

SET

**SUPPORTING
ECONOMIC
TRANSFORMATION**



SHAPING TANZANIA'S SECOND FIVE YEAR DEVELOPMENT PLAN (2016-2021) – PHASE 1

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INTRODUCTION

- **SET programme (ODI and REPOA) study for President's Office Planning Commission (POPC) to inform the preparation of FYDP II**
 - **Taking stock of Tanzania's industrialisation record and policies; identify sector priorities and actions for nurturing a semi-industrialised economy (phase 1)**
 - **Identification of clear measurable targets for the next five-year plan (phase 1)**
 - Identification of a resource mobilisation framework for successful implementation of FYDP II (phase 2); and
 - Undertaking a more in-depth look at the emerging natural gas sub-sector (phase 2)
- Wider context – economic transformation higher up the development agenda, e.g. links with SDGs:
 - double agricultural productivity by 2030 (2.3);
 - achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus of high-value added and labour-intensive sectors (8.2); and
 - promote inclusive and sustainable industrialisation and by 2030 raise industry's share of employment and gross domestic employment, in line with national circumstances, and double its share in least developed countries (9.2).

APPROACH

1 Data analysis

Question: how well is Tanzania performing, compared to other countries and where is it headed?

1. Baseline of industrialisation and economic transformation
2. Benchmark economic transformation and selected drivers in an international context
3. Data techniques to identify promising sectors for transformation

Output: Sections 2 - 5

2 Policy analysis

Question: what constrains and enhances ET in Tanzania?

1. Analysing specific and common ET constraints, within sectors and across.
2. Categorising and analysing policies (domestic, international) into selective and non-selective policies to address constraints to within and between sector productivity change

Output: Sections 6 and 7

3 Policy implementation

Question: what might Tanzania be doing next?

1. Analysis of the political economy (leadership, domestic capabilities, state-business relations) of policy options
2. Formulation of targets on ET, policies and implementation

Output: Sections 7 and 8



PRIORITY AREAS FOR THE FYDP II



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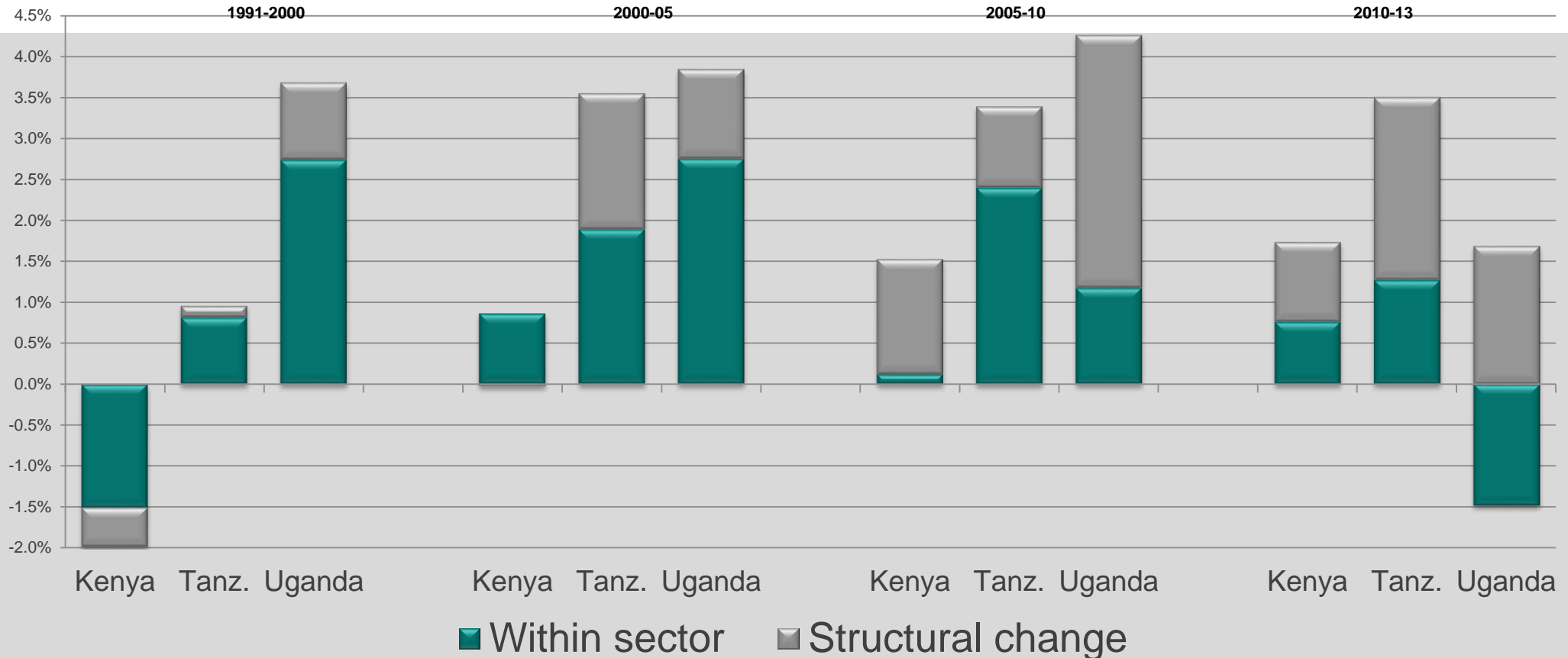
IDENTIFICATION OF PROMISING SECTORS

- Summary of economic transformation record so far
- Tanzania's strengths
- Analytical techniques to assess priority sectors
 1. Production based techniques
 - Multiplier analysis – which sectors yields greatest output/labour impact
 - Firm level productivity analysis – which sectors are productive
 2. Trade based analysis
 - Hausmann-Hidalgo Product Space
 - Revealed Comparative Advantage
 - Trade in value added
 - Analysis of world demand
 3. Others
- Bringing it together

TANZANIA'S TRANSFORMATION RECORD SO FAR

- Fast growth in Tanzania 6.6% annually over 2007-2013, but ... manufacturing share of GDP remained constant between 2007 and 2013, and was at 6.9% in 2013 (new data)
- Recent rebasing of GDP data suggests there is evidence of (faster) structural change than previously thought
- Share of agriculture in total employment fell from 76.5% in 2006 to 67.0% in 2014
- Manufacturing production doubled in real terms between 2005 and 2014
- Labour productivity grew by 3.0% annually over 2007-2013 (new data) and 3.5% over 2010-2013 (old data), more than twice as high as the growth in Kenya and Uganda.
- The contribution of structural change (moving between sectors – eg communications, construction, trade) to labour productivity change has increased in recent years (between 50% and 80% of the total)
- Agricultural productivity rose by 3.3% annually over 2007-2013, and manufacturing by 1.0% annually
- Between 2005 and 2013, total FDI increased from \$935.5 million to \$1.87 billion
- The value of manufacturing exports during the first half of the year grew from \$90 million in 2005 to \$741 million in 2015.
- Tanzania ranked only 122 of 180 on the Hausmann Economic Complexity Index (ECI) in 2012, it was amongst the top 10 countries with the largest increases over 2000-2012.

