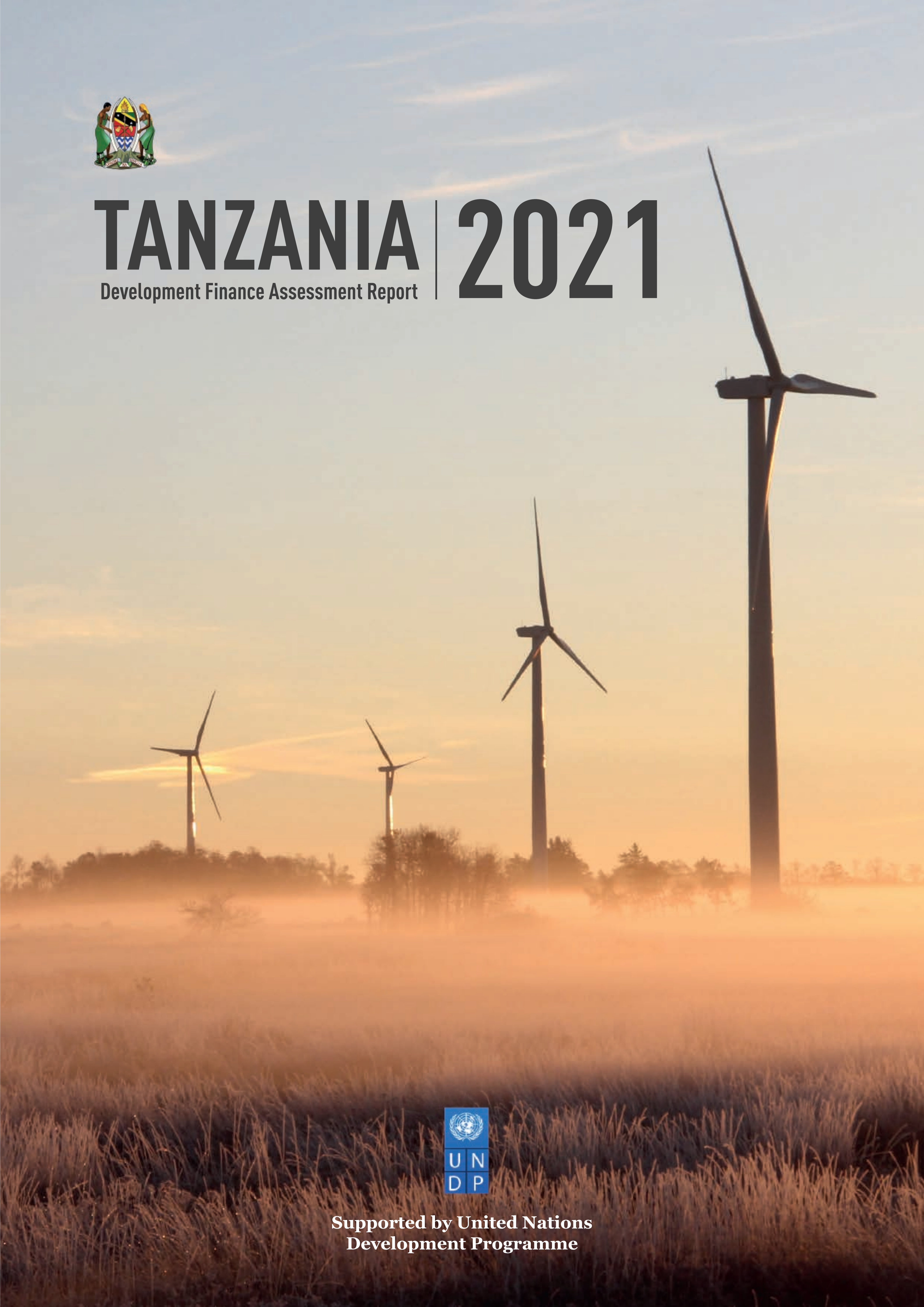

TANZANIA 2021

Development Finance Assessment Report

Supported by United Nations Development Programme

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ACKNOWLEDGEMENTS

> The report and DFA process benefitted greatly from stakeholders' inputs from government, other UN agencies, the private sector, civil society, faith-based organisations and development partners in Tanzania.

This report, the result of the Development Finance Assessment process, was commissioned by the Ministry of Finance and Planning (MoFP) and the United Nations Development Programme (UNDP). It was written by Juan Carlos Vilanova Pardo (Consultant) and a national team lead by Prof. Innocent Zilihona and made up by Dr Emmanuel Maliti, Dr Elinami Minja, Prof. Zacharia Masanyiwa and Mr. Bonamax Mbasa. Inputs and guidance were provided by Emmanuel Nnko – Head of Inclusive Growth Pillar, Amon Manyama - Programme Specialist and Coordinator of Programmes, UNDP, Ambrose Mugisha -Head of Development Partners Group Secretariate, UN Resident Coordinator's Office and by staff from other UN organizations.

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02

FOREWORDS

This Development Finance Assessment Report (DFA) is the culmination of months of detailed analytical work and dialogue with actors across the public and private sectors. With technical support from UNDP, it was commissioned by the Ministry of Finance and Planning of Tanzania in recognition of the fact that achieving its development objectives set out in its 3rd Five Year Development Plan (FYDP III) - and the aspirations captured in the Sustainable Development Goals- will require thinking holistically and making the absolute best use of all the sources of development finance available to the country.

The DFA presents the comprehensive analysis of trends in public and private finance compiled for Tanzania using a methodology grounded in the Addis Ababa Action Agenda and has assessed the opportunities and challenges that the country faces to mobilize the investments needed to achieve the its national development objectives.

It has analysed the financing policies and partnerships that are in place and looked at the contributions that actors across society can make toward FYDP III. The analysis shows that for the past ten years total flows into the private and public sectors have been roughly the same. According to estimates prepared for this assessment total flows accounted for up to TZS 300 trillion. Each section dealing with the various financial flows included in the report, incorporates recommendations for maximizing the flow and the impact on the national priorities and SDG so that Tanzania can attain an inclusive and sustainable growth.

The challenges of taking concrete action to address these issues should not be underestimated. However, it is expected that the practical recommendations made in this report will provide a solid basis for constructive dialogue and action across public and private actors. Through its FYDP III, Tanzania is focusing on addressing the need to increase its production capacity; to build a competitive economy that will stimulate the country's participation in trade and investment; and to stimulate human development.
This DFA has the opportunity to turn these challenges into opportunities by mobilizing both domestics and external resources in a more coordinated manner and aligning resources and policies to required outcomes.

> “This DFA has the opportunity to turn these challenges into opportunities by mobilizing both domestics and external resources in a more coordinated manner and aligning resources and policies to required outcomes.”

The new FYDP III, to achieve the country's Vision 2025, incorporates the expected financial resource envelope for its implementation. In the corresponding financing strategy, it outlines various sources that will be used, including interventions and strategies to enhance resources mobilization and the use of innovative financing instruments, for both the public and private sector.

This DFA provides ideas, recommendations and ways to facilitate mobilizing the necessary resources and channeling them to the country's priority areas and SDGs. The DFA also incorporates recommendations for setting up monitoring tools and systems to allow Government and other stakeholders to assess whether the necessary funding is, in fact, flowing in the expected amounts and to the appropriate economic sectors. The High-Level Committee, proposed in the DFA, will be in charge to promote the necessary reforms and coordination with other stakeholders to achieve the development goals embedded in FYDP III.

Lastly, the DFA and subsequent INFF will enhance and strengthen Tanzania's national planning and budgeting systems for effective delivery of intended outcomes and monitoring of financing flows. This will be possible through developing partnership between all stakeholder, i.e. public, private, CSO and development partners.

Emmanuel Tutuba
Permanent Secretary
Ministry of Finance and Planning (MOFP)

03

EXECUTIVE SUMMARY

Achieving Tanzania's development goals and the SDGs rooted in the 2030 Agenda requires mobilizing a diverse range of public and private financial resources. This message has been cemented by the Addis Ababa Action Agenda, in which UN member states called for integrated national financing frameworks (INFF) to finance national development objectives and the Sustainable Development Goals (SDGs). These recommendations emerged from realizing that countries were facing several challenges in devising an integrated approach to operationalize their financing strategy to fund both, public and private sectors, in order to achieve the national development outcomes. These challenges may include low capacity to manage complex financing instruments, enabling the business environment, inadequate collaboration with a wide range of players, dependence on the declining traditional sources of finances, untapped new and innovative sources of development financing, and misalignment between the planning and finance policy functions of governments.

> Achieving Tanzania's development goals and the SDGs rooted in the 2030 Agenda requires mobilizing a diverse range of public and private financial resources.

The specific objective of this DFA is to inform Government about its ongoing progress towards achieving its development objectives and the 2030 Agenda. Government has domesticated the SDGs into its National Development Plan (FYDP III) and, while the current effort is to secure its financing and monitoring, this report will aim at expanding the use of existing and potential tools and policies to achieve progress towards SDGs and the 2030 Agenda. More concretely, the document aims at:

I. Providing an overview of the financing flows for development.

II. Describing how systems can be strengthened to better align and monitor future financing flows with the envisaged National Five-Year Development Plan (FYDP III) priorities and the SDGs.

III. Evaluating the role of the planning and budgeting process in linking both public and private financing with results, in the context of the FYDP III and the SDGs.

IV. Assessing the roles and responsibilities of national institutions and their associated policies governing all public, private, domestic and international financing flows in managing the different financial flows to directly contribute to the FYDP III and SDGs.

V. Reviewing the existing institutional set-up and monitoring and reporting processes and how to make them useful tools for implementing the 2030 Agenda.

VI. Making recommendations for strengthening the alignment of financing for development with both national development priorities and the SDGs and ultimately guide the design of an integrated national financing framework which encompasses these flows.

VII. Serve as basis for the High-Level Committee to move forward and develop the three-level partnership

Tanzania has continued to register robust economic growth coupled with a stable macroeconomic environment and GDP has been growing at an average rate of 6.9 percent from 2014 to 2019. Growth has mainly come from agriculture, mining and metal and construction. Foreign Direct Investment in Tanzania has shown a declining trend over the period, from being one of the most preferred destinations for foreign investment in Africa to reaching only USD 0.96 billion in 2019. The mining sector, the oil and gas industry, as well as the primary agricultural products sector (coffee, cashew nuts and tobacco) have drawn most of the FDIs resources. On the fiscal side, government revenues to GDP ratio is estimated at 14.7 percent of GDP in 2019/20 and the capital budget's

share of the total budget has increased from 25.4 percent in 2015/16 to 37 percent in 2019/20, higher than the target figure included in FYDP II of 32.8 percent for 2020/2021. Total revenue collections, however, have fallen short of the expected targets by 7.5 percent, with tax revenue surpassing its target by 1.6 percent, while non-tax revenue fell short by 22.1 percent of its target. Furthermore, tax revenue to GDP ratio fell short by 31.6 percent and non-tax revenue to GDP ratio was 87.2 percent of the target.
Tanzania had its first confirmed COVID – 19 case by the middle of March 2020. Its impact however, has been less damaging compared with that in the neighbouring countries. Real GDP growth rate is estimated to have come down to about 2 percent in 2020 (from 5.8 percent in 2019) and has had a negative effect on per capita income which turned negative for the first time in 25 years. Disruptions in production, consumption, and imports cause by the pandemic both, at the global and national level, have affected negatively Government's revenues.

On the fiscal side, Government increased budget expenditures to deal with the effects of COVID-19, using grants, received from the development partners (DP), as well as the contingency reserve to fund additional health spending to mitigate the risks of the pandemic. Furthermore, to support the private sector, the authorities expedited the payment of verified expenditure arrears with priority given to the affected SMEs and expanded social security schemes to meet the increase in withdrawals benefits for new unemployed due to COVID-19. Lastly, Government granted VAT and customs duties exemptions to imported medical equipment and medical supplies. On the other hand, the Bank of Tanzania reduced the discount rate from 7 percent to 5 percent and reduced collateral haircuts requirements on government securities. By June 2020, the BoT Statutory Minimum Reserves requirements were reduced from 7 percent to 6 percent.

The latest Debt Sustainability Analysis (DSA) concluded that Tanzania is in low risk of debt distress. All external debt burden indicators remained below their respective thresholds under both baseline and stress tests scenarios. The stress tests, however, showed that the fiscal sustainability was more vulnerable to sensitivity to export, contingent liabilities and primary balance shocks and could pose certain risks to the external and total debt sustainability. Existing vulnerability to contingent liabilities risks would indicate a need to strengthen the supervision of Public Corporations. This rating provides Tanzania a welcomed fiscal space to draw, as necessary, from external financing for its development agenda without jeopardizing its fiscal sustainability.

A comprehensive analysis of public financing flows shows that Government budget revenues, in current terms, has been steadily growing from around TZS 5.7 trillion in 2010 to close to TZS 21 trillion by the end of the period. The main categories (in 2018/19) of Government revenues were taxes on imports, income taxes and taxes on local goods. Tanzania's revenues to GDP ratio, however, does not compare well with other economies. Tanzania ranks well below its peer countries (Mozambique, Rwanda and Kenya) as well as other emerging economies (South Africa) though it is slightly better than Ethiopia and several other low-income Sub-Saharan Africa economies. At 14.7 percent of GDP in 2019/20, Tanzania is above the average for low income developing economies (12.97 percent) but well below the emerging G-20's (24.21 percent) and advanced economies (34.78 percent).

Historically, Tanzania has been one of the largest recipients of ODA in Africa. Since 2011, however, the actual inflows have been showing a significant decrease and the percentage of ODA grants relatively to GDP shows a declining trend throughout the period from 4.7 percent in 2010 to 0.3 percent in 2018. External debt inflows to Government have fluctuated over the years under study. During the period, the total amounts disbursed have gone from TZS 1.3 trillion in 2010 to TZS 1.19 trillion in 2019 while picking at TZS 2.49 trillion in 2014. The unpredictability and untimely disbursement of loans in recent past have resulted in Government issuing the "Guidelines for Project Planning and Negotiations for Raising Loans, Issuing Guarantees and Receiving Grants". Actual resource mobilization from climate funds has not met the expectations and recent estimates indicate that by 2020 only a total of TZS 24,7 trillion equivalent to USD 10,7 million were mobilised during FYDP II which was only 3.6 percent of the targeted amount. Some of the challenges for the limited utilization of climate change financing included delays in implementing the suggested strategies for allowing tapping of climate change funds, lack of capacity to prepare documents that are responsive to the fund requirements, lack of accredited institutions to access the funds such GCF as well as inadequate mechanisms for identifying and monitoring climate change funds mobilised by non-state actors.
Over the past decade, FDI inflows in Tanzania have decreased by 45.4 percent from USD 1.8 billion in 2010 to under a billion (USD 0.96 billion) in 2019. Consequently, FDI as percentage of GDP also declined from 5.7 to 1.8 percent over the same period. Recent FDI inflows to Tanzania are taking the form of equity and investment fund shares. These flows are now accounting for 65.4 percent of the total inflows. Mining and quarrying continued to be the leading activity as it accumulated a stock of FDI valued at USD 5,4 billion accounting for 40.1 percent, followed by manufacturing, which accounted for 14.2 percent. The growing importance of the accommodation and food services in attracting FDI inflows in 2017 was attributed to the expansion in tourism activities. FDI flows are sourced from few countries, mainly United Kingdom, South Africa and United States of America. In terms of remittances, these flows do not have a profound impact on the overall financing flows into the country.

Credit to the private sector from banks, in nominal terms, has been rising steadily throughout the period under analysis. By 2019, the total outstanding private credit amounted to TZS 20 trillion, of which TZS 14 trillion was in the business sector and TZS 6 trillion in the household sector. Financial companies are the primary issuers of corporate bonds in Tanzania. Currently there are six corporate bonds, two bonds (each) have been issued by the NMB Bank and the Tanzania Mortgage Refinance Company (TMRC), and the remaining two by the Exim bank and the PTA bank.

During the period under analysis, a total of TZS 301 trillion flowed into the private and public sector in Tanzania. The distribution between private and public comes out relatively similar, with some the private sector showing a slightly higher amounts of financing. The two main financing flows have come in the form of Government tax revenues and lending from the banking sector to the private sector. The latter one has come on top consistently throughout the period. Three type of flows, portfolio investment, remittances and corporate bonds, have remained negligible for the whole period. The table below shows the various amounts of financing that have been available to the private and public sector during the period.

The preparation of this DFA overlapped with the final stages in the design of the Five-Year Development Program III (FYDP III) for the period 2021/22 – 2025/26. The FYDP III has been prepared by the National Planning Commission and draws from the principles embedded in the Vision 2025, The African Union 2063, The 2030 Agenda, the election manifesto, the Paris Agenda and different sectoral issues that have been incorporated into the Plan. It aims at integrating Tanzania into the regional and international markets by transforming its domestic supply infrastructure and aligning along their business needs. In this context, the Plan prioritizes an export led growth for its economy along with further industrialization and developing its human capital. The starting date for FYDP III takes place at a time when Tanzania reaches a middle-income status which will affect its relations with the developing partners and the way it finances its developing efforts and a shifting engagement with donors to emphasis on trade and investment. FYDP III will, therefore, be providing guidance for channelling resources to the priority areas, including budgetary flows.

Table ES 2: FYDP III: Resource projections, initial estimates

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Public financing flows	Government tax revenues	5,74	7,22	8,44	10,18	10,96	14,05	16,64	17,94	18,53	21,02	130,72
	ODA grants	1,78	1,71	1,59	1,49	1,38	0,52	1,09	1,24	0,81	1,04	12,66
	Borrowing	1,38	1,15	1,74	1,92	2,50	1,13	1,71	1,70	1,19	-	14,41
	Total Public Flows	8,90	10,08	11,77	13,58	14,84	15,69	19,44	20,88	20,53	22,07	157,78
Private financing flows	Foreign Direct Investment	2,53	1,92	2,83	3,34	2,34	2,98	1,88	2,09	2,20	2,27	24,37
	Portfolio Investment	-	0,02	0,01	0,01	0,02	0,06	- 0,01	0,01	- 0,01	0,08	0,18
	Credit from the banking sector (domestic)	5,99	7,62	9,01	10,39	12,41	15,49	16,61	16,90	17,73	19,70	131,85
	Remitences	-	-	0,64	0,67	0,89	0,41	0,63	0,62	0,44	-	4,31
	Corporate bonds	0,12	0,10	0,09	0,05	0,05	0,06	0,10	0,10	0,13	0,18	0,98
	Total Private flows	8,64	9,66	12,58	14,46	15,72	19,00	19,21	19,71	20,49	22,22	161,68
	Total Flows	17,54	19,74	24,34	28,05	30,55	34,70	38,65	40,59	41,02	44,28	319,47

Source: author's calculations

Initial estimates prepared for the Government Financing Strategy point to a projected financing envelope of TZS 114.9 trillion over the five-year horizon. This is 6.7 percent higher than the resource envelope for FYDP II, which was TZS 107.7 trillion. FYDP III will be financed through the Government's development budget component, estimated at 74.3 trillion shillings and external grants and loans which are estimated at TZS 12.3 trillion. In addition, projected private sector participation is estimated at TZS 40.6 trillion. The private sector will be directly engaged in financing the Development Plan through Joint Venture (JV) and Public-Private Partnerships (PPP) projects. The business sector is also expected to contribute to Tanzania's progress through the implementation of their own investments and hiring plans which will be analysed separately.

The following table provides the projected overall financing flows for implementing FYDP III, included in the Government's financing strategy:

Total private resources included in the table show expected private sector's participation in Government

Table ES 2: FYDP III: Resource projections, initial estimates

	BUDGET PROJECTION			Million Shillings		
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**TOTAL**
Domestic Revenue	**26,032,576**	**28,214,919**	**30,852,142**	**33,503,374**	**36,059,574**	**154,662,586**
Tax Revenue	22,097,676	24,104,998	26,269,832	28,574,140	30,658,286	**131,704,932**
Non-Tax	3,071,042	3,192,899	3,606,752	3,885,388	4,299,588	**18,055,669**
LGAs Own Sources	863,858	917,022	975,558	1,043,847	1,101,700	**4,901,985**
Grants	**1,127,188**	**959,108**	**865,416**	**745,557**	**520,261**	**4,217,530**
Financing	**2,933,636**	**2,880,930**	**2,345,708**	**2,136,303**	**2,051,673**	**12,348,250**
Foreign (Net)	1,094,839	1,097,745	429,783	58,989	-178,308	**2,503,048**
Concessional	1,757,802	1,706,574	1,663,106	1,627,871	1,596,144	**8,351,497**
Non concessional	2,352,107	2,421,900	1,840,650	1,745,450	1,646,775	**10,006,882**
Amortization	-3,015,070	-3,030,729	-3,073,973	-3,314,332	-3,421,227	**-15,855,330**
Domestic (Net)	1,838,796	1,783,185	1,915,925	2,077,315	2,229,981	9,845,201
NDF	1,838,796	1,783,185	1,915,925	2,077,315	2,229,981	9,845,201
Rollover	3,150,337	3,050,728	3,070,117	3,264,332	3,321,227	15,856,741
Total Government Budget	**36,258,806**	**38,136,414**	**40,207,356**	**42,963,899**	**45,373,962**	**202,940,437**
Total Public Resources for FYDP III	**13,255,855**	**14,023,994**	**14,936,994**	**15,815,289**	**16,214,611**	**74,246,744**
Domestic	10,370,865	11,408,312	12,459,472	13,564,196	14,220,541	**62,023,386**
Foreign	2,884,990	2,615,682	2,477,522	2,251,093	1,994,071	**12,223,358**
Total Private Resource	**4,132,000**	**4,546,000**	**9,076,000**	**12,297,000**	**10,560,000**	**40,611,000**
PPP Projects	1,355,000	719000	5,165,000	7,902,000	5,887,000	**21,028,000**
Joint Venture Project	2,777,000	3,827,000	3,911,000	4,395,000	4,673,000	**19,583,000**
Total Resources for FYDP III	**17,387,855**	**18,569,994**	**24,012,994**	**28,112,289**	**26,774,611**	**114,857,744**
GDP m.p.	**163,879,616**	**174,534,634**	**185,936,799**	**198,952,375**	**212,879,041**	
Tax to GDP ratio	13.5%	13.8%	14.1%	14.4%	14.4%	
Non tax to GDP ratio	1.9%	1.8%	1.9%	2.0%	2.0%	
LGAs Own Sources	0.5%	0.5%	0.5%	0.5%	0.5%	
Domestic Revenue to GDP	15.9%	16.2%	16.6%	16.8%	16.9%	
NDF to GDP	1.1%	1.0%	1.0%	1.0%	1.0%	
Public FYDP III as % of Total Budget	36.6%	36.8%	37.1%	36.8%	35.7%	36.6%

Source: MoFP and calculations

projects and are not comprehensive of private sectors' participation towards Tanzania's priority sectors and the 2030 Agenda. A detailed engagement plan with the private sector will need to be developed and implemented.

The budget estimates are formulated in line with the existing macroeconomic (growth, inflation and external sector) as well as, at the sectoral level, in consultation with Tanzania´s DPs regarding their financial support. It is then that Government formulates its goals, objectives and budget priorities in line with the approved development strategy (FYDP III when it is approved) which becomes the basis of allocating resources. The budget frame is also formulated for a longer three-year time period in a document called the Budget Guidelines (BG) or Medium-Term Expenditure Framework (MTEF). This is prepared by a committee which comprises representatives from the MoFP, the Prime Minister's Office, Civil Service Department and Regional Administration and Local Government.

The overall control and monitoring of public expenditure is carried out by an IT system called MUSE. This is an in-house developed computerized system which links up government paying stations and centralizes and controls all expenditures. The system allows for closer monitoring of Government spending by providing monthly flash reports on revenue collections and expenditure, quarterly and annually performance reports, avoids any excesses in spending beyond approved budgets, and produces specific reports based on user requirements. Introducing budgeting for the national priorities/SDGs would be an efficient way to channel and monitor financial resources to FYDP III. Integrating national priorities/SDGs into domestic public finance could be done by adapting current budget processes to enable the incorporating these into budget formulation; budget execution and procurement; and budget reporting and audit. The process in turn would facilitate monitoring and reporting on financial flows to the development priorities.

The debt management department, at the MoFP, is currently using a det recording system (CS-DRMS) that allows for a comprehensive monitoring of all external borrowing flows. The system also allows for coding the various debt instrument with the economic sector to which the financing is being channelled. There are few monitoring tools readily available for reviewing financial flows to national priorities and SDG. The Ministry of Finance and Planning prepares, as part of the budget cycle, a quarterly budget execution report. On the other hand, Public Expenditures Reviews were being conducted on an annual basis up to 2015, year in which they were discontinued. On the other hand, Government is trying to increase its budget department's capacity to undertake analytical assessments. More capacity is being built in order to use the budget process as a monitoring tool. For instance, it is already being used for assessing such issues as gender disparities and promoting gender equality and the department has recently organized a capacity building session on this issue.

Ideally, Government should be able to track all financing flows going to FYDP III and SDGs using one IT system. Tracking would include all public and private flows in order to have a comprehensive view of the actual vs planned flows from the different sources into the intended sector or recipient. This type of analysis would allow for identifying any bottlenecks being experienced in any one type of source and take mitigation measures. Aligning budget with SDGs would provide an ideal framework for tracking and monitoring budgetary flows. By tagging expenditure lines, computing financial flows would be accurate and timely. Reporting on progress, thereafter, would be facilitated.

Lastly, there is a need to monitor progress in policy and reform implementation. This report has identified some of the reforms areas needed to accompany the process to secure the necessary financing for the public and the private sector, among them, the PFM reform and the financial sector reform. There are, however, additional new policies that will be needed in order to facilitate alignment of budgetary and external assistance flows as well as private sector's involvement with national priorities. This will be an ongoing process throughout FYDP III's implementation period as there will be a need to adjust to potential macro and financial external/domestic shocks as well as to the changing nature of the domestic financial markets. How to attract FDI in an international context characterized by a declining trend will also be a challenge that will need to be addressed along with BoT. The process for monitoring implementation of new policies as per these recommendations will need to be established.

Preparing and implementing a sound Integrated National Financing Framework (INFF) requires strong political ownership as well as high level government coordination mechanisms. A centralized high-level government committee responsible for overseeing the INFF process will usually provide the overall coordination and leadership required to successfully implement the necessary changes and reforms. An Oversight Committee allows for coordinating national efforts, for allowing leadership at the highest level, and for accessing the necessary political cloud to support efforts to implement reforms and for improving coordination with the private sector. In order to effectively advance towards the 2030 Agenda, an effective government institutional structure needs to be in place for integrating SDGs into the national strategy as well as for implementing and for coordinating with the different stakeholders. The Oversight Committee recently created in Tanzania to lead the INFF process is described below.

In Tanzania mainland, the Ministry of Finance and Planning, through the National Planning Division, has been mandated to integrate the SDGs into national plans. This mandate comes from the Division's existing responsibilities which include preparing and implementing the national development strategy as well as for designing the financing strategy. The National Bureau of Statistics, on the other hand, is responsible for identifying the appropriate SDGs indicators and for collecting the necessary data for monitoring progress towards the SDGs at the national level. This was done in 2019 within the context of the Voluntary National Review. Furthermore, MoFP is mandated to report the progress towards achieving the SDGs at the High-Level Political Forum (HLPF). The responsibility for coordinating inclusive sustainable development within local communities and linking the global goals with local communities was assigned to the President's Office Regional Administration and Local Government (PO-RALG).
Government has already developed the National SDG Coordination Framework in order to provide high level leadership and coordination. The National Coordination Framework formulated by the MoFP in March 2020, established a new institutional structure to promote smooth, efficient and effective coordination in the implementation, monitoring and reporting of the Sustainable Development Goals and other international and regional development commitments. The new structure calls for setting up the Inter-Ministerial Technical Committee (IMTC) to oversee the whole process and it will receive, discuss and endorse reports related to FYDP III and the SDGs' implementation reports. The framework requires the establishment of an inter-agency steering committee, a technical committee and a national coordination task force for the SDGs, whose terms of reference will be prepared in the near future. Finally, it is expected that the framework will allow for a more effective and coordinated engagement with other stakeholders, such as the private sector, civil society organizations, academic institutions, and development partners. The resulting Committee will take ownership of the process and engage with the various stake holders as well as decide on the indicators to use and develop in order to measure progress towards the national development goals and the SDGs in terms of policies and financing. Key findings included in this report have been gathered during a fruitful process of research and engagement with Government officials and stakeholders. The findings have been contrasted with them and have re-

sulted in some concrete recommendations to better implement the 2030 Agenda in Tanzania mainland as well as for securing the necessary financing to implement FYDP III and the SDGs. These recommendations were included in each corresponding sections. What is presented below is a summary of the main recommendations and the context in which they were made. Specific recommendations regarding each of the areas are included in the body of the report.

Institutional issues. Implementing the 2030 agenda would require strong political ownership as well as high level government coordination mechanisms. The recommendation in this area is to provide all the necessary support to the newly established National Coordination Framework for overseeing the INFF process, and for providing the overall coordination and leadership required to successfully implement the necessary changes and reforms to implement the 2030 Agenda. Filling up each position in the different committees and technical groups as well as providing

the necessary ToR for each of them will be a priority in the short term. The IMTC will be the body in charge of taking ownership of the process in order to promote an SDG financing dialogue, to monitor implementation and to establish the necessary partnerships with the various stakeholders.

