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## Tanzania's Second Five Year Development Plan 2016/17–2020/21: Summary of proposed actions and financing plans for implementation<sup>1</sup>

### TANZANIA'S SECOND FIVE YEAR DEVELOPMENT PLAN IMPLEMENTATION STRATEGY AND FINANCING PLANS IN SUMMARY

- The Implementation Strategy (IS) for Tanzania's Second Five Year Development Plan (FYDP II) provides guidance on the institutional and policy reforms necessary to execute the FYDP II and deliver on its goals. It has a central role in coordinating support from both the public and the private sectors around an agreed set of principles, priority areas and interventions to drive industrialisation, economic transformation and human development in Tanzania.
- The IS comprises four components: (i) an **action plan**; (ii) a **financing strategy**; (iii) a **communication strategy**; and (iv) a **monitoring and evaluation framework**.
- Preparation of the IS is being undertaken in stages, with each stage focusing on specific sectors. Three value chains (**cotton to textiles**, **leather to leather products** and **pharmaceuticals**) along with the development of **special economic zones (SEZs) and industrial parks** and the **management of urbanisation and urban development** are prioritised for the first stage of FYDP II implementation.
- Priority actions to improve the competitiveness of the **cotton to textiles** value chain centre on improving cotton seed inputs and revamping cotton production, enhancing cotton farmers' access to operating capital and attracting new investment into the textile and garment industries.
- Interventions to develop the **leather and leather products** value chain focus on improving the supply and quality of hides and skins, upgrading facilities, reducing the sector's environmental impact, promoting investment in export processing zones (EPZs)/SEZs, establishing leather clusters and support industries and strengthening the policy and institutional framework supporting the sector.
- To develop local manufacturing of **pharmaceuticals**, attention will be directed to diversifying domestic pharmaceutical production, supporting research and development (R&D) to enable faster technological catch-up and improving the quality of locally manufactured pharmaceuticals.
- The development of **SEZs** in Bagamoyo, Morogoro, Kigoma, Ruvuma, Tanga, Manyoni, Mtwara and Bunda will be prioritised, along with **trade and logistics centres** in Kurasini and Dodoma and **industrial parks for the textile and leather industries** in Bunda, Simiyu and Shinyanga.
- The SEZ development programme will be supported by measures to **enhance the legal and regulatory framework for EPZs/SEZs, improve institutional capacity and coordination** and **boost participation of small and medium enterprises (SMEs) in SEZs**. Alternative financing will be identified to **reduce overdependence on government financing of SEZ projects**.
- Five cities and towns (**Arusha, Dar es Salaam, Dodoma, Mtwara and Mwanza**) are prioritised initially for the Government of Tanzania's (GoT) urbanisation and urban development management agenda.
- To finance implementation of the FYDP II, GoT will look beyond traditional sources and **develop innovative ways to mobilise financial resources** – including sovereign bonds, pension equity fund, local government bonds, national climate and natural resource funds and public–private partnerships (PPPs). It will also **expand the role of national development finance institutions (DFIs)**, improve **investment promotion capacity and incentives to attract foreign direct investment (FDI)** and **expand the tax base**.

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## 1. BACKGROUND

Finalisation of the FYDP II IS represents an important milestone in the GoT's ongoing push towards industrialisation. The strategy provides guidance on the institutional and policy reforms necessary to execute the FYDP II and deliver on its goals, and can thus play a central role in facilitating economic transformation, industrialisation and human development in Tanzania and propelling the country towards middle-income status by 2025.

The GoT has learnt lessons from the implementation experiences of previous development plans. Past efforts have been hampered by a range of challenges, including the absence of detailed plans for execution, weak communication of plans and associated actions to key stakeholders, failure to mobilise the necessary financing and weak monitoring and evaluation. The GoT is determined to 'get implementation right' this time around and ensure effective implementation of the FYDP II in order to achieve national goals and objectives around economic transformation and human development.

