INDUSTRIAL DEVELOPMENT AND ITS ROLE IN COMBATING UNEMPLOYMENT IN TANZANIA: History, Current Situation and Future Prospects

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1. INTRODUCTION
Unemployment and underemployment has dominated discussions in several fora including Summits of Heads of State and Governments worldwide. Indeed, this challenge is increasingly becoming the burning issue of our time, the burning issue of the 21st Century. For example, a recent World Bank publication indicates that two thirds of Tanzania’s population is under the age of 24 and either unemployed or underemployed, including people with college or university degrees (World Bank, 2013). Thus, the importance of job creation cannot be understated. One of the measures that has historically worked in combating unemployment and accelerating overall economic growth and development has been the manufacturing activities or industrial development.

The role of the industrial sector in terms of employment creation can be explained in the context of the following mechanisms:

➢ Labour Productivity:
  o Labour productivity in manufacturing is higher compared to agriculture and the informal sector;
  o The higher labour productivity results into well-paid and of good quality in the sector; and
  o Higher pay and quality jobs in the manufacturing sector normally trigger a structural shifts in employment from low productivity sectors (mainly agriculture) to the manufacturing sector which leads to positive impacts on the livelihood of the poor in a country.

➢ Indirect and Induced Effects: There are limitations of the manufacturing sector in job creation as it accounts for a modest proportion of the total employed labour force in a country (ranges between 15-20% of the total employed labour force in most developing countries). Nonetheless, the limitation is compensated through two main routes as follows:

  o Indirect Effect: Indirect impacts of the manufacturing are generated through the input-output linkages with other sectors of the economy. The existence of the input-output linkages implies that the manufacturing
sector’s employment creation potential is higher than merely looking at the jobs directly created by it; and

- **Induced Effects**: The induced effects of the manufacturing sector are essentially Keynesian type multiplier effects in which salaries/wages earned and spent through jobs directly or indirectly created through investment is re-spent.

- Manufacturing industries provide good opportunities to alleviate balance of payments constraints, which could otherwise hinder economic growth, both in terms of export potential and import substitution opportunities; and
- Manufacturing industries have strong knowledge and technological spillovers to other sectors of the economy which are apparently larger than the spillovers generated by other activities (technology and knowledge spillovers are the most important spillovers of all).

Indeed, there are both theoretical and empirical evidence to support these conclusions. **Apparently, emerging engines of growth do not exceed that of the industrial sector in terms of economic growth, job creation and poverty alleviation.**

It is in this context, that the first phase government and subsequent ones have put much emphasis on industrial development.

Therefore, this paper in an attempt to venture into Tanzania’s past and present industrial development initiatives and its role in combating employment. Lastly but not least, the paper presents the future prospects of industrial development in the context of job creation as a contribution to this debate in the country as well as the 2014 VET Forum Topic, namely, *Industrial Development and its Role in Combating Unemployment in Tanzania: History, Current and Future Prospects.*

2. HISTORICAL AND CURRENT SITUATION

The role of manufacturing in job creation, as stated in the introduction, is well documented. Nevertheless, the degree of job creation is dependent on the industrial policies and strategies being pursued. Historically, Tanzania’s industrial policies and strategies have varied in each phase of the government. The policy
frameworks and strategies pursued since independence depended on the material conditions obtainable then, that is from phase one to the fourth phase.

This part, therefore, examines past and present policies and strategies in industrial development and their implications on employment.

2.1 Historical Situation
Tanzania’s pre-independence production structure was dominated by raw materials for export purposes. Surprisingly, some of the imports destined to Tanzania were manufactured from the very raw materials that it had exported. Thus, it was not by coincidence that Tanzania’s manufacturing sector had to start from scratch so to speak. Accordingly, job creation through the manufacturing sector was not a priority for the colonial masters. Indeed, the independent Tanzania inherited a very nascent industrial base not worthy a salt.

For instance, at independence Tanzania had only 220 industrial establishments employing at least 10 persons each with fixed assets not exceeding Tshs. 200,000/= which presently could categorised under the MSME. Total manufacturing employment was about 20,000 and contribution to GDP merely 4.3%.

