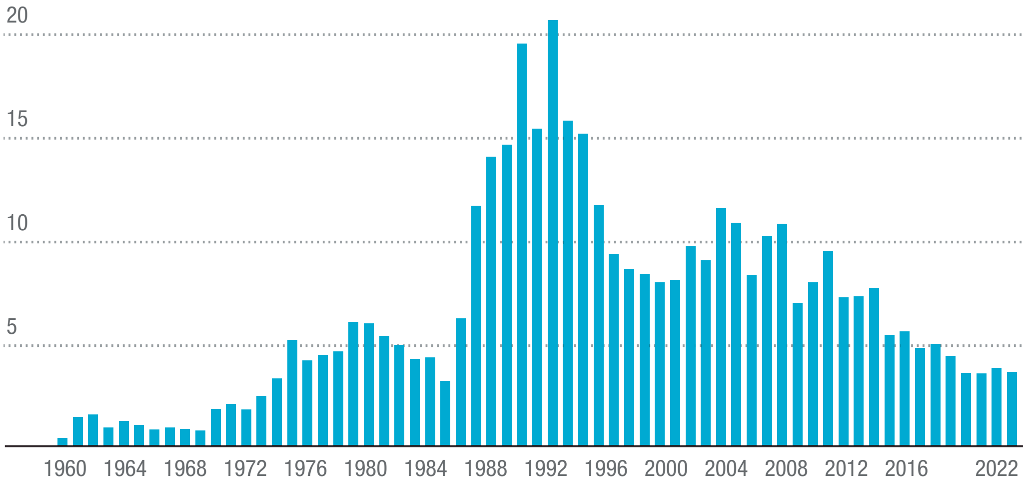
net ODA received as a share of regular government expenditure. Figure 34 provides the available data, showing the ODA as a share of government expenditure reached a peak of 70% in 2010, but has since declined to just over 20% in 2022. It should be noted that this measure is likely to overestimate the role of ODA in supplementing the government's development expenses, as net ODA received will include ODA delivered outside the government budget, and the regular central government expenditures do not include capital investments, including for development purposes.[52] With those caveats in mind, it should be noted that the share of ODA to government expenditure has decreased significantly, from more than 140% in the early 1990s to about 80% in the first decade of the 2000's, and has fallen further to just over 20% in 2022.

[52] See McGillivray et. al. (2016)

Figure 33

Tanzania: Net official development assistance received

(Per cent of GNI)



Source: World Development Indicators

According to some analysts, the variation in total aid flows to Tanzania is in part a reflection of how donors viewed Tanzania's domestic development policies. McGillivray et al. (2016) distinguish five different phases of development assistance to Tanzania: The Early phase (1960 to 1970), the Expansion phase (1970 to 1982), the Contraction Phase (1983 to 1985), the Adjustment Phase (1986 to 1996) and the Expansion Phase (1997 to 2011). One could add a last phase of modest reduction since 2013. They argue that in the early days around independence, ODA flows were modest, and largely focused on supporting industrialization. Similarly, this continued in the beginning of the expansion phase, but ODA flows increased substantially in 1974 and continued rising until about 1982. In their assessment, this increase was largely due to donors' support to President Nyerere's policies of African Socialism, self-reliance and "Ujamaa" (lit. "fraternity" in Swahili). They further note that donors continued to support the country when the implementation of these policies was affected by factors such as drought, high oil prices and war with Uganda.

However, when these programmes began experiencing further difficulties in the early 1980s, and there was a change in the attitudes of donors towards more market-oriented development policies, aid flows to Tanzania began to fall. McGillivray et al. (2016) argue that the signatures of agreements with the IMF in 1986 and 1992 built confidence among the donors, leading to increases in the flows of aid. It could be added that the increase in aid in the early 2000s may also have been targeted at the achievement of the Millennium Development Goals, and the implementation of the National Strategy for Growth and Reduction of Poverty (NSGRP), known by its local name of MKUKUTA I and MKUZA I, after 2005. In the mid-2000s, donors also began to shift from project-based and programmatic assistance to budget-support as a delivery channel for aid, which enabled the government to improve the delivery of its social programming.[53] However, the 2000s also saw a gradual increase in the number of donors, and related projects, placing increasing strain on the government's capacity to manage the aid flows.[54]

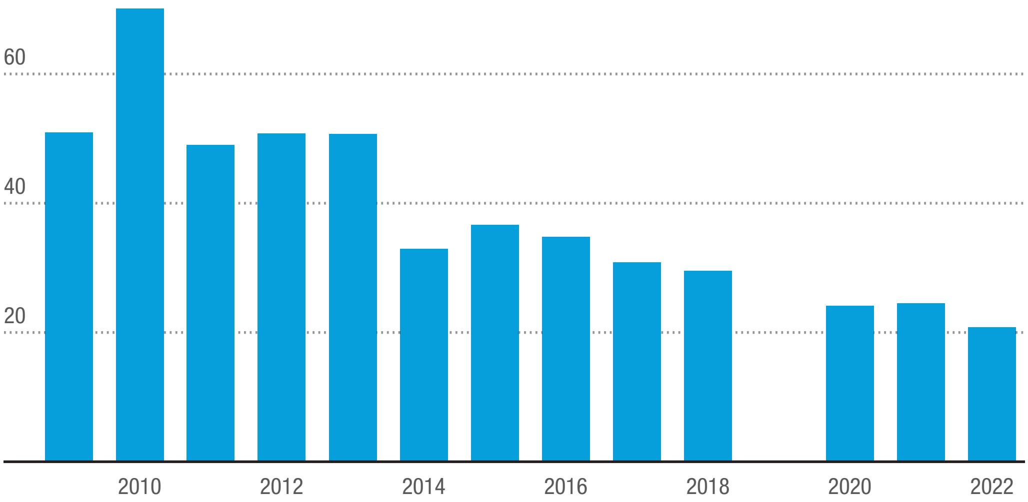
[53] McGillivray et al. (2016) and Rotarou et al. (2009)

[54] McGillivray et al. (2016)

Figure 34

Net official development assistance received as a share of central government expenses

(Per cent)



Source: World Development Indicators

It is difficult to assess the role that ODA has had in explaining progress in the reduction of poverty and inequality in Tanzania. In their assessment of the contributions of a large donor to Tanzania, McGillivray et al. (2016) propose a three-pronged Aid Quality Evaluation Framework to assess the likelihood that ODA flows have contributed to poverty reduction in Tanzania. They evaluate (i) whether aid has been delivered in line with the Paris Declaration on Aid Effectiveness, as adopted by the donor community in 2005; (ii) whether aid has targeted the most pressing development needs in the target country, and (iii) whether aid has respected the capacity of the recipient government to absorb and administer aid. This analysis will use the same criteria to assess - where data is available - whether ODA inflows to Tanzania can explain the pattern of poverty and inequality observed.

The first component whether aid has been delivered in line with the principles of the Paris Declaration on Aid Effectiveness[55] from 2005. The five principles are: ownership, alignment, harmonization, managing for results, and mutual accountability.

Drawing on a number of studies, McGillivray et al. (2016) note that ODA to Tanzania was not very effective in poverty reduction in the early period and the expansion phase, because it was aligned with development policies that were ultimately unsustainable, as the economic crisis in the late 1970s erased all socio-economic gains or poverty reduction achieved in the early days. The note that in the contraction and adjustment phases (1982 -1995), the effectiveness of ODA was undermined by a lack of alignment with the government over priorities and policies, as well as a lack of ownership. However, following the new IMF agreement in 1996, ODA increased again to support the implementation of the programme including social support. In their assessment, ODA was now well-aligned with the government priorities to achieve significant gains in education and health. As of 2004, a growing proportion of aid was also delivered in the form of general budget support, leading to greater alignment with government priorities and ownership. In 2003-04, one third of aid disbursements to Tanzania were in the form of budget support (33.5%), while in 2007-08, this share had increased to more than half (51.3%).[56]

[55] OECD (2005)
[56] Rotarou et al. (2009)

In 2004, donors also established the Development Partners Group (DPG), to strengthen the development partnership and aid effectiveness in the country. However, after 2005, ODA flows to Tanzania experienced higher volatility, though at an overall elevated level. McGillivray et al (2016) attribute this to donor concerns over the administrative capacities of the government of Tanzania in this period. This also led some donors to reduce their general budget support.[57] Net ODA and aid receipts reached a peak in 2013, and have since been on falling trend, before picking up again somewhat in light of the Covid-19 pandemic.

As a result, it can be argued that aid effectiveness was highest in the period between 1995 and 2007. It is likely to have declined slightly after 2005, due to intermittent disputes between the government and donors, and the decline in general budget support, but it is likely to have remained much higher than prior to 1995.

The second component of the evaluation examines whether aid has targeted the most pressing development needs in the country[58] – in this case poverty and inequality. As discussed above, in the period prior to 1982, most aid was focused on large infrastructure projects to support industrialization in the economy. Starting in the 1990s, following the adoption of the IMF stand-by agreements, ODA flows focused more on the social sectors, especially health and education. Rotarou et al (2009) argue that a part of this shift in the focus of aid was due to the negative experiences of donors with large infrastructure projects ("White elephants") in the 1960s. It was further supported by the effort to support the national poverty reduction strategy (MKUKUTA I and MKUZA I) and achieve the MDGs with their emphasis on social sectors.[59]

While the strong support for education and health has led to significant gains in terms of school enrolment and access to health services, which are likely to have a medium- to long-term effect on income poverty reduction, the direct effect of ODA flows to these sectors on income poverty reduction in the short-run is likely to be small. However, a share of ODA was also devoted to support for infrastructure, which can have a more direct influence on incomes of the poor.

The data on the sectoral distribution of aid in Tanzania shows that key sectors of importance to the majority of the poor, such as agriculture, received only a small share of aid, and that there has been little change over time. According to Rotarou et al. (2009), in 2007, 23.2% of ODA was allocated to social infrastructure, while only 4.9% was dedicated to economic infrastructure. Similarly, in 2011, only 5.4% of gross ODA to Tanzania was dedicated to agriculture and food security. In contrast, health accounted for 28.4%, and infrastructure accounted for 16.3%.[60] Table 6 shows the sectoral distribution of aid between 2018 and 2022. As can be seen from the figures, the share of social infrastructure and services increased from 64% to 77% between 2018 and 2020, and still accounted for 70% in 2022. In contrast, support for agriculture as a key sector for poverty reduction fell from 9.8% in 2018 to a mere 3.8% in 2022. Given the small share of ODA allocated to agriculture, when compared to health and education, it is unlikely that ODA contributed significantly to income poverty reduction in the short run. This conclusion is also reached by McGillivray et al. (2016) as well as Rotarou et al. (2009). Nevertheless, ODA contributions to infrastructure may have made a small contribution to poverty reduction in rural areas.

57 Rotarou et al. (2009)
58 See McGillivray et al. (2016)
59 Rotarou et al. (2009)
60 Data from Development Initiatives, available on: https://devinit.org/wp-content/uploads/2013/09/Investments-to-End-Poverty-Chapter-10-Tanzania.pdf

Table 6
Sectoral distribution of ODA, Tanzania, 2018-2022
(Constant 2022 US$ million)

Time period	2018	2019	2020	2021	2022
Sector					
All sectors	1 599.82	1 241.96	1 362.70	1 122.17	1 055.16
Sector allocable	1 493.63	1 146.50	1 272.28	1 043.75	949.52
Social infrastructure and services	1 034.81	851.97	1 057.52	795.49	739.78
Social Infrastructure and services share of total (%)	64.68	68.60	77.60	70.89	70.11
Education	159.96	116.58	120.00	93.84	80.25
Health	185.30	183.70	210.80	157.61	182.76
Population policies/Programmes and reproductive health	500.20	355.81	530.35	365.04	325.06
Water supply and sanitation	49.22	76.35	52.51	48.39	29.55
Economic infrastructure and services	184.41	110.60	87.96	108.52	100.20
Energy	76.58	46.49	39.35	60.20	56.43
Production sectors	181.46	112.67	84.29	79.06	66.45
Agriculture, forestry, fishing	164.76	92.50	70.30	61.97	56.41
Agriculture	156.99	84.42	65.49	54.12	40.44
Agriculture share of total (%)	9.81	6.80	4.81	4.82	3.83
Forestry	6.32	4.74	4.77	6.91	6.07
Fishing	1.44	3.34	0.05	0.94	9.91
Industry, mining, construction	9.29	8.64	8.43	8.12	6.22
Industry	7.00	6.61	6.16	7.62	3.96
Mineral resources and mining	2.28	2.01	2.27	0.51	0.85
Construction	0.01	0.03			1.41
Trade policies and regulations	6.89	11.32	5.49	8.86	3.72
Tourism	0.52	0.21	0.08	0.11	0.10
Multi-sector / Cross-cutting	92.96	71.26	42.51	60.68	43.10
Humanitarian aid	53.87	57.96	59.84	39.41	27.29
Administrative costs of donors	26.68	30.13	25.18	32.04	25.77
Refugees in donor countries	0.01	0.01	0.01		
Unallocated / unspecified	25.05	4.00	3.88	6.05	52.18

Source: OECD

The last component of the assessment of the likely contribution of aid to poverty and inequality reduction relates to whether it was in line with the capacity of the government to administer it. Here, McGillivray et al. (2016) argue that the increase in the number of donors (including NGOs) in the 2000s, as well as the number of activities funded, placed a growing administrative burden on the government. They note that between 1994 and 2014, the number of donors to Tanzania increased from 17 to 48. Similarly, the number of activities funded by donors increased from 54 in 1973 to 3742 activities in 2011.[61] They also report that there has been an increase in the scope of donor activities in terms of sectors covered. The increase in donor support to Tanzania is likely to have placed a growing burden on Tanzania's absorptive capacities.

[61] McGillivray et al. (2016)

The aggregate picture emerging is that while ODA was on an overall rising trend until 2013, its relative importance in the economy diminished as GDP and government expenditure grew faster. In terms of effectiveness, ODA appears to have reached its peak between the years of 1995 and 2007, when aid was most aligned with government priorities, and there was a growth in general budget support. However, even during its most effective period, ODA was focused on social sectors such as education and health, whose direct impact on income poverty reduction is likely to be modest in the short run.

It is therefore unlikely that the observed pattern of poverty reduction can be explained by changes in ODA to Tanzania. ODA was at its most effective during the period of fastest poverty reduction (at the international extreme poverty line) between 2000 and 2006, but its focus on health and education makes it unlikely to be the main explanatory factor. However, it is possible that infrastructure improvements contributed to poverty reduction in this period.

In the second period under examination, 2007-2011, poverty reduction at the international extreme poverty line slowed slightly, while poverty reduction as measured by the national poverty line increased. In contrast, ODA continued its upward trend (as in the previous period), but continued to be focused on social infrastructure. Furthermore, its relative effectiveness began to be undermined by greater variability and proliferation of donors.

In the last period, between 2012 and 2018, ODA reached its peak, before falling until 2019. This period saw poverty reduction efforts stall both at the international extreme poverty line and at the national poverty line. It is possible that the fall in ODA flows may have contributed to the stalling of poverty reduction efforts. However, in light of the discussion above, it is unlikely that ODA was the primary determinant of poverty reduction trends.

The lack of a clear correlation is even more evident in the case of inequality. Periods of rising ODA flows with high effectiveness coincided with rising inequality (2000-2007) as well as falling inequality (2007-2011), while in 2011-18, ODA flows were on a falling trend, while inequality was rising.

While the significant inflows of ODA to Tanzania since 1995 have made a significant contribution to socio-economic gains in health and education, as well as infrastructure, it is unlikely that ODA flows are the major cause of the change in the growth elasticities of poverty and inequality in Tanzania.[62]

Measurement error

The last possible explanation to be considered is that the data may be incorrect. Hassine and Zeufack (2015), for example, construct a consumption-based Gini-coefficient from data in the Tanzania Budget Household surveys of 2001, 2007 and 2012, and find that "inequality in Tanzania shows a slightly decreasing trend over time". According to their data, the consumption-based Gini coefficient decreased from 38.8 in 2001 to 38.5 in 2007 and on to 35.8 in 2012. This analysis - while focusing only on consumption – therefore does not find any peak in inequality in 2007. Similarly, Kinyondo and Pelizzo (2018) analyse the evolution of the Gini coefficient of expenditure based on data from the National Bureau of Statistics and find much smaller changes in inequality (though following the same trend as identified here).

It is – of course – possible that the 2007 data point of increased inequality, or the 2012 data point of reduced inequality, is due to a measurement error, revealing a smoother trend of rising inequality, obviating any discussion of changing growth-elasticities of inequality.

Bourguignon, F. et al. (2023) also find issue with one of the World Bank's data points on poverty and decides to assume a smoothed-out path ignoring the data point.

[62] McGillivray et al. (2016) and Rotarou et al. (2009) come to similar conclusions with regard to poverty.

As a result, they find that Tanzania experienced the highest rate of poverty-reduction between 2007 and 2011, rather than in the first period (2001-2007).

More generally, there has been some discussion about the reliability of both the growth and poverty estimates provided for Tanzania (and other African countries), due to the disparities between national accounts data and survey data, and the different GDP deflators used. This is discussed in detail in Arndt et al. (2015), who examine the growth and poverty data provided from different sources and conclude that the only certainty is that household consumption growth in Tanzania has been slow over the period from 1991 to 2011, explaining the comparatively slow progress on poverty reduction, compared to Tanzania's reported GDP growth figures.

A number of econometric studies have examined the determinants of poverty and inequality in Tanzania, as well as their relationship with economic growth. Kyara et al. (2022) use a nonlinear autoregressive distributed lag model to explore the growth-poverty relationship in Tanzania. They find that while in the short-run economic growth is the key determinant of poverty reduction, in the long-run rising income inequality can reduce the power of growth to reduce poverty. In addition, they argue that in the long-run, income inequality will also undermine economic growth. They therefore stress the importance of policies to support growth and address inequality at the same time, and propose a series of policy measures to strengthen the agriculture sector, where most of the population is working, and where income inequality is mostly manifested. Aikaeli et al. (2021) study the poverty dynamics in Tanzania using synthetic panel methods drawing on successive Household Budget and National Population Surveys. They found that – despite the apparent stability of the poverty rate between 2012 and 2018 - an estimated 30% of the Tanzanian population moved in or out of poverty in this time period, a sign of significant fluctuations in economic well-being for individual households. They also identified some of the characteristics of households that are less likely to suffer from poverty, namely education above the primary level, wage employment, small household size and single household heads, low dependency ratios, living in urban areas or certain regions (Dar es Salaam, Pwani, and Kilimanjaro), and high living standards in terms of dwelling characteristics and asset ownership. Charles et al. (2023) use a binary logistic regression to identify the determinants of multidimensional poverty in rural Tanzania. They find that factors such as age, education levels, being married, and using family planning methods, decrease the probability of being poor. They also find that female-headed households were 1.22 times more likely to be multidimensionally poor compared to male-headed households, highlighting the importance of gender-based interventions to reduce poverty. Similarly, Yusuf et al. (2015) use an ordinal regression model to study the determinants of poverty in Mkinga District in Tanzania. They find that gender, size of the land the household owns, the size of the farm used in farming, household size and the dependency ratio were related to poverty.

The determinants identified in the studies related to poverty in Tanzania are summarized in Table 7 below.

Hassine and Zeufack (2015) specifically focus on the evolution and determinants of inequalities of outcomes and opportunities in Tanzania. As cited above, they use a different set of Gini-coefficients (based on consumption inequality) and find moderate and relatively stable levels of inequality of outcomes. However, they note an increase in the inequality between urban and rural areas, with inequality widening more between richer households. Poor households, especially in rural areas, appear to have seen improvements in their levels of education and asset ownership, helping them to catch up to their urban counterparts.

Table 7
Determinants of poverty as identified by econometric studies

Determinants of less poverty	Kyara et.al.	Aikaeli et al	Charles et al	Yusuf et al.
Education		X	X	
Wage employment		X		
Small household size		X		X
Single household heads		X		
Dependency ratio		X		X
Urban		X		
Dwelling standards		X		
Asset ownership		X		
Age			X	
Married			X	
Family planning			X	
Male-headed household			X	
Gender				X
Farm size				X
Economic growth	X (SR)			
Low Income inequality	X (LR)			

Source: Author

However, increasing differences in access to basic services and employment opportunities as well as widening differences in family structure and size are offsetting some of these gains. The authors also find that there is significant intergenerational transmission of inequalities, and that fathers' and mothers' education levels strongly contribute to income and consumption inequality. Against this background, they argue for policies to improve households' education and employment opportunities, the control of family size and fertility, the development of infrastructure and access to basic services, especially in rural areas.