To this end, the IS – prepared by the Planning Commission within the Ministry of Finance and Planning (MoFP) – will guide all FYDP II implementation efforts. The IS comprises four components: (i) an **action plan** for the interventions outlined in the FYDP II; (ii) a **financing strategy** to mobilise the necessary funds required to implement the Plan; (iii) a **communication strategy** to raise awareness and disseminate information about the FYDP II and effect a 'call to action' to all stakeholders involved in its implementation; and (iv) a **monitoring and evaluation framework** to track progress, demonstrate results and ensure effective implementation. Together, these components delineate the actions and outputs required to realise the Plan's objectives; outline the responsibilities of key role players in the implementation of these actions; set deliverables, milestones and targets; define the costs associated with implementing the Plan; discuss how to mobilise different sources of finance for implementation; and define performance indicators and targets to monitor and evaluate implementation achievements and impacts. In this way, the IS provides a platform from which to coordinate support from both the public and the private sectors around an agreed set of principles, priority areas and interventions designed to drive industrialisation, economic transformation and human development in Tanzania.

The preparation of the IS is being undertaken in stages, beginning with a pilot stage that prioritises five areas for initial implementation. These include three priority value chains – **cotton to textiles**, **leather to leather products** and **pharmaceuticals** – selected on the basis of their employment creation prospects, opportunities to create local value chains with downstream value-added processing of large endowments of raw materials and potential to supply rapidly expanding domestic and/or international markets. The development of a local pharmaceutical manufacturing industry is also seen as a way to provide security of pharmaceutical supplies, reduce reliance on imports and improve health care in Tanzania.

Along with the three value chains, two cross-cutting themes are also prioritised: **SEZs and industrial parks** and **urbanisation and urban development management**. The development of SEZs and industrial parks is intended to support industrial production and export-led industrialisation while also boosting Tanzania's international competitiveness. In turn, effective management of the physical growth of Tanzania's urban areas will be critical in the context of the country's industrialisation efforts and the anticipated surge in urbanisation over the next few decades.

Other activities will be undertaken alongside the industrial policies prioritised for initial implementation in the three priority value chains and two cross-cutting themes. For instance, the revival of Air Tanzania, the country's national carrier, is a major priority, with the GoT looking to purchase new planes and launch direct flights to the United States, China and Russia, while also reviving regional airports (focusing initially on Kigoma, Iringa, Morogoro, Singida and Mwanza). This can help support the GoT's wider objectives to develop Tanzania's tourism industry and boost international business linkages and FDI. Similarly, plans are underway to improve Tanzania's overall infrastructure, for instance through the construction of a standard gauge railway along the Central Corridor.

## 2. PROPOSED ACTIONS FOR IMPLEMENTATION

Action plans detailing specific interventions to be undertaken during the FYDP II period have been devised for each of the five priority areas.

### Actions to develop priority value chains

Key actions to develop the three priority value chains (cotton to textiles, leather to leather products and pharmaceuticals) are summarised in Table 1.

**Table 1. Priority actions for implementation in the cotton to textiles, leather and leather products and pharmaceutical sectors**

