

WHAT GROWTH PATTERN IS NEEDED TO ACHIEVE THE OBJECTIVE OF TANZANIA'S DEVELOPMENT VISION-2025?

By: Dr. Longinus Rutasitara & Dr. Jehovaness Aikaeli

**THDR 2014: Background Paper No. 5
ESRF Discussion Paper 59**



The Economic and Social Research Foundation (ESRF)

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1. Introduction

Tanzania Development Vision (TDV) 2025 (or Vision 2025) envisions Tanzania that is “transformed from a low productivity agricultural economy to semi-industrialized one led by modernized and highly productive agricultural activities, which are integrated and buttressed by supportive industrial and services activities in the rural and urban areas. The development indicators in TDV 2025 comprise: (i) high quality livelihood; (ii) peace, stability and unity; (iii) good governance; (iv) a well-educated and learning society; and (v) a competitive economy capable of producing sustainable growth and shared benefits (URT, 1999).

Tanzania has attained a good average annual growth rate of GDP of 7 percent in the past 10 years or so. However, the indicators of poverty, as recent as 2011/12 Household Budget Survey show that basic needs poverty stands at 28.2 percent, with food poverty headcount at 9.1 percent. The rural areas are most hit although rising unemployment among the youth and urban poverty are becoming thorny.

This paper analyzes the *growth pattern* of Tanzania over the past decade or so (13 years of data points) and makes forward-looking policy options for a faster economic growth. In view of the widely-held notion of a strong two-way relationship between economic growth and human development (Boozer, Ranis, Stewart and Suri, 2003), it is maintained that economic growth can be sustained where human development elements are upgraded, particularly the human capital aspect through education and training, other elements of human development including health, sanitation, civil freedoms, participation etc. The human capital aspect is upheld as the foremost factor since it organizes the rest of the factors, innovation and competitiveness.

Section 2 describes Tanzania’s growth pattern and casts an impression of what it should be to attain the objectives of the country’s Vision 2025 and beyond and basic requirements for the required growth momentum. The “current growth pattern” as (i) sector growth rates and (ii) sector shares of GDP is described for the past 13 years depending on the availability of comparable data for major sector categories and respective sub-sectors as identified and classified by the NBS. Section 3 presents an outlook for the growth pattern towards 2025 with emphasis on physical infrastructure and human capital (skills) development. Section 4 provides short concluding remarks.

2. Current Growth Pattern

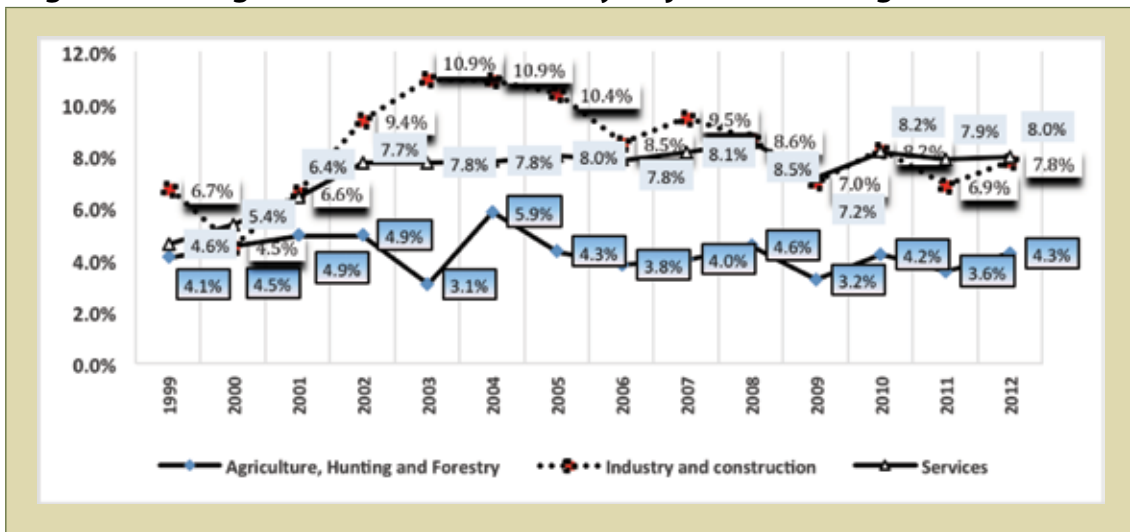
The lessons from currently middle-income countries 50 to 60 years ago were poor show that with global competition the benefits of comparative advantage based on natural resources or cheap labour are quickly eclipsed by competitive advantage acquired through superior new knowledge and innovation. The countries were able to accumulate financial and physical capital, i.e. strong domestic resource mobilization including through efficient stock markets and investments made in physical infrastructure. As a result, structural change proceeded from a decline in the share of agriculture in total national output and employment and to a rise in the shares of manufacturing and services over time. Manufacturing and services are more knowledge and technology- intensive than primary productive activities. As agricultural productivity rises, it was possible to release labour from the sector to the “modern”, urban sector.