No wonder, industrialisation was one of the main Agenda of the first phase Government and has remained so to-date, serve for the policies and strategies which have varied overtime.

The first phase Government had two distinct periods in industrial development. The first one was from 1961-67, a period of private sector-led import substitution manufacturing in which consumer goods, mainly food and textiles, were the dominant products. However, the private sector led industrialisation was seen to be too slow in terms of growth and africanisation and thus did not argue well with the spirit of independence. Subsequently, with the proclamation of *Ujamaa and Self Reliance*, not only did the product mix change but also ownership in which a public-sector led industrialisation strategy was adopted and implemented such that privately owned firms were nationalised.

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2 According to ISIS Industrial establishments include: Manufacturing; Mining &Quarrying; Construction; Electricity, gas, steam &air conditioning supply; Water supply, sewerage, waste management and remediation activities.
The Post-Independence industrialisation policies and strategies paid off because a decade later Tanzania’s industrial development fortunes had grown astronomically such that by 1970 Tanzania had attained self-reliant in fabrics (manufactured 58 Mil. M²); over 2,000 industrial firms had been established compared to 220 at independence; and 7,000 trademarks had been registered. Similarly, the growth of the sector was very impressive in terms of production and industrial workforce at nearly 10% and 12% per annum respectively.

The impressive growth in industrial workforce was in consonant with the early industrial policy and strategies which deepened and widened light manufacturing activities inherited at independence. A wide range of industrial items were manufactured mainly consumer goods such as food, clothing, tobacco products, beer, pharmaceuticals, glassware, household plastics, footwear and soap. The printing and publishing industry also showed high growth.

The production of these products involved labour intensive operations and thus generated a lot of employment, both direct and indirect. Similarly, towards the end of the decade of independence, the production of intermediate products, for example, building materials such as cement, steel frames and chipboard, took on increasing importance (Tanzania Notes and Records). These positive developments were implemented in the context of five years development plans (1964 – 1969 and 1969 – 1974- Import Substitution Industrialization Strategy).

The Five Years Development Plans enabled Tanzania to pursue a systematic and progressive industrial development path. This contention is supported by the fact that the Plans influenced the Government to form an elaborate, robust and dynamic institutional framework as follows:

- The National Development Corporation (NDC) in ……as an investment arm of the Government to coordinate and oversee a wide range of feasibility studies and industrial investments, mainly of intermediate and capital nature to support goods import substitution;
- The National Insurance Corporation (NIC), a compulsory savings facility for workers and employees established in 1964, and the National Bank of Commerce (NBC) in 1965. The NBC and NIC were critical institutions in raising funding for industrial projects in which NBC’s profits were ploughed back into the industrial sector and likewise NIC bought government bonds for similar reasons;
• The National Vocational Training Division in 1974 which to-date exists with a more robust mandate as VETA. The demand for skilled workforce arising from increased investment and diversification led to the establishment of this institution; and

• The Small Industry Development Organisation (SIDO) formed in 1973 in order to establish linkages between industrial development and the rural sector for achieving a decentralized small-scale industrial development at local levels in order to make it possible for the products to be consumed near the place where they were produced to avoid unnecessary transport costs but also as a distributive initiative in terms of job creation. Secondly, the Plan envisaged industrial development to be supported by various types of artisans' productive activities, which is to trigger the input-output linkages.

Implementation of the above Development Plans made a substantial impact in the economy. The rate of industrial growth was more rapid than the rate of growth of the whole economy in mid 1960s and up to 1972. Between 1964 and 1972 manufacturing value added (MVA) more than doubled, indicating an average annual rate of growth of more than 10 per cent while manufacturing growth rate increased from 10.2 per cent in 1962 to 17.1 in 1966. Contribution of the sector to GDP increased from 4.3 per cent in 1961 to 12.8 per cent in 1965. On the other hand, industrial employment increased sharply from 6.2 per cent in 1964 to the highest level of 24.1 per cent in 1968. The impressive performance was attributed mainly by better utilization of industrial capacity.

