

Inclusive Growth in Tanzania: Lessons from Elsewhere

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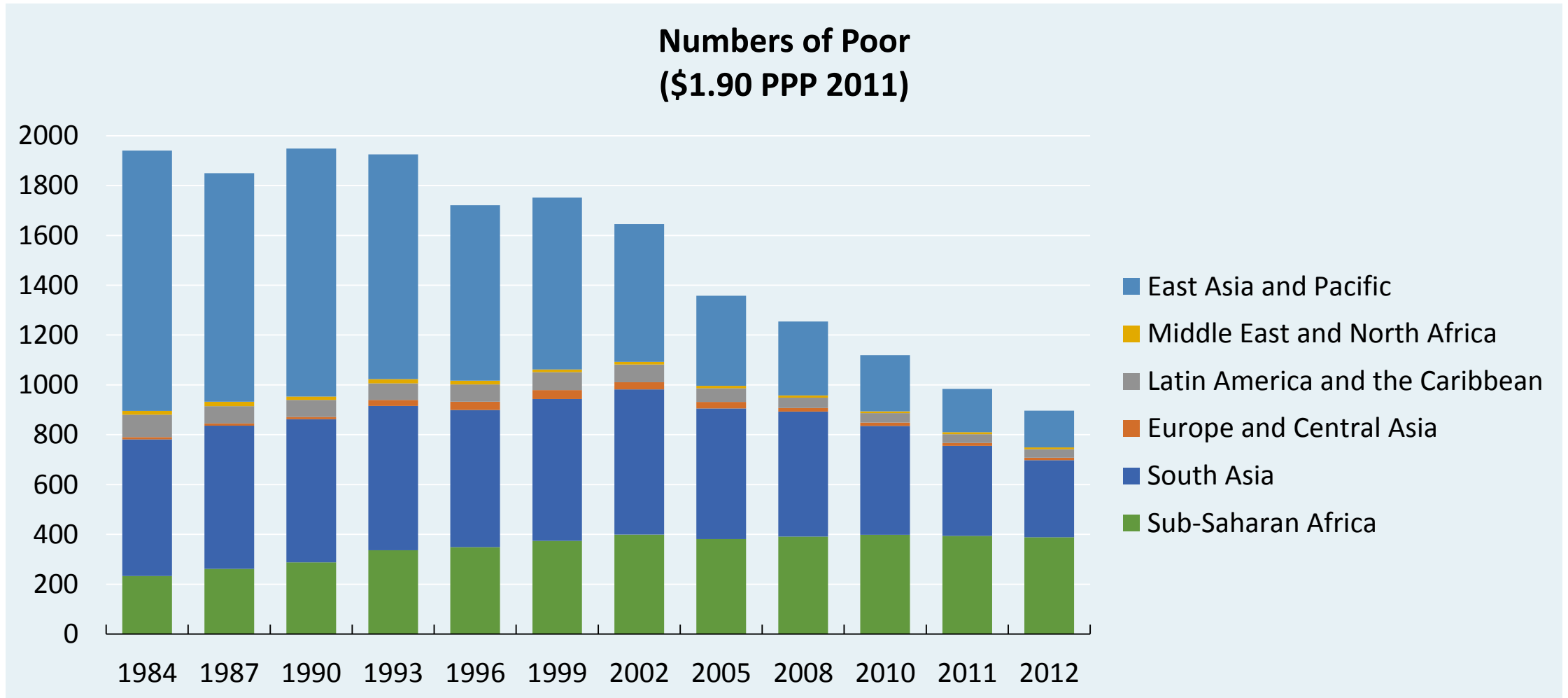
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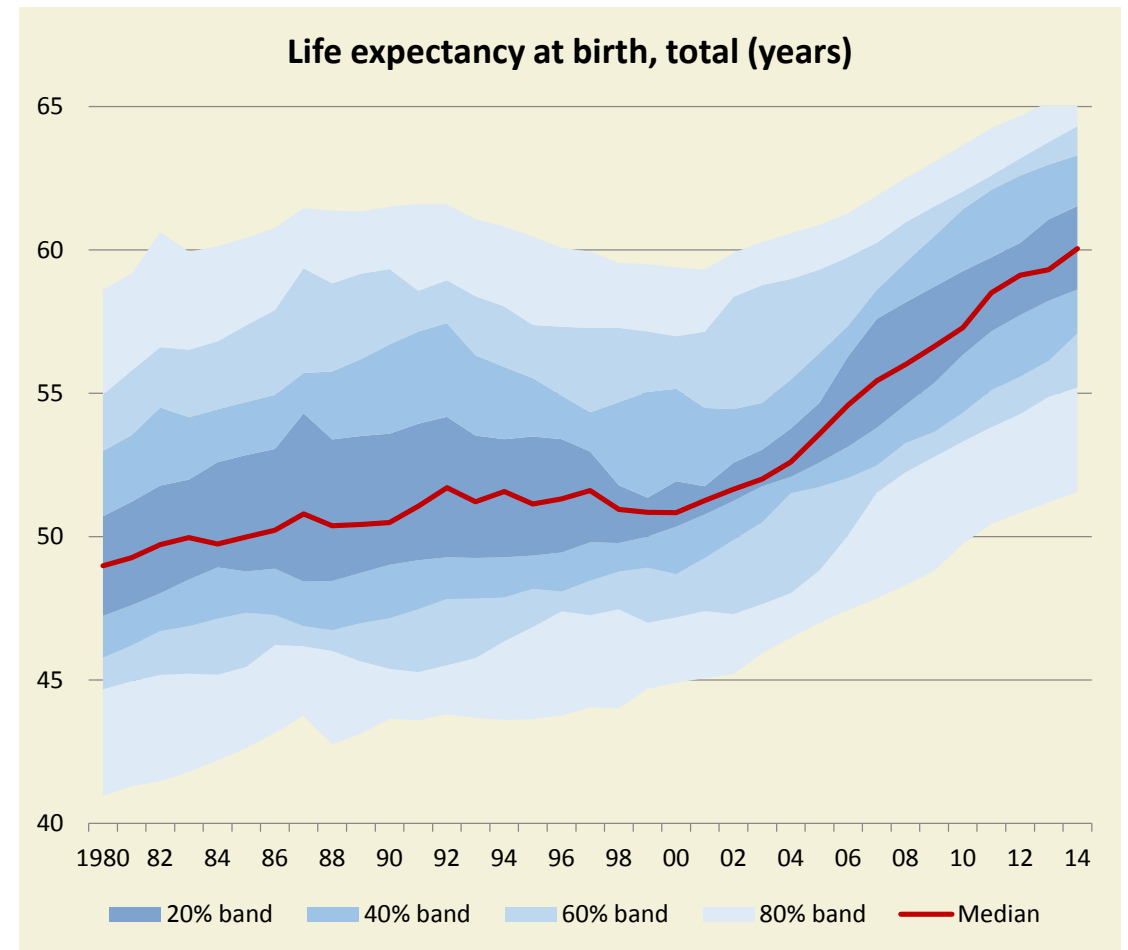
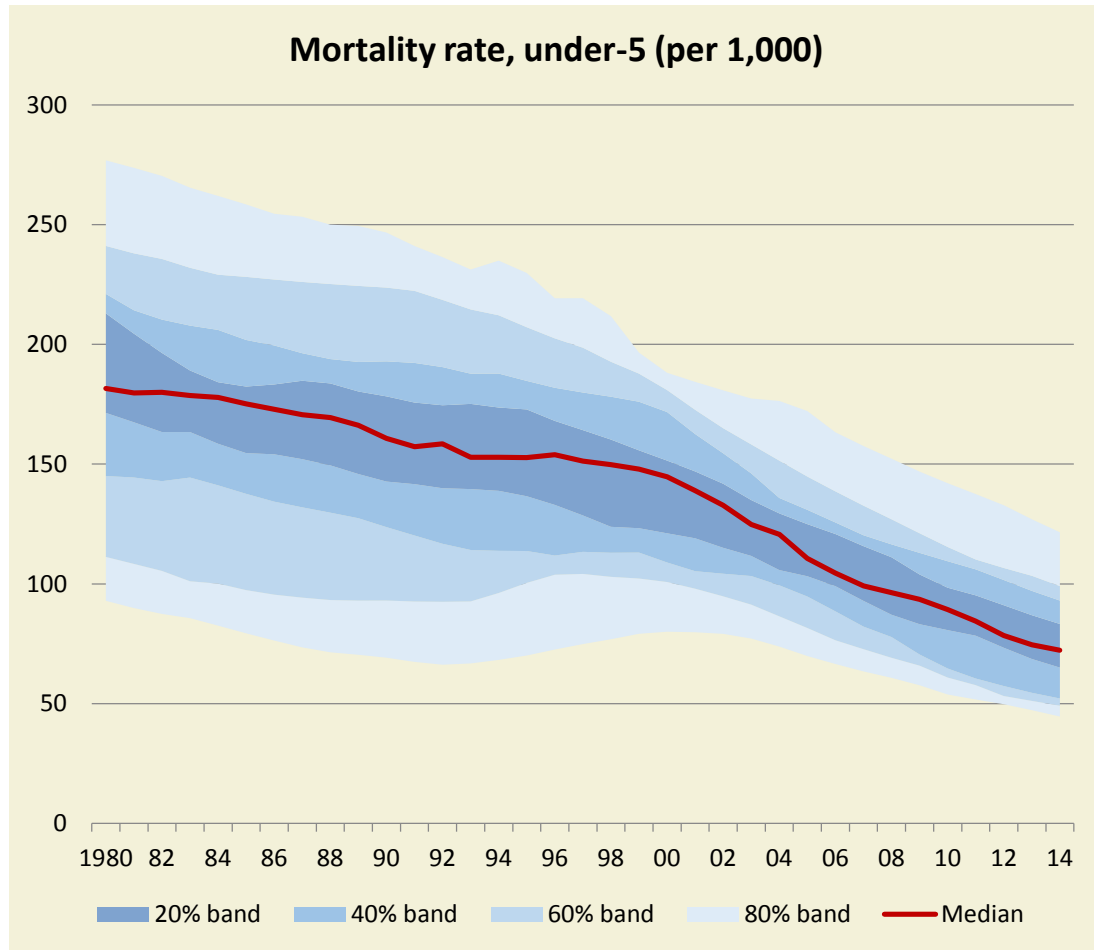
What have we learned about successful poverty reduction?

