2 Macroeconomic Overview, Business-Enabling Environment, and the 2005 DTIS Lessons Learned

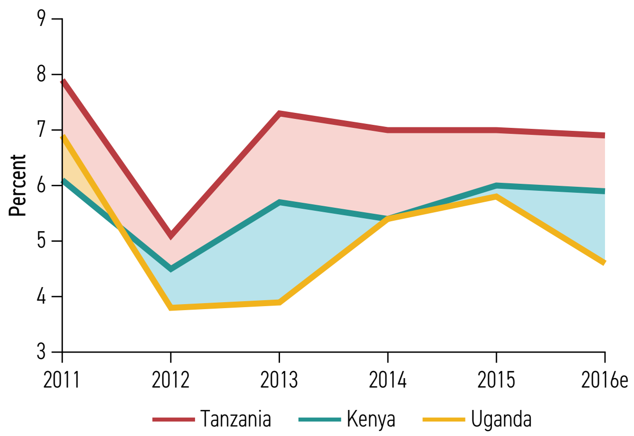
This chapter provides a brief macroeconomic summary of recent trends and the medium-term outlook, followed by a summary of the business-enabling environment drawing on the Doing Business Indicators of the World Bank, which permits countries to be ranked relative to each other and relative to global best practice. This chapter includes a review of Tanzania's experience in implementing the recommendations validated in the original Diagnostic Trade Integration Study (DTIS), finalized in 2005. It also summarizes the key lessons learned from the 2005 DTIS, noting how this DTIS update will assist with realizing the policy vision of the Second National Five Year Development Plan (FYDP II). Finally, the chapter concludes with a brief summary of the DTIS focus areas.

Macroeconomic Overview

Tanzania's economic growth remains high relative to other developing countries, despite signs of softening in the growth outlook. Tanzania's economic performance continues to rank among the highest in the region. The real gross domestic product (GDP) growth rate has consistently outpaced its East African Community (EAC) peers (figure 2.1). In 2016, the country's real GDP grew by 7 percent, marginally below the earlier forecast of 7.2 percent. Growth in agricultural production increased in the first three quarters of 2016 compared with the same period in 2015, while nonmanufacturing industry growth decelerated. The services sector expanded by 7.6 percent in the first three quarters of 2016 period, roughly a percentage point higher than recorded in the same period in 2015. Towards the end of 2016, high frequency data suggest a difficult environment, including weakening business sentiment, slowing credit growth, and slow

"Tanzania's economic growth remains high relative to other developing countries, despite signs of softening in the growth outlook. Tanzania's economic performance continues to rank among the highest in the region."

FIGURE 2.1: Growth continues to outpace East African Community comparators, 2011–16



Source: World Bank World Development Indicators.
Note: E = Estimate.

pace of budget implementation, particularly for development expenditure.

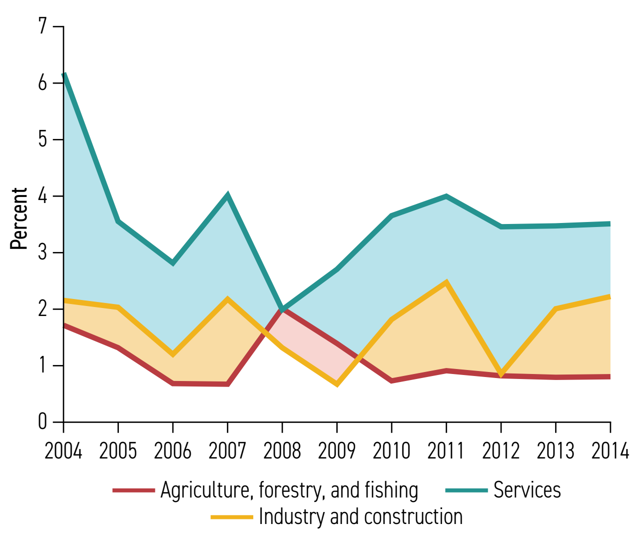
Over the past 15 years, Tanzania averaged an annual (real) rate of growth of 6.4 percent, which is forecast by the International Monetary Fund to continue in the medium-term through to 2018. The high real rates of economic growth since 2000 have been driven largely by construction, transport, communications, and financial services sectors, which are relatively capital intensive. In the period 2010–15, industry and construction services registered annual average increases of 9.4 and 7.4 percent, respectively. These are all relatively capital-intensive sectors and, except for construction, created few new jobs. The labor-intensive agricultural sector registered much lower average growth rates (see figure 2.2). Agriculture accounts for one-third of GDP, it remains the largest sector, followed in size by trade or distribution (10.1 percent), construction (9.6 percent), and manufacturing (7.6 percent). These relatively high growth rates have reduced poverty levels. However, with most of the growth occurring in capital-intensive sectors, the economy has only absorbed a fraction of the more than 700,000 people entering the labor market each year. The 2015 national poverty headcount ratio indicates that 28.2 percent of Tanzanians remain poor, with higher rates in the rural (agricultural) areas (World Bank 2015). Removing the barriers to investment and productivity growth across the economy, and particularly in agriculture, extractives, and tourism, are necessary for realizing broad-based and transformative economic growth that could remove millions out of poverty.

Agriculture continues to provide a livelihood for approximately two-thirds of households[1] while accounting for 31 percent of GDP in 2015. Agricultural productivity remains low with the recent modest growth stemming from increasing land cultivation rather than increasing yields. Agricultural products generated more than 40 percent of total export earnings in 2014. Crops are the largest agricultural subsector and has been growing at a higher rate (average 4.9 percent between 2008 and 2013) than livestock (3.4 percent), forestry and hunting (4 percent), and fishing (3.4 percent).

