SUPPORTING ECONOMIC TRANSFORMATION

PRIVATE SECTOR CONSULTATIVE WORKSHOP ON EFFECTIVE IMPLEMENTATION OF TANZANIA'S SECOND FIVE-YEAR DEVELOPMENT PLAN

Report on a workshop held in Dar es Salaam on 27 October 2016

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BOX 1: ILLUSTRATIVE MESSAGES FROM THE PRIVATE SECTOR FOR THE IMPLEMENTATION OF THE SECOND FIVE YEAR DEVELOPMENT PLAN[1]

A National Industrialisation Delivery Board should be established under the President to oversee the implementation strategy; and each government ministry should have an industrialisation delivery committee. *[Louis Accaro, TPSF]*

Capitalising on opportunities for private sector engagement with the FYDP II will rely heavily on building a framework of trust between the GoT and the private sector. The private sector is being asked to participate in a new way of doing things – we do see a willingness from the government to engage the private sector. But there is still a danger that the private sector involvement is not meaningful.
[Santina Benson, CEO Roundtable]

Focus on the way forward in terms of improving public-private dialogue, especially around issues related to the business environment, taxation and regulation. The government must share details on what it is doing with the private sector and, in turn, the private sector needs to provide feedback.
[Group breakout discussions]

Implementation of the FYDP II should begin with improving the business environment, focusing on improving the power supply, eliminating corruption, improving transport infrastructure and developing skills. *[Louis Accaro, TPSF]*

Provide a conducive tax environment to support industrialisation. *[Group breakout discussions]*

Provide the rights skills to support industrialisation; review education curricula to develop more practical and vocational skills. *[Group breakout discussions]*

Power generation should be a key focus area for private sector participation in the FYDP II. Energy is key to Tanzania's industrialisation and solar energy is a potential game changer for the country.
[Santina Benson, CEO Roundtable]

Agriculture is not current positioned in the FYDP II as a way to deliver full support to industrialisation. Transformation of agriculture is key to ensuring the sector benefits industrialisation.
[Group breakout discussions]

Tanzania should look to establish industrial parks and promote clustering of related industries in order to fast-track industrialisation. *[Louis Accaro, TPSF]*

Gaps in financing present a major challenge to implementation. This is reflected in a lack of access to medium and long term financing, which hinders long term investment, as well as high interest rates from commercial banks and micro-finance institutions. The financing challenges are exacerbated by a lack of sufficiently capitalised development banks in Tanzania to stimulate sector developments in implementing the FYDP II. *[Louis Accaro, TPSF]*

Development partners should support the private sector and private sector organisations (e.g. through helping to build capacity within private sector organisations to better perform their functions and raise finance); while coordinating their activities better in order to avoid implementing projects in isolation. *[Mshiu Octavia, TCCIA]*

Is the private sector becoming a tool or pillar to drive successful industrialisation? The private sector should feel part of planning rather than invitees to participatory processes. *[John Ulanga, TMEA]*

[1] Note that the comments and perspectives listed are paraphrased and do not constitute direct quotes from workshop participants.

INTRODUCTION AND BACKGROUND

In June 2016, the Government of Tanzania (GoT) launched the country's Second Five-Year Development Plan (FYDP II) 2016/17-2020/21 under the overarching theme of 'Nurturing Industrialisation for Economic Transformation and Human Development'. Tanzania's FYDP II recognises the need to deliver broader, more rapid and more sustainable social and economic transformation. If implemented effectively, the Plan can serve as a catalyst for further industrialisation and play an important role in propelling Tanzania towards its vision of becoming a middle income country by 2025.

By its own admission, however, the GoT's implementation of previous development plans has been hampered by institutional coordination failures and a range of other challenges (MoFP, 2016). Indeed, at the time of the launch of FYDP II in June 2016, the implementation of the first FYDP was, according to the Minister of Finance and Planning, only 60% complete (Railways Africa, 2016). Moreover, analysis by ODI's Supporting Economic Transformation (SET) programme shows that while some quantifiable targets in the first FYDP have been met (such as those on tertiary enrolment rates or government expenditure as a share of gross domestic product (GDP)) or even exceeded (e.g. total manufacturing employment, manufacturing share in total exports, budget deficit (excluding grants) as a share of GDP, mineral sector share in GDP), others have fallen short, proving to be overly ambitious (such as the targets on raising the share of manufacturing in GDP or Tanzania's share of world trade). Improved implementation of FYDP II will require better coordination within government as well as better mechanisms for working with the private sector.

