



## Socio-Economic Transformation for Poverty Reduction: Eight Key Messages for Unlocking Tanzania's Potential<sup>1</sup>

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*What will it take for a robust socio-economic transformation in Tanzania to be realized? Drawing on extensive research into high-achieving countries including learning missions to Viet Nam, China, Namibia and Brazil, this brief identifies eight key messages for unlocking Tanzania's socio-economic potential and realising the goal of transforming Tanzania into a semi-industrialised, middle-income country by 2025.*

### What is socio-economic transformation?

Socio-economic transformation is commonly defined as a process in which an increasing proportion of economic output and employment are generated by sectors other than agriculture. This process of transformation connotes the shift from agricultural-based societies to urban, industrial and/or service-based economies with sustained high GDP growth rates. GDP growth combined with a reduction in the population's growth rate—resulting from improvements in educational access and quality—increases GDP per capita, which, in turn, reduces poverty.

### Tanzania – A Country in Transition?

Recently, independent analysts and multilateral institutions have documented that Tanzania has joined the rank of African countries in transition. Important changes observed include:

- Economic growth of 3.3% per capita since 1996;
- A lower proportion of people living below the basic needs poverty line, down from 38.6% in 1991/92 to 33.6% in 2007;
- Increased trade and investment and higher financial returns on investment;

- Higher school enrolment, completion and literacy rates;
- Improvements in health indicators such as under-five child mortality; and
- Declining fertility rates.

In addition, the first issue of the World Bank's Tanzania Economic Update (February 2012), identified four early signs of transformation: i) The dynamism of informal firms, especially those operating in off-farm activities; ii) the emergence

<sup>1</sup> The text for this brief is drawn from the Keynote Address by Dr. Philip Mpango, Executive Secretary, President's Office – Planning Commission, delivered at REPOA's 17th Annual Research Workshop, White Sands Hotel, Dar es Salaam, 28-29 March 2012.

of manufacturing exports; iii) increased options for financing; and iv) new pilot projects to improve the productivity of crop agriculture.

However, some analysts are more skeptical suggesting that Tanzania's claim to success may be premature. In his recent paper, "*Is Tanzania a Success Story? A Long Term Analysis*", Edwards (2012) reviewed the country's economic progress over the 50 years since independence and concluded that the country "doesn't look quite like a successful story", but more a "success in the making". A core reason for this conclusion is Tanzania's slow pace of poverty reduction compared with Uganda and Ghana. Despite experiencing similar growth, Tanzania's poverty headcount declined by only 5 percentage points (between 1991 and 2007) compared with 25 percentage points in Uganda (between 1991 and 2006) and 23 percentage points in Ghana respectively (between 1992 and 2005).

## What is Needed for Tanzania to Graduate to Middle-Income Status by 2025

In 2011, the Planning Commission conducted an analysis to better understand what it would take for Tanzania to achieve the quantum leap to a middle-income country by 2025. The study calculated that a Gross National Income (GNI) of USD 2,700 per capita<sup>2</sup> would have to be achieved to reach the lower middle-income country threshold. To reach this threshold, an average annual GNI growth rate of 8% will have to be sustained over the next 15 years, which is equivalent to GNI per capita growth of about 5% given a population growth of around 3%.

Apart from sustained annual growth rates of 8% to reach the lower middle-income status, the country will also have to transform from a mainly agricultural economy to a semi-industrialised one. Looking at sectoral shares of GDP displayed by typical middle-income countries, the share of agriculture in GDP in Tanzania will need to decline from 27.8% in 2000 to 20.7% by 2025, and employment in the sector as a percentage of total employment will have to contract significantly from 74.6% in 2010 to 41.2% by 2025. The share of manufacturing in GDP will have to rise around two-fold from 9.8% in 2010 to 17.8% by 2025.

