Resource Mobilisation for Financing National Development: A Space for Innovative Financing Instruments

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Abstract

The study analyses how innovative financial instruments can be incorporated into resources mobilisation strategies to finance national development in line with enhancement of effectiveness and efficiency in Public Finance Management in Tanzania. The fundamental question is what is the space for innovative financing instruments in financing development in Tanzania? Innovative finance refers to any financing approaches that assist to generate additional funds by tapping new funding sources beyond conventional mechanisms or by engaging new actors such as the private sector. Innovative financing is meant to make financial flows more result oriented. The analysis reveals that utilisation of innovative sources is still a relatively new approach globally; despite its benefits, innovative financing remains a small component of public sector development spending. It is noted that sub-Sahara Africa captures over 40 percent of blended finance deals, with 73 percent of the deals going to East Africa; however, the legal framework to regulate crowdfunding activities calls for some reforms. The potential for innovative finance is ample, blue bonds for example, have a potential to raise over USD 1.6 billion as earmarked for financing the 2030 development agenda. As regards sectors in Tanzania, the results-based Social Impact Bonds model, Debt Swap, Income-sharing Agreements can be utilised to finance education; Impact Bond, Earmarked taxes for health, airline ticket voluntary solidarity contributions, private sector mainstreaming can be used to finance health; and Income-contingent loans, value capture funding, Government infrastructure guarantees can be used to finance infrastructure. Supportive institutional set-up exists for most of the instruments to work in Tanzania; and innovative sources can potentially raise up to TZS 1 trillion per year over the FYDP III implementation period, nonetheless, policy and regulatory framework may need further reforms for effectively leverage utilisation of innovative instruments. Participation in domestic capital market, tax rates on specific avenues such as diaspora funding are some of the areas that may need reforms. Among the other recommendations, a thorough feasibility study to be done at the start to underscore specific innovative options that can be prioritised for resources mobilisation in the country; innovative financing options that are recommended are viable for both local and central government; and calibration of the institutional set-put in a way that will accommodate the new instruments should be part of reconfiguration of fiscal and financial systems to accommodate innovative financing instruments.

1.0 Introduction

1.1 Background

Resource mobilisation is a critical element of successful national development financing agenda. In the broad context, resource mobilisation refers to all activities involved in securing new and additional resources for an organisation, business entity or any other body with a responsibility of utilising such resources for a certain pre-defined purpose (MHS, 2010)[1]. It also involves making better use of and maximizing the existing resources. Further, it includes financing activities such as: provision of loans, business technical services insurance and usage of innovative financing products. The UN estimates that at least USD 4 trillion needs to be mobilised and invested annually to achieve the sustainable development goals (UN, 2017). The financing gap for the 2030 agenda currently stands at around USD 2.5 trillion per annum (UNCTAD, 2014). Further, resources provided via Official Development Assistance (ODA) play a notable but limited role given the current flow of about USD 150 billion per annum against the needs amounting to trillions of US dollars.

Over the years, developing countries including Tanzania have relied on traditional sources of financing such as collection of both tax and non-tax revenue, domestic and external borrowing, Foreign Direct Investment, and Official Development Aid (ODA) to finance their development agenda. Nonetheless, the various global and regional commitments such as the 2030 Agenda and Africa's 2063 Agenda require nations to fast-track implementation of interventions, which have notable implications on achieving development goals. This means an increase in demand for resources to finance the interventions and to meet such demands has been a challenge, especially among developing countries. Most of these countries depend on traditional financing sources and their fiscal spaces. At the same time, there have been factors posing as constraint towards financing: accessing resources of requisite size, timely and in predictable manner; global shocks such as the Covid-19 pandemic and Russia-Ukraine war, *inter alia*.

Recently, innovative financing mechanisms for development have emerged in various global and domestic contexts. The UN for instance has called upon developing countries to look beyond traditional means, in implementing the sustainable development goals (SDGs), by exploring and mobilising resources from the various sources including innovative instruments to finance development interventions. Thus, innovative finance is thought as complement to

[1] https://healthcommcapacity.org/resource-mobilisation-important/

the traditional sources rather than a substitute (Girishankar, 2009)[2]. The consensus is that public sources alone cannot meet the resource needs (UN, 2017). Thus, there is a need to mobilise resources from other sources, including the private sector, to cover the gap in financing development.

Innovative finance is referred to as any financing approach that assists to generate additional development funds by tapping new funding sources beyond conventional mechanisms or by engaging new actors such as the private sector (World Bank, 2012)[3]. Further, innovative financing is meant to enhance efficiency of financial flows, by reducing delivery time and the associated costs, making financial flows more result-oriented (OECD, 2014). In practice, most innovative finance involves combining existing financial instruments either into a new package or using them in a new context (World Bank, 2012). Some of the notable innovative financing instruments widely used and/or recommended for by development practitioners include impact bonds, crowdfunding, blended financing, blue bonds and Green Bonds.

Utilisation of innovative instruments shows some promising prospects where development stakeholders are increasingly showing interest in these financing means. Mobilising additional finance and deploying resources more effectively and efficiently requires deploying innovative financing solutions to specific difficulties that traditional development finance sources cannot address adequately (Konig et al., 2020). Innovative financing instruments are often earmarked for specific interventions, unlike traditional financing, which is aimed at the general budget finance, with refencing difficulties if there are financial constraints. At the global level, innovative financing portfolio increased from USD 18.28 trillion to USD 22.89 trillion between 2014 and 2016 (ILO, 2018)[4]. Developing countries have an opportunity to utilise innovative financing instruments, particularly in the current era as they are faced with sustained increase in demand for financial resources to address existing and emerging development challenges, but with a limited resource envelop. Despite its benefits, innovative financing remains a small component of public sector development spending. While on the rise, the actual volumes raised through innovative approaches are still very small, both in absolute and relative terms (OECD, 2018).

Tanzania is not exclusive from the group and has experienced financial resource constraint in implementing its development plans (URT, 2021). Financing of national development in the country has never been smooth given the limited availability of financial resources with competing demands for financing the various development interventions, the majority with high national priority and interest. Over the years, Tanzania has depended on traditional

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[2] Girishankar, Navin, 2009. "**Innovating development finance - from financing sources to financial solutions**," Policy Research Working Paper Series 5111, The World Bank.

[3] https://olc.worldbank.org/system/files/Innovative_Finance_for_Development_Solutions.pdf

[4] https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_654680.pdf

sources, mainly from public sector, to finance national development initiatives. In FYDP II, for instance, about 48 percent of the resources to finance the Plan were expected to come from the private sector. The review of FYDP II implementation reveals that such a target could not be realized partly because of a lack of a clear mechanism to involve the private sector in financing development. Realizing effective implementation of the prioritized development interventions requires mobilising a diverse range of public and private financial resources (URT, 2021).

Due to a number of constraints, the Government is forced to depend on limited financing sources, mainly the traditional ones, putting pressure on the management of "scarce" public financial resources, i.e., reducing its effectiveness and efficiency to finance national development. Some of the reasons which have exacerbated limitations to national development finance include: a general shift in development partners' priorities in financing development owing to the global shocks; growth slowdown; rising fuel and food prices, among others. Most of aid resources are now directed toward combating migration and refugee problems in the developed world. Nonetheless, the tax base is still narrow since most of businesses and economic activities in Tanzania operate through the informal sector, which is difficult and sometimes too costly to tax; and involvement of the private sector in financing national development through various forms such as PPP is still limited.

Innovative sources are considered and spelt out in the FYDP III and other development frameworks as a potential source to explore. While the possibility to tap from innovative sources is known, their potential and requirements in the context of Tanzania remain known. This study attempts to address the question on how Tanzania can leverage utilisation of innovative financing instruments in implementation of its national development agenda.