The GoT is currently developing an implementation strategy (IS) to guide the implementation of FYDP II. In order to be successful, the practical implementation of the Plan will need to be guided by an agreed set of implementation principles and be supported through effective involvement of the private sector. To support this process, and ensure private sector engagement and input into the strategic implementation of the FYDP II from the outset, the SET programme, in collaboration with the Economic and Social Research Foundation (ESRF), organised a private sector consultative workshop on 27 October 2016 at the ESRF Conference Hall in Dar es Salaam. The workshop sought to build consensus around how to approach implementation of the FYDP II and on the core elements that should constitute a strategy and framework to guide the effective implementation of the Plan. In addition, the workshop was designed to develop a shared understanding of the practical roles that different stakeholders – both in the public and private sectors – should play in implementing the FYDP II. The workshop agenda included focused discussions on three priority sectors – cotton to textiles, leather and leather products, and pharmaceuticals – which have been identified by Tanzania's Planning Commission in the Ministry of Finance and Planning (MoFP) for initial focus in the first phase of FYDP II implementation. This report highlights the key points raised in the workshop discussions.

The workshop was attended by 74 participants, including different private sector actors representing umbrella private sector organisations (the Tanzania Private Sector Foundation (TPSF), the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), the Confederation of Tanzania Industries (CTI), the European Union Business Group (EUBG) and BEST-Dialogue), industry associations (including the Leather Association of Tanzania) and private companies operating in the construction (e.g. BAM international), petroleum (e.g. Total Tanzania), manufacturing (MeTL Group), leather (Moshi Leather Industries), pharmaceuticals (Heko Pharmacy, Keko Pharmaceuticals Industries), logistics (CMA CGM) and other sectors. Importantly from the perspective of promoting public-private dialogue, there were also a number of representatives present from GoT departments (the MoFP and the Ministry of Industry, Trade and Investment (MITI)), and agencies (including the Tanzania Food and Drugs Authority (TFDA), Tanzania Revenue Authority (TRA), Tanzania Port Authority (TPA), Tanzania Bureau of Standards (TBS), Tanzania National Bureau of Statistics (NBS), Tanzania Industrial Research and Development Organisation (TIRDO), the Tanzania Trade Development Authority (TanTrade) and the Fair Competition Commission).

In addition, the Honourable Regional Commissioner of Simiyu, Mr. Antony Mtaka, attended the workshop and spoke in detail on ways in which regional and local governments can engage the private sector and facilitate the participation of private sector players in implementation of the FYDP II (see below for further details). A diverse mix of other actors were also present at the workshop, including representatives from a number of Tanzania's development partners (including DFID, the Delegation of the European Union (EU) to Tanzania, the Japan International Cooperation Agency (JICA), the United States, Japanese and Swiss embassies, USAID and the World Bank), development banks (National Development Corporation, Tanzania Agricultural Development Bank, TIB Development Bank) and a range of research institutions and think tanks, non-governmental organisations, civil society organisations and academia.

The key messages emanating from the workshop discussions are outlined in Box 2 below.

BOX 2: KEY MESSAGES FROM THE WORKSHOP DISCUSSIONS

- **The current approach to the implementation strategy for FYDP II is different from previous implementation attempts**. There is a clear push from the government towards industrialisation and agreement on key initial focus areas moving forward, including around priority sectors (cotton to textiles, leather and leather products and pharmaceuticals). This is backed by political will to ensure effective implementation of the FYDP II.

- It is **important to learn lessons from the implementation of previous plans**. Past failures in implementation have stemmed from a variety of factors including weak institutional capacity, a lack of coordination for effective monitoring and evaluation and reporting, polarised decision making, shortfalls in participation and buy in from all actors and stakeholders in the planning process, weaknesses in resource mobilisation, and the presence of vested institutional and individual interests. Looking ahead, a more prioritised approach to implementation is needed, particularly related to better prioritisation of sectors and policy tools. In addition, more detailed identification of resource requirements, potential sources for mobilising financial resources and workable plans for operationalisation of existing financing plans is necessary. Effective institutional structures around implementation are required, including mechanisms to override coordination challenges. Scope must be provided for experimentation and the introduction of new approaches across the FYDP II period.

- **The successful implementation of the FYDP II will require better dialogue with the private sector**, particularly around issues related to the business environment, taxation and regulation. It is important to build a framework of trust between the government and the private sector. This is crucial in order to generate consensus on the approach to implementation of the FYDP II and a shared understanding of the roles and responsibilities of both public and private sector stakeholders. This will require considerable efforts to build public sector capacity to engage with private sector networks. The participation of private sector stakeholders must be properly institutionalised so they can contribute effectively to the industrialisation drive.

