SUPPORTING ECONOMIC TRANSFORMATION

FINANCING TANZANIA'S NATIONAL FIVE YEAR DEVELOPMENT PLAN 2016/17-2020/21

Event report

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October 2018

Industrialisation is a priority for the fifth-phase government in Tanzania. In 2016, the Government of Tanzania (GoT) launched its National Five Year Development Plan 2016/17–2020/21 (FYDP II). The FYDP II focuses on '*Nurturing Industrialisation for Economic Transformation and Human Development'* and puts forward an exciting policy to promote Tanzania's industrialisation agenda. The launch of the FYDP II was followed in 2018 by GoT's first-ever implementation strategy, detailing priority areas of focus and actions to make Tanzania's industrialisation goals a reality. The 2018/19 national budget is similarly geared towards industrialisation.

However, financing Tanzania's ambitious industrialisation agenda remains a challenge (The Citizen, 2018). An estimated TSh 107 trillion is required to implement the FDYP II. Recent reports suggest GoT requires as much as $14.1 billion (around TSh 31.8 trillion) to finance up to 30 projects prioritised for implementation and designed to support the goal of becoming a diversified, semi-industrialised economy (Malanga, 2018).

The financing needs are especially acute in manufacturing, a sector that is expected to be a crucial driver of industrialisation and economic transformation. Accessing financing for manufacturing activities remains difficult, even though Tanzania's manufacturing sector grew by 7.8% in 2016 (up from 6.5% in 2015) and employment in the sector continues to expand. Manufacturing received just 10.9% of total credit extended by banks to major economic activities in Tanzania in the year ending June 2018, down from 11.4% in the previous year (Masare, 2018; The Citizen, 2018).

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Given the scale and urgency of these financing needs, together with the increased momentum towards involving the private sector in implementing the FYDP II and the growing interest in understanding the potential role of public–private partnerships (PPPs), GoT, with the support of ODI's Supporting Economic Transformation (SET) programme, convened a Technical Working Session in Dodoma on 4 October 2018 to discuss financing implementation of the FYDP II and,

KEY MESSAGES

- Publication of the FYDP II and accompanying implementation strategy represents a significant step. There is increased momentum to implement Tanzania's industrialisation agenda.
- Financial resource mobilisation is critical to achieving this agenda.
- Frequent monitoring of the mobilisation of finance for FYDP II interventions is necessary.
- A conducive environment for PPPs in Tanzania is gradually emerging and GoT has made important strides in creating a suitable legal, regulatory and policy framework to support PPP development. There is also a high level of demand for projects that are amenable to PPPs.
- But inadequate capacity to identify appropriate PPP projects, insufficient financial resources, a local private sector that is not well positioned to participate in PPPs and underdeveloped local capital markets still affect the implementation of PPPs in Tanzania. There is a need to strengthen GoT's capacity to put forward PPP projects to investors.
- The private sector can be involved in industrialisation in different ways and in different roles, as financiers, contractors, operators, producers or advisors. Not all involvement from the private sector must come through PPPs.
- GoT has identified 13 proposed PPP projects and a further six projects earmarked for other financing modalities. The prioritisation of projects provides an excellent platform from which to focus activities, but effective coordination across ministries, departments and agencies (MDAs) is necessary, including the need to consider projects collectively in assessing their viability.
- The identified projects can be clustered as manufacturing, special economic zones (SEZs), energy, transport and other projects.
- The implementation of these projects is seen as a key step towards realising Tanzania's industrialisation goals but GoT requires support to mobilise financial resources for their implementation. This may involve PPPs or other financing arrangements.
- The scale of financing required for the proposed PPP projects (around $10 billion) represents a massive leap in comparison with historical trends.
- Trust, prioritisation, capacity, financial and risk structuring, technical specifications, transparency, effective PPP laws and well-functioning PPP units are features of successful PPPs internationally.
- Non-financial issues, such as policy and regulatory issues, are also important for leveraging investment opportunities.
- Some projects – such as the proposed manufacturing projects – do not typically involve PPPs. Nevertheless, they still present good prospects for private sector involvement; and will require government participation followed up with targeted and coordinated investment promotion, including to attract foreign direct investment (FDI). This involves more than simply getting the basics right and will require approaches targeted to specific investors.
- The various components of SEZ development require different types of financing and significant coordination. Tanzania could consider establishing working groups for SEZs in Bagamoyo, Kibaha, Kigoma, Kurasini and Mtwara to overcome hurdles preventing further progress.
- Tanzania can build on existing PPP experience in the energy sector, and some of the proposed projects (e.g. Dodoma solar or regional gas distribution) could be fast-tracked as PPP pilots.
- The scale of financing required for the railway infrastructure projects is in a different league to that in the other projects. Attracting investment for projects of this nature can be difficult and it may be challenging to involve private sector investors. The focus here should be on getting the long-term financing.
- Further prioritisation of the selected projects is necessary. In narrowing down the list, the inclusivity, locational advantages, multipliers and linkages to support other major economic activities and readiness of these projects could be considered.
- It will be important to build a narrative around specific projects and find champions to promote them and coordinate actions.