Services contribute more than 40 percent of GDP. Most services in Tanzania are nontradeable services which results in services exports contributing only 7 percent of GDP in 2013, notwithstanding their relatively high contribution to value added. Wholesale and retail trade remains the largest service sector at just over 10 percent of GDP. Transport and storage is the second largest at 4.3 percent of GDP. During the period 2008–15, transport, communications, and financial services grew much more rapidly than other service sectors. In the six years ending in 2013, communications averaged an annual growth rate of 17.7 percent.

The economy continues to adjust to government policies including tighter fiscal controls and improving accountability of public institutions. Since taking office in October 2015, President John Magufuli has spearheaded a strong policy direction of improving public administration and clamping down on corruption. Improved tax

FIGURE 2.2: Growth contribution by major sectors, 2004–14



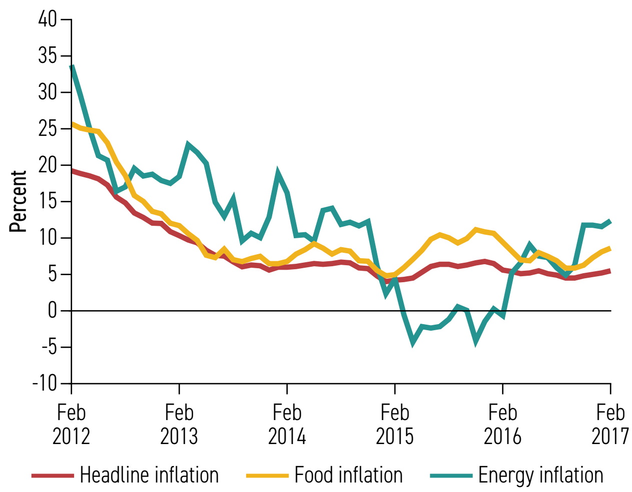
Source: Derived from Tanzania National Bureau of Statistics 2015.

administration has led to a substantial increase in the domestic revenues collected in 2016. In the past year, the central government has put in place legislation to regulate compensation and wages for the broader public sector. This has strengthened the capacity of the core administration to regulate the broader public sector. While these public administration reforms are critical in strengthening accountability, they could also impact the private sector via two channels. First, the private sector relies significantly on government demand for goods and services, and policies that limit this demand will decrease private sector activity. Second, policy adjustments, if they occur frequently, could cause uncertainty for the private sector, and this uncertainty could dampen private sector investment decisions, with negative implications for future growth. These implications would mean that the government should be more explicit about, and pay more attention to, the potential unintended consequences of government policies on the private sector.

Headline inflation has remained low and around the authorities' target limit of 5 percent, although it may increase in the medium-term. At the end of February 2017, the rate stood at 5.5 percent, up from the figure of 4.5 percent recorded in October 2016 and remained almost unchanged from the rate recorded in February 2016 (figure 2.3). The recent gradual increase in headline inflation has been driven by upward trending food and energy prices. The rate of food inflation notched up from 5.1 percent in February 2016 to 8.7 percent in February 2017, due mainly to the increase in prices of cereals, such as maize grains and flour, rice and beans. Moreover, energy and fuel inflation edged up from 4.4 percent at the beginning of 2016 to about 9 percent in May 2016 and to nearly 12 percent in February 2017 on account of rebounding global oil prices.

The current account has narrowed significantly, as exports grew modestly and imports fell significantly, especially for capital and transport goods. The current account deficit stood at US$1.8 billion for the year ending January 2017, down from US$3.8 billion recorded for the year ending January 2016 (figure 2.4). The total value of exports of goods and services increased by 5.1 percent, led by strong performance in the export of minerals, traditional crops, and tourism receipts. In particular, the value of gold exports recorded considerable growth of 29.8 percent due to increase in both export volume and

FIGURE 2.3: Inflation remained low, Feb 2012–Feb 2017

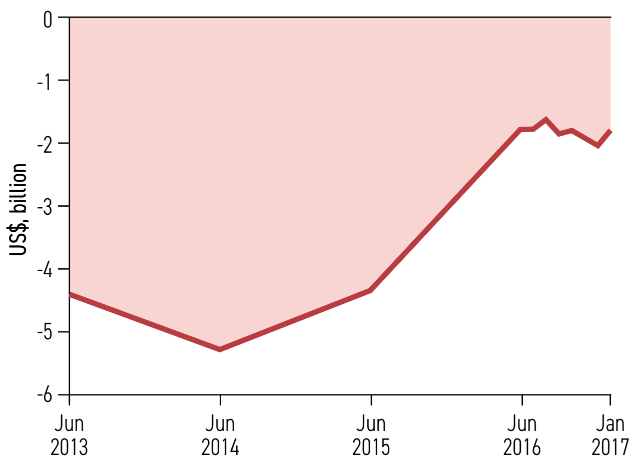


Source: Derived from IMF DataMapper

prices. Moreover, during the same period, receipts from tourism and transportation increased by 5.2 percent due to an increased number of tourist arrivals and volume of transit goods to neighboring countries. The total value of imported goods and services declined by 15.3 percent between the year ending January 2017 and the corresponding period in 2016. All major import categories declined, especially in capital and transport goods, except for industrial raw materials. The slow execution of budgeted development spending partly explains the decline in capital imports.

The fiscal 2017 budget called for a fiscal deficit increase to accommodate higher levels of public investment and the clearance of verified arrears. The deficit target of

FIGURE 2.4: Narrowing current account deficit, Jun 2013–Jan 2017



Source: Derived from IMF DataMapper.

