



Shaping the Macro- Economy in Response to COVID-19: A Responsible Economic Stimulus, a Stable Financial Sector and a Revival in Exports: Tanzania Country Report

Prepared by:
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EXECUTIVE SUMMARY

This paper discusses macro-economic policy options to recover from the Covid-19 pandemic in Tanzania. Unlike other countries, the country's approach to the pandemic has been to allow "business continuity" without restricting any economic activity or putting in place any stimulus package but advising the people to take precautionary measures. However, the government has been implementing fiscal and monetary policy interventions that enabled the World Bank to declare Tanzania as a country that succeeded in avoiding a recession in 2020 amidst the pandemic and as of August 2021 all recovery indicators remained positive as discussed subsequently. Measures being undertaken by government to help the economy to bounce back and build better to achieve pre-covid-19 sustained real GDP growth of between 7-8 percent by 2025 are discussed in this paper.

Tanzania avoided recession in 2020, but COVID-19 Pandemic has significantly impacted lives and livelihoods across the country (World Bank, 2021)

Tanzania's real GDP growth rate per year has averaged 6-7 percent sustained over the past one and half decades up to 2019 when the pandemic derailed the growth trajectory to 4.8 per cent in Tanzania mainland and 3.4 percent in Zanzibar in 2020. In July 2020, the World Bank announced that the Tanzanian economy had been upgraded from low to lower-middle income status, considering Tanzania's GNI per capita which increased from US\$1,020 in 2018 to US\$1,080 in 2019 thus meeting the required threshold five years before the target set by the country's Development Vision 2025 to become a semi-industrialised middle-income country.

Short-term fiscal policy options undertaken by government have focussed on helping the economy to bounce back better while ensuring the recovery is inclusive and green by: (i) re-prioritising the 2020/21 budget expenditure through allocating more funding to the health system to enable the sector cope with the pandemic, protect health workers from contracting the COVID-19 virus and reduce infections and fatalities, (ii) mobilising funding from Development Partners, Non-state actors, soliciting concessional loans from the World Bank and AfDB as well as obtaining COVID-19 related debt relief from the IMF, and (iii) budgeting substantial funding for implementation of social protection and social safety nets measures to avert millions of Tanzanians from falling back to poverty. The interventions mentioned above will be continued until the pandemic abates.

Medium and long-term fiscal policy options. Empirical evidence and the study by Sherillyn Raga completed as part of the project: "*Shaping the Macro-Economy in Response to Covid-19: A Responsible Economic Stimulus, a Stable Financial Sector and a Revival in Exports,*" shows real economic growth can be enhanced through increased public expenditure in sectors that have high fiscal multiplier effects. In recognition of this learning experience, Tanzania has unveiled the Third Five-Year Development Plan 2021/22 - 2025/26 which provides strategies and plans backed by adequate financing to help the economy bounce back and build better. The main focus of the plan and interventions that have high domestic forward and backward linkages to the economy and can trigger sustained socio-economic inclusive greener growth include: (i) supporting private sector-led industrialisation by adding value to the country's large natural resources and products that are currently exported in raw or semi-processed form.

The country envisages that industrialisation will consolidate the country's status as a lower middle-income country, create much needed jobs, scale-up poverty-reducing interventions and trigger foreign direct investments, while exporting goods and services that fetch steadier prices

than exporting primary products, (ii) financing and implementing many physical infrastructure investments in the construction of new tarmac roads country-wide, high speed standard gauge railway systems, rehabilitation and improvement of all ports to improve efficiency and reduce cost of handling cargo, improve airports and air transportation, and produce hydropower electricity that exceeds the country's demand in a move to electrify all districts and rural village communities in the country as well as export to neighbouring countries.

The huge investments in infrastructure are expected to facilitate industrialisation as well as improve the standard of living of the people, (iii) strengthening climate change interventions and improving the country's early warning systems to help the economy become better prepared to mitigate adverse impacts from external shocks, (iv) mainstreaming gender in all country strategies and plans in order to create an inclusive, equitable society where men and women have equal rights in all matters, including addressing traditional stereotypes, and (v) harnessing the potential of digitalization and e-commerce for the country to be better placed to benefit from global markets for its goods and services in this digitalizing world trade era.

Monetary policy options. From the mid-1980s, the country embarked on liberalization of the economy with financial sector reforms taking place from the 1990s. The reforms led to the amendment of the Bank of Tanzania (BOT) Act 1995 and allowed the central bank (BOT) to implement market-determined monetary policies. The Bank adopted quantity-based monetary policy framework in the formulation and implementation of monetary policies whereas the growth of money supply is set in line with broader national macro-economic objectives of the Government which are GDP growth and low and stable inflation. During the pandemic, the economy experienced a slowdown of economic activities. The Bank used an accommodative monetary policy to stimulate economic activities while maintaining the inflation at the target level. The policies also focused on reducing credit risk to facilitate flow of credit to private sector for business investment and trade.

Further, the BOT allowed banks to restructure non-performing loans (NPL) for borrowers affected by the pandemic until it abates. To boost credit growth and reduce lending rates, the BOT issued a circular¹ in January 2021 that required all banks and financial institutions to reduce operating costs and NPLs which were regarded as a major source of high lending rates. The Central Bank required banks with cost-to-income ratio above the prescribed acceptable limit of 55 percent or the NPL ratio above the acceptable limit of five percent are restricted from paying dividends and bonuses, effective from the date of the Circular and must report the ratios to the BOT monthly. As of November 2021, the Bank had succeeded in managing public debt at the sustainability debt benchmark ratios which were below international thresholds. Going forward, the Central Bank will continue to allow the market to determine monetary actions and only intervene in case of perceived market failure.

¹ Circular number FA.130/170/01/5 (the **Circular**) was issued on 22 January 2021.

1. Introduction and Macro-economy Overview

1.1 Introduction

Tanzania's Development Vision 2025 aspires to reach a semi-industrialised middle-income country by 2025. In this regard, the Government envisions its population of 59.73 million people growing at the rate of 2.98 percent per year will enjoy considerably reduced poverty, improved livelihoods, and high inclusive standards of living. Since independence in 1961 to the mid-1980s, the country pursued socialist macro-economic policies to propel her economy into high standards of living. Unfortunately, the policies resulted into a low average annual real GDP growth rate of less than 3 percent, double-digit inflation, negative real interest rates, large unsustainable fiscal deficits, and sometimes rationing of consumable commodities. To reverse this dismal performance, the Government liberalized the economy in the mid-1980s, macro-economic policies became market-driven, and the Government recognized the private sector as the engine of growth. Structural and monetary reforms were initiated to scale up poverty reduction and enhance inclusive socio-economic growth. The policy changes witnessed progressive improvement in the lives of people and livelihoods with life expectancy increasing from 44 years in 1961 to 67 years in 2021, a high GDP growth rate of 6-7 percent sustained over the past one and a half decades to 2019, ushering in high prospects of realizing the country's Vision 2025 to become a semi-industrialised middle-income country.

The advent of COVID-19 in March 2020 appears to have derailed the good macro-economic trajectory achieved in the past two decades, impacting the country's economic growth, the lives and livelihoods of the people.

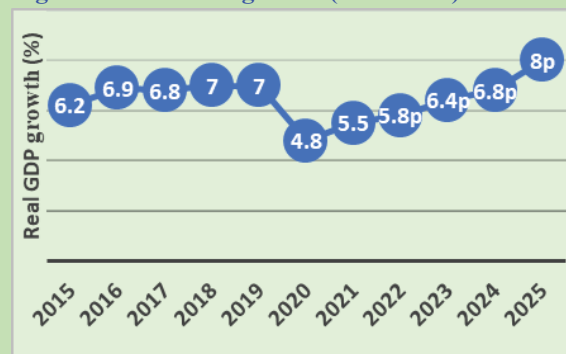
The first episode of coronavirus was detected in Tanzania on 16th of March 2020. The Government immediately took actions to limit the spread of the pandemic by introducing precautionary measures (eg. maintaining social distancing, wearing of masks, washing hands regularly), built test facilities, prohibited public gathering, restricted international travels, and temporarily closed all educational institutions. However, the Government ensured that there was "*business continuity*" in the sense that all economic activities were allowed to continue. Although no specific stimulus package was undertaken, the Government implemented several fiscal and monetary policy measures which managed to avert the economy from plunging into recession during the 2020 and 2021 pandemic period (World Bank, 2021).

1.2 Macro-Economy Overview

Economic Growth

Economic performance exhibited sustained growth towards planned target of 10 percent by 2025 but the pandemic slowed the growth to 4.8 percent (3.1 per cent in Zanzibar) in 2020 compared with 7.0 percent in 2019 (Figure 1). According to the IMF, the real GDP grew by 4.8 percent in 2020 to USD 64.4 billion compared to USD 60.8 billion in 2019. The Fund further projected Tanzania's GDP growth of +4.0 percent and +5.1 percent in 2021

Figure 1: Real GDP growth (2015-2025)

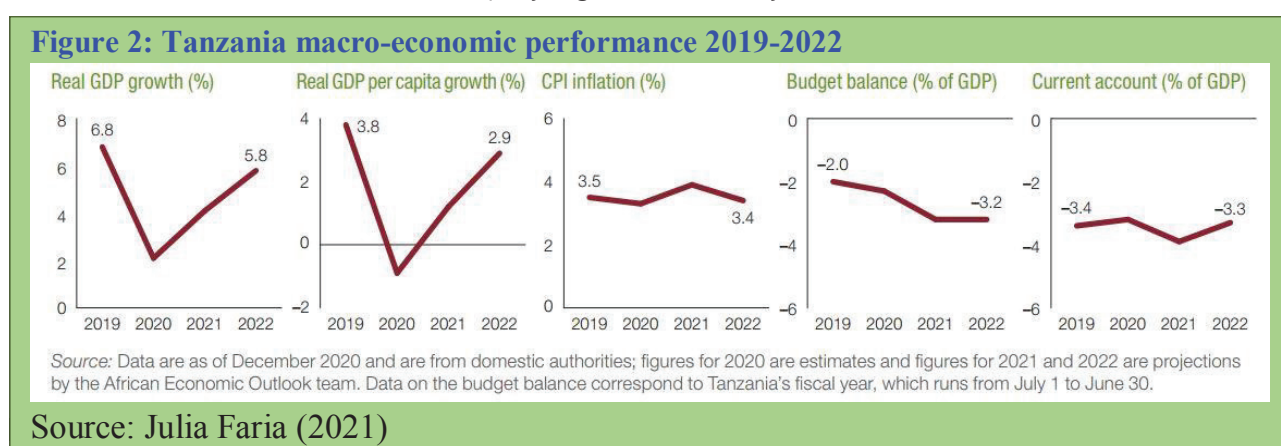


Notes: p = Projections

Source: National Bureau of Statistics (2021) and Bank of Tanzania (2021)

and 2022 (IMF, 2021). Macro-economic policies and, structural socio-economic transformation strategies and plans implemented enabled the country to grow between 6 and 7 percent since 2015 but the pandemic slowed the growth path. The domestic economy maintained a strong growth at 4.8 percent (3.1 per cent in Zanzibar) in 2020 despite challenging global environment. However, the growth was lower than in the preceding years, reflecting the impact of COVID-19 on all sectors of the economy. However, some sectors of the economy such as tourism, hotel, education, international travel and social activities were more affected than others.

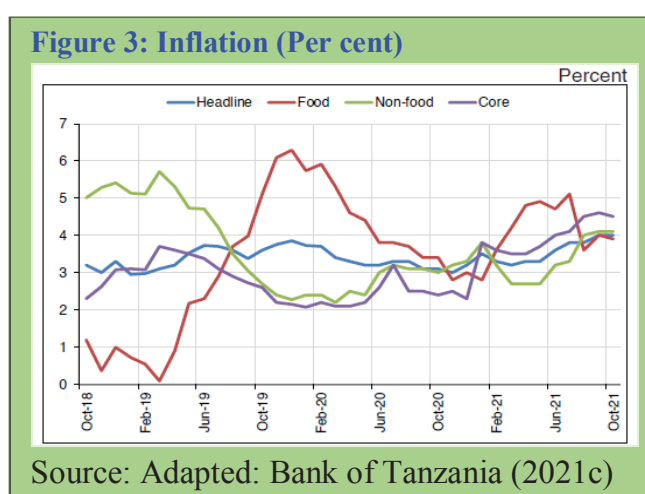
A recent report by Julia Faria (2021) shows that Tanzania’s economy is bouncing back. The study suggests that the economy is experiencing a swift or “V-shaped” recovery, which is anchored on sustained good macro-economic, fiscal, monetary policy, and trade measures. The new Government which came into power in March 2021 under the first Tanzanian female President is focusing on transforming the economy by improving livelihoods, protecting nature, ensuring social and economic justice for all, honouring international commitments, and fostering an inclusive green sustained recovery. Figure 2 shows all five COVID-19 recovery indicators for Tanzania (real GDP growth (%), real GDP per capita (%), inflation (%), budget balance (% of GDP), and current account (% of GDP) display signs of recovery in 2021 and 2022.



