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RAPID SOCIO-ECONOMIC IMPACT ASSESSMENT OF COVID-19 IN TANZANIA

SUBMITTED BY ESRF



TABLE OF CONTENTS

TABLE OF CONTENTS	I
FOREWORD	VI
ACKNOWLEDGEMENT	VI
EXECUTIVE SUMMARY	VII
1.0 BACKGROUND AND INTRODUCTION	14
1.1 HEALTH RISK ASSOCIATED WITH COVID 19	14
1.2 ECONOMIC EFFECTS OF COVID 19	15
1.3 OBJECTIVE AND OUTLINE OF THE REPORT	15
2.0 METHODOLOGY, ASSUMPTIONS, AND LIMITATIONS	17
2.1 METHODOLOGY	17
2.1.1 Desk review	17
2.1.2 Secondary Data Collection	17
2.2 ASSUMPTIONS	17
2.2.1 Possible Scenarios - Severity and Longevity of the Crisis	18
2.2.2 Likely Recovery Path	19
2.3 LIMITATIONS OF THE STUDY	19
3.0 PRE-CRISIS SOCIO-ECONOMIC SITUATION	21
3.1 GLOBAL AND REGIONAL GROWTH AND PROSPECTS BEFORE COVID 19	21
3.2 TANZANIA ECONOMIC PERFORMANCE AND PROSPECTS BEFORE COVID 19	22
3.3 TANZANIA POVERTY REDUCTION AND HUMAN DEVELOPMENT	22
4.0 TANZANIA SOCIO-ECONOMIC RISK FROM COVID 19	24
4.1 COVID 19 TRANSMISSION CHANNELS	24
4.2 IMPACT ON TOURISM AND HOSPITALITY INDUSTRY IN TANZANIA MAINLAND AND ZANZIBAR	26
4.2.1 Best and Moderate Case Scenario	27
4.2.2 Worst Case Scenario	29
4.3 TRANSPORTATION AND STORAGE	30
4.3.1 Road and Railway Transportation	32
4.3.2 Logistics and Supply Chains	32
4.3.3 Aviation Industry	34
4.3.4 Storage	34
4.4 AGRICULTURE, FORESTRY, AND FISHING	35
4.4.1 Foreign Exchange Earnings from Agricultural International Trade	35
4.4.2 Scenario I: Best Case- Contained Situation	37
4.4.3 Scenario II: Moderate Case Situation	37
4.4.4 Scenario III: Worst Case Situation	38
4.5 WHOLESALE AND RETAIL TRADE	39
4.5.1 Scenario I: Best & Moderate Case Scenario	41
4.5.2 Scenario III: Worst Case Scenario	42
4.6 FINANCE AND INSURANCE	42
4.6.1 Credit Risk	43
4.6.2 Liquidity Risk	43

4.6.3	<i>Foreign Exchange Risk</i>	44
4.6.4	<i>Microfinance</i>	44
4.6.5	<i>Financial Markets</i>	45
4.6.6	<i>Insurance</i>	46
4.6.7	<i>Remittances</i>	47
4.6.8	<i>Foreign Direct Investments</i>	47
5.0	POSSIBLE EFFECTS ON SOCIO-ECONOMIC SITUATION IN TANZANIA	48
5.1	IMPACT ON PUBLIC BUDGETING AND SOCIAL SERVICE DELIVERY	48
5.1.1	<i>Increased Spending Needs</i>	48
5.1.2	<i>Revenue Challenges</i>	49
5.2	IMPACT ON EDUCATION	50
5.3	IMPACT OF COVID 19 ON THE POOR AND VULNERABLE GROUPS	51
5.4	COVID 19 IMPACT ON WOMEN	53
6.0	RECOMMENDATIONS	55
6.1	LESSONS FROM OTHER COUNTRIES IN THE REGION	55
6.2	GENERAL RECOMMENDATIONS OPPORTUNITIES AS A RESULT OF COVID 19	57
7.0	APPENDIX	61
APPENDIX 1:	SUMMARY OF THE POSSIBLE RECOVERY PATHS	61

FOREWORD

The year 2020 has witnessed an unprecedented COVID-19 crisis where many human lives have been lost. We have also witnessed the tremendous magnitude and speed of collapse in economic activity– something unseen in our lifetime. This is certainly not good for achieving the Sustainable Development Goals (SDGs) where prior to this crisis, the world was already falling behind in efforts to achieve them.

The pandemic has led the global economy to a new conundrum. Global growth is projected by the International Monetary Fund (IMF) to fall to -3 per cent this year, making it the worst recession since the great depression and much worse than during the 2008-09 financial crisis.

The United Nations system and partner international organizations have recently outlined measures to address the impact of the unfolding global recession and financial turmoil in the recent 2020 Financing for Sustainable Development Report. The report urges policy makers to take immediate steps and coordinated response to address the economic and financial havoc wrought by the COVID-19 pandemic, which threatens to destabilize poor countries' finances.

I commend UNDP Tanzania for taking a proactive step and for providing leadership in undertaking this Rapid Socio-economic Impact Assessment which has resulted into this informative and insightful report. It is my sincere hope the report will add value to the ongoing government efforts to curb the spread of the COVID 19 pandemic. I look forward to the more in-depth assessment which will provide more detailed and sector-specific data and recommendations. On a similar note, I call upon the development partners in Tanzania to provide much needed support for immediate response to the pandemic and rally around efforts for early recovery. This is needed to mitigate the negative socio-economic impacts of the pandemic and to the extent possible, enable Tanzania to at least sustain the progress it had made in achieving the SDGs.

This is a global crisis which calls for global solidarity and coordinated local action. Let us join hands in combating the COVID 19 pandemic in Tanzania.



Zlatan Milisic

UN Resident Coordinator in Tanzania

ACKNOWLEDGMENT

UNDP Tanzania appreciates the good work done by the Economic and Social Research Foundation (ESRF) to which we commissioned to undertake this very important exercise of national significance and relevance in the wake of the rapidly unfolding COVID 19 pandemic. Their professional approach to the work and swift action in reaching out to various stakeholders to collect information and data as well as validate some of the recommendations, made it possible to come up with this report within the specified time. From the very beginning UNDP team worked with ESRF to jointly draft a Concept Note on the socioeconomic impact of COVID 19 on Tanzania. The Concept note was reviewed and commented upon by Technical Experts drawn from UN Agencies before the actual work started.

Therefore, UNDP is particularly grateful to Dr Tausi Kida for leading the ESRF team of experts which was comprised of Dr Hoseana Bohela Lunogelo, Mr. Desmond Ngarami and others who were working behind the scene to carry out the analysis and prepare the expected reports. A lot of gratitude goes to the UNDP team which was comprised of Economic Advisor Mr. Fitsum Abraha, Program Coordinator Mr. Amon Manyama and the Head of Inclusive Growth Pillar, Mr. Ernest Salla, for working tirelessly with the ESRF team to ensure the work is done and is of high quality. They made my work of providing oversight and guidance for the entire exercise easy.

Tremendous support was received from Technical Experts of UN agencies and development partners, in the form of inputs and comments into the draft for improvement. We would like to express our appreciation to experts who represented the World Bank, UNICEF, UN Women, UNICEF, ILO, FAO, WFP and WHO. The colleagues from the WB and UNICEF devoted time to provide very specific inputs which were used to enrich the report. Equally, the work would not have been possible without the support from the Private sector representatives and their associations who shared information on the impacts and challenges created by COVID-19 in their respective sectors. UNDP is very grateful for their cooperation.

Lastly but not least, UNDP would like to thank the UN Resident Coordinator, Mr. Zlatan Milisic for leadership in bringing the UN team together in this exercise and for his unwavering support for well-coordinated and joint action.

EXECUTIVE SUMMARY

In this report, we have assessed the likely socio-economic impacts of COVID 19 for the immediate and near-term macro outlook as well as on livelihoods at individual and household level. We have assessed the transmission of economic impact through six key sectors assumed to face the highest risks as a result of the pandemic as shown in Diagram 1 below. These are: tourism and hospitality industry, transportation and storage industry, agriculture (crops, livestock and fisheries), wholesale and retail trade, finance and insurance, and social sector (health and education). The analysis, based on historical data and most current information on the sector's performance is taken assuming three scenarios: best case scenario where the current situation is maintained; moderate scenario where there is some modest escalation in infections and consequently in aversive reactions to the pandemic; and worst-case scenarios the situation deteriorates further for an extended period of time.

The study focuses on risks associated under each scenario to the respective sectors and the welfare effects on the most vulnerable segments of the society. Although in some cases there has been an attempt to quantify the associated risks, the major part of the analysis is qualitative based on logical sequencing of events happening in the assessed sectors. In a nutshell our assessment shows that, even under a 'limited or slow virus spread scenario' there will still be severe shocks in the hospitality industry, exporters of manufactured and agricultural goods, transport and logistics, as well as the financial sector (see figure below). This is in addition to the increased challenges with regards to social service provision especially for the most vulnerable. Policy interventions can minimize these impacts but will entail considerable fiscal and monetary resources.

The Starting Point of the Analyzed risks: Tanzania's Exposure to COVID-19

Until recently Tanzania had the lowest number amongst East African countries although this is not the case currently, having increased from less than five (5) patients in the third week of March 2020 to 254 patients and ten (10) deaths five weeks later by mid-April 2020. The country's stance has all along been to encourage the application of personal hygiene, social distance and wearing protective facial masks where appropriate. Affected and suspected individuals are quarantined for 14 days to observe their health status. According to the Ministries responsible for Health (MOH) in Tanzania Mainland and Zanzibar, although the pandemic initially affected people with recent history of visiting countries affected by COVID-19, the situation started to change from the second week of April, 2020 when it was feared to have shifted to "community transmission", which complicates tracking of infected and carrier subjects (MOH Daily COVID-19 Updates, 2020). The assessment of the selected

sectors assumed to face the most risks associated with the pandemic are explained in chapter 5 of the report and summarized hereunder as follows:

Impacts on Tourism and Hospitality Industry

The tourism and hospitality industry is one of the major sources of employment, tax revenue, and foreign exchange earnings to Tanzania. In the 2019 FY, the total value of foreign exchange earnings generated from tourism amounted to USD 2.557bn¹. This represented 25.79% of all goods and service exports and 61.4% of service exports. In a budget speech made in 2017, the former minister for Natural Resources and Tourism estimated that the sectoral contribution of tourism to Tanzania's GDP stood at 17.5%². The sector is more important for Zanzibar as it accounts for about a third of its GDP, 80% of its revenue, and remains the biggest employer in the island. In this regard, the onset of COVID-19 has substantially derailed the growth and progress of a key contributor to the national economy. Among the first measures taken by most countries was to curtail movement of people from the COVID-19 countries as a measure to control the spread of the virus. Consequently, Tanzania also restricted arrivals from the affected countries, including Italy and China, both of which had in recent years been a major source of tourists. Most recently Tanzania Civil Aviation Authority (TCAA) restricted any international passenger flight from landing in Tanzania resulting in a reduced number of tourists.

Reduced number of tourists implies depressed hotel activities and closure of most if not all tourist hotels, the majority of which are in Zanzibar, and decreased economic activities and fall in income due to the strong backward and forward economic linkages -- internal and regional transport business such as charter flights, food and beverages industry, culture and art, all of which have some implications to security of jobs, government tax revenue and household food security negatively affected. Tourism has been a major source of foreign exchange earnings, which will also be severely affected as result of the sudden decline of tourist arrivals and low hotel occupancy rates. The reduced forex earnings and domestic tax revenue poses a risk to the ability of governments to provide basic social services to the people.

Impacts on Transport and Storage

Transportation and storage sector employ 521,698 people and contribute 6.48% and 3.2% of Tanzania Mainland and Zanzibar GDP respectively. The sector also generates significant foreign income which is estimated at 14.56% of Tanzania Mainland total forex revenues. Road transportation is the most dominant sub-sector, facilitating movements of people and goods within Tanzania and to neighboring countries. Domestic aviation is in a recovery trajectory following a revamp of the national carrier; the Air Tanzania Corporation Limited

¹ Bank of Tanzania Quarterly Economic Report 2019

² Speech by Former Minister for Natural Resources and Tourism, Professor JUMANNE MAGHEMBE, May 2017

(ATCL). Despite its nascent domestic aviation industry, Tanzania remains an important hub for international travels. Tanzania Mainland reported 5.7 million air travelers³, of which 2.7 million were passengers on international flights during fiscal year 2018/19. In Zanzibar, marine transportation plays a significant role transporting traders and tourists among the three cities of Zanzibar, Dar es Salaam and Tanga. According to the Zanzibar Socio-Economic Survey, there were 2,709,000 marine passengers in 2018.

Observed impacts within the public road transportation sector relate to the government's health and cautionary guidelines. Through LATRA (Land Transport Regulatory authority the government has ordered level sitting and provision of sanitizers or hand washing facilities⁴ by bus operators. These measures though commendable add extra costs to business and reduce income due to fewer passengers per route. In the case of inter-regional buses and trains, profitability declines due to lower business volumes as more people avoid non-essential/urgent trips upcountry. On the consumer side, long waiting times, or resorting to costlier transport means such as tricycles (bajajis) and motorcycles (bodaboda). The poor are affected disproportionately because many reside far from the city centres. Also, as their compensation is often pegged on the number of deliverables or hours worked, long commutes are correlated with even lower incomes.

In the aviation sector, there has been a sharp decline in revenue in airlines, airports, airport cargo handling companies and related service providers as the number of passengers plummets following border entry restrictions and consequential flights suspension by most international airlines and measures by TCAA. Charter flights serving tourist spots such as Zanzibar and national parks in the Northern Circuit are the hardest hit mainly because of lack of international tourists and falling local demand. In December 2019 alone an estimated 12,998 tourists⁵ embarked on domestic airlines including charter flights to Zanzibar compared to none in April 2020.

In marine transportation, countries all over the world responded by restricting transportation of both passengers and goods ships as a way of containing the spread of COVID-19. Consequently, Tanzania has witnessed a drastic reduction in the number of ships into the country. This initial analysis suggests that marine transport disruption will lead to reduced exported goods (from the manufacturing and agricultural sectors as well as imported goods and from the region through ports with the most impacted being Dar es Salaam ports and the associated logistics firms. Predicted impacts on the storage sector are linked to reduced traffic in cargo vessels. Given that domestic production is sustained, existing storage capacity may not be sufficient as exporters experience longer waiting times

³ Source: Ministry of Finance and Planning Budget Speech 2019/20

⁴ On April 20, truck drivers posed a formal request to their employers to provide protective gears and a minimum of US \$ 200 allowance should the drivers go into mandatory quarantine

⁵ Source: Office of the Chief Government Statistician; Tourism, December 2019

due to delayed take-offs from ports and airports impacting non-perishable agricultural products such as sisal, tea, cotton and coffee. Inventory backlog for non-agricultural products will likely be insignificant since exports are to SADC and EAC countries.

Impacts on Wholesale and Retail Trade

The sector employs about 2,528,771 people in the labour force majority in the informal sector with a high proportion of women, has a share of 9.12% in contribution to GDP and contributes about TZS 71.6 billion in domestic VAT revenue and TZS 6,776.8 billion in international trade taxes. Since the outbreak of the COVID-19 virus, the sector has been adversely affected through a number of global, regional, and domestic channels. The sector has been and still is continually rampaged by shocks caused by the outbreak. In Tanzania's current state, much of the shock stems from international trade as global manufacturing comes to a standstill and governments close off their borders in an attempt to reduce further spread of the virus.

20 percent of the countries Tanzania imports from have some sort of restriction placed, limiting essential supply for businesses to re-sell or use for manufacturing in Tanzania. This is especially true for pharmaceuticals and non-perishable goods that will be in high demand from panic buying should the situation escalate. Government mandates like the 30-day school suspension has cut off an essential market from a specific group of traders. These businesses include suppliers of stationeries, uniforms, textbooks, street vendors, kiosks, and small restaurants that earn most of their income from sales made to students. With cases increasing day-by-day, it is likely that the suspension will be extended, exacerbating the problems they face.