4.5 percent of GDP was one percentage point higher than in fiscal 2016, reflecting plans to control recurrent expenditures, increase revenue, and borrow more to invest in development projects. Recurrent spending is slated to decline by about 2 percent of GDP. Domestic revenue collection is budgeted to increase to 16.9 percent of GDP from the 14.8 percent outturn in fiscal 2016. The target for overall public expenditure is 22.7 percent of GDP, 3.4 percentage points higher than in fiscal 2016. Moreover, the budget reprioritized resources toward increased development spending, with a target of 46 percent of overall spending compared to the figure of 23 percent recorded in fiscal 2016. If realized, development spending would rise to 10.4 percent of GDP, compared to 4.4 percent in fiscal 2016. The planned increase in development spending is set to be directed to projects identified under the FYDP II, including the construction of the Central Corridor Standard-Gauge Railway and the expansion of the Dar es Salaam Port. However, the overall budget figure for development spending overstates the shift, as it includes some funds allocated for the clearance of verified arrears, as well as budget lines previously defined as recurrent spending.

Despite improved domestic revenue collection, the government is facing significant challenges in implementing the fiscal 2017 budget. Between July and December 2016, revenue collection increased by 28 percent compared to the same period in 2015, mainly due to improved tax administration efforts. Similarly, expenditures were 6.4 percent higher over the same period. However, spending has fallen significantly short of budget targets. Through December 2016, overall budget execution against the target for fiscal 2017 was 28 percent. In particular, development expenditure through December 2016 was only 20 percent of the annual target. This underspending curtails the intended stimulus to economic activity, envisaged in the budget. Development budget underspending is largely explained by external financing shortfalls. This shortfall was largely explained by delays in project preparation and implementation that curtailed concessional financing, as well as very limited nonconcessional external borrowing given a cautionary approach by the government due to high costs.

Fiscal risks remain the key macroeconomic risks in the medium-term, including the risk of underspending negatively impacting growth. The government's growth projections are based on the budget's expenditure targets being fully realized, especially development spending. This underspending curtails the intended stimulus to economic activity, envisaged in the budget. Mobilizing concessional external financing going forward remains critical to execution of the budget and realizing investment plans. However, this requires acceleration of preparation and implementation of planned projects and programs, including policy and institutional reforms. Lastly, despite government efforts to clear arrears (with suppliers, pension funds, and state-owned enterprises), its level remains significantly high, at 6.3 percent of GDP (equivalent to T Sh 6.5 trillion) at end-June 2016, hence presenting a public finance credibility issue and contingent liability-related fiscal risks.

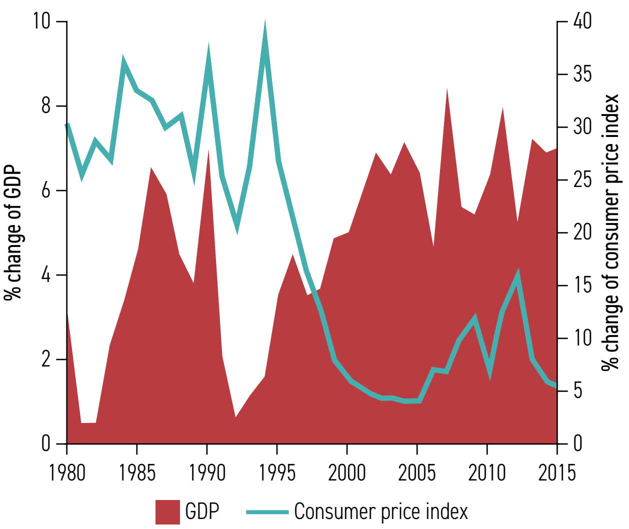
Additionally, lower credit growth to the private sector, increasing nonperforming loans, and perceptions of weak economic conditions by business executives add further uncertainty to the growth outlook. The deceleration in domestic credit growth to both the government and private sector has prompted the Bank of Tanzania to reduce the discount rate recently. Net credit to the government contracted by 6.4 percent (year-on-year) in January 2017 compared with 12.4 percent increase in the corresponding period in 2016. Similarly, credit to the private sector declined from 25.3 percent to 5.1 percent between these two periods. The ratio of nonperforming loans to total loans edged up to 9.5 percent at end-December 2016 from 6.4 percent at end-December 2015, reflecting a downward risk to banks' profitability and future lending. Moreover, banks have been navigating the new environment created by the government's decision to centralize public institutions' bank accounts at the Bank of Tanzania rather than at commercial banks, leading to a decline in deposits estimated to be around T Sh 600 billion. The directive has affected banks' liquidity at least in the short-term.

The macroeconomic fundamentals are basically sound. In fiscal 2017, total public debt was 34.2 percent of GDP, the current account deficit declined significantly to 2.4 percent, and the overall fiscal deficit was 4.5 percent. Tax revenue collection increased from 12.4 percent of GDP in 2015 to 15.8 in fiscal 2017, although it remains one of the lowest in the region. During 2015, the Tanzanian shilling depreciated by approximately 20 percent against the U.S. dollar, however, this largely reflected the strengthening of the U.S. dollar as the Tanzanian shilling remained relatively stable against other major currencies (for example, euro). Through 2015, Tanzania made progress in addressing several outstanding fiscal issues, including developing a strategy to address budgetary suppliers and pension arrears and finalizing the policy paper on good principles for a fiscal framework for managing revenues from natural gas. While the recent election resulted in a degree of fiscal slippage, the budget shortfall was relatively modest as capital expenditure was slower than budgeted.

Inflation has declined from 26 percent in 2005, to 11 percent by 2012, to 4.7 percent by 2014, and in October 2016, headline inflation was 4.5 percent (figure 2.5). This has been due to prudent monetary policy, a favorable food situation, and declining fuel prices. Driven by gold and tourism (or travel) receipts, exports have remained strong, and imports have continued to increase, primarily due to imports of capital and intermediate goods, particularly oil, resulting in a current account deficit of approximately 11 percent of GDP. While capital inflows continued, foreign reserves declined by 10 percent during fiscal 2015. In fiscal 2017, the fiscal deficit was 4.5 percent of GDP which was marginally larger than the 3.5 percent in the previous fiscal year.