specifically, of key FYDP II projects. This report documents the key points of discussion and issues raised.

TECHNICAL WORKING SESSION BACKGROUND, OBJECTIVES AND FOCUS

The Technical Working Session on FYDP II financing followed a meeting in Dar es Salaam in July 2018 of an ODI-SET delegation and Her Excellency, Samia Suluhu Hassan, Vice President of the United Republic of Tanzania, Honourable Minister of Finance and Planning Dr Philip Mpango and other high-ranking GoT officials to discuss how to speed up FYDP II implementation and make the next step towards industrialisation in Tanzania. In the period between the meeting in July and the Technical Working Session in October, the Vice President sent a directive to the minister of finance and planning to prepare for a meeting on FYDP II financing. Subsequently, a technical committee comprising officials from different government MDAs was established by the Ministry of Finance and Planning, as a result of the meeting between ODI and GoT in July. This working group was tasked with identifying and preparing briefs for priority projects boasting potential to attract private sector financing, either directly or via PPPs.

The Technical Working Session on 4 October provided an opportunity to present and discuss the various projects selected by the technical committee and identify possible ways forward for these projects. It also afforded a chance to discuss financing industrialisation in Tanzania more generally, including successes and challenges and the respective roles of the public and private sectors (and PPPs), and to outline possible next steps to promote effective participation of the private sector in development projects.

Prior to the start of the Technical Working Session, a separate meeting was held between Honourable Minister of Finance and Planning Mpango, the Deputy Minister of Finance and Planning, the ODI delegation and a selection of officials from the Ministries of Finance and Planning, Transport and Energy, as well as the State Mining Corporation. Minister Mpango stressed that securing private sector financing for specific projects would provide an enormous boost and lessen the immense burden on the national budget. He highlighted the energy and infrastructure (especially railways, but also ports and air transport) sectors as critical for industrialisation and emphasised GoT's desire to work with the private sector on these projects. Minister Mpango suggested that a follow-up high-level meeting be arranged in the wake of the technical session (date to be confirmed) to focus on a shorter list of specific priority projects to target for financing and to convene potential financiers.

KEY MESSAGES FROM THE TECHNICAL WORKING SESSION PRESENTATIONS AND DISCUSSIONS

The technical working session was attended by 64 participants, representing the Vice President's Office, the Prime Minister's Office, various ministries (Agriculture; Energy; Finance and Planning; Foreign Affairs and East Africa Cooperation; Industry, Trade and Investment; Minerals; Works, Transport and Communication), the Bank of Tanzania, the Export Processing Zones Authority, the National Development Corporation (NDC), the National Institute for Productivity, the Tanzania Electric Supply Company (TANESCO), the Tanzania Petroleum Development Corporation, the Tanzania Railways Corporation, TIB Development Bank, the State Mining Corporation, the Sugar Board, academia (the College of Business Education, the University of Dodoma), the Embassy of Denmark and ODI.

KEYNOTE PRESENTATIONS

Dr Lorah Madete, Principal Economist in the Policy Analysis Department of the Ministry of Finance and Planning, opened the session. Dr Madete emphasised how important resource mobilisation is to achieving Tanzania's industrialisation agenda and reiterated GoT's desire to bridge the gap with private financiers. She explained that most of the projects selected by the technical committee were taken from the FYDP II and cover key economic sectors (agriculture, energy, human capital, industry, minerals and transport).

