Mobilizing Private Capital Through Blended Finance to Drive Tanzania's Growth

Acknowledgment

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Convergence is the global network for blended finance that exists to increase private investment in emerging markets and developing economies to advance the UN Sustainable Development Goals (SDG) and the Paris Agreement. We are building the field of blended finance through four key pathways:

i. Guiding: Thought leadership on topical issues in blended finance, bespoke advisory assignments for donor agencies and philanthropies, and deal insights and intelligence from collated data on blended deal structures (historical and live deals).

ii. Educating: Member learning programs featuring blended finance practitioners, customized capacity building, and primer online learning modules.

iii. Connecting: Facilitating networking, peer learning, and multi-stakeholder working groups.

iv. Mobilizing: Grants to design and develop early-stage blended deal structures in developing markets.

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Abbreviations

ADP	Annual Development Plan
AfD	Agence Francaise de Developpment
AECF	Africa Enterprise Challenge Fund
APF	Alternative Project Financing
BII	British International Investment
BSPS	Business Sector Support Program
CBWSO	Community Based Water Supply Organizations
DFC	US International Development Finance Corporation
DFI	Development Finance Institution
EAC	East African Community
EAIF	Emerging Africa Infrastructure Fund
EEP	Energy and Environment Partnership
EIB	European Investment Bank
EU	European Union
FCC	Fair Competition Commission
FCDO	Foreign, Commonwealth and Development Office
FDI	Foreign Direct Iinvestment
FMO	Netherlands Development Finance Company
FSD	Africa Financial Sector Deepening Africa
FYDP	Five-year Development Plan
GCF	Green Climate Fund
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HDD	Historical Deals Database
IDA	International Development Association
IDA PSW	International Development Association's Private Sector Window
IFC	International Finance Corporation
IMF	International Monetary Fund
INFF	Integrated National Financing Frameworks
IPS	Industrial Promotion Services
IVCF	Integrated Value Chain Financing
LIC	Low Income Country
LLC	Limited Liability Company
LMIC	Lower Middle Income Country
MAGC	Market Accelerator for Green Construction
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency
MW	Megawatt
NGO	Non-governmental Organization
Norad	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development

p.a.	Per Annum
PASS	Private Agricultural Sector Support
PIDG	Private Infrastructure Development Group
PPP	Public Private Partnership
SCF	Strategic Climate Fund
SDG	Sustainable Development Goals
SGR	Standard Guage Railway
Sida	Sweden International Development Agency
SME	Small Medium Enterprise
SREP	Scaling up Renewable Energy Program
TA	Technical assistance
TADB	Tanzania Agricultural Development Bank
TANESCO	Tanzania Electric Supply Company
TDB	Trade and Development Bank
TDV	2025 Tanzania Development Vision 2025
TREEP	Tanzania Rural Electrification Expansion Program
ULB	Urban Local Body
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
USAID	US Agency for International Development
WBG	World Bank Group
WSPF	Water and Sanitation Pooled Fund

Glossary of Key Terms

Bankability: The degree to which a project, or another commercial transaction requiring finance, is structured to represent an acceptable overall risk to lenders.

Blended Finance: The strategic use of development finance for the mobilization of additional commercial finance towards the SDGs in developing countries.

Blended Finance Ecosystem: Encompasses the entire range of market players (eg: financial intermediaries, impact investors, commercial investors, donors, government agencies amongst others) who have a role in developing and funding blended finance transactions.

Blended Finance Funders: Market participants such as official donors, foundations/philanthropy, private investors (eg: Pension Funds & Insurance Companies) and Development Finance Institutions that provide concessional and/or commercial capital into a blended finance transaction.

Brownfield Investment: Occurs when a company or government entity purchases or leases existing production facilities to launch a new production activity.

Catalytic Capital: Catalytic capital is defined as debt, equity, guarantees, and other investments that accept disproportionate risk and/or concessionary returns relative to a conventional investment to generate positive impact and enable third-party investment that otherwise would not be possible.

Catalysing Market Development: Financial markets should in theory function on purely commercial terms with minimal need for market intervention from other participants such as the government. However, due to the nature of real/perceived risk, such intervention is often required. The goal for public actors (such as governments and DFIs/MDBs) should be to correct for market failure over time in order to create a market that functions without distortions.

Capital Market: The capital markets are where entities - investors, institutions, governments, and other participants - buy, sell, and trade long-term financial instruments.

Capital Structure: Capital structure refers to the amount of debt and/or equity employed by a project or a firm to fund its operations and finance its assets.

Concessional Finance: Financing that is provided on more favorable terms than the recipient could obtain in the marketplace.

Development Finance Institution: National and international development finance institutions (DFIs) are specialised development banks or subsidiaries set up to support private sector investment in developing countries. They are usually majority-owned by national governments and source their capital from national or international development partners or benefit from government guarantees.

Deal Structure (In the context of Blended Finance): A deal structure involves the interplay of several blending archetypes (e.g. Guarantees, Subordinate Debt, Technical Assistance Grants amongst others) so as to enable a transaction to become bankable.

De-Risking: This means reallocating, sharing or reducing the existing or potential risks associated with an investment/transaction. Blended finance is a means/tool for de-risking.

Early-Stage Financing: Early-stage financing, also known as the pre-commercialization stage financing, represents the period in which a transaction/company obtains its first sources of funding. This often comes from family, friends, or 'angel investors'.

Equity Provider: A legal entity that will have ownership or equity interest in a particular project/transaction by virtue of their investment.

Foreign Direct Investment: An investment reflecting a lasting interest and control by a foreign direct investor, resident in one economy, in an enterprise resident in another economy (foreign affiliate).

Greenfield Investment: Refers to the process of creating a new business venture scratch in a completely new market or location.

Guarantee: A financial guarantee is a type of promise given by a guarantor to take responsibility for the borrower in the case of default in payments to the lender or investor.

Investment Fund: An investment product created with the sole purpose of gathering investors' capital and investing that capital collectively through a portfolio of financial instruments such as stocks, bonds, and other securities.

Leverage ratio: A multiple of private capital invested into a deal with respect to one dollar of concessional capital invested. Also referred to as mobilization ratio.

Non-concessional Finance: Capital provided that is priced in terms of market-based interest rates and terms, taking into account a full risk-adjusted return. Substantially less generous terms than concessional finance/catalytic capital (see above).

Project Promoter: A project promoter is an individual or organization that helps raise money for some investment activity or transaction.

Risk Insurance: Risk insurance, also known as insurance coverage or risk transfer, is a financial product that protects against potential losses or damages resulting from specific risks or events.

Subordinated Debt/Junior Debt: Subordinate or Junior debt refers to bonds or other forms of debt issued with a lower priority for repayment than other, more senior debt claims in the case of default. Because of this, subordinated/junior debt tends to be riskier for investors and thus carries higher interest rates than more senior debt from the same issuer.

01

Executive Summary

Tanzania has made significant economic and social progress over the past couple of decades. The economy has grown at an average of 6.1% per annum since 2000, elevating Tanzania from Low Income Country (LIC) status to Lower Middle Income Country Status (LMIC) in 2020.

Whilst growth has been robust, its main driver has been public investment. Over the past decade, according to the World Bank, government intervention has expanded Tanzania's Gross Fixed Capital Formation (GFCF) from 33% to 43%. However, during this time private GFCF decreased by 2 percentage points and FDI inflows fell from 5.6% of GDP to 1.3% of GDP. The growth has also been unequal, as of 2021, about two-thirds of Tanzania's labour force was employed in Agriculture which only contributed to a quarter of the country's GDP.

Since 2020, total Investment as a percentage of GDP and gross savings as a percentage of GDP have flatlined. Additionally, FDI as a percentage of GDP is stagnant at around 1.69%, a marked decrease from the 3%-5% range that the country witnessed between 2005-2013.

As Tanzania embarks on a new chapter of structural reform-led growth, the government's ambitious plans for expanded prosperity hinge on a thriving private sector. Given the litany of real and perceived risks associated with the Tanzanian economy, there is a lack of risk-adjusted returns that constrains investors from investing in the country. Effectively mobilizing additional private capital will require that Tanzania and its development partners employ de-risking approaches and instruments to shift the riskreturn profile of projects and transactions from the investor's perspective and attract commercial investment.
This document highlights examples of how other developing markets have mobilized capital through blended finance approaches. Most of these examples could be contextualized, modified, and applied in the Tanzanian context. Indeed, blended finance has been utilized across various sectors in Tanzania with a varying degree of success in terms of de-risking projects/transactions. However, it should be noted that a conducive policy and regulatory environment is a key requisite. Blended finance can not mobilize capital if there is lack of clarity or if the policy environment is prohibitive in nature. Some short and medium-term reforms have been suggested to this end.

The objective of this document is to investigate how Tanzania can catalyze and mobilize substantive levels of finance and investment from new sources. This is also expected to inform government's approach to unlocking commercial and concessional capital for the implementation the country's priority projects and development agenda.

02

Methodology

The analysis in this white paper was anchored in secondary research, wherein we explored various policy documents from the Ministry of Finance and Planning and other reputable sources such as the World Bank, International Monetary Fund (IMF), United Nations Development Program (UNDP), United Nations Capital Development Fund (UNCDF), and PricewaterhouseCoopers (PwC). To add to this, we spent time conducting primary research in Tanzania and met with over 20 organizations comprising commercial banks, development banks, private equity investors, intermediaries, and a commercial law firm.

Data analysis on blended deal structures and select transactions is drawn from Convergence's Historical Deals Database (HDD), the largest and most comprehensive database of historical blended finance transactions (capturing over 1,200 deals to date). Convergence defines blended finance as the use of concessional capital provided by public and/or philanthropic sources to increase private sector investment in sustainable development. Information is collected from i) credible public sources such as press releases, ii) information-sharing agreements with key data aggregators like the Organization for Economic Co-operation and Development (OECD), and iii) data validation exercises with Convergence members and partners.

To be included in Convergence's HDD, a deal must meet three main criteria:

1. The transaction attracts financial participation from one or more commercial investor(s) that would otherwise not have invested in the region/sector/project
2. The transaction leverages concessional capital in one of the following ways:
   a. Public/philanthropic investors are concessional within the capital structure
   b. Public/philanthropic investors provided guarantees or risk insurance
   c. Transaction design or preparation is grant-funded
   d. Transaction is associated with a TA facility
3. The transaction intends to create a development impact related to the Sustainable Development Goals (SDGs) in emerging or frontier markets or directly impact beneficiaries in emerging or frontier markets.