Monitoring and evaluation issues. These are key for assessing progress in securing and channelling financial resources to priority areas and for engaging with the different stakeholders. Recommendations in this area focus on data gathering in terms of financial flows, reporting and assessing alignment with the national priorities. Therefore, it is recommended to use the existing IT systems at the Ministry of Finance for tracking all financing flows being channelled to the National Development Strategy and SDGs and to develop the appropriate assessment tools (ex-ante and ex-post) for measuring alignment of the budgetary process with the national priorities. Technical capacity in all involved key players will be required and also is to secure the necessary financing to undertake all these activities.

Domestic budgetary resources. The main focus of the recommendations relates to increasing revenue collection. The section included recommendation for increasing and improving automatization and harmonization with taxpayers, reviewing the legal framework for tax exceptions, adoption of green taxes and continuing the drive to bring in the informal sector and broadening the geographic and sectoral distribution of the tax base. A number of more concise tax reforms are expected to contribute towards the improvement in tax collections and are included in the report.

Government borrowing. Government borrowing should only take place within the framework of the debt management strategy. Recommendations focused on developing negotiations skills, for securing the best financing terms, building capacity at the sectoral ministries and Planning to design bankable projects, channelling non-concessional resources to sectors with economic returns and expanding the creditor base. Recommendations for the domestic debt issuance included conducting further assessment and analysis of the domestic debt market (long term securities, benchmarking, crowding out of the private sector) and opening up the market to foreign investors.

Grant Financing. The trend for this source of financing is negative and therefore the recommendations centred on how to revert the trend or at least keep it at the same levels for the medium term. Recommendations included measures to building confidence with existing Development Partners, including enhancing coordination mechanisms, transparency, and accountability as well as Expanding the development partners base providing grant financing. New grant providers are merging and engaging with developing countries and an effort should be made to engage them in Tanzania´s development strategy. Lastly, further development of South/South cooperation was recommended as well.

Climate change financing. Mobilization of financial resources from the Climate Change Fund requires skills to prepare project documents that are responsive and meet the set criteria. Another requirement is having in place accredited entities that can access fund directly.

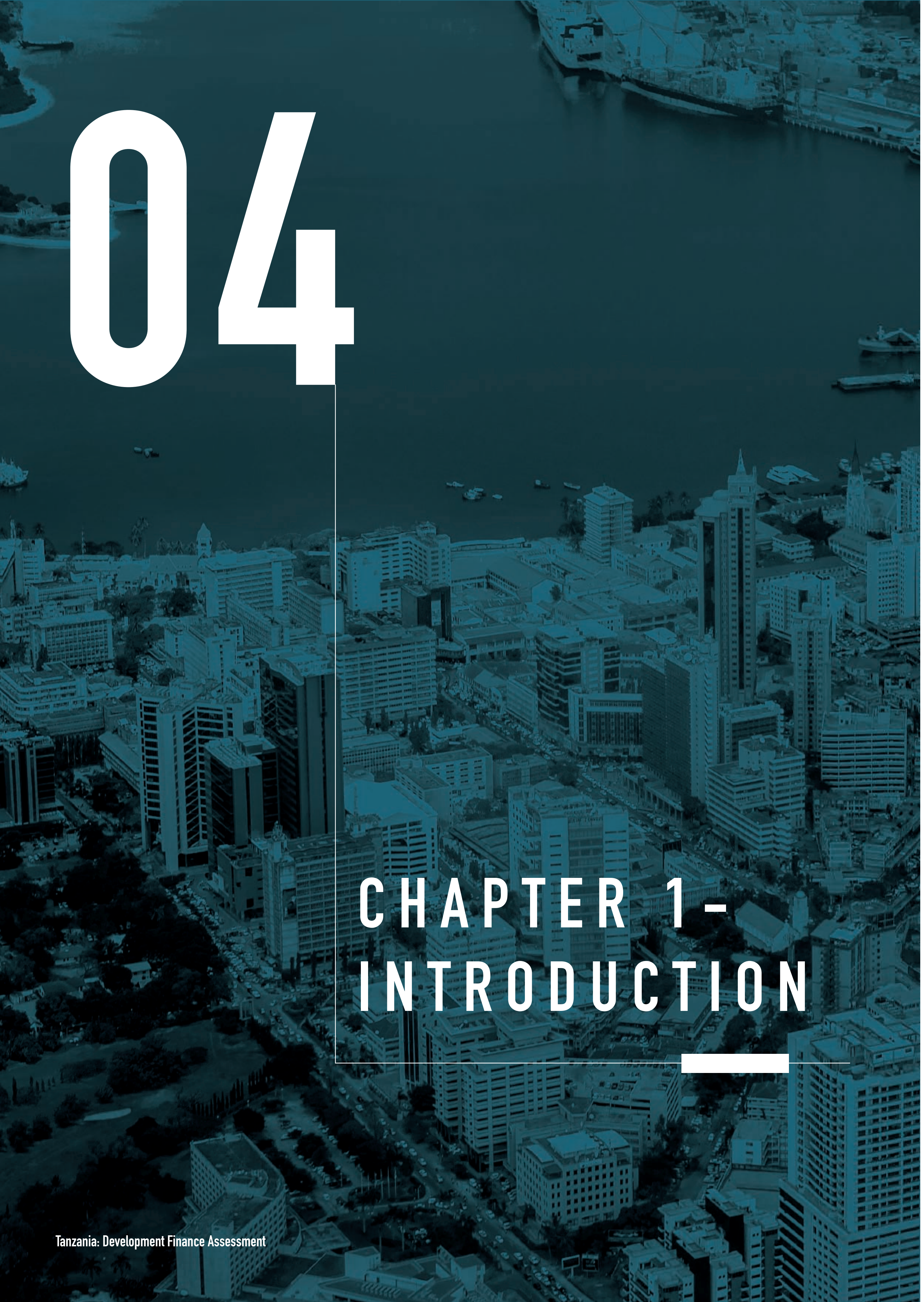
Bank financing. Moving forward, this is a key sector to revitalize so as to facilitate private sector's access to credit. Recommendations in this area focused on updating the existing Financial Sector Assessment exercise in order to reassess the priorities for reform, how to expand and improve funding through the banking system into the business sectors, and investing in financial education and awareness by renewing the National Financial Education Framework 2016-2020. Lastly, it was recommended to strengthen legal and regulatory framework for an effective deposit insurance system. Currently, there is a new financial sector master plan, designed by Government, that is expected to bring up to date the legal and regulatory framework as well as promoting long term financing and incorporating the latest technology development into the industry.

Domestic private investment. The focus in this area would be to implement the financial sector development master plan (2020/21 – 2029/30) and to take the appropriate measures to facilitate long term capital availability to the private sector. Lastly, it was recommended to improve dialogue with the private sector.

Bond financing. The recommendations included were to sensitize the private sector on Government national priority areas and incentivize investment in these key areas, accelerating investments in targeted education and training programs to domestic corporate businesses to improve their governance systems, increase transparency, and become more aware of possibilities of raising long term finances from capital markets and introducing tax incentives to debt-based capital.

Public Private Partnerships. The focus of the recommendations was on improving the process to assess the feasibility of projects and the approval process, strengthening the PPP unit and enhancing the technical capacity at MDA level.

Foreign Direct Investment. Facilitating private capital flows into the country would be a priority for the short and medium term. This type of flows, at the global level, is showing a downward trend and a targeted Government strategy is needed. The recommendations included the development of an investment strategy aligned with ongoing reform agenda as well as setting priorities for investment policy and promotion reform agendas at both economy-wide and sector levels and improving efforts aimed at attracting and facilitating FDI by establishing enhanced investor entry regimes, streamlining investment procedures, and enhancing investment promotion capacity. Lastly, it was recommended to promote practices for establishing linkages between FDI and the local economy.



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CHAPTER 1 - INTRODUCTION

Achieving Tanzania's development goals and the SDGs rooted in the 2030 Agenda requires mobilizing a diverse range of public and private financial resources. This message has been cemented by the Addis Ababa Action Agenda, in which UN member states called for integrated national financing frameworks (INFF) to finance national development objectives and the Sustainable Development Goals (SDGs). These recommendations emerged from realizing that countries were facing several challenges in devising an integrated approach to operationalize their financing strategy to fund both, public and private sectors, in order to achieve the national development outcomes. These challenges may include low capacity to manage complex financing instruments, enabling the business environment, inadequate collaboration with a wide range of players, dependence on the declining traditional sources of finances, untapped new and innovative sources of development financing, and misalignment between the planning and finance policy functions of governments.

A set of methodologies have been crafted to help countries face these challenges. The Inter-Agency Task Force on Financing for Development (IATF) has developed methodological guidance on each of the building blocks of an INFF.
The United Nations Development Programme

(UNDP) has developed the Development Finance Assessment (DFA) as a tool to help governments shape the inception phase of the INFF process. The DFA gives a comprehensive picture of existing and potential public and private financing in the country context and identifies opportunities to mobilise additional sources of finance and use existing financial resources more efficiently to achieve the national development objectives inspired by the SDGs. The INFF is an aspiration to have 3 levels of integrations: the planning and financing, the public and private actors and the whole of society and it is based in the findings included in the DFA. It helps countries to strengthen their planning and public and private related finance processes and to tackle identified obstacles in their progress to finance their national sustainable development goals. The INFF aims at fostering the alignment of all financing flows while integrating planning, budgeting and financing processes. The INFF also focuses on strengthening government policy, existing monitoring and reporting processes, identifying institutional gaps, as well as governance and coordination mechanisms, so that national resources can be used more efficiently for the achievement of the development goals as articulated in the national plans and the 2030 Agenda.

The specific objective of this DFA is to inform Government about its ongoing progress towards achieving its development objectives and the 2030 Agenda. Government has domesticated the SDGs into its National Development Plan (FYDP III) and, while the current effort is to secure its financing and monitoring, this report will aim at expanding the use of existing and potential tools and policies to achieve progress towards SDGs and the 2030 Agenda. More concretely, the document aims at:

I. Providing an overview of the financing flows for development.

II. Describing how systems can be strengthened to better align and monitor future financing flows with the envisaged National Five-Year Development Plan (FYDP III) priorities and the SDGs.

III. Evaluating the role of the planning and budgeting process in linking both public and private financing with results, in the context of the FYDP III and the SDGs.

IV. Assessing the roles and responsibilities of national institutions and their associated policies governing all public, private, domestic and international financing flows in managing the different financial flows to directly contribute to the FYDP III and SDGs.

V. Reviewing the existing institutional set-up and monitoring and reporting processes and how to make them useful tools for implementing the 2030 Agenda.

VI. Making recommendations for strengthening the alignment of financing for development with both national development priorities and the SDGs and ultimately guide the design of an integrated national financing framework which encompasses these flows.

VII. Serve as basis for the High-Level Committee to move forward and develop the three-level partnership.

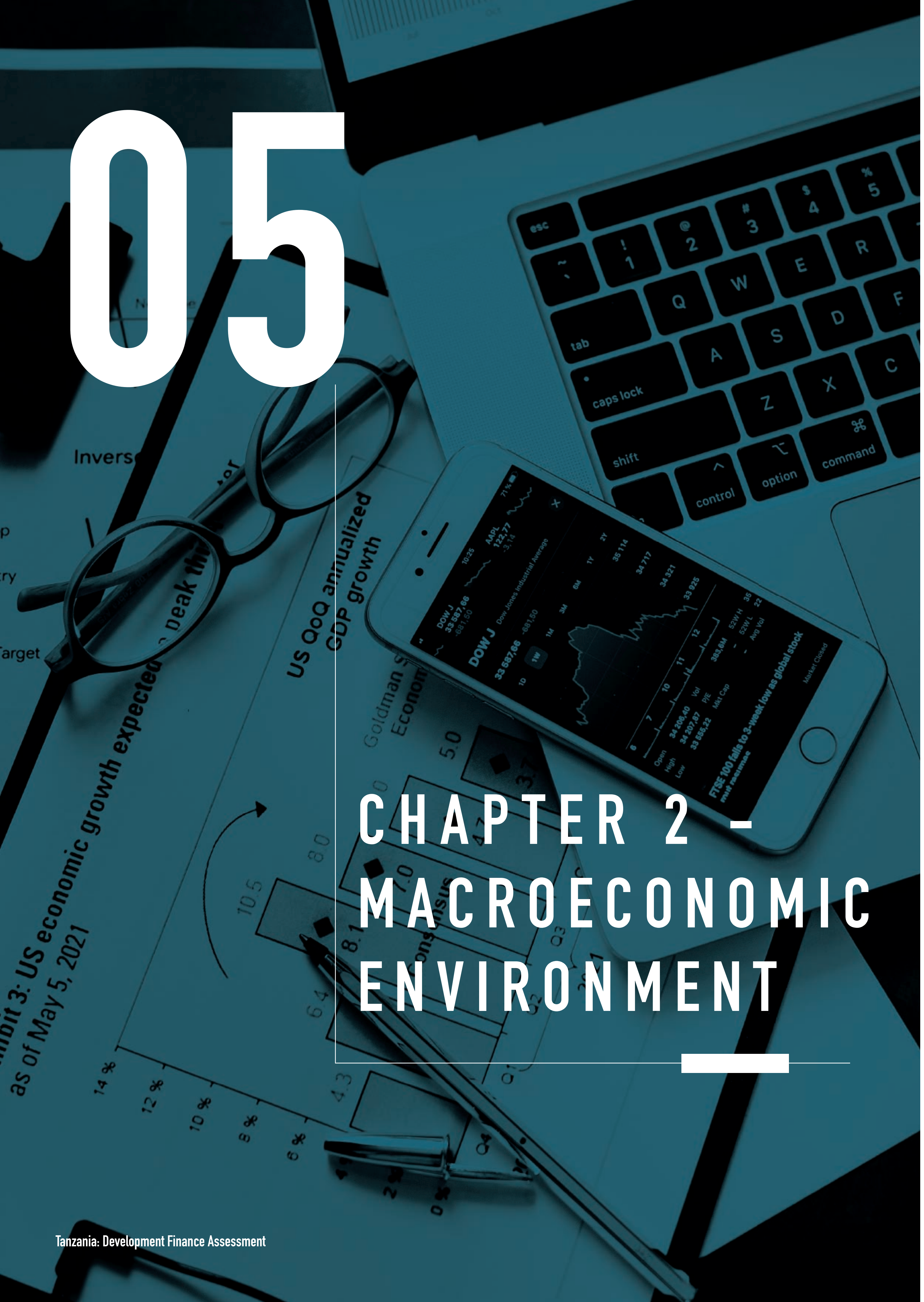
The timing of this DFA is meant to coincide with the Five-Year Development Plan III. This DFA comes at the time when Tanzania is rolling out its third Five-Year Development Program (FYDP III) and therefore, provides a unique opportunity to link the FYDP III and its objectives to the various sources of development finances. The DFA will therefore review the financial needs for the coming five years, in line with the development strategy's corresponding financing strategy and the DFA findings and provide specific recommendations to align finance behind its priorities. The FYDP III has been tabled in Parliament for approval and will be accompanied by a corresponding costing analysis, a monitoring and reviewing report and its implementation plan.

> “The timing of this DFA is meant to coincide with the Five-Year Development Plan III”

This report is divided into 4 main chapters and two complementary sections to describe the macroeconomic environment in Tanzania and the main recommendations. After this introductory section, the second chapter provides an overall view of the global, regional and national macroeconomic environment and includes the main measures adopted by Government to mitigate the impact of the COVID-19 pandemic. The following chapter provides an assessment of the financing needs and costs for achieving the development plans and priorities as detailed in FYDP III. It also provides a historical review of the main financial flows from external and domestic sources to the private and public sector in the past ten years. Furthermore, an effort is made to track these flows to the national development priorities. Chapter 4 will look at how government will use the policies and instruments at its disposal to mobilise, invest and influence public and private financing from both domestic and international sources. This section is closely related to the financing sources identified in the previous chapter and it is grounded in the sustainable development priorities of the development plan. Chapter 5 will analyse existing monitoring processes, including ICT systems, tracking and reporting of financing flows for the national development plans and SDGs. The next chapter will deal with the last building block of the framework and will detail the existing institutional framework for coordinating, monitoring implementation of the national priorities/SDGs and the existing platforms of engagement between the different stakeholders and their roles in establishing an INFF. Specific recommendation will be included at the end of chapters 5, 6 and 7. A summary of all recommendation is included at the end of the document to summarise the findings.

Agreementv of INFF Roadmap (end of DFA process)

1. Recommendations for a **Financing Strategy**
2. Recommendations for enhanced **Monitoring and Review**
3. Recommendations for stronger **Governance and Coordination**
4. Further **Assessments and Diagnostics**



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CHAPTER 2 – MACROECONOMIC ENVIRONMENT

Recent estimates[1] indicate that global economic growth fell by 4.4 percent in 2020 due to the COVID – 19 pandemics. Although global growth was expected to rebound again and reach 3.8 percent in 2021, economic output is expected to remain below pre-pandemic trends over the near term. These projections imply wide negative output gaps and elevated unemployment rates in 2020 and in 2021 across both advanced and emerging market economies. In the medium term, world economic growth is expected not to exceed 3.5 percent a year for the 2021-2025 period and have a negative impact on:

- The projected improvement in average living standards across all country groups.
- The progress made in reducing global poverty and increase inequality.
- Countries' tax base over the medium term, implying greater difficulties in generating budgetary revenues, channelling the necessary resources for achieving the SDGs and servicing debt obligations.
- The ongoing in Sovereign debt accumulation across all country groups.
- The private sector's costs and productivity ratios as it upgrades workplace safety and adjusts to changes in global demand.

Looking ahead, three types of uncertainties affecting the macroeconomic environment in the medium term have been identified[2]. The first one relates to the pandemic itself and the required public health response measures, as well as the interruption of related activities, especially for contact-intensive sectors. The second one is the extent to which weak demand, weak tourism and reduced remittances will lead to global spill overs. The last uncertainty refers to the financial market's views on the world economy and its potential impact on global capital flows. Furthermore, it is expected that some developing economies, especially low-income countries, will need support from the international community through debt relief, grants and concessional financing to cope with the increase in expenditures required by the pandemic, the need to maintain economic activity and to help individuals and companies most in need.

In Sub-Sahara Africa, East Africa remains the fastest growing region[3] . All East African countries are expected to make a positive contribution to economic growth, mostly driven by a large amount of public infrastructure spending, an increase in domestic demand, improved macro stability, new investment opportunities and industrial development incentives. However, with COVID-19-related fiscal expenditure plans, its negative impact on revenue mobilization and international market demand disruption, the region's growth will be significantly curbed. It is estimated that regional growth in 2020 did not exceed 1.2 percent.

Before Covid-19, fiscal deficits in the region were expected to remain relatively stable. This indicator, as percentage of GDP is expected to worsen to about between -6.1 and -6.8 percent of GDP and inflation is expected to further rise to between 17.3 and 18.0 percent. Public debt remains high, accounting for 59.2 percent of the region's nominal GDP, which is above the 40 percent threshold for debt sustainability set by the IMF for developing countries. This indicator is expected to further deteriorate as governments find themselves in need of more funding to overcome the negative impact of COVID-19 in their health systems and in their socio-economic frameworks.

Innovative socio-economic policy interventions would be needed in the Region[4]. All East African countries must undertake additional policy interventions in order to mitigate potential external and domestic risks posed by the COVID-19. These could include consolidating peace and stability, accelerating structural transformation, strengthening macroeconomic policy coordination, and diversifying development funding sources. Other interventions may include deepening regional integration and developing skills for the workforce of the future. Furthermore, in the face of COVID-19, the private sector and development partners must step in and contri-

[1] World Economic Outlook 2020. IMF
[2] World Economic Outlook 2020. IMF
[3] East Africa Regional Economic Outlook. 2020 African Development Bank
[4] East Africa Regional Economic Outlook. 2020 African Development Bank

bute to restore the growth trajectory, create jobs and accelerate poverty reduction.

At the national level, Tanzania has experienced a solid economic growth record. Tanzania[5] has continued to register robust economic growth coupled with a stable macroeconomic environment and GDP[6] has been growing at an average rate of 6.9 percent from 2014 to 2019. Even though this growth rate represents one of the highest among developing economies, it remained below the national target growth rate of about 8–10 percent per annum. Growth has mainly come from (in order of importance) agriculture, mining and metal and construction. A declining share of agriculture to the overall GDP growth and a corresponding rise in the shares of modern sectors would seem to confirm the existing structural transformation taking place in mainland Tanzania.

Performance of other macroeconomic indicators during FYDP II's implementation have generally been very positive. The inflation rate was been kept at a relatively low rate, 3.5 and 3.4 percent

> “Tanzania has experienced a solid economic growth record”

for 2018 and 2019 respectively, consistent with the FYDP II target of 5 percent per annum. The exchange rate has also remained stable since 2016 although at a somewhat higher level than originally targeted in FYDP II (TZS/USD of 2,185.62). Foreign Direct Investment in Tanzania has shown a declining trend over the period, from being one of the most preferred destinations for foreign investment in Africa to reaching only USD 0.96 billion in 2019. The mining sector, the oil and gas industry, as well as the primary agricultural products sector (coffee, cashew nuts and tobacco) have drawn most of the FDIs resources. The country's primary investors are China, India, Kenya, United Kingdom, Canada, the United States, the Netherlands, South Africa.

[5] FY DP III, Ministry of Finance and Planning. 2020
[6] This estimate uses 2015 as the base year

Tanzania has shown mixed fiscal performance during the past 5 years. Budget revenues in nominal values, excluding local governments, have been increasing since 2015/16 and have risen from TZS 14,0 trillion in 2015/16 to TZS 21.02 trillion in 2019/20. Currently, the government revenues to GDP ratio is estimated at 14.7 percent of GDP in 2019/20. The capital budget's share of the total budget has also increased from 25.4 percent in 2015/16 to 37 percent in 2019/20, higher than the target figure included in FYDP II of 32.8 percent for 2020/2021. Total revenue collections, however, have fallen short of the expected targets by 7.5 percent, with tax revenue surpassing its target by 1.6 percent, while non-tax revenue fell short by 22.1 percent of its target. Furthermore, tax revenue to GDP ratio fell short by 31.6 percent and non-tax revenue to GDP ratio was 87.2 percent of the target.

Government's commitment to narrowing the existing infrastructure gap was reflected in the previous FYDP II. The share of development expenditure was dramatically increased in the total budget. In GDP terms, the development spending doubled from 4 percent in 2015/16 to about 8 percent of GDP in 2020/21. Other capital investments have been directed to the construction and rehabilitation of health and education facilities, government buildings in Dodoma, transport, energy, and the construction sector.

Tanzania had its first confirmed COVID – 19 case by the middle of March. In order to control the pandemic, authorities banned large gatherings (except for worship), suspended attendance to schools and educational institutions, cancelled all international flights, and mandated the wearing of face masks in Dar Es Salaam. In May, authorities initiated a gradual lifting of the lockdown. First, allowing international flights to and from Tanzania and, by mid-June, a gradual re-opening of schools and sporting events. All the restrictions due to COVID-19 were lifted by July 2020.

Impact of COVID-19 in Tanzania has been less damaging compared with that in the neighbouring countries. Nevertheless, real GDP growth rate is estimated to have come down to about 2 percent in 2020 (from 5.8 percent in 2019) and has had a negative effect on per capita income which turned negative for the first time in 25 years and it is expected to reach 4.5 percent in 2021[7]. Disruptions in production, consumption, and imports cause by the pandemic both, at the global and national level, have affected negatively Government's revenues. Contraction in economic activity is expected to affect negatively firms' bottom-line, unemployment rates, both in the formal and informal sectors, the financial sector and the tourism sector. FDI and other capital flows into the country have also been negatively affected.

On the fiscal side[8], Government increased budget expenditures to deal with the effects of COVID-19. With regards to additional budgetary spending, Government used grants, received from the development partners (DP), as well as the contingency reserve to fund additional health spending to mitigate the risks of the pandemic. Furthermore, to support the private sector, the authorities expedited the payment of verified expenditure arrears with priority given to the affected SMEs and expanded social security schemes to meet the increase in withdrawals benefits for new unemployed due to COVID-19. Lastly, Government granted VAT and customs duties exemptions to imported medical equipment and medical supplies

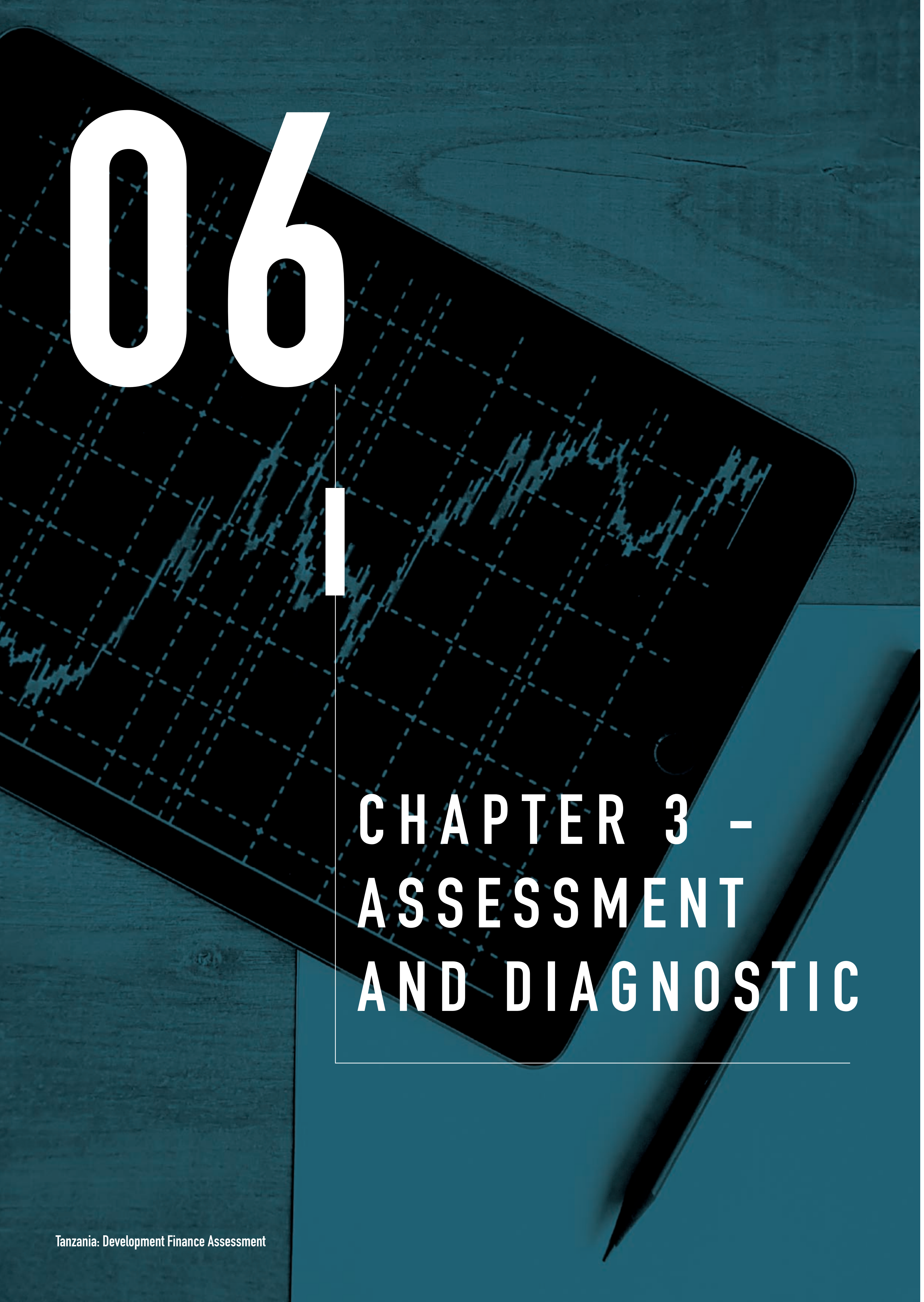
The Bank of Tanzania also undertook firm decisions in monetary policy. In May, it reduced the discount rate from 7 percent to 5 percent and reduced collateral haircuts requirements on government securities. By June, the BoT Statutory Minimum Reserves requirements were reduced from 7 percent to 6 percent. Furthermore, the BoT also decided to provide regulatory flexibility to banks and other financial institutions that carried out loan restructuring operations on a case-by-case basis. Lastly, the daily transactions limit for mobile money operators was raised[9] as well as the daily balance limit.

[7] Tanzania Economic Update. The World Bank, March 2020
[8] Policy responses to COVID-19. IMF
[9] From about USD 1,300 to USD 2,170 in the case of the daily transactions limit for mobile money operators and from USD 2,170 to US $ 4,340 in the case of the daily balance limit

The latest Debt Sustainability Analysis (DSA)[10] concluded that Tanzania is in low risk of debt

distress. This exercise assessed the existing Government debt levels and potential external and domestic borrowing sources to finance major strategic infrastructure projects as elaborated in the FYDP II (2016/17-2020/21) and FYDP III (2021/22 – 2025/26). As with previous DSAs, the 2020 assessment found that the external and overall risks of debt distress for Tanzania were low (indicating that the country's debt is sustainable). This rating reflects the expected economic growth and the ongoing prudent implementation of monetary and fiscal policies. All external debt burden indicators remained below their respective thresholds under both baseline and stress tests scenarios. The stress tests, however, showed that the fiscal sustainability was more vulnerable to sensitivity to export, contingent liabilities and primary balance shocks and could pose certain risks to the external and total debt sustainability. Existing vulnerability to contingent liabilities risks would indicate a need to strengthen the supervision of Public Corporations. This rating provides Tanzania a welcomed fiscal space to draw, as necessary, from external financing for its development agenda without jeopardizing its fiscal sustainability.

