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MONITORING POLICIES TO SUPPORT INDUSTRIALISATION IN TANZANIA

An update and policy recommendations

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December 2018

Acknowledgements

This paper has been prepared by Josaphat Kweka (Talanta International). The author would like to thank Dr Dirk Willem te Velde and Dr Neil Balchin of ODI for their input.

CONTENTS

KEY MESSAGES

Industrialisation has been recognised as the overarching policy priority guiding the design and implementation of all policies and strategies aimed at achieving the objectives of Tanzania's Five-Year Development Plan 2016/17–2021/22 (FYDP II). The Government of Tanzania (GoT) has taken key steps and initiatives to spur implementation of the industrialisation objective, including by preparing a national strategy, identifying priority projects, strengthening the institutional framework to address coordination challenges and developing supportive infrastructure projects.

The key elements for developing a competitive manufacturing sector appear to exist in Tanzania but a number of constraints prevent it from being realised. Some constraints affect the implementation capacity of GoT, including inadequate financial resources, weak coordination across ministries, departments and agencies and an unfavourable regulatory environment. Others affect the competitiveness of firms, mainly through the high cost and inadequate availability of quality raw materials and intermediate inputs, skilled labour and affordable finance.

Implementation of FYDP II is largely hampered by the overwhelming amount of finance needed to drive progress in many of the priority strategic projects. Nonetheless, GoT is taking steps, including to leverage alternative financing mechanisms such as public–private partnerships (PPPs); recent amendments to the PPP Act (September 2018) are expected to improve efficiency in approving PPP projects. Even so, GoT needs to improve the overall environment for attracting large-scale investors by accelerating implementation of the Blueprint for Regulatory Reforms to Improve Tanzania's Business Environment. Furthermore, there is a need to consider ways of addressing the prevailing concern by foreign investors about opportunities for international arbitration in the event of disputes.

Public–private interaction appears to have improved in recent years. GoT, through the Ministry of Finance and Planning (MoFP), organised roundtable meetings with the business community in Dodoma to emphasise the important role of the private sector in the implementation of industrialisation plans. A report by the Confederation of Tanzania Industries (CTI, 2016) identifies key concerns and recommended measures for achieving the industrialisation strategy, most of which have been adopted by the Ministry of Industry, Trade and Investment (MITI). Both CTI and the Tanzania Private Sector Foundation (TPSF) claim to be supportive of GoT's industrialisation strategies and are keen to continue working with GoT to ensure implementation.

Going forward, GoT should look to:

- promote measures to foster manufacturing competitiveness and productivity, especially by addressing existing business environment challenges
- review the regulatory framework and streamline specific incentives for attracting large foreign direct investments and investors in strategic projects (including in special economic zones)
- review the priority strategic projects in order to narrow and sequence the list of projects, putting emphasis on the quick wins while adopting a longer-term approach to pushing for financing and implementation of the more difficult projects.

1 INTRODUCTION

As Tanzania gears towards its vision of becoming a middle-income economy by 2025, the National Five-Year Development Plan 2016/17–2020/21 (FYDP II), published in 2016, identifies industrialisation as the main policy objective and key driver of economic transformation. Indeed, the 5th Phase Government is relentlessly pursuing industrialisation as an overriding priority in the implementation of FYDP II. Such emphasis follows consensus in the literature that industrialisation plays a critical role in economic development (Martorano et al., 2017). Despite the importance and priority attached to industrialisation, though, progress on the ground has been slow, especially hampered by the overwhelmingly large amount of finance needed to push progress in many of the FYDP II flagship projects. Last year, the Government of Tanzania (GoT) prepared an action plan for implementing FYDP II. Ongoing monitoring of implementation and progress towards industrialisation is necessary to ensure the industrialisation agenda remains on track.

