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Tanzania—Faced with rapid population growth, a thriving economy is vital

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Tanzania— Faced with rapid population growth, a thriving economy is vital

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Abstract: Since gaining independence, Tanzania has maintained political stability and avoided major conflicts, despite recurring periods of authoritarian rule. This stability has fostered strong economic growth, backed by international donors. In 2020, Tanzania achieved lower-middle-income country (LMIC) status, five years ahead of its target of 2025.

The country's growth trajectory is primarily driven by domestic demand. Tanzania benefits from a large domestic market of nearly seventy million people and an investment rate unmatched in the region. This economic structure has acted as a buffer against recent global crises, shielding Tanzania from the severe impacts experienced by other sub-Saharan African nations that are more vulnerable to external shocks. In the short to medium term, growth is expected to exceed 6%, supported by moderate and controlled inflation, an accommodative monetary policy, robust exports (mainly gold and tourism), and significant investment in large-scale infrastructure projects.

In 2022, the Tanzanian authorities, recognizing the need to improve public finances, sought IMF support to advance reforms. Among other objectives, these were designed to boost tax revenues, which were particularly low and strained by a growing debt burden. However, fiscal discipline is one of the country's strengths. Ongoing consolidation efforts—combined with an improving current account deficit driven by higher gold prices, a surge in tourism, and declining global commodity prices—are expected to contribute to a gradual reduction in the debt ratio.

However, the country's economic growth has not been very inclusive, which has hindered progress in human development, both in pace and scope. Tanzania remains among the lowest-ranked countries in this area. This, in turn, constrains productivity and long-term growth potential. The country's rapidly expanding population, one of the fastest-growing in the world, is putting pressure on per capita income and undermining the still-modest progress that has been made in poverty reduction and social-sector investment. Beyond demographic challenges, environmental risks linked to climate vulnerability and biodiversity threats further complicate Tanzania's development trajectory.

Theme: **Macroeconomics**

Geography: **Tanzania**

1. Political stability is sustaining economic growth, but Tanzania is struggling to harness its demographic dividend

A hybrid political system

Since its creation in 1964,[1] Tanzania has stood out on the African continent for its political stability, which has been maintained under the dominance of the Party of the Revolution (Chama cha Mapinduzi, CCM). Heir to the one-party system introduced in 1965, the CCM has dominated Tanzanian political life, even after the country's transition to multiparty politics, in 1992. It has won every presidential and legislative election on both the mainland and in Zanzibar. This dominance is reinforced by the country's constitution, which grants the president of the Republic of Tanzania, who is also the party leader, virtually absolute executive authority. As a result, the legislative and judicial branches are effectively under the control of the CCM. The opposition's main demand is constitutional reform, while the CCM's strategy has been to preserve the status quo.

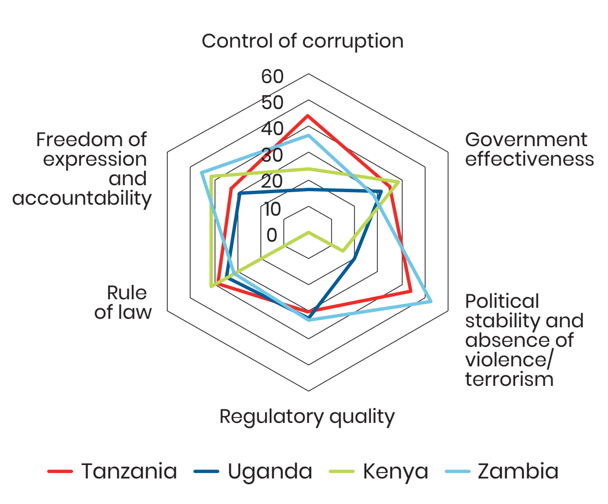
Although Tanzania has been spared the internal conflicts that have destabilized other countries in the region, its political system has oscillated between openness and authoritarianism. From 2005 to 2015, President Jakaya Kikwete reaffirmed the liberal direction set by his two predecessors in the wake of the socialist years that marked Tanzania's early independence. His administration expanded the country's international engagement and promoted democratic governance. However, his tenure was also marred by corruption scandals and weakened by economic opportunism. His successor, John Magufuli, took office with a dramatically different approach. During his first term, he prioritized large-scale public works projects and launched an anti-corruption campaign, but at the cost of increasing authoritarianism and a retreat into nationalism. His administration curtailed public freedoms, banned political gatherings, and imposed strict controls on the media, forcing some opposition leaders into exile. Magufuli was re-elected in 2020 in a contested election but died of an illness just months later.

Following constitutional protocol, Vice President Samia Suluhu Hassan assumed the presidency, becoming one of the few women in Africa to hold such high office. Upon taking power, she sought to break with her predecessor's authoritarian rule while consolidating the CCM's political dominance. Her agenda, guided by the "four Rs"—reconciliation, resilience, reforms, and reconstruction—aims to revive political and economic dialogue. She has eased restrictions on the media, lifted bans on political gatherings, and engaged in dialogue with the opposition, signaling a cautious return to greater democratic openness. On the diplomatic and economic front, President Hassan has actively worked to reestablish Tanzania's presence on the regional and global stage, bring back foreign investment, and revitalize tourism following the COVID-19 crisis. These efforts culminated in 2023, with the return of exiled politicians, the resumption of political gatherings, and a reduction in censorship. Moreover, international businesses have re-established themselves in Tanzania, foreign direct investment (FDI) has increased, and national parks and Zanzibar's beaches are once again bustling with tourists.

In mid-2024, as Tanzania entered a year-long electoral cycle leading up to the 2025 presidential election—where the incumbent president is the ruling party's candidate—political tensions escalated. The CCM halted political liberalization by reinstating laws passed under John Magufuli's administration, which had never been modified. In the November 2024 local elections, 99% of the 8,000 elected representatives were from the CCM. The election results have been contested by the opposition, which, in addition to denouncing the violence, has condemned the disqualification of 70% of its candidates and fraudulent voting practices.

