

Executive Summary: Tanzania Country Strategy Note

1. Country Context

With plentiful agricultural land, a favourable climate, a young population, abundant natural resources – onshore and now offshore natural gas as well – and a superb strategic location, Tanzania is a country with enormous economic potential. The country has undergone wide-ranging economic and structural reforms since the 1980s which have slowly heralded the transformation from a mainly agricultural, state-controlled economy to a more diversified, dynamic, and market-based one.

The country has enjoyed a relatively stable and high growth performance with an annual average real GDP growth of just over 7 percent per annum between 2005 and 2015. The principal drivers of this growth are the services sector (particularly construction and ICT), supported by a high level of public investment expenditure¹. Inflation has been low and stable since it spiked in 2011 and is expected to remain close to the target of 5 percent. The exchange rate has stabilized after a sharp depreciation in 2015 and the external current account deficit has narrowed mainly on account of lower oil prices while the surplus on the capital and financial accounts has fallen due to declining aid flows and FDI. The government's total debt remains sustainable at around 48.5% percent of GDP in December 2016². Overall, and barring major external shocks, Tanzania is in a reasonably stable macroeconomic configuration.

The growth in recent years has come in large measure from favourable demand-side conditions. The challenge for policymakers is to ensure these gains are translated into sustained improvements in productivity that support broad-based inclusive growth. The key, however, is improvements in labour productivity. The performance in recent years has been reasonably positive. At roughly 4 percent per annum, labour productivity in Tanzania has grown more rapidly over the past 14 years than at any other time in recent history. Employment growth has also been strong keeping up with population growth at roughly 2.2 percent per annum. The majority of the employment growth – 88.6 percent – has been in the non-agricultural and largely informal private sector³.

These gains are beginning to feed into sustained poverty reduction. Headcount poverty has declined by approximately one percentage point per year between 2007 and 2012, the first significant reduction in 20 years, and breaking the previous decades apparent disconnect between poverty reduction and growth⁴.

Nonetheless, the country still faces huge challenges in terms of poverty reduction, particularly in the rural economy where poverty is concentrated, where labour productivity growth is at its most sluggish, and where persistently high population growth will continue to weigh heavily on the country's poverty reduction efforts in the years to come. Despite achieving substantial progress towards the Millennium Development Goals, Tanzania is still likely to have missed about half of the targets. And, due to population growth above 3 percent per annum between 2007 and 2012⁵, the absolute number of poor remains high with close to 12 million people still living below the poverty line in 2012.

In 2015, President Magufuli was elected on a promise to change “business as usual” in Tanzania; a promise he has kept so far with notable shifts in public policy and government operations that the IGC-TZ are still adjusting to. Many of the changes are promising, though their durability uncertain, and their long term consequences ambiguous. Nevertheless the IGC-TZ has adjusted its areas of focus and the ways we work with Government accordingly.

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2. IGC Tanzania Country Programme

The IGC programme in Tanzania was established in 2008. Its offices are based in Dar es Salaam in the Bank of Tanzania (BoT) building. Since its inception the IGC-TZ has worked closely with the BoT research department and they remain strong supporters of our work in country. The office is comprised of a Country Director (John Page), Lead Academic (Christopher Adam), Senior Country Researcher (Pantaleo Kessy), one Country Economist (André Castro), and an Office Manager (Claire Lwehabura).

3. Themes

The following summarises key areas of current work and areas we anticipate we will continue to work in. The target areas have been identified based on government demand as well as an assessment of the IGC-TZ's ability to deliver research outputs.

(a) State

Improving Revenue Mobilisation: The tax system in Tanzania continues to operate substantially below potential, raising only around 12 percent of GDP in revenue, some three percentage points of GDP less than the average for low-income countries. President Magufuli has identified raising tax revenue as a key area for his government and it is an area where the IGC can work with the revenue authority on projects which help improve the effectiveness of the tax system.

Public Investment and Public Service Delivery: The counterpart to effective revenue mobilization is improved delivery of public services, in core areas of health and education and in the provision of effective public infrastructure that supports sustainable growth. This is particularly important as the government aims to change the composition of its expenditure from being dominated by consumption towards more investment. The Planning Commission has expressed an interest in support in these areas as have line Ministries and government agencies with sectoral focuses.

Macroeconomic Policy Issues: The end of the commodity super-cycle, weakening global demand, and the slowdown of private capital inflows have substantially worsened Tanzania's external economic environment, returning stabilization challenges to the forefront of macroeconomic policy making. The IGC-TZ aims to continue their successful collaboration with the BoT, engaging in a broad range of research projects addressing key macroeconomic issues both in Tanzania and in the broader EAC region.

(b) Firm Capacities

Industrial Development in Tanzania: Tanzania is one of a handful of countries in Africa where industry is growing as a share of GDP and employment. The IGC has established links with the Ministry of Industry Trade and Investment (MITI) as well as the Tanzanian Investment Centre (TIC) and aims to continue to leverage these links. There is broad interest from the government for any project that helps contribute to the policy debate on industrialisation and industrial policy.