The other challenge is difficulties in cross border trading which accounts for 60-percent of Tanzania's total export value. According to the rapid survey done by the UN-Women organization (2020), most businesses along the Tanzania-Congo, Tanzania-Kenya, Tanzania-Burundi and Tanzania-Rwanda borders had to close down because of strict restrictions along the borders. Women are the most affected as they constitute 70-percent of all cross-border traders. The sale of agricultural crops to foreign markets has been disrupted, affecting both small & large -scale farmers that export. The sudden emergence of unsold crops within the domestic market will pressurize prices to a level that won't be profitable. Excess supply could lead to an increase in crop wastage

Impacts on Agriculture

The sector provides direct livelihoods to a majority Tanzanians, 66% of whom with farmers below 20 hectares and categorized as small-scale farmers (0.1 - 4.99 ha: 31%) and medium scale farmers (5-20 ha: 35%)⁶. According to Bank of Tanzania, the sector's average share of contribution to the nation's real GDP from 2014 to 2018 was 22.42% for Tanzania Mainland

⁶ World Bank, 2019

and 21.7% for Zanzibar with an annual growth rate of about 5.7%. The sector is responsible for producing more than 90 percent of food requirements, the balance imported in the form of wheat, edible oil and animal and fish products⁷. The sector is a prime supplier of basic raw materials needed by the budding agro-processing industries. The growing tourism industry has also been dependent on food (cereals, legumes, fruits and vegetables), beverages (tea, coffee, cocoa), decorations (plants and cut flowers) grown locally. Also, the country earned some USD 556.614 million in 2018 from exporting crop, livestock and fisheries related products to diverse countries such as Asia (e.g. China and India), Middle East, Europe and the United States and also regionally mostly into EAC and SADC/EAC member states (e.g. Kenya, Rwanda, and South Africa) (Comtrade, 2020). Tanzania also imports some agricultural commodities to fill domestic deficit (e.g. edible oil, wheat flour, sugar and cotton) and fertilizer (worth USD 134.66 million in 2018) for enhancing the agricultural sector's ability to generate new commodities. The importation of agricultural products and fertilizers in 2018 cost the country some USD 596.52 million.

Tanzania is likely to suffer from a double-edged sword impact of COVID-19 on international trade for agricultural products. On one side, there will be a reduction of export earnings due to declining export orders of the commodities, especially those whose main export destinations are outside the EAC and SADC regional economic blocs. Risks in exports come from reduced revenue coupled with reduced foreign exchange earnings from trading of crops (e.g. cereals, oilseeds, fiber crops, and horticultural) and sale of perennial crops (tea and coffee, horticultural crops (e.g. cut flowers, vegetables, fruits), fish and crustaceans, and live animals). Zanzibar risks suffering the most due to its narrow base of exportable agricultural commodities and heavy reliance on imports for its food consumption. The reduced foreign exchange revenue is likely to affect the nation's ability to import such essential food items, leading to price hikes (food price inflation) and thus affecting food security for the majority low- and middle-income citizens, the majority of whom are youth and women. Reduced income for farmers growing cash crops and for urban poor will likely cause a form of food insecurity (weakened purchasing power). Most worrying in case the crisis persists to November-December 2020, is the impact on timely delivery of fertilizer and other imported farm inputs and machinery, which will affect farm productivity and production levels of crops in the next farming season.

Impacts on Finance and Insurance

The ongoing challenges experienced in the aforementioned sectors have started to affect the finance and insurance sectors mostly through weakened liquidity positions, deterioration of credit quality thus high risk of non-performing loans emanating from challenges in sectors such as tourism and trade, large borrowers in transport and logistics, and general business slowdown as well closures. Three main groups of borrowers are

⁷ Economic and Social Research Foundation (2019)

affected namely, large corporate borrowers (manufacturers, transporters and traders, etc.), SMEs and micro credit clients. Large corporate borrowers whose business depend mainly on imported inputs will possibly suffer from lack of imports, thus shrink production and contract sales and thus experience challenges in loan repayment which add distress to commercial lenders in the medium to long term. The majority of the loans that go towards small borrowers often are backed by salaries and reduction in wages or termination of contracts will likely leave a number of banks exposed. The most at risk group, however, is the informal sectors (mostly women) that are heavily reliant on microfinance (SACCOs and microfinance banks). Because of the challenges faced by the informal sector operators as a result of aversive measures by the Government or individuals, repayments are likely to fall behind schedule leaving most microfinance institutions at risk in the medium and long terms. This is likely to increase the already very high cost of credit for a group that has no viable alternatives from microfinance.

In the equity market, the DSE with a total of 27 listed equity companies has already reported a dent in the equity segment in Q1, 2020 compared to Q4, 2019. DSE's total market capitalization declined by 15 percent as of 31st March 2020 compared to the previous quarter that ended 31st December 2019. The total market capitalization decreased by TZS 2,587 billion i.e. from TZS 17,906 billion on 31st December 2019 to TZS 14,510 billion as of 31st March 2020. This followed a significant decline in prices of all cross-listed companies. These are companies primarily listed in the Nairobi Securities Exchange, which are also cross listed at the DSE.

Impact of COVID 19 on the Poor and Vulnerable Groups

First, COVID 19 like any other crises is hugely resource demanding. One of the main preventative measures against COVID 19 is the use of running water or sanitizers both of which are costly and in most cases a luxury and as such most of the poor and most vulnerable will be without protection. Also, there are a huge number of people, mostly in rural areas without access to water which is key in the fight against COVID 19. Second, key sectors that employ the majority of the poor, the youth and people living with disabilities are and will continue to be severely impacted by the pandemic. Measures to curb human mobility and social distancing measures have disrupted livelihoods exposing the majority of the poor to acute financial shocks. Most of the poor and vulnerable that are self- employed in the informal sector have been affected by reduced demand for their products (less traffic, closure of schools and other measures) as a result of aversive actions against COVID-19. In the long term, most of the poor will be impacted because of the difficulties related to the cost of inputs in the agriculture sector. In agriculture, COVID 19 has already brought about shortages of some agricultural inputs such as herbicides, pesticides and horticultural seeds thus increased the rise in the cost of inputs (fertilizer) whose impact will be felt even stronger in the next planting season. Similarly, women are hit harder by the economic impact of pandemics such as those COVID-19 is driving because most women work in low-

paying, insecure and informal sectors. Tanzania's experience with COVID- 19 will is likely to yield a similar outcome as 51% of women work in the informal sector employed or running micro and small enterprises⁸. Main attributes of this sector include daily wages, limited social protection measures and savings, reliance on entrepreneurs (owner cum operator) which cumulatively make women vulnerable particularly at times like these. The situation is exacerbated by restrictions on movement and lowered consumer demand in export markets, reduced cross border trade and total halt in the tourism sector.

Impact on Public Financing and Government Budgeting

One of the most difficult challenges the Government is facing and will continue to face is around public budgeting and social service delivery as a result of and during the COVID 19 crisis. Tanzania like other developing economies will experience implications of COVID-19 through a variety of channels: (i) trade as the global value chains are being disrupted by factory shutdowns and delayed resumption of operations; (ii) Foreign financial flows, which could be shifted away from corona virus-affected countries; (iii) Domestic human and financial increasingly underutilized as factories are idled and people stay at home; (iv)Transport and tourism being major revenue sources but shrinking as demand declines and expanding travel restrictions; and (v) Sharp drops in commodity prices to harm export earnings.

COVID-19 pandemic will undoubtedly increase demand for public expenditure on health mainly in procurement of medicines, medical equipment, sanitizers and gadgets/ventilators, beds etc., spending on preventive measures, public health education measures, among others. As COVID-19 spreads, treatment costs on more sick people will most likely increase. While pressure on increased public expenditure on health sector mounts, the cash flows in government revenues are expected to decline due to decrease in a variety of direct and indirect taxes, levies, fees etc. following compression in business margins, slowdown of business activities, retrenchments, salary losses, closure of income generating avenues in the informal economy as propounded in the above sections.

Conclusion

The analysis has indicated that COVID-19 will have a considerable devastating impact on the economy, affecting incomes of enterprises and individuals; and ultimately government revenue collections and its ability to provide social and economic services. The already emerging devastating impact will be even more exacerbating on women and youth in poverty and vulnerability such those in the informal sector, rural communities, people living with disabilities and marginalized urban dwellers. The aversion measures being undertaken coupled with the regional/neighbor countries measures and the global recession consequences are all adding to the already depressed situation on the ground domestically.

⁸ NBS, Women and Men Facts and Figures, 2018

Such hard times require some hard decisions to mitigate the economic impact of COVID-19 on enterprises to prevent total collapse of firms and alleviate the pain being suffered by the vulnerable segments in the country. The measures, will include, but not limited to redirecting trading to win more accessible markets within the EAC/SADC, especially for agricultural exports, supporting the private sector to invest in local manufacturing, agriculture and food systems, rescuing fragile businesses providing essential services and supporting the most vulnerable segments of the society to sail through the difficult phase before economic recovery.

1.0 BACKGROUND AND INTRODUCTION

1.1 Health Risk Associated with COVID 19

On November 17th, 2019, the first reported case of COVID 19 was documented in Wuhan, China. In the subsequent months, COVID 19's status as a transboundary disease has escalated from being classified as a full-fledged outbreak that was initially confined to China, to being recognized by the World Health Organization (WHO) as a 'public health emergency of international concern, and finally being classified as a 'global pandemic' on the 12th of March 2020. The following table below provides an overview of the outbreak of COVID as of April 15th, 2020.

Table 1.1: COVID Cases

Active cases 1,931,060 (current infected patients)		Closed cases 1,134,679 (with an outcome)	
In Mild Condition	Serious or Critical	Recovered and discharge	Deaths
1,874,755 (97%)	56,305 (3%)	923,021 (81%)	211,658 (19%)

COVID 19's rapid spread to other parts of the world has been primarily driven by the newly infected regions' connectivity and proximity to Wuhan, China. Given these dynamics, the first countries to record cases of COVID 19 after the initial outbreak were Japan, South Korea, followed by the United States of America. These first reported cases were closely followed by reports of outbreaks in Singapore, France, and India. However, despite the above-mentioned countries recording their first cases during similar periods, the rate of progression across the different countries has varied. This can be attributed to the public health and safety measures enacted by the different governments upon learning of the outbreak. Such measures include but are not limited to mandatory quarantine periods of 14 days for new arrivals, cancellations of public events, school closures, cluster testing, and in most extreme cases, a complete and total lockdown on all non-essential work and public activities.

Narrowing the focus to Africa, given many African countries' limited proximity and connection to the Wuhan province, COVID 19 made a belated and indirect entry to the African continent. This is noted as the first reported case of COVID 19 was only recorded in Egypt on February 14th, 2020. Since then, the numbers of cases in Africa have gradually increased as individual countries have each recorded cases of COVID 19 within their respective territories. After observing the stringent measures that have been taken in other

parts of the world, affected countries in Africa have swiftly responded to the COVID 19 threat by enacting policies similar to the ones enacted in regions which have suffered from a full-scale outbreak. Within East Africa for example, countries such as Rwanda, Kenya, and Uganda have encouraged social distancing within communities, closed off borders, and enacted curfews that aim to contain non-essential movement and hence greatly reduce the risk of COVID 19 spreading further within the borders. Rwanda is currently on a total lockdown which has been extended for another month.

1.2 Economic Effects of COVID 19

This pandemic is a health crisis. But not just a health crisis. Tackling COVID-19 is also a humanitarian and development crisis that is threatening to leave deep social, economic and political scars for years to come, particularly in countries already weighed down by fragility, poverty and conflict.

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As travelers cancel flights, businesses ask workers to stay home, and stocks fall, a global health crisis becomes a global economic crisis. In any health crisis, our first concern is (and should be) with the health of those affected. That said, the health pandemic has since manifested itself in an economic crisis. Estimates of the likely global impact vary dramatically, with Bloomberg predicting a \$2.7 trillion loss in output, the Asian Development Bank releasing scenarios from \$77 billion to \$347 billion, and an OECD report cautioning halving of global economic growth. Despite the differences in the expected impact of the virus on the economy, all assessments show that COVID 19 will adversely impact the global economy and the economies of low- and middle-income countries. Unfortunately, economic impacts also have dramatic effects on the wellbeing of families and communities. For vulnerable families, lost income due to an outbreak can translate to spikes in poverty, missed meals for children, and reduced access to healthcare far beyond COVID-19. While the spread in the United States and Europe absorbs much of the media coverage, confirmed cases in low- and middle-income countries mean that many of the economic impacts may also affect the world's most vulnerable populations.

1.3 Objective and Outline of the Report

The objective of the report is to provide a preliminary assessment of the COVID-19 outbreak in Tanzania based on early indications. Focus will be on socio-economic transmission channels and potential impacts of the crisis from an economic and human development lens including its impact on women, youth and vulnerable groups. The report also draws learnings from other countries and provides contextual initial recommendations. As will be discussed below in the limitation subsection, the crisis is still unfolding and in its early stages in Tanzania and as such the analysis in the report is based on desk research and data that is

routinely available. Also, so far, no country has been able to recover from the crisis (it is debatable whether or not we have seen the worst of it anywhere) and as such, any measures that have been undertaken in other countries must be considered with a Tanzanian socio-historical context in mind.

The remainder of this report is organized into six chapters: the next chapter will outline and explain the methodology used in carrying out the assessment (such as scenarios considered) as well as the assumptions and limitations of this study. Chapter 3 provides a baseline in terms of the socio-economic state of the world, Africa, and Tanzania before COVID 19 and what the projections were for 2020 and beyond. Chapter 4 is the most important section of this report and explains the main channels through which the health crisis will manifest itself in a socio-economic crisis and the possible channels for Tanzania and the sectors likely to be most affected by the novel virus. These include tourism, agriculture, wholesale and retail, transportation and storage, and finance and insurance. The last chapter provides a list of recommendations to address the socio-economic risks associated with COVID 19.

2.0 METHODOLOGY, ASSUMPTIONS, AND LIMITATIONS

2.1 Methodology

A variety of methods were used in carrying out the rapid socio-economic assessment combining primarily a desk review of relevant literature and documents, and structured interviews/assessment of initial survey findings by key relevant stakeholders. In writing this rapid assessment report, the team also used secondary data where necessary.

2.1.1 Desk review

The team reviewed literature topics around the expected outcomes of the report:

- In order to identify the sectors most at risk as a result of COVID-19 and the transmission channels, we reviewed the impact COVID-19 has had on health and the economy in various African markets and especially in economies that are fairly similar to Tanzania.. The team also reviewed the literature on the impact of epidemics/pandemics such as SARS and Ebola on socio-economic outcomes and indicators especially for African countries (these indicators include both gender and human development outcomes).
- Analyzing emerging terrains as a result of the above and providing recommendations for development stakeholders. We have reviewed the impact of past global crises (mostly the 2008/9 financial crisis on Tanzania) as well as country level rapid assessments/diagnostics for nations such as Kenya and Nigeria as well as measures (monetary and fiscal) that have been undertaken by peer countries to mitigate the socio-economic effects of COVID-19.

2.1.2 Secondary Data Collection

In order to quantify the significance and importance of the various sectors reviewed, authors used secondary data from the National Bureau of Statistics, Bank of Tanzania, and Tanzania Economic Survey. These three sources provided quantitative data on the contribution of selected sectors to GDP, and the amount of foreign reserves derived from these sectors. The information on the size of the labor force employed in a particular sector (as well as its importance to women and youth) was derived from the Tanzania Labor Force Survey (2014) published in 2019. We have also used information from apex organizations in the private sector to triangulate the secondary data we used, and the conclusions made.

2.2 Assumptions

The impact of the unfolding COVID-19 on Tanzania will be through numerous channels, including sharp declines in international and domestic demand of goods and services fall in

tourism and business travel, trade and production linkages, supply disruptions, and health effects. The magnitude of the economic impact will depend on how the outbreak evolves, which remains highly uncertain at the time of the assessment. In making our assessment about the risk, we made a number of key assumptions outlined in this section.

2.2.1 Possible Scenarios - Severity and Longevity of the Crisis

Studies on impact of epidemics/pandemics have shown that the path back to growth under COVID-19 will depend on a range of drivers, such as the degree to which demand will be delayed or foregone, whether the shock is truly a spike or lasts, or whether there is structural damage, among other factors. Rather than focusing on a single estimate our assessment of the impact is conditional on any of the three scenarios materializing. The scenario approach allows us to place the assessment and recommendation in context and time given the speed at which everything is changing. In our assessment, the difference between the scenarios is the longevity of the health risk, its impact, and associated socio-economic effect on the world and regional economy and consequently on Tanzania. We have described below three broad descriptive ideas about possible paths that the disease outbreak, and the global economy, might take.