In this case, the manufacturing sector was at the core of structural change, consistently creating higher levels of output and employment, leading to unprecedented growth in incomes. In addition, the manufacturing sector offered an opportunity not only to rebalance the economy towards higher value-added production but also provided a relatively wide employment base with higher labour productivity besides boosting wages and incomes and thus helping to create a domestic market for both industrial and agricultural products.

However, from 1974 onwards, industrial growth was generally low due to external crises which precipitated a shortage of foreign exchange for the importation of capital goods and more critical-intermediate inputs and spares for the industry. By that time the import substitution strategy had shifted the structure of imports in favour of capital goods and intermediate inputs. This production structure had a
built-in vulnerability because it could not withstand external shocks. Thus, the drastic deterioration of balance of payments with consequential import restrictions in 1974 and 1975 adversely affected industrial growth.

As a response to the challenges cited, in 1975 the Government embarked upon a long term Basic Industrial Strategy (BIS). The major objective of BIS was to enhance sectoral linkages in order to achieve a greater degree of economic self-sufficiency. The first set of industries consisted of industries that catered for the basic needs of the majority of Tanzanians. The second set constituted the base of industrial production which can use domestic resources to produce and supply intermediate and capital goods to industries of first set. Iron and steel, metalwork and engineering and industrial chemicals were among the priority sectors of the second set.

BIS had, therefore, aimed at achieving less dependence on highly developed economies and promoting more of South-South intra-trade cooperation. This is the period in which a resource based sectoral industrial development was adopted as opposed to the general product mix pursued in the early phase of post-independence industrial development and job creation initiatives. Emphasize was put on value addition of all raw materials before export, initially targeting cashew kernel, sisal twine, leather and shoes. For this reason, the formation of sector organizations such as Textile Corporation (TEXCO), Tanzania Leather Associated Industries (TLAI), National Chemical Industries (NCI), and Tanzania Karatasi Associated Industries (TKAI) was done to cater for this sectoral approach.

Unfortunately, these nice initiatives were constrained by the global socioeconomic and political environment. Industrial growth for the first time in 1974 started to deteriorate and between 1975 and 1981 growth rate was about 0.6 per cent. Between 1981 and 1985 growth rate was average of negative 3.9 per cent mainly due to a serious economic crisis caused by external shocks and internal constraints. This resulted in sweeping import cuts in raw materials, intermediate inputs and spare parts.

Declining trend of the manufacturing sector in 1980s and 90s was not caused solely by factors internal to the sector. The external factors to the sector that negatively impacted on its performance included:

- Inadequate and unreliable power supply;
- Inadequate and expensive transportation system arising from the oil sock, collapse of the railway system and inefficient ports;
- Declining terms of trade for agricultural commodities, low yields and quality of agricultural products.

Ultimately, the Tanzania Government was compelled to reduce drastically foreign exchange allocations to the manufacturing industries (Skarstein, 1986) which affected negatively capacity utilization. By 1980 the foreign exchange allocations met only about 11% of the actual forex requirements of the industrial sector, hence the collapse of many industries both public and private industries.

To address the crisis, the government adopted restrictive measures including the Structural Adjustment Programme (SAP) and Economic Recovery Programmes (ERPs) which started in 1986 and by 1996 reforms through privatization especially in manufacturing sector was at the highest peak. Trade liberalization, a key ingredient of structural adjustment packages, had a negative impact on the incipient manufacturing sector. Infant industries were particularly affected by the sudden removal of protective trade measures which resulted into massive import inflows.

Substantial recovery for the sector was recorded from year 1998 at 5.5% rising to 9.4% in 2004 and 9.9 per cent in 2008 and 7.7 per cent in 2013. Likewise, its contribution to export earnings increased from 0 per cent in 1961 to 6.10 per cent in 1998 and 8.29 per cent in 2004, 20.73 per cent in 2008 and 20.04 per cent in 2013. The increase was attributed to increase in investment and high utilization of industrial capacity which is in the average of 52 per cent and in other industries such as food and beverages as well as cement is in the range of between 80 and 90%.