DECOMPOSITION OF LABOUR PRODUCTIVITY CHANGE, TANZANIA, KENYA AND UGANDA



TANZANIA'S STRENGTHS

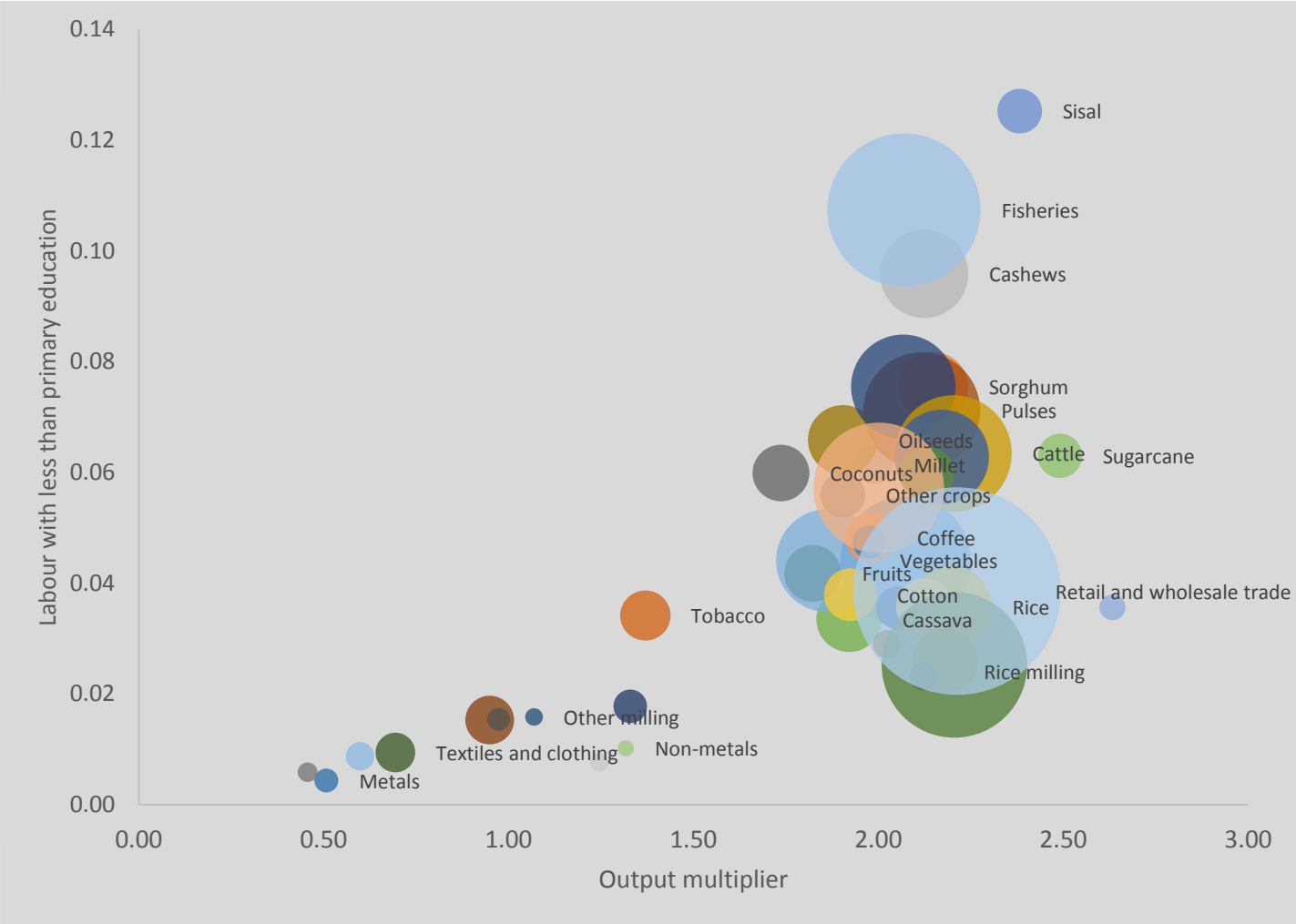
- Geographically strategic location
 - Major gateway for Burundi and Rwanda
 - Potential to provide transport links to regions/landlocked countries: Eastern Congo, Uganda, Malawi, Zambia.
 - Indian Ocean presents important links with dynamic regions in the Middle east, South and Southeast Asia.
- Access to (regional) markets
 - Member of regional initiatives and trading blocs
- Ample natural resources
 - Abundant land, water, wildlife, fossil fuels and mineral resources.
- Foreign Direct Investment
 - Rapid increase in inward FDI in the mining industry.
 - Investment incentives (double taxation agreements, special economic zones, etc.)

USING INPUT/OUTPUT ANALYSIS IN TANZANIA

WHICH SECTORS HAVE GREATEST MULTIPLIER EFFECTS ON..