Overall, the Tanzanian economy has expanded - since independence, even though the growth rates of GDP have fluctuated. The structure of the economy has changed significantly; primary production, mainly agriculture dominates as a major source of livelihood for rural population and 70 to 80 percent of the population live on agriculture. But the share of agriculture in total GDP has declined while industry and services have expanded. This is not unusual; but sector growth rates show variation in performance amongst *major* sector categories – *agriculture* (including crops, forestry and hunting, livestock and fishing as sub-sectors), *industry* (manufacturing, construction, electricity and gas, water supply) and *services*.

The country's overall *GDP growth* (from 1967 to 2012) has experienced high and low points: peaking in 1972 at a rate of 6.7 percent, declining since the end of the 1970s to its lowest ever (–2.4 percent in 1983), and improving in the second half of the 1980s. It then dipped (1991-1993) but picked up thereafter to 7 percent in 2010 and 6.9 percent in 2012.

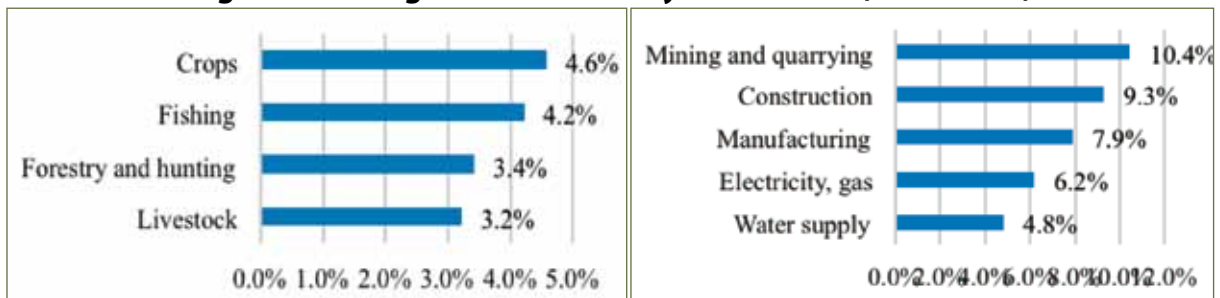
Over the past 15 years, (since 1998), major sector categories have performed as indicated in Figure 1. For agriculture, the annual average growth rates over the period 1999-2012 are lower (4.2 percent) than those for *industry* (8.3 percent) and *services* (7.4 percent). While agriculture growth rates have remained low for years, industry and services have steadily expanded. Industry made a U-turn in 2000, rising to a peak of 10.9 percent in 2003 and 2004 and then slowed down, stabilizing close to 8 percent after the global economic crisis. However, the growth of industry has not been strong enough to make Tanzania an industrialized economy.

