TANZANIA COALITION ON DEBT AND DEVELOPMENT (TCDD)

TANZANIA ACHIEVEMENT OF LOWER MIDDLE INCOME STATUS: OPPORTUNITIES AND CHALLENGES

FEBRUARY 2022

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ACKNOWLEDGMENT

Tanzania achievement to become a Lower Middle Income Country in 2020 five years before the projected time of 2025. This booklet was developed out of Tanzania Coalition on Debt and Development (TCDD) curiosity for people of Tanzania to understand what it means to be a Lower Middle Income Country as far as debt and development is concerned.

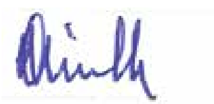
The work to develop this booklet was commissioned to an Economist Dr. Felician Mutasa of Open University of Tanzania (OUT) who tirelessly and with diligence worked hard to accomplish this noble assignment. We at TCDD we are very proud of Dr.Mutasa for being available to work with TCDD when there is a need to do so.

On July 1, 2020, the World Bank declared Tanzania a country that qualified to achieve a lower middle-income economy. The announcement was greeted by joy throughout the different spectrum of Tanzanians. The late President Dr. John Pombe Magufuli tweeted that "Today*, 1 July, 2020, the World Bank announced that Tanzania has become a middle income country. I congratulate my Tanzanian colleagues for this achievement. This is a big feat that we have accomplished and important work that we have done, since we planned on becoming a middle income country in 2025 but succeeded in 2020".*

While attaining the middle income status is applauded, there has been a debate on the contribution of the middle income status to overall economic development and poverty reduction. This booklet attempts to provide a simple comprehension of the importance of attaining middle income status and how it affects the standard of living of ordinary citizens.

This booklet therefore is a Tanzania specific document for internal and external reading for different purposes however, it has also some comparative data for other countries which make it very rich for researchers and readers who may wish to understand country's economic classification as it is done by the World Bank. We urge and encourage different people to take time and go through this simple booklet and acquire knowledge for different purposes especially in the debt and development business.

We wish you a pleasant reading.



Hebron Timothy Mwakagenda

Executive Director

1.0 INTRODUCTION

National Development Vision 2025 envisages transforming Tanzania's economy into a middle-income economy driven by industrialization and human development by 2025. The vision is being realized through the implementation of a series of three five year plans, which commenced in 2014/2015. Currently, the government has embarked on implementing the last five year plan (2021/2022 to 2025/26). Tanzania economic performance has been impressive over the past decade. In lieu of the above Tanzania's GNI per capita reached US $ 1,080) in 2019, a level that was above the threshold (US $ 1,036) for a country to join the middle income status.

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2.0. GROSS NATIONAL INCOME AND NATIONAL INCOME ACCOUNTING

The World Bank traditionally classifies countries into income groups in order to gauge their economic status and wellbeing. This is also done in order to determine which countries can qualify for assistance from the World Bank and the International Monetary Fund (IMF).

The Gross National Income of a country is the basic input used to assign countries into income groups. Hence it is imperative to understand at the outset what is Gross National Income and how it is measured.

Gross national income is determined through the process of national income accounting which measures the overall production and income performance of any economy. National income accounting is similar to what private accounting does for corporate business. A business firm measures its flows of income and expenditure to assess its operations usually for a year. The balance sheet and income statement are the basic financial statements which are produced to measure the performance of a business firm. The income statement measures the performance of a firm whether profit has been earned or the company has incurred losses. The National income accounting operates in much the same way for the economy.

In principle national income can be measured by summing income received in an economy or can be obtained by summing up the value of production.

National income = National expenditure= National output

National income accounts are prepared based on international guidelines and standards developed by the World Bank in order to maintain reliable and quality data and for international comparability. National income statistics in Tanzania are prepared and compiled by the National Bureau of Statistics.

2.1. Metrics of national income accounting

Gross Domestic Product (GDP), Gross National Product (GNP), Gross national Income (GNI) and GNI per capita are the important metrics resulting from national income accounting. The above national income aggregates are important macroeconomic indicators commonly used in the overall discussion of growth and development. They all measure national income but use different approaches. In order to develop a common understanding of the above indicators the definitions are highlighted below:

2.1.1. Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is defined as the total monetary value of all the finished goods and services produced within a country's borders in a specific time period. It measures the size of an economy. GDP focuses on overall domestic production by citizens and non-citizens alike. Gross Domestic Product is based on location rather than ownership.