	Value of exports	Output	Tertiary education	Second. education	Primary education	Less than primary education
Transport/storage	2,434,240	1.51	0.11	0.29	0.07	0.01
Hotels / catering	380,049	2.36	0.08	0.33	0.16	0.03
Fisheries	355,996	2.07	0.04	0.16	0.48	0.11
Ot food processing	204,364	0.95	0.03	0.09	0.08	0.02
Cashews	185,982	2.12	0.04	0.16	0.46	0.1
Tobacco	177,354	1.37	0.03	0.12	0.22	0.03
Textiles /clothing	120,714	0.69	0.03	0.13	0.05	0.01
Pulses	100,618	2.12	0.04	0.15	0.38	0.07
Other crops	39,425	1.9	0.04	0.14	0.28	0.06
Other cereals	30,892	0.22	0	0.02	0.03	0
Vegetables	30,011	1.86	0.03	0.14	0.33	0.04
Other livestock	28,169	2.13	0.04	0.16	0.31	0.06
Wood products	24,627	0.6	0.02	0.11	0.02	0.01
Beverages	18,059	1.33	0.05	0.14	0.08	0.02
Cattle	3,253	2.2	0.04	0.17	0.33	0.06
Maize milling	3,139	2.63	0.04	0.21	0.2	0.04
Fruits	2,537	1.82	0.03	0.14	0.31	0.04
Meat, fish / dairy	789	2.12	0.08	0.44	0.22	0.04
Sorghum	777	2.15	0.05	0.19	0.21	0.08
Millet	593	1.99	0.04	0.17	0.18	0.06
Other root crops	338	2.05	0.04	0.15	0.31	0.04
Rice	214	2.2	0.04	0.16	0.3	0.04
Poultry	93	2.17	0.04	0.17	0.33	0.06

EFFECT ON OUTPUT AND LABOUR DEMAND OF ONE UNIT INCREASE IN DEMAND IN EACH SECTOR IN TANZANIA



PRODUCTIVITY ANALYSIS: DIFFERENTIAL (%) FROM AVERAGE TOTAL FACTOR PRODUCTIVITY BY SECTOR.

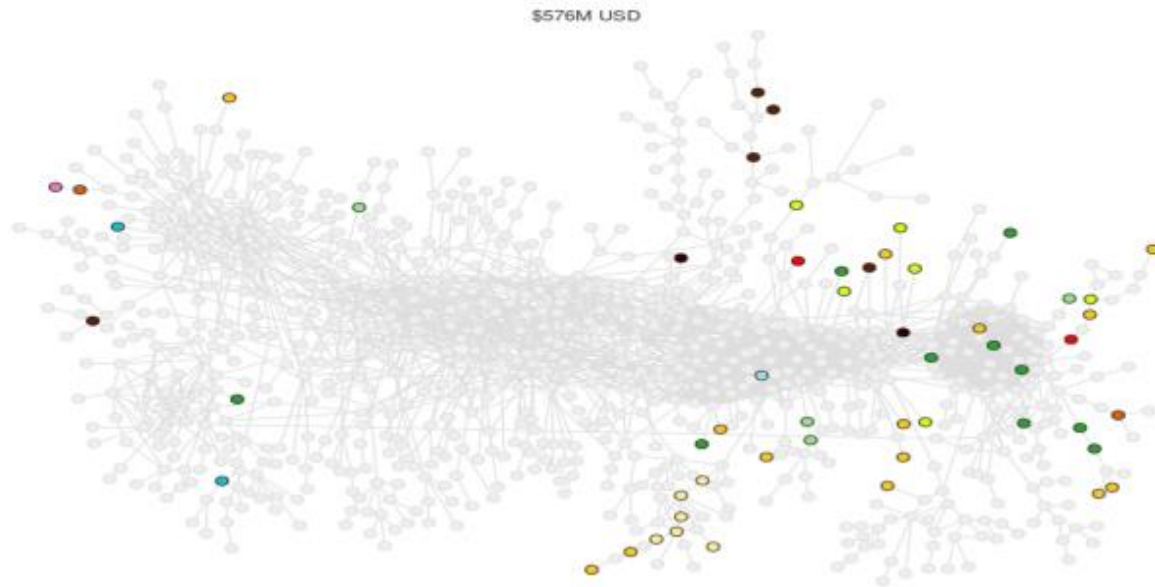
	No export	Export	Domestic owner	Foreign owner	Total
Textiles	-15.7	10.2	-2.7		-2.7
Garments	-10.2		-11.5	7.0	-10.2
Food	1.4	17.9	5.8	21.3	6.8
Metals an	-4.2	17.0	-4.2	17.0	-2.8
Electronics	0.2	18.5	0.2	18.5	4.7
Chemicals	11.2	12.8	10.2	20.1	12.1
Wood and furniture	-10.0	5.3	-9.1	-0.8	-8.8
Non-metal mineral products	-0.2	10.1	5.3		5.3
Auto and auto components	9.0		9.0		9.0
Other manufactures		15.6	15.6		15.6
Hotels and catering	3.5		3.5		3.5
Other services	-2.6	12.4	1.2		1.2
Total	-4.0	13.4	-0.8	14.9	0.0