Figure 1: Average Annual Growth Rates by Major Sector Categories 1999-2012



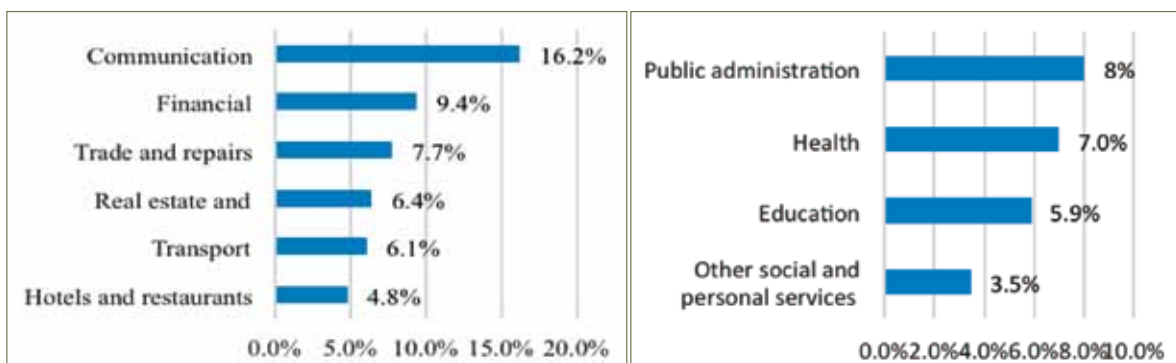
In Figure 2, panels (a) to (d) show the (breakdown) of average annual growth rates for the period 1999-2012 by sub-sectors, ranked from the highest to lowest within major sector categories. Within agriculture, the crops sub-sector had the fastest average annual growth rate, while livestock takes the lowest position. For industry, mining and quarrying is the fastest and from services communication is the fastest. The “fastest” sub-sectors are for this particular period observed (1999-2012) and may not necessarily hold for a wider longer span, say in the next 15 years or beyond. One may, for instance, not preclude a possibility that electricity and gas may, in the next ten or so years gain speed over the other sub-sectors in industry category when the on-going investments materialize.

Figure 2: Average Growth Rates by Sub-sectors (1999-2012)



(a) Agriculture

(b) Industry



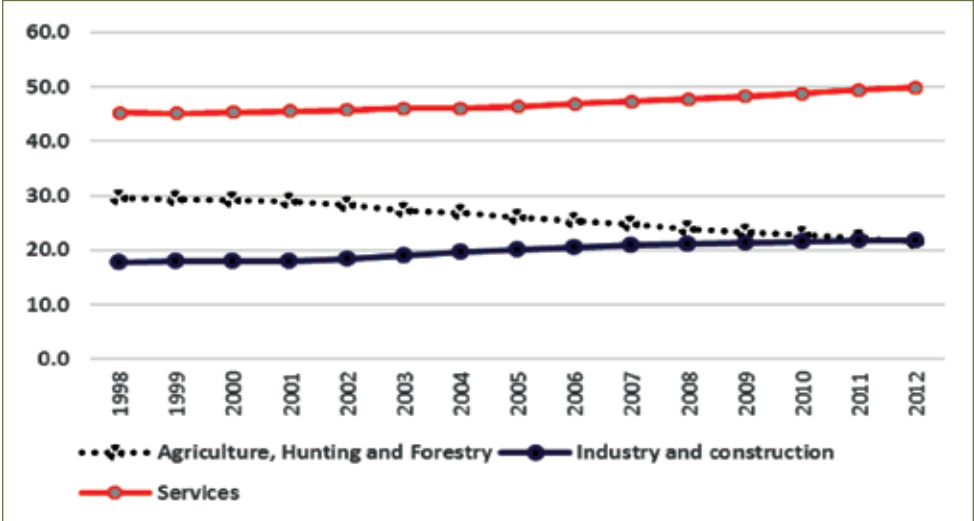
(c) Services

(d) Other services

Sources: URT (2013) NBS

There have been changes in the structure of the economy in terms of sector shares in GDP (composition of GDP) (Figure 3). The share of agriculture as a percentage of GDP has been falling while those of services and industry have been rising. This is a sign that structural change has been taking place even though at a slow pace.

Figure 3: Shares of GDP by Major Sector Categories (percentages)



Source: URT 2013 (NBS)

The average shares for the period 1998-2012 are 26 percent for agriculture. The crops sub-sector leads, but its share has declined from 21.6 percent in 1998 to 16.5 percent in 2012. The average share of industry is 19.9 percent. Within industry, manufacturing has been leading with a share of 8-9 percent, followed by construction (5-7 percent). The average share of services is 46.9 percent and within services financial services and communication and transport have been significant.

2.1 Difficulties with the Current Pattern of Growth

The growth potentials in all sectors and sub-sectors are far from being fully exploited, which is the reason why as late as the 2000s emphasis and “priorities” still revolve around breaking the “growth constraints” (articulated in the first FYDPs of the long-term perspective plan (LTPP), though this is not to underrate work done in the past 50 years. There has been little progress in economic transformation. First, the slow growth of agriculture (including its sub-sectors) which employs over 75 percent of Tanzania’s workforce has a number of explanations: low productivity (due to low capitalization, low use of technology and dependence on unreliable rainfall, poor roads and weak access to market services, among others), low and uncertain household incomes and rural poverty, in situations of poor provision and access social services.