1.2 Objective

The overall objective of this undertaking is to analyse how innovative financial instruments can be incorporated into resources mobilisation initiatives to finance national development in line with enhancement of effectiveness and efficiency in Public Finance Management in Tanzania. Specifically, the study intends to:

i. assess the development financing setup of Tanzania with a focus on evolvement overtime, strength and weaknesses of the system.
ii. analyse the various emerging and innovative financing instruments utilised globally to finance development initiatives; and
iii. evaluate the potential and suitability of emerging and innovative financing instruments for financing development interventions in Tanzania.

1.3 Methodological Approach

The analytical approach of this study dwelt on desk review of the literature including reports and technical papers on resource mobilisation and innovative development financing; and the estimation of potential funds that could be mobilised by the analysed instruments. Regarding the review process, we focused on Policies, Acts, Laws and Regulations guiding financing for development in Tanzania. In addition, the budget speeches, financing reports from Ministry of Finance and Planning (MoFP), development interventions monitoring, and evaluation reports were also reviewed. Furthermore, the review involved documents and reports from development partners (DPs), UN agencies, the World Bank, and IMF, among others. Reports documenting best practice among nations across the globe, and technical papers discussing the instruments were accordingly reviewed.

The rationale behind this approach was to take stock of existing information and analyse with a view to deductively establish opinion on how the innovative financing instruments can practically be utilised in financing development in Tanzania. To get specific insights, some consultations with key stakeholders were done, including officers from the Ministry of Finance and Planning, selected Development Partners, Commercial Banks, and the private sector. A standard checklist of questions was developed for this purpose to ensure systematic capturing of both quantitative and qualitative information.

1.4 Organisation of the Report

After the introductory section, the rest of the report is organised as follows: section two provides an overview of Tanzania's development financing landscape; section three present and analyses innovative financing for development sources widely used at global level; section four evaluates how innovative financing sources can be utilised in Tanzania's context; section five concludes the study and provides recommendations.

2.0 Tanzania Development Financing Landscape: Overview

2.1 Background

In Tanzania, financing national development has relied mainly on conventional sources such as domestic income tax, Official Development Assistance (ODA) and domestic and external borrowing. Domestic revenue sources in Tanzania's context include taxes on imports, income taxes and taxes on local goods (mainly in form of Value Added Tax – VAT) and non-tax revenue in the form of surpluses of state-owned enterprises (SOEs), dividends and profits from investments, auction of natural resources (including forest and hunting blocks) and Local Government Authority (LGA) sources (URT, 2021b). Other potential sources include domestic borrowing using Treasury bonds and bills. Financial markets such as the Dar es Salaam Stock Exchange (DSE) provide an avenue for resource mobilisation, but their full potential is yet to be tapped.

Tax collection efficiency in the country has not been increasing over the past decade (Table 1). Tax to GDP ratio increased only from 10.8 percent in 2010/11 to 12.2 percent in 2019/20, the ratio remains less than the sub-Saharan average of 15.1 percent, and 13 percent for EAC (excluding Burundi, South Sudan and DRC).

Table 1: Tax revenue collection performance (TZS Billion)

No table of figures entries found.	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Direct	1,840	2,472	3,149	3,968	3,941	4,865	5,121	5,437	5,445	6,849
Indirect	3,475	4,028	4,686	5,344	5,968	7,569	9,005	9,754	10,066	10,774
Total	**5,315**	**6,500**	**7,835**	**9,313**	**9,909**	**12,434**	**14,126**	**15,191**	**15,511**	**17,623**
Direct taxes to total tax revenue	34.60%	38.00%	40.20%	42.60%	39.80%	39.10%	36.30%	35.80%	35.10%	38.90%
Indirect taxes	65.40%	62.00%	59.80%	57.40%	60.20%	60.90%	63.70%	64.20%	64.90%	61.10%

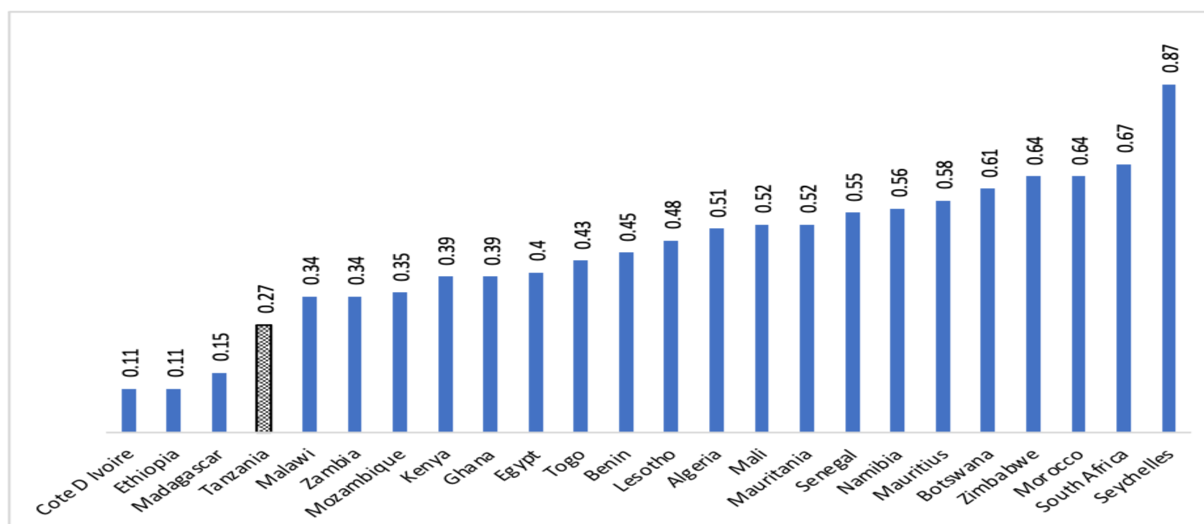
No table of figures entries found.	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
to total tax revenue										
Direct taxes to GDP	3.80%	4.30%	4.70%	5.10%	4.50%	4.80%	4.50%	4.40%	4.10%	4.80%
Indirect Taxes to GDP	7.10%	6.90%	6.90%	6.90%	6.70%	7.50%	7.90%	7.90%	7.60%	7.50%
Tax to GDP	**10.80%**	**11.20%**	**11.60%**	**12.00%**	**11.20%**	**12.30%**	**12.40%**	**12.40%**	**11.70%**	**12.20%**

***Source*:** Tanzania Revenue Authority

Direct and indirect taxes are the major sources of Government's domestic revenue. Direct taxes are levied on incomes, wealth and property of individuals and entities, while indirect taxes are levied on consumption. Recipients of income, holders of wealth and property owners cannot shift the tax burden to any other person where's those statutorily obliged to pay indirect taxes are able to pass on the burden to the final consumers. VAT is an indirect tax and a major contributor to the system's overall performance. However, Tanzania's performance in VAT collection is one of the worst in the world[5] (Figure 1). The distribution of the burden from indirect taxation depends on the demand and supply elasticities.

[5] Tanzania Economic Update 2015; World Bank

Figure 1: Value Added Tax (VAT) Collection Efficiency in Selected African Countries



***Source*:** Cnossen (2018)[6]

The VAT collection efficiency in Tanzania increased only slightly, from 0.26 in 2014/15 to 0.3 in 2019/20, largely following the enactment of the VAT Act which repealed several VAT exemptions (Table 2). Despite the noted slight improvement, efficiency in VAT collection is significantly low, with the average of 0.27 from 2010/11 to 2019/20, which indicates that, only 27 percent of the potential VAT is collected given the structure of the economy and the applicable VAT rate.