Table 2.2: A Summary of Possible Scenarios⁹

Scenarios	Source of negative impact	Kind of impact
Best case scenario: Things are starting to get better from here	Foreign as a result of responsive measures by Governments; and domestic aversive current measures	Mostly economic in terms of temporary freeze of trade activities and tourism; Minimal deterioration of human development indicators
Moderate - most likely scenario: Things will get worse from here and for a little longer	Foreign as a result of responsive measures by Government; Domestic as a result of stricter measures by the Government	Mostly economic in terms of temporary freeze of trade activities; Some deterioration of human development indicators mostly on health and education
Worst case scenario: “All hell breaks loose” and we do not recover this year	Foreign as a result of responsive measures by Government; Domestic as a result of stricter measures by the Government	Both economic and financial including closure of businesses; Deterioration of human development indicators - reversal of the gains made on SDGs

⁹ A more thorough explanation of the possible scenarios is on the appendix section

2.2.2 Likely Recovery Path

There are a number of recovery paths that an economy can take once it has undergone a recession/depression. These paths have been discussed in detail in Appendix 1¹⁰. In this rapid assessment report, we assume that the recovery path will take a V-shaped path. The V-shaped path describes the “classic” real economy shock, a displacement of output, but growth eventually rebounds to pre-crisis levels and that annual growth rates could fully absorb the shock. In making this judgment, we have looked back at history to place the potential impact path of COVID-19 empirically. Research shows that the V-shaped recovery paths monopolize the empirical landscape of prior shocks, including epidemics such as SARS, the 1968 H3N2 (“Hong Kong”) flu, 1958 H2N2 (“Asian”) flu, and 1918 Spanish flu. Also, other scholars who have assessed the impact of COVID 19 have arrived at a conclusion that the recovery path will be V shaped¹¹. One caveat here is that most of these assessments by other scholars were conducted in an early milder phase of the pandemic (without the benefit of hindsight) and their assessment might be different should they have known what they currently know.

2.3 Limitations of the Study

This study is a rapid assessment of risk emanating from the health and economic effects of COVID-19. As a rapid assessment, its findings are urgently needed to inform policy decisions and as such the team was unable to conduct in-depth interviews with all key stakeholders and value chain actors at this stage. However, we have included information based on assessments and studies by key apex organizations though none of these initial findings are “official”. Also, because COVID-19 is still unfolding in its spread and impact both domestically and internationally, the team was not able to quantify the impact (for instance, this could have been done by comparing 2020 Q1 and 2019 Q1 or Q3 & Q4) at this stage because of lack of the requisite data for computation of impact comparisons.

In addition, although our overall risk assessment is on all major sectors of the economy, we only focused on five sectors we thought are the “most important” sectors that will be adversely affected immediately, medium and long term. The definition of most important is based on the sector’s size to the GDP, number of jobs dependent on the sector, and its contribution to domestic revenue mobilization and as a source of foreign currency.

The decision made on which of the sectors will be most impacted is conditional on Tanzania’s current response and mitigation policy and the impact the virus has had on the economy so far. For example, a lockdown might make construction and real estate one of

¹⁰ V-shape, U-shape, and L-shape

¹¹ An UNCTAD 2020 Trade and Development Report shows that if the outbreak is short-lived, a familiar mix of accommodative monetary policies and automatic fiscal stabilizers should be sufficient to save the day, with the recovery assuming the “V” shape that followed, for example, the SARS virus shock of 2003

the most impacted because of clear loss of jobs but also the challenge related to payment of rent and value of real estates.

3.0 PRE-CRISIS SOCIO-ECONOMIC SITUATION

3.1 Global and Regional Growth and Prospects before COVID 19

In January 2020, the International Monetary Fund projected that global growth would rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020 and 3.4 percent for 2021—a downward revision of 0.1 percentage point for 2019 and 2020 and 0.2 for 2021 compared to projections made in the October World Economic Outlook (WEO).

Africa's outlook for 2020 was considerably brighter after GDP growth reached an estimated 3.3 percent in 2019. In terms of projections, African economic growth was projected to accelerate to 3.5 percent in 2020. In East Africa, the United Nations Economic Commission for Africa (UNECA) office for Eastern Africa forecasted regional growth rising to 6.5 percent in 2020, after a more moderate performance of 6.1 per cent in 2019. Nations within the East African Community (EAC) recorded an increase in economic growth with Rwanda recording the highest growth of 8.6%, followed by Tanzania, which recorded growth of 7.0%. Kenya recorded economic growth of 6.3% and Uganda 6.1%. The growth in East Africa was largely a result of expected increase in foreign direct investments and increase in manufacturing activities.

Another important development for the past year was the ratification of the African Continental Free Trade Agreement (AfCFTA)¹², creating the largest free trade area since the establishment of the World Trade Organization. The free trade area is expected to help boost intra-African trade, which remains far lower than in other regions. According to estimates by UNECA, intra-African trade could be 15 to 25 percent higher by 2040 as a result of AfCFTA. Additionally, according to a Brookings policy brief, "Keys to success for the AfCFTA negotiations," Africa is expected to have combined business and consumer spending of \$6.7 trillion by 2030 owing to the increased trade resulting from AfCFTA.

Although these levels of growth in Africa and East Africa were higher than other emerging and developing countries, they were insufficient at addressing the structural challenges of persistent current and fiscal deficits and debt vulnerability. Also, they are significantly below the needed levels of growth if the region is to achieve the goals and targets outlined in Sustainable Development Goals (SDGs).

In terms of social development, Africa has made notable progress in education, health and other social outcomes, but inclusive growth remains elusive. Africa's social gains could be

¹² Although Tanzania has yet to ratify it, the agreement was going to come into effect because it has already received critical backing from other members

greater if countries mobilized fiscal revenue in innovative ways and deployed it effectively to finance sustainable development.

3.2 Tanzania Economic Performance and Prospects before COVID 19

The National Bureau of Statistics (“NBS”) rebased the GDP statistics by changing the base year from 2007 to 2015. This revision resulted in changes to the size of GDP, overall GDP growth levels, sectoral growth and the contribution of various sectors to GDP as well as various indicators of GDP. In the past decade, Tanzania has been one of the fastest growing economies in the world. In his budget speech in June last year, the Minister of Finance and Planning stated that Tanzania had a very strong macroeconomic outlook with a GDP growth of 7.0%- and single-digit low and stable inflation. The high growth rate was because sectors with the greatest contributions to the country's economy (agriculture as 28.2% and construction at 13%) experienced robust growth. In 2018/19, agriculture grew at 5.3% as a result of favorable weather conditions that enabled a bumper harvest and the construction's growth of 12.9% was a consequence of the infrastructure investments, in particular roads, railway and airports - and this was also reflected in the balance of payments which saw an increase in the value of imported goods particularly construction materials.

Regarding projections for 2020, the Minister outlined that the nation's macroeconomic objectives for 2019/20 include continued strong growth (7.1% for 2019 compared to 7% in 2018) and revenue collection (tax to GDP ratio of 13.1%, compared to a projected 12.1% for 2018/19). The Government also aims at controlling inflation between 3.0% and 4.5%. To achieve this, he emphasized the Government's intention to improve the business environment in a bid to attract foreign direct investment in priority areas (including agriculture, construction, manufacturing, mining, oil and gas, telecommunications, tourism).

3.3 Tanzania Poverty Reduction and Human Development

Both Tanzania and Zanzibar have made marked improvement in poverty reduction. The most recent Tanzania Mainland Poverty Assessment shows that the nation's remarkable economic growth has led to a persistent decline in poverty. Between 2007 and 2018 Tanzania's national poverty rate fell from 34.4 to 26.4 percent, and extreme poverty fell from 12 to 8 percent, based on results of the Household Budget Surveys (HBS) for 2007, 2011/12, and 2017/18. Similarly, the most recent poverty assessment on Zanzibar shows that Zanzibar recorded an important decline in urban poverty, while rural poverty did not change. Basic needs poverty and extreme poverty both declined by 4.5 and 1 percentage points, respectively, at the national level in Zanzibar since 2010.

Tanzania has made significant progress in human development evidenced by the improvement in the Human Development Index (HDI) score from 0.371 in 1985 to 0.531 in

2015, which represents an increase of 43.1 percent over the 30-year period. This is according to the most recent Tanzania Human Development Report (THDR 2017). Despite these positive trends, vulnerability remains high: for every four Tanzanians who moved out of poverty, three fell into it. A large number of non-poor people living just above the poverty line are at risk of slipping below it. Beyond the persistent gaps between urban and rural areas, there are large disparities in the distribution of poverty across geographic regions. Poverty is highly concentrated in the western and lake zones, and lowest in the eastern zones. The reduction in poverty is also low in relation to Tanzania's remarkable economic growth.

With regards to inequality, Tanzania is one of the few countries in Africa where inequality has declined by nearly 8 percent from 0.39 in 2001 to 0.36 in 2012, according to a report by UNECA. The decline in inequality is attributed to, among other things, improvements in redistributive policies in the country. Despite the drop in inequality, there are significant rural-urban, wealth and gender disparities, particularly in health outcomes. Despite showing a declining trend, individuals in the wealthiest quintiles still account for nearly half of the total income in Tanzania. Individuals in the wealthiest quintiles appropriate 48 percent of the total income, whereas individuals in the poorest quintiles only get 6.2 percent of the income being generated in the country. Notably, and of relevance for the socio-economic impact assessment is the fact that inequality of education has declined in the past two decades with the largest decline between geographical zones. Water inequality is also on the decline but at a very low rate. However, inequalities in health outcomes are rising and there are significant disparities in wealth dimensions. According to the same report, youth unemployment, rather than the overall unemployment is the biggest inequality and development challenge. Women in Tanzania are one and a half times more likely to be unemployed at 12.3 per cent than men at 8.2 per cent with implications for household income and welfare in general.

4.0 TANZANIA SOCIO-ECONOMIC RISK FROM COVID 19

4.1 COVID 19 Transmission Channels

We adapted the conceptual framework from the Guideline on Assessing Socio-Economic Impact of COVID-19 by UNDP. The guideline explains that the socio-economic impact of the COVID-19 epidemic operates through two distinct channels.

Box 2: Channels of Short Term and Long Term COVID-19 Impact

→ Direct and Indirect Effects of the sickness

Beyond the human tragedy, there is a direct economic impact from lives lost in an outbreak. Families and loved ones lose that income and their in-kind contributions to household income. Of note, the distribution of COVID-19 fatalities skews old, which means many of those most likely to die are no longer working and are less likely to be the primary provider for their families. Though less likely to pass away from COVID-19, many working age adults still fall ill and their families will feel the financial burden as they miss work for days or weeks.

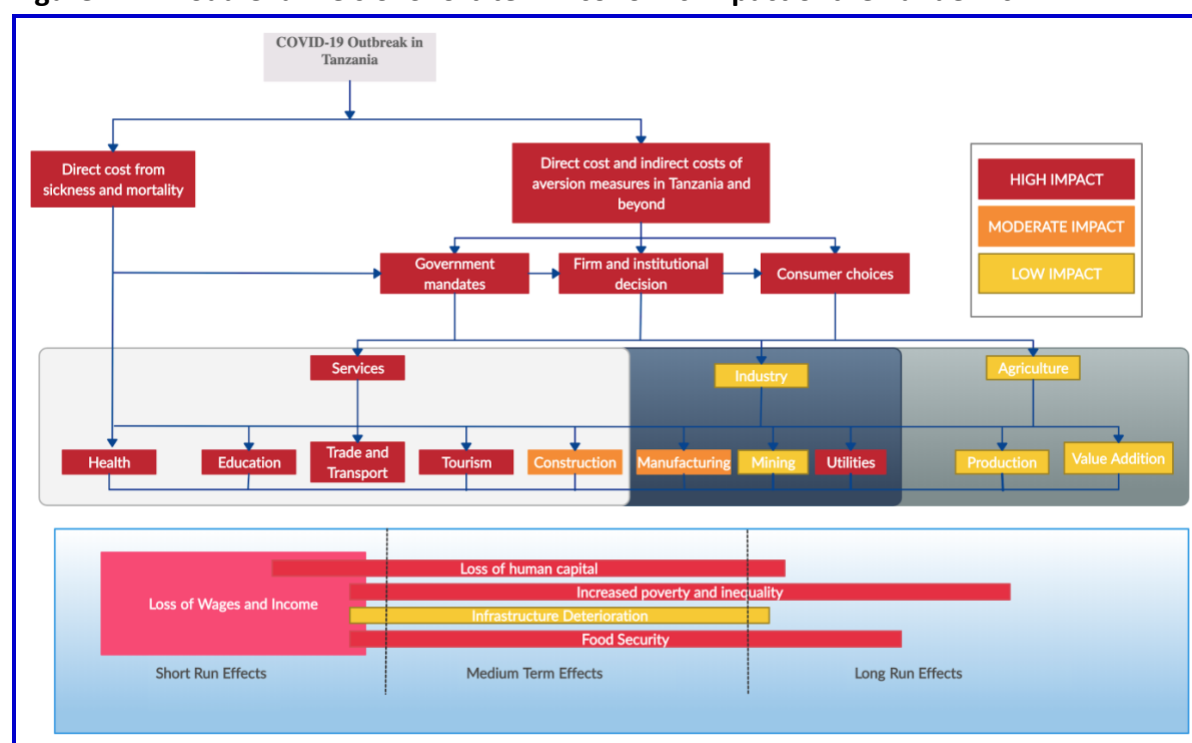
→ Aversion Behavior Effects

Most of the economic impact of the virus will be—as we are already seeing—from “aversion behavior,” the actions people take to avoid catching the virus (which can, it should be noted, be a logical and proportional response). This aversion behavior comes from three sources: Governments impose bans on certain types of activities from closure of schools to total lockdowns; firms and institutions (including private schools and private companies) take proactive measures to avoid infection¹³; and individuals reduce trips to the market, travel, going out, and other social activities. These actions affect all sectors of the economy in turn translating into reduced income both through the supply side (reduced production drives up prices for consumers) and the demand side (reduced demand from consumers hurts business owners and their employees)

Source: Adopted from Center for Global Development

¹³ Business closures—whether through government bans or business decisions—result in lost wages for workers in many cases, especially in the informal economy where there is no paid leave

Figure 4.1: Broad Channels of Short-term Economic Impact of the Pandemic



Source: Author adaptation from Evans and Over (2020)

In this chapter, we have focused on sectors that are and will be most impacted by COVID 19. In order to identify those sectors, we have used the methodology explained above in Chapter 2. We first outlined all sectors and assessed their significance to the economy through their percentage to the GDP and foreign exchange earnings and the number of people employed in that sector. Also, we analyzed their respective distributional effects in terms of employment for women and youth using the most recent Labor Force Survey. Lastly, we assumed the most likely scenario (moderate case) and analyzed the risk for the sector immediately, in the medium and long term. Based on our assessment, below are the key sectors that have and will be most impacted by COVID 19.

Table 4.1: Significance of Sectors and Degree of Risk Associated with COVID 19

SECTORS						Degree of Risk from COVID 19		
	Significance and Importance to the Economy			Distributional Effect		IMMEDIATE	MEDIUM TERM	LONG TERM
	% of GDP	Employment	% Forex	Youth	Women	March - April	May - August	September - December
<i>Agriculture, Forestry & Fishing</i>	22.4	13,409,814	11.49%	HIGH	HIGH	LOW	MEDIUM	HIGH
Mining & Quarrying	5.08	218,024	19.24%	HIGH	LOW	LOW	LOW	MEDIUM
Manufacturing	8.05	615,323	9.47%	HIGH	MEDIUM	LOW	HIGH	HIGH
Construction & Real Estate	13	428,411	-	HIGH	LOW	MEDIUM	HIGH	HIGH
<i>Wholesale & Retail Trade</i>	9.12	2,528,771	-	HIGH	HIGH	MEDIUM	HIGH	HIGH
<i>Transportation & Storage</i>	6.48	521,698	14.56%	HIGH	LOW	MEDIUM	HIGH	HIGH
<i>Tourism & Hospitality</i>	11.7	807,942	29.18%	HIGH	HIGH	HIGH	HIGH	HIGH
<i>Financial & Insurance Activities</i>	3.7	60,607	-	MEDIUM	MEDIUM	LOW	HIGH	HIGH
Education, Human Health & Social Work Activities	3.78	580,952	-	MEDIUM	HIGH	HIGH	HIGH	HIGH

4.2 Impact on Tourism and Hospitality Industry in Tanzania Mainland and Zanzibar

The tourism and hospitality industry is one of the major sources of employment, tax revenue, and foreign exchange earnings to Tanzania. In the 2019 FY, the total value of foreign exchange earnings generated from tourism amounted to USD 2.557bn¹⁴. This represented 25.79% of all goods and service exports and 61.4% of service exports. In a budget speech made in 2017, the former minister for Natural Resources and Tourism estimated that the sectoral contribution of tourism to Tanzania's GDP stood at 17.5%¹⁵. The sector is more important for Zanzibar as it accounts for about a third of its GDP, 80% of its

¹⁴ Bank of Tanzania Quarterly Economic Report 2019

¹⁵ Speech by Former Minister for Natural Resources and Tourism, Professor Jumanne Maghembe, May 2017

revenue, and remains the biggest employer on the island. In this regard, the onset of COVID-19 has substantially derailed the growth and development of a key contributor to the national economy. More specifically, given the disruption brought about by COVID-19, it is highly likely that the government will not attain the goal set out in the 2nd Five Year Development Plan of increasing the total contributions from tourism and hospitality to 18.3% of GDP whilst maintaining a real growth rate of 6.2% by the year 2020.

