

REPOA 22nd ANNUAL RESEARCH WORKSHOP SUMMARY

“Why Institutions Matter for Industrialization-led Development”

REPOA’s 22nd Annual Research Workshop under the theme “Why Institutions Matter for Industrialization-led Development” was held on the 29th – 30th March 2017 at the Ledger Plaza, Bahari Beach Hotel, Dar es Salaam. The main objective of the workshop was to explore the role of institutions in enabling or inhibiting industrialization-led development and also to examine comparative experience from around the globe. The workshop participants included government, academia, the business community, civil society and development partners.

The Executive Director of REPOA, Dr. Donald Mmari welcomed participants to the workshop. He informed them that REPOA’s core business since its establishment in 1994 has been to generate knowledge through research, and to contribute to policy research capacity. The ultimate purpose of REPOA’s work is to improve the quality of life of the people of Tanzania. He also recognized the public good characteristics of the policy research and capacity building function of REPOA.

The Executive Director extended a vote of thanks to all the development partners who had provided support to the work of REPOA. He also recognized the presence of the Guest of Honor, Hon. Philip Isdor Mpango, MP, Minister of Finance and Planning of the United Republic of Tanzania. The Executive Director welcomed Professor Lant Pritchett from the Kennedy School of Government at Harvard University as keynote speaker. The audience was informed that, in addition to the keynote speaker, the opening session included other paper presentations and panel discussions from experts and distinguished scholars from Tanzania and beyond. These scholars had been selected purposely to share their experiences on industrialization and institutions in the efforts to promote industrial transformation for inclusive economic and social progress in Tanzania. The Executive Director expressed his expectations that at the end of the workshop four things would have been achieved:

- (i) Sharing of knowledge and experience on the institutional foundations for industrialization-led transformation for inclusive development;
- (ii) Generate a synthesis report of key policy recommendations;
- (iii) Support research capacity through the poster presentations; and
- (iv) Generating new ideas to inform REPOA’s future research agenda.

H.E. Roeland Van De Geer, Head of the EU Delegation to Tanzania and the East African Community, which is funding the workshop, spoke on behalf of the development partners. He emphasized on the importance of consolidation between the government and private institutions working together to achieve the development and facilitate industrialization. While strong institutions are the responsibility of government, the private sector has a role too. Trade agreements with the development partners are essential for Tanzania since trade and industrialization are closely related. Business men and women in Europe are keen to invest in Tanzania and strong institutions will facilitate this investment. He concluded by thanking REPOA for the workshop.

Prof. Maj. Gen (Rtd.) Yadon M. Kofi Chairperson, REPOA Board of Directors recognized the guest of honor the Hon. Philip Mpango and the presence of about 300 delegates including members of parliament and representatives development stakeholders. He pointed out that the theme of the workshop was conducive to participation by delegates as everybody had some experience of institutions which would add value to the discussions. He then invited the honorable minister to address the audience.

The Guest of Honor, Hon. Philip Mpango, MP, Minister of Finance and Planning of the United Republic of Tanzania delivered the official opening speech. He started by acknowledging that the theme for the workshop, *“Why Institutions Matter for Industrialization-led Development”* was very timely. The government is keen to develop an industrial economy in the country. Government has taken initiatives to facilitate industrialization by scaling up investments in energy which is necessary to power industries and homes, building up gas pipelines, electrification of rural areas since infrastructure is necessary to support industrialization and agriculture, streamlining tax and business regulations, increasing access to education by building schools and employing teachers. He called for stronger cooperation between the government and the private sector institutions and stressed the need to build trust and confidence between the two sectors.

The minister appreciated that REPOA has taken up the challenge of promoting dialogue on industrialization and bringing up its benefits of realizing inclusive and sustainable economic growth, job creation and increased productivity based on evidence from research. He recognized the important work being done by REPOA in undertaking policy relevant research and informing policy dialogue and encouraged REPOA to keep up the good work. He expressed the desire of the government to examine the findings of the report published by REPOA after the workshop and that it will continue to support in different ways to make REPOA continue to produce high quality policy research, capacity building, and informed policy dialogue. The Guest of Honour

urged development partners, the private sector and the Tanzanian community as a whole to support REPOA in promoting the national development agenda.

The Minister concluded by raising some pertinent questions for consideration during the workshop. These questions were: First, What institutional architecture is needed to diversify the Tanzanian economy and make it more productive? What kinds of institutions are needed to accelerate inclusive industrialization-led development in Tanzania? Finally, what can Tanzania learn from the role of institutions in the industrial development of other emerging economies?

The keynote address by Prof. Lant Pritchett of Harvard University examined the theme Difficult Growth Dynamics of a Deals World.

The speaker discussed the concept of growth dynamics and why they are important. In developing countries economics growth is a condition and not a characteristic (i.e. it is temporary rather than permanent and predictable). These countries tend to have *episodic growth dynamics* and most measures of “institutions” determine whether countries are *susceptible* to persistent and extended episodes of stagnation and/or collapse—not whether countries are “high growth” or “slow growth”.