Likewise, employment faced the same declining trend during the reform period. In 1993 one year after effective establishment of the privatization commission, 11,804 employees were retrenched as a result of the privatization programme. Some of the retrenched employees were redeployed by the informal sector and others by the same privatized enterprises after the rehabilitation process. However, privatization on its own, though necessary, was not a sufficient condition for sustainable industrial development and structural transformation.
It was in this context that the third phase government came up with the Tanzania Vision 2025. Besides Vision 2025, Industrial Development in Tanzania is guided by the Sustainable Industrial Development Policy (SIDP) – 1996-2020.

The SIDP was launched during the second half of the 1990s, replacing the Basic Industry Strategy (BIS) which had expired in 1995. The purpose of SIDP was not simply to replace the expired BIS, but also to accomplish the decision of the government to phase out its involvement in direct investment in productive activities, while letting the private sector become the main player in the economy. To achieve these policy objectives, the SIDP was to be implemented in three phases, namely:

**Phase I.** Short Term Priority Programme 1996-2000
- Concentrated on the rehabilitation and consolidation of existing industrial capacities through financial, capital and Management restructuring.
- Creating and sustaining an enabling environment including the provision of fiscal and monetary incentives, transparency, stable and simple regulatory framework.
- Increase in the agro-processing activities in which Tanzania has a comparative advantage. Emphasis by the government has been on agro-processing industries.

**Phase II.** Medium Term Priority Programme 2000-2010
- Creation of new capacities in activities with clear competitive advantages for promoting exports through use of Export Processing Zones (EPZs).
- Promotion of Intermediate goods Industries light capital goods and machine making
- Carry out techno-economic preparations for exploitation of iron ore deposits.

**Phase III:** Long Term Priority Programme 2010 – 2020 (Intermediate and Capital Goods):
- Providing Fully-fledged investments in basic capital goods infrastructure.
- Promotion of smelting and metal products industries to create a base for the development of intermediate and capital goods industries (Though Tanzania is endowed with rich mineral resources such as nickel, iron, copper, gold, uranium, titanium, vanadium and others, due to requirement of huge capital for infrastructure development, very few of these resources have been developed)

**2.2 Current Situation**
The current approach to industrial development is based on the Tanzania Development Vision (TDV), 2025 in which the fourth phase government
industrial development process is based on five years development plans, a mixture of private sector-led industrialisation and public-private sector partnership which is reminiscent of the first phase government’s methodology in economic management. Contextually, each five years development plan deals with a specific industrial development agenda leading to a middle income industrialised Tanzania as follows:

- **FYDP I**: Removal of binding constraints to growth (hard and soft infrastructure, electricity and markets);
- **FYDP II**: Industrialisation to be one of the pillars of socio-economic and political development (Intensified industrial development and promotion for structural change-Light manufacturing and resource based strategic industries); and
- **FYDP III**: will focus on further promoting the competitiveness of the manufacturing sector and a substantial improvement in Tanzania’s share in global and regional trade.

This clear focus of the LTPP will place industrialization at central position in Tanzania’s future growth agenda. This shift in focus from an ‘agricultural economy’ to a ‘semi-industrialized’ one was essential for the ailing industrial sector.

Besides the LTPP, currently, Government is implementing an Integrated Industrial Development Strategy (IIDS) 2011-2025 to deepen the implementation of the SIDP and to enable the realization of the objectives and targets stipulated in the TDV 2025. Towards this end, the objectives of the IIDS 2025 are as follows:

- To build an internationally competitive business environment, through formation of industrial accumulation, strengthening the back-up institutional framework, bringing about concentrated infrastructure development, and promoting internationally competitive industries and enterprises, all of which, together, will make the industrial sector the real engine of economic growth;
- To make Tanzania the industrial and logistics hub of the Eastern and Central African region, through extension and improvement of existing development corridors and establishment of an export and import platform at the waterfront; and
- To promote rural industrialization, through an agricultural-development led industrialization approach.
The IIDS’s major instruments include the accumulation and concentration of industrial firms through cluster development, supported by Special Economic Zones (SEZ). Three waterfront SEZs are planned: one for Dar es Salaam linked with the Central Railway Line to constitute the “Logistics Corridor”; Mtwara SEZ which is being developed as the “Minerals Corridor”, the Tanga corridor to serve the areas of northern and north-western Tanzania up to and including Uganda, Rwanda and the Great Lakes; and TAZARA to constitute the “Agricultural Corridor”. At the regional and district level, these corridors will link Regional SEZs and Micro Industrial Parks at the district level.

