QER

TANZANIA

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Dar es Salaam Port and Harbour View

Source: Tanzania Transport Sector Review Report (by AfDB Sept. 2013)

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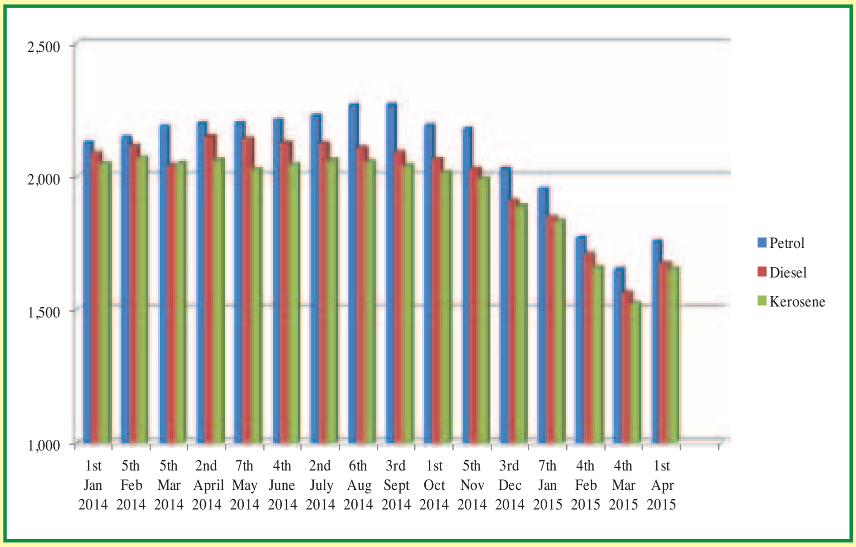

Source: Monthly EWURA Price Releases for 2014 and 2015

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EDITORIAL NOTE

The current Quarterly Economic Review (QER) for the period January - March 2015 falls in a period when Tanzania is reporting encouraging results on 2014 economic performance; and when the prospects for 2015 are reasonably optimistic. Quarterly GDP growth rates in 2014 were between 6.8% and 7.4%, rendering an annual growth of 7.1% for the whole year[1]. Thus a growth of more than 7% in 2015 is expected, depending on how the rains turn out eventually; and if gold prices do not continue falling as in 2014. The strength of the tourism sector has remained buoyant and is likely to continue.

Above all, later in 2015 the new gas pipeline from Mtwara to Dar es Salaam will start operations, reducing proportionately the nation's import bill for oil. In the meantime, global oil prices are likely to remain low in 2015[2], which will be a favourable phenomenon for Tanzania, as an oil importing country. In reflecting the above events, the Bank of Tanzania and GOT have promised to resist further sliding of the value of the Tanzania Shilling (TZS), an aim which is rational and credible if they can restrain the budget deficit in the context of the 2015/16 Budget. Paradoxically, the depreciation of the TZS can be turned into an advantage on the export side of some cash crops that are planted on annual basis, depending on the stimulus measures and promotional efforts that government as a whole can marshal in the short run to push for better organisation of crop production, marketing and exportation.

It is not fortuitous that in recent months the donor community has understood what is unfurling on the ground, and has decided to resume strong GBS support, which signals a good omen on what to expect for the rest of 2015.

Yet, all the above-said does not to mean that the long underlying challenges of development in Tanzania have been resolved entirely. Far from it. The present QER is thus dominated by issues such as human development and economic transformation challenges, inflation, formulation of the 2015/16 Government Budget, and Mobilisation of Resources for Development and Investments. The QER also covers a number of other regular topics such as the performance of the DSE, Special Focus on the Agriculture Sector, the Mining Sector plus the Natural Gas, Tourism Sector, Transport Sector, and finally the Special Theme of the current QER about "**Tanzania Industrial Sector - Summary on Current Challenges and Potential for Development**".

While preparing the current QER, the country has been anxiously waiting for the revelation of the 2015/16 Budget in view of backlog of huge resources demand. These among others involve pending infrastructure development and maintenance needs, social sector requirements and salary rises and payment arrears claims. Yet the General Election year of 2015 accentuates the urge to meet these needs, while at the same time political decision makers are under pressure to raise commensurate revenues through the taxation instrument. We will be able to report in the next QER on the balancing action that the government will take through the 2015/16 Government Budget.

The practice in these QER series for the past three years has been to keep an almost consistent format, more or less, that incorporates information on the issues that have been more topical during the quarter. This posture has been retained in the current QER, except that we have included several sub-topics that have had rare coverage in the past. Some of these have gained enhanced national recognition at the moment. This is evident in the choice of the Special Theme about the Industry Sector.

This Sector is not widely reported upon in the media or as widely discussed generally in the country as agriculture, mining or even tourism. The point that comes out in this QER is that industrial development has been rather under-reported and its role underrated. Land-mark industry policies or strategies are old (3, 5 years or older), and have not undergone major critical reviews; and yet this is a sector that has made remarkable progress in the last 10-15 years[3]. It is more of a preserve of private sector efforts. But government's role even in direct participation in investments should not be underestimated.