[10] Tanzania national debt sustainability analysis. MoFP. Dec. 2020
[11] PV of PPG external debt to GDP and Exports, and external PPG debt service to exports and revenues



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CHAPTER 3 – ASSESSMENT AND DIAGNOSTIC

This section provides a comprehensive analysis of recent capital flows into Tanzania (mainland), coming from different sources, whether private or public, domestic or external. In addition to the quantitative analysis of historical flows, a projection for each of the financing sources for the next five years is included in the second part of the chapter. The historical time horizon considered for this exercise was 10 years, from 2009 to 2019. For some sectors, the time period was adjusted to reflect the availability of data. In addition, a brief description of the problems identified in the data gathering exercise is detailed below. These challenges included issues dealing with the availability, consistency and quality of the data necessary to carry out this type of analysis in the future and to map financing flows to Tanzania. These were the most important ones:

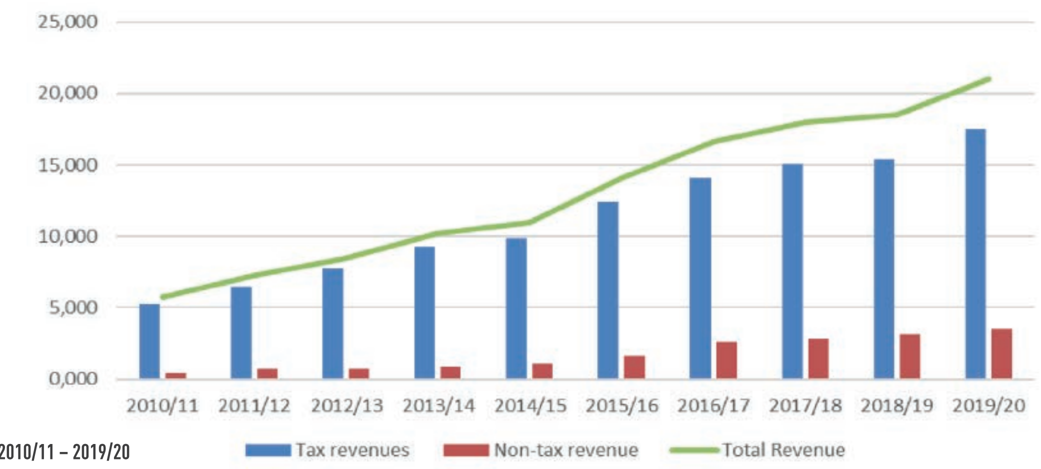
- Data on investments through private equity and venture capital were not available from public sources. The ones presented in the report are sourced from a publication by regional venture capital association and reflect investments that went to the EAC region to which Tanzania belongs.
- Most data on private equity and venture capital are available as stocks rather than flows.
- In some cases, data from two different sources for the same variable differ. The source of the differences was difficult to identify because the data sources do not include methodological notes on how the data were constructed.
- Most of the data flows are recorded using the financial year whereas few of the flows are reported in calendar years, making overall analysis difficult.
- Close collaboration with government entities (central bank, stock market regulatory authority, and national statistical authorities) is necessary to access important data necessary to develop DFAs.
- Periodic publications from government entities (central bank, stock market regulatory authority, and national statistical authorities) are important sources of information necessary to describe the data pattern as well as challenges and measures that the government is introducing to address challenges.

Following is the result of the mapping exercise to account for the financing flows to Tanzania Mainland in the last 10 years.

3.1.1- Government Revenues

Domestic government revenues analysed in this section include direct and indirect taxes as well as non-tax revenue. Direct and indirect taxes take into account all individual income taxes, social insurance, corporate taxes, value added tax; customs and import duties and taxes. On the other hand, non-tax revenue covers fees charged by the government's Ministries, Departments and Agencies (MDAs), fines and penalties and other domestic sources funding government initiatives on certain activity, sector and/or emergencies. This category also includes net revenues from state-owned enterprises and equity investments as well as income from Local Government Authorities (LGAs). Figure 1 below shows the evolution of revenue sources in the last 10 years.

Figure 1: Tanzania recent revenue trends (in TZS Trillions)

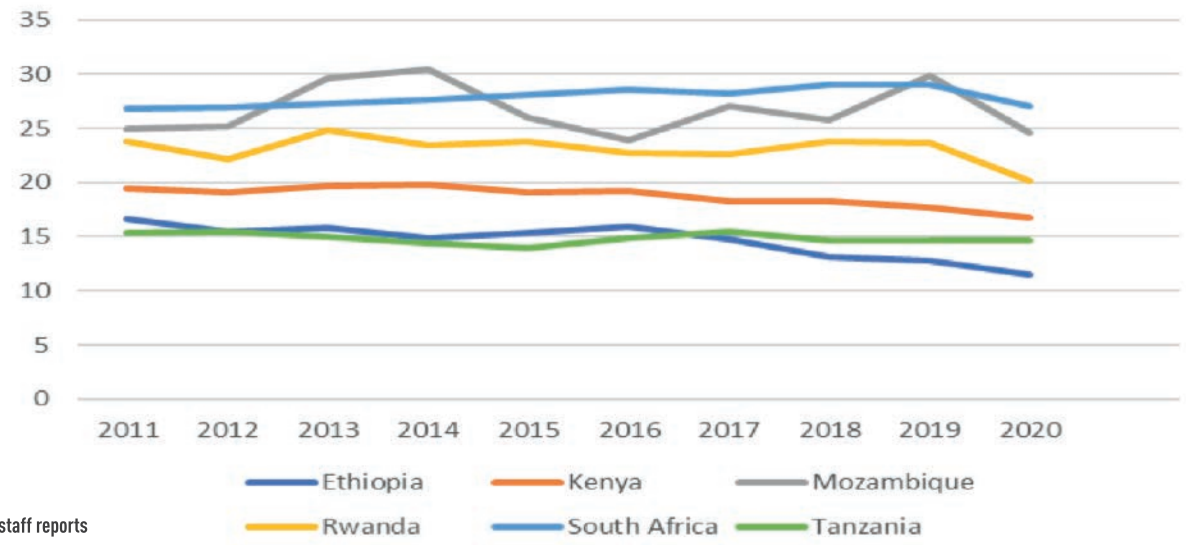


Source: MoFP, BoT. 2010/11 – 2019/20

Over the past 10 years, Government budget revenues, in current terms, has been steadily growing from around TZS 5.7 trillion in 2010/11 to close to TZS 21 trillion by the end of the period. The main categories of Government revenues were taxes on imports, income taxes and taxes on local goods. Recently, there has also been an increase in the share of Government revenues coming from non-tax revenues (mostly from parastatals dividends), and income from Ministries, Departments and Agencies as well as income from Local Government Authorities. The increase is the result of Government's efforts to enforce the use of electronic fiscal devices and improvement in the collection of local government dues. An analysis about the needed alignment of revenues with the development priorities of the country is included in the next section.

Tanzania's revenues to GDP ratio does not compare well with other economies. Tanzania ranks well below its peer countries (Mozambique, Rwanda and Kenya) as well as other emerging economies (Brazil and South Africa) though it is slightly better than Ethiopia and several other low-income Sub-Saharan Africa economies. At 14.7 percent of GDP in 2019/20, Tanzania is above the average for low income developing economies (12.97 percent) but well below the emerging G-20's (24.21 percent) and advanced economies (34.78 percent). In the case of Tanzania, the raise in the proportion to GDP has been hampered by a narrow tax base, both in terms of the target taxpayers and geographical distribution. Voluntary tax compliance and tedious and sometimes unfriendly tax administration are also responsible. Figure 3 below provides a comparison in the ratio for revenues in terms of GDP for selected economies.

Figure 3. Revenues as percentage of GDP for selected economies.



Source: IMF staff reports

3.1.2 - ODA Grants

ODA flows have been one of the most advantageous sources of funding for developing countries to finance its development. Official development assistance (ODA) flows, including grants, are defined[12] as flows to countries and territories on the DAC List of ODA recipients and to multilateral development institutions which are:

I. Provided by official agencies, including state and local governments, or by their executive agencies; and

II. Each transaction of which:

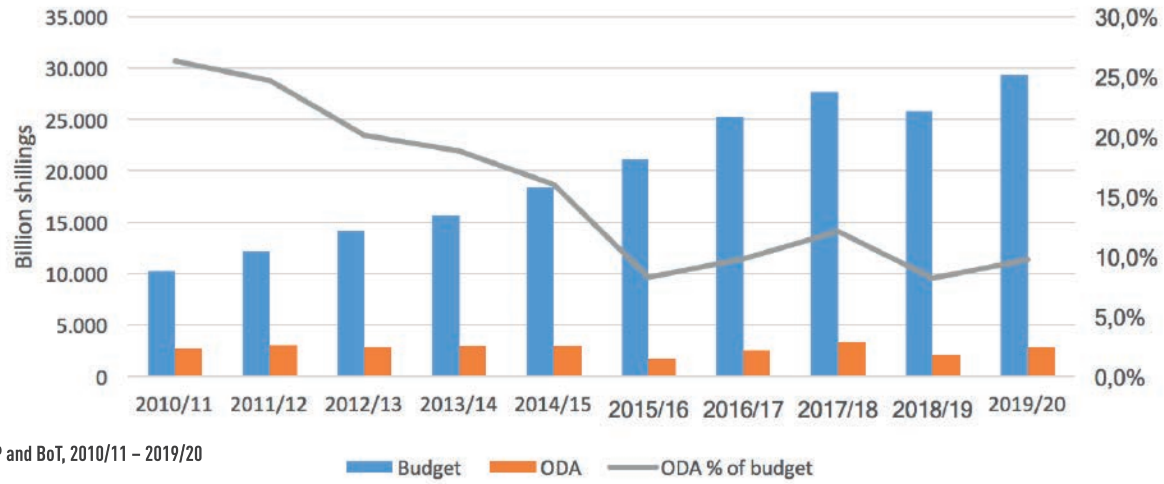
- Is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
- Is concessional in character.

Historically, Tanzania has been one of the largest recipients of ODA in Africa. Sectoral distribution for this type of flows was not available and therefore it is not possible to undertake an analysis regarding its alignment with the country's development objective. Tanzania has ranked among the top recipients in the past. Since 2011, however, the actual inflows have been showing a significant decrease from TZS 1,7 trillion in 2010/2011 to TZS 1,0 trillion in 2019/2020 (a 58.5 percent decrease). Furthermore, the percentage of ODA grants relatively to GDP shows a declining trend throughout the period from 4.7 percent in 2010 to 0.3 percent in 2018. The diminishing trend in ODA grant inflows to Tanzania, compensated with the availability of other sources of financing, it is attributed to the economy's low risk of debt distress and the country moving into higher income level classification.

[12] Definition according to the OECD

to strengthen the agricultural sector by improving access to agricultural inputs, as well as constructing and rehabilitating irrigation infrastructure, warehouses and markets. Human development priority areas were water and Sanitation, Health, Education and Employment and Skills Development. Furthermore, the budget document called for, within the area of improving the business and investment environment, continuing harmonizing various taxes and levies to promote business and investment; strengthening railway, roads, energy, airports and ports infrastructure; improving transportation services by procuring and rehabilitating passenger and cargo ships and ferries; strengthening ICT systems by expanding the National Backbone coverage in order to improve service delivery; and speeding up cargo clearance at the port.

Figure 4. ODA Grants inflows to Tanzania (in TZS billions)



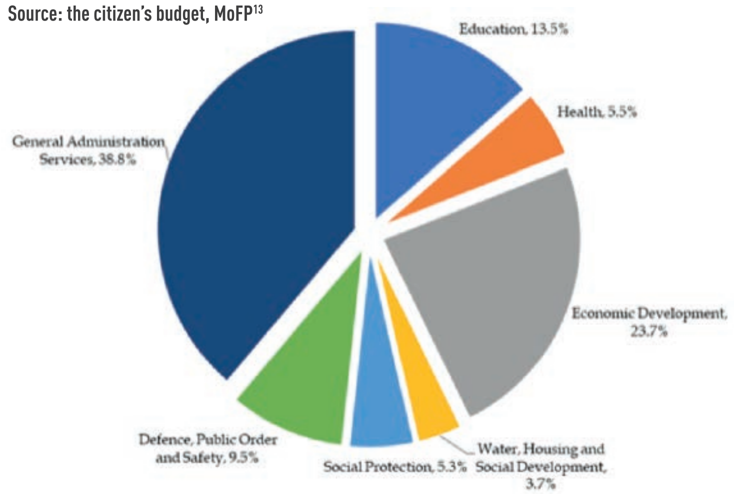
Sources: MoFP and BoT, 2010/11 – 2019/20

Budgetary expenditures in Tanzania have incorporated the existing Development Plan's priority areas. According to the budget document, channeling financing to the key areas of the National Five-Year Development Plan 2016/17 - 2020/21 was prioritized and these included: nurturing an industrial economy; human development; and improving the business and investment environment. Under the budget framework, the priorities in the area of industrial economy were to continue implementing flagship projects that had multiplier effects on economic growth, job creation and poverty reduction. In addition, the Government was to continue

Chart 1 below, identifies the expected funding areas included in the current budget document.

Chart NO. 1: Allocation of Government Budget by Sector

Source: the citizen's budget, MoFP[13]



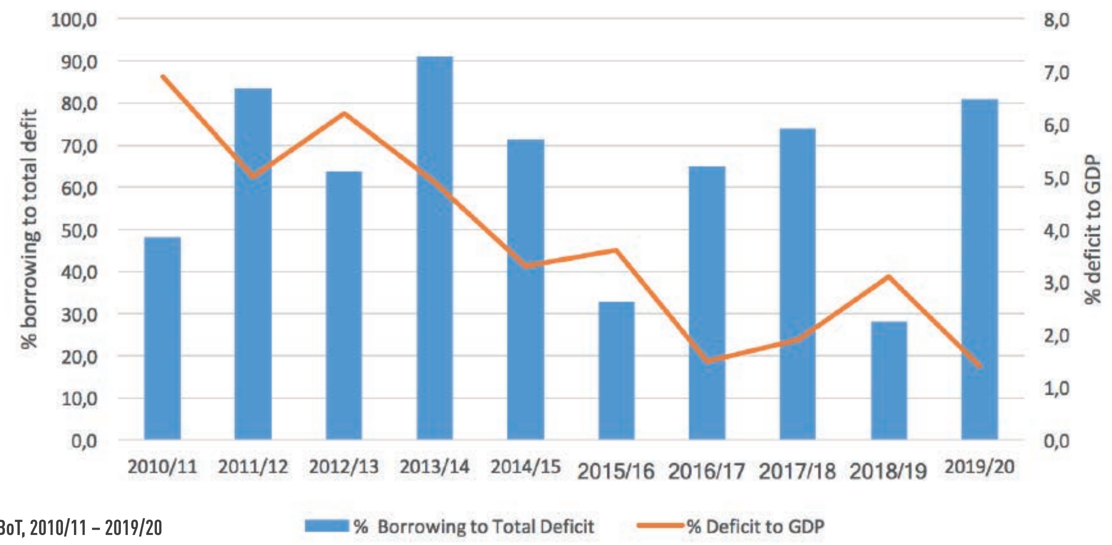
[13] The citizen's budget: a simplified version of the Government budget for the financial year 2020/2021

3.1.3- External Borrowing

Government has followed a prudent external borrowing strategy to finance its development budget. External debt inflows to Government have fluctuated over the years under study, as shown in figure 5 below. During the period, the total amounts disbursed have gone from TZS 1.3 trillion in 2010 to TZS 1.19 trillion in 2019 while picking at TZS 2.49 trillion in 2014. The major challenges associated with this type of financing have included unpredictability and untimely disbursement of the loans.

However, Government has recently issued the "Guidelines for Project Planning and Negotiations for Raising Loans, Issuing Guarantees and Receiving Grants". These guidelines[14] aim at avoiding unnecessary delays in negotiations for financing and project completion, costs overrun, overlapping of activities and unnecessary destruction of other infrastructure during the implementation of projects. No analysis is being conducted regarding alignment of these flows with the national development priorities.

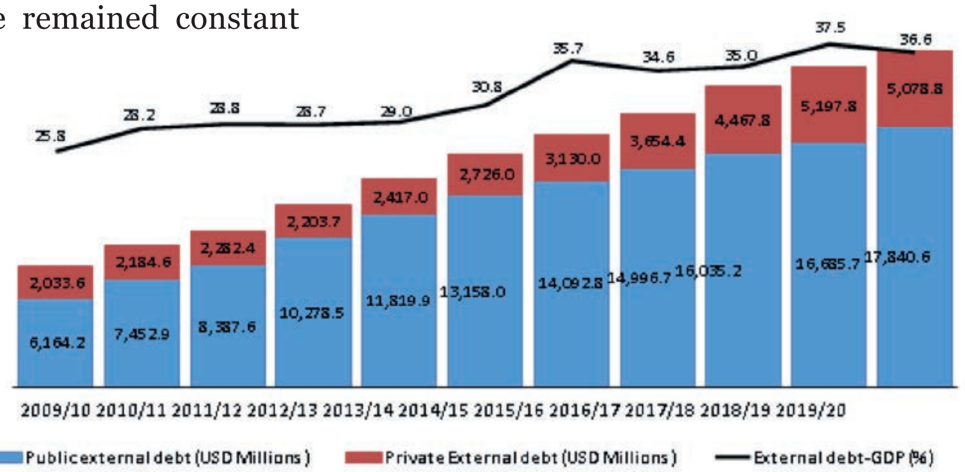
Figure 5. External borrowing in TZS billions from 2010/11 to 2019/20



Source: MoFP and BoT, 2010/11 – 2019/20

The composition in Tanzania's total external debt stock has not experienced much change since 2017. The outstanding stock[15] of debt at the end of 2019/20 amounts to around USD 17.8 billion, of which originating from multilateral creditors have remained close to 46 percent indicating their importance as Tanzania's developing partners. Debt owed to bilateral creditors have remained constant and now stands at 9.1 percent of the total. Outstanding debt to commercial and Export Credit agencies (including China, India and South Korea) have experienced a small increase during the period under analysis and now stand at around 44 percent of the total. Figure 6 below shows the evolution of Tanzania's external debt in the last 10 years

Figure 6. Tanzania: Evolution of external debt
Source: DSA document. MoFP December 2020



[14] Guidelines for Project Planning and Negotiations for Raising Loans, Issuing Guarantees and Receiving Grants. MoFP. November 2020

[15] Debt Sustainability Analysis. MoFP

3.1.4- Climate Change

The impact of climate change has been felt on the environment and livelihood systems in Tanzania like in other countries in the world. Efforts to address these impacts has been at the heart of the country's development priorities. During the FYDP II, the target was to mobilise a total of USD 304 million from various international climate financing sources largely overseen by the United Nations Framework Convention on Climate Change (UNFCCC) financial mechanism which include Green Climate Fund (GCF) and Global Environment Facility (GEF). Other sources of climate change funds such as Least Developed Countries Fund (LDCF), Adaptation Fund (AF) and the Special Climate Change Fund (SCCF), Norfund, Finfund and JECTRO were also earmarked. In order to achieve the set target, it was planned to establish national accredited entities and implementing entities as well as establishing a framework to leverage climate finance through a National Climate Change Financing Mechanism (NCCFM).

Actual resource mobilization from these sources did not met the expectations. Recent estimates indicate that by 2020 only a total of TZS 24,7 trillion equivalent to USD 10,7 million were mobilised[16] during FYDP II which was only 3.6 percent of the targeted amount. Some of the challenges for the limited utilization of climate change financing included delays in implementing the suggested strategies for allowing tapping of climate change funds, capacity to prepare documents that are responsive to the fund requirements, lack of accredited institutions to access the funds such GCF as well as inadequate mechanisms for identifying and monitoring climate change funds mobilised by non-state actors. New measures and initiatives are now being considered to increase climate change funding in the financing mix required for FYDP III. These will be detailed later in this chapter.

3.1.5- Foreign Direct Investment

Foreign Direct Investment (FDI) measures long-term financial investing flow from one economy into another. This type of investment flows[17] refer to a category of cross-border investment flow made by an entity of one economy with the objective of establishing a lasting interest in another enterprise that is re-

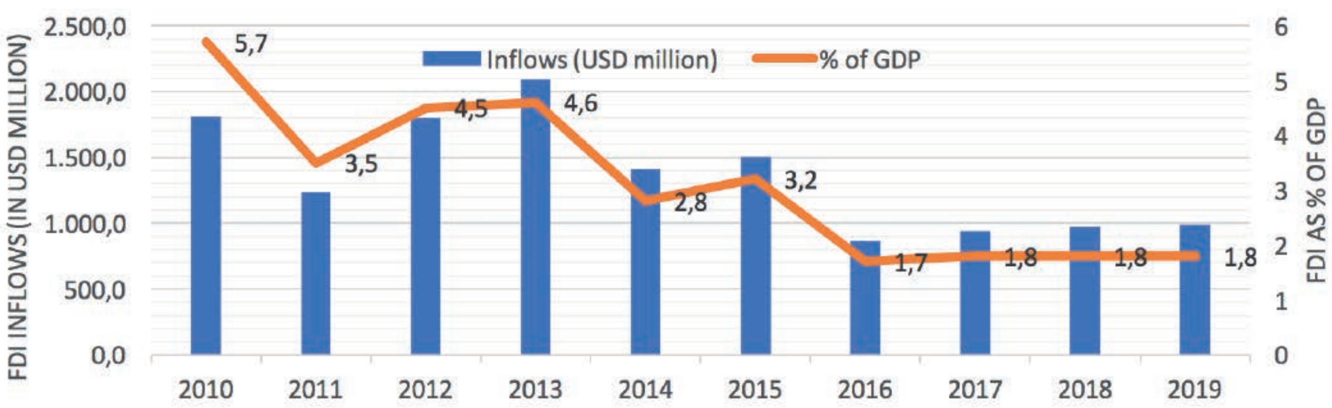
sident in another economy. In recent years, deregulation of markets, technological innovations and cheaper communication tools have allowed investors to diversify their participation in competitive markets overseas. In consequence, a significant increase in cross-border capital movements including direct investment has become a key factor in international economic integration. Factors that attract FDI include investors' long-term perception of peace and stability on political and macro-economic stability, and low cost of production which takes into account labour costs.

Over the past decade, FDI inflows in Tanzania have decreased by 45.4 percent from USD 1.8 billion in 2010 to under a billion (USD 0.96 billion) in 2019. Consequently, FDI as percentage of GDP also declined from 5.7 to 1.8 percent over the same period. The highest amount of FDI was recorded in 2013 (USD 2087.3 million) accounting for 4.6 percent of GDP and the lowest was in 2016 (USD 864 million), which contributed only 1.7 percent of GDP (Figure 7). FDI inflows to Tanzania in 2019 were comparatively lower than inflows to Kenya (USD 1,3 billion) and Uganda (USD 1,2 billion), but higher than inflows to Rwanda (USD 420 million). In 2018, FDI inflows as percentage of GDP for Tanzania was 1.8 percent, much closer to Kenya (1.9 percent), but lower than Uganda (3.2 percent) and Rwanda (3.1 percent).

[16] Wizara ya Fedha na Mipango: Taarifa ya Miradi ya Maendeleo kwa Kipindi cha Mwaka 2016/2017 hadi 2019/2020

[17] OECD Investment statistics analysis

Figure 7. Foreign Direct Investment (Mainland), 2010-2019. (USD million) Source: Bank of Tanzania (various years)



Recent[18] FDI inflows to Tanzania are taking the form of equity and investment fund shares. These flows are now accounting for 65.4 percent of the total inflows. Mining and quarrying continued to be the leading activity as it accumulated a stock of FDI valued at USD 5,4 billion accounting for 40.1 percent, followed by manufacturing, which accounted for 14.2 percent. The growing importance of the accommodation and food services in attracting FDI inflows in 2017 was attributed to the expansion in tourism activities. Although the mining and manufacturing sectors (top FDI recipients) were aligned with the priority sectors included in FYDP II, other sectors included as priorities, such as agriculture and agro-processing and value addition in metal and minerals industries have not benefited as much from FDI flows.

FDI flows are sourced from few countries, mainly United Kingdom, South Africa and United States of America. These three countries accounted, in aggregate, for more than half of the total inflows in 2017. OECD countries continued to be the main source of FDI inflows to Tanzania, accounting for 48.7 percent of the total inflows in 2017, despite the decline by 22.6 percent to USD 456.2 million from USD 589.8 million recorded in 2016. FDI inflows from SADC region during 2017 reached USD 235.2 million, an increase from USD 100.4 million recorded in 2016. The major source of FDI from the SADC region was South Africa accounting for 72.5 percent of the total inflows from SADC. This country's FDI flows have mainly been channelled to mining and quarrying activities, one of the priority areas under FYDP II. FDI inflows from the EAC almost doubled and reached USD 28.6 million in 2017 up from USD 15.5 million in 2016. The increase was attributed to notable FDI inflows from Kenya[19].

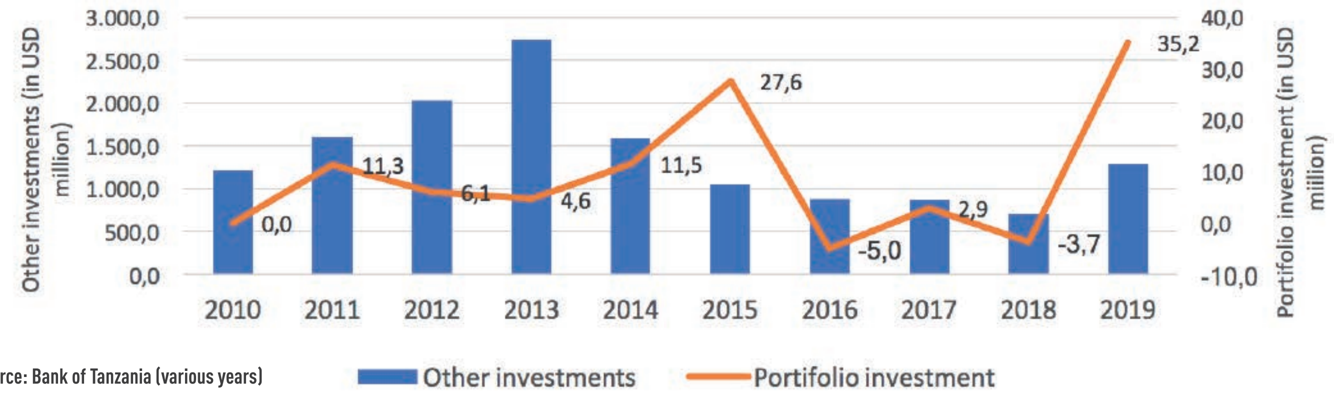
3.1.6 - Portfolio Investment

Portfolio investment are equity investments in foreign enterprises representing less than ten percent of the recipient company's ordinary shares or voting rights. During the past decade, inflows of portfolio investment in Tanzania have been rather cyclical as shown in figure 8 below (right axis). Between 2010 and 2019, foreign portfolio investment (FPI) inflows increased from negligible amounts in 2010 to USD 35.2 million in 2019. However, the general trend shows that the market keeps growing in terms of inflows and stocks as shown in figure 8. Despite the growth, the share of portfolio in total foreign private investments has remained below one percent. In 2019, portfolio investment inflows to Tanzania were comparatively lower than inflows to Kenya (USD 775 million) and Uganda (USD 80.3 million), but higher than inflows to Rwanda (USD 12.9 million). No clear information is available about the alignment of these flows to the national priorities of the country.

Other investments

Other international private investments were mainly comprised of loans and trade credits. During 2019, this category of inflows amounted to USD 1.28 billion, up by five percent from USD 1.2 billion recorded in 2010. The largest number of inflows for other investments was recorded in 2013 (USD 2.7 billion) and the lowest in 2018 (USD 700.3 million), partly explained by the reduction in financing of foreign private investments through loans from unrelated parties in 2017. A Large share of inflows of other investments were in the form of long-term loans and trade credits. According to the 2018 Tanzania Investment Report, the main recipient activities of other investment inflows were finance and insurance, manufacturing and agriculture, these last two being included among the priority areas in FYDP II.

Figure 8. Portfolio and other investment inflows, 2010-2019 (USD million)



Source: Bank of Tanzania (various years)

3.1.7 - Remittances

Although not detailed data on remittances was available from official sources, data from the World Development Indicators show flows have remained fairly constant during the period. Table 1 below show inflows of personal transfers into the country from 2012 to 2019. These flows are largely personal transactions from migrants to their friends and families and they tend to address the needs of the recipients. Although no detailed information about the use of these flows in Tanzania, they directly increase disposable income of recipient households increasing their financial resources and savings and therefore increasing investment capital in the country.

Table 1. Tanzania, remittances 2012-2019, in USD million

	2012	2013	2014	2015	2016	2017	2018	2019
Remittances	368,70	351,74	357,61	365,31	371,55	363,85	365,48	371,41

Source: World Development Indicators.