3. FUTURE PROSPECTS

The future prospects for Tanzania’s industrialisation endeavours are very bright because of the following factors:-

- Natural endowments such as huge arable land for agricultural production; abundant minerals of various types (gold, diamonds, gemstones, coal, iron, uranium, nickel, chrome, tin, platinum etc.), natural gas; and access to global markets through its ports; and
- Low-cost labour for light manufacturing relative to its major competitors such as China.

However, the following binding constraints, which are currently being resolved need to be continuously looked at in future for sustainable industrial development and job creation:

i. **Skills development**: Tanzania’s labour force compared to middle income countries has low skills and unmotivated. Approximately, 85% of its workforce in the industrial sector has low skills compared 55% in middle income countries. For example, a new garments factory in Tanzania is in need of 14,000 workers and got only 2,000. The skills gap is attributed to the following factors:

  - Tertiary enrolment in technical subjects, including engineering and mathematics, has normally been taken as a useful approach for training skilled labour for highly advanced industrial processes whereas in practice a mere possession of a university education has often proved to be insufficient for the skills needed by the industry and unfortunately there is in-built rigidity of university curricula in
times where the demand for skills in industry is constantly changing and because of a lack of private sector participation in developing those curricula;

- TVET is usually more adaptable to industrial needs as the private sector is often engaged in its design and even execution. VETA, nonetheless, will have to resolve the Reputation issue among the general public, which sees TVET as an alternative for those who do not perform well at school, rather than as a mechanism that enhances future employability through the acquisition of industrial skills.

ii. **Motivation:** Likewise, Chinese factory workers are highly motivated because they are provided with accommodation near their work place;

iii. **Light Manufacturing:** Selective and focused light manufacturing should be at the centre of industrial activities in Tanzania because they are normally natural resource based and labour intensive. A recent World Bank publication recommends the following subsectors to start with: Textiles and Apparel; Leather and Leather Products; Wood and Wood Products; and Agro-Processing. Measures towards this end have already been initiated. For example, a textiles factory being constructed in the Lake Zone would be able to absorb all the cotton produced there. Likewise, two leather tanning factories are being put up at Shinyanga and Arusha capable of processing all hides and skins in the country. In addition, there is ample opportunity for developing strategic industries for structural transformation of the economy. Investment initiatives are underway for the exploitation of the Mchuchuma and Liganga coal and iron ore; soda ash etc;

iv. **Trade Logistics:** Given Tanzania’s geographical locations, there are prospects for Tanzania to become a regional hub if current initiatives towards this end are maintained, that is the expansion of the Dar es Salaam and construction of a new one for fourth generation ships at Mbegani, Bagamoyo; Kurasini Logistics Centre and modernisation of the railway system;

v. **Cheap and Reliable Power Supply; and**

vi. **Anti-export Bias**

4. **CONCLUSION**
Developing countries aiming to maintain growth while creating sustainable jobs, have no option other than investing light manufacturing. The national employment statistics indicate that the manufacturing sector has been significant as an employer
in the Tanzania’s labour market, (URT, 2007, 2008 and 2010). According to the result of 2012 Population and Housing Census, manufacturing sector employs 3.1 per cent of the total employed population in Tanzania Mainland which is 555,000 persons. The food processing and textile manufacturing sub sectors constitute the largest share of total manufacturing employment. Manufacturing sector rank number three in employment in the country, the first being agriculture which employs 66.2% followed with wholesale and retail trade at 9.9% of the employed population. This implies that there is still room for improvement to reach a mark of 20% for middle income countries. The indirect and induced jobs from the manufacturing activities could be bigger as observed in this paper.

There seems to be an emerging consensus that to maximize the benefits of industrialization which generate more and better jobs, it should accompanied with the development of specialized and appropriate vocational and technical training institutions.
REFERENCES


