Implementing Tanzania's Second Five Year Development Plan 2016/17–2020/21: Linking government plans with donors and business[1]

INTRODUCTION

The Government of Tanzania (GoT) launched its Second Five Year Development Plan (FYDP II) for *Nurturing Industrialisation for Economic Transformation and Human Development* in 2016 and is finalising the FYDP II Implementation Strategy (IS). Both documents represent important milestones in the GoT's ongoing push towards industrialisation, but industrialisation cannot be achieved through government action alone. Other actors play an important role. Effective state–business relations are crucial to making industrialisation a reality because it is the private sector that realises most manufacturing investment and jobs. The role of donor grant aid is declining in the national economy but donors can promote other ways to engage, for example through development finance institutions (DFIs) or foreign direct investment (FDI) that may help in achieving the scale and ambition of the FYDP II.

In order to link government plans in the FYDP II with donors and business, this briefing does four things. It first summarises the FYDP II, then presents the main pointers in the FYDP II IS and thereafter discusses possible entry points for other actors. It concludes with next steps in relation to how business and donors can engage with the FYDP II.

TANZANIA'S SECOND FIVE YEAR DEVELOPMENT PLAN IN A NUTSHELL

Tanzania's FYDP II has a dual focus on **growth and transformation** and **poverty reduction**. There are **four priority areas** for action: (i) fostering economic growth and industrialisation; (ii) fostering human development and social transformation; (iii) improving the environment for business and enterprise development; and (iv) strengthening implementation effectiveness.

The Plan emphasises interventions to promote **industrialisation**, including establishing special economic zones (SEZs)/export processing zones (EPZs) and industrial parks, strengthening research and development (R&D), promoting local content and developing capacity. The **priority sectors** include automotives; petrol, gas and chemicals; pharmaceuticals; building and construction; agriculture and agro-processing (cotton to clothing, textiles and garments, leather); coal; and iron and steel. The Plan also supports value addition and beneficiation in metal and minerals industries, and looks to improve agricultural productivity and deepen agricultural value chains.

The FYDP II contains a number of interventions to promote **human development and social transformation**. These focus on education and skills development; health delivery systems; water supply and sanitation; urban planning, housing and human settlements; food security and nutrition; social protection; and good governance.

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Several **flagship projects** are prioritised and expected to yield large positive multiplier effects. These focus on revising the national air carrier, skills development and developing the Central, North-West and Mtwara Development Corridors.

The Plan embodies a **'business unusual'** spirit, targeting more effective **implementation** to be led by the Ministry of Finance and Planning (MoFP), and embracing and promoting strategic partnerships with the **private sector**, which is expected to lead investments to drive industrialisation. In turn, the GoT will provide a conducive policy and regulatory framework, as well as land and supportive infrastructure for industrial development.

The estimated cost of implementing the FYDP II is TZS 107 trillion (around $47.9 billion, or 13.6% of Tanzania's forecasted gross domestic product (GDP) in current US dollars for the full FYDP II period from 2016 to 2021),[2] of which it is envisaged the private sector will contribute TZS 48 trillion. Financing the Plan requires the **mobilisation of domestic revenues**, new financing options such as public–private partnerships (PPPs) and non-governmental resources, as well as policies to ensure the **effective use of finance**.

The Plan includes a **monitoring and evaluation framework** – an important step towards ensuring effective implementation. This defines both general and specific indicators and targets for tracking progress and demonstrating results.

THE STRATEGY FOR IMPLEMENTING TANZANIA'S FYDP II

The 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. It thus has a central role in coordinating support from both the public and private sectors around an agreed set of principles, priority areas and interventions to drive industrialisation, economic transformation and human development in Tanzania and propel the country towards middle-income status by 2025.

The IS comprises four components: (i) an **action plan** to implement 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.

Preparation of the IS is being undertaken in stages, with each focusing on specific sectors. Three value chains (**cotton to textiles**, **leather to leather products** and **pharmaceuticals**) are prioritised for the first stage of FYDP II implementation on the basis of their employment creation prospects, opportunities to create local value chains with downstream value-added processing and potential to supply rapidly expanding domestic and/or international markets. Two cross-cutting themes are also prioritised: **SEZs and industrial parks** (to support industrial production and export-led industrialisation and boost Tanzania's competitiveness) and **urbanisation and urban development management** (to effectively manage the anticipated surge in the physical growth of Tanzania's urban areas over the next few decades).