This will be underscored more as we move into down-stream stages of exploitation of the natural gas reserves. Local private capital will not be enough, and exclusive use of foreign capital will not be rational given domestic political sensitivities that are already emerging over this issue. During the preparations for THDR 2014, some ideas were evoked about the need for a dynamic developmental (interventionist) state[1] in Tanzania but these ideas did not develop comprehensively to describe the kind of the future that Tanzania will pursue to archive successful economic transformation.

1 NBS
2 World Bank
3 WIDER Working Paper 2014/085 The Performance of the Manufacturing Sector in Tanzania by S. Wangwe et al and IMF Press Release No. 15/125 March 19, 2015

1. OVERALL ECONOMIC PERFORMANCE

Tanzania recently rebased its national accounts, resulting in a GDP per capita that resembles that of a country which is moving to achieving middle income status. The total value of the country's economic output is approximately one-third larger than was previously estimated, with the current average per capita income at $948, as opposed to the previous $695. This information and conclusion from the World Bank, has been corroborated by the IMF staff team who visited Tanzania in March 5 – 19, 2015[ii].

In the IMF Press Release, it was explained that the revised national accounts, that incorporate recent surveys and methodological improvements, imply that the volume of Tanzania's economy is about 30% larger than what had been previously reported. It is therefore pretty consistent with this background that Tanzania's economic growth in the future is predicted in bullish terms. A source attributed to BOT[iii] forecast an annual GDP growth 15.3 % over the next 12 years, based mostly on likely inflows of revenues from natural gas operations. Even the IMF predicts strong growth of the economy at least for 2015, with a 7.4% forecast[iv].

Indeed, the indicators of poverty as recently revealed in the 2011/12 Household Budget Survey show that the rate of incidence of poverty declined from 34% to 28% in the period from 2007 to 2012, which is a first significant improvement since the late 1990s. On the other hand, if such statistics seem to show that economic growth has trickled down to the poor, approximately 40% of Tanzania's adult population still earns less than $1.25 per day, while nine out of 10 Tanzanians are making it on less than $3 per day.

The THDR-2014 released in April 2015 has indicators of poverty for the same period of the 2011/12 Household Budget Survey showing that basic needs poverty stands at 28.2%, and with food poverty headcount at 9.1%, with rural areas being more depressed, and urban areas being hard hit by rising unemployment among the youth.

LAUCHING THE THDR 2015

During the first Quarter of 2015, precisely on the 27 March 2015, there was an official launching of the first Tanzania Human Development Report (THDR 2014) in Dar es Salaam. It was officiated by the Permanent Secretary Ministry of Finance and Economic Affairs. This Report is reflecting the pattern of the annual Global Human Development Reports that had been produced by UNDP since 1990. In Tanzania there had been country-level Human Development Reports since 2002 but these had been produced by the UNDP Country Office. So, the THDR 2014 is the first of its kind as a country-led and owned endeavor. Thus, it was produced under the leadership of the Economic and Social Research Foundation (ESRF) in close collaboration with Government and other institutions.

In this respect, the other collaborating partners were the Department of Economics of the University of Dar es Salaam, the National Bureau of Statistics (NBS), Office of the Chief Government Statistician Zanzibar (OCGS) as well as the United Nations Development Programme (UNDP) country office. Funding was provided by the UNDP. The rationale for emphasizing country level reports is that global development reports of the UNDP have universal coverage of issues of global interest and thus tend to skip many specific issues fit for national focus. The second rationale in this particular case is to enhance the use of the Human Development Reports to stimulating public debates on key national issues; and in so doing to mobilize support for action and to encourage change in shaping national policies and priorities in national planning.

The THDR of 2014[5] carries a double-focus on human development in Tanzania as well as economic transformation. In this context, the THDR defines Tanzania's economic transformation as "a *structural change in the economy, characterized by lesser contribution to GDP from the agricultural sector and* *greater contribution from the industrial and service sectors, accompanied by a demographic transition from high birth and death rates to low birth and death rates.”*

The Report reaffirms that Tanzania’s economy has already gone through considerable changes. Growth rates are higher in the current decade than in previous decade and are relatively stable. Inflation is subdued and greater macroeconomic stability has been attained. Domestic revenues have increased substantially. And generally the economy is liberalized, while FDIs and trade are going up.

It is therefore fitting that the THDR emphasizes that economic growth must be sustainable and should improve the lives of the people in different ways: such as by raising their incomes, impacting deeply on poverty reduction and specifically promoting better education and health, while contributing to security and peace nationally and at personal levels. Shared prosperity is a key underlying call in human development and economic transformation.

This is a noble objective as Tanzania matches towards becoming a middle-income country by 2025 as envisaged in the national Development Vision 2025. It is expected that as the country’s current Five Year Development Plan (FYDP-2010/2011 – 2015/16) and the National Strategy for Growth and Reduction of Poverty (MKUKUTA-II 2010/11-2014/15) are coming to an end, the spirit of the THDR-2014 and its recommendations should feed into the preparation of the next phases of the two frameworks, i.e. FYDP-II and MKUKUTA-III.