With regards to transmission channels, there are two main kinds of impact channels for tourism: local and global efforts mostly averse in response to COVID 19. With regards to the external impact channel, countries around the world have suspended their airline industries and have called for measures such as lockdowns that make it impossible for tourists to travel to Tanzania, even if they wanted to. Similarly, potential tourists are taking their own measures at an individual level as a precaution during this crisis. Lastly on external channels, there is the impact of weakened demand as a result of reduced economic activities around the world leading to unemployment, and loss of income for many potential tourists. The second channel is a domestic one because of measures taken by local players. First, the Government has suspended all international flights until further notice meaning that no tourists can travel to Tanzania at this time. The Government has also called for citizens to postpone any unnecessary travel within the country. In addition, most tourist hotels have made a decision to suspend their operations because of fear of spreading infections and decreasing profit margins/increasing losses from lack of tourists and closure of social events such as weddings.

4.2.1 *Best and Moderate Case Scenario*

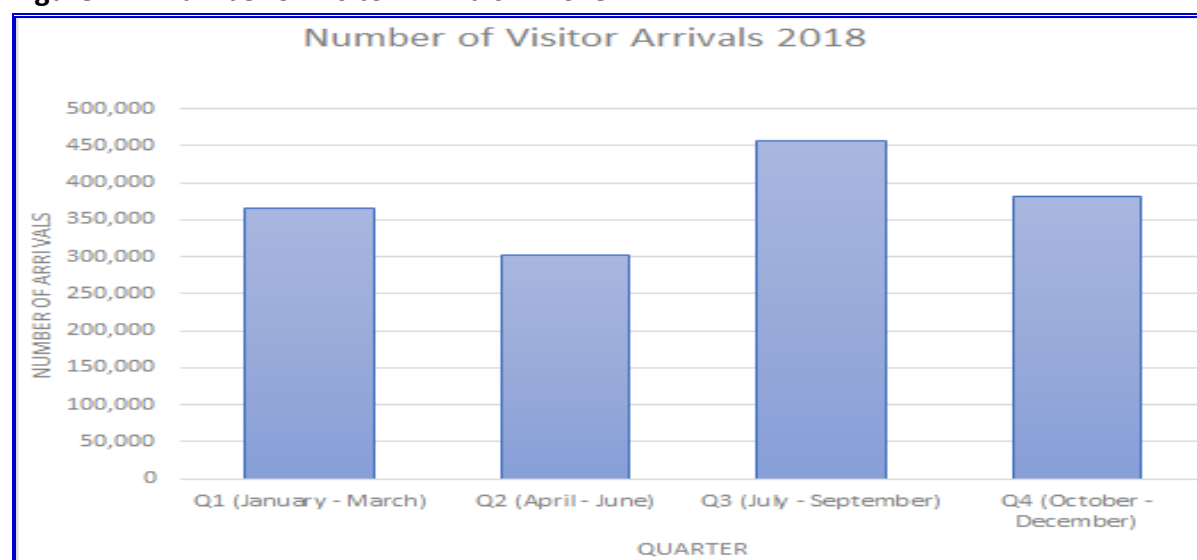
Tourism has been and will be the most adversely affected sector as a result of COVID 19. The best and moderate case scenarios are quite similar because of the seasonal nature of the industry and its dependence on activities and situations in other parts of the world (where the majority of the tourists come from). Specifically, data showing regional disaggregated figures of visitors shows that most of Tanzania's tourists come from regions where the spread of COVID 19 is still increasing at an alarming rate. It is also within these regions that stringent lockdown and containment measures have been enacted by the local governments thereby restricting domestic and international travel.

Table 4.2: Visitor Arrivals by Region of Origin

Region	Visitor Arrivals in 2018	Region	Visitor Arrivals in 2018
East Africa	602,216	South America	12,848
Europe	501,325	West Africa	12,401
North America	118,361	South East Asia	10,245
Southern Africa	61,006	North Africa	5,784
East Asia & the Pacific	60,688	Caribbean	3,679
Middle East	32,205	Central America	803
Australasia	19,164		

Source: Ministry of Natural Resource and Tourism: The 2018 Tourism Statistical Bulletin

On seasonality of the sector, COVID 19 has affected and will most likely impact the seasons that are most important for value chain actors. This is because, even in the best and medium case scenario (improvement happens after September) the peak season will be ending, and resumption in any tourist activity will take place after the season has ended. The figure below shows the distribution of arrivals from the sector by quarter.

Figure 4.2: Number of Visitor Arrivals in 2018

Source: Ministry of Natural Resource and Tourism: The 2018 Tourism Statistical Bulletin

Currently, travel agents, tour operators, guides, and companies operating in the tourism industry are experiencing a substantial decline in activity if at all and will also experience mounting losses to their operations as the number of incoming tourists grind to a halt. This impact is also felt by the local subcontracted companies where the above-mentioned operators procure services from. Nonetheless, it's not expected that players and operators within this sub segment will cease operations altogether as they would adopt a wait and see approach for subsequent periods. The hardest hit will be micro entrepreneurs (arts, crafts

dealers, small restaurateurs) who have very few savings to rely on during periods of inactivity. In this regard, it's expected that women and youth operating in the informal economy will be the most affected group. In the medium term (July- September), companies in the hospitality industry will continue experiencing vastly reduced occupancy rates and mounting operating losses especially in peak seasons. Given the reduced activity, companies will begin cutting down on costs to remain solvent. This may entail forcing staff to go on unpaid leave and in certain instances, issuing firm wide retrenchments. The effects and ramifications of this decreased activity will also be felt with local companies and within the informal economy where many young micro entrepreneurs and females operate. As this will spell a second consecutive quarter where there is very little activity within the tourism industry, many micro entrepreneurs will not be able to cope.

Given tourism's vast contribution to Zanzibar's economy, the impact of COVID 19 on Zanzibar has been felt immediately. In addition to this, the broader effects emanating from these shocks will be much more pervasive to the entire Zanzibari economy than mainland Tanzania. The first transmission channel through which the shock will be felt is through the transport industry, particularly aviation as this is the mode of transport through which many tourists enter the isle. In transportation, Zanzibar will also receive less visitors (domestic and international visitors) that use the ferry which is the most dominant means of accessing the island. Secondly, the registered hotels and guesthouses will also record substantial vacancies during this period as there will be virtually no tourists that enter from traditional markets. Among large scale hotels, firms may mandate that staff go on unpaid leave whereas among smaller hotels, temporarily halting operations may become a necessary coping mechanism. This impact will also be felt with the local companies mostly informal employing women and youth where the hoteliers procure services from. The broader macroeconomic impact on the Zanzibar economy will also be felt immediately as the tax intake from tourism will decline substantially and the foreign exchange reserves will also be under substantial pressure.

4.2.2 Worst Case Scenario

In the worst-case scenario, there are bleak prospects for the current year and similarly, travel agents do not receive many advanced books for FY 2021. The transportation industry will be adversely impacted as the busier airports located in Dar-es-Salaam and Kilimanjaro receive fewer passengers than expected. Widespread closures of hotels and resorts (both large and small) occur and many staff are laid off. Given this downturn, local agencies also cease operations. Many micro-entrepreneurs and women operating in the informal economy are severely affected as this will entail the 8th consecutive month of little to no income with many of their savings already exhausted. The wider systemic risks within this region are also increasingly felt as microfinance institutions, corporate banks, and lenders that were proactive in supporting operators in the tourism industry record large increments in non-performing loans and some start recording operating losses. The tax revenues

expected from the sector are substantially lower than what was expected for the year and foreign exchange reserves are increasingly under pressure. Nonetheless, the harsh effects of this downturn will be primarily confined to the northern region with limited impact on the broader economy.

It is most likely that Zanzibar will plunge into a deep economic downturn for the foreseeable future given the prominent role that tourism plays in the Zanzibari economy. Taken on a sectoral level, the main immediate victims from these shocks are the transportation and hospitality industries. Within the transport sector, the airports and maritime transport networks will be operating under capacity. Given the operating losses arising from this, many companies will have ceased operations altogether. Widespread closures will also take place across the different hotels within the island (both among large established resorts and smaller units) hence resulting in a huge increase in unemployment on the island. Local entrepreneurs will be at great risk of falling into poverty as there would have been very little income generated (if any) within the previous 8 months. In this instance, women traders will be hard hit whereas young micro-traders in the informal economy will be living in very precarious situations. The economic crisis will not have only affected specific sectors but will also be a full-blown island-wide economic shock with systemic repercussions. Tax revenues for the 2020 year will have nosedived, foreign exchange earnings for the island completely depleted and wider financial system risks will begin to surface as lenders and service providers on the island will begin to experience the wider ramifications of a depressed economic climate.

4.3 Transportation and Storage

Transportation and storage sector employ 521,698 people and contribute 6.48% and 3.2% of Tanzania Mainland and Zanzibar GDP respectively. The sector also generates significant foreign income which is estimated at 14.56% of Tanzania's total forex revenues. Road transportation is the most dominant sub-sector, facilitating movements of people and goods within Tanzania and to neighboring countries. Domestic aviation on the other hand, was on a recovery path as characterized by a revamp of the national carrier--Air Tanzania Corporation Limited (ATCL). Despite its nascent domestic aviation industry, Tanzania remains an important hub for international travels. Tanzania Mainland reported 5.7 million air travelers¹⁶, of which 2.7 million were passengers on international flights during fiscal year 2018/19. Similarly, there are over 10 international airlines operating in Tanzania including Emirates, Ethiopian, KLM, and Qatar Airways. In Tanzania mainland, the marine transportation sub-sector is the smallest of the three with respect to the number of passengers transported. Its significance comes from freight shipping, mostly imports, from China, India and Japan to and transiting Tanzania making ports the biggest single revenue generators, contributing to 7% of total government tax revenues in fiscal year 2018/19. In

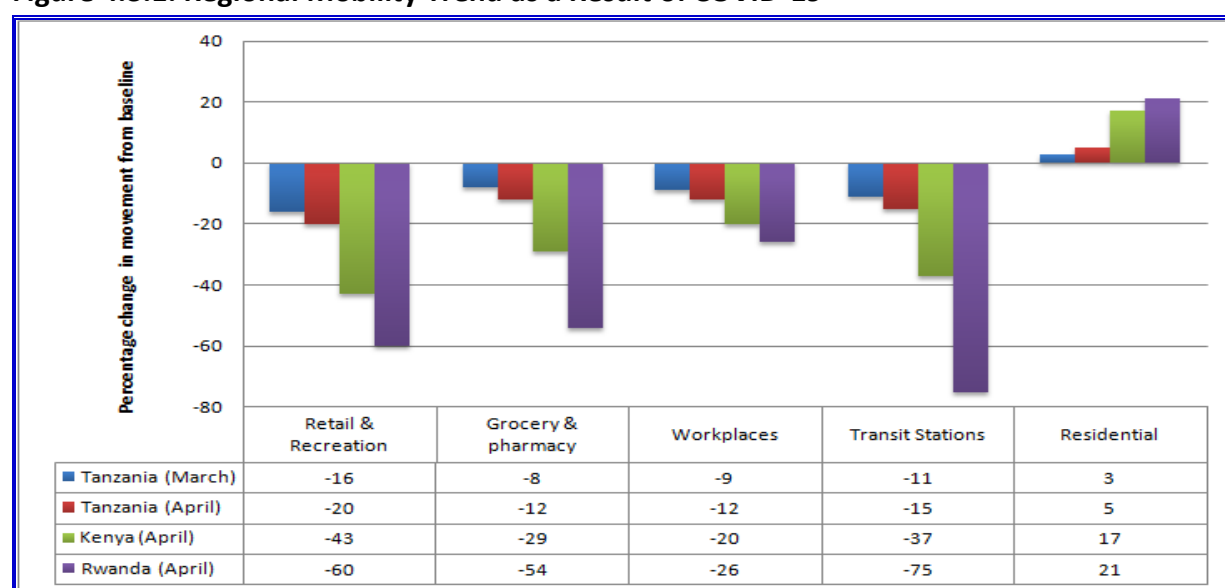
¹⁶ Source: Ministry of Finance and Planning Budget Speech 2019/20

Zanzibar, marine transportation plays a significant role transporting traders and tourists among the three cities of Zanzibar, Dar es Salaam and Tanga. According to the Zanzibar Socio-Economic Survey, there were 2,709,000 marine passengers in 2018.

Impact Transmission Channels

Like other sectors, the transport and storage sector will be affected by both global and domestic factors. Global measures such lockdowns and border closures affect aviation and inter-country buses the most because they limit freedom of movement between countries. On the other hand, immediate effects of COVID-19 on public transportation emanate mostly from domestic factors. As an example, mandatory school shutdowns and a switch towards e-services and remote work has reduced the average number of passengers and trips taken. Figure 5.3 below summarizes mobility changes between February and April 2020 in the wake of COVID-19. Medium and long term, combined effects of domestic and global factors shape the trends in transportation and storage sectors.

Figure 4.3.1: Regional Mobility Trend as a Result of COVID-19¹⁷



Source: Author's illustration of Google's COVID-19 Community Mobility Report¹⁸

For instance, internal and external movement restrictions decelerate economic activities. Suppliers experience low consumer demand and are forced to cut back on productions and service provision. Customers then face inflated prices for essential goods and services. In extreme conditions rationing occurs because the amount of goods and services supplied is not enough. With potential for economic crisis, the government faces pressure to provide tax reliefs and bailouts and therefore adding budgetary constraints.

¹⁷ The baseline used was from Sunday February 23, 2020

¹⁸ Limitations of the report include: The fact that data was taken from users that only poses smartphones and internet connection. Thus underestimation of data presented is to be expected

4.3.1 Road and Railway Transportation

Currently, observed changes within public transportation sectors relate to the government's proposed health and cautionary guidelines. Through its regulatory body LATRA (Land Transport Regulatory authority) the government has mandated level sitting and provision of sanitizers or hand washing facilities¹⁹ by bus operators. These measures though commendable, they erode business profitability as operators not only incur extra costs to provide sanitization but also carry fewer passengers per route. On the consumer side, long waiting times means riders take longer to reach their destinations or are forced to hire alternative and costlier means of transport such as tricycles (bajajis) and motorcycles (bodaboda). Bodaboda also presents a safety challenge because in the wake of coronavirus, passengers refuse to wear shared protective helmets. The urban poor are affected disproportionately because many reside further from the city centres where they must travel to work. Also, as their compensation is often pegged on the number of deliverables or hours worked, long commutes are correlated with even lower incomes. In the case of inter-regional buses and trains, level seat requirement does not reduce profitability because it is already a common practice. Instead, profitability is harmed by lack of business as more people avoid non-essential and non-urgent trips upcountry²⁰.

If things get worse and the country is forced into stricter measures, casual workers including drivers, conductors, technicians and over 600,000 bodaboda drivers lose employment and source of livelihoods. Similarly, bus, motorcycle and tricycle owners suffer from income losses. The railways sub-sector may be in a more vulnerable financial position due to heavy capital investments in recent years. Since 2018, the government has spent over Tshs. 5 billion to rehabilitate the Tanga - Arusha line in addition to Tshs. 6 trillion financing deal to implement phases 1 and 2 of standard gauge railway (SGR). Another recent investment involves disbursement of Tshs. 10 billion to revamp Tanzania Zambia Railway Authority (TAZARA) operations with focus on improving cargo movement. Effective containment of COVID-19 is critical if the sector is to recoup investment costs and set up for future financial sustainability within a reasonable timeframe.