Priority actions to raise 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. In turn, 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 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.

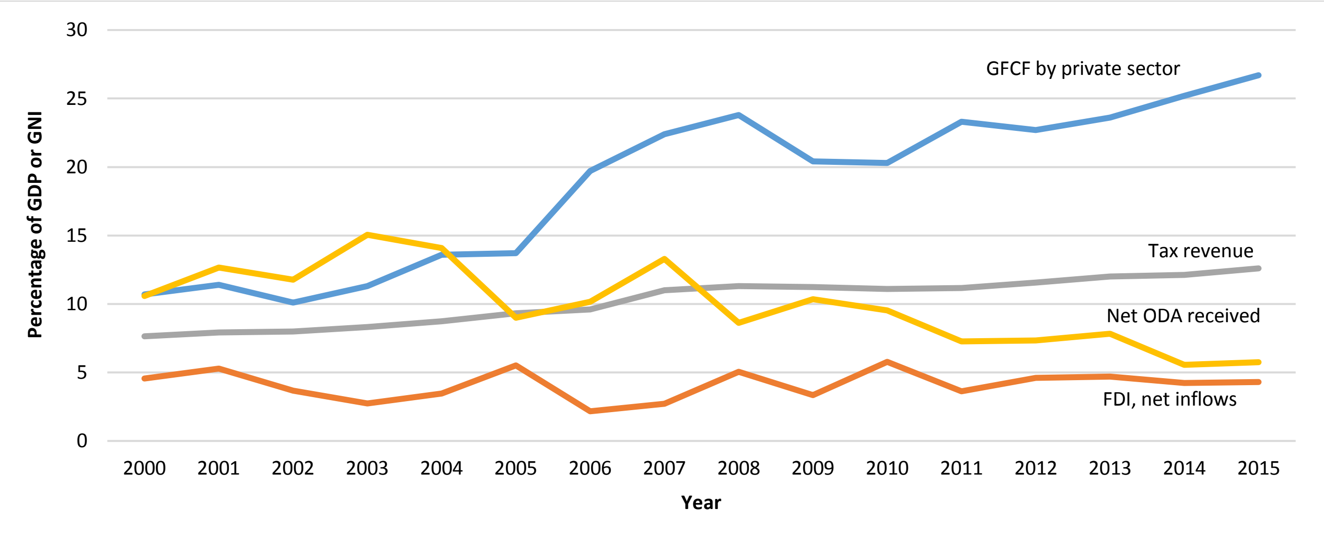
[2] Based on International Monetary Fund annual forecasts of Tanzania's GDP between 2016 and 2021.

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's **urbanisation and urban development management** agenda. The actions earmarked for the FYDP II period in these cities and towns will provide reference points for the whole country. Up to now, specific activities have been devised for Dodoma and Mwanza.

Figure 1 provides a broad overview of trends in Tanzania in different types of financial flows within four categories by comparing flows of tax revenue (domestic public finance), net official development assistance (ODA) (international public finance), gross fixed capital formation (GFCF) (domestic private finance) and FDI (international private finance) for the period from 2000 to 2015. This clearly illustrates the declining influence of international sources of finance relative to domestic sources in Tanzania. While aid flows (net ODA) have declined as a proportion of gross national income (GNI) (aid flows have not kept pace with steady economic growth, especially since the onset of the global economic crisis and the ensuing fiscal constraints in donor countries, but also as a result of a fall in general budget support from donors),[3] and FDI flows have been relatively stagnant (when measured as a percentage of GDP), GFCF by the private sector has increased sharply as a share of GDP, and there has been some growth in tax revenues (as a percentage of GDP) over the period.

Figure 1. Comparison of trends in specific types of domestic public, international public, domestic private and international private finance flows in Tanzania, 2000–2015



Notes: Net ODA received is expressed as a percentage of GNI (not GDP). Tax revenue data for 2015 are a Tanzania Revenue Authority estimate as reported by Reuters (see http://www.reuters.com/article/tanzania-tax-idUSL5N1F821J)
Sources: World Bank WDI (for FDI and net ODA); IMF World Revenue Longitudinal Data (for tax revenue to GDP); Tanzania National Bureau of Statistics Statistical Abstracts (for GFCF by the private sector).

