SET SUPPORTING ECONOMIC TRANSFORMATION

SHAPING TANZANIA'S SECOND FIVE YEAR DEVELOPMENT PLAN (2016-2021)

Workshop Report of a meeting on 6 October 2015

Neil Balchin

Overseas Development Institute, London

October 2015

INTRODUCTION AND BACKGROUND

The Government of Tanzania, through the President's Office Planning Commission (POPC), has begun the process of preparing the second Five Year Development Plan (FYDP II) (2016/17 – 2020/21) focusing on the theme *"Nurturing an Industrial Economy"*. The POPC hopes to conclude the plan by June 2016. The Overseas Development Institute (ODI) is providing analytical support to aid this process through its Supporting Economic Transformation (SET) programme. In this context, a workshop was convened in Dar es Salaam on Tuesday 6 October 2015 to provide an opportunity for the POPC to outline their initial thinking and to enable discussion on emerging priority areas and potential means of implementation for the FYDP II, both informed by background research undertaken by the ODI and REPOA (the programme for the workshop is provided in the Annex).

The workshop brought together a diverse range of stakeholders from both the public and private sectors in Tanzania. As many as 96 participants attended, including representatives from the Prime Minister's Office; Ministry of Finance; Ministry of Lands, Housing and Human Settlements; Ministry of Home Affairs; Ministry of Education and Vocational Training; Ministry of Agriculture, Food and Cooperatives; Bank of Tanzania; President's Delivery Bureau; National Bureau of Statistics (NBS); Tanzania Ports Authority; Export Processing Zones Authority; Social Security Regulatory Authority (SSRA); Tanzania Agricultural Development Bank (TADB); Tanzania Private Sector Foundation (TPSF); Tanzania Industrial Research and Development Organisation (TIRDO); Tanzania Chamber of Commerce, Industry and Agriculture; Small Industries Development Organisation (SIDO); National Development Corporation; Tanzania Petroleum Development Corporation; UK Department for International Development (DFID); World Bank; United Nations Development Programme; International Growth Centre; Economic and Social Research Foundation (ESRF); REPOA; Mole Finance & Trust Company Ltd; University of Dar es Salaam; the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) and the Commission for Science and Technology (COSTECH). Such a large turnout provided an ideal forum for the first ever consultation on the FYDP II in Tanzania.

The workshop was opened by Dr Philip Mpango, Executive Secretary of the POPC. Dr Mpango emphasised the importance of the FYDP II, the second in a series of three FYDPs to be implemented as part of the country's Long Term Perspective Plan (LTPP), in helping to realise Tanzania's national development ambitions. The FYPD I, which ends in June 2016, has focused on removing binding constraints to growth in Tanzania. The Government of Tanzania is looking to build a solid foundation for the country to industrialise as soon as possible and, in line with this ambition, the FYDP II is to focus on nurturing an industrial economy. In this context, Dr Mpango urged the workshop participants to use the opportunity to provide input that will help to realise industrialisation in Tanzania.

The State of Industrialisation in Tanzania: past and present

Thereafter, in order to contextualise the discussion to follow, Professor Samuel Wangwe, the Executive Director of REPOA, provided a brief assessment of the state of industrialisation – both past and present –

in Tanzania. Starting from the 1960s, he explained that the emphasis during that period was on growth without structural change in the Tanzanian economy. This period saw a continuation of the colonial pattern of import substitution industrialisation (ISI), with the focus largely on processing and simple consumer goods. A lack of success in efforts to attract foreign direct investment (FDI) to fill shortages in capital requirements prompted a shift in emphasis towards socialism and self-reliance, an approach enshrined in the Arusha Declaration of 1967.

State-led ISI followed, beginning with widespread nationalisation and the establishment of new industries through parastatals. According to Professor Wangwe, the participation of foreign investors in the economy during this time was minimal, with their influence secondary to a dominant state. In the early 1970s, the Tanzanian authorities launched discussions towards the development of a long term industrial strategy designed to span the 20-year period from 1975 to 1995. This was grounded in seven guiding national goals emphasising growth, employment, income distribution, regional distribution, workers participation, structural change and self-reliance. The latter two were central to the country's basic industrial strategy, which sought to produce goods required to meet the basic needs of the Tanzanian population while utilising domestic natural resources to produce a diverse range of intermediate and capital goods. It was expected that the contribution of manufacturing to gross domestic product (GDP) would expand from 8% to 18.8% over this 20-year period.

Professor Wangwe explained that during this period, however, a number of issues were not fully addressed; with the result that the industrialisation process in Tanzania bore the mark of unfinished business. In particular, the industrial sector did not build the necessary capacity to compete and survive in the more competitive environment generated through the significant trade liberalisation of the early 1980s. In addition, despite the establishment of technology institutions, the development of technological capacity was undermined by the prevailing structure of incentives. Levels of capacity utilisation also remained low. Furthermore, strategies to drive agricultural development and develop skills and human resource capacity in Tanzania were not developed. The result was deindustrialisation and industrial shallowing.

Against this backdrop, Professor Wangwe noted that a desire to revive industry formed a central component of Tanzania's development agenda in the mid-1990s. The renewed emphasis on industrialisation was evident in the Sustainable Industrial Development Agenda, launched in 1996 to cover the period up to 2020, as well as Vision 2025, launched in 1999 (which recognised the leading role that industry should play in transforming the Tanzanian economy on the way to becoming a semi-industrialised country by 2025). This was followed by the launch in 2010 of the Integrated Industrial Development Strategy 2025. At the time, however, these industrialisation strategies were not implemented in the context of a plan as the FYDP processes had not yet begun. The emphasis on industrialisation in the FYDP II thus provides an opportunity to mainstream industrial development in Tanzania. In Professor Wangwe's view, this represents a critical phase to return to industrialisation, but in a different context to the country's previous attempts.

The Framework for FYDP II

Following Professor Wangwe's presentation, Dr Paul Kessy, Deputy Executive Secretary of the POPC, provided a brief outline of the overarching framework guiding the development of the FYDP II. This was designed to link the history of development in Tanzania to the present and what is envisaged for the future. Dr Kessy explained that since 2000 Tanzania's development agenda has been guided by the Tanzania

Development Vision (TDV) 2025. Ten years after its launch, on the back of growth performance that was below the projected level of 8% per annum and which had not translated into poverty reduction and economic transformation, the Government of Tanzania took the decision to review the implementation of the TDV. The review process reaffirmed that the targets set out in the TDV were attainable given the resources available to Tanzania and sparked optimism that the growth target of 8% per annum could be surpassed if these resources were utilised effectively.

With this in mind, the LTPP was prepared for implementation in three phases through separate FYDPs. Looking back at the first FYDP, Dr Kessy noted that delays in drafting the details of the plan meant that the implementation period has spanned only four years. Nevertheless, improvements in implementation across this period have been evident in better infrastructure, greater levels of educational enrolment, and improvements in the provision of electricity, potable water and sanitation to the Tanzanian people. Furthermore, economic growth has remained robust during the FDYP I period. Nevertheless, he noted that while the pace of economic transformation has improved, it remains below the targeted level. This is evident, for example, in the fact that while there has been some improvement in Tanzania's export bundle to reflect a greater share of higher value added products, the country's exports are still dominated by primary products.

In part, the slow pace of economic transformation in Tanzania to date is a product of challenges in implementation. Dr Kessy highlighted problems related to incoherent policies, procedures and sequencing of priorities; sluggish mobilisation of financial resources; a lack of preparedness to implement; and an unattractive business environment for the private sector as key challenges to implementation.

In drawing lessons from the implementation experience for FYDP I that are relevant going forward, Dr Kessy pointed to the need to project targets realistically; the importance of placing emphasis on developing both the domestic market and export markets for Tanzanian products; the central role that the Government of Tanzania should play in fostering industrial development; and the fundamental importance of a conducive business environment.

Looking ahead to the FYDP II, Dr Kessy emphasised the need to be careful in selecting intervention projects for implementing the plan. He indicated that the criteria for selecting projects should include a focus on Tanzania's comparative advantages; a consideration of the impact of interventions in terms of their contributions to attaining the objectives of the FYDP II and, more broadly, the TDV 2025; the need to maintain continuity from FYDP I and MKUKUTA II; and the importance of selecting quick wins to gain momentum. He also set out potential industries that are likely to best contribute to fostering industrialisation in Tanzania, highlighting the light manufacturing sector in particular.

PRIORITY AREAS FOR THE FYDP II

So far, the analytical support provided to the POPC by the ODI through its SET Programme has focused on two core areas to inform the preparation of FYDP II. The first has taken stock of Tanzania's industrialisation record, policies and strategies with a view to discerning niches and pre-requisites for nurturing and leap-frogging to a semi-industrialised economy. This has involved economic analysis to inform the identification and sequencing of particular industries and subsectors that should be prioritised in FYDP II. The second area has focused on the identification of clear measurable targets for the second five-year plan.

The workshop provided an opportunity to present the key findings from this analytical work. Dr Dirk Willem te Velde, the Director of the SET Programme at ODI, began by noting that the work is being conducted within a wider context in which greater emphasis in the global development policy agenda is being placed on economic transformation. This is reflected in the attention given to economic transformation and industrialisation in the Sustainable Development Goals (SDGs). Dr te Velde explained that economic transformation is very important for Tanzania in order to safeguard the quality of growth, ensure that growth is broadly shared within the country, and to create jobs for the future.

Commenting on Tanzania's economic transformation record to date, Dr te Velde observed that while the country's growth performance has been good, the share of manufacturing in GDP has remained stagnant. Moreover, Tanzania's manufacturing share in GDP is low relative to key comparator countries. There is, however, some good news from the rebased data in the form of evidence of growth in manufacturing production and labour productivity. At the same time, activity in Tanzania's services sectors has expanded.

Dr te Velde explained that economic transformation can be considered from two different perspectives: either in terms of moving from low productivity to high productivity sectors or in moving from low productivity to high productivity *within* sectors. In Tanzania, there is some evidence of a shift to sectors with higher levels of labour productivity (mainly reflected in movement into the services sector). In addition, the complexity of production structures in Tanzania has increased from a very low base. Indeed, between 2000 and 2012 Tanzania was among the top 10 performers in terms of countries with the largest increases in the Hausmann Economic Complexity Index (ECI). Furthermore, a consideration of Tanzania's product space map, using the Hausmann product space methodology, highlights the increasing complexity of products produced in Tanzania over the past two decades. Specifically, in the period between 1995 and 2013 Tanzania moved from producing products located primarily in the periphery with little opportunity to diversify into other products to producing several products close to the core (such as wood products and garments) with promising opportunities to continue diversification into products that embody similar production capabilities.

Taking over from Dr te Velde, Dr Maximiliano Mendez-Parra, a Research Fellow at ODI, began by highlighting Tanzania's strengths. He pointed to the country's geographic location as a gateway to other landlocked countries in East Africa, and emphasised the access that Tanzania enjoys to regional markets through its membership in regional initiatives and trading blocs such as the East African Community (EAC) and the recently proposed Tripartite Free Trade Area. He also highlighted Tanzania's ample natural resources and conducive framework of incentives to attract FDI as important strengths within the context of the broader industrialisation effort.

Moving to the identification of promising sectors for Tanzania's future economic transformation, Dr Mendez-Parra outlined the range of analytic techniques employed by the SET research team to inform the selection of these sectors. These included input-output analysis to determine which sectors have the greatest multiplier effects on a range of key indicators (including the value of exports, output and various indicators of educational attainment); productivity analysis (examining the differential from average total factor productivity by sector); analysis of revealed comparative advantage; a comparison of Tanzania's exports and specialisation patterns with world demand on the basis of different scenarios; and consultations with the private sector. Combining the outcomes of these various analyses allowed for a multifaceted identification of a range of promising sectors from different angles using diverse criteria.

Dr te Velde presented the final component of the analysis, bringing the various elements together into a three-pronged approach to prioritising sectors in order to achieve Tanzania's future economic transformation potential. This emphasises activities that use Tanzania's natural resources (such as sisal, fish and gold and promising resources such as natural gas, vegetables and uranium); activities that increase value added through agro-processing and manufacturing; and, finally, fast-growing services sector activities (such as tourism and trade). With respect to the latter, Dr te Velde noted that services sectors play an important role in industrialisation – tourism brings in revenues, while transport and other support industries are important for facilitating trade.

Reactions on Priority Areas for the FYPD II

In reacting to the SET presentation on priority areas for the FYDP II, Professor Amon Mbelle from the University of Dar es Salaam began by outlining four key lessons that are relevant for the current environment for industrialisation in Tanzania. First, he noted the importance of sustaining policies and maintaining policy coherence, referring to the reality that industrialisation policies were not sustained in Tanzania in the past. In his view, without sustainable policies, the achievements of industrialisation are not guaranteed. Second, he pointed to the changing paradigm of competitiveness, noting that in comparison to the current goal of nurturing an industrial economy in Tanzania less emphasis was placed on competitiveness in core sectors of industrial activity in the past. Third, he highlighted the role of the private sector, explaining that the private sector in Tanzania plays a far more significant role in development than it did in the 1960s and 1970s, with the state now taking a developmental role as a facilitator. Finally, he emphasised the potential for industrial development afforded by the improved availability of both human and financial resources in Tanzania.

Professor Mbelle then presented his observations on the emerging priority areas for the FYDP II, indicating that he believed that the choice of promising sectors was well informed (through both consultations and rigorous economic analysis). He emphasised that the selection of priority areas was driven by the need to fast track economic transformation in Tanzania in the lead up to 2025. Nevertheless, he emphasised the importance of understanding that there is limited space for implementation in the FYDP II, with the implication that a degree of prioritisation will be required if implementation is to be successful. In this context, he noted that now is the time when choices need to be made.

Looking ahead, he called for industrialisation in Tanzania not to be considered an end in itself, but rather to play a central role in human development in the country. He stressed the need to adopt a long-term perspective and look beyond the FYDP II, and even beyond 2025, in order to sustain economic transformation in Tanzania. For this to occur, industrialisation must remain firmly on the policy agenda in Tanzania, backed by sustainable policies and coherence in the development of policy priorities.

NURTURING AN INDUSTRIAL ECONOMY – CONSTRAINTS, POLICIES AND WAYS OF WORKING

Returning to present further aspects of the analytical work undertaken through the SET programme, Dr te Velde outlined the factors currently constraining sectoral growth and industrial development in Tanzania. These include both broad economic constraints (including deficiencies in infrastructure and skills) and specific constraints affecting manufacturing in the country (such as limited access to finance and land, lack of skills in the workforce and unreliable energy supply). He noted that there is a general consensus regarding the broad types of constraints to industrialisation in Tanzania.

Recognising these issues, he then presented a range of potential policies to overcome these constraints and promote sectoral growth in the country. The gamut of policies proposed through the SET analytical work (see Table 1) includes policies that aim for structural change as well as those that are designed to facilitate changes in productivity *within* sectors. Some are intended to build fundamentals across sectors, while others are targeted at specific sectors. With respect to the latter, Dr te Velde stressed that the more targeted the approach, the more important it is to do it right and have the correct incentives in place for private sector participation.

Table 1: Typology of public actions to promote economic transformation

	Improving fundamentals (cross-sectoral)	Targeted interventions (sector-specific)
Public actions to support structural change	• Investment climate reform (e.g. improved customs procedures, lower export taxes and lower tariffs on inputs) • Financial sector development leading to PPPs • Better public–private coordination	• (Regional) export push policies • Coordinated and coherent industrial policy • Industrial parks and special economic zones (SEZs) for sectors such as textiles, leather, building materials, plastic cards, equipment, electronics assembly, cashew, confectionary, coffee • Attracting FDI in light manufacturing (e.g. leather, wood and garments)
Public actions to support within-sector productivity growth	• Energy, transport and irrigation infrastructure (especially local) • Skills and innovation policies, e.g. to address lack of tertiary education through vocation and training centres and addressing science, technology, engineering and maths skills	• Value chain development and transport corridors (e.g. long-term finance to facilitate entry of small and medium enterprises (SMEs) into regional and global value chains; PPPs; contract farming and cluster formation for agriculture productivity) • Technical assistance to the leather sector • Kaizen projects for the wood sector

Source: SET (2015)

Specific policy proposals include the following:

- Focus on industrialisation to foster economic transformation.
- Implement seriously a number of Public-Private Partnerships for investment in energy, transportation and water. Promote large transport corridors (starting with the port) while also supporting SMEs along the corridor. There needs to be sufficient scale (e.g. energy) to industrialise the economy. The road infrastructure is of poor quality.
- A renewed emphasis on kick-starting reforms in Tanzania's business environment, for instance in tax, but also other areas.
- Continue targeting industrial parks and clusters – existing SEZ sectors include textiles, leather, building materials, plastic cards, equipment, electronics assembly, cashew, confectionary and coffee.
- Improve trade policy, for instance by reducing tariffs and export taxes and also streamlining customs procedures (a weak point in Tanzania compared to other countries). It is better to support

promising sectors through positive action (appropriate skills, infrastructure and business climate) rather than erecting protective walls. Substituting imports in this way will be more sustainable.
- Education and skills. Training for instance in the production of wood products, but also a more elaborate skills strategy to bring Tanzania up to a level needed to support industrialisation.
- Promote an open technology policy.
- Build linkages between sectors (e.g. tourism, gas) and the rest of the economy.
- Provide finance and improve governance.

The effectiveness of policies such as those outlined above will ultimately be determined by what the government is prepared to implement. In this respect, Dr te Velde highlighted four important issues related to policy preparedness in Tanzania. The first relates to trust among stakeholders. At present, there is distrust and a lack of reciprocity between the public and private sectors in Tanzania. This points to a clear need to institutionalise effective state-business relationships in the country. The second element is leadership – it will be crucial that the new President leads from the start and maps a clear path forward.

The third issue is inter-agency/ministerial co-ordination within government. The new FYDP needs to be implemented with coherence and the POPC needs to be in charge of coordinating planning. Nevertheless, the other ministers should also have a stake (especially in relation to implementation).

The final element is policy consistency. Dr te Velde stressed that rules need to be transparent and stable if Tanzania is to attract the necessary investments required to boost economic transformation.

Dr te Velde also suggested that there is great potential to introduce collaborative demonstration projects in the FYDP II that can generate transformative impacts. These can play an important role in demonstrating that the public and private sectors can work in collaborative ways. To this end, specific collaborative demonstration projects that could be considered include:
- Attracting FDI to build human and technological capabilities to produce high quality manufacturing products (e.g. through developing SEZs and promoting clusters of firms).
- Developing all the elements of transport corridors for agriculture and agro-processing.
- Promoting appropriate skill levels in target sectors.
- Stepping-up efforts to reform the business climate.

BRINGING IT TOGETHER IN FYDP II – TARGETS AND MONITORING

In looking to set targets for the FYDP II, Dr te Velde stressed the importance of focusing on the right types of targets. To emphasise this, he presented a series of illustrative examples of targets in FYDP I and the actual progress in Tanzania towards these targets. Some targets set in the plan have proven to be too optimistic (such as targets for average annual GDP growth and the contribution of the manufacturing sector to GDP) while others have been too pessimistic (such as targets for total manufacturing employment). The key point is that there is a need to think about targets more realistically in the future and consider step-wise change rather than looking to make major improvements in a short period of time.

In this context, Dr te Velde presented a range of possible targets for FYDP II (outlined in Table 2). In addition to these, he stressed that other targets will also be important. The key consideration is for the Tanzanian authorities to think not only about where they want the country to go but also how that they want to get there. In this respect, it will also be important to think about ways of working and institutional settings. Leadership will be key, particularly in terms of promoting the importance of economic transformation. State-business relations are also critical; economic transformation in Tanzania should be planned in consultation with the private sector. The implementation of these plans will require administrative and coordinating capacity in the right areas.

Table 2: Possible targets for FYDP II

Target areas of economic transformation	Base/recent progress	Indicative range of future opportunities during 2016-2021
Labour productivity value addition per employee (aggregate)	Aggregate labour productivity growth of annual 3-4% 2000-2013, with structural change the largest component	Continuation of aggregated annual productivity growth of 3-4%
Labour productivity value addition per employee (agriculture and manufacturing)	Annual growth of agriculture productivity growth 2007-2013 of 3.3% Annual growth of manufacturing productivity growth 2007-2013 of 1.0%	Annual growth of agriculture productivity growth 2007-2013 of 3-4% Annual growth of manufacturing productivity growth 2007-2013 of 2-3%
Shares of manufacturing and high-productivity services in the economy	Share of manufacturing in value addition constant over 2007-2013 (around 7%); it has been decreasing in comparator African countries	Manufacturing share of between 8% and 12% at end of period (consistent with trends in successful country examples elsewhere)
High technology exports (as a % of total exports)	Share was 5.4% in 2011 but growing	Following growth of others and Tanzania in past, target of 10%-15% may be feasible
Export diversification (number of export targets and products) and economic complexity index (Hausmann/Hidalgo)	Tanzania among the top increases (2000-2012) in economic complexity, ranked 10th of all countries	Among top 5-10 ranked countries on the complexity change index
Gross fixed capital formation, especially for manufacturing and agriculture sectors (% of sector GDP)	Ratio increased from 25% in 2009 to 29% in 2013	Maintain an approximately 30% level; Increase investment share to manufacturing

Reactions on nurturing an industrial economy – constraints policies and ways of working

Dr Nduma from the University of Dar es Salaam stressed that while the analytical work undertaken through the SET Programme represents a good elaboration of the policy options available to Tanzania, the actual policy choices still need to be made. He offered the following points to consider in deliberations over these policy choices:

- There is still a backlog in implementation of FYDP I, and the carry forward will constitute a large share of government expenditure in the next five year plan. What impact will this have?
- In the implementation of FYDP I, the Big Results Now (BRN) initiative has focused on hard infrastructure. The FDYP II should focus on soft reforms, such as the implementation of tax reforms.
- Given the geographic size of Tanzania and the country's remaining infrastructure needs, a clustering and corridor approach is required going forward. Consideration will, however, need to be given to the potential impacts that the development of SEZs and corridors will have on existing geographic disparities in the country.
- Access to finance is an issue that is raised consistently in Tanzania. In this context, there is a need to distinguish between short term and long term financing. In the case of the former, short term investment financing constraints are mainly due to trust issues – both in terms of trust within the private sector and between the banking sector and other sectors in the country.

Reactions on targets and monitoring in FYDP II

In his reactions, Dr Mugisha Kamugisha, Director of Planning and Research and Development in the President's Delivery Bureau, stressed that the discussions regarding FDYP II have, to date, remained high-level discussions and that there is still much work lying ahead. He indicated that the analysis will need to be refined and a plan produced, after which it will be up to the POPC to agree what targeted interventions should be initiated. Furthermore, he echoed the thoughts of Dr Nduma in highlighting the importance of understanding what impact the potential carry over of incomplete business from FYDP I will have going forward.

In his view, the industrialisation envisaged in FYDP II will need to be driven largely by the private sector. This will require creating conditions that inspire confidence within the private sector to come in and do what it needs to do. Central to this will be the need to improve the business environment in Tanzania and strengthen the working relationship between the public and private sectors.

Discussion

The floor was then opened to the workshop participants to express their views on shaping Tanzania's second FYDP. A thematic summary of the issues raised by the participants is presented in Table 3.

Table 3: Selected discussion points raised by workshop participants

THEME	INSTITUTION	COMMENTS
Role of the private sector	*Tanzania Chamber of Commerce, Industry and Agriculture*	This is the first consultation of its kind that has emphasised the role of the private sector. There is a need for the private sector to play a role in financing infrastructure development in Tanzania. This will require a very efficient private sector as well as government facilitation. Is the environment in Tanzania currently conducive to the private sector coming in? There is a need for the Government of Tanzania to move quickly to give the private sector enough confidence to participate.
Implementation of FYDP II	*Tanzania Chamber of Commerce, Industry and Agriculture*	The first year of FYDP II will focus on facilitation. Past experience in Tanzania suggests that the implementation of institutional and policy reforms typically takes several years. What will be done to ensure that these things happen quickly so that time is not lost for implementation?
The role of the natural gas sector	*Tanzania Chamber of Commerce, Industry and Agriculture*	It is important to distinguish between Tanzania's onshore and offshore gas reserves. There will be a long delay before any projects are ready for offshore gas.
Social policies and transformation	*SSRA*	Attention must be given to the social security sector. Labour is an important input into production and, hence, we must ensure that labour is well protected in Tanzania. The Workers' Compensation Fund will take care of most contingencies. There is, however, a mismatch between assets and liabilities in terms of the social security fund.
	ESRF	We must provide space for social policy in the economic transformation process. It is important to treat human development as both a means and an end to what Tanzania is aspiring to achieve.
Importance of consultation	*TPSF*	The private sector appreciates that fact that the FYDP II is being conceived through consultation. This is a clear positive in comparison to the previous FYDP.
National and regional policy context	*TPSF*	Nationally, there are many policies in place – or due to come in – on industrialisation (such as the Integrated Industrial Development Strategy). These all need to be taken into account in the FYDP II. In addition, at the EAC level, through the EAC industrialisation policies and legislation Tanzania has legal commitments to the EAC with respect to industrialisation. Hence, the plan should take into account the integration of industrial development at the EAC level.
Export markets	*TPSF*	Statistics on trade performance in the EAC suggest that Tanzania is well placed to export goods to the EAC market. This can play an important role in supporting industrialisation.
	DFID	To determine the viability of strategies calling for Tanzania to look East and steal manufacturing market share from Asian countries, it will be important to understand the market dynamics. In particular, it is necessary to understand how labour costs in Asia compare with those in East Africa.
The location of industries	*TPSF*	In order to support industrialisation, the plan must be clear on where in Tanzania there are comparative advantages to place industries. There are, for example, logistical advantages to manufacturing in Mwanza.

THEME	INSTITUTION	COMMENTS
Identification of priority sectors	*TPSF*	The iron and coal resources in Tanzania mean that the country should start planning for heavy industries. This should come out in FYDP II. In addition, further analysis should be undertaken and other factors should be taken into account to identify priority areas. For example, Tanzania is currently importing goods that should be produced locally (such as edible oils and textiles).
SDGs	*NBS*	It is good that the SDGs will be reflected in the FYDP II. The issue is that the 17 SDGs have already been endorsed. How is performance against these goals going to be measured?
Data	*NBS*	We are in the midst of a data revolution in which data is money. The importance of data should be mentioned in the monitoring component of the FYDP II. The NBS is currently working with the Ministry of Industry and Trade to conduct an analysis of industrial censuses. The data tables from this analysis will be out in November or December. ODI and REPOA could make use of the available information now before finalising the background research.
	SAGCOT	Data is the new currency. It will be important to determine how to utilise technology and information as a driver of changes desired at the industrial level in Tanzania.
Research and development (R&D); technology and innovation	*NBS*	We were expecting to see science and research identified as quick wins in the background research. The development of technologies and innovation should be reflected in the plan as quick wins.
	TIRDO	All industrialised countries have invested heavily in R&D. Initiatives to improve technological capacity and enhance innovation in FYDP I have had little impact. R&D institutions in Tanzania are still limping, even though this is the 4^{th} year of implementation of FYDP I. There is a need to emphasise science and technology in FYDP II.
	COSTECH	The FYDP II must emphasise the importance of innovation. The research papers need to look critically at existing technology transfer mechanisms in Tanzania. There is a need to look at the role of information and communications technology as an enabler of employment creation.
Transport corridors	*SAGCOT*	The success of the SAGCOT suggests that other corridors should follow. It would be useful now to start thinking about the second corridor. There is evidence of growing interest from the private sector to come in and invest, but there are also challenges to private sector participation. The main issue is trust between the public and private sectors. The element of honesty is missing from agreements and compacts between the government and the private sector, which erodes confidence. Nevertheless, this does not mean that there is a lack of willingness from the two parties to engage and effect changes.
Local production and competitiveness	*SAGCOT*	Tanzania is not an exporter of rice, but it could be one of the largest exporters of rice in the Great Lakes Region. The challenge is how to protect the industry from outside competition. We need to find a way to address this. Tanzania is only exporting 2.5% of the total amount of rice consumed in Kenya – the majority comes from Pakistan (due to an arrangement to sell tea to Pakistan in exchange for importing rice). Tanzania needs to negotiate more aggressively in the East African market. In another example, edible oil is the second most expensive commodity imported by Tanzania. We must find a way to encourage our own local production.
Youth bulge	*SAGCOT*	It is now important to start thinking about how to provide opportunities for the youth in Tanzania given the looming youth bulge in the population. In the context of industrial development, this means considering how to provide employment to youths given the industries that Tanzania is looking to develop.

THEME	INSTITUTION	COMMENTS
Small, medium and micro enterprises (SMMEs)	*SIDO*	Polices on industrial development in Tanzania must recognise the importance of SMEs. SMEs are critical to the Tanzanian economy – there are nearly 3 million SMMEs in the country and SMEs represent around 95% of all firms. This means that SMEs should play a key role in supporting the FYDP II. In this context, there is a need to look at a plan to develop local domestic industries first, as a platform to move out into regional and global markets. The key is to look at the efficacy of SME policy, which is carrying the majority of industry in Tanzania. It is also important to understand what we are defining as industry in the country.
Financing and investment for industry	*Ministry of East African Cooperation*	Financing is an important area of the five year plans. Industry should be financed by resources earmarked in the plan. The FYDP II must show where Tanzania needs to attract FDI and highlight opportunities for portfolio investment. How does Tanzania invite this investment? Is Tanzania inviting market seeking investment? The FYDP II must provide a plan on attracting efficient seeking investment as well as resource seeking investment. The key is to attract investment that will support economic opportunities for Tanzanians. Fiscal incentives to attract investment will be required. Opportunities for regional collaboration should also be explored.
Continuity across plans	*World Bank*	We congratulate the ODI and the POPC on their work. The second FYDP is building on the FYDP I, and we see continuity and natural progression moving from constraints to nurturing an industrial economy. In this sense there is a continuation, the FYDP II is reflecting the achievements of FYDP I.
Diversification	*World Bank*	There is good synergy between the World Bank's Country Economic Memorandum (2014) analysis for Tanzania and the SET analytical work. In terms of diversification, it would be useful to have the right balance – for example, going for product diversification but backing it up with resilience in the economy. Specifically, product diversification should come with asset diversification. This is the resilience that an economy can build.
Institutional framework	*World Bank*	Competition together with collaboration is key. Clustering and network development requires the private sector to operate in a healthy, competitive environment. External competitiveness starts from competition in domestic markets. The lack of trust in Tanzania is coming from the fact that basic market institutions are not in place.
Entrepreneurship	*World Bank*	There are vibrant micro-entrepreneurs in Tanzania, but they are not linked to the formal economy and investors. In contrast, in Asia small entrepreneurs are forming clusters that link to foreign investors.
Complementarity of targets	*World Bank*	There are some targets that can be complimented by others. For instance, given that economic complexity remains low, how can this be complemented by indicators such as competition and skills?
Lack of coordination	*TADB*	One problem in Tanzania is the multiplicity of laws and mandates of various authorities, which are sometimes contradictory. There is a need to establish a national mechanism for coordination and enforcement of overall government objectives and policies.
Inclusivity	*TADB*	If we want to see economic transformation in Tanzania, we cannot afford to leave out the majority of Tanzanians. We must ensure sustainability and availability of raw materials.
Skills development	*TADB*	The focus of skills development should not just be for industrial development but also for agriculture. The agriculture sector offers major opportunities for employment of the youth in Tanzania.

THEME	INSTITUTION	COMMENTS
	Ministry of Education and Vocational Training	Skills development should be taken into account in the plan (this was not well articulated in the presentation). A major problem is that graduates from training institutions in Tanzania cannot do what they are employed to do as they do not have the requisite skills.
Climate change	*TADB*	The FYDP II should incorporate issues related to climate change.
	DFID	Climate change is a key priority of the SDGs. There are possibilities for a low carbon growth path. Will this feature in the FYDP II?
Growth performance	*DFID*	The 7% growth rate achieved by Tanzania over the last 10 years is good. Is this the business as usual scenario or will it tail off?

CLOSING REMARKS

As the workshop drew to a close, Professor Wangwe stressed the significance of the consultation in shaping the FYDP II. He added that it was clear to see what was missed in the crafting of the first FYDP, where the consultation process was not as broad.

In summing up the discussions during the course of the workshop, he highlighted the following five clusters of emerging issues:

1. **The first FYDP –** there are clear lessons from the plan that must be taken on board in preparing the second five year plan.

2. **Policy –** the way policy is conducted is important; there is a need for both coherence and coordination if policies are to be effective and implemented successfully.

3. **Resources** – natural and human resources are extremely important in implementation. It is also important to consider the way that resources are conceptualised both for the public and private sectors. A wide range of resources need to be taken into account.

4. **Recognition of the regional and global context in which industrialisation is operating –** Tanzania has contributed to the industrialisation strategies for both the EAC and the Southern African Development Community. It is important to now consider how Tanzania is positioning itself in this context. The country does not industrialise in isolation, but in the regional and global contexts too.

5. **Implementation and monitoring of policies** – The BRN has a lot to teach us in terms of implementation and monitoring.

After Professor Wangwe's summation, Dr Mpango was given the task of providing the concluding remarks. He praised the commendable work completed by the ODI and REPOA as well as the important contribution of the workshop in providing a great deal of food for thought for the POPC as they look to chart a way to move the country forward in the next five years. He indicated that more work still needs to be done to deliberate Tanzania's strategic strengths. In this regard, he highlighted the need to capitalise on the huge investments that have been made in information and communications technology backbone infrastructure in Tanzania. He also stressed the importance of harnessing the youthful population and rapid urbanisation in Tanzania as resources for industrialisation.

Looking ahead, Dr Mpango questioned whether Tanzania can afford to leave the development of key industries to the mercy of market-driven strategies. In this context, he indicated that there is a need to consider areas for smart interventions by the state and to ensure that strategic industries are given the requisite support by the public sector.

Dr Mpango acknowledged that as the government arm of national strategic planning, the POPC is aware that a monopoly on good ideas is not desirable. The POPC's role is to marshal good ideas from outside the Commission and to organise them into a blueprint to move the country forward. In this regard, the POPC is committed to broadening and strengthening the participation of business and other stakeholders in shaping Tanzania's second FYDP. In his view, the forum provided by this workshop made a significant contribution towards achieving this goal.

In closing, Dr Mpango set out the timeline envisaged for the preparation and finalisation of the FYDP II. He indicated that any additional reactions to, and comments on, the phase 1 background research undertaken by the ODI and REPOA through the SET Programme (presented at this workshop) from participants should be received by 9 October 2015. This will enable the ODI and REPOA to finalise the phase 1 report and commence the research tasks related to phase 2 of the background research study (on resource mobilisation and financing for the implementation of the FYDP II) by the end of October 2015.

For its part, the POPC will table a draft Framework Paper for the FYDP II before the Government of Tanzania within two weeks of the workshop. Dr Mpango noted that, ordinarily, the POPC would be required to table a framework for the FYDP II before Parliament in November, but the task is complicated this year by the looming General Elections on 25 October 2015. Even so, he indicated that the Framework Paper should be in its final form by the end of October 2015. This will be followed by drafting and consultations on the FYDP II that will run until the end of March 2016. The approval process involving the Government of Tanzania and the Legislature will then take place from April to June 2016, at which point the POPC expects to conclude the plan.

ANNEX: WORKSHOP PROGRAMME

TIME	EVENT	RESPONSIBLE PERSON
08.30 - 09.00	Arrival, Registration and Tea/Coffee	*ALL*
09.00 - 09.25	**Session 1:** Introductions and background	
09.00 - 09.05	Welcome Remarks	*Dr Philip Mpango (ES-POPC)*
09.05 - 09.15	The state of industrialisation in Tanzania, past and present	*Professor Samuel Wangwe (ED-REPOA)*
09.15 - 09.25	Framework for FYDP II	*Paul Kessy (DES-POPC)*
09.25 - 09.45	**Session 2:** Priority areas for the FYDP II	*Dr Dirk Willem te Velde / Dr Maximiliano Mendez-Parra (SET)*
09.45 - 10.00	*Reactions*	*Professor Amon Mbelle*
10.00 - 10.20	Tea and coffee break	*ALL*
10.20 - 10.40	**Session 3:** Nurturing an industrial economy – constraints, policies and ways of working	*Dr Dirk Willem te Velde / Dr Maximiliano Mendez-Parra (SET)*
10.40 - 11.00	*Reactions*	*Dr John Mduma*
11.00 - 11.40	**Discussion** Session 2 and Session 3	*ALL*
11.40 - 12.00	**Session 4:** Bringing it together in FYDP II – targets and monitoring	*Dr Dirk Willem te Velde*
12.00 - 12.10	*Reactions*	*Mugisha Kamugisha (PDB)*
12.10 - 13.00	*Discussion*	*ALL*
13.00 - 13.15	**Closing remarks**	
13.00 - 13.10	Summing up	*Professor Samuel Wangwe (ED- REPOA)*
13.10 - 13.15	Concluding remarks	*Dr Philip Mpango (ES-POPC)*
13.15 +	LUNCH	*ALL*