REVEALED COMPARATIVE ADVANTAGE

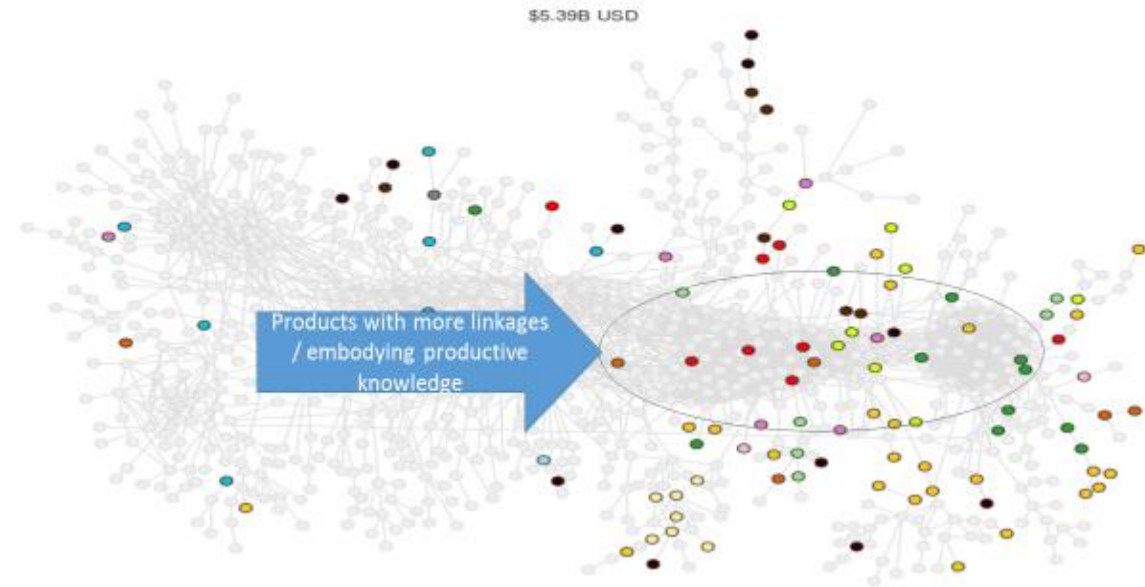
HS Sect.	Product label	2005	2006	2007	2008	2009	2010	2011	2012	2013
1	Live animals; animal products	5.27	6.65	4.89	2.71	2.24	1.92	1.55	1.19	1.46
2	Vegetable products	8.15	7.61	8.94	6.37	6.26	5.99	5.12	6.48	6.80
3	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	0.95	1.40	1.94	2.60	0.92	2.26	1.62	1.37	1.25
4	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	3.80	2.95	2.75	3.02	1.62	1.75	1.31	2.03	2.25
5	Mineral products	0.50	0.68	0.86	0.79	1.25	1.39	1.24	0.94	0.66
6	Products of the chemical or allied industries	0.12	0.33	0.23	0.32	0.25	0.28	0.24	0.25	0.19
7	Plastics and articles thereof; rubber and articles thereof	0.13	0.16	0.49	0.31	0.22	0.49	0.34	0.20	0.27
8	Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silk-worm gut)	0.85	1.21	1.95	1.12	0.75	0.79	0.69	0.50	0.59
9	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	0.76	0.73	1.37	1.11	1.47	1.65	0.73	0.70	0.94
10	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	0.11	0.26	0.33	0.56	0.45	0.96	0.45	0.39	0.69
11	Textiles and textile articles	1.98	1.46	1.45	2.07	1.91	1.32	1.02	1.36	1.28
12	Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	0.12	0.32	0.27	0.20	0.22	0.16	0.06	0.07	0.08
13	Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	0.55	0.40	0.37	0.30	0.31	0.40	0.58	1.50	0.78
14	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin thereof; imitation jewellery; coin	21.20	19.75	15.64	13.29	11.89	9.71	11.96	10.90	13.31
15	Base metals and articles of base metal	0.24	0.17	0.19	0.42	0.20	0.69	0.25	0.24	0.29
16	Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	0.01	0.03	0.07	0.23	0.18	0.11	0.14	0.15	0.14
17	Vehicles, aircraft, vessels and associated transport equipment	0.01	0.05	0.01	0.10	0.07	0.05	0.08	0.13	0.22
18	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	0.01	0.00	0.02	0.05	0.07	0.07	0.12	0.24	0.11
19	Arms and ammunition; parts and accessories thereof	0.01	0.00	0.03	0.01	0.32	0.03	0.00	0.12	1.04
20	Miscellaneous manufactured articles	0.03	0.06	0.09	0.55	0.06	0.41	0.17	0.12	0.11
21	Works of art, collectors' pieces and antiques	0.09	0.26	0.27	0.20	0.05	0.06	0.09	0.05	0.07

TANZANIA PRODUCT SPACE MAP HAS INCREASED IN COMPLEXITY FROM 1995 - 2013

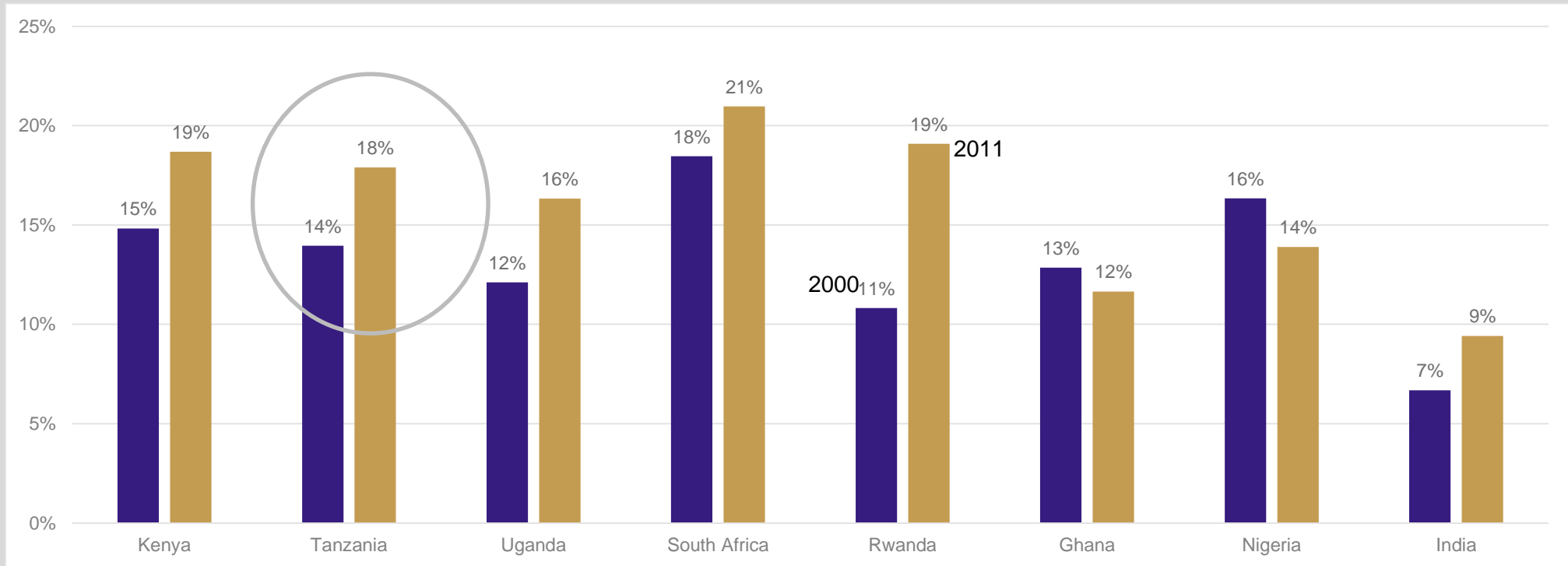
Tanzania – Hausmann product space (1995)



Tanzania – Hausmann product space (2013)



SERVICES INCREASING % OF VALUE ADDITION IN EXPORTS (FROM 2000 TO 2011)



Source: SET data analysis using EORA input-output database

COMPARING TANZANIA'S EXPORTS WITH WORLD DEMAND

- World (or regional) demand is a key element in the identification of the products to prioritise.
- Evolution of demand and export capacity define 4 scenarios:
 1. Products where both comparative advantage (CA) and world demand are growing.
 2. Products where CA is positive/growing but world demand is falling.
 - Possibility of acquiring market power.
 - But they might be products that ceased to be in demand (I.e. floppy disks...)
 3. Products where CA is falling but world demand is rising.
 - This might be good if it is as a result of the specialisation process. (e.g. stop producing inefficient products)
 4. Products where both CA and world demand is falling
 - Good as it means that specialisation is moving away of products where demand is weak.