To finance implementation of the FYDP II, the GoT will look beyond traditional sources and **develop innovative ways to mobilise financial resources** – including sovereign bonds, a pension equity fund, local government bonds, national climate and natural resource funds and PPPs. It will also **expand the**

[3] To some extent, the trend of declining aid flows relative to GNI also reflects measurement problems, since increasing aid from non-Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee countries is not comprehensively recorded in these statistics, especially in relation to aid flows from China.

role of national DFIs, improve **investment promotion capacity and incentives to attract FDI** and **expand the tax base**.

MAIN THEMES FOR FINANCING ACTORS

Significant support from financing actors (both public and private) is required to fund implementation of the FYDP II. This support will be coordinated around a number of overarching themes that link directly to the interventions targeted in the FYDP II IS. Specifically, the GoT will actively seek finance and match it to the themes and support activities summarised in Table 1. The types of support activities are grouped into three broad categories: (i) capacity-building for policy development/investment climate reform; (ii) finance for infrastructure development and urbanisation; and (iii) support for mobilisation.

Table 1. Key themes and support areas for which the government will actively seek public and private financing to support FYDP II implementation

Theme	Specific areas where support from financing actors could be directed	Relevant FYDP II priority sector(s)	Role of private sector (mainly domestic)	Role of donors (aid, loans/DFIs, FDI)
Capacity-building for policy development/ investment climate reform	Construction of factories and plants Upgrading and modernising technology and equipment	Manufacturing (cotton to textiles; leather to leather products; pharmaceuticals; coal, iron and steel; petro, gas and chemicals; building and construction materials) Mining	Improved lending from banks and other institutional investors to finance investments	FDI into construction of factories and/or to facilitate technology transfers Imports of modern inputs and technology from donor countries
	Developing productive capacity (including in value addition and beneficiation) Effective standards, grading systems, and quality assurance and control	Manufacturing (especially cotton to textiles; leather to leather products; pharmaceuticals; coal, iron and steel; petro, gas and chemicals; building and construction materials) Mining and metals Agriculture	Improved bank lending to SMEs (e.g. through less stringent collateral requirements) Access to finance for SMEs from capital markets, venture capital firms, etc. Institutional investors (e.g. insurance companies) to transform risks associated with SME financing	Grant aid Technical assistance (TA) from donors FDI in productive and processing capacity
	Investment promotion and incentives	All sectors	Liaise with large potential investors	Grant aid (e.g. Invest Africa) TA from donors
	Labour regulations and legislation Training and skills development to meet the demands of priority industries	All sectors	Needs good relationship with private sector	Grant aid (e.g. Invest Africa) TA from donors
	Combatting corruption Ensuring good leadership, governance, accountability and transparency	All sectors	Private sector representatives and industry associations to lobby for reform	Grant aid

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Finance for infrastructure development and urbanisation	Developing SEZs, industrial parks and logistics centres (project management, land acquisition/compensation, on-site/off-site infrastructure), including in key development corridors	Manufacturing	PPPs Private sector zones (e.g. some Chinese private interest)	International Finance Corporation programme for SEZs Non-concessional finance FDI into SEZs/ industrial parks
	Expanding, upgrading and modernising transportation (road, rail e.g. construction of Central Railway system, ports, airport), energy, water and information and communication technology infrastructure	All sectors	PPPs Infrastructure as an alternative asset class for private investors (e.g. banks and institutional investors to finance infrastructure investments)	Grant aid Concessional loans (e.g. World Bank Dar Urban Transport Project) Non-concessional finance
	Policies for urban planning and management Institutional framework and mandates and responsibilities for urban management Green growth	n/a	PPPs and private sector financing for urban space development projects	Grant aid Concessional loans (e.g. World Bank Urban programme) International green and climate financing (e.g. project or capital development grants) from development banks (e.g. a Green Bond programme) TA from donors
Support for mobilisation	Better access to finance for firms Support for industrial projects from national DFIs	All sectors	Improved bank lending	Targeted finance by DFIs
	Mobilisation of alternative financing sources (credit rating, national climate and natural resource funds, local government bonds, PPPs) for implementation	All sectors	Active role for private sector (including through PPPs)	DFIs
	Planning and institutional coordination across government ministries, departments and agencies	All sectors	Needs good relationship with private sector	Grant aid (e.g. Invest Africa) TA from donors
	Frameworks and systems for monitoring and evaluation	All sectors	Needs good relationship with private sector	Grant aid TA from donors