4.3.2 Logistics and Supply Chains

The COVID-19 outbreak has disrupted the supply chains of household products, intermediate and capital goods. The situation is exacerbated by Tanzania's dependence on imports from China and markets in Europe and in the region. Figure 5.3.2 illustrates a declining trend in the number of freight ships between February and April 2020. Currently, and in the medium-term, Tanzania will face a decline in cargo volumes and subsequent stagnation of domestic logistic services. Declining cargo volume initially creates a minor

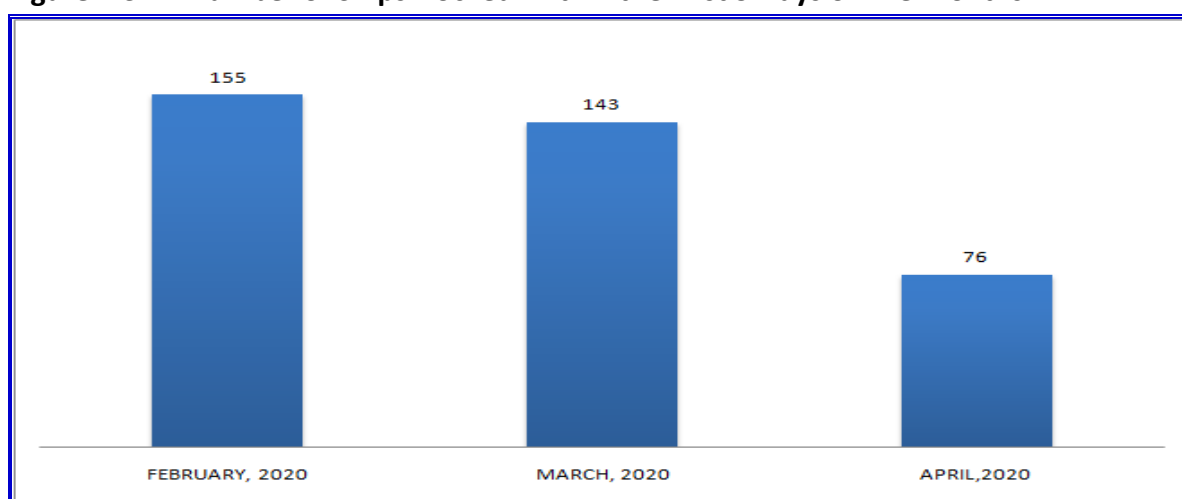
¹⁹ On April 20, truck drivers posed a formal request to their employers to provide protective gears and a minimum of US \$ 200 allowance should the drivers go into mandatory quarantine

²⁰ Interviewed bus operators have mentioned they have to wait several days in the regions before they have enough passengers to justify return trips to Dar es Salaam

impact on domestic logistic companies due to bulk procurement and time lag between docking and goods clearance.

In the medium-term, and if the situation worsens, trucks may opt to park due to the absence of return cargo and if cargo demand is consistently below full loading capacity. There is risk of impact transmitting to several landlocked countries served by Tanzania's logistic operators including Zambia, Malawi, Burundi, Congo DRC, Rwanda and Uganda that depend on the port of Dar es Salaam. At a national level, low cargo volumes lead to low government earnings from levies and fees which have direct implications on social service delivery. In particular, decreasing fuel usage (demand) suppresses fuel levy²¹ revenues which in turn constrain funding availability to repair and develop road, energy and water infrastructure.

Figure 4.3.2: Number of Ships Docked Within the First 9 Days of The Months



Source: Author's analysis; [Tanzania Ports Authority Shipping List](#)

²¹ A fuel levy of Tshs. 263 is charged on every liter of fuel sold domestically. Revenues collected are allocated mostly for road repairs which is crucial for accessibility to jobs, markets, health and education facilities

4.3.3 Aviation Industry

Airlines, airports, airport cargo handling companies and related service providers stand to lose revenues as the number of passengers plummets following border entry restrictions and domestic aversion measures. Domestic flights are bundling direct routes into indirect routes due to declining demand. Travelers across the country are limiting or postponing work or/and leisure trips as advised by the government of Tanzania and partly because they choose to take precautions. Expectedly, charter flights serving tourist spots such as Zanzibar and national parks in the Northern Circuit are hit the hardest not only as a result of falling local demand but most importantly, because their main business comes from international tourists.

COVID-19 pandemic comes at a time when Tanzania is implementing her vision to become a reputable provider of aviation services domestically and within the African continent. Since 2015, Tanzania has purchased seven new aircraft and allocated an additional budget of TZS 1.08 trillion (approximately US\$ 470 million) to revamp its national carrier, Air Tanzania Corporation Ltd (ATCL) and select airport infrastructure. Besides losses from falling demand for domestic routes, ATCL faces reduced forex earnings as the airline suspended all international flights²² as of 25th March 2020. Prolonged lockdowns and depressed demand threaten ATCL solvency provided existing high capital investments.

4.3.4 Storage

Predicted impacts on the storage sector are linked to reduced traffic in cargo vessels. Given that domestic production is sustained, existing storage capacity may not be sufficient as exporters experience longer waiting times due to delayed take-offs from ports and airports. Examples of products that could be affected include non-perishable agricultural products such as sisal, tea, cotton and coffee. Inventory backlog for non-agricultural products will likely be insignificant since exports are to SADC and EAC countries.

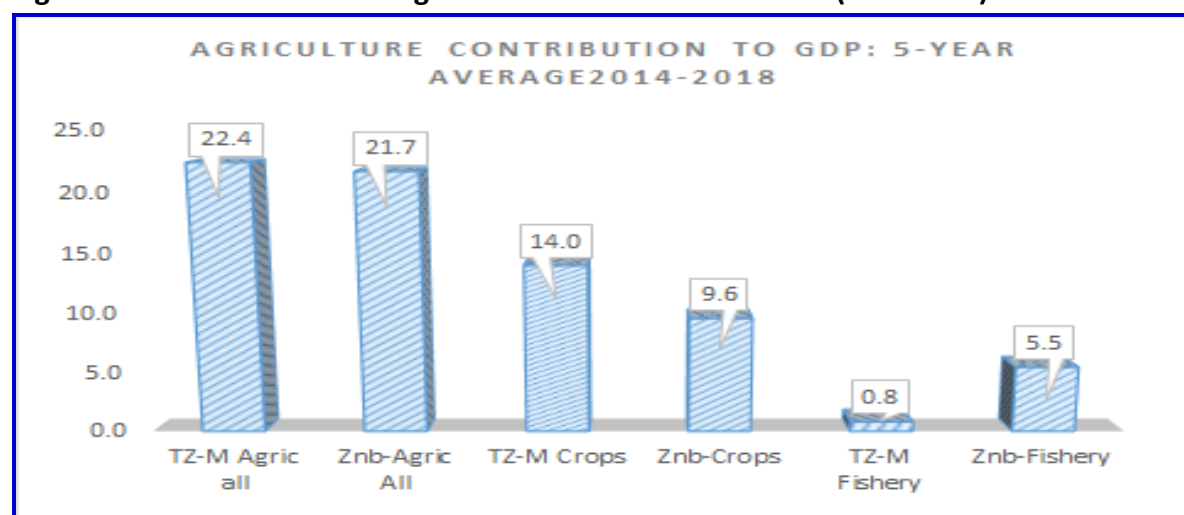
Some warehouses are also empty as they were purposed to store imports that aren't coming as they used to. An analysis on Tanzania's storage capacity is required so as to match the effects from exports and imports. The warehouses will have to be repurposed so they can be used to fit the current situation.

²² Source: Air Tanzania Corporation Limited; [Flight Suspension Notice](#), March 2020

4.4 Agriculture, Forestry, and Fishing

The sector provides direct livelihoods to a majority Tanzanians (about 66%) and according to Bank of Tanzania (BOT, 2019) the sector's average share of contribution to the nation's real GDP from 2014 to 2018 was 22.42% for Tanzania Mainland and 21.7% for Zanzibar²³. The sector is responsible for producing more than 90 percent of food requirements, the balance imported in the form of wheat, edible oil and animal and fish products (ESRF, 2019) and is a prime supplier of basic raw materials needed by the budding agro-processing industries, especially in the beverage (tea, cocoa and coffee), textile and leather industries. The growing tourism industry has also been dependent on food (cereals, legumes, fruits and vegetables), beverages (tea, coffee, cocoa), decorations (plants and cut flowers) grown locally.

Figure 4.4.1: Contribution of Agriculture to National Real GDP (2015 base)



Legend: TZ-M= Tanzania Mainland; Znb=Tanzania Zanzibar; Source: Bank of Tanzania (2019)

4.4.1 Foreign Exchange Earnings from Agricultural International Trade

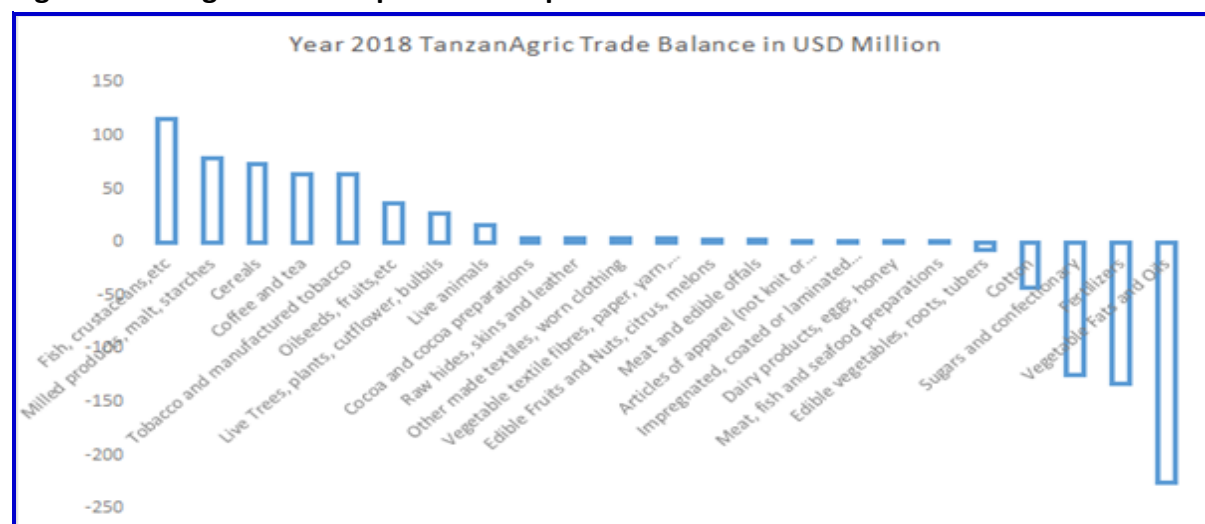
The country earned some USD 556.614 million in 2018 from exporting crop, livestock and fisheries related products to diverse countries such as Asia (e.g. China and India), Middle East (e.g. United Emirates and Saudi Arabia), Europe and the United States. It is also exported to countries within Africa, mostly into EAC and SADC/EAC member states (e.g. Kenya, Rwanda, and South Africa²⁴). The leading commodities exported are shown in Figure 5.4.2 below, and they include fisheries products, dried cereals and milled cereal products (including malt and starches), agricultural commodities, beverage products (coffee, tea and cocoa), cured tobacco and manufactured tobacco, oilseeds (e.g. sesame), live plants and cut flower, and live animals (e.g. cattle and goats, taken mostly to Indian ocean island countries

²³ Agric Figure 5.4.1

²⁴ Comtrade, 2020

and the Middle East). The country also imports some agricultural commodities to fill domestic deficit (e.g. edible oil, wheat flour, sugar and cotton) and for re-exporting after adding value (e.g. wheat, sugar, vegetable oil, and cotton). Fertilizer imports (worth USD 134.66 million in 2018) feed into the agricultural sector's ability to generate new commodities and increase productivity. The importation of agricultural products and fertilizers in 2018 cost the country some USD 596.52 million. **This implies the country had a trade deficit of USD 39.91 million when compared to the value of USD 556.614 million earned from exports in 2018.**

Figure 4.4.2: Agricultural Exports and Imports in 2018



Source: Annex based on <https://tradingeconomics.com/tanzania/exports-by-category>

The agricultural sector is considered by taking into account effects of COVID-19 on supply of agricultural inputs (taken fertilizer as a special case), production and trading of crops, livestock and fisheries. No consideration of the forest sector is made at this juncture. The commodities are divided into four main schedules:

Schedules as a basis for the risk analysis	Commodities
Schedule I	Non-Food Crops such as cotton, tobacco, cashew nut, sisal, cloves, other spices
Schedule II	Food Crops- cereals (such as paddy, maize), legumes (pigeon peas), roots and tubers (irish potatoes, cassava), oilseeds (sunflower, sesame) and fruits such as oranges and mangoes
Schedule III Commodities:	Livestock and livestock products (live animals, meat, poultry, eggs and fish products exports to EAC and SADC allowed under supervision

Schedule IV Commodities	Certified Crop Seeds and Livestock breeds (Not affected because Tanzania is not a significant exporter of certified seeds)
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In the subsequent sections we speculate the likely impact of COVID-19 to the sector based on three scenarios: Scenario I is assumed the country manages to sustain the current regime of containing the virus; Scenario II is a situation of moderate escalation and tightened restrictions; while Scenario III is a worse case situation that calls for tighter controls the disease gets out of hand.

4.4.2 Scenario I: Best Case- Contained Situation

Under the best-case scenario therefore relative larger losses are on selected crops during March-April as export markets for horticultural crops (flowers, cloves and fruits), tea, coffee, fish/crustaceans, sisal and live animals. These commodities usually account for 70% of export revenue. Zanzibar to be the worst hit because of its narrow crop base depending mostly on spices like cloves, fruits and fish/crustaceans. The list of crops under risk is expected to increase after harvesting some crops during May-December, which will include failure to export cotton lint, tobacco, and cashew nuts, thus jeopardizing farming families as jobs in the agro-processing industry. The low purchasing power of farmers is also likely to affect trade in other consumer goods. On the other hand, workers likely to be laid off from agro-processing industries will have reduced ability to access food items, exposing them to food insecurity. Crucially, international maritime transportation arrangements might affect timely delivery of fertilizers for the next 2020/21 cropping season as well as imports of some consumer goods such as edible oils, sugar and wheat grain. The effect on foreign exchange generation due to reduced foreign exchange earnings from commodity exports might be experienced during the last months of the year. Zanzibar is likely to start feeling the pinch of foreign exchange shortage for importation of consumer goods relative to the Mainland due to its narrow base of export crops.

4.4.3 Scenario II: Moderate Case Situation

Under this “moderate case scenario” access to the external market will remain the same as in the best-case scenario because restrictions to secure export markets for horticultural crops (flowers and fruits), tea, coffee, fish/crustaceans, sisal and live animals will still hold. Moreover, the list is expected to increase after harvesting some crops during May-December, which will include some proportions of cotton, tobacco, and cashew nuts. Zanzibar to be more adversely affected due to its narrow range of export commodities. The period May-December will also witness the coming into the local market of additional commodities after harvesting of cereals (maize, paddy and legumes) and oilseeds (sunflower and sesame). Like in the best-case scenario, oilseeds can easily be consumed locally as there is a shortfall of 60% normally filled through imports. However, export trade involving cereals

(maize and paddy), milled maize and wheat flour and wheat malt (re-export after processing imported wheat) is likely to suffer since the situation on transport logistics is likely to get worse.

Under this scenario, the country is also likely to start experiencing some jitters in the supply of agricultural related consumer commodities such as wheat flour, sugar and edible vegetable oil, which are usually imported to cover for the domestic production shortfalls. The shortages, leading to price hikes, are likely to be caused by the same challenges facing transportation logistics for international trade as well as declining foreign exchange earnings due to shortfalls in generating enough foreign exchange as exports are reduced. Farmers usually expect to start receiving fertilizers from November to December for the next farming season. The challenges in maritime transportation logistics are likely to affect importation of fertilizer just like under the best-case scenario.

The scenario is also expected to pose challenges of food insecurity to low income families from amongst urban dwellers who will have been laid off from permanent and casual employment, and street hawkers as their purchasing power is reduced. Price hikes will not spare farmers either since they will have reduced incomes after failing to sell their crops. Hotels and restaurants experience shortage of wheat-based products, cooking oil and sugar as imports are curtailed due to shrinking hard currency reserves as export earnings decline. Equally worrying will be the ability of agro-based industries to sustain their operations including sustaining employees as their liquidity is affected by export earnings restrictions, and business shrinkage. They are also likely to face challenges in servicing their bank obligations.