Accordingly, the THDR-2014 urges that in order for economic transformation to be conducive to human development, there should be specific resources and policy interventions that are addressing this objective and these should be clarified in the two overarching frameworks mentioned in the previous paragraph. The Report outlines the following interventions as appropriate:

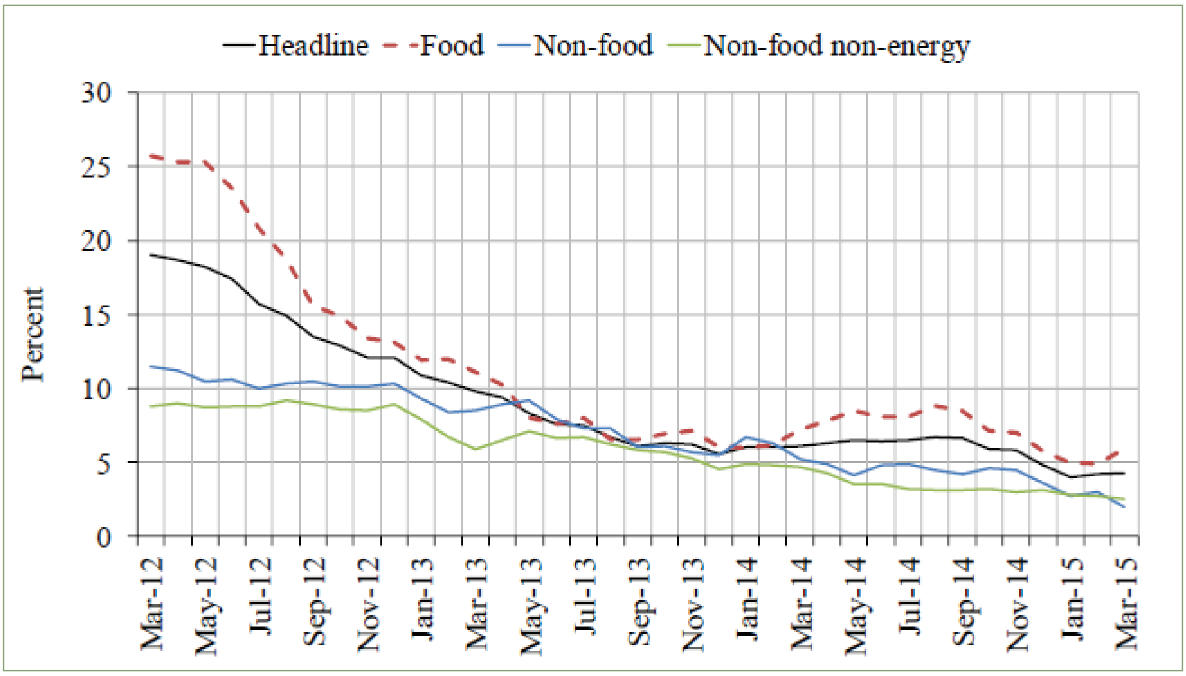
a) Creating opportunities for productive jobs and securing livelihoods that make growth inclusive and reduce poverty and inequality;
b) Enhancing productivity and creation of more employment in agriculture, manufacturing, and tourism as key sectors driving the economy;
c) Improving the quality of social provisioning;
d) Enhancing human capital and skills development;
e) Radically improving energy and transport infrastructures in order to boost productivity in the three sectors and provide access to markets as well as reduce operating costs;
f) Government on its own and in collaboration with the private sector to substantially increase investments in the priority sectors.

2. INFLATION DEVELOPMENT

According to NBS, the Annual Headline Inflation Rate for the month of March 2015 slightly increased to 4.3% from 4.2% in February 2015 as well as from 4.0% in January 2015, mainly driven by food inflation. This is clearly seen in **Chart-1,** which also shows the trend for the period of 12 March 2012 to 15 March 2015. During 2014 the trend of inflation has been consistent with the general decline before making a slight upswing by October 2014 at 5.9%.

The **Chart** illustrates that food inflation (taking into account food proper with non-alcoholic beverages) has played a dominant role in the rate of inflation: it fell from above 26% in February 2012 to about 12% in February the following year (2013), then came down steeply to 6.2% in February 2014 and eventually to 4.9% in February 2015 before jumping up to 7.1% in March 2015[vi]. Fuel prices are the second-biggest driver of inflation in Tanzania. On this score, the inflation of fuel combined with other energy components has since February 2014 fallen from 16.1% to 4.4% in February 2015[vii]. This will be separately clarified in the next section on pump fuel prices for Dar es Salaam.

Chart-1: Annual Inflation Trend 12 March 2012 to 15 March 2015



Source: Source: NBS (press release on CPI dated 8th April 2015 and BOT (MER April 2015)

Inflation in East Africa: During the first quarter 2015 among the East African countries, the lowest inflation rate was in Rwanda (e.g. 2.5% - March 2015) and the highest in Kenya (6.31% - March 2015) but that of Tanzania continues to be more stable, without showing too much monthly fluctuation.