SME Sector and Informality: Recent IGC research highlights the dynamism of the "in-between" sector of small, in many instances informal manufacturing firms in Tanzania with productivity levels that exceed those found in some formal manufacturing activities. There is considerable demand from partners such as the Small Industries Development Organisation (SIDO), for work on MSMEs, particularly linked to manufacturing.

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Business Environment: The government has identified the business environment as a key area for reform and have initiated a World Bank project to improve the business environment. Although the space may be crowded, it is an area of considerable policy interest and one in which the IGC has the capacity to deliver projects on.

Agriculture-Determinants of Farm Productivity: The IGC has funded successful projects related to agricultural issues, such work with the Ministry of Agriculture, Livestock and Fisheries with veterinarian extension workers. In most cases, the IGC-TZ's agriculture projects have had links to other key research priorities such as MSMEs, and cities (through secondary cities and farm-urban links). We anticipate that agriculture will remain an issue of high interest to policy makers as well as researchers and we will continue to pursue agricultural projects, most probably thought that link closely with other IGC-TZ focus areas.

(c) Cities

Urbanisation and Employment Generation: Tanzania is urbanizing rapidly and the implications for public policy are coming to the fore. The causes and consequences of this process are of key interest to the IGC-TZ, with a particular focus on how urbanisation interacts with other areas of interest for the IGC, namely job creation, industrialisation and so forth.

Spatial and Network Impact of Cities: The spatial dimension of economic growth in Tanzanian cities such as firm location, specialisation and emergence of national value chains is of interest to the IGC-TZ. Other areas of interest include the national and regional network effects associated with urbanization and the improved interconnectivity of urban centres and the emergence of growth corridors. In particular, the impact of the role Tanzania plays as a transit route for landlocked countries and the integration of Tanzanian urban areas into regional value chains.

Service Delivery and Urban Governance: Public service delivery in urban spaces remains low. Private providers often fill the gaps in public service provision and many areas remain unserved. There is demand for projects that look into the challenges, opportunities and consequences of the current status quo in urban service delivery. The key stakeholder is the President's Office Regional and Local Government (PO-RALG) who oversee the local government system and are generally responsible for local policy implementation. In addition to seeking new projects, there is a clear link to the Cities that Work initiative, so we will continue to seek policy engagement and networking opportunities which will contribute to the initiative.

(d) Energy

Currently an underdeveloped area of the IGC's portfolio. Recent work has touched on issues of off-grid electrical production and energy pricing. The sector is crowded but targeted projects in response to government agency demand may still allow us to secure policy impact in this space. In terms of regional work, The IGC-TZ have initiated a number of projects with the East African Community (EAC) and with the Senior Country Research, Dr Pantaleo Kessy, based in the EAC we have established the means to continue to grow our portfolio in this area. With the EAC, areas of focus include issues pertaining to regional economic and monetary integration, currency mismatch and increasingly issues such as local content in the natural resource sector.

4. Engagement Strategy and Collaboration

The table below summarises some of our engagements in Tanzania. The list is not exhaustive but includes the main stakeholders which we have had multiple collaborations with.

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| Theme | Relevant Stakeholders and Partners |
|-----------------------|--|
| State | <ul style="list-style-type: none"> • Bank of Tanzania • East African Community • Planning Commission • Tanzania Revenue Authority (TRA) • Ifakara Health Institute |
| Cities | <ul style="list-style-type: none"> • President's Office: Regional and Local Government (PO-RALG) |
| Firms | <ul style="list-style-type: none"> • Ministry of Industry Trade and Investment • Small Industries Development Organisation • Tanzanian Investment Centre • National Economic Empowerment Council • National Microfinance Bank (NMB) |
| Energy | <ul style="list-style-type: none"> • PO-RALG • TANESCO |
| Cross-thematic | <ul style="list-style-type: none"> • University of Dar es Salaam • Policy Research for Development (REPOA) • ESRF • Twaweza, Mzumbe University |

We anticipate that in much of our future work we will partner with the stakeholders we have worked with previously. A key area of work which is underdeveloped is the energy theme. We intend to seek opportunities for engagement in the energy sector though anticipate that much of our work will continue to be in the other themes.

Where possible IGC-TZ works closely with Government policy planning and research staff during projects to develop capacity. This is a means of ensuring that government takes ownership over the project but also is an opportunity for capacity development for government staff through close collaboration with an experienced PI. In addition to this, our projects regularly include Tanzanian PIs, and where possible we seek opportunities for Tanzanian PIs to lead on research projects.

¹ IMF, WEO Database, October 2016.

² Bank of Tanzania, February 2017.

³ IGC-funded study, "Small Firms, Structural Change and Labour Productivity Growth in Africa: Evidence from Tanzania", Xinshen Diao, Josaphat Kweka, Margaret McMillan.

⁴ "Tanzania Mainland Poverty Assessment", World Bank, May 2015.

⁵ Own calculations, World DataBank, World Development Indicators.