WORLD DEMAND AND SPECIALISATION PATTERN

	World demand strong	World demand weak
Comparative advantage up	080131 Cashew nuts, in shell ©	530310 Jute & other textile bast fibres, raw/retted
	710813 Gold (incl. gold plated with platinum), non-moneta...(C)	843143 Parts suit. for use solely/principally with the
	080119 Cocunuts, other than desiccated ©	060210 Unrooted cuttings & slips
	230630 Oil-cake & other solid residues, whether/not groun...(C)	870590 Special purp. motor vehicles, other than those
	710310 Precious stones (excl. diamonds) & semi-precious s...(C)	691090 Ceramic sinks, wash basins, wash basin pedest
	120740 Sesamum seeds, whether/not broken©	900220 Filters (i.e., optical elements), of any material,...
	120799 Oil seeds & oleaginous fruits (excl. of 1206.00 & ...(C)	860900 Containers (incl. containters for the transport..
	180100 Cocoa beans, whole/broken, raw/roasted©	842919 Self-propelled bulldozers & angledozerscl. tra...
	100890 Cereals (excl. those which have been hulled/othw. ...(C)	842959 Self-propelled mechanical shovels, excavators.
	080132 Cashew nuts, shelled ©	844339 Other printers, copying machines & facsimihi...
Comparative advantage down	220300 Beer made from malt	440729 Wood sawn/chipped lengthwise, sliced/peeled, wheth..
	151219 Sunflower seed/safflower oil, other than crude, & ...	852910 Aerials & aerial reflectors of all kinds suit. for...
	410411 Tanned/crust hides & skins of bovine (incl. buffal...	852990 Other parts suitable for use solely/principally wi...
	060499 Foliage, branches & other parts of plants, without...	610910 T-shirts, singlets & other vests, knitted/crochete...
	392310 Boxes, cases, crates & similar articles, of plasti...	843149 Parts suit. for use solely/principally with the ma...
	720690 Iron & non-alloy steel in primary forms other than...	100110 Durum wheat
	392390 Articles for the conveyance/packing of goods, of p...	940330 Wooden furniture of a kind used in offices
	640220 Footwear with outer soles & uppers of rubber/plast...	721499 Bars & rods of iron/non-alloy steel (excl. of 72.1...
	151321 Palm kernel/babassu oil, crude	721633 Angles, shapes & sections of iron/non-alloy steel,...
	151620 Vegetable fats & oils & fractions thereof , partly...	850433 Electrical transformers (excl. dielectric) having ...

CONSULTATIONS WITH PRIVATE SECTOR: PROMISING SECTORS

- Import Substitution Industrialisation (ISI) is still very relevant in the context of Tanzania economy. This is particularly very relevant for major commodities, such as sugar, rice, cereals, edible oil, basic metal and steel products, and textiles. These will accelerate transformation, and avoid premature structural change as the increasing share of service sector seems to imply.
- It is very important to consider the employment intensity of industries given the structure of the labour force, and intensive use of local raw materials. This includes pulp and paper, cashew processing, leather industries, textiles, and mineral beneficiation.
- There must be deliberate efforts to develop indigenous private sector as a necessary step pro-poor industrialisation path and include social economic transformation.

SELECTING PROMISING SECTORS: SINGLE OBJECTIVE

Criteria for inclusion of sector	Techniques used	Identified sectors	Source
Resource endowments (geography and availability of natural resources)	Qualitative	Agriculture and agro-processing (sugar cane, rice, livestock, horticulture, fruit and nut processing), tourism, natural gas, mineral and metal based industries, energy, transport	SET analysis in Section 5
(Low-skilled) employment potential	Input-output models/ employment multiplier	Agricultural products such as cashews, pulses, sorghum, sisal and fish	SET analysis in Appendix
Domestic value-added contribution to exports	Eora database calculations	Telecommunications, chemical and mineral products, electrical machinery, wood and paper, metal products, hotels and restaurants	SET analysis in Appendix
Past export specialisation (revealed comparative advantage, RCA)	Compute RCA, broad product categories	Precious stones, vegetable products, prepared foodstuffs, live animals, textiles	SET analysis in Appendix
	Compute RCA for specific product categories	Mineral goods, brazil nuts, oil seeds, leather products, furniture paper, cement, fish, tobacco and coffee	World Bank Country Economic Memorandum (CEM) 2014
Concentration in manufacturing production (share and compared with other countries)	Manufacturing production shares	Food and beverages, furniture, rubber and plastic and non-metallic mineral products	SET analysis in Section 4
Relative firm-level productivity (compared with other sectors and other countries)	Calculate total factor productivity using World Bank Enterprise Survey	Plastics, chemicals and food in Tanzania have , on average, higher productivity, compared to other sectors and countries	SET analysis in Appendix
Products in which world demand is growing and Tanzania is specialising	Trade data analysis	Cashew nuts, gold, coconuts, oil cake residues, precious stones, sesamum seeds, oil seeds, cocoa beans, cereal	SET analysis in Appendix
Products in which world demand is growing and Tanzania is decreasing its specialisation	Trade data analysis	Sunflower seed, beer hides and skins, boxes, footwear, palm kernel, vegetable fats and oils	SET analysis in Appendix