Rwanda, Uganda and Burundi continue to enjoy lower inflation rates than their neighbours Kenya and Tanzania that have direct access to the sea and thus do not bear as much the burden of inland transportation of their imports and exports.

Inflation Induced by Fuel Prices

As might be observed in **Chart-2-**, pump fuel prices have been falling for about 6 months (from September 2014 to March 2015, though in April 2015 there was a slight jerk up (which actually continued into May 2015). EWURA attributed this to changes of oil prices in the world market.

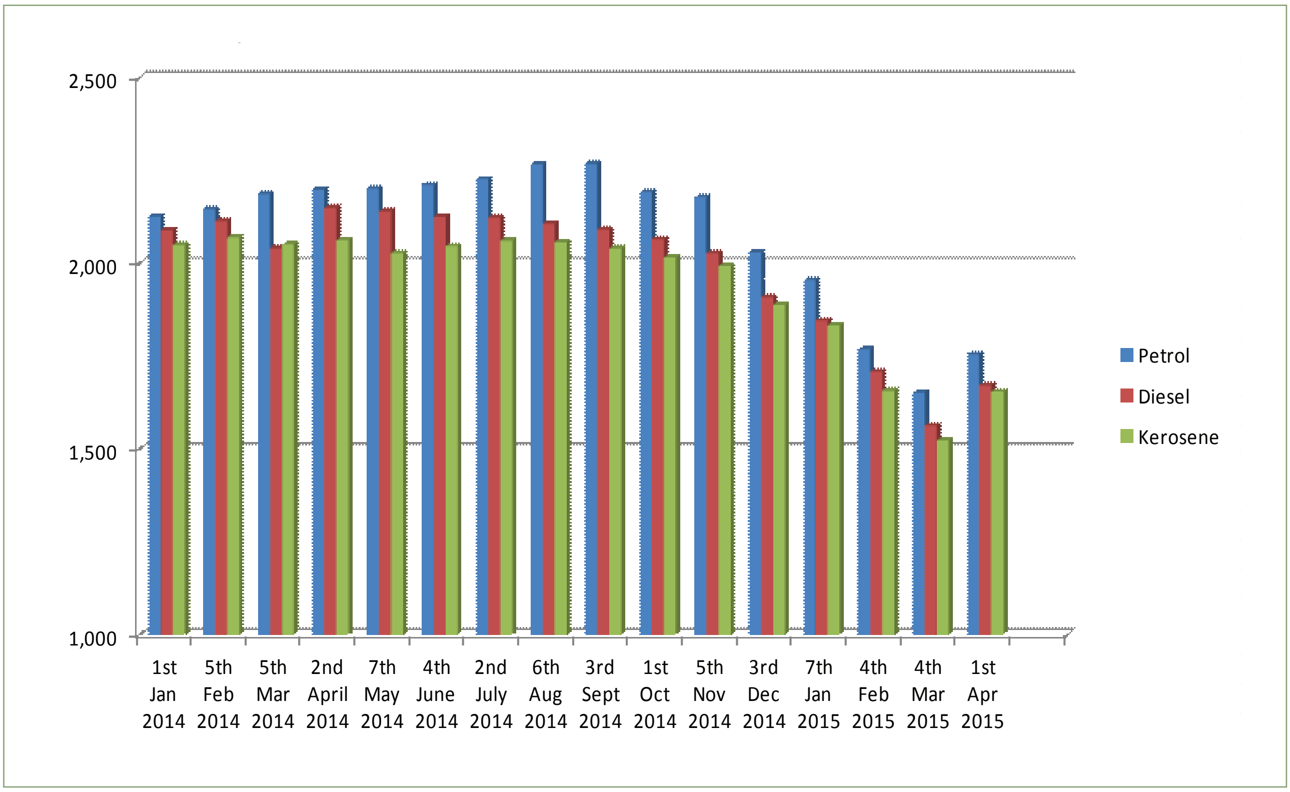
By end of 2014, Brent[4] crude oil prices had dipped in by more than 50% compared to the start of the year, and the near future was not too clear, in view of Yemen crisis and in general the Middle East limited oil supplies. In the meantime, within Tanzania some members of the public were wondering why the benefits of the global oil price slide were not being passed on to consumers in sufficient magnitudes.

While EWURA indicated that it was not oblivious to the above concern of the consumers, it conceded that indeed the domestic market had experienced minimal price drop despite fall in global crude oil prices, explaining that effect as due to absence of local petroleum refinery plant, as well as on account of preset taxes and rigid distribution costs. Another potent reason is the weakening of the TZS.