OPENING REMARKS: LEARN FROM THE PAST AND BUILD A FRAMEWORK FOR PRIVATE SECTOR ENGAGEMENT

The workshop was officially opened by Ms Santina Benson, the Executive Director of the CEO Roundtable of Tanzania. Ms Benson provided the context for the discussions to follow on FYDP II implementation. She explained that Tanzania's industrialisation journey to date has been marked by frequent changes in strategies and focus; suggesting that a more targeted identification of priorities and resource requirements will be required this time around. In this respect, the FYDP II provides an excellent opportunity to learn from history, including past failures in implementation.

The implementation of FYDP II will take place against the backdrop of a challenging economic environment. Ms Benson explained that growth has not been sufficiently inclusive to move the poorest people in Tanzania out of poverty, while progress on economic transformation has been sluggish.

According to Ms Benson, the level of industrialisation in Tanzania has declined since independence, at least when measured in terms of a falling share of manufacturing in GDP. Moreover, there has been a lack of transformation out of subsistence agriculture.

Ms Benson was critical of some of the plans underpinning the FYDP II, implying that they were either unrealistic or lacked sufficient prioritisation. For instance, she argued that the Plan contains a wishlist of sectors without an identification of priorities. Similarly, referring specifically to Special Economic Zones (SEZs), she noted that 19 locations have been identified for SEZs in Tanzania without sufficient prioritisation across locations, despite evidence from the Chinese experience that developing SEZs is a complex undertaking. In addition, she argued that the plan is not sufficiently detailed on resource requirements or potential sources for mobilising financial resources. She added that the Plan relied too heavily on public sector resources, leaving little room for private sector participation. She also felt that certain plans in the FYDP II were overly ambitious and unrealistic, such as targets for boosting the energy supply.

Ms Benson attached particular importance to the role of the energy supply, which she regards as key to Tanzania's industrialisation. She pointed to the potential for solar energy to be a game changer in Tanzania; and stressed that rural electrification can play a key role in creating the necessary domestic market to sustain industrialisation. In this context, Ms Benson stressed that power generation should be a key focus area for private sector participation in the FYDP II period.

But successfully capitalising on opportunities for private sector engagement with the FYDP II will rely heavily on building a framework of trust between the GoT and the private sector. In Ms Benson's view, the GoT will need to invest in infrastructure development, particularly in critical areas such as energy and information and communications technology (ICT). Moreover, the GoT will have an important enabling role to play, principally by providing an effective framework to facilitate private sector investment in key areas. Emphasising the importance of the government's role going forward, Ms Benson concluded by saying that the country's leaders must recognise that Tanzania is on the precipice of an economic revolution.

THE RATIONALE FOR TANZANIA'S FYDP II IMPLEMENTATION STRATEGY

The GoT, through the Planning Commission in the MoFP, has already begun to develop an IS for the FYDP II. In order to provide insight into the government's thinking on FYDP II implementation, Dr Paul Kessy, Deputy Executive Secretary in the Planning Commission in the MoFP, presented details on the rationale behind the IS and the processes underpinning its formulation. In doing so, he stressed the importance of looking forward and doing things differently from how they were done in the past. The GoT readily admits that it has made some mistakes in previous attempts to implement good plans. According to Dr Kessy, these mistakes have stemmed from a variety of factors leading to weak implementation, including weak institutional capacities, a lack of coordination for effective monitoring and evaluation and reporting, polarised decision making, weaknesses in resource mobilisation, and vested institutional and individual interests. A desire to address these factors and avoid similar mistakes in implementation goes to the heart of the rationale behind developing an IS for the FYDP II.

Dr Kessy explained that the government wants the private sector to be the engine of growth and development in Tanzania. But he stressed that a better business environment as well as improved institutions to run the economy will be required in order to enable the private sector to perform this role. These will be important areas of focus in looking to fast-track the FYDP II.

Dr Kessy added that there is considerable political will within Tanzania to ensure effective implementation of the FYDP II. This is reflected in recent statements made by key political leaders in relation to the importance of implementing the FYDP II and in the demand from the top levels of leadership within the GoT for an effective IS. To meet these demands, the MoFP has been mandated to coordinate the preparation and management of the IS. The roadmap for the preparation of the strategy is expected to be completed in December 2016, after which it will be rolled out in waves in January and February 2017. Consolidation of the strategy is expected to be completed by the end of March 2017.