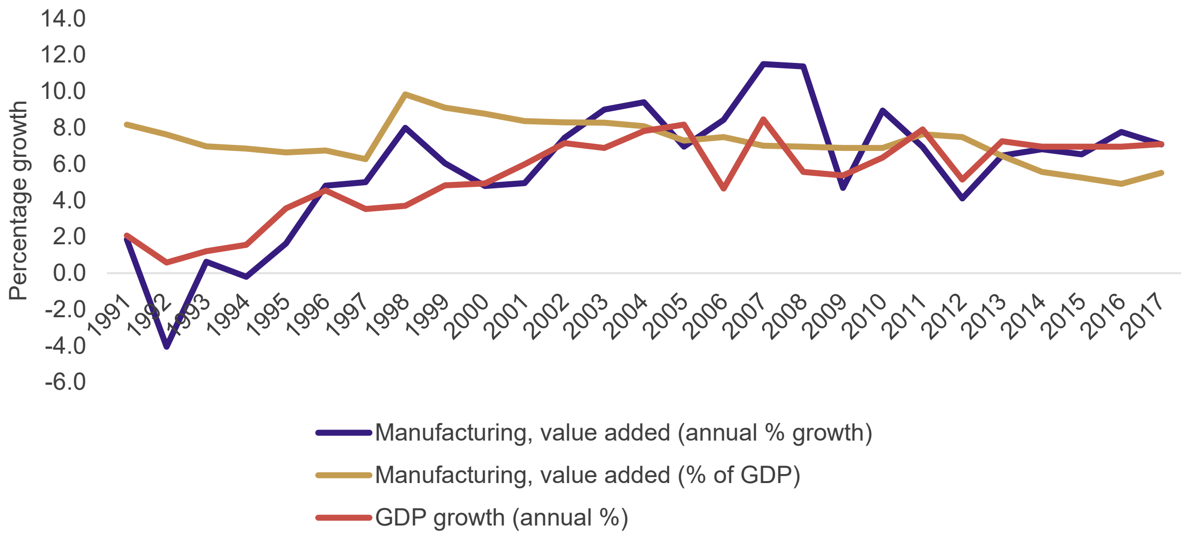
This paper provides an update on recent policy initiatives to support industrialisation in the context of FYDP II. It draws from various reports, literature and consultations. Section 2 provides an overview of the performance of the manufacturing sector, highlighting key opportunities and challenges. This is followed in Section 3 by an update on the recent policy initiatives undertaken by GoT to support industrialisation and a discussion of the extent to which such initiatives are aligned with good industrial policy. Section 4 focuses on recent measures to address financing challenges hampering implementation. The brief concludes in Section 5 with policy recommendations.

2 MANUFACTURING PERFORMANCE: CHALLENGES AND PROSPECTS

Industrialisation has been the main policy agenda for the 5th Phase Government, and is considered pivotal to realising Tanzania's ambition to become a middle-income economy by 2025. The industrialisation drive is consistent with the literature, which puts industrialisation at the centre of economic transformation, jobs and development (Martorano et al., 2017). Manufacturing is the core sub-sector driving industrialisation in most countries while also determining the long-run sustainability of an economy.

Figure 1 shows trends in manufacturing and gross domestic product (GDP) growth in Tanzania. Over the past three years, the manufacturing sector has been growing at an annual average of 9.8% but the share of manufacturing to GDP declined from 7.6% in 2011 to 5.1% in 2016 (BOT, 2017). This share is lower than the African average, which stands at 10%. Food and beverages account for more than half of Tanzania's manufacturing output. The formal manufacturing sector employed 95,678 people in 2016, which is an increase of 5% from 91,008 people in 2015. The most recent (2013) Census of Industrial Statistics by the National Bureau of Statistics (NBS) reveals that Tanzania has a total of 53,876 firms (NBS, 2018), but most of these (over 85%) are micro enterprises; medium and large enterprises account for just 0.8% of the total.

Figure 1: Trends in GDP and manufacturing growth in Tanzania



Source: World Bank World Development Indicators (2018)

The United Nations Industrial Development Organization (UNIDO) (2012) reports that, although Tanzania recorded very high growth in manufactured exports (31% per annum) in the early 2000s, which expanded from $129 million in 2000 to $1,904 million in 2010, these remained concentrated in a few products with low levels of value addition.[1] Manufacturing value added as a share of GDP mostly stagnated at roughly 9.5% between 2000 and 2010, and declined to around 6% between 2012 and 2015 – which is still below the average for the region, making Tanzania one of its least industrialised countries. Manufacturing's share of exports increased from 9.3% in 2000 to 22.3% in 2010, and further to 23.9% in 2015. Food and beverages alone account for nearly half of total manufacturing value added, followed by non-metallic mineral products (11%), tobacco (7%) and

[1] UNIDO data on manufactured exports is based on UN Comtrade data for 2000–2010. However, Bank of Tanzania (BOT) figures are much lower, perhaps depending on the definition of manufacturing exports used. Using manufactured goods exports, the BOT data show that manufactured exports increased from $43.3 million in 2000 to $964 million in 2010. After 2010, manufactured exports grew by around 5% per year from $861 million in 2011 to $1,277 million in 2015, and are projected to decline to $1,050 million in 2016.

textiles (5%). Industrial activity is largely concentrated in Dar es Salaam and to a lesser extent in Arusha. Recent initiatives have led to an increasing number of industrial establishments in the coastal region.