- Lots of recent success e.g. in Asia but also Latin America and some African countries.

Progress on Extreme Poverty

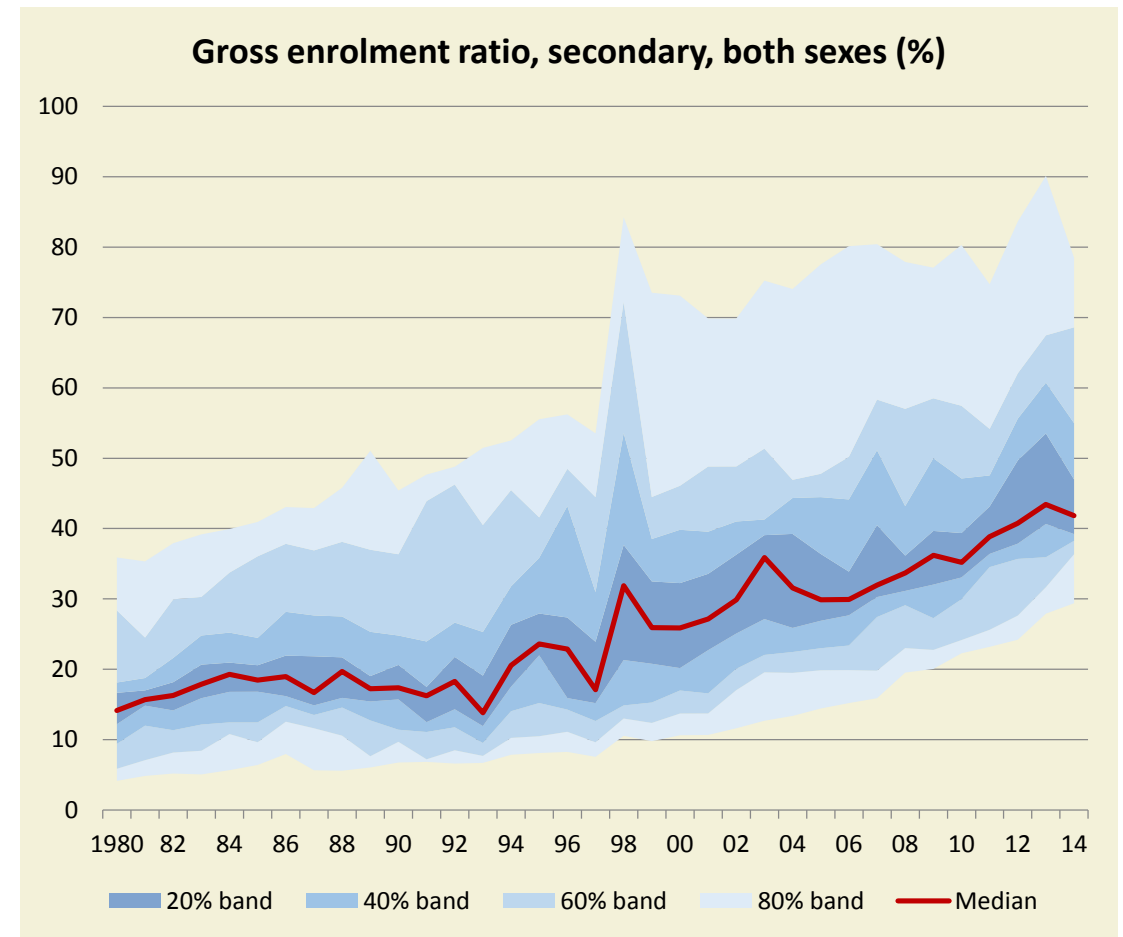
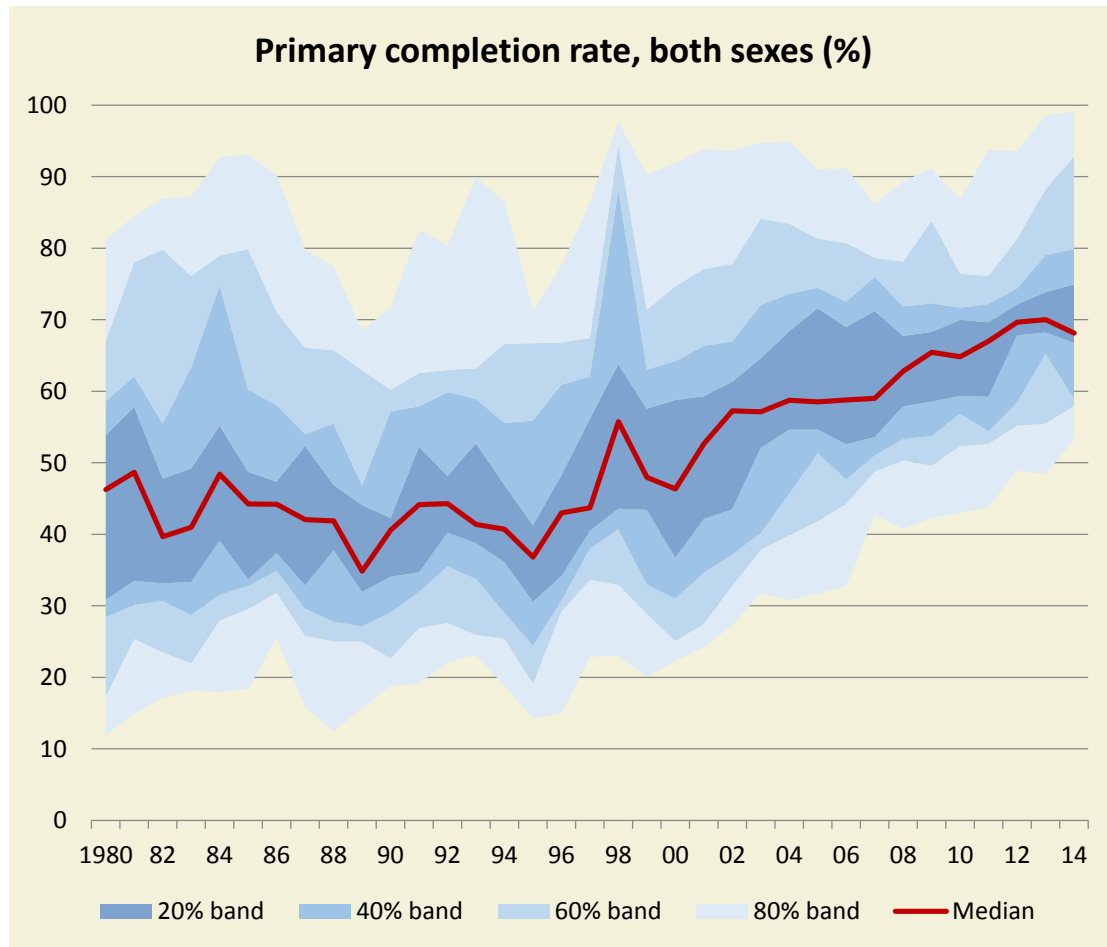