He went on to discuss the concept of a “deals” versus “rules” world and the implications of each. Rather than living in a “rules” world where results can be predicted and determined on the basis of formal rules and conditions, people (and firms) live in a “deals” world. In the deals world what matters is not the *rules* but *who you know*. This has caused weak institutions in most developing countries. While some countries have been able to have episodes of very rapid economic growth despite being “deals” oriented, growth collapses are common and growth dynamics are boom and bust.

The third concept discussed was that of the process of structural transformation that leads to sustained growth. The speaker compared it to playing a game of Scrabble. Sustained economic growth involving high and sustained levels of output requires producing goods of increasing complexity—they require more “letters”. Products require a long list of specific inputs to be produced successfully—and that includes both private inputs (e.g. labor of various types, machines) and collectively produced inputs. These need to be available for industrialization-led development to occur. This is less likely to happen in countries whose economies are oriented towards the production of agricultural exports. Industrialization-led development is enabled by a complex range of contextual factors. The contribution of specific types of institutions to development has probably been overstated. Capability to implement policies is more important than institutional forms. What matters is a degree of predictability so that institutions create the

stability necessary for investment. While better institutions can contribute to this the path to economic development through industrialization is not linear. The constellations of relationships involving formal and informal institutions which cluster the capabilities necessary to produce certain kinds of goods are more important than the form those institutions take.

The keynote speech set the tone for deliberations during the two day workshop on:

- (i) the delicate balance between a “deals versus rules” world;
- (ii) the transformation of institutions;
- (iii) the challenge of achieving sustained economic growth.

Keynote Discussion

CHAIR: Prof. **Joseph Semboja**. Executive Director Uongozi

Due to time constraints this session was cancelled. A vote of thanks was given by Prof. Bertha Koda followed by a photo session.

PANEL I: REFLECTIONS ON THE KEYNOTE ADDRESS

Moderator. Ms. Namwaka Omari

• **Prof. Benno Ndulu**

Tanzania has experienced various periods of growth, including the current phase where for almost a decade we have had consistent growth without increases in product complexity. Growth has been underpinned by resilience to shocks which have been precipitated through successive policy regimes. Each regime learns from the other one. Eg: Mwalimu came with the notion of we can run while others walk. Mwalimu’s equity and Socialism were followed later by Mwinyi’s liberalization policies, popularized as “Ruksa” because you had permission to do everything and then you had Mkapa who did consolidation of the economy.

The country has been continuously learning. We have to recognize that consistency plays an important role in improvement and is a learning curve of individual institutions. When it comes to what is expected and the actual action, there should be clear and unambiguous rules of the game, as there can be multiple interpretations of the rule. There should be a predictability of the rule of the game / transparent stability of the rule. There should be efficiency in the deliverer of services. This doesn’t always happen. Disputes may not be resolved in timely fashion. As for deal brokers, we have them in Tanzania. Investors go to them hoping to get deals. Lately this class has suffered a lot due because implementation has become a little tougher which is

extremely important. Product Complexity is slowly happening here within our regional markets. Output is rising which is processed or manufactured and 46% of this is exported.

Representative from NEEC

- **Mr. Bwakisa**

He spoke of rulers, policies, pattern behavior of efforts to establish institutions. We are losing and winning in this fight. The question remains as to whether it's a deals world or a rules world in Tanzania. What is important to discuss are issues of participation and inclusiveness of the politics in Tanzania and to ensure there are rules and procedures to ensure the quality of policy review and formulation. Capability is the key to this and the government is trying to improve the capacity of its staffed to outsource where necessary.

- **Ramisa Ali**

For institutions to grow there must be objective, rules and terms. Understanding the most limiting constraints is essential as is awareness of conflicting institutions. These are not always the same. Local contexts are extremely significant. Different countries have different types of corruption.

- **Nii Sowa**

As an example of “deals”, Japanese institutions depend on family loyalty. The “deals” type of economies occur in many countries. The point about product complexity is important. Ghana is a good example. It exports cocoa beans and bauxite but cannot process either. Bauxite from Ghana is shipped to Jamaica to be made into ingots which are then returned to Ghana for further processing. There are countries with capabilities in Africa. Regional integration can help create a context for developing this which transcends the limitations of national capabilities. Some dominant players such as South Africa are better placed than others to appropriate gains from regional value chains.

- **Prof. D. Bryceson** emphasized the centrality of the relationship between demography and the economy. The context of growth was important, including the international context which made growth possible in some periods but not others. There is a distinct temporal dimension to growth in all economies. Trajectories of development are not the same for all countries. In Tanzania we can see the move from agriculture and the increasing contribution of services but it is unclear whether this will result in industrialization. This may be even more uncertain in the context of an open economy subject to globalization than during the 1980s when Structural Adjustment Programmes and oil crises put development back by twenty five years in Tanzania. She was not wholly convinced that the deals / rules framework helps us understand development in any place, including Tanzania. How is it different from the theory of rent seeking in what it can explain? It seems to her that the analysis of politics is missing from this framework, which paid little

attention to the findings from anthropology and sociology which could have explained the specifics of the context which are really important, as well as the relationships of inequality between North and South. While there are profound power differentials between North and South which have implications for development possibilities she also questioned whether it is useful to present institutional issues in terms of a binary between them, especially at the present moment when The United States is ruled by President Trump who presents himself as the ultimate dealmaker.