Table 2: VAT collection efficiency

Year	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
GDP at constant price (TZS Billion)	88,476.35	101,355.82	113,553.41	122,776.30	133,092.20	144,161.29
Consumption (% of GDP)	73.79	70.55	67.94	67.99	66.32	65.92
Consumption (TZS Billion)	65,285.96	71,502.21	77,149.58	83,476.54	88,269.32	95,028.57
VAT collected (TZS Billion) (A)	3,054.85	3,567.85	3,962.19	4,480.97	4,765.27	5,184.29
18% Consumption (B)	11,751.47	12,870.40	13,886.92	15,025.78	15,888.48	17,105.14
VAT C-Efficiency = (A/B)	**0.26**	**0.28**	**0.29**	**0.30**	**0.30**	**0.30**
VAT to GDP	**3.45%**	**3.52%**	**3.49%**	**3.65%**	**3.58%**	**3.60%**

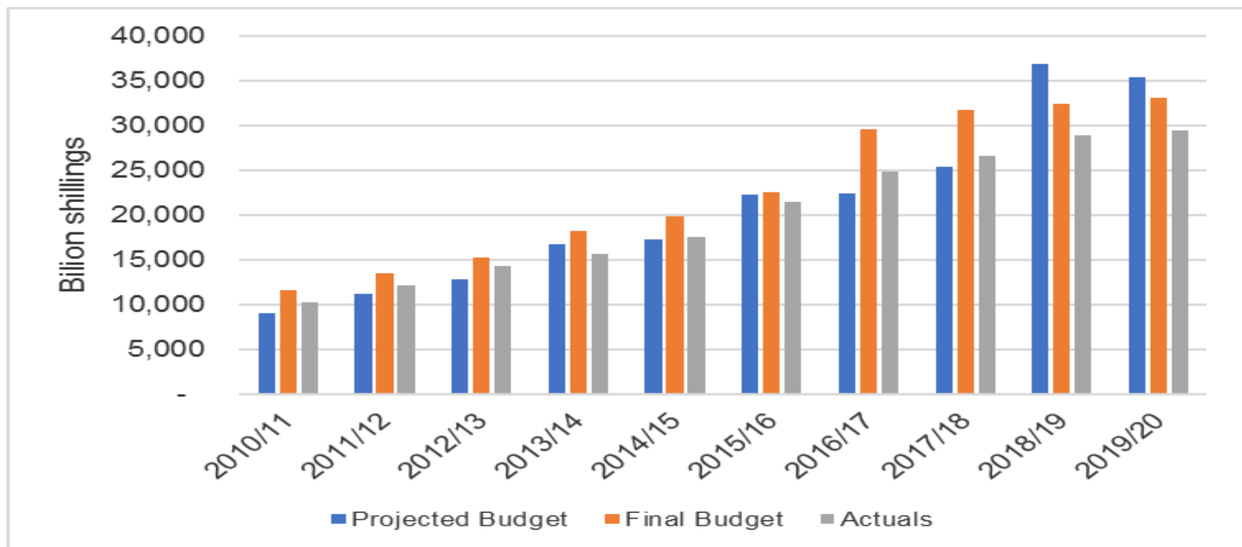
Source: Commission's computation

[6] A compilation of VAT C-efficiency in selected African countries. See Sijbren Cnossen (2018), Mobilising VAT revenues in African countries.

2.2 Financing Set-up

Integrated National Financing Strategy has been designed to ensure optimum resources are secured from both public and private sources. Financing of the national development plans is guided by the Budget Act Cap 439, and it involves preparation of Plan and Budget Guidelines (PBG), Annual Development Plan (ADP) and Medium-Term Expenditure Framework (MTEF). The expected result is effective allocation of resources for efficient implementation of development plans. The government budget has been consistently on increase over the past decade although the actual financing has generally been less than the projected budget (Figure 2).

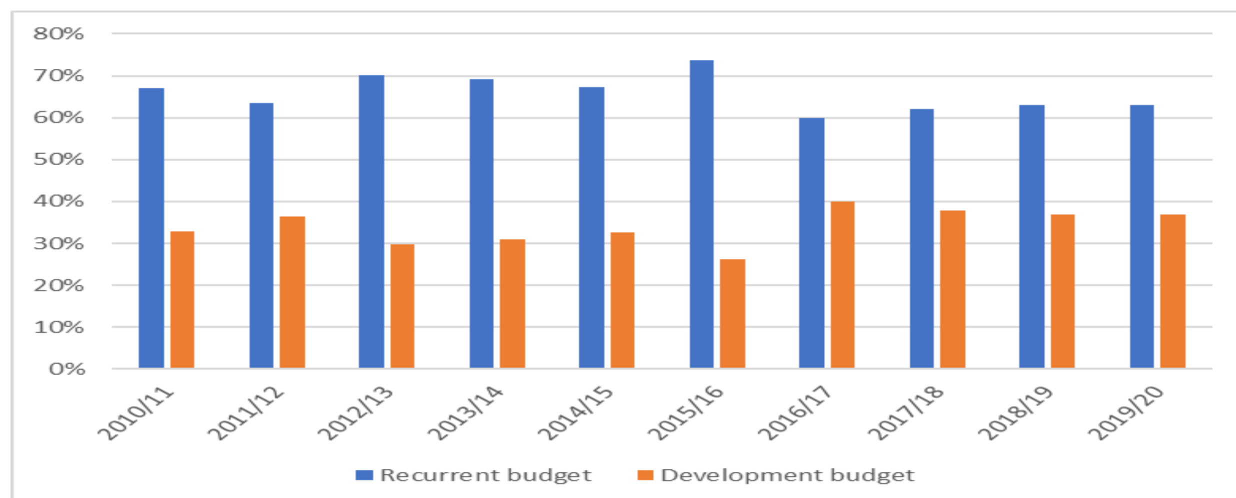
Figure 2: Trend of projected, final budget and actual outturns



2.3 Trends in Financing

Over the years, resources allocated to development financing have continued to increase. In the past ten years, the government budget has been increasing at an average rate of 12.7 percent per annum, with the development component increasing faster (at a rate of 17.2 percent) than the recurrent component (11.8 percent). Figure 3 shows trend in the shares of recurrent and development budget for the period 2010/11 to 2019/20.

Figure 3: Proportion of recurrent and development budget



Increase in government revenue including tax and non-tax has been a major contributing factor for the expansion in government expenditure. Over the period, domestic revenue has been increasing on average at 15.4 percent per annum – contributing to nearly 63.8 percent of government revenue. Similarly, contribution of ODA and commercial loans have increased by 15.2 percent and 21.0 percent, respectively. ODA has been a major source of external public finance over the period. With improvement in domestic revenue, the importance of ODA measured by its share in total budget has continued to decline – from 28.2 percent in 2010/11 to 8.7 percent in 2019/20.

2.4 Challenges and Opportunities

For successful mobilisation of financial resources, it is important to note a number of challenges facing the current traditional revenue collection process in Tanzania and to underscore opportunities that can enhance revenue collection. Among the major challenges are: tax avoidance as an act of using legal loopholes to minimize one's tax liability; transfer pricing which refers to price manipulation in trading between related or associated parties, with no reflection of the market conditions regardless of whether the parties to a transaction are related; inadequate taxation of the common categories of passive incomes (rent, royalties, dividends and interest including capital gains on the underlying assets); and lack of a comprehensive data base of tangible properties rent income, and failure of tenants to withhold income tax on rental payment.

Despite the challenges surrounding traditional revenue collection process in Tanzania, there are several opportunities that can be harnessed to raise revenue collection, including *inter alia*: broadening the tax base by formalization of the country's large informal sector; Tanzania has a unique geographical position which is a major advantage, infrastructure (ports, roads, railway and complementary services) investments can make the country a competitive regional hub; creating a favourable environment for the businesses to operate and grow will

expand the tax base; and leveraging the relationship between the public and private sector by reducing uncertainty attributed to the changing government stance on private sector development and the role of the public sector and the private sector. In addition to these opportunities, the use of innovative financing instruments is imperative as a modern approach to development financing across the world.