Some of the mitigating measures initiated by GOT include a plan to construct a large oil depot by TIPER so as to increase its storage capacity to 313,000 cubic metres from current operational capacity of 141,000[ix]. Another government

[4] Brent is the leading global price benchmark for crude oil

Chart-2: Dar es Salaam Fuel Pump Prices in TZS per litre (2014/2015)[viii]



Source: Monthly EWURA Price Releases for 2014 and 2015

approach that possibly has beneficial effect on the cost of overseas transportation of oil imports is bulk petroleum procurement[5] .

Table-1: Pump Diesel Prices in EAC Countries

Country	Price per litre in US$ equivalent	
	On 12 January 2015	On 27 April 2015
Tanzania	1.09	0.91
Kenya	1.12	0.88
Uganda[6]	1.28	0.97
Rwanda	1.51	1.24
Burundi	1.18	1.20
DRC	NA	1.59
Zambia	NA	0.90
Mozambique	NA	1.01
Zimbabwe	NA	1.44
South Africa	NA	0.93

Source: GlobalPetrolPrices.com

By looking at **Table-1,** it is observed that the average pump prices in Tanzania are more or less comparable with those in neighbouring countries, though the similarity with those for the land locked countries like Uganda and Zambia are difficult to justify without getting into other factors other than mere transportation costs.

[5] This operation is being implemented by ENOC Africa, a Tanzanian oil company, that had won a tender to import fuel under the Petroleum Bulk Procurement System (BPS) since October 2014.

[6]

3. EAC INTEGRATION PROGRESS

Two positive things and one negative challenge have occurred in the first quarter of 2015 that respectively promote or discourage the progress toward East African Integration. The positive developments are: (a) official meetings to coordinate activities or sort out outstanding problems; and (b) active pursuit of corridor transport development. The negative event was in connection with the misunderstanding on how to handle tourists transiting to Kenya and to Tanzania from either side.

It will be recalled that, as reported in QER-IV of 2013, the process on the road to EAC integration had hit a bump when in 2013 Kenya, Uganda and Rwanda formed the so-called "The Coalition of the Willing", in effect leaving out Tanzania and Burundi in the East African Community formed by all 5 countries since 2000. By end of first quarter 2015, it was already clear that the bad feelings sparked by the separate new grouping, had been left to settle down, despite the fact that the Coalition initiative had not been abandoned. Meetings of EAC officials and Heads of State (bilaterally or all of them together) were continuing to deal with the regular agenda of the integration process.

Planning and/or actual construction of the two new standard gauge railways, being promoted under the EAC auspices, were continuing. On the Northern Corridor, actual construction was moving ahead fast with the railway from Mombasa to the border between Kenya with Uganda and then onward to Kigali that may cost up to $14 billion. This project is backed by a Chinese soft loan from Export-Import-Bank (Exim Bank)[x]. On the Central Corridor Railway the Tanzania Government is planning to construct a new standard gauge rail-line from Dar-es Salaam to Kigoma (2,561 km) for about $14.2 billion[xi] within the next five year. Commercial loans from a consortium of banks (possibly including those from China) under a 20-year repayment period are under negotiation.

The issue regarding tourists mentioned above had arisen when in December 2014 when Tanzanian tour vans were banned from crossing into Kenya, including dropping or picking visitors at the JKIA[7] unless they possess Kenya licenses. Kenyan tour vans have not been allowed to drop or pick tourists in Tanzania, including access to tourist sites and airports. Anyway, the matter has been resolved after a meeting by the two Heads of State concerned on 22 March 2015[xii]. The point to highlight here is that such incidents sow ill feelings that can seep into the core spirit of the EAC integration.

4. FINANCIAL DEVELOPMENT

(a) Government Budget - 2015/16

In the process of preparing the 2015/16 Government Budget, the Planning Commission (PC) and Ministry of Finance (MOF) issued Plan and Budget Guidelines (PBG) in January 2015 to all MDAs, Regions and LGAs. These Guidelines take into account the fact that FY2015/16 is the final year in implementing the Five Year Development Plan (FYDP- 2011/12-2015/16) and to also reflect the end of MKUKUTA II (National Strategy for Growth and Reduction of Poverty (NSGRP II - 2010-2015). The PBG indicate areas of government priorities that should be reflected in suggesting resource allocations.

Most of the emphasis nowadays is given to the projects identified under the Big Results Now (BRN) Initiative, which also reaches its final stage in FY2015/16. The BRN outlines National Key Result Areas that include the sectors of energy, water, agriculture, transport, education and resources mobilization. The health care as

[7] Jomo Kenyatta International Airport

well as business environment have recently been added as National Key Result Areas.

The PBG with reference to the country's macro economic and fiscal policy frameworks indicate a target of revenue collection of TZS 19,853.3 billion for FY2015/2016. This is broken down in total domestic revenue estimates of TZS 14,684.9 billion, including tax revenue amounting to TZS 13,332.7 billion, non tax revenue TZS 830.3 billion and TZS 521.9 billion as LGAs own source.