Second, growth that is underpinned by “fast-growing” manufacturing, communication, transport, and services is worrisome since, though important, these sectors do not offer an adequate number of jobs to absorb all school and college graduates. The development of these sectors is certainly important but the contention is that they ought to be made to “include” the poorer sections of society and country in terms of (a) where the activities are located, (b) who they employ (and pay well) and (b) whose material inputs they procure and add-value to or process. This is far from ignoring the location economies (for efficiency) or the fact that industry and services are compelled now and ever to deploy “cutting edge” factor inputs, including highly trained and skilled human

resources for them to cope with an increasingly sophisticated global competition. To a great deal the *jobs argument* has to be “moderated” by distinguishing the kinds of jobs associated with these sectors. On the one hand, the jobs and products of these sectors require high-knowledge and are technology-intensive, requiring “fewer hands” than (say) low-technology, less capital-intensive subsistence agriculture. The proprietors in these sectors would necessarily go for highly trained manpower for them to sustain productivity and competitiveness. And there is a limit to which industry and services can absorb or include majority of the rural poor population or even educated unemployed as technology develops, especially where *core innovations* at the frontier matter for survival. It would therefore not make sense to downplay the contribution of these sectors because though they offer a limited number of jobs, they are highly productive.

Their contribution to government revenue (granting a properly working tax regime) can then be wisely invested in other social and productive sectors such as education and infrastructure which in turn generate jobs anyway. On other hand, it is important that there are industry or services jobs which do not demand high levels of knowledge/technical capacity. For that reason, support to these “fast growing” sector makes sense. For instance, there are jobs created when industry and services locate in the area/region/district etc. and procure the inputs from the local economy – the linkages-related jobs, such as casual labour in the construction sites, supply of locally-grown food and raw materials. For instance, local producers of such inputs or materials would need to be “assisted” at least for some time to meet the standards and reliability of supply like in the development of the horticulture for domestic –modern supermarket – and for exports.

In addition, the fact that Tanzania’s industry and service sectors are not on the frontier of innovation (not core innovators) means continued reliance on imported inputs and parts; but some of these can be produced locally. Over a long period, jobs created by operating imported equipment are less sustainable than jobs created by producing the same equipment locally. If the level of technology and policy environment allow, for example, producing tractors locally creates job for the manufacturers and jobs for the tractor drivers. Further, most of the industry and service sectors are located in urban areas, and this is for good reasons of the concentration of (even proximity to) public services, infrastructure and other social service points, as well as relatively higher effective demand (income levels) compared to rural areas.

This urban-bias may be corrected by locating some industries closer to sites of production of raw materials, especially those that are bulky, mainly from agriculture and mining sectors. Continued reliance on exporting raw materials means continued “exporting of jobs”.

Third, the services and industry sectors are, like agriculture, constrained by lack of an adequate and competitive knowledge and technological base for core innovations. This is human resource (capacity) gap which current middle-income countries have been pushing successfully since the 1950s, creating a competitive labour force. This in turn entails quality education, research and training and a population that is willing to “read/learn” and disciplined. Adequate resources are needed to create a mass science and engineering capacities.

3. Growth Pattern towards 2025

3.1 How Fast Should the Country Grow?

Consistent with conventional trends, the structure of the economy has been changing towards a reduction of share of agriculture in the total GDP and rising shares of industry and services. It is not clear to what level the share of agriculture-to-GDP should fall for a country to qualify as “developed” or “middle-income” nation. However, looking ahead Moyo et al. (2012) reckon that by 2025 agriculture as a share of GDP would fall to around 20 percent, with the manufacturing sector growing from 9 percent to 18 percent of GDP. Further, the study proposes sustained growth of per capita income of 5 percent per year or overall GDP growth rate of nearly 7.7 percent for the remaining 10 to 15 years for Tanzania to reach a middle income status by 2025. The TDV 2025 had set the target at 8 percent and the NSGRP II, 8 to 10 percent by 2015.

To be sure, comparing Tanzania with today’s middle-income countries (MICs) requires careful recognition of the fact that today’s MICs are a very diverse group. Some are small in terms of area (e.g. Belize); others are large in area but have small population (e.g. Botswana); while still others like Brazil, India and China are large in terms of area, population and income levels. Tanzania’s population is projected to be around 63.3 million by 2025. And she will get into the Gross National Income (GNI) range of the today’s *lower-middle-income economies* (LMICs) of between \$1,036 and \$4,085 per capita.¹ Currently (2013), Tanzania’s GDP per capita is Tshs 1,186, 2000 (equivalent to about US\$ 714) (URT 2014). At the current rate, this is likely to rise in the next 12 years to or close to the lower margin of the lower middle income countries bracket.