03

Blended Finance Overview in Tanzania's Context

Tanzania is the most populous nation within the East Africa Community (EAC) and the fifth most populous nation in Africa, totalling 69.4 million in 2024 [1]. The country's economy has shown resilient recovery from the devastating effect of COVID-19 with GDP growing by 5.2% in 2023 to reach $79.66 billion up from 4.6% in 2022. This is also despite ravaging climate change effects resulting in extreme oscillations between droughts and floods.[2] The improved economic performance was occasioned by a favourable business climate and improved trade balances boosting aggregate demand.[3] The recent uptick also signals the economy's return trajectory to pre-pandemic performance, where the annual GDP growth rate averaged 6.4% between 2013 and 2019.

[1] UN Population Fund (UNFPA), link

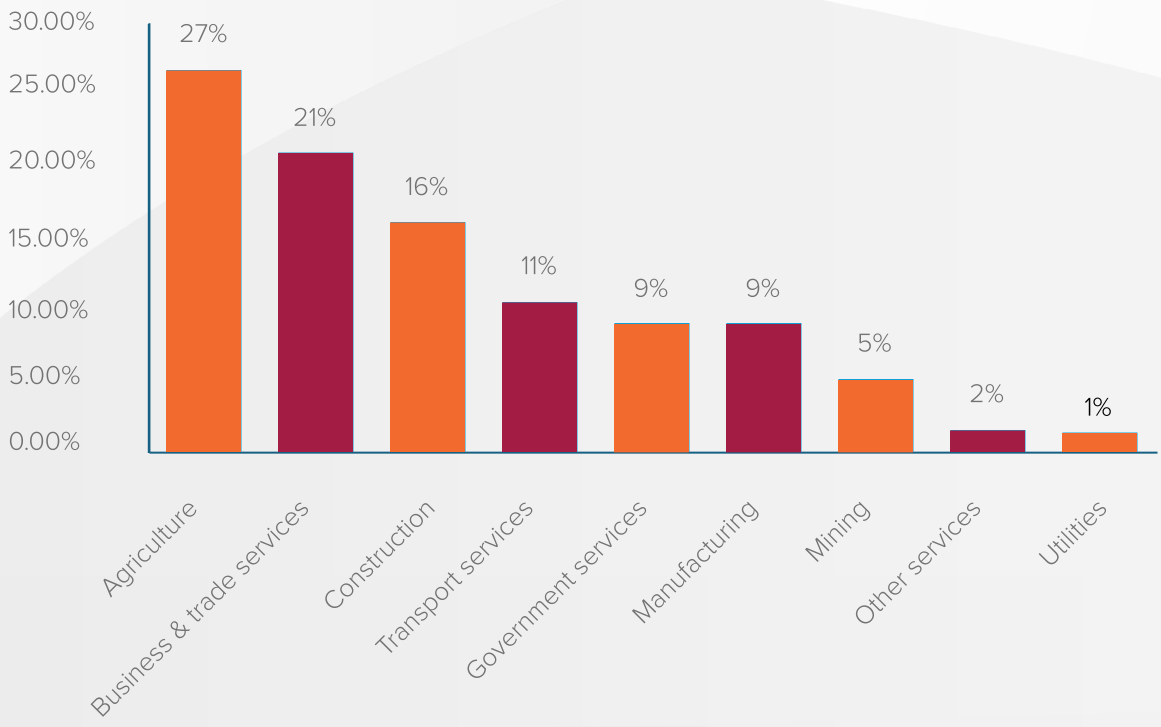
3.1 Tanzania's Economic Trajectory

Tanzania's economic resurgence against a background of compounding external shocks is mainly attributable to the sustained growth of the services sector, which contributed to nearly half of the growth, followed by the industrial sector; agriculture has experienced slower growth in recent years. The services sector comprising financial institutions (bank and non-bank), trade, logistics, and tourism sub-sectors benefitted from a significant increase of small firms (with <10 employee headcount) since 2013, reaching nearly 400,000 by 2021. [4,5] The fledgling structural transformation to service-led growth was stunted by the onset of COVID-19, which led to an economic contraction that reversed net labour flows from agriculture to services while the share of manufacturing in employment largely stagnated. Separately, recent adverse weather events such as floods and drought slowed the growth of agricultural production related to staple foods.

The volume of private investment and overall foreign direct investment (FDI) inflows decreased from a peak of 5.7% of GDP in 2010, dropping consistently to 1.7% of GDP in 2022. [6] As of 2017 (the last date when sectoral data is available), 80% of FDI inflows were concentrated in industries such as hospitality, mining/ quarrying, finance (banking and non-banking), information and communication, and trade (wholesale and retail trade). Each respectively attracted 26%, 22%, 14%, 11%, and 7% of total FDI inflows. [7]

Based on the current status and the dwindling FDI volumes, blended finance can play a significant role in mobilizing private commercial investors by enhancing the bankability of investments.

Figure 1. Tanzania GDP contribution by sector (2021)



[2] World Bank data, link
[3] The World Bank, Tanzania Economic Update 2024. xl, link
[4] Brookings Institute, Services-led development: Some caveats, link
[5] The World Bank, Privatizing Growth : A Country Economic Memorandum for the United Republic of Tanzania, link
[6] World Bank data, link
[7] The World Bank, Privatizing Growth. 8.

3.2 Innovative Finance in the Context of Tanzania's Development Priorities

3.2.1 Tanzania's Long-term Economic Development Priorities

Tanzania Development Vision 2025 (TDV 2025), the country's economic blueprint, was drafted to guide the country's transformation to a middle-income economy by 2025. [8] Progress toward TDV 2025 is clustered into five-year development plans (FYDP) reviewed and implemented within annual development plans (ADP).

The FYDP 2021/22 - 2025/26 (FYDP III) prioritized infrastructure expansion to facilitate market access and service delivery.[9] FYDP III recognizes the importance of enhancing Tanzania's competitiveness on the global stage and endeavours to achieve this by investing in science, technology, and innovation-driven approaches to human development. Following FYDP III, the government has since set up transport and energy flagship projects to drive capital accumulation and growth. Notable projects include the Standard Gauge Railway (SGR), Mwalimu Nyerere Hydroelectricity Dam, and Air Tanzania's recapitalization. While the projects propped up capital accumulation – gross fixed capital formation was up 45% of GDP by 2020 on account of public investments – FDI inflows halved by 2021 from a peak value in 2010. To this end, the government should focus on attracting private investment on the back of these public investments.[10]

3.2.2 Why is an Innovative Finance Approach Required?

Official Development Assistance (ODA), i.e., government aid from the various Organization for Economic Co-operation and Development (OECD) countries which stood at $1.35 billion as of 2021, has lately been stretched thin to reduce the impact of internal and external crises. ODA can no longer be relied upon as the main source of development funding[11]. Private capital, therefore, has to be mobilized to bridge the gap and create functional markets that drive development using innovative finance models[12]. Innovative finance operates outside (but in some cases adjacent to) the government's traditional financing system, i.e., taxes, fees, levies, and concessional borrowing. The financial instruments, channels, processes, and structuring approaches that collectively define innovative finance should be contextualized on a country's development needs. Innovative finance can be said to encompass thematic bonds (green, blue, gender, sustainable, sukuk, diaspora, municipal, etc.), blended finance, impact investment, crowdfunding, and public-private partnerships (PPP).

Tanzania's recent graduation into a middle-income country means that the quantum of grants and concessional loans available to the government will reduce over time. Additionally, given the fiscal pressure limiting budgetary allocation for development projects, the government should consider innovative finance approaches to mobilize private capital towards its development priorities[13].

To its credit, the government has developed the Financial Sector Development Master Plan 2020/21-2029/30 to stimulate economic growth and reduce poverty. The master plan aspires to attract long-term institutional capital whose investment time horizon aligns with the long-term return profile from public sector projects. The financing aspirations as articulated in the Alternative Project Financing (APF) 2021 strategy draw on lessons from peers such as South Africa, Kenya, Nigeria, and Ghana that have used innovative finance approaches, and can be summarized as:

Develop technical capacity at policymaking, legislative, and regulatory levels of government dealing with innovative finance
Draft clear policy, legal, and regulatory frameworks that build investor confidence and promote predictability Institutionalize good governance required to attract and retain local and foreign investors

This white paper will offer additional recommendations that although specific to blended finance, can also be applied to other types of innovative finance approaches.

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[8] Ministry of Finance and Planning and Tanzania Investment Centre, Tanzania Development Plan, link
[9] Ministry of Finance and Planning, Five-year development plan III 2021/22 - 2025/26, 54-59, link
[10] The World Bank, Privatizing Growth. 8.
[11] OECD Data Explorer - ODA by sector - bilateral commitments by donor and recipient, link
[12] Stratigos, The ABCs of Innovative Finance, 3, link
[13] Ministry of Finance and Planning, Alternative Project Financing, 4, link

3.3 Introduction to Blended Finance

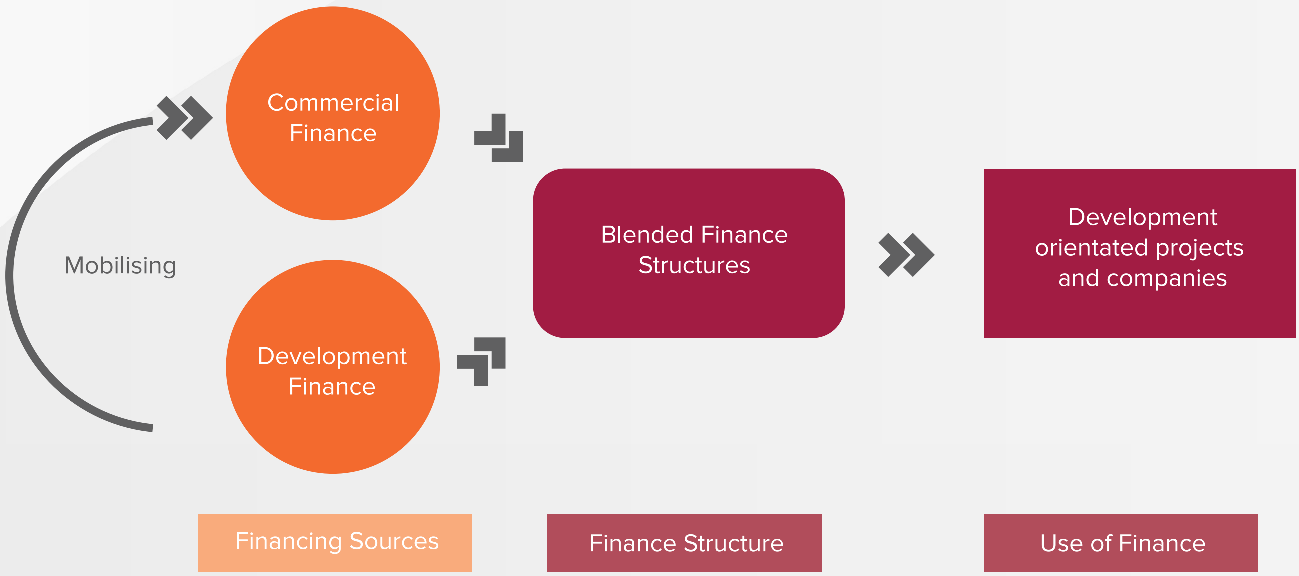
Blended finance is the use of catalytic/concessional capital from public or philanthropic sources to increase private sector investment in sustainable development. The main investment barriers for private investors addressed by blended finance are

(i) high perceived and real risk, and (ii) disproportionate returns for the risk relative to comparable investments. Blended finance creates investable opportunities in developing countries which leads to more development impact.