SELECTING PROMISING SECTORS: MIXED OBJECTIVES

Criteria for inclusion of sector	Techniques used	Identified sectors	Source
Market size, value chain length, availability of resources and comparative advantage	Qualitative	Fertiliser, textiles, edible oils, cashew nuts, fruits, dairy, leather products, light machinery, iron and steel, tourism	Tanzania Integrated Industrial Development Strategy (2011)
Strategic bets combining product complexity, distance (how far is certain product from current revealed capabilities?) and opportunity gain (how strategic is that product in terms of its proximity/connectedness to other complex products?)	Hausmann-Hidalgo product space analysis	Machinery and transport equipment (e.g. specialist industrial machinery), chemicals and related products (e.g. organo sulphur compounds), manufactured goods classified chiefly by material (e.g. glass sheets), miscellaneous manufactured articles (e.g. microscopes)	SET analysis in Appendix
Products Tanzania does not export but that are 'close' to the one it is already exporting	Hausmann-Hidalgo product space analysis	Agriculture: rice, nuts, vegetables (cucumbers and lettuce), agri-business: preserved fruits and processed meat, manufacturing: sheepskins, rubber tires, wool, silk, paper and pulp products, hand-woven tapestries	World Bank CEM (2014)
Employment potential, growth capacity and capacity to produce	RCA, Hausmann-Hidalgo	High-value vegetables and fruits, processed grains and wheat, processed meat, wood products, paper products, leather processing, tourism	World Bank CEM (2014)
Growth potential; shifting from low- to high-productivity sectors; employment creation	RCA, Hausmann-Hidalgo and Justin Lin's Growth Identification Framework	Tourism, wood, leather, agro-processing	Dinh and Monga (2013)
Natural resource and ability to boost labour intensive industrialisation path.	Qualitative	Natural gas, iron and steel, agro-processing, minerals	UNIDO (2012)
Stakeholder views			
Employment intensity of industries given structure of the labour force and intensive use of local raw materials	Private sector stakeholder analysis	Pulp and paper, cashew processing, leather industries, textiles, mineral beneficiation	SET stakeholder workshop

BRINGING IT TOGETHER INTO A THREE PRONGED APPROACH

- Activities that use Tanzania's natural resources: traditional activities such as sisal, fish and gold; and promising activities such as natural gas, vegetables and uranium. Some sectors generate significant jobs, others export revenues;
- Activities that increase value added through agro-processing and manufacturing, such as processing of cashew, leather, fruit and nuts and the production of wood and paper products, with machinery and chemicals as strategic bets. Some of these help increase Tanzania's value-addition; others help raise its productivity and productive capacity;
- Fast-growing services sector activities such as tourism and trade, with tourism creating foreign exchange and jobs and trade supporting other industries.



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



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CONSTRAINTS TO SECTORAL GROWTH

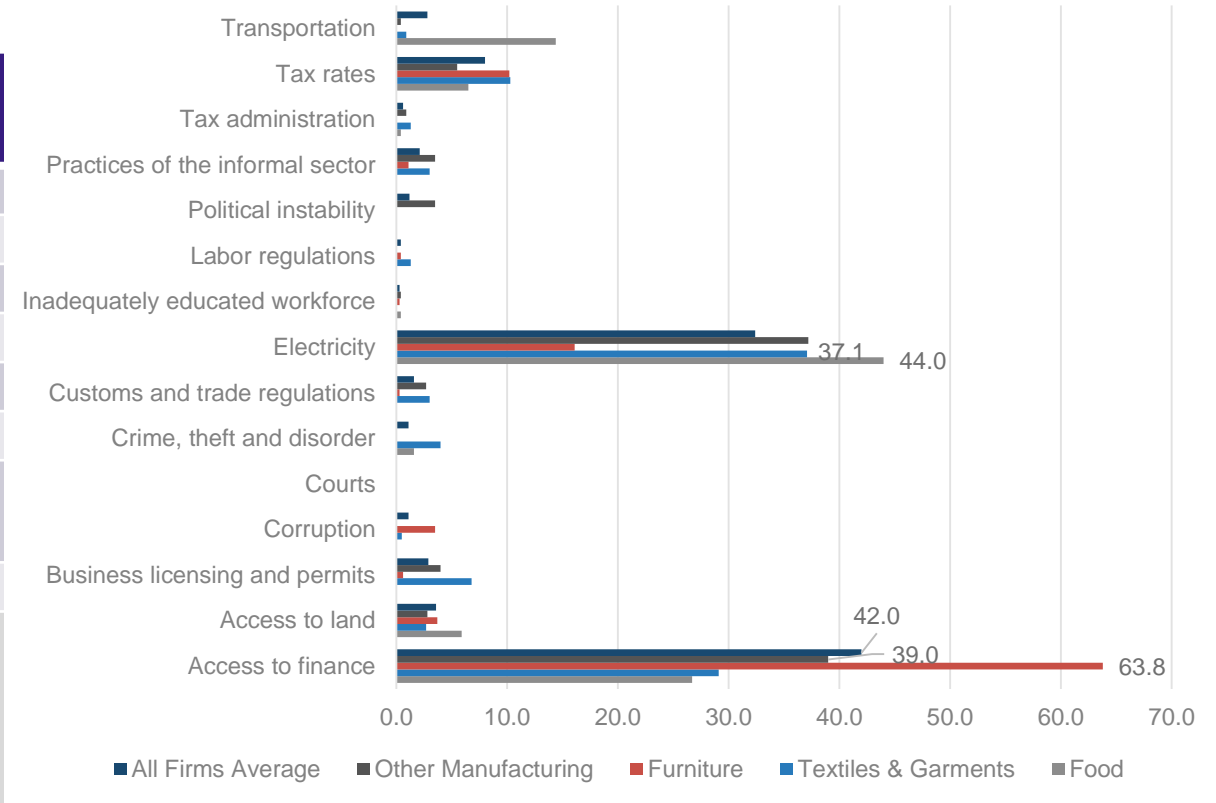
- Our analysis is based on:
 - document and data review and analysis
 - qualitative interviews with stakeholders
- Constraints to sector growth can be divided into:
 - Those affecting the economic fundamentals (skills, infrastructure, finance and technologies)
 - Those resulting from the action of policies and institutions (including trade policy and regional integration)

BROAD ECONOMIC CONSTRAINTS (COMMONALITIES)

	Infrastructure	Skills	Finance	Tariffs and taxes	Land policy	Energy policy	Corruption	Coordination
Dinh and Monga (2014)	Yes	Yes		Yes	Yes	Yes		
UNIDO (2012)	Yes	Yes						Yes
World Bank Enterprise Survey (2013)	Yes		Yes					
Global Competitiveness Index (2014-15)	Yes	Yes	Yes	Yes			Yes	Yes
Sutton and Olomi (2012), Enterprise Map	Yes	Yes	Yes	Yes	Yes			
Stakeholder consultations	Yes	Yes		Yes	Yes			Yes

CONSTRAINTS IN MANUFACTURING

Sector	Firm Size	Input Industries	Land	Finance	Business Skills	Worker Skills	Trade Logistics
Textiles	Small	Critical	Important	Important	Important		
	Large	Important			Important	Critical	Important
Leather	Small	Critical	Important	Important	Important		
	Large	Critical	Important	Important	Important		Important
Wood	Small	Important	Important			Critical	
	Large	Important	Important			Critical	Important
Agroprocessing	Small	Critical	Critical	Important			
	Large	Critical	Critical	Important			