<sup>2</sup> In constant 2009 USD terms

This industrialisation is expected to happen along various lines. First, increased productivity in agriculture will increase production and generate excess labour supply, both fuelling agro-processing and leading to a sharp expansion in the manufacturing sector. Second, increased activities in the downstream nodes of value chains will create employment and growth in the industrial sector. The growth rate in agriculture will need to increase from the 4.4% average over the period 2000-2010 to reach an average of 6% per annum through to 2025. Similarly, growth of manufacturing will need to be increased from 8.2% average rate over 2000-2010 to reach 13% all through to 2025.

## Eight Key Messages for Unlocking Tanzania's Socio-Economic Potential

Socio-economic transformation entails fundamental changes in both the way a country does business and in the character of the country itself, that is, in the qualities and characteristics that make a country different. Based on evidence from countries that have achieved phenomenal economic success during the last 30-50 years, including Vietnam, China, Namibia, Brazil, Singapore, South Korea, Botswana and the United Arab Emirates, as well as insights from Tanzania's own development path, eight key messages emerge for unlocking Tanzania's potential for social and economic progress.

### Message No. 1 – Transformational leadership

Architects of socio-economic transformation in other high-achieving countries all possessed the qualities of transformational leaders, for example, China's Deng Xiaoping, Singapore's Lee Kuan Yew, Malaysia's Dr. Mahathir Mohamad and his successor Mohamad Najib bin Tun Abdul Razak, South Korea's Park Chung-hee and Dubai's Sheikh Rashid Saeed. Transformational leadership has at least six traits.<sup>3</sup> Leaders must:

- (i) *Stand in the future and have guts to play and win the game of the impossible.*  
Leaders must establish the true North for the country, manage the present from the future, and set very high targets in order to fully harness individual capacities.

<sup>3</sup> These traits are gratefully borrowed from six secrets of transformational leadership by Hon. Dr. Idris Jala of the Performance Management and Delivery Unit (PEMANDU), within the Government of Malaysia.

- (ii) *Anchor everything on key performance indicators for each programme* so that leaders and their teams are accountable for their actions.
- (iii) *Exercise discipline of action*, for example, they must be uncompromising on implementation schedules.
- (iv) *Be responsive to changing situations*. Leadership style must often be more directive during the early stages of transition. A good leader also needs to groom and empower others to take over, realising that the graveyard is full of indispensable people!
- (v) *Form winning coalitions*. Leaders should not attempt to do everything themselves but strive to form and work with a formidable winning team.
- (vi) *Seek divine intervention* because human beings do not have full control over what happens. Divine intervention is solicited by being a good human being, one that cares for and remains devoted to serve others (especially the under-privileged), is ethical and honest to the country and its people, and sets aside time for self-renewal through solitude and self-reflection.

### **Message No. 2 – Relentless focus on high impact areas (Prioritization)**

Successful transformation depends on making strategic decisions in the midst of limited resources (time, finances and human resources). A universal lesson from other high-achieving countries is their relentless focus on high impact areas by sector, geographically and at all levels. The Government must identify national priorities, decide how best to sequence the various initiatives within each area or sector of focus, assess which activity delivers the greatest impact within the prioritized initiatives, and direct the bulk of resources to a few strategic interventions of high value.

### **Message No. 3 – Radical improvement in agricultural productivity**

High economic growth remains the single most important factor (though by no means the only one) for making poverty history. Also important is the quality of that growth, defined in terms of distributional patterns, sectoral composition and sustainability of growth over time. Conventional

wisdom has it that growth in sectors of the economy where the poor are concentrated will have a greater impact on reducing poverty than growth in other sectors. In the context of Tanzania, transforming the socio-economic profile of the country hinges on innovative strategies to trigger a radical improvement in agricultural productivity. The Government needs to sustain its support to agriculture through formulating the right set of agricultural and land policies, leveraging private sector investment and developing public-private-partnerships (PPPs).