2.1.2. Gross National Income (GNI)

Gross national income is the value of all income (also called *output* or *national output*) produced by a country's residents (both citizens and foreign residents) within its geographical borders, plus net receipts of income (wages, salary, and property income) from abroad.GNI is an alternative to GDP as a means of measuring and tracking wealth. GNI measures income instead of output.

2.1.3. Gross National Product (GNP)

Gross National Product (GNP) is the total monetary value of all finished goods and services produced by citizens domestically and abroad in a specified period of time. GNP is calculated by summing up personal consumption and expenditure, government expenditure, private domestic investment, net exports and any income earned by residents from overseas investments, minus income earned within the domestic economy by foreign residents. Income from overseas investments by a country residents counts in GNP and foreign investment does not. Gross National Income is based on ownership.

GNP=GDP + net property income from abroad. Net income from abroad included dividends, interest and profits.

2.1.4. Gross National Income Per Capita

One can calculate per capita from either GDP or GNP/GNI. In very simple terms, per capita income of a country is calculated by dividing the total value of GDP or GNP/GNI in monetary terms by number of people in that country.

GNI Per Capita = GNI/Population

GDP Per Capita = GDP/Population

It should be understood that per capita income is just an average measurement, because in reality not everyone is getting the same amount. Per-capita income is the average income by each person within a given economy at any point in time usually one year. Alternatively if gross national income was to be distributed equally to existing population then every individual would receive income equivalent to the GNI per capita on an annual basis. But in practice this is not possible as individuals earn different levels of income depending on their ownership and utilization of economic resources. In a very unequal society, the value can be contributed by the income of only one or a few that have high incomes in the society. Further, GNI per capita does not measure personal income.

The GNI per capita income reflects the standard of living and wealthness of a particular country. Hence the lower the GNI per capita the poorer the country is considered and the higher the GNI per capita the richer the country. However the above needs to be cautiously interpreted as the GNI per capita does not reflect inequalities and income distribution. Furthermore, GNI may be underestimated in lower income economies that have more informal subsistence activities.

While it is understood that GNI per capita does not completely summaries a country's level of development or measure of welfare, it is assumed to be a useful and easily available indicator that is closely correlated with other non-monetary measures of quality of life such as life expectancy at birth, mortality rates of children and enrollment at school. (World Bank 2020).

To gauge overall economic development GNI per capita must be combines with non-monetary indicators like the Human asset Index (covers indicators for nutrition, literacy rate, school enrollment and health) and Economic vulnerability Index.

3.0. WHAT IS INCOME CLASSIFICATION BY COUNTRIES?

The World Bank normally categorizes countries into income groups based on their GNI per capita. This is done in order to determine countries which can access different financing facilities from the World Bank and the International Monetary Fund. Likewise the classification enables the determination of income wellbeing of economies.

World Bank country classifications by income levels are updated on July 1 each year, on the basis of GNI per capita data from the previous year, which are influenced by factors such as gross national income growth, population growth, stability of inflation and exchange rates.

The World Bank assigns world's economies into four income groups namely high (Rich countries), Middle income and lower income countries. (Poor countries) The middle income status is divided into the lower and upper middle income. The classifications are updated each year on July 1 and are based on Gross National Income (GNI) per capita in current USD, using the Atlas method.

GNI per capita is influenced by factors such as economic growth, inflation, exchange rates and population. Revisions to national accounts methods and data can also influence GNI per capita.

To keep the income classification thresholds fixed in real terms, they are adjusted annually for inflation. The Special Drawing Rights (SDR) deflator is used, which is a weighted average of the GDP deflators of China. Japan, United Kingdom, United Sates and the Euro area (World Bank (2021). According to the latest update (2021), the following are the new thresholds of income levels for the four categories based on GNI per capita in current USD, Atlas method:

Table 1: New thresholds Income classification based on GNI Per capita in current USD July 2021 compared to July 2020.

Income group	July 1, 2021(new)	July 1, 2020(old)
Low income	1,04 6 USD or less	1,035 USD or less
Lower middle income	1,046 USD- 4,095 USD	1,035 – 4,045
Upper Middle income	4,096 USD– 12,695USD	4,046 – 12,535
High Income	12,695USD and more	12,535 USD and more

Source: World Bank 2021

As per year 2021, countries having GNI per capita income of 1,046 USD or less are considered to be of low income as compared to 1,035 USD in 2020. Countries with a GNI per capita of between 1,046 USD- 4,095 USD are considered lower middle income. Those earning 4,096 USD– 12,695USD are considered to be a higher middle income. Countries earning 12,695 USD and more are considered to be in a higher income category.

Income category assigned to countries is normally not a permanent status. Revisions done every July 1st by the World Bank/IMF can affect a countries status depending on the change of gross national income, population or exchange rate. Table 2 below shows changes in classification of income categories for the status released on July 1st 2021. Three countries (Haiti, Moldova and Takijstan) moved to a higher category for different reasons as shown below.

Table 2: Countries moving to a higher income category and reasons for change based on GNI per capita 1st July 2021 as compared to 1st July 2020.

Economy	New group	Old group	2020GNI per capita as of July, 2021	2019GNI per capita as of July ,2020	Reasons for change
Haiti	Lower middle income	Low Income	1,250	790	Published an improved series of national accounts statistics in July 2020
Moldova	Upper middle income	Lower middle income	4,570	4,560	Incorporation of improved population data reflecting most recent census
Takijstan	Lower middle income	Low income	1,060	1,030	Large increase in exports of gold led to an increase in gdp.

Source: World Bank 2021

Table 3 shows ten countries which have dropped to lower income category as a result of different internal and exogenous shocks.

Table 3: Countries moving to a lower income category Economies moving to a lower category

Economy	New group	Old group	2021 GNI per capita as of July, 2021in US $	2019 GNI per capita as of July 1, 2020 in US$	Reasons for change
Belize	Lower middle income	Upper middle income	3,970	4,450	Tourism was severely affected resulting into a decrease GNI per capita
Indonesia	Lower middle income	Upper middle income	3,870	4,050	GNI per capita was updated to better account for multiple exchanges rates in effect
Iran	Lower middle income	Upper middle income	2,870	5,240	Highly impacted by COVID-19 pandemic resulting, restricting many activities(construction, retail and tourism related activities hence leading to a sharp decline in Real Gdp.
Mauritius	Upper middle income	High Income	10,230	12,740	Very close to classification thresholds in 2019, experienced COVID-19 related decreases in Atlas GNI per capita.COVID-19 related decreases in Atlas GNI per capita
Panama	Upper middle income	High Income	11,880	14,950	Very close to classification thresholds in 2019, experienced COVID-19 related decreases in Atlas GNI per capita.COVID-19 related decreases in Atlas GNI per capita
Romania	Upper middle income	High income	12,570	12,630	Very close to classification thresholds in 2019, experienced COVID-19 related decreases in Atlas GNI per capita.COVID-19 related decreases in Atlas GNI per capita

Samoa	Lower middle income	Upper middle income	4,070	4,180	Very close to classification thresholds in 2019, experienced COVID-19 related decreases in Atlas GNI per capita.COVID-19 related decreases in Atlas GNI per capita

Source World Bank 2021

As per current World Bank data (2021), countries have been distributed among income categories as given in table 4.

Table 4: Countries as distributed in income categories as per 1st July 2021.

Income categories	Number of countries
Lower income	27
Lower middle income	55
Higher Middle income	55
Higher Middle income	80
Total	217

Source: World Bank 2021

As per 1st July 2020 income categorization Tanzania is categorized as lower middle income country with a GNI per capita of US$ 1,090.

4.0. ATTAINING MIDDLE INCOME STATUS IN TANZANIA

4.1. Historical trend of GNI Per Capita

Tanzania has been considered as a low income country for the past fifty years as official GNI per capita has consistently mimicked lower income status. Hitherto, Tanzania has been considered all along as poor country in need of development assistance. GNI per capita has increased steadily from US $ 200 in the 1980's to US $ 1,020 in 2018. GNI per capita changed from 410 USD in year 2000 to 743 USD in year 2010. Likewise GNI per capita increased from 810 USD in year 2012 to 1,080 USD in year 2019 as depicted by table 5.

Table 5: The trend of GNI Per Capita, 2012-2020 in US $.

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
GNI Per Capita	810	890	970	980	970	970	1,020	1,080	1,090

Source: Economic survey 2020

GNI Per Capita has been increasing steadily, due do the impressive economic performance Tanzania has been enjoying for the past two decades. Tanzania has been among the fastest growing economy in Africa with a GDP growing at an average of 6.4 percent between 2000 and 2020. This impressive growth was attributed by the implementation of major infrastructure projects particularly in construction, transport and energy sectors as well as financing of social services especially health, education and water supply. This included pursuing of prudent monetary and fiscal policies which resulted into consistent macroeconomic stability.

4.2. Attaining Lower middle income status

Considering the strong economic performance, and hence growth in gross national income, Tanzania was reclassified as a lower middle income country by the World bank on 1st July 2020 as GNI per capita increased to US$ 1,080 in 2019 from US $ 1,020 in 2018. The GNI per capita exceeded the 2019 threshold of USD 1,036 for lower middle income status as illustrated in table 6.

Table 6: Classification of countries by GNI Per Capita in the year 2020 was guided by the following thresholds:

Group	Threshold 2019 in USD	Threshold 2020 in USD
Lower Income	Below 1,025	Below 1,036
Lower middle income	1,026- 3,995	1,036 – 4,045
Upper Middle income	3,996 – 12,375	4,046 – 12, 535
High Income	Above 12,375	Above 12,535

Source: World Bank 2020

According to the World Bank's report released on the 1st July of 2020, seven countries graduated to higher level, three countries were demoted to lower level and the remaining countries maintained their income status.

Apart from Tanzania, other African countries which graduated included Benin moving to lower income status and Mauritius which moved to high income status. Algeria and Sri Lanka were categorized from upper middle to lower middle income status as their GNI Per Capita dropped below the required thresholds for upper middle income status as shown in table 6.

In a way the above shows how countries can slip or attain a higher income status depending on how they manage their economies and withstand exogenous shocks such as epidemic diseases and natural disasters.

Attaining lower middle income status literally meant that a country's average income per resident went up from US $1,020 in 2018 to US $1,080 in 2019, which is less than US$ per month and a little above US $ 3 per day. This surpasses the traditional poverty line norm of surviving on less than a dollar per day.

In short, the average annual income of US $ 1,080 USD that took Tanzania to the lower middle income status does not mean that every Tanzanian (or at least the majority) is now earning that amount per year. Every individual has own personal income determined by participation in available economic activities.

Reclassification of income status was generally influenced by a strong economic performance, exchange rate stability and sustenance of low and stable inflation rate between 2003 and 2019. The World Bank (2020) also attributes the revision of Tanzania income categorization to National accounts revision.

5.0. IMPLICATIONS OF TANZANIA ATTAINING MIDDLE INCOME STATUS

There has been a lot of debate on the implications to the economy and general wellbeing of Tanzanians as a result of attaining middle income status. In reality there are opportunities and challenges which come with this new status. The economic benefits of middle income status are outlined below:

5.1. Increased scope for accessing commercial loans to finance development projects

International financial institutions and organizations have various financing windows for provision of grants and loans depending on the country's income status. Prospects of accessing grants will diminish as Tanzania graduated to lower-middle income and instead access to commercial loans will increase. Therefore, the Government can access more financial resources through commercial windows based on its creditworthiness to implement development projects in order to maintain or further up the current status.

5.1.1. Freedom in resource allocation

Tanzania graduating to lower-middle income status increases the scope of accessing non concessional loans with no terms and conditions on spending contrary to grants and concessional loans which have stringent spending terms and conditions. Since no stiff conditions attached, non-concessional loans provide an opportunity to implement flagship projects like SGR and Mwalimu Nyerere hydro dam which do not qualify for concessional loans.

5.1.2. Attracting Investment

Growth of GNI per capita is among the prequalification for investment decision which informs investors about purchasing power of the population of a given country. Increased GNI per capita will attract more investors as it gives assurance of the market for their goods and services.

5.1.3. Lessen dependency syndrome

One of the characteristic of a middle income country is low level of donor dependency which frees the country form unfriendly terms and conditions on the use of the grants and concessional loans. With declining grants and concessional loans trajectory, this provides an opportunity for the Government to expand the scope of domestic revenue sources to continue financing strategic and flagship projects.

5.1.4. Creditworthiness

Tanzania being a middle income country with resilient macroeconomic stability boosts its creditworthiness to commercial lenders in international capital markets, international financial institutions and Development Partners. Favorable credit rating by international agencies will allow the country to access competitive concessional loans.

5.2. Economic costs of becoming a middle income country

5.2.1. Reduced access to grants and concessional loans

The World Bank and other regional development Banks normally have special windows that provide grants and concessional loans to low income countries. The attainment of middle income status will deny Tanzania easy access to concessional financing and in some cases grants. Thus, prompting the government to borrow from no concessional windows.

5.2.2. High cost of debt servicing

According to URT (2021) currently, the Government is spending an average of 30 percent of its annual budget to service matured debt obligations. Tanzania being a middle income country, the cost is likely going to increase as the country contract more non-concessional loans thus, constraining financing of other activities in the budget. This is on account of high interest rate of non-concessional loans averaging at 7 percent per annum and short term maturity of less than seven years compared to concessional loans which have an average interest rate of one (1) percent per annum and over 30 years repayment period.

5.2.3. Debt sustainability

Tanzania as a lower-middle income country has more access to commercial loans that are accompanied with high interest rates and short term maturity. The decrease in concessional loans and corresponding increase in non-concessional loans may jeopardize sustainability of the Government debt in future.

5.2.4. Removal of preferential access to regional trading blocs

Tanzania has been enjoying the opportunity to export some products to regional markets that offer special privileges to low income countries by removing tariff and non-tariff barriers. Hence, Tanzania's reclassification into lower middle income will deprive those trading opportunities and thus, tradable goods will be subjected to normal tariff system.

5.2.5. Budgetary support from Development Partners may shrink

URT (2021) notes that attainment of middle income status may influence development partners like African Development Bank, World Bank, European Investment Bank, Germany, USA and UK who provide budgetary support to change the criteria and extend loans instead of grants to middle income countries in the region. Reduced budgetary support may affect government planned operations especially in the implementation of development projects.

5.2.6. Disqualification from preferential access to grants

Tanzania used to benefit from grants through various funds designed for low income countries including Global Fund, Green Climate Fund, and Least Developed Countries Fund. Having graduated to lower middle income, Tanzania will be denied access to such funds and thus, prompt the Government to look for other sources of financing the projects that were initially financed through the designated funds.

5.2.7. International institutions and organizations membership subscription

As Tanzania graduated to middle income, subscription fee to the Southern African Development Community (SADC) and the African Union (AU) will increase since the fees depends on country's ability to pay as measured by GDP (URT 2021).

5.3. Social Implications

Attaining middle income status is assumed to bring about improvements in the non-monetary aspects of economic development. Broadly speaking, the new income status for Tanzania implies improved standards of life by way of higher quantity and quality of goods and services consumed, better quantity and quality of social services such as health, education and water, lower mortality and morbidity rates, higher literacy rates, lower poverty levels and more quantity and quality of economic infrastructure. Likewise graduation into lower middle income status may potentially bring about formal and self-employment opportunities through increased investment both foreign and domestic.

Middle income status does not reflect personal income so individuals need to work hard and exploit available resources in order to increase personal income and hence reduce poverty levels

6.0. TO SUSTAIN MIDDLE INCOME STATUS

As discussed earlier, middle income status is not a permanent phenomenon. If economic growth is retarded, population increased, the country could revert back to lower income category. It is also possible that the economy may also be stuck in the lower middle income category without moving to the upper middle income.

World Bank (2021) reveals that over the past decade, 23 countries have fallen to underneath income category either from middle income to low income or from high income to middle income group. Such slippages were caused by exogenous factors such as natural disasters, pandemic, conflicts and macroeconomic instability.

In 2020, Tanzania was among the countries affected by COVID-19 with sectors such as tourism, air transport and international trade affected considerably thus slowing down the overall economic growth. This implies that Tanzania's attainment of lower-middle income status may be affected by factors beyond government control. Therefore, coherent strategies are needed to strengthening resilience to the challenges and enable the country to maintain this status.

As per the Economic Survey (2021), The Government aims to continue focusing on three key areas in order to sustain the lower-middle income status and possibly move to higher categories. Those areas are: maintaining macroeconomic stability and ensuring sustainable economic growth; improving the inclusiveness of growth to reduce poverty; and creating and strengthening the middle-income class by developing human capital and improving basic social services.

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