- Dinh and Monga, 2014

CONSULTATIONS WITH PRIVATE SECTOR: CONSTRAINTS TO INDUSTRIALISATION

- The current levels of availability, reliability and cost of energy and transport infrastructure cannot support rapid industrialisation
- The current private sector is perceived to be largely foreign controlled
- Lack of innovation and access to information
- Lack of skills
- Lack of policy coherence and predictability which is a serious impediments to capital formation and industrialisation
- Many uncoordinated policies, legislations, and taxes hinder competitiveness
- Land for industrial projects is limited and extremely expensive

POLICIES FOR SECTORAL GROWTH

- Some aim for structural change, others for within-sector productivity change
- Some build fundamentals across sector, other are more targeted at specific sectors

TYOLOGY OF PUBLIC ACTIONS TO PROMOTE ECONOMIC TRANSFORMATION

	Improving fundamentals (cross-sectoral)	Targeted interventions (sector-specific)
Public actions to support structural change	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • (Regional) export push policies • Coordinated and coherent industrial policy • Industrial parks and 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Value chain development and transport corridors (e.g. long-term finance to facilitate entry of 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

CONSULTATIONS WITH PRIVATE SECTOR ON POLICIES

- Heavy investment in energy and transport infrastructure
- Technology transfer and innovation (including access to information)
- Integrated skills development and human resource strategy
- Policy coherence and predictability
- Fiscal and regulatory burden must be addressed
- Modernisation of agriculture ISI is still very relevant in the context of Tanzania economy, especially related to major commodities, such as sugar, rice, cereals, edible oil, basic metal and steel products, and textiles.
- The provision of state capital may still be necessary, as the real industrial projects financing is still very thin, relying mainly on commercial banks.
- There must be deliberate efforts to develop indigenous private sector as a necessary step pro-poor industrialisation path and include social economic transformation.
- The role of the state, in addition to financing key industries must include active planning, coordination and public investments for industrial development (active industrial policy)

POLICY SUGGESTIONS

- Focus on industrialisation to foster economic transformation.
- Implement seriously a number of Public-Private Partnerships for investment in energy, transportations and water. Promote large transport corridors (starting with the port) whilst also supporting SMEs along the corridor. There needs to be a sufficient scale (e.g. energy) to industrialise the economy. The road infrastructure is of poor quality.
- A renewed emphasis on kickstarting reforms in Tanzania's business environment, e.g. 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, coffee.
- Improve trade policy, e.g. 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 e.g. for 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

POLICY PREPAREDNESS

- Industrial policy has an important role in theory in addressing market and co-ordination failures
- But certain types of industrial policy to avoid,
 - those that pick and choose particular firms rather create the broad conditions for winners in a sector or larger part of the economy
 - those that are not time bound and do not require improved performance,
 - those that heavily distort private investment incentives,
 - those that are not implemented consistently over time.
- Targeting activities only works if this is governed by effective state-business relations that involve adequate capacity in both public and private sectors, transparent and reciprocal relationships and absence of collusive behaviour.

RODRIK'S 10 POINT LIST FOR EFFECTIVE INDUSTRIAL POLICY

- Incentives should be provided only to 'new' activities
- There should be clear benchmarks/criteria for success and failure
- There must be a built-in sunset clause
- Public support must target activities, not sectors
- Activities that are subsidised must have the clear potential of providing spill-overs and demonstration effects
- The authority for carrying out industrial policies must be vested in agencies with demonstrated competence
- Implementing agencies must be monitored closely by a principal with a clear stake in the outcomes and who has political authority at the highest level
- The agencies carrying out promotion must maintain channels of communication with the private sector
- Optimally, mistakes that result in 'picking the losers' will occur
- Promotion activities need to have the capacity to renew themselves so that the cycle of discovery becomes an on-going one.

POLICY PREPAREDNESS IN TANZANIA

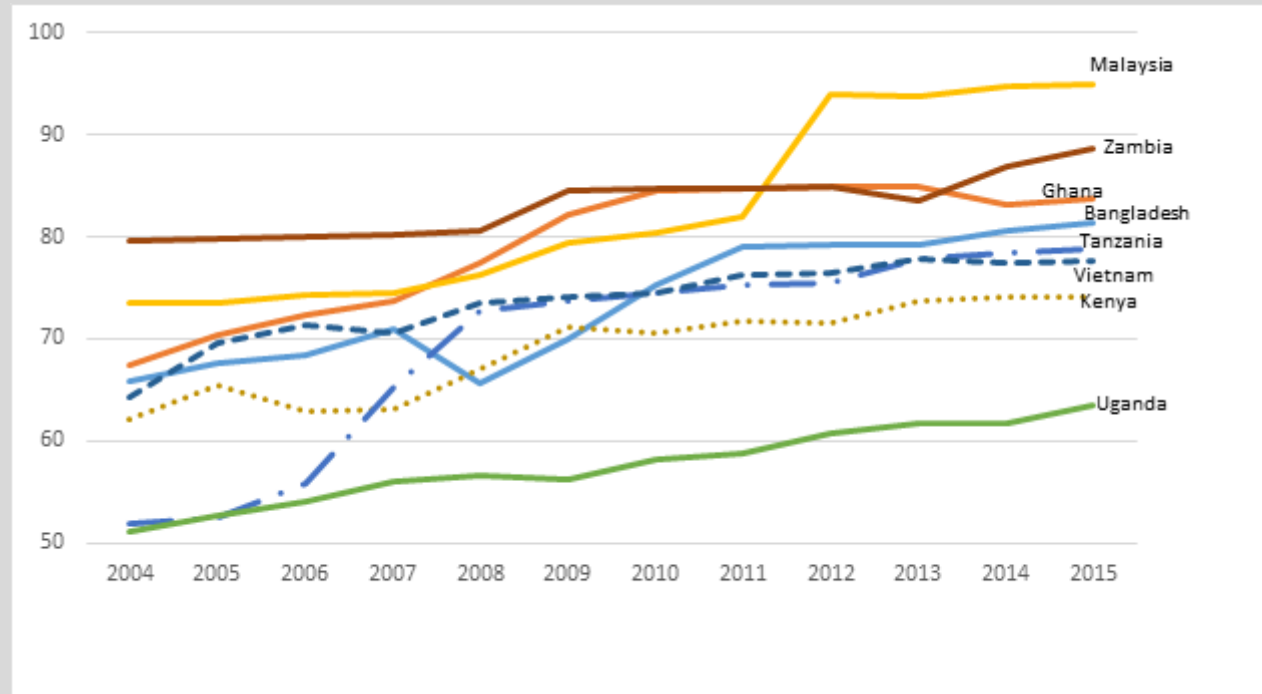
- **Trust** among stakeholders. There is distrust and lack of reciprocity between public and private sectors in Tanzania. Necessary to institutionalise effective state-business relationships.
- **Leadership** is crucial. It is crucial that the new President leads from the start and maps a clear path forward.
- Inter-agency / ministerial **co-ordination** within government. The new FYDP need to be implemented with coherence. The POPC needs to be in charge in co-ordinating planning but other ministers also have a stake (esp of course in relation to implementation).
- Policy **consistency**. Rules need to be transparent and stable to attract the necessary investments to boost economic transformation.