4.4.4 Scenario III: Worst Case Situation

The failure to generate adequate foreign exchange is likely to bite hardest due to inability to pay for the importation of basic commodities like edible vegetable oil, sugar and wheat; as well as fertilizer for the next farming season. Shortage of edible oil, industrial sugar and wheat likely to affect operations of beer and other beverages factories as well as hotels and restaurants. Worse still, the sudden fall in incomes by producers and businesses in the agricultural value chain will most likely affect their ability to service bank loans or take new ones; as well failure to implement plans for the next farming season. Agro-industry establishments likely to resort to mass retrenchments due to cash flow problems.

Food insecurity will set in as a priority agenda by the government as low- and middle-income families retrenched from formal and informal employment, and street hawkers become increasingly unable to access adequate food supplies due to shortages and price hikes. Farmers will also face similar challenges given their reduced incomes after failing to sell their produce. Inability to access food, and more so balanced diets, is a main cause for malnutrition, especially among women and children, with long term impact on the health of

the population. Unhealthy and weaker bodies are regarded as more susceptible to diseases, thus posing the nation with the possibility of acceleration of COVID-19 spread.

4.5 Wholesale and Retail Trade

According to the National Bureau and Statistics (NBS, 2019) the sector includes wholesale and retail sale (sale without transformation) of any type of goods, as well as rendering services incidental to the sale of merchandise. The sector employs about 2,528,771 people in the labour force majority in the informal sector with a high proportion of women²⁵, has a share of 9.12% in contribution to GDP and contributes about TZS 71.6 billion in domestic VAT revenue and TZS 6,776.8 billion in international trade taxes. According to the second Five-Year Development Plan (MoFP, 2016)²⁶, over a ten-year period (2005-2015), trade has had an increase of 7.9% in its share of the GDP and was set to continue on a growth path in 2020. Since the outbreak of the COVID-19 virus, the sector has been adversely affected through a number of global, regional, and domestic channels. The sector has been and still is continually rampaged by shocks caused by the outbreak. In Tanzania's current state, much of the shock stems from international trade as global manufacturing comes to a standstill and governments close off their borders in an attempt to reduce further spread of the virus.

Imports

During the first half of 2019/20 Tanzania imported goods and services worth USD 5,648.1 million, compared with USD 5,447.4 million recorded in the first half of 2018/19. All goods imports increased, (with the exception of transport equipment, fertilizer and machinery) and were set to increase especially for oil and building & construction materials (accounting for 20% and 12.7% of imports, respectively) mainly for supporting the ongoing infrastructure projects in the country (MoFP, 2019)²⁷. Closure of borders and a huge decrease in global manufacturing have led to a limited supply of such imports and hinder the country's Five-Year Plan on "Nurturing Industrialization for Economic Transformation". According to the United Nations COMTRADE Database, 68 percent of all imports trade in 2018 came from Asian countries (\$5.82 billion), 15 percent from Europe (\$1.32 billion), 12 percent from Africa (\$995 million), 3.7 percent from the Americas (\$312 million) and 0.78 percent from Oceania countries (\$66.6 million) (Trading Economics, 2018)²⁸. 20 percent of countries that Tanzania imports from have some form of restriction/lockdowns enacted. These countries alone constitute about 65 percent of all import value within the year 2018.

²⁵ 2014 Integrated Labor Force Survey

²⁶ MoFP. (2016). *National Five-Year Development Plan 2016/17 – 2020/21*. Government of Tanzania.

²⁷ MoFP. (2018). *The Economic Survey 2018*. Dodoma: Government of Tanzania.

²⁸ Trading Economics. (2018). *Tanzania Economic Indicators*. Retrieved February 13, 2020, from Trading Economics: <https://tradingeconomics.com/tanzania/indicators>

Figure 5.5.1: Tanzania Imports by Country in 2018



Source: Trading Economics based on United Nations COMTRADE Database

Exports

During the first half of 2019/20, the value of exports of goods and services increased by 25.5 percent to USD 5,554.4 million from the level registered in the first half of 2018/19, due to increase in the value of export of non-traditional goods. The value of non-traditional goods exports grew by 39.3 percent to USD 2,362.9 million, largely driven by gold (\$ 1,268.8 million) and manufactured goods (\$ 518.6 million) that account for 22.8 and 9.3 percent of all exports (MoFP, 2019). According to the United Nations COMTRADE Database, 64 percent of exports traded in 2018 were to African countries (\$2.3 billion), 18 percent to Asian countries (\$664 million), 11 percent to Europe (\$397 million), 4,6 percent to the Americas (\$168 million) and 2.2 percent to Oceania countries (\$79.4 million). 22 percent of countries that Tanzania exports to have some form of restriction/lockdowns enacted. These countries alone constitute about 47 percent of all export value within the year 2018.

Figure 5.5.2: Tanzania Exports by Country



Source: Trading Economics based on United Nations COMTRADE Database

4.5.1 Scenario I: Best & Moderate Case Scenario

Currently the actors that have/will be most affected by the outbreak are the informal traders. With more than three-quarters of all non-agricultural employment being informal in Tanzania (ILO 2012: 9)²⁹, informal traders are ubiquitous in the cities. There are two ways informal traders will be impacted. Firstly, the supply pressure or decreasing imports. As mentioned above, 20 percent of the countries Tanzania imports from have some sort of restriction placed limiting essential supply for businesses to re-sell or use for manufacturing in Tanzania. This is especially true for pharmaceuticals and nonperishable goods that will be in high demand from panic buying should the situation escalate. There is also difficulties accessing electronics products from China as a result of its lockdown³⁰. Secondly, demand pressures as the 30-day suspension on all schools and universities in Tanzania, cut-off an essential market from a specific group of traders. These businesses include those that supply stationeries, uniforms, textbooks, street vendors, kiosks, and small restaurants that earn most of their income from sales made to students. With cases increasing day-by-day, it is likely that the suspension will be extended, exacerbating the problems they face.

The other challenge is difficulties in cross border trading which accounts for 60-percent of Tanzania's total export value and an important activity for women. According to the rapid survey done by the UN-Women organization (2020)³¹, most businesses along the Tanzania-Congo, Tanzania-Kenya, Tanzania-Burundi and Tanzania-Rwanda borders had to close down because of strict restrictions along the borders. Women are the most affected as they constitute 70-percent of all cross-border traders. The sale of agricultural crops to foreign markets have been disrupted, affecting both small & large -scale farmers that export. The

²⁹ Drawn from the 1993 International Conference of Labor Statisticians (ICLS) resolution on statistics in the informal sector, adapted to the Tanzanian context

³⁰ This situation has since changed, but production and export have yet to get to previous levels

³¹ UN Women. (2020). *A Rapid Gender Analysis of COVID 19 Impacts and Mitigation Strategies in Tanzania*. Dar es Salaam: United Nations.

sudden emergence of unsold crops within the domestic market will pressurize prices to a level that won't be profitable. Excess supply could lead to an increase in crop wastage.

The Tanzania Forest Agency (TFS) has recently reported a decline between 10 and 20 containers per month caused by a decline in export demand for timber and logs. The business had been affected following the closure of boundaries and lockdowns in European countries and the United States of America who are the main buyers and the country³². Not only is the government at risk of losing a substantial amount of foreign currency, but could also place employment within forest industries, forest plantations, government forest administration and those self-employed in forest-related activities at risk.

4.5.2 Scenario III: Worst Case Scenario

Essential goods like groceries (non-perishable) and pharmaceuticals will face a large upward shift in demand, because of panic buying and hoarding, and a downward shift in supply, as most of these products are imported and restricted by border closures will likely result in price rise. This presents an opportunity for current domestic manufacturers and others to ramp up production of pharmaceutical products especially those useful in the fight against COVID 19. The sudden change in consumer behavior does not provide businesses with ample time to adjust and leads smaller privately-owned companies, who may simply not have the cash to continue for two months or longer without any revenue, declare for bankruptcy. Governments would further lose revenue from VAT and International trade (exports & imports). The larger companies, including multi-brand models such as department stores and many middle-market retailers, may survive but could shrink substantially.

4.6 Finance and Insurance

This sector plays a key economic role of financial intermediation in the economy and facilitative function of the modern economy. The sector is comprises over 40 corporate banking (30 commercial, 6 community and 2 development banks) and insurance institutions, 6 social security funds, micro finance institutions (MFIs) comprising of 5 micro finance banks, active and dormant 4,865 SACCOs (TCDC, 2018) and several non-members based formal and informal MFIs, mobile money operators (from TELCOs) and the Dar es Salaam Stock Exchange (DSE) that facilitates public trading of equity and debt instruments. The contribution of this sector to GDP is currently estimated at 3.7% and employs about 60,607 people of whom 13,318 or over 20% (5455 are female) work in SACCOs.

The financial and real economy risks are interrelated in two ways: First, a prolonged COVID 19 crisis could drive up the number of real economy bankruptcies, which makes it even harder for the financial system to manage. Meanwhile, a financial crisis would starve the

³² IPP Media. (2020, April 13). *Coronavirus outbreak hits Tanzania's timber sector*. Retrieved from IPP Media: <https://www.ippmedia.com/en/news/coronavirus-outbreak-hits-tanzania%E2%80%99s-timber-sector>

real economy of credit. It is fair to say the risk profile of the Covid-19 crisis is particularly threatening. While there is a policy playbook for dealing with financial crises, no such thing exists for a large-scale real economy freeze. There is no off-the-shelf cure for liquidity problems of entire real economies. The risks include Credit, Liquidity, Capital, Foreign exchange and Operational risk.

4.6.1 Credit Risk

This is likely to arise from the expected shrinkage of overall demand for credit facilities following closure of borders and lockdown in key countries from where banks' clients import from and export to (China, India, South Africa, USA, and in the East African etc.), travel bans as happened in the EAC member states, social distancing and restricted people gatherings. All the measures have disrupted normal exchange of goods and services. Furthermore, slowdown of global trade due to adoption of the above-mentioned measures by major economies is likely to negatively impact credit growth in the medium term. Some businesses that operate in most affected sectors are going to be severely impacted by reduced flow of credit facilities as a result of lockdowns leading to cancellation of international flights and closure of factories and business in major countries of the globe.

As discussed above, most of the sectors that have been directly affected by a widespread Covid-19 and thus have the potential to escalate the credit/default risk of borrowers operating within them. Tourism has been severely affected and the entire value chain is likely to see a prolonged difficult phase as a result of COVID-19. Customers in the worst affected sectors are likely to fail to service their loans mainly due to the slowdown or collapse of their businesses. The fall in business activities may lead to the deterioration of credit quality, which may eventually increase non-performing loans (NPLs) beyond the central bank's mandatory target of 5% by December 2020. An associated impact is the inability of banks to generate profits which in turn adversely affect taxes payments and expected dividends to investors. High levels of NPLs go in parallel with high loan provisions (losses) which creates more pressures on bank's minimum capital compliance requirements including buffer thresholds.

4.6.2 Liquidity Risk

Private sector growth is set to decline as banks slow down loans origination due to the prevailing business uncertainty and also as businesses slow down in expansion and use of working capital on the back of anticipated slower business. Banks and the market at large are likely to face liquidity squeeze in the near future due to customers facing difficulties in repaying their loans and expected decline in deposits due to slow down of business especially in local currency. This is largely due to the fact that banks will be forced to reschedule and or defer maturing installment cash receipts from loans and thus negatively impacting their cash flow requirements. Liquidity squeeze foreign currency will potentially be faced by banks and the market in general on the back of increasing risk of the

environment globally thus impacting the ability of Tanzanian banks to raise external funding to support current loans as well as new loans. Other than matched funding, banks do run the risk of attrition as major components of foreign currency deposits are short term in nature supporting long term foreign currency assets.

In Tanzania, liquidity is largely concentrated within the top 10 banks and market uncertainty resulting from credit aversion is likely to exert pressure for additional collateral from smaller players with a likely effect of failing to participate in the interbank market thus increasing their vulnerability to capital and liquidity deterioration. History has shown in other pandemics that the precautionary motive for holding cash is usually evoked in times of crisis. There is a high tendency for investors to opt to hold cash. This is the reason for the sharp equity sell off in offshore markets. For Tanzania this normally means people cashing out of current and savings deposits in favor of cash. If this happens extensively to especially the smaller banks it can lead to liquidity issues. In addition, in the situation of a massive panic, it would be likely that as a result of banking clearing systems overload, the demand for cash would increase dramatically thus causing severe liquidity crisis. This would additionally reduce the efficiency of the economy in the short term.

4.6.3 Foreign Exchange Risk

This risk is likely to materialize as the supply of foreign currency is expected to decline significantly. For instance, the tourism sector is expected to deteriorate by a region between 50 - 90% from the current forex earnings of USD 2.5 billion annually implying annual forex decline by about USD 1.2 - 2 billion. Similarly, adversely affected is forex from exports such as coffee, cotton or horticulture products (TAHA report, March 2020) as borders remain closed or prices fall due re-prioritizing consumption patterns. This consequence will be a drain FX reserves and depreciation of the TZS which on average weakens 6-8% YOY.

4.6.4 Microfinance

Most microfinance customers are working in the informal sector in particular food and fish, vegetable and fruit vending, hairdressing, cleaning and other traders earn their incomes on a daily basis. They get financial services through solidarity group meetings for loan repayment and loan disbursement and although others are served individually from the member-based institutions. It is also important to note that micro entrepreneurs and informal economy operators work and earn on a day to day basis “no work no food, no loan repayment”. The effect of schools and higher learning institutions closure has apparently led to loss of income to this section of society. Combined effects of measures already taken, i.e. emphasis of social distancing and potentially a lockdown will create a negative impact on microfinance banks and other MFIs. Worth noting are the key attributes of microfinance banks and other MFIs; which are unique: Over 70% of the customers are women; the economics of microfinance business require high repayment rates. A slip in repayment rates from 95 to just 85 percent would render many MFIs insolvent in less than a year; and the

repayment mode is mainly weekly payments with physical cash collection which in turn depends on the income generated by borrowers on a weekly basis, a slip in production of services by MFIs' clients means financial crisis to the institutions that may lead to insolvency.

4.6.5 Financial Markets

The financial markets hate uncertainties. A pandemic like COVID-19 would certainly take its toll. Firstly, the investors would diversify into safer investment options (flight to safety), like government bonds, gold or even cash. Since COVID-19 pandemic is global and is occurring simultaneously globally, there is a risk that international markets would respond to this systemic risk in a correlated movement, reducing the gains from international diversification of assets and penalizing investors with highly leveraged positions. Equity prices would be likely to fall sharply, reflecting the huge economic and profit uncertainty as investors tend to overreact to bad news in good times (and under-react to good news in bad times), reflecting their risk aversion and their willingness to hedge against higher uncertainty. The sell-off would also, and immediately, include corporate bonds, so credit spreads would surge, and new issues would be impossible.

4.6.5.1 Equity Segment

The DSE with a total of 27 listed equity companies has already reported a dent in the equity segment in Q1, 2020 compared to Q4, 2019. DSE's total market capitalization declined by 15 percent as of 31st March 2020 compared to the previous quarters that ended 31st December 2019. The total market capitalization decreased by TZS 2,587 billion i.e. from TZS 17,906 billion on 31st December 2019 to TZS 14,510 billion as of 31st March 2020. This follows a significant decline in prices of all cross-listed companies. These are companies primarily listed in the Nairobi Securities Exchange, which are also cross listed at the DSE. With the imminent lockdown in the region and the market uncertainty from COVID-19, the performance indicators are likely to worsen on the back of aversion measures being undertaken, business slowdown and precautionary motive for cash holding by investors.

On the valuation: Weighted Average Market Price Earnings (PE) Ratio for domestic listed companies was trailing at 20.09 times which was slightly lower than the PE ratio of 21.11 times as of 31st December 2019. This decrease was attributed to the slight decreases in prices on some of the counters relative to their earnings. The trailing weighted average dividend yield remained at 4.7 percent. These capital market metrics will be impacted negatively as more COVID-19 aversion measures are taken.

4.6.5.2 Fixed Income (FI) Segment

As at the end Q1, 2020 fixed income/bonds market recorded positive jaws as the quarter turnover reached a record of TZS 484 billion from the transaction value of TZS 309 billion as of the end of Q4, on 31st December 2019. However, transactions in the corporate bonds

market decreased to TZS 103 million in Q1, 2020 from TZS 145 million in Q4, 2019 and these related to 4 listed corporate entities - TDB (formerly PTA Bank), EXIM Bank, NMB Bank and TMRC with an outstanding corporate bonds with issue value of TZS 176.003 billion. With COVID-19 measures being taken, business slowed down and precautionary measures to hold cash in this market are likely to be negatively affected.