Strong progress in health: SSA



Strong progress in schooling: SSA

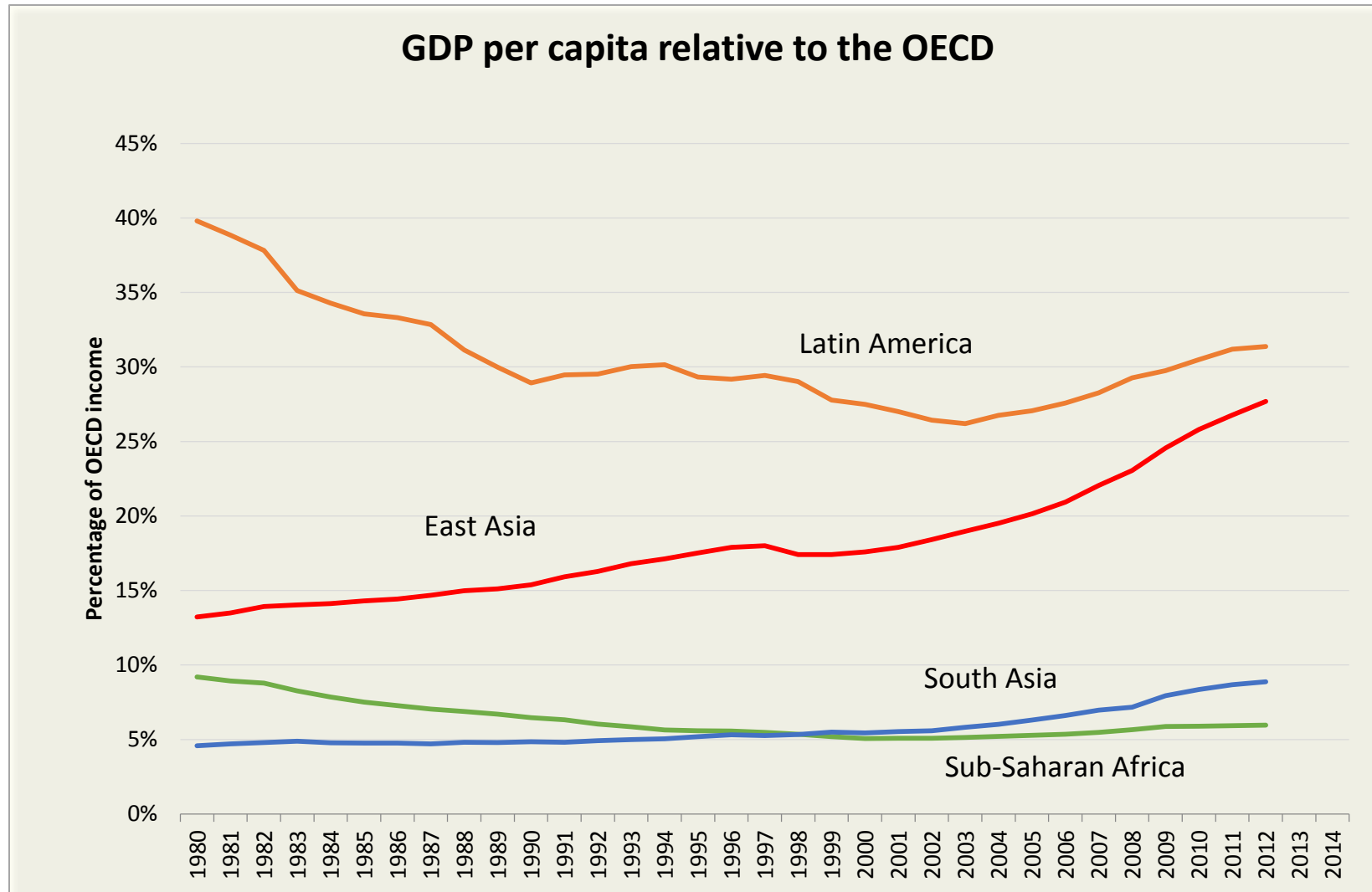
(although *learning* lags behind)



What have we learned about successful poverty reduction?

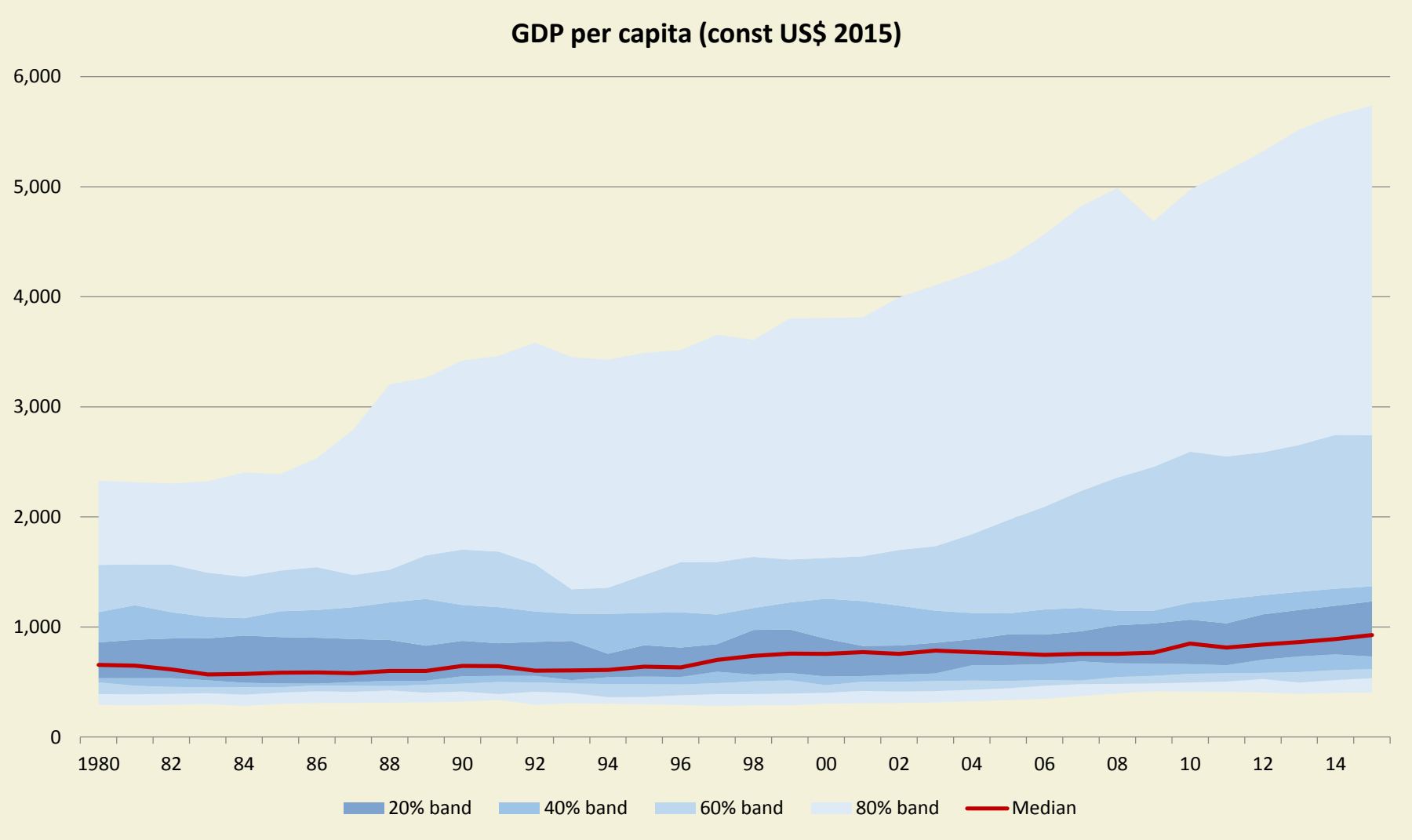
- Lots of recent success e.g. in Asia but also Latin America and some African countries.
 - Extreme poverty in world has dropped from 36% to 14.5% between 1990 and 2011
 - Also fast progress in human development (health, education)
 - Growth in developing countries faster than in OECD – convergence, but uneven
 - In last 15 years: about 5.5% in developing countries versus 1.5% in OECD
 - For several decades in East Asia, last two decades in South Asia, last decade in Africa

Uneven Economic Convergence



- East Asia makes strong progress towards OECD incomes.
- Latin America makes progress after 2003 (debt crisis, commodity recovery)
- Slow but steady progress in South Asia from lowest level
- Relative income fall in Sub-Saharan Africa, rebounding since 2001 but now stationary

SSA GDP/capita remains persistently low for most, but with heterogeneity (Median country long-term growth $\approx 0.5\%$ per year)



My questions and focus

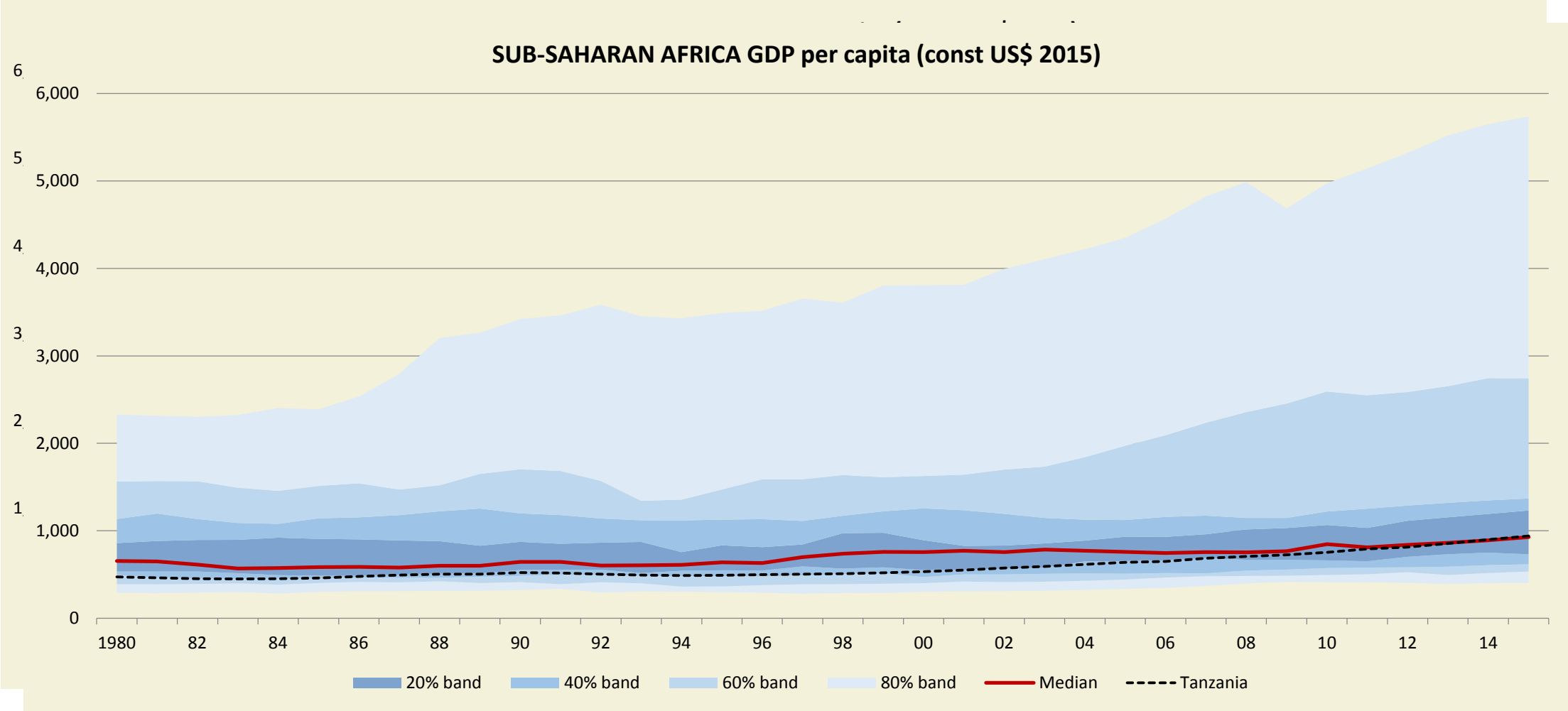
- What have we learned about growth and poverty reduction across the world, and how it can be accelerated?
- How does this “generic” model apply to Tanzania?
- What can and should we do?