- **Dr. Ali Bashiru**

Capability, Episode, Deals

Dr Ally highlighted the issue of inequality and the fact that both rule and deals have beneficiaries. Moreover, institutional capability in itself is not always positive. There are many examples of capable institutions that have caused chaos; for instance: NATO. No rules are neutral. It is the content of institutions, what they do, which is significant. It is the case that we need alternative institutions to produce social progress because the current institutions are taking us away from this objective. This was not always the case. At other periods in Tanzania's history we have had a greater emphasis on progressive policies and institutions under Nyerere and indeed other African leaders during that period valued human dignity between the 1950s and the 1970s but what was significant was their leadership rather than effective institutions. In the current episode dominated by neoliberal dogma we are forced into regressive deals which are not socially progressive by dealers who act as pimps of the free market. In the focus on institutions we must not overlook the central role of politics and the ways in which dominant institutional forms are promoted to further the particular interests of class and capital.

- **Tausi Kida**

Dr Kids questioned the emphasis on institutions in the keynote presentation. Institutions were central to inclusive growth but there was insufficient attention to human development outcomes. Rapid growth is common but so is the collapse of growth. Rapid growth in one country often comes at the expense of growth in a country which was previously successful. In terms of industrialization in Tanzania the contribution of non-tradeable and services are important. Implementation is extremely important as is policy coherence.

Lant Pritchett responded to the panel, emphasizing that the move from deals to rules was essential for economic development. Institutions need to be strong enough to preclude the kinds of deals which ultimately undermine them. Attaining this balance is difficult.

SA1 – World Development Report 2017

Dr. Deborah Isser

The report debunks three “easy answers” analysts typically provide to justify policy failure. It aims were to go beyond the “easy answers” It was indicated that policies fails because they did not follow best practice, they lack capacity and political will. How can we make policies for security, growth and equity more effective? By Good Governance, for starters. Governance in this regard was said to mean the process through which actors (state and non-state) interact to adopt and implement policies. These interactions must take place within the policy arena.

How can agreements among actors in the policy arena effectively change behavior? Ensure credible COMMITMENT to policies in the face of changing circumstances. Enhance COORDINATION to change expectations and elicit socially desirable actions by all. Encourage COOPERATION to prevent free riding and induce voluntary compliance. The distribution of power in the policy arena (power asymmetries) is one critical determinant of whether or not these functions are performed in a way that promotes better development outcomes.

Certain groups whose compliance matters for success may be excluded from participation in decision making. Energy subsidies benefit large firms and upper middle classes who may unduly influence policy to serve their interests. Despite the cost to students, politicians may tolerate teachers’ absenteeism in exchange for political support.

How can Change be brought about?

Elite bargains Agreements among decision makers to restrict their own power;

Citizen engagement Coalitions to change the incentives of those who make decisions;

International influence uses indirect means to change the relative power of domestic reformers.

SA2 – Institutions and Sustainable Industrial-led Development in Sub-Saharan Africa

Anointing Ogie Momoh

SSA has some examples of successful industrial led development such as Botswana. Promising opportunities exist in such areas as agro-processing and production, clothing and textile, leather works, small scale light manufacturing, amongst a host of others. Countries in the region could move towards greater integration into the value chains of the primary commodities and natural resources which they currently export. Regional integration is also important for a successful industrialization agenda in the region.

The example of Botswana shows that the desired level of industrial development can be achieved within a framework of institutions that protects property rights, ensures respect for the rule of law, guarantees returns on investment, encourages innovation and promotes the development of local content.

SA3 – A survey about development and institution in Tanzania
Prof. Bourguignon & Dr. Abel Kinyondo

A survey about development and institution in Tanzania was carried out. A presentation of the same was made by the speaker. The study reveals institutional weaknesses in Tanzania related to; land rights, Corruption (or institutional weaknesses leading to corruption), regulation State coordination and autonomy, ease of doing business.

SA4 – Ghana’s path to an Industrial-led Growth: A reflection of the role of Decentralisation
Dr. Ama Pokuaa Fenny

Decentralisation is an effective process to promote good governance and participatory development. The relationship between decentralization and local economic development cannot be over emphasized in contexts where local authorities have a strong role to play in supporting and promoting local enterprises. The paper examined the relationship between local governments and successful local economic development policies in Ghana. It showed how support to local industries combined with a suitable enabling environment fostered the development of local SMEs. Lessons from Ghana suggest that industrial policy that embraces structural transformation with the active involvement of decentralized organizations can increase its chances of being successful. It is time for a new development paradigm that gives investment priorities to local level development.

SA5 – Institutions and Industrial Growth in Uganda: A review of progress
Dr. Madina Guloba

Growth, albeit stagnant, has been registered across industry, whose contribution to employment is limited. Efforts by government to enhance production and those of ensuring that Uganda is industrialized are different. Corruption and weak governance remains. In 2014, Uganda was ranked as the 12th most corrupt economy in the world. Strengthening institutional accountability is essential. Agriculture-industry (agro-processing value chains) linkages are still very weak. Poor performance of industry is an indication of poor institutional linkages and coordination. Uganda’s industry cannot take-off amidst full liberalization as it faces the same level of competition as firms in China and Kenya.