**“It is important for GoT to lead,
but also to co-ordinate, build
capacities and consider
appropriate ways of working
including identifying appropriate
roles for state and business”**

COLLABORATIVE DEMONSTRATION PROJECTS FOR TRANSFORMATIVE IMPACTS

- 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 agri-processing;
- Promoting appropriate skill levels in target sectors; and
- Stepping-up efforts to reform the business climate.

STARTING A BUSINESS (RANKING, BEST PERFORMER =100), SLOWDOWN IN IMPROVEMENTS IN TANZANIA



WORLD RANKINGS ON TRANSPORT INFRASTRUCTURE (2015)

	Quality of infrastructure		
	Railway	Road	Port
Bangladesh	75	117	93
Ghana	66	79	92
Kenya	71	59	61
Malaysia	12	19	19
Tanzania	88	112	106
Uganda	101	105	118
Vietnam	52	104	88
Zambia	87	86	124



BRINGING IT TOGETHER IN FYDP II – TARGETS AND MONITORING



Dr Dirk Williem te Velde – Director SET, ODI

23 / 6 / 2015

TARGETS AND MONITORING

- Looking back at targets of past FYDP
- The right type of targets
 - Aspects of industrialisation and economic transformation
 - Policies that remove constraints to further economic transformation
 - Ways of working and institutional development
 - (Resource mobilisation strategy in phase 2)
- Monitoring

FYDP I (2011/12-2015/16): TARGETS AND PROGRESS, ILLUSTRATIVE EXAMPLES

Target area in FYDP I	Target in FYDP I (2011/12-2015/16)	Experience since 2011	Was target too optimistic, approximately right or pessimistic?
Average annual GDP growth	8%	7.2% over 2011-2013	Too optimistic
Global rank of Tanzania in World Bank Doing Business survey	Decreasing below 100	131 in 2015 and 130 in 2014	Too optimistic
Manufacturing sector GDP contribution	Increasing to 12.9% by 2015/16	Constant at 7% over 2007-2013 (rebased data) 9% old data	Too optimistic
Total manufacturing employment	Growing from 120,000 people presently to over 221,000 people by 2015/16	615,323 in 2014 (ILFS)	Too pessimistic (but depends on definition)
Tertiary enrolment rate	Increased from 1.5% to 4%	4% in 2012	Approximately right
Manufacturing share in total country's export	Accounting for 19.1% by 2015/16	25.1% in 2013	Not ambitious (but depends on definition of manufactures)
Mineral sector in GDP	3.7%	4.3% in 2013	Approximately right
Fisheries in GDP	5% in 2015/16	2.4% in 2013	Too optimistic
Increase share of Tanzania in world trade	From current 0.022% to 0.1% by 2015/16	0.016% in 2014	Too optimistic
Increase contribution of trade to GDP	From current 16% to 20% by 2015/16	19% (exports/GDP) in 2014	Approximately right

POSSIBLE TARGETS OF ECONOMIC TRANSFORMATION, 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

TARGETS FOR POLICIES THAT REMOVE CONSTRAINTS

- **Human capital development:** skills development to increase the percentage of skilled labour within a sector or sub-sector (dependent on the sector and sub-sector).
- **Infrastructure.** This could include electrification of energy, paving of roads and development of the port. It makes sense to approach this using a corridor approach, where infrastructure, finance and regulation could be combined for value chain development. It could also help to foster clusters formed around secondary cities.
- **Finance:** instruments for better access to finance. These could include access to concessional and less concessional finance (given that Tanzania is likely to graduate in coming years), domestic resources and private sector credit.
- **Doing business indicators:** a desired target rank (or change in ranking) on the Doing Business indicators or rankings in relation to other countries, although it may be better to have a target for individual indicators. For example, given Tanzania's identified binding constraints on transportation, the following indicators could be best targeted:
 - Time to export: potential feasible target between 12 and 15 days;
 - Cost to export: reduce cost from \$1,009 to \$600-800 in line with more competitive comparator countries;
 - Documents to export: reduce required documents from 11 to eight in line with more competitive comparator countries.
- **Industrial policy.** This could include clustering and building SEZs (around certain products and regions). There could be a target on the percentage of planned SEZs in operation by 2021, for example 80%.

TARGETS FOR APPROPRIATE WAYS OF WORKING AND INSTITUTIONAL SETTINGS

- **Leadership:** emphasis on the overall development vision and the next FYDP.
- Effective **state–business relations:** there should be targets on type of consultations with private sector representation and the use of public–private dialogue to build trust. This includes involving SME and informal business in discussion as well as a more transparent interaction with large business.
- **Administrative and coordinating capacity** in relevant ministries: it is necessary to ensure there is a strong unit in the presidency, with a sufficient level of staffing, to cohere policies and discipline other ministries.
- There could a target on **collaborative projects**, for example on PPPs in infrastructure or SEZs, which could demonstrate that Tanzania is serious about and open to modern ways of implementing the five-year plan. Collaborative projects could initially focus on the previously identified policy priorities and sectors that are aiming to have a real transformative impact:
 - Attracting FDI to build human and technological capabilities to produce high quality manufacturing products Developing all the elements of transport corridors for agriculture and agri-processing;
 - Promoting appropriate skill levels in target sectors; and
 - Stepping-up efforts to reform the business climate.

SET SUPPORTING ECONOMIC TRANSFORMATION

The Supporting Economic Transformation (SET) is an ODI programme funded by UK DFID to support countries in their quest for economic transformation through data and policy analysis and co-creating. The views expressed are those of the researchers and do not necessarily represent the views of ODI or DFID.

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