[1] The United Republic of Tanzania was created in April 1964 by the union of Tanganyika (independent since December 1961) and Zanzibar (independent since December 1963).

Figure 1: Governance Indicators
(Percentile Ranks, 2023)



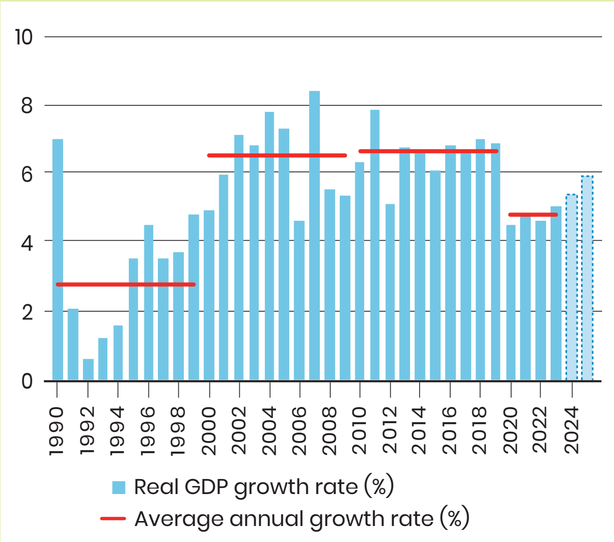
Source: World Bank

Trends in governance indicators remain mixed (see Figure 1). Despite some progress, Tanzania has yet to regain its 2015 levels in terms of freedom of expression, accountability, or regulatory quality. The country also continues to lag in rule of law. However, political stability rebounded in 2023, nearly reaching levels last seen in 2010, which puts Tanzania well ahead of neighboring Kenya and Uganda. Efforts to curb corruption have made significant progress: control of corruption levels have reached a fifteen-year high, and are currently the best in the region. This is reflected in the perception of corruption (Transparency International): although economic actors frequently report a resurgence of corrupt practices, in 2023 Tanzania reclaimed its 2005 ranking of eighty-seventh in the world, one of the highest positions in the subregion and well ahead of Kenya and Uganda. Finally, despite increasingly restrictive authoritarian measures, public perception of the government's economic management remains largely positive. According to the 2024 Afrobarometer survey, two-thirds of Tanzanians express satisfaction with the government's economic policies. However, a majority believe it has failed to create jobs and reduce inequalities.

Resilient economic growth driven by domestic demand

Thanks to the country's long-term political stability, per capita income growth enabled Tanzania to achieve lower-middle-income country (LMIC) status in 2020, five years ahead of schedule. Over the past two decades, Tanzania's economic growth has remained robust (see Figure 2). Owing to its economic fundamentals and the country's management of the COVID-19 pandemic, Tanzania was only marginally affected by the 2020 crisis, recording a 4.5% growth rate, the fifth highest in the world. Its relatively low openness to trade and ability to substitute imported agricultural products allowed for economic flexibility in 2021 and 2022, even as many other countries struggled with global supply chain disruptions and the fallout from the war in Ukraine. Finally, surging global gold prices helped Tanzania, the sixth-largest gold producer in Africa, to offset losses in tourism-related exports between 2020 and 2022.

Figure 2:
Economic growth rate (%)

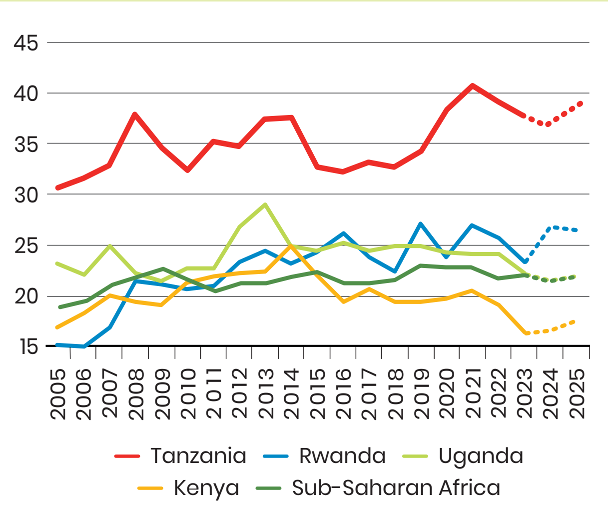


Source: IMF, AFD calculations

In 2023, real GDP growth, driven by agriculture, mining, financial services, and tourism, reached 5.1%, up from 4.7% in 2022. Growth in 2024 is expected to exceed 5.4%, with a full recovery to pre-COVID levels above 6% expected in 2025. In the medium term, economic expansion is expected to continue strengthening, reaching its potential 6.5% growth rate by 2027.

Investment remains the primary driver of growth, with public investment—primarily in large-scale infrastructure—accounting for one-third of total investments. Over the past decade, investment averaged 36% of annual GDP (see Figure 3), a level unmatched in the region. Except for 2020, growth in gross fixed capital formation has contributed to more than half of GDP growth. In 2023, growth was further boosted by a positive trade balance, with exports finally outpacing imports thanks to falling import prices, strong global gold prices, and a resurgence in international tourism.

Figure 3: Investment rate (% of GDP)



Source: IMF

Tanzania's economy is relatively diversified. The country imports few staple consumer goods and benefits from a sizable domestic market of nearly seventy million consumers. According to the OECD, Tanzania ranks among the five most diversified economies in Africa. The Fifth National Five Year Development Plan (running through 2026) prioritizes expanding higher-value industries and strengthening industrial capacity. **While the primary sector has declined, it still plays a major** role, accounting for a quarter of GDP in 2022 (as opposed to 38% in 1992) and employing two-thirds of the working population. Agriculture remains largely subsistence-based, and although Tanzania has Africa's second-largest livestock sector, productivity remains low. Despite the country's vast agricultural potential owing to its size and the diversity of its climates, only a few products—cashew nuts, coffee, tobacco, and tea—are exported, and little domestic processing takes place. **The structure of the industrial sector (32% of value added) has become less manufacturing-based**—declining from 52% in 1972 to 28% in 2022—and increasingly dominated by construction, which grew from 24% in 1972 to 50% in 2022. This shift reflects the emphasis on large-scale infrastructure projects implemented over the past two decades. The mining sector's share has remained constant. **Finally, the service sector has stagnated at around 42% for the past thirty years.** While it includes high-value-added industries such as finance, telecommunications, and tourism, it is largely composed of low-productivity commercial services.