4.6.6 Insurance

The analysis of economic costs demonstrates that a substantial part of the costs of pandemics borne by the insurance industry would be consequences of an economic downturn. Another important aspect is the consequences due to an increased number of claims. In Tanzania, where reinsurance is not a norm, death claims would be borne by the direct insurers. The expected economic recession could also be expected to have indirect impacts. In the short-term after a pandemic commences the demand for insurance products would surge, as customers are expected to switch to more basic products and services.

Health insurance companies in Tanzania are several with the NHIF having the largest membership of public servants (mandatory by law) and private subscribers. Benefits are varied but the main ones are benefits due to sickness, lump sum payment in case of permanent disability and medical expenses caused by illness and hospitalization benefits. Notably however, the most common insurance product covers doctors and hospital visits and medication. Medical expenses caused by sickness will be severely affected because of the increasing use of medical services resulting from the pandemic. Benefits in case of defined illnesses would probably not be hit by a pandemic, because illnesses that can create a pandemic are usually not listed among those illnesses given the right to benefit. That means the burden of sickness will have to be borne by the state as it is inconceivable to leave sick people unattended for lack of insurance in our country. It is noteworthy however, most people with flu-like symptoms which might have actually contracted COVID-19 are scared to go to hospitals for fear of being positively diagnosed so actual medical expenses might not be so high in the end.

Pension Insurance: COVID-19 effect and risk will result from increasing mortality. The risk is bi-directional because of the two different parts i.e. old age pension and survivors' pension, acting in different directions in case of increasing mortality. An old age pension is paid if the insured is alive at the pre-agreed age. Survivors' benefits are paid as a pension to widows and orphans if the insured dies. Increasing mortality will cause losses to insurance companies underwriting survivors' benefits. The amount of loss in each individual case may be heavily dependent on the ages of widow and children, if any. The total impact is either loss or profit, depending on the portfolio of the insurer. For those pension insurers whose policy mix is concentrated in old age benefits conclusively there will be no solvency problems due to pandemic mortality. The impact could be serious for pension insurers with

emphasis on survivors benefit products depending on the insurance portfolio. Increased mortality could cause losses for which the company may not be sufficiently prepared.

Another pension directly and likely related effect resulting from business disruptions is decreased pension contributions arising from loss of employment as staff layoffs or leaves without pay rise due to depressed production, companies' inability to export, reduced margins and over proportionate operational expenses. This is likely to happen in the next three months (i.e. from June 2020).

4.6.7 Remittances

The global crisis could impact not only export earnings but also remittances as well, where the most direct short-term impact on the economy would be declining funds from the Tanzanians living abroad whose incomes are affected after losing jobs and reduced income from wages and dividends from investments they had made in real estates and financial markets. Also, a more severe negative impact is expected on rural areas particularly elderly parents and poor extended family members who rely on remittances from urban family members whose income would have been adversely affected. The urban rural remittances are likely to fall in value and frequency as income to urban-based income earners fall due to the COVID-19 as propounded above.

4.6.8 Foreign Direct Investments

We expect a reduced flow of FDI into Tanzania compared to previous years. This is based on the assumption that there is an increase in the perceived risk of investment (repricing of risk). With scenarios of the spread of the pandemic ranging from short-term stabilization to continuation throughout the year, the expected drop of global FDI flows will be between -5% and -15% (compared to previous forecasts projecting marginal growth in the FDI trend for 2020-2021). Based on an UNCTAD report, OECD indicated early signals of possible COVID 19 impact on FDI reinvested earnings in developing countries. More than two thirds of the multinational enterprises (MNEs) in UNCTAD's Top 100, a bellwether of overall investment trends, have issued statements on the impact of COVID 19 on their business and most are slowing down capital expenditures in affected areas. In addition, lower profits – to date, 41 have issued profit alerts – will translate into lower reinvested earnings (a major component of FDI). All these are likely to translate to reduced FDI. Another even bigger challenge is the outflow of investment as a result of aversive actions currently undertaken by some governments such as asking their citizens to move back.

5.0 POSSIBLE EFFECTS ON SOCIO-ECONOMIC SITUATION IN TANZANIA

FYDP II key targets by 2020: Human Development Index (HDI) value, 0.57; Unemployment rate, 6%; Proportion of population below food poverty line (national average), 5.7%

Human development is the lynchpin objective of any development plan in Tanzania. As stipulated in the FYDP II, industrialization and transformation are the trusted means to the realization of the central objective of human development. One of the key objectives of the FYDP II is to accelerate broad-based and inclusive economic growth that reduces poverty (reduction of the poverty rate to 16.7 percent from 28.2 percent recorded in 2011/12) substantially and allows shared benefits among the majority of the people through increased productive capacities and job creation especially for the youth and disadvantaged groups. The FYDP II also seeks to ensure global and regional agreements (e.g. Africa Agenda 2063 and SDGs) are adequately mainstreamed into national development planning and implementation frameworks for the benefit of the country. As a result of the rapidly unfolding COVID 19 crisis, most of the population and especially women, youth, the poor and most vulnerable will be impacted.

5.1 Impact on Public Budgeting and Social Service Delivery

5.1.1 Increased Spending Needs

One of the most difficult challenges the Government is facing and will continue to face is around public budgeting and social service delivery during and after the COVID 19 crisis. COVID-19 pandemic has undoubtedly increased demand for public expenditure on health mainly in procurement of medicines, medical equipment and gadgets/ventilators, beds etc, spending on preventive measures, public health measures, among others. As COVID-19 spreads, treatment costs on more sick people will most likely increase. Beyond health, the Government of Tanzania will have challenges with generating revenue to support its priorities at a time when resources are most needed. For instance, World Bank recommends that developing countries, for their part, should move quickly to:

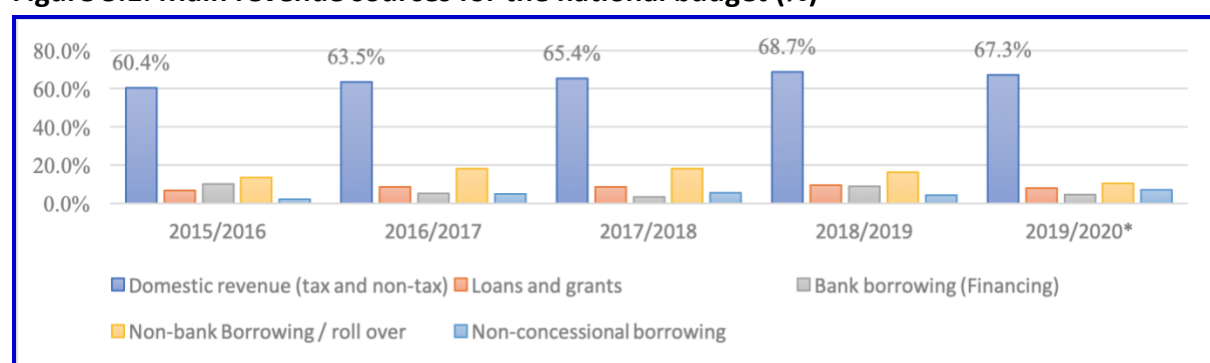
- Boost spending on health: In many developing countries, public health systems remain weak, making their populations vulnerable to the rapid spread of the outbreak. Governments should boost investments that strengthen these systems to enable faster treatment and containment.
- Strengthen the safety net: Cash transfers and free medical services for the most vulnerable people would help contain the outbreak and also limit its financial harm.
- Support the private sector: Since businesses of all kinds are likely to take a hit, they would benefit from short-term credit, tax breaks, or subsidies.

Another challenge that the government faces is that the increased spending towards health and other emergency operations needed to address the pandemic were not budgeted for and as we are coming towards the end of a fiscal year, reallocation is not very easy. One reason reallocation is not an easier alternative is because, even in a normal year, budget commitments to different sectors are often not met by the disbursements³³. Lastly, the Government is already spending a sizable amount of its funds servicing debt which reduces the latitude left for funding the aforementioned initiatives. In 2018/19, the Government planned to spend 32.47 trillion shillings. Out of the amount, 20.47 trillion shillings was for recurrent expenditure, including 7.4 trillion shillings for wages and salaries and 10 trillion shillings for public debt and general services³⁴.

5.1.2 Revenue Challenges

As increased pressure on public expenditure on health sector mounts, the cash flows in government revenues are expected to decline due to decrease in a variety of direct and indirect taxes, levies etc. following compression in business margins, slowdown of business activities, retrenchments, salary losses, closure of income generating avenues in the informal economy as propounded in the above sections.

Figure 5.1: Main revenue sources for the national budget (%)



Source: Briefing Note on Implications of COVID 19 on Tanzania (unpublished)

An analytical note by UNICEF (Tanzania Office) shows that Tanzania is increasingly relying on domestic sources (both tax and non-tax income) rather than on foreign borrowing to finance its activities. Borrowing from foreign and domestic financial markets accounts for approximately 30%. Figure 5.1 highlights the increase in the share of domestic revenue (tax and non-tax) as a share of total revenue, from 60% to 67% between FY 2015/2016 and FY 2019/2020, which is a positive progress in terms of reliance on sustainable revenue sources. However, as a result of COVID-19, revenues from major taxes will likely face a sharp decline, which will lead to significant revenue gaps. For instance, in an optimistic scenario, a 10% decrease in the revenue from major taxes like VAT, corporate and excise tax will amount to a shortfall of approximately TSh 690 billion (US\$ 300 million), equivalent to the total budget

³³ Budget execution reports

³⁴ 2018 Tanzania Economic Survey Report

of the Ministry of Health, Community Development, Gender, Elderly, and Children in FY 2018-19³⁵.

5.2 Impact on Education

On education, the poor are likely to be more affected by current Government measures because of a lack of coping mechanisms. Specifically, as schools close, students lose opportunities to learn (hopefully briefly) but more vulnerable students may not return to the education system, translating to lower long-term earning trajectories for them and their families, and reduced overall human capital for their economies.

Exacerbating inequality: For basic education, there are already signals of inequality in access to education in the first month of schools-closure as the ICT-enabled schools are providing online learning materials in the few non-government English-medium schools. But for more than 10,174,234 primary and 1,914,735 secondary school pupils in government owned schools such platforms are not at all available. In fact only a small proportion of primary school kids have access to education in this crisis period as pupils in non-government primary and secondary schools are only 431,193 and 270,302 respectively (Basic Education Statistics Tanzania (BEST), 2019).

Disengagement: Maintaining the engagement of children, particularly young secondary school students is critical. Dropout rates are still high in parts of Tanzania, and a long period of disengagement can result in a further increase. Going to school is not only about learning math and science, but also about social relationships and peer-to-peer interactions³⁶. It is about learning to be a citizen and developing social skills. That is why it is important to stay connected with the school by any means necessary. For all students, this is also a time to develop socio-emotional skills and learn more about how to contribute to society as a citizen. Lack of schooling poses a huge challenge that has immediate and long term effects to the society and the economy. There are also other challenges of unplanned pregnancies. For example, unplanned pregnancies rose sharply in Sierra Leone during the Ebola epidemic, likely in part a result of school closures. Adolescent mothers are less likely to return to school, and their children will likely have fewer health and educational investments increasing the risk of child labor.

Unused labor and job loss: School closures are causing a huge cost to employers (government and non-government) who cannot immediately lay off staff which simply means paying for labor which is not generating return to the employer. But clearly emerging is the inability of the country's education system to use available technology to facilitate online learning as many other countries are doing including China, Canada etc. Some private institutions (including universities) have started laying off workers and educators because of

³⁵ UNICEF Briefing Note on Implication of COVID 19 on Tanzania

³⁶ World Bank Education for Global Development 2020

closure of schools and lack of clear revenue streams. This is in addition to the part time workers who have already lost their livelihoods.

5.3 Impact of COVID 19 on the Poor and Vulnerable Groups

In crises, women, children, people with disabilities, the marginalized and the displaced, all pay the highest price and are also most at risk of suffering devastating losses from COVID-19. While being in any of these categories does not increase the chances of contracting COVID 19, there are some specific underlying conditions about the disease and its associated socio-economic effect that makes the outbreak more dangerous for these groups. The only caveat is older persons: The World Health Organization (WHO) says that the virus can infect people of all ages, with the risk of severe disease gradually increasing with age starting from around 40 years, especially for those with underlying conditions. Older people, especially those over 60, are at highest risk. Given that issues of older persons (as a group) are under the Ministry of Health, Community Development, Gender, the Elderly, and Children, in Tanzania, the huge focus on responding to health will most likely derail the attention of heightened health challenges older people face as a result and beyond COVID 19.

For people with disabilities, containment measures, such as social distancing and self-isolation, may be impossible for those who rely on the support of others to eat, dress and bathe. Another challenge for people with disabilities in Tanzania is the weakness of their “bargaining power”. While we have had discussions on what should be done to support the private sector during the crisis, there are no similar discussions on immediate responses, addressing the specific needs of persons with disabilities to maintain their health, safety, dignity, and independence in the community throughout the COVID-19 outbreak and related health emergencies.

For children, hundreds of millions of children around the world will likely face increasing threats to their safety and wellbeing – including mistreatment, gender-based violence, exploitation, social exclusion and separation from caregivers – because of actions taken to contain the spread of the COVID-19 pandemic, warned the United Nations Children’s Fund (UNICEF). In addition to the challenges related to education explained above, there are other challenges such as risk of increased child labor as a result of reduced incomes at home and the fact that most children will not be going to school in the foreseeable future. Below are a number of additional challenges that vulnerable groups face and will continue to face from COVID 19:

First, crises are hugely resource demanding and the COVID 19 is no exception. One of the main preventative measures against COVID 19 is the use of running water or sanitizers. Both these two are costly and in most cases a luxury and as such most of the poor and most vulnerable will be without protection. Only 73% (dry season) and 87.8% (rainy season) of the total population have access to a clean source of water (Ministry of Water). Despite

increased availability, a sizable part of the population faces difficulties with regards to affordability making water available, but not necessarily accessible.

Second, the onset and continuation of the COVID 19 crisis has undermined government efforts to alleviate poverty and attain the FYDP II targets and SDGs goals. Reduced government revenue explained above due to the fall in investments, loss of jobs, fall in demand of agricultural products and some minerals and decline in international tourists will finally lead or worsen the poverty status in the country as the Government will have reduced resources in the face of increasing demands. The loss of government revenue or use of its resources to rescue businesses (equity consideration) may mean reallocation of resources from basic sectors such as education and cross-cutting investment such as road and energy.

Third, key sectors that employ the majority of the poor and women (informal sector) have and will continue to be severely impacted by the pandemic. Currently, most of the poor and vulnerable that are self-employed in the informal sector have been affected by reduced demand for their products (less traffic, closure of schools and other measures) as a result of aversive actions against the novel virus. Those who directly relied on tourism such as tour guides and transport, craft makers and sellers (bus drivers, lorry drivers, etc) have lost their source of income and will likely be impacted for the remainder of the year. In the long term, most of the poor will be impacted because of the difficulties related to the cost of inputs in the agriculture sector. In agriculture, COVID 19 has brought about a huge rise in the cost of inputs (fertilizer) whose impact will be felt in the next planting season.

Measures to curb human mobility and social distancing have disrupted livelihoods exposing the majority of the poor to acute financial shocks. Brookings note that for the poor without the luxury of bank savings or a resort to credit cards, public health measures that cut their lifeline of daily income could appear to offer a cure that is as bad as the sickness. Such measures, then, will also be highly ineffective, as people are more likely to disobey the law rather than stay at home and go hungry. Given these devastating potential consequences, it is ethically questionable to bar people from working without offering a means to support their basic needs. While continuation of the crisis makes it difficult to have a full assessment of the coping strategies used to date, a number of recent studies explored the nature of coping strategies in a selection of countries and regions around the world. Based on a survey of qualitative research on the coping responses used by poor and vulnerable people in 13 countries, found some evidence of costly coping measures by households in response to the recent financial, food and fuel crisis³⁷. Reducing the quality of food, the number of meals, and nonfood consumption were the most common behavior-based coping responses.