What have we learned about successful growth leading to poverty reduction?

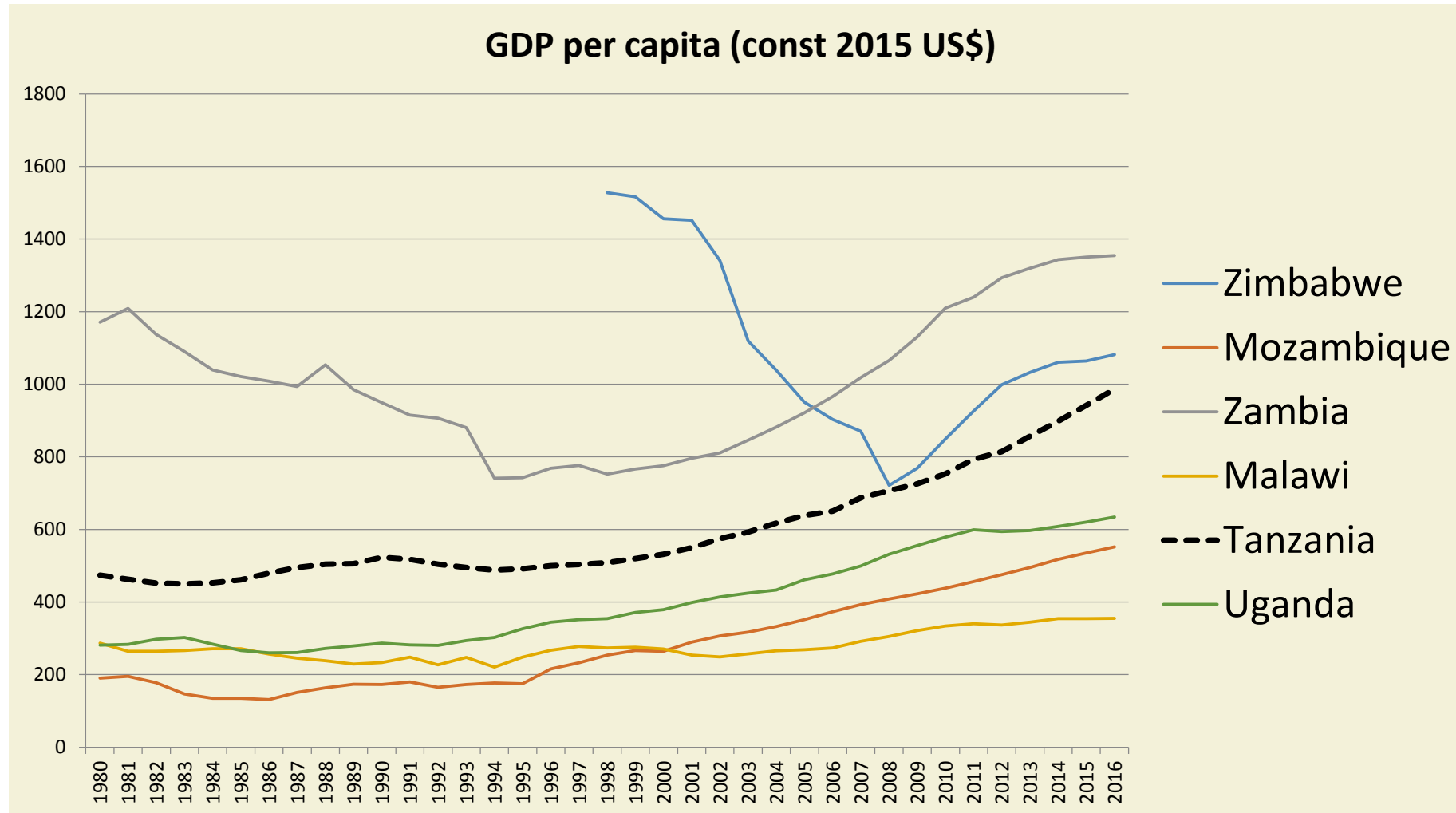
- Two key ingredients – without a clear recipe on how to achieve them:
 - A **growth** process that succeeds in being inclusive of poorer groups via **labour absorption** into **better, higher productivity jobs and activities**
 - **Functioning social sector systems**, delivering basic health, education, security and basic protection for the **poorest**
- Even if unclear about recipe, the necessary utensils to cook the dish:
 - An **effective state**, functioning in way that **allows economic growth** and **foster social sector systems**
 - A politics in which **leaders and elites are committed to growth** and poverty reduction

1. Inclusive Growth

Tanzania: overtaking the middle of the pack



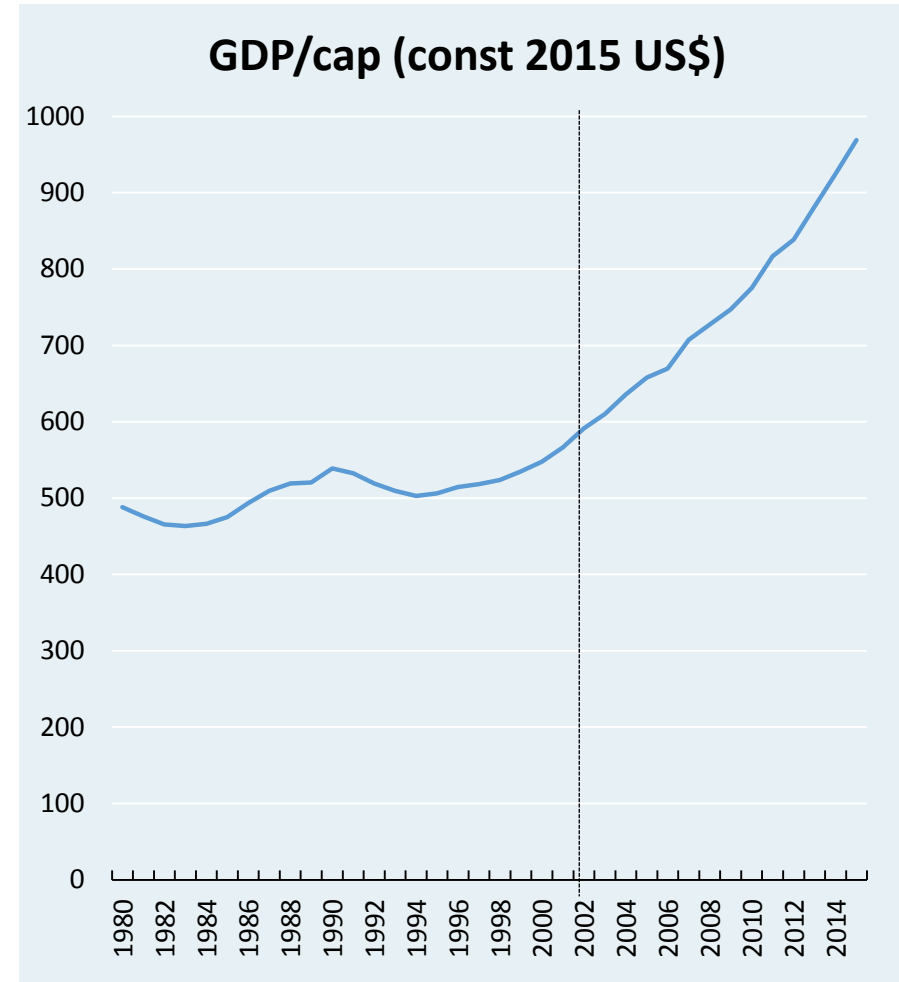
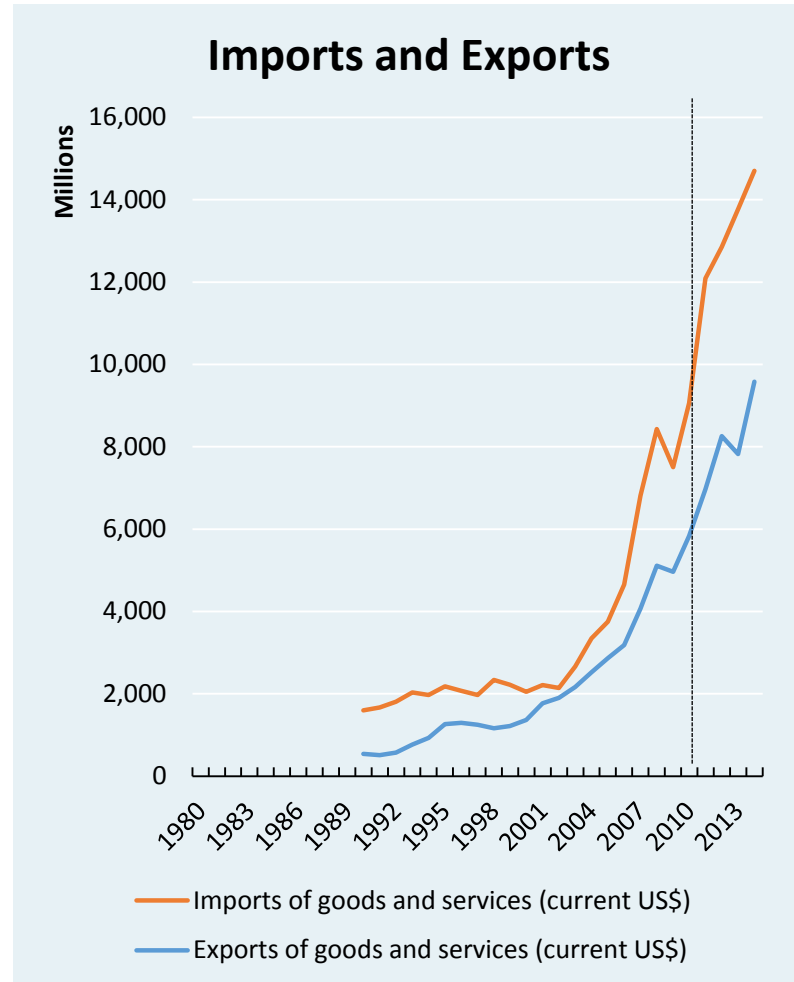
Growth experience