Other important features in the Guidelines are as follows:

a) 2015/16 recurrent expenditure is estimated at TZS 15,065.1 billion including TZS 6,073.2 billion for wages and salaries of Government institutions and agencies;

b) Budget should identify and forecast all potential sources in order to enhance the level of domestic revenue collection;

c) Need to developing effective strategies to control illegal exportation of natural resources in bid to boost Government revenue;

d) Payment of all taxes, fees and other charges to be effected through electronic system so as to curb revenue leakages;

e) To enhance collection of property tax; this should be preceded by issuing of title deeds;

f) Reducing tax exemptions;

g) Ensure Treasury Registrar (OTR) enters performance contracts with government institutions and public corporations, that are properly monitored and enforced;

h) Clearing arrears on various government obligations, including notably: on wages and allowances and statutory contributions to public organizations like pension funds; claims on contracted works, suppliers and other services;

i) MDAs to undertake economic analysis of proposed projects before committing resources on them;

j) Assuring value for money and protection of domestic industry; by among other things recommending that procurement of imported goods and services which are locally available should be discouraged;

k) There should be budget provisions for obligations on taxes and duties on procured goods and services;

l) Ensure that all International Agreements with financial implication are taken into account during budget preparations[8]; and

m) Provide for reducing donor dependency, in view of last year experience when the donors withheld nearly $500 million in GBS to Tanzania over corruption allegations in the energy sector.

While the pre-budget statement contains many welcome intentions to boost domestic revenues and control expenditures, one would have to await the actual text of the Budget Speech possibly in early June 2015 to verify if anticipated total resources will be in the range of the magnitude required to match with the projected expenditure.

The real battle will be on measures to be taken to attain sufficient budget squeeze, curb celebratory expenditures, while at the same time resist strong political pressure from MPs who advocate for specific increases of resources in sectors and programs they favour for genuine reasons or in order to fulfill promises in their respective constituencies (which issue in an election year

[8] One should have added that due diligence on financial implications must be carried out before underrating international commitments.

like 2015 may be more sensitive than in other years); and thus do not see the big picture of a balanced overall budget layout.

The IMF has incessantly urged reduction of budget deficits and particularly avoidance of accumulation of expenditure arrears. It is important to get a right process of budget allocations, extend this stance through budget approval phases; and finally to ensure that expenditure commitments and disbursements are efficiently controlled and audited in time.

The IMF staff report, and indeed the government's pre-budget statement point out, among other things, the need for continued improvement in budget management to get donors to resume their financing to anticipated levels. In this context, the government adds that this should be within the direction of reducing donor dependence as government's own agenda.

There is agreement that accumulation of payment arrears in the public sector requires more forceful addressing by MDAs. In particular, the pervasive nature of large arrears in payments for public employees[9], domestic suppliers, pension funds, and persistent arrears of payments to TANESCO[10] and DAWASCO[11] has been conspicuously cited.

(b) Mobilization of Resources for Development

As indicated QER-VI of 2014, Tanzania leads in FDI destinations in East Africa. In 2013 it received US$1,872 million; on that score surpassing Uganda (US$1,146 million), Kenya (US$ 514 million), Rwanda (US$111 million) and Burundi (US$7 million)[12]. The MB Global Investment Bank 2013 report ranked Tanzania as the most favourite investment destination for corporate investment in the East African region; on that account taking the position of Kenya that has been famous in the past. This was even before the intensification of insurgents in the coast and north-eastern part of that country.

Therefore, GOT relentless efforts to promote international investments into Tanzania began to show results since 2013. That MB report even also says Tanzania has retained its position in the list of top 10 destinations in Africa that are the most attractive for private capital investment in general, and in particular corporate investments. This result is underpinned by what the country offers in terms of a peaceful and stable environment for business and investments. In the 2015 World Bank Doing Business Report, that measures and tracks changes in regulations that impact on 11 areas in the life cycle of a business[13], Tanzania was ranked 131 among 189 countries in ease of doing business. The country has a score of 56.38 points, which is higher than the Sub-Sahara Africa average of 51.87 or Kenya's 54.98 points.

The above achievement is not justification for relaxing efforts, however, as indeed this challenge has been taken up ardently by the BRN framework. One of the most fundamental intentions in BRN is to increase domestic resources for development and thus rely less on volatile ODA, while at the same time enhancing the position of the private sector in investments, both as local and FDIs.

The GOT generally has a favorable outlook toward foreign direct investment (FDI) and has had considerable success in attracting the FDIs, as indicated above, by attracting more

9 The issue of arrears in payment to teachers and TAZARA workers is a good example of explosive nature of some of these arrears
10 Tanzania power company
11 Dar es Salaam Water Supply Company
12 The Daily News 24 October 2014
13 e.g. "starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulation" ….. derived from World Bank document on Tanzania Doing Business 2105.

FDI inflows in 2013 than any other country in EAC region. The UN Conference on Trade and Development's (UNCTAD) 2014 World Investment Report listed a total of $12.72 billion of FDI stock in year 2013 in Tanzania.