At first sight the record average of 6.7 percent (+/-) in the past 15 years or so is relieving, though not comfortably close to the National Strategy for Growth and Reduction of Poverty (NSGRP II) (2010-2015). It may be claimed that the lauded growth over the past decade ought to have been higher, in the range of 9-12 percent per annum; but this alone would not reduce poverty automatically without appropriate policy intervention (packages).

The analyses done in 2011 indicated for structural transformation to take place, major sector contributions to GDP) must evolve as: the share of the agricultural sector to GDP reduced from the 2010 baseline level of 28.0 percent to 18.0 percent (2025); share of the industrial sector to GDP rising from 12.0 (2010) to 22.0 percent (2025); and share of the services sector dropping from 48.0 percent (2010) to 43.0 percent (2025). Employment in agriculture as percentage of total employment was expected to decline from 74.6 percent in 2010 to 41.2 percent in 2025 (ESRF 2011, p. Table 3.9). Translated these into *average annual growth rates*, this kind of transformation would require that the major sector categories grow as follows between 2010 and 2025: agriculture (6.0 percent), industrial sector (9.2 percent) (of which manufacturing sub-sector 13.0 percent); and the services sector (8.0 percent). Table 1 puts together numbers that may be compared though with caution. The numbers for the actual growth rates attained are indicative of the potential for progress towards attainment of Vision 2015 from the perspective of major sector categories. Though the periods mismatch, the actual averages attained (1999-2012) show, at a glance, that the

¹ MICs are divided into two groups: upper-middle-income economies have GNI per capita ranging between \$4,086 and \$12,615.

predicted (ideal targeted) average annual growth rates are likely to be attained (with provision for fluctuations for one or other reason).

Table 1: Predicted and Actual Average Annual Growth Rates of GDP

	2010-2025, predicted (desirable) annual average for 15 years (%)	1999-2012: annual average actual attained (%) 13 years	2012	2013
Agriculture	6.0	4.2	4.3	4.3
Industry	9.2	8.3	7.8	7.5
Services	8.0	7.4	8.0	8.2

Sources: ESRF (2011) & this report for 1999-2012; URT (2014) for 2012 and 2013 data

Progress will take place if the efforts are made to accelerate appropriate interventions at the sector and sub-sector levels, done in “*not as usual ways*”, that is, with policies that clearly show determination to change the way investments are made for all sectors/sub-sectors). The annual growth rate agricultural sector has for many years in the past remained between 3 and 4 percent – hardly 5.9 percent in 2004 – with good and bad years between 1999 and 2012 (Figure 1). The crops sub-sector can do better, so also the other sub-sectors (livestock etc.) which new impetus can make a difference. The service sector, as noted above, has a seemingly smaller gap (with caution on the comparability of the shaded columns); the upside is that they are home to the faster growing sub-sectors which, as noted need not be decelerated and which therefore have a chance to continue on the same trend.

With more investment in human capacity the sector will be able to process a large part of natural resources (crops, leather, fisheries, honey, and forestry products, minerals and natural gas). It is expected that the expansion power supply and further easing of the transport infrastructure constraint, and the expanding telecommunication and financial intermediation will jointly bring about faster overall growth and structural transformation.

The sector linkages are perhaps the most important attribute that would make transformation meaningful for growth of physical output and jobs. Agro-processing and agri-business for instance, cut across the three major categories and if well planned and executed, growth would be sustained. An indicator of progress would include, among others, the proportion of agricultural (or other natural resources) products are processed (domestically) rather than exported in their raw form. Over the period 2000-2009 the average proportion of primary products processed in comparable countries has been (in brackets), Vietnam (39.6 percent), India (27.3 percent) and Namibia (31.9 percent) (ESRF 2011, Figure 4.3). The comparable figure for Tanzania for 2000-2006) is 16.1 percent, which is still low. It would mean therefore Tanzania has to scale up manufacturing that is oriented to service the agricultural sector through agro-processing. The agri-business part would call for essential commercial services including financial intermediation, insurance, information, and trade facilitation needs of the agricultural communities. However, the fundamental issues of power supply and transport infrastructure linking the rural areas are essential to the package.

