International Growth Centre

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Thinking about National Plans

The last decade saw the revival of national plans in African policy parlance. Kenya, Uganda and Tanzania are amongst the list of countries who revitalised their planning efforts and brought national plans back to the heart of their national policy agendas. Most of these plans aim at charting the trajectory for the low-income country in question to achieve 'middle-income status'. Developing a national plan that outlines the envisaged growth path of all major socioeconomic sectors of the economy, along with a possible allocation of budget and the identification of priority sectors/investments, is an intricate policy exercise. The sheer number of stakeholders to be consulted and the possible overlapping of topics make it mind-blowingly complicated.

So the question arises: Where does one start the economic analysis involved in developing a national plan? In this column, we present a step-by-step introduction to the approach that laid the foundation for Tanzania's national Five Year Development Plan (2011-2015) and Long Term Perspective Plan (2011-2025). The methodology can be adapted to any developing country venturing to develop national plans to attain 'middle-income status'.

Basic ideology

For the majority of the countries that have transformed into middle-income countries in the last 50 years, this accelerated growth path was accompanied by a structural transformation, that is, a reallocation of economic activity across the three broad sectors: agriculture, manufacturing and services. In the majority of cases, this transition meant a shift away from agriculture towards either services or industrial developments. The greatest challenges during this transition are:

- Having the regulatory framework to enable the development of a competitive industrial and service sector,
- Absorbing the workforce from the agriculture sector into the service/industry sector (mainly through training), and
- Creating multiple national growth centres to avoid excessive urbanisation (leading to unemployment and unrest).

Some countries have been very successful at managing this transformation. Vietnam, for instance, managed through a series of reforms to go from one of the world's poorest countries to a middle-income country in 25 years (World Bank 2013), while significantly decreasing its poverty headcount and achieving five out of its seven Millennium Development Goals (MDGs) (the final two remaining to be reached by 2015). Just as for Malaysia, South Korea, Botswana and a series of other

Asian and African countries, Vietnam's economic growth was boosted by a similar transition: its agricultural sector represented 40% of GDP in 1985, compared to about 20% today, while the importance of the other two sectors increased significantly.[1] The experience of these countries provides a good baseline for understanding the structural transformation required for transition to middle-income status.

Identifying the target

The first step in our approach is to identify the list of 10-15 benchmark middle-income countries that have successfully made the structural transformation in the last two or three decades. The sample of countries should be so chosen to maintain semblances with the country in question in terms of geographical location, resource endowments and political systems. In case of Tanzania, the sample chosen by the government after wide consultations included middle-income countries from both Africa and Asia. We then look at the economic structure of the benchmark countries in the year they made the transition to middle-income country. For instance, Indonesia made the transition in 2004 so we look at the structure of the Indonesian economy in that year. Finally, we average the macroeconomic indicators of all our benchmark countries for their specific transition year to develop targets for sectoral composition, social indicators and key budget figures. Our calculations revealed the following targets for Tanzania:

- Industry's share of employment should increase to 20%
- Agriculture's share of employment should be limited to 41%
- Manufacturing's contribution to GDP should increase to 18%
- Export revenue as percentage of GDP should increase to 31%

These and several other indicators provided the targets to which Tanzania should aspire if it is to make the transition to a middle-income country.

Reaching the targets

Once the benchmarking has been done and the targets chosen, the governments will have to take decisions on how to reach these goals. First, they will have to set a clear timeframe for the transition. Various East African countries have set up long-term plans/visions – for example, the Kenya Vision 2030,[2] the Uganda Vision 2040 [3] and the Tanzania Development Vision 2025 – that outline the timeframe in which they seek to attain middle-income country status. Second, based on this timeframe we can arrive at various macro-sectoral growth rates by comparing the current baseline statistics with the targets set by the benchmarking exercise.

To efficiently monitor the country's transformation, it is essential to set clear indicators the country will track along the realisation of its plans, with clear mid-term targets to be reached every three to five years. Tanzania envisages attaining middle-income status by 2025, so the targets were divided into three five-year plans. The transformation trajectory derived from our approach implies that Tanzania needs to grow at an average rate of 7.7% over the next 15 years, with the agriculture sector growing at 5.6% and manufacturing spearheading the transformation by growing at 12.1%. The government will have to prioritise its ministries' investments to channel the necessary means towards the investments/programmes aimed at realising these growth targets.

Extensions

The simplicity of this approach in providing macro-level targets makes it feasible to extend it to the sector level. In Moyo et al. (2012), we applied the methodology to estimate the skill deficit in Tanzania and the expansion in educational facilities required to mitigate this. This involved:

- Choosing the benchmark countries,
- Identifying the average skill distribution of its population (percentage of teachers, medical professionals, scientists, etc.),
- Setting this as the target to be attained by Tanzania by 2025,
- Comparing the baseline skill distribution within the country with this target, and
- Estimating the additional investments required to meet this deficit in 15 years.

We estimated that by 2025, Tanzania needs to increase its proportion of high-skilled workers to about 12% from its existing level of 3%.

Conclusion

This approach comes with a long list of caveats. To name just two: the targets developed would be sensitive to the specific set of benchmark countries chosen, and the international environment that existed when these benchmark countries made the transition to middle-income could be quite different from the current environment or that which will prevail 10-15 years further into the future. However, the methodology provides a starting point to comprehend the structural transformation required to make the transition to 'middle-income' status. The results from the approach need to be complemented with further sectoral research to decide on the investment priorities and projects to be included in the plan documents. The experience from the Tanzanian planning process proves that this approach is a worthwhile first step in kick-starting the long process of national planning.

Further reading

Moyo, M, R Simson, A Jacob and F-X de Mevius (2012), "Attaining Middle Income Status -Tanzania: Growth and Structural Transformation Required to Reach Middle Income Status by 2025', IGC Working Paper 11/1019, International Growth Centre.

World Bank (2013), "Vietnam: Achieving Success as a Middle-income Country", at http://www.worldbank.org/en/results/2013/04/12/vietnam-

achieving-success….

Footnotes

[1] See the World Bank Databank, 2013.
[2] http://www.vision2030.go.ke/
[3] http://www.npa.ug/vision2040