Dr Kessy openly invited the private sector to collaborate with the GoT to ensure implementation of the FYDP II is done differently from past efforts. To this end, he stressed how the workshop can play a central role in building consensus on the importance of the IS and its approach, generating a shared understanding of the work that lies ahead and the roles of public and private sector stakeholders, and soliciting ideas from the private sector on effective implementation of the IS and its various components. Against this backdrop, he called for the private sector to disclose the necessary information that the GoT requires to form plans and prioritise issues for follow up through implementation.

PRINCIPLES FOR EFFECTIVE IMPLEMENTATION OF TANZANIA'S FYDP II

Following Dr Kessy's introduction on the government's plans and approach to implementation, Dr Dirk Willem te Velde, Director of ODI's SET programme, presented some thoughts on the key principles that should underpin Tanzania's drive to implement the FYDP II within the context of the country's broader industrialisation efforts. Dr te Velde welcomed the emphasis in the FYDP II on industrialisation and noted that although some commentators may argue that the GoT's past attempts to initiate industrialisation drives have been largely unsuccessful, the current approach looks different and represents a clear push towards industrialisation. That said, he emphasised the need for further prioritisation of plans for infrastructure development (at present many different options for the development of port and railway infrastructure are available) as well as for the development of specific manufacturing subsectors and in the implementation of SEZs to support clustering and agglomeration effects.

Dr te Velde also argued that while the FYDP II contains some analysis of options for mobilising finance and using it effectively (for instance by providing a financing framework), there is currently no action plan to move forward and there is a need for further operationalisation of existing financing plans. In addition, he observed that while the FYDP is frank on lessons learnt from past implementation efforts, it is less clear on the potential for new approaches and experimentation as well as on arrangements and mechanisms for working with Ministries and implementing existing sector strategies (e.g. the Cotton to Textiles strategy).

In order to provide a broad framework to guide effective implementation, Dr te Velde began by drawing on the work of Ansu et al. (2016a) to set out a number of key characteristics of coherent industrial policies. While not discounting the importance of sound fundamentals (macroeconomic stability, a favourable investment climate, quality infrastructure and skills), he argued that these alone are not sufficient. Instead, an export push, effective clustering of firms around SEZs, active foreign direct investment promotion and the development of linkages with local firms, support for productivity enhancement in small and medium enterprises (SMEs), improved coordination within government, and stronger collaboration between government and the private sector are also likely to be necessary to support industrial development.

In addition to these broad characteristics, Tanzania can potentially learn much from the experience of implementing economic transformation policies in other countries. Dr te Velde summarised relevant experiences into four broad lessons highlighted in Ansu et al. (2016b). First, it is important to build consensus around economic transformation and ensure that the right type of people are in place to think about the direction of transformation in the country. Second, it is necessary to have an overarching institution that can direct and discipline other institutions and entities (this requires consideration of the level of coordination that needs to happen). Such an institution also needs to work well with the private sector. Third, it is useful to create institutional arrangements to coordinate powerful public and private sector actors. Finally, discovery and experimentation is necessary to find out what works. This should be supported by effective feedback mechanisms, and allowances should be made for adjustment of policies, strategies and plans when needed.

Drawing from the characteristics of coherent industrial policies and the lessons from the experience of implementing economic transformation policies in other settings, Dr te Velde presented the following 10 principles to guide implementation of the FYDP II in Tanzania going forward:

1. Build consensus around the direction of the economic transformation strategy.
2. Give one public agency the power to override co-ordination challenges.
3. Build public sector capacity to engage with private sector networks.
4. Build trust between government and the private sector (e.g. consult on major tax policy issues).
5. Incentivise the private sector to co-ordinate around strategic issues through the use of effective umbrella and specific sector business associations.
6. Use performance contracts within the public sector targeted on industrialisation.
7. Improve the business climate, but also use targeted projects, selective, time-bound support around bilateral deals which are transparent (e.g. use SEZs).
8. Make public support for the private sector conditional upon performance (e.g. in SEZs).
9. Monitor implementation and the impact of economic transformation plans (e.g. employment impact).
10. Evaluate and adjust economic transformation plans where necessary – experiment.

In setting out next steps for Tanzania, Dr te Velde observed that there appears to be a reasonable consensus that manufacturing is important for the country, but argued that the FYDP II will need to confront the challenge of reversing the declining share of manufacturing in GDP. He suggested the fact that the level of manufacturing output is increasing provides a platform on which to build. Further prioritisation of sectors will be required, and an action plan needs to be agreed (combining development and financing plans). Finally, he stressed that Tanzania will need to improve and operationalise institutional structures around implementation.