3.1.8 - Banking sector lending to the private sector

Credit to the private sector from banks, in nominal terms, has been rising steadily throughout the period under analysis. By 2019, the total outstanding private credit amounted to TZS 20 trillion, of which TZS 14 trillion was in the business sector and TZS 6 trillion in the household sector. The mortgage loans account for only 3 per cent of the total outstanding private credit, with overdraft accounting for 18 per cent. However, such growth rates fell below the double-digit levels experienced between 2016 and 2018. The slowdown in the expansion of private sector credit in 2019 is associated to Government's efforts to enforce ethical business practices and a tighter credit risk assessment leading to a decline in lending to big corporations.

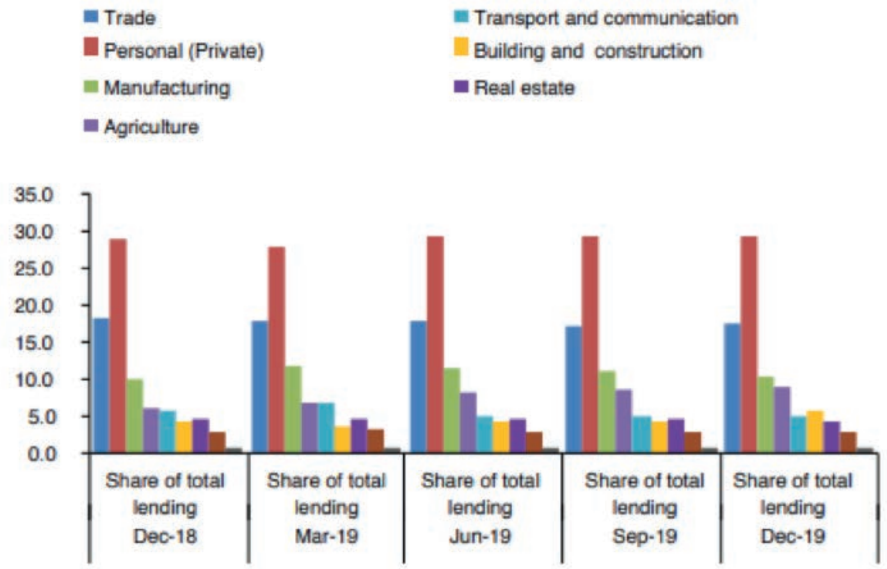
Prior to 2014, banking lending to the private sector was dominated by credits to businesses. Thereafter, particularly during the period between 2016-2018, credit to households registered higher growth rates than the credit flows to businesses. However, from 2019, the business sector recovered with a growth rate of 3 percentage points higher than the credit growth in the household sector. In terms of sectorial distribution (10 years average), the sectors of trade,

[18] TIC, BoT and NBS (2018). Tanzania Investment Report 2018: Foreign Private Investments

[19] TIC, BoT and NBS (2018). Tanzania Investment Report 2018: Foreign Private Investments

manufacturing and agriculture led by absorbing 68 per cent of the private sector credit showing a high degree of alignment with the national development priorities. Even after breaking the years into the two periods of 2011-2015 and 2016-2019 the three sectors retained the top positions. Sectoral lending is highly skewed towards personal credits. However, credit to priority national development sectors such as manufacturing and agriculture follow in importance in terms of the amounts of financing. Figure 9 below provides an overall look at the main economic sectors benefiting from bank's lending.

Figure 9. Tanzania, banking sector credit by share in economic activity, 2019



Source: Bank of Tanzania[20]

3.1.9 - Corporate Bonds

Financial companies are the primary issuers of corporate bonds in Tanzania. Currently there are six corporate bonds, two bonds (each) have been issued by the NMB Bank and the Tanzania Mortgage Refinance Company (TMRC), and the remaining two by the Exim bank and the PTA bank. The ultimate sectoral destination of these funds as they relate to the development priorities of the country cannot be established. The outstanding debt in the form of corporate bonds reached TZS 176 billion in 2019, the amount that is more than 3 times the outstanding debt in 2013 (Figure 10). However, because of the increasing government borrowing through the bond market, the share of the outstanding corporate bond in the total bond market has been on the decline (Figure 11). In other words, the bonds market is skewed towards government bonds because the market's perception of low risk.

Figure 10. Outstanding corporate bond (TZS bn) Source: CMSA (2020)

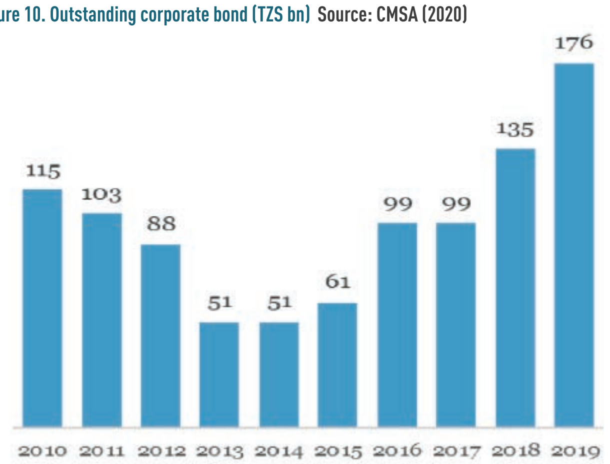
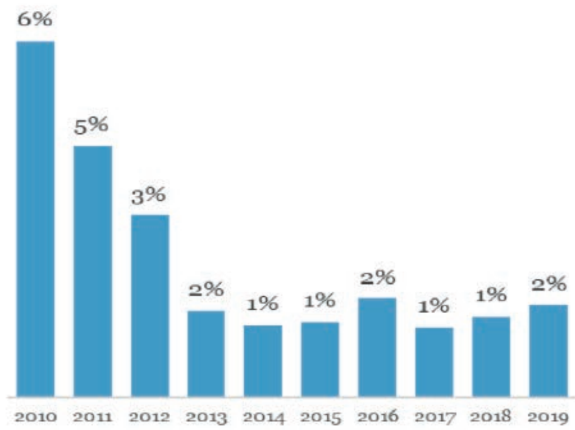


Figure 11. Share of outstanding corporate bonds. Source: CMSA (2020)



[20] Tanzania Financial Stability Report. Bank of Tanzania 2019

The bonds market in Tanzania is steadily growing but remains highly underdeveloped. This is despite the strong need for long term funding for enterprise development. There remain opportunities for non-financial corporate entities to engage in raising capital through the market – especially with low inflation fear, macroeconomic stability, and the current drive to enforce ethical business practices. The bonds market in the country is only 7 percent of the national's GDP far below the global bonds market which is 140 percent of the global GDP. Corporate bond market capitalization in Africa is directly linked to economic size, the level of development of the economy and financial markets, better institutions, and interest rate volatility, and inversely related to higher interest rate spreads and current account openness. Studies have also shown that credit share in the economy has a strongly significant effect on corporate bonds market development, suggesting that such markets thrive in economies where credit is well entrenched. These variables signal the kinds of policy and policy objectives necessary to advance the bonds market in Tanzania. Requirements for enterprises to issue bonds are outlined in the CMSA's guidelines for the issue of corporate bonds and commercial papers. The minimum size of the issue is set at TZS 30 milion. In some countries, the stock exchanges have been actively engaging Government to produce specific guidelines for issuing Social/Green Bonds, currently there are no specific guidelines or rules available at this point for Corporations to issue this type of bonds in Tanzania.

3.1.10 - Public Private Partnership (PPP)

The term PPP is used to describe a wide range of types of agreements between public and private sector entities[21]. In principle, PPPs are a mechanism for the government to channel resources and expertise from the private sector (domestic or external) in order to purchase and implement public infrastructure and/or services. This type of partnerships can help upgrade or build new infrastructure projects and improve the efficiency of strategic services by sharing risks and responsibilities between the public and private sectors. PPPs, therefore, allow governments to focus on policies, plans, and regulations by delegating day-to-day operations.

The PPP initiatives are not new to Tanzania. During FYDP II's implementation, the national strategy included three major projects earmarked for PPPs as per the national priorities: Kinyerezi III power project (USD 389.7 Million); Dar - Chalinze - Morogoro Express highway (USD 1.1billion); and construction of medical equipment factory under MSD (USD 175.4 million).

3.1.11 – Summary of Financing Flows

During the period under analysis, a total of TZS 301 trillion flowed into the private and public sector in Tanzania. The distribution between private and public comes out relatively similar, with some the private sector showing a slightly higher amounts of financing. The two main financing flows have come in the form of Government tax revenues and lending from the banking sector to the private sector. The latter one has come on top consistently throughout the period. Three type of flows, portfolio investment, remittances and corporate bonds, have remained negligible for the whole period. Table 2, below shows the various amounts of financing that have been available to the private and public sector during the period.

Table 2: Financing flows to the Private and Public sectors in Tanzania. 2011-2020. (in TZS Trillion)

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Public financing flows	Government tax revenues	5,74	7,22	8,44	10,18	10,96	14,05	16,64	17,94	18,53	21,02	130,72
	ODA grants	1,78	1,71	1,59	1,49	1,38	0,52	1,09	1,24	0,81	1,04	12,66
	Borrowing	1,38	1,15	1,74	1,92	2,50	1,13	1,71	1,70	1,19	-	14,41
	Total Public Flows	8,90	10,08	11,77	13,58	14,84	15,69	19,44	20,88	20,53	22,07	157,78
Private financing flows	Foreign Direct Investment	2,53	1,92	2,83	3,34	2,34	2,98	1,88	2,09	2,20	2,27	24,37
	Portfolio Investment	-	0,02	0,01	0,01	0,02	0,06 -	0,01	0,01 -	0,01	0,08	0,18
	Credit from the banking sector (domestic)	5,99	7,62	9,01	10,39	12,41	15,49	16,61	16,90	17,73	19,70	131,85
	Remitences	-	-	0,64	0,67	0,89	0,41	0,63	0,62	0,44	-	4,31
	Corporate bonds	0,12	0,10	0,09	0,05	0,05	0,06	0,10	0,10	0,13	0,18	0,98
	Total Private flows	8,64	9,66	12,58	14,46	15,72	19,00	19,21	19,71	20,49	22,22	161,68
	Total Flows	17,54	19,74	24,34	28,05	30,55	34,70	38,65	40,59	41,02	44,28	319,47

[21] Public private partnership LRC home. The World Bank

3.2 – Projected financial flows to Tanzania 2021/22 – 2025/26

The preparation of this DFA overlapped with the final stages in the design of the Five-Year Development Program III (FYDP III) for the period 2021/22 – 2025/26. The FYDP III has been prepared by the National Planning Commission and draws from the principles embedded in the Vision 2025, The African Union 2063, The 2030 Agenda, the election manifesto, the Paris Agenda and different sectoral issues that have been incorporated into the Plan. It aims at integrating Tanzania into the regional and international markets by transforming its domestic supply infrastructure and aligning along their business needs. In this context, the Plan prioritizes an export led growth for its economy along with further industrialization and developing its human capital. The starting date for FYDP III takes place at a time when Tanzania reaches a middle-income status which will affect its relations with the developing partners and the way it finances its developing efforts and a shifting engagement with donors to emphasis on trade and investment. FYDP III will, therefore, be providing guidance for channelling resources to the priority areas, including budgetary flows.

FYDP III will be supported by three other documents to be tabled in Parliament. Development objectives and initiatives included in FYDP III will be reinforced and complemented by three other documents which are in the preparatory phase. There will be a monitoring and evaluation document that will focus on how progress in implementing FYDP III will be measured in the coming years, including specific sectoral and overall indicators. The third document will include a detailed costing assessment for the Development Plan. This process will be undertaken jointly with sectoral ministries based on their existing and expected project portfolio to be implemented during the period. The last document will include the financing strategy to put into practice to fund the development strategy. Implementation of FYDP III is expected to start on July of this year.

- Initial estimates prepared for the Government Financing Strategy point to a projected financing envelope of TZS 114.9 trillion over the five-year horizon. This is 6.7 percent higher than the resource envelope for FYDP II, which was TZS 107.7 trillion. FYDP III will be financed through the Government's development budget component, estimated at 74.3 trillion shillings and external grants and loans which are estimated at TZS 12.3 trillion. In addition, projected private sector participation is estimated at TZS 40.6 trillion. The private sector will be directly engaged in financing the Development Plan through Joint Venture (JV) and Public-Private Partnerships (PPP) projects. The business sector is also expected to contribute to Tanzania's progress through the implementation of their own investments and hiring plans which will be analysed separately.

The following table provides the projected overall financing flows for implementing FYDP III, included in the Government's financing strategy:

Table 3. FYDP III: Resource projections, initial estimates

	BUDGET PROJECTION				Million Shillings	
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**TOTAL**
Domestic Revenue	**26,032,576**	**28,214,919**	**30,852,142**	**33,503,374**	**36,059,574**	**154,662,586**
Tax Revenue	22,097,676	24,104,998	26,269,832	28,574,140	30,658,286	**131,704,932**
Non-Tax	3,071,042	3,192,899	3,606,752	3,885,388	4,299,588	**18,055,669**
LGAs Own Sources	863,858	917,022	975,558	1,043,847	1,101,700	**4,901,985**
Grants	**1,127,188**	**959,108**	**865,416**	**745,557**	**520,261**	**4,217,530**
Financing	**2,933,636**	**2,880,930**	**2,345,708**	**2,136,303**	**2,051,673**	**12,348,250**
Foreign (Net)	1,094,839	1,097,745	429,783	58,989	-178,308	**2,503,048**
Concessional	1,757,802	1,706,574	1,663,106	1,627,871	1,596,144	**8,351,497**
Non concessional	2,352,107	2,421,900	1,840,650	1,745,450	1,646,775	**10,006,882**
Amortization	-3,015,070	-3,030,729	-3,073,973	-3,314,332	-3,421,227	**-15,855,330**
Domestic (Net)	1,838,796	1,783,185	1,915,925	2,077,315	2,229,981	9,845,201
NDF	1,838,796	1,783,185	1,915,925	2,077,315	2,229,981	9,845,201
Rollover	3,150,337	3,050,728	3,070,117	3,264,332	3,321,227	15,856,741
Total Government Budget	**36,258,806**	**38,136,414**	**40,207,356**	**42,963,899**	**45,373,962**	**202,940,437**
Total Public Resources for FYDP III	**13,255,855**	**14,023,994**	**14,936,994**	**15,815,289**	**16,214,611**	**74,246,744**
Domestic	10,370,865	11,408,312	12,459,472	13,564,196	14,220,541	**62,023,386**
Foreign	2,884,990	2,615,682	2,477,522	2,251,093	1,994,071	**12,223,358**
Total Private Resource	**4,132,000**	**4,546,000**	**9,076,000**	**12,297,000**	**10,560,000**	**40,611,000**
PPP Projects	1,355,000	719000	5,165,000	7,902,000	5,887,000	**21,028,000**
Joint Venture Project	2,777,000	3,827,000	3,911,000	4,395,000	4,673,000	**19,583,000**
Total Resources for FYDP III	**17,387,855**	**18,569,994**	**24,012,994**	**28,112,289**	**26,774,611**	**114,857,744**
GDP m.p.	**163,879,616**	**174,534,634**	**185,936,799**	**198,952,375**	**212,879,041**	
Tax to GDP ratio	13.5%	13.8%	14.1%	14.4%	14.4%	
Non tax to GDP ratio	1.9%	1.8%	1.9%	2.0%	2.0%	
LGAs Own Sources	0.5%	0.5%	0.5%	0.5%	0.5%	
Domestic Revenue to GDP	15.9%	16.2%	16.6%	16.8%	16.9%	
NDF to GDP	1.1%	1.0%	1.0%	1.0%	1.0%	
Public FYDP III as % of Total Budget	36.6%	36.8%	37.1%	36.8%	35.7%	36.6%

Source: MoFP and calculations

Total private resources included in the table show expected private sector's participation in Government projects and are not comprehensive of private sectors' participation towards Tanzania's priority sectors and the 2030 Agenda. A detailed engagement plan with the private sector will need to be developed and implemented. This issue is included in Chapter 6.

3.2.1- Government revenues

The domestic public revenues source is primarily earmarked for financing government recurrent budget. The current use of domestic government revenues for recurrent expenditures, mainly wages, leaves only a residual amount available for development expenditure. As a percentage of GDP, domestic revenues in Tanzania still remain low, if compared with other countries in the Region, but stable at around 15.8 percent. Figure 12, below, provides a summary of the expected government revenues projections, by classification, to be raised from the domestic economy, starting with the 2020/2021 base year.

Figure 12. Summary of projected domestic public financing 2020/21 - 2025/26

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Tax Revenue	22.098	24.105	26.270	28.574	30.658	131.705
Non-tax Revenue	3.071	3.192	3.607	3.885	4.300	18.056
LGAs Own Sources	0.864	0.917	0.976	1.044	1.102	4.902
Total	**26.033**	**28.215**	**30.852**	**33.503**	**36.040**	**154.663**

Source: MoFP 2020

The proportion of taxes to GDP remains stable and likely to be at around 14 percent in the next five years. Taxes on imports and income taxes (currently making up at least 65 percent of revenues) remain the two most important taxes. These, together with taxes on local goods, mostly in the form of VAT, are expected to grow in line with the growth of the economy and strengthening of tax administrative measures. On the other hand, non-tax revenue, mostly in form of surpluses of state-owned enterprises and dividends and profits from investments (currently at less than 2% of GDP) have a potential for improvement considering the efforts by Government to exercise more controls on SOE's operations. Currently, Government has increased its stake in mining, agriculture and construction entities and has adopted the approach of giving preferences to SOEs in procuring goods and services. These measures are likely to increase non-tax revenues' contribution in the overall Government's revenue. Prudence in SOE management and governance is critical in realizing the potential in this source as pointed out in the debt sustainability analysis. Government's efforts to increase the ratio of revenues to GDP are being supported by an ongoing PFM reform program.

Net contributions from Local Government Authorities (LGAs), in relation to the overall financing envelope, is expected to remain negative. These entities collect fees and charges from the various services they provide but these are not considered sufficient to cover their costs. Furthermore, their revenue collection efforts have been negatively affected by the decision to assign the responsibility to collect most of taxes and dues to the Tanzania Revenue Authority. This decision has resulted in LGAs having to rely on transfers from the national budget and for expanding provision of services in areas where they have powers to collect fees and charges. Currently, LGA's collections represent less than 4 percent of total revenues and less that 0.5% of GDP, which are barely enough to fund their own recurrent expenditures.

3.2.2 - Government domestic debt issuance

Borrowing from the domestic debt market is being expanded. Government has determined that there is abundant liquidity in the market and will be tapping these resources but always within the 1 percent of GDP of net domestic debt borrowing limits. Currently, the market is showing a preference towards longer term maturities and in recent auctions the 15- and 20-years maturity bonds are being oversubscribed. Higher interest rates for longer maturities (compared to securities in the short end of the curve) and a well-functioning secondary market are behind this move towards the longer-term maturities. From the stand point of debt management, paying the extra cost for issuing longer term maturities is taken as the price for the development of the domestic debt market. A well-functioning secondary market has allowed the MoFP to be able to issue longer maturities.

Participation in Government auctions has been shifting as well towards more investor diversification. Recently, commercial bank's share of purchases in Government's auctions has been decreasing and pension funds and individuals' share has been increasing. This shift is in line with the Medium-Term Debt Management Strategy's objectives in order not to crowd out the private sector and encouraging commercial banks to increase lending to the business community. Traditionally, banks purchasing of Government's securities has been encouraged by the its triple A credit rating.

In the medium-term term, the MoFP is planning to issue longer term maturities, including a 25-year bonds during the second half of the year. The debt management department is in the process to undertake certain market studies to better understand the shifting in market preferences towards longer maturities. Other studies to be undertaken will include: benchmark bonds, options (they currently are doing re-openings), and opening the domestic market to world-wide investors, in other words, issuing in shillings in Tanzania but to investors from abroad as it is currently is limited to East Africa. This last initiative would involve reviewing, adopting and strengthening the existing legislation. Table 3 below shows the expected net contribution from domestic borrowing throughout the period.

Table 4. Tanzania domestic borrowing projections

	2021/22	2022/23	2023/24	2024/25	2025/26	TOTAL
Domestic (Net)	1,838,796	1,783,185	1,915,925	2,077,315	2,229,981	9,845,201
NDF	1,838,796	1,783,185	1,915,925	2,077,315	2,229,981	9,845,201
Rollover	3,150,337	3,050,728	3,070,117	3,264,332	3,321,227	15,856,741

Source: Integrated National Financing Strategy (MoFP) 2020

3.2.3 – External grants

External grants have been one of the traditional sources for financing government recurrent and development expenditure. Bilateral and regional cooperation Forums, such as Korea-Africa Forum for Economic Cooperation (KOAFEC), Forum for China and Africa Cooperation, Tokyo International Conference on Africa Development have provided opportunities for Tanzania to access external grants for various purposes including infrastructure, transportation, health etc. Although the exact quantitative sectoral distribution for ODA grants is not available, this type of non-refundable financing has traditionally been channelled to areas directly affecting progress towards the SDGs. However, graduation to middle income country status will affect the amount of grant being made available to Tanzania over the medium term. All in all, the inflow of grants in the next five-year, is expected to reach TZS 3.487 trillion (Table 4 below). Within the period, levels are expected to decline from TZS 1.127 trillion in 2021/2022 to TZS 0.434 trillion in 2025/206, representing a decline of about 38.5 percent.

Table 5. Projected external grants from 2021/22 to 2025/26 (TZS trillions) Source: Ministry of Finance and Planning 2020

º	2021/22	2022/23	2023/24	2024/25	2025/26	Total
External grants	1.270	0.659	0.677	0.589	0.434	3.487

3.2.4 - External borrowing

External borrowing includes loans with different levels of concessionally as well as commercial financing. Although the Government's long-term plan is to increase reliance in domestic financing to reduce it external dependency, this funding source will continue to be one of the main pillars for budget financing in the near future. The government for the next five years is expecting to receive loans in the form of Budget Support, Project Support and non-concessional loans which is projected at TZS 19.648 trillion. Table 5 below, presents the projected external borrowing.

Table 6. Projected external borrowing from 2021/22 to 2025/26 (TZS Trillion)

Borrowing Type	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Budget Support loans	0	0.005	0.005	0.005	0.005	0.02
Project Support loans	1.758	1.776	1.812	2.001	2.164	9.512
Non-Concessional loans	2.352	2.423	1.841	1.745	1.647	10.007
Projected Total	**4.11**	**4.204**	**3.658**	**3.751**	**3.816**	**19.539**

Source: Ministry of Finance and Planning 2020

3.2.5 - Climate change financing

Climate change funding usage is currently below expectations. This financing source is endowed with high potential for leveraging funding geared towards addressing challenges related to the environment and climate change. The United Nations Framework Conversion on Climate Change (UNFCCC) financial mechanism which include Green Climate Fund (GCF) and Global Environment Facility (GEF) are the main sources for climate financing. Other sources of climate change funds such as Least Developed Countries Fund (LDCF), Adaptation Fund (AF), the Special Climate Change Fund (SCCF), Norfund, Finfund and JETRO could also be a potential source of financing. Despite the fact that during FYDP II the opportunity was not optimally tapped, it is projected that during implementation of FYDP III a total of TZS 705,2 trillion (equivalent to USD 304 million will be mobilised from these sources during the coming 5 years.

Bilateral partners have been supporting Tanzania's efforts in this endeavour. From 2013 to 2023, DPs have committed up to USD 540 million in support to the NRM Bank and an additional USD 230 million as climate finance. Almost 43 percent of the support received by the country for the natural resource's management has come from bilateral agencies. In the area of climate change, this percentage goes up to 83 percent. An added value of donor financing of natural resources management and biodiversity conservation is that areas outside of the country's protected area network are supported.

3.2.6 -Domestic Savings

Savings rate in the country is determinant for the availability of funding to the private sector. In Tanzania, the gross domestic savings is projected to reach TZS 25.9 trillion by 2025/26. Table 6 below shows a baseline[22] of TZS 24.6 trillion (2020/2021). Barriers for accessing bank savings products such as considerable documentation to open an account have been addressed with the introduction of National Identity (NI) cards with some of the financial institutions having already linked it to the NI database. Further measures could include to incentivize innovation

[22] Assumptions: national savings correlates with financial sector development and the elasticity of gross national savings with respect to financial development (proxied by the broad money supply-M2) is 0.09 (Hussain & Brookins 2001). The two variables of bank deposits and M2 also give some indications of savings behaviours in the economy. The two are projected to reach TZS 36.6 trillion and TZS 37.0 trillion by 2025/26 respectively. Instead of using elasticities, the projections are based on their past growth rates and the projected GDP growth rate. The past 5 years trend shows that the bank deposits were expanding at an average of 1.14 times the annual growth rates of GDP. The 5-years projected GDP growth rates were sourced from MoFP and multiplied by 1.14 to get the projected growth rates of bank deposits

of affordable demand driven financial products that respond to the saving needs of households and special groups, to introduce banking regulations that encourage micro-financers to legally mobilise savings from the public, and expanding the range of products offered by the extensive network provided by postal bank. In the context of these measures, there would be a need to set up innovative financing and blended finance mechanism that can support the development of these products. Further progress in promoting savings can be made if the informality of business activities is addressed. Many economic activities in Tanzania take place in the informal sector and as a result savings are being held in the non-financial form which do not end up in productive investments (80 per cent of all household assets in rural Africa are estimated to be in non-financial forms).

Table 7. Projected gross domestic savings 2020/21 to 2025/26 (TZS billion)1

	2020/21[2]	2021/22	2022/23	2023/24	2024/25	2025/26
Gross domestic savings	24,613	24,923	25,215	25,480	25,682	25,867
Bank deposits	25,738	27,506	29,427	31,583	33,969	36,575
Money supply (M2)	24,583	26,554	28,717	31,173	33,921	36,957

1The data are measured as stocks
2The base year is a projection as well. As we are yet to reach the end of FY 2020/21, the actual data obtained from the authorities ends in year 2019.

3.2.7 – Banking lending to the private sector

Banks are credit providers to both the public and the private sectors and they dominate the provision of financial services. Table 7 below, highlights the projected private sector credit for the next five years. It is expected that by 2025/26, the overall private sector credit will reach TZS 36.7 trillion, up from TZS 23.2 trillion in 2020/21. The projections are based on the past 5-year growth rates of the private sector credit and the projected 5 years GDP growth rates. The past trend reveals that the overall private sector credit was growing at an average of 1.52 times the annual GDP growth rates, same rate that was used to project behaviour over the next 5 years.

Table 8. Projected private sector credit 2020/21 to 2025/26 (TZS billion)1

	2020/21[2]	2021/22	2022/23	2023/24	2024/25	2025/26
Private sector credit– overall	23,181	25,289	27,628	30,308	33,340	36,726
Private sector credit– business	15,261	16,235	17,289	18,466	19,762	21,171
Private sector credit– households	7,704	9,233	11,096	13,445	16,381	20,012
Private sector credit– overdraft	3,820	3,926	4,036	4,156	4,283	4,416

1The data are measured as stocks
2 The base year is a projection as well. As we are yet to reach the end of FY 2020/21, the actual data obtained from the authorities ends in year 2019.

3.2.8 - Domestic Private Investment

Private Investment is expected to increase throughout the period. Table 8 below, shows that the private sector investment is projected to grow from TZS 53.8 trillion (2020/21) to TZS 108.8 trillion (2025/26). These projections for private investment are based on the past 5-year experience where the private sector part of GFCF was expanding of an average of 2.38 times the annual GDP growth rates. The 2.38 was is from the ratio of the past 5-year GDP growth rates to private sector GFCF for each of the past 5 years – and thereafter a 5-year average rate was computed. The ratio gives the percentages that the private sector GFCF was growing per 1 per cent GDP growth rate in the past 5-years.

Table 9. Projected private sector GFCF 2020/21 to 2025/26 (TZS billion) 1

	2020/21[2]	2021/22	2022/23	2023/24	2024/25	2025/26
Private sector GFCF	53,758	61,441	70,368	81,096	93,844	108,821

Source: NBS (2020) and author calculations

1 Flow variable
2 The base year is a projection as well. As we are yet to reach the end of FY 2020/21, the actual data obtained from the authorities ends in year 2019

3.2.9 - Corporate bonds and private equity

The bond market in Tanzania is steadily growing but remains relatively underdeveloped. This is despite the strong need for long term funding for enterprise development. There remain opportunities for non-financial corporate entities to engage in raising capital through the market – especially with the current state of low inflation, macroeconomic stability, and the ongoing drive to enforce ethical business practices. The bonds market in the country is only 7 per cent of the national's GDP far below the global bonds market which stands at 140 per cent of the global GDP. The current sectorial distribution of PE/VC deals shows that the financial services, agribusiness, telecommunications, technology, energy and natural resource sectors having relatively more potentials. Consumer goods and healthcare are the other sectors which the PE analysists consider as attracting interests from PE investors in the EAC region. In terms of characteristics of the business entities, the PE/VC investors are interested in businesses requiring growth, expansion and development, followed by start-ups and early-stage businesses.

Corporate Bonds are expected to increase throughout the period. Table 9 below, presents projects for the outstanding corporate bonds which are expected to reach TZS 915 billion in 2025/26 up from TZS 272 billion in 2020/21. For the stock market capitalization, we made use of historical data, were on average, 1.4 new equities were listed in the stock market in each of the past 5 years with an average stock market capitalization per company at TZS 499 billion. Assuming positive response to Government intention to accelerate business environment-related reforms, on average we expect 2 equities will be listed in the stock market in each of the next 5 years with the same average capitalization of TZS 499 billion per company. The projections for the corporate bonds are based on the past 5-year growth rates of such bonds and the projected annual GDP growth rates for the next 5 years. The past 5 years trend shows that the corporate bonds was growing at 4.32 times the GDP growth rates. The 5-years projected GDP growth rates were then multiplied by the 4.32 to get the potential annual growth rates of corporate bonds for the next 5 years.