**PANEL 2:
LEADERSHIP AS A META INSTITUTION**

Moderator Dr. Donald Mmari

Hon. Judge Warioba, Charles Kimei, Prof. Adolf Mkenda

The following issues were discussed:

1. Historical perspective on Tanzania's road to industrialization.
2. The current industrialization strategy.
3. Mobilizing financial resources.

Focusing on the **historical perspective on Tanzania's road to industrialization**, things that hindered industrialization development in the past were discussed. Some of the things are lack of skilled workers like managers, accountants and others, inadequate funds and poor infrastructure. All the necessary things needed to run institutions were lacking. The country adopted liberalization but did not have the resources needed to privatize institutions. This led to death of small enterprises because the products could not compete with imported goods from other countries. Many of the parastatal establishments collapsed. It is suggested that there should be more involvement of state institutions in the privatization.

Judge Warioba observed the **country's current position on industrialization**. He started by highlighting imperatives of industrialization in the country which are urban youth unemployment, persistent of rural poverty and most people are agrarians. He also addressed the following areas prioritized by the country to bring industrial development:

- Manufacturing activities that have strong linkages with the agricultural sector. Such manufacturing activities are like food processing, textile, fish processing, leather production etc.
- Production of consumer goods is also emphasized. These products have no strong link with the local market but are still important e.g. pharmaceuticals.
- Industries that have strong linkage with our natural resources for example processing of mineral resources.

To ensure that industrial developments are taken into action, the country is doing the following:

- Improving infrastructure. To ensure this the government has allocated 40% of its budget for developmental expenditure like constructing roads, port modernization, railway etc.
- Investing more on education and skill development in the vocation training. Government spends money to re-train workers.

- Investing heavily on value chains. This is done by making sure the manufacturing base that will be put in this country will have strong linkages with other sectors of economy.
- Streamlining laws, rules and regulations so that they become conducive for investment. This is done by enhancing clarity, removing overlaps, and getting rid of superfluous law, rules and regulations.
- Rationalizing fees, taxes and charges. Principles are generated to reduce them.

PARALLEL SESSION I: INNOVATION & ENTREPRENEURSHIP

SB2 – Why Nations Succeed: Connecting Entrepreneurial Ecosystems & Industrialization to New Institutional Theory.

Prof. Mackintosh welcomed all, introduced the participants and outlined how the session would run.

Entrepreneurial Ecosystems – Moving economic policies from national level to regional levels is very beneficial. Regional policies take local conditions into account, such as human capital, demand, financial conditions etc. Having economic policies at local levels, leads to industrialization. Examples: concept of ‘Air b n b’;

Intergenerational economics – e.g. in China the current political regime uncertain of the viability of the current system of government invests in the next generation not to make a political class but a business class, which in turn serves as a protection. Positive change in political institutions results in a better environment for entrepreneurship.

Dr. Donath Olomi

‘Imported institutions’ sometimes clash with local culture and fail. National elites may not want to broaden their power base and this causes a hindrance to industrialization. The Netherlands was in a similar situation. To keep power, the small elite political class had to broaden its base. Those to whom they reached out to for support asked in return for rules to govern the system. This eventually resulted in a rules based system as opposed to one controlled by an elite few. Thus, it may take time but Tanzania if facing the same challenge may inevitably move in the same course.

Questions from audience:

1. What exactly does the government do for entrepreneurs?

Answer- There needs to be a fine balance between having a passive government and one that is too strong or too involved as either have a detrimental effect in the long run.

Start-ups do not often get government support because they are viewed as more likely to result in losses. Even if this is true, the government should still continue to support as some may result in

significant effect on the economy. They should however reevaluate how they support start-ups. It may be the case that investments in young people at school can help foster entrepreneurial culture and encourage young people to become involved in starting businesses.

2. How is a very strong political institution bad for the economy?

Answer- a ‘bad’ political institution is one that has been in power for 30 years. It results in uncertainty and kills economic growth.

Additional Points: A rule based system is better than a system consisting of too many rules or institutions. Decentralisation of power, business and resources also needs to be carefully planned according to the circumstances of each economy as in some cases; e.g. developing countries: it may consolidate the power of the central government instead.

PARALLEL SESSION II: FRUGAL INNOVATION

Dr. Elsie Onsongo

Definition: (re)designing products, services and business models in order to reduce complexity and total lifecycle costs while providing high value and affordable solutions for Base of Pyramid (BOP) customers in developing countries.

Strategies for success of frugal innovation:

1. Adapting business models to the context – frugal outcome, frugal philosophy and frugal process.
2. Altering the context – new markets, institutional innovation, and entrepreneurship.
3. Staying away when either of the above is uneconomical.

Examples: Philips Community Health Centres in Kenya – provide healthcare with other amenities for the community e.g. lights, borehole water, shops. This has led to improved metrics such as reduced infant mortality.

Vodafone and Safaricom’s Mpesa – Included low income earners not included in the banking system; led to the development of new legislation and societal shifts such as the reduction of ‘chamas’ because money is now more accessible through their phones.

Comments from Discussant and audience: Innovation should be properly defined and appreciated. Policy gaps should be closed: e.g. the missing link between the innovators and the institutions able to commercialize their ideas.

Right approach to Innovation: Do what you can at your level as opposed to waiting for the government or other institutions to take up your ideas. There are over 10 innovation hubs in Tanzania (Website – www.innovate.co.tz). In order to get the Innovation map in Tanzania, please email: olomi@imedtz.org.