EXISTING IMPLEMENTATION ISSUES, CHALLENGES AND PERSPECTIVES

The workshop discussions then moved on to existing implementation issues, gaps and challenges. Professor Samuel Wangwe, Principal Research Associate at the ESRF, provided a general presentation of cross-cutting issues. He acknowledged the admission by the GoT that past implementation plans have faltered and welcomed the government's enthusiasm to do things differently this time around. Even so, he explained that a major weakness in the design and implementation of past plans has been shortfalls in participation and buy in from all actors and stakeholders in the planning process; stressing that planning is not the business of government alone. He indicated that he would like to see properly institutionalised participation of stakeholders outside of government.

Moreover, in Professor Wangwe's view, Tanzania has historically been poor at learning from experiences in other countries as well as at home. He cited the example of the Big Results Now (BRN) programme, which was conceived amid concerns around a lack of prioritisation and implementation. In his view, Tanzania has not gained as much from BRN as it could have. There are very important lessons from the BRN experience that should not be lost, particularly related to the importance of participation, having access to accurate data, and effective monitoring; and these need to be mainstreamed into the implementation plan. More generally, he stressed that it will be important going forward to take cognisance of new developments and adjust plans and implementation processes accordingly – planning and implementation is a continuous process.

Professor Wangwe explained that while Tanzania has recorded strong economic growth in recent years, this growth has not spread throughout the country. This has important implications for the implementation of development plans, which will need to occur at the regional level as well in order to spread industrialisation across the whole country. There is a need to operationalise decentralisation in Tanzania.

Professor Wangwe noted that the emphasis on value addition in the FYDP II necessitates thinking in terms of managing entire value chains. This will require decision making mechanisms that cut across government ministries. This includes mechanisms to enhance competitiveness along the value chain, which should be a priority in implementation efforts. This will involve, for instance, continuous improvement and upgrading of technology, an aspect that has not been afforded sufficient priority in the past.

Thereafter, Professor Ammon Mbelle, Senior Research Associate at the ESRF, took the floor to provide a sector and industry specific perspective, speaking on challenges, implementation issues and gaps in two of the three sectors – cotton to textiles and pharmaceuticals – prioritised for the first wave of implementation of FYDP II. In the case of cotton to textiles, he noted that cotton production has been largely stagnant in Tanzania in recent years and the country is losing competitiveness in the cotton sector. At various points across the value chain, Tanzania faces challenges related to a disconnect between yarn and fabric production, limited productivity and value addition in the cotton by-products sub-sector, underdeveloped textile and clothing segments, a lack of definition of markets and products for trade, weak trade support, and the absence of a unified branding initiative for cotton to clothing products. According to Professor Mbelle, addressing these issues will require raising productivity levels in cotton production, improving the policy environment supporting the sector and strengthening investment along the value chain. He added that Tanzania will also need to decide where to concentrate along the value chain, especially given that certain links in the chain are not currently competitive.

Similarly, in the case of the pharmaceutical sector, Professor Mbelle explained that the value chain involves around 70 processes – from research and development to manufacturing and marketing – raising the questions on where Tanzania should look to specialise. The current activity in the sector in Tanzania is dominated by seven companies, producing a limited number of products; which suggests that there is considerable potential to expand the sector in the country. Moreover, Professor Mbelle observed that there is a great opportunity for local manufacturers of pharmaceuticals to close the widening gap between Tanzania's pharmaceutical exports and imports. To do so, however, Tanzania will need to improve upgrading in the sector, loosen restrictive requirements imposed by the TFDA, and address declining capabilities in pharmaceutical production. The latter is a product of rising import prices, inadequate knowledge and skills in pharmaceutical manufacturing, changing drug regimes, uncertain public sector supplies and a tax structure that does not favour local producers. As a result, the share of local manufacturers in pharmaceutical production is declining even as demand for pharmaceuticals in Tanzania is growing, and the biggest part of the value chain is dominated by large multinational corporations.

In Professor Mbelle's view, the successful development of the pharmaceutical sector in Tanzania will require a shift in mindset towards viewing the sector as a driver of growth, job creation and value adding activity in the country. Decisions will also need to be made on how to build capacity within the private sector to meet the good practices required by the World Health Organisation, as well as on the best modality (government, private sector or public-private partnerships (PPPs)) for implementation.