Table 10. Projected stock market capitalization and corporate bonds 2020/21 to 2025/26 (TZS billion) 1

	2020/21[2]	2021/22	2022/23	2023/24	2024/25	2025/2026
Stock market capitalization – Domestic	9,192	9,284	9,376	9,470	9,565	9,661
Stock market capitalization - Cross listings	8,413	8,581	8,752	8,927	9,106	9,288
Stock market capitalization – Total	17,787	18,143	18,506	18,876	19,253	19,638
Stock market – Liquidity	1,382	2,103	3,218	5,009	7,884	12,479
Stock market liquidity – Bonds	1,681	2,043	2,491	3,063	3,788	4,699
Outstanding corporate bonds	272	342	432	552	709	915

1The data are measured as stocks
2 The base year is a projection as well. As we are yet to reach the end of FY 2020/21, the actual data obtained from the authorities ends in year 2019.

3.2.10 - Public Private Partnerships

The projected trends of private sector investments in PPP projects are shown in Table 10. The potential PPP projects are from various sectors including water, transport and communication, education, water sector, health sector; and, the LGA projects. As a flow variable, the PPP resources are expected to sum up to TZS 21.0 trillion over the next five years and align directly with the national priorities included in FYDP III. These projections were based on the following assumptions 1) the stage at which individual PPP projects have reached. Resources for projects that are yet to reach the feasibility or approval stages are reflected in the latter years 2) for projects that will be implemented in beyond a year, the projected resources will be spread over several years depending on the duration of such projects 3) we have deducted an estimated viability gap funding of 20 percent.

Table 11. Projected PPP resources from the private sector 2021/22 to 2025/56

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
TZS billion	1,355	719	5,165	7,902	5,887	**21,029**

Source: MoFP (2020)

3.2.11 - Foreign Direct Investment

The high levels of foreign direct and portfolio investment recorded over the past decade has confirmed Tanzania as an attractive destination of FDI in the region. The Tanzania Investment Centre (TIC) is mandated to, among other functions, create and maintain a positive climate for private sector investment; stimulate local and foreign investments; facilitate foreign and local investors; and, stimulate and support growth of entrepreneurship and SMEs. TIC is also responsible for providing and disseminating up-to-date information on investment opportunities and incentives available to investors, and monitoring business environment and growth of FDI in the country.

Global context for FDI flows does not look encouraging[23]. It is expected that the COVID-19 pandemic to cause a significant drop in FDI flows. It has already had a negative effect in 2020 and a further deterioration in expected in 2021. Global FDI flows are forecasted to have come down by 40 per cent in 2020 which would bring FDI below USD 1 trillion for the first time since 2005. FDI is projected to decrease by a further 5 to 10 per cent in 2021 which is expected to be worse that the effects the global financial crisis had in this type of financing. The downturn caused by the pandemic follows several years of negative or stagnant growth; as such it compounds a longer-term declining trend. The expected level of global FDI flows in 2021 would represent a 60

[23] World Investment Report 2020, UNCTAD

per cent decline since 2015, from USD 2 trillion to less than USD 900 billion[24].The projections for the underlying FDI trend – an UNCTAD indicator designed to capture the long-term dynamics of FDI by netting out fluctuations driven by one-off transactions and volatile financial flows – indicate a milder but still substantial decline in 2020 (-12 per cent) and is expected to start a recovery in 2021.

Increased regional integration has provided for new investment opportunities. During the implementation of FYDP II, the government introduced generous fiscal incentives under the Export Processing Zones (EPZ) and /Special Economic Zones (SEZ) by offering investment land and making the authority operate as a one-stop service centre facilitating investors' operations. The government is also promoting investments by offering a well-balanced and competitive package of fiscal incentives to investors both international and domestic. The government is encouraging the external private sector investments through PPPs and has signed various bilateral investment treaties and bilateral trade agreements for purposes of investment and trade protection. In addition, Tanzania is a signatory to the Multilateral Investment Guarantees Agency (MIGA), for protection of investments against non-commercial risks.

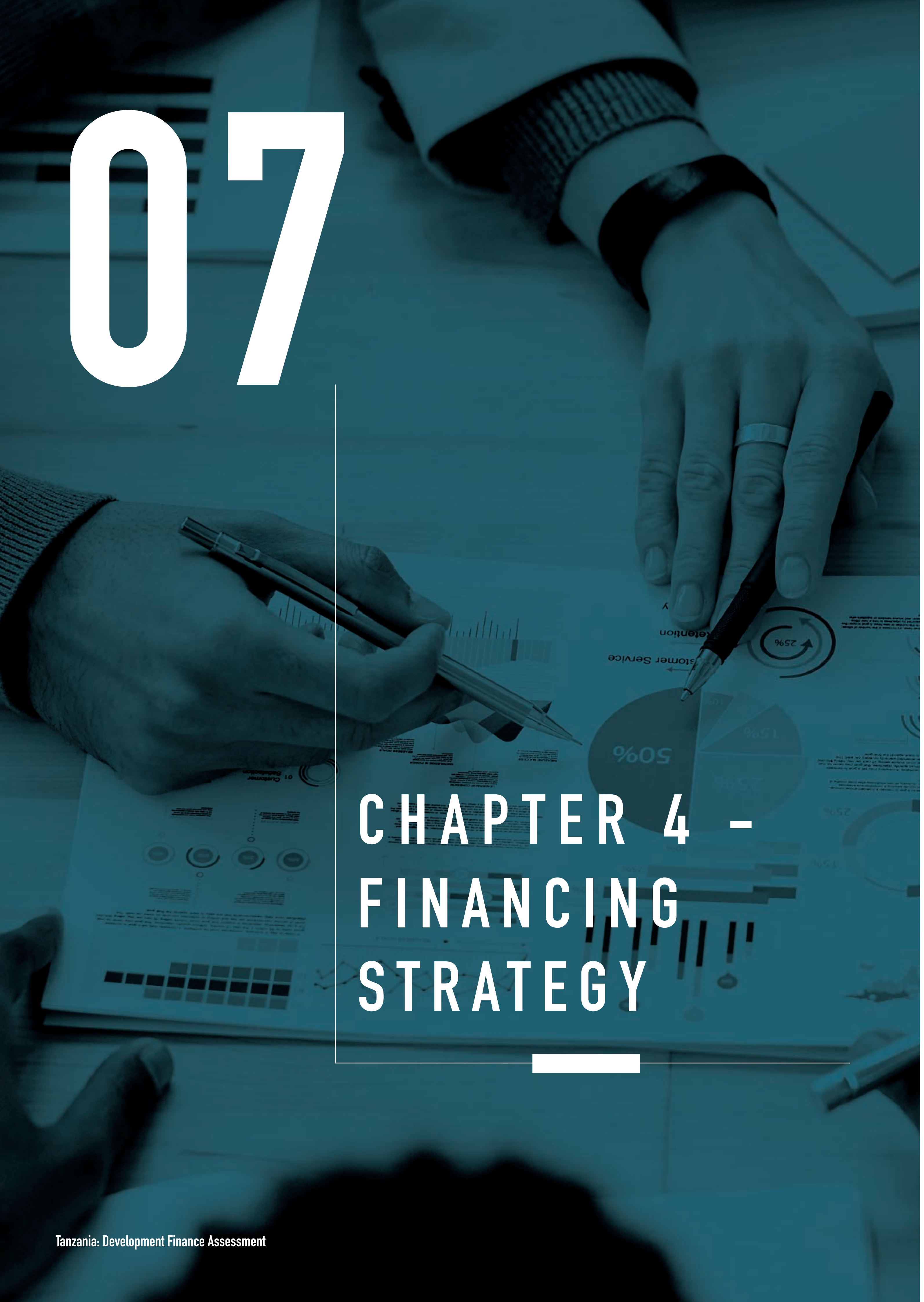
Government wants to attain a sustainable level of foreign direct investment (FDI) inflows over the medium-term. In order to achieve that these flows are channelled to the national priorities, Government will support profitable and key sectors for FDI which have traditionally included agriculture, mining and services, construction, tourism and trade. There will also be a need to review existing policies that are creating confusion among foreign investors and make the existing legislation more foreign friendly. Currently, government-funded infrastructure development offers investment opportunities in rail, estate and construction. Other notable projects attractive for FDI include manufacturing of cement, tiles, steel, soap and detergents; and beverages as well as banking services. In spite of the global downward trend for this type of flow, the total amount of FDI inflows over the next 5 years is expected to be around USD 7,9 billion (equivalent to TZS 18,5 trillion). During FYDP III, it is estimated that FDI inflows will grow by 59.5 per cent from USD 1,1 billion in 2021/22 to USD 1,8 billion in 2025/26. Table 11, below, shows the projected FDI inflows during FYDP III. Government will need to assess how to better channel these resources to the priority areas.

Table 12. Projected FDI flows 2021/22 to 2025/26

Currency	2021/22	2022/23	2023/24	2024/25	2025/26	Total
US$ (million)	1,173.5	1,580.0	1593.5	1,762.6	1,871.1	7.980.7
Exchange Rate	2,367	2,422	2,454	2,494	2,556	
TZS (Trillion)	2.777	3.827	3.911	4.395	4.783	19.693

Source: MoFP and BoT (2020).

[24] World Investment Report 2020, UNCTAD



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CHAPTER 4 - FINANCING STRATEGY

This section includes policies and reforms needed for promoting relevant public and private finance and their alignment to the countries development agenda and SDGs. Tanzania has domesticated the 2030 Agenda into its development strategies (FYDP II and III) and therefore they constitute the main Government policy for achieving its national priorities and the 2030 Agenda. The strategy includes strategic sectoral objectives that will advance the country towards its targeted objectives. FYDP III focuses on the following strategic key sectors:

- High Impact infrastructure. The provisions for physical infrastructure will keep the drive to breaking 'growth-bottlenecks' and expanding physical infrastructure (transport, energy and water supply as an industrial utility.
- Development of Human Capital. The focus will be to continue expanding and improving the quality of general education, especially in basic and advanced level education; science, technology and innovation (STI); and strengthening technical and vocational education and training, among others
- Manufacturing-industry. The focus would be mainly primary sectors of agriculture, mining, fisheries and services. The sector's long-term objective will be to gradually reduce the heavy dependence on imported machines/plants and parts.
- Modernizing the Extractive Sectors. Using the accumulated technological development in the country
- Expanding and Modernizing Tourism
- Transport and Logistics services. It will focus on the Central Corridor (combination of road and rail infrastructure), port facilities and customs posts on border posts for efficiency in clearance and removal of tariff non-tariff barriers.
- Social Development. To focus on the human nature of development, inclusiveness and sustainability, including health, water and sanitation, social security and social protection and youth development.
- Law and order, Governance interventions and peace and security.

There are a number of other ongoing policy initiatives being implemented in Tanzania that affect the successful implementation of FYDP III and the 2030 Agenda. These policy initiatives would have an impact on the ongoing efforts to align government's efforts to achieve FYDP III and the SDGs as well as engaging the private sector in the process. They will be analysed in the corresponding sections of the report but are enumerated below for easy reference:

- The "Blueprint for Regulatory Reform" produced by the Ministry of Industry, Trade and Investment in 2018 as an effort to provide an enabling business environment through strategic reforms.
- The "National coordination framework for the implementation, monitoring and reporting of the SDGs", produced by the Ministry of Finance and Planning in March 2020 to establish an institutional set up to advance the 2030 Agenda in the country.
- The "Guidelines for Project Planning and Negotiations for Raising Loans, Issuing Guarantees and Receiving Grants" produced by MoFP in November 2020 in order to avoid unnecessary delays in negotiations for financing and project completion, costs overrun, overlapping of activities and unnecessary destruction of other infrastructure during the implementation of projects.
- The "National financial inclusion framework 2018-2022" produced by the National Council for Financial Inclusion in 2018 to push on usage of financial services as the next phase of Tanzania's financial inclusion journey[25] and facilitated the role of domestic private finance on FYDP III.
- Financial sector Development Masterplan 2020-2030. This is a policy area Government's plans to reinvigorate in the coming mon-

[25] This initiative was supported by UNSGSA, CGAP, Gates Foundation, UNCDF and Omidyar Network and financed by the Financial Sector Deepening Trust (FSDT)

ths. It is expected to deal, among other issues, with the inadequate access and usage of financial services, improve the legal regime and supervisory framework for protecting the financial consumer, the limited long-term resources and incorporate the latest technology and innovation advancements into the financial sector framework.

• Ongoing Public Finance Management Reform Plan lead by Government and supported by various donors for improving fiscal and tax policies contributing to revenue mobilization, enhancing public expenditures in economic and social sectors, improving budget execution and enhancing financial accountability.

• The "National Skills Development Strategy 2016-2027" developed by Government to ensure the development of a skilled workforce in key economic sectors in the Country.

• The "Tanzania Investment Strategy". Government is currently working on this policy document to facilitate an adequate business environment to promote external and domestic investment.

• The Development Cooperation Framework (DCF) produced by the MoFP in 2014 and outlines the broad principles for development cooperation and the overall objectives and principles guiding Tanzania's engagement with its DP in the medium term.

• The Medium-Term Debt Management Strategy, produced by the Debt Management Department at the MoFP for a three-year period and updated annually, provides guidance in terms of type, sources and corresponding quantities of new financing during the three-year period. It serves as basis for the Annual Borrowing Plans.

Going forward, the section includes a thorough analysis of the recommended policies and reforms needed to facilitate and aligned the required financial flows to achieve the national priorities included in FYDP III.

4.1 Government revenues

The Tanzania Revenue Authority (TRA) is responsible for collecting all fees, levies, charges, or any other tax collected by any Ministry, Department or Division of the Government as revenue for the Government. It is also responsible for advising on any policy regarding revenue laws and administration. The 5th corporate plan (CP) launched in June 2016 calls for the need to undertake interventions aimed at the enhancing domestic resource mobilization in order to comply with the greater emphasis on domestic resource mobilization included in Tanzania's development plans. Additional measures in the Corporate Plan aimed at reversing identified weaknesses in Tanzania's tax collection environment, which included: lack of a robust integrated domestic tax system; low reliability of the taxpayer registration database; inadequate ICT security; frequent system downtime and limited use of non-audit initiatives to promote voluntary compliance. Furthermore, in line with Government's vision to centralize revenue collection, TRA has also been named responsible for collecting all non-tax revenues.

Direct taxes in Tanzania are collected from people's income from employment, business or ownership of property and an investment. These are mostly made up of corporate and individual taxes. Corporate taxes are levied on business' profits. All companies whether resident or non-resident are required by the Income Tax laws to file an estimate of income within three months after the start of its accounting year. This estimate serves as guidance for the business to pay its taxes on a quarterly basis. The current corporation tax rate is for all business stands at 30%. In order to incentive new assemblers of vehicles, tractors and fishing boats, the rates have been reduced to 10% for the initial 5 years from commencement of operation. Individuals are taxed at progressive income tax rate ranging from 9 percent for the lowest bracket to 30 percent for the top bracket. Consumption tax, collected in the form of VAT has a standard rate of 18 percent.

Tax coverage of the informal sector is being viewed as key for Government's efforts to expand the tax base. The informal sector in Tanzania contributes about 40% to GDP and the revenue lost from not taxing the informal sector was estimated in 2010 to amount to 35-55 per cent of the total tax revenue[26]. Increasing domestic revenues to fund development efforts is being one of the priorities for Tanzania. To that effect, an effort is being undertaken for finding ways to tax the informal business. Various initiatives have been implemented in the past decade such as introducing simplified tax schedule for small taxpayers as part of a drive to make it easier for informal sector operators to formalize and start paying taxes. New measures are being implemented, with some degree of success, to lure informal traders into paying taxes such as allowing those in the lowest band to pay their share of the taxes payable in four instalments as a drive to make it easier for informal sector operators to register, formalize and start paying taxes. These measures have proven to increase the number of informal business paying their share of the taxes. Further actions to continue the drive to increase tax revenues from the informal sector will include how to deal with the legal requirement for a recognized physical address in order to get licenses and how to revert some formal traders join street vending to avoid costs of operating formally.

There are a number of recommendations regarding increasing Government revenues and aligning them to the national priorities and SDGs. Tax revenues are expected to be the main financing source to implementing FYDP III. Increasing them could be achieved through expanding the tax base and continuing to review and to implement policies to expand tax collection to the informal sector. For instance, in developing countries, personal income taxes remain low and there is room for implementing policies to increase tax on wealth by improving tax collection on professional incomes and increasing the progressivity of income tax schedules, tax inheritance, and capital gains. Also, an increasing amount of that wealth in developing countries is being concentrated in real state, yet property tax collection is similarly low[27].Furthermore, the development of an SDG aligned taxation framework would not only generate and expand revenues for government and therefore for investment in SDGs, but tax policy can, by itself, be a tool to promote inclusive and sustainable development. For instance, gender sensitive taxation can promote gender equality by reviewing and adapting tax policies applied to MSMEs, since women are overrepresented as employees in this type of enterprises and earning the lowest wages. Tax policies can have various applications, for instance in infrastructure, environment, ie carbon taxes or health outcomes, ie sin taxes. International efforts[28], UNDP included, to help countries develop tax systems that work for people and for advancing the SDGs are available and could be a source of guidance for TRA. The objective would be not just to collect more revenues but rather to also increase fairness and contributing to achieving national development priorities and the SDGs.

> SDG aligned taxation framework would not only generate and expand revenues for government and therefore for investment in SDGs, but tax policy can, by itself, be a tool to promote inclusive and sustainable development

Further actions would include improving management and governance of state-owned enterprises. The aim of this reforms would

[26] The Economic and Social Research Foundation. TAKNET Policy Brief Series No. 012 - 2010
[27] Tax to finance the SDGs, but not to undermine them. Africa in Focus. Brookings Institution
[28] For example, the Addis Tax Initiative

be to reduce their fiscal dependencies, to enhance their performance in delivering services and to execute government assignments as they related to the national priorities. They will also be able to invest in strategic areas and increase their dividend and transfers to Government. Among the SEOs that need capital base strengthening are Tanzania Investment Bank (TIB) and Tanzania Agricultural Development Bank (TADB). Lastly, a comprehensive review of the Tax collection system is scheduled likely in FY 2020/21 to identify and suggest solutions to some of the bottlenecks under the existing PFMRP being implemented. The study will provide further guidance for the road ahead for enhancing government revenues.

A number of more concise tax reforms are expected to contribute towards the improvement in tax collections. These include:

- Establishing SDG oriented budget processes.
- Strengthening tax collection by increasing automatization and harmonizing with the taxpayer identification system,
- Reviewing the legal framework for tax exemptions and incentives
- Increasing technical capacity to monitor transfers as well as tax audit's capacity to attack tax avoidance and evasion and capacity of local government revenue collection in context of fiscal decentralization
- Expand tax audit across the board and, in the mining sector, conduct inspections jointly with the Tanzania Minerals Audit Agency (TMAA) and Tanzania Extractive Industries Transparency International (TEITI).
- Assess the option of instituting an SDG aligned tax framework that would promote inclusive and sustainable development and in line with the objective of leaving no one behind. .
- Continuing to expand the tax base by bringing in the informal sector,
- Conducting tax gap analysis on income and wealth, corporate tax, direct/indirect taxation, health related taxes, gender sensitive taxation and property taxes as well as progressive taxation with the aim for improving equity.
- Broadening the geographic and sectoral distribution of the tax base by strengthening the taxation in suburban and rural areas.

4.2 – LGA financing

LGAs in Tanzania have very limited sources of revenues to cover recurrent and development expenditure. This situation has resulted in a generalized dependency on the central government's budget to implement their own development projects. However, the commercial value of projects in the hands of LGA is very important and the potential for using municipal bonds, or other instruments of raising funds from private investors to finance LGA projects, such as bus terminals and markets, can be rather considerable. Currently, the legislation allows LGAs to borrow from banks, the Local Government Loan Board (LGLB), and any other entity that is approved by the concerned Ministries but not from structured instruments to investors. LGAs have, nonetheless, limited access to these sources due to the perceived lack of creditworthiness and their inadequate financial and risk management capacity. Furthermore, a recent Government decision to directly finance this type of projects is seen as a missed opportunity for using them as pilots for structuring municipal bonds.

Legal issues are dragging progress on allowing LGAs to issue their own bonds. While issuing of municipal bonds has been on the discussion for more than two decades and a number of studies have been carried out, little progress has been achieved. The necessary legal framework and domestic bond market architecture to support the issue of municipal bonds as well as political will are still not yet in place. Since 2006, three different studies have been carried out in Tanzania on the feasibility of Municipal bonds. The studies have pointed out that LGAs do have bankable projects (mostly the aforementioned bus terminals and markets) around which revenue-linked municipal bonds can be structured. Additional impediments for issuing municipal bonds in Tanzania included a perceived lack of separation of politically entrenched managerial structure of local governments from business interests and the requirement for a Government guarantee at the early stages of issuing municipal bonds.

Political support would need to be generated. The process would need the political support from the President's Office – Regional Administration and Local Governments (PO-RALG). An alternative route would be to structure the Local Government Loans Board (LGLB) as an intermediary for raising finance for development for LGAs tapping capital from domestic financial institutions (banks, pension funds, insurance companies), donors/international financial institutions as well as private investors (individuals and institutions) and channel them to LGAs. This suggestion calls for transforming LGLB into an autonomous corporate entity separate from the central government and capitalized by both debt and equity – initially by the government. The route through an intermediary has been used in South Africa (the Infrastructure Corporation of South Africa [INCA]) and in India (Tamil Nadu Urban Development Fund [TNUDF]).

The main recommendation for facilitating LGAs financing include:

- Review the option to allow LGAs to issue their own bond for commercially viable projects, always within the framework of the Government's medium-term debt management structure. Provide some guidance on how to select the project and the need to align them with Government's priorities.
- Provide technical capacity for LGA officials to assess the need for such instruments, assess the economic returns of projects to be financed and, once issued, to properly report debt flows to the Debt Management Department at the Ministry of Finance.
- Provide performance-based grants/transfers towards LGA capacity development, relating to improvement of planning, financial management, tax collection, expenditure prioritization, transparency and accountability

4.3 – Government borrowing

4.3.1 – Existing mechanisms

Government has been producing a Medium-Term Debt Management Strategy (MTDS). The last strategy document covers the period from 2019/20 to 2021/22 and Government is finalizing a strategy for the period 2020/21 -2022/23). It is the main document used by Government to guide borrowing, both, external and domestic and it is used to produce the Annual Borrowing Plans (ABP) to guide specific borrowing during the year. Implementation of the ABP is reviewed every quarter which serve the basis for adjusting the ABP and the strategy if needed. As discussed in the macroeconomic section, Tanzania finds itself in a low debt distress situation due to a very prudent debt management policy. Furthermore, external borrowing is being conditioned by the country's graduation to middle income status causing concessional borrowing to continue decreasing in the coming years. Within that context, borrowing from Export Credits Agencies (ECA) as well as from official bilateral (Asiatic and European) is expected to increase in the coming years whereas commercial borrowing is expected to remain restricted in terms of size and to projects with high income returns and to projects directly impacting export growth.

There is a potential growth in financing from non-traditional development partners. In addition to China and India, these potential partners include, for instance, South Korea, Turkey, Brazil, Russia and Eastern European countries. They are increasingly aligning their support along the national priorities of recipient countries and providing medium to long term maturity structured loans. Also, the fact that they focus more on the productive sectors of the economy would complement nicely with the focus of traditional development partners in the social sectors. Undertaking this approach would need to take place within the framework of the Medium-term Debt Management Strategy.

Issuance of Eurobonds is being considered as a potential source of financing in the coming years. To facilitate Tanzania's eventual debut in the international capital markets, Government has initiated process for getting rated by credit rating agencies. The Debt Management Department is currently monitoring experiences undergone by peer countries such as Ghana and Kenya to get a sense of the financial implications for issuing this type of instruments. Tanzania's rating is expected to be somewhat similar to these countries. They are currently financing themselves, through Eurobonds, at approximately similar rate than what Tanzania is paying now to their external commercial banks and therefore DMD feels that issuing Eurobonds, will have no negative impact on the financial cost. DMD is, however, cautious about the resulting repayment profile of Eurobonds and that carrying cost and absorption capacity of the country. These issues are being analysed and reviewed and will result in a decision as to when, how much and for what purposes to access the international capital markets.

Specific recommendations for improving and expanding government borrowing include:

- Develop negotiation skills and thorough knowledge of the financial conditions being offered to peer countries from the different creditors so as to assist negotiations and to secure the most beneficial financing terms available.
- Conduct borrowing under the framework provided by the Medium-Term Debt Management Strategy that takes into account the cost and risk vulnerabilities of the existing debt portfolio.
- Build institutional capacity to prepare bankable quality projects. This is important to ensure that borrowing is done for implementing projects with high returns to enable loan repayment. This is also a key issue should Government decide to issue Eurobonds in the international capital markets because of the high carrying cost associated with this type of financing.
- Sovereign credit rating will also allow for establishing a benchmark against to measure private sector ratings.
- Channel commercial borrowing to strategic high impact projects and projects that ensure technology transfer to Tanzania. This will enable to build a wide variety of technical capacity within the country.
- Increase engagement with new and emerging development partners. This type of development partners can complement traditional development partners in terms of net financing and aligning their financial support along national priorities.
- To raise more capital from domestic and international investors, work with development partners such UNDP in the full issuance process of sovereign thematic bonds (green, social, SDG, etc.), including market assessment, bond framework establishment through budget items identification, external review, investor engagement and monitoring and reporting
- Undertake the planned market analysis so as to continue developing and deepening the domestic capital market, including: shifting domestic market preferences to longer term maturities, issuing benchmark bonds and about the potential crowding out of the private sector in the domestic capital markets.
- Review and assess the opportunity for opening up the domestic debt market to investors from abroad. This would involve assessing the potential new investor base, strengthening the existing legislation and the impact on the domestic debt market.

4.3.2 – Innovative financing instruments

Social, SDGs and Development Impact Bonds.

The Social and Development Impact Bonds (SIBs/DIBs) are innovative 'payments for results' financing mechanisms that harness private capital to fund social projects. In a SIB, the Government agrees to repay the investors only if agreed-upon social outcomes are achieved (after the investors has invested his/her own resources into a project). In a DIB, an aid agency or a foundation, is the "outcome funder" instead of the Government. As of 2019, there are 12 DIBs and 6 SIBs in the developing countries with health, education, employment as the leading beneficiary sectors (Gustafsson-Wright, et al 2019). In 2017, Colombia became the first middle-income country to launch a SIB.

A careful review of the market for these types of instruments shows a well-defined trend. The demand for these instruments is increasing as more individual investors and Investment Fund managers channel their investment funds towards sustainable investment options, pressured by their boards, by society changing views on impact investment and by individual choices. These instruments can be very useful for channelling private investments to complement traditional development efforts and funding sources. DIBs are more often used when the investor is willing to channel funding to specific areas or projects but is not willing to bear the risk that the project won't yield the desired results.

SDG Sovereign Bonds can finance specific projects targeting SDG objectives. UNDP has developed a thorough framework to issue this type of bonds to target specific needs related to the 2030 Agenda such as illiteracy and school attendance, targeted level of health services and sanitation and energy. The proceeds are then channelled to identified vulnerable populations fitting the required criteria based, for instance in the country's social gap index.

Blue economy is another targeted are for bond issuance. UNDP engaged with the Cape Verdian government, the Stock Market and national organizations to issue and list a first Blue Bond to channel private resources to a newly established blue economy pipeline of regional and national projects. It is projected to become a regional platform for sustainable finance instruments dedicated to the blue economy. The idea was intended to take advantage of Cabo Verde's natural position as a strategic, oceanic pivot between Africa, the Americas and Europe and its leadership role among SIDS. The bond seeks to orient private capital in ways that serve people and planet.

Sukuks and green Sukuks

Government has indicated that it is evaluating the possibility for issuing Islamic Based Financial Instruments (SUKUKs). The learning curve for managing all the preparatory work involved in issuing this type of instruments is long and therefore it is not expected, in the domestic market, to be operative in the near term. There are different Sukuk Modes: Murabaha (Trade Finance), Salam (Forward Sale) Istisna' (Project Finance) Quasi-Debt Instruments: Ijarah (Sale & Lease Back) and choosing which one to use and when can be cumbersome. Furthermore, a sovereign "Supreme Asset Valuation Committee" needs to be established, made up of from high officials, to evaluate sovereign assets (land, roads, buildings ...etc.). The advantage related to these instruments is that it would allow Government to tap into sources of funding that are not currently participating in Government auctions. If further assessment is needed, this topic could be a good candidate for South/South cooperation.

Assessment is underway for issuing a first SUKUK[29] in the international markets. Go-

[29] UNDP has successful experience in supporting issuance of sovereign green Sukuk to international investors for the Government of Indonesia in 2018

vernment is weighting the advantages of issuing up to USD 500 million in the international Sukuk markets (Dubai). This type of issuance would open up new source of financing but, depending on the type of SUKUK used, would carry the same risks as issuing a regular Eurobond. Careful considerations should be given to this type of financing instrument and its impact on the debt portfolio's cost and risk indicators.