Blended finance is a financial structuring approach. It is not an investment approach, instrument, or end solution. It is also different from impact investing and PPP. Impact investing is an investment approach, and impact investors often participate in blended finance structures. On the other hand, PPPs are a contracting approach, which may or may not have embedded concessionality.

In the case of blended finance, concessional capital is used to de-risk or return enhance a transaction and at the same time used to attract or leverage additional capital from the commercial sources thereby, creating an 'attractive blend' of financing from different sources. The concessional component is usually obtained from an ODA donor country, philanthropic institution, development finance institution, or national country government. The commercial component is typically obtained from private commercial banks, institutional investors (pension funds and insurance companies), asset managers, private equity firms, impact investors, and project sponsors amongst others. In this case, commercial capital will not participate without the concessional capital – since the financing structure is created for mobilizing private capital to invest in high-risk environments (real or perceived risk) where private capital would not normally be allocated. Blended finance approaches should be selected as a function of the risk that the sponsor is looking to address. Each approach also tends to mobilize a different category and amount of private capital relative to the public or philanthropic capital used, thereby making some approaches comparatively more catalytic (i.e., with a higher leverage/mobilization ratio).

Figure 2: Graphic representation of blended finance



3.3.1 Blended Finance Approaches

In the case of blended finance, concessional capital is used to de-risk or return enhance a transaction and at the same time used to attract or leverage additional capital from the commercial sources thereby, creating an 'attractive blend' of financing from different sources. The concessional component is usually obtained from an ODA donor country, philanthropic institution, development finance institution, or national country government. The commercial component is typically obtained from private commercial banks, institutional investors (pension funds and insurance companies), asset managers, private equity firms, impact investors, and project sponsors

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A list of blended finance approaches and the concomitant risk that they solve can be found in Table 1. It must also be mentioned transactions often have a combination of approaches involved vs stand-alone approaches e.g. a fund with subordinated capital, which has also benefited from a guarantee wrap as well as a technical assistance grant.

Table 1: Blended finance approaches and risk categories mitigated

#	APPROACH	DESCRIPTION	RISKS
1	Subordinated Capital	Subordinated debt or junior equity protects senior investors by absorbing first losses on the value of the security i.e. if something goes wrong, the most subordinated/junior tranche will be paid out last.	Offtake risk, Construction risk, Credit risk and Reputational risk
2	Guarantees	Provides protection to one party if the other party fails to perform/defaults. Guarantees are a form of credit enhancement, strengthening the creditworthiness of an investment because of the promise from the guarantor to complete performance in the event of default. As such, they are one of the most catalytic forms of blending. There are many types of guarantees including first loss, partial risk, or credit guarantees and trade finance guarantees.	Political risk, Construction risk, Operation and Output risks, Upstream resource-related risks
3	Grants	Capital which is paid in without any expected return or compensation over a fixed period. It could include money for technical assistance, project preparation to bring a project to bankability and/or post-investment project/investee support. Grants can be used for pipeline development, especially in less mature sector and riskier geographies, creating significant crowding in of private capital.	High transaction costs, Operational risks, Lack of bankable pipeline, Lack of local intermediaries, Lack of capacity
4	Contractual Mechanisms	There are various contractual and project finance arrangements to support the development of bankable projects including off-taker agreements, and subsidies such as feed-in-tariffs tax credits. These mechanisms involve an agreement between producers and buyers of a resource to purchase or sell portions of future production. These agreements are to secure financing for a production facility or buy the equipment needed to extract a resource (e.g. power purchase agreements in the energy sector or advance market commitments in the vaccine/health sector).	Demand risk, Financing Risk
5	Results Based Incentives	An approach that provides incentives to achieve desired outcomes or results (tie at least a portion of payments to achievement), including social impact bonds and performance-based contracts. This type of financing is aimed at rewarding innovation and successful implementation of a project with clear development impact.	Operation Risk, Output Risk

3.3.2 Blended Finance Mobilization Structures

Blended finance can mobilize private capital through various structures. Blending can happen directly at the project level or company level, into a specific fund or as part of a facility.

Table 2: Blended finance deal types

#	Structure	Description	Examples
1	Project	Public and private capital is blended within a single project's financial structure/balance sheet. Can be in the form of greenfield and brownfield projects, funded through a combination of market rate and below market rate capital.	Lake Turkana Wind Project, Kigali Bulk Water Project
2	Funds	Public and private investors pool resources to be invested in multiple projects or companies. Can be in the form of a limited partnership, private equity and debt funds, as well as funds-of-funds.	Climate Investor One, Blackrock Climate Finance Partnership, Mastercard Foundation Africa Growth Fund
3	Facility	Earmarked allocation of public development resources with private capital at the vehicle level, for deployment towards a specific recipient or intervention.	GuarantCo; International Finance Corporation (IFC) Managed Co-Lending Portfolio Program
4	Bonds/Notes	Includes both privately placed issuances and listed instruments on public exchanges.	IIX Women's Livelihood Bond; Acorn Holdings Bond
5	Companies	Direct private equity and debt financing of businesses on both market rate and below market rate terms.	M-KOPA Solar, Ethio Chicken

Blended finance exists to mobilize investment to projects that are bankable "as is" or require a level of risk mitigation to make them bankable. The table below outlines the types of transactions blended finance should be used to support, specifically, transactions in Category I and II, while foregoing transactions in Category III.

Table 3: Types of transactions to be supported via blended finance

Transaction Category	Description	Blended Finance Solution
Bankable	Project is bankable on commercial terms wherein financial intermediaries are prepared to finance the project on normal, market-based terms with no external support required.	Several bankable SDG projects in the developing countries go unfinanced due to a lack of capital. Blended finance solutions increase the supply of capital to financial intermediaries, thereby increasing the number of SDG projects that can receive financing in order to get off the ground.

Near-Bankable	Project is mostly bankable "as is," but requires a level of risk mitigation financial	Without some risk mitigation to make the project bankable, these near-bankable projects will not receive financing and will not be implemented. Examples could include an SME that has the necessary cash flows to obtain a loan but lacks the collateral to pledge to a domestic bank. Blended finance solutions can provide risk mitigation solutions to credit enhance transactions, transforming near-bankable projects to bankable initiatives.
Unbankable	Project is unbankable, probability of failure and financial loss is unacceptably high – financial intermediaries would require a full guarantee to finance the project.	There are many projects financial intermediaries would determine to be unbankable. Blended finance solutions are not intended to mobilize finance to these types of projects.

3.4 Blended Finance Trends

Convergence Blended Finance is the centre for excellence in blended finance, collating data on this financing approach to educate, guide, and influence the ecosystem. To date, Convergence's database contains over 1,200 blended finance transactions with a total deal volume of $231 billion. Over the last decade, the blended finance market has comprised 85 deals per year on average, with a median annual financing total of $15 billion, indicating a significant uptake in blended finance activity in recent years. Between 2021-2023, the average annual deal count stands at 122.

Sub-Saharan Africa deal count stands at 579, and Tanzania ranks 5th in Sub-Saharan Africa behind Kenya, Nigeria, Ghana, and Uganda respectively. This section covers upto-date blended finance trends in Tanzania in detail.

3.4.1 Overview of Blended Deals in Tanzania

81 blended deals have been executed in Tanzania since 2005 with an aggregate value of $11 billion – this includes transactions that had mandates across several countries since investors like to diversify their risks (across geographies and currencies), most deals in Tanzania have been transboundary fund structures.

Majority of the deals had concessional capital and technical assistance as their preferred blending mechanism (see Figure 1). Nearly half of the deal count was funds, a quarter were direct investments into companies while the rest were projects, bonds/ notes, and facilities (see Figure 2). Energy and financial services lead the deal count tally across sectors, unsurprisingly, and underpins the suitability of blended finance for sectors with demonstrable cashflows (see Figure 3).

Most deals focused on SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation, and Infrastructure), indicative of an investor consensus to structure financing that intentionally spurs Tanzania's human capital development and advances the country's structural transformation. Financing oriented to SDGs 8 and 9 also aligns with the country's development priorities as articulated in FYDP III (see section 3.2.1).