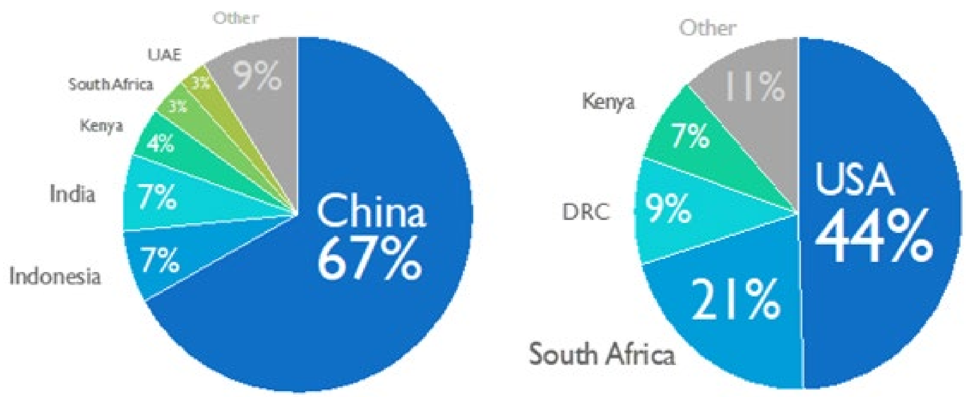
According to a recent budget speech by the Minister of Industry, Trade and Investment, about 3,306 industries have been established since the 5th Phase Government came to power in February 2018.[2] The speech noted further that, out of these, 393 are large establishments expected to employ 36,025 people. However, it is not clear whether these numbers are estimates from projects registered by the Tanzania Investment Centre (TIC) and Export Processing Zones Authority (EPZA) or recorded by actual factories.

Consistent with findings by Balchin et al. (2016), some sectors in Tanzania appear to have greater potential for growth than others, including agro-processing, fast-moving consumer goods and construction materials. For example, the domestic and export markets for textile products show enormous opportunity for pushing Tanzania's industrialisation (URT, 2016; TDU analysis, 2018).

Figure 2 shows an interesting dichotomy in the market for textiles in Tanzania. On the one hand, the fast-growing market for new clothes in Tanzania is dominated by Chinese imports; on the other, large-scale (mostly export processing zone (EPZ)) Tanzanian manufacturers export over 80% of clothing, mainly to the United States (through the African Growth and Opportunity Act). Furthermore, Tanzania's apparel industry is beginning to recover from its decline in the 1980s and 1990s, but remains relatively small in terms of production and employment (see Figure 3). Given the importance of the sector, the Ministry of Industry, Trade and Investment (MITI) launched the Cotton-to-Clothing (C2C) Strategy 2016–2020, a blueprint for the development of the cotton, textiles and apparel industry. The strategy targets annual exports of $150 million and 10,000 jobs by 2020.

Figure 2: Import and export of textiles and apparel, 2016

Sources of new clothing imports for Tanzania | Destination of Tanzanian exports of textile and apparel



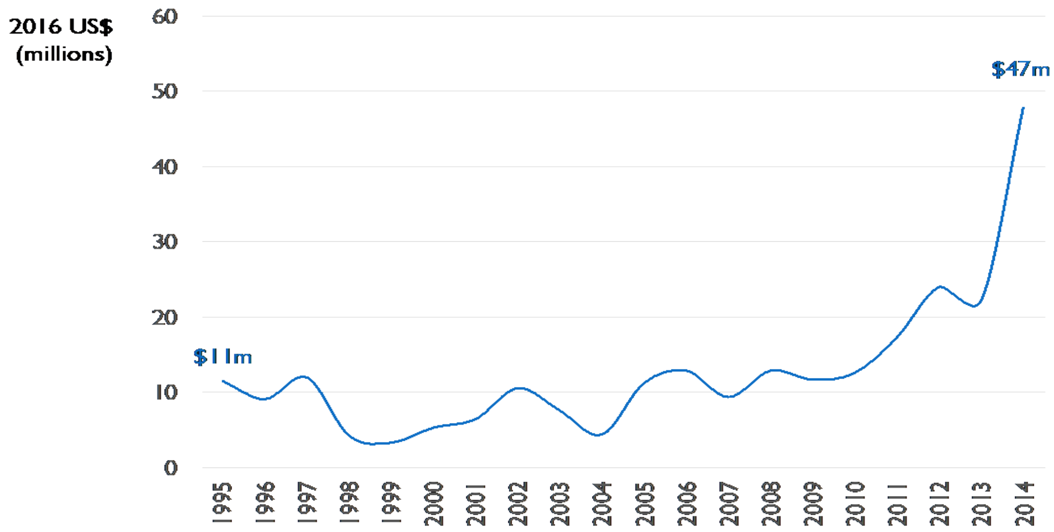
Source: TDU analysis (2018), data from UN Comtrade

Studies carried out in recent years have confirmed that Tanzania has potential to develop a competitive textile industry, but a number of constraints prevent that potential from being realised. It is therefore crucial to take advantage of the current policy drive to address the competitiveness constraints facing firms (which will be a core focus of the forthcoming FYDP III) in order to give each firm the best chance of success. The TDU study identifies a set of five factors as key drivers of competitiveness: (i) cost and quality of raw materials, (ii) cost and quality of labour, (iii) technology and productivity, (iv) supporting infrastructure and (v) business and regulatory

[2] https://www.dailynews.co.tz/news/here-comes-industrial-priorities.aspx

environment. Although these factors are identified in the context of the textile industry, they apply across the manufacturing sector.