UNDP has undertaken a successful collaboration to issue green Sukus. The issuance took place in Indonesia and the proceeds were intended to finance and re-finance projects in renewable energy (e.g. Solar Power Project), energy efficiency, sustainable transportation (e.g. Double Track Railway Project in North Java Line), waste to energy and waste management, and climate resilience for vulnerable areas. In the case of Indonesia, the issuance of the Sukuk was facilitated by the Government's existing climate budget tagging process that enabled it to issue a green Sukuk to combat climate change. The issuance took place in March 2018 and amounted to USD 1.25 Billion. This five-year Global Green Sukuk is noted as the world's first sovereign green Sukuk.

Further recommendations include:

- Assess the cost/benefits associated with this type of financing within the context of the Medium-Term Debt Management Strategy.
- Acquire more thorough knowledge about the mechanics of this type of instruments. Explore the conveniences for including this capacity building exercise within the framework of South/South cooperation[30].
- Work with development partners such UNDP to explore the issuance of sovereign Sukuk that support sustainable and green development of Tanzania.

4.4 - Grants

Although the inflows from this type of financing are expected to decrease over the five-year period, its contribution cannot be underestimated as resource mobilization for FYDP III is concerned. Therefore, the following recommendations are presented to minimize the decrease in flows:

- Building confidence with existing Development Partners, including enhancing coordination mechanisms, transparency, and accountability.
- Strengthening regional and bilateral relations will intensify fostering collaboration and partnerships development partners.
- Adherence to the Development Cooperation Framework (see text box 2 below) principles will enforce smooth cooperation with Development Partners.
- Promoting social sectors and sustainable programs that are more prone to secure grant financing.
- Expanding the development partners base providing grant financing. New grant providers are merging and engaging with developing countries and an effort should be made to engage them in Tanzania´s development strategy
- Further develop South/South cooperation which can be a useful tool for knowledge transfer without reimbursable terms.

Box 2: DCF Guiding Principles

1. The Government of Tanzania must be in the driver's seat (i.e. coordinate development cooperation and use own analyses to reach key decisions).
2. Successful development cooperation requires the **sharing of a shared vision** in addressing the needs of Tanzania.
3. Commitments must be **honoured** by both sides.
4. **Regular formal and informal forums** for exchanging views between the Government and DPs are necessary for effective policy dialogue.
5. Adequate **capacity in Government** departments is key to effective development cooperation.
6. High **transactions costs** related to development cooperation are counterproductive and must be avoided.
7. **Predictability and effective delivery** of development support is essential but require good policy design, planning and effective implementation.
8. Periodic **monitoring** and evaluation are crucial for determining whether progress is being made and in the right direction.

[30] UNDP can also assist Tanzania in engaging in this type of cooperation

4.5 – Green external financing

Sources of financing from this type of sources are varied, and Tanzania needs to develop a strategy to tap them[31]. Multilateral Development Funds, for example, are dedicated funds funded by multiple donor countries and are managed by multilateral institutions such as the World Bank or Global Environment Facility (GEF). Accessing these Funds is, at times difficult and allowing it through implementing entities such as the multilateral development banks and UN agencies. The GEF, for instance, is an independent financial organization that provides grants to developing countries for biodiversity, climate change, and land degradation projects. Since 1991, has provided up to USD 12.5 billion in grants globally and additionally, has leveraged USD 58 billion in co-financing for 3,690 projects in 165 developing countries. In the current financing cycle (2018-2022) 30 countries have pledged USD 4.1 billion which are designed to cover additional funding requirements.

Mobilization of financial resources from the Climate Change Fund requires skills to prepare project documents that are responsive and meet the set criteria. Another requirement is having in place accredited entities that can access fund directly. To tap this opportunity, the following will be undertaken:

- Finalize accreditation process to the Green Climate Fund.
- Establishing a dedicated unit for mobilizing Climate Change Fund from various sources at the MoFP. The unit be responsible for the day-to-day activities related to climate change fund and align the funding to national priorities
- The Climate Change Unit in turn, will sensitize and assist other MDAs and the private sector on the process for accreditation to various climate change funds to increase funding opportunities; and
- Build institutional capacity on the preparation of bankable projects and responsive to climate change fund requirements, including preparation of an action plan.

In terms of climate change, further policy development and capacity building is needed. Further experience is needed on how to prepare projects and present proposals that would facilitate benefiting more from this potentially important source of funding. Mobilization of financial resources from Climate Change Fund require skills to prepare project documents that are responsive and meet the set criteria. Another requirement is having in place accredited entities that can access fund directly. Therefore, the Ministry of Finance and Planning (MOFP) would need to finalize accreditation process to the Green Climate Fund so as to be one of the accredited entities and to establish a dedicated unit for mobilization of Climate Change Fund from various sources. The unit be responsible for day-to-day activities related to climate change fund and competent personnel be attached to it.

4.6 - PPPs

Successful PPPs can bring many benefits to a national economy. International experience shows that, for a PPP to be successful, it should be drafted within a framework of the national long-term development's goals in order to be a vehicle for supporting the development of small and medium size enterprises. Also, the country's legal, regulatory and institutional framework needs to support this service delivery model and to provide effective governance and supervision mechanisms[32]. Lastly, PPP agreements should provide a fair and efficient risk allocation and clearly allocate responsibilities for the different partners. Clarity and transparency would facilitate private sector's willingness to participate in this type of arrangements

Government has also targeted some policy instruments to harness private sector contribution in socio-economic develo-

[31] Background information for Developing a National Forest Financing Strategy (NFFS) for Tanzania. March 2021

[32] Public Private Partnership LRC – Home. The World Bank

pment through PPPs. Government's efforts have been channelled towards creating a conducive environment for private sector involvement in the implementation of development projects. This has been done by passing the PPP Policy of 2009, the PPP Act, CAP 103, Regulations of 2015 and setting up units responsible for overseeing PPP initiatives. The PPP Act, 2010 was amended by the Public Private Partnership (Amendment) Act No 18 of 2014 and Revised in 2018 through PPP Act Cap 103 (R,E 2018) with the new regulations released on 20th January 2020[33].

PPPs can be aligned with the 2030 Agenda. In this regard, it is recommended that in addition to considerations related to sustainability to the environment, social impact and climate change, the authorities can include specific clauses to correct social inequalities, such as requiring that a certain proportion of employees must be young, untrained, female, or belonging to a specific ethnic group. Another option could be to require the private company to provide some specialized training or employment to the local population, which can provide quality jobs to the area's workforce.

The main risks to further advance the use of PPP for investing in development projects are as follows: 1) reversal of PPP preparations and reverting to traditional procurement even when analysis shows that private sector participation will deliver more value for money 2) private sector partners opting out of projects that are in advance feasibility and/or approval processes 3) weak private sector to engage in PPP projects 4) capacity at various levels of the Government to engage in PPP project. The first risk (reversal of PPP projects decisions) could be mitigating by establishing mechanisms where such reversals are prohibited. The likelihood of the second risk (opting out) to happened has been minimized by the PPP legal instruments compelling the private sector partner to commit resources prior to approval stages

Concrete recommendations to accelerate the use of PPP framework in the public investment efforts include:

- Accelerate project feasibility and approval processes
- Strengthen the PPP unit with the required human resources and expertise
- Avoid reversal of PPP preparations back to the traditional procurement. In other words, there is a need to consider introducing means to prohibit reversals outside PPP life cycle processes
- Enhance PPP capacities at the MDA and LGAs levels including requiring the two to consider including PPP projects during budget preparations (as well as enhancing compliance to PPP Act Cap 103 during budget preparation)
- Accelerate the development, review and the implementation of regulations, guidelines and other instruments to streamline private sector participation through PPP)
- Strengthen enabling investment climate including macro-economic stability, access to long-term financing, lower interest rates, and enhance political support
- Establish and strengthen the institutional framework for promoting PPP projects as elaborated by the PPP Act, Cap 103
- Fast track establishment of PPP centre and PPP project facilitation fund. According to the PPP Act, the PPP centre shall be a 'one-stop centre' when discharging its functions of seeking recommendations from the Ministries responsible for investment, finance, planning or any other ministry, department or agency.

4.7 - Remittances

Studies[34] have shown that remittances have an impact in increasing investment in countries with less developed financial sectors. This positive impact is achieved by allowing migrants to invest their savings in small businesses, real estate or other assets in their own countries and therefore support local markets. Promoting this type of flows will provide direct financial support to the population.

To improve the potential for this type of flow, it is recommended to find ways to reduce transactions costs and fees for remittance transfers in order to increase the disposable income of migrants, boost their incentives to send money home, and encourage the use of formal remittance channels

4.8 - Foreign Direct Investment

Attracting FDI remains an important policy objective for developing countries. Overall, 54 economies introduced at least 107 measures affecting foreign investment in 2019[35] and almost "75 percent of these measures were in the direction of liberalization, promotion and facilitation, with developing countries and emerging economies in Asia most active" (UNCTAD 2020). The economic sector that benefited the most from these liberalizing measures were mining, energy, finance, transportation and telecommunication. In addition, several countries streamlined administrative procedures for investors or expanded investment incentive regimes.

According to Government policy, Tanzania welcomes FDI as it fits into its industrialization and development agenda. However, in practice, government policies and actions are not effectively keeping and attracting investment. Investors and potential investors note[36] the biggest challenges to investment in Tanzania include 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 GoT and the private sector, and mandatory initial public offerings (IPOs) in key industries. Investment policy is not considered a Union matter and therefore there are different laws, policies, and practices for the Mainland and Zanzibar. Mainland policies date from 1996 and efforts to update the Investment Policy and Investment Act are underway.

Starting in 2017, new laws and regulations[37] were enacted to promote investment in key national priorities. These, however, according to investors, are not seen as effectively promoting FDI into Tanzania, especially those in the extractives and natural resources industries. They are seen as adding further confusion into the investor's decision-making process by using broad definitions. For example, "natural wealth and resources," as defined by legislation could include not only oil and gas but also wind, sun, and air space. Furthermore, legal requirements included in the Acts are considered as counterproductive in promoting FDI, for instance removing rights to international arbitration and subjecting contracts, past and present, to Parliamentary review. Also, indigenous Tanzanian companies are given first preference for mining licenses and require foreign mining companies to have at least 5 percent equity participation from an indigenous Tanzanian company and must grant the GoT a 16 percent carried interest. Lastly, foreign companies that supply goods or services to the mining industry must incorporate a joint venture company in which an indigenous Tanzanian company must hold equity participation of at least 20 percent.

In order to attract FDI during FYDP III in spite of an adverse global environment, several measures are being considered. These include: using fiscal and business incentives to attract investments and technology or strengthening investor confidence, for instance, by promoting good practices in investment grievance management or further developing EPZ/ESZ to serve as tools to attract investors, promote rapid economic growth. The SEZ program covers a wider range of allowable activities than the EPZ. It is, therefore, envisaged that the SEZ program will go a long way in contributing

[33] From the Voluntary National Review. MoFP, 2019
[34] Giuliano and Ruiz-Arranz 2006, UNESCAP 2007
[35] World Investment Report 2020. UNCTAD
[36] US State Dept. 2020 Investment climate statements: Tanzania
[37] Natural Wealth and Resources Act 2017, the Natural Wealth and Resources Contracts Act 2017, and Mining Regulations 2018

towards the achievement of economic objectives and goals of Vision 2020 aiming at transforming Tanzania into a globally competitive country.

Over the past decade, foreign investment inflows were generally skewed towards few source countries. These included the United Kingdom, South Africa and the United States of America. Furthermore, regional investment opportunities were not fully utilized as reflected by lower FDI inflows from the EAC and SADC regions. Therefore, there is need to strengthen promotional initiatives to attract investment from non-traditional source countries for value addition in agriculture and minerals given the country's potential in these sectors. During the last decade, foreign investment inflows were concentrated in few activities, namely; accommodation and food, mining and quarrying; and finance and insurance. Thus, there is need to further diversify sectorial distribution of foreign investment by promoting investment potentials in other sectors. The focus should be sectors where the country has comparative advantage such as scaling up agriculture production and agro-processing. This will help to safeguard the economy against shocks on the concentrated sectors, and expand export and tax bases and increase employment generation. This should also go hand in hand with providing the needed infrastructure such as permanent feeder roads, electricity and water.

UNDP has developed a specific methodology for conducting a national priorities/ SDG investor mapping. The basis for this mapping is to be able to identify investment-grade opportunities for international investors in the priority areas designated by the national development plans. Once the sectoral/geographical priority areas have identified the mapping investment opportunities analyses business models and financing needs and potential returns to be posted at a platform where international investors can identify their own preferred sector or geographical area. The mapping exercise also identifies what specific priority areas/SDG will the investment impact as well as any required policy reform.

A number of more concise FDI reforms are expected to contribute towards the improvement in attracting foreign investors. These include:

- Conduct SDG Investor Mapping to provide private sector investors with market intelligence on identified investment opportunities towards the SDG-aligned development priorities, such as sectors, regions, SDGs, return profiles, market size and timeframes of investments, etc.
- Developing Investment Strategy aligned with ongoing reform agenda as well as setting priorities for investment policy and promotion reform agendas at both economy-wide and sector levels
- Improving efforts aimed at attracting and facilitating FDI by establishing enhanced investor entry regimes, streamlining investment procedures, and enhancing investment promotion capacity;
- Strengthen domestic private entities on accessing international private finances;
- Improving provisions of investment incentives and strengthening investors' confidence; and
- Promoting practices for linkages between FDI and the local economy.
- Review the existing legal framework (Natural Wealth and Resources Act 2017, the Natural Wealth and Resources Contracts Act 2017, and Mining Regulations 2018) to provide clarity to the foreign investor and provide equal footing to all concerned parties.

4.9 – Domestic financing to the private sector

The guiding principles of the national financial inclusion framework 2018-2022 also call for the role of domestic private finance on FYDP III. For the domestic private financial instruments to make meaningful contribution to FYDP III, the development efforts require flexible legal and regulatory frameworks for financial development.as well as the use of technology-driven channels and other innovations to reach the underserved and unserved markets and collaboration between public and private players, as well a healthy balance between collaboration and competition among private providers. This can be structured around clear interoperability frameworks, industry standards and partnerships.

Government continues to implement important reforms to advance business environment. The World Economic Forum's global competitiveness index and the 2020 Economic Freedom Index paint a similar picture. Recently, Government has started undertaking important reforms to facilitate private sector development and has pushed for two separate reform agenda: 1) the Blueprint for Regulatory Reforms to Improve the Business Environment (URT 2018) and 2) the 2017 Tanzania Diagnostic Trade Integration Study (DTIS) (URT and World Bank 2018). The Blueprint outlines both sector specific and crosscutting regulatory issues to be addressed. The latter, for instance, includes: 1) business licensing regime 2) standards, safety, and quality 3) weights and measurements 4) social security and labour issues. The 2017 DTIS identifies priority actions in support of the country's strategy to deliver broad-based growth through trade integration. It focuses on 1) trade policy and trade facilitation 2) agriculture 3) mining and extractives industry 4) tourism. Whereas a number of fees and levies have been abolished or restructured in response to recommendations from the two-reform agenda, the main concern has been on the slow progress on action areas associated with institutional reforms.

Government is pursuing private sector development and has secured DP support for this particular task. For instance, the AfDB, as per the latest country strategy paper covering the 2021-2023[38] period, focuses on two main priority areas: infrastructure and private sector development. The last priority area has, among its intervention areas, the economic governance and the regulatory framework. AfDB's interventions in the private sector has focused on extending credit lines using two methodologies: i) through the banking sector and ii) directly to companies participating in projects. The first method targets small and medium type of enterprises and the bank assumes the risk. The problems in disbursing through the credit lines is related to the eligibility because companies can only get financing for up to a third of the total cost of the project and should always match Government priorities. Further Government efforts will focus on development a private sector that focuses on the national development priorities and SDG. This effort will need to involve coordination and sensitization of the private sector so that they are aware of the main priorities and their potential impact on achieving them.

Engaging with the business sector as the Government's strategic development partner has been prioritized. For FYDP II the expected private sector involvement was through its participation in PPPs and therefore certain PPPs policies, procedures and initiatives were passed (as detailed in the policy section above). In 2019, a series of engagements and consultations with businesses and CSOs were undertaken as part of the preparatory process for the High-Level Political Forum 2019 (HLPF). These consultations aimed at engaging the business sector in the reporting on the SDGs implementation and were organized in collaboration with various partners[39] and the support of the United Nations Development Programme.

A more recent drive to involve the private sector in the development agenda of the

[38] Background interview, Tanzania Country Office (COTZ). AfDB

[39] The Tanzania Private Sector Foundation (TPSF), the Association of Tanzania Employers (ATE), the Confederation of Tanzania Industries (CTI), Tanzania Horticulture Association (TAHA), Tanzania Association of Tour Operators (TATO), and various CSOs

country took place in November 2020. Last year, a stakeholder's workshop was organized to take note about the private sector's perspectives on the priorities for FYDP III (2021/2026). The workshop made stock of recent Government's policy changes related to tax administration and corporate income tax as well as its investment in business-enabling infrastructure services. It was noted that reforms in the mining sector have made it the largest foreign exchange earning sector, thus off-setting income losses incurred by the tourism sector caused by the COVID-19 pandemic.

Further efforts need to be undertaken in order to involve the private sector in the development agenda and advancing the SDGs in Tanzania. Efforts to raise awareness, among the private sector, of the SDGs and its potential contribution to implement the 2030 Agenda need to be expanded. There is evidence, for instance, that among the listed companies at the Dar Es Salaam Stock Exchange (DSE)[10], SDGs and sustainability investing are not considered a priority, although they are aware of their potential impact on such key issues as employment, gender issues and environmental sustainability. The DSE has recently introduced some elements of sustainability issues in the regular reporting required from listed companies and has created a DSE Award for listed companies that incorporate sustainability issues in their business plans. In an effort to stay abreast of this incipient movement, the DSE has also joined the UN Sustainable Stock Exchanges Initiative and is engaging with member companies on corporate social responsibility and performance on ESG (environmental, social, governance) issues[41]. Further incentives are also necessary to steer private sector investment into the national priority sector and the SDG. Identifying SDG investment opportunities and generating investment intelligence will be fundamental not only in promoting investment but also in channeling it to work for the SDGs. Creating a mechanism or platform to match demand and supply would greatly assist this process.

Availability of credit to the private sector has come down. In Tanzania, the largest banks have an important role in mobilising savings and providing credits[42] while medium and smaller banks tend to engage on costlier, short term interbank financing and institutional deposits which carry a much higher operating cost. Access to credit has been falling with 65 percent of major corporations reported having difficulties accessing credit from banks[43]. Smaller companies, on the other hand are having tougher times and are falling into arrears.

Some Development Partners are channelling financial resources through the banking sector in order to reach the business sector. AfDB's interventions in the private sector, for instance, includes extending credit lines to the business sector. These credit lines are extended using two methodologies: i) through the banking sector (currently using 1 bank) and ii) directly to companies participating in projects. The first method targets small and medium type of enterprises and the issuing bank assumes the risk. The problems in disbursing through the credit lines is related to the eligibility because companies can only get financing for up to a third of the total cost of the project and should always match Government priorities.

Government and BoT have undertaking several measures to improve access to credit. They have made efforts to reduce nonperforming loans, increase provisioning and the resolution of government arrears. An area that has recently improved is the financial inclusion. Government sponsored efforts to improve telecommunications and internet networks has facilitated an increase in subscribers, digital services, payment platforms and web access making it possible for larger share of population to have access to banking services[44]. The BoT has increased monitoring and surveillance and has issued instructions to the banking sector in order to overcome the existing situation.

Various measures can be taken to mitigate existing risk environment in Tanzania. These include 1) enforcing contingency plan for the banking sector 2) enhance compliance in credit extension and enforce mandatory use of credit reference bureau. The continued investment in early warning systems such as stress testing are necessary means to mitigate emergence of undercapitalized banks. Another risk is the recent decline in real estate prices which may reduce the ability of real estate owners to service their debts (real estate properties are commonly used as collaterals for loans provided by banks).

There are measures included in Government's reports to advance the private sector investment. The recently released Government's financial sector development master plan (2020/21 – 2029/30) offers important insights on potential reforms in the financial sector that will complement other efforts to advance private sector investments. They include: 1) broadening financial instruments to advance availability of long-term capital 2) incentivize banks and financial institutions to provide long term credit to productive sectors 3) promote cross-border capital flows to support the efficient allocation of capital to long-term investment 4) create financial instruments for Tanzania diaspora to finance long term projects 5) enhance the financial and technical capacity of DFIs 6) strengthen affordable housing finance schemes; and, 7) promote insurance companies and social security schemes to mobilise long term savings.

A variety of reforms have already been implemented. Whereas more than 100 fees and levies have been abolished or restructured in response to recommendations from the two-reform agenda, among the remaining concerns is the slow progress on action areas associated with institutional reforms (transforming Government agencies). Several measures are necessary to expedite institutional reforms. They include, first, the need to intensify intra-governmental interactions coupled with political interventions. Second, periodical evaluations of the reform agenda are necessary as a means to contain and address constraints that impede progress towards reform objectives. Third, dialogue between the private sector and the Government needs to be intensified. Reference is made to the need to revive the national and regional national business councils as well as the investors roundtables.

The incentives for developing the capital market incentives were introduced about 15 years ago. The objective at the time was to encourage companies to get listed and issue bonds and for investors to operate in the DES Stock Exchange. The DES stock exchange is relatively young and relatively small compared with neighbouring countries, for example Kenya. Total market capitalisation at the moment is about USD 6 billion. In terms of outstanding bonds – Government totals reach about TZS 12 trillion shilling compared with about company's bonds which are estimated at TZS 176 billion. To further develop the Stock Exchange, given the number of companies that are listed, tax incentives would not be considered fundamental. Two key fundamentals are:

1.- Financial education. Providing financial training and capacity to young and old entrepreneurs about the advantages of listing their companies and how to undertake effective pricing

2.- Cultural element – traditionally, private sector is not eager to be more transparent and disclosure the necessary information and data required for listed companies. Furthermore, traditionally there is not much practice in sharing the business with investors.

[40] Interview with Mr. Moremi Marwa. CEO – Dar Es Salaam Stock Exchange PLC
[41] Interview with Mr. Moremi Marwa. CEO – Dar Es Salaam Stock Exchange PLC
[42] Financial system stability assessment. IMF November 2018
[43] Background information available to the mission
[44] Background information made available to the mission

Specific recommendation for developing the financial sector and facilitating domestic credit to the private sector include:

- Enhancing and encouraging Development Partners to provide credit to the business sector through the national banking sector, always in alignment with Government's national priorities.
- Conduct a Financial Sector Assessment exercise to update the analysis of the banking sector and assess the need to issue new recommendations.
- Intensify efforts towards the harmonization process of monetary and financial issues relevant to regional integration
- Committing to the development of flexible regulatory framework that is characterized by "test and learn regulatory approach"
- Invest in financial education and awareness by renewing the National Financial Education Framework 2016-2020
- Strengthen crisis management, oversight and promote risk management systems in financial sector. Enhance coordination among regulators in relation to financial sector
- Strengthen legal and regulatory framework for an effective deposit insurance system
- Accelerate commercial banks adoptability to any-to-any digital payments to enable full interoperability between all bank accounts and mobile money wallets
- Interface the National Identification Authority's (NIDA) database with banks, Business Registration and Licensing Agency (BRELA) and credit reference bureau and increase scope and coverage in the use of credit reference system.
- Conduct a Digital Finance Ecosystem Assessment for evaluating the inclusiveness and development level of digital finance for national SDG priorities and identifying gaps in aligning digital finance to national SDG priorities.
- Undertake a SDG investor mapping exercise to identify business opportunities available for investments in the national priority sectors and take advantage of UNDP's global platform to match investors with projects geared towards advancing sustainable and inclusive development.

In terms of corporate bonds, there are various strategies being proposed to facilitate this type of financing. These include: 1) the need to introduce a capital market master plan as a platform to identify actions that would advance capital markets in Tanzania 2) further investments in targeted education and training programs to domestic corporate businesses to improve their governance systems, increase transparency, and become more aware of possibilities of raising long term finances from capital markets 3) expedite the introduction of M-Akiba savings bills and bonds facilities which has the potential to raise public participation in the capital markets. The M-Akiba will address the enhance outreach and engaging of investors beyond Dar es Salaam 4) address the crowding out effects of the increasing Government borrowing and high returns from such investments 5) incentivize the introduction of other key capital market institutions (PE/VC, IPO transactions underwriters, investment banks, market makers and liquidity providers). There is an overall need to create attractive environment for companies to list on the stock market 6) introduce tax incentives to debt-based capital particularly to those being issued by the private sector 7) address policy impediments to the expansion of the credit markets and high interest rate spreads.

In order to foster the private equity market, three priority areas require policy attention. The first, policy attention is to consider tax reliefs targeting VC backed start-ups and VC exiting via the DSE's Enterprise Growth Market (EGM). second, is to incentivize public and private investment in supplying industry market data to facilitate businesses making informed investment decisions. The last one is to design awareness programs to family and informal business owners to improve their governance systems, increase transparency, and become more PE/VC attractive from governance point of view.

The capital market and the stock exchange remain underutilized by the private sector for capital mobilization, especially for investments that require long-term sources of financing. The same with the private equity market where peer countries have managed to attract relatively more deals. Foreign investors continued to dominate the market and as a result there are more net inflows (purchases) than out flows (sales), which in turn signals investors' confidence on the performance of listed companies and macroeconomic environment. The BoT (2019) shows that in 2019, for instance, foreign investors accounted for 96.3 per cent of the total turnover (on the buying side) whereas on the selling side they accounted for 16.2 per cent. The ongoing dominance by foreign investors poses potential market liquidity risk should the market become unattractive to them. To mitigate such risk, the BoT's report calls for close monitoring and promoting participation of local investors in equity market.

To foster the private equity market, four priority areas will be addressed.

- Reassess the Fair Commission Competition's (FCC) threshold of Merger and Acquisition (M&A), which currently stands at US$1.5 million, since this rate disincentivize investors;
- Evaluate possible tax reliefs targeting VC backed start-ups and VC exiting via the DSE's Enterprise Growth Market (EGM);
- Incentivize public and private investment in supplying industry market data to facilitate businesses making informed investment decisions; and
- The authorities responsible for capital market development to design awareness programs for family and informal business owners to improve their governance systems, increase transparency, and become more PE/VC attractive from the governance point of view.

4.10 – Other innovative sources of Financing

South/South cooperation

South-South cooperation refers to technical cooperation among developing countries. It is a very useful tool to benefit from the experiences of other countries that have gone through similar problems or circumstances and that have already developed mechanisms or methods to deal with these problems. More specifically, South-South Cooperation is used by states, international organizations, academics, civil society and the private sector to collaborate and share knowledge, skills and successful initiatives in specific areas such as agricultural development, human rights, urbanization, health, climate change, and many others. Historically, Tanzania has not benefit from this kind of cooperation.

The Second Conference on South-South Cooperation + BAPA 40 highlighted the positive impact of this type of cooperation on the implementation of the 2030 Agenda. This conference placed special emphasis on the potential impact that both South-South and triangular cooperation could have in the implementation of the 2030 Agenda. The positive impact was threefold: i) by sharing experiences among countries on eradicating poverty and hunger, guaranteeing more health services, quality education, promoting the protection of the environment and stopping discrimination and violence against women; ii) by serving as a catalyst to share successful experiences between countries on how to involve the business sector in achieving the SDGs; and iii) by the increase in the number of agents that can potentially intervene in the development context, such as sub-national entities and parliamentarians, civil society, the private sector, voluntary groups, organizations faith-based organizations, philanthropic organizations, and the scientific and technological community. The final resolution of this conference encouraged the participation of these actors in the development of the countries and in the implementation of the 2030 Agenda.

Going forward, Government should assess the need for implementing South/South agreements in specific issues such as issuing Sukuks, involving private sector in the development strategy of the country, or selecting the appropriate indicators for monitoring progress towards the SDGs.

Crowdfunding

Crowdfunding is a platform/website that facilitates interaction between fundraisers and the funders who are entirely general population. This debt-free alternative financing method could provide an effective funding source for the private sector. This is particularly true for the start-ups and small and medium enterprises which often have difficulty in accessing financing via traditional means such as bank credit. The public makes financial pledges, which are collected through the crowdfunding platform/website and remit the same to the fundraisers. The platform charges a fee when the fundraising campaign succeeds. Crowdfunding takes advantage of the power of the public to help meet a business funding target.

There are certain requirements for crowdfunding to flourish. The appropriate regulatory environment for setting up and managing an equity crowdfunding platform. Regulations would also provide investors some degree of protection. Some countries are promoting crowdfunding in priority sectors aligned with the national priorities through tax breaks. Another requirement for expanding crowdfunding in Tanzania would be to establish some sort of quality control to reduce the risk and uncertainty for the investors and increase transparency in the process. This means carefully selection of the companies allowed to be listed on the platform. Platforms usually require entrepreneurs to submit a business plan and investor pitch deck as well as to complete a due diligence questionnaire, after which an investment analyst generates a report on the business that is sent to a review committee to assess. If the business is successful in the review, the platform begins its extensive legal and financial due diligence process, and only once a business makes it through that the company is allowed to access crowd funding through the platform. Lastly, online payment platforms must be operational and represent a safe and effective method for transferring the funding. Without a strong online payment's infrastructure, equity crowdfunding platforms cannot function

There are two main models of crowdfunding: 1) donation-based funding where funders undertake the operation for philanthropic purposes, and 2) investment crowdfunding, where SMEs in need of capital sell ownership stakes in the form of equity or debt. Crowdfunding is already operational in Tanzania with platforms such as 'gogetfunding' and 'WEZESHAsasa' raising funds for social causes. Despite being a relatively new phenomenon, in 2019, the global crowdfunding market was valued at US$ 13.9 billion and is forecasted to triple by 2026 (Statistica 2020). In the US, about 40 per cent of crowdfunding investments are focused on business and entrepreneurship, while 20 per cent focus on social causes. According to the World Bank report (2013), the potential for using crowdfunding in the developing world exists in support of improved access to capital for SMEs.