The presentations from Professors Wangwe and Mbelle were followed by plenary discussions which provided an opportunity for participants to comment on the discussions and pose questions to the presenters. Box 3 below outlines a selection of points raised by workshop participants and presenters during the plenary session regarding implementation principles, strategies, issues and challenges.[2]

BOX 3: PERSPECTIVES ON IMPLEMENTATION PRINCIPLES, STRATEGIES, ISSUES AND CHALLENGES

Lessons from past experiences

- Implementation is key and has been a historical challenge in Tanzania. We need to learn from our own mistakes and others' experiences. *[Dr Tausi Mbaga Kida, ESRF]*

Involving the private sector in implementation

- The consultative approach adopted by the government not only in the preparation of the FYDP II but also now for the IS is encouraging. *[Yutaka Yoshino, World Bank Tanzania Country Office]*

Financing implementation

- The FYDP II includes a long list of projects, but can they all be financed? The GoT needs to adopt a more prioritised approach to implementation, come up with a credible and innovative financing strategy and leverage PPPs. The development of PPPs needs to be based on trust between the public and private sectors. *[Yutaka Yoshino, World Bank Tanzania Country Office]*
- It is necessary to be innovative with financing options and go beyond the government budget. Support from Tanzania's development partners should be serious about financing industry. *[Samuel Wangwe, ESRF]*
- Finance will come as long as it makes sense for the private sector. *[Santina Benson, CEO Roundtable]*
- With good policies in place and a credible framework setting out a direction for the economy, then finance will follow. Tanzania should think about the different types of financial flows – aid as a percentage of GDP is declining and is likely to decline further; the tax to GDP ratio is increasing; but the greatest resource is domestic private finance as a percentage of GDP. Hence, the private sector is likely to finance it anyway,

[2] Note that the comments and perspectives listed in Box 3 are paraphrased and do not constitute direct quotes from workshop participants.

but credible frameworks are needed to attract private sector funds rather than mandating the private sector to finance particular areas. *[Dirk Willem te Velde, ODI-SET]*

Addressing business environment issues

- Energy, finance and the multiplicity of regulations that investors need to deal with are consistently raised as issues. Some of the interventions proposed to deal with these issues in the FYDP II are short-term interventions; for instance through SEZs, but not all investors can go to SEZs. The interventions to address these issues need to go beyond that. *[Blandina Kilama, REPOA]*
- The government is aware of the challenges in terms of the business environment and these can be addressed over time, but not necessarily in the short term or over the next five years of the FYDP II period. The EPZ/SEZ approach provides the option of prioritising but it does not mean that the broader business environment issues will be ignored. *[Paul Kessy, MoFP]*

The role of the private sector

- To what extent is the proposed structure for the implementation framework different from what has already been in place for the past 16 years? The private sector comes in at the third or fourth level of the structure – does this mean that it is becoming a tool or pillar to drive successful industrialisation? The private sector should feel part and parcel of planning rather than invitees to participatory processes. Perhaps the private sector could participate directly in Cabinet discussions around industrialisation. *[John Ulanga, TMEA]*
- The process of private sector participation should be institutionalised. The CEO Roundtable has held discussions with the TPSF and the CTI on how to effectively communicate messages to government. Moreover, the private sector is being asked to participate in a new way of doing things – we do see a willingness from the government to engage the private sector. But there is still a danger that the private sector involvement is not meaningful. *[Santina Benson, CEO Roundtable]*

Confronting coordination challenges

- It is important to give one public agency power to override coordination challenges; but which one? This is difficult to answer as an outsider, but it seems natural to have a Planning Commission that can plan ahead and is able to coordinate actions (not necessarily implement everything) in the face of coordination challenges. With the right capacity to engage the private sector, the Planning Commission can fulfil the functions that are required for effective implementation of the FYDP II to drive economic transformation. *[Dirk Willem te Velde, ODI-SET]*

Capacity issues and value chain development

- Demand for leather products is growing quickly and there is a huge supply of raw hides and skins. But factories in Tanzania are only using 6% of their capacity, meaning that a large share of demand is not met. Instead, most of the demand is met by imports (e.g. imports of leather shoes). The leather sector in Tanzania is facing operational problems (e.g. exports of raw hides, low quality hides available domestically for processing, a lack of high quality finished leather) meaning that parts of the leather value chain are faltering. How can the business environment be improved to enhance the functioning of the value chain? *[Samuel Wangwe, ESRF]*

VIEWS ON THE ROLE OF THE PRIVATE SECTOR IN THE IMPLEMENTATION OF FYDP II

Attention then turned to a discussion of effective ways for the public and private sectors to collaborate in the implementation of the FYDP II. To provide a context for framing the discussions, presentations were made by representatives of two private sector representative organisations – the TPSF and the TCCIA. Louis Accaro, Director of Membership Services at TPSF, stressed that implementation of the FYDP II should begin with improving the business environment, focusing on improving the power supply, eliminating corruption, improving transport infrastructure and developing skills. Speaking on the model that Tanzania should adopt to industrialise, Mr Accaro suggested that the easiest approach would be to focus on agriculture and agribusiness, prioritising selected agricultural products to maximise productivity and stimulate sustainable agro-processing and agro-industries. He also noted that Tanzania should look to establish industrial parks and promote clustering of related industries in order to fast-track industrialisation.