Grant aid and technical assistance from development partners can play an important role in supporting capacity-building for policy development (e.g. for the development of national standards and quality control systems, to promote investment or for training and skills development); combatting corruption and supporting good governance and transparency initiatives; financing infrastructure development and urban development management; funding initiatives to improve planning and institutional coordination; and supporting the design and implementation of effective systems for monitoring and evaluation. For their part, DFIs can help mobilise financial support (including through alternative financing sources) for key FYDP II industrial projects. In turn, FDI can be promoted and facilitated towards the construction of factories and manufacturing plants in Tanzania, while the spillover effects of FDI can facilitate the transfer of technology to domestic suppliers and help build local productive and processing capacity. Foreign investors are also expected to play a key role within Tanzania's industrial parks and SEZs. Finally, private sector exports from donor countries can also support the objectives of the FYDP II, for example by providing access to the modern inputs and technology required for manufacturing high-quality value-added goods or delivering higher-value services in Tanzania.

BRINGING TOGETHER FINANCING ACTORS TO SUPPORT FYDP II IMPLEMENTATION: NEXT STEPS

Both public actors and other financing actors can play important roles in supporting the implementation of Tanzania's FYDP II. For its part, the GoT will **prioritise plans and actions** to drive industrialisation, economic transformation and human development (preparation of the FDYP II IS represents an important step in this direction) and **communicate** these priorities effectively to both domestic and international actors. Clear messages relaying what the GoT, and specifically the Planning Commission within the MoFP, stands for and what it wants to achieve going forward, **together with clear signals to the private sector, Tanzania's development partners and other financing actors** communicating why particular interventions have been prioritised, what specific support is required and what can be achieved if the priority actions are supported, will help **build consensus** around a shared vision for the direction of Tanzania's economic transformation strategy. It will help set priorities for budget allocations, motivate investment decisions and guide priorities by development partners. This needs new discussions around new topics with new actors.

Pro-active and confident engagement with development partners and clear communication on the specific areas in which donor support can be most effectively directed will help direct donor support to where it is most needed. For example, the GoT will engage with donors, DFIs and foreign investors through regular and open dialogue (e.g. question and answer meetings) around the agenda to develop SEZs and industrial parks in Tanzania. Similarly, pro-active engagement with development partners will help attract grant funding to support investment promotion; infrastructure expansion and modernisation; skills development and training initiatives; capacity-building for improved planning and institutional coordination; effective monitoring and evaluation; and other FYDP II priorities.

Development partners offer grant aid and technical assistance, but also provide development finance, investment guarantees and export guarantees for much-needed imports and other sources of finance. The GoT and partners will hold regular discussions as equal partners to discuss relationships on development finance, trade and private investment. An important first step is to acknowledge the contribution that DFIs and export credit agencies can make to capital-intensive projects elaborated in the FYDP II.

Commitment from the GoT towards **regular and open dialogue with the private sector** (e.g. through question and answer meetings with private sector firms and business associations), and its willingness to listen to private sector concerns and needs and act accordingly, will help build trust with the private sector and coordinate private sector support around strategic issues discussed in the FYDP II. Development partners and other financing actors can support this process by helping build public sector capacity to engage with private sector networks and, at the same time, build capacity within private sector umbrella organisations and sector-specific business associations to represent and communicate private sector interests credibly and effectively. Donor grant aid and technical assistance could also be directed to building effective mechanisms and institutional arrangements for public–private sector collaboration.

Much of this will rely on the government actively seeking finance from the right type of actors at the right time to facilitate implementation. It also requires strong **leadership** and effective **coordination** *within* the GoT. Designating a strong public agency or implementation unit with sufficient autonomy, budgetary control and political authorisation to override barriers to effective coordination across ministries, departments and agencies will help ensure interdepartmental coordination in the implementation of FYDP II projects. Such an agency or unit could also play a lead role in monitoring the implementation and impact of FYDP II projects and evaluating and adjusting FYDP II plans and priorities as necessary.