3.0 Innovative Financing Instruments: Evolvement and Practice

3.1 Definitions and Concepts

Innovative financing can be grouped into two broad dimensions. The first focuses on innovative financing as a means of raising capital that complements existing flows, particularly from governments and philanthropies (OECD, 2018). The second dimension focuses on innovative financing as a use of capital. The former dimension provides financial resources that are stable, predictable, and supplement to ODA. The latter dimension is meant to make financing development initiatives more effective and efficient through the redistribution of risk, increase in liquidity and meeting the investment duration needs (ibid).

In the World Bank's perspective, innovative financing involves public private partnerships and catalytic mechanisms that tap resources from new sources and engage investors as partners and stakeholders in development, beyond their primary role of providing funds[7]. Further, the OECD views innovative financing as mechanism of raising funds or stimulating actions in support of international development beyond traditional spending methods by capitalizing on new approaches for pooling private and public revenue streams to scale up or fast track activities for the benefit of partner countries; new revenue streams identified to developmental activities on multi-year basis[8].

3.2 Emergency of the Instruments

As early as 2000, during the beginning of the implementation of Millennium Development Goals (MDGs), nations embarked on a search for "innovative" or alternative sources of Official Development Assistance to support the financing of the MDGs (Girishankar, 2009)[9]. Developing countries on their side sought of not only financial flows to finance the MDGs but to use instruments that will provide better financial solutions. Over the years, new instruments have continued to be developed to reflect financing need. Development banks started to issue new types of bonds – linked resource mobilisation with specific development goal. For instance, some debt offerings for sustainable investments were linked with climate change goals (ibid). The general agreement has been that innovative sources should be taken as

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[7] —World Bank (2009), Innovating Development Finance: From Financing Sources to Financial Solutions

[8] —OECD (2009), Innovative Financing to Fund Development: Progress and Prospects.

[9] Girishankar, Navin, 2009. "Innovating development finance - from financing sources to financial solutions," Policy Research Working Paper Series 5111, The World Bank.

complement to rather than substitute for traditional financing sources to mobilise official flows.

3.3 Innovative Financing Instruments

There are a number of innovative financing options widely used at global level to finance development. Given the broadness of the concept, different financing mechanisms can be blended into innovative financing options. For the sake of this study, we focus on Blended finance; crowdfunding; green bond; blue bonds; impact investments; and social impact bonds. Nonetheless, we also give some highlights on usefulness of other existing and emerging innovative financing options.

3.3.1 Blended Finance

Blended finance is relatively new concept. There is no common definition and conceptual framework of blended finance (Attridge and Engen, 2019; Mdadila and Silas, 2020) but in simple form the option involves deploying funds from various sources, types and purposes with the aim of bringing effective and efficiency in funding development. To date, blended finance has mobilised over USD 120 billion in development fund globally. In practice, the source of fund for blending may include concessional funding from public sector with fund from private sector. Likewise, it could also involve blending finance from different public sources. In developing countries, blended financing mechanism can be used to strategically use development finance (such as ODA) and philanthropic funds to mobilise private capital flows, to minimize the perceived or real risk and inefficiencies (OECD, 2015).

Fundamentally, under blended finance most of the risk is borne by a "sponsor", such as development partner, for an agreement to receive relatively low return out of the investment. Thus, blended finance can strategically be utilised to harness resources for maximum impact, but this requires strong commitment across and capabilities that span staff skills, organisational effectiveness, and private sector partner engagement (Mdadila and Silas, 2020).

Recently, blended finance option has captured much attention in financing development mainly due to increasing demand of resources for financing the Sustainable Development Goals. There is also a notion that Blended finance in its various forms can potentially raise large sum of fund from private sector for investing in development projects (Küblböck, Karin; Grohs, Hannes, 2019; EC, 2015) with developing aid playing minor financing role (Bilal/Große-Puppendahl 2016; Tew et al. 2016).

Evidence suggests for an increase in blended financing over time. The OECD study shows that a median value of blended finance deal is around USD 56 million where Fund (equity; debt; and Fund-to-Fund) account for 55 percent of all the financing, followed by companies and projects with respective shares of 16 percent and 18 percent (OECD, 2018). Latin America and Caribbean region have an average of USD 186 million per investment deal. Middle East and North Africa on the other hand receives deals worth USD 229 million on average. Africa and

sub-Sahara in particular captures over 40 percent of blended finance deals, with average size of USD 125 million and 73 percent of these deals going to East Africa. Much fund goes to Health, Industry and Trade sectors, with average deals standing above USD 1 billion. The OECD study further suggests that concessional capital and technical assistance in blended finance framework are utilised at 46 percent and 42 percent, respectively.

In Africa, blended finance is common in agricultural sector, receiving an average of USD 46 million per project in blended funds with varied matching ratios. Schemes in Africa (and their level of funding) that have been financed using blended finance include: African Agricultural Capital Fund (USD 25 million; where USD 17 million came from various foundations and USD 8 million from commercial loan); Africa Agriculture Fund (USD 246 million) a technical assistance to support capacity building initiatives to SMEs in agriculture value chains; African Agriculture and Trade Investment Fund (USD 146 million), which involves German Federal Ministry for Economic Cooperation and Development, Deutsche Bank, which acts as an investment advisor – aimed at improving competitiveness of local enterprises; African Risk Capacity Insurance Company (Insured USD 129 million against drought for a premium of USD 17 million in 2014).

3.3.2 Impact Investment

Impact investing instruments comprise of private equity, public equity, private debt and real estate funding (The GIIN's, 2019). It is an approach that is intended to contribute to achievement of measurable positive social and environmental impacts alongside attaining financial return on investment[10]. Investors are increasingly incorporating impact investments into their portfolios linking their investments to the SDGs achievements. By 2020, the market size of impact investment reached USD 715 billion (GIIN 2020)[11] and it is viewed to have a huge potential as a major catalyst in achieving the SDGs. It is crucial for an impact investment instrument to meet both general partner and portfolio company financing needs with clear mechanism on how it works and hence the exit strategy (ibid).

International Development Association under the World Bank issues bonds known as IDA bond. As of June 2021, IDA portfolio value stood at USD 156 million, supporting over 1,800 projects in 74 countries[12]. The focus is on health, education, water supply and immunization interventions. Development Impact Bond (DIB) is one of the products to finance development programs with fund from private sector who earn return if the program succeeds and are paid

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[10] https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/principles

[11] https://www.adb.org/sites/default/files/institutional-document/691951/ado2021bn-developing-social-impact-bonds.pdf

[12] https://treasury.worldbank.org/en/about/unit/treasury/ida/impact-investing

by third-party donor[13]. Because repayment to investors is contingent upon the achievement of specified social outcomes, DIBs are not “bonds” in the conventional sense[14].

3.3.3 Social Impact Bonds (SIB)

Social impact bonds are innovative instruments with their financing attached to a certain predetermined social purpose. Social Impact Bonds fall under the broad Impact Investments framework. The first social impact bond was issued in 2010 with the aim to reduce recidivism among short, sentenced inmate released from a prison in the UK. Its success sparked wider attention globally. In Canada, Sweet Dreams social impact bond worth around USD 1 million was implemented where the outcome funders (the Government of Saskatchewan and the Ministry of Social Services) maintain direct contracts with investors and service providers. The social cause attached was to provide affordable housing to vulnerable single mothers and allow them to complete education, secure job or participate in pre-employment activities. Ever since, the Sweet Dreams SIB has continued to receive funding from other actors: Government of Canada’s Homelessness Partnering Strategy (CAD 320,000, approximately EUR 214,000), the City of Saskatoon (CAD 140,000, approximately EUR 94,000), and other private donors (CAD 75,000, approximately EUR 50,140). To date about 20 countries have adopted the instrument to fund interventions ranging from social to biodiversity causes.