In addition, today’s middle income countries pursued policies that raised productivity in agriculture, technological breakthroughs for export-oriented industrialization led by private entrepreneurs (increasing the technology-content value addition) and diversified their exports/markets.

3.2 Remaining Focused on the Core Priorities of the FYDP (I)

The “core priorities” of the FYDP I (2011/12-2015/16), include a big segment of the requirement to accumulate physical capital such as, infrastructure investment in increasing the stock of roads and power, as well as the human capital development aspect.

The first of the three FYDPs of the Long-Term Perspective Plan (LTPP) (2011/12-2025/26) addresses the growth impetus which by design addresses inclusiveness of growth through the FYDP (I) “core priorities” that can be deliberately rural-focusing and poverty reducing for the majority of the population who rely on agriculture. The plan then identifies infrastructure, transport (rural roads and rural power) to allow access to markets for farm products and inputs as well as other manufactured goods needed in rural areas such as modern house construction materials; energy together with industry for value-addition on agricultural and mining output and employment generation, water (for productive activities, irrigation and domestic use). The plan emphasizes taking value-addition processing activities closer to the farmers (including forestry, fishing activities), resolving the problem of markets as well as keeping home the jobs. Human capital development is a cross-cutting key driver for knowledge and innovation capacities that are required in raising productivity and competitiveness, including capacities in policy design, implementation and evaluation, mainly with regard to development projects and programmes.

Making growth inclusive should be built-in already at the policy design level, showing preference to the poorer sections of society and poorer regions (e.g. rural areas). The sprouting rural townships, growing rural incomes as well as improved rural road and the availability of power should pave way for providers of modern commercial/financial services (banking, insurance) while for the same reason, rural areas will attract public servants (administrators, teachers, law enforcement officials etc.), more NGOs to the heretofore remote, underserved rural areas. Rural roads, irrigation and energy are capital investments that by elevating rural growth (and incomes) will raise domestic demand, a key factor for overall industrialization.

3.4 Investments in the Development of Human Capital

Human capital or alternatively, the educational attainment of the labour force affects the output and the growth of an economy. A standard approach is to treat human capital, or the average years of schooling of the labour force, as an ordinary input in the production function.

It is Knowledge and Technology (K&T) which can enable Tanzania to diversify its production and export structures in the coming decades, to rise from reliance on low-tech manufacturing to high-tech ones. It ought to be known that even the foreign manufacturing investments that are (re)locating as Export Processing Zones (EPZs), for instance, are guided not only by availability of cheap labour but also, and mainly availability of adequately educated/trained labour force. Domestic technological deepening and upgrading moving from resource-based, low technology manufacturing to medium and high-tech production would require re-designing of education and training programmes. More resources and tactical approach into education (emphasis on mathematics and science) and design of programmes of higher (technical) education that are closely linked to industrial activities carried out in the country.

In support of grounding what we refer to as ‘*mainframe*’ industry (particularly manufacturing) and services, it is imperative for the country to invest heavily in knowledge and technological

development as a basis for core innovations driven by research. Tanzania's original content in those vehicles, tractors, buses, mobile telephony, including the handset themselves, TV sets etc. is close to nothing! It could be even more depressing if the list went on and on to cover articles like imported toothpicks, safety pins and many fabrics and footwear.

In view of this, an attempt to give a rough picture of the required momentum is illustrated by the skills gap analysis carried out by the International Centre for Growth in 2011 to give an impression of a range of skills requirements for Tanzania to be able to attain Vision 2025 objectives. A comparison was made with some middle income countries. High skills occupations examined include managers, professionals, associate professionals and technicians; and it was shown that these needed to be increased by about five folds, while medium skills occupations (clerks, service workers, crafts and trade workers and skilled agricultural workers) had to be increased by 3 times on average.

Table 2: Tanzania Selected Skills Levels and Target MIC Status, 2025

Level of skills of workers	Occupation Category	Percentage of the working population [%]		Skills Gap (Required increase as a % of the working population by 2025)	
		Tanzania	Model MIC Average		
High	Managers and Administrators	0.2	2.72	14 times	On Average.
	Professionals	0.7	4.66	7 times	
	Associate Professionals and Technicians	1.8	4.73	3 times	5 times
Medium	Clerks and related workers	0.4	4.55	11 times	3 times
	Service, shop and market sales workers	9.1	11.77	1.3 times	
	Craft and related trade workers	4.1	17.35	4 times	
	Skilled agricultural workers	n.a.	0.42	Significant	
Low	Plant and machine operators/ assemblers	1.3	5.66	4 times	0.6 times
	Others including elementary workers	83.7	48.83	0.6 times	
Indicative overall balance of skilled workers		1:2:17	1:0.6:5		