Figure 3: Frequency of blending archetypes

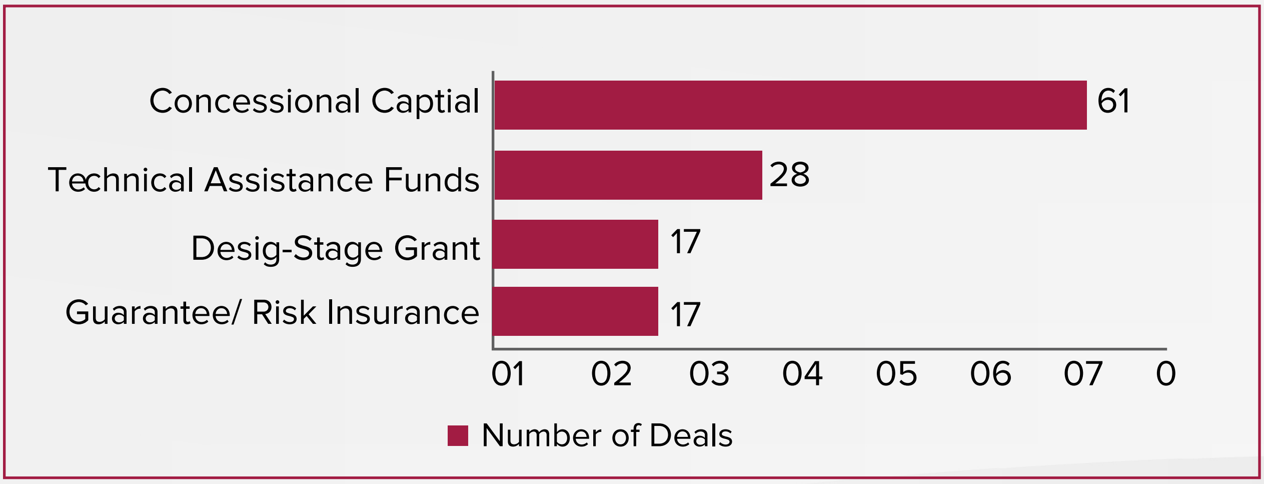


Figure 4: Blended deals types

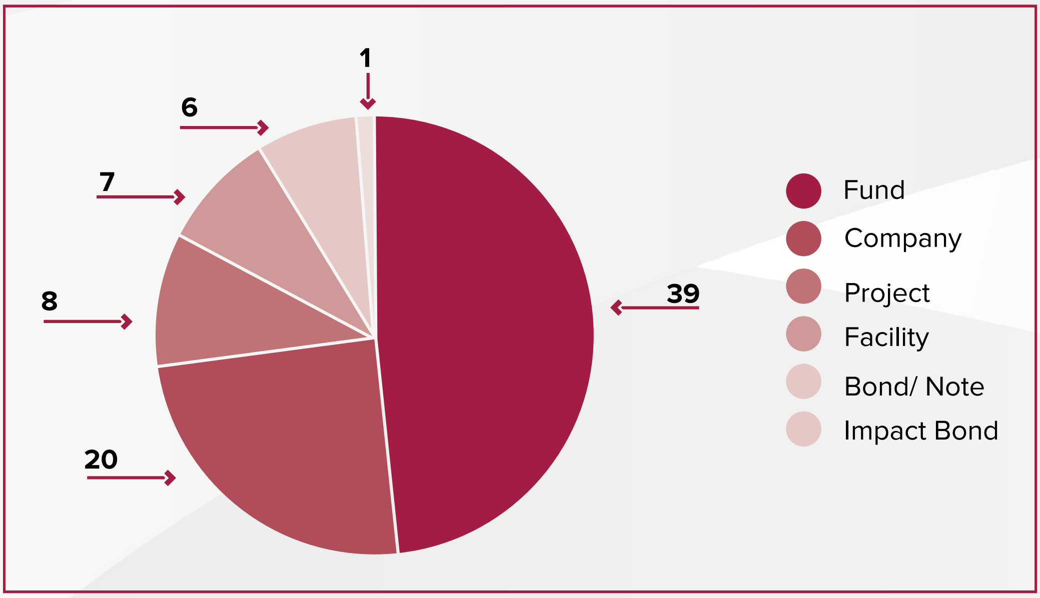
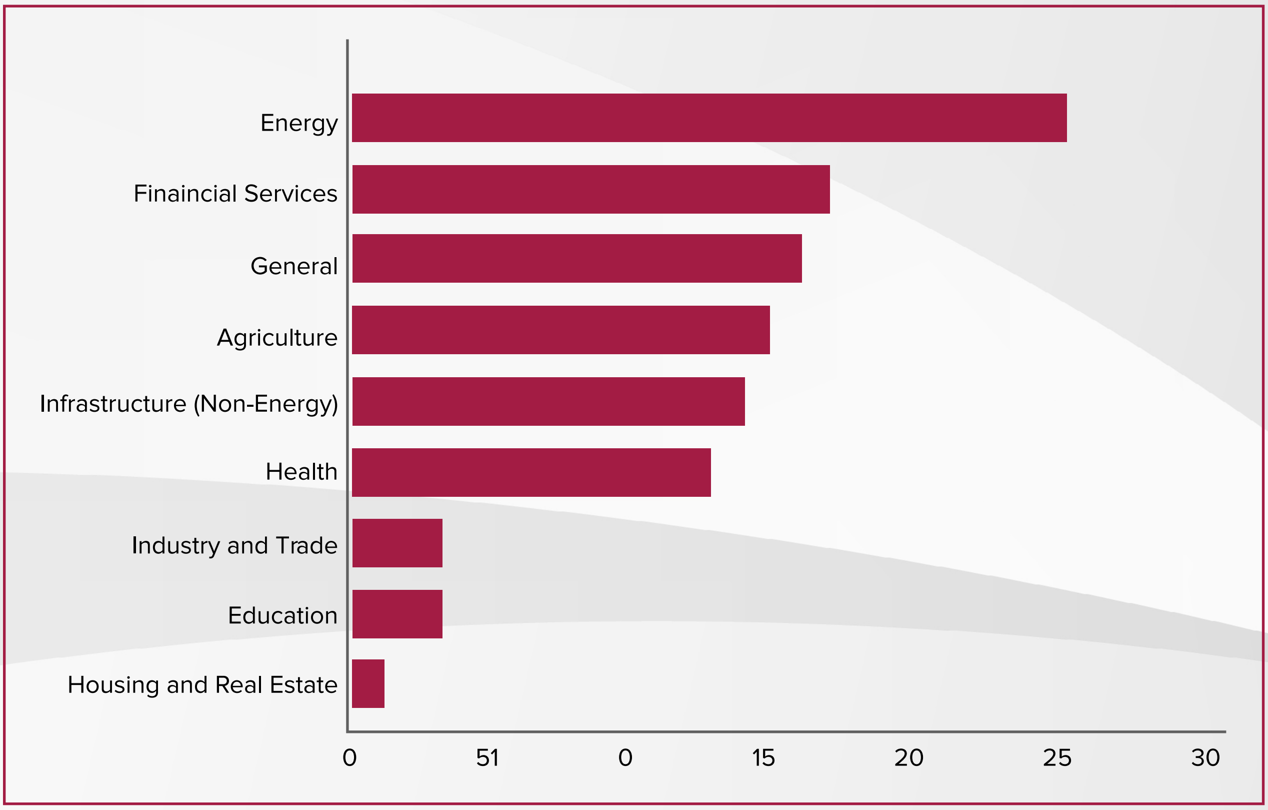


Figure 5: Blended deals across various sectors



3.4.2 Review of Various Blended Deal Types

3.4.2.1 Fund Deals

Out of the 39 fund deals with a volume of $5 billion, majority had sizes ranging between $25-50 million and $50-100 million (see Figure 4) and were sector-agnostic. Participation was widely distributed across all investor archetypes, i.e., commercial investors, foundations/ NGOs, impact investors, development finance institution (DFI)/ multilateral development bank (MDB), and development agencies (see Figure 5), DFIs being the most active investor type investing across multiple funds. The leading DFIs/ MDBs are Netherlands Development Finance Company (FMO), British International Investment (BII), European Investment Bank (EIB), IFC, Norfund, and US International Development Finance Corporation (DFC) invested in 25, 15, 13, 13, 12, and 12 fund deals respectively. DFI footprint across such a wide array of fund deals points out their comparative advantage to structure versatile deals and could potentially scale their mobilizing role, eventually transferring hard currency exposure to institutional investors upon exit.

Figure 6: Number and size of blended fund

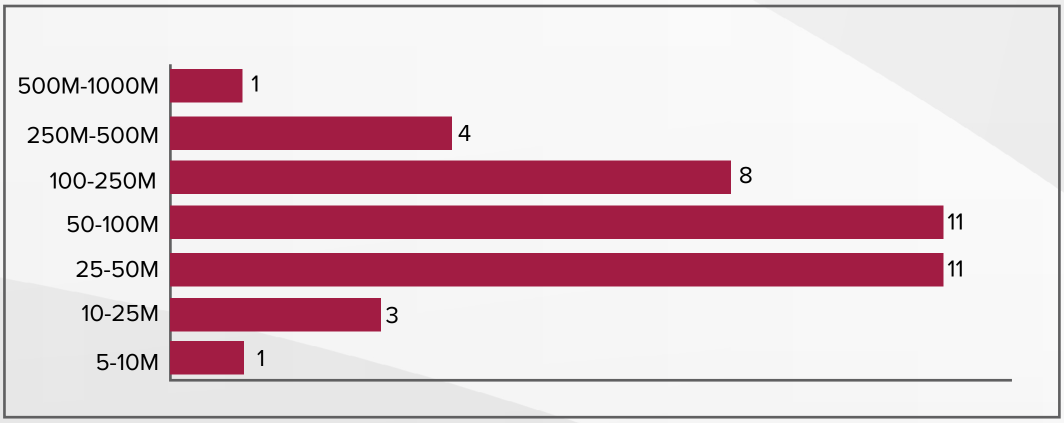
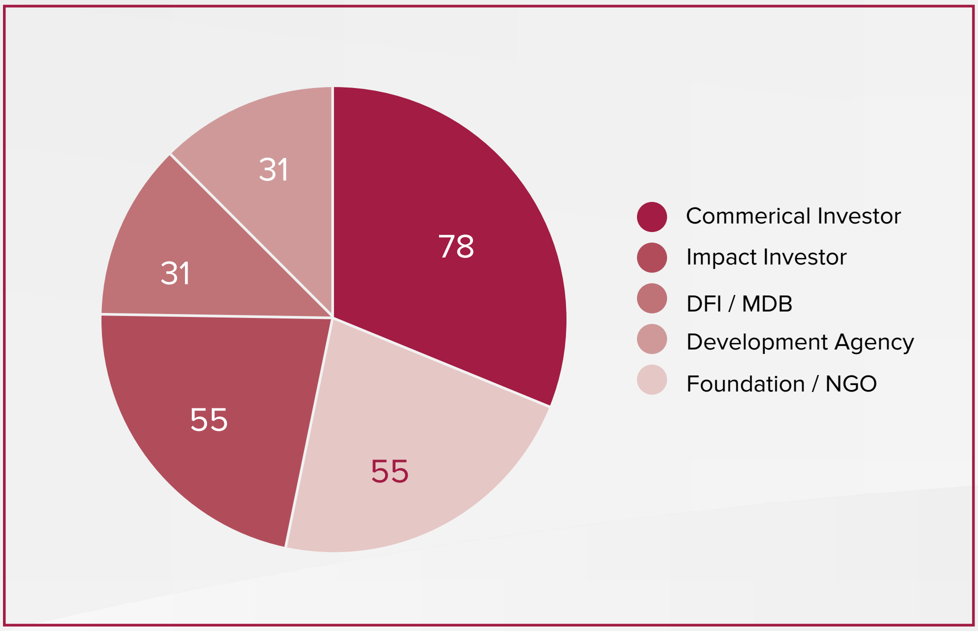


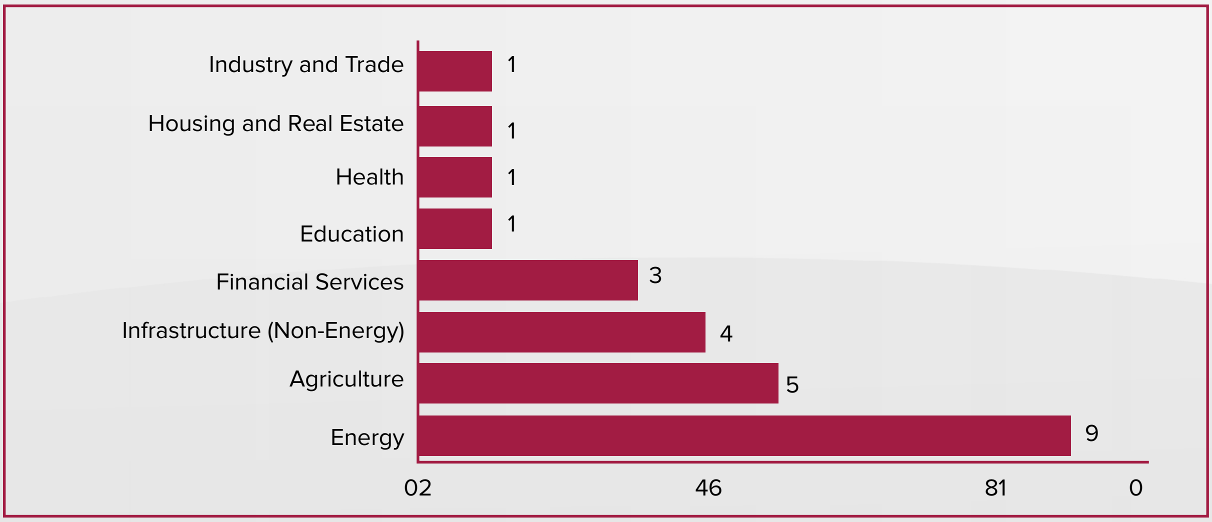
Figure 7: Investor representation in blended fund deals



3.4.2.2 Direct Deals

$2 billion was directly invested in 20 companies – 6 deals ranging between $100 and 250 million and 7 deals ranging between $5 and 50 million. Energy and agriculture companies (see Figure 6) received majority (9 deals and 5 deals respectively) of blended funding in Tanzania, signalling their significant multiplier effect to advance energy equity and smallholder farmer productivity – both of which can potentially advance real income and quality of life for end beneficiaries at scale. Similar to fund deals, there is a uniform representation of various investor types, and the same 6 DFIs/MDBs, as with fund deals, were the most active in company deals. The most active development agencies were the Africa Enterprise Challenge Fund (AECF), US Agency for International Development (USAID), Financial Sector Deepening Africa (FSD Africa), Energy and Environment Partnership (EEP), and the Foreign, Commonwealth and Development Office (FCDO) participating in 5, 5, 3, 2, and 2 company deals respectively. Most active impact investors were Ceniarth LLC, responsAbility Investments, Acumen, Africa Agriculture Development Company, and Solarcity, participating in 6, 5, 4, 3, and 3 company deals, respectively. Shell Foundation and DOEN Foundation have been the most active foundations/non-profits investing in 6 and 3 company deals respectively.

Figure 8: Sector frequency of blended direct (company) deals



3.4.2.3 Project Finance Deals

8 project deals attracted $883 million in funding and half of the deals were executed in non-energy infrastructure while agriculture and energy had 2 deals each. UNCDF and Emerging Africa Infrastructure Fund (EAIF) funded majority of the deals (3 and 2 respectively) as development agencies. Overall, there has been proportionate representation across all investor types in project deals.

3.4.2.3 Project Finance Deals

There have been 6 bond issuances in the past with a total funding of $1 billion – 4 bond deals funded non-energy infrastructure projects. EAIF and GuarantCo supported most issues as development agencies (3 and 2 bond deals respectively) while IFC and BII funded most issues as DFIs/ MDBs (3 and 2 bond deals respectively).

There have been 6 facilities in the past out of which 2 focused on financial services and 4 on the healthcare sector. The Government of the Netherlands and The Norwegian Agency for Development Cooperation (Norad) were the most active development agencies supporting 2 deals each while IFC and FMO were the most active DFIs/ MDBs supporting 3 deals each.

04

Blended Finance in Tanzania

Between 2021 and 2023, observed blended transactions have successfully mobilized private capital to diverse sectors in the country. Despite their impact potential, these have been executed on an ad-hoc basis and with minimal linkage to government policy, which could potentially scale/ replicate these transactions across the entire economy.

4.1 Deep Dive Into Select Blended Transactions in Tanzania

4.1.1 TIB Development Bank

TIB Development Bank (formerly Tanzania Investment Bank) was established in 1970 to finance the country's industrialization ambitions. TIB Is fully owned by the government and aligns its strategic focus with the government's development priorities, thereby playing a key role in crowding in commercial/ quasi-commercial instruments to flagship development projects. TIB's offerings include medium and long-tenor term loans for project financing on concessional terms, concessional credit guarantee facilities, fund management for large externally funded development programs, and tailor-made advisory services. Since TIB Development Bank's cost of capital is low and it has a development mandate, it can play a catalytic role across the Tanzanian financing ecosystem.

TIB's loan syndications have brought along commercial banks' participation in strategic investments. Examples of such strategic syndications are highlighted below:

i. $140 million loan to Tanzania Electric Supply Company (TANESCO), of which a portion was contributed by NMB Bank while TIB contributed $4.5 million.
ii. $50 million loan to Kagera Sugar Limited (a sugar miller located in north-west Tanzania), which was syndicated by TIB, National Social Security Fund, PPF Pensions Fund, Public Service Pensions Fund, CRDB bank, Stanbic bank, and Barclays bank (now ABSA Bank). Pension fund participation in this design is innovative as they often choose to invest risk-free in government securities, only occasionally venturing into alternative investments such as real estate.
iii. $320 million loan Kilwa Energy power project that was syndicated by TIB Development Bank, CRDB Bank, Development Bank of South Africa (DBSA), and Trade and Development Bank (TDB). This syndication approach bringing local and regional DFIs in one deal structure, while rare, provides an opportunity for local DFIs to adopt best practices from their regional counterparts.

TIB also plays a fund management role for donor-funded/concessional projects designed to crowd private capital in the expansion of energy and water access to underserved communities. Some mandates include:

i. The World Bank-funded Tanzania Rural Electrification Expansion Program (TREEP) aimed to expand electricity connections to nearly 5 million people, 1,600 healthcare facilities, and 6,000 education facilities. TREEP is jointly funded by the Tanzanian Government, the International Development Association, and the Scaling up Renewable Energy Program (SREP) in Low-Income Countries of the Strategic Climate Fund (SCF). SREP invested $14 million to catalyse large-scale development of the country's renewable energy and mobilize private sector participation.[12,13]
ii. The World Bank provided a $4.5 million grant as an output-based subsidy meant to buy down investments undertaken by Community-Based Water Supply Organizations (CBWSO) to invest in solar water pumping solutions. The CBWSOs previously relied on diesel pumping, which had high costs of operation and maintenance, resulting in higher water tariffs for households. In addition to the World Bank grant, TIB provided $2.5 million for on-lending to the CBWSOs on near commercial terms, enabling them to acquire solar water pumping solutions. CBWSOs were also required to invest 1.5% of the solar equipment cost as their equity into the project.[14]

[14] The World Bank, Changing Lives and Livelihoods in Tanzania, One Electricity Connection at a Time, link

4.1.2 Tanzania Agricultural Development Bank

Tanzania Agricultural Development Bank (TADB) is a development finance institution fully owned by the government. It was formed in 2015 with a mandate to provide short-, medium-, and long-term credit solutions to stimulate the country's agricultural sector, improve food security, and reduce poverty – ultimately enabling TADB to play a catalytic role in agriculture financing and take advantage of its low cost of capital.

Since being established, TADB has adopted an Integrated Value Chain Financing (IVCF) approach where it conducts a systemic analysis of a particular value chain to determine the challenges experienced and interdependencies before determining the interventions required and the most appropriate financing approach for value chain actors. Critically, TADB's concessional instruments have enabled loan syndications alongside commercial banks in strategic investments including:

i. $40 million loan to Bagamoyo Sugar where Tanzania Agricultural Development Bank (TADB) contributed $6.9 million, mobilizing other financiers including CRDB Bank, Stanbic Bank, and Standard Chartered Bank. The project added an estimated 230 metric tonnes per day of sugar into the local market.[14 15]
ii. $24 million loan to set up a fertilizer project in Manyara region where TADB played the origination role, eventually bringing along CRDB bank into the transaction. Other similar transactions include an animal vaccine production project in Arusha ($226,000 from TADB and $205,000 from CRDB); sunflower and cotton oil milling refinery in Shinyanga ($770,000 from TADB and $2.3 million from KCB), and an agricultural packaging factory project in Shinyanga ($636,000 from TADB and $410,000 from CRDB)[16].

Beyond loan syndications, TADB also runs a smallholder credit guarantee scheme providing up to 70% cash cover with special emphasis on women, youth, and climate. The cash cover catalysed credit access for smallholder farmers by de-risking partner financial institutions.

4.1.3 NMB Bank

NMB Bank has prominently leveraged blended finance to mobilize capital to grow its lending capacity and align its loan portfolio to key SDG-oriented milestones.

NMB's Jasiri bond listed in February 2022 was a first-of-its-kind gender/ impact bond designed to increase the flow of funding for women-owned micro small and medium enterprises (MSMEs). The 3-year unsecured senior bond raised $17.4 million and was listed at the Dar es Salaam Stock Exchange (DSE) before eventually cross-listing on the Luxembourg Stock Exchange (LuxSE). Before listing, FSD Africa provided technical assistance support to develop the bank's social bond framework to align with best-inclass standards and the framework would later guide how the bond proceeds were allocated to various target sectors. IFC was an anchor investor in the issue providing $10 million in local currency equivalent, with concessional support from the International Development Association's Private Sector Window (IDA PSW) local currency hedging facility. The IDA PSW is a $2.5 billion fund created by the World Bank Group (WBG) to catalyse private sector investment, recognizing that private sector is critical to achieving the SDGs and that a certain level of risk mitigation is required to unlock high-impact private investment. IDA PSW enables WBG's IFC and Multilateral Investment Guarantee Agency (MIGA) invest in low-income countries, and typically does so via four facilities:[17]

- Local currency facility to enable IFC to provide long-term local currency financing in markets where currency hedging solutions are insufficient
- Blended finance facility where PSW invests on concessional terms alongside IFC in high-impact sectors
- Risk mitigation facility that provides guarantees for projects while shielding sovereigns

[15] The Climate Investment Funds, Tanzania, link
[16] The World Bank, Accelerating solar water pumping via innovative financing project, link
[17] IDA, What is the IDA Private Sector Window?, link

from contingent liability
- MIGA guarantee facility akin to a re-insurance product that provides shared firstloss and risk participation

NMB Bank also issued a $159m USD Jamii Bond, which was listed in November 2023. This was part of a $400 million medium-term note program designed to fund renewable energy, energy efficiency, and green transport. Similar to Jasiri bond, FSD Africa provided early-stage technical support to develop the bond framework. The bond's first tranche was seeded by IFC and BII who provided $25 million and $15 million respectively. IFC's commitment was credit-enhanced via IDA PSW's local currency facility through subsidized cross-currency swaps. IFC and BII's participation attracted other domestic and offshore private investors to the issue.

In October 2023, NMB signed a loan portfolio guarantee agreement with the Nasira risksharing facility. Nasira is a joint EU-FMO guarantee program designed to increase access to finance for underbanked entrepreneurs. Nasira, through FMO, deployed $11 million as unfunded guarantee. The risk-sharing facility was backed by FMO's MASSIF Fund, designed to mobilize $11 million in additional lending from NMB Bank. FMO also extended a credit line of $11 million in local currency to the bank.

4.1.4 CRDB Bank

CRDB Bank is Tanzania's largest bank by asset base, and in 2022, in a bid to expand its portfolio to the healthcare and education sectors, it received a partial guarantee from DFC. DFC's $20 million partial guarantee provided a 50-80% coverage of the underlying loan portfolio to mobilize $34 million from the bank's balance sheet. USAID provided a technical assistance grant to improve the bank's loan origination and monitoring processes. The transaction intended to increase lending to youth and women, running MSMEs in the aforementioned sectors.

CRDB's inaugural green bond issue in 2023 is also another blended finance mechanism initiated by the bank to increase funding flows to climate-friendly development projects. The issue was part of the bank's $300 million multi-currency medium-term note program developed under its new Green, Social, and Sustainability Bond framework. IFC was the anchor investor in the DSE-listed issuance, subscribing $20 million in local currency, which was credit-enhanced by IDA PSW's local currency facility. IFC's support also included a performance-based incentive via the Market Accelerator for Green Construction Program (MAGC), co-funded by IFC and the United Kingdom Government's Department for Energy Security and Net Zero. MAGC is a concessional window working to accelerate the construction of certified green buildings and part of the support includes technical assistance to financial institutions to create financial products for green buildings. At least 40% of IFC's anchor investment would be directed to green buildings.

Ultimately, the green bond issuance raised $68.3 million, a 429% oversubscription, with the proceeds to be directed to climate-smart agriculture, water developments, renewable energy, and green buildings.

4.1.5 Private Agricultural Sector Support (PASS) Trust

PASS, an innovative agri-finance development institution, was established as a project jointly supported by the Governments of Tanzania and Denmark in 2002 under the Business Sector Support Program (BSSP) III with the aim of supporting farmers and MSMEs to increase employment and grow incomes sustainably. PASS became an autonomous legal trust in 2007.

PASS supports various value chains, including livestock, fishing, and forestry alongside multiple farm crops. PASS supports farmers and MSMEs operating within these value chains via guarantee products and tailored business development services.

PASS offers 5 types of guarantees to its customers i.e.,

i. **Traditional guarantee**: PASS independently appraises and approves individual loan applications made via partner banks and micro-finance institutions before offering a 20-60% guarantee coverage. Up to 80% guarantee can also be provided for women, youth, and green growth projects.
ii. **Linkage banking guarantee:** Guarantees loans from highly liquid financial institutions (primary lenders) such as large commercial banks, pension funds, etc., to pre-qualified rural financial institutions. Loans from the primary lenders to rural finance institutions can only be used as loanable funds to the rural institutions' agribusiness portfolio.
iii. **Portfolio guarantee**: Financial institutions can opt to cover up to 50% of their portfolio using predetermined criteria defined by PASS.
iv. **Digital guarantee:** This product provides a 50% guarantee cover for low-ticket mobile loan sizes up to a maximum of $200 through partner bank CRDB. The loans are initiated and advanced via mobile devices.
v. **Green guarantee:** Provides up to 80% cover for loans advanced to agribusinesses leveraging green technologies to drive positive environmental and social outcomes.

PASS also operates a leasing business that enables agribusinesses to acquire equipment and machinery that would otherwise be unaffordable. The leasing business was seeded by Danida's financing as equity. Sweden International Development Agency (Sida) has also provided a re-guarantee cover to PASS thereby underpinning PASS's blended structure.

4.1.6 Private Infrastructure Development Group

The Private Infrastructure Development Group (PIDG) is a multi-donor infrastructure development and financing organization established to direct concessional capital to enable sustainable and affordable infrastructure in Sub-Saharan Africa and South Asia.

PIDG is structured into various business units meant to support infrastructure development at its various stages:

i. **Technical assistance:** Technical assistance is deployed to support early-stage upstream activities via feasibility studies and project incubation. This can be delivered in the form of grants for technical and feasibility studies in addition to viability gap funding, which often goes to bridge affordability for infrastructure services to end users and enhance its commercial viability.
ii. **Project development:** InfraCo (a member of PIDG), through its equity investments in early-stage projects and/ or companies, takes a risk-sharing position alongside competent project sponsors.
iii. **Credit solutions:** PIDG provides various credit solutions such as long-term debt via the Emerging Africa Infrastructure Fund (EAIF); credit enhancement and local currency solutions via GuarantCo; and local credit enhancement facilities such as InfraCredit Nigeria, InfraZamin Pakistan, and Dhamana Guarantee Company in East Africa. The local credit enhancement facilities are meant to unlock domestic capital for infrastructure financing and PIDG has a long-term goal of setting up multiple similar facilities in key geographies supported via feasibility assessment, incubation, setup, and management support. Dhamana, which was set up in 2024 with $14.6m in equity financing has a mandate to operate in Tanzania by providing local currency credit guarantees in order to support the mobilization of institutional capital into sustainable infrastructure.

Additional information about EAIF's and GuarantCo's investments in Tanzania is detailed below.

4.1.6.1 Emerging Africa Infrastructure Fund

The EAIF was established to provide long-term commercial debt to infrastructure projects in Africa. Since its establishment in 2002, it has attracted and deployed concessional and commercial capital to development-oriented infrastructure in Africa.

In Tanzania, EAIF has made six investments totalling $2 billion across telecommunications, renewable energy, and manufacturing as detailed below:

i. **Telecommunications:** EAIF's telecommunications investments were multicountry projects.
   a. Raxio Group secured $110 million to develop data centers across Angola, the Democratic Republic of Congo (DRC), Ivory Coast, Ethiopia, Mozambique, Tanzania, and Uganda. The debt facility was led by EAIF and Proparco investing $33 million and $40 million respectively. EAIF participated on concessional terms.
   b. Axian Telecom placed an inaugural $420 million corporate issuance to expand its operations and refinance existing debt. EAIF committed $20 million in concessional debt, alongside IFC ($60 million), BII ($30 million), and DEG ($30 million). The 5-year issue priced at 7.4% received a B+ rating and managed a 2X oversubscription.
   c. The $375 million SEACOM project (possibly Africa's largest undersea broadband cable project) laid 17,000km of submarine fiber optic connecting Djibouti, Kenya, Mozambique, South Africa, and Tanzania with landing points in France and India. SEACOM ownership (IPS - the industrial and infrastructure arm of the Aga Khan Fund for Economic Development, Remgro, Sanlam, Convergence Partners, and an individual investor) jointly provided $75 million in equity to seed the project financing. An additional $75 million in equity was provided by lead shareholder IPS, funded via $15 million in own equity and $60.4 million in debt raised privately from EAIF and FMO. EAIF provided $35.4 million in concessional debt financing for IPS's leveraged equity participation, helping to accelerate progress to financial close. Nedbank was selected as lead arranger of the debt financing, securing $150 million from various South African investors, including ~$75 million from their own account.
   d. Helios Towers Africa, a leading leasing agent of telecommunication towers issued an inaugural corporate issuance of $600 million in 2017. EAIF acted as an anchor investor to the issue, committing $40 million in concessional debt. EAIF's experience with corporate bond placements in the telecommunications sector helped catalyse private sector interest in the note.

ii. **Renewable energy:** The $87 million, 14 MW Kikagati Hydroelectric Project near the Uganda-Tanzania border benefitted from EAIF's $27 million concessional debt, which helped de-risk and improve the economic feasibility of the project. Additionally, FMO extended a senior debt tranche of $27 million and Norfund $1.3 million. Kikagati Power Company Limited, entirely owned by the Africa Renewable Energy Fund LP, financed the remaining balance of the project through equity contributions.

iii. **Manufacturing:** ALAF Ltd. (a subsidiary of the Safal Group – the largest manufacturer and processor of coated steel roofing materials in East and Southern Africa) issued a $35 million local currency corporate bond to finance the growth of its operations. ALAF's issuance required credit enhancement support to reach local capital markets. GuarantCo, together with IFC, backed ALAF's placement with a joint partial guarantee to boost market confidence. GuarantCo agreed to provide coverage up to $5.2 million, while IFC backed ALAF for up to $16.7 million, enabling full subscription by private investors, $7 million of which came from DFIs and $5 million from the Emerging Africa Infrastructure Fund.

4.1.6.2 GuarantCo

GuarantCo provides credit enhancement and local currency solutions to unlock international and domestic institutional investors in infrastructure and develop local capital markets. Through its products, GuarantCo de-risks projects to make them bankable, extends tenors to meet the real infrastructure financing need, and enables landmark green bond issuances.

In Tanzania, aside from the ALAF transaction covered earlier, GuarantCo also participated in a $225 million transaction by providing a partial guarantee for the provision of a performance bond issued by Standard Chartered Bank to Spencon, a midsized local civil works contractor specializing in transport, water, and energy infrastructure in East Africa. The performance bond enabled Spencon to bid for projects. GuarantCo offered a 50% credit guarantee on Standard Chartered's $30 million performance bond issued to Spencon.

4.1.7 Aceli Africa

Aceli Africa is an incentive facility designed to enhance agri-SME lending. Aceli operates in Kenya, Rwanda, Tanzania, Uganda, and Zambia having received $93 million in concessional funding commitments from USAID, Feed the Future, the United Kingdom Agency for International Development (UKAID), Swiss Agency for Development and Cooperation (SDC), Ministry of Foreign Affairs for the Netherlands, Norwegian Agency for Development Cooperation (NORAD), Global Affairs Canada, IKEA Foundation, Bill and Melinda Gates Foundation, and Mulago.

Aceli's incentive offerings include:

i. Portfolio first loss cover meant to increase a lender's risk appetite when lending ticket sizes of between $15,000 and $1.75 million. On average, 5% of each loan is placed in a reserve account to cover portfolio losses.
ii. Origination incentive defrays transaction costs to encourage low-ticket size lending ranging between $15,000 and $500,000. Incentives range between 216% based on loan size and impact profile.

Aceli mainly provides financial incentives to lenders to take on more risk in a bid to reduce barriers to credit for agri-SMEs. Aceli also provides technical assistance to lenders and borrowers (agri-SMEs), while collating data to disseminate as a public good to reduce sector-wide information gaps that present as barriers to accessing credit.

Aceli has partnered with 9 lenders (whose names are withheld due to moral hazard concerns). In total, Aceli has managed to incentivize nearly 1,000 SME loans in Tanzania, mobilizing $58 million in the process and benefiting over 200,000 smallholder farmers while maintaining a leverage ratio of 8x.

4.1.8 Daraja Impact

Daraja Impact is an $8 million, 5-year SME financing program that provides impact-linked finance and technical assistance to benefit women and youth. The initiative is funded by SDC through the Swiss Embassy in Tanzania and co-implemented by the Small Enterprise Assistance Funds (SEAF) and AlphaMundi Foundation.

Daraja Impact provides impact-linked non-repayable grants and loans ranging between $50,000 and $250,000 to catalyse additional financing from the private sector. The grants are contingent on securing 3-5X of commercial funding, while the loans (initially at commercial rates) can have either the principal or interest rates gradually waived contingent on the borrower achieving mutually agreed-upon impact metrics. SEAF is administering the low-ticket size loans, while AlphaMundi is administering large ticket sizes.

The program also provides investment readiness support and impact management training for businesses before investing. Targeted post-investment technical assistance can also be provided as needed.

4.1.9 Tanga UWASA Sub-national Bond Issuance

The Capital Markets and Securities Authority (CMSA) in partnership with DSE and United Nations Capital Development Fund (UNCDF) has been supporting four municipalities namely Tanga, Mwanza, Arusha, and Illemela to develop ready-for-market projects with financing structures viable for listing. The support culminated in the Tanga Urban Water Supply and Sanitation Authority (Tanga UWASA) issuing a $20 million 10-year infrastructure bond in February 2024. Proceeds from the DSE-listed bond will enable the utility to expand its capacity by 33% from 45,000 cubic meters per day to 60,000 cubic meters per day. UNCDF provided the municipality with technical and financing support leading up to the issue. The first-of-its-kind transaction in East Africa provides a template for other sub-national governments to access capital markets to finance their development projects.[18]

[18] UN Capital Development Fund, Tanga UWASA Issues Historic Water Infrastructure Green Bond Valued at TZS 53.12 Billion, link

05

Regulatory Analysis

Tanzania's policy, regulatory, and business operational environment has lately evolved to adopt a pro-market stance with the country increasingly being viewed regionally as an attractive investment destination. Various initiatives driven by public actors have been critical in promoting private capital mobilization in the country.

5.1 Regulatory Overview

Per the International Monetary Fund (IMF), the country's external debt distress is moderate with a 35% present value of public debt to GDP ratio against a threshold of 55%. This ratio also captures the contingent liability associated with central governmentguaranteed debt to state-owned enterprises and local governments. The confluence of an increasingly favourable business environment and stabilizing global commodity prices are expected to continue positively impacting the economic outlook, resulting in sustained inflation rate of 4% in the medium term. The fiscal deficit is projected to be below 3% reflecting planned revenue mobilization reforms meant to improve tax to GDP ratio. , Summarily, these indicators point to the national government's prudence in fiscal management while also underpinning the continued essence of leveraging concessional finance to de-risk investments that have socio-economic payoffs, ultimately reducing the risk from exogenous stress factors such as climate-related natural disasters.

Another favourable regulatory factor that bears mentioning is the CMSA's support for innovative finance by providing guidance for establishing frameworks that have seen four oversubscribed thematic bond issuances, between 2022 and 2024, listed by CRDB bank, NMB bank, and Tanga water utility with potentially more in the pipeline. Other CMSAdriven initiatives include setting up guardrails that support the establishment of an Enterprise Growth Segment on the DSE to facilitate listing of SMEs and start-ups, thereby fulfilling the aspirations outlined in the Financial Sector Development Masterplan 2020/21 – 2029/30.

Going forward, it is anticipated that commercial capital, mobilized by concessional capital, will increasingly play a significant role in spurring productive sectors of Tanzania's economy. In recognition of this, the government can further create a facilitative environment anchored on medium-term and long-term reforms designed to mobilize private capital as further proposed below.

5.2 Medium-term Opportunities for Policy and Regulatory Reforms

i. **Revise Investment Threshold Required to Unlock Tax Incentives:** Current investment incentive structures outline a $500,000 and $50,000 minimum investment for foreign and local investors before they can unlock incentives, irrespective of an investment's strategic value. To unlock these incentives, the investments must be new and located within an export processing zone or a special economic zone[21]. While this is a good start, the government can consider expanding the incentive qualification criteria beyond export processing zones and special economic zones and apply a graduated incentive structure progressively unlocked based on an investment's value and its strategic importance to attract both local and foreign investors[22].

ii. **Conduct an assessment of Fair Competition Commission's (FCC) Fees Levied on Mergers and Acquisitions:** Typically, transactions characterized by sales of shares or assets require FCC's review to determine whether they are anti-competitive or not, subject to meeting the set threshold of $1.5 million combined turnover or combined market value of assets owned by transacting entities. FCC fees charged to cater for administrative costs can range from ~10,000 to $~40,000 per transaction, affecting smaller businesses disproportionately and hindering entrepreneurial growth and market competitiveness.[23 24] The government should commission an impact assessment of FCC fees on the cost of capital for low-ticket transactions to inform the design and implementation of a tiered structure that

[19] Inflation stood at 3.1% as of April 2024
[20] The International Monetary Fund, United Republic of Tanzania: Third Review Under the Extended Credit Facility Arrangement, Request for Extension of the Extended Credit Facility Arrangement and Rephasing of Access, and Request for an Arrangement Under the Resilience and Sustainability Facility—Debt Sustainability Analysis
[21] KPMG, Investing in Africa: A guide to tax/incentives in Africa, link
[22] Renew Capital research
[23] RSM Eastern Africa Consulting Ltd, Mergers and Acquisitions in Tanzania, link
[24] Renew Capital research

accommodates businesses of varying sizes.

iii. **Review Foreign Investment Restrictions in Specific Sectors:** Certain priority sectors, such as mining, tourism, and energy, limit foreign equity participation unless a local partner is present. The government can institute gradual liberalization and transparent participation guidelines, which could encourage foreign involvement while safeguarding national interests.[25]

iv. **Minimize Complications that Impede the Efficiency of Transactions:** The Foreign Exchange Act (2022) imposes strict documentation and penalties, effectively impeding cross-border transactions. Simplified procedures and transparent processes could reduce barriers to capital repatriation. In employment, quota-based restrictions on expatriate hiring should be made more flexible in cognizance of existing skill gaps while promoting local human capital development.[26]

v. **Capitalize Local Development Banks to Scale National Guarantee Schemes:** The scarcity of long-term lending to MSMEs has had a restrictive effect on their growth due to inability to post collateral requirements. However, data from risksharing entities such as Aceli Africa and PASS Trust have yielded single-digit delinquency rates over time. While both risk-sharing solutions are exclusive to agriculture, there is a case for exploring how default rates would reflect across other SME-dominated sectors.

As local development banks have a development mandate and a comparative advantage to originate and arrange transactions, the Government of Tanzania should consider increasing TADB and TIB's capitalization so that they can deploy risk-sharing facilities in partnership with financial institutions while reducing the proportion of credit guarantees over time.

In addition to this, the Bank of Tanzania should consider accounting for guarantee instruments' impact on the risk-weighting of a financial institution's assets to enhance lender appetite to increase exposure to certain sectors such as agriculture and climate.[27]

vi. **Set Up a Data Repository to Facilitate Private Capital Mobilization**
Another component that would support private capital mobilization is collating comparable data via the existing framework such as Tanzania Investment Centre or the National Bureau of Statistics akin to the Global Emerging Markets Risk Database. A 2019 report by FSD Africa cited lack of comparables as a limiting factor stunting East African pension schemes' participation in private equity deals.[28]

Such a database aggregating cross-sector benchmarks and delinquency rates across instrument/ deal types would ultimately support investor decisionmaking by reducing perceived risk thereby favourably impacting capital pricing.

5.3 Long-term Opportunities for Policy and Regulatory Reforms

i. **Streamline Regulatory Processes and Reduce Redundancies in Regulatory Agencies**
Investors face a fragmented system with multiple agencies handling overlapping functions. This duplication creates inefficiencies, causing delays in securing necessary approvals. Functional overlap can also result in lengthy procedures for obtaining permits and licenses and excessive paperwork and inspections require significant time and resources, further complicating investment processes.

The government should simplify approval procedures to reduce delays and operational costs. A good starting point would be to review the current compliance processes within existing investment promotion and regulatory agencies, such as the Tanzania Investment Centre and Business Registration and Licens-

[25] Renew Capital research
[26] Renew Capital research
[27] Aceli Africa, The effect of Central Bank policies on lending to agricultural SMEs in East Africa, link
[28] Aceli Africa, The effect of Central Bank policies on lending to agricultural SMEs in East Africa, link

ing Agency, to minimize bureaucratic hurdles. The outcome of this review should:[29]

- Develop an integrated digital platform for applications, tracking, and approvals
- Introduce automated compliance tools and standardized documentation
- Clarify the roles of regulatory bodies and consolidate overlapping functions
- Introduce accountability measures to improve efficiency
- Train regulatory personnel to improve service delivery and foster a culture of accountability
- Strengthen regulatory transparency, judicial independence, and anticorruption measures to improve investor confidence.

ii. Promote the Development of a Startup Ecosystem

Tanzania lacks a dedicated legal framework for startups, hindering early-stage ventures essential for innovation. A Startup Act modelled on successful African markets could define criteria for startups and reduce compliance burdens, offer tax incentives and streamlined registration for innovative enterprises, and facilitate foreign investment in technology-driven ventures.[30]

iii. Encourage the Formalization of Small and Growing Businesses

An estimated 3 million MSMEs employ 5 million people in the country and a majority of these businesses are informal, largely disincentivized by taxation prospects, despite the simplified presumptive tax provisions for enterprises with annual turnover below ~$40,000.[31] In the context of revenue mobilization pressures, a holistic review of the taxation architecture would be necessary to account for medium and long-term perspectives.

Lessons from Sri Lanka, Malawi, and Benin show a 12% increase in likelihood to formalize in response to incentives such as cash grants, business training, and support to open a bank account – likelihood of formalization increased as more benefits accrued.[32] Policymakers have to rationalize the cost of providing these benefits vis-a-vis the potential tax revenue mobilized and deliver these incentives in coordination with other policy treatments. Increased formalization would help develop the pipeline of bankable businesses to make a case for large-scale private capital mobilization for SME financing.

iv. Mandate Allocation of Local Capital to High-impact Investments

Local pools of capital held by pension funds and insurance firms can be mobilized to invest in high-impact sectors aligned with the investors' return profile. However, this would require sufficient regulatory guidance to local institutional investors, outlining the proportion of assets under management that can be allocated to alternative/ impact investments. Currently, the country has no threshold and the Bank of Tanzania approves such transactions on a case-by-case basis. Technical assistance would also be required to develop internal capacity to conduct due diligence.[33]

v. Mandate Lending to Priority Sectors

Some countries have adopted policy positions to channel financial resources to priority sectors. India's Priority Sector Lending has identified agriculture, SMEs, export credit, education, housing, social infrastructure, and renewable energy as the priority sectors and provided detailed guidelines to inform lending decisions by financial intermediaries to these sectors. The guidelines by the Reserve Bank of India include a percentage of loans advanced to specific sectors varying over seven years (from FY2019/20 to FY2025/26) and across categories of intermediaries i.e., domestic commercial banks, foreign banks, regional rural banks, and small finance banks.[34] Intermediaries that experience shortfalls be-

[29] Renew Capital research
[30] Renew Capital research
[31] PwC Tanzania, Informal Sector - untapped tax potential?, link
[32] Jameel Poverty Action Lab, Encouraging micro and small enterprises to formalize, link
[33] FSD Africa, Private equity investing for pension funds in East Africa
[34] Reserve Bank of India, Master directions – priority sector lending targets and classifications, link

low the mandated targets are required to make out the difference to a rural infrastructure development fund or other priority funds as determined by the reserve bank.[35] Nigeria has similar guidelines for financial institutions mandated by the central bank, outlining that a proportion of their lending goes to the real economy.[36]

vi. Modify Loan Classification and Loss Provisions

Banks are obliged to classify loans based on delayed repayments, which at times may not signal non-performance, especially for businesses with seasonal cashflows across agricultural value chains. However, the Bank of Tanzania does not have a special set of guidelines for the classifications of agricultural loans (similar to its peers).[37] Tanzania can take a cue from Pakistan which has developed prudential regulations for agriculture financing that allow for a yearlong moratorium on repayments in the wake of adverse shocks that impact production and in critical cases a complete waiver on outstanding interest/ principal or both while creating general reserves cover for any losses per internal guidelines and subject to approval by the board of directors.[38]

[35] Aceli Africa, The effect of Central Bank policies on lending to agricultural SMEs in East Africa
[36] Aceli Africa, The effect of Central Bank policies on lending to agricultural SMEs in East Africa
[37] Aceli Africa, The effect of Central Bank policies on lending to agricultural SMEs in East Africa
[38] State Bank of Pakistan, Prudential regulations for agriculture financing, link

06

Lessons From Other Countries

Countries in the global south have driven several blended finance initiatives that the Tanzanian government can learn from. With the right political will and initiative, all of the solutions highlighted below can be replicated in the context of Tanzania to mobilize private capital for the government's reform agenda and development priorities.

6.1 Debt for Nature Swap to Finance Marine Conservation in Ecuador[39]

Debt for nature swaps are a structuring mechanism that allows for a discounted debt repurchase and incorporates credit enhancements to incentivize nature conservation financing.

This transaction was linked to Ecuador's sustainability initiatives to manage and conserve marine reserves in the Galapagos Islands while also growing natural capital in the surrounding marine ecosystems. Ecuador was bound by a covenant to achieve specific environmental criteria as the basis for the blended transaction. The $656 million transaction comprised a fixed-rate term facility from GPS Blue Financing Facility, a partial credit guarantee from Inter-American Development Bank, and a political risk insurance policy from US DFC.

The transaction was designed to retire earlier issued sovereign debt and payment obligations were covered by US DFC risk insurance policy and the $85 million partial credit guarantee from the Inter-American Development Bank. This transaction was the single largest debt-for-nature swap globally and could potentially be replicated in Zanzibar to fund blue economy initiatives.

6.2 Issuance of Sustainability linked bond by Development Bank of Rwanda (BRD)

The IDA private sector window is a pool of concessional funds that is deployed through the World Bank Group and that exists to catalyse private sector investment in IDA-only countries (i.e. the world's least developing countries), as seen in the issuances by CRDB bank and NMB bank. BRD took advantage of this scheme to credit-enhance its first sustainability-linked bond that was issued on the Kigali bourse, becoming the first development bank globally to do so.

BRD used $10 million of IDA funds to collateralize a $24.8 million seven-year local currency bond issuance, effectively reducing the risk for investors and reducing the cost of borrowing for the bank (in the event of a default, investors have the recourse to take ownership of the collateral). The IDA funds were kept in escrow at the National Bank of Rwanda and were invested in Rwanda Government Bonds of the same tenor as the bond issuance. This not only reduced the cost of capital for BRD but also enabled them to diversify away from their dependence on national government funding. As a result of the innovative blended structure, the bond was oversubscribed with demand from over 100 investors.

The two development banks, TADB and TIB, can pursue similar issuances to enhance their capitalization in order to increase their funding pool and consequent development impact.

6.3 Ghana Infrastructure Investment Fund (GIIF)

GIIF is a permanent investment vehicle established by the Government of Ghana with $345 million of anchor equity to act as a catalyst in order to leverage private sector funds into infrastructure assets within the country. The organization commenced operations in 2015 and even though it is wholly owned by the Ghanaian state, it has a governance structure that is independent of day-to-day government control.

Depending on the context of the project, the fund has a broad range of financing tools that it can use including senior debt, subordinated debt, direct & indirect equity, and risk mitigation instruments such as partial credit risk guarantees, payment guarantees (to guarantee payment obligations of government off-takers) and refinancing guarantees. This approach helps to alter the risk-return ratio for private investors and brings projects to the point of bankability. To date, the GIIF has par-

[39] Global Alliance of Impact Lawyers (GAIL), Unlocking legal pathways for blended finance: Case studies and global insights, link

ticipated in 13 transactions to the tune of $ 345 million and has gone on to mobilize $3.30 billion in additional finance (achieving a 10x leverage).

The new economy blueprint that succeeds TDV 2025 will likely prioritize large infrastructure undertakings. Tanzania therefore needs to consider diversifying funding away from bilateral credit lines and mobilizing private sector capital. The establishment of a wholly-owned infrastructure entity that is capitalized by the state and that serves to de-risk and invest alongside commercial investors should be looked into.

6.4 Fonds Souverain d'Investissements Stratégiques (FONSIS)

FONISIS is a development fund and investment holding company fully owned by the State of Senegal. It is a prime example of a state-sponsored strategic investment fund, a trend that has emerged in developing countries to help facilitate private-sector investment.

FONSIS has built an organization with significant financial and transactional experience. It has taken several steps to demonstrate alignment with the private sector, enabling it to act as a financial intermediary that provides market credibility, access to a network of international investors and the capacity to structure, negotiate and transact deals.

The organization has instituted targets that are aligned with commercial interests, requiring a minimum rate of return on its investments (hurdle rate) of 12% and a target multiplier of $12 for every $1 committed by FONSIS.

If necessary, FONSIS can provide return enhancements or risk mitigation to attract external capital to high-priority projects, demonstrating the use of blended finance tools and instruments to mobilize private capital.

An entity like FONSIS, capitalized by the sovereign should be considered by the Tanzanian government, either as a standalone entity focused on strategic infrastructure transactions or within the framework of the TIB Development Bank.

6.5 IREME Invest Rwanda

IREME Invest is a groundbreaking investment facility that works with Rwanda's private sector to support green business growth and boost the country's response to climate change. Managed by the Development Bank of Rwanda and the Rwanda Green Fund, the facility offers a range of tailored financial products and services to fast-track green investment.

IREME supports businesses and projects across a range of priority sectors that align with the country's development plan. These include clean energy, smart mobility, sustainable cities, climate-smart agriculture, and waste/circular economy.

The facility is composed of two windows

i. Project Preparation Window: provision of traditional and recoverable grants, incubator and acceleration services as well as growth equity
ii. Credit Window: provision of reduced interest rate loans and credit guarantees for businesses

Ireme Invest is supported by a range of donor governments who have contributed resources across both of the windows. This includes Agence Francaise de Developpment (AfD), The European Investment Bank, Sida, Denmark International Development Cooperation, Green Climate Fund, and the Foreign & Commonwealth Development Office amongst others.

Ireme Invest is a good example of how a strategic and well-packaged country platform can be designed and used to mobilize and channel donor funds in line with a country's development agenda. Instead of ad hoc arrangements with members of the donor community, the Tanzanian government should take inspiration from Rwanda and design a similar facility that can be used to serve one to two priority areas.

6.6 PT Sarana Multi Infrastructure (PTSMI) Indonesia

PTSMI is a state-owned institution that has been set up by the Ministry of Finance, Government of Indonesia, in order to engage in the preparation and financing of infrastructure projects.

The entity supports the Government of Indonesia's infrastructure development agenda by financing national or local infrastructure projects, developing infrastructure projects, and providing financial advisory.

PTSMI's various business pillars include

i. Innovative, Unique and Flexible Financing Products: deployment of senior loans, subordinate and mezzanine finance and equity in order to "close the gap" and be complementary to other financiers in a project
ii. Advisory and Project Development: Transaction advisory, PPP development,
iii. Technical assistance iii. Strategic Partnerships: Serve as a partner for international institutions and multilateral/bilateral development organizations that are interested in supporting infrastructure projects in Indonesia

PTSMI is well capitalized with equity share capital of $2.65 Billion, has a total asset base of $7.68 Billion along with $52.95 Billion in total project value.

In another example of a strategic and well-packaged country platform in which international donors can participate in, PTSMI launched SDG Indonesia One in 2018. This is an integrated blended finance country platform to support large-scale sustainable infrastructure projects in Indonesia. The Blended Finance platform provides four key services to donors and investors; 1) Development Facilities, 2) De-Risking Facilities, 3) Financing Facilities, and 4) Equity Fund. The platform has over 35 partners and has raised over $3 Billion in commitments to date.

6.7 Pooled Municipal Bond Issuance In Tamil Nadu

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07

Conclusion

Given the Government of Tanzania’s interest in alternative financing mechanisms, there is an implicit recognition that the government balance sheet cannot continue to do the heavy lifting. As we move beyond Vision 2025 to Vision 2050, the authorities need to envisage an expanded role for private capital both foreign and domestic to drive development outcomes.

Tanznia's investment push will require a steep rise in investment by the private sector and development finance institutions, a more than twofold rise in the domestic savings rate, and substantive increases in foreign direct investment. However, a lack of riskadjusted returns constrains investors from investing in Tanzania. Effectively mobilising investment will therefore require that Tanzania and its development partners employ derisking instruments to shift the risk-return profile of projects and attract commercial investment.

As an emergent financial structuring approach, blended finance has been instrumental in mobilizing capital for projects with a wide range of risks. This is fitting for countries such as Tanzania where the economy has structural constraints, real risks are acute and there is a high level of perceived risks.

Additionally, if the Government of Tanzania is serious about mobilizing additional private capital through blended finance, then a conducive and stable policy, regulatory, and enabling environment is critical. Without predictable and conducive policies, all other efforts by the government will be ineffectual.

We have seen through the examples articulated above that blended finance has been successful in mobilizing capital across various sectors and under conditions in Tanzania. All documented transactions had minimal government intervention.

However, cognizant that the incumbent government has both the commitment as well as an articulated vision to enhance the private sector participation in the Tanzanian economy, learnings from other countries can and should be applied so that blended finance can play a pivotal role in driving progress towards desired economic outcomes.

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