SB3 – Role of Grassroots Institutional Innovations and in Developing Agro processing in Tanzania

Dr. J.G. Kariuki (Absent)

Dr. Gladness Salema (represented)

Buyer – supplier integration and logistics performance in health care facilities in Tanzania the moderating effect of centralized decision control

Access to essential medicine is still a critical problem. The structure of an organization determines its performance. Buyer – Supplier Integration – logistics, purchasing. Exchange relationship between the public health facility and its focal supplier, the Medical Stores Department (MSD). Analysis of various hospitals shows that they are familiar with purchasing processes, but there is too much bureaucracy. There is substantial centralization of decision control.

To Improve:

1. Reduce Bureaucracy
2. Respective purchasers should be given more autonomy
3. Government support.

The paper concludes that improvements will stem from increased decentralization of decision making and greater autonomy for district hospitals to manager their own procurement.

SB4 – Innovative measures

Dr. Olomi

Technological innovations such as drone delivery of medical supplies to remote areas have potential to address some shortfalls but cannot overcome the blockages created by bureaucracy in the buyer supplier chain. Gaps in supply chain also exist in private sector.

Questions from audience:

Which processes can be cut short to reduce bureaucracy in the Medical supply chain?

Answer – Having a direct link from medical stores to hospitals.

Does MSD supply to private sector?

Answer: No. Except perhaps TB and HIV medication. They also supply to some faith-based hospitals.

SB5 – Food Security Portal Project (FSSPP)

Dr. Nicholas Minot

FSSPP is an internet food portal application that has been developed to operate on mobile phone platforms. It combines diverse data on food availability and nutrition to facilitate improved communication, and food security information thereby improves access to food for residents of food insecure areas.

Questions from audience:

Is there a similar platform at the national level? FSPP has limited resources and is thus not able to have the portal at national level..

How accurate is the information? How is it obtained at a lower level?

Answer: Nutrition data is better than crop production data.

How can we maximize the use of such portals in Tanzania? By making presentations such as these, getting the word out.

Comment from audience: Food security in Tanzania is mainly as a result of internal problems which require maturity to solve.

PARALLEL SESSION III: INSTITUTIONS AND INDUSTRIAL POLICY

Prof. Simon Roberts

The past two decades the majority of countries in SADC have adopted competition laws and established competition authorities, along with Ethiopia and Kenya in East Africa. Competition authorities are viewed as critical institutions in making markets work efficiently. At the same time, countries in East and Southern Africa have reduced protection and liberalized markets.

The competition authorities are the referees to prevent the abuse of market power, penalize collusion and stop mergers which will unjustifiably increase concentration. However, growth has been accompanied by rising levels of inequality. The speaker assessed the extent to which competition issues are to blame for inequality. He assessed the record of competition enforcement and considered the role of the formulation of competition laws, the institutional capacity of the authorities and political economy factors in understanding this record.

SC2 – The Role of Financial Institutions

Charles Singili, Hildebrand Shayo & Andrew Coulson

TIB Development Bank was used as a case study. State-owned banks compared by other banks are vital in financing projects with developmental impact. Since their creation, banks have played a leading role in stimulating large capital-intensive projects in many parts of the world. In Tanzania the role played by TIB between 1970-1990 in loaning investment in industries and manufacturing projects cannot be disputed.

These projects across the country were not only a source of employment creation but a source of government finance. Tanzania rationalized the financial institutions to ensure the most efficient adaptation of the financial sector to specialized need of the Tanzania economy. When these were formed, industrial development meant large-scale commercial agriculture, development of manufacturing, assembly and processing, development of engineering, construction, transportation, tourism and mining industries.

The objective was to ensure all resources available for capital investment were put in their most efficient use, for the benefit of the nation as a whole and fully consisted with social and economic policies of Tanzania. Between the years 1970-1990 the TIB played a big role that cannot be disputed. All key sectors of economy did receive a considerable amount of financial support. It was observed that TIB's involvement and lessons from successful nations shows that banks are vital to stimulate establishment of projects with impact on economy. TIB-DFI and TABD are better placed to play a coordinating role hence can advise the government accordingly or help leverage resources for strategic country development projects. Banks can deliver an alternative means to help the government finance its projects from cash budget.

Financial resources available for investment are scarce in Tanzania. Therefore decisions to allocate them to any of the potential sectors will depend on viability or feasibility of projects in the sector, the presence of investors with adequate equity and government sectoral priorities. There is also a shallow financial system which is aggravated by the dominant position of commercial banks, specialized financial institutions like TIB, TABD which have limited sources of loanable funds and may not be sustainable. In addition, there is insufficient foreign participation on the Dar es Salaam stock exchange for raising equity.

The total financial assets of the country (excluding the currency outside the banking system) is composed of 67.3% commercial banks, 29.8% pension funds, 2.2% insurance companies and 0.7% collective investment schemes. About 70% of all loanable funds are resting with commercial bank and out of these slightly more than a half are very short term in nature. As for pension funds, the policy guidelines for investments calls for diversification. Pensions must be invested securely.