Figure 3: Tanzanian clothing exports, 1995–2014



Source: TDU analysis (2018), data from UN Comtrade

Cost and quality of raw and intermediate materials

Agriculture remains one of the driving forces of industrialisation in Tanzania (Mufuruki et al., 2017). However, the small size of and poor technology used by agricultural production limits its ability to supply adequate raw materials to support industrialisation. For instance, Bakhresa Food Products wanted to invest in the UHT coconut cream industry but failed because of a lack of raw materials, and instead imported from Indonesia. Although Tanzania is the main grower of coconut in Africa, existing supply levels are insufficient to meet the raw material requirements for the factory, given the high demand for raw unprocessed coconut. The use of domestically produced raw material inputs for downstream processing is limited in other areas also. For instance, according to the Bank of Tanzania (BOT) (2017), only 40% of sunflower oil demand is met domestically (330,000 tonnes); the remaining 60% is imported. In August 2018, cement manufacturers reported a deficit in coal availability, and GoT responded by banning exports of coal to meet local demand – but the problem persists.

Cost and quality of labour

Tanzania is well positioned in some areas, with a large unskilled urban workforce readily available and a competitive wage rate of about $60–75 per month, but not in the availability of skilled and semi-skilled labour. More could be done to improve the quality and relevance of training provided through the Vocational Educational and Training Authority (VETA) and make it easier to hire skilled expatriates in Tanzania.

Supporting infrastructure

Power represents a significant portion of the costs of production (e.g. 35% for spinning in textile production), such that a fraction of reduction in the cost of power will have an enormous impact on firm-level competitiveness. According to TDU (2017), firms pay $0.12/kwh in Tanzania, which is four times higher than in Ethiopia ($0.04/kwh) and 25% more than in Kenya (which has introduced a subsidy for textile and apparel manufacturers to make it more competitive, bringing the costs down from $0.20/kwh to $0.09/kwh). Nonetheless, recent initiatives to implement energy projects have addressed challenges related to availability, although reliability is still a concern. These initiatives include addressing losses and inefficiencies in power generation, distribution and transmission, and additional capacity to the national grid from Kinyerezi II (167.82 MW) as of April 2018. Clearly, Dar port is a critical asset in reducing costs to improve competitiveness. However, efficiency of customs and other government departments needs further improvement to realise this advantage.

Business and regulatory environment

Tanzania enjoys favourable (domestic and export) market opportunities given existing preferential market access and a growing middle class, but the realisation of these opportunities is largely hampered by business environment challenges. These challenges include limited access to affordable finance, shortages in the availability of appropriate skills and difficulties associated with paying taxes. Tanzania's performance has also been deteriorating on a number of relevant Doing Business indicators. Firms also find it burdensome to comply with multiple charges and taxes by various agencies.

Operationalisation of the recently approved Blueprint for Regulatory Reforms to Improve Tanzania's Business Environment will be critical to addressing these challenges. The Blueprint proposes measures to improve the business-enabling environment and put in place a framework that facilitates regular reviews of the business climate in Tanzania. The document notes that, '*Government acknowledges that Tanzania still faces a number of policy and regulatory challenges which slow down the growth of the private sector and the industrialization*' (MITI, 2018). In addition, the Blueprint makes recommendations in a number of specific areas. These include, for instance, the need for tax relief to promote domestic industries (including raw materials for producing animal feed) and backward linkages to agriculture to support industrialisation. Other proposed measures include establishment of one-stop-service centres for investment and trade facilitation in order to guide investors, and incentives to the energy sub-sector to support industrialisation.

3 POLICIES TO SUPPORT INDUSTRIALISATION

3.1 Overview of the policy frameworks

To achieve the targets articulated in the Tanzania Development Vision (TDV) 2025, GoT has resolved to promote industrialisation as the core policy objective. In 2005, GoT also prepared the Mini-Tiger Plan 2020 to implement the Vision. This Plan led to the establishment of special economic zones (SEZs) and export processing zones (EPZs). In 2011, GoT adopted the Integrated Industrial Development Strategy (IIDS) 2011–2025 aimed at building a competitive industrial sector. Lastly, the Long-Term Perspective Plan 2011/12–2025/26, prepared to facilitate achievement of TDV 2025, paved the way for three strategies each covering five years: FYDP I (to establish the prerequisite infrastructure and energy necessary for industrialisation), FYDP II (to promote industrialisation as an engine for economic growth) and FYDP III (forthcoming).