### **Message No. 4 – Industrialisation strategies**

Experience from East Asia and Brazil indicate that home-grown, export-oriented industrialisation led by private entrepreneurs (local and foreign) opens up broader opportunities for sustainable growth. In this context, it would seem most logical that Tanzania embarks on industrial development based on specific industries and sectors where Tanzania has latent comparative advantage such as availability of raw materials (crops, livestock and fisheries, forestry resources and minerals) and on promoting industry clustering through Special Economic Zones (SEZs) and Export Processing Zones (EPZs) to produce electronic and electrical goods as well as other manufactured goods that are in high demand in the region. Drawing upon lessons from Southeast Asia, an industrialisation strategy for Tanzania will have to include industry-clustering preceded by a frontal attack on business-unfriendly and inefficient practices and cultures, minimising the frequency and intensity of policy reversals, reviewing labour laws for flexibility, securing land for mass production activities, improving logistics and supply chains for intermediate inputs, and upgrading infrastructure.

These are necessary to unlock or attract FDIs and sunset industries from countries like China where firms are in the process of upgrading their business models and processes to move up the value chain and are willing to relocate their labour-intensive activities to countries and regions where labour costs are much lower.

### **Message No. 5 – A strong developmental state**

The Government of Tanzania will need to maintain a consistent focus on long-term national aspirations, undertake SMART<sup>4</sup> interventions in areas that are not sexy to the private sector, leverage private

4 SMART = Specific, Measurable, Attainable, Relevant and Timely

sector investment and forge joint ventures. Government support is required to create an enabling environment for business and offer incentives for local entrepreneurs to lead growth. One of the important elements in the successful socio-economic transformation of the countries examined has been the central and strategic role of the state in economic growth and structural transformation. The respective states were able to govern and guide development with a decisive ideological orientation, effective institutions and policies underpinned by adequate bureaucratic and organizational capacity and political will. Optimal policy measures related to economic as well as social development were fast-tracked and a lot of effort went into nurturing, encouraging and facilitating private sector participation.

#### **Message No. 6 – A stable and predictable political and macroeconomic framework**

In all countries surveyed, it is crystal clear that successful socio-economic transformation relies on the prudent implementation and adjustment of fiscal (tax and non-tax revenues, domestic and foreign debt, expenditure) and monetary policies (money supply, exchange rates, foreign reserves) as they affect a country's competitiveness.

#### **Message No. 7 – A complete change of the mindset**

Successful socio-economic transformation has to go hand-in-hand with profound changes in social

norms, work ethos and professional etiquette. Among these changes are zero tolerance for corruption, discarding the dependency mindset in the spirit of the famous Chinese saying "Give me a fishing net instead of fish", developing a high propensity to save rather than to consume, and exemplifying the quality of hard work backed by incentives. Collectively, as a nation, Tanzania needs to launch a fierce attack on corrupt practices, dependency, laxity and inefficiency, carelessness with public property and infrastructure, the phobia of investors and investment, tax evasion and avoidance, lavish spending on kitchen/bag/wedding/confirmation parties, getting rich quickly by any means, and the habit of just complaining instead of being part of the solution.

#### **Message No. 8 – Understanding a country's unique advantages and catching emerging opportunities**

While studies assert that high-achieving countries share some similar characteristics that have contributed to their success, each country followed its own vision for transformation. In short, no one size fits all. For example, the core of growth in South Korea was a government-led skills development strategy coordinated with rapid technological change and equitable income distribution, while the most remarkable aspect of China's transformation has been the role of the private sector in achieving unprecedented high rates of growth.

## **Conclusion**

The structural shifts needed for Tanzania to graduate to middle-income status are a tall order. They cannot be attained through a business as usual attitude. Rather progress will depend on strong transformational leadership, relentless prioritization of programmes and projects, radical improvement in agricultural productivity, an aggressive drive towards industrialisation, a vigorous developmental role for the state, steadfast macroeconomic and political stability, a change in mindset away from dependency towards thrift, efficiency and hard work, and developing strategies that take full advantage of Tanzania's niches and catch emerging opportunities promptly.



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