Lower oil prices have resulted in a positive terms-of-trade shock that reduced the size of the current account deficit. However, as a potential future exporter of oil and natural gas, reduced commodity prices have pushed out the timelines for the foreign direct investment required for extracting the resources.

FIGURE 2.5: Real GDP and inflation, 1980–2015



Source: Derived from the Tanzania National Bureau of Statistics 2015.

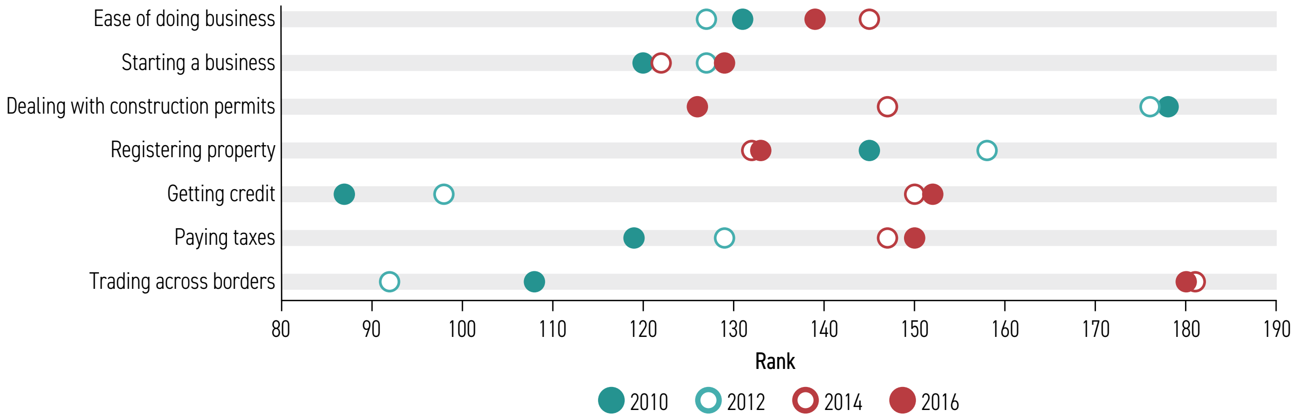
Macroeconomic performance through 2016 remained strong, with real GDP increasing by 7 percent (MOFD 2017). The president's commitment to address evasion has boosted tax revenue, however, as noted, spending was under budget owing to external financing constraints and delays in spending authorizations. The banks have high capital and liquidity ratios and are generally profitable, however, the percentage of nonperforming loans increased to 8.7 percent (in June 2016). Most of the increases were in the manufacturing and real estate sectors, however, agriculture remained the largest sector. The average rate of nonperforming loans masks significant variations within the banking sector. The Bank of Tanzania is committed to strengthening the resilience of the banking sector through increasing minimum capital levels, increasing the number of bank examiners, and reconstituting quarterly meetings of the Tanzania Financial Stability Forum.[2]

The macroeconomic outlook remains favorable. The International Monetary Fund's Policy Support Instrument (PSI) forecasts a growth rate of 7 percent through fiscal 2017. This is underpinned by continued growth in the services sector and an increase in public investment as new infrastructure projects get underway. Capital expenditures are budgeted to more than double to 11 percent of GDP, however, implementation challenges are expected to result in a more modest increase. The PSI has identified fiscal policy implementation as a potential short-term risk to the favorable economic outlook. Specifically, tightening liquidity with slow or delayed budget disbursements resulting from external financing shortfall, and the risk of growing domestic arrears if public investment runs ahead of improvements in public financial management.

Business-Enabling Environment

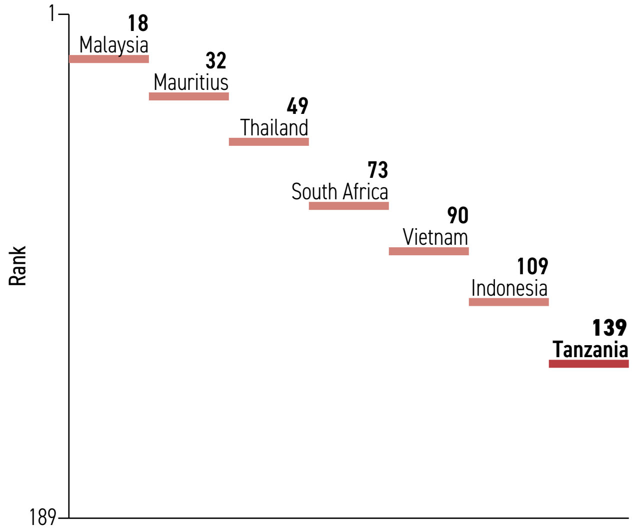
The business environment in Tanzania remains challenging. The World Bank's 2016 Doing Business (DB) report ranks Tanzania 139 out of 189 countries (see figure 2.6); it ranked lower relative to Kenya (108), Rwanda (62), and Uganda (122). Figure 2.7 shows Tanzania's DB ranking relative to South Africa, Mauritius, and nonregional comparator countries. This shows that Tanzania is ranked lower against both Indonesia and Vietnam and significantly lower than Mauritius. Enabling Tanzania to benefit more fully from the export and growth opportunities offered by both the regional

FIGURE 2.6: Doing Business Indicators, 2010–16



Source: Derived from World Bank Doing Business data.

FIGURE 2.7: Doing business indicators: Overall, Tanzania and selected countries, 2016



Source: Derived from World Bank Doing Business data.

and global economy requires improving the business environment; facilitating trade and regional integration within the East African Community (EAC) and the Southern African Development Community (SADC); and making credit more readily available and affordable, especially to smallholders. The relatively low rankings for registering property and paying taxes indicate the necessity of addressing governance and accountability issues. The government has taken positive steps to strengthen macroeconomic fundamentals and has committed to improving tax compliance, however, ensuring the benefits of economic growth are distributed more widely requires further reforms to the incentive structure facing small businesses and small holders. Increasing policy certainty and predictability requires the government and districts to reduce and streamline many of the remaining regulatory barriers to establishing and operating commercial enterprises.

Since 2010, Tanzania's overall ranking on DB has fluctuated around the 70th percentile as improvements in dealing with construction permits and registering property were offset by relative deteriorations in other criteria. The trading across borders indicator shows a significant decline over the period 2010–16, with Tanzania moving from the 60th to the 95th percentile relative to 189 countries.

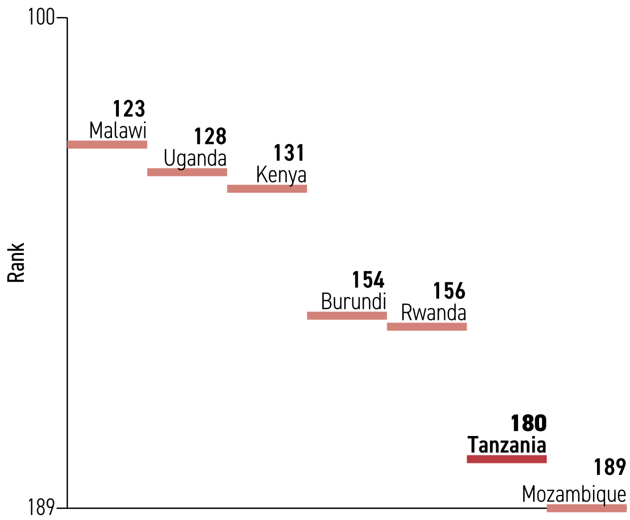
Trading Across Borders

Despite infrastructural improvements and customs modernization, in fiscal 2016, Tanzania remains in the bottom 5 percent of performers of trading across borders DB indicator. Following the introduction of electronic data interchange and improved border cooperation recorded in the 2006 DB report, no further reforms in trading across border were recorded until 2012, when the prearrival declaration system and electronic submission of customs declaration were introduced. In 2013, importing became more onerous with the requirement to obtain a certificate of conformity prior to the goods being shipped. The 2015 and 2016 DB reports, recorded improvements as infrastructure was upgraded at the port of Dar es Salaam and the Tanzania Customs Integrated System was rolled out, respectively. Notwithstanding these recent improvements, relative to best practice, Tanzania has fallen behind on the trading across borders measure. Since 2014, it has slipped from the 60th to the 20th percentile. The DB reports for 2015 and 2016 show the time required to import remained broadly constant at 26 days, while the cost of compliance increased by 6.8 percent. Over the same period, the time required for exporting a container declined from 18 days to 8 days while the cost increased by 32.6 percent.

The cost of importing and exporting a container (in real U.S. dollars) declined over the period 2006–14. The DB reports present a consistent series of trading costs for the period 2006–14. During this period, the cost of importing—defined as the cost of clearing one 20-foot container—declined by 6.3 percent in real terms, while the cost of exporting declined by almost 30 percent. During the same period the divergence between import and export costs increased from 11.5 to 48 percent.

For a country with a major port, Tanzania has a very low ranking on the trade facilitation component of the DB indicators. With a DB ranking of 180 in 2016 (figure 2.8), Tanzania has the lowest ranking within the EAC (which includes the landlocked countries of Burundi and Rwanda). Trading across borders is Tanzania's weakest indicator in the DB,[3] whether measured relative to other countries (180th out of 189 countries) or relative to the best performing country (0.2/1.00). Tanzania, with relatively sound infrastructure, does not appear to be benefiting from its geographical location (figures 2.9 and 2.10 show the relatively high compliance and customs clearance costs). Indeed, landlocked Burundi, Rwanda, and Uganda all have lower documentary

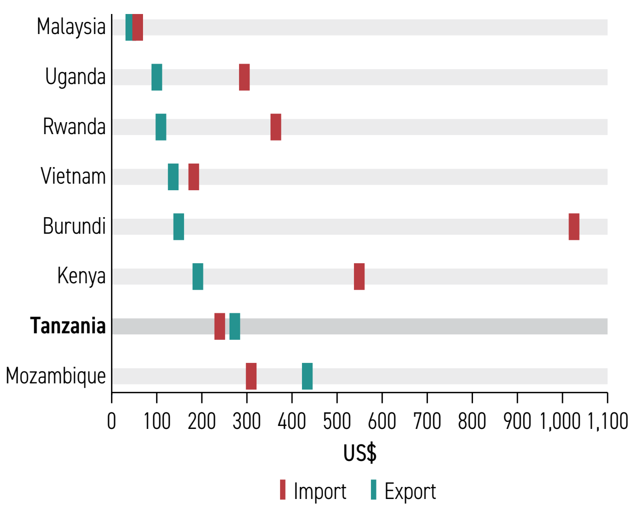
FIGURE 2.8: Doing business indicators: Trading across border, Tanzania and selected countries, 2016



Source: Derived from World Bank Doing Business data.

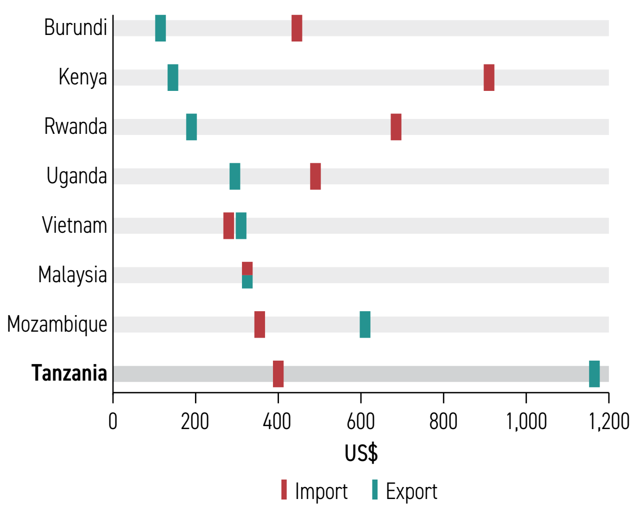
compliance costs for exports. It is also notable that in Tanzania documentary compliance for exports is larger than for imports. In the rest of the EAC documentary compliance costs for imports are significantly larger than for exports. East Africa generally has high import compliance costs with Burundi being an outlier. It is notable that all the fast-growing export comparators in South East Asia have significantly lower costs when compared with the EAC. Tanzanian exports appear to face particularly onerous customs compliance costs (figure 2.10), indeed the country is an outlier within the region.

FIGURE 2.9: Documentary Compliance Costs for Imports and Exports, Tanzania and Selected Countries, 2016



Source: Derived from World Bank Doing Business data.

FIGURE 2.10: Border Compliance Costs for Imports and Exports, Tanzania and Selected Countries, 2016



Source: Derived from World Bank Doing Business data.

Trade and Poverty

Between 2007 and 2012, the basic needs poverty level declined from 34 percent to 28.2 percent. A World Bank (2015) report estimated that 28.2 percent of the population were unable to meet their basic consumption needs, while 9.7 percent were extremely poor and could not meet their basic nutritional needs, during the same period. They estimated that poverty declined by 1 percent per year from 2007 to 2012. The report found that, in the same period, the poor benefited disproportionately from the rapid economic growth. The pro-poor growth resulted from improvements in the endowments (better education, improved access to services, and better communications) and increased returns from economic activities (through improved access to markets).

Despite these positive developments, poverty remains widespread in the rural areas, where 85 percent of the poor live. The number of people defined as living in poverty remains very sensitive to the poverty line. Increasing the rate by US$0.50 per day will change the rate by more than 20 percent. Using the international poverty line of US$1.25 per person per day increases the incidence to 43.5 percent (2011/12).

Increasing trade through reducing trade costs has been a key element in reducing global poverty. Bartley Johns and others (2015) highlighted the critical importance of reducing trade costs to further integrate markets as a pathway for reducing poverty. The report highlighted strategies for ensuring the poor benefit from increased trade openness.

Trade is a critical enabler of economic growth and higher growth is necessary for poverty reduction. Reducing tariffs and removing nontariff barriers are necessary, but must be integrated with measures aimed at addressing specific constraints faced by the poor. The poor are frequently excluded from markets and face specific challenges. The report focuses on four characteristics that impact the ability of the poor to benefit from trade. These are rural poverty, fragility and conflict, informality, and gender. Internal barriers to trade in rural areas, including licensing, local taxes, marketing restriction, and organizational requirements, may represent prohibitive barriers to poor farmers. Women often face specific constraints, both within the household and in society which may constrain their ability to participate in economic activities.

The DTIS update seeks to identify the specific constraints facing the poor from participating more fully in the major economic sectors selected for more detailed assessment, namely in agriculture, mining and extractives, and tourism.

Implementation of the 2005 DTIS Action Matrix

The final report and validated action matrix for the earlier DTIS were submitted in November 2005, following approval at a National Validation workshop. The 2005 DTIS report assessed both domestic and external constraints to Tanzania's integration into the world economy, with a detailed review of trade policies and trade performance, trade-related institutions, the state of trade facilitation and transport, identification of the issues and opportunities in the major agricultural sub sectors, and the opportunities for export diversification.

Tanzania implemented reforms validated in the earlier action matrix across a range of areas. The earlier DTIS was formally approved by cabinet in 2007, after which, national consultants reviewed the action matrix and developed the Tanzania Trade Integration Strategy (TTIS). Following further internal discussions, finalized in 2009, with the revised prioritized action matrix covering the period 2009–13. The Second National Development Strategy for Growth and Poverty Reduction (MKUKUTA II) and MKUZA for Zanzibar, covering the period fiscal 2011 to fiscal 2015, recognized trade as an engine of economic growth and envisaged Tanzania becoming a regional trade and logistics hub. The Ministry of Industry, Trade and Investment (MITI) established the Projects and Programs Coordination Unit as the Enhanced Integration Framework (EIF) National Implementation Unit (NIU) and recruited a project coordinator and project analyst. The NIU has strong participation from key stakeholders in both the government and the private sector. An EIF Tier 1 project was launched in 2013.

Despite positive reforms, many of the constraints identified in the earlier DTIS remain. Notwithstanding this progress, Tanzania experienced challenges in addressing the large number of constraints identified by the earlier DTIS.[4] The 2005 DTIS adopted an economy-wide approach while also examining selected subsectors in more detail. The subsector studies included agricultural export crops (cashews, coffee, cotton, and tea), horticulture and floriculture, tourism, spices, and fish. In addition to the logistical challenges in implementing such a large and diverse group of policy and regulatory reforms, the subsequent inability to establish a TTIS earmarked fund also constrained implementation.[5] Thirdly, significant regional and global developments, including natural resource discoveries and rapid changes in commodity prices, require the updating of the action matrix in the earlier DTIS.

The 2005 DTIS had too many action items. It listed 124 actions that were tailored for individual commodities. In hindsight, this approach provided little guidance on the overall directions for trade policy and, for various reasons, was difficult to implement. Since the earlier DTIS, there have been significant developments nationally, regionally, and at the global level. The update provides an opportunity for Tanzania to better align its trade policy and strategies with its commitment to economic diversification and poverty reduction.

The DTIS update builds on lessons from the earlier study. The 2005 DTIS did not realize many of its ambitious recommendations. The 2017 DTIS update need not suffer the same fate. This section discusses the reasons for the poor follow up to the 2005 DTIS and assesses prospects for implementing the recommendations in the DTIS update. In general, there are solid reasons to believe the DTIS update can have a more positive impact on Tanzania's trade policy than the 2005 DTIS.

The DTIS update is timely with the government's commitment to improving the business environment and promoting economic diversification. Starting in the early 1990s, the Tanzanian government began implementing a wide range of reforms to liberalize and privatize the economy, as well as improve governance and public administration. Although many of these changes were necessary, they often faced significant resistance and strained government capacity. By the early 2000s, the government's interest in further reform began to wane and momentum in implementation stalled. The release of the 2005 DTIS occurred near the beginning of this policy shift. The DTIS update is occurring in a very different policy environment. Demands for improved governance and economic competitiveness are much stronger today than they were a decade ago, and the new administration has a strong commitment to achieving these goals. The DTIS update can therefore play a very positive role in assisting the new government in achieving its stated economic competitiveness priorities as articulated in its chief economic policy statement, the FYDP II.

Poor Follow-Up on the 2005 DTIS

The poor follow-up to the 2005 DTIS stemmed from systemic failures across a range of stakeholders. The most basic reasons for weak implementation were because (1) no level of government took ownership of implementing the recommendations, (2) there was little vocal private sector support for the changes, and (3) the relationship between development partners and the MITI deteriorated due to divergent priorities. The poor follow-up on the DTIS was not specific report, but consistent with many similar plans over the past ten to fifteen years. The FYDP II forthrightly acknowledges the most typical challenges for the Tanzanian government to implement development plans, like the DTIS.

The 2005 DTIS action matrix suffered from a lack of ownership and a disagreement between the donors and the MITI over programming. Many of these problems were evident in attempts to implement the 2005 DTIS recommendations. That the DTIS was a low priority did not mean that weak implementation was inevitable, however. To understand why requires examining the actions of the actors charged with overseeing the implementation of the DTIS recommendations, the Development Partners Group (DPG) and the Department of Policy and Planning within the MITI.

There was a lack of ownership from the MITI, in part resulting from reform fatigue. More specifically this included: policy indecision, frequent changes in leadership within the MITI, and lack of staff capacity resulted in little urgency to address the issues the DTIS raised. For example, there were four ministers between 2005 and 2010. Along the same lines, a KPMG's (2010) assessment of the MITI concluded that the ministry suffered from high levels of staff turnover and numerous vacancies; both severely impeded its effectiveness. Consequently, instead of prioritizing recommendations in the DTIS, the

BOX 2.1: Implementation Challenges Identified in the FYDP II: Lessons Learned

- Policy incoherence, instability, and unpredictability, specifically "weak alignment of policies, procedures, planning, and coordination, reflected in lack of consensus among key stakeholders and ultimately policy reversal."
- Corruption
- Weak prioritization, "mostly in the design stage where everything is considered as 'priority.'"
- Inadequate mobilization of financial resources
- Inadequate decentralization
- Weak systems for follow-up, monitoring, and evaluation
- Delayed decision making, in particular, a "combination of policy incoherency, policy instability and unpredictability, on one hand and corruption on the other hand, result in slow decision-making process…Slow in decision making has repelled investors, especially international investors with several country options for investment destinations."

Source: Extracted from MOF (2016).
Note: FYDP II = Second Five Year Development Plan.

MITI asked various donors to choose the programs they wished to support.

Secondly, there was a disagreement over resource management between the DPG, who wished to target specific projects, and the MITI, who requested broad budget support to implement their priorities. In an attempt to bridge the divide between these two differing sets of priorities, the DPG offered to support a basket fund if the MITI created a qualified and fully-staffed NIU. At the time, the NIU had seven people and the DPG suggested growing the office to between 15 and 20 people. The MITI responded that the Public Service Management Department was unlikely to approve this request. Concurrent to these negotiations, the EIF Secretariat approached the MITI and offered to fund the capacity-building component as a separate project. The MITI agreed to this approach, but the DPG objected to it because it would remove their ability to shape that aspect of the program. The DPG subsequently asked the EIF Secretariat to channel its resources to the basket fund. The MITI rejected this option and chose to have the EIF directly support the capacity-building efforts of the NIU. In response, in 2012, the donor facilitator, between the DPG and the MITI over the DTIS implementation, withdrew its support. DPG-MITI talks have not occurred since then. Rather, the DPG is channeling their support to individual government initiatives and to private sector efforts.

There was no organized private sector pressure on the MITI to implement the 2005 DTIS. In part, this was because, at the time, there were few sector-wide trade associations that possessed the capacity to collectively engage with their government counterparts to address policy challenges. Consequently, in general, follow-up actions from the DTIS tended to occur only in areas where preexisting donor interest intersected with recommendations from the report. Two clear examples are the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) and the horticulture sector. The SAGCOT emerged out of Kilimo Kwanza (Agriculture First), a top priority of the previous administration. The Tanzanian government announced it at two high-profile venues: the 2010 World Economic Forum (WEF) Summit on Africa in Tanzania and the 2011 WEF annual meeting in Davos. Because the program seeks to facilitate private sector investment in Tanzania, it received a large amount of support from the WEF. Success in horticulture exports, by contrast, was a result of a clear investment opportunity that required little effort from the government and investors faced no domestic opponents.

Lessons from the 2005 DTIS

Principal lessons from the experience of the follow-up on the 2005 DTIS include:

- **Government priorities matter**. The scope for reform and opportunities for engagement with the Tanzanian government are largely determined by the strategic priorities of the president. Currently, there is considerable interest and pressure from the new administration to improve trade policy and the business-enabling environment to promote investment, create jobs, and deliver improved living standards to the majority of the people.
- **Ensure ownership from the MITI.** There were early signs that the MITI did not feel the 2005 DTIS reflected its priorities. Although the initial validation workshop secured high-level participation from the MITI, momentum slowed soon after. Identifying the key personnel within the MITI and their priorities is critical. Active participation, for example, in prioritizing recommendations and sectors, as well as

determining ex ante the key MITI staff responsible for implementation seems useful. In addition, an agreed upon realistic implementation timetable can also help set expectations.