Dr Madete outlined GoT's efforts to build a suitable framework for PPPs in Tanzania and explained the evolution of PPP legislation and regulations in the country. A PPP policy was introduced in 2009, followed by enactment of the PPP Act in 2011 (amended in 2014) and PPP regulations in 2014. A PPP unit has now been established in the Ministry of Finance and Planning to oversee implementation of the PPP framework. In addition, training in the management of PPPs has been provided to 800 officials from various MDAs.

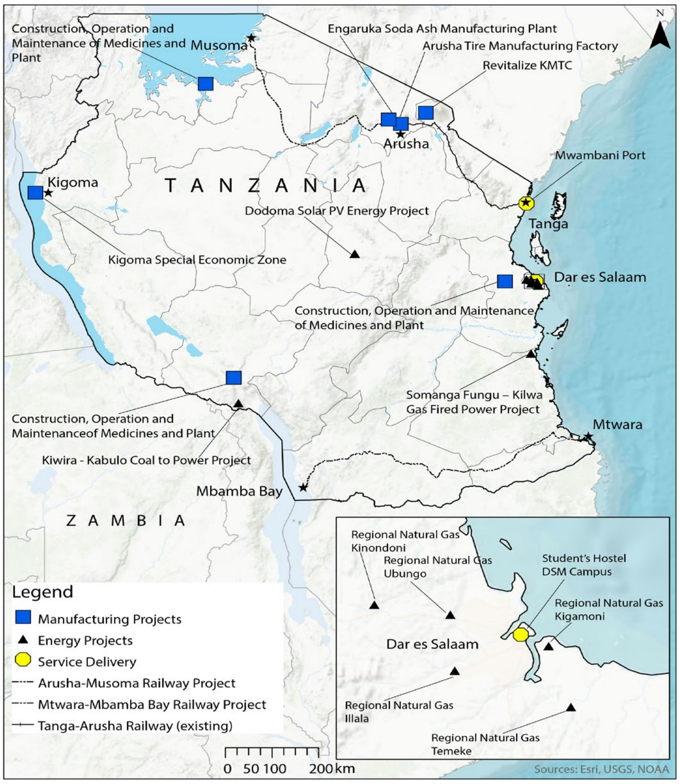
Dr Madete stressed that, while a conducive environment for PPP implementation is gradually emerging, more work is needed. The main challenges affecting the implementation of PPPs in Tanzania relate to:

- inadequate capacity to select and implement PPP projects
- insufficient financial resources
- the infant local private sector that is not well positioned to participate in PPPs and
- underdeveloped local capital markets for providing long-term financing instruments for PPP projects.

Nevertheless, there are promising opportunities in Tanzania to capitalise on PPPs. Dr Madete highlighted the presence of a conducive political, legal and institutional framework for PPPs as well as the high level of demand for projects that are amenable to PPPs, including in the energy sector (e.g. oil and gas, electricity generation and distribution). This, she explained, is complemented by strong economic growth and a large endowment of natural resources.

Turning to the projects specifically identified by the technical committee, Dr Madete explained that all 19 projects were initially earmarked in the FYDP II. Of those, various PPP modalities are proposed for 13 projects (mapped out in Figure 1), while other financing modalities are being encouraged for the remaining six projects. The implementation of these projects is seen as a key step towards realisation of the goals of the Tanzania Development Vision 2025. Dr Madete indicated that the GoT is requesting support from ODI to identify mechanisms to mobilise financial resources for implementing the proposed projects, which may involve PPPs or other financing arrangements. GoT is also seeking to collaborate with ODI to enhance technical capacity in the areas of financial planning and management.

Figure 1: Map of proposed PPP projects in Tanzania



Source: ODI, based on information supplied by GoT.

Dr Madete's introduction was followed by a presentation from the ODI-SET team (Dr Dirk Willem te Velde and Dr Neil Balchin). Dr te Velde summarised SET's past work supporting the Planning Commission and, more recently, the Ministry of Finance and Planning, which has included analytical support and assistance to convene actors for the preparation of the FYDP II. This contributed to the launch of the FYDP II in 2016, since which SET has supported the development of an implementation strategy for the FYDP II, including by convening a meeting to involve the private sector in implementation of the Plan. This culminated in publication of the FYDP II implementation strategy earlier this year.

Dr te Velde argued that it is now important to consider the next steps and think carefully about implementation, particularly within the wider context of Tanzania's drive towards industrialisation and how PPPs might fit into this process. He highlighted the challenges and opportunities in African manufacturing and stressed the importance of good quality industrial policy. There is a great deal of scope for improvement in Tanzania with respect to targeted industrial policy that coordinates a range of stakeholders around industrialisation goals and builds mutual trust and recognition.