Mr Accaro called for the establishment of a National Industrialisation Delivery Board under the President to oversee the implementation strategy. In turn, he suggested that each government ministry should have an industrialisation delivery committee.

In addition, Mr Accaro recommended the introduction of a 'policy of patient investor' to address seasonality issues that affect production capacity by incentivising investors to wait until the next production season for raw materials. Such incentives could, for example, take the form of grace periods for loans from banks.

Mr Accaro explained that, at a more general level, gaps in financing present a major challenge to implementation. This is reflected in a lack of access to medium and long term financing, which hinders long term investment, as well as high interest rates from commercial banks and micro-finance institutions. In his view, the financing challenges are exacerbated by a lack of sufficiently capitalised development banks in Tanzania to stimulate sector developments in implementing the FYDP II.

Mr Accaro also highlighted human resources challenges in Tanzania that will need to be addressed. These include mismatches between the supply of skills and those demanded by industry, few linkages between universities or higher education institutions and industry, and an urgent need to upgrade technology in Tanzania.

Finally, Mr Accaro spoke to the challenges of coordination between various stakeholders and their potential implications for implementation of the FYDP II. This challenges include a lack of policy coordination between government ministries, departments and agencies, the absence of a national steering coordination and implementation committee for national plans, and the lack of a dedicated ministry to deal with industrialisation.

This was followed by a presentation from Mshiu Octavia from the TCCIA. Mr Octavia highlighted a number of challenges faced by the private sector in Tanzania, emphasising the difficulties that businesses face in complying with the requirements of a plethora of government oversight bodies (e.g. for licensing, quality assurance, taxation etc.) as well as stringent export standards (particularly in the case of SMEs). The private sector representative organisations themselves face constraints in supporting their constituencies, with much of this stemming from a lack of funding to carry out crucial functions.

To address some of these issues, Mr Octavia put forward the following recommendations:

- Appropriate industrial support policies need to be issued by the government, including policies and regulations to control the standard and quality of local products.
- Form appropriate government institutions to enhance the dynamic effects of textile and garment industries. Provide training to garment manufacturers to enable them to compete effectively in international markets.
- Open textile, spinning and related factories in rural areas, especially in cotton farming regions in order to reduce the cost of transporting raw cotton and create employment in rural areas through processing of cotton into fabric in these areas.
- Development partners should support the private sector and private sector organisations (e.g. through helping to build capacity within private sector organisations to better perform their functions and raise finance); while coordinating their activities better in order to avoid implementing projects in isolation.

In addition to these specific views from the TPSF and the TCCIA, breakout discussions in which all workshop participants were split into small groups of three were held in order to canvas a wide set of views on what should be prioritised in the implementation of the FYDP II. These views are summarised in Box 4 below.[3]

[3] Note that the views listed in Box 4 are paraphrased and do not constitute direct quotes from workshop participants.

BOX 4: PARTICIPANTS' VIEWS ON PRIORITY AREAS FOR FYDP II IMPLEMENTATION

- Communication is important to change mindsets. For example, the stories of success in the Simiyu region can be a catalyst.
- Meaningful and trust-based communication with the private sector.
- Provide the rights skills to support industrialisation; review education curricula to develop more practical and vocational skills.
- Provide a conducive tax environment to support industrialisation.
- Address poor performance on doing business indicators related to paying tax.
- Improve grading systems for cotton production.
- The action plan should be prioritised, including with respect to value chains and where to focus activities within specific value chains.
- The government's institutional structure is important but it must incorporate the private sector.
- Focus on the way forward in terms of improving public-private dialogue, especially around issues related to the business environment, taxation and regulation. The government must share details on what it is doing with the private sector and, in turn, the private sector needs to provide feedback.
- Conduct a baseline study to identify regional competitive advantages. This should feed into locally based development plans.
- Address challenges related to access to finance for industrialisation, especially in agriculture.
- Agriculture is not current positioned in the FYDP II as a way to deliver full support to industrialisation – for example by providing inputs into the manufacturing sector. Transformation of agriculture is key to ensuring the sector benefits industrialisation.
- The government needs to create a favourable environment to ensure industrialisation is achieved. This is especially important in terms of power generation – the government should incentivise investors from all over the world to invest in power generation.
- Replicate the Simiyu strategy and experience across the country (see details below).