Crowdfunding has been steadily gaining momentum in Africa over the past decade. Still, crowdfunding in Africa remains limited compared to other regions. According to the Cambridge Centre for Alternative Finance, African volumes in various crowdfunding models reached USD 182 million in 2016, growing 118% from USD 83 million in 2015 accounting for less than one percent of the global crowdfunding market. Despite representing the smallest global region in terms of volumes, Africa exhibits one of the greatest potentials for crowdfunding growth. In the 2013 World Bank report it was estimated that by 2025, crowdfunding will be a USD 96 billion industry growing at a rate of 300% per year. Unlike other regions, where funding is locally driven by indigenous investors and platforms, crowdfunding in Africa has extensively been dominated by backers from outside of Africa, making it a useful tool for channelling foreign private capital to the national economy. At the Regional level, Kenya and Uganda dominate the Eastern African region, Nigeria and Cote D'Ivoire account for the major share of the Western African region, and South Africa, Rwanda, and Egypt solely dominate the Southern, Central, and the Northern African regions respectively. Money raised by Africa-based crowdfunding portals was primarily directed to fund start-ups and SMEs ($17.7 million) and real estate crowd invested projects ($13.6 million)[45]. Another advantage for developing crowdfunding in Africa is that it can work in a digital mechanism.

Potential problems with this type of platforms relate to the financial knowledge of the would-be investors and problems with the legal and regulatory framework. Crowdfunding is still relatively new and, so far, has mostly been a developed country phenomenon and would require certain mechanisms for guaranteeing that the financial information provided by interested companies is accurate and complies with the existing legal framework. This is an important risk associated with this kind of financing mechanism. The lack of legal framework for this kind funding instrument Investors in Tanzania would be operating in an unregulated space, which prevents an adequate investor protection. Without laws to protect privacy, mandate disclosures and ensure that contributors have opportunities for legal redress, investors may not sufficiently trust an entrepreneur to fund his or her venture[46].

There are potential successful factors in developing crowdfunding in Tanzania. These include: entrepreneurial culture, economic regulation, community engagement, and technology – highlighting trust as the key enabling factor. For the next medium term, Tanzania can invest in evaluating its readiness for crowdfunding. This could be followed by investing in supportive ecosystems and enabling initiatives and actions, including forward-thinking regulations (e.g., transparency on potential financial risks of funds seeking projects), and effective technological solutions.

A successful experience for launching this type of platform took place in Morocco with the assistance of UNDP. In this particular form, it used the Tadamon platform which is an aggregating platform for crowdfunding campaigns for CSO to achieve sustainable development goals for health, medical care, education, and infrastructure. The results have been very encouraging with a total of 500 CSOs mapped and presented on the Tadamon Platform by the end of the year 2020, with another 300 (800 total) by the end of August 2021.

Specific recommendations for this type of financing include:

- Identify the appropriate platform with technology-based infrastructure safeguarding investors' money before money is disbursed to companies.
- Identify companies suitable for crowdfunding (which is key to the success of every support program). Criteria could be based on the company's concept, online surveys, and in-depth interview with the candidate entrepreneurs as

[45] The Afrikstart crowdfunding in Africa report

[46] Crowdfunding in Africa: Opportunities and Challenges. Cov Africa. 2017

well as whether they are part of the Government's priority areas and their alignment with the 2030 Agenda.

- Asses the need for changes in the legal and regulatory framework

Impact Investment

Impact investing can be placed at the centre of one of the principles adopted in the Addis Ababa resolution. This resolution aimed at promoting the creation of the necessary conditions within the countries for an inclusive and sustainable investment by the private sector framed in a transparent and stable legal and regulatory context. The objective of this effort to include private investment rests on the importance of its contribution to the implementation of the 2030 Agenda. Impact Investment can turn into an important source of capital for the private sector in Tanzania. However, because of all the requirements (legal, regulatory, capacity, investment infrastructure etc.) needed to flourish it is not expected to become important in the near future. This is a long process that would bring its rewards in the middle to long term future.

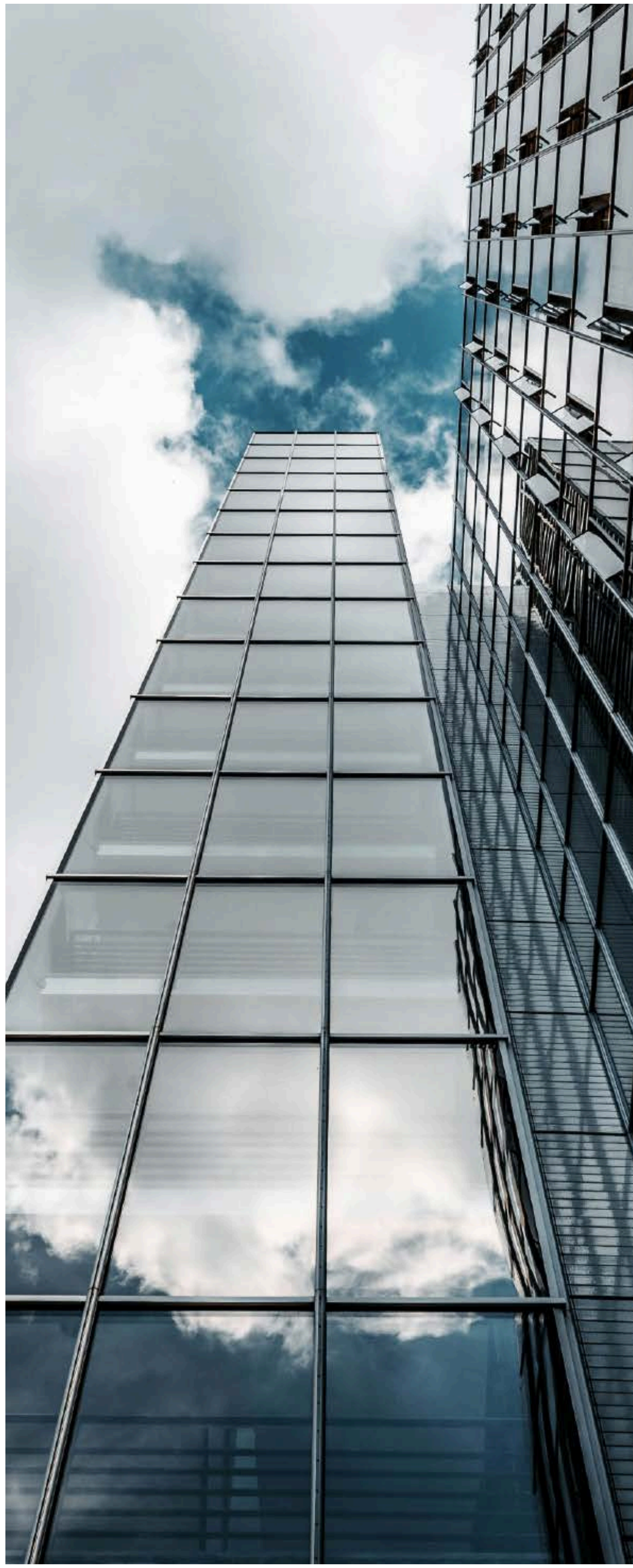
Impact investing could be considered as a type of investment that falls between traditional investing and philanthropy. Traditional investing is characterized by its implicit objective of maximizing the financial return on capital, regardless of the purpose or objective of the investment. Philanthropy, on the other hand, obviates the financial return and focuses solely on the result or impact of the resources channelled towards the project. Impact investing seeks an economic return on capital, but the margin of return is contingent on the social and environmental impact of the investment. For the purposes of this report, Impact Investing differs from other types of investment or philanthropy by three main characteristics:

- The expectation of a financial return: Impact investors expect to obtain a financial return on invested capital, below the current market rate, at the market rate or even above.
- The intention to address social or environmental challenges (i.e. impact or intentionality): In addition to financial performance, Investor Impact aims to achieve a positive impact on society and / or the environment.
- A commitment to measure and report against anticipate d social and environmental impacts: impact investors to measure performance using standardized metrics.

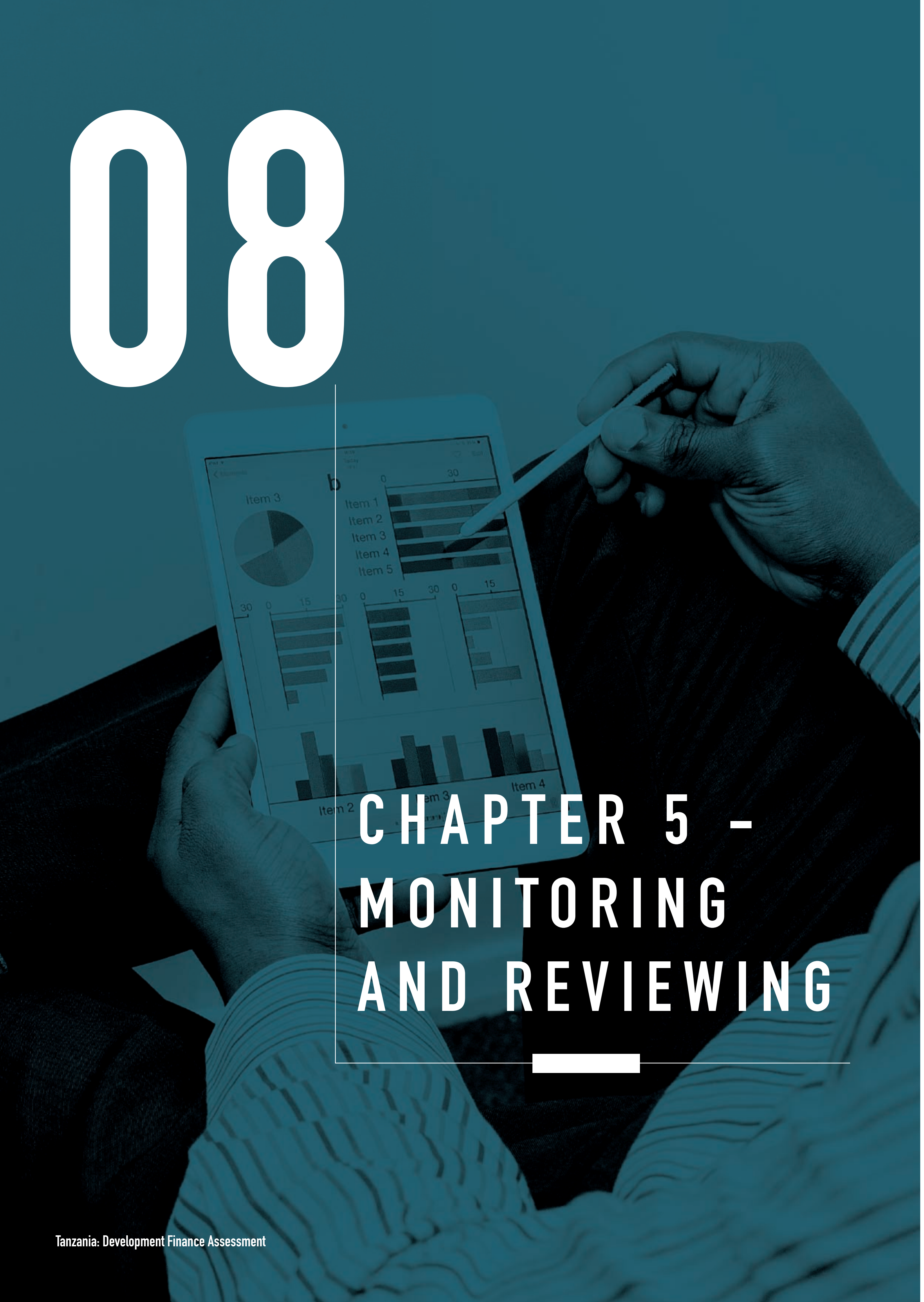
Impact investing is growing globally. This growth has been fuelled by increasingly entrenched interest within societies for investment to also have a positive impact on society and on economic and environmental sustainability. According to data included in a study conducted by the Global Impact Investment Network (GIIN), the global amount of assets under management dedicated to impact investing totalled approximately USD 502 billion. Additionally, Bank of America Merrill Lynch forecasts indicate that sustainable assets and strategies will exceed USD 20 trillion[47] over the next two decades. Globally, the majority of fund managers managing these assets are located in North America and Western Europe (58 and 21 percent respectively) while those located in Africa still remain at minimal levels. This geographical distribution of portfolio managers also highlights the need to encourage this type of investment in Tanzania.

There are different advantages associated with Impact Investing. In the first place, the very nature of this type of investment should be highlighted, which provides an alternative to the existing perception that the engine that should move private sector investments should be, solely and exclusively, financial profitability. Impact investment, although by definition it must provide financial profitability, it does not consider that as the only variable that is taken into account, its social impact is also important and necessary. Impact investing not only increases the investment options available to investors, but the returns associated with this type of investment are gradually improving and are catching up with those of traditional investing. Since January 2018, the MSCI World SRI Index[48], (the Socially Responsible Investment Index), which is based on the MSCI World, has outperformed its conventional benchmark by 4.7 percentage points[49]. There are also several disadvantages associated with impact investing such as the basic definition of impact investing that is still being debated. Independent third-party verification of the positive impact of the investment can be expensive and there is still no defined standard or definition.

Impact investing is useful and appropriate when private capital can address social and/or environmental challenges in innovative ways, while pursuing commercial viability[50]. Impact investing can supplant public initiative in certain circumstances, but by definition it cannot succeed when the necessary commercial projects do not exist. In other words, impact investing is not designed to supplant public services or philanthropy and you need economically viable projects to make it an attractive alternative for private financing. Government, on the other hand, must enact the necessary policy and regulatory changes so the industry can achieve sustainable growth.



[47] https://thegiin.org/assets/Sizing%20the%20Impact%20Investing%20Market_webfile.pdf
[48] MSCI World is a stock market weighted index market capitalization of 1,655 shares of companies around the world. It is maintained by MSCI, formerly Morgan Stanley Capital International, and is used as a common benchmark for 'global' or 'global' equity funds intended to represent a broad cross-section of global markets.
[49] https://elpais.com/economia/2019/12/26/actualidad/1577354783_327969.html
[50] https://www.sdfinance.undp.org/content/sdfinance/en/home/solutions/impact-investment.html#mst-2



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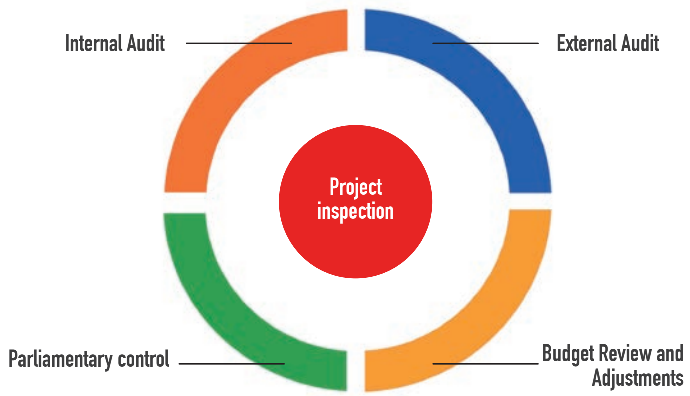
CHAPTER 5 – MONITORING AND REVIEWING

Government budgets are prepared within the context of a medium-term budget framework and aligned with its development strategy[51]. The budget estimates are formulated in line with the existing macroeconomic (growth, inflation and external sector) as well as, at the sectoral level, in consultation with Tanzania´s DPs regarding their financial support. It is then that Government formulates its goals, objectives and budget priorities in line with the approved development strategy (FYDP III when it is approved) which becomes the basis of allocating resources. The budget frame is also formulated for a longer three-year time period in a document called the Budget Guidelines (BG) or Medium-Term Expenditure Framework (MTEF). This is prepared by a committee which comprises representatives from the MoFP, the Prime Minister's Office, Civil Service Department and Regional Administration and Local Government. The Budget Guidelines contain:

- An overview of macroeconomic performance and projections
- Priority sector MTEFs which are consistent with FYDP targets and have been updated and costed;
- Vote expenditure ceilings based on resource availability; and
- Procedures for preparation and submission of the draft budget to the Ministry of Finance.

The Budget process incorporates mechanisms for control and monitoring. These include:



The overall control and monitoring of public expenditure is carried out by the MUSE. This is an in-house developed computerized system which links up government paying stations and centralizes and controls all expenditures. The system allows for closer monitoring of Government spending by providing monthly flash reports on revenue collections and expenditure, quarterly and annually performance reports, avoids any excesses in spending beyond approved budgets, and produces specific reports based on user requirements. Another IT system is available for tracking project implementation. A system called "National Project Management and Information System" has been running at the Ministry of Finance that allows sectoral Ministries and Ministry of Finance to monitor projects from the project's conceptual stage to its closure.

Budgeting for the national priorities/SDGs would be an efficient way to channel and monitor financial resources to FYDP III. Integrating national priorities/SDGs into domestic public finance could be done by adapting current budget processes to incorporate these into budget formulation; budget execution and procurement; and budget reporting and audit. The process in turn would facilitate monitoring and reporting on financial flows to the development priorities

External borrowing is monitored by the existing debt recording system. The debt management department, at the MoFP, is currently using the CS-DRMS[52] which allows for a comprehensive monitoring of all external borrowing flows. The system also allows for coding the various debt instrument with the economic sector to which the financing is being channelled. Reporting by economic sector is limited to the debt bulletin which is not publicly available. This information is not incorporated into a wider assessment for financial flows.

[51] MoFP's website. Budget process

[52] Commonwealth Secretariat for debt recording and monitoring system

There are few monitoring tools readily available for reviewing financial flows to national priorities and SDG. The Ministry of Finance and Planning prepares, as part of the budget cycle, a quarterly budget execution report. These reports include an analysis of the actual revenues and expenditures performance and compares it to what was planned. It highlights the reasons for any underachievement and includes a section on priority spending. This section, although rather concise, points out the priority sectors for Government during the budget year and the amount of financing allocated to them during the period. No further analysis is provided in terms of whether there was any change in financing requirements or allocations during the period. In addition to the budget execution reports, the National Audit Office conducts an annual financial audit of the budget accounts. Text Box 3, below,

provides a sample of the allocation channelled to the priority areas in the latest available Budget Execution Report. On the other hand, Public Expenditures Reviews were being conducted on an annual basis up to 2015, year in which they were discontinued. These reports were attached to the General Budget Support (GBS) dialogue mechanism, between Government and DPs and a join secretariat was managing the process included staff from the MoFP and the World Bank. The reporting was discontinued with the collapse of GBS and that of the DP and Government dialogue mechanism.

The last available quarterly budget execution report indicated a budget execution[53] rate of around 87 percent of the expected expenditures for the quarter. The slight underperformance of expenditure targets was due to lower-than-expected revenue collection in some revenue sources and a slower pace in execution of some development projects due the impacts of COVID-19 pandemic. The development budget execution during the quarter was below target (65 percent of planned) due to slower project implementation execution rate. The locally financed development projects, however showed the largest share of the total development funds disbursement whereas those externally financed projects registered a much lower share, equivalent to 16.3 percent of the target. Renewed Government leadership for improving project design and execution are credited with the improvement in project execution. Measures taken by Government include fining contractors for delaying and/or mismanagement of the ongoing projects. The execution report for 2018/19 includes a section on Government's priority spending that includes the total expenditures up to the third quarter of the financial year. These are presented in the text box below showing the total amount spend and as percentage of the total budget expenditures.

Government is trying to increase its budget department's capacity to undertake analytical assessments[54]. More capacity is being built in order to use the budget process as a monitoring tool. For instance, it is already being used for assessing such issues as gender disparities and promoting gender equality and the department has recently organized a capacity building session on this issue.

[53] First Quarterly Budget Execution Report. MoFP October 2020
[54] PFMRP JSM Aide Memoire 2019

Box 3: The key expenditure priorities of the Government during the period July-March, 2019

Improvement of infrastructure: 1.3 trillion shillings (7 percent) were release for implementation of roads, railway and airports infrastructure;

Power infrastructure: Government released 335.8 billion shillings (1.9 percent) for improvement of power infrastructure and supply of electricity in urban and rural areas;

National Carrier Air Tanzania Company Ltd (ATCL): 176.2 billion shillings (1 percent) were released for financing of advance payment for procurement of new aircrafts;

Higher Education Students' Loans: 240.8 billion shillings (1.4 percent) were released for financing of higher education students' loans.

Water supply services: Government released 208.5 billion (1.4 percent) shillings for improvement of water supply services in urban and rural areas.

Fee Free Basic Education: 187.3 billion shillings (1.1 percent) were released for financing outlays of the fee free basic education.

Clearance of Arrears: 472.6 billion shillings (2.7 percent) were released for clearance of accumulated arrears

Source: Budget execution report 2018/2019. MoFP

There are various processes that need to be introduced and strengthened in order to improve the existing capacity to monitor and to report flows to the national priority areas. These include:

- Expand the coverage of the budget execution reports to report on flows to the priority development areas.
- Restart producing Public Expenditures Reviews
- Incorporate the coverage of the audit reports to include the destination of public sector, including SOEs, financing flows as they relate to the country's development priorities.
- Develop tracking and reporting processes for monitoring private flows as they relate to the national priorities including FDI flows, corporate bond issuance, domestic banking borrowing.
- Monitoring tax policies to ensure these are aligned with the national priorities and SDGs
- Incorporate debt flows to specific economic sectors into a wider analysis of financial flows to priority sectors.

IT systems could be utilized to track all financing flows being channelled to the National Development Strategy and SDGs. Ideally, Government should be able to track all financing flows going to FYDP III and SDGs using one IT system. Tracking would include all public and private flows in order to have a comprehensive view of the actual vs planned flows from the different sources into the intended sector or recipient. This type of analysis would allow for identifying any bottlenecks being experienced in any one type of source and take mitigation measures. Aligning budget with SDGs would provide an ideal framework for tracking and monitoring budgetary flows. By tagging expenditure line, computing financial flows would be accurate and timely. Reporting on progress, thereafter, would be facilitated.

There are two remaining challenges facing Government to improve reporting on progress towards SDGs. The first one will be to strengthen the quality of the reports on financing flows by improving the existing technical capacity. Technical capacity would need to be developed at the various structures including at the Inter-Institutional Steering Committee, the Technical Committee, and at the National Coordination Taskforce for Sustainable Development which will be created within the context of the National Coordination Framework. Further capacity building will be needed at the NBS and the various stakeholders involved, such as the private sector, CSO and reporting Government Institutions.

The second challenge will be how to pay for the additional reporting and monitoring requirements. Engaging the Private Sector, expanding the coverage of the financial flows being monitored and developing the appropriate methodology for producing, processing and reporting the necessary data would require a significant amount of human and financial resources. Various organizations such as UNDP, ILO, Development Partners, and other international organizations can get involved in supporting Government with the financial resources to carry out this effort successfully. Another potential source of technical capacity would be through a South-South arrangement, whereby countries already engaging with the private sector and processing the appropriate data for monitoring progress towards the SDGs could provide the necessary support to Tanzania to undertake this challenge.

Specific recommendations for further developing the existing monitoring and tracking practices include:

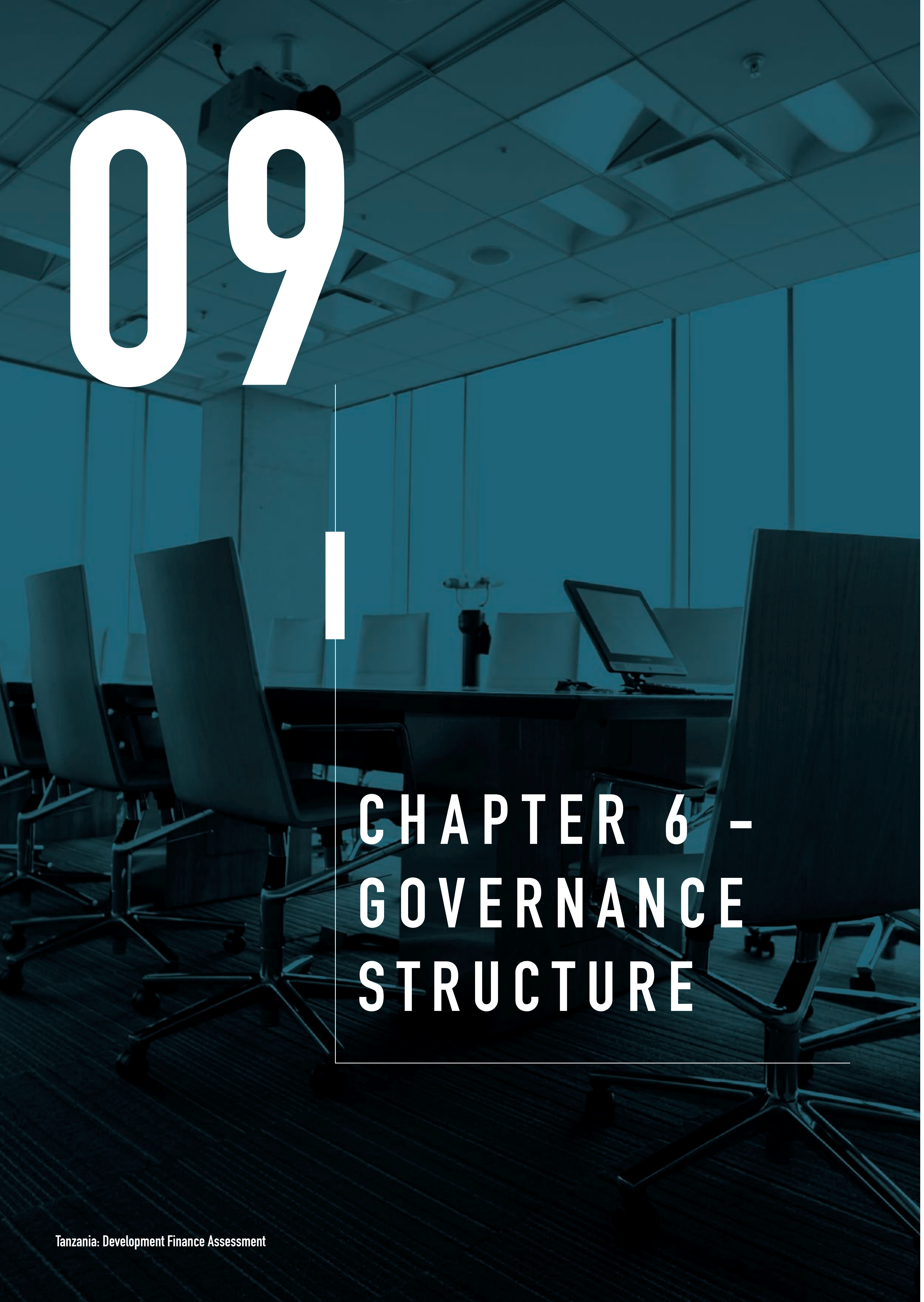
- Develop the necessary procedures for allowing the existing IT systems to be used for tracking all financing flows being channelled to the National Development Strategy and SDGs. Building on the existing Info systems (e.g., MUSE), develop an SDG financing dashboard for coordinated, harmonized, routine and efficient data sharing, monitoring and tracking of all key financing flows in terms of their mobilization and usage
- Develop procedures or tools that would allow for a comprehensive monitoring of all financing flows, public or private, being channelled for the SDG.
- Develop the appropriate monitoring tools (ex-ante and ex-post) for measuring alignment of the budgetary process with the national priorities. For instance, developing national priorities/SDGs budget tagging.
  - Improve reporting on financial flows through budget circulars and templates
  - Require SDG-aligned justification and KPIs; Present national priorities/SDGs in Budget Documents for Parliament;
  - Parliament to undertake budget scrutiny by priority sector/SDGs;
  - Conducting and publishing public institutional reviews (PEIRs);
  - Secure the necessary financial resources and technical capacity for undertaking a comprehensive and periodic data gathering exercises and reporting on financial flows going to the national priorities.
  - Developing an SDG Impact measurement and reporting standards

There is a Monitoring and Evaluation supporting document to accompany FYDP III that is being prepared. It is intended that this report serves as supporting document to FYDP III and will assist Government to monitor its progress and implementation. Ideally, these monitoring and evaluation indicators for FYDP III could easily be linked to the corresponding SDGs, even if it is on a broad basis, so that SDG monitoring can also take place. This set of indicators will be in addition to the reporting requirements from the private sector. The task for NBS would be to produce an overall mapping that includes all indicators: the ones used to monitor FYDP III implementation per se and those used to account for contribution from the private sector. Securing the necessary financing to undertake these processes will be key for its success. Government, DP and private sector will need to contribute to this process under the leadership of the Inter-Ministerial Technical Committee.