In recent years, GOT has been seeking to encourage investment in both the productive and extractive sectors indicated in its FYDP and fine-tuned in its BRN agenda. Priorities include **agriculture** with the *Kilimo Kwanza* (agriculture first) as the flagship strategy to raise rural incomes and reduce poverty. The development of the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) is energizing Kilimo Kwanza as well as stressing public-private partnership in this regard.

The mining sector is another economic driver where huge investments particularly from the private sector are flowing. Development of both agriculture and mining will rely a great deal on progress being made in improvement of the physical infrastructures, which area on its own entails huge demand for public and private investment resources.

The BRN is an appropriate instrument to provide a rallying drive for more robust efforts in coordinating investment promotion activities. The BRN priorities focus on improving the business enabling environment.

The latter has been identified as the most severe impediments to growth: involving the investment and business regulations; access to land; the taxation and fees regime; the corruption malaise; gaps in labor law and skills-set; and adverse elements in contract enforcement, as well as law and order. These matters are being addressed systematically in the BRN process.

The outstanding progress made in resource mobilization was amply cited in QER-IV of 2014; and included a reference to large-scale investment projects being planned in the next few years mostly in the transport and energy sectors.

Mobilisation of such huge financial resources will require top-level leadership and coordination to ensure that all institutions involved play their parts effectively. Institutions such as Tanzania Investment Centre, the EPA and its EPZs, NDC, relevant Ministries and LGAs have got big roles to fulfill. External support will also be needed in a substantial manner, weather in providing grants or loans or even in direct investments.

The current QER has referred to various assistance components provided by the World Bank, AfDB and other donors notably USA, China and DfID that support large Infrastructure programs. The GOT separate initiative in this area to raise a Tanzania Eurobond of $1.0 billion was cited in QER-IV of 2014.

(c) Dar Es Salaam Stock Exchange

In the year-on-year basis, there has been significant DSE growth in all fronts: e.g. in stock performance indices, market capitalization and liquidity[xiii]. Domestic market capitalization has increased by 66% to TZS 9.9 trillion; total market capitalization has increased by 34% to TZS 22.3 trillion. On the liquidity level, 2014 market turnover has increased by 52% to TZS 383 billion compared to TZS 252 billion in 2013 and an average annual turnover of TZS 50 billion prior to the previous year.

A number of other indicators point to good performance of the Dar Stock Exchange, though these are derived from other sources quoting DSE management. No recent official quarterly updates on DSE overall performance have been published since that of end of December 2014. Some of the recent information is about DSE members individually and not the DSE as such. The following are snapshot examples on the outstanding features:

(a) Bank equities appreciated quite remarkably; actually were the best performer equity group at the DSE during January and February of 2015[xiv]. CRDB and NMB banks were prominent in this context. Following closely was DCB, while Mkombozi and Maendeleo shares stagnated. The surge in NMB share prices was apparently on account of foreign investors, who enhanced their involvement at the DSE after the capital account waiver and the confidence bolstered by involvement of Rabobank of the Netherlands, the main shareholder in NMB.

(b) Dar es Salaam Stock Exchange (DSE) successfully went live with a new system from Securities and Trading Technology (STT). This system technology integrates share trading, clearing and settlement. DSE claims that the STT's at DSE is the first among African Exchanges to go-live in this manner. The DSE statement further clarified how the system is more efficient, more scalable and flexible, so that it can allow introduction of new products and increase accessibility by using for example mobile phones, internet and sms trading facilities.

(c) In the first quarter of 2015, DSE turnover (TZS 278bn) was almost 7 times compared to the corresponding quarter of the previous year (with only 42bn/-.); prompting a high ranking among African stock exchanges in delivering high returns to investors on its listed stocks[14]. It was incidentally pointed out that this quarterly success was the seventh in consecutive quarters.

(d) The landscape of the stock market is set to be transformed in a fundamental manner as a result of strong entry of the Mwalimu Commercial Bank[xv]. This bank has been formed by the teachers and for the teachers, whose numbers constitute the largest civil servants' group; they are possibly more than 200,000 countywide, with a strong union (Tanzania Teachers' Union or TTU). TTU intends to spend 11bn/- to buy shares for its active members at the IPO. This will boost the current DSE capitalisation of TZS23.5 billion by 25% via the alternative DSE window of the Enterprise Growth Market (EGM). The total wage bill of teachers in the country is about 4.0bn/- per month[xvi]. In this respect, Tanzania may be the first country in the East African Community (EAC) region where mobile phones have been used in the purchase of shares in an IPO[15].

(e) DSE was in January 2015 named as the third leading performing bourse in Africa[xvii], after Uganda and South Africa, as measured by capital gain returns in US dollar terms. In this feat, DSE which registered a capital gain return of 3.8% was overtaken by Uganda Securities Exchange (5.1%) and Johannesburg Stock Exchange (4.3%) in the list of 15 bourses in Africa[xviii]. Others following in the lists in the eastern and southern part of Africa were the Stock exchanges of Namibia, Zimbabwe, Nairobi and Malawi.