The targets set in FYDP II portray the central role of the industrial sector in driving growth and transformation. By 2020, FYDP II aims to have increased Tanzania's average industrial growth rate to 10.5%, raising the sector's contribution to GDP to 12.5% and boosting employment growth in the industrial sector by 5.4% (MITI, 2017a). The prioritised sectors include resource-based industries – that is, agro-processing (textiles and garments, edible oil, meat and dairy processing, leather and leather products, fish processing, sugar production and cashew nuts processing); basic industries (Mchuchuma and Ngaka coal, Liganga iron ore and Engaruka soda ash projects, cement manufacturing and lapidary industries) and infrastructure and logistics services (Kurasini, Bunda and Bagamoyo SEZs). These priority sectors are similar to those suggested in Mufuruki et al. (2017).

3.2 Recent policy initiatives

The action plan for implementing FYDP II, published in July 2018, identifies four priority areas of intervention: (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. It also identifies a number of flagship projects, mostly on infrastructure. These are well summarised in Balchin (2017a). Below we highlight some of the recent policy actions.

GoT has undertaken a number of initiatives to set the economy on a steady path for future prosperity, including flagship infrastructure projects – namely, upgrading the central railway line to a standard gauge railway (SGR), expansion of Dar Port, Mchuchuma Iron Ore and Liganga Coal projects and Stigler's Gorge hydropower project. GoT has prioritised infrastructure on the list of strategic projects. According to the Confederation of Tanzania Industries (CTI), the availability of power has improved significantly. Other key initiatives include commitment to strengthen the business environment, sustained dialogue and traction with the private sector, a crackdown on corruption and increased accountability. While these initiatives are fundamental in determining government efficiency, real progress on industrialisation will depend to a large extent on how the policy interventions are translated into practical programmes to actively support firm competitiveness and attract investment. This is because most of the identified interventions are not associated with specific and measurable targets, making it difficult to evaluate progress.

However, through the blueprint initiative, GoT has shown real commitment to improving the business environment as a matter of policy priority. Information from the Prime Minister's Office (PMO) shows GoT is working on a monitoring and evaluation framework for implementing the blueprint. To address the skills gap challenges, GoT has recently approved the National Skills Development Strategy (NSDS) 2016–2021, which seeks to increase the supply of skills for industries. The World Bank's Education and Skills for Productive Jobs project is funding implementation of the NSDS.

Implementation of the industrialisation drive has also been supported by fiscal measures, including a rise in the development budget and efforts to strengthen revenue collection. In the annual budget 2017/18, GoT increased development expenditure to 40% of the total budget to finance priority FYDP II projects. Likewise, GoT has stepped up measures to increase revenue collection and expand the revenue base by, among other things, deploying electronic payment systems. A crackdown on tax evasion is also bearing some results.

Apart from the overall industrial development policy, GoT has formulated specific sectoral strategies for supporting industrialisation. In addition to the IIDS and the Sustainable Industrial Development Policy, MITI has developed specific sectoral strategies selected on the basis of the potential to develop a long value chain, create more jobs and utilise locally available raw materials. These strategies are the Leather Sector Development Strategy, the Sunflower Sector Strategy, the C2C Strategy and the Pulses Roadmap. Implementation of these is ongoing at different stages, and some key policy actions have been taken. Both the leather and textile development strategies have gained momentum from the policy directive of the East African Community (EAC) Heads of State in March 2016 to ban used (mitumba) shoes and clothes. Furthermore, the C2C Strategy (for textiles and garments) is being supported by Gatsby Africa working with TDU, including through ongoing measures to establish a specialised textile SEZ in Kibaha. Finally, GoT has taken hardline measures to protect and stimulate domestic production of sunflower oil by raising the tariff (from 10% to 35%) on imported crude and semi-refined edible oil, even with the EAC Common External Tariff at zero. GoT also plans to develop a sunflower processing cluster at Chamwino (Dodoma).

To spur implementation and address the coordination challenge, GoT recently prepared a joint inter-ministerial programme (MITI, 2017b) to support implementation of the industrialisation agenda. This is being coordinated under the PMO and is chaired by the Minister of State for Policy and Coordination. It includes ministers and permanent secretaries in the Ministries of Industry, Trade and Investment; Finance and Planning; Water and Irrigation; Works, Transport and Communication; Energy and Minerals; and Agriculture, Livestock and Fishing, as well as the President’s Office – Regional Administration and Local Government and some relevant government agencies (the National Development Corporation, NDC, and EPZA) and private sector participants (through the Tanzania National Business Council, TNBC, and the Tanzania Private Sector Foundation, TPSF). The aim of the programme is to push implementation of the industrialisation strategy, for which each ministry will take action in its respective area. As a result, implementation is no longer a function of MITI alone. This represents an important step towards improving coordination in support of the industrialisation agenda.

Despite the above policy initiatives, actual progress in implementing the identified projects remains limited. MoFP has compiled a report outlining the status of implementation of flagship and other projects identified in FYDP II. However, the information shown in the list of industrial projects suggests little progress has been made in terms of implementation. Furthermore, MITI’s fast-tracking report (2017a) provides a list of priority industrial projects (Annex 1), which are categorised into Strategic Projects, Revival of Privatised Non-Performing Industries and Other Priority Projects. A review of the implementation of these projects indicates little, if any, progress has been made to date. A key constraint has been the limited availability of finance, for instance to pay compensation in acquiring industrial land and building basic supporting (offsite and onsite) infrastructure.

3.3 Initiatives by the private sector

Through lobbying and other initiatives, the private sector has contributed to shaping the country’s policies towards industrialisation. In 2016, CTI prepared a report presenting recommendations on how to fast-track industrialisation. According to CTI, this report has informed most of the policy and strategy adopted by GoT. An interview with representatives from TPSF indicated that the organisation had made some notable achievements, including successfully lobbying for a reduction of the Skills Development Levy (from 6% to 5%), pushing for a review of the VAT rate and the level of exemptions, contributing to policy reviews and supporting investment attraction missions. The recent annual meeting held in September 2018 focused on PPPs and was officiated by the Prime Minister. However, beyond dialogue and knowledge-sharing, there is no indication of concrete outcomes of the meeting.

Increased engagement with the private sector through annual reviews and input into proposals has significantly improved understanding and garnered support to drive industrialisation. One of the great achievements is increased awareness on the part of both GoT and the private sector that the latter is key to realising the industrialisation drive and implementation of FYDP II. Consistent with this, participation and involvement of the private sector has increased tremendously. For instance, the private sector and industry associations are invited to participate in the annual reviews, and to provide tax proposals for government consideration. Indeed, tax proposals made in the past two fiscal years have been reflected in the Finance Act. These include the decision to freeze excise tax on fast-moving consumer goods, animal feed and construction materials. In supporting GoT's efforts in addressing skills shortages, TPSF plans to set up sectoral skills councils in key sectors, to promote training and apprenticeship.

3.4 Alignment of the recent industrial policy initiatives with good industrial policy

A core question relates to the extent to which the recent industrial policy initiatives, projects and actions are aligned with key characteristics of good industrial policy. We use the ODI–SET framework for assessing the quality of industrial policy (see SET, 2018) which includes eight functional criteria: (i) quality industrial policy process, (ii) conducive trade rules and trade facilitation, (iii) provision of SEZs and industrial clusters/hubs, (iv) effective investment facilitation, (v) local capability-building (e.g. for local content), (vi) supportive infrastructure, (vii) learning with the private sector and (viii) support to build firm capabilities. The assessment is made in Table 1.

Table 1: Alignment of the recent industrial policy initiatives with good industrial policy

Functional area	Alignment with industrial policy initiatives
Quality industrial policy process	There are indications that the quality of industrial policy processes is improving. As the fast-tracking strategy shows (MITI, 2017a), GoT, through MITI, has shown effective leadership and taken actions to push industrialisation. More recently, it has taken a crucial step to address the longstanding challenge of coordination by forming a Joint Programme and Inter-Ministerial Task Force to oversee implementation of the strategy, coordinated by PMO. The task force is chaired by the Permanent Secretary of PMO and involves permanent secretaries of all relevant ministries, departments and agencies in accelerating implementation of the industrialisation strategy. One of the achievements is increased awareness by GoT that the private sector is key in realising the industrialisation plan and in implementing FYDP II. Consistent with this, participation and involvement of the private sector has increased. According to CTI, GoT has been very receptive to ideas from the private sector.
Conducive trade rules and trade facilitation (including corridors)	Tanzania enjoys favourable market access opportunities, given prevailing regional and international trade agreements. However, exploitation of these is largely hampered by business environment challenges, especially in access to affordable finance, availability of skills and ease of paying taxes. To facilitate trade, GoT has emphasised supporting infrastructure, involving enormous investment. The institutional framework for managing trade policy-making and facilitating trade is well established, although the alignment of trade and industrial policies is weakly reflected in sectoral policies. Nonetheless, in the budget for the past two financial years, GoT has accepted a private sector proposal to freeze excise tax on fast-moving consumer goods, animal feed and construction materials. However, various trade disagreements with Kenya may negatively affect integration efforts within the EAC.
Provision and regulation of special economic zones, industrial clusters or hubs (including required infrastructure and skills)	GoT (through EPZA) has made some progress in leveraging EPZs to spur growth of manufacturing, but this remains modest against potential. EPZA remains constrained by financial and human resource capacity. There is limited realisation of the wider advantages of SEZs compared with the EPZ regime because the SEZ regulations are yet to be functional. Other than in the prototype Benjamin William Mkapa SEZ, progress on planned SEZs has been slowed by a lack of finance to develop them. Given these limited resources, clarity is needed on how many (and which) zones should go first. Further progress to attract investment (especially FDI) will necessitate streamlining of the functions of EPZA, TIC and NDC to avoid duplication of efforts and to prevent confusing investors.
Effective investment facilitation, including aftercare	TIC and EPZA have specific mechanisms and incentives to attract investment and have established one-stop-centres to help investors. Both have made some progress in demarcating land for investors and executing derivative rights. However, more progress is needed to address the issue of securing land for (foreign) investment, not least given the challenge of compensation, which requires huge amounts of money upfront. Anecdotal sources point to concerns about certain amendments in the PPP Act – that is, the decision to eliminate opportunities for international arbitration in the event of disputes. There is a need to consider ways of addressing the concern to sustain investor confidence.
Local capability-building (for local content or national capability acquisition)	There has been good progress by GoT (through the National Economic Empowerment Council) in establishing an institutional and regulatory framework for promoting local content (including requirements for joint ventures (JVs) and local sourcing). MITI has made progress in establishing a Tanzania bar code to enhance the traceability and quality of products made in Tanzania. The Small Industries Development Organisation has continued to be a reliable actor in promoting small industries and light manufacturing and in championing technological innovation. A few successful cases (e.g. the Commission for

Functional area	Alignment with industrial policy initiatives
	Science and Technology, Tanzania Industrial Research and Development Organisation, TIRDO) exist to demonstrate technology adaption and research and development, but these have not been leveraged to catalyse industrialisation, partly because of inadequate finance. These institutions also have weak relationships with industry.
Supportive infrastructure planning	There has been significant investment in infrastructure and ongoing reforms to the Dar Port. Future infrastructure investments are also planned in strategic areas (e.g. Mchuchuma Liganga, Bagamoyo Port) and upgrading the central railway line to a standard gauge. GoT has prioritised infrastructure on the list of strategic projects, including for Dar Port and SGR. The availability of power has improved significantly. But the planned interventions require considerable financial resources.
Learning with the private sector to address initial and emerging constraints	In view of promoting implementation of FYDP II, GoT has taken initiative to reassure the private sector of its strategic role as the main implementer of the industrialisation drive. MoFP has organised a couple of roundtable meetings with companies and private sector umbrella organisations (TPSF and CTI), directly or through the SET programme (organised in collaboration with the Economic and Social Research Foundation)[3] to secure confidence, trust and offer support. According to CTI, GoT is very receptive to private sector ideas and actively engaged in consultation and dialogue. TNBC appears to be an effective platform for raising issues to the top but is less effective in following up agreed actions.
Selective, conditional support to building firm capabilities	Lack of availability of affordable finance (despite the large number of commercial banks) is a critical constraint to firms. Large industries mostly resort to external entities (including the International Finance Corporation). Owing to inadequate capitalisation, TIB Development Bank has not played its role to full effect. The private sector has been pushing, albeit unsuccessfully, for the establishment of an industrial development bank.

Source: Based on consultations with relevant organisations and the framework developed by the SET programme at ODI.

[3] See Balchin (2017b) for a report on the workshop proceedings.

4 ADDRESSING THE FINANCING CHALLENGE

Implementation of the FYDP II is largely hampered by the substantial amount of finance needed to push progress in many of the flagship projects. MoFP convened a high-level workshop in Dodoma on 4 October 2018 to deliberate on FYDP II financing through PPPs and other financing instruments.[4] The meeting was supported by the ODI–SET team and involved all the relevant ministries, departments and agencies.

Recent progress has included a review of the PPP Act in September 2018, aimed at addressing some shortcomings to allow more efficient application and operationalisation of PPPs. The main amendments include (i) removing the JV arrangement; (ii) moving the PPP Centre from PMO to MoFP so as to empower the Minister of Finance and Planning to make decisions on the projects requiring government financing; (iii) relegating the functions of the National Investment Steering Committee to the Technical Committee (comprising a few permanent secretaries and some private sector entities); and, finally, (iv) replacing the project list with a Project Concept (PPP idea) such that the selection of projects for financing via the PPP mechanism is determined not by the pre-identified list but rather in accordance with objective criteria. The law specifies the timeframe within which the PPP Centre should respond to the Contracting Authority as 30 working days. However, the removal of international dispute settlement mechanisms in the amendment is against best practice. It is advisable for GoT to consider ways of addressing any concerns of foreign investors about opportunities for international arbitration in the event of disputes.

GoT has called upon the pension funds to participate in industrialisation by providing financing to private sector actors seeking to invest in industries. The total level of investment in social security schemes grew from TZS7.8 trillion in 2014/15 to TSZ9.3 trillion in 2015/16. In response to the call by GoT, a total of 25 industries are expected to be funded by the pension funds and to create 200,000 jobs. These include (i) TZS54 billion for a shoe factory in Moshi in cooperation with TIRDO and the Parastatal Pension Fund (PPF); (ii) a National Social Security Fund (NSSF) JV project to construct a 200,000 tons per year sugar factory in Morogoro at Mkulazi Prison; (iii) a TZS9 billion NSSF loan to revive the Mwanza Milling Factory in 2017; (iv) a TZS4.7 million investment to expand the NDC Biotech Product in Kibaha; and (v) over TZS339 billion invested by PPF, the Local Authorities Pension Fund, the Government Employee Provident Fund and NSSF in 12 firms.