Lastly, there is a need to monitor progress in policy and reform implementation. This report has identified some of the reforms areas needed to accompany the process to secure the necessary financing for the public and the private sector, among them, the PFM reform and the financial sector reform. There are, however, additional new policies that will be needed in order to facilitate alignment of budgetary and external assistance flows as well as private sector's involvement with national priorities. This will be an ongoing process throughout FYDP III's implementation period as there will be a need to adjust to potential macro and financial external/domestic shocks as well as to the changing nature of the domestic financial markets. How to attract FDI in an international context characterized by a declining trend will also be a challenge that will need to be addressed along with BoT. The process for monitoring implementation of new policies as per these recommendations will need to be established.

Table 13. Monitoring and reviewing, upcoming tasks

Actions	Time frame	Objective	Supporting partner or framework
Monitor the approval of the "Monitoring and Evaluation" document to support FYDP III's implementation (see previous matrix for Governance)	Short term (2021)	Have a set of approved indicators that will allow for monitoring progress in FYDP implementation and towards the SDGs	IMTC, Planning Division (MoFP), DP, NBS, National SDG Coordination Framework
Engage with **NBS** to identify key indicators that will be used to monitor progress and the methodology to gather them. Identify T.A. and financial support needed.	Short term (2021)	To have a comprehensive list of indicators to monitor progress towards SDG and the methodology to secure them, including focal points in appropriate institutions.	Government, DPC, UN, NBS, Private sector
Disseminate among Government, private sector and DP the required indicators and the methodology to use for collecting them.	Ongoing (2021-2026)	Stakeholders are clear about the indicators to collect, how to collect them, how and when to report on them.	IMTC, Planning Division, Private Sector, Development Cooperation Framework
Review policy and reform implementation progress. (Specially PFM, Financial Sector) (see section on Governance)	Ongoing (2021-2026)	Monitor whether policies, related to funding issues, are being developed according to schedule	IMTC, Government
Establish a "dashboard" to centralize data collection on financial flows into the public and private sectors for FYDP III and SDGs	Ongoing (2021-2026)	To have a comprehensive view of financial flows for FYDP III and SDG, and monitor their alignment with national priorities.	MoFP, BoT



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CHAPTER 6 – GOVERNANCE STRUCTURE

Preparing and implementing a sound Integrated National Financing Framework (INFF) requires strong political ownership as well as high level government coordination mechanisms. A centralized high-level government committee responsible for overseeing the INFF process will usually provide the overall coordination and leadership required to successfully implement the necessary changes and reforms. In countries such as Uganda (at the Prime Minister's Office) and Ghana (at the Presidential Office), high-level offices have been set up to coordinate and monitor SDG's implementation efforts and to create the necessary enabling environment. An Oversight Committee allows for coordinating national efforts, for allowing leadership at the highest level, and for accessing the necessary political cloud to support efforts to implement reforms and for improving coordination with the private sector. In order to effectively advance towards the 2030 Agenda, an effective government institutional structure needs to be in place for integrating SDGs into the national strategy as well as for implementing and for coordinating with the different stakeholders. The Oversight Committee recently created in Tanzania to lead the INFF process is described below.

In Tanzania mainland, the Ministry of Finance and Planning, through the National Planning Division, has been mandated to integrate the SDGs into national plans. This mandate comes from the Division's existing responsibilities which include preparing and implementing the national development strategy as well as for designing the financing strategy. The National Bureau of Statistics, on the other hand, is responsible for identifying the appropriate SDGs indicators and for collecting the necessary data for monitoring progress towards the SDGs at the national level. This was done in 2019 within the context of the Voluntary National Review. Furthermore, MoFP is mandated to report the progress towards achieving the SDGs at the High-Level Political Forum (HLPF). The responsibility for coordinating inclusive sustainable development within local communities and linking the global goals with local communities was assigned to the President's Office Regional Administration and Local Government (PO-RALG).

Other important players for implementing the 2030 Agenda include Parliament, Cabinet, the private sector, CSO and development partners. Parliament is responsible for approving and reviewing the national development plans to advance SDGs implementation in the country; approve budget allocations for SDGs implementation nationwide and to check that the proper alignment between the two is established. There is currently no commission, per se, in charge of overseeing the 2030 Agenda implementation in the country, but there is a SDG sub-group that draws its members from various standing commissions that is overseeing progress on SDGs. Cabinet is responsible for advising the President regarding any proposals for expenditure which might have significant implication on SDGs financing and its implementation. Therefore, all policies to support SDGs implementation are scrutinized and approved by the cabinet. The private sector, on the other hand, has an important role in the implementation of FYDP III and in achieving the SDGs. It provides the necessary investments to create jobs and to promote inclusive and sustainable industrial development and to protect biodiversity. Its involvement however has been channelled so far towards its participation in the FYDP III. CSOs, on the other hand, can have a considerable impact on raising public awareness on SDGs including its review of public spending and budgetary allocations and on providing advocacy and knowledge for integrating SDGs into the national development framework as well as for reviewing and monitoring progress. Lastly, development partners and private sector actors have a profound role in providing financial resources and technical capacity (as needed), aligning their cooperation support with Government's development strategy and SDGs as well as monitoring progress in achieving the SDG.

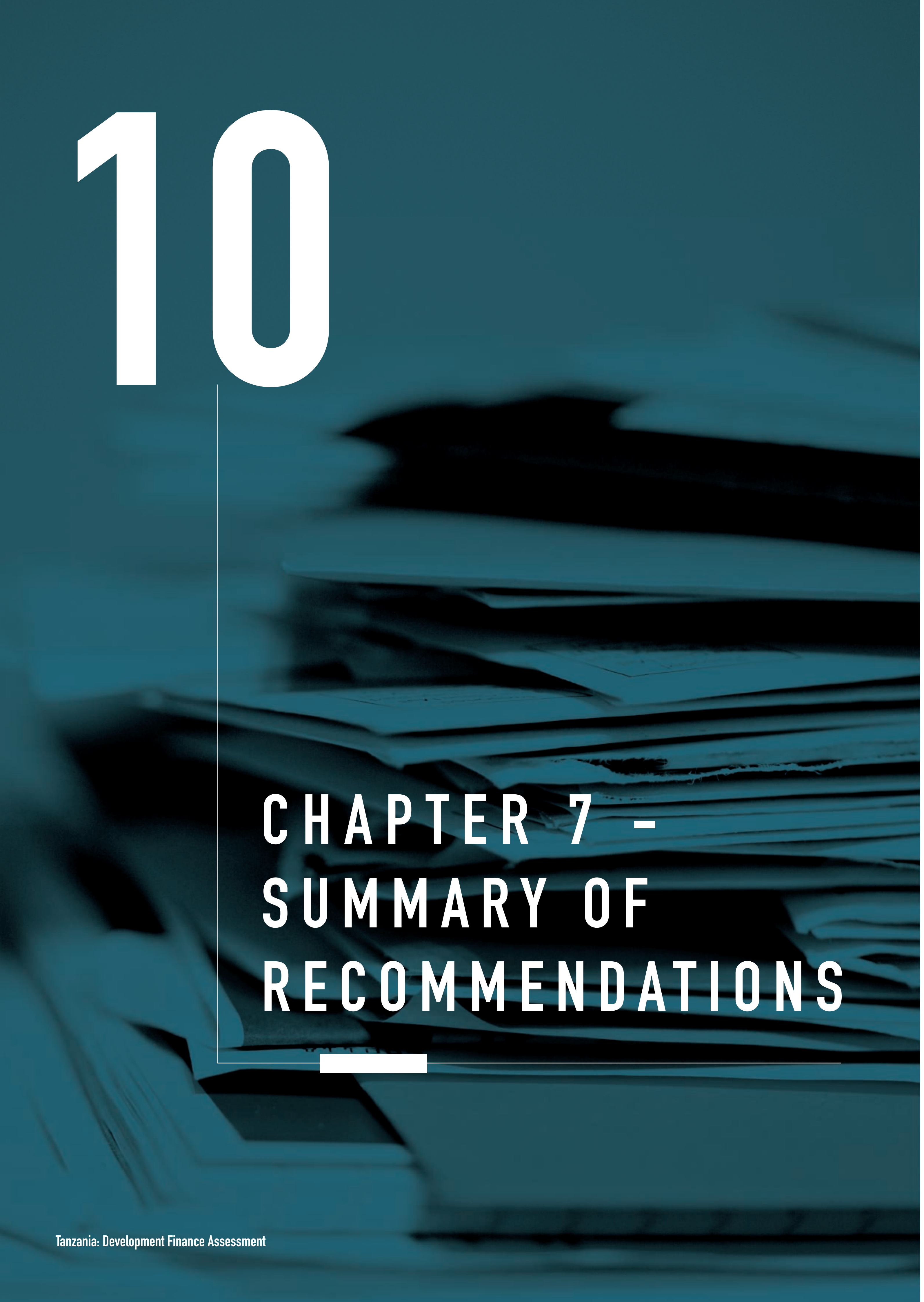
Further efforts are needed to improve the existing institutional set up in order to integrate the 2030 Agenda into actions at the LGA level. A performance Audit report undertaken by the National Audit Office[55] indicated the need for improving the existing structure in order to successfully integrate the 2030 Agenda on SDGs into national actions. The audit also pointed out that there was also no clarity in terms of the institutional set up for integration of SDGs into actions at the LGA level because the decentralization by devolution, intended to transfer implementation of local development and service delivery to local governments, had not been fully implemented. Some central Ministries exercised significant authority and control on implementation of local development activities and delivery of services that should have been in the mandate of LGAs.

Government has already developed the National SDG Coordination Framework in order to provide high level leadership and coordination. The National Coordination Framework[56] formulated by the MoFP in March 2020, established a new institutional structure to promote smooth, efficient and effective coordination in the implementation, monitoring and reporting of the Sustainable Development Goals and other international and regional development commitments. The new structure calls for setting up the Inter-Ministerial Technical Committee (IMTC) to oversee the whole process and it will receive, discuss and endorse reports related to FYDP III and the SDGs' implementation reports. The framework requires the establishment of an inter-agency steering committee, a technical committee and a national coordination task force for the SDGs, whose terms of reference will be prepared in the near future. Finally, it is expected that the framework will allow for a more effective and coordinated engagement with other stakeholders, such as the private sector, civil society organizations, academic institutions, and development partners. The resulting Committee will take ownership of the process and engage with the various stake holders as well as decide on the indicators to use and develop in order to measure progress towards the national development goals and the SDGs in terms of policies and financing. The following tasks are needed in the coming years to establish a solid and efficient Governance structure:

Table 14. Upcoming tasks for the Inter-Ministerial Technical Committee.

Actions	Time frame	Objective	Supporting partner or framework
Fill all positions in the different committees and technical working teams. Develop a tool to monitor progress in implementing policies. Prepare a complete ToRs for all units	Short term (2021)	All positions in all the subcommittees and technical groups are fully operational. A matrix is developed to monitor progress in key areas. Tasks and responsibilities are clearly assigned to all units.	Government. National SDG Coordination Framework
Secure the necessary financing for the IMTC	Short term (2021)	IMTC has the necessary resources to carry out all the tasks assigned to it.	
Design a calendar for establishing monitoring and reporting processes for all financing flows to the national priorities and SDGs	Short term (2021)	To develop a "dashboard" to be able to monitor all financing flows	Government. National SDG Coordination Framework
Engage with **NBS** to identify key indicators that will be used to monitor progress and the methodology to gather them. Identify T.A. and financial support needed.	Short term (2021)	To have a comprehensive list of indicators to monitor progress towards FYDP III priorities and the methodology to secure them, including focal points in appropriate institutions.	Government, DPC, UN, NBS,
Engage with **MoFP, Planning Department** to monitor upcoming FYDP III costing exercise to plan actions needed in terms of adjusting financing needs and engagement with stake holders.	Short term (2021)	To have an accurate assessment of the upcoming financing needs for implementing FYDP III	MoFP, UN agencies.
Engage with Development Partners to share Gov's priority areas within FYDP III and the indicators to be used. Identify possible financial support for FYDP III and to undertake all monitoring tasks support identified	Ongoing (2021-2026)	DP's support is aligned with Government development priorities. DP fully aware of priority SDGs	Development Cooperation Framework
Engage with Parliament, Commission dealing with FYDP III and the sub group dealing with SDG	Ongoing (2021 - 2026)	Have an ongoing exchange of information with Parliament about financing needs and sources. Increase transparency and improve reporting.	Government, Parliament
Review policy and reform implementation progress. (specially PFM, Financial Sector)	Ongoing (2021-2026)	Monitor whether policies, related to funding issues, are being developed according to schedule	Government
Oversee progress with the other Pillars	Ongoing (2021-2026)	Monitors actions and requirements in the other pillars to undertake the necessary actions	Government

[55] Performance audit on preparedness for implementation of sustainable development goals. National Audit Office. March 2018
[56] National coordination framework for the implementation, monitoring and reporting of the SDGs. Ministry of Finance and Planning. March 2020



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CHAPTER 7 – SUMMARY OF RECOMMENDATIONS

Key findings included in this report have been gathered during a fruitful process of research and engagement with Government officials and stakeholders. The findings have been contrasted with them and have resulted in some concrete recommendations to better implement the 2030 Agenda in Tanzania mainland as well as for securing the necessary financing to implement FYDP III and the SDGs. These recommendations were included in each corresponding sections. What is presented below is a summary of the main recommendations and the context in which they were made.

Institutional issues. Implementing the 2030 agenda would require strong political ownership as well as high level government coordination mechanisms. The recommendation in this area is to provide all the necessary support to the newly established National Coordination Framework for overseeing the INFF process, and for providing the overall coordination and leadership required to successfully implement the necessary changes and reforms to implement the 2030 Agenda. Filling up each position in the different committees and technical groups as well as providing the necessary ToR for each of them will be a priority in the short term. The IMTC will be the body in charge of taking ownership of the process in order to promote an SDG financing dialogue, to monitor implementation and to establish the necessary partnerships with the various stakeholders.

Monitoring and evaluation issues. These are key for assessing progress in securing and channelling financial resources to priority areas and for engaging with the different stakeholders. Recommendations in this area focus on data gathering in terms of financial flows, reporting and assessing alignment with the national priorities. Therefore, it is recommended to use the existing IT systems at the Ministry of Finance for tracking all financing flows being channelled to the National Development Strategy and SDGs and to develop the appropriate assessment tools (ex-ante and ex-post) for measuring alignment of the budgetary process with the national priorities. Technical capacity in all involved key players will be required and also is to secure the necessary financing to undertake all these activities.

Specific measures include:

- Expand the coverage of the budget execution reports to report on flows to the priority development areas.
- Restart producing Public Expenditures Reviews
- Incorporate the coverage of the audit reports to include the destination of public sector, including SOEs, financing flows as they relate to the country's development priorities.
- Develop tracking and reporting processes for monitoring private flows as they relate to the national priorities including FDI flows, corporate bond issuance, domestic banking borrowing.
- Monitoring tax policies to ensure these are aligned with the national priorities
- Incorporate debt flows to specific economic sectors into a wider analysis of financial flows to priority sectors
- Develop the necessary procedures for allowing the existing IT systems to be used for tracking all financing flows being channelled to the National Development Strategy and SDGs. Building on the existing Info systems (e.g., MUSE), develop an SDG financing dashboard for coordinated, harmonized, routine and efficient data sharing, monitoring and tracking of all key financing flows in terms of their mobilization and usage
- Develop procedures or tools that would allow for a comprehensive monitoring of all financing flows, public or private, being channelled for the SDG.
- Develop the appropriate monitoring tools (ex-ante and ex-post) for measuring alig-

nment of the budgetary process with the national priorities. For instance, developing national priorities/SDGs budget tagging.

• Improve reporting on financial flows through budget circulars and templates

• Require SDG-aligned justification and KPIs; Present national priorities/SDGs in Budget Documents for the Parliament;

• Parliament to undertake budget scrutiny by priority sector/SDGs;

• Conducting and publishing public institutional reviews (PEIRs);

• Secure the necessary financial resources and technical capacity for undertaking a comprehensive and periodic data gathering exercises and reporting on financial flows going to the national priorities.

• Developing an SDG Impact measurement and reporting standards

Domestic budgetary resources. The main focus of the recommendations relates to increasing revenue collection. The section included recommendation for increasing and improving automatization and harmonization with taxpayers, reviewing the legal framework for tax exceptions, adoption of green taxes and continuing the drive to bring in the informal sector and broadening the geographic and sectoral distribution of the tax base. A number of more concise tax reforms are expected to contribute towards the improvement in tax collections. These include:

• Establishing SDG oriented budget processes in the form of an SDG aligned tax framework to establish a tax regime that is conducive to an inclusive and sustainable development.

• Strengthening tax collection by increasing automatization and harmonizing with the taxpayer identification system,

• Reviewing the legal framework for tax exemptions and incentives

• Increasing technical capacity to monitor transfers as well as tax audit's capacity to attack tax avoidance and evasion and capacity of local government revenue collection in context of fiscal decentralization

• Expand tax audit across the board and, in the mining sector, conduct inspections jointly with the Tanzania Minerals Audit Agency (TMAA) and Tanzania Extractive Industries Transparency International (TEITI).

• Assess the option of instituting an innovative taxation framework, including green taxes system and in line with international efforts to improve taxation and alignment with national priorities and SDGs

• Continuing to expand the tax base by bringing in the informal sector,

• Conducting tax gap analysis on income and wealth, corporate tax, direct/indirect taxation, health related taxes, gender sensitive taxation and property taxes

• Broaden the geographic and sectoral distribution of the tax base by strengthening the taxation in suburban and rural areas.

Government borrowing. Government borrowing should only take place within the framework of the debt management strategy. Recommendations focused on developing negotiations skills, for securing the best financing terms, building capacity at the sectoral ministries and Planning to design bankable projects, channelling non-concessional resources to sectors with economic returns and expanding the creditor base. Recommendations for the domestic debt issuance included conducting further assessment and analysis of the domestic debt market (long term securities, benchmarking, crowding out of the private sector) and opening up the market to foreign investors. Specific recommendations for improving and expanding government borrowing include:

• Develop negotiation skills and thorough knowledge of the financial conditions being offered to peer countries from the different creditors so as to assist negotiations and to secure the most beneficial financing terms available.

• Conduct borrowing under the framework provided by the Medium-Term Debt Management Strategy that takes into account the cost and risk vulnerabilities of the existing debt portfolio.

• Build institutional capacity to prepare bankable quality projects. This is important to ensure that borrowing is done for implementing projects with high returns to enable loan repayment. This is also a key issue should Government decide to issue Eurobonds in the international capital markets because of the high carrying cost associated with this type of financing.

• Sovereign credit rating will also allow for establishing a benchmark against to measure private sector ratings.

• Channel commercial borrowing to strategic high impact projects and projects that ensure technology transfer to Tanzania. This will enable to build a wide variety of technical capacity within the country.

• Increase engagement with new and emerging development partners. This type of development partners can complement traditional development partners in terms of net financing and aligning their financial support along national priorities.

• To raise more capital from domestic and international investors, work with development partners such UNDP in the full issuance process of sovereign thematic bonds (green, social, SDG, etc.), including market assessment, bond framework establishment through budget items identification, external review, investor engagement and monitoring and reporting

• Undertake the planned market analysis so as to continue developing and deepening the domestic capital market, including: shifting domestic market preferences to longer term maturities, issuing benchmark bonds and about the potential crowding out of the private sector in the domestic capital markets.

• Review and assess the opportunity for opening up the domestic debt market to investors from abroad. This would involve assessing the potential new investor base, strengthening the existing legislation and the impact on the domestic debt market.

• Develop the infrastructure for issuing Social, SDGs and Development Impact Bonds.

Sukuks related recommendations included:

• Assess the cost/benefits associated with this type of financing within the context of the Medium-Term Debt Management Strategy.

• Acquire more thorough knowledge about the mechanics of this type of instruments. Explore the conveniences for including this capacity building exercise within the framework of South/South cooperation.

• Work with development partners such UNDP to explore the issuance of sovereign Sukuk that support sustainable and green development of Tanzania

Grant Financing. The trend for this source of financing is negative and therefore the recommendations centred on how to revert the trend or at least keep it at the same levels for the medium term. Recommendations included measures to building confidence with existing Development Partners, including enhancing coordination mechanisms, transparency, and accountability as well as Expanding the development partners base providing grant financing. New grant providers are merging and engaging with developing countries and an effort should be made to engage them in Tanzania´s development strategy. Lastly, further development of South/South cooperation was recommended as well. Specific recommendations included:

• Building confidence with existing Development Partners, including enhancing coordination mechanisms, transparency, and accountability.

• Strengthening regional and bilateral relations will intensify fostering collaboration and partnerships development partners.

• Adherence to the Development Cooperation Framework (see text box 2 below) principles will enforce smooth cooperation with Development Partners.

• Promoting social sectors and sustainable programs that are more prone to secure grant financing.

• Expanding the development partners base providing grant financing. New grant providers are merging and engaging with developing countries and an effort should be made to engage them in Tanzania´s development strategy.

• Further develop South/South cooperation which can be a useful tool for knowledge transfer without reimbursable terms.

Climate change financing. Mobilization of financial resources from the Climate Change Fund requires skills to prepare project documents that are responsive and meet the set criteria. Another requirement is having in place accredited entities that can access fund directly. To tap this opportunity, the following will be undertaken:

• Finalize accreditation process to the Green Climate Fund.

• Establishing a dedicated unit for mobilizing Climate Change Fund from various sources at the MoFP. The unit be responsible for the day-to-day activities related to climate change fund and align the funding to national priorities

• The Climate Change Unit in turn, will sensitize and assist other MDAs and the private sector on the process for accreditation to various climate change funds to increase funding opportunities; and

• Build institutional capacity on the preparation of bankable projects and responsive to climate change fund requirements, including preparation of an action plan.

Bank financing. Moving forward, this is a key sector to revitalize so as to facilitate private sector's access to credit. Recommendations in this area focused on updating the existing Financial Sector Assessment exercise in order to reassess the priorities for reform, how to expand and improve funding through the banking system into the business sectors, and investing in financial education and awareness by renewing the National Financial Education Framework 2016-2020. Lastly, it was recommended to strengthen legal and regulatory framework for an effective deposit insurance system. Currently, there is a new financial sector master plan, designed by Government, that is expected to bring up to date the legal and regulatory framework as well as promoting long term financing and incorporating the latest technology development into the industry. Specific recommendation for developing the financial sector and facilitating domestic credit to the private sector included:

• Enhancing and encouraging Development Partners to provide credit to the business sector through the national banking sector, always in alignment with Government's national priorities.

• Review the conditions for channelling financing through the banking sector to determine best ways to making sure more financing gets to the business sector, such as increasing the percentage of the total cost of the project for which companies could apply for.

• Conduct a Financial Sector Assessment exercise to update the analysis of the banking sector and assess the need to issue new recommendations.

• Intensify efforts towards the harmonization process of monetary and financial issues relevant to regional integration

• Committing to the development of flexible regulatory framework that is characterized by "test and learn regulatory approach"

• Invest in financial education and awareness by renewing the National Financial Education Framework 2016-2020

• Strengthen crisis management, oversight and promote risk management systems in financial sector. Enhance coordination among regulators in relation to financial sector

• Strengthen legal and regulatory framework for an effective deposit insurance system

• Accelerate commercial banks adoptability to any-to-any digital payments to enable full interoperability between all bank accounts and mobile money wallets

• Interface the National Identification Authority's (NIDA) database with banks, Business Registration and Licensing Agency (BRELA) and credit reference bureau and increase scope and coverage in the use of credit reference system.

• Conduct a Digital Finance Ecosystem Assessment for evaluating the inclusiveness and development level of digital finance for national SDG priorities and identifying gaps in aligning digital finance to national SDG priorities.

• Undertake an SDG investor mapping to identify investment opportunities to channel private investment to national priority areas

Domestic private investment. The focus in this area would be to implement the financial sector development master plan (2020/21 – 2029/30) and to take the appropriate measures to facilitate long term capital availability to the private sector. Lastly, it was recommended to improve dialogue with the private sector. In order to dynamize this sector the following measures are suggested:

• Sensitize the private sector on Government national priority areas and incentivize investment in these key areas.

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

• Expediting the introduction of M-Akiba savings bills and bonds facilities can raise public participation in the capital markets. The M-Akiba will address the enhance outreach and engagement of investors beyond Dar es Salaam;

• Review measures for incentivizing the introduction of other key capital market institutions (PE/VC, IPO transactions underwriters, investment banks, market makers and liquidity providers) and addressing policy impediments to the expansion of the credit markets high-interest rate spreads

• Creating an attractive environment for companies to list on the stock market;

• Introducing tax incentives to debt-based capital,

Bond financing. The recommendations included were to sensitize the private sector on Government national priority areas and incentivize investment in these key areas, accelerating investments in targeted education and training programs to domestic corporate businesses to improve their governance systems, increase transparency, and become more aware of possibilities of raising long term finances from capital markets and introducing tax incentives to debt-based capital.

Public Private Partnerships. The focus of the recommendations was on improving the process to assess the feasibility of projects and the approval process, strengthening the PPP unit and enhancing the technical capacity at MDA level.

• Accelerate project feasibility and approval processes

• Strengthen the PPP unit with the required human resources and expertise

• Avoid reversal of PPP preparations back to the traditional procurement. In other words, there is a need to consider introducing means to prohibit reversals outside PPP life cycle processes

• Enhance PPP capacities at the MDA and LGAs levels including requiring the two to consider including PPP projects during budget preparations (as well as enhancing compliance to PPP Act Cap 103 during budget preparation)

• Accelerate the development, review and the implementation of regulations, guidelines and other instruments to streamline private sector participation through PPP)

• Strengthen enabling investment climate including macro-economic stability, access to long-term financing, lower interest rates, and enhance political support

• Establish and strengthen the institutional framework for promoting PPP projects as elaborated by the PPP Act, Cap 103

• Fast track establishment of PPP centre and PPP project facilitation fund. According to the PPP Act, the PPP centre shall be a 'one-stop centre' when discharging its functions of seeking recommendations from the Ministries responsible for investment, finance, planning or any other ministry, department or agency.

FDI. Facilitating private capital flows into the country would be a priority for the short and medium term. This type of flows, at the global level, is showing a downward trend and a targeted Government strategy is needed. The recommendations included the development of an investment strategy aligned with ongoing reform agenda as well as setting priorities for investment policy and promotion reform agendas at both economy-wide and sector levels and improving efforts aimed at attracting and facilitating FDI by establishing enhanced investor entry regimes, streamlining investment procedures, and enhancing investment promotion capacity. Lastly, it was recommended to promote practices for establishing linkages between FDI and the local economy. A number of more concise FDI reforms are expected to contribute towards the improvement in attracting foreign investors. These include:

• Conduct SDG Investor Mapping to provide private sector investors with market intelligence on identified investment opportunities towards the SDG-aligned development priorities, such as sectors, regions, SDGs, return profiles, market size and timeframes of investments, etc.

• Developing Investment Strategy aligned with ongoing reform agenda as well as setting priorities for investment policy and promotion reform agendas at both economy-wide and sector levels

• Improving efforts aimed at attracting and facilitating FDI by establishing enhanced investor entry regimes, streamlining investment procedures, and enhancing investment promotion capacity;

• Strengthen domestic private entities on accessing international private finances;

• Improving provisions of investment incentives and strengthening investors' confidence; and promoting practices for linkages between FDI and the local economy.

• Review the existing legal framework (Natural Wealth and Resources Act 2017, the Natural Wealth and Resources Contracts Act 2017, and Mining Regulations 2018) to provide clarity to the foreign investor and provide equal footing to all concerned parties.

Annex 1 - Reference section. List of consulted documents and texts

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LIST OF ABREVIATIONS

LIST OF ABBREVIATION

ABP	Annual Borrowing Plans
BG	Budget Guidelines
BoT	Bank of Tanzania
CSO	Civil Society Organization
CS-DRMS	Commonwealth Secretariat – Debt recording and management system
DCF	Development Cooperation Framework
DFA	Development Finance Assessment
DMD	Debt Management Department
DSA	Debt Sustainability Analysis
DSE	Dar Es Salaam Stock Exchange
EAC	East Africa Region
EPZ	Export Processing Zones
FCS	Foundation for Civil Society
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FY	Financial Year
FYDP (II and III)	Five Year Development Plan
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GFCF	Gross Fixed Capital Formation
GPEDC	Global Partnership for Effective Development Cooperation
HLPF	High Level Political Forum
ILO	International Labor Office
IMF	International Monetary Fund
IMTC	Inter-Ministerial Technical Committee
INFF	Integrated National Financing Framework
JETRO	Japan External Trade Organization
LDCF	Least Developed Countries Fund
LGA	Local Government Authority
LIC	Low Income Country
LMIC	Low Middle-Income Country
M&E	Monitoring and Evaluation
MoFP	Ministry of Finance and Planning (Tanzania)
MTEF	Medium Term Expenditures Framework
NAO	National Audit Office
NBS	National Bureau of Statistics
NSS	National Statistical System
ODA	Official Development Aid
Po-RALG	Presidential Office - Regional Administration and Local Government
PPP	Public Private Partnership
PV	Present Value
SADC	Southern Africa Development Community
SDG	Sustainable Development Goals
SEZ	Special Economic Zones
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
STI	Science, Technology, Innovation
TIC	Tanzania Investment Center
TRA	Tanzania Revenue Authority
TZS	Tanzania Shilling
UNDP	United Nations Development Programme
USD	United States Dollar
VC	Venture Capital

TABLES & FIGURES

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