Priority area	Key actions
<b>Cotton to textiles</b>	<p><b>Expand and improve the production, pricing and distribution of quality seed cotton</b> – through inspection and grading systems, quality checks, standards for cotton storage and more effective cotton farmers associations</p> <p><b>Improve cotton farmers’ access to operating capital</b> – through advocacy and awareness campaigns and entrepreneurship and skills development for farmers</p> <p><b>Revamp cotton production and attract new investment into the textile and garment industries</b> – by upgrading and modernising existing factories and ginneries, improving the business environment and the domestic skills base, attracting FDI and implementing a cotton stock fund for cotton lint stocking</p> <p><b>Support marketing and SME promotion initiatives</b> – including by establishing a textile and garment buying house</p> <p><b>Improve the policy environment to raise the efficiency and competitiveness of the cotton to clothing value chain</b> – by establishing a Cotton to Clothing Forum to represent the entire value chain, reducing imports of second-hand clothes and training customs officials</p>
<b>Leather to leather products</b>	<p><b>Improve the quality and quantity of hides and skins</b> – by raising the number of heifers (including through provision of facilities and equipment, training to artificial insemination technicians), improving animal husbandry practices, enhancing the operation of slaughter houses and abattoirs and improving facilities and tracking systems for the collection and storage of hides and skins</p> <p><b>Enhance the sustainability of the leather sector</b> – by upgrading facilities and facilitating knowledge and technology transfer for tanneries and manufacturers, reducing the sector’s environmental impact, developing a marketing strategy, encouraging procurement from local manufacturers, promoting leather industry investment in EPZs/SEZs and establishing leather clusters in Dar es Salaam, Dodoma and Mwanza, promoting investment in support industries, R&amp;D (mechanisms for collaboration between research institutions and manufacturers, new technology for product design and leather processing), enhancing access to finance (e.g. leather development window in Tanzania Investment Bank (TIB) and Tanzania Agricultural Development Bank (TADB), loan guarantee schemes)</p> <p><b>Strengthen the policy and institutional framework for the development of the sector</b> – by improving the coordination of sectoral institutions and creating a conducive business environment (decentralised issuing of permits and licences, harmonisation of laws and regulations)</p>
<b>Pharmaceutical manufacturing</b>	<p><b>Promote domestic pharmaceutical production and diversification of supplies to meet domestic demand</b> – by modernising existing pharmaceutical industries (e.g. upgrading manufacturing technologies), developing two dedicated pharmaceutical industrial parks (complete with enabling infrastructure), establishing five new pharmaceutical industries, strengthening quality assurance procedures and constructing a herbal factory at the Institute of Traditional Medicine</p> <p><b>Revitalise R&amp;D to enable faster technological catch up</b> – by establishing a Pharmaceutical R&amp;D Centre and a R&amp;D programme for herbal medicines at the Muhimbili Institute of Traditional Medicine, strengthening existing R&amp;D labs and boosting skills</p>

Priority area	Key actions
	<p><b>Improve the quality of locally manufactured pharmaceuticals</b> – by introducing robust quality control mechanisms and institutional support to local industries</p> <p><b>Improve the general business environment and marketability of local manufactured pharmaceuticals</b> – including through public–private dialogue to resolve existing issues, reviews of existing investment regulations and encouraging pooled procurement of raw materials and inputs for use by local manufacturers</p> <p><b>Raise the number of pharmaceutical products produced in Tanzania</b> – by identifying critical pharmacological groups, facilitating compliance with good management practices for local industries and amending public procurement legislation to allow preference for locally produced pharmaceuticals</p>

### Actions to develop SEZs and industrial parks

The IS designates a lead role to the Export Processing Zones Authority to manage and coordinate the development of FYDP II priority projects for the development of SEZs, industrial parks and trade and logistics centres. These include specific actions to establish:

- (i) **SEZs in Bagamoyo, Morogoro (Star City), Kigoma, Ruvuma, Tanga, Manyoni, Mtwara and Bunda**
- (ii) **Trade and Logistics Centres in Kurasini and Dodoma**
- (iii) **Sector-specific zones/industrial parks for the textile and leather-related industries in Bunda, Simiyu and Shinyanga**

Specific activities to be undertaken in the FYDP II period to facilitate the establishment of the abovementioned SEZs and trade and logistics centres include the following:

- *Survey and demarcation of earmarked land* (Dodoma Trade and Logistics Centre)
- *Valuation of earmarked land* (Bagamoyo, Kigoma, Bunda, Dodoma Trade and Logistics Centre)
- *Payment of compensation* (Bagamoyo, Kigoma, Ruvuma, Tanga, Manyoni, Mtwara, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Resettlement of residents with claims on identified land* (Bagamoyo, Kigoma)
- *Clearance and/or registration of title deeds* (all SEZs, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Conducting social and/or environmental impact assessments* (Bagamoyo, Star City Morogoro, Ruvuma, Tanga, Manyoni, Mtwara, Bunda, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Conducting cadastral surveys* (Ruvuma, Tanga, Manyoni, Mtwara, Bunda, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Preparation of feasibility and/or master plans* (all SEZs, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Negotiations related to project ownership structure* (Kigoma, Tanga, Mtwara)
- *Determination of capital expenditure and implementation costs* (Bagamoyo, Kigoma, Tanga, Mtwara)
- *Mobilisation of finance* (Bagamoyo, Kigoma, Ruvuma, Tanga, Manyoni, Mtwara, Bunda, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Project promotion to development partners* (Kigoma, Tanga, Mtwara)
- *Investment promotion* (Bagamoyo)
- *Construction of on-site and/or off-site infrastructure* (Bagamoyo, Kigoma, Star City Morogoro, Ruvuma, Tanga, Manyoni, Mtwara, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Stakeholder engagement to mobilise support* (e.g. through steering committees) (Bagamoyo, Kigoma, Ruvuma, Manyoni, Bunda, Kurasini Logistics Centre, Dodoma Trade and Logistics Centre)
- *Project implementation monitoring and evaluation* (Bagamoyo, Kigoma, Tanga, Mtwara)

In addition, action will be taken during the FYDP II period to **enhance the legal and regulatory framework governing EPZs/SEZs** (by reviewing relevant legislation along with the National Investment Policy), **establish a lead institution and improve institutional capacity and coordination** across ministries, departments and agencies (including in project management, provision of support services and human capacity) and **enhance the participation of SMEs and primary producers in SEZ investments** (through better dialogue within government and between the public and private sectors, training for SMEs and primary producers and media campaigns to highlight opportunities for SEZ investors). **Alternative sources of finance** will also be identified with a view to reducing the current overdependence on government financing of EPZ/SEZ projects.

### Actions to manage urbanisation and urban development

Five cities and towns (**Arusha, Dar es Salaam, Dodoma, Mtwara and Mwanza**) are identified for the first wave of implementation of the GoT's urbanisation and urban development agenda. The actions earmarked for the FYDP II period in these cities and towns are intended to provide reference points for the whole country. At this stage, specific activities have been devised only for Dodoma and Mwanza.

In the case of **Dodoma**, attention will focus on reviewing the National Capital City Master Plan, reducing the number of informal settlements, redeveloping the central business district, improving urban infrastructure and services along with the transportation system (including by developing a rapid transport system and Msalato International Airport), dealing with land issues, developing a new government city, promoting industrialisation (e.g. by developing industrial land) and strengthening urban management. Similarly, activities prioritised to develop **Mwanza** into an efficient, safe, convenient, productive and competitive city include the redevelopment of unplanned city areas, establishing a bus rapid transit system, improving feeder and collector roads, expanding Mwanza International Airport, engaging the private sector in specific city development activities (e.g. in the construction of Mwanza Convention Centre and three iconic towers, and to upgrade the infrastructure network and utilities), developing an industrial park and establishing a satellite town in Muhonze and Luchehele township.

## 3. FINANCING PLANS

The cost of implementing the FYDP II is expected to reach TZS 107 trillion (around \$47.9 billion, or 105% of Tanzania's gross domestic product in 2016 in current US dollars). This is more than double the projected investment for FYDP I. Some financial allocations have already been made across the five priority areas for Stage 1 of FYDP II implementation (see Table 2). Given the scale of financial resources required, the GoT recognises the need to go beyond traditional sources of finance and develop innovative ways to mobilise financial resources. Efforts will be directed towards mobilising more finance from domestic sources alongside strategies to leverage private sector investment.

**Table 2. Financial allocations by priority area (TZS billions)**

Priority area	Cost (TZS billions)
Cotton to textiles	1,170.2
Leather and leather products	90.2
Pharmaceutical manufacturing	328.2
Urbanisation and urban management*	1,275.9
EPZs and SEZs	969.9

*Note: Calculated by summing the estimated costs attributed to activities to be undertaken within the FYDP II period (note that not all activities had been costed at the time of writing).*

*\* Based on projected costs for implementing activities in Dodoma (converted from US\$ to TZS using the exchange rate as at 27 April 2017) and Mwanza (excluding the cost to develop a new satellite town in Muhonze and Luchehele township).*

Table 3 summarises the intended outcomes and key actions to raise the financial resources required for implementation of the FYDP II.

**Table 3. Summary of key actions to support the financing of FYDP II priorities**

Target outcomes	Key actions
Larger domestic revenue collection base	<p>Increase formalisation of the economy, foster tax compliance through public awareness and shared values to continuously broaden the tax base</p> <p>Identify potential taxpayers (National Identification Authority (NIDA) to expedite mass registration and issuance of national ID cards, link the NIDA and Tanzania Revenue Authority databases)</p>
Increased mobilisation of financial resources from tradition and non-traditional development partners	<p>Reinvigorate dialogue and engage pro-actively with development partners (including non-Organisation for Economic Co-operation and Development partners) in order to maximise access to grant funding, concessional borrowing and expertise</p> <p>Direct funding support from development partners to key government priorities</p>
New, innovative financing sources identified and mobilised	<p>Expedite credit rating exercise and issue sovereign bonds on international capital markets</p> <p>Establish a pension equity fund (TZS 300 billion) to allow pooling of funds</p> <p>Issue local government/municipal bonds</p> <p>Access sources of climate change financing through a National Climate Fund</p> <p>Establish a Natural Resource Fund (NRF) (develop NRF Act, form and operationalise NRF Board)</p> <p>Strengthen the PPP Fund and the PPP Division, clearly articulate criteria for using and accessing the PPP Fund</p> <p>Mobilise national DFIs (TIB Development Bank, TADB), recapitalise TIB Development Bank and use it as an agency of the government to assist in financial resource mobilisation by (i) establishing an infrastructure fund (TIB Infrastructure and Industrial Financing Programme), (ii) channelling available funds to the public and private sectors for implementation of strategic infrastructure and industrial projects and (iii) facilitating establishment of the pension equity fund to raise equity for industrial projects</p> <p>Establish a special fund for facilitating project feasibility studies (managed by the National Development Corporation)</p>
Higher levels of FDI and other private sector financial flows	<p>Enhance the capacity of the Tanzania Investment Centre to mobilise FDI and become a fully mandated One Stop Centre</p> <p>Review the existing investment incentive structure and develop guidelines for issuing future investment incentives</p> <p>Establish a land bank for large investments and a dedicated fund for land compensation</p> <p>Sign an additional 40 Bilateral Investment Treaties</p> <p>Improve skill levels in the labour force (better internship programmes, review Skills Development Levy)</p>
Better national capabilities to mobilise financial resources	<p>Review labour laws, policies and regulations so they are in line with international standards</p> <p>Improve Tanzania's ranking on the corruption index through better public awareness, and by introducing multiple channels for reporting corruption (including a web-based bribe reporting platform), developing a curriculum on ethical education in schools and implementing an integrity pledge</p> <p>Improve Tanzania's commercial dispute resolution system</p> <p>Create an enabling environment for issuing local government bonds (new measures for revenue collection, expenditure management, improved financial reporting by local government authorities, approvals from government for specific projects to be financed through the bond programme), issue a municipal bond in the local market for strategic infrastructure</p> <p>Expand financing through PPPs by fully operationalising the PPP Division within the MoFP, strengthening the PPP Facilitation Fund for project appraisal and development and developing PPP pipeline projects</p>