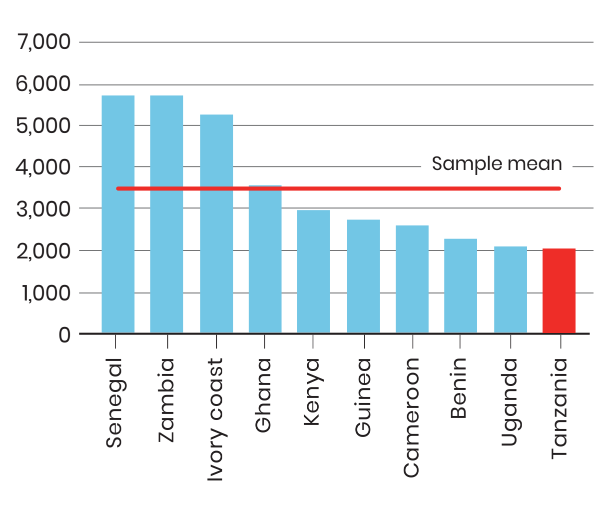
Development hampered by weak human capital, inadequate infrastructure, and rapid population growth

Tanzania's potential for economic growth and development is constrained by several significant challenges. The country's informal sector is the third-largest in Africa: it accounted for nearly 48% of GDP in 2022[2] (compared to an average of 29% for African LMICs) and employed three-quarters of the workforce. While widespread informality

[2] Alban Asllani, Roberto Dell'Anno, and Friedrich Schneider, *Mapping the Informal Economy Around the World with an Enhanced MIMIC Approach: New Estimates for 110 Countries from 1997–2022*, CESifo Working Paper No. 11416 (Munich: CESifo GmbH, 2024).

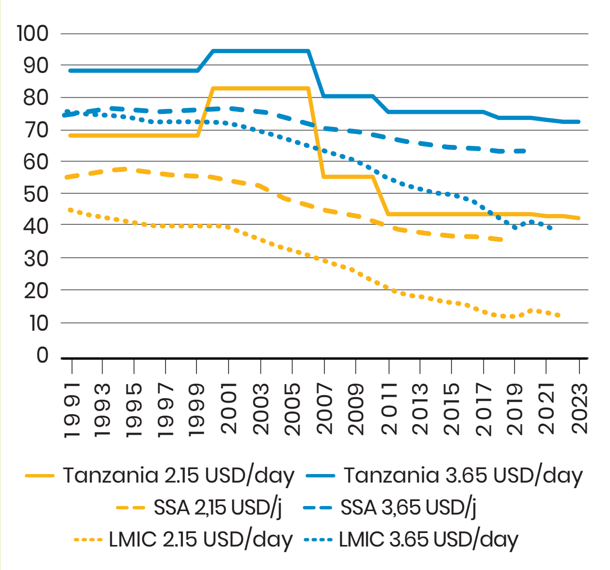
helps absorb the effects of poverty, it also weakens productivity and limits the government's ability to generate tax revenues. Furthermore, despite having a **young population**, with a median age of 18.5, **Tanzania's human capital remains underdeveloped**. The World Bank's Human Capital Index places Tanzania slightly below the sub-Saharan African average and well below that of LMICs, which partly explains the country's **very low labor productivity** compared to its African peers (see Figure 4). The government's investment in human capital is insufficient: public spending on social sectors is the lowest in East Africa and below the African average, with the health sector particularly underfunded at less than 1% of GDP. Finally, despite massive annual investments over the past two decades, **Tanzania continues to struggle with infrastructure deficits**. The country's development plans prioritize high-profile projects, such as bridges, international airports, high-speed trains, and power plants, which consume a significant share of public revenue each year. Nevertheless, according to the African Infrastructure Development Index, developed by the African Development Bank, Tanzania ranks fortieth out of fifty-four countries, lagging far behind Kenya, Uganda, and Zambia.

Figure 4: Labor productivity
(GDP per employee, in USD, constant prices, 2018)



Source: World Bank, AFD calculations

Figure 5: Poverty rate
(2011 PPP, % of population)



Source: World Bank

Successive external shocks, combined with one of the world's highest population growth rates (2.9% in 2023, adding two million people per year and doubling the population since 2000), are limiting per capita income growth, which has not broken 3%. This growth rate is insufficient to significantly reduce poverty, as Tanzania's income elasticity of poverty is very low (1% GDP growth would result in only a 0.4% reduction in poverty). Tanzania remains classified as a least developed country by the United Nations, with some of the weakest social indicators in the world. In 2023, the World Bank estimated that 43.5% of the population was living below the absolute poverty line—3.5 times higher than the average for LMICs and equivalent to Uganda, a low-income country (see Figure 5). Demographics pose a major challenge for development, particularly in urban areas, where populations have doubled in twelve years. Dar es Salaam is projected to become one of the world's most populous cities by 2060 with 50 million residents.

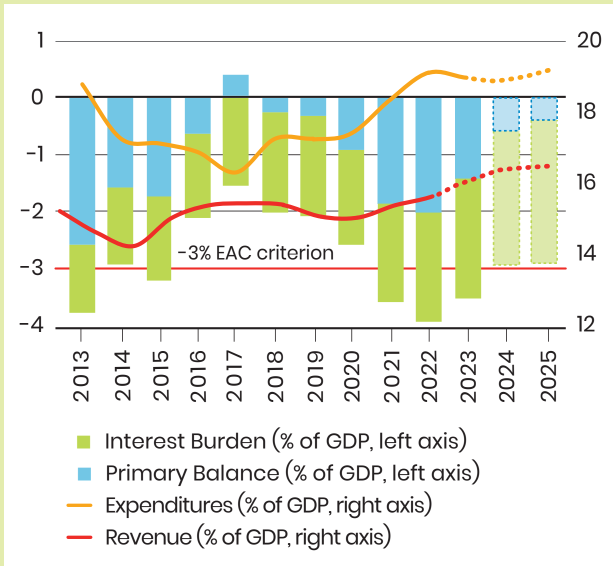
Tanzania's Human Development Index (HDI) has remained stagnant over the past six years, keeping the country in the low human development category. It ranks 167th out of 193 countries, placing it below its low-income neighbors Uganda and Rwanda. Educational outcomes are particularly poor in Tanzania, where 43% of the population is under the age of fifteen. The expected years of schooling stand at just 7.2 years, and the percentage of adults over twenty-five who have completed secondary education is very low, particularly among women, owing to a secondary school enrollment rate that ranks among the poorest in the world. As a result, Tanzania's higher education enrollment rate, sitting at less than 4%, is one of the lowest in Africa. Meanwhile, healthcare investments fall short of meeting the country's needs, particularly in rural areas.

2. Tanzania's macroeconomic balance: From fiscal discipline to monetary reform

Prudent fiscal management despite insufficient revenues

Over the long term, despite allocating significant public spending to address its infrastructure deficit, Tanzania has maintained a disciplined fiscal policy, which distinguishes it from its peers. With limited financial resources, the government carefully controls expenditures, keeping the total fiscal deficit stable at around 2% to 3% of GDP (see Figure 6), in line with the 3% fiscal deficit convergence criterion set by the East African Community (EAC). Unlike its neighbors, Tanzania adopts a counter-cyclical fiscal strategy approach, thereby ensuring greater stability in public finances. However, structural weaknesses persist, which has prompted the authorities to seek IMF support. In July 2022, Tanzania secured a forty-month Extended Credit Facility (ECF) of USD 1 billion. The program, which was extended by six months in June 2024, aims to enhance fiscal flexibility through higher revenue collection, expenditure rationalization, and support for structural reforms. The fourth review, in October 2024, reported strong quantitative performance but noted delays in structural reforms.

Figure 6: Public accounts by calendar year (% of GDP)



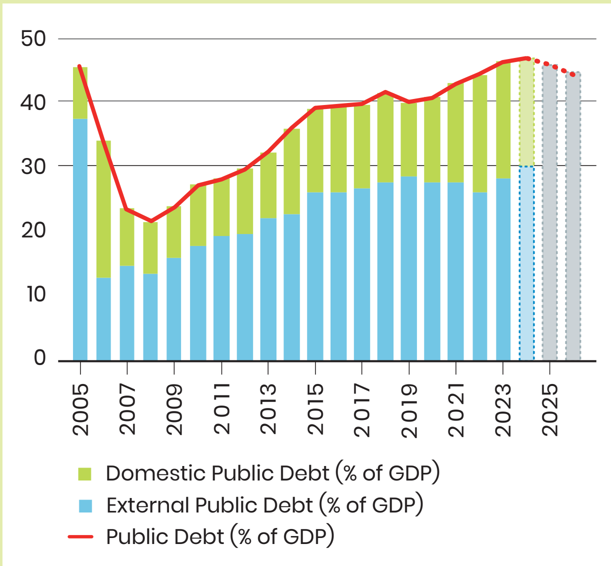
Source: IMF

A key priority under the IMF program is improving tax revenue mobilization, which has remained low, averaging just 12% of GDP since 2018—half of its estimated potential and below average for the EAC (13.5%) and sub-Saharan Africa (16.3%). Contributing factors include extensive, poorly targeted tax exemptions and an inefficient tax administration, which hinder the achievement of budgetary targets. Following a strong 2023/24 fiscal year (tax revenues at 12.5% of GDP), the government aims to increase revenue by 0.5 percentage points annually over the next two years, followed by 1 percentage point per year thereafter. Public expenditure has been stable at 19% of GDP since 2022. The IMF program supports improvements in cash management and spending controls, ensuring that expenditures remain aligned with available resources. Priority is given to operating expenditure in the social sectors (teachers, nurses, school and health facilities, etc.), while efforts are underway to improve the efficiency of public investment. Since 2015/16, between 35% and 40% of the budget has been dedicated to investments, which has generated a paradoxical situation: while public infrastructure is slowly expanding, public services are underfunded and understaffed, causing service quality to deteriorate.

The reforms undertaken as part of the IMF program are starting to yield results. Since 2022, Tanzania's financial management assessment scores by the World Bank have improved. In 2023/24, the fiscal deficit began to shrink to below 3%, mainly as a result of a reduction in the primary deficit reduction to below 1% of GDP. The clearance of domestic arrears, which had long been a major budgetary burden, is another significant step forward. However, the growing interest burden, projected to exceed 15% of total revenues by 2025, could strain social-sector financing. The 2024/25 budget is based on more realistic revenue and expenditure projections compared to previous years. The primary deficit is expected to shrink further, to 0.7% of GDP, while tax revenues are projected to reach nearly 13% of GDP as a result of new customs duties, VAT expansions, and excise tax adjustments. Fiscal risks remain, however, especially with the 2024/25 election year overlapping into 2025/26, potentially leading to budgetary slippages. In addition, the rehabilitation and construction of stadiums for the 2027 African Cup of Nations will place a significant strain on public finances.

The gradual reduction of the primary deficit is helping to stabilize public debt, which is expected to start declining in 2025 (see Figure 7). Debt currently stands at less than 50% of GDP, one of the lowest ratios in the region, and the IMF projects a return to 2019 levels (around 41% of GDP) by 2029. For now, debt sustainability analysis categorizes Tanzania's risk of debt distress as moderate, indicating some capacity to absorb economic shocks. However, the exposition to exchange rate risks is high, with two-thirds of Tanzania's debt denominated in foreign currencies. The sharp depreciation of the Tanzanian shilling against the US dollar between June 2023 and November 2024 led to a mechanical increase in the value of the country's external debt. Nevertheless, Tanzania's debt profile remains favorable: highly concessional, 73% held by traditional lenders, and predominantly fixed-rate and long-term. While commercial borrowing is increasing (accounting for 30% of external debt payments in 2022/23), the government has committed to prioritizing concessional financing and setting a ceiling on new external debt under the IMF agreement. Meanwhile, domestic debt, though smaller in proportion, has grown significantly since 2021. The cost of domestic borrowing remains higher than external debt, with local interest rates

Figure 7: Public debt ratio (% of GDP)



Source: IMF, AFD calculations

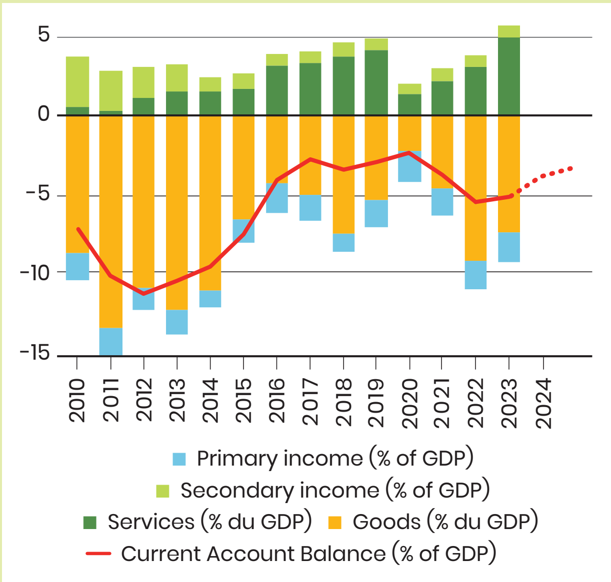
averaging 10.1% versus 3% for external debt, adding to budgetary pressures. Domestic debt, consisting mainly of treasury bonds, is primarily held by institutional investors (one-third of total domestic debt) and banks (29%). Looking ahead, the planned revenue increases and favorable global interest rate trends, following US Federal Reserve rate adjustments, should gradually reduce the interest burden. As a result, debt servicing—currently contained at between 5% and 7% of GDP—is expected to decline. Tanzania also faces no risk of a public debt crisis, as it has never issued a Eurobond.

Global rating agencies have reaffirmed Tanzania's solid financial standing, resilience to external shocks, and proven ability to absorb future challenges. In March 2024, Moody's upgraded Tanzania's rating from B2 to B1 with a stable outlook, while Fitch confirmed its B+ rating with a stable outlook in December 2024.

Tanzania's healthy trade balance helps reduce its current account deficit

After two challenging years marked by the aftermath of the COVID-19 crisis and the economic repercussions of Russia's invasion of Ukraine, Tanzania's current account deficit improved significantly in fiscal year 2023/24. The deficit more than halved, reaching 3.1% of GDP by June 2024, and was expected to close the year at around 3.9%, returning to pre-pandemic levels recorded between 2016 and 2019 (see Figure 8). This improvement is largely driven by the recovery of the trade balance. Despite high import needs due to major infrastructure projects, the goods trade deficit is narrowing thanks to lower import prices and increased exports. The latter benefited significantly from rising gold prices: gold accounts for 41% of the country's total goods exports. Moreover, the surplus in the services trade balance was bolstered by a booming tourism sector. Fueled by high-profile government-led promotional campaigns and rising park fees in Kenya,[3] tourism has become a key driver of economic growth, contributing not only to GDP and government revenues, but also to FDI and foreign exchange reserves. Estimates suggest that the number of tourists may have exceeded two million in 2024 (up from 1.8 million in 2023, which was already a record, surpassing the previous peak of 1.5 million in 2019) and account for 10% of GDP (see Figure 9). Given this momentum, service exports grew by 25.5% in fiscal year 2023/24. Meanwhile, the primary income balance deficit and the secondary income balance surplus have remained relatively stable. Over the past three years, these stood at -1.9% and +0.8% of GDP, respectively, and are unlikely to change significantly in the future, with one exception: a gradual decline in the primary income balance is expected as a result of profit repatriation, particularly from international mining companies.

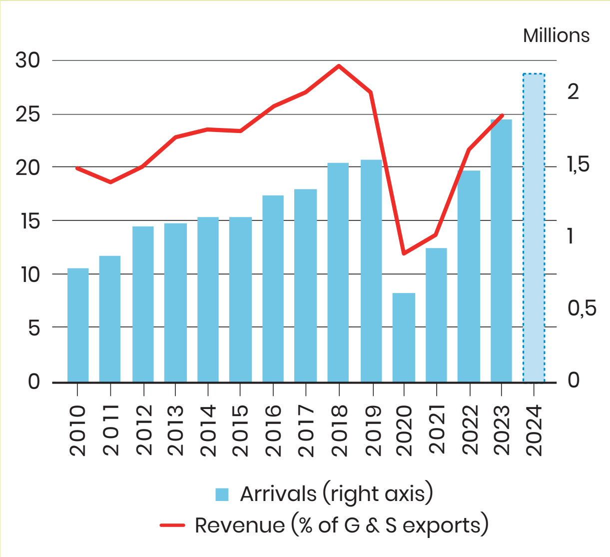
Figure 8: Current account components (% of GDP)



Source: IMF, AFD calculations

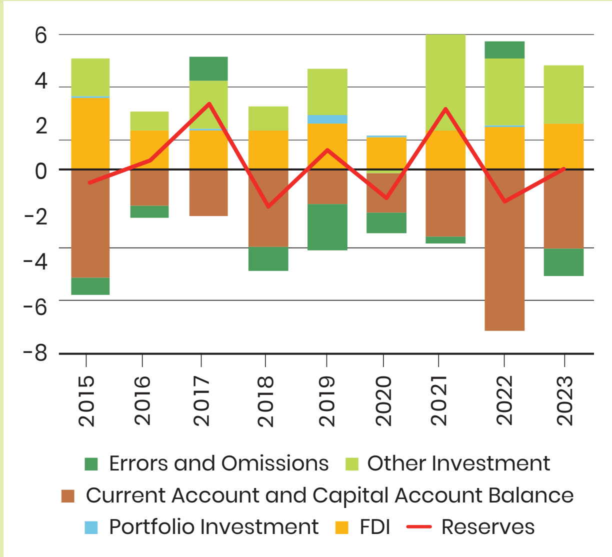
[3] In early 2024, Kenya more than doubled the cost of access to the Maasai Mara National Reserve during the tourist season.

Figure 9: International tourism arrivals and receipts in Tanzania



Source: World Bank, Oxford Economics, AFD calculations

Figure 10: Financial account (% of GDP)



Source: IMF, AFD calculations

To finance its current account deficit, Tanzania primarily relies on external borrowing (mostly public and concessional) and on FDI (see Figure 10). IMF projections indicate that external debt will increase slightly over the next two years, before falling back below 40% of GDP by 2029. However, the country's debt sustainability remains closely tied to its export performance. Because the country has such a narrow export base, it therefore remains at risk. While FDI contributed 2.1% of GDP in 2023, this remains far below the levels of 2010–2015, when FDI averaged 4% of GDP and occasionally reached nearly 6%. Although the Hassan administration has taken a more business-friendly approach than its predecessor, FDI inflows remain constrained by an unfavorable business climate. According to the latest Ibrahim Index of African Governance, Tanzania still ranks among the lowest in the region in terms of business environment. Key obstacles include unclear legal frameworks, unpredictable public policy decisions, and regulatory rulings that often disadvantage international companies.

Since the first quarter of 2022, Tanzania's foreign exchange reserves have remained relatively low as a result of funding successive large current account deficits. By September 2024, reserves stood at USD 5.4 billion, equivalent to 3.8 months of imports under the IMF's standard calculation (4.4 months according to the Bank of Tanzania [BoT], which excludes FDI-related imports from its calculations). However, reserves are expected to grow significantly in 2024/25, supported by an improving trade balance, increased FDI inflows, and higher external borrowing. Although reserves remain below the EAC benchmark of 4.5 months of imports, the IMF still considers them adequate. Nevertheless, given the external risks facing the Tanzanian economy, a higher level of reserves would build buffers to manage currency pressures, such as those experienced in 2023 and early 2024. In this context, and in line with policies adopted by other gold-producing countries, the BoT launched a local gold purchasing program in 2023. A new law now requires gold producers and traders operating in Tanzania to reserve 20% of their production for the state. The government purchases this gold in Tanzanian shillings at competitive prices, with no VAT and with reduced royalties. The goal is to build up the BoT's gold reserves, which were virtually nonexistent before 2023 and are now expected to reach six tons by the end of the current fiscal year.

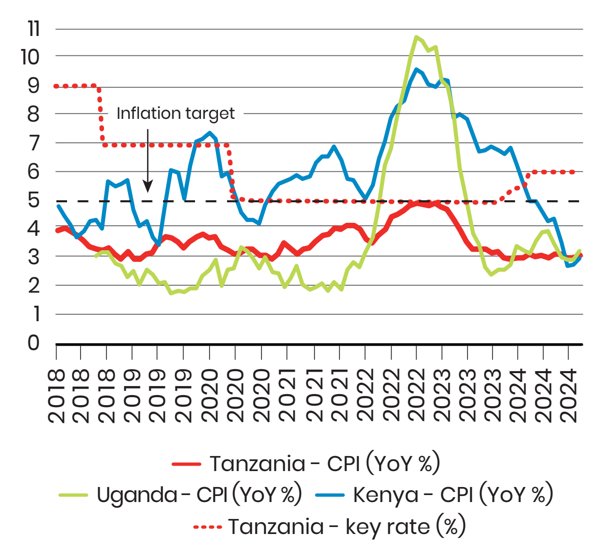
Monetary policy is modernizing to better control inflation, which remains stable and low

As part of the continuation of the IMF program, the BoT implemented a new interest-rate-based monetary policy in January 2024. This reform aims to align the policy with EAC standards and improve its effectiveness in controlling inflation. The new benchmark rate, which had initially been set at 5.5%, was raised to 6% in April 2024 to control rising core inflation.

Maintaining stable inflation is a key advantage for Tanzania. While inflation rates in Kenya and Uganda reached or exceeded 10% in the second half of 2022, Tanzania's inflation has never exceeded the 5% threshold (see Figure 11). This stability is largely due to the composition of the consumer basket, where locally produced food products hold the largest share, and to relatively low import dependence, which helps limit imported inflation. According to IMF estimates, a 1% depreciation of the shilling against the dollar would result in only a 0.25% increase in inflation.

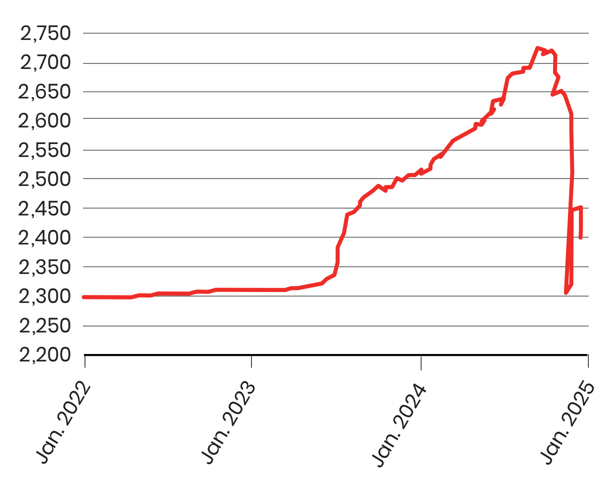
In response to pressures on the foreign exchange market in 2023 and early 2024, the BoT adjusted its strategy by allowing greater fluctuation of the shilling, ending its stabilized exchange rate regime (see Figure 12). The BoT's new intervention policy, published in December 2023, no longer aims to fix or target a specific exchange rate but instead focuses on containing excessive fluctuations and increasing international reserves to reduce external vulnerabilities. In 2023 and early 2024, like many of its peers—notably Kenya—Tanzania temporarily faced a dollar shortage as a result of capital flight that was driven by rising Fed rates and the size of Tanzania's current account deficit. In response, a parallel market temporarily emerged. Since June 2024, the current account deficit has narrowed significantly, while monetary tightening and BoT measures to limit domestic dollar use have started to yield results. At the same time, greater exchange rate flexibility has helped preserve reserves. However, continued vigilance is necessary in the foreign exchange market, particularly in the first few months of the year, when dollar trading activity is typically higher.

Figure 11: Inflation rate in East Africa and Tanzanian policy rate



Source: Central banks, AFD calculations

Figure 12: FX spot rate, TZS per USD



Source: Central Bank, AFD calculations

The new monetary policy has implications for the regulation and supervision of the banking sector. In line with IMF recommendations, the reforms aim to strengthen the banking system's resilience to shocks and promote financial stability. In addition, the gradual adoption of Basel II and III standards is set to be completed in April 2025. The banking sector has generally been strong: the solvency ratio has remained between 17% and 20% since 2017. In June 2024, return on assets reached 5.7% and return on equity reached 27%, both of which had been steadily increasing over the past six years. It maintains decent liquidity (27% of total assets) and improving portfolio quality, with the non-performing-loan ratio declining annually to 4.1% in 2024, below the BoT's prudential ceiling of 5%. However, the banking sector remains underdeveloped: its total assets represent only 30% of GDP. The sector is also highly concentrated, with two private banks controlling nearly half of banking assets, loans, and deposits. Furthermore, credit to the private sector remains very low, averaging just 12.5% of GDP since 2007, well below levels in Kenya and Rwanda. Although private sector credit grew between 2021 and 2023, reaching 16.5% of GDP in 2023, this trend has slowed as a result of monetary tightening. Finally, the sector is characterized by a high degree of dollarization, with over a third of deposits and loans denominated in dollars as of September 2024. This exposes the economy to exchange rate risks, a vulnerability that the BoT has clearly identified. In response, the central bank is working to strengthen the enforcement of regulations governing the circulation of dollars within the country.

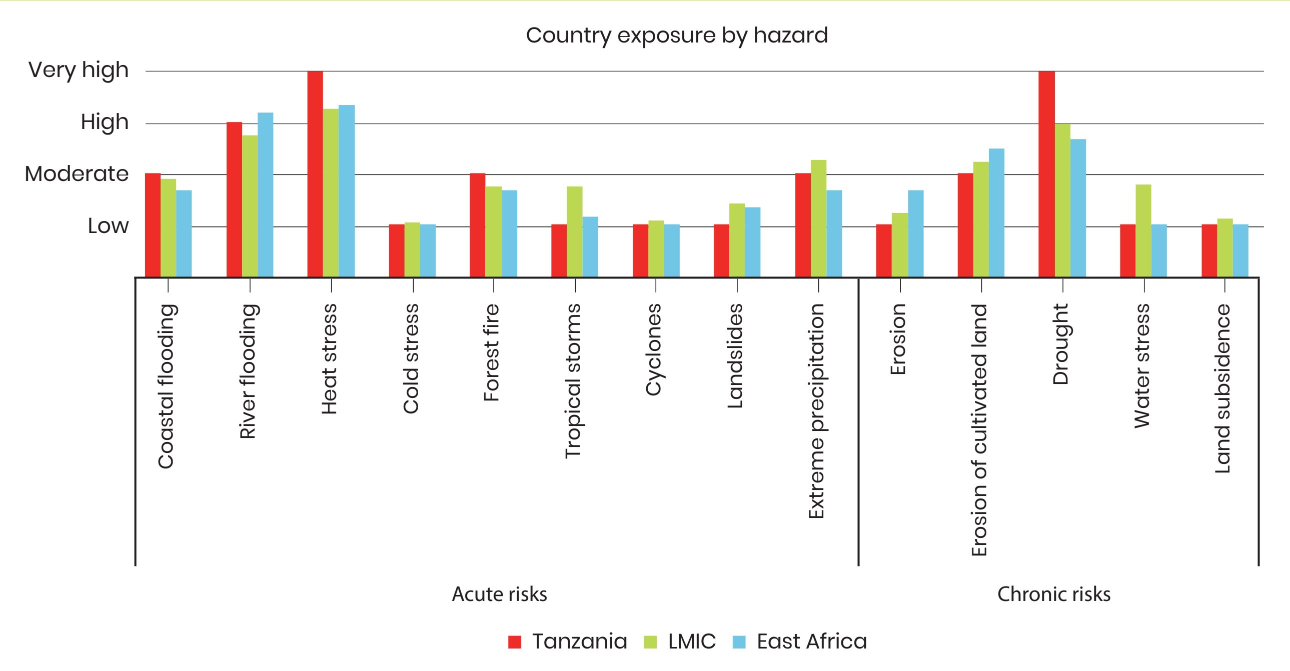
3. EClimate vulnerability, threats to biodiversity, and the challenges of transition

High physical climate risk and moderate transition risk, potentially aggravated by the gas project

Tanzania ranks among the countries most vulnerable to climate change, placing 139th out of 187 on the ND-GAIN index. This vulnerability stems from limited agricultural and healthcare capacities. According to the World Bank, nearly 28% of the population is exposed to at least one climate hazard, whether heat stress, flooding, or recurrent drought (see Figure 13). These hazards account for the majority of climate-related disasters. Some regions of the country are particularly at risk. In the southwest, temperatures could rise by three to four degrees Celsius by 2050, while in the northeastern highlands, rainfall could decline by 12%. Flooding is becoming increasingly frequent across all regions. These climate events impact numerous key sectors, including agriculture (where 80% of production relies on rainfall), fishing, tourism, and infrastructure. The World Bank estimates that climate-related damages cost Tanzania 1% of GDP annually, while heat stress could reduce agricultural productivity by 4%. Every year, the lack of proactive flood management leads to loss of life and infrastructure destruction, paralyzing transport networks.

Although Tanzania is a low greenhouse gas emitter—with 1.31 metric tons of carbon dioxide equivalent (tCO_2eq) per capita in 2023, compared to the global average of 6.71—its ambition to become a gas exporter could increase its exposure to risks associated with the low-carbon transition. For the time being, because of the country's high level of agricultural activity and large livestock population, its emissions are mainly composed of methane. Tanzania's electricity mix has once again become predominantly renewable, following the commissioning of a new high-capacity hydroelectric dam in 2024, which has reduced reliance on gas-fired power stations. The industries expected to decline as a result of the green transition currently account for roughly 10% of export earnings, 7% of tax revenues (mainly from mining licenses), 5% of total production, 2% of employment, and 9% of wages. With the exception of wages, these levels are significantly lower than those of Tanzania's regional peers, which are far more exposed to declining sectors. In the medium term, the government plans to develop the natural gas sector by granting concessions to international companies for the extraction, liquefaction, and export of its vast offshore gas reserves in the south of the country at the Mozambique border, estimated at 57 trillion cubic feet. While negotiations with Equinor and Shell for the exploitation of 36 trillion cubic feet have faced significant delays, their eventual completion would have a major impact on Tanzania's economy, particularly in terms of balance of payments and growth.

Figure 13: Exposure to climate hazards

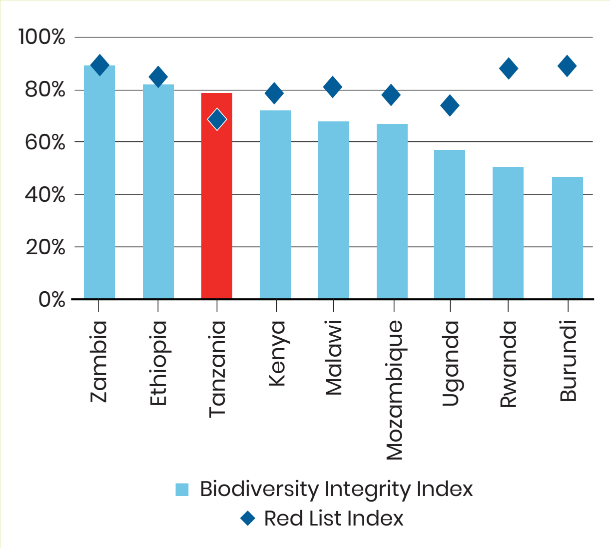


Source: AFD

Deteriorating ecosystems threaten the country's exceptional biodiversity

Tanzania is home to six of the world's twenty-five known biodiversity hotspots, with more than 14,500 recorded species, many of which are endemic and threatened. The country also accounts for more than one-third of Africa's plant species and 20% of the continent's large mammals. Moreover, Tanzania's rich biodiversity plays a critical role in the national economy and sustains the livelihoods of a majority of Tanzanians. However, most of the country's terrestrial and aquatic ecosystems are de-teriorating, reducing their capacity to provide essential services. Deforestation—largely the result of the country's energy dependence on charcoal—reduced forest cover by 20% between 1990 and 2020, according to the FAO. The major concern is the country's endangered species: Tanzania faces a higher risk of species extinction than any other country in East Africa (see Figure 14), and this risk looks set to accelerate. The country is home to large populations of endangered or threatened species, including black rhinoceroses, African wild dogs, chimpanzees, elephants, and cheetahs.

Figure 14: Loss of biodiversity and risk to endangered species



Source: Phillips et al., IUCN, AFD calculations

Ambitious environmental policies and challenges are attracting lender interest

In response to these challenges, Tanzania has made ambitious commitments at the highest levels of government. As a signatory to the Paris Agreement, the country pledged, in its latest revision of its Nationally Determined Contribution (NDC), to reduce greenhouse gas emissions by 30–35% by 2030 relative to the status quo—an increase from its initial 10–20% reduction target. It has also adopted a National Climate Change Response Strategy (2021–2026), while the Zanzibar government has developed its own climate roadmap. With respect to biodiversity conservation, Tanzania has signed multiple international agreements and formulated a National Biodiversity Strategy and Action Plan in 2001, which was revised in 2015. The government has also stepped up conservation efforts, particularly between 1995 and 2014, when the surface area of conservation zones grew by more than 20%. Today, these protected areas cover nearly 45% of the country (28% protected lands and 16% forest reserves). These areas include national parks, game reserves, marine parks, forest reserves, and community wildlife management areas, which contribute to both biodiversity preservation and tourism development.

Despite these strategies, the World Bank highlights several challenges that limit the effectiveness of Tanzania's climate action policy. These include weak governance and administrative confusion over ministerial responsibilities; the limited operational effectiveness of the National Climate Committee, the country's main coordinating body; and the lack of integration of climate policies at the decentralized level. The fact that Tanzania has no comprehensive legal framework or an autonomous climate change policy undermines policy coherence and the achievement of emissions reduction targets.

The government estimates that USD 19 billion will be needed to meet its NDC commitments. Tanzania currently ranks among the top ten African countries in terms of the amount of international climate finance it receives. In June 2024, the IMF approved a twenty-three-month Resilience and Sustainability Facility in the amount of USD 786 million to support the country's climate reforms. Tanzania has also been selected as the second pilot country under the IMF–World Bank Enhanced Cooperation Framework for Scaled-Up Climate Action.

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List of figures

List of acronyms and initialisms

BoT: Bank of Tanzania

CCM: Chama cha Mapinduzi (Revolutionary Party)

UNCTAD: United Nations Conference on Trade and Development

EAC: East African Community

FAO: Food and Agricultural Organization of the United Nations

FDI: Foreign direct investment

IMF: International Monetary Fund

NBS: National Bureau of Statistics (Tanzania)

OECD: Organisation for Economic Co-operation and Development

UNDP: United Nations Development Programme

LMIC: Lower-middle income country

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