Dr Neil Balchin then summarised certain key elements of the FYDP II, emphasising that the Plan shows strong prioritisation of industrialisation and commitment from GoT to economic transformation. He added that effective implementation of industrial policies, including those outlined in the FYDP II, is crucial to realising Tanzania's goal of industrial development. In this respect, publication of the FYDP II implementation strategy in June 2018 represents a significant step and there is now increased momentum to implement the industrialisation agenda.

Dr Balchin provided some illustrative examples of FYDP II interventions to support economic transformation in Tanzania, distinguishing between public actions that support structural change (i.e. the movement of resources from low- to higher-productivity sectors) and those that support within-sector productivity growth (from low- to higher-productivity activities within a sector). Within these two categories, he distinguished further between horizontal, cross-sector interventions aimed at improving fundaments (such as investment climate reform or upgrades to railway, road and port infrastructure) and targeted, sector-specific interventions (such as establishing SEZs and industrial parks for textiles, leather and other sectors, and plans to revamp General Tyre or promote PPPs to support manufacturing).

Dr Balchin also highlighted recent trends in domestic and international public and private finance flows in Tanzania. He showed how the contributions of international sources of finance – official development assistance and FDI – have declined since 2000 relative to domestic sources, when measured as shares of gross domestic product (GDP) or gross national income. Growth in domestic gross fixed capital formation by the private sector has been particularly strong.

Dr Balchin concluded by emphasising the importance of monitoring the mobilisation of financing for FYDP II interventions on an ongoing basis. He suggested monitoring activities could focus on tracking overall progress in mobilising the TSh 107 trillion required to implement the Plan, as well as more specific progress in generating a larger domestic revenue base, mobilising finance from traditional and non-traditional development partners, attracting higher levels of FDI, using new innovative financing and resource mobilisation mechanisms and enhancing the capacity of national development finance institutions (DFIs) to support industrialisation.

Dr te Velde resumed by outlining the different ways of involving the private sector in industrialisation. These include in the roles of financier, contractor, operator, producer or advisor. In many cases, these roles differ across sectors, for instance in service delivery or manufacturing. Dr te Velde stressed that involving the private sector is important for a variety of reasons, but not all involvement has to come through PPPs. He argued it is necessary to keep in mind the different ways of involving the private sector in the various projects.

Dr te Velde explained that the proposed PPP projects require around $10 billion in financing, which represents a massive leap in comparison with historical trends. The World Bank's Private Participation in Infrastructure database indicates there have only been 11 PPP projects over 26 years in Tanzania, covering different modalities, with a combined value of just $815 million. Nevertheless, it is encouraging that there is now new momentum behind PPPs in Tanzania.

International experience with PPPs indicates a range of different factors that contribute to their success. Referring to this experience, Dr te Velde explained that **trust** is key, and this requires building the relationship between the public and private sectors over a long period of time. This should involve meetings with the private sector, coordinated thinking about challenges and an open attitude to solving investor problems. **Prioritisation** is also important, and it is pleasing to see the natural progression in prioritising FYDP II projects. International experiences also show that sufficient public-sector **capacity** is a key factor for successful PPPs –

the government needs to be able to negotiate effectively with the private sector. In this respect, Dr te Velde suggested it is pleasing to see the programme of support GoT has put in place to train government officials on various aspects of PPPs. Issues need to be dealt with in a **transparent** way to prevent projects from being derailed. Finally, proper **financial structuring and technical specifications** together with **effective PPP laws and well-functioning PPP units** are key features of successful PPPs internationally.

Dr te Velde reiterated that it is very pleasing to see the prioritisation of projects in Tanzania, which provides a platform from which to focus activities. He noted there is a clear rationale behind the selected PPP projects, which complement each other well. However, he stressed that coordination across projects will be key. Dr te Velde suggested the selected PPP projects can be clustered into five different categories: (i) manufacturing projects (General Tyre, Soda Ash, Kilimanjaro Machine Tools, medicine plants), (ii) SEZs (Kigoma), (iii) energy (Dodoma solar, Somanga gas, Kiwira coal, regional gas distribution), (iv) transport (railways: Mtwara, Tanga; ports: Mwambani) and (v) other projects (student hostel).[1] On top of this, six other projects have been selected. The combined financing costs of the identified PPP projects is estimated at around $10 billion, and this is likely to increase further as the costing of some projects is yet to be confirmed. The total financing required for the six other projects is estimated at around $0.5 billion.