Source: POPC - IGC Study, 2011

The range of skills gap is not exhaustive and would not include the massive requirements in the science, engineering, legal and economics/finance/accounting professions that are specific to the oil and gas sector, a relatively "new sector". The bottom line seems to be an emphasis on a new set of incentives and investments being directed more at mathematics and science education in order to attract and retain instructors in these subjects at all levels of education and training institutions. In turn, however, this means more budgetary resources are needed for this purpose.

3.5 Addressing Implementation Challenges

The review in 2009/2010 which prompted the formation of the LTPP was boosted, hardly three years later that is in 2012, by the policy makers' drive for implementation effectiveness, realizing the possible efficiency opportunity, with perhaps additional resources that could add to the speed of growth - the "Big Results Now". Modelled along the Malaysia's "Big Fast Results" (BFR) which led to tremendous economic success through the economic transformation and government transformation programmes, the BRN exhorts and tenacious focus on delivery down to the details of the agreed actions. A full description of the BRN process is beyond the scope of this paper – except perhaps for a few highlights. The BRN initiative is a methodology for inculcating implementation discipline, focus on few national key results areas (NKRAs) drawn from (or as sub-sets of) the FYDP core priorities; so that further, within NKRAs, few key priority targets set, on which to demonstrate the delivery capacity of the BRN for other sectors/ sub-sectors to emulate. To the inquisitive and ready to learn the approach is designed to pursue problem-solving and solution generation as critical first step, implementation support to ensure all detailed actions fall in line on time and in desired magnitude/quality and monitoring and evaluation.

As the "road maps" for improving the investment climate/business environment and policy dialogue between government, private sector and development partners continue, the urgency for action cannot be overstated. Regular competitiveness reports variously keep on emphasising corruption, red tape, poor infrastructure etc.

4. Concluding Remarks

Ideally by 2025 Tanzania is envisioned to be a prospering nation, without abject poverty and with improved coverage and quality of social services, housing, social security, better education and health services in rural and urban areas. It is also expected to have improved distribution and quality of road-network, electricity, railways and sea ports/harbours and the digital divide between rural and urban areas greatly diminished both in terms of telecoms and financial services. For this to happen, overall growth rate GDP should be above the nearly 7 percent attained for the period 1999 to 2012; a 9-12 percent average is proposed. It is ambitious but attainable provided adequate provision is made to set aside resources for the accumulation of infrastructure and human capital, with particular emphasis on creating mass science and engineering/technical experts. This is important in view of the country's vast natural resources to add value to and to create and retain jobs by creating capacity to process many of the primary products.

The sector/sub-sector growth rates are still below potential in view of the physical infrastructure and human capital gaps (others have called it, skills gaps) when compared to the pace at which the current middle income countries operate.

Institutional arrangements that support the links between Research and Development (R&D) departments of the corporate sector and higher learning institutions and Governments in support of innovations need to be strengthened. In addition, more effective labour participation should be increased through better education, nutritional and health levels.

The new discoveries of natural gas are correctly influencing investments in the development of human capital as a way of "preparing the country for the gas economy" (building requisite skills of local people and firms, local content analyses) etc. However, this should not deflect the country's attempt to strengthen growth in other sectors for two reasons (i) sectors such as agriculture and manufacturing (industry) remain less developed and are therefore performing below their potential (ii) the realization of the gas economy, with gas a depletable resource, makes economic diversification a necessary pursuit in order to forestall any incidence of the "Dutch Disease". Thus efforts should continue to support economic diversification and export competitiveness through various packages of technical support /skills to farmers and producers in other sectors and related business/investment environment for domestic private and foreign investors.

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Vision:

The vision of ESRF is to become a national, regional and international centre of excellence in capacity development for policy analysis, development management and policy research by the year 2015

Mission:

ESRF's mission is to build capacities in economic and social policy analysis and development management.

Objectives:

The foundation's objectives are to build and strengthen human and institutional capabilities in economic and social policy analysis and sustainable development management. ESRF also aims to enhance the understanding of policy options within the government, public sector, business sector, development partners, and in the growing non-governmental sector, mainly in Tanzania and the other East African countries.

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