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[14] The Daily News 9 April 2015

[15] IPO: Initial Public Offer

5. SPECIAL FOCUS ON AGRICULTURE SECTOR PERFORMANCE

(5-A) Food Production

The food situation in the country has been described as generally satisfactory in the last few years. In fact the Ministry of Agriculture (MAFC) announced in April 2015 that food availability is as such that a surplus amounting to more than 3 million tons can be expected, following the bumper harvest recorded in the 2013/14 farming season. In that season, the country's total harvest reached up to 16 million tons compared to annual demand of about 12.7 million tons[16]. This assertion is corroborated by data from National Food Reserves Agency (NFRA) shown in **Table-2**.

Table-2: Food Stock Held by the NFRA (2011- 2015)

Tonnes

	2011	2012	2013	2014	2015
January	220,035	166,796	72,170	235,309	459,561
February	226,281	142,906	60,739	228,014	454,592
March	224,355	123,312	46,153	214,157	452,054
April	215,662	105,245	36,982	195,246	
May	191,419	78,125	26,802	195,956	
June	165,216	65,985	27,494	189,494	
July	139,404	61,469	71,141	182,200	
August	155,348	75,489	175,609	196,854	
September	200,053	91,021	224,295	299,624	
October	194,090	98,544	235,817	426,999	
November	188,702	105,734	234,145	460,295	
December	179,488	89,951	232,963	466,583	

Source: National Food Reserve Agency

The NFRA had planned to purchase about 200,000 tons of food but ended up buying 305,408 tons by April 2015 due to bumper harvest of maize and rice nationwide during the 2014/15 cropping season. Thus as of end of March 2015 there was 452,054 tons of food reserved in various NFRA zonal centres in the country (**Table-2**), that had experienced rising stocks since October 2014.

The purchases were facilitated by a release by GOT (MOF) of TZS 101.5 billion out of TZS 109.6 billion set aside for purchasing grains during FY2014/15. The MAFC explained that food availability in 2015/2016 season could be sufficient in 15 regions, though there might be pockets of shortfalls in supply in the remaining 10 which did not record good harvest.

The latter include the regions of Dodoma, Singida, Manyara, Tabora, Shinyanga, Simiyu, Geita, Mwanza, Mara and Lindi. Some of these regions frequently experience food shortages due

[16] allAfrica quoting the Daily News April 15, 2015

to unreliable rains. Already early in 2015, many of these regions were seeing higher prices for both maize and rice compared to other regions.

As for the coming period (2015/16), the food situation is not totally reassuring according to FAO sources. For instance: below average maize production was anticipated for 2014/15 *"vuli"* season in bi-modal rainfall areas (FAO' GIEWS -4 February 2015). This pertains to maize in the lowlands of Tanga, Kilimanjao and Manyara regions. But the *masika* rains of 2015 could reverse this somber picture. The outlook for the 2015 *"msimu*[17]*"* crops is favourable according to this source, given that in central and southern uni-modal areas rains started in time in November 2014.

Thus the *"msimu"* rains are likely to be good or even above-average in most western cropping areas. On the other hand, maize prices started to rise in most markets since in uni-modal areas rains were used for planting for which harvests are expected in May; and thus till then existing supplies are under strains. The prices will probably continue climbing to mid-May 2015 when green crops start reaching the market. A clearer picture of performance of various crops will be provided by MAFC possibly in May or June 2915 during the ministerial 2015/16 Budget presentation in Parliament. In many cases, for most annual food crops (thus excepting bananas), the first quarter of the year is normally a planting period.

(5-B) Cash Crop Production

The main cash crops of Tanzania are Cotton, Tobacco, Coffee, Tea, Sisal, Cashew nuts, Pyrethrum and Sugar. Since the harvest season for most of these crops usually does not fall in the first quarter of the year, detailed coverage of this information will be omitted in the current QER.

[17] Msimu or Masika (heavy rains during months of March. April and May)

Fortunately as indicated with respect to food crops, MAFC is scheduled for presentation of its 2015/16 Budget to Parliament during the month of May or June this year, and this opportunity will be used to provide detailed information on crop performance in QER-II of 2015.

(5-C) Non-Traditional Cash Crops

In the current QER Issue, we take opportunity to highlight a number of non-traditional cash crops. They are of no strategic importance to the nation compared with the well-known cash crops like cotton, coffee or tobacco. Nonetheless in specific locations, they are crucial in supplementing farmers' incomes; and their success in these locations can be replicated in other areas. The non-traditional crops selected for this QER are avocado, cacao, rubber, barley and flowers.

✓ ***Avocado:*** Thousands of smallholder farmers in Tanzania are producing and selling high-quality avocados within the country, and some are even gaining access to markets to Europe. In this respect, two fast-growing local private sector companies are promoting avocado production and marketing, including Africado Ltd in West Kilimanjaro and Rungwe Avocado Company in Mbeya Region. These companies were established about 6 years ago under support by Feed the Future Program of USA through the Tanzania Agriculture Productivity Program.

✓ ***Barley:*** Barley growing was established in the country largely at the initiative of TBL in 1976, with interest to substitute malting barley imