

**Keynote address by the Ambassador for the Kingdom of the Netherlands,
Dr Ad Koekkoek, on the occasion of the 17th Repoa Annual Workshop, 28-29 March 2012**

Honourable President of the United Republic of Tanzania, Dr Jakaya Mrisho Kikwete

Honourable Executive Secretary Planning Commission, Dr Phillip Mpango,

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Dear guests, mabibi na mabwana, habari za asubuhi?

Let me begin by saying I am honoured to be able once again to give some opening remarks on the annual workshop of Repoa. This one is the seventeenth annual workshop, and I am happy to see that Repoa, as promised, is moving further in the direction of policy oriented discussions. Let me explain why I think that is important, or even essential for an institute like Repoa. My own economics education at Erasmus University Rotterdam, The Netherlands, was under the leadership of professor Jan Tinbergen who won the first Nobel prize for Economics in 1968. Jan Tinbergen was one of the founders of the field of econometrics and also a well-known pioneer in development economics in the 1950s and 1960s. My economics education was very much geared towards policy relevance. In fact, we were taught that, in order to be useful for society, economics

always ought to combine three things: theory, facts (statistical testing or what have you) and policy implications. So you can imagine I am happy to see Repoa taking this position.

The theme of the workshop this year is: *Socio-economic Transformation for Poverty Reduction in Tanzania*. For my observations of today, I draw heavily, but not only, on two recent World Bank Publications: *Tanzania Economic Update- Stairways to Heaven*, and *Light Manufacturing in Africa*. Both have recently been presented in Dar es Salaam. Both indicate the potential for transformation of the Tanzanian economy. The potential is there, but it is not like manna from heaven. You have to follow certain policies in order to make optimal use of your comparative advantages. I want to make some observations on the basis of the things that struck me particularly in these studies.

Development and transformation of an economy are a consequence of the economic policies being followed, in combination with the available resources. For Tanzania, comparative advantage lies in labour, which is cheap, and in natural resources, which are abundant. Making good use of your comparative advantage implies basically that you are integrating in the world market. And the world

market is huge. There is lots of space there for Tanzania. And Tanzania can take its rightful position there if it gets the supply side of its economy in order.

In connection with this, two things stand out for me. First, the advice in *Stairways to heaven* to (and I quote) “promote what is already moving”, “for the government, policy should focus not so much on encouraging the establishment of small innovative businesses, but on staying out of the way to allow them to expand and become competitive.” Secondly, the advice in *Light manufacturing in Africa* to attract Foreign Direct Investment in order to combine with the advantages of low labour costs. That is how Asia did it long time ago, that is how Africa, and indeed Tanzania, can do it today. But hurry up, the world market is a very competitive place, and it is not waiting for anybody specifically.

With this advice in the back of my mind, let me look at two sectors as an example. The first example concerns the horticulture sector. Horticulture is a very labour intensive sector, it creates a lot of jobs. It is also a major export earner in Tanzania, figures from the Tanzanian Horticulture Association indicate that export earnings increased from 1.4 mln. US\$ in 2002 to 340 mln. US\$ in 2009/10. The horticulture sector is an outstanding example of combining foreign direct

investment (a lot of small and medium size Dutch investors, remember Dutch horticulture is by far the best and the biggest in the world) with unique Tanzanian comparative advantages, in this case the climatic conditions in the North of Tanzania combined with low labour costs. The government of Tanzania contributed to this success by providing loans through the Tanzanian Investment Bank. It is a clear example of a sector that is already moving. And even more important, a lot future growth is still possible in this sector.

The second example concerns the dairy sector. Here I combine two studies. The World Bank study on light manufacturing shows that Tanzanian productivity in the formal production of processed milk is good, in fact it is higher than e.g. in China or Vietnam. At the same time a recent study by the Tanzania Milk Producers Association (TAMPA) shows that whereas Tanzania with 21.3 mln. cattle only processes 105.000 liters per day, Kenya with 13 mln. cattle processes more than one mln. liters per day. In Tanzania, over the last 15 years, there has been an 80% decline in formal milk processing, with concomitant loss of jobs and tax revenue. The potential is clearly in favour of Tanzania (number of cattle, good productivity) but in reality Kenya does much better. Somewhere along the line something went clearly wrong. Let me add that TAMPA also states that the dairy sector is regulated by 15 regulators.

Both examples make clear that there is an important role for the committee of Permanent Secretaries that has been set up by President Kikwete to implement his Investment Climate Roadmap Initiative. I understand the private sector is nowadays also involved in the work of various task forces under this committee. In implementing and overseeing the Roadmap, this committee can strongly contribute to help move, better to push harder that what is already moving and to get moving that what seems stuck in an overload of regulation. To get back to the subject of this annual workshop, this kind of work by the government is essential for Tanzania to achieve the transformation that is so necessary to decrease poverty and increase employment.

Asanteni sana.