³⁷ Heltberg, Hossain, Reva, and Turk (2012)

5.4 COVID 19 Impact on Women

As was explained above, the populations prone to risk during pandemics such as COVID-19 mostly are those depending heavily on informal sectors and sectors which are endogenous hence disposed to shocks. Report on Multi Sector Impact Assessment of Gender Dimensions of Ebola Virus Disease in Sierra Leone (2014) by UN Women and Oxfam finds that Women are hit harder by economic impacts of pandemics such as those COVID-19 is driving³⁸. This is because most women work in low-paying, insecure and informal sectors. It is likely that Tanzania's experience with COVID-19 will yield a similar outcome because there are fewer women than men in sectors which are likely to be formal. 51% of women work in the informal sector employed or running micro and small enterprises³⁹. This sector is characterized by daily wages, limited social protection measures and savings, making women vulnerable particularly at times like these. Another important characteristic of the informal sector is their reliance on the entrepreneur (they usually are owned and operated by the one person) for their usual functioning making them very vulnerable to risks.

Furthermore, women's sources of income are in sectors that are hard hit by restrictions on movement and lowered consumer demand in export markets. An initial survey by the Tanzania Women Chamber of Commerce (TWCC) conducted among members who are largely Women SMEs in Agriculture, Trade and cross border trade and tourism to analyze the effect of the COVID-19 on their businesses provided the findings below: There is a decrease in sales due to the speculative nature of consumers. The general public has reduced expenditures due to economic uncertainties. Women businesses in beauty, textile and others have reported the average decrease of 53% of sales. The reduction of business volume has led to delays in loan repayment hence increasing the risk of collateral loss. Banks and microfinance have shown a low level of flexibility to restructure trade credits and other loans. 80% of respondent members in retailing businesses were forced to put their businesses on halt since most business products are imported from China. There is also a marked reduction in cross border trade: Women in Tanzania play an important role in inter-regional trade activities through formal trade or informal and small-scale level activities. According to TMEA, 70% of cross border traders in East Africa are women. A survey conducted by TWCCIA reveals that, in the borders of Uganda and Congo, the security has been tripled to restrict movements.

Lastly, across every sphere, from health to the economy, security to social protection, the impacts of COVID-19 are exacerbated for women and girls simply by virtue of their sex⁴⁰: A UN Women policy brief on the impact of COVID 19 on women shows that, while early reports reveal more men are dying as a result of COVID-19, the health of women generally is

³⁸ Report of the Multi Sector Assessment of Gender Dimensions of the Ebola Virus Disease (EVD) in Sierra Leone. Ministry of Social Welfare, Gender and Children's Affairs, Oxfam Sierra Leone and UN Women 2014.

³⁹ NBS, Women and Men, Facts and Figure, 2018

⁴⁰ UN Women Policy Brief on Impact of COVID 19 on Women (2020)

adversely impacted through the reallocation of resources and priorities, including sexual and reproductive health services. Unpaid care work has increased, with children out-of-school, heightened care needs of older persons and overwhelmed health services. Also, as the COVID-19 pandemic deepens economic and social stress coupled with restricted movement and social isolation measures, gender-based violence is increasing exponentially. Many women are being forced to 'lockdown' at home with their abusers at the same time that services to support survivors are being disrupted or made inaccessible. All of these impacts are further amplified in contexts of fragility, conflict, and emergencies where social cohesion is already undermined, and institutional capacity and services are limited.

6.0 RECOMMENDATIONS

The rapid assessment of the socio-economic risk in Tanzania by COVID 19 shows that a number of sectors have been and will be severely impacted by the novel virus. Women and youth, mostly in tourism and in the informal sector, have lost or are at risk of losing their jobs and livelihoods and if the pandemic is protracted and becomes more severe, this will be a fate for many more. There is also a risk of closure of businesses especially those that are micro or small and even medium sized business facing financial difficulties. The crisis is already exerting huge difficulties on the poor and most vulnerable especially women who face a huge social burden to address the crisis and who have lost or stand to lose the most from the economic difficulties Tanzania will face as a result of COVID 19.

6.1 Lessons from Other Countries in the Region

In coming up with recommendations, we have first examined a number of measures that countries within the region have taken in terms of the instruments used (fiscal and monetary or sectoral), who the beneficiaries were (SMEs, exporters, the poor, etc) as well as the duration of the measures being taken as explained below:

- **Instruments:** Fiscal, monetary, and sector-specific: Fiscal support has typically involved extra spending to assist those directly affected as well as changes in tax rates and rules (temporary waivers, faster refunds, tax exemptions); monetary support has generally involved providing banks with short term liquidity, interest rate changes, and regulatory forbearance (NPL provisioning rules); and sector support has taken the form of grants, loans, loan guarantees, debt service relief, debt write-off, and job creation/transition schemes for affected economic sub-sectors.
- **Beneficiaries:** Those assisted by public interventions have included a wide range of target beneficiaries—given varying approaches taken to give direct grants to households, wage support to keep workers employed, or support to affected businesses (such as airlines, tourism).
- **Duration:** Country experiences in this area show a mix of one-time support, open-ended support that stays in place until conditions change, or a pre-defined duration announced upfront (e.g. 3 months).

Table 6.1: Macroeconomic Policy Interventions to combat the corona virus: A Sampling of Country Initiatives

Country	Fiscal Measures	Monetary Measures	Sector-Specific Measures
Ethiopia	<ul style="list-style-type: none"> • Birr 5bn preliminary fiscal package announced • Import taxes removed for COVID items • Faster VAT refunds for businesses 	<ul style="list-style-type: none"> • Birr 15bn liquidity support to banks • Priority fx allocations to COVID imports • Mobile money transfer limits raised 	<ul style="list-style-type: none"> • Minimum export flower price removed • Stronger enforcement against price gouging
Nigeria	<ul style="list-style-type: none"> • \$2.7mn allocated for disease control, and an additional \$18mn also planned • Non-essential capital spending to be cut/delayed by N1.5trillion 	<ul style="list-style-type: none"> • Reduction in interest rates from 9% to 5%, and one year moratorium on CBN • Central bank extended the principal due on intervention facilities owed to it by an extra year • Liquidity injection of N3.6 trn into the banking system 	<ul style="list-style-type: none"> • Central bank provided access to its intervention facilities to affected sectors (health care, pharmacy, manufacturing) • Naira 50bn (\$139mn) facility for SMEs, hotels, airlines, and health care changes
Uganda	<ul style="list-style-type: none"> • Government has sought a supplementary budget of US\$80 million to support critical sectors such as health and security at the frontline of this pandemic 	<ul style="list-style-type: none"> • Exceptional liquidity assistance for a period of up to one year to financial institutions that might need it • Mechanism to minimize the likelihood of sound business going into insolvency due to lack of credit • Waiving limitations on restructuring of credit facilities at financial institutions that may 	<ul style="list-style-type: none"> • Government is working on other measures which are likely to include recapitalizing the Uganda Development Bank so it can provide financing for manufacturing and import substitution. • The Uganda Revenue Authority has granted an extension on tax paying deadlines

Country	Fiscal Measures	Monetary Measures	Sector-Specific Measures
		be at risk of going into distress	
Kenya	<ul style="list-style-type: none"> • Extra funds earmarked from existing budget for health expenses • Deficit target for FY 2019-20 being re-assessed 	<ul style="list-style-type: none"> • Central bank's policy rate reduced by 1 ppt • Banks offered flexibility in loan classification, provisioning, and rescheduling • Reserve requirement reduced by 1 ppt 	<ul style="list-style-type: none"> • Traders asked not to increase prices of basic goods (but no legal measures to prevent increases)
South Africa	Unemployment Insurance Fund and special programs from the Industrial Development Corporation	<ul style="list-style-type: none"> • South African Reserve Bank cut interest rate from 6.25% to 5.25% • Reduction of coverage ratio from 100 to 80 • Approach to enable banks to provide debt relief to borrowers 	<ul style="list-style-type: none"> • The government announced a plan \$56.27m to support small businesses during the outbreak • Accelerating reimbursements and tax credits, allowing SMEs to defer certain tax liabilities, and has issued a list of essential goods for a full rebate of customs duty and import VAT exemption

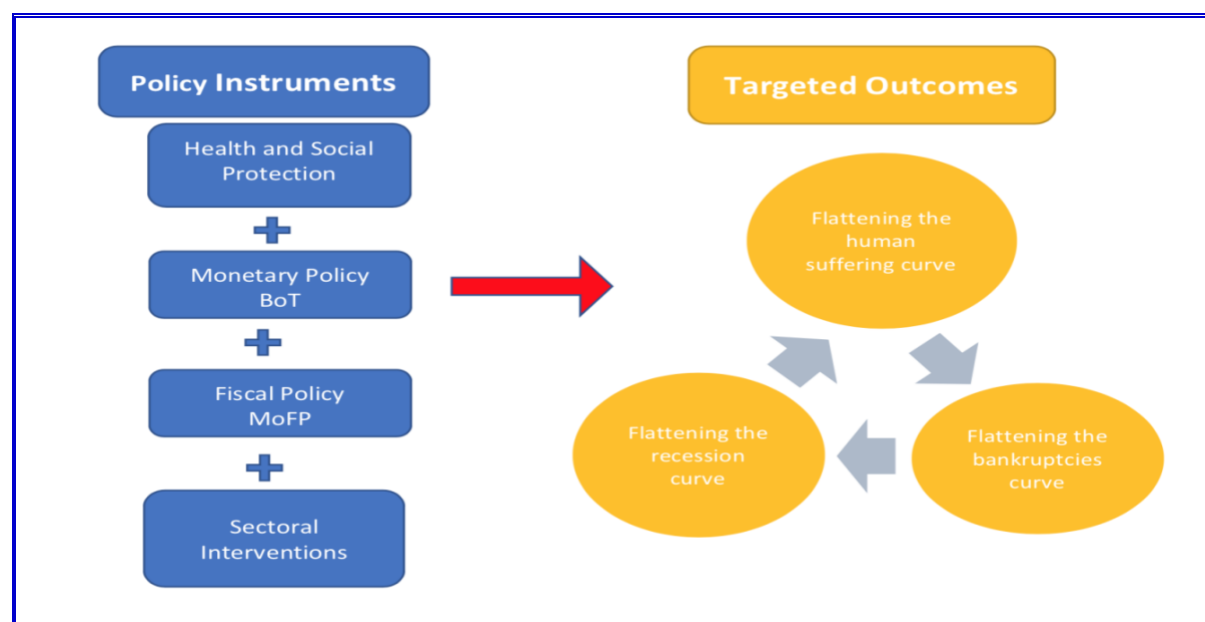
Source: IMF COVID-19 Policy Tracker on COVID 19 Responses

6.2 General Recommendations Opportunities as a Result of COVID 19

In addressing the pandemic and its impact, policymakers should pay special attention to sequencing. The immediate focus has to be on measures to contain the spread of the pandemic and to treat the infected whilst providing support to cash-strapped individuals and firms to just keep them afloat until the pandemic begins to subside. It is recommended that the Government should leave as much fiscal space as possible for the next phase-recovery. A fiscal stimulus in the current circumstances of suppressed demand may have little impact on economic activity but it will make a big difference once people start returning to work.

It is also important for the policies to be multidimensional, bold, and unbound by convention and that they are timely, time-bound, targeted, and transparent. On this, a number of countries have used a wide range of policy interventions to address the pandemic and its impact on the economy and livelihoods as shown in Figure 2 below. Below is a list of high level recommendations for Government's consideration in addressing the pandemic in Tanzania:

Figure 2: A Policy Framework for Mitigating the Impact of COVID 19



Source: Adapted from Brookings Institution 2020 - Policy framework for mitigating the economic impact of COVID 19

Control the spread of the virus in the shortest time possible. Specifically, increased spending is needed in strengthening the capacity to detect, test, isolate and care for every case, and trace every contact. To do this, there is substantial need for additional financing, to be obtained through more borrowing, debt rescheduling, and reprioritization /repurposing of spending. In Government and for development partners, this can be done by ensuring that spending towards addressing the pandemic or its effect is prioritized and ring fenced.

Scale up existing social protection programmes and re-purpose them to protect the most vulnerable such as the elderly, youth, poor, women, people with HIV/AIDS including non-conditional cash transfers, food baskets or suspension of payments of basic utilities. In order to finalise a rapid targeting approach, immediate mapping of existing social protection programmes and their scaling up potential is critical. It is essential to constantly evaluate the implementation and effectiveness of these measures and to re-adjust them if necessary, especially those aimed at the poorest and vulnerable population.

Support to businesses: First, the Government should continue to encourage repurposing of private sector activities towards production of goods such as face masks, and PPE, and in water treatment chemicals which are vital for the COVID 19 fight. Second, there is a need to support businesses that are struggling as a result of the socio-economic fallout associated with the outbreak. Most of these businesses are in sectors such as tourism and related services, export oriented sectors, and majority are informal, micro and small in scale. Support should be in the form of deferment of taxes and/or other fees and charges such as Skills Development Levy and releasing VAT refunds to assist businesses with managing their cash flow. Third, it is important to provide an enabling environment for sectors that have a huge opportunity to thrive as a result of COVID 19 such as horticulture and other agriculture exports by ensuring a ready market through bilateral agreements on logistics in high value markets and in the region (using EAC, and SADC). This could be done by granting tax breaks to companies seeking to increase their capacity to produce import substitute goods (sugar and edible oils), which could even mean zero-rating VAT for the next 3-months.

Measure its impact: COVID 19 health crisis is rapidly changing and so is its economic impact. The Government, working with Development Partners, Private Sector, and CSOs, should conduct routine quantitative and qualitative assessment of the health risk and its associated economic impact. The variables to be measures should be agreed upon by stakeholders but in any case, should address both economic and human development indicators. In addition, sector ministries should continue to assess the exposure of their sectors to COVID 19 and prioritize measures to reduce the exposure and support nation-wide priorities on controlling the spread, and mitigating the economic impact of COVID 19.

Strengthen and Improve Coordination Amongst Actors: There are a number of initiatives by stakeholder towards addressing the pandemic. Whilst multiple involvement of stakeholders is always helpful, coordination is key for ensuring alignment and complementarities and avoiding duplication. The Government and development stakeholders should develop and adhere to a coordinated framework along the phases of the crisis (addressing the pandemic, measurement of the impact of the pandemic and on those affected, addressing the socio-economic impact, post recovery measures, and building a more resilient economy and society).

Prepare and Plan for Post COVID 19 Era: In business, the future will certainly be online and to be globally competitive, businesses will have to take advantage of the most recent technology and drive the innovation in that space. The Advisory Body under the Tanzania Private Sector Foundation must include the role of ICT in development as a key part of its broad terms of references. The team ought to understand the national capacity and utilization by multiple stakeholders and how that compares with our peers and then develop strategies to close any existing gaps.

Ideally, this should involve engagement on infrastructure (access related) projects with global players like Facebook and Google. In education, parents will be more involved in their children's education process, and ministries of education will have a much clearer understanding of the gaps and challenges (in connectivity, hardware, integration of digital tools in the curriculum, teacher's readiness) that exist in using technology effectively and act upon that. All of this can strengthen the future education system in a country.

7.0 APPENDIX

Appendix 1: Summary of the Possible Recovery Paths

Possible Recovery Path	Explanation based 2008 financial crisis	Commentary
V-shaped: This path describes the “classic” real economy shock, a displacement of output, but growth eventually rebounds. Annual growth rates could fully absorb the shock	Canada avoided a banking crisis: Credit continued to flow, and capital formation was not as significantly disrupted. GDP dropped but substantially climbed back to its pre-crisis path	It is worth looking back at history to place the potential impact path of Covid-19 empirically. In fact, V-shapes monopolize the empirical landscape of prior shocks, including epidemics such as SARS, the 1968 H3N2 (“Hong Kong”) flu, 1958 H2N2 (“Asian”) flu, and 1918 Spanish flu
U-shaped: This is the ugly sibling of V — the shock persists, and while the initial growth path is resumed, there is some permanent loss of output	USA’s growth dropped precipitously and never rebounded to its pre-crisis path representing a one-off damage to the economy’s supply side, and indefinitely lost output	This is a plausible path for Covid-19 but more evidence of the virus’ actual damage to make this the base case is needed to make that conclusion
L-shaped: This scenario is the very ugly and poor relation of V and U	Greece is the third example and by far the worst shape — not only has the country never recovered its prior output path, but also its growth rate has declined	For this to materialize, you’d have to believe in Covid-19’s ability to do significant structural damage, i.e. breaking something on the economy’s supply side — the labor market, capital formation, or the productivity function. This is difficult to imagine even with pessimistic assumptions. At some point we will be on the other side of this epidemic