Whilst most of the social impact bonds have been utilised in developed world, of recent developing countries have started to increasingly utilise the instrument as a financing option. Colombia, South Africa, Brazil and Mexico provide a case of developing countries in the race to utilise social impact bonds (UNDP, 2018). While the instrument is becoming popular, there are some concerns raised. For instance, the risk transfer from the public to private sector and what that entails for social service providers, the ability to monitor and evaluate better outcomes, and increasingly prevalent need to invest in preventive interventions with high returns in long run (Belinsky et al., 2019). Further, they are complex instruments, which require technical expertise, time and funds, to be established (Tan et al., 2019).

3.3.4 Results-Based Finance

Results-based financing involves interventions that provide rewards to individuals or institutions after agreed-upon results are achieved and verified. The instrument is mainly used to encourage the effective use of private finance or implementation capacity of SDG-related projects. Countries are increasingly adopting results-based financing (RBF) as an innovative and effective approach to funding infrastructure and services[15]. RBF ensures that development

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[13] https://www.cgdev.org/topics/development-impact-bonds

[14] https://www.cgdev.org/page/investing-social-outcomes-development-impact-bonds-0

[15] https://www.worldbank.org/en/news/feature/2019/06/28/banking-on-impact-what-you-need-to-know-about-results-based-financing

funding is tied up with pre-agreed milestones and verified results as such funding is provided when certain results are achieved. As such, while RBF enhances efficiency and accountability in resource utilisation, it provides additional fund for implementing development interventions. The World Bank recognizes Impact Bonds as form of RBS and innovative way of public private partnership[16]. OECD (2014) categorizes different forms of RBF to include: Payment by Results (PbR); Payment for Results (PforR); Results-Based Lending (RBL); Performance-driven loans (PDL); performance-based aid for REDD+; performance tranches in budget support; Cash on Delivery (CoD); Output-Based Aid (OBA)[17].

3.3.5 Crowdfunding

Crowdfunding is a form of innovative financing that uses website platforms to enable interaction between fundraisers (demand side) and the crowd (funder or supply side). The crowd makes financial pledges, which are collected through the platform (Mdadila and Aikaeli, 2020). Funders in crowdfunding basically put relatively small amount of money in return to receive relatively small equity of the company (Malmendier and Shanthikumar, 2007). If the fundraising campaign succeeds, the fundraiser pays a fee to the platform. In practice, crowdfunding is utilised for a number of purposes including business, social, political and environmental financing. There are three types of crowdfunding models commonly used by profit motive ventures: peer-to-peer lending; equity-based; and rewards-based crowdfunding (Beaulieu et al. 2015).

Crowdfunding, as is the case for other internet-based financing mechanisms, is surrounded by some challenges. According to Chen et al. (2016), such challenges include: an average crowd member may be either unqualified or unwilling to conduct the due diligence necessary for evaluating project risks; managing many crowd investors can prove to be unwieldy for most project founders; multi-tasking of crowd members where apart from supplying funds, they are supposed to choose and evaluate projects, gathering and analysing project information and monitoring the performance and outcomes of the project.

Crowdfunding activities are expected to reach a value of USD 100 billion by 2025. On average a venture that uses crowdfunding platform raised between USD 50,000 and USD 10 million (Mdadila and Aikaeli, 2020). Globally, a number of platforms offering crowdfunding services is on the rise. The most common platforms currently widely utilised include: *Kickstarter*, which managed to raise over USD 4 billion to 150,000 ventures from over 12 million investors since 2009 – it charges a 5 percent fee together with 3 to 5 percent processing charges; *Indiegogo*, which focuses on tech innovations, creative works, and community projects – it charges a fee of 5 percent and set a minimum goal of USD 500 for a fundraiser; *Cause*, which is a non-profit

[16] https://www.worldbank.org/en/news/feature/2019/06/28/banking-on-impact-what-you-need-to-know-about-results-based-financing

[17] https://www.oecd.org/dac/peer-reviews/Results-based-financing-key-take-aways-Final.pdf

platform focusing on social, political and cultural issues – it has over 180 million users and does not charge any fee to fundraisers; *RocketHub*, a platform for entrepreneurs who look for venture capital for business, science or social goods projects – the platform gives an opportunity to advertise fundraiser's business. The platform charges a total of 8 percent as charge; *Patreon*, focuses on digital creative including youtubers and bloggers where the platform contributes some money on monthly basis or per creation.

Other platforms include *GoFundMe, CircleUp* which focus on entrepreneurs who look for scaling up businesses – it has assisted about 200 businesses to raise USD 260 million; *LendingClub* is the platform which is focused on providing business loans for a period of 1 to 5 years. It provides up to USD 40,000 personal loans, and up to USD 300,000 for business loans; *Uprise.Africa* – equity crowdfunding in South Africa with over 9,000 active investors funding USD 730 worth of investment per a campaign. Some campaigns have managed to raise up to USD 2 million per business.

While crowdfunding is promising in terms of funding, the legal framework to regulate its activities can be complicated given its multi-country operations. The US through the JOBS Act of 2012 has set a framework to regulate crowdfunding activities (Beaulieu et al. 2015; Levin et al., 2013; Sigar, 2012; Williamson, 2013).

3.3.6 Climate-related Innovative Bonds

In line with the implementation of the 2030 development Agenda, a number of innovative instruments related to environment have been created with some promising prospects. Blue bonds and green bonds are the major examples in this regard.

Blue Bonds are financing instruments issued by governments, development banks or others to raise capital from impact investors to finance marine and ocean-based interventions with positive economic, environmental and climate benefits (IUCN, 2019[18]). The Blue bond is linked with the UN Sustainable Development Goal number 14 which focuses on conservation and sustainability in the use of ocean and marine resource – that represents estimated value of USD 1.5 trillion per annum[19]. Republic of Seychelles has been the first country to issue sovereign blue bond, raising USD 15 million. Other development stakeholders have followed by issuing blue bonds. Nordic Investment Bank has issued the Nordic-Baltic Blue Bond worth USD 185 million. The World Bank in collaboration with Morgan Stanley have issued Blue Bond worth USD 10 million. The Nature Conservancy (TNC) is planning to mobilise USD 1.6 billion through Blue bonds as part of its global ocean conservation efforts – blue bond for conservation.

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[18] https://www.4climate.com/dev/wp-content/uploads/2019/04/Blue-Bonds_final.pdf

[19] https://www.weforum.org/agenda/2019/06/world-oceans-day-blue-bonds-can-help-guarantee-the-oceans-wealth/

Green bonds are financial instruments where proceeds are used to finance or re-finance existing eligible environmentally sustainable activities (ICMA - International Capital Market Association, 2018). The World Bank has what is called "The World Bank Green Bond" which raises funds from fixed income investors to support lending to impactful projects linked to climate mitigation and/or adaptation measures. Since 2008, the World Bank issued approximately USD 18 billion equivalent in Green Bonds through over 200 bonds in 25 currencies (World Bank, 2022)[20]. Globally, the green bond issuance reached a value of USD 523 billion in 2021[21]. The average size of individual green bond reached USD 250 million in 2021, from USD 170 million in 2020. Sovereigns and financial corporate bonds sources contributed to USD 68 billion and USD 40 billion, respectively, of the total green bond value issued in 2021.

3.3.7 Other Innovative Instruments

There are other products that are utilised in development financing landscape. Table 3 provides a summary of these innovative financing instruments:

Table 3: Summary of innovative financing for development instruments

S/N	Innovative Instrument	Purpose	Funding Size -Year
1.	Currency Transaction Tax (CTT)*	Financing Human Development	USD 33 billion
2.	Carbon Taxes	Impact on Environment	USD 250 billion
3.	Solidarity Tobacco Contribution	Health Financing	USD 6 billion
4.	Diaspora Bonds	General Development Financing	
5.	Sukuks & Green Sukuks	Sustainable Development	
6.	South-South Corporation	General Development Financing	
5.	SDG Sovereign Bonds	SDGs Financing	

Source: UNDP (2022)[22]

*The European Parliament resolution on innovative financing (2011) estimates that a low-rate FTT could, with a large tax base, yield nearly EURO 200 billion per year at EU level and USD 650 billion at global level.

3.4 Remarks

With ever increasing need to fast-track implementation of development interventions linked with national, regional and global aspirations such as the 2030 Development agenda, financial resource needs are high-putting pressure on development stakeholders to come up with innovative mechanism that will facilitate the supply of additional resources. Utilisation of

[20] https://treasury.worldbank.org/en/about/unit/treasury/ibrd/ibrd-green-bonds

[21] https://www.climatebonds.net/market/data/

[22] https://www.undp.org/sites/g/files/zskgke326/files/publications/InnovativeFinancing_Web%20ver.pdf#page=21&zoom=100,0,0

innovative products is growing rapidly at global level and new products blended on specific financing needs of the various development interventions are invented time to time, providing an opportunity to developing countries including Tanzania to leverage on the same.

The evidence shows that innovative products have the potential to finance national development programmes including those with minimal private sector interest. While innovative products provide additional or new resources to finance development, they serve as complement rather than substitutes to the conventional/traditional financing mechanisms. Nonetheless, in some cases such as the utilisation of crowdfunding as innovative source to finance enterprises, appropriate legal and regulatory framework may be required given its multi-national involvement in nature. Environmental related innovative financing products show exponential growth over the years and provide a credible funding opportunity to developing countries if appropriately tapped.

Developing countries should see innovative financing mechanism as a platform providing opportunity for them to think more innovatively and come up with products that suit financing needs in their own context.

4.0 Suitability of Innovative Financing Options for Tanzania

4.1 Practice in Utilisation

Utilisation of innovative instruments for financing development is relatively new practice in Tanzania. Much of financing for development is mobilised using traditional sources. In recent years, however, there has been increasing focus towards exploring and utilising innovative financing options (URT, 2021). Innovative private financing instruments created domestically are on the rise and can potentially finance development projects. The Integrated Financing Strategy for the Five-Year Development Plan (FYDP) III describes these instruments: Social Development Impact Bonds; Sukuks; Green Sukuks; SDG Sovereign Bonds; crowdfunding; Impact Investment; South-South Corporation; and Green Taxes. Of these innovative options, crowdfunding is already utilised in Tanzania.

To date, there are a number of platforms that provide crowdfunding services in Tanzania. These include *'gogetfunding'* and *'WEZESHAsasa'; Angaza-Pay-As-You-Go Solar Energy; Youth Entrepreneurship Project in Tanzania; Building a Water Pipe to Mlima School Tanzania;* and *Mbadala Equity Crowdfunding*. There is no notable successful case, so far, of utilising crowdfunding instrument in Tanzania in the broad spectrum of innovatively financing development.

Generally, utilisation of innovative financing options is still limited in Tanzania and provides an avenue of accessing additional resources that can facilitate and fast-track implementation of development activities. It worth establishing an understanding of how the said innovative financing options can be best utilised in Tanzania's context – what is the space for innovative financing instruments in financing development?

4.2 Space for Innovative Instruments

One of key questions is whether there is space for innovative financing instruments to be utilised in development financing in Tanzania. Based on experiences from other countries, we underscore some innovative options that can be harnessed for development finance:

Education financing

Education financing in Tanzania is done by using different arrangements; general budget is used for the lower education from primary school level to upper secondary school level, and Students Loan Board (SLB) which is funded by the Government for students' loans is used for the tertiary level. The country has specific tax, namely Skilled Development Levey (SDL) which is collected across all sectors for financing of education. SDL is a payroll tax (4% of gross salary), of which 2 percent goes to SLB and the other 2 percent goes to professional vocational

training sector. Despite the available instruments, there is a shortage of resources for education financing as one of key social services and hence, the innovative financing instruments are of paramount importance to bridge the gap. In most countries SLB arrangement has been used, and this mechanism has almost become traditional now. Some other new instruments that are viable for Tanzania, and in particular for education financing include:

i) The results-based *Social Impact Bonds (SIBs)* model: the government and some interested private investors can join to finance education by SIBs. The repayment of this investment is contingent on achieving previously agreed results. Each impact bond has its contractual specificities in terms of incentives offered to implementers and investors and the means and roles in managing the project and assessing its outcomes. Using this approach has an advantage of reducing pressure in the nation budget especially if there is incentive for the private sectors to engage. It can be long-term to create an ample fiscal space for sustained financing. An arrangement can be put for the beneficiaries to become saucerful in repayment when the social and economic benefits of education are well attained. The only challenge of this model is that it needs serious implementation to make sure the targeted social objectives are attained to assure repayment. Otherwise, if the national education benefit in terms of turning the country's educated population into resourceful people is not achieved for some reason, this instrument will not be effective (See, Bellinger et al., 2016; Avelar, et al., 2020).

ii) *Debt swap* (conversion development bond and debt for education): for a small developing country like Tanzania there is an option to negotiate with some interested development partners on debt relief or forgiveness on condition that the full amount of its obligation is solely invested in education. This option has double dividend, of reducing the national debt and of enhancing social outcome through education (See, Bellinger, 2016).

iii) *Income-sharing Agreements* (ISAs); this is an instrument which solicits private sector to invest in financing tuition fees for post-secondary education contingent on receiving some part of the foreseen students' future income as repayment. The private sector and the student share the risk; however, the government can guarantee to make it attractive. This instrument is different from the SLB arrangement because the source of finance is private sector, and even if the government guarantees, the actual public finance burden will eventually be less that if the students' loans were financed by tax (See, Bellinger et al., 2016; Avelar, et al., 2020).

Health financing

Heath financing is one of challenging obligation to both public sector and privet sector for Tanzania and most other developing countries. Health sector is financed through domestic and foreign resources. According to the National Accounts, domestic resources accounted for 67 percent of total mobilised resources in 2020 slightly up from 66 percent in 2018 (URT, 2021). Domestic resources including government taxation accounted for 26 percent of the total, while health insurance had a share of 11 percent, and out-of-pocket (OOP) financing accounted for 31 percent of resources between 2018 and 2020. Foreign financing amounted to 32 percent, which included both on budget support and off budget support that accounted for 85 percent and 15 percent of the foreign financing in 2020, respectively. These traditional mechanisms for health financing pose a challenge to universal health financing because OOP and somewhat unstable foreign financing make a large chank of the required health resources. For this reason, there is a need for innovative health financing options to bridge the funding gap. However, innovative financing options cannot substitute efforts to widen the tax base; first, this is because the revenue raised through such mechanisms is less stable, due to their voluntary nature; and second, the extent to which they can be applied will differ substantially James *et al*. (2014). Among the innovative options that can suit Tanzania are as follows:

i) *Social Impact Bonds* (SIBs): as discussed on education financing, SIBs are financing mechanism whereby capital is raised by private sector companies buying bonds which are repaid once a specific development objective is achieved. This approach is similarly applicable to health financing and is one of the ample spaces for Tanzania to use. Seriousness in planning and implementing projects to be financed through SIBs is always a prerequisite (Avelar, et al., 2020).

ii) *Earmarked taxes for health:* some taxes can be put purposely on certain commodities to fund health expenditure. Usually, experience shows that such taxes have been placed on mobile phones, cigarettes, alcohol and remittances, among others. Is important to note that for mobile phone tax, a levy sufficiently small not to distort demand is what we mean because the mobile phone industry in Tanzania affects a large and diverse population. On the other goods and remittances, the same care on the rates is important to avoid high distortions (James, et al., 2014).

iii) *Airline ticket voluntary solidarity contributions*: the fact that air travel is a luxury product makes this type of contribution highly progressive. It is also administratively efficient in so far as the contribution can be added on top of the normal taxes collected by the airline. The potential for side effects is also minimal, given the low elasticity of demand for flights. However, whilst an airline ticket tax is highly sustainable and stable, air transport use differs from country to country, and this will determine the revenue. Finally, whilst the revenue they can generate

is not large, it will rarely be sufficient for closing the health-funding gap to achieve UHC in Tanzania but has some good potential of contribution.

iv) *Private sector mainstreaming*: workplace health programmes to complement public sector investments in health are an ample opportunity for Tanzania. These can be promoted by helping businesses understand the productivity and marketing benefits associated with investing in the health of their employees and wider communities. More explicit incentives can come in the form of tax incentives and corporate social responsibility awards. Private sector mainstreaming programmes are one of the more financing promising mechanisms. These workplace programmes are aimed at improving health, such as, for example, the provision of anti-retroviral treatment to HIV/AIDS-affected employees. Research suggests that it fares well compared to tax- based innovative mechanisms at raising additional revenue, whilst also scoring highly on the several criteria. According to James *et al*. (2014), in the order of an additional GDP per annum, a substantial amount of resources for health can be raised from mandatory private sector mainstreaming, whilst avoiding the deadweight losses imposed by a tax.

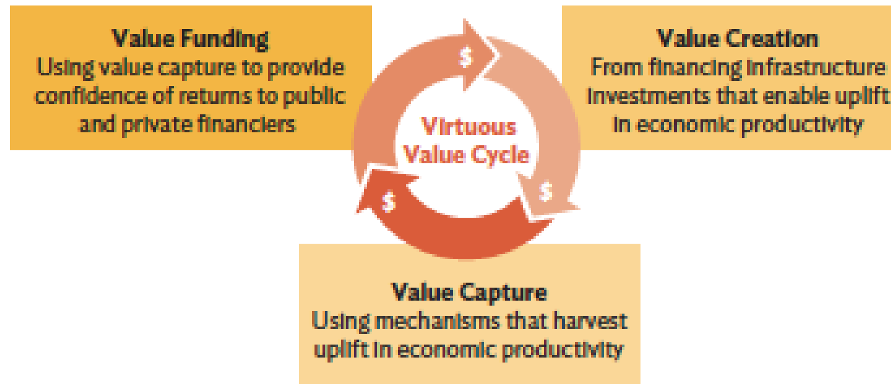
Development financing

Investments in huge public sector projects are expensive and need financial resources from both domestic, foreign and multilateral institutions sources. Most of domestic public investment resources in Tanzania have been raised through traditional taxes. Innovative financing is generally encouraged nowadays to widen the scope of involvement of private sector in development finance. The suggested approaches comprise, among others:

i) *Income-contingent Loans* (ICLs): these are loans that are based on the expected income from specific projects. Well designed and promising deals of public sector will attract private financing. This can attract financing from within the country and beyond. The only challenge in this arrangement is that a public project that aims for the ICL should be sound in terms of cost-benefit analysis results, i.e., to convince the lenders to subscribe to its financing. Nonetheless, this challenge can be positive to public projects design and management as exerts pressure to ensuring financial viability from the start. (Avelar, et al., 2020).

ii) *Value capture funding*: traditional funding by one size (tax structure) fits all is becoming old fashion especially for urban infrastructure development. There is a space from creating value, capturing the value created and then establishing a share of the incremental economic uplift from the specific development, which will be used to repay the up-front financing of the original investments. This approach creates a sort of vicious value capture that re-finances infrastructure projects continually. Property tax, for example, will rise differently in various places in a city

depending on the periodic incremental economic value created by the infrastructure/construction. Its mechanisms need to be well studies for the proper taxation to be assessed in the manner that is acceptable to the public.



One of the challenges, but not insurmountable, is the high requirement of expertise and prudence to make sure that the captured incremental economic value of the project that should be harnessed as the financing base is correct, i.e., to attest fairness to the public. A good practice case can be drawn from Indonesia (see Asian Development Bank, 2021).

iii) *Government infrastructure guarantees*: promote private investments in infrastructure projects by providing government guarantees; this is a sort of innovative public-private partnership. The approach attracts private sector to infrastructure projects financing, both domestic and foreign. Furthermore, long-term infrastructure investment trusts can be formed for infrastructure developers to divest operational projects and reduce their leverage (Asian Development Bank, 2021).

4.3 Policy, Legal and Regulatory Framework

To implement new innovative financing approaches will need some new facilitative policy legal and regulatory frameworks. There are some instruments that have already got guiding frameworks and a number of others can only be implemented if these soft infrastructures are put in place. For example, taxing mobile phones is already done in the country, an adjustment that could be attached is to earmark part of this tax to finance health care. Most of the other instruments that are recommended need new policies, and legal and regulatory frameworks for their adoption.

To embark on the use of various innovative financing is possible if there is political will in the first place; and second, if the government is ready to change from traditional demeanour to a blended financing arrangement that appends innovative mechanisms to the existing financing options. At this time, we are not specific on the policies and regulatory requirements since these will have to be consistent with the adopted options. Reference to the existing best

practices is recommended when the country designs its policy, legal and regulatory framework for the innovative financing instruments.

4.4 Institutional Set-up

Institutional set-up for innovative financing instruments is not challenging since the country may not need to establish new institutions to be able to adopt innovative financing approaches. Use of existing institutional landscape is possible if supportive policies and regulations are in place to allow utilisation of innovative financing instruments. The existing fiscal and financial institutions can facilitate innovative financing instruments. Generally, adoption of innovative financing is not too costly in terms of institutional requirements since it leverages on the existing infrastructure and institutional set-up. Calibrating the set-put in a way that will accommodate the new instruments will, however, be part of reconfiguration of fiscal and financial systems to accommodate innovative financing instruments.

4.5 Estimating Potential to Finance Development

According to Five-Year Development Plan III (FYDP III), 2021/22 – 2025/26, the resource envelope for the plan is estimated at TZS 114.8 trillion comprising public and private sources. Private sector is expected to be directly engaged in financing of FYDP III through Joint Venture (JV) and Public Private Partnerships (PPP) projects, and will contribute a total of TZS 40.6 trillion, of which TZS 21 trillion will be obtained from domestic sources. In this study we see need for innovative financing instruments to be harnessed for the private sector financing objective to be achieved. We estimate possible contribution of the private sector based on the national plan projections span for consistency. We are therefore making estimates for the private sector capital injections across the selected mechanisms/approaches based on the FYDP III key assumptions:

i) The potential positive effects of the ongoing private sector related reforms (blueprint for the business environment, for instance) and financial sector reforms (financial sector development master plan). These reforms are likely to advance further business and investment enabling environments and ultimately accelerate private sector access to financial resources for investment purposes.
ii) Improved regulatory environment for private sector participation through PPP arrangements.
iii) The upcoming new investment promotion policy; and
iv) Improved investment and business supporting infrastructures (energy, transport and communication).

We are using some estimations of FYDP III, Bank of Tanzania (2021) Annual Report, and the World Bank (2022) World Development Indicators statistics to establish parameters we are using to estimate resources flow from the selected innovative options. The estimated sources are aimed at illustrating the relevance of these mechanisms for Tanzania. From the FYDP III we have estimates of GDP at market price and other variables for 2022/23 – 2025/26, and we

want to estimate revenue from the selected innovative options for the same period. The Bank of Tanzania Annual Report provides us the baseline statistics of 2021/22 sectoral contributions to GDP, and from the World Development Indicators we establish remittances and external debt service, among other variables. The turnover of air transport is estimated from the reported Air Tanzania statistics. The estimated revenue from innovative financing instruments includes only resources from remittances, air tickets voluntary contribution, value capture funding, Social Impact Bonds, Income-contingent Loans and Debt swap. These are selected because we have their basic reliable information that our estimation can leverage in computations of their key parameters. Furthermore, we believe that the estimates of these mechanisms will be a motivation to explore other several innovative financing possibilities to underscore the full potential of innovative financing options in the country.

Table 4 presents estimate of the resources flow from the reference instruments that could be realised during 2022/23 – 2025/26. The underlying assumptions for these estimations and the rates adopted are as follows:

i) The estimation parameters are based on the actual outcomes of 2020/21.
ii) GDP projections are adopted from the estimates of the FYDP III.
iii) According to World Development Indicators, remittances are around 0.7 percent of GDP for Tanzania. We make a static assumption that this ratio will be the same for the next 5 years, and we put a small tax of 1 percent on all official remittances.
iv) According to the Air Tanzania reported information, the total turnover of the airline tickets in 2021 was around 0.1 percent of GDP (Ch-Aviation, 2021). We make a static assumption that turnover remains unchanged for the next 5 years. We further make assumption that the minimum revenue the Government could effectively collect is the full amount of the Air Tanzania's tickets contribution (as the leading carrier under the government). Then we put a modest tax of 1 percent on each ticket as the contribution.
v) We assume that 75 percent of the value of national construction is attributed to urban sector, i.e., infrastructure and other developments. We also suppose that the government can capture the addition economic value of urban construction/unfractured and can tax it at a very modest rate of 0.5 percent.
vi) We make assumption that if the government issues Social Impact Bond will be able to attract 25 percent of the private sector resources that are channelled to long-term investment, which is benchmarked by the 25-year Treasury bond.
vii) On income-contingent loans, the assumption is that a new bond will be able to attract around 25 percent of private sector resources that are channelled to the 20-year Treasury bond as a likely alternative.
viii) The government is assumed to be able to undertake negotiations that can lead to debt relief of up to 20 percent of the total debt service cost, and this makes projections for the debt swap revenue.

Table 4: Estimates of the potential revenue from selected innovative sources (TZS Million)

	2021/22	2022/23	2023/24	2024/25	2025/26
Remittances revenue	11,472	12,217	13,016	13,927	14,902
Airline ticket voluntary solidarity contributions	1,639	1,745	1,859	1,990	2,129
Urban construction value - capture funding	27,655	29,453	31,377	33,573	35,923
Social Impact Bonds revenue	1,281	1,365	1,454	1,556	1,665
Income-Contingent Loans revenue	2,116	2,253	2,400	2,568	2,748
Debt swap saving	579,348	617,016	657,325	703,337	752,571
Total	**623,510**	**664,049**	**707,431**	**756,951**	**809,937**

The six estimated innovative sources could make additional resources amounting to TZS 809.9 billion by 2025/26 up from TZS 623.5 billion in 2021/22. This is a significant increment to resources mobilisation to contribute to development finance. The list does not exhaust all innovative financing options that could be applied, but it makes a good illustration of the existing potential of these mechanisms. Including more options in the estimation would raise revenue over and above the estimated amount in Table 4. One of the most important points to note is that tax rates on the selected innovative sources including remittances, air tickets and captured urban construction value are modest, ranging from around 0.5 percent to 1 percent. This is to continue to emphasize on reduction of deadweight loss of taxation or tax distortions when we use innovative financing options.

5.0 Conclusion and Recommendations

5.1 Conclusion

Mobilising sufficient resource to finance development is a policy and practical challenge facing developing countries including Tanzania, especially in the current era when there is global call to fast-track interventions to achieve national and regional aspirations, which are also the building blocks for attaining the agreements in the 2030 Agenda for sustainable development.

The study aimed at analysing the space of innovative financing options in Tanzania's context – where there is evidence of scarcity of resources to finance development. The study has analysed a number of innovative instruments widely used at global level. These are: Blended finance, crowdfunding, green bond, blue bonds, social impact bonds, Currency Transaction Tax (CTT), Carbon Taxes, Solidarity Tobacco Contribution, Diaspora Bonds, Sukuks & Green Sukuks, South-South Corporation and SDG Sovereign Bonds. In addition, in the context of Tanzania, the study has - analysed: The results-based Social Impact Bonds (SIBs) model, Debt Swap, Income-sharing Agreements (ISAs), earmarked taxes for health, airline ticket voluntary solidarity contributions, private sector mainstreaming, Income-contingent Loans (ICLs), value capture funding and Government infrastructure guarantees.

Findings from that thesis reveal that: scarcity of resource to finance development is a global phenomenon and recognized by international bodies such as the UN; Utilisation of innovative sources is still a relatively new approach globally; despite its benefits, innovative financing remains a small component of public sector development spending; the major challenges Tanzania is facing in financing set-up include tax avoidance as an act of using legal loopholes to minimize one's tax liability and transfer pricing; to date, blended finance has mobilised over USD 120 billion in development fund globally; Africa and sub-Sahara in particular captures over 40 percent of blended finance deals, with 73 percent of these deals going to East Africa; by 2020, the market size of impact investment reached USD 715 billion; and the legal framework to regulate crowdfunding activities calls for some reforms, worth noting that the US through the JOBS Act of 2012 has paved the way.

Further, the average size of individual green bond reached USD 250 million in 2021, from USD 170 million in 2020; Blue bonds have currently a potential to raise over USD 1.6 billion; the results-based Social Impact Bonds (SIBs) model, Debt Swap, Income-sharing Agreements (ISAs) can be utilised to finance education; Impact Bond, Earmarked taxes for health, airline ticket voluntary solidarity contributions, Private sector mainstreaming can be used to finance health; value capture funding, Government infrastructure guarantees can be used to finance other sectors including infrastructure; supportive institutional set-up exists for most of the

instruments to work in Tanzania; and innovative sources can potentially raise between TZS half a trillion to 1 trillion per year over the FYDP III implementation period.

Innovative instruments have a space in Tanzania's development financing landscape and some options such a crowdfunding is already utilised in the country. Tanzania has supportive environment for utilisation of the innovative sources in multiple ways: a clear institutional and regulatory framework; national development vision and plans with clear set of goals and financing needs for development interventions; and ongoing development programmes and projects in need of scaling up the funding. Nonetheless, policy and regulatory framework may need further reforms for Tanzania to effectively leverage utilisation of innovative instruments in financing national development agenda. Participation in domestic capital market, tax rates on specific avenues such as diaspora funding are some of the areas may need reforms in this regard. Developing countries including Tanzania should see innovative financing mechanism as a platform providing opportunity to think more innovatively and come up with solutions that suit own context financing needs.

5.2 Recommendations

Results of this study lead the following recommendations:

1. To embark on the use of various innovative financing is possible if there is political will in the first place; and second, if the government is ready to change from traditional demeanour to a blended financing arrangement that appends innovative mechanisms to the existing financing options. At this time, we are not specific on the policies and regulatory requirements since these will have to be consistent with the adopted options. Reference to the existing best practices is recommended when the country designs its policy, legal and regulatory framework for the innovative financing instruments.

2. Calibrating the set-put in a way that will accommodate the new instruments will, however, be part of reconfiguration of fiscal and financial systems to accommodate innovative financing instruments.

3. Innovative financing options are recommended for both levels of the government, local and central. The implementation approaches are usually similar; however, the difference between the local government and central government projects is largely related to the scale.

4. At the beginning of the adoption of innovative financing instruments, social and community services sector may be relatively more attractive to investors, such services can thus be considered a starting point.

5. We recommend a thorough feasibility study to be done at the start to underscore specific innovative options that can be prioritised for resources mobilisation in the country.

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