- **Reach out to private sector supporters**. Unlike in 2005, there now exists a much more powerful set of private sector stakeholders that are likely to support the recommendations in the DTIS update. It would be useful to engage them from the beginning of the process, such as through commenting on drafts and having active participation in validation workshops. This might also include hosting a workshop solely for the private sector.
- **Manage donor-MITI relations**. Problem of reform fatigue notwithstanding, more substantial progress in implementation was possible if the DPG and counterparts from the MITI would have overcome their differences. From the MITI's perspective, donors were pursuing an agenda that was inconsistent with the priorities of the Tanzanian government. Donors, by contrast, did not sense that the MITI was serious about addressing its staff capacity shortcomings. Overtime, these differences led to accusations of ulterior motivations on both sides, as well as causing the MITI to embrace a course of action—accepting standalone funds from the EIF Secretariat—that led to talks over DTIS implantation to collapse. Finding a neutral arbiter to resolve the conflict early might have led to a much more positive outcome.

Policy Vision of the Administration and the DTIS Update

The DTIS update presents an excellent opportunity to support the government to realize its own priorities. The DTIS update identifies the policy, regulatory, and institutional actions required for delivering the FYDP II goals of job creation, economic transformation, and industrialization. The DTIS update is occurring at the early stages of enacting the Tanzanian government's new economic policy, the FYDP II. The document is candid in its assessment of the poor outcomes of previous similar national development plan.

> *Weak implementation has been a persistent setback for Tanzania. The FYDP sets down several reasons; including incoherent policies and procedures, weak prioritization and sequencing of initiatives, vested interests, weak engagement of stakeholders in planning and implementation stages, weak resource mobilization strategies as well as supervision, monitoring and evaluation.*

The administration has made it clear that the FYDP II will not suffer from these shortcomings. It devotes an entire chapter to developing an implementation strategy and demonstrates a coherent theoretical focus by drawing on experiences of countries it wishes to emulate, especially in East and Southeast Asia, as well as a few in Sub-Saharan Africa.

DTIS Update Focus Areas

The DTIS update can advance FYDP II priorities. The most promising way to ensure the DTIS update does not meet the same fate as its predecessor is to use it as an opportunity to help the new government advance FYDP II priorities.

> *FYDP II has put more emphasis on industrialization and openness to the regional and global trade than before. This will require concerted efforts to…ensuring availability of conducive environment for doing business and investment. The envisaged industrialization… has to be based on the country's comparative advantages, upgrading and innovativeness with a focus to integrating into the regional and global value chains…(FYDP II)*

The DTIS update presents the opportunity for development partners to assist the Tanzanian government to achieve its goals on trade policy reform and improved economic competitiveness. The FYDP II benchmarks to reach these objectives include increased exports of agricultural products, greater agricultural processing, and improvements to a range of DB indicators, such as regulatory reforms to improve trade facilitation and the business environment.

The DTIS update has five focus areas, agribusiness, mining, regional integration, tourism, and trade facilitation largely overlap with the FYDP II priorities and/or build on existing private sector interest:

- **Agribusiness**: Agribusiness has a prominent position in the FYDP II, including targets for maize, rice, cotton (and textile production), sisal, leather, grapes, horticulture, edible oils, beef, poultry, chicken, dairy, and fisheries, as well as improvements in rural infrastructure, capacity-building, and addressing market failures. These goals are building on improvements in the agro-processing industry that have occurred over the past few years. The most prominent example is horticulture exports. Export-quality dairy products, nuts, wine, and edible oils are also becoming more common. For these reasons, the DTIS focus on agriculture overlaps strongly with the FYDP II.

- **Mining and extractives:** The new government's policies on small-scale mining are the least developed. The FYDP II only has two paragraphs on planned interventions. In addition, the Ministry of Energy and Minerals is at a very early stage in developing a new minerals policy. The World Bank can therefore play a useful role in assisting the government to develop a more comprehensive plan for developing this part of the mining sector.
- **Regional integration**: The outlook for improvements in regional integration are promising. The most important change is Tanzania's much improved relations with Rwanda. Although the auspicious outlook for EAC integration is still in its early days, it has already moved beyond rhetoric. The clearest examples are several recently announced joint infrastructure projects with Kenya, Rwanda, and Uganda. There are also opportunities for increased regional trade with SADC economies, particularly with the Democratic Republic of Congo and Zambia.
- **Tourism:** While tourism is not an FYDP II priority, reforms to create a more competitive tourism sector seem promising. First, the trade associations within the sector are strong, largely share the same vision, and have a clear set of reforms they desire. Second, the two main government agencies covering the sector, the Ministry of Natural Resources and Tourism and the Tanzania Tourism Board, are very supportive of the needs of the sector. Third, the Minister of Finance has stated publicly that tourism will be the pilot sector for reforming the business environment.
- **Trade facilitation**: The FYDP II unambiguously states that it seeks to achieve export-led growth and improve the trade policy environment. Yet the government is equally as committed to stopping the importation of substandard and sometimes hazardous goods. Therefore, Tanzania's trade policy regime still needs to find an appropriate balance between ensuring consumer safety and facilitating private sector development. The FYDP II does not discuss how the government will meet these competing priorities. The DTIS update therefore represents an excellent opportunity to advance this dialogue.

Notes

1. When indirect income from agriculture (distribution, services, storage, and so on) is included agriculture provides the main income source for approximately 80 percent of the population.
2. In December 2015, the Bank of Tanzania had nonperforming loans data on only 27 of the 49 registered banks.
3. The other indicators include: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, enforcing contracts, and resolving insolvency.
4. One hundred twenty-four action items were identified and validated in the 2005 DTIS action matrix.
5. Many development partners were constrained by their country's policies from contributing to a multidonor basket fund.

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