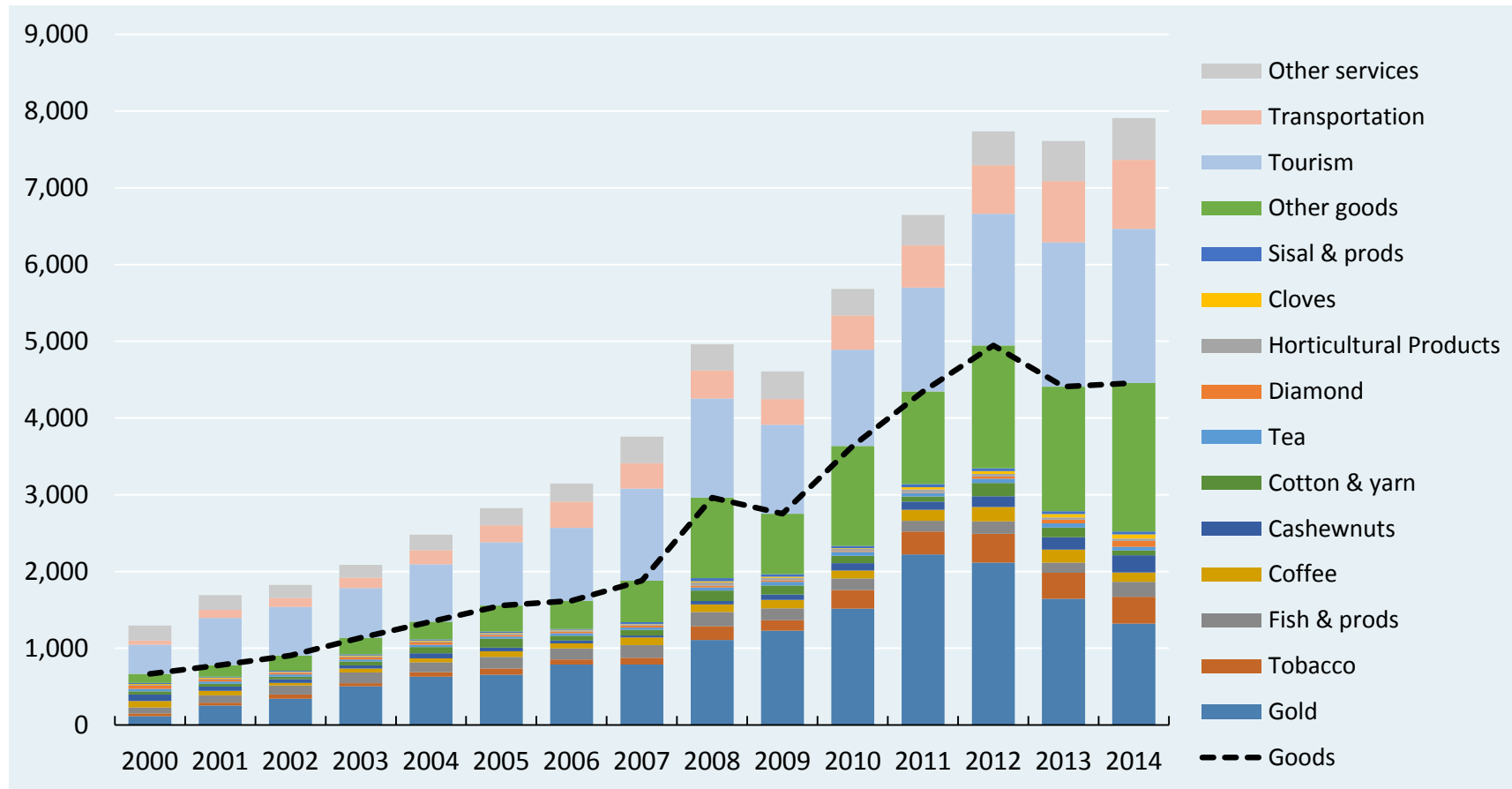
Source: World Economic Outlook, IMF

Export boom but accelerating imports

and a growth boom



Exports \$m, sustained after super-cycle



- Quite diversified – with commodities such as gold dominating
- Tourism and port transport are cushion since 2012
- (and possibly “other manufactured goods” to region)

How did Tanzania achieve this?

- Descriptively? 6.2% growth pa in last 9 years; decomposition
 - Construction +1% p.a. on average (i.e contributing 1/6th of total growth)
 - Agriculture (crops and livestock) +1% (below share in GDP)
 - Manufacturing: +0.6% (about share?)
 - Transport +0.6%
 - Each of comms, financial services, public admin +0.5%
- Functionally? Exports-led leading to non-tradables boom
 - Export revenue plus appreciation leading to import boom
 - Import boom pushing services to handle them (non-tradables) – transport, comms, financial services, public admin, etc.
 - construction boom from asset seeking, plus govt officials earnings (and possibly recycling of illicit revenue?) (non-tradables)
 - Tourism and port services growth buffer after commodity cycle

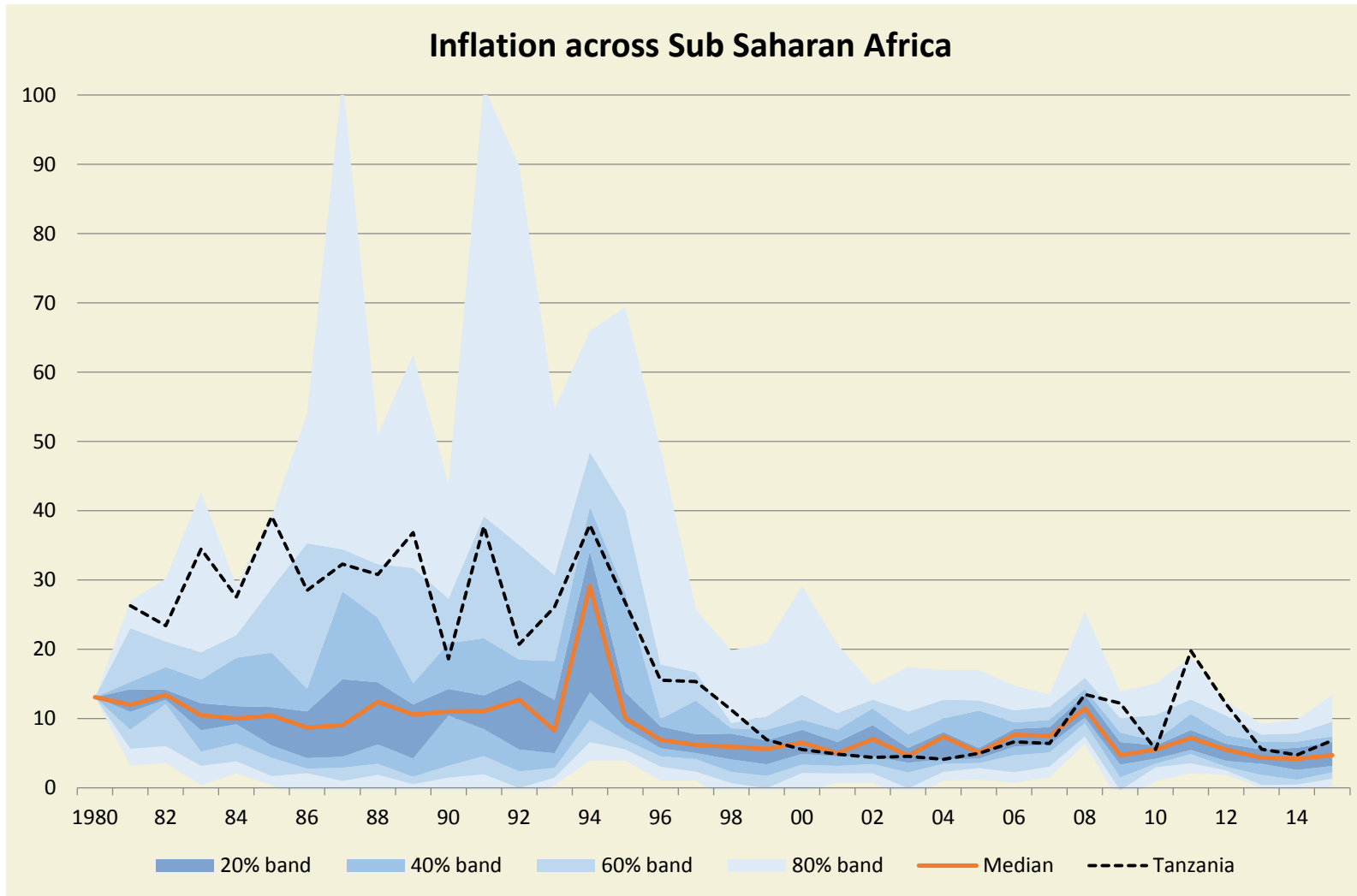
Theory of growth and inclusion

- Growth theory and empirics: focus on misallocation within and across sectors (Klenow, Hsieh)
 - Growth as reallocation as moving from less productive to more productive activities within and across sectors; “dual economy” “structural transformation”
 - If more reallocation of (low skilled) *labour*, the **faster poverty reduction** (e.g. Eswaran and Kotwal, 1991) (as the poor “have but their labour to sell” (Marx)).
- (Probably) broadly consistent with East-Asian experience:
 - growth in urban, tradable manufacturing, absorbing labour from informal and rural
 - fast poverty reduction driven via expanding job opportunities.
- Note prediction (Lewis): not necessarily fast reduction of poverty in urban areas (not clear what happens to real wages), but definitely reduction of rural poverty in process
 - Consistent with e.g. China evidence or more recently Bangladesh

How to get growth? Some ingredients

- Reallocation is about investment
- Investment is about long(ish) time horizons, about risk as well as trust
- Role of macroeconomic stability

Transition to Macroeconomic Stability (SSA)



- Substantial improvements in macroeconomic stability
- In 1987 and 1991, the worst 10% of countries had inflation over 100%
- In 2014, 90% of countries had inflation under 10%.
- Tanzania has improved relative to peers (80th to 60th centile)

How to get growth? Some ingredients

- Reallocation is about investment
- Investment is about long(ish) time horizons, about risk as well as trust
- Role of macroeconomic stability
- Role of political stability (conflict) – remarkable Tanzanian record
- ... requires effective state and effective politics

How to get growth? Some ingredients

- Reallocation is about investment with structural change
- From lower to higher productive activities, within and across sectors
- ? Agriculture? Manufacturing?

Role of agriculture? Growth lens

- Long-standing view: in poor settings, growth must start with agriculture
 - Especially smallholder agriculture
 - Not quite consistent with evidence (Gollin, 2014)
- Lens of modern growth theory meets structural transformation:
 - Development will involve reduced share of agriculture.
 - Also within agriculture scope to reallocate to more productive activities (commercial, export, high value crops) (Udry, 2012)
 - Growth as reallocation : no obvious link with “self-sufficiency” and the like

Role of agriculture? Growth lens (2)

- BUT: Agriculture has key role in growth – fuelling and feeding growth,
 - Matters most in ‘closed’ economies – food needs to be produced
 - But is a key sector for reallocation “within the sector”
- In small open economy:
 - Balance between using agriculture ‘as just a sector within an economy’ (as in growth theory – reallocating to more productive parts, e.g. export value chains) and ‘provider of essential commodity’ and ‘poverty reducer’
- what happens elsewhere IS crucially important for agriculture
 - demand linkages matter a lot, e.g. Eswaran and Kotwal, 1993: demand-led growth for agriculture is ; who will buy the food
 - value chain development not from supply side, but from demand side : buyers are key

Role of agriculture? The poverty reduction lens (3)

- A focus on agriculture and smallholder can be driven by concern for the poor (even if not necessarily best for growth)
 - As Agriculture by far largest employer of the poor
 - As Smallholders uses labour intensively
- IF you can get growth in agriculture, it is really good for poverty reduction – but getting growth in agriculture across poor smallholders is hard and likely to be costly...
 - is it the best way to get the large growth required to bring poverty down? Definitely not always
- note of warning: reallocation and transformation will be slow and messy process
 - Reallocation process will be slow – so in poorest countries, there will be huge numbers of peasants for a long time to come, probably requiring our attention
 - Reallocation “within” sector key as well for them as move into more profitable activities

The role of agriculture: Tanzania?

- Regionally underperforming in core staples and core commodities (grown by smallholders and politically important)
 - Stagnant yields e.g. maize since 1990 or rice export bans destroying investments by commercial farmers in 2011
- Agriculture usually seen as a problem of production, linked with old ideas that food security is about production (mindset problem)
 - Focus on high production rather than high return areas, including for small holders – lots of focus on southern regions - highly productive but far from demand
- Meanwhile: reallocation happens all the time,
 - Re-emergence of lots of private “higher value” chains: dynamic agriculture
 - Commercial agriculture opportunities, with potential links
- But not quite in ways that provide sufficient (demand) links back to poorer smallholders
 - Limited link to poverty reduction ... requires our attention – but smarter than has been the case over decades in Tanzania

Manufacturing in Tanzania?

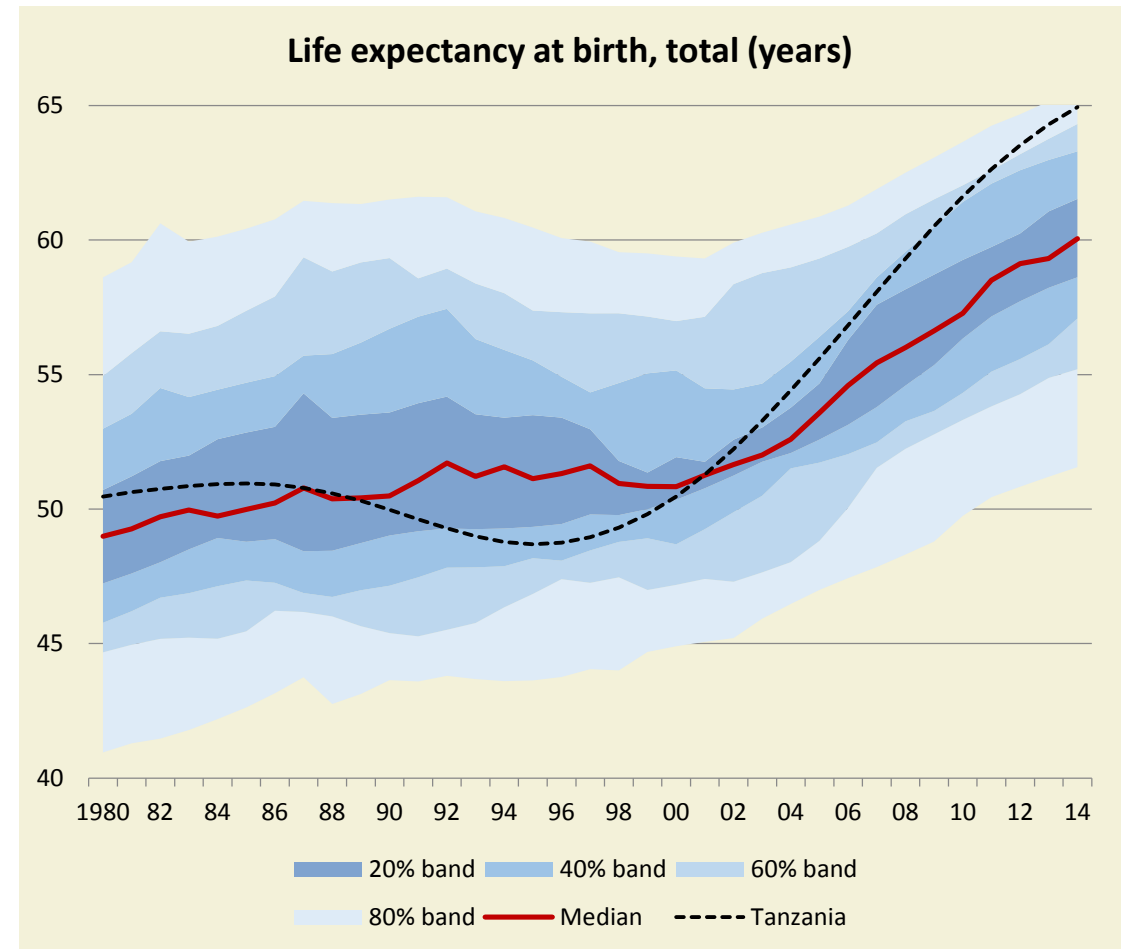
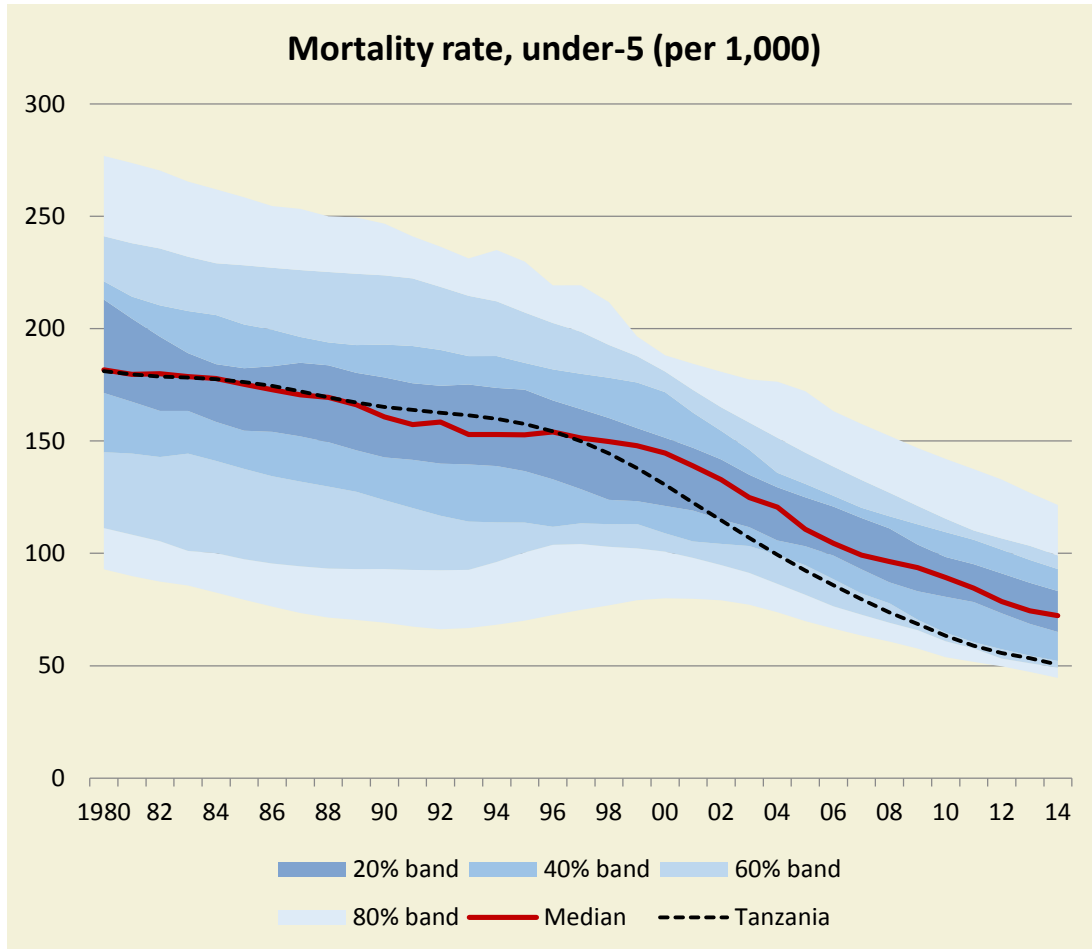
- Strong role in structural transformation – *if* you can get it... (jobs, capabilities, tradables)... but it is hard to get!
- Huge opportunities for Tanzania in current ‘global’ reallocation and relocation process from Asia
 - (could compete with Ethiopia – in wages, access to markets, logistics)
 - Although can be deeply frustrating place in logistics, getting govt to help to get things done, and unionised labour pushing wages up before many jobs are created could be trouble...
- Moving up the opportunity frontier, requiring firm capabilities
 - Generally lacking: too little ‘managerial organizational quality’
 - Good market knowledge via history of merchant capital (as shown Enterprise Maps)
- Key role of FDI in lots of success stories especially in Asia
 - As a means of bringing in capabilities with higher managerial quality (“how to run a large firm”)
 - How welcoming is Tanzania for FDI?

Lessons?

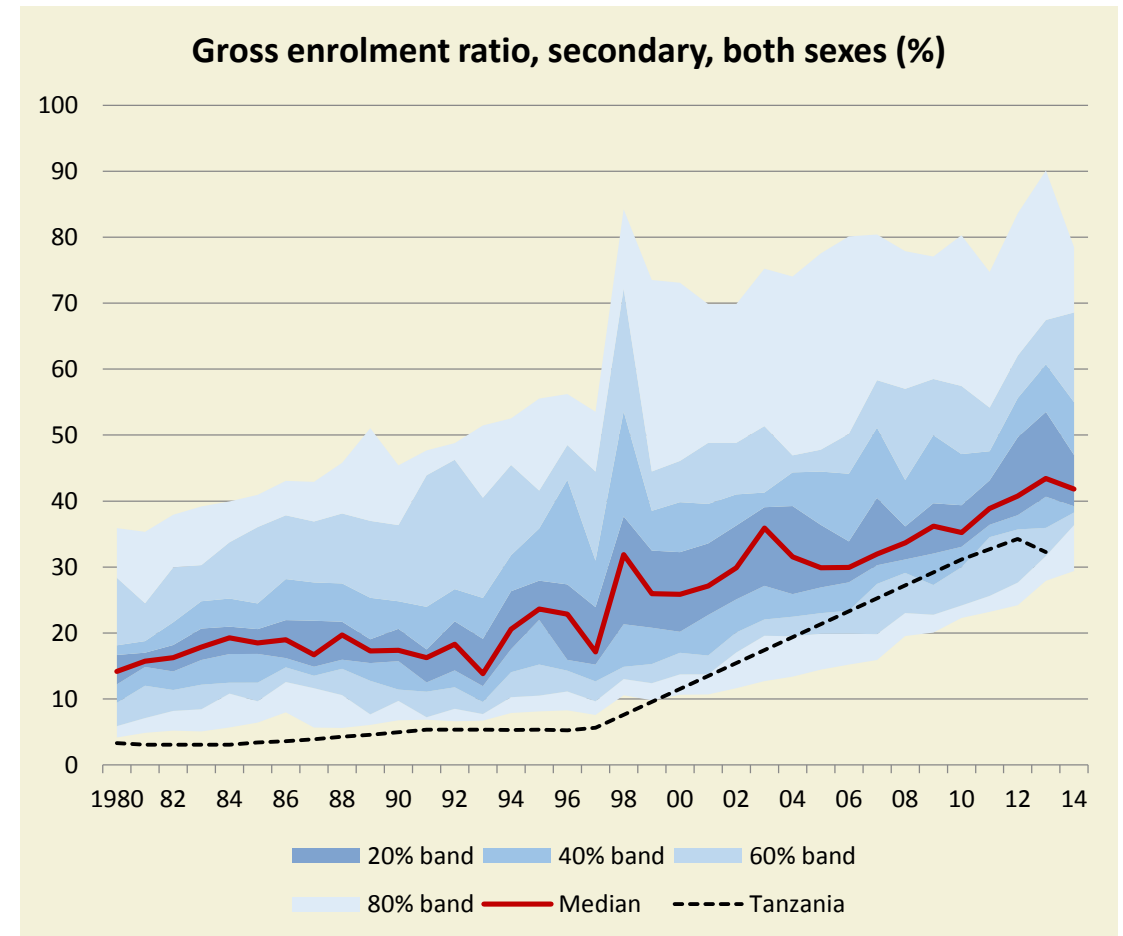
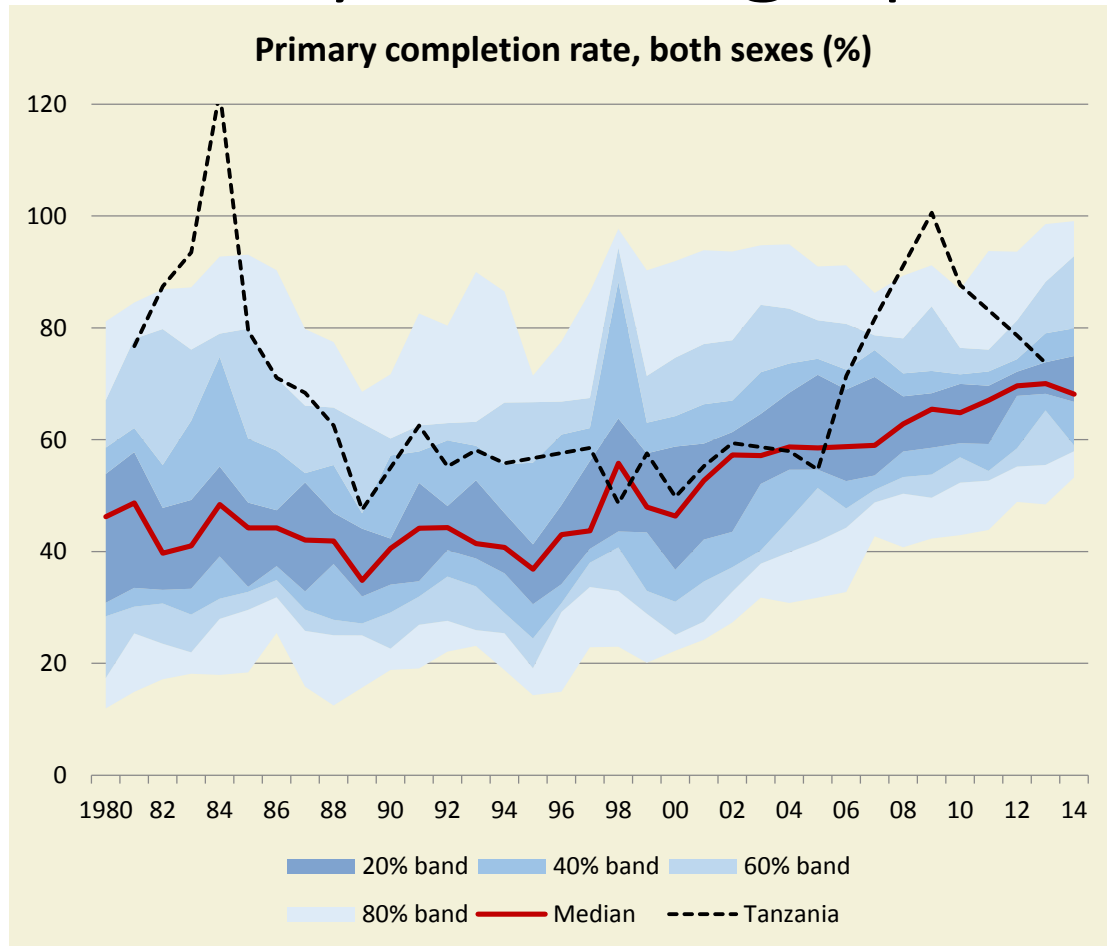
- “reallocation” is taking place – we see it in higher value agriculture, or (re-)emerging manufacturing and booming areas such as tourism or transit trade
- But not necessarily reallocation of labour (or we would have seen much faster rural poverty reduction than we see)
- Need to be smart:
 - Support for ‘large’ manufacturing and agro-business
 - Smart linkages investment (linking domestic and foreign investment) e.g. in natural gas
 - Agro business and demand-led investments in agriculture, and commercial agriculture across the farm size distribution
 - Unlocking logistics – soft and hard infrastructure
- ALL could be waste of money if not done well, so we need to cut losses when required (and ensure government does as well)

2. Functioning social sector systems and basic protection

Tanzania: health – moving ahead of the pack



Tanzania: education – losing in primary and barely catching up in secondary



Role in growth? Cannot do it on its own...