Sources of financing new investment may come from repayment of installments by current borrowers, cash flows of those enjoying overdrafts, new savings mobilized by financial institutions and external borrowing which is only available to stronger banks. Key issues in financing new investment are low national financial savings, availability of equity (debt funding is only for the purpose of leveraging equity), and increase in non-preforming loans. To overcome the issue of low national financial savings the following were identified:

- **Culture of savings** — Government should supplement efforts by financial institutions by mobilizing all people to save. According to information from BOT (Bank of Tanzania), more than a half of currency issued is not in financial system.
- **Provide fiscal incentives to savers** — e.g. deductibility of savings made in long term saving investment from tax and reduction of withholding tax on interest income.
- **Pushing financial inclusion** — this can be achieved by enabling reliable, cost effective financial infrastructure including networks and electronic payment systems.
- **Taking measures to improve public confidence in the financial system** — maintaining confidentiality of financial transactions.
- **Taking measures to promote financial widening** especially enactment of enabling regulations and making it easy to understand and create institutions like mutual funds, investment banks, and venture capital funds.
- **Financial literacy** — implementing the BOT driven financial education framework.

Financing of industrialization in Tanzania can be achieved by tapping on foreign/external sources of financing through sovereign bond issue by the government or private placement facilitated by investment banks, Foreign Direct Investment (FDI) which is promoted by Tanzania Investment Centre, Local banks and other financial institutions, and borrowing by corporate entities directly from international capital market example Azam, Kagera Sugar and METL.

SC3 – The Political Economy of Industrial Policy in Mozambique

Epifania Langa

A study conducted on the Mozambican economy showed that the country has rapid economic growth but is not able to reduce poverty. This calls for urgent rethinking of the role of industrial policies. To trigger structural transformation in Africa with industrial development particularly manufacturing development, industrial policies need to facilitate exploitation of latent comparative advantage and to accelerate learning and technological capabilities accumulation.

For the countries to have successful industrial policies, the state needs to act developmentally, to ensure embedded autonomy and enforce reciprocal control mechanisms. Implementation of industrial policies involves allocative and institutional changes affecting the current distribution of economic benefits.

SC4 – Industrial Policy and Development of Agro-Processing Regional Values Chains in Southern Africa

Shingie Chisoro Dube

Animal feed to poultry and sugar to confectionary value chains in SADC was used as a case study. There is limited intra-regional trade amongst SADC countries in sourcing raw materials and inputs. For example South Africa imports poultry and animal feed inputs from Brazil, Argentina and Netherlands, and SADC countries import sugar from Brazil and Thailand. Trade deficit in animal feed inputs within region presents an opportunity for developing a regional value chain with Zambia and South Africa as key players.

South Africa is a net importer of animal feed inputs with a trade deficit of US\$94 million in oilcake and US\$68 million in soya bean from Argentina and Netherlands. Zambia is a net exporter of maize from 2011 with trade surplus of US\$198 million in 2015, soya bean from 2013 with trade surplus of US\$5.5 million in 2015 and oilcake with a trade surplus of US\$10 million in 2015. Increased competitiveness in Zambia's production of soya bean and maize is evidenced by the decline in prices.

There is potential for Zambia to expand production and supply to South Africa with low cost inputs. SADC region imports raw sugar from Brazil and Thailand (on average \$1.5 billion and exports \$1 billion to the SADC region between the years 2011-2015. Also the SADC region is a net importer of sugar confectionary and baked products from China and Brazil. Zambia is a low-cost producer of raw sugar, but domestic sugar prices are still higher than import parity prices which are caused by uncompetitive behavior of large firms.

These large firms charge very high prices for raw sugar which affects the downstream sugar confectionary and baked goods. South Africa and Zambia are net exporters of baked goods and sugar confectionary, mainly to SADC but still need access to cheap raw materials. There is potential for Zambia and South Africa to produce local sugar to confectionary industries and replace deep sea imports.

There is existence of regional value chains of the animal feed to poultry and sugar to confectionary and some form of local industrialization which are driven by large firms conducting investments across the region. For these value chains to flourish and to achieve regional growth, governments should invest in transport and logistics, efficient border controls and get rid of policy inconsistencies. National industrial policies should align with regional institutions. This will enable the countries within SADC region to leverage regional supply chain linkages and also improve their own export positions.

SC5 – Taxing the Urban Boom in Tanzania: Central-local Government Relations in Property Tax Collection in Tanzania

Prof. Odd-Helge Fjeldstad

Dr. Lucas Katera

Tanzania has recently experienced high economic growth. The rate of urban growth rate is even higher. The high urban growth rate is driven by a lot of investment in construction and service sectors. Real estate consumes huge amounts of capital yet property tax regime is highly underdeveloped and flavored by central-local disputes. In Tanzania, property tax accounts 10-30% of local own revenues while in some developed countries it accounts 80% of local own revenues.

Property tax (PT) administration has undergone major changes during the period of 2008-2016. Before 2008 there was decentralization of PT collection. PT was administered and collected by urban councils and municipalities which led to poor revenue performance. In 2008 the government directed TRA (Tanzania Revenue Authority) to collect PT on behalf of municipalities in Dar es Salaam (centralization). There was a slight improvement in revenue performance especially between the year 2012 and 2013. But there was poor cooperation and coordination between the municipalities and TRA. In 2014 the government announced the PT administration and collection should be returned to municipalities (re-decentralization).