[4] See Balchin (2018) for a report on discussions at the high-level workshop.

5 POLICY OPTIONS AND RECOMMENDATIONS

To achieve implementation of the industrialisation strategy and transformation of the economy, GoT needs to explore and adopt aggressive policies to support the competitiveness and growth of manufacturing firms. The following specific policy options and measures are recommended.

1. Promote measures to enhance competitiveness of the manufacturing sector, including reducing:
   (i) import duties on material inputs not produced locally
   (ii) corporate income tax
   (iii) electricity rates for the manufacturing sector from $0.12/kwh to $0.06/kwh.

2. Support efforts to improve productivity in existing factories by addressing skills shortages, including simplifying the process for hiring foreign experts for industry.

3. Review and streamline specific incentives for attracting mega investors by streamlining the roles of key institutions and procedures for attracting strategic investors, providing dedicated energy lines and gas infrastructure to industrial parks and SEZs and introducing a customs green lane to enhance efficiency in facilitating strategic projects.

4. Fast-track implementation of business environment blueprint reforms, including deliberate measures to simplify paying tax, tightening enforcement of customs and standards to ensure fair competition between domestic producers and importers.

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ANNEX 1: SUMMARY OF PROJECTS FOR SHORT (QUICK WINS) TO MEDIUM TERM

A: Short-term (quick win) projects (12 months)	
Category 1: Expansion of existing industries	
1	Expansion of TOOKU Garment at BWM SEZ, Mabibo – DSM
2	Expansion of Mazava Fabrics and Production Ltd
3	Expansion of Mbeya Cement Factory
4	Revival of Bora Shoe Factory
5	Expansion of Tanga Cement Factory
6	Expansion of juice processing at Mwandege in Mkuranga, Coast region, by Bakhresa Food Products Ltd
Category 2: Development of SEZ/clusters	
1	Star City SEZ – Morogoro
2	Construction of leather industrial clusters at Zuzu – Dodoma
3	Development of Chamwino sunflower processing cluster
4	TAMCO Industrial Estate, Kibaha, Coast region
Category 3: Establishment of new industries	
1	Ferrostaal Fertilizer Plant in Lindi
2	Biolarvicides Project – TAMCO Kibaha
3	Global Packaging Project – TAMCO Kibaha
4	MOVE MAX Refinery Plant – Kamal Industrial Estate – Zinga Bagamoyo
5	Goodwill Ceramic Ltd, at Mkiu – Mkuranga
6	Hengya Cement Factory – Tanga
7	Steel Factory in Mlandizi, Coast region by Kilua Steel Co. Ltd
8	FSJ African Starch Development Co. Ltd at Bungu A Kibiti, production of starch from cassava
Category 4: Reviving non-functioning industries (privatised and state-owned)	
1	Arusha Tyre Manufacturing Factory
2	Revival of Mponde Tea Estate in Lushoto
3	Rubber plantations and industry
4	KMTC Manufacturing Factory
B: Medium-term projects (30 months)	
1	Kigoma Agro Forest Plantations Ltd
2	Kigoma SEZ
3	Bagamoyo SEZ
4	Bagamoyo SEZ Phase 1 and 2B
5	Bunda and Manyara SEZ
6	Kange Industrial Park in Tanga City
7	Liganga Iron Ore Project
8	Mchuchuma Coal to Electricity Project (4 x 150 MW)
9	Establishment of handloom cluster in Tabora and Mwanza
10	Establishment of Fertilizer Blending Plant (NPK fertiliser) in DSM
11	Furniture cluster
12	Rice cluster and related value chain processing for local and export
13	Extraction of fibres from banana pseudo-stem and conversion to useful products
14	Cassava processing factory for tapioca starch; products use
15	Development of sunflower processing Clusters at Kizota-Dodoma, Singida and Manyara
16	Development of industrial parks (Mtwara, Lindi, Songea, Sumbawanga, Dodoma, Singida, Shinyanga, Kagera, Mara, Manyara, Njombe, Katavi, Geita, Simiyu and Morogoro)
17	KMTC Industrial Estate

C: Long-term projects (54 months)	
1	Soda ash at Engaruka
2	Mkulazi Agriculture City/SEZ for cereals production
3	Oil palm project at Kimala Misale
4	Meat processing and allied products
5	Development of land for sesame farms and oil production plant at Kilwa
6	Ruvuma and Manyoni SEZ
7	Mtwara Petro Chemical Industries Complex
8	Packaging industry glass, plastic, metal, cardboard, paper, aluminium, brick carton
9	Development of Morogoro and Kilimanjaro metal clusters
10	Polyethylene Foam Plant

Source: MITI (2017)