- Role of growth and labour market in growth as reallocation
 - Best policies probably not about labour market itself (Fields, WDR 2012). Job need to be offered by the economy. Labour market policies cannot create these, beyond e.g. regulatory reform.
 - **Labour demand** (by firms in more productive activities) is the main constraint – not labour supply characteristics (skills and human capital).
 - Limited to what ‘skills programmes’ can do.
 - Matching issues – often not quite a ‘education’ or ‘training’ issue
 - So if we hear in Tanzania investors complaining about this – don’t make this bigger than it is; may need focused support
- Role of human capital of the poor (and therefore social sectors) – a great way to help that fewer are left behind...
 - In the poorest settings, definitely provides means for poor people to be more included in growth process, but less clear that it will drive growth or drive job creation.
 - In both: social sector outcomes have **value in themselves** (not just for incomes)
 - But in themselves usually **not enough to create the opportunities**

Health, Education, Social Protection Systems

- It won't drive growth, but can fuel it, and definitely help with inclusion
- Relevant for state of society and economy
- Strong systems, affordable to state and society to be sustainable required
 - ... effective state required.... – a concern here...
- Tanzania strongly improved in health (and nutrition soon?) but education in trouble, with low state and systems capacity throughout?
- Is TASAF partial solution to emerging social protection system?

Lessons?

- Celebrate success within country, e.g. in health – and set further ambitions, e.g. in nutrition
- But systems, not least in education, appear still broken – grab opportunities for systems work

3. Effective state

Some ingredients...

- Effective state... not really about market versus the state,
- but what is the state for?
- In Africa, lots of images of the state

Many claim they want to be Tigers



Predatory States

States seem to be designed to extract and plunder from people and the economy

Like a Tiger Fish: living from eating little fish



Predatory State par excellence...: DRC...

Mobutu – the Master:

- Article 15 of the Constitution “Débrouillez-vous” (get it while you can)
- “If you must steal, then steal a little bit and leave the rest for the nation.”

Current tax and regulation:

-DRC: lots of taxes (and rules).

- coffee exports from Matadi need 57 signatures and 7 stamps;
- goods travel on the Congo river 17 permissions;

-VAT: change business taxation – by 2014 more refunds than receipts...

Failing States

- Violent
- Eating the scraps; scavenging economies
- States or regions in conflict... Somalia, South Sudan, ...



(Illiberal) State-Builders

A class of countries with leadership with genuine ambitions in state building and development...

Roaring lion

Often emerged from victory in conflict, stable with monopoly of violence

Modernist, developmentalist ideology, beyond redistributive to particular group:

Strong structures, military or political, strong leaders

Quite effective in delivery of development

Legitimacy seeking through development, even though no question of their authority



Neo-Patrimonial States

Redistributive state: resources to followers for loyalty

Mix of 'modern' and patrimonial/personalised...

“ship not seeking to go anywhere but simply staying afloat” (temp alliances, ethnic coalitions and manipulation of electoral systems)

a bit like *a floating hippo*: pretty stable, seemingly too big, unclear what its aim is but potentially pretty dangerous too...

But no interest in change, in transformation but just reproduction of relative dysfunctionality (even predatory) behaviours

not effective states, but marginal improvements possible ---



Neo-Patrimonial States

- They also lead to interlinked business-state relations
 - “private sector” is not an independent player
 - But thrives on connections, benefits from the state
 - E.g. favourable trade regimes
 - Controls and interventions; exemptions of tax and rules
 - Hard to offers entry, innovation or reallocation
- Progress possible – but slow

Uganda: patrimonial, but pockets of excellence:

- commitment to growth as essential part of ‘deserving’ loyalty by voters – space for growth
- parts of tax collection (business tax)
- The oil deals (Total , Thullow, ChinaOil)
- Political incentives? Need resources to be able to buy alliances for election, need to deliver some public goods,...



? Tanzania

- Choose your animal... but it may look like a (relatively benign) hippo; so don't treat it like a lion
- Tanzania got macro-stability since independence: peace and more
- Possibly at the cost of “micro-inefficiency”?
 - State of low capacity with little motivation
 - Low incentives to function – what is ‘redistributive’ in such a system is often ‘corrupt’

Some deeper questions?

- “Is this micro-inefficiency and widespread patronage and corruption the price for macro-stability in Tanzania?” (If so, rocking the boat may be destabilising?)
- If medium and large firms find it hard to find good middle-level management – what about the state? Just a sign of the same malaise across public and private?

4. Politics aligned with growth

A politics in which **leaders and elites are committed to growth** and poverty reduction?

Require serious political commitment of leaders and elite

- Goes beyond 'state-led' or 'market-led'
- Beyond elections
- Examples in East-Asia, China, but also Ethiopia and Rwanda
- Example in Bangladesh

But extremely difficult in countries with lots of natural resources:

Fundamental governance challenge: why try to get growth if financing elite is easy in other ways

Nigeria, DRC, Angola

A politics in which leaders and elites are committed to growth and poverty reduction: and **how to signal it?**

How to build that confidence and trust? Commitment devices.

- Tying the hand of policy makers. E.g. independence of central bank
- Requiring fiscal discipline, as well as convincing public financial management
- A celebration of technocratic quality
- Requires rational, transparent, rule-based policy making

“ a mature state is one that takes only on what it can handle properly, given its own weaknesses” (no hippo in lions clothes)

In Tanzania?

With a new seemingly committed President, it is the ideal time to signal in consistent ways that state will act in committed way to growth and poverty reduction, but in a coherent and realistic way

So can Tanzania do it?

- There are opportunities here, and already being taken:
 - Location: port and transit trade
 - Manufacturing, with opportunities to capture from Asia
 - Tourism
 - Agriculture, especially in higher value crops and value addition
 - Economy has slowly diversified its exports – quite a surprise
 - Needs for energy investments – with huge opportunities
 - Scope for FDI in all these sectors
 - *Huge scope for growth, with strong focus on tradables and FDI*

But are Tanzania's policy makers ready to choose for this?

- 5-year plan has the ambition, broadly consistent with the above: hurray!
- But it is state-led industrialization – no hippo can do this, however benign?
- *Industrial policy is really hard: it is not really about picking winners but identifying the losers among those picked, and be willing to drop losers*
- *Requires independent technocratic bodies, not politicians in charge..*

So can Tanzania do it? And can we help?

- Scope for a political elite **to signal** much stronger commitment to achieve better state capacity
 - A real opportunity now: signs that President is trying to embody change – with drive on governance, corruption, tax
 - But risk that change is just shock waves, with much collateral damage and no institutionalisation across politics and civil service
 - Genuine commitment by president is not necessarily the same as genuine commitment by party, civil service or business elite with political connections
- What can **donors** do here?
 - A continuing focus on systems functioning – with a good political sense and sensibility (don't just focus on the hippo's ears...)
 - Possibly we can help by encouraging to focus on havens of good governance: show areas of success that can be achieved by dedication and hard work
 - Is this Big Results Now? PFM? NRA? All possible candidates...
 - And help them to be willing to be “a state mature enough to know its limitations”

So can Tanzania do it? And can we help?

- Scope for a political elite **to signal** much stronger commitment to growth and poverty reduction
 - 5-year plan has the ambition – even if state-led may not be quite credible
 - And it needs clearer message on views on private sector *really* is
 - Ideological bias re-emerging?
 - As a source of tax revenue *only*
 - Or as a source of wealth creation?
 - And clarification whether FDI is properly acknowledged as huge opportunity

So can Tanzania do it? And can we help?

Donors can help in helping to get signals of commitment to private sector based growth

- With narratives of genuine success... with sufficient humility that few of us know how to really achieve it...
- Recognising serious adverse selection in countries like Tanzania but also across the world
 - A history of one private sector, that knows how to build and exploit political connections, but not necessarily providing high value to the country, crowding out a more benign higher quality private sector that creates growth in value added and in tax revenue...
 - A rule-based policy making and compliance has its place as part of transparent attitude towards private sector
- Even so.. key challenge remains: it has extractives, that may make the elite and politics able to resist 'adjustment' to new reality
 - (so I for one am almost glad for low prices for now)