Dr te Velde argued that active, targeted investment promotion will be very important to attract investment into the various manufacturing projects. This requires targeted FDI promotion and involves more than simply getting the basics right. He cited the example of Ethiopia, where a senior ministerial team has made trips to China spanning several days for detailed discussions with prospective investors. This highlights the need to involve investors in discussions, which requires targeted approaches to specific investors around promising projects in key sectors (e.g. automotive, machine tools, resource-based manufacturing, pharmaceuticals). In many cases, such projects do not typically involve PPPs. Nevertheless, there are still good prospects for private sector involvement, which requires government participation followed up with targeted and coordinated investment promotion.

Turning to the energy cluster, Dr te Velde highlighted the variation in size and characteristics across the selected projects. He suggested Tanzania build on existing PPP experience in energy (e.g. Songas); and certain projects may serve as useful pilots for PPPs in Tanzania more generally.

Dr te Velde emphasised the important role SEZs can play in kickstarting industrialisation, although he acknowledged that experiences with these zones in Africa have been mixed. Developing effective SEZs requires significant coordination, particularly for investments in infrastructure, licensing and land acquisition and ownership. The different components of SEZs require different types of financing. Dr te Velde suggested GoT consider establishing SEZ working groups to take a small number of priority SEZs forward.

In reference to the infrastructure projects, Dr te Velde highlighted the scale of these projects, which are considerably larger than those in the other categories. Around $8.8 billion in finance is required

[1] The Dodoma solar, regional gas distribution and student hostel projects are consistent with those included in a recent World Bank/UK Department for International Development-supported workshop for PPP pipeline projects.

for just two infrastructure projects. Attracting investment for projects of this nature can be difficult, and it may be challenging to involve private sector investors; although there are different components of railways (e.g. rail, rolling stock, operation), some of which may be more amenable to private investment. The challenges involved in attracting investment for physical infrastructure are evident in the different experiences in other countries. Investment in railway development in Kenya, for instance, has increased the debt to GDP ratio significantly.

Dr te Velde concluded the SET presentation by arguing that while publication of the FYDP II and the accompanying implementation strategy were important steps, more needs to be done to implement and prioritise activities to support industrial development. This should be an ongoing process, and the Technical Working Session reveals good progress has been made and there is much willingness on the part of GoT to drive the industrialisation agenda forward. Targeted investment facilitation and promotion is required to involve the private sector in the selected projects.

Looking ahead, Dr te Velde recommended GoT should:

- seek investment in manufacturing firms through aggressive, targeted FDI policy
- develop/build on working groups for SEZs in Bagamoyo, Kibaha, Kigoma and Kurasini to overcome hurdles
- consider fast-tracking energy PPPs, such as the Dodoma solar and regional gas distribution projects
- consider the railway projects in a league on their own and focus on getting the long-term financing right.

Bringing actors together in targeted workshops can serve as a useful first step and help develop solutions together.

PLENARY DISCUSSION

A key area of discussion in the plenary session centred on which of the 19 identified projects should be prioritised and how. Attention was also given to how the projects should be financed and implemented, as well as the various factors that will influence the success of the selected projects going forward. Table 1 presents a thematic summary of various comments and suggestions made by participants.