INVOLVING THE PRIVATE SECTOR IN THE IMPLEMENTATION OF DEVELOPMENT PLANS: A REGIONAL CASE STUDY FROM SIMIYU

To provide an illustrative example of how the private sector can be engaged in the implementation of the FYDP II on the ground, the Honourable Anthony Mtaka, Regional Commissioner for Simiyu, provided a detailed outline of some of the initiatives that have been undertaken in the Simiyu region. In many respects, the Simiyu region is embodying the industrialisation agenda through actions. In particular, he highlighted the following initiatives:[4]

- Meatu Milk: Simiyu has developed a dairy processing plant which provides the majority of the people of Simiyu (most people in Simiyu keep cattle) with an assured market for their milk. In developing the plant, the Regional Commissioner worked closely with all relevant stakeholders – and the standards and regulatory agencies in particular – to ensure the milk product adhered to the standards set by the GoT.
- Pharmaceuticals: Simiyu is one of the regions in Tanzania with an abundance of cotton. The Regional Commissioner convened a small team (the National Health Insurance Fund, TIB Development Bank and Medical Stores Department were represented by their directors) to develop a factory that produces pharmaceutical products which can be made from cotton. The initiative has achieved some notable success in replacing imports of pharmaceuticals with locally produced products. For instance, Simiyu used to spend TSh 6 billion to import hospital bedsheets which can now be produced within the region.
- Chalk production: Using raw materials found in Singida, Simiyu has started making chalk that is used in primary and secondary public schools.
- Simiyu is working on developing a fish cage at Busega.
- There is an ongoing initiative to develop a leather value chain in Simiyu with the goal of producing shoes.

He explained that the central motivation cutting across all these initiatives is to reduce spatial disparities and develop business hubs outside of Dar es Salaam. The initiatives have also focused on developing local linkages by concentrating on producing goods for which inputs can be sourced from within Tanzania.

CONCLUSIONS: TOWARDS AN IMPLEMENTATION STRATEGY

The closing remarks at the workshop were provided by Dr Kessy of Tanzania's Planning Commission. He praised the contributions from the workshop participants, noting that the workshop discussions demonstrate the seriousness and commitment around implementation of the FYDP II and pave the way on how to move forward. He thanked ESRF for coordinating and organising the event and ODI-SET for its tireless efforts to assist the GoT and the citizens of Tanzania. He also thanked DFID for its assistance in the preparation of the FYDP II and its willingness to assist the government on the thematic discussions that will follow. Finally, he thanked the private sector, and the private sector representative organisations in particular, for airing their views and expressing their willingness to collaborate with the GoT going forward.

Dr Kessy noted that the workshop had identified a range of issues that should not be missed in the formation of the IS for the FYDP II. He expressed a commitment to improving the principles underpinning the implementation of the FYDP II based on the SET suggestions. He also confirmed that the GoT is committed to having positive dialogue with the private sector based on trust and ongoing feedback. In this regard, he noted that the institutional framework underpinning implementation of the FYDP II will require more thinking on how to include the private sector.

Speaking more broadly on economic transformation, Dr Kessy stressed that transformation of agriculture should remain fundamental to Tanzania's industrialisation. In the agricultural sector, and also more generally, he highlighted a need to rethink the role of regions and district authorities in terms of how to involve local Tanzanians in the industrialisation process. This will require allowance for innovative thinking,

[4] This information was provided by Desmond Mushi of the ESRF, who translated the key messages in the Regional Commissioner's presentation from Swahili into English and supplied the majority of the summary text included here.

and the example of the Simiyu region discussed above provides a potential model to replicate going forward.

In terms of the next steps, Dr Kessy explained that the GoT will work on how to fast track the creation of a conducive environment for industrialisation – including through the creation of SEZs – in the cotton to textiles, leather and leather products and pharmaceuticals sectors. Moreover, the GoT will also work on how to manage urbanisation, including on land management and land use issues. He added that the GoT plans to hold more consultative dialogue and discussion of this kind with the private sector by the end of November 2016 and will examine other ways to facilitate ongoing discussion and engagement. In closing, Dr Kessy stated that the GoT will look to move forward with the same passion that ODI-SET has for the transformation of Tanzania.

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