This led to a major increase in revenue performance. But in 2016 it was agreed that TRA will administrate and collect PT for the whole country (re-centralization). It was observed that to make “centralized” PT collection work cooperation, exchange of information and proper coordination between TRA and the municipalities, as well as with other relevant ministries and other entities is needed. There should also be an establishment of mechanism to improve intra-governmental coordination and cooperation linking the basic revenue administrative components such as a database maintenance, billing and enforcement, with other revenue sources such as business permits, house rents, land rents and user charges. Clarity on division of functions and responsibilities of the central and local government administration is critical.

SD1 – Can mining promote industrialization?

A comparative analysis of policy frameworks in three Southern African countries.

Lauralyn Kaziboni

The presentation analyzed the design, implementation and effectiveness of mineral linkage development strategies in three countries, namely Botswana, Zambia, and Zimbabwe. The analysis validates the thesis that resource-based industrialization is possible through the development of requisite skills, increasing domestic technological capabilities, knowledge, appropriate designed and implemented policies and strong institutional capabilities.

The countries have a number of shared features. Firstly, they all have well-established mining sectors, with commercial mining dating back to 50 to 100 years ago. This has enabled the growth and deepening of human capital, institutional competences, the NSI and, in some cases, upstream industries related to mining which inevitably takes time to develop.

In all these contexts, policies have played a critical role in opening up or closing down the opportunities for resource-based industrialization. Secondly the respective governments played a key role in fostering linkage development. This happened in Botswana in 2005, in Zambia in the 1970s, and in Zimbabwe in the late 1960s-1970s.

The success or failure of a resource-based industrialization approach is country and sector specific, requiring the deployment of different and appropriately tailored policy instruments. Furthermore, the shaping of resource-based industrialization policies and the extent to which they are implemented (or not implemented) is heavily influenced by power relationships within a specific economy and relationships across different segments of the domestic and global value chains for specific resource types and the value chains of products purchased by resource firms. In all cases, the issue of skills is pertinent to the success of mineral extraction, processing and manufacturing activities.

In the case of Zambia and Zimbabwe, there is significant scale of demand for goods and services from mining to provide the basis for the development and growth of competitive domestic supply industries. Both countries have existing or latent productive capacity, based on the legacy of past industrial development and their respective NSIs. In addition, the domestic manufacturing interests are increasingly organized and attempting to influence policy. This provides the foundation for the potential success of resource-based industrialization policies and strategies.

SD2 – Industrial Transformation and Labour Absorption: Artisanal Gold Mining’s Role

Prof. Deborah Fahy Bryceson

Millions in Africa, Asia & Latin America engaged in artisanal mining over last 3 decades due to: declining incentives in peasant agriculture, gold’s meteoric price rise. Artisanal gold rush miners’ characteristics are Economic: voluntary site entry & exit on egalitarian basis. Social: strong collective identity, sharing work skills, professional norms & ethics Political: defining their work *modus operandi* & mineral access rights consensually.

Location of minerals, access to mining rights, access to formal credit, mining’s financial returns, personal hazards were mentioned as among the Incalculable uncertainty of artisanal mining.

SD3 – Industrialization Led Growth in Tanzania: Running with Two Legs in the 21st Century

Prof. Lars Osberg

Sometimes, machines just do it better than humans. Precision and consistency enable savings in materials wastage, improvements in product quality and reliability. They perform dangerous tasks in toxic environments. Perform operations in places impossible for human labour, can work consistently at speeds that humans cannot match, Can operate 24 hours a day, 365 days a year never go on strike or ask for a raise.

Especially where consistency & precision are crucial, robots are now often a dominating technology (i.e. profitable at any wage) for some operations in manufacturing production processes. Industrialization-led Growth depends on whether the technical & vocational college system can produce the advanced manufacturing technology skill sets that some jobs in future factories will need.

Becoming a petro-currency will pose new problems for Tanzania’s optimal monetary policy. Since the feasibility of industrialization led growth depends in part on the stability and level of the exchange rate, it will be important to recognize the tradeoffs between monetary policy impacts.

Small business assistance and industrial outreach programs can provide “bottom-up” assistance to small-scale manufacturing firms to help overcome barriers of access to markets, capital & expertise.

The establishment of major new industrial complexes – e.g. automotive assembly – within a free trade area depends on government’s willingness to either (a) compete in expensive bidding wars for new investment by private corporations or (b) directly invest via state enterprises.

PANEL 3: INSTITUTIONS AND THEIR DESIGN FOR INDUSTRIALIZATION

John Sutton: Institutions play a lead role in the industrialization and development of a country. These are firms, either large firms of natural resources firms, and relevant departments and agencies within government. Firms in the NR sector come to a country anyway because they need the natural resources. Other firms can chose. This means that government agencies dealing with industrial development have to be flexible and adaptive. The Investment Authority in any country is critical. It is supposed to create an enabling environment for investment. Deals with issues of transport, infrastructure, land, etc. require a team with regularity of process, for instance monthly meetings with stakeholders. It would also require a determined leader to create a culture of delivery.