Table 1: Thematic summary of key comments made in the plenary discussion

Theme	Comments
Motivation for project selection	The identified projects are expected to have large impacts on national development. [*Deusdedith Magala, State Mining Corporation*]
Project information	It is necessary to first improve the information provided for existing projects. *[Gabriel Migire, Ministry of Transport]* It is important to improve the project information, but this needs to be done in a targeted way. [*Dirk Willem te Velde, ODI*]
Project coordination	The map of proposed PPP projects does not show the connectivity between projects. It is not always possible to see the viability of some projects when they are looked at individually; they need to be considered collectively. It is especially important to look at the selected projects in conjunction with other ongoing projects and the resources located in the project areas. The projects are cross-subsidising each other, both within and across sectors. [*Gabriel Migire, Ministry of Transport*] Coordination externalities are very important – the profitability of one project is often dependent on the profitability of another. [*Dirk Willem te Velde, ODI*] Projects must be coordinated well. For instance, are there supporting power projects for the standard gauge railway in the south? Is there an electricity project to support the Kigoma SEZ? This requires looking at the projects within the context of the bigger picture. [*TANESCO representative*] The project profiles emphasise linkages among projects (e.g. energy and infrastructure projects that support the national agenda on industrialisation are prioritised). [*Deusdedith Magala, State Mining Corporation*]
Prioritising projects	A list ranking and prioritising projects should be produced. Other ongoing projects need to be considered together with the 19 projects that have been selected. [*Gabriel Migire, Ministry of Transport*] Criteria used to prioritise projects should include: 1. what level of inclusion of the population the project brings (the project's employment creation impact is important, as are potential multiplier effects) 2. the geo-advantage provided by the project's location (e.g. Kigoma SEZ would impact not only Tanzanians but many other people in the region as well) 3. support to other major economic activities. [*Prof. Peter Msoffe, University of Dodoma*] When prioritising projects, a key issue to consider is the readiness of specific projects. Some projects are only at the concept level (i.e. very preliminary stages). GoT should have a bankable document and start with projects where feasibility studies are already in place. Some feasibility studies need to be updated. [*Patrick Mongella, TIB Development Bank*]

Theme	Comments
Financing modalities	GoT's traditional approach of financing projects from the national budget is not optimal. It is necessary to look at what projects are cash flow-generating and can sustain themselves. These projects need to be separated from service provision projects. Projects that can generate cash flows should not be financed from the national budget. [*Patrick Mongella, TIB Development Bank*] There is a need to boost the capacity and level of capitalisation of national DFIs, to singularly participate in the provision of finance for projects as well as for syndicating and to solicit funds. [*Patrick Mongella, TIB Development Bank*] DFIs can play an important role, including to finance some infrastructure projects (e.g. ports). It might also help recapitalise national DFIs in Tanzania. [*Dirk Willem te Velde, ODI*] Different types of financing for SEZs are required at different stages of their development. DFIs can play an important role, particularly in the early stages of SEZ development. [*Neil Balchin, ODI*]
Challenges for PPPs in Tanzania	Trust is a major challenge. There is a need to invest in trust-building. [*Shafii Sigera, NDC*] GoT is still undergoing a process of alignment in terms of investment promotion. The Tanzania Investment Centre has a mandate to promote investments, but not PPPs. GoT realises it needs a different approach to PPPs, and a unit in the Ministry of Finance and Planning will be responsible for promoting PPP projects. There is a need to strengthen GoT's capacity to put forward PPP projects to investors. [*Cleophas Ruhumbika*, *Ministry of Industry, Trade and Investment*]
Critical success factors for securing private sector investment	The importance of non-financial issues should not be underestimated. These are upfront issues that are key to leveraging opportunities. Beyond selecting priority projects and thinking about financing and coordination, it is necessary to appreciate the importance of policy and regulatory environment issues that help harness private sector financing. There is a need to improve the regulatory environment in Tanzania to enhance domestic and international investors' appetite. [*Josaphat Kweka, Talanta International/ODI consultant*] It is important to build a narrative around specific projects and find champions to promote them and coordinate actions. [*Dirk Willem te Velde, ODI*] Targeted investment promotion is very important and should have a sectoral focus. Investment does not simply come in with project proposals and the right regulatory environment in place. These elements are important, but not sufficient on their own. The function of investment promotion, rather than any particular form, is key. [*Dirk Willem te Velde, ODI*]

Note: The comments and follow-up discussions outlined in this table have been paraphrased and do not represent direct quotes from the various stakeholders.

CLOSING REMARKS

Dr Madete closed the Technical Working Session by summarising several key points raised in the presentations and discussions. She made specific mention of the following:

- the importance of **coordination**, across both projects and the actors involved in financing and implementation
- the need for **targeted investment promotion** and attraction focused on specific investors
- the **importance of DFIs** – both national and international – as potential sources of finance
- the need to be cognisant of **non-financial factors** that affect the implementation of projects and prospects for attracting private sector investment
- the need to refine **criteria for prioritising projects**.

The technical committee, coordinated by the Ministry of Finance and Planning, met directly afterwards to discuss next steps, including on further prioritisation of the selected projects.

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