After the examination of the evolution of poverty and inequality in Tanzania and discussing some of the possible explanations of the patterns found, the following sections will explore policies that play an important role in the reduction of poverty and inequality in Tanzania, providing some recommendations on how to strengthen their impact.

While the evolution of poverty and inequality in Tanzania is also influenced by international factors, such as the quality of market access opportunities for Tanzanian exports, the world prices of major export commodities, as well as the conditions for access to international finance, this paper will focus on national policies that are fully within the purview of national policymakers.

5.
Policies affecting poverty and inequality in Tanzania

Tax policy

A country's fiscal policies, including taxation and related transfers and social spending, are key tools to address poverty and reduce inequality. However, beyond their role in re-distribution of incomes, tax policy and social spending also pursue several other policy objectives, including supporting economic growth (through counter-cyclical demand stimulus, or investments in infrastructure) and steering behaviour through incentives. Lastly, recent research has shown that the provision of social security payments can be an important factor in promoting innovation by providing a safety-net for innovators, should their innovation fail.[63]

Fiscal policy affects poverty and inequality in a number of different ways:

Firstly, income or value added taxes can render the distribution of income more or less equal, depending on their relative impact on different income deciles.

A progressive tax is structured in such a way as to affect higher income deciles relatively more than lower income deciles. In contrast, a regressive tax tends to impact lower income households relatively more than higher income households.

Secondly, by raising prices of goods, value added taxes and excise taxes can increase the poverty headcount-ratio.

A third important factor determining the impact of tax policy on poverty and inequality relates to the applicable tax base. If large segments of the population are not subject to the tax, or if they benefit from tax exemptions, this can change the impact of the tax. Similarly, it is important to consider the effect of the actual application of the tax by the revenue authorities. If taxes are not uniformly collected, the de facto impact of the tax will differ significantly from its impact de jure. Thus, a discussion of the impact of fiscal policy on poverty and inequality should also consider the applicability of the tax as well as relevant tax exemptions, and the efficiency of the tax administration.

If taxes are not uniformly collected, the de facto impact of the tax will differ significantly from its impact de jure

[63] UNDP (2017)

Lastly, taxes raise revenue that can be used to finance social programmes and poverty reduction efforts. A complete assessment of the impact of fiscal policy on poverty and inequality will have to consider the effectiveness of the social spending and investment financed by tax revenue in reducing poverty and inequality. This will be addressed in the subsequent section.

The Tanzanian tax system

Like most countries, Tanzania's tax system employs both direct and indirect taxes to raise government revenue. The main direct taxes are personal and corporate income taxes.

Personal income taxes:

Tanzania has a two-tiered personal income tax system, with a presumptive tax system for traders with a turnover below TZS 100 million, where the tax is based on turnover, as well as a regular personal income tax, which is computed based on income.

a) The presumptive income tax based on turnover foresees a non-taxable turnover of TZS 4 million (ca. US$ 1,600), and then a graduated tax schedule of 3% for turnover between TZS 4 and 11 million, and 3.5% for turnover exceeding TZS 11 million.

b) The regular personal income tax foresees an initial non-taxable income allowance of TZS 3.240 million (ca. US$ 1,300), Tanzania collects personal income taxes from all residents earning more than the minimum taxable income of TZS 270,000 per annum (ca. US$ 110) based on a progressive income scale starting at 8% and reaching a maximum marginal tax rate of 30% for taxable income exceeding TZS 1 million (ca. US$ 400).[64]

Corporate income taxes:

Tanzania imposes a flat corporate income tax (CIT) rate of 30%. However, a number of exceptions apply: Companies listed on the Dar es Salaam Stock Exchange (DSE) benefit from a reduced CIT rate of 25% for three years. In addition, new assemblers of vehicles, tractors, and fishing boats can benefit from a CIT rate of 10%, and new manufacturers of pharmaceutical or leather products from a CIT rate of 20%. The application of both reduced rates is limited to five years.[65]

Property Taxes:

Since 2016, Tanzania is using a flat rate system of property taxation, with fixed amounts charged on an annual basis for properties of different types. Since 2023, the amounts charged are:

TZS 18,000 (ca. US$ 7.10) per annum for a normal building, and

TZS 90,000 (ca. US$ 35.50) per annum and per storey for a storey building.

In addition, valued buildings are taxed according to their market value and location.

However, revenues from property tax collection are low. In 2015/16, property tax revenues accounted for no more than 0.16% of GDP.[66] Across Africa, property taxes rarely achieve revenues exceeding 0.5% of GDP, while many OECD countries achieve more than 2% of GDP.[67]

Tanzania has engaged in several reforms of its property tax system with the goal of broadening the tax base and increasing revenue collection.

[64] See Price Waterhouse Coopers, Worldwide Tax Summaries: https://taxsummaries.pwc.com/tanzania/individual/taxes-on-personal-income, accessed on 2 October 2023. Greater detail is available on: https://www.tra.go.tz/index.php/income-tax-for-individual

[65] See Price Waterhouse Coopers, Worldwide Tax summaries: https://taxsummaries.pwc.com/tanzania/corporate/taxes-on-corporate-income, accessed on 30 January 2024

[66] See Ali, M., et al. (2018)

[67] See Fjeldstad, O.-H.; et al. (2017)

The reforms relate both to the system of tax assessment (moving between a flat-rate system to a system based on individual valuations of properties) and to the administration of the property tax (switching the right to assess and collect the tax between the Local Government Authorities and the national Tanzania Revenue Authority). However, to date, progress on strengthening the revenue collection and tax efficiency has been mixed.

According to Chegere, M. et al (2020), the property tax system in Tanzania was introduced by the Local Government Finance Act of 1982 and consisted of a flat-rate tax administered by Local Government Authorities.[68] For urban environments, the law foresaw some leeway to cluster the flat rate to account for size, location, and type of use of the property. However, in rural areas, only the standard flat rate applied, and rates of collection in these districts were very low. With time, efforts were made to make greater allowances for size, use and location of properties in urban areas to improve fairness. For example, in 1987 Dar es Salaam applied a clustered flat rate depending on the density of population in the property location, with taxes ranging from TZS 200 in residential unsurveyed areas to TZS 10,000 in high-density residential surveyed areas, and up to TZS 50.000 in industrial areas.

In 1993, the government introduced a reform of the property tax to gradually move to a valuation-based system. The new system imposed a tax of 0.1% of the property value, and was rolled out in Dar es Salaam. Under the system, all non-valued properties remained on the flat rate. The number of properties to be taxed according to valuation was gradually increased to a total of 340,000 in several municipalities by 2003. The transition to a value-based system led to an increase in revenue-collection, but it remained below expectations.

In 2008, the government transferred the administration of the property tax to the Tanzania Revenue Authority to increase collection. However, tax collection did not improve due to coordination failures between the Local Government Authorities and the Tanzanian Revenue Authority. There was lack of clarity over who would carry out the property valuations and the data collection, and over compensation for their contributions.[69] In addition, the property tax was an important financing source for development projects by Local Government Authorities, while it was only a minor source of tax revenue for the Tanzania Revenue Authority.

As a result, in 2014, property tax collection was returned to the Local Government Authorities, with a significant increase in tax revenue collection. This was in part due to the introduction of new tools such as satellite imagery to identify properties, as well as the use of electronic tools to facilitate payment of property taxes. The use of such tools allowed Arusha to more than triple the eligible taxpayers and boost revenues by 75 per cent.[70] Nevertheless, in 2016, the responsibility for the collection of property tax was reverted to the Tanzania Revenue Authority. In order to strengthen efficiency in tax collection, the property tax regime in 2018 reverted to a flat-rate system, which continues to be in place today, though the flat rates have been progressively revised upwards.[71]

The picture that emerges from this overview is a continuing search for the most effective balance between maximizing revenue collection and minimizing administrative cost (valuation-based versus flat-rate system), as well as for the best allocation of responsibility.

68 The following discussion of the reforms draws on Chegere, M. et al. (2020)
69 See Fjeldstad, O.-H. et al. (2017) and Chegere M. et al. (2020)
70 World Bank figures quoted in Fjeldstad, O.H. et al. (2017)
71 This overview of the history of property tax administration follows Chegere, M. et al (2020) and Fjeldstad, O-H et al (2017)

A recent study by REPOA has argued that the 2016 centralization of the administration of the property tax as well as the move from a valuation-based to a flat-rate system (2018) have reduced revenue-collection.[72]

Since then, several efforts have been made to learn the lessons from these reforms and strengthen tax compliance as well as revenue collection: Since July 2021, the collection of the property tax has been carried out through the deduction of electricity tokens. And from 1 January 2024, the collection of property taxes will once again be carried out by the Local Government Authorities.[73]

Research is also underway to study methods to increase property tax compliance, including through text message reminders[74], and involving local leaders.[75] Tax compliance more broadly has also been shown to be related to the quality of public services provided with the tax revenue, as well as good governance.[76]

Capital Gains Taxes:

Tanzania does not have a specific capital gains tax, but any capital gains from the sale of assets (land, real estate, or securities) are subject to regular income tax.

In addition to direct taxes, the Tanzanian government imposes a series of indirect taxes:

Value Added Taxes:

Tanzania imposes a flat VAT-rate of 18% on the mainland, and 15% in Zanzibar, with exceptions in Zanzibar for banking, postal and telecommunications services, where the 18% rate also applies in Zanzibar. However, the scope of the VAT is limited by the fact that VAT is only mandatory for persons or companies with an annual turnover exceeding TZS 200 million (ca. US$ 78,600) in mainland Tanzania, and TZS 100 million (ca. US$ 39,200) in Zanzibar. The thresholds were raised from TZS 40 million to TZS 100 million in 2014, in an effort to simplify the VAT scheme. The threshold was further raised to TZS 200 million in mainland Tanzania in 2023.[77] In addition, several goods and services are exempt from VAT.[78]

VAT was implemented in Tanzania in July 1998 with the goal of broadening the tax base and increasing domestic revenue mobilization.[79] While projections estimated that VAT could generate revenues amounting to 6% of GDP, actual revenues collected remained below 4.5% of GDP. It has been argued that this shortfall was due to the numerous exemptions in the VAT system. In addition to the existing exemptions, the law included a mechanism whereby private sector companies could request additional exemptions. These exemptions complicated the administration of the tax and created opportunities for tax avoidance. As a result, the productivity of VAT in Tanzania fell behind that of its regional neighbours.

In an effort to address the erosion of the VAT regime, and to strengthen tax fairness, the government initiated a process of VAT reform in 2013. The new draft VAT bill limited exemptions to food and a number of basic necessities, and removed the discretionary power of the Minister of Finance to grant exemptions from VAT. However, as a result of lobbying by private sector companies and Ministries, the final VAT bill, introduced in 2015, brought back some of the exemptions (e.g. on tourism services). It also reinstated the power of the Minister of Finance to grant exemptions in more limited form.[80]

72 See Chegere, M., et al. (2020)
73 https://www.thecitizen.co.tz/tanzania/news/national/property-tax-up-by-50-percent-as-tra-announces-new-changes-4316802
74 World Bank (2022a)
75 Partnership for Economic Policy (2021)
76 Maseko and Sawe (2022)
77 KPMG (2023)
78 https://taxsummaries.pwc.com/tanzania/corporate/other-taxes
79 CMI (2021)
80 CMI (2021)

Excise Taxes:

Beyond VAT, the Government of Tanzania charges a number of excise taxes on specific goods. Excise taxes are charged either as specific rates or as ad-valorem rates. According to the Tanzania Revenue Authority, items charged under specific rates include wine, spirits, beer, soft drinks, mineral water, fruit juices, recorded DVD, VCD, CD and audio tapes, cigarettes, tobacco, petroleum products and natural gas. Items charged under ad-valorem rates include money transfer services, electronic communication services, pay to view television services, imported furniture, motor vehicles, plastic bags, specified aircrafts, firearms, specified cases, cosmetics, and medicaments. The ad-valorem rates range from 5% to 50%.[81]

Digital Services Tax:

In June 2022, the Government introduced a Digital Services Tax of 2% applicable to non-resident Digital Service Providers, while also requiring all such providers to register for payment of the regular VAT rate of 18%. Since 1 January 2023, all digital services provided by non-resident providers are therefore subject to a 20% tax (DST plus VAT).[82]

Local Government Authorities Taxes:

In addition to the taxes charged by the Tanzania Revenue Authorities, Local Government Authorities in Tanzania have the right to charge a number of taxes and levies.

The performance of Tanzania's tax system

This section considers the performance of the Tanzanian tax system in terms of raising tax revenue, while the next section will discuss its distributional impact.

Despite recent improvements, Tanzania continues to underperform its regional peers in tax revenue collection. According to a recent World Bank analysis[83], Tanzania collected 11.3% of GDP in tax revenue in 2022/23, While this represents an increase from a share of less than 10% prior to the year 2000, it remains below the Sub-Saharan average, which exceeds 15% of GDP.

Indirect taxes (VAT and excise taxes) account for the bulk of tax revenue, but their contribution is declining. In the Financial Year 2017/2018, revenue from indirect taxes accounted for 7.5% of GDP, while direct taxes yielded only 4.2% of GDP.

According to a World Bank analysis[84], Tanzania collects less revenue from VAT than expected. Based on Tanzania's GDP, VAT should account for at least 5% of GDP in tax revenue. However, VAT revenue accounts for 3.4-3.9% of GDP. The main reasons advanced for the underperformance of VAT are:

i) Poor collection performance: the World Bank notes that the C-efficiency ratio[85] of the Tanzanian VAT is 27%, compared to the SSA average of 37%.

ii) Exemptions: Numerous exemptions (including for food, machinery, education) reduce the range of goods and services to be taxed.

iii) The high threshold for VAT registration: The high threshold narrows the tax base, thus limiting revenue collection.

iv) Tax administration: The list of exemptions as well as the high threshold complicates the administration of VAT.

v) Informal Sector: The informal sector accounts for about half of the economy, resulting in reduced VAT collection.

Tanzania continues to underperform its regional peers in **tax revenue collection**

81 See Tanzania Revenue Authority: https://www.tra.go.tz/index.php/excise-duty
82 See Price Waterhouse Coopers "Will 2023 see higher digital service subscription costs?", https://www.pwc.co.tz/press-room/will-2023-see-higher-digital-service-subscription-costs.html#:~:text=However%2C%20the%202022%2F23%20Budget,)%2C%20charged%20at%202%25.
83 World Bank (2023)
84 World Bank (2023)
85 The C-efficiency ratio is the ratio of the share of VAT revenue in GDP and the product of the statutory rate and household final consumption. It is used as a measure of the efficiency of tax collection.

The share of excise duties in total tax revenue has fallen between 2000 and 2020. Excise taxes for goods like mobile phones and beer now account for a larger share of the revenue than the tobacco. According to the World Bank, the decline in the share of tobacco is largely due to the fact that the specific excise duty amount has failed to keep up with inflation.[86]

Direct taxes (personal and corporate income taxes) account for about 4% of GDP in tax revenue, and their share in total tax revenue has been increasing from 25% in 2000/01 to 35% in 2020/21. However, the size of the personal income tax revenue is higher than expected, while the share of corporate income tax is much lower. The World Bank argued that the low performance of the CIT is due to both the reduced rates, exemptions and tax holidays granted to many businesses, as well as lack of compliance.[87] In this context, Matotay (2014) reports that "Of the 15 best tax payers of the year 2011, major companies like Mohamed Enterprises (owned by Mohamed Dewji, a Parliamentarian and Forbes richest young businessman in Africa), Bakhressa/Azam, IPP Media, Coca Cola, Pepsi, SABC, Vodacom, Serengeti Breweries, Barick Gold, AngloGold Ashanti and the oil marketing companies were not in the list." Similarly, according to Booth et al. (2014), private businesses accounted for a quarter of all tax exemptions granted between 2011 and 2012.

The overall tax system in Tanzania is **progressive, contributing to a reduction in inequality**

Nevertheless, Tanzania's efforts to strengthen tax collection have reduced the tax gap[88] from 8% of GDP in 2000 to 5.6% of GDP in 2017.

The distributional impact of Tanzania's tax system

Impact on poverty:

Direct taxes, such as personal and corporate income taxes, tend not to have a strong impact on poverty, as people below the poverty line in Tanzania are far below the income threshold and are largely in the informal sector. They therefore do not pay direct taxes. At the same time, direct tax revenue can be used to pay for social security and transfer payments targeted at the poor. However, this effect will be considered in the next section.

Indirect taxes, such as VAT and excise taxes, have a direct effect on the poor to the extent that they raise the final prices of goods purchased. In the case of Tanzania, the effect of VAT on the poor is more limited due to the high threshold for VAT and relevant exemptions, which limit the number of companies and products covered. However, the poor are disproportionally affected by excise taxes, which are predominantly on consumption goods, because the poor spend a greater share of their incomes on consumption. Nevertheless, the adverse impact of indirect taxes on the incomes of the poor can be mitigated if the revenue from the taxes is spent on programmes targeting the poor.

According to an analysis by the World Bank (2023) based on data from Tanzania's 2017/18 Household Budget survey[89], the combined effect of direct and indirect taxes increases poverty in Tanzania according to all national poverty lines, but especially at higher poverty lines. In particular, it notes that "the poverty headcount index increases by 1.1 percentage points and 0.1 percentage points with the national basic-needs poverty line and food-poverty line, respectively".

[86] World Bank (2023)
[87] World Bank (2023)
[88] The tax gap denotes the difference between the actual collection and the predicted collection capacity based on the country's GDP per capita, GDP per capita squared, and trade as a percentage of GDP.
[89] World Bank (2023)

With regard to the international poverty line, World Bank (2023) notes that Tanzania's redistributive fiscal policies increase the poverty rate by about 2 percentage points, "because the regressive effect of indirect taxes is not fully offset by pro-poor cash transfers and subsidies."

Impact on income inequality:

The overall tax system in Tanzania is progressive, contributing to a reduction in inequality. A World Bank estimate shows that the Gini coefficient for market income before taxes is much higher (0.49) than the index for incomes after all taxes and transfers (0.34).[90] Indeed, Younger, Myamba and Mdadila (2016) find that Tanzania redistributes more than would be expected given its level of income.

Among the direct taxes, personal income taxes are levied on a graduated structure and are applied only to workers in the formal sectors. They are therefore progressive. The Corporate Income Tax relies on a flat-rate system. However, the wide-ranging exemptions and compliance gaps in corporate income tax primarily benefit larger firms, multinational corporations, and high-income individuals, rendering the corporate income tax as currently implemented a regressive tool. The property tax is unlikely to be applied to many people below the poverty line living in rural areas, but its fixed amount makes it regressive, while the valuation-based portion is progressive.

With regard to indirect taxes, the World Bank report shows that VAT is also progressive, due to the high threshold as well as the numerous exemptions.[91] Many excise taxes, in contrast, have been found to be regressive, including those on wine, spirits, tobacco, and kerosene. However, often these excise taxes serve other public policy goals. The World Bank has carried out a detailed analysis of the Kakwani index[92] for individual taxes and expenditures (see Figure 35). It finds that several excise taxes, as well as the general electricity subsidy, are among the most regressive indirect taxes and expenditures in the Tanzanian fiscal system.

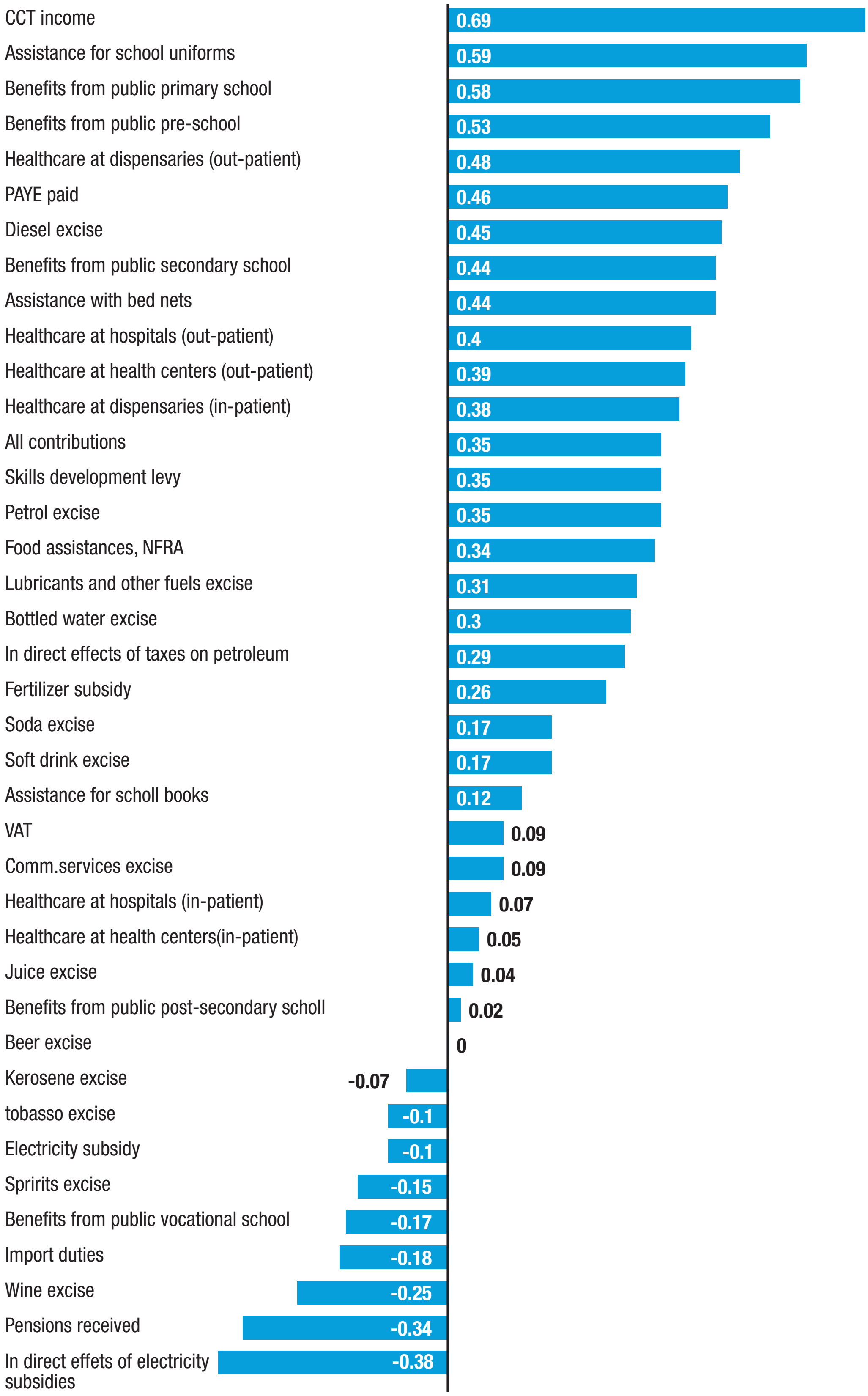
Future reforms of the tax system?

Tanzania is a member of several Regional Economic Communities, which entail obligations to different degrees of cooperation and harmonization of tax laws. For example, Article 83 of the treaty establishing the East African Community notes the intention of Partner States to "(e) harmonise their tax policies with a view to removing tax distortions in order to bring about a more efficient allocation of resources within the Community."[93] The treaty also refers to the "harmonization and rationalization of investment incentives, including those relating to taxation on industries particularly those that use local materials and labour with a view to promoting the Community as a single investment area",[94] "avoiding double taxation",[95] and "harmonizing … taxation of capital market transactions"[96].

Similarly, Annex 3 of the Protocol on Finance and Investment, signed by the Member States of SADC on 18 August 2006, covers co-operation on taxation and related measures. It calls for the establishment of a tax database, capacity-building for tax-officials, a common approach in the application of tax incentives, as well as for co-operation in the harmonization and administration of indirect taxes.[97]

[90] World Bank (2023)
[91] Idem
[92] The Kakwani index measures the difference between the Gini index for incomes before an intervention and after the intervention, and is a measure of progressivity.
[93] EAC (1999), Article 83, Paragraph 2 (e)
[94] Idem, Article 80, Paragraph 1 (f)
[95] Idem, Article 80, Paragraph 1 (h)
[96] Idem, Article 85, Paragraph 1 (c)
[97] SADC (2006)

Figure 35
Kakwani index for individual taxes and expenditures relative to market income plus



Source: World Bank (2023)

Progress on the implementation of tax harmonization has so far been slow.[98] However, business groups are lobbying for progress, though often with the objective of lowering taxes. For example, private sector groups in Tanzania have argued for raising the threshold for mandatory VAT registration to TZS 200 million (from TZS 100 million (about US$ 36,700),[99] when the thresholds in Uganda and Rwanda are much lower (UGX 50 million, or roughly US$ 13,500, and FRW 20 million, or roughly US$ 15,400, respectively).[100]

Recommendations

The tax system is a key tool to reduce inequality and to raise funds to support poverty reduction efforts. While the tax system contributes to reducing inequality in Tanzania, tax revenue collection remains far below its regional peers. Tanzania therefore faces the challenge of increasing tax revenue to support government interventions while reducing poverty and inequality. The below recommendations aim to achieve this goal:

- **Eliminate exemptions to the Corporate Income Tax:** The flat-rate corporate income tax has provided investors and domestic companies with a predictable environment, thus serving to support an enabling environment for growth and Foreign Direct Investment. However, exemptions and low compliance are reducing the productivity of the Corporate Income Tax and making it a regressive tool. Reducing the number of Corporate Income Tax exemptions and increasing compliance promises increased tax revenue and lower inequality.
- **Scale up use of the property tax:** The property tax remains a widely underused tool for revenue-collection and inequality reduction in Tanzania. As revenue from property taxes currently accounts for less than 0.2% of GDP in Tanzania, but accounts for almost 2% of GDP in OECD countries, it holds potential for significant revenues that could be utilized for pro-poor interventions. The recent transfer of the responsibility for property-tax collection back to the Local Government Authorities promises increased collection rates. The current regressive flat rate should be complemented with an expansion of valuation-based taxation, especially in urban areas. This could be facilitated by increased use of electronic tools for valuation and collection.
- **Introduce a small wealth tax:** Given the growing concentration of incomes and wealth in the top income decile, a small wealth tax could provide additional government revenue while reducing overall inequality. A low wealth tax is unlikely to have a significant adverse effect on growth and the business environment, while yielding potentially significant benefits for the reduction of poverty and inequality.
- **Lower the VAT threshold to fund poverty reduction:** Broadening the tax base for VAT promises increased tax revenue, as VAT currently underperforms. However, since an expansion of VAT alone is likely to increase poverty, the increase in VAT revenue should be spent on pro-poor interventions to offset the adverse impact on poverty and improve fiscal equity.
- **Enhance use of electronic reporting and collection tools:** Compliance with tax obligations can also be strengthened by facilitating reporting and collection, including through electronic tools such as the Electronic Fiscal Devices or the use of the electricity-payment for the property tax.

Reducing the number of Corporate Income Tax exemptions and increasing compliance promises increased tax revenue and lower inequality

The property tax remains a widely underused tool **for revenue-collection and inequality reduction in Tanzania**

[98] Uyioghosa, O. & Omozuwa, I.I. (2023),
[99] See for example: "Harmonize domestic taxes to attract investments in the EAC bloc", East African Business Council, 20 May 2022, available on https://eabc-online.com/harmonize-domestic-taxes-to-attract-investments-in-the-eac-bloc/
[100] See Habimana, P. (2023), with exchange-rates updated as of August 2024.

Greater efforts are needed to support formalization of entrepreneurs in the informal sector

- **Strengthen the capacities of the tax administration:** Strengthening the capacities of the Tanzania Revenue Authority and the Local Government Authorities is key to supporting tax administration and collection.
- **Improve public communication on tax-issues:** Tax revenue collection is undermined by a lack of understanding and compliance in the public. Many self-employed workers are not aware of their tax obligations, or find it difficult to find information on the issue.[101] Efforts to induce greater compliance through education and social peer-pressure, as well as nudging SMS messages, could be explored. Furthermore, strengthened communication about the benefits of tax revenue in terms of improved public services and better governance will also support tax compliance.
- **Build capacities to monitor illicit financial flows:** Illicit financial flows can have an adverse effect on the domestic tax base. To avoid the risk of relevant tax revenue loss, Tanzania should strengthen its capacities to monitor and reduce potential illicit financial flows.
- **Improve policy-coherence:** There is a need to strengthen the coherence between some of the charges and levies at the Local Government level and at the national level to avoid duplication or contradictory incentives.
- **Ensure adequate tax levels after harmonization:** Potential future efforts at tax harmonization at the EAC or SADC level should bear in mind the need for domestic resource mobilization and progressive tax structures to address inequality and poverty.
- **Avoid policy reversals:** Frequent policy-reversals, such as over the administration of the property tax, create uncertainty for taxpayers, investors and domestic administrators.
- **Promote formalization of the economy:** The tax base in Tanzanian is limited by the large size of the informal sector, which is estimated to account for at least 45% of the economy[102]. Greater efforts are needed to support formalization of entrepreneurs in the informal sector, both through incentives and greater enforcement.

Government expenditure and social protection

As indicated in the introduction of the previous section, the overall effect of fiscal policy on poverty and inequality also depends on the way in which the revenue raised by fiscal measures is spent. In this context, it is useful to briefly consider Tanzania's government expenditure, and – in particular – its social protection system.

Overview of government expenditure

According to a World Bank analysis[103], government expenditure in 2023 stood at 17% of GDP, slightly below the averages for Sub-Saharan Africa (18%) and Low-income economies (21%). Recurring spending (including wages and transfers) accounts for the bulk of expenditure (about 10% of GDP), while development expenditures are on an increasing trend, and accounted for 7.7% of GDP in 2022. (See Figure 36)

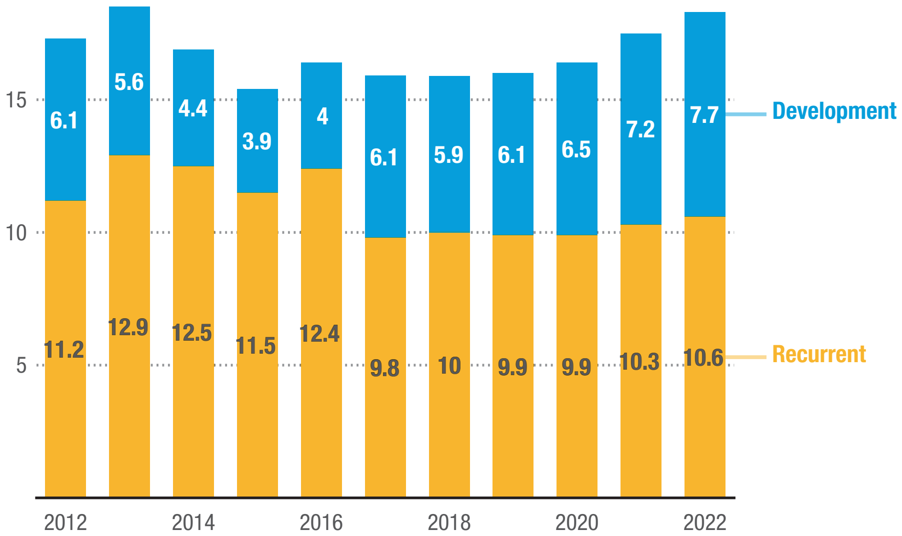
More than half of the development spending is devoted to infrastructure projects such as the Standard Gauge Railway, or the Rufiji Hydroelectric plant. This is in line with the Five-Year Development Plan's strong emphasis on industrial capacities and infrastructure development. Education and Health account for about 15% of development expenditures (in addition to a large part of recurrent expenditures to maintain the existing infrastructure and public sector wages).

[101] Maliti, E. (2018)
[102] https://futures.issafrica.org/geographic/countries/tanzania/
[103] World Bank (2023)

Figure 36

Trends in Government Spending

(Per cent of GDP)



Source: World Bank (2023)

Social protection accounts for only a small proportion of development expenditure (less than 5%). About 20% of development spending is financed by donors. [104]

While a large part of the recurrent and development expenditures is of relevance to inequality and poverty reduction in the medium and long term, including health and education expenditures, as well as the important infrastructure investments in energy and transportation, the most immediate government spending category of relevance in the short term is social protection, as well as agricultural support.

The remainder of this section will consider Tanzania's social protection system, especially its conditional cash transfer program targeted at the most vulnerable segments of society.

Tanzania's social protection system

Social protection systems generally serve a number of different and related purposes: Firstly, they provide a social safety net that helps to protect the most vulnerable populations against economic shocks, and to reduce deprivation. They are also a tool to redistribute income and achieve a more equal society. However, beyond their humanitarian and redistributive function, social protection systems also plays a broader role in supporting production, innovation, and economic change, by enabling social reproduction and supporting quality care work. Lastly, they provide an insurance against risk that enables innovation by entrepreneurs.[105]

Despite these many benefits, social protection systems remain very limited in Sub-Saharan Africa, with only 13% of the population having access to any form of social protection.[106]

Social protection accounts for only a small proportion of development expenditure (less than 5%)

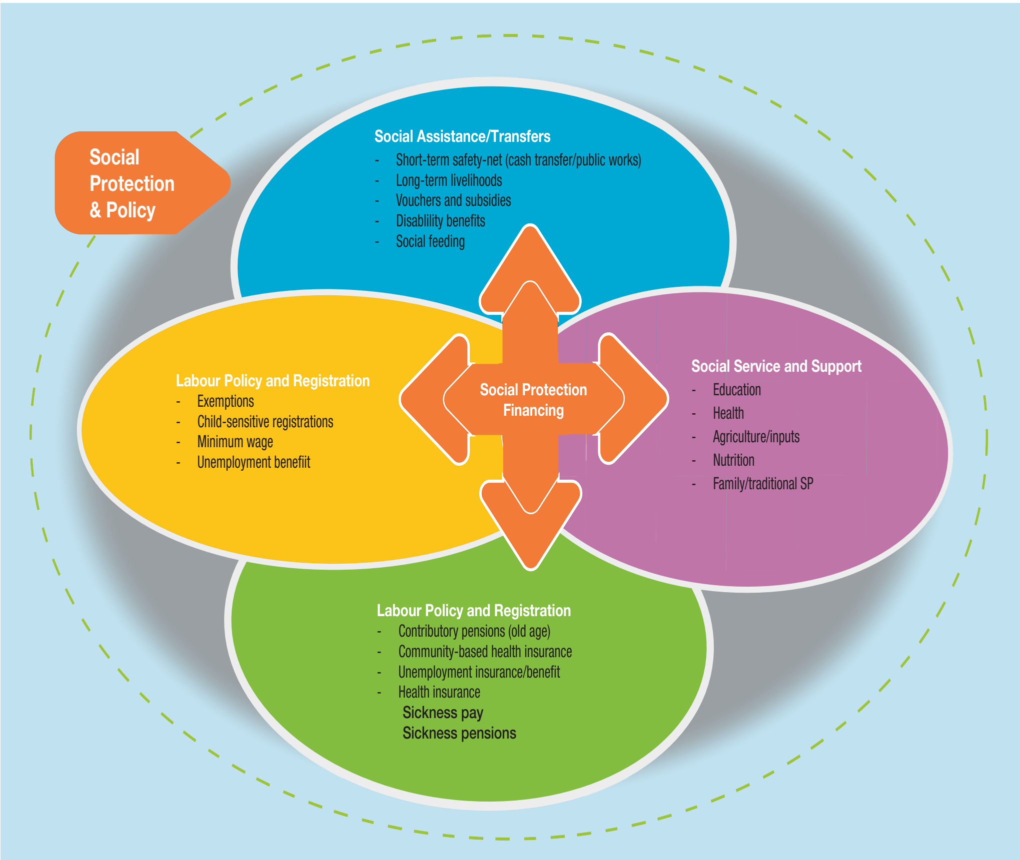
[104] See World Bank (2023)
[105] UNDP (2017)
[106] UNDESA (2021)

As a result, social protection in Africa is not as impactful in reducing inequities as it is in Latin America.[107] Nevertheless, Tanzania has recently made significant efforts to expand its social protection system.

The social protection system in Tanzania consists of four components: 1.) Contributory systems, such as pensions or health insurance; 2) Non-contributory systems, such as cash transfers (conditional or not)) 3.) Provision of social services (access to health and education) as well as provision of agricultural inputs and subsidies and public works programmes. 4.) Labour policies. See Figure 37.

With regard to contributory systems, Tanzania had a number of pension funds for different groups of employees in the formal sectors. These included the Local Authority Pension Fund (LAPF), the Parastatal Pensions Fund (PPF), the Public Service Pension Fund (PSFP), the National Social Security Pension Fund (NSSF), the Government Employee Provident Fund Retirement Benefits Fund, and the National Health Insurance Fund (NHIF), all with different benefit systems. In 2018, the Public Service Security Fund (PSSSF) unified coverage for all government employees, while the National Social Security Fund (NSSF) insures other formal sector employees.[108]

Figure 37
The main components of social protection in Tanzania



Source: UNDP (2017)

[107] UNDP (2017)
[108] https://socialprotection.org/discover/blog/sessions-exploring-social-protection-solutions-sub-saharan-africa-and-tanzania-–-day-2

However, to date, coverage of social insurance in Tanzania remains low, at an estimated 12% of the labour force.[109] Maliti, E. (2018) notes that while the enrolment rate remains far below the developing country average of 30 per cent, membership is growing at a faster rate (9% per annum) than formal employment (5% per annum).[110]

The pension funds have also increasingly supported investments in industrialization, as envisioned by the FYDP II. In this way, they are also contributing to financial deepening and development of the financial sector and reducing the cost of capital.[111]

Given their focus on the formal sector, these social insurance schemes as well as labour rights are of limited interest in an examination focused on the extremely poor, most of whom are in the informal sector.

However, Tanzania has also made progress in extending the possibility of obtaining social insurance for workers in the informal sector. Since 2014, the National Social Security Fund allowed informal sector workers to enrol in its formal sector scheme, and since 2017, a separate National Informal Sector Scheme (NISS) has been developed and launched in 2021. In the NISS, self-employed informal sector workers can enrol with a contribution rate of TZS 20,000 per month (ca. US$ 8) and obtain the right to an old-age pension, health benefits and access to loans.[112]

For informal sector workers, coverage has been lower than for formal sector workers. In October 2023, an estimated 247,628 individuals participated in the NISS.[113] The low level of enrolment among informal workers has been attributed to limited public awareness of the benefits of enrolment, low levels of trust discouraging contribution payments, and – to some extent – to the contribution rate.[114] An interview with an informal worker has also shown that the contribution rate may be seen as affordable, but too high compared to the benefits offered.[115]

Even if the extension of social insurance to the informal sector will provide much-needed protection against risks and vulnerabilities for poor workers, the cost of the contribution is likely to render the scheme inaccessible to the extremely poor. Against this background, the non-contributory social protection systems are of the greatest relevance for an inquiry on programs to support poverty reduction.

Tanzania has also made progress in extending the possibility of **obtaining social insurance for workers in the informal sector**

Overview of the PSSN/TASAF Programme

The Tanzanian non-contributory social insurance system was introduced in the year 2000, as part of the implementation of the Poverty Reduction Strategy Paper.[116] According to an analysis by Jacob. T. et al (2018), the Tanzanian Social Action Fund (TASAF) served as a program to complement a new Structural Adjustment Programme, and to enable progress on debt-relief under the Highly Indebted Poor Countries Initiative. Its initial focus was on supporting communities with social infrastructure, including schools and health centres. The second component were community-organized public works aimed at road maintenance, afforestation, and water. The programme funded more than 1,700 projects and reached 7.3 million people between 2000 and 2005. TASAF II was launched in 2005, which aimed to expand coverage, and included some targeted cash transfers.[117]

109 Lambin et al. (2022)
110 Maliti, E. (2018)
111 UNDP (2017)
112 Lambin et al. (2022)
113 https://socialprotection.org/discover/blog/sessions-exploring-social-protection-solutions-sub-saharan-africa-and-tanzania-%E2%80%93-day-2
114 See discussion in Lambin, R. et al (2022)
115 UNDP/ILO (2021)
116 For a political economy of the history of the TASAF, see Jacob, T. et al. (2018)
117 TASAF figures quoted in Lambin, R. et al (2022)

Following the expansion, the program reportedly supported more than 11,000 projects and reached 16.1 million people between 2005 and 2013.[118]

TASAF III was launched in 2012 and continued the previous work on infrastructure interventions as well as livelihood grants to community savings and investment groups. However, it also introduced the Productive Social Safety Net (PSSN), a cash transfer scheme targeted at the poorest of the poor on an individual (rather than community) basis. Since its launch, the programme has reached more than 1.1 million households by August 2015.

Description of services

The Productive Social Safety Net System aims to "increase income and consumption and improve poor households' ability to cope with shocks, while enhancing and protecting the human capital of their children".[119] It does this by providing three types of cash transfers to extremely poor households[120]:

i) A basic transfer of TZS 10,000 per month (ca. 4 US$) to increase household income and consumption on a regular basis throughout the year.

ii) Fixed and variable transfers depending on household investments in the human capital of their children. In addition to a fixed child benefit of TZS 4,000 per month (ca. US$ 1.6), there are variable transfers of up to TZS 12,000 per month (ca. US$ 5) linked to schooling and health responsibilities. The conditional amounts transferred are variable by age.

iii) A seasonal transfer for households linked to participation in labour-intensive public works. The public works program operates during lean seasons to smooth consumption and guarantees fifteen days of paid work per month to one person per household at a daily rate of TZS 2,500 (US$ 1), over a four-month period.

The PSSN can therefore provide households a maximum annual benefit of TZS 606,000 (ca. US$ 240), with a maximum annual benefit of TZS 456,000 (ca. US$ 180) for the Conditional Cash transfers and TZS 150,000 (ca. US$ 60) for the public works programme.[121] (See also Figure 38)

The education and health co-responsibilities required to be met for conditional child benefits are as follows: Children aged 5 and older have to be enrolled in school and attend at least 80 per cent of school days. In contrast, health responsibilities only apply to children up to the age of 5, requiring monthly health visits for children up to the age of 2 and biannual visits for older children.

Targeting

The PSSN uses a three-stage targeting system to identify its beneficiaries. First, the poorest districts, wards, and communities are identified using a geographical mechanism. Secondly, within the identified communities, community-based targeting is used to prepare a list of poor and vulnerable households. Then, a proxy means test[122] is carried out with the identified households to verify their eligibility. The use of multiple targeting systems aims to minimise error, both in terms of inclusion and exclusion.[123]

Financing

When the PSSN was established in 2012, it was largely donor financed (including by the World Bank, DFID and SIPA).

[118] Woel, B. (2018)
[119] TASAF (2019)
[120] The description of the benefit system is drawn from TASAF (2019)
[121] Exchange rates updated from TASAF (2019)
[122] Proxy means testing uses multivariate regression analysis to correlate certain proxies, such as ownership of assets or household characteristics, with household consumption. (See also AusAID (2011)) It then collects information about these proxies by means of a household survey and uses the collected data to impute household consumption and eligibility for enrolment in social protection programmes.
[123] TASAF (2019)

Figure 38
PSSN benefit scheme

PSSN component	Transfer type	Transfer name	Co-responsibility	Benefit (TZS)	Monthly cap (TZS)	Annual max (TZS)
CCT	Fixed	Basic transfer	Extreme poverty	10,000	10,000	120,000
	Fixed	Household child benefit	HH with children under 18	4,000	4,000	48,000
	Variable	Infant benefit	Infant 0-5 health compliance	4,000	4,000	48,000
	Variable	Individual primary benefit	Child in primary education compliance	2,000	8,000	96,000
	Variable	Individual lower secondary benefit	Child in lower secondary education compliance	4,000	12,000	144,000
	Variable	Individual upper secondary benefit	Child upper secondary education compliance	6,000		
PW	Variable	Public works benefit	Extreme poverty + older than 18 able to work	2,500	37,500	150,000

Source: TASAF (2019)

However, according to George, C. et al. (2021), there was an agreement that the Tanzanian government would gradually take over the funding by 2020. In the meantime, the costs would be split evenly between the government, development partners and the World Bank. In practise, in 2015, the government committed to paying US$ 44 million of the total costs of the PSSN, estimated at US$ 170 million, covering roughly 25% of the operating costs. However, George, C. et al. (2021) note that "in the end, the government only contributed US$ 7 million, which represents 4.1% of programme costs, and only 15.9% of the government's initial commitment."[124]

In their assessment, George, C. et al. (2021) examine several possible reasons for the low government contribution to PSSN financing. The first is resource constraints, with very little development finance available, and large parts of the government budget taken up by debt servicing, wages and pension fund contributions. The second reason relates to the prioritization of investments in infrastructure and other productive and economic activities, rather than consumption, such as the PSSN. Third, he argues that the PSSN's cash transfer component does not align well with a development philosophy that emphasises hard work and self-reliance. In addition, they note that there were concerns about the programme's impact and about cases of misuse.[125] However, others have pointed out that the Government of Tanzania has increased its funding for the programme in some periods, including prior to elections.[126] Today, PSSN remains largely donor funded.

Impact of PSSN/TASAF programme

The World Banks's midline evaluation of the PSSN carried out in 2019 (TASAF, 2019) notes that "the PSSN is achieving its goal of increasing consumption and reducing poverty". The evaluation found that households with PSSN support increased their monthly consumption by TZS 8,028 (US$ 3.4), when compared to the control group. As most of the additional income was spent on food, households benefiting from the PSSN also scored higher on food security indices and consumed a more diverse diet. The evaluation further noted that households benefiting from the PSSN spent a small additional amount (TZS 1,784, or US$ 0.80) per month on non-food items, including clothing, utilities and communication and transportation.

124 See George, C. et al. (2021)
125 Idem.
126 Jacob, T. et al. (2018)

However, there was no evidence of any impact of the PSSN on the consumption of temptation goods (alcohol and tobacco). Overall, the evaluation concluded that PSSN "contributed to a reduction of poverty by 6.9 percentage points, when using the national basic needs poverty line as the threshold".

With regard to education impacts for the children of beneficiary households, the evaluation finds a 5.6% increase in the school enrolment ratio of children ages 5 to 19. The increase is most significant for primary school age children, at 7.9%. However, there was no impact on enrolment rates for adolescents (Ages 14 to 19). It was also noted that while school enrolment increased, there was also an increase in the rate of grade repetition (1.3% increase compared to the control group). The evaluation notes that this could in part be due to the fact that the programme brings some of the most disadvantaged children to the schooling system.

In the area of health, the PSSN served to increase visits to healthcare providers, especially for children below 5 years of age. According to TASAF (2019), PSSN beneficiaries were "1.4% more likely to visit a healthcare provider than the control group and 3.8% more likely to do so when sick". Again, the effect was most pronounced for children under five, where the likelihood of a health check-up increased by 4.7 percentage points, representing a 20% higher likelihood than for non-beneficiaries. The PSSN also generated a significant increase in health insurance registration. However, despite the increases in health seeking behaviours, there have not been any recorded benefits for child nutrition, nor a decrease in the prevalence of the most common illnesses among children.

In the economic sphere, the evaluation found that the PSSN increased the ability of beneficiaries to cope with shocks and reduced the likelihood of using negative coping strategies by 1.25 percentage point, from a mean of 7.8%. The PSSN also increased the percentage of poor households that were able to save money, from a low of 13.3% to 17.1%. However, the amount saved is not significantly different from that saved by other households, and most of the increase in savings happened through informal mechanisms. According to the survey, the PSSN further brought benefits in the areas of housing, and higher ownership of durable assets (e.g. a 5.2 percentage point increase in the probability of ownership of transportation assets (relative to a 21.1% mean), a 6.4 percentage point increase for household furniture, and a 5.1 percentage point increase for communication assets.

Lastly, and perhaps most importantly for the long-run sustainability of the programme, the PSSN is argued to have helped reorient the beneficiaries' productive activities towards more self-employment. In the case of men, the evaluation found an intensification of work on farm activities, while for women the orientation was towards non-farm activities. It further intensified households' farming activities and the utilization of agricultural inputs that are linked to agricultural productivity. However, the evaluation also notes that the PSSN increased non-paid work for females by 2.6 percentage points, and the female unemployment rate by 4.3 percentage points (from a base of 11.1%), though this may be due to an increase in labour force participation.

In terms of targeting of benefits, the evaluation argues that the PSSN is among the best targeted Conditional Cash transfer schemes in developing countries, with more than 63% of beneficiaries in the lowest two consumption deciles.[127] (See Figure 39)

This emphasis serves to counter some of the cases of mistargeting and abuse that were publicly discussed in the Tanzanian media.

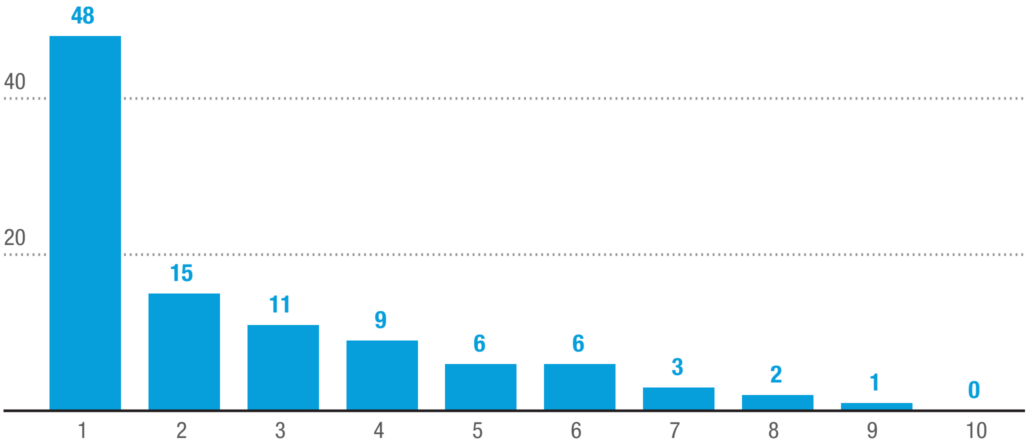
Overall, the World Bank has argued that "without the TASAF PSSN there would be an additional one million poor people in 2018".[128]

127 TASAF (2019)
128 World Bank (2019)

Figure 39

PSSN Distribution of beneficiaries by consumption decile

(Per cent)



Source: TASAF (2019)

At the same time, it acknowledged that it was too early to stop support for some of the beneficiaries and that the programme should continue so as to consolidate the consumption gains.

The PSSN has made a significant contribution to reducing poverty in Tanzania and its scope should be expanded. However, the programme's impact on the health and education outcomes for the participants can be improved. The programme also does not yet contain adequate instruments to help its beneficiaries to eventually become independent of cash support payments. This could include trainings as well as access to finance to support the creation of new income sources for poor households.

Recommendations

Social protection systems play a key role in reducing poverty and inequality. They also build resilience against shocks, protecting vulnerable population from falling into poverty. While Tanzania has developed a number of social protection instruments, including its Productive Social Safety Net (PSSN) targeting the poorest households, their coverage remains limited.

Against this background, the government of Tanzania could give consideration to the following recommendations:

- **Expand the coverage of the PSSN:** The PSSN currently covers about 1.1 million households. The PSSN II intends to expand its coverage by 30% to about 1.4 million households. However, there is a need to expand coverage to a greater share of the poor.
- **Strengthen the livelihoods component of the PSSN:** The PSSN has made a significant difference in strengthening the consumption of some of the poorest and most vulnerable households in Tanzania. However, there is a need to improve the efficacy of the program in supporting sustainable increases in incomes and livelihoods for its beneficiaries. This could be achieved by scaling up the complementary programmes on entrepreneurship and livelihoods, as well as through preferential access to finance. The PSSN II already foresees a strengthened component for this, and the progress should be closely monitored. There should also be greater coherence between the PSSN and other rural development programmes, e.g. in the area of agriculture.

The PSSN should include a stronger focus **on health outcomes for the adult beneficiaries**

- **Improve the health and education outcomes of the PSSN:** While the PSSN has generated increases in school enrolment and health-care visits among its beneficiaries, efforts should be made to improve its effectiveness. The PSSN should be complemented by programmes to ensure higher quality education, as well as incentives and support for progression in grades. Furthermore, the PSSN should include a stronger focus on health outcomes for the adult beneficiaries.
- **Enhance the targeting of the PSSN:** While the targeting of beneficiaries is better than in many other developing countries, there is still scope for improvement, as during the 2019 evaluation, 12% of beneficiaries were found to be in the sixth consumption decile or above. However, better targeting should not exclude marginal candidates, so as to avoid them falling back into poverty.
- **Provide sustainable financing:** There is a need to find a more sustainable funding solution for the PSSN, especially if it is to be scaled up to cover a larger part of the population.
- **Improve communications:** Lastly, there is a need to better communicate the benefits of the PSSN and its impact on long-term development, so as to build political support for the programme.
- **Expand the coverage of the NISS:** The provision of social insurance for workers in the informal sector can make an important contribution to reducing inequality. Tanzania's NISS scheme is a key step in the right direction, but its coverage needs to be expanded. A reduction of its premium to become affordable for more informal sector workers could be considered.

There is a need to better communicate **the benefits of the PSSN and its impact on long-term development**

Agriculture

Having examined two key cross-sectoral policies that influence poverty and inequality, this section will briefly consider policies to support economic growth in agriculture, due to the sector's significant influence on inequality and poverty.

The role of agriculture in poverty reduction

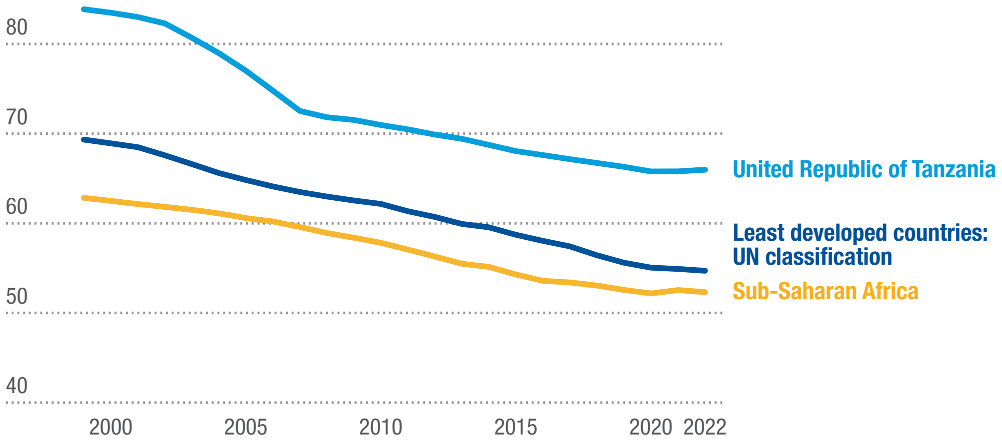
The agriculture sector plays a key role in the reduction of poverty and inequality in Africa. In 2015, 62.3% of sub-Saharan Africans lived in rural areas[129], along with three fourth of the poor population. Rural dwellers, including the rural poor, are predominantly engaged in agriculture, which continues to account for 51.7% of employment in sub-Saharan Africa (See Figure 40). The sector also accounts for a disproportionately high share of women in total employment, though in sub-Saharan Africa this share has recently decreased to around 51.6% (See Figure 41). As a result, the performance of the sector is of primary importance for poverty reduction across Africa. Several studies have shown that agricultural growth has a higher impact on poverty reduction than other sectors. A UNDP study finds that agricultural productivity can reduce income inequality with a correlation index of -0.35.[130] In addition, Christiaensen et al. (2010) show that agriculture is up to 3.2 times better at reducing extreme poverty than non-agriculture sectors in low-income countries, provided that they are not too unequal.

[129] Odusola, A. (2019a)
[130] Odusola, A. (2019a)

Figure 40

Share of total employment accounted for by agriculture

(Per cent of total employment)

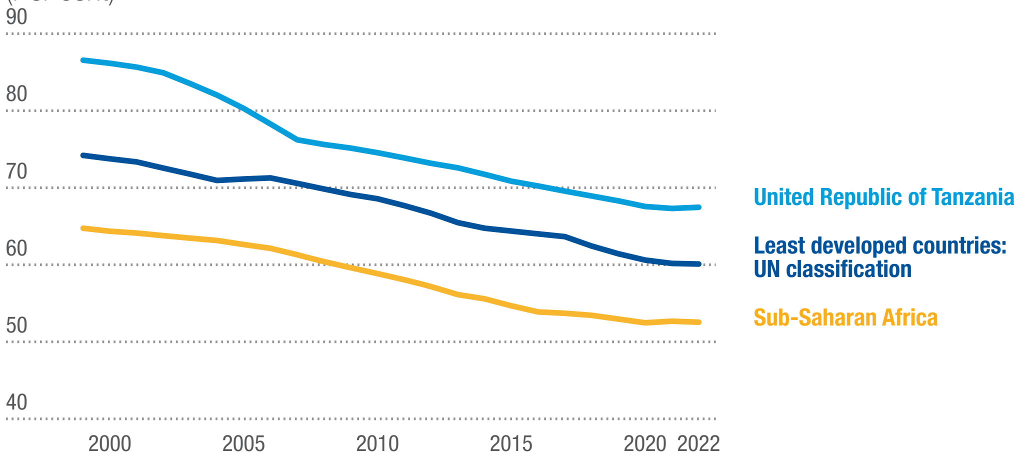


Source: WDI, based on ILO modelled estimate

Figure 41

Share of female employment in agriculture

(Per cent)



Source: WDI, based on ILO modelled estimate

Several studies have shown that agricultural growth has a **higher impact on poverty reduction than other sectors**

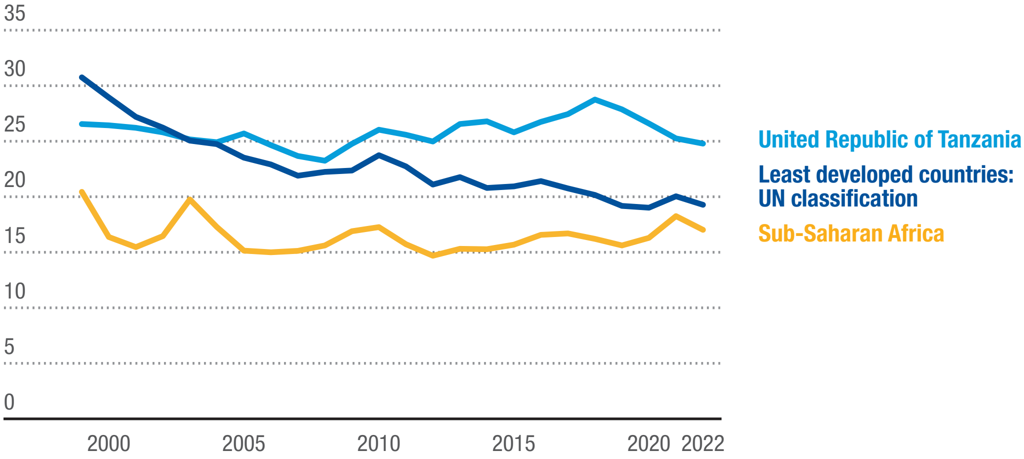
However, despite the size of the sector in terms of employment, it typically accounts for a small share of GDP (see Figure 42). of sub-Saharan Africa as a whole, agriculture accounted for 17.3% of GDP in 2022. The fact that the employment share of agriculture exceeds its share of total value-added highlights the low productivity of the sector, which results in low wages. The low productivity of agriculture in Africa is one of the main reasons for the slow progress in poverty reduction. Tanzania is no exception to this rule.

The Tanzanian agriculture sector:

In 2022, agriculture accounted for 28.3% of GDP[131] and 65.5% of total employment in Tanzania[132] (See also Figures 42 and 43). According to the most recent estimates, in 2020, it provided livelihoods for 75.5% of the poor.[133] Tanzania's livestock-sector accounts for the second largest cattle-stock in Africa, and accounts for 27% of agricultural GDP, and 7.1% of Tanzania's GDP.[134]

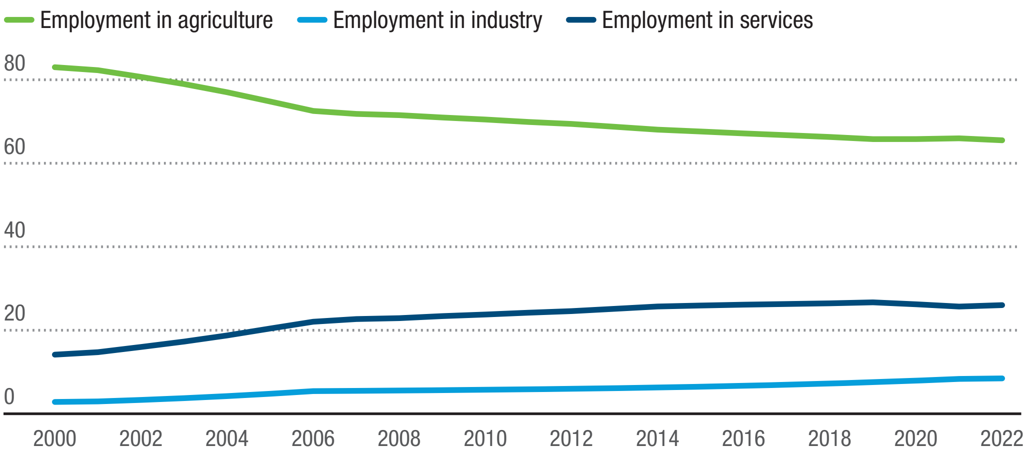
131 UNCTADStat
132 Source: World Bank World Development Indicators
133 World Bank (2022e)
134 idem

Figure 42
Share of agriculture in total value-added
(Per cent of GDP)



Source: World Bank

Figure 43
Employment shares by sector in Tanzania
(Per cent)



Source: WDI, based on ILO modelled estimate

The low productivity of agriculture in Africa is one of the main reasons for the slow progress in poverty reduction

Yet, despite its importance, agriculture has grown more slowly than industry or services, accounting for its declining share in Tanzania's GDP. Between 2006 and 2016, agriculture grew at an average rate of 3.5% per year, and growth accelerated to 4.8% between 2018 and 2020. This growth-rate is in line with the sub-Saharan average (4.4%) but remains below the estimated level of 6% per annum needed to achieve the goals of the Tanzania Development Vision 2025.[135]

However, the growth achieved in the agricultural output is largely due to an increase in the amount of land under cultivation, rather than an increase in productivity. According to the World Bank (2022e), between 2007 and 2016, the land under cultivation increased by 7.7% annually, but land productivity growth stagnated at 0.4%, and labour productivity grew at a modest 1%.

[135] idem

According to Maliti, E. (2018), Tanzanian Maize farmers are five times less productive than farmers in China.

The low productivity of agriculture in Tanzania is due to a number of interrelated challenges faced by the sector.

The below list outlines some of the key challenges:

- Poor production techniques: Most Tanzanian farms are not using modern production techniques, including fertilizers, improved seeds, herbicides, irrigation, and mechanized traction. The World Bank notes that "by 2020, only 35% of farms used non-manual traction, 23% used organic fertilizer, 12% used herbicides, and 9% used irrigation, and 24% of land under cultivation used improved seed varieties."[136] As a result, crop yields of smallholders are less than a third of their potential.
- Lack of infrastructure: Inadequate road-networks and lack of access to electricity constrain access to markets, and inadequate storage infrastructure often leads to high post-harvest losses by rural farmers.[137]
- Decline in extension services: Only 7% of Tanzanian farmers reported having access to extension services in 2020, down from 67% in 2008.[138]
- Inadequate access to finance: Only 8% of commercial bank lending went to agriculture in 2019/20.[139]
- Soil degradation: The World Bank has estimated that 61% of Tanzania's soils are degraded, leading to estimated costs of US$ 2.2 billion per annum. Climate change is predicted to aggravate the problem of soil degradation in the future.[140]
- Gender gap: Women-headed smallholder farms are between 20-30% less productive, due to inferior access to agricultural inputs, extension services or family labour. They also tend to invest less in crop production and are less likely to use improved seeds.[141]
- Inequitable Land Rights: Customary laws and practices often prevent women farmers from accessing or controlling land.[142]
- Low foreign investment: Only 4% of all Foreign Direct Investment inflows to Tanzania between 2007 and 2017 went to the Agriculture, Forestry and Fishing sector.[143]

Source: compiled from World Bank (2022e) and URT (2023)

The fact that the sector is largely composed of smallholders cultivating 1 to 2 hectares also means that they are too small to achieve significant economies of scale and are more likely to be taken advantage of by middlemen.

As a result of these challenges, the potential of the agriculture sector to contribute to the reduction of poverty and inequality in Tanzania remains underexploited.

Despite the continuing challenges facing the agriculture sector, there are some signs of a beginning transformation of the sector. According to World Bank (2019a), since 2008, there has been an increase in the number of mid-size farms, when compared to the majority of the small-holder farms. While the increase is marginal (only 2.5 percentage points, bringing the total share to 10.5% of all Tanzanian farms), they account for a larger share of land under cultivation (from 23% in 2008 to 37% in 2014), as well as agricultural output (where their share rose from 18% to 30%)[144]. These

The low productivity of agriculture in Tanzania is due **to a number of interrelated challenges**

Customary laws and practices often prevent **women farmers from accessing or controlling land**

[136] World Bank (2022e)
[137] URT (2023)
[138] National Sample Census of Agriculture, quoted in World Bank (2022e)
[139] Bank of Tanzania, quoted in World Bank (2022e)
[140] World Bank (2022e)
[141] World Bank (2019a)
[142] URT (2023)
[143] Bank of Tanzania, quoted in World Bank (2022e)
[144] See World Bank (2019a)

mid-sized farms tend to sell their crops, seek extension services, and use modern farming techniques, such as non-manual traction and improved seeds, and hire more labour. As a result, the productivity of their land grew twice as fast as the average.

The growth and technological advantages from these medium-sized firms also generated positive spillovers to smallholders, who are becoming more commercially oriented, leading to productivity increases. According to the World Bank analysis, the share of traditional non-commercial smallholders, who live on the low incomes of their farms, declined from 43% in 2008 to 31% in 2014, while the share of commercialized and more productive smallholders increased from 19% to 25%. They also find that the labour productivity of commercial smallholders was 50% higher than that of non-commercial ones. The World Bank (2019a) also sees an incipient trend of greater non-farm employment in rural areas, noting that between 2008 and 2014, the share of rural households deriving most of their income from agriculture fell from 97% to 91%, and the share of households engaged in agriculture fell from 82% to 73%.

The trends towards the emergence of medium-sized farms may have been facilitated by the high food prices seen in 2008, as well as the impact of the government's National Agricultural Input Voucher Scheme instituted in 2007 to subsidize the use of seeds and fertilizers at a time of rising prices.[145]

As can be seen from the figures quoted above, the transformation remains modest, and has not yet resulted in a sustained increase in agricultural labour productivity. To support this trend and overcome some of the challenges facing the agriculture sector in Tanzania, further support will be required. Policies should be designed in such a way so as to maximise the spillovers from the growth-poles and to ensure that smallholders are not left behind.

Agricultural development policies in Tanzania

Policies to support agricultural development have been at the heart of Tanzania's development strategy since its independence in 1964. In his Arusha Declaration of 1967, Tanzania's first President Julius K. Nyerere placed significant emphasis on the need to increase productivity in agriculture. He noted that Tanzania had so far placed too much emphasis on industrial development and argued that increasing food production was the only way Tanzania would develop.[146] In order to achieve this goal, he proposed a large-scale modernization of agriculture through the use of new farming techniques, as well as a reorganization of agricultural production to achieve greater scale economies. This involved the formation of cooperative villages ("Ujamaa"), which allowed a group of farmers to work together on joint plots and take joint decisions. In 1973, this policy was being more strictly enforced, and several million Tanzanian farmers were re-settled in planned villages, often by force, so as to increase agricultural production. However, the programme did not bring the desired increases in productivity. While the goal of greater economies of scale and more modern production techniques was well-intentioned, several factors undermined the result. These include the fact that the locations of the new planned villages were often chosen based on political or practical expediency, rather than agricultural suitability. Sometimes farmers had to walk for miles from their villages before reaching suitable plots.

[145] World Bank (2019a)
[146] Nyerere, J.K. (1968) "The Arusha Declaration", in "Ujamaa – Essays on Socialism", Oxford University Press, London, 1968

Also, the new farming techniques were not always suitable to the Tanzanian soils in all locations, and ignored the traditional agricultural knowledge accumulated by the local farmers about their plots. Furthermore, given the incentive structures, farmers did not always give priority to the communal fields of the village in their work allocation.[147] As a result, agricultural production contracted sharply, and food crops had to be increasingly imported to meet domestic demand.

The fall in agricultural production and increased import demand were one of the reasons for the balance of payments crises experienced by Tanzania in the 1980s, which led to the implementation of structural adjustment programmes. These programmes focused on liberalization of domestic prices, and abolished many agricultural support policies, including fertilizer subsidies, input licensing and marketing boards for key commodities.[148] Although they served to restore macroeconomic stability and growth, the structural adjustment programmes and their associated unilateral trade reforms also led to the collapse of several industries[149] and exposed farmers to the vagaries of the market, which had implications for poverty and inequality.

In the 1990s and 2000s, the government introduced reforms to reduce the role of the state in the agriculture sector, including by lowering taxes and tariffs, and introducing various tax incentives for investment.

Today, the government uses a variety of policies to achieve a number of public policy goals in the agriculture sector. In addition to supporting agricultural production, other policy goals include maintaining low domestic food prices for urban consumers or supporting the development of agri-food processing industries. In his study of the political economy of agricultural policies, R.H. Bates (1981) shows how some policies pursued in support of these goals can affect different groups, including urban consumers, agro-processors and rural agricultural producers.[150]

Export bans

Tanzania has periodically resorted to export bans of key export crops such as maize or rice at times of global price rises. These export bans were intended to safeguard the food supply for domestic consumers, and to maintain a lower domestic price level. While export bans are not the optimal way of cushioning the effects of global price shock, they are often used in the absence of better available alternatives, such as targeted subsidies or releasing of food stocks.

A number of studies have examined the impact of such bans on domestic prices and producer welfare. A study by IFPRI[151] uses a Computable General Equilibrium model to assess the growth and welfare effects of maize export bans. The study finds that the ban has only a limited impact on domestic food price inflation, lowering the national food price index by only 0.6–2.4 per cent. Furthermore, the study argues that the benefits of lower prices are captured primarily by urban households, while maize producer prices decrease by 7–26 per cent, depending on the region. As a result, the IFPRI researchers also find that the export ban raised national poverty rates by 0.4%. In addition, the study argues that the imposition of an export ban reduces the incentive to invest in the sector, resulting in a long-run reduction of growth.

[147] For a description of the villagization process and its challenges, see Scott, J.S. (1998)
[148] See URT (2013)
[149] See UNCTAD (2022a)
[150] For example, he cites the case of the Tanzania Sisal Authority, a monopsony buyer of domestic sisal production, which sold its sisal to domestic agro-processors at reduced prices (below world market price), and exported the remainder. However, it reimbursed the domestic producers on the basis of its average sale prices, including the reduced price charged to domestic agro-processors. The cost of the subsidy to domestic agro-processors was thus borne by domestic sisal producers.
[151] Diao, X. et al (2013)

The World Bank has further argued that the imposition of export bans might prevent neighbouring countries from relying on imports for essentially food security needs, thus restricting future export growth opportunities.[152]

These adverse consequences of export bans for rural producers are confirmed by a study[153] using household survey-data to identify the micro-level effects of an export ban on maize in Tanzania. The study finds that following the ban, 43% of maize farmers interviewed reduced their maize production, switching to cultivating other crops. Furthermore, 63% noted that they now only produced maize for household consumption.

Similar effects have also been found for the use of export bans on rice. According to CARI (2018), the imposition of an export ban on rice from July to September 2016 led to a reduction of farm-gate producer prices by 8%. At the same time, the study notes that the ban did not succeed in lowering domestic prices, as processors and traders hoarded supplies, leading to a 17% increase in domestic rice prices. Finally, the study shows that export bans do not always succeed in completely preventing cross-border trade, as exports of rice were registered even during the ban. The fact that farm-gate prices can fall while consumer prices for rice increase shows how intermediate actors can sometimes capture the gains from interventions.

In light of these considerations, the government of Tanzania has worked to limit the use of export bans since 2017.

However, the rise in food prices due to the Russia-Ukraine war, the El Nino phenomenon as well as the impact of climate change, has led several countries, including Tanzania, to reintroduce some food export bans.[154]

Export taxes

Tanzania is currently imposing an export tax on raw cashew nuts at the rate of 15% of the Free on Board (FOB) value, or US$ 160/MT, whichever is higher, as well as on Wet Blue leather, at the rate of 10% on the FOB value.[155] The goal of the export tax on cashews is to support the development of the local cashew processing industry.[156]

Economic analysis suggests that export taxes are not usually a first-best policy instrument to support industrialization, and that other policy-instruments will have fewer price-distorting and welfare-reducing effects. However, it is also recognized that, when some of the first-best policy instruments are not available, export taxes – in combination with other policy interventions – can be one of the second-best policy tools deployed, at least as a short-run measure.[157] According to a dataset on export taxes covering the period 2007-2012, more than half of all countries in the world applied export taxes, with the policy most frequently being employed in Africa, where 91% of countries used them.[158]

However, the use of export taxes in pursuit of public policy goals such as industrialization will also have distributional effects, including on poverty. According to an analysis by the World Bank, the export tax on raw cashew nuts has reduced farmgate prices for producers by 14%.

152 World Bank (2019a)
153 Makombe, W. and Kropp, J.D. (2016)
154 E.g. on onions. See https://apnews.com/article/food-prices-export-bans-climate-change-aa7135b3a7f5ef9df440e94825880346
155 Tanzania Revenue Authority : https://www.tra.go.tz/index.php/export-procedures#:~:text=All%20Exports%20are%20free%20of,exporting%20raw%20hides%20and%20skin.
156 See Cashewnut Board of Tanzania: https://www.cashew.go.tz/wp-content/uploads/2022/09/TAX-NON-TAX-2-INCENTIVES-V3.pdf
157 See for example: Piermartini, R. (2004)
158 Solleder, O. (2013)

The reason for this is that Tanzania exports 90% of its cashews raw and has a global market-share of 6% in raw cashews, meaning it is a price-taker on global markets.[159] The findings of the World Bank are in line with the welfare analysis of an export tax in the context of a small country, which leads to income losses for the producers of the taxed good. If the export tax lowers the farm-gate prices of cashew-producers, it is likely to have had an adverse effect on poverty.

The design of industrial policy interventions such as an export tax should aim to consider and mitigate the effect of the policy on the poor. The government could consider reducing the negative impact of the export tax on farmers by passing some of the tax revenue on to affected farmers. Similarly, alternative ways of raising revenue to support cashew processors, such as drawing on progressive domestic taxation, could be more equitable.

Import tariffs

The government uses import tariffs to protect domestic rice producers from cheap imports and to encourage increased domestic production.

Rice is the second most important food-crop in Tanzania (after maize) and is grown by an estimated 18% of farm households.[160] It is also an important source of food in urban markets, with Dar-es-Salaam accounting for 60% of domestic rice consumption.[161] Given this prominent role of the crop as a source of food, employment and livelihoods in Tanzania, it has been referred to as a "political crop".[162]

While the productivity of rice-farming in Tanzania is low compared to Asian producers, Tanzania has increased production significantly, more than quadrupling its output in the last two decades. Today, Tanzania is the largest producer of rice in the EAC. The increase in production is due both to an expansion of the land used for rice-cultivation and to increases in yield. If average yields between 2000 and 2005 were 1.9 tonnes per hectare, they reached 2.9 tonnes per hectare between 2017 and 2021.[163]

The East African Community (EAC) imposes a common external tariff of 75% or US$ 200/MT (whichever is higher) on all imports of rice from outside the economic community. However, the Customs Union Protocol includes flexibilities that allow its Member States to seek derogations to apply different tariffs on a time-limited basis. In the case of mainland Tanzania, the applied tariff has therefore varied between 15% and 75% in the past 10 years.[164]

The application of the tariff raises domestic prices of rice, increasing the returns to domestic producers but reducing the welfare of consumers. The aggregate impact on poverty depends on the relative distribution of the poor between these two groups. As rice is produced by a large share of rural farmers, including many commercialized smallholders, the higher prices are likely to have contributed to poverty reduction in rural areas. However, higher prices for a staple food also affect the urban poor negatively. If the amount of poor rural smallholders benefiting from higher prices exceeds the number of urban poor, the aggregate effect of the tariffs on poverty reduction would be positive.

As discussed for the case of export taxes above, the objective of supporting rural rice farmers could be achieved more effectively and with less market distortions through alternative measures.

[159] World Bank (2019a)
[160] Busungu, C. (2023)
[161] Wilson, R. and Lewis, I. (2015)
[162] See Andreotti et al (2021) and Mdoe, N. and Mlay, G. (2021)
[163] Calculated from data in Busungu.C. (2023)
[164] For Zanzibar, the tariff is significantly lower.

However, in the case of cash-strapped governments, import duties serve the dual purpose of raising government revenue (through tariffs), and providing some price protection to farmers. At the same time, they increase domestic prices for consumers of rice, which is likely to be more regressive than raising tax revenue from taxpayers only.

Several studies have argued that most of the benefits of tariff protection are captured by other actors in the value-chain. A study by the World Bank and the UN Food and Agriculture Organization found that the import tariffs only raised farmgate prices for producers by about 14% on average, compared to an overall price margin provided by tariff protection of about 51%. According to the study, high transport costs mean that a large part of the protection margin is captured by urban wholesalers and traders. A second factor relates to the small and unpredictable volumes offered by farmers, limiting their capacity to negotiate terms with traders. Lastly, the farmers often lack access to storage facilities or financing, limiting their alternative options for negotiation with traders.[165] Other studies point out that the effect of the tariff is undermined by exemptions as well as smuggling, which create opportunities for rent-seeking.[166]

Input Subsidies

The government has further supported agricultural production through the subsidization of inputs, such as enhanced seeds or fertilizers.

In 2008, the Tanzanian Ministry of Agriculture implemented the National Agriculture Input Voucher Scheme (NAIVS) to respond to the rise in fertilizer prices in 2007/8, and to encourage increased grain production.[167]

The NAIVS provided maize and rice farmers with vouchers for a 50 per cent subsidy for the purchase of chemical fertilisers and improved seed. Priority was given to female-headed farms and first-time users of fertilizers. Between 2008 and 2014, vouchers were provided to more than 2.5 million households, and by 2014/15, expenditure for subsidized inputs accounted for 34% of the budget of the Ministry of Agriculture, Food Security and Cooperatives (MAFC).[168] The programme is credited with leading to an increase in fertilizer use among farmers[169], which also led to increases in the yields of maize and rice, as well as an expansion of overall output.[170]

Evaluations of the NAIVS highlighted some challenges related to logistics, targeting and sustainability, which undermined the effectiveness of the scheme. Logistical challenges included farmers receiving their vouchers late, including after the planting season began. There were also delays in the payments to agro-dealers and suppliers, which slowed implementation. It has also been argued that the effectiveness of the programme could have been enhanced through better targeting of fertilizer use. Lastly, there was a need to improve the sustainability of the scheme, as the majority of beneficiaries did not continue to buy fertilizer after the end of the subsidy.[171] By only targeting farmers able to cover half of the cost of the inputs provided, the scheme did not tend to benefit the poorest farmers. It has also been argued that the NAIVS may have facilitated a consolidation among farms, with smaller farmers selling their input vouchers to other farmers.[172] There has also been anecdotal evidence of abuse of the programme through the use of fraudulent vouchers, but this is likely to have been minimal.[173]

[165] World Bank (2019a)
[166] See Andreotti et al (2021) and Mdoe, N. and Mlay, G. (2021)
[167] World Bank (2014)
[168] World Bank (2022e)
[169] See Maliti, E. (2018)
[170] World Bank (2014)
[171] Idem.
[172] See for example Mdoe, N. and Mlay, G. (2021)
[173] World Bank (2014)

Concerns over budgets and inadequate targeting led the government to allow the program to run out in 2015. In 2017, the government replaced the NAIVS with the Fertilizer bulk procurement system (BPS) and indicative price system. However, in 2021 the use of these systems was abolished, and the market for fertilizers was completely liberalized. Some support is still being provided to fertilizers for strategic crops, such as cotton, cashew nuts and tobacco. However, a more general fertilizer support system may be reintroduced to address the shocks of Covid and the impact of the Ukraine war.

Agricultural taxes

A number of agricultural taxes and fees charged at the Local Government level ("cess") contributed to the financing of local government structures and government revenue, but they also reduced agricultural profits. Taken together, they often accounted for more than 10% of farmgate prices. In the case of cashew, they had to be added to the 15% export tax, resulting in a total tax rate of 25%.

Since 2018, the government has significantly strengthened its commitment to agricultural development of Tanzania. It adopted the Second Agriculture Sector Development Program (ASDP II), outlining its support programs until 2028. ASDP II aims to promote commercialization, prioritize specific commodity value-chains, and expand the role of the private sector in agriculture to increase investment. As part of its more market-driven approach, the government has begun to reduce the policy-interventions in the agriculture markets and plans to focus more on providing the public goods required to support private engagement in agriculture. For example, the government removed more than 100 fees and taxes, and reduced the crop "cess" to a maximum of 3% of farmgate prices. As described earlier, a commitment was made to avoid the imposition of export bans, and programs to provide broad fertilizer subsidies were discontinued. [174]

In April 2022, the government announced a new agricultural transformation strategy entitled "Agenda 10/30", which aims to achieve a 10% annual growth rate in agricultural output by the year 2030. To achieve this goal, the government aims to support output growth in 13 priority crops, including through interventions supporting the use of modern inputs, mechanization, the expansion of irrigation, enhancing extension services and improving market infrastructure. The strategy also aims to implement credit-guarantees to attract more private sector funding to the sector and hopes to increase youth-participation.[175] In addition, there are plans to significantly expand the amount of land allocated for agricultural production and attract additional labour to the sector, including by allocating land to smallholders, and through the creation of "block farms". These plans were followed up by tripling the agricultural development budget, from TZS 294 billion in 2021/22 to TZS 954 billion in 2022/23.[176] Agricultural development received a further boost in the following budget, up to TZS 1.2 trillion in 2023/24.[177]

Some observers have noted that the planned expansion of land and labour may not promote the needed structural transformation.[178] Others have raised concerns that it risks supporting large Tanzanian agribusiness more than providing ownership to smallholder farmers.[179]

[174] World Bank (2019a)
[175] See https://kilimokwanza.org/transforming-tanzanias-agricultural-landscape-the-agenda-10-30-roadmap/
[176] https://www.undp.org/tanzania/blog/tanzania-economic-transformation-key-developments
[177] https://www.deloitte.com/tz/en/services/tax/analysis/nurturing-the-seeds-of-prosperity-of-tanzania-agriculture.html
[178] https://www.undp.org/tanzania/blog/tanzania-economic-transformation-key-developments
[179] See: https://grain.org/en/article/7070-a-new-wave-of-land-grabs-strikes-tanzania

The announcement of Agenda 10/30 combined with the sharp increases in the agricultural budget demonstrate a new focus on agricultural development in Tanzania, which has the potential to bring significant benefits in terms poverty and inequality reduction.

Recommendations

The government should expand programmes offering **access to finance to smallholders for relevant investments**

The agriculture sector provides livelihoods for most of the poor in Tanzania and holds the key to sustainable poverty reduction. After decades of slow growth in the sector, the government has recently made agricultural development a key priority. The below recommendations aim to support efforts to make agriculture an engine for poverty reduction.

- **Increase the agricultural support budget:** Addressing the needs of rural smallholders in the areas of technology, seeds, fertilizers, irrigation and infrastructure will require a scaling up of the agricultural budget. The recent quadrupling of the budget over two years demonstrates the commitment of the government to the sector. However, Tanzania's agriculture budget remains below the benchmark of 10% of government expenditure agreed by all AU Member States in the Comprehensive African Agricultural Development Programme (CAADP) in 2003.
- **Focus on supporting productivity:** While expansions of land under cultivation can drive additional output, the focus of support programmes should be on increasing productivity.
- **Promote fertilizer use:** There remains a need to increase the use of fertilizer in the sector. Average fertilizer use in Tanzania is 8-10kg/ha, far below the target of 50 kg/ha set by African governments in the 2006 Abuja Declaration on Fertilizer for the Green Revolution.[180] The government should build on the lessons learned in the NAIVS and other fertilizer support schemes to implement a new program to promote fertilizer use, including among the poorest farmers.
- **Expand extension services:** The provision of extension services to smallholders can improve farming knowledge and techniques, and encourage the use of fertilizers and improved seeds, increasing agricultural productivity. The government should also study ways of strengthening the effectiveness of extension services, including through ICT tools and relying on social learning.
- **Promote access to finance:** Smallholders are often prevented from making small investments in improving their productivity by the lack of access to finance. The government should expand programmes offering access to finance to smallholders for relevant investments.
- **Scale up irrigation coverage:** Currently, only 2.5% of the land that could be irrigated benefits from irrigation.[181] Expanding the coverage promises significant productivity gains. Agenda 10/30 includes a commitment to increase the area under irrigation to 50%.
- **Coordinate agricultural and industrial policies:** Policies to promote the development of agro-processing industries should be coordinated with wider agricultural policies to avoid penalizing agricultural producers.
- **Mitigate the impact of trade measures on poverty:** Agricultural trade measures imposed in pursuit of different public policy goals (e.g. promoting industrialization, or reducing domestic prices) can have an important impact on poverty. Efforts should be made to take into account and mitigate these impacts.

180 World Bank (2019a)
181 URT (2024)

- **Invest in lower-cost and climate resilient seed-varieties:** Reducing the costs and strengthening the climate-resilience of seeds will increase uptake of improved seeds by farmers and help protect yields in the face of climate-change.
- **Expand road and electricity-infrastructure:** High transport costs due to inadequate road infrastructure and lack of storage and processing facilities due to lack of electricity are among the factors causing farmers in remote areas to suffer high post-harvest losses.

Gender inequality

Gender equality is a matter of human rights, equity, and social justice, and therefore a goal that should be pursued for its own sake. But beyond its intrinsic worth, the reduction of gender inequality also brings important benefits for inclusive growth and development.[182]

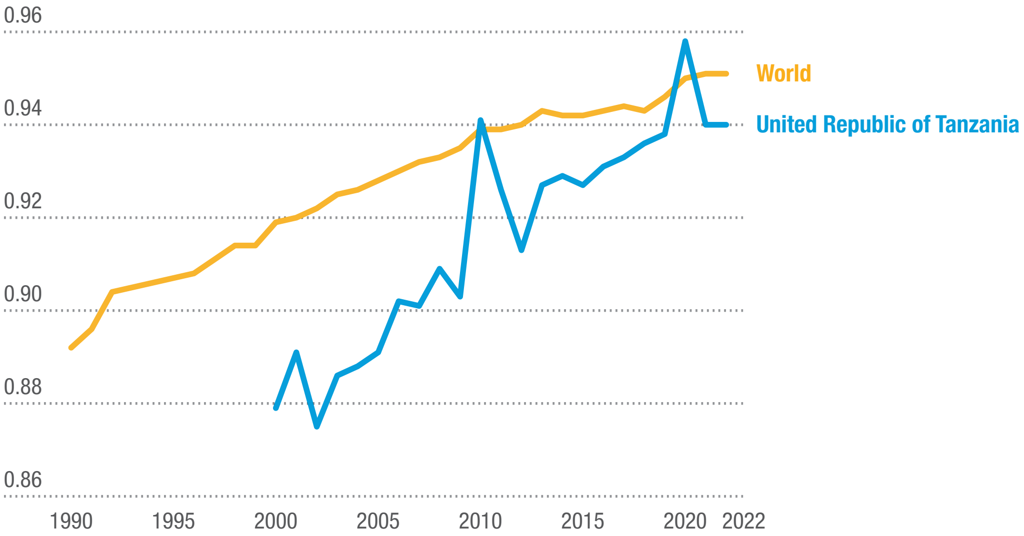
By enlarging the labour force and increasing the availability of human capital, it supports the efficient allocation of labour and generates higher productivity.[183]

Tanzania has made substantial progress in the promotion of gender equality across many dimensions, ranging from political representation, education, and health to economic empowerment. Its overall progress on gender equality is reflected in its performance on many of the multidimensional indices measuring various aspects of gender equality.

The Gender Development Index (GDI) compiled by UNDP assesses the level of gender parity in the achievement of human development in its dimensions of education, health, and income. It is measured by the ratio between the female Human Development Index and the male Human Development Index, implying that a ratio of 1 would entail perfect gender parity in the enjoyment of Human Development.[184]

Tanzania has progressively **narrowed the gender gap in human development**

Figure 44
Gender Development Index



Source: UNDP

[182] See for example Bertay, A.C. et al (2020)
[183] See also UNCTAD (2022)
[184] N.B. The GDI does not measure the overall level of Human Development enjoyed by men and women, it merely focuses on the difference between men and women.

Tanzania' GDI score has increased from 0.879 in 2000 to 0.94 in 2022. It shows that women are disadvantaged in enjoying the dividends of human development, as the GDI is below 1[185] The evolution of the Tanzanian score of the GDI shows that Tanzania has progressively narrowed the gender gap in human development, and has achieved the world average, but progress has stalled lately. (See Figure 44):

The progress achieved is also well reflected in the Global Gender Gap Index compiled by the World Economic Forum, which in 2023 ranked Tanzania in 48th place out of 146 countries, up from 82nd place in 2021 and 64th in 2022.[186] The Global Gender Gap Index benchmarks the current state and evolution of gender parity across four key dimensions (Economic Participation and Opportunity, Educational Attainment, Health and Survival, and Political Empowerment).

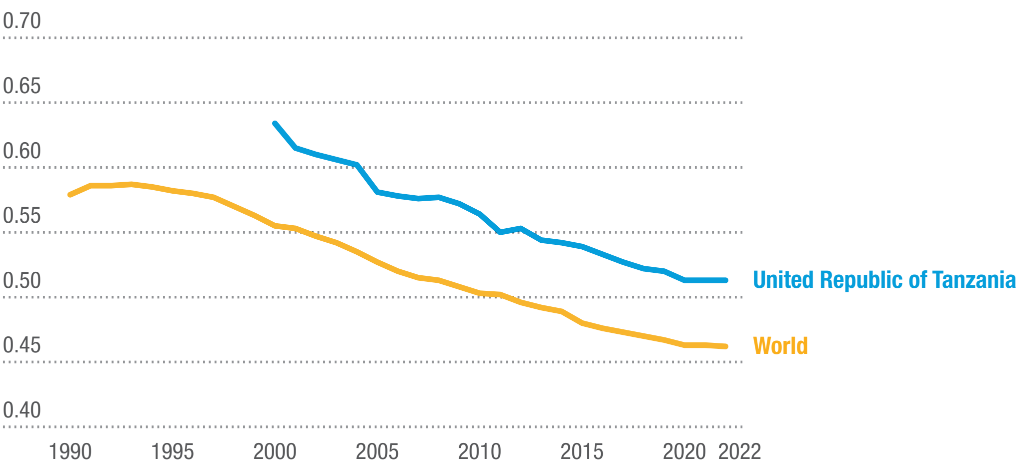
The UNDP's new Gender Inequality Index (GII) takes a slightly different approach and aims to measure the loss in human development due to inequality between female and male achievements in three dimensions: reproductive health, empowerment, and labour market.

Here Tanzania performs worse than the world average, with a GII score of 0.513 in 2022, ranking 131 out of 170 countries. It means that Tanzania experiences significant losses in potential attainment in Human Development due to gender inequalities. Figure 45 shows the gap between Tanzania's performance and the average for the world.

Government policies to address gender inequality

Gender equality is enshrined in Tanzania's Constitution, which prohibits discrimination based on sex. As noted by Jahari et al. (2023), the principle of gender equality is also integrated in numerous national plans, such as the National Women and Gender Development Policy of 2000, the National Strategy for Gender and Development of 2008, the 2016 National Plan of Action to End Violence Against Women and Children, and the Tanzania Development Vision 2025, as well as the Zanzibar Development Vision 2025.

Figure 45
Gender Inequality Index



Source: UNDP

[185] See Msafiri, D. (2023)
[186] WEF (2023)

Tanzania has also signed most of the international conventions related to gender equality, such as the UN Convention on the Elimination of All Forms of Discrimination Against Women, the Protocol to the African Charter on Human and People's Rights on the Rights of Women in Africa, and the Southern African Development Community protocol on Gender and Development.[187]

The World Bank's Gender Assessment of Tanzania for 2022[188] provides an overview of some of the key policies and legal frameworks to support the achievement of gender equality. They include the National Education Act of 1978 (Mainland) and the Zanzibar Education Act of 1982, which established free and compulsory basic education for all children and brought about a significant increase in school enrolment in Tanzania. The positive impact that these policies have had on gender equality remains evident today. This can be seen from the fact that in mainland Tanzania, girls' enrolment rates in higher school grades which are not covered by the policies remain lower than in the basic education covered by the policies.

In the area of health, the National Road Map Strategic Plan to Accelerate Reduction of Maternal, Newborn and Child Deaths in Tanzania (2016-2021) and a similar Roadmap for Zanzibar (2019-23) have aimed to take a holistic approach to maternal, adolescent and child health services, integrating considerations on Gender-based Violence, and human rights.

In the economic sphere, the Employment and Labour Relations Act (2004) and the Employment policy (2008) prohibit discrimination in the workplace and require equal remuneration for equal work. They also protect pregnant women from dismissal and provide protection from sexual harassment at the workplace.

In order to ensure women can benefit equally from land ownership, the Inheritance Act (1963), the Lands Act (1999) and the Village Lands Act (1999) protect women's rights to hold land. The Inheritance Act recognizes the rights of women to inherit land, even though in the customary land tenure system, land is inherited by male family members only. Given that women's access to land ownership is often hindered by customary laws, the Village Lands Act specifically invalidates any customary law that may deny women, children or persons with disabilities lawful access, ownership, occupation, or use of such land.

Lastly, the National Plan of Action for Violence Against Women and Children (2016) and the revisions to the Law of Marriage Act (1971) aim to reduce teenage pregnancies, address female genital mutilation/cutting, and drastically reduce child marriage. The Law of Marriage Act sets the minimum age for marriage as 15 for girls with their parents' approval (14 with court approval), and 18 for boys. However, in 2016, the High Court of Tanzania ruled this provision unconstitutional. The Appeals Court reaffirmed this finding in 2019 and requested the Government to change the minimum age of marriage for girls to 18 within one year.[189]

Progress and remaining challenges on gender equality

As indicated by the Tanzania's performance on the Gender Development Index and other multidimensional indexes on gender equality, the country has made significant progress on gender. However, further efforts are required to achieve the goal. This section addresses some of the key achievements and challenges in the different dimensions of gender equality.

[187] Jahari et al. (2023)
[188] See World Bank (2022c)
[189] The overview is drawn from World Bank (2022c)

In 2022 women held 36% of cabinet positions **and 36.1% of parliamentary seats**

Political representation: In 2021, Tanzania gained its first female president, Ms. Samia Suluhu Hassan, while in February 2022, the Hon. Ms. Tulia Ackson was elected as Speaker of the Parliament of Tanzania. The representation of women in political offices at national level has risen in Tanzania, and in 2022 women held 36% of cabinet positions and 36.1% of parliamentary seats.[190] Tanzania is ranked 40th in the world and 9th in Africa in terms of women's representation in Parliament, largely due to special seats for women. While these shares are broadly similar to those of Tanzania's neighbours Uganda and Kenya, they lag behind those of Rwanda, where the share of women in the cabinet is 50% and the share of women in parliament is 61%.[191]

However, at the sub-national level, the participation of women in leadership positions is much lower. At the Council level, the representation of women was 29.5%, but only 6.5% were elected. At the Ward level, only 2.7% of Council Chairpersons are female.[192] Also, female representation in leadership positions in the private sector is much lower. Only 14% of firms have female top managers.

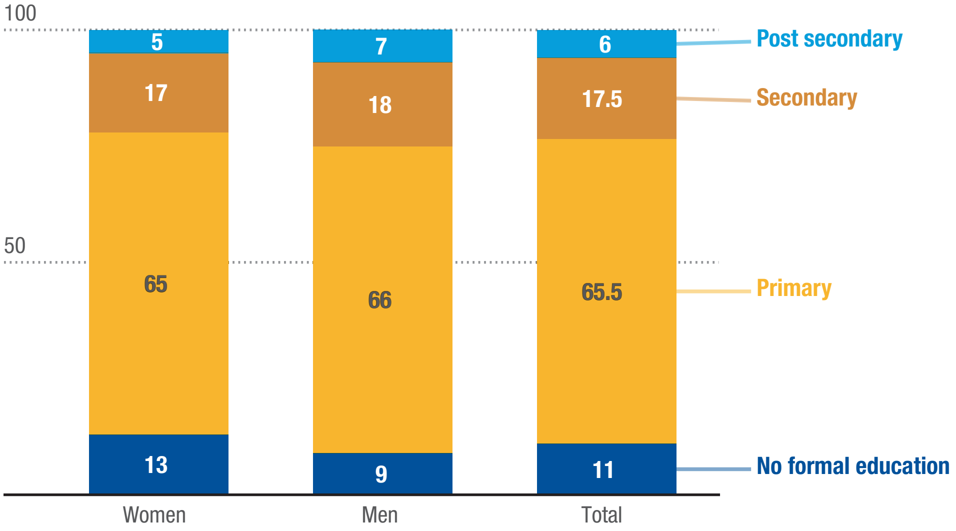
Educational attainment: Significant progress has been made towards gender-equality in education. According to Jahari, C. et al. (2023) women and men are about equally likely to have primary schooling (65% versus 66%), secondary schooling (17% versus 18%) and post-secondary education (5% versus 7%). However, women are slightly more likely than men to lack formal education (13% versus 9%). (See Figure 46) According to Msafiri, D. (2023), the Gender Parity Index, which measures the ratio of girls to boys enrolled in public and private school, exceeds 1 for both gross primary and gross secondary school enrolment. However, while the GPI is close to 1 or even exceeds 1 for pre-primary, primary and lower secondary education, it quickly falls to 0.78 for upper secondary education (forms 5 and 6) on the mainland. In Zanzibar, the GPI remains above 1 for all forms 1-6, though falling significantly from 1.4 for form 4 to just over 1 for forms 5 and 6.[193]

Health: Despite efforts to expand the coverage and targeting of the health care system in Tanzania, and successes achieved in reducing the maternal mortality ratio, there remain a number of challenges related to gender-parity in the health sector. Tanzania's fertility rate remains at 4.8 children per woman (a decrease from 6.2 in 1991), which is higher than the averages for Sub-Saharan Africa (4.6) and Eastern and Southern Africa (4.3). The higher rate is partially driven by high adolescent fertility and early marriage, which in turn is associated with decreased economic activity, lower levels of education, poverty, and decreased agency.[194] Challenges also remain with broadening access to family planning and healthcare, and with addressing Female Genital Mutilation/Cutting.

Economic: Tanzania has achieved good progress in expanding women's economic opportunities. Its female labour-force participation rate is among the highest in Africa, having increased from 67% to 80% in the first two decades of new millennium. In the same period, the ratio of women to men in jobs paying wages and salaries rose from broadly 1/3 to just under 2/3.[195] Women account for 48.8% of the labour force, and Tanzania is among the world's highest scoring countries on progress in reducing income-gaps between men and women on the Global Gender Gap report.[196]

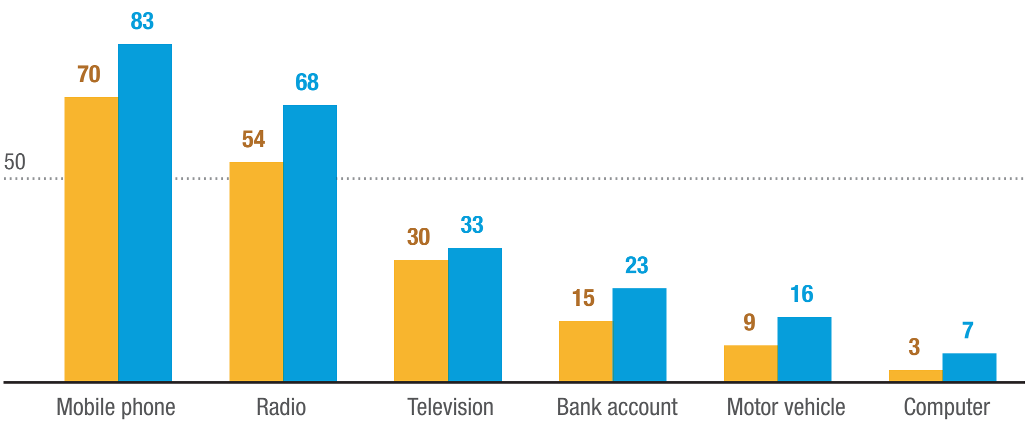
190 URT (2023)
191 Msafiri, D. (2023)
192 URT (2023)
193 World Bank (2022c)
194 World Bank (2022c)
195 World Bank (2022d)
196 WEF (2023)

Figure 46
Education attainment by gender in Tanzania, 2022
(Per cent)



Source: Jahari, C. (2023)

Figure 47
Asset ownership by gender, Tanzania, 2022
(Per cent)



Source: Jahari, C. et al (2023)

However, there are a number of areas where women continue to face disadvantages. Women in Tanzania are more likely to be unemployed than men. Tanzania's decline in the unemployment rate from 10.5% in 2014 to 9.3% in 2020/21 is largely explained by a decline in the unemployment rate of men (by 2.4%), while the rate stayed largely the same for women over the same period.[197] There is also a gender-gap in the level of agricultural productivity – a key variable for poverty reduction, in light of the large share of the poor working in the agricultural sector. On average, women's agricultural productivity is estimated to be 20-30% lower than men's, largely due to their lack of access to male family labour as well as lower access to agricultural implements and pesticides.[198]

[197] Msafiri, D. (2023)
[198] World Bank (2022d)

Create targeted initiatives to support **women's access to agricultural inputs**

Women further continue to face obstacles to land ownership, despite their formal equal rights. While about 25% of men own land, the same ratio for women is only 8%. Women also have lower control of assets. They are considerably less likely than men to own a mobile phone (70% versus 83%), a motor vehicle (9% versus 16%) or a computer (3% versus 7%). Lastly, they are less likely to have a bank account (15% versus 23%), indicating a degree of financial exclusion.[199] (See Figure 47). Also, women and girls aged 5+ spend 16.5% of their time on unpaid care and domestic work, compared to 4.2% spent by men.[200]

Gender-based and Sexual Violence: Despite the progress achieved on gender equality in some areas such as political representation and economic empowerment, Tanzania continues to face serious challenges in combatting gender-based and sexual violence. In health surveys, the share of women who reported having experienced physical violence increased from 25% in 2010 to 27% in 2015/6. [201] According to UNWOMEN "In 2018, 24.3% of women aged 15-49 years reported that they had been subject to physical and/or sexual violence by a current or former intimate partner in the previous 12 months. Moreover, women of reproductive age (15-49 years) often face barriers with respect to their sexual and reproductive health and rights: in 2016, 55.1% of women had their need for family planning satisfied with modern methods."[202] The issue of child marriage also continued to be a concern: "In 2021, 19% of women aged 15 years or older, and 16% of women aged 20-24 were married before the age of 18."[203] Nevertheless, there has been some progress in addressing the issue of Female Genital Mutilation/Cutting (FGM/C), as the share of women who were subjected to FGM/C declined from 18% in 1996 to 10% in 2015/6.[204]

In 2022, the percentage reported for mainland Tanzania was 11%, with a higher share in rural areas (12%) than in urban areas (7%).[205]

Recommendations

Tanzania has already made substantial progress on gender inequality in many areas. However, further efforts are needed to reap the full benefits. The below recommendations identify some areas for additional policy and operational focus.

- **End child marriage:** Child marriage undermines the rights of girls to education and autonomy, and leads to teenage pregnancies, which are highly correlated with underperformance on a number of other socio-economic indicators.
- **Address Gender-Based Violence:** There is an urgent need for action against gender-based violence, an area where Tanzania has regressed in recent years. Potential actions include the adoption of a law against domestic violence, strengthening of the institutional monitoring and support structure (e.g. health centres, justice system and survivor support), and increasing outreach and sensitization campaigns.
- **Promote women's right to own land:** Despite the legal right to own land, women continue to face obstacles from customary laws and practices, preventing them from obtaining land ownership. The government could consider promoting the co-titling land, including female spouses. This can be done through awareness-raising or incentives. Such programmes have shown promising results in other developing countries.

199 Jahari, C. et al (2023)
200 Data from UNWOMEN (https://data.unwomen.org/country/united-republic-of-tanzania)
201 Msafiri, D. (2023)
202 UNWOMEN (https://data.unwomen.org/country/united-republic-of-tanzania)
203 URT (2023)
204 Msafiri, D. (2023)
205 URT (2023)

Over time, this may serve to break the social prejudice against female landownership, which is holding back the economic and social empowerment of women.[206]

- **Support women's access to agricultural inputs:** Create targeted initiatives to support women's access to agricultural inputs, including fertilizers, pesticides, and agricultural equipment.
- **Strengthen women's financial inclusion:** There is also a need for further programs to address the barriers women face in accessing financial services and to support financial inclusion.
- **Promote girls' education:** Most of the gains in gender parity have been achieved through the policy of making basic education both compulsory and free. However, gender parity rates drop in the higher grades of secondary education. The government should consider multisectoral programs to promote a greater share of girls to complete secondary education.
- **Support women's health:** Promoting broader access to family planning, and the fight against Female Genital Mutilation/Cutting are key priorities.
- **Promote cross-sectoral collaboration on gender issues:** Many of the challenges on gender equality are closely interrelated and require better inter-sectoral coordination of interventions. For example, the National Accelerated Investment Agenda for Adolescent Health & Wellbeing aims to assist adolescents to achieve a productive adulthood by 1.) preventing HIV, 2.) preventing teenage pregnancies, 3.) preventing physical, sexual and emotional violence; 4.) improving nutrition, 5.) keeping boys and girls in school, and 6.) developing skills for meaningful economic opportunities.
- **Change societal perspectives:** Beyond the specific policy-areas, there is a continued need to address the underlying cultural and social perspectives on gender, which are hindering progress in many different areas. This can be achieved through continued sensitization and consistent messaging.

The government should consider multisectoral programs to promote a **greater share of girls to complete secondary education**

[206] World Bank (2022d)

6.
The long-run objective: Building productive capacities

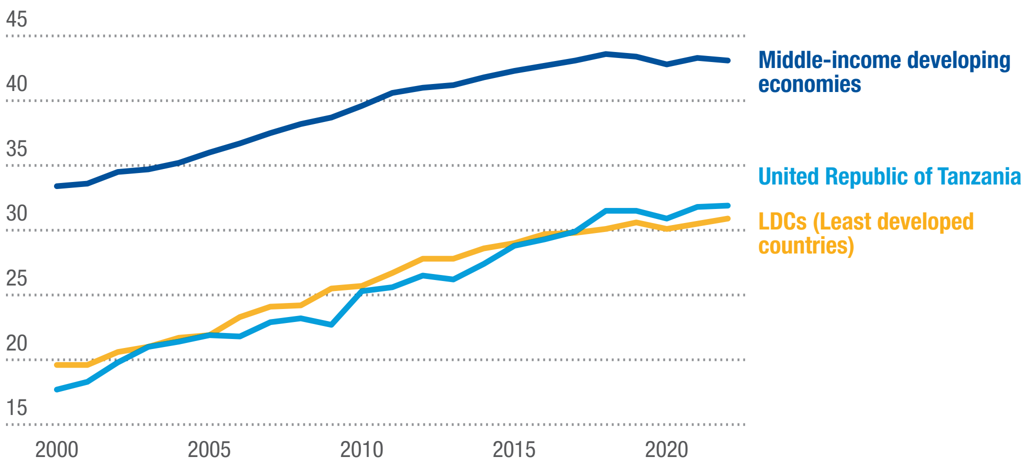
While the policy-areas outlined in chapter 5 promise effective results on reducing poverty and inequality in the short- to medium run, the optimal way to achieve sustainable poverty reduction and greater equality in the long run is the building of productive capacities.

Building domestic productive capacities is a prerequisite for successful integration in the world economy, inclusive growth, and for raising the revenue needed to ensure no one is left behind, without relying on donor funds.

UNCTAD defines productive capacities as "the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop."[207]

Based on the original concept, UNCTAD has developed a multidimensional index to measure productive capacities. The Productive Capacities Index (PCI) can be used to identify areas where Tanzania's productive capacities still lag behind its peers in the LDC group or in the Middle-Income group of countries. UNCTAD's PCI measures productive capacities in eight categories: Human Capital, Natural Capital, Private Sector, Institutions, Structural Transformation, ICT, Transport, and Energy. It draws on 42 indicators to compute scores in the eight categories, and the overall PCI score is the geometric mean of the eight scores. The overall index ranges from 0 to 100, with an increase representing an improvement in the overall levels of productive capacities.[208]

Figure 48
Productive Capacities Index score



Source: UNCTAD/Stat

[207] UNCTAD (2006)
[208] For more details on the methodology, see UNCTAD (2023)

The aggregate Tanzanian PCI score remained just below the average PCI score of the LDC group for most of the past two decades

Like all multidimensional indices, the PCI is a simplification of the inputs required to achieve productive capacities. The weighting of the different components does not give consideration to their evolving role in the development process, or to their relative importance in a development strategy. The examination of the aggregate score should therefore always be supplemented by an examination of the component scores. Figure 48 shows the evolution of the aggregate PCI score for Tanzania, as well as the average score for LDCs and for Middle-Income countries.

As can be seen in Figure 48, the aggregate Tanzanian PCI score remained just below the average PCI score of the LDC group for most of the past two decades, while occasionally reaching the average of the LDCs. Since 2017, the PCI of Tanzania has exceeded the average of the LDCs slightly.[209] However, Tanzania remains far below the average PCI score of Middle-income countries.

An examination of the performance of Tanzania on the eight components of the PCI provides greater insight into the areas where it lags behind its LDC peers. Despite starting at a lower level, Tanzania caught up with its LDC peers in the area of Human Capital. Tanzania has further outdone its LDC peers in areas including Information and Communication Technologies, institutions, private sector facilitation and structural transformation. However, Tanzania's PCI score remains below the LDC average for Natural Capital, Energy, and Transport.

Separate efforts have been made to develop strategies for Tanzania to enhance its productive capacities.[210] An operational strategy developed by UNCTAD recently[211] outlined a number of recommendations on how Tanzania can strengthen its productive capacities across the different components.

In the area of energy, for example, the strategy highlights that there is a need for the government to strengthen efforts to encourage and incentivize greater private sector investment to boost electricity generation and to diversify the energy mix to include renewable sources such as solar and wind, in addition to the current reliance on gas and hydropower. Similarly, there is a need to reduce energy transmission losses.

In the area of transport infrastructure, the study highlights the high cost of transport, which is reducing the competitiveness of domestic entrepreneurs in export markets. It also leads farmers to prefer selling their goods at the farm gate, rather than to take their harvest to nearby markets. Lowering transport costs will require creating more transport linkages between rural areas and local markets. Increasing the proportion of paved roads in the total road network and greater investment in railway infrastructure as well as key bridges and flyovers to improve traffic flow would also support economic development.

While Tanzania has outperformed the LDC average in the component of Information and Communications Technology (ICT), the country still faces challenges including weak access to ICT services, low utilization of new technologies, and poor ICT infrastructure. The strategy highlights the importance of increasing the internet penetration rate, creating greater awareness among the population of the importance of ICT, and extending ICT services to underserved communities in both rural and urban areas. It also stressed the need for building human capacity on ICT and providing supporting ICT infrastructure.

Recognizing the progress that Tanzania has made in building human capital through its provision of education and high enrolment ratios, the strategy notes the need for more efforts to create educational opportunities for women in areas that are essential for building productive capacities, especially science, technology, engineering and

[209] Due to data limitations, more than 50% of the indicators for the PCI values for Tanzania for 2021 and 2022 have been imputed.
[210] See for example UNCTAD (2022) and UNCTAD (2022a)
[211] This section draws on UNCTAD (2022a)

mathematics (STEM). It also highlights the continuing skills mismatch, and the opportunities for finding a better balance between the provision of professional skills by formal educational institutions and technical skills by technical and vocational education and training (TVET), including by increasing the number of TVET institutes in the country, and strengthening the quality of TVET curricula and their relevance to the private sector. Skills challenges could also be addressed through building partnerships between universities and other tertiary education institutions with industry. Lastly, industry could be incentivized to provide better training to employees.

Institutions is another component of productive capacities where Tanzania already performs better than the average of the LDCs. However, there remains potential to further strengthen the capacity of the public sector to design and implement policies, rules and regulations. There is also a need to improve the remuneration of civil servants to reduce the incentives for rent-seeking. Greater transparency and accountability in government will also serve to strengthen trust between the citizenry and government. This could be achieved by introducing more results-based management principles in government and strengthening monitoring and evaluation in the public sector. Lastly, reducing the monopoly power of certain service-providers could also enhance the delivery of public services.

To support the development of the private sector, the report highlights the need for greater support to informal firms to formalize their operations. It also suggests the adoption of instruments such as fiscal incentives and local content requirements to strengthen linkages between small and large firms as well as between domestic and foreign firms. The strategy notes that one of the key challenges facing private sector enterprises (including agricultural firms as highlighted in this paper) is the lack of access to finance. In this context, the strategy proposes the creation and strengthening of credit bureaus, as well as the setting up of development banks. In addition, the government can facilitate the use, adoption and adaptation of technology to improve firm competitiveness, including through attracting FDI, harnessing the diaspora, and encouraging immigration of skilled professionals.

In the area of promoting structural transformation, the report stresses the importance of prioritizing the development of manufacturing industries, including with Special Economic Zones and Export Processing Zones. The government should also take measures to increase the percentage of FDI that goes into the manufacturing sector and consider the gender implications of different techniques of production. In addition, the government could make it easier for investors to have access to land for manufacturing development.

Lastly, to better harness Tanzania's ample natural resources for development, the report argues that the government should gear more natural resources rents towards supporting the goal of manufacturing development, for example by building key infrastructure to reduce trade and transport costs. The government could also give consideration to further measures to strengthen linkages between the extractive sectors and other sectors in the economy.

Beyond the recommendations on how to strengthen the eight components of productive capacities, the report also highlights several cross-cutting issues to support the development process in Tanzania. These include issues such as addressing policy incoherence, better harnessing gender potential for productive transformation, developing and diversifying exports, and harnessing regional economic cooperation.

In the long run, further progress on building productive capacities across all the components will provide a sound basis for inclusive and sustainable development in Tanzania, which lies at the heart of the reduction of poverty and inequality.

Further progress on building productive capacities across all the components **will provide a sound basis for inclusive and sustainable development in Tanzania**

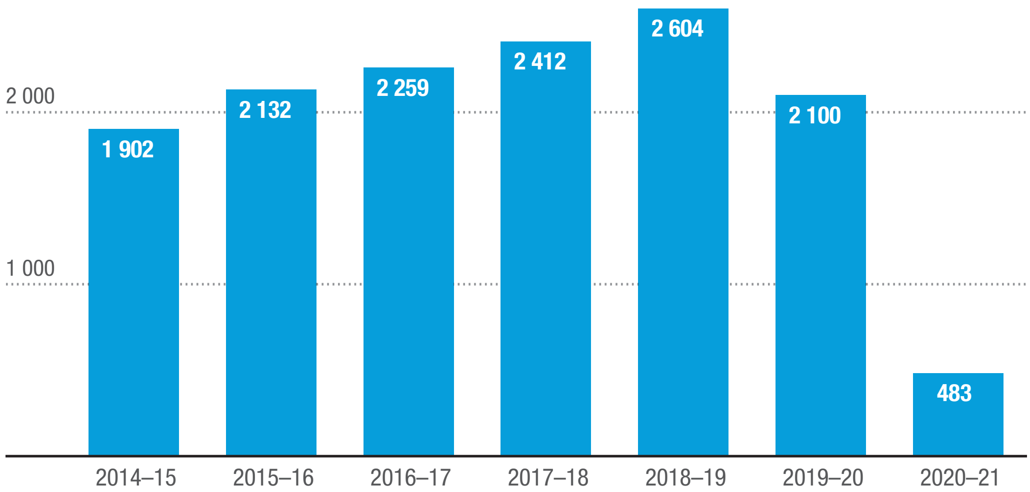
7.
Impact of the Covid-19 pandemic and other recent crises

The outbreak of the Coronavirus pandemic in early 2020 led to the infection of more than 776 million people and caused the deaths of more than 7 million people.[212] The pandemic and related health restrictions and precautionary measures also plunged the world economy into an economic recession, which had significantly adverse consequences for some of the vulnerable populations in developing countries. Due to country-lockdowns, disruptions in supply and falls in demand, the world economy contracted by an estimated 3.8% in 2020. International trade and investment fell even more sharply, with merchandise trade contracting by 7.7%, while global services exports fell by 17.7%. Foreign Direct investment also collapsed, falling by 42%.[213]

Tanzania reported its first Coronavirus case on 17 March 2020. As case-numbers increased in the following days, the government initially ordered the closure of schools as well as a number of restrictions on public gatherings. However, the government quickly reversed its decision to lock down the country, and by June 2020, most of the restrictions had been lifted. The government also stopped reporting coronavirus cases in the first week of May 2020, rendering it impossible to monitor the progression and impact of the disease. Following the death of President Magufuli in 2021, the government officially acknowledged the presence of Coronavirus in Tanzania, restarted reporting cases, and joined the COVAX facility to obtain vaccines for its population.

Tanzania weathered the crisis relatively well, when compared to its neighbours

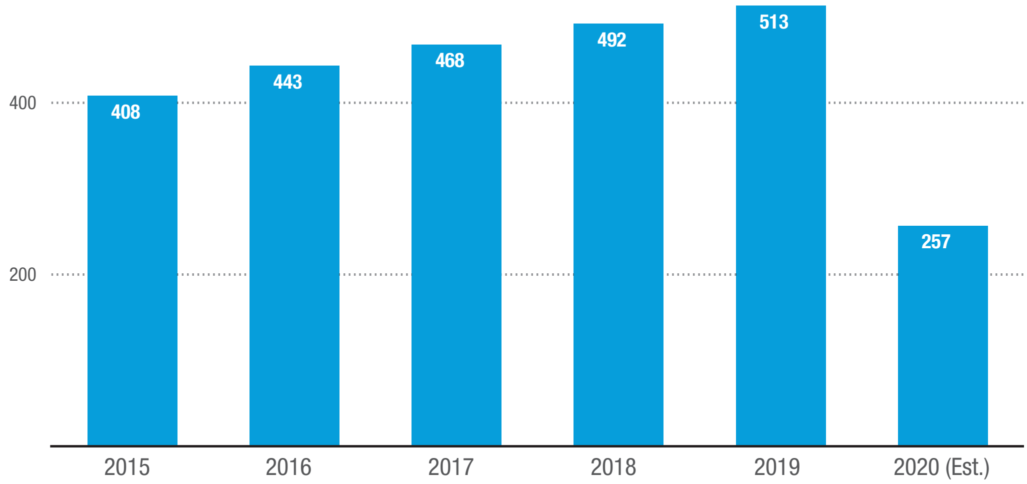
Figure 49
International tourism receipts for Tanzania
(US$ million)



Source: World Bank (2021)

[212] For the latest data see the WHO dashboard: https://data.who.int/dashboards/covid19/cases?n=o (accessed on 25/10/2024)
[213] All data from UNCTADStat

Figure 50
Direct employment in travel and tourism in Tanzania
(1,000 people)



Source: World Bank (2021)

According to the latest available statistics by the WHO, by October 2024, Tanzania counted 43,244 Coronavirus cases, and 846 fatalities.[214]

With regard to the economic impact, Tanzania weathered the crisis relatively well, when compared to its neighbours. The lack of lockdowns limited the impact of the disease on the economy, and Tanzania was able to avoid a recession. However, Tanzania was affected by international transmission of the economic slowdown through trade and finance, as well as by the precautionary measures taken by people even in the absence of formal movement restrictions. As a result, growth slowed significantly. The real GDP growth rate of Tanzania fell from 6.95% in 2019 to 4.76% in 2020, a fall of more than 2 percentage points. Annual average growth in GDP per capita also slowed from 3.8% in 2019 to 1.7% in 2020. Tanzania's growth was affected by a slowdown in exports of tourism services, as well as other traditional exports, as tourism arrivals declined sharply. As a result, revenues and employment in the tourism sector are estimated to have fallen by 77% and 50% in 2020, respectively. (See Figures 49 and 50).

Real GDP growth rate of Tanzania fell from 6.95% in 2019 to 4.76% in 2020

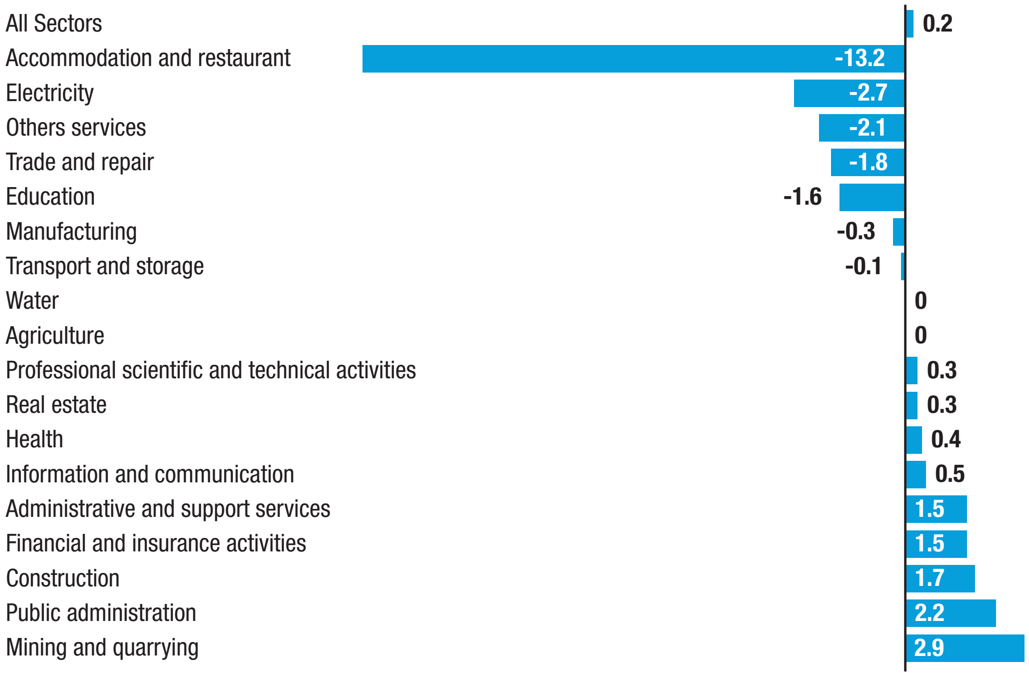
This is significant as tourism contributed around 17% of GDP in 2019 and accounted for 25% of FDI inflows in 2017.[215]

However, the overall impact on exports was mitigated by the fact that gold prices rose sharply during the pandemic, and gold accounts for 33% of export revenues of Tanzania. At the same time, the overall decline in exports in Tanzania did not result in a balance of payments crisis, as imports declined more. This was due to a fall in the price of oil (Tanzania's principal import), as well as falling demand for capital goods.

With regard to the impact on domestic sectors, it has been estimated that the accommodation and restaurant sector (linked to tourism) was most sharply affected, experiencing a 13.2% reduction in sectoral GDP. Other sectors, including manufacturing, other services and trade and repair only saw much smaller reductions in GDP, while some sectors, including mining & quarrying, construction, real estate, health and information and communications actually saw increases in sectoral GDP.[216] (See Figure 51)

[214] WHO dashboard (accessed 25/10/2024)
[215] World Bank (2021)
[216] Kisenga, E. et al (2021)

Figure 51
Estimated shocks to GDP across industries, Tanzania, 2020
(Per cent)



Source: Kisenga, E. et al (2021)

With regard to overall employment, a World Bank survey carried out in June and July 2020 estimated that the pandemic caused the loss of 140,000 formal jobs, and reduced income opportunities for at least 2.2 million workers in the informal sector.[217]

The Government response to mitigate the economic impact of the pandemic was comparatively limited: To support the private sector, the Government expedited the payment of US$ 376 million in VAT-reimbursements, giving priority to affected SMEs. The government also paid an additional US$ 32.1 million in additional unemployment claims. The Bank of Tanzania took action to support economic activity, including lowering the discount rate from 7% to 5%.[218] However, these initiatives were limited in scope and were unlikely to have a direct effect on the informal sector, where large parts of the most vulnerable population were working.

The economic impact of the pandemic also increased poverty in Tanzania. According to a World Bank estimate[219], the pandemic-induced economic slowdown may have pushed an additional 600,000 people below the national poverty line, compounding the effect of population growth on the number of the poor. The national poverty rate in Tanzania increased to an estimated 27.1% in 2020, up from 26.1% in 2019. Measured at the international extreme poverty line, poverty rose from 49.3 per cent to 50.4 per cent.

The impact of the pandemic on the poorest and most vulnerable was most likely mitigated by the fact that about 70% of the poor work in rural agriculture and were able to sustain themselves from their farm outputs. A UNU-Policy Brief[220] finds that while overall household consumption in Tanzania decreased by 0.8% in 2020, the greatest decreases were experienced in

[217] World Bank (2021)
[218] World Bank (2021)
[219] World Bank (2021)
[220] Kisenga, E. et al. (2021)

the top three household income quartiles, rather than the poorest quartile, which saw their average consumption decrease by only 0.2%. However, the pandemic had a significant impact on urban poverty, which is estimated to have increased by 5.5 percentage points between 2019 and 2020[221] With regard to inequality, the UNU-WIDER study estimates that the pandemic only led to a modest increase in the country-wide Gini-coefficient of 0.12 percentage points (from 38.18 to 38.30).[222]

The conflict in Ukraine created significant new challenges for Tanzania and its efforts to reduce poverty and inequality

After the initial shock in 2020, Tanzania's economy recovered comparatively well. After annual GDP growth slowed to 4.76 per cent in 2020 (1.65 per cent in per capita terms), Tanzania's growth began to improve again in 2021, when the economy expanded by 4.91 per cent (1.8 per cent in per capita terms). The national poverty rate is estimated to have declined marginally to 27.0 per cent in 2021, particularly due to signs of improvement in non-farm household income.[223]

In early 2022, the conflict in Ukraine created significant new challenges for Tanzania and its efforts to reduce poverty and inequality. The war in Ukraine affected Tanzania through two main channels: Firstly, through its impact on the prices of food and fertilizers. Secondly through its impact on the prices of oil and gas.

The conflict created significant supply disruptions in major food and energy commodities. As noted by the United Nations Global Crisis Response Group, the Russian Federation and Ukraine together "provide around 30 per cent of the world's wheat and barley, one-fifth of its maize, and over half of its sunflower oil. At the same time, the Russian Federation is the world's top natural gas exporter, and second-largest oil exporter. Together, neighbouring Belarus and the Russian Federation also export around a fifth of the world's fertilizers."[224] The global supply disruptions led to increases in the global prices for wheat and barley, fertilizers, and energy.

The global price increases had an impact on Tanzania, which imports a large proportion of its wheat, sunflower oil and fertilizer from the Russian Federation. According to a UNWOMEN Rapid Assessment[225], Tanzania produces 100,000 tons of wheat annually compared to local demand for 800,000 tons, and 70% of the difference is imported from the Russian Federation. Similarly, less than half of Tanzania's annual domestic demand for 570,000 tonnes of edible oil can be met by local production. The supply disruptions for these commodities resulted in significant price increases in Tanzania. Local prizes of sunflower oil, for instance, nearly doubled between January 2020 and May 2022. Tanzania also imports 20% of its fertilizers from Russia, whose prizes more than doubled since the outbreak of the conflict. UNWOMEN notes that, in the Magu district of Mwanza, a 50 kg bag of Urea fertilizer sold at TZS 60,000 before the beginning of the Russia-Ukraine conflict but cost 150,000 TZS thereafter. Similarly, the price of Diammonium Phosphate (DAP) fertilizer increased from TZS 60,000 to TZS 140,000.

Oil prices also increased significantly, with a significant effect on Tanzania, which is a net-fuel importer. For example, in Dar es Salaam, the price of petrol increased from TZS 2,540 per litre in March to TZS 3,410 per litre in August 2022. The rise in fuel prices also drove up the cost of transportation.[226]

221 World Bank (2021)
222 Kisenga, E. et al. (2021)
223 World Bank (2022e)
224 "Global impact of war in Ukraine on food, energy and finance systems", UN Global Crisis Response Group Brief No. 1, 13 April 2022, available on: https://unctad.org/system/files/official-document/un-gcrg-ukraine-brief-no-1_en.pdf
225 UNWOMEN (2022)
226 Ibid.

According the same UNWOMEN survey, transportation from Kabila to Magu cost TZS 1,500 – 2,000 before February 2022, but the price had risen to TZS 3,000 – 4,000 in August. This in turn raised the prices of traded commodities.

The price increases observed for some of the agricultural commodities were exacerbated by the effects of extreme weather events and climate change in Tanzania. The World Bank notes that "In 2022, four of what are usually rainy months ranked among the ten driest months in the past five decades, while some regions saw heavy rains in what are normally non-rainy seasons. The atypical rainfall was further accentuated by the El Nino phenomenon and destroyed farm fields, livestock, and agricultural infrastructure, slashing production of major staple foods." [227]

The poor used a number of strategies to cope with the price rises, ranging from drawing on savings, seeking credit, selling assets, cutting down on non-food expenditures, using substitutes for inputs whose prices were rising, returning to subsistence agriculture, and cutting down on food consumption. As noted by the respondents in the UNWOMEN survey cited above, recipients of TASAF/PSSN social protection funds were among the most affected, as the fixed payments lost purchasing power as goods prices increased.

The government of Tanzania implemented a number of programmes to mitigate the impact of the price rises. The government spent TZS 100 bn per month to subsidize fuel imports and stabilize pump prices. It also allocated TZS 150 bn to subsidize fertilizers for agricultural production, and provided farmers with sunflower seeds to boost production of sunflower oil.[228] Furthermore, the Central Bank of Tanzania tightened its monetary policy to reduce inflation.

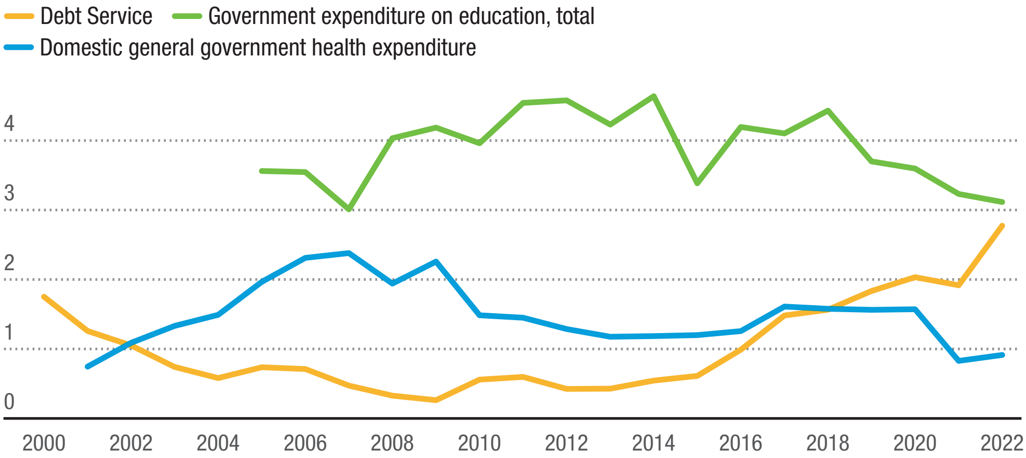
According to World Bank (2023), headline consumer prices index inflation rose from 3.7% in 2021 to 4.4% in 2022, with almost half of this increase due to higher food and energy prices. Food price inflation increased by 3 percentage points to 7.3% in 2022, while energy, fuel and utilities price inflation increased by 6 percentage points, to 9.1%.

Tanzania also saw its debt servicing costs rise significantly, from 0.4% of GDP in 2012 to 2.8% of GDP in 2021

Figure 52

Tanzania debt service, and government expenditures on health and education as a share of GDP

(Per cent)



Source: World Development Indicators

[227] World Bank (2024)
[228] UNWOMEN (2022)

However, core inflation remained subdued, and even fell from 4.1% in 2021 to 3% in 2022. This means that headline inflation in Tanzania was at least 3 times less than the estimated average for Sub-Saharan Africa in 2022, which was 14.5%. It is to be noted that Tanzania also maintained exchange-rate stability vis-à-vis the US dollar, and thus did not face the inflationary pressures deriving from devaluations as experienced in other Sub-Saharan countries.[229]

The emergence of inflation in 2022 led to a rise in global interest rates, which increased the debt-servicing costs for many debtor countries, further decreasing their fiscal space and reducing their ability to mitigate the social effects of the crisis. Tanzania also saw its debt servicing costs rise significantly, from 0.4% of GDP in 2012 to 2.8% of GDP in 2021, but falling back to 2.6% in 2022. As a result, Tanzania's annual debt service costs now exceed its annual domestic government expenditure on health, and almost equal its annual expenditure on education. (see Figure 52).[230]

GDP growth in Tanzania slowed to 4.75% in 2022, but the overall impact of the Ukraine conflict and climate change on the poverty rate in 2022 is estimated to be muted, though the number of the poor is likely to have increased. The World Bank estimates that the poverty rate has remained broadly constant at 27% in 2022.[231] However, due to population growth, the stalled progress on poverty reduction has meant that the total number of people below the national poverty line is likely to have increased since 2018 and reached about 15 million in 2022. This highlights the challenge posed to poverty reduction efforts by rapid population growth and underlines the importance of continued efforts to build human capital.

The rise in food prices due to the impact of the conflict in Ukraine in 2022 could provide an additional impetus for increasing agricultural production, supporting poverty reduction efforts, and strengthening social protection systems.

[229] World Bank (2023)
[230] See also UNCTAD's "A world of debt" dashboard: https://unctad.org/publication/world-of-debt/dashboard
[231] World Bank (2023)

8. Conclusion

Tanzania is one of the fastest-growing countries in East Africa, achieving an average annual GDP-growth rate exceeding 6% for the two decades preceding the Covid-19 pandemic. This growth has allowed the country to make significant gains in terms of human development and poverty reduction and led it to achieve the status of a Lower Middle-Income country in July 2020.

However, despite its rapid growth, its experience in reducing poverty and inequality has been mixed. While growth supported rapid poverty-reduction between 2001 and 2012, since then poverty reduction has ground to a halt and even reversed. And even at its height, poverty reduction remained behind the levels expected given its economic growth. Today, almost half of the population continue to live in extreme poverty (when measured at the international poverty line), while an estimated 27% of the population live below the national poverty line. With regard to inequality, Tanzanian growth was accompanied by rising levels of inequality between 2001 and 2007, falling levels of inequality between 2007 and 2012, and rising levels of inequality again between 2012 and 2019. This changing pattern of poverty and inequality implies that the growth elasticities of poverty and inequality in Tanzania have changed over time. Identifying the causes of this changing growth elasticities could help policymakers design policies to shape a more inclusive growth pattern for Tanzania that reduces poverty and inequality (as was the case between 2007 and 2012).

This paper has examined a range of possible explanations for the shifting growth elasticities of poverty and inequality in Tanzania between 2000 and 2019, including an external shock, domestic development spending, investments in social services, a changing sectoral composition of growth, and the impact of ODA.

Fiscal policy is a key tool for achieving a reduction of poverty and inequality, and it is underutilized in Tanzania

In Tanzania, the coverage of **social protection systems remains very limited**

While none of the explanations considered serve to perfectly explain the data, it is likely that the changing sectoral composition of growth accounts for some of the variation in poverty reduction rates observed. This is particularly the case for the slowdown in the growth of the agriculture sector. However, the changing sectoral composition of growth does not fully account for the observed pattern of inequality. Further research may be needed to explain the evolution of the growth elasticities of poverty and inequality in Tanzania. Finding the answer can support efforts by policymakers to re-create the inclusive growth pattern experienced by Tanzania between 2007 and 2011/12.

Against this backdrop, this paper explores four policy areas where Tanzania can strengthen its efforts to reduce poverty and inequality in the short-term. These are fiscal policy, social policy, the agriculture sector, and gender equality.

Fiscal policy is a key tool for achieving a reduction of poverty and inequality, and it is underutilized in Tanzania. Tanzania currently achieves a tax revenue as a share of GDP of 11.3%, more than 3% of GDP less than the sub-Saharan average. While the tax system reduces overall inequality in Tanzania, some of the indirect taxes tend to affect the poor disproportionally. Elements to consider in strengthening the effectiveness of fiscal policy in reducing poverty and inequality would be reducing exemptions to the corporate income tax, making far greater use of the property tax, and imposing a small wealth tax, in light of the important level of concentration of wealth in the highest income decile. Consideration could also be given to lowering the VAT threshold, if the revenue collected is targeted at pro-poor interventions. There is also a need to increase the tax base and strengthen the capacity of the Tax Authority to achieve higher tax collection, including through greater sensitization, information, and the use of electronic tools.

Social policy is the complementary tool to fiscal policy to achieve redistributive goals, but also serves a function in supporting economic growth, by unleashing innovation and entrepreneurship. In Tanzania, the coverage of social protection systems remains very limited, with contributory systems covering 12 -13% of the formal labour force. Recent efforts to extend coverage of contributory systems to the informal sector are a step in the right direction, but they are unlikely to make a significant contribution to poverty reduction. Tanzania's Productive Social Safety Net (PSSN) programme provides non-contributory social protection to some of the poorest and most vulnerable populations. However, to date its coverage remains limited to 1.1 million households. The programme should be expanded to cover a greater share of the vulnerable population, even beyond the government's current plan to achieve coverage of 1.3 million households. At the same time, there is a need to complement the conditional cash transfers with better training and capacity-building for economic development as well as related technical assistance, so as to ensure that the beneficiaries do not fall back into poverty once support ceases. This would also be in line with the government's emphasis on rewarding work. Furthermore, the targeting should be improved. Lastly, the government should expand the National Informal Sector Scheme, including by lowering its premium.

The agriculture sector holds the key to sustained reduction of poverty and inequality in Tanzania

The agriculture sector holds the key to sustained reduction of poverty and inequality in Tanzania. It employs 65.5% of the population and provides livelihoods for 75.5% of the poor. Growth in the agriculture sector has been shown to lead to more poverty reduction than growth in other sectors. As a result, Tanzania will not be able to achieve significant progress on poverty reduction without progress in the agriculture sector. However, despite its central importance, agriculture continues to be among the slowest-growing sectors in Tanzania.

Agricultural productivity is undermined by poor production techniques, lack of infrastructure, inadequate extension services, soil degradation, gender-productivity gaps, inequitable land rights, lack of access to finance and low foreign investment. Any growth achieved in the sector was largely due to an expansion in land under cultivation. In addition, some of the trade measures imposed to affect agricultural markets, including export bans and taxes, as well as import tariffs, have important impacts on rural agricultural producers and poverty. After several years of low growth in the sector, the government has recently given new priority to agriculture with the announcement of Agenda 10/30. To achieve the transformation of agriculture required for poverty reduction, the government should consider increasing the agricultural support budget beyond the levels already achieved and focusing interventions on increasing productivity rather than expanding land under cultivation. Investments in irrigation should be scaled up to expand coverage. Targeted programmes should be designed to promote fertilizer use - building on the lessons of the NAIVS – and support access to finance for farmers. Extension services should be expanded and be made more effective, including by relying on ICT tools. In addition, the government should strengthen the coordination of its agricultural and industrial policies to avoid penalizing small producers. Similarly, greater efforts are needed to address and mitigate the effects of agricultural trade measures on the poor.

The last area discussed is gender equality. Tanzania has already made good progress on gender equality, for example in the areas of political representation at national level, school enrolment for mandatory education, and access to health services. However, there are several areas remaining, where further efforts would serve to empower women and contribute to the reduction of poverty and inequality. Women are still less likely than men to enrol in non-mandatory education and are more likely to be unemployed. Their economic empowerment is further undermined by social prejudice against land ownership, which also reduces their ability to use land as a collateral for financial loans. Women are also less likely to have access to agricultural inputs, including fertilizers, pesticides, and other agricultural equipment. Combined with their inability to count on male family labour, this results in a productivity gap of 20-30% for women-headed smallholder farms. Beyond the economic sphere, women's lives are adversely affected by the practise of Female Genital Mutilation/Cutting (FGM/C), and child marriage. Child marriage is one of the factors explaining the high rate of adolescent fertility, which can have significant adverse consequences in terms economic and educational achievement as well as agency. Lastly, women still face high and rising levels of gender-based violence in Tanzania. In this context, there is a need for the Government of Tanzania to address these remaining obstacles to gender equality, including through targeted initiatives to support girls' enrolment in higher education as well as women's access to agricultural extension services and finance. Programs to provide initiatives for co-titling land have also been successful in other contexts. Beyond the economic sphere, the government should raise the minimum age for marriage for girls to 18, as requested by the High Court in 2019. It should also give greater support to programs to address FGM/C and gender-based violence. The Government's new National Accelerated Investment Agenda for Adolescent Health and Wellbeing with its centrally coordinated but multidisciplinary approach may be a step in the right direction.

> **Women are still less likely than men to enrol in non-mandatory education** and are more likely to be unemployed

While these policy areas provide significant opportunities to strengthen the growth-elasticities of poverty and inequality in the short- to medium-run, sustainable reduction of poverty and inequality in the long run will require Tanzania to achieve a higher level of overall development by building productive capacities, including through strengthened investments in energy and transport infrastructure, technical

Sustainable reduction of poverty and inequality in the long run will require Tanzania **to achieve a higher level of overall development by building productive capacities**

education and ICT penetration. Policies should also aim to strengthen access to finance for private businesses, and harness tools such as Special Economic Zones to attract Foreign Direct Investment and foster structural economic transformation.

In 2020, the Covid-19 pandemic caused a global health crisis as well as an economic recession. In Tanzania, the economic impact of the crisis was felt through the loss of income and employment from the tourism sector, as well as through the loss of other non-farm employment. However, the lack of a lockdown as well as the rising gold price meant that Tanzania was able to avoid an economic recession, though growth slowed by 2 percentage points in 2020. It is estimated that poverty headcount ratio (at the international extreme poverty line) increased by 1 percentage point as a result of the pandemic, and that about 600.000 persons were pushed into poverty in Tanzania. The impact on the rural poor is estimated to have been more muted due to their ability to rely on agriculture.

In 2022, the effect of the Covid-pandemic on the global economy was compounded by the impact of the conflict in Ukraine, which led to increases in the prices of food, fuel and fertilizers. In Tanzania, the prices of several agricultural commodities, fertilizers and transport costs doubled. The government of Tanzania reacted through significant programs to reduce domestic prices, and the overall impact on poverty in Tanzania is estimated to be smaller than feared. While the number of people in poverty is likely to have increased, the overall poverty rate is estimated to remain stable.

Together, the two crises highlight the importance of strengthening agricultural productivity and fostering resilience among the vulnerable populations by building strong social protection systems.

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