Local content is essential in creating flexible institutions which can respond to emerging opportunities. Rules and regulations are important but there has to be sufficient flexibility to permit adaptation. In order to operationalize this investment authorities and relevant departments need personnel who are well informed, know what is feasible and can identify the right local companies with the capacities to work with investors. Rules and regulations are not they key thing as they don't necessarily work. A local content organization needs a good professional team, good negotiators, and good knowledge of Multinational companies as well as local companies.

Lant Pritchett: Performance capability/Practicality. Used an analogy to show the various government structures and get the audience thinking about which structure works best. Analogy: Starfish vs. Spider. Spiders represent your typical government structure operating through centralized control. Starfish have distributed intelligence which is more responsive to diverse and rapidly changing environments. The starfish model represents a government structure that allows for autonomous action and is performance driven.

Most public sectors 'operate' by camouflage – This means that they only appear to fulfill their mandate and are not performance driven. Tanzania should aim for problem driven iterative adaptation. Building capabilities across different institutions is more important than focusing on policies in terms of yielding results.

Eric Verhoogen: The traditional view of industrialization is that a hosting a particular sector is the ultimate goal. However there is more to this as industrialization involves change, the adoption of new ideas and a learning process. Thus, countries seeking to industrialize should recognize that learning is not automatic and has to be institutionalized. Deliberate strategies can accelerate learning to make industrialization more effective and increase exports.

Examples: the manufacturing of soccer balls in Pakistan and China; Rugs made in Egypt for export. There has to be active effort in helping institutions adopt change that will eventually lead to industrialization:

- Labour contracts (formal and informal).

- Export of products in order to upgrade quality and encourage learning.
- Competition in local and international markets.

Prof. Francois Bourguignon: Draws on his experience from the World Bank as to the definition and scope of Industrial Policy. For a long period industrial policy was not something which was discussed at the Bank but now there is increasing recognition that sound industrial policy is essential to economic development. This entails acknowledging that governments must intervene and not rely on the market. Both the United States and South Korea intervene in the operation of markets as part of their industrial policy. These steps are necessary to correct market failures and to ensure that industries can develop in the right way for the particular country. Regulation is extremely important. Without good industrial policy it is impossible to promote the exploitation of comparative advantage. Good industrial policy in itself is insufficient. Implementation is fundamental. There must be clear rules and proper enforcement carried out by capable agencies which have very precise objectives from government and the independence to carry them out.

Comments: Tanzania may have failed to industrialize because they haven't hit the right balance of policies or factors. Tanzania can focus on activities instead of products for export (e.g. Vietnamese shoes). Tanzania should examine the capability of organizations to realize the capacity of Tanzanians. Other countries like Singapore and Malaysia have industrialized due to well-focused particular agencies. As the world economy is now focused on Africa, Tanzania has an opportunity to say yes to every opportunity available to achieve short term and long-term goals.

Contribution to the way forward for 2017

Prof. Maia Green

Reflecting on the opening remarks, Maia Green asked what we have learned from the workshop about the kinds of institutional architecture needed to accelerate Tanzania's industrialization-led development. Tanzania is a long way from the kind of industrial capability envisaged in some of the papers discussed in the workshop. Institutions are important but there is a risk than an overemphasis on institutions without adequate attention to context, including globalization, detracts attention from the political factors which have contributed to Tanzania's economic development and to its approach to industrialization. It is evident from the papers presented at the workshop that both deals and rules are needed for capable institutions, but the content of institutions is extremely important.

Development policy can set the framework in which growth can happen. It also determines who gains and who loses from development. Growth in itself has not lead to reductions in poverty at the scale required to make a real difference in the lives of the poorest Tanzanians where the service sector, rather than industry, accounts for a significant proportion of the economy. Investment decisions of ordinary Tanzanians are less likely to scale up than to scale out into diversification of different kinds of enterprises in order to reduce risk.

Developing effective policies for industrialization-led development requires a more realistic analysis of the Tanzanian economy within a context of globalization. Market protections may not be sufficient to foster the evolution of productive capability in Tanzania. If industrialization is to lead to development outcomes for the majority of citizens it has to be accompanied by effective policies which ensure that gains are shared more equitably. This involves consideration of social as well as market protections. Accelerated industrialization in Tanzania will not create the amount of jobs needed to reduce poverty in the country. Many of the jobs it creates will be low skilled and low paid. Policies for inclusive development must consider issues of equity and sustainability and the necessary balance between state and market.

Emerging areas for further research

Prof. Lars Osberg

Although Tanzania has made huge progresses since the 1960s but there are many challenges ahead in developing the economy and industrial capabilities. The workshop has generated many ideas which are helpful in thinking about how we might do better. The analogy of Scrabble was interesting but doesn't really apply to how we can understand Tanzania's position in the global economy. Scrabble doesn't only depend on the letters held by a player but on the strategies of other players in the game.

Tanzania is really affected by its position in the global economy and the fact that producers elsewhere and the markets they serve are well established. Even if market conditions are favorable, Tanzania has to invest in skills and its educational system and it needs to have the capital and labour to create an industrial infrastructure ready to produce. Accessing capital is currently problematic. Addressing these barriers requires further research.

Priority issues for research which would further industrialization-led development include analyses of the macroeconomic context, including the significance of exchange rate and monetary policy factors, the viability of Tanzania's current trade policy and the contribution of government to creating an enabling environment for industrialization.

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