

finance created by an improvement in the overall business environment and public-private dialogue, strong leadership in favour of women empowerment and more focus on sustainable investments. In 2017, 28% of Tanzanians were financially excluded, with a majority of people living in rural areas, smallholder farmers, youth and women³. Women have less access to mobile phone (ownership and use) compared to men, negatively impacting their entrepreneurship opportunities.

In the current political climate, there is increased space for impactful domestic accountability and public-private dialogue. The government is more open to engage with private sector associations, CSOs and media. The President committed to changes in the legal framework to remove restrictions on media freedoms and improving the business environment is one of her top priorities. This creates a window of opportunity to rebuild trust and improve transparency and public participation for citizens and businesses. In the area of anti-corruption, there is a renewed focus on strengthening the anti-corruption institutions.

Such a context provides an opportunity to bring together Government and EU priorities, through an action closely aligned with the Global Gateway⁴, the new European Consensus for Development⁵, “Towards a comprehensive Strategy with Africa”⁶ and the 2030 Agenda for Sustainable Development⁷, which make reference to effective and accountable institutions, sound public financial management, domestic revenue mobilisation, anti-corruption, access to finance and the digital transformation in these areas. It supports implementation of the Gender Action Plan III and its Country Level Implementation Plan and complements the Gender Transformative Action. In supporting Civil society fostering citizens’ voices, it will contribute to the EU CSO Roadmap for Tanzania. It is harmonised with the EU’s Collect More Spend Better agenda, the Addis Tax Initiative, and the Busan Action Plan for Statistics. The Action contributes to the ‘Cape Town Global Action Plan for Sustainable Development Data’ and the 2030 Agenda for Sustainable Development. It specifically addresses SDG 1 (No poverty), SDG 5 (Gender Equality), SDG 8 (Decent work and economic growth), SDG 16 (Peace, justice and strong institutions) and SDG 17 (Partnership for the Goals), in order to leave no one behind.

This Action functions as an enabler for sector specific programmes such as Green and Smart Cities and Blue Economy and cross-cutting programmes such as Digitalization and Gender. It contributes to creating a conducive environment for unlocking access to finance under the Cities and Blue Economy actions. It also helps to ensure that public expenditures are well managed to promote effective service delivery and contribute to effective implementation of sectoral development programmes (digitalization, gender, cities and blue economy).

2.2 Problem Analysis

The public financing of developmental priorities in Tanzania remains hampered by challenges in domestic revenue mobilisation and public finance management. With a tax to GDP ratio of 11.4% in 2020/21 and a large tax gap, Tanzania still has significant potential to ‘Collect More’. A narrow tax base, high non-compliance, inefficiencies in the tax administration, as well as significant illicit financial flows and a complex and unpredictable tax policy environment contribute to under-realisation of revenues and have a negative impact on Tanzania’s business environment. Trust in the tax administration remains low, tax objections and arrears are high, and the pace of the digital transformation is slow. Policies and reforms do not sufficiently build on impact analyses, testing and consultations to ensure inclusive, green and sustainable outcomes. There is also a growing need to complement traditional financing with alternative financing sources (e.g. green bonds). Tanzania is not yet maximising such opportunities because of capacity gaps. To effectively increase fiscal space, Tanzania also needs to ‘Spend Better’. Tanzania’s overall public financial management system has improved considerably, though some weaknesses continue to hinder effective service delivery and sustainable development outcomes, as shown in the latest Public Expenditure and Financial Accountability Assessments (PEFA)⁸ for Tanzania Mainland and Zanzibar.

Private finance in Tanzania is characterised by low access to and use of formal financial products and services, which disproportionately affects women and youth. This results from high costs⁹, low financial and

³ National Financial Inclusion Framework (2018-2022). [Link](#)

⁴ https://ec.europa.eu/info/sites/default/files/joint_communication_global_gateway.pdf

⁵ https://www.consilium.europa.eu/media/24004/european-consensus-on-development-2-june-2017-clean_final.pdf

⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020JC0004>

⁷ https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E

⁸ Main challenges in Mainland Tanzania include budget credibility is still a major weakness, as well as the quality of budget documentation, transparency, expenditure arrears, public investment management and internal audit. Zanzibar’s PFM system is hampered by low budget credibility, weak cash flow forecasting, low compliance with procurement regulations and accounting standards and lack of systems integration.

⁹ interest rates are around 16-17% nominal for commercial banks and 30-40% for micro-finance, while inflation hovers around 3.3 %.