FOR INFORMATION

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INTERNATIONAL DEVELOPMENT ASSOCIATION

United Republic of Tanzania

THE NATIONAL FIVE YEAR DEVELOPMENT PLAN 2016/17–2020/21 "NURTURING INDUSTRIALIZATION FOR ECONOMIC TRANSFORMATION AND HUMAN DEVELOPMENT"

ASSESSMENT LETTER

Approved by Bella Bird, Country Director of the World Bank
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I. OVERVIEW

1. **The Government of United Republic of Tanzania adopted its Second Five Year Development Plan (FYDP II) 2016/17–2020/21 in June 2016.** This is the second in the series of three five-year development plans, which the Government started in 2011/12. Tanzania Development Vision 2025 presents the country's aspiration to become a middle income country by 2025. FYDP II has been prepared under the theme of "Nurturing Industrialization for Economic Transformation and Human Development." FYDP II is also a successor strategy of the Second National Strategy for Growth and Reduction of Poverty (known as MKUKUTA II in a Kiswahili acronym).[1]

II. BACKGROUND AND COUNTRY CONTEXT

2. **FYDP II was prepared as the country experienced high and stable growth in the past 10 years and a reduction in the poverty rate.** GDP has grown annually at an average of 6.5 percent in the past decade, higher than the Sub-Saharan African average and many regional peers. After limited change between 2001 and 2007, the poverty rate declined from 34.4 percent in 2007 to 28.2 percent in 2012, and extreme poverty dropped by approximately two percentage points over the same time period to 9.7 percent. The decline in the poverty rate has been accompanied by a reduction in inequality among income groups with a substantial drop in the Gini coefficient from 38.5 in 2007 to 35.8 in 2012. Improved ownership of communication and transportation assets, as well as increased economic return from household business activities have also contributed to poverty reduction.

[1] The United Republic of Tanzania is formed by the union of Tanganyika and the isles of Zanzibar; the latter has its own government for internal affairs, the Revolutionary Government of Zanzibar (RGoZ). The RGoZ is also preparing its own Five Year Development Plan to succeed its previous poverty reduction strategy called MKUZA II.

3. **However, with high population growth, per capita income—which stands at around $900 today—has grown slowly.** The high population growth also keeps the absolute number of the poor in the country high despite the decline in the poverty rate; approximately 12 million people are still under the national poverty line, almost unchanged since 2007. A large proportion of the population live very close to the poverty line. A substantial reduction in poverty can be expected if people just below the poverty line receive more income. At the same time, a large number of people just above the poverty line face the risk of slipping back into poverty in the event of modest economic shocks. Further, there is an increasing divergence in poverty reduction among different locations; while the poverty rate declined rapidly in Dar es Salaam to 4 percent in 2012, rural areas still faced a persistently high rate of poverty (33 percent in 2012).

4. **Tanzania made significant gains in human development outcomes although challenges remain.** Tanzania made steady improvements in the Human Development Index since the early 2000s. The life expectancy rose by 15 years between 2000 and 2014. Access, completion and equity in primary education improved. Progression to secondary school surged from about 20 percent in 2000 to almost 60 percent in 2012. However, a challenge in sustaining such gains remains in the face of existing constraints both in access and quality of service delivery. Stunting is prevalent among 42 percent of children under-five. Gender disparities remains in several areas including access to land as well as access to finance notwithstanding the recent growth in mobile finance.

5. **There are emerging risks to the sustainability of growth.** Climatic changes and weak governance of natural resources are exacerbating the depletion of resources. At the current pace, Tanzania will become a water-stressed country in 10 years. The increasing climatic variability is already affecting agriculture and other sectors. Future growth is also subject to emerging global and domestic macroeconomic risks such as China's growth slowdown, as well as the end of the commodity price super cycle, which may hurt Tanzania's exports and development financing. The country is also facing fiscal pressures from payment arrears in the public sector including parastatals such as TANESCO.

III. TANZANIA SECOND FIVE YEAR DEVELOPMENT PLAN

6. **FYDP II builds on the integration of industrialization and human development agendas.** FYDP II presents on a conceptual framework that industrialization and human development, underpinned by effective policy implementation, can drive the country's growth and improvements in human welfare. In this context, the areas which covers interlinkages between human development and industrialization, such as the skills development agenda, are particularly important.

7. **Demographic dynamics will be a significant factor influencing the country's future development path.** FYDP II rightly notes the risk of high population growth. With 5.2 children per woman, Tanzania has one of the highest fertility rates in the world. With an average annual population growth rate of about 3 percent, Tanzania will see its population double every 23 years. High population growth is putting structural pressures in several areas, including service delivery, rapid urbanization, and job challenges. An estimated 800,000 young people enter the job market every year, posing a significant challenge in terms of job creation. The Government would need

to develop a coherent policy framework to accelerate the demographic transition toward the dividend stage, in particular, taking measures to address the high fertility rate.

8. **A strategy for industrialization in Tanzania should prioritize sectors in which the country has a comparative advantage, including those which leverages its rich and diverse natural resources.** The data from the 2014 Integrated Labor Force Survey present a sign of structural shift with labor moving from agriculture to manufacturing and services, but largely to informal and non-tradable services. FYDP II presents a set of interventions for a range of sectors and industries. For viable industry development, a strong emphasis needs to be placed on leveraging the country's comparative advantage—assets the country has now (particularly natural resources including farmland and livestock) and assets the country can grow (particularly human capital in abundant labor). The transformation strategy can be built around diversification of resource-based industries, including agribusiness, as well as upgrading capabilities of value addition (e.g., food). The prospect of job creation through labor-intensive light manufacturing (e.g., textile and garment) critically hinges on successful improvements in human capital (skills).

9. **The private sector needs to be strengthened to drive economic transformation.** FYDP II presents a vision of how the state can play an active role in economic governance, with emphasis on enabling infrastructure investments to improve connectivity and market access. However, it is important for the strategy to balance the role of the state vis-à-vis the market. The priority for the Government is to provide a sound operating environment for the market to operate through improvements in the business environment, including reducing regulatory burdens, and fostering more competition, as well as policies and investments to remove infrastructure bottlenecks in energy and transport, which are constraining competitiveness of domestic industries. State interventions in the market are still persistent in some key sectors such as agribusiness, while formal domestic markets in many sectors are still largely concentrated. The business environment for trading across borders is particularly challenging with a persistently high number of non-tariff barriers. A concerted effort is needed to improve the business environment, improve the quality of regulations and predictability in their enforcement to encourage private investment and promote private-sector led growth and employment.

10. **Economic transformation also needs to promote more inclusion in the process.** The recent growth is associated with a higher consumption growth rate among the bottom 40 percent of the population. However, inclusiveness of development outcomes remains an issue. Despite recent improvements in access to finance through the mobile banking revolution, for example, small businesses still continue to identify access to finance as the most binding constraint. Further efforts are needed to improve access to formal credit among women, the poor, and microenterprises. Access to electricity remains low among the bottom 40 percent and in rural areas—both at 4 percent, compared to 48 percent in urban areas. The role of national flagship safety net programs like the Productive Safety Net Program, implemented through the Tanzania Social Action Fund, has to be strengthened. A clear sustainability strategy needs to be developed, including long term financing commitment by the Government. Given that agriculture remains as the mainstay of over 70 percent of households, strengthening the agriculture sector, by removing productivity constrains, will also contribute to achieving more inclusive growth.

11. **Improving the quality of service delivery is crucial not only for human development but also for industrialization.** Despite the growing amount of services delivered, the quality of

some services remains poor as reflected in the Service Delivery Indicators. In education and skills as well as in health, the FYPD II largely maintains a traditional focus on quantity, inputs and infrastructure; rather than quality and relevance, as reflected in the key interventions.

IV. IMPLEMENTATION AND MONITORING AND EVALUATION

12. **A strong implementation framework for FYDP II needs to be put in place.** A framework of accountability for oversight, budgetary, and execution powers is being formulated during the initial phase of implementation. However, further clarity is needed in terms of the implementing authority of FYDP II and accountability for results. Integration of the implementation of FYDP II with the preparation and implementation of annual budgets is also critical. Also, some of the elements in industrialization and human development, discussed in FYDP II, are inherently inter-sectoral such as early childhood development (ECD), natural resource management, and business environment reforms. The strengthening of inter-ministerial coordination is therefore key for a successful implementation of those policy reforms and investments in the context of FYDP II.

13. **Monitoring and evaluation**. The FYDP II places a strong emphasis on monitoring results, using a number of indicators. However, significant efforts will be needed to collect the data needed for monitoring in a reliable and timely manner. Also, some indicators specify the targets but lack baseline data, so it is unclear how these targets were determined or how progress would be measured.

14. **Strengthening public investment management and public private partnerships (PPPs).** The private sector is expected to finance 41 percent of total financing needs in the FYDP II. This large share would require significant reform to the institutional and legal framework for PPPs, both to make investments attractive to the private sector and to ensure they are fiscally sound. The rapid scaling-up of infrastructure investment, as programmed in FYDP II, could also present implementation challenges. While the authorities are taking steps to improve efficiency in public investments through the adoption of the public investment management operational manual, further steps are needed to strengthen budget execution, strengthen project selection and prioritization, and control costs.

V. SUMMARY AND CONCLUSION

15. **FYDP II puts a clear focus on industrialization and human development as a way to accelerate growth.** The conceptual framework is well presented with mutually reinforcing pillars of industrialization, human development, and effective implementation. The role of the private sector as the main driver of growth and of government as primarily supportive of that role needs to be clarified and strengthened through the implementation of FYDP II. The strategy recognizes that a successful implementation is key to realizing the high growth envisaged under FYDP II. In that context, it is important to ensure that public interventions (policy, regulatory, or investment) are designed as complementary, and supportive of, higher private sector investments.

16. **In implementing FYDP II, adequate attentions need to be put on the rising demographic challenges, including challenges on job creation, and the promotion of more inclusion in the development process to ensure that prosperity be shared more widely.** The mutually reinforcing nature of the industrialization and the human development pillars as presented in the conceptual framework of FYDP II should lead to growth that also reduces poverty both on income and non-income dimensions. The set of interventions identified in the FYDP II should be implemented with strong coordination and prioritization to ensure such result.

17. **Effective implementation of FYDP II requires proper prioritization and a strong governance framework for implementation and monitoring**. The strategy encompasses numerous sectors under each theme, and several interventions under each sector. Implementing the large number of activities, projects, and programs envisaged under FYDPII will in turn require significant financial, coordination and implementation capacity. FYDP II does in fact acknowledge that weak prioritization is a key challenge for implementation effectiveness. Rigorous prioritization needs to be followed through in implementing FYDP II given the financial, coordination, and implementation capacity constraints that the country faces. Fewer fully funded interventions are likely to have far more effective development impacts than a large number of partially funded interventions.