Inflation

Inflation has been low and stable

Headline inflation has been maintained below target levels of 5 percent since October 2018 within the benchmarks set forth at both the national and regional levels². Year-on-year headline inflation rose from 3.4 percent in October 2020 to 4.1 percent in October 2021 (Figure 3). The main drivers which contributed to maintaining inflation at target levels include low oil prices, slowdown in prices of food due to adequate supply of food, owing to good rainfall patterns which enabled the country to have adequate stocks. Over the past two years Tanzania has remained between 115 and 120 percent food self-sufficient.



² The country’s headline inflation target for 2020/21 ranges between 3.0 per cent and 5.0 per cent, and regional benchmarks for EAC being not more than 8 per cent; and SADC ranging between 3 and 7 per cent.

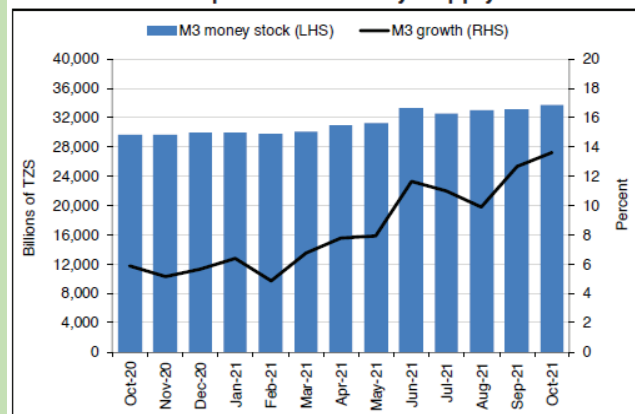
Money Supply

The Bank of Tanzania has been implementing accommodative monetary policy with the aim of ensuring adequate levels of liquidity in the banking system to create a conducive environment for increasing credit to the private sector and safeguarding the financial sector while ensuring a low and stable inflation and sustained high rate of economic growth.

The Bank of Tanzania monetary policy framework focuses on maintaining domestic price stability by targeting growth rate of money supply. In particular, the Bank uses extended broad money supply (M3), which has the closest relationship with the rate of inflation.

Prior to the pandemic until 2019, the behaviour of money supply had been stable.

Figure 4: Money supply



Source: Adapted: Bank of Tanzania (2021c)

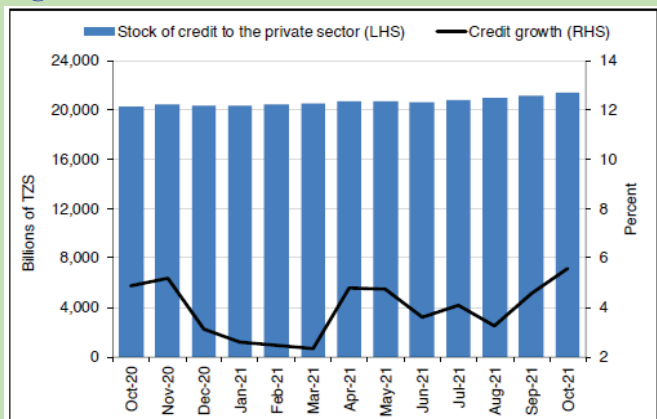
However, after the outbreak of the pandemic the Bank of Tanzania has been trying to stabilise money supply through accommodative monetary policy. As a result, the Bank implemented an accommodative monetary policy in support of recovery of the economy through private sector credit growth. Consequently, extended broad money supply (M3) grew by 14.6 percent which is equivalent to TZS 34,027.5 billion in November 2021 as compared to 5.3 percent (TZS 29,620.9 billion) recorded in the corresponding period in 2020 (Figure 4).

Credit to the Private Sector

The private sector being an engine of growth to foster investments, economic growth, and job creation, the Bank of Tanzania targets support for credit growth to this sector. Credit extended to the private sector in the country comprises of loans extended by banks and financial institutions.

Over the past five years credit to the private sector has been increasing, reaching a peak of 10.6 percent in April 2019 before declining to 5.5 percent in June 2020 due to the pandemic. However, credit bouncing back to 13.6 percent in November 2021.

Figure 5: Credit to Private Sector from Banks



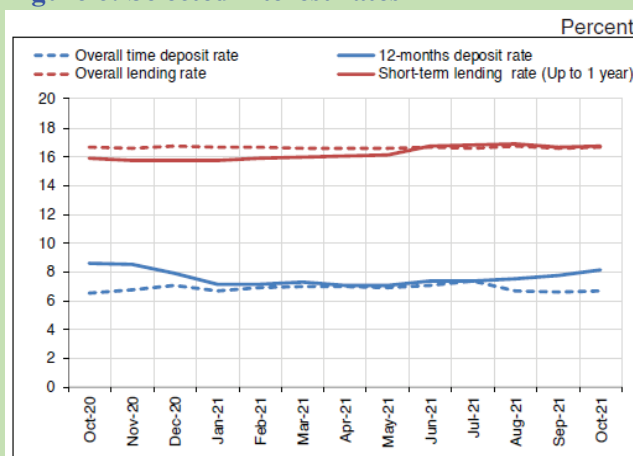
Source: Adapted: Bank of Tanzania (2021c)

The Bank of Tanzania (Bank) has been following accommodative monetary policy measures to ease the adverse effects of COVID-19 to businesses, particularly in those sectors directly exposed to external shocks. Credit extended by banks to the central government through purchase of government securities increased by 8.7 percent, which is within the borrowing limit of one percent of GDP set forth in the Government budget for 2020/21 and 2021/22.

Interest Rates

Although interest rates are market-determined, the Bank of Tanzania follows accommodative monetary policy in order to ameliorate and ease lending rates by banks while reducing decline in credit risk to facilitate access to credit by private sector. During the pandemic the Bank had to intervene by reducing haircuts to Government securities by 50 percent. Other measures included a reduction of statutory minimum reserves from 7.0 to 6.0 percent, reduction of discount rate from 7.0 to 5.0 percent, limitation of interest rates paid on mobile money trust accounts to interest rates not exceeding the rate offered on savings deposit account by the respective bank so as to lower the cost of funds to banks.

Figure 6: Selected interest rates



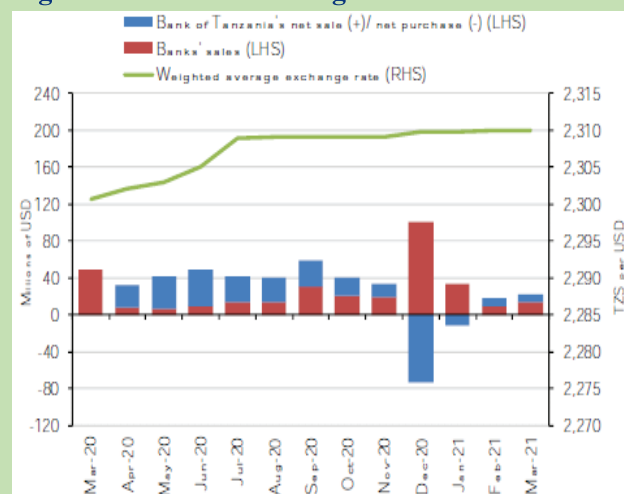
Source: Adapted: Bank of Tanzania (2021c)

In this regard, the banks' interest rates charged on loans and those offered on deposits remained broadly unchanged during the period between October 2020 and October 2021, with the overall and one-year lending rates averaging about 17 percent (Figure 6). Negotiated lending rates charged to prime customers averaged 13.65 percent and overall, one-year time deposit interest rates stabilized at 6.61 percent and 7.71 percent respectively during the same period. Further, negotiated deposits rate for prime customers averaged 9.71 per cent (Figure 6). During the period following October 2021 onwards, the costs of loanable funds were expected to decline due to operationalization of policy measures rolled out by the Bank of Tanzania in July 2021 as well as a continued implementation of accommodative monetary policy.

Exchange Rates

Prior to Covid-19 pandemic the Tanzanian shilling had remained stable over the past five years partly due to sustained prudent monetary and fiscal policies and adequate foreign exchange reserves. During the pandemic particularly from March 2020, the weighted average exchange rate has slightly depreciated by 0.4 percent against the US\$. This is partly attributable to sustained low and stable inflation rate, moderate current account deficit during the pandemic period along with adoption of prudent fiscal and monetary policies which led to stability in the foreign exchange market. However, in

Figure 7: Selected exchange rates



Source: Adapted: Bank of Tanzania (2021)

October 2021 the Shilling appreciated slightly by 0.11 percent when compared to TZS 2,309.06 per US dollar registered in October 2020 partly due to an increase in the supply of foreign exchange emanating mainly from proceeds of exports of minerals, cash crops, and tourism related activities (Figure 7). The Bank of Tanzania expects strong recovery of the external sector from the effects of COVID-19 pandemic and envisages stability of the shilling against the major currencies in the medium and long-term period.

Savings and Investments

The performance of savings and investments during the past five years up to 2019 has been in accordance with the monetary plan. Overall, Tanzania's savings to GDP ratio has increased from 13.2 percent (TZS 12.5 billion) in 2015 to 17.1 percent (TZS 23.9 billion) in 2019, and a gross capital investment from around 27.4 percent (TZS 25.9 billion) of GDP in 2015 to over 38.4 percent (TZS 36.3 billion) of GDP in 2020 due to increased domestic revenue collection and improved business environment.

According to the Ministry of Finance and Bank of Tanzania officials, fiscal and monetary policies being put in place to combat the adverse effects of the pandemic should be able to help the economy to grow as targeted through savings and investments but under challenging circumstances due to the pandemic. From 2020 to November 2021, Tanzania continued to attract foreign direct investments and concessional loans as discussed in the ensuing section.

Foreign Direct Investment

Tanzania continues to attract Foreign Direct Investment (FDI). FDI reached USD 1,112 million in 2019, being an increase by 29.3 percent from USD 860 million in 2016. FDI slightly declined in 2020 by 8.2 percent from the preceding year (Table 1). Greenfield investments³ have slightly increased from 17 in 2016 to 24 in 2019, and 21 in 2020, while their value slightly declined as shown in Table 1. The Five-Year Development Plan III estimates that FDI will reach USD\$ 7,980.7 million by 2025/26.

However, to achieve this level, the Government has resolved to address the biggest challenges investors face in Tanzania, namely, the high cost of doing business in the country. Some frequently cited challenges include the difficulty in hiring foreign workers, reduced profits due to unfriendly and opaque tax policies, increased local content requirements, regulatory/policy instability, lack of trust between the Government and the private sector, and mandatory Initial Public Offerings (IPOs) in key industries.

When addressing the Parliament in April 2021, H.E. President Samia Suluhu Hassan who assumed the presidency in March 2021, publicly announced that her Government would review all policies that are essential for reducing the cost of doing business. She also ordered disclosure of information, allowed press freedom and elected a COVID-19 high-level committee to advise the Government on a new approach to dealing with the pandemic.

In 2020 a new concessional loan of USD 281 million was provided to Tanzania by the Chinese Government and another USD 300 million concessional loan was received from South Korea to help defray the cost of the country's infrastructure investment programme.

In 2021 the World Bank (2021) provided a concessional loan of USD 875 million to help Tanzania improve rural road access and employment opportunities, strengthen the learning environment and alignment of priority education programmes with the labour market at selected higher education institutions, and increase access to high quality broadband internet services.

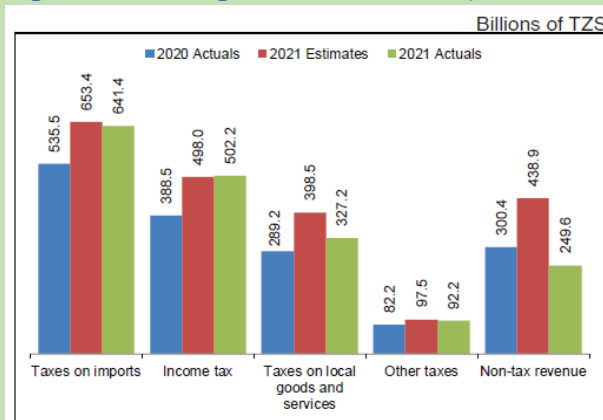
³ Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Public Finance

Tanzania's actual domestic revenue has been increasing steadily since 2014/15

from about 12.8 percent of GDP to 17.1 percent of GDP in 2019 but declined to 14.7 percent in 2020 due to adverse effects of the pandemic. The main sources of revenue are taxes on imports which declined in 2020, income taxes and taxes on local goods and services. The other sources are non-tax revenue and grants from Development partners, which also declined in 2020. Figure 8 shows government

Figure 8: Central government revenue (October 2021)



Source: Adapted: Bank of Tanzania (2021c)

revenue continued to perform well in 2020 and 2021. Domestic revenue continued to record a satisfactory performance in 2020/21, covering recurrent expenditure as well as financing part of development expenditure, despite achieving 93.4 percent of the target. In October 2021 domestic revenue collection stood at TZS 1,887.2 billion, recording an annual growth of 13.9 percent and 87.3 percent of the target. Central government revenue amounted to TZS 1,812.5 billion and the remainder was from Local Government Authorities own sources. Tax revenue amounted to TZS 1,562.9 billion, which was an annual growth of 20.7 per cent and 94.7 per cent of the target. Non-tax revenue was TZS 249.6 billion. Similarly, a good performance was observed in income tax and taxes on imports, which indicated that the economy was bouncing back to recovery in terms of economic activities which stalled in 2020 due to the pandemic.

Government spending is largely used to defray costs related to wages and salaries, development spending and interest payments on loans. According to the Debt Sustainability Analysis (DSA) conducted by the IMF (2021), the present value of the public debt-to-GDP ratio remains contained at around 30 percent, well below the 55 percent threshold. However, at the end of the Fiscal Year 2019/20, the level of public debt stood at 38.8 percent of GDP, down from 41.4 percent in 2017/18. In addition, the IMF (2021) DSA report indicates that Tanzania's public and publicly guaranteed (PPG) debt remains relatively low. The Government has been implementing the Public Finance Management Reform Programme (PFMRP) in phases since 1998. So far five phases of the PFMRP have been concluded with some notable good outcomes in managing public financial resources. Overall, as several reviews of the programme suggest, the Government has made commendable improvements in the domain of planning and budgeting, budget execution, reporting, accountability and transparency, resource mobilization, and budget control, which encompasses also auditing, and oversight functions. Going forward, improvements are needed to maintain closer monitoring of ongoing major infrastructure projects to ensure that high quality standards are being followed and management of non-concessional borrowing is improved to avoid escalating interest payments that tend to utilise substantial domestic resources. The following section briefly reviews plans being undertaken by government to prudentially manage public domestic and external debt.

Public Debt

Tanzania public debt remained sustainable, and the country has avoided debt stress (IMF, 2021).

Since 2019, all sustainability debt benchmark ratios have been below international thresholds. In 2019, public debt reached USD 28,408.8 million, about 5.3 percent increase compared to the 2018 debt level. During the pandemic the debt stock remained almost

unchanged amounting to USD 28,054.3 million at the end of October 2021, an increase of USD 3.7 million and USD 4,386.1 million from the preceding month and corresponding month in 2020, respectively. External debt service payments amounted to USD 29.5 million, out of which USD 21.8 million was principal repayment and the balance was interest payments (IMF, 2021).

The government understands that rapid debt accumulation—particularly commercial debt—could expose Tanzania to external risks. Leveraging on concessional borrowing, efficient public investment, enhanced debt management, and domestic resource mobilization are critical to avoid debt distress – issues the sixth phase government has begun to implement. Both the IMF and World Bank acknowledge that Tanzania is not yet at debt stress levels. However, as Tanzania continues to witness a rise in contingent liabilities, particularly after the global pandemic induced financial crisis, a consolidated fiscal account that takes into account explicit and implicit government contingent liabilities is critical in the assessment of exposure to debt risk. According to an analysis done on behalf of the government by Uongozi Institute in collaboration with UNE-WIDER (Were & Mollel, 2020)⁴ the Present Value (PV) of Tanzania’s external debt to GDP will increase moderately from 16.3 per cent at the end of June 2020 to 18.2 per cent in June 2022, and will thereafter decline to 9.1 per cent in 2039/40. The projections are, however, predicated on strong GDP growth through building back better beginning in 2021 and in the future slowing-down in government concessional and non-concessional borrowing after completion of the major infrastructure projects under the Five-Year Development Plan II and III to which the ensuing discussion turns.

The debt-sustainability assessment shows that between 2021 and 2022, Tanzania’s debt profile will be characterized by maturity bunching as observed by the rising external debt solvency and liquidity indicators. While conventionally the use of appropriate sinking funds provision to smooth the process of liquidity mobilisation for bullet debt service repayment is advisable, the challenge is the availability of resources for such provision by the government. The country is implementing major development projects for provision of electricity, improving physical infrastructure (road, railway, airports, water supply, etc), health, education and other key investments in line with the Five-Years Development Programme 2020/21 – 2025/26. However, there is a need to ensuring that the borrowing is directed to projects that promote sustainable economic growth and helps recovery to pre-COVID-19 rate of growth. Notable in this regard, is to ensure an effective implementation of Article 3 of the Government Loans, Guarantees and Grants Act, CAP 134, which has been instrumental in protecting the liquidity position of the government as the impact of each loan on debt service payments is evaluated against three-year historical averages of domestic revenue and export proceeds. Likewise, government borrowing is guided by the ‘Medium-Term Debt Management Strategy’, which is updated annually. These have been critical tools for Tanzania’s prudent debt management, which has helped the country avoid the pitfalls that contributed to the debt crisis before debt cancellations under the HIPC Initiative.

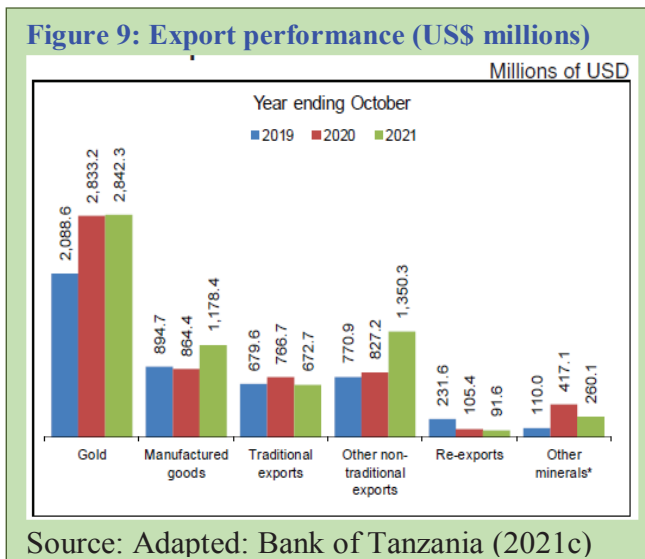
Balance of Payments

Tanzania’s current account balance remained satisfactory with low sustainable deficits. Between 2015 and 2019, the average balance of payments weakened slightly, mainly due to the widening of the current account balance but remained moderate at an average of -4.2 percent of GDP and -3.2 percent in 2020. This was mainly on account of slowdown in imports of capital and intermediate goods reflecting adverse impact of the pandemic. Overall, during the years 2020 and 2021, the government has been able to maintain the required level of gross

⁴ Were, Maureen and Mollel, Lekinye (2020), *Public debt sustainability and debt dynamics: The case of Tanzania*. UNE-WIDER and Uongozi Institute Research Report 20/5 October 2020

official reserves sufficient to cover a target of, at least, 6 months of imports. Tanzania’s external sector has continued to recover from the effects of COVID-19 pandemic with possible revamp in the tourism sector. During the year ending October 2021, the current account deficit widened to USD 1,582.8 million from a deficit of USD 1,253.1 million in the corresponding period in 2020 largely due to a rise in import bill.

The overall balance of payments improved to a surplus of USD 1,919.8 million from a deficit of USD 578.7 million following an increase in foreign financial inflows. Foreign exchange reserves also increased from USD 4,930.3 million in October 2020 to USD 6,770.3 million at the end of October 2021. This amount of foreign exchange reserve was sufficient to cover for about 7 months of projected imports of goods. In this regard, the number of reserves was consistent with the country and regional benchmarks of, at least, 4.5 and 6 months for EAC and SADC, respectively (Bank of Tanzania, 2021c).



Despite an interruption in international trade due to the on-going COVID-19 pandemic, Tanzania’s exports of goods and services amounted to USD 9,562.0 million in the year ending October 2021, which was higher than USD 8,636.0 million recorded in the corresponding period in 2020. The difference was largely driven by an increase in exports of manufactured goods, non-traditional commodities, and gold (Figure 9). Exports of goods increased by almost 10.4 percent to USD 6,750.8 million, with non-traditional goods rising by 13.4 percent to USD 5,722.8 million and gold to USD 2,842.3 million or 30 percent of total exports of goods and services. The new President required ambassadors representing Tanzania in different countries to explore market opportunities and foreign direct investment to spur socio-economic growth.

Tanzania’s imports have been largely capital goods, intermediate goods, and consumer goods. The country’s imports of goods and services increased from USD 9,417.5 million in 2020 to USD 10,791.0 million in October 2021. The increase was notable in all goods import categories. However, oil imports accounted for the largest share, which increased by 28.4 percent to USD 1,815.5 million on account of volume and price effects. Services payments also increased from USD 1,415.3 million in October 2020 to USD 1,496.6 million in October 2021 suggesting an economic recovery from the pandemic.

This contrasts with the year ending March 2021 when the import bill for goods decreased by 15.6 percent to USD 9,026.8 million from USD 10,695.4 million registered in the corresponding period of 2020, owing to a decline in import values of capital and intermediate goods caused by disruptions in supply chain and border closure due to the pandemic. As a result, some Tanzanian businesses that rely on the respective imports have been operating under capacity due to shortages of spare parts and other capital goods. The closing down of factories in China, the largest Tanzania trading partner, has disrupted the flow of imports. Consequently, Tanzania was affected by shortages of consumer goods, raw materials and capital goods.

2. Fiscal Policy Measures to Build Back Better

2.1 General Observations

The pandemic has presented an unprecedented economic and financial shock to Tanzania in a way that has impacted many sectors in the economy. Economic growth weakened, businesses performance slowed down, and household income declined all of which call for additional mitigation measures. The monetary and fiscal policy measures introduced by the Government to reduce the impact of the pandemic are working as evidenced by avoiding plunging the economy into recession in 2020 (World Bank, 2021). Nonetheless, the second, third, and fourth waves of the pandemic are calling for more effective policies to enable the economy sustain the recovery path. H.E. President Samia Suluhu Hassan established a high-level COVID-19 advisory committee which came up with 19 recommendations, the basis of which a new strategy was formed. The committee report pinpointed actions including learning from other countries, adhering to international practices, especially WHO recommendations, take precautionary measures that were undertaken in March 2020 when the first coronavirus case was announced in the country, promote vaccination, and to ensure there is mandatory testing for international arrivals. As of July 2021, the committee recommendations and action plan had been completed and implementation started, which has helped to mitigate the impact of the pandemic while ensuring better recovery of the economy. As of September 2021, all regions of the country, including Zanzibar, had vaccination centres where anyone wishing to be vaccinated can be vaccinated free of charge.

2.2 Short-Term Fiscal Policy Options

Tanzania's "business continuity" approach and associated COVID-19 containment measures worked well during the first and second waves and saved the economy from plunging into recession. The third and fourth waves are more severe and require greater sensitisation of the people to take precautionary measures. Despite having the National COVID-19 response plan (NCRP), which is estimated to cost TZS 250 billion (US\$ 109 million) to develop and coordinate mitigation measures as well as mobilize resources. Upon realizing that the third and fourth waves of the coronavirus appear to have contagious mutant strains, the new government has begun taking several measures, including ensuring adequate supply of oxygen and respirators to all referral, regional, and district hospitals; supplying protective gear to all medical staff; and ensuring all intensive-care units are well stocked with all requirements including vaccines to save lives and livelihoods. It is worth noting that to avoid "re-inventing the wheel," Tanzania has begun learning from other countries' successful policy options in the fight against COVID-19 so as to enrich the recommendations already received from the appointed National COVID-19 advisory committee. It is noted that some commendable actions have begun to be implemented. However, some of the measures that need urgent implementation are as follows:

- i). **Continue with implementation of containment measures to reduce infections and fatalities.** Tanzania implemented containment measures quickly and swiftly in March 2020 when the pandemic was first observed by undertaking national campaign to implore and mandate people to take precautionary measures including maintaining social distance, washing hands regularly, wearing masks, prohibiting unnecessary gatherings and meetings, and observing other life-saving precautions. Even without a lockdown, those measures appeared effective in reducing the spread of the pandemic. As of 29th April 2020, the Government announced that the country had registered 509

positive cases and 21 deaths. A month later there were very few hospitalised COVID-19 cases in the country's hospitals. This was followed by a declaration by the then President, the late J.P. Magufuli on 8th June 2020⁵ that Tanzania was a coronavirus free country. This resulted into a relaxation of some precautionary measures among citizens not overseeing the second third, and fourth waves of the pandemic leading to high costs in terms of continued loss of lives and disruption of economic activity. However, as of April 2021, the new government begun implementing measures that were successful in 2020, while scaling up socio-economic policy, rules and regulatory frameworks that support rapid recovery. Tanzania is also learning from other successful countries that have continued to carry-out containment measures such as Hong Kong (Cowling et al., 2020; IMF, 2020; Deb et al., 2020a; Demirgüç-Kunt et al., 2020). The preceding studies have used empirical methods with high-frequency data to show that containment measures can be effective in reducing the number of infections and fatalities, especially when such measures are implemented quickly to deter further spread of the pandemic.

According to the WHO, by December 2021 Tanzania had 26,483 confirmed cases of COVID-19 with 734 deaths, of which Zanzibar had 876 persons testing positive by 27 August of the same year, and the death toll reached 40⁶. Tanzania has imported 1,699,523 vaccine doses which are being administered free of charge to all people who are willing to be vaccinated. The new President continues to urge all people to take precautionary measures at the same time implementing recommendations of the COVID-19 advisory committee.

ii). **Redouble public health measures to equip health facilities with adequate testing kits, isolating and treating cases, increasing hospital beds, access to oxygen, equipment and protective gear for all health workers.** The fiscal measures undertaken in Tanzania so far are as follows:

- Re-prioritised expenditure in the 2020/21 and 2021/22 budget by increasing health spending budget by at least US\$8.4 million (TZS 19.3 billion) in 2020/21 using the Bank of Tanzania existing contingency reserves for COVID-related priority health interventions. In 2020 the resources were disbursed promptly to address pandemic-related interventions and together with other measures proved very successful in slowing down the spread of the pandemic. In 2021 the health budget was increased further in order to allocate more funding to protect lives and livelihoods. Thus, TZS 43.6 billion (US\$ 20 million) was budgeted for social development spending, with part of the money being channelled through Tanzania Social Action Fund (TASAF) as amplified further under sub-item 4 below.
- Ensure transparency and strengthening governance of US\$567.25 million financial assistance received from the IMF under the Rapid Credit Facility and Rapid Financing Instrument to support efforts in responding to the pandemic by addressing the urgent health, humanitarian, and economic costs. This also applies to other finance support and loan from the World Bank of US\$ 3.79 million (TZS 8.7 billion) in September 2020 to support laboratory diagnosis and management of COVID-19 cases; and Loan from the African Development Bank (ADB) of US\$50.7 million (TZS 116.6 billion) to increase funding to the budget for COVID-19 crisis

⁵ "Coronavirus: John Magufuli Declares Tanzania Free of Covid-19", *BBC News*, June 8, 2020, <https://www.bbc.com/news/world-africa-52966016>.

⁶ Bank of Tanzania (2021), 'Economic bulletin for the quarter ending September 2021 VOL. LIII NO. 3' Sourced at: <https://www.bot.go.tz/Publications/Regular/Quarterly%20Economic%20Bulletin/en/2021121308575263.pdf>

response. Proper and accountable utilization of the funds to defray the hardships caused by the pandemic has begun to show results as discussed further below.

Thus, the preceding resources are expected to help the country redouble measures to contain the spread of the pandemic as well as build back better by creating the capacity for social protection and social safety nets, while enhancing the government's capacity to contain further spread of the pandemic. Indeed, as of December 2020, all referral and district hospitals in the country had adequate health worker protective gears, adequate supply of oxygen and other life-saving equipment and drugs and most other health facilities had been renovated and continue to undergo substantial improvements. All urban and rural vaccination centres are well stocked with adequate vaccines for anyone who chooses to vaccinate free of charge.

iii). Implement social protection and social safety nets measures to avert millions of Tanzanians from falling back into poverty. The World Bank, using the 2018 Household Budget Survey, observes that about 500,000 Tanzanians, particularly the most vulnerable and those in urban settings who rely on self-employment and informal/micro-enterprises, could fall below the poverty line due to the pandemic (World Bank, 2020a). The World Bank also conducted a COVID-19 Business Pulse Survey (COV-BPS) in Tanzania covering 1,000 small and medium enterprises in June and July 2020 and noted that about 140,000 formal jobs were lost by June 2020, and another 2.2 million non-farm informal workers suffered income losses (World Bank, 2020b). Further, in a report titled "*The Flash Appeal*," the UN Tanzania observes that 7.4 million high-risk people out of the 11.1 million people are in need of support in the sectors of protection, health, education, nutrition, Wash, Food security and livelihoods and other interventions due to the impact of COVID-19 (UNICEF, 2020). The UN Flash appeal estimates that US\$ 158.9 million (TZS 365.5 billion) is needed urgently to implement the social protection and safety nets needed to avert further deterioration and save people's lives and livelihoods. By August 2021, the UN Flash appeal had a funding gap of US\$ 3.2 million or (14 per cent) of the requested financing. Some of the actions taken as of December 2021 which have been pivotal in enabling Tanzania bounce back and begin building better from 2021 onwards include the following:

- *Government has reprogrammed its 2020/21 budget* by allocating TZS 2.03 trillion (US\$ 882.6 million) for implementation of social protection and social safety nets over the period 2020-2023. The resources are being channelled through the Productive Social Safety Net Program which is implemented by Tanzania Social Action Fund (TASAF). TASAF has developed an elaborate methodology for identifying people in need and has done commendable job in facilitating poverty reduction among most vulnerable populations, including women and youths in Tanzania. The government funding has received a boost from Development Partners, including the World Bank, mostly channelling their financing through TASAF. TASAF expects to reach over five million Tanzanians, more than half of them being women and youths, who benefit from improved social safety nets supported by the new financing strategy by end 2023.
- *The UN system in Tanzania is preparing a UN Socio-Economic Response Framework for the mid-term (approximately the next 18 months)* to help raise funding identified in the flash appeal from its civil society partners and has

appealed to the donor community to support the joint efforts to meet the most urgent needs of the Tanzanian population in the face of the COVID-19 pandemic.

- *The Government has budgeted TZS 600 billion (US\$ 260.8 million)* to pay verified arrears for employees, service providers, suppliers and contractors in roads, water, and energy to reduce the hardship these employees are facing due to the pandemic. As of August 2021, most of the beneficiaries had received their payments, helping them to return to life normalcy during this pandemic period.
- *UNICEF has appealed to various Development Partners to mobilise US\$ 22.9 million (TZS 52.6 billion)* to support provision of critical life-saving services for vulnerable women and children who have been affected by the COVID-19 pandemic, flood victims and vulnerable groups in some districts of Tanzania and refugee children living in three camps in north-western Tanzania. By the end of August 2021, a resource gap of 14 percent had remained to be mobilised.
- *The World Diabetes Foundation (WDF) has received a DKK 5 million (TZS 1.8 billion) grant* from Novo Nordisk Foundation to support the COVID-19 response in Tanzania with a focus on people living with diabetes and other Non-Communicable Diseases (NCDs). The funds have been disbursed and beneficiaries are thankful for this timely assistance during these hard times of the pandemic.
- *In April 2021 the U.S. Government* through USAID donated US\$400,000 worth of medical supplies to the Zanzibar Ministry of Health. An additional sum of US\$500,000 is being donated by USAID to expand oxygen use and critical care services in Tanzania.⁷ The resources have been timely made available in alleviating shortages of medical supplies and oxygen to save lives and contain the spread of the pandemic.
- *Fiscal policy measures* adopted in Zanzibar were similar to those of Tanzania Mainland and the economy avoided recession in both 2020 and 2021. In addition, the WHO participated and supported the Zanzibar Health Research Institute (ZAHRI) and Zanzibar Ministry of Health to conduct an epidemiological survey in compliance with Public Health and Social Measures to interrupt COVID-19 Transmission in Zanzibar. The purpose of this cross-sectional study was to assess the compliance of public health and social measures that were adopted in Zanzibar for interruption of transmission of COVID-19 by the communities. The WHO supported orientation of the research protocol to the research team, a total of twenty research assistants and supervisors were oriented on the research protocol in Unguja on 10th September 2020 and 13 research assistants and supervisors from Pemba were oriented on 16th September 2020. The findings from this survey have been useful in assisting public health experts to guide the public on practices to adopt in order to prevent further spread of COVID-19 infection. On 29th May 2021 Zanzibar's President, Hussein Mwinyi, announced that the Revolutionary Government of Zanzibar would start importing and administering COVID-19 vaccines and ever since the vaccines have been administered free of charge to all people who volunteer to be vaccinated. Zanzibar has generally managed to contain and reduce the spread of the corona virus. It has also managed to build back better by adopting prudent fiscal and monetary measures.

⁷ USAID (2021) at DPO@state.gov, accessed April 29, 2021

The economy Zanzibar recovered in the second quarter of 2021, with a growth of real gross domestic product (GDP) at 6.5 percent, year-on-year, compared with a contraction of 1.4 percent in the corresponding quarter of 2020 and 2.2 percent in the preceding quarter⁸.

2.3 Medium and Long-Term Fiscal Policy Options

Empirical evidence shows that real economic growth can be enhanced through increased public expenditure in sectors that have high fiscal multiplier⁹ effects. For example, Kyissima et al. (2017) estimate that a 100 percent increase in public expenditure in Tanzania will result into 22 percent GDP growth - or about 0.22 multiplier. Similarly, Morwa's (2017) empirical findings for Tanzania indicate that public expenditure on health, agriculture, defence and public services and infrastructure have a positive impact on output growth. Further, Kaliba et al. (2006), using updated 2004 social accounting matrix for Tanzania, suggest that agro-processing industries have the highest economic multiplier (greater than 3) which implies public and private sector investments that add value to Tanzania's agricultural raw materials will have high impact on growth. Paul and Furahisha (2017) support Kaliba's et al findings. The authors indicate that recurrent public expenditure as well as development expenditure from foreign sources contributes towards the promotion of economic growth. Other global and Tanzania fiscal multipliers are discussed by Sherillyn Raga (2021) who observes that the COVID-19 pandemic in 2020 has called for stronger government intervention to support the most vulnerable households, firms and sectors and that carefully planned fiscal interventions have the most impact in boosting inclusive and sustainable economic growth. Based on the preceding observations, Tanzania's policy thrust going forward should focus on fiscal policy options that will enable the country to return to its pre-COVID-19 growth trajectory.

In the medium and long-term period, the country has developed strategies and plans that will foster socio-economic inclusive growth, promote trade and gender equality and achieve good environmental outcomes. The main sectors for the Build Back Better (BBB) recovery are included in the Government Five-Year Development Plan (FYDP III, 2021/22-2025/26) and the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) III, 2016-2020 (MKUZA III), the latter is currently under review to develop MKUZA IV which will include interventions to develop greener economy to take advantage of the large sea resources. The focus in Tanzania is on diversification of the economy through industrialisation, infrastructure improvement, human capital to create a learned, skilled workforce, renewable energy to support a stable, reliable, and clean supply of electricity, digitalisation and trade to enable the country respond more effectively to unforeseen disruption of economic activity, building greener economy for Zanzibar and build resilience and foster gender equality. These are briefly discussed as follows.

2.3.1 Building Back Better Through Industrialisation

Tanzania's Development Vision 2025 and Zanzibar Vision 2050 envisage attaining a semi-industrialised country by 2025. This aspiration is expected to be attained through fostering sustained GDP growth of 7-10 percent per year, support value addition to the country's large natural resources through manufacturing and processing of raw materials which currently are exported without adding much value and fostering inclusive growth that reduces poverty and improves the living standards of the people. Thus, by June 2020, the Government had mobilised

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⁹ Fiscal multipliers are defined as the change in output for a given change in a fiscal policy instrument, such as total government spending. Fiscal multipliers are important because they can help guide the government's policies during any economic crisis such as Covid-19 and help set the stage for rapid economic recovery.

TZS 82.4 trillion (US\$ 39,240 million) and the private sector had contributed TZS 152 trillion (US\$ 72,381 million) in financing of FYDP II. The performance evaluation of the FYDP II shows commendable progress towards reaching the set targets (URT, 2020). The contribution of the industry sector to GDP reached 25.1 percent in June 2020 compared to 21.1 percent in 2015/16. Some 8,477 industries were established by June 2020 creating some 70,478 new jobs (MIT Budget 2020/21). During the FYDP II the manufacturing sector grew from 5.2 per cent in year 2016/17 to 8.5 per cent in 2020/21.

The sector doubled its share of employment from 3.1 per cent to 6.75 per cent and the number of exporting firms increased five-fold from 247 to 1,180 as of June 2020. This fiscal policy option will be continued during the FYDP III (2021/22 -2025/26) to foster high socio-economic inclusive growth, increase trade, enhance gender participation, and ensure environmentally friendly outcomes. In April 2021 H.E. President Samia Suluhu Hassan, in her first speech to the Parliament and the general public, declared her commitment to fast-track implementation of the Five-Year Development Plan III (FYDP III), scale-up implementation of on-going mega infrastructure projects that aim at transforming and growing the economy while fostering an inclusive equitable green sustained recovery, reduce poverty as planned in the FYDP III, grow the economy through attracting greater domestic and foreign investments to create more jobs and incomes by reducing the cost of doing business in the country and fostering inclusive socio-economic growth that is gender sensitive.

FYDP III is expected to increase manufacturing and processing firms by 45 per cent from 1,180 in 2020 to 1,652 in 2026. It is also expected to create over 210,000 new jobs, of which 65 per cent are projected to be women employees and support small and medium enterprises (SMEs) through cluster approach to take advantage of aggregation and supply of inputs to agro-industrial enterprises. The SMEs will be further supported by the Small Industry Development Organization (SIDO) with an SME credit Guarantee Scheme which will range from TZS 5 million to TZS 50 million (US\$ 2,170 to US\$ 21,700) to help those most affected by the pandemic to recover and continue to grow their businesses. In May 2021 the Government secured US\$16.8 million in concessional loans from the Chinese Government towards financing proposed development projects¹⁰. Overall, implementation of FYDP III is expected to jump-start industrial growth to the pre-COVID-19 period and allow industrial contribution to reach 28.5 per cent of the GDP by 2026, up from 25.1 per cent in June 2020 and foster building back better to the pre-COVID-19 growth path.

With regards to Zanzibar, having successfully achieved a lower-middle income status ahead of time alongside improvements in life expectancy, gross school enrolment and access to clean water among others; Vision 2050 aims at attaining an upper-middle income status by 2050. This may require improvements in economic growth to be accompanied by higher overall standard of living for all segments of the Zanzibar's society across the economic, human capital, infrastructural and governance dimensions of human development. The vision and strategy being developed (MKUZA IV) will also focus as priority on attaining a blue economy to take advantage of her large sea resources.

2.3.2 Building Back Better Through Infrastructure Investments

A massive investment in physical infrastructure development related to rehabilitation and construction of new roads, railways, ports, and electricity is critical to return the economy to the pre-COVID-19 growth trajectory.

¹⁰ The Citizen (May 12, 2021) at <https://www.thecitizen.co.tz/tanzania/news/china-gives-tanzania-sh35-37-billion-loan-3397880>, accessed May 26, 2021

Severe flooding due to heavy rains in 2019, 2020 and in February and March 2021 in some districts of Tanzania Mainland and Zanzibar caused a serious damage to the roads, bridges, railroads, and electricity infrastructure. Investments are also needed in infrastructure to support the country's industrialisation strategy. Research conducted in some countries shows that infrastructure plays a key role in the pandemic crisis recovery period because of its high multiplier effects and impact on productivity growth (Yilmaz et al., 2018) and substantial employment creation (Dinkelman, 2011; Eustache & Garsous, 2012). The following are the main infrastructure investments during FYDP III.

- **Roads.** (i) The Government plans to rehabilitate all roads, bridges and parts of railroad destroyed by the floods, (ii) Construct over 4,500 km of new strategic roads to tarmac level and an additional 6,700 km of gravel all-weather roads in rural areas, (iii) Reduce traffic congestion in the main cities by constructing flyovers, and (iv) Increase local participation in the construction of roads using "force account" approach¹¹. The estimated cost is about TZS 16,350 billion (US\$ 7,785 million) to be financed from government resources, private sector through public-private-partnership (PPP) arrangements and external support. The roads infrastructure investments are expected to create over 11,200 new jobs and reduce unit cost of travel and transportation of goods within the country. By May 2021 some of the construction works had been completed, reducing unit cost of transport, facilitating internal travel, helping victims affected by floods to return to normalcy and many other benefits associated with improving roads in rural and urban areas.
- **Railroads.** The Government will rehabilitate the Central railway running from Dar es Salaam to Kigoma and the Tanga-Arusha railways. Tanzania is also constructing a Standard Gauge Railway (SGR) system which will link the country to the neighbouring countries of Rwanda and Uganda, and through these two, to Burundi and the Democratic Republic of the Congo. The new Tanzania SGR is intended to replace the old, inefficient metre-gauge railway system and reduce road congestion. It is also expected to decrease freight costs by 40 per cent. Each freight train is expected to transport up to 10,000 tonnes, equivalent to 500 lorry-loads. The Government has already secured US\$1.46 billion soft loan from Standard Chartered Bank, for funding of Phases 1 and 2 of the SGR, which has a length of 550 kilometres and by November 2021 the two phases were in the completion phase.
- **Ports.** The Government plans to continue improving the country's ports in order to increase efficiency of seaports and inland waterways. The specific objectives are to (i) Develop Dar es Salaam maritime gateway (Berth 1 – 7, RoRo Terminal and dredging of entrance channel) (ii) Develop Kwana dry port; (iii) Develop major sea and lake ports; (iv) Revamp marine transportation through procurement and rehabilitation of vessels; and (v) Acquisition of Ports Operations equipment. Investments estimated at TZS 5,350 billion (US\$ 2,547 million) will be needed. These resources will come from the Government and private sector through the PPP arrangement. By November 2021 about 65 per cent of the estimated resources had been mobilised and improvement has started to show results for completed works – especially in the seaports and inland waterways.
- **Electricity.** Tanzania is undertaking major investments to generate hydro-electricity power that will meet all energy demand in the country and ensure all communities in rural areas have access to affordable electricity and remain with excess power that can be exported to neighbouring countries. The 2,115MW Julius Nyerere Hydro-power Project

¹¹ Force Account means construction by the procuring entity itself such as district council or local community or use of public or semi-public agencies or departments concerned, where procuring entity or the public or semi-public agency uses its own personnel and equipment or hired local labour instead of using expensive contractors who tend to overprice construction bids.

is being implemented at a cost of US\$ 3 billion. In 2020/21 the project was allocated 65.54 per cent of the total budget for the Ministry of Energy budget. By November 2021 the project had employed 3,897 workers and plans are to continue creating further employment in all phases from production, transmission and to final urban and rural electricity consumers. The project will also reduce the unit cost of electricity to make electricity affordable to low-income poor households. Other hydro-power projects to be implemented during the FYDP III include: Ruhudji 358MW power project (TZS 255.58 billion or US\$ 121.7 million), extension of the 185MW Kinyerezi I project (TZS 138 billion or US\$ 65.7 million), 222MW Ramakali project (TZS 23 billion or US\$ 10.9 million), 87MW Kakono project (TZS 1.56 billion or US\$ 742,800, and several other hydro-power projects and solar-based energy projects. In December 2020 the government of Tanzania secured US\$ 300 million concessional loan to finance development projects¹². Again, in May 2021 the government secured US\$875 concessional loan from the World Bank (2021b).

By December 2021 all the projects mentioned above were in various stages of implementation and their completion is expected to, among others, reduce the cost of doing business in the country; help investors to have stable and reliable green energy; power all urban and rural areas as well as sell surplus electricity to neighbouring countries. The expected outcome is to facilitate investments through stable and reliable energy, reduce unit cost of production and provision of services, enable speedy recovery to pre-COVID-19 growth path as well as facilitate the achievement of the country's vision 2025.

The preceding infrastructure investments for completed projects had, as of December 2021, begun to speed-up recovery and help Tanzania achieve the pre-COVID-19 growth trajectory, while facilitating greener, inclusive, and more resilient socio-economic development growth path. Although it is too early to assess the impact of those investments in infrastructure because of their long-term effects to the economy, signs are already being felt, especially in reducing the unit cost of transporting agricultural commodities in the improved rural roads and increased efficiency of seaports and inland waterways which are currently more competitive.

With regards to Zanzibar, as part of the efforts towards greater economic diversification, industry is expected to nearly double in share from 18 per cent in 2019 to 35 per cent in 2050 while agriculture as a share of the GDP is estimated to halve from 21 per cent in 2019 to 10 per cent in 2050. Given that Zanzibar is a service-based economy, services – supported by tourism, creative industries and digital economy, the financial sector and relevant emerging sectors – will continue to be the largest contributor to the GDP over the next 30 years, though its share of the GDP shall decline slightly as industrialization picks up (Figure 10).

2.3.3 Strengthening Climate Change and Early Warning Systems

Tanzania, like many other countries in the world, is facing a high impact of climate change. There are observed rapidly emerging significant risks affecting agriculture, food and nutrition security in Tanzania. The country is highly vulnerable to re-current drought, which is exacerbated by widespread poverty, low technological capabilities and amplified by the COVID-19 pandemic, threatening the recently acquired lower-middle-income country status. Climate model projections show medium to strong warming in the range of 1.4°C to 4.2°C by the end of the century and rainfall patterns are being disrupted (Amwata et al., 2020). There are also estimates indicating that 808,200 people are likely to be affected by flooding in Tanzania annually due to sea level rise between 2070 and 2100 (WHO, 2015). Furthermore, it is projected that by 2030 as

¹² <https://www.tanzaniainvest.com/economy/south-korea-usd-300-million-loan>, accessed April, 22, 2021

a result of climate change, 25,300 people in Tanzania will be at risk of river floods annually and 37,900 owing to socio-economic change compared to the estimated annual affected population of 92,600 in the 2010 floods (World Resource Institute, 2015).

More alarmingly, the Global Climate Adaptation Partnership (GCAP, 2011) predicts future climate change in Tanzania could lead to large economic costs, equivalent to 1 to 2 per cent of the GDP per year by 2030. The costs to address the climate challenge are high. About US\$500 million per year is needed to address issues related to climate change and build resilience (GCAP, 2011). Given this context, the new Government has taken these warnings seriously and has begun implementing several policy actions, strategies and plans to create capacity to mitigate the impact of climate change to both Tanzania Mainland and Zanzibar, build resilience and foster better emergency preparedness.

The country being largely an agricultural-based economy has to scale-up plans and strategies to achieve greater climate change resilience and improve early warning systems. The strategy needs to build capacity to adopt and implement Climate Smart Agriculture (CSA) technologies and innovations, plant short season drought-resistant crops in districts with high vulnerability, support smart environmentally friendly irrigation systems such as drip irrigation and continue mobilizing all regions to plant trees and continue conserving the 33.5 million hectares of forestry reserves (WHO, 2015). Policy and strategic interventions being undertaken by Tanzania to address climate change and build resilience are briefly outlined as follows:

- ***To mitigate the impact of climate change and build resilience, Tanzania has adopted the National Climate Change Strategy (NCCS), which is the guiding framework for taking action on climate change.*** The strategy, which in Zanzibar is implemented through Zanzibar Climate Change Strategy (ZCCS), provides a strategic direction to integrate climate change into development planning, build resilience and facilitate better preparedness to reduce the risks associated with climate change.
- ***Agriculture Climate Resilience Program (ACRP) 2014-2019.*** The program being implemented by the Ministry of Agriculture with support from private non-state organisations and several Development Partners has put in place frameworks and strategies to facilitate climate change resilience preparedness, including facilitating a country-wide implementation of climate smart agriculture. The program is currently under review and the Government intends to initiate a new ACRP to continue building capacity for climate change and resilience in Mainland Tanzania and Zanzibar.
- ***Integration of climate change into agriculture and food security programs.*** Tanzania has several programmes and initiatives supported by the Government, Development Partners and several Non-state organizations that help mainstream climate change into existing programmes to improve food security, nutrition and build back better. Some of these include: (i) Agricultural Sector Development Programme (implemented in three-year phases (2006-2026)); (ii) Strengthening Climate Information and Early Warning Systems for Climate Change Resilience in Tanzania; (iii) UN Joint Programme to Support Sustainable Agriculture Value Chain Development in Tanzania, including Zanzibar; (iv) Mainstreaming Climate Change Adaptation Through Small Grants Programme; (v) Mainstreaming climate change in support of the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) public-private-partnership project under the World Bank and other donor support; (vi) Feed the Future - climate adaptation, agriculture, food and nutrition security supported by the USAID; (vii) UN-REDD and mainstream the environment and

climate change adaptation in implementation of national policies and development plans with support of UNDP/UNEP; (viii) Support climate resilience through the International Climate Fund under DFID support; (ix) several other interventions that assist Tanzania to build capacity for climate change adaptation, resilience and disaster preparedness and (x) Zanzibar Climate Change Action Plan (2016) which has built an adaptation pathway that maximizes economic opportunities whilst building information to help decisions in the future, especially in the face of climate change and uncertainty.

The ultimate expectation of all those interventions is to build a climate-smart resilient economy which is better prepared to deal with internal and external unforeseen shocks and disasters.

2.3.4 Policy Options to Continue Addressing Climate Change

- i). ***Strengthen climate change and early warning policy institutions and coordination.*** The country continues to implement actions to build institutional and technical capacities to work on climate change and health. The main institution and focal contact for implementation of climate and environmental matters is the Division of Environment in the Vice President's Office (VPO), which has also a focal person in the Ministry of Health in charge of health-related climate and environmental issues. The Division in the VPO is accountable to the Vice President and coordinates climate policy and handles Tanzania's international climate engagement, including responsibility for the formulation and implementation of the Nationally Determined Contribution (NDC) of climate change¹³ in both Mainland Tanzania and Zanzibar. The challenges facing the Division relate to inadequate staffing, very low budgetary resources, and weak coordination of the country's climate and environmental interventions. These inadequacies of the Division need to be addressed in order to help the country deal more effectively with climate change and environmental issues, while facilitating building back better to support greener and more resilient growth path.
- ii). ***Strengthen the country's climate change information system, including developing an Integrated Disease Surveillance and Response (IDSR) system as well as early warning and response systems for timely sharing of information at national and local government levels to reduce climate-sensitive health risks and environmental hazards.*** Lack of credible, timely information to support evidence-based decision-making is a major challenge for policymakers at national and local levels. The Tanzania Meteorological Agency (TMA) which covers also Zanzibar and Zanzibar Weather Services have been doing a commendable job to provide quality, reliable and cost-effective meteorological services on climate hazards, extreme weather events, such as heat waves, heavy rainfall and droughts. However, TMA is under-resourced and equipped in terms of modern satellite-based systems as well as capacity to produce information that can timely reach rural areas where over 70 per cent of Tanzania's nearly 60 million people live.

Further, despite having many actors supporting climate and environmental related matters, there is inadequate sharing of information on good practices in mitigating harmful effects of climate change. As such, there is need to enhance awareness of local farming communities, extension officers, regional and national-level practitioners on climate change, agriculture, food and nutrition security policies and strategies.

¹³ Nationally Determined Contribution (NDC) is a document on climate policies and actions each country agreed to implement under the Paris Agreement on climate change. Tanzania ratified the Paris Agreement on April 2018.

- iii). *Develop processes and financing systems that would meet the many challenges of climate change, build resilience and foster country readiness to defray risks associated with external emergencies.* Tanzania needs to mobilise greater financing to defray the costs of mitigating climate change and build resilience. In the COP26 Summit, Tanzania was represented by President Samia Suluhu Hassan. During the summit the President provided a speech where she called on developed countries to fulfil climate finance goals of donating US\$100 billion by 2025 to facilitate the implementation of the Paris Agreement.

“We know what is required and we know that if the world will not act accordingly, the countries like ours with lower adaptive capacity have no option but to brace for more devastating impacts. Our pride, the Mount Kilimanjaro, is drastically becoming bald due to glacier melting. Our exotic and beautiful archipelago, Zanzibar, is struggling with temperature rises, saltwater intrusion and inundation, thus impacting its tourism ecology. What does all this mean to a poor country like Tanzania? It means 30 per cent of our GDP (Gross Domestic Product) that comes from agriculture, forestry and fisheries is not sustainable.” ... “What we ought to remember is when drastic climate change hits, it chooses no location, might, weak, poor or rich country,” she said when addressing participants in Scotland during the United Nations Climate Change Conference. The Citizen, President Samia: “Unlock financing to fight climate change effects”, Wednesday November 03, 2021. Sourced at: <https://www.thecitizen.co.tz/tanzania/news/president-samia-unlock-financing-to-fightclimate-change-effects-3605702>

- iv). *Mainstreaming climate change into existing sector programmes and channelling greater funding in those programmes at national and local government levels is a cost-effective way to achieving intended outcomes.* Financing should be carefully targeted to programmes that have observed high climate change risks. For example, in agriculture, investing in Climate Smart Agriculture technologies and innovations will have high payoffs. In Tanzania over 70 per cent of the energy generation in the next 20 years is likely to be from hydro-power. Investing more to preserve water catchment areas such as the Rufiji River, which currently feeds most of Tanzania’s hydro-power supply, is critical because of projected increase in droughts and floods in the future. Further, most climate mitigation measures take place at local government level, but these are under-resourced partly because some of the high-yielding revenue sources such as property tax have been taken away by the central government. The Government needs to ensure technical assistance and finance reaches local governments. **Local governments lack discretionary spending for weather-related risks and need better capacity to plan and respond.** In this regard, innovative instruments, such as district-level adaptation funds could help give local governments the flexibility to quickly respond to climatic variability but also to finance resilience priorities which are specific to their jurisdiction.

2.3.5 Further Gender-sensitive Building Back Better Recovery Measures

Tanzania is up and running in ensuring gender sensitive inclusive socio-economic growth and development. The Constitution of the United Republic of Tanzania, 1977 as well as the Zanzibar Constitution of 1984 as amended in 2010 forbid all forms of discrimination based on gender. Tanzania has ratified all regional and international gender protocols¹⁴. The Ministry of

¹⁴ Including: (i) The 1958 International Labour Organization (ILO) Convention on the Elimination of Discrimination in Employment and Occupation. (ii) The 1951 ILO Convention on Equal Remuneration for work of Equal Value, (iii) The 1994 International Conference on Population and Development (ICPD) plan of action., (iv) The 1981 ILO Convention on Workers with Family Responsibilities, (v) The 2004

Community Development, Gender, Women and Special Needs and the Zanzibar Ministry of Health, Social Welfare, Elderly, Gender and Children coordinate the mainstreaming of gender in development policies, programmes and implementation strategies. The Government has developed strategies and plans to implement the protocols as well as the African Vision and Agenda 2063 to realise people-centred development which is sensitive to gender equality.

Some of the achievements in gender and inclusive socio-economic development in Tanzania include:

i). *In education, Tanzania, including Zanzibar offers free-fee primary and secondary education* to provide equal education opportunities to both boys and girls. As such, in 2020 the Gender Parity Index (GPI) was 1.01 meaning the numbers are closer in terms of male and female pupils. In higher tertiary education, the Higher Education Students' Loans Board and Zanzibar Higher Education Loan Board provides equal access to girls and boys who apply for the loans after being selected to continue their education in higher learning institutions.

ii). *Gender Inequality Index (GII) continues to decline* from 0.556 in 2013 to 0.530 in 2020 and Gender Development Index (GDI) - the gap in Human Development Index (HDI) between women and men has remained stable at around 0.936 over the period 2015 to 2020.

Table 2: Trend of Loans Issued to Women Entrepreneurs

Year	Loans Issued (TZS)	Number of Groups Funded	No. of Women Entrepreneurs Funded
2015/16	3,388,747,160	2,225	21,167
2016/17	8,816,700,165	5,899	772,245
2017/18	16,319,517,502	6,852	39,449
2018/19	11,128,114,993	4,898	44,210
2019/20	23,836,238,260	6,859	61,731
2020/21	25,800,000,000	8,223	81,201
Total	89,289,318,080	34,956	1,020,003

Source: PO-RALG

iii). *Government sensitizes communities on gender equality* through 2,675 Community Development Workers (CDOs) who are located in regional secretariats and local authorities throughout the 26 regions of Tanzania Mainland and Zanzibar's Digital Community Health Programme which started operations in 2021. The programme is expected to change the way 1.6 million Zanzibaris access healthcare by providing every household with a dedicated community health worker.

iv). In Zanzibar, the 2020/21 budget allocated TZS 850 million worth of loans to the Zanzibar Empowerment Fund (ZEFU) to support productive small and medium enterprises mostly owned by women, youths and the marginalised groups. In the 2021/22 budget, the Government of Zanzibar rolled out the small entrepreneurs identity cards (IDS) and allocated TZS 100 billion worth of loans which will be provided mostly to women, youths and vulnerable populations (Daily News, 2021¹⁵).

v). *Women are encouraged to contest for national election seats.* In the 2015 and 2020 Tanzania Mainland elections women parliamentarians were 38 per cent. In Zanzibar, Special Seats for women in the House of Representatives have increased from 30 to 40 per cent of the total number of Constituency seats in Zanzibar, thus fostering greater equality between men and women parliamentary representatives.

Solemn Declaration on Gender Equality in Africa (SDGEA), (vi) The 2008 SADC Protocol on Gender and Development.

¹⁵ Daily News, 'Dr. Mwinyi approves TZS 100 billion package for entrepreneurs' Sourced at: <https://dailynews.co.tz/news/2021-09-24614d7d2b46ce4.aspx>

- vi). *The Government recognises that women participation in various socio-economic spheres is vital in ensuring sustainable development and achieving gender equality.* As such, between 2015/16 and 2020/21, a total of TZS 89.29 billion (US\$ 40.6 million) was provided to 1,020,003 women entrepreneurs in various Local Government Authorities in the Country (PO-RALG) (Table 2). Due to COVID-19, the Bank of Tanzania allowed a restructuring of non-performing loans for women entrepreneurs and other businesses up to 4 times until the pandemic abates. The most affected women groups being women-owned SMEs especially in horticulture, cross-border traders due to partial closure of borders in neighbouring countries as a precautionary measure owing to the pandemic, trade and health service providers – women being the majority in all country health facilities in the forefront of the fight against COVID-19 to help pandemic victims with high possibility of contracting the virus themselves due to inadequate protective gear.

2.3.6 Policy Options to Continue Supporting Gender and Inclusiveness

Rationale for gendered fiscal support

Empirical evidence shows that if women can perform identically to men, global output could increase by up to US\$28 trillion annually in 2025 or equivalent to 1 per cent incremental GDP growth per year relative to business-as-usual (historical) forecasts (Woetzel et al., 2015). In Africa, Tanzania inclusive, US\$316 billion could be added to the GDP in 2025 if each country matches the gender equality efforts of the region's best-performing country in terms of gender parity (Moodley et al., 2019). It is within this framework that the Tanzania should continue to scale-up support to women and girls in order to increase the potential for accelerated economic growth.

The President Samia S. Hassan has pledged to continue facilitating women and girls' inclusiveness in order to progressively achieve gender parity between men and women in the country. Her recent appointments of several women as Ministers, Regional and District Commissioners and to other high-level public posts such as the President's Economic Advisor, Minister of Foreign Affairs, Minister of Defence, among others, attest to her commitment made in her first address to the Parliament in April 2021. Similarly, Dr. Hussein Mwinyi, President of Zanzibar has appointed several women to high-level positions, including Engineer Zena Said who was recently appointed Chief Secretary of the Zanzibar Revolutionary Government, becoming the first woman to hold that position in Zanzibar.

Fiscal Policy Options

- i). *Urgently scale up containment measures to reduce infections and fatalities associated with the pandemic.* In Tanzania, like in many other countries in the world, women comprise about 70 per cent of the health and social workers who are at the forefront of the fight against COVID-19 (Boniol et al., 2019). This makes them crucially important in fighting the pandemic but at the same time, their job is very risky because it exposes them to infections, including contracting the coronavirus. In the past five years, Tanzania health facilities have increased by 25 per cent from 7,014 in 2015 to 8,783 facilities in December 2020. This means women health workers have also increased, but many of these facilities lack COVID-19 related equipment and staff protective gear. The Government has increased the 2021/22 budget for the health sector to improve health facilities, including those demanded by health staff for protection against the pandemic infection. As of December 2021, the investments in the health sector have been pivotal in containing the spread of the pandemic and protecting health workers, although

more actions are needed in non-referral hospitals to ensure all health facilities are well equipped and supported with needed supplies, equipment, and qualified health workers to combat the second and third waves which are apparently causing more infections and greater death toll than in the first wave as previously shown under sub-section 2.2(I) of this report. The new President has pledged to provide press freedom of information and public disclosure according to WHO recommendations.

- ii). ***Facilitate mandatory Gender mainstreaming in the Five-Year Development Plan 2021/22 -2025/26 (FYDP III) and the Zanzibar Strategy for Growth and Development (MKUZA IV which is under development within Zanzibar Development Vision 2050)*** which supports gender equality. The implementation of these plans has put strategies and measures that will continue to address gender inequalities against women and girls; increase opportunities for girl education and training where traditional culture fails to send their girls to school even under the free-fee education system; put in place swift measures against discrimination in matters of land ownership and inheritance, violence against women, and intensified voice against archaic cultural biases against women in some of the 120 tribes in Mainland Tanzania. In Zanzibar, the Government of Zanzibar is implementing concrete actions to end archaic cultural biases against women and children through the National Plan of Action to End Violence Against Women and Children 2017-2022, unveiled on 26th August 2017.
- iii). ***Continue to support gender smart investments that will contribute towards emancipating women's position in Tanzania, including Zanzibar as business entrepreneurs and socio-economic and political leaders.*** During implementation of the FYDP III, and the Zanzibar Vision 2050, the Ministries responsible for gender in collaboration with the Ministry responsible for local government (PO-RALG) will continue to implement various programmes to empower women with the aim of increasing economic opportunities and building business capacity, access to capital, markets and credit facilities. The 2021/22 government budgets for both Tanzania Mainland and Zanzibar have allocated funds to be used for empowering women and youth entrepreneurs. The resources will need to be beefed-up with support from external sources, especially Tanzania's Development Partners who have shown interest to continue supporting women organisations. As of December 2021, some funding budgeted for women and youths had been disbursed facilitating continued thriving of supported businesses, increasing jobs and improving the welfare of their families.
- iv). ***Support women organisations and their business support to improve their ability to support e-commerce MSMEs and start-ups.*** Some of the organisations include Tanzania Women Parliamentary Group, Tanzania Gender Network Programme, Tanzania Women Chambers of Commerce, Tanzania Women Miners Association, Tanzania Women Lawyers Association, Tanzania Media Women Association, Tanzania Women Association Zanzibar, Women Leaders in Zanzibar, to mention but a few. These organisations have been doing a good job in facilitating gender inclusiveness and championing women rightful issues, while fighting against traditional and cultural biases that tend to deprive women of their due rights, especially those tribes that deprive girls of the right to education despite the country having free-fee education system and rights to property ownership such as land.

3. Monetary Policy Measures to Build Back Better

The appearance of COVID-19 in March 2020 has impacted on real growth, with the Bank of Tanzania (2020a), World Bank (2021a) and ADB (2021) predicting slowing down of real GDP growth rate to 5.5 and 5.6 per cent; 5.8 and 6.1 per cent; and 6.4 and 6.6 per cent for 2020 and 2021 respectively. The World Bank report observes that the Tanzania managed to avoid recession in 2020. The reduced growth is due to a slow growth of some sectors such as tourism, hotel, education, international travels, and social activities.

The Government has developed plans and strategies which combine fiscal, monetary and trade policies consolidated into the Five-Year Development Plan III 2021/22 – 2025/26 to support quick recovery and build back better to attain 7-8per cent real GDP growth by 2025. The monetary policy options include the following:

- i). **Sustain stable inflation to target level of 5 per cent for the next five years.** Tanzania's inflation rates remained low and stable from 2020 to December 2021, the same as the 2018-19 average of 3.5 per cent. A stable inflation was aided by subdued demand amid the COVID-19 pandemic, robust food production, decline in oil prices and other prudent fiscal and monetary policies. Going forward, the Bank of Tanzania will use inflation targeting at an average annual rate of 5 per cent to keep economic growth steady and prices stable. As of December 2021, the headline inflation was below the target level of 5per cent and within the regional benchmarks.
- ii). **Bank of Tanzania should continue to use accommodative monetary policy such as providing a conducive environment for lower lending rates.** In 2020 up to December 2021, implementation of accommodative monetary policy succeeded in lowering short-term interest rates, thus creating favourable conditions for an increase in trade and investment. The private sector credit growth averaged 5.1 per cent in 2020 and regained momentum in 2021 as the global economy continues to recover with the hope that the third and fourth waves of the pandemic will abate. The banking sector remained profitable and adequately capitalized with capacity to withstand internal and external shocks.
- iii). **The Bank of Tanzania should closely monitor the financial system and the economy to safeguard the stability of the financial sector.** The domestic financial system remained resilient, efficient, and effective during 2020 despite sluggish global economic conditions. The banking sector, which dominates the provision of financial services, was sound, stable, profitable and liquid. The measures taken by the Bank of Tanzania will further support in enhancing the resilience of the financial sector to potential unexpected shocks.
- iv). **The Bank of Tanzania should continue taking measures to improve transparency in foreign exchange dealings to ensure orderly market conditions. This will result in a stable exchange rate:** On average, during the period December 2019 to December 2021, the Tanzanian shilling depreciated by 0.4 per cent against the U.S. dollar, 8.7 per cent against the Chinese renminbi, and 10.2 per cent against the euro, though it also appreciated by 8.4 per cent against the Kenyan shilling and 0.11 per cent against all currencies in October 2021. The outturn was reinforced by low inflationary environment, prudent monetary and fiscal policies adopted by the government,

subdued increase in global oil prices, and moderate current account deficit. In 2021 the government continued to follow accommodative policies used in 2020 that have continued to maintain inflation at below target level. Going forward, the Bank of Tanzania should continue taking measures to improve transparency in foreign exchange dealings to ensure orderly market conditions. In 2021/22 the exchange rate is expected to remain stable supported by favourable macro-economic conditions and prudent fiscal and monetary policies.

4. Trade Policy Measures to Revive Exports

4.1 Background

International trade helps to create market competitiveness and making goods and services available domestically to support growth and improve the standard of living. However, these benefits are reduced when international trade is disrupted due to external factors such as the coronavirus pandemic.

Tanzania's overall Terms of Trade¹⁶ remained favourable, registering an average index above the benchmark of 100.0 in 2019, 2020 and as of November 2021. The outturn implies that there is an increase in the country's purchasing power competitiveness. Every unit value of goods exports can now buy more unit value of imported goods. The favourable outlook has been mainly supported by stability of the exchange rate, strengthened gold prices, sluggish continuing recovery of the tourism sector in 2021 and subdued global oil prices. However, world market prices of selected commodities that are relevant to Tanzania were lower in 2020 and 2021 than in 2019 except gold and Arabica coffee.

The declines reflect a weak global demand for commodities following several mitigation measures taken by trading partners to slow down the spread of COVID-19. The increase in gold price was due to strong investors' demand for gold as an alternative asset owing to a high level of uncertainty in the financial markets. Regarding the price of Arabica coffee, the increase was attributed to a weak supply following low production in major coffee producing countries. As discussed in the balance of payments section, at the year ending October 2021, exports of goods and services reached USD 9,562.0 million compared to the same period in 2020 of USD 8,636.0 million - an increase of about 10.4 per cent, partly due to satisfactory performance in non-traditional exports especially gold and other minerals, despite continuing disruption of international trade caused by the pandemic; and

Tanzania' most affected sector - tourism has begun to recover (World Bank, 2021c), albeit slowly, but the government is urged to expedite recommendations made by the Ministry of Natural Resources and Tourism (MNRT) post-Covid-19 recovery measures (URT, 2021b). The MNRT has developed very good and comprehensive business post-Covid-19 recovery measures (URT, 2020). In 2020 tourism travel receipts declined by 59.2 per cent to USD 1.06 billion due to measures taken by most countries to limit the spread of COVID-19, which included lockdown and suspension of international passenger flights. However, beginning July 2021 monthly tourism services receipts increased to USD 253.5 million, compared to USD 140.2 million in July 2020.

The rise was attributed to an increase in travel receipts, suggesting a gradual pickup of tourism activities. In October 2021 the IMF granted TZS 90 billion budgetary support to the Ministry of Natural Resources and Tourism for the financial year 2021-2022 to implement the strategic post-pandemic tourism recovery measures. Although it is too early in the implementation stage to assess the impact of implementation of the tourism strategic interventions, there are good signs of tourism recovery, with over 92,000 tourists' arrivals in October 2021 compared to 81,000 in September 2021, which was much higher than the same period in 2020. Read more at: <https://www.statista.com/statistics/1255694/monthly-tourist-arrivals-in-tanzania/>

¹⁶ Terms of trade is the ratio of export price index (XPI) and import price index (MPI).

Box 1: Tanzania’s tourism sector begins to bounce back towards recovery



Left photo: Source: Africa news (8th, February 2021), “First batch of Israeli tourists land in Tanzania” Sourced at: <https://www.africanews.com/2021/02/08/tourists-visit-zanzibar-as-tanzania-govt-says-no-coronavirus-cases/>

Since February 2021, Tanzania’s tourism sector has witnessed an increasing number of tourists from many countries, including the USA, European countries and Asian countries. Commenting on arrival of tourists from Israel, the Chairperson of the Tanzania Tourist Board (TTB), Judge (retired) Thomas Mihayo, said: “...the arrival of these tourists is part of more than 900 tourists who will come to the country this month” (February 2021). Judge Mihayo continued to say: “We are pleased to begin receiving these tourists and they are coming after being satisfied with the government’s measures in the fight against coronavirus in line with the requirements of the World Health Organization (WHO) and other agencies.”

Two tourists who were among the Israel tourists commented: **“Honestly, it feels nice to be without a mask, I am not fearful. So live your life and come visit,”** said Rachel.

“I have not really been afraid, because I mean come on, we have to live our lives, we have to continue living. Corona is going to be there, but we have to continue living,” said Kate.

Right photo: The Citizen (Friday June 25, 2021), “Why Russia is now a key tourist source for Tanzania”, Sourced at <https://www.thecitizen.co.tz/tanzania/news/-why-russia-is-now-a-key-tourist-source-for-tanzania-3450138>

According to Ms. Claire Vuylsteke, who works with the Rossiyskaya Gazeta, a print and online media house, Tanzania tops the lists of countries which Russian tourists are allowed to visit in the aftermaths of the COVID-19 pandemic. Others visiting Tanzania in the same entourage were from Egypt, Turkey, Maldives, Greece, Tunisia, Japan, Cuba, UAE, Serbia, and Montenegro. Ms. Vuylsteke encouraged Tanzania Tour Operators Organisation (TATO) members to consider embarking on their marketing blitz in Russia in June as well as between September and November each year. She observed: *“Strategic timing will not only attract high profile Russian travellers for the forthcoming 2021 high season, but also make both Tanzania Mainland and Zanzibar their first-choice destination,”* adding that *“The momentum is ideal for both Tanzania Mainland and Zanzibar to maximize their image as a high-end destination.”*

Some of the comments in the text above, represent views of many tourists and most Tanzanian citizens who believe Tanzania has no coronavirus, despite Government’s efforts to sensitise/implore people to observe precautionary measures, including wearing of masks and voluntarily choose to vaccinate free of charge as a way of saving lives.

4.2 Trade Policy Options

- i) **Industrialisation is critical to enable Tanzania to remain in the low middle-income country and increase international competitiveness of its products:** In July 2020 the World Bank announced that the Tanzanian economy had been upgraded from low to lower-middle-income status. Tanzania's GNI per capita increased from US\$1,020 in 2018 to US\$1,080 in 2019, which exceeds the 2019 threshold of US\$1,036 for lower-middle income status. The upgrading of Tanzania is a result of the country's strong economic performance of over 6 per cent real gross domestic product (GDP) growth on average for the past decade. However, under the COVID-19 pandemic, the country can easily lose this status due to continued interruption of international trade where Tanzania exports large raw agricultural products and a few manufactured items. To ensure the country bounces back better and sustains the pre-COVID-19 growth path, the Government has developed the third Five-Year Development Plan 2021/22-2025/26 (FYDP III) with the theme of "Realising Competitiveness and Industrialisation for Human Development" which has a large component devoted to trade.

The FYDP III has developed strategies and plans to deepen industrialisation and service provision which will be reinforced by new knowledge, use of modern science, technology, and innovation (STI) and taking advantage of the digital revolution. In this regard, the country will raise the number of manufacturing establishments, with STI-led value-addition in all productive sectors and services. This will lead to a more sustainable basis for strong domestic supply, exports, and competitiveness. Going forward, the trade policy option is to ensure most exports embody medium to high-technology content because experience shows such exports of goods and services fetch steadier prices than exporting primary products that have little value-addition. Further, Tanzania's proportion of high-tech exports in total manufactured exports is low compared to other lower-middle-income countries and more so with middle- and high-income countries. The expected impact of supporting investments in value addition are to create jobs, incomes in value-chain supported businesses, increase the country's external trade competitiveness, and help the economy progressively maintain its recently acquired lower middle-income status.

- ii) **Digital economy and e-commerce:** One of the main lessons COVID-19 has clearly brought to the Tanzanian economy and to most other economies is that countries that harness the potential of digitalization and e-commerce will be better placed to benefit from global markets for their goods and services in this digitalizing world trade, while those that fail to do so risk falling behind and become marginalized. In recognition of this fact, the Tanzania needs to scale up and be better prepared to digitalise the economy in all sectors. In this regard, the country's development plan 2021/22 - 2025/26 (FYDP III) economic policy aims at building an economy that is inclusive, competitive, and integrated, underpinned by industrialisation and services driven by modern science, technology, and innovation (STI). The expected benefits of this intervention are to ensure the country remains internationally competitive even under the adverse effects of the pandemic.



- ii) **Cross-Border Digital Trade:** the country should identify and consider the existing digital channels that are useful for digital trading and seek to consolidate the market opportunities and capacities. For the case of the agriculture sector, for instance, the Tanzania Mercantile Exchange (TMX) platform that is used for trading agricultural commodities can be strengthened and widely disseminated to the public for utilization.
- iv) **To embrace e-commerce, the Bank of Tanzania should continue providing enabling environment to enhance usage of digital platforms in accessing financial services:** Tanzania has thriving mobile phones, professional application developers, network providers, mobile money, and online service providers. It has much of the telecommunications infrastructure to support the adoption of Artificial intelligence, big data analytics, blockchains, 3D printing and the like, which is important given the productivity gains these technologies offer and the fundamental change they can bring to Tanzania. As of December 2021, some on-going ICT-related digitalisation initiatives at the national level include:
- **e-Government.** Some achievements in this area include the establishment by the Government of the e-Government Agency in 2010 to coordinate, oversee and promote e-Government initiatives. Several e-Government systems have been deployed including the National Payment System (NPS) which comprises of the Tanzania Interbank Settlement System (TISS), Electronic Clearing House (ECH), Integrated Financial Management System (IFMS) and Retail Payment System (RPS), to mention but a few.
 - **TANZICT programme** which supports the functioning of the national innovation system in Tanzania contributing to business companies' increased competitiveness, access to new markets and job creation. Housed in the Ministry of Education, Science and Technology (MEST), TANZICT has prepared a policy paper for Science, Technology, and Innovation (STI) focusing on highlighting the government priorities in STI and is taking lead in the preparation of STI legislation.
 - **Infrastructure Education** (Science, Technology and Higher Education Programme, Tanzania National Research and Education Network, e-Libraries, Education Management Information System), e-Health, Information Society & Entrepreneurship (Dar Teknohama Business ICT Incubator, Binu Innovation Hub) and the Tanzania ICT Technology Park.

Existence of 47 banks operating in Tanzania: 36 commercial banks, 5 village community banks (VICOBAs), 4 microfinance banks, and 2 development banks. Mobile network subscriptions make it easier to facilitate e-commerce through ICT platforms and foster inclusiveness using mobile phones which have 95 per cent reach country wide. All the ICT and digital-based interventions are expected to improve the functionality and management of the economy and transform the way business and socio-economic policy is implemented to ensure efficient and cost-effective delivery of public and private services as well as help building back better as the coronavirus pandemic wanes away.

Further policy options to enhance digitalisation and e-commerce

- **Scale up on-going ICT-related initiatives** at the central and local governments and increase investment in science, technology, and innovation capabilities as the most effective way to make the country domestically, regionally, and globally competitive in this era of digitalisation and e-commerce. The most important initiatives that need scaling up and further improvement include:

- Tanzania National Research and Education Network (NREN) ICT programme.
 - Country-wide National ICT Optic Fibre Cable (OFC) infrastructure Backbone (NICTBB) connectivity to all district and regional headquarters in the country.
 - Last Mile Connectivity of 128 Higher Education and Research Institutions to facilitate use and application of digital technology.
 - Tanzania Commission for Science and Technology has set up a National Institution Repository to serve as one platform for research outputs related to ICT and use of technological research and outputs.
 - On-going Connection of Teacher training Colleges and Technical and Vocational Institutions into the National ICT Broadband Backbone; and
 - e-Health with associated Digital Health Investment to transform the healthcare system through ICT, to mention but a few.
- ***Increase the country's participation in global and regional trade*** in which Tanzania's exports will embody more local value-addition (raised to medium- to high-technology content). In this regard, Tanzania should facilitate and support a better understanding of international trade policy requirements, use economic diplomacy and country ambassadors to promote inflows of investment into the country as well as facilitate in securing markets for Tanzanian made products as championed by H. E. President Samia Suluhu Hassan. Further, continue reducing the cost of doing business in the country to encourage private enterprise investment to jump-start the industrialisation drive starting with the 26 Regional Investment Guides for utilization of investment opportunities identified in all the regions which can be found in Tanzania Investment Centre website (<http://www.tic.go.tz/>) and Zanzibar Investment Promotion Authority (ZIPA, at info@zipa.go.tz).
 - ***Reduce Cross-border trade costs for SMEs***, most of which are owned by women because experience shows those countries that have minimized bureaucracy and cost at the border have been able to benefit ahead of those that have not implemented reforms.
 - ***Fast track an all-digital clearance process, and efficient risk management*** because the lesson drawn from the COVID-19 pandemic is that countries that have implemented instruments recommended by both the WCO Revised Kyoto Convention (RKC) and the WTO Trade Facilitation Agreement (TFA), have benefitted more from international trade under the pandemic. This entails also implementing modern risk-based Customs processes that balance the need for compliance with trade facilitation which will help to ensure that essential goods reach their destination on time, compliance is maintained, and managing the clearance process remotely and digitally enables the health of Customs officers and importers/exporters to be protected from contracting the coronavirus¹⁷;
 - ***Complete and approve a flexible and dynamic legal and regulatory framework to guide digital-innovation activities*** such as research and new tech start-ups. The framework and legislation should consider fair competition, protection of patents (intellectual property rights), registration, cyber security, and ethical issues, to mention but few important issues for consideration.
 - ***Consider implementing priority actions recommended by UNCTAD (2020)*** on enhancing digitalization and e-commerce in the countries (Box 2).

¹⁷ WCO has recommendations on several issues related to trade during the pandemic, including expediting critical goods, expediting clearance of goods which directly impact or help to alleviate issues or situations related to the coronavirus outbreak. Additionally, the WCO website also provides guidance on the United Nations model agreement on expedited clearance of essential medical and emergency goods and several other guidance for countries to follow during external disruption of international trade.

Box 2: UNCTAD Recommendations to enhance country digitalization and e-commerce

a) Priority actions for governments

- Undertake systematic data gathering and evaluation of the impact of policies and business practices.
- Identify critical gaps requiring intervention.
- Establish/develop strategies for e-commerce that are integrated into broader national development and implemented through coherent governance structures.
- Strengthen inter-ministerial and interdepartmental dialogue for effective coordination.
- Foster dialogue between government, businesses, and business associations (on both demand and supply sides of e-commerce) and consumer representatives.
- Facilitate public/private collaboration to build awareness and trust in e-commerce among merchants and consumers.

b) ICT infrastructure and services

- Encourage investment in international and domestic connectivity through enabling regulatory frameworks, with particular attention to inclusion of areas that are currently underserved (such as remote and rural areas).
- Invest in partnership, including public-private-partnerships and partnerships with international agencies, to improve network deployment in underserved and potentially less profitable areas, to ensure progress towards universal broadband access.
- Take steps to reduce digital divides within countries, particularly the gender digital divide, improve affordability of access for local consumers and ensure that affordable access becomes available to all as recommended by the UN Broadband Commission for Sustainable Development; and
- Support information services, portals and e-commerce platforms that are oriented towards local businesses and consumers' needs.

c) Payments

- Raise awareness of the benefits of digital transactions among merchants and consumers.
- Establish enabling financial and digital regulatory frameworks that ensure ease of use and security for digital transactions, including measures concerned with electronic transactions, cyber security, and consumer protection.
- Encourage interoperability within a competitive banking environment, to facilitate seamless interbank transfers, reduce friction in transactions and lower costs; and
- Simplify digital transaction mechanisms (and lowering or reducing entry costs) to incentivize adoption by those at lower income levels.

d) Trade logistics

- Facilitate the digitalization of international trade by adopting the provisions of WTO's Trade Facilitation Agreement, implementing standardized paperless documentation formats, single window processes and other mechanisms to smooth the flow of goods along transport corridors and through border crossings.
- Invest in transport infrastructure, including ports, airports, and border crossings, which are critical to enabling cost-effective distribution of inbound and outbound goods that are ordered online from other countries.
- Consider the introduction of de minimis duty exemptions for low value shipments.
- Invest in improvements to postal networks, including the introduction of comprehensive physical addressing, and enabling innovative/competitive delivery mechanisms; and
- Support the establishment of information resources, portals and platforms that assist MSMEs to enter e-commerce markets.

e) Legal and regulatory frameworks

- Undertake a regulatory gap analysis in existing law and practice to identify where new measures are required.

- Work together to develop a holistic approach to legislation and regulation across government, in line with national e-commerce strategies.
- Relax regulations that inhibit or delay business start-ups and rapid, responsive innovations in business practice (which are particularly relevant to e-commerce ventures).
- Introduce new legislation and regulations expeditiously, but with full due diligence, in critical areas for e-commerce such as electronic transactions, data and consumer protection and cyber security, together with appropriate enforcement mechanisms; and
- Build awareness and capacity for legal adoption and enforcement by government, Parliament, and the judiciary, and for compliance by business.

f) Skills development

- Build skills among relevant parts of the government and parliament to raise their ability to formulate, implement and enforce relevant policies, laws, and regulations.
- Strengthen the capabilities of domestic IT sectors, which have an important part to play in supporting local digital transformation without overdependence on external platforms and technology providers.
- Ensure inclusion of women and girls who are under-represented in e-commerce and find it more difficult at present, in many countries, to obtain relevant skills and investment.
- Retrain staff in business support organizations (BSOs) to improve their ability to support e-commerce MSMEs and start-ups.
- Establish national e-procurement platforms and portals to assist MSMEs and start-up access international and domestic e-commerce markets.
- Support domestic e-commerce platforms that are accessible to all groups within the population, including those with fewer language skills; and
- Improve digital literacy and awareness building among consumers.

g) Financing for e-commerce

- Governments and business support organizations should assist MSMEs and digital start-ups to build their financial capabilities in ways that will improve access to investment.
- Banks should revise lending criteria, tailoring these to the needs of the emerging digital economy, innovation, and e-commerce; and
- Entrepreneurs and MSMEs should look beyond traditional lenders towards alternative funding models.

h) e-Trade for Women

- Develop family-friendly responses to the crisis that provide broader social protection for parents and women, including flexible work arrangements.
- Involve women more actively in policy and regulatory processes, including short-term responses to the crisis, to recognize and address the unique and unequal impacts of the crisis on women digital entrepreneurs.
- Create more meaningful, inclusive opportunities for women entrepreneurs to expand their connections and networks, and to voice their needs and concerns – including by engaging with decision makers and other stakeholders.
- Support efforts to develop women entrepreneurs' skills and capacity to join e-commerce platforms and to participate more effectively in supply chains. In the Gambia, for example, ITC's Trades provides one-on-one coaching to entrepreneurs in the fashion sector so that they can reach international targets online.
- Encourage and incentivize stakeholders – including the private sector as well as government – to adopt products that encourage women digital entrepreneurship, both during the crisis and in the recovery phase, such as dedicated, gender-specific support, gender-specific capital and/or gender-oriented tax levies; and
- Work together, in the long term, to address the broader issues and barriers that are faced by women digital entrepreneurs, including gender stereotypes, bias and norms, that prevent them from actively participating in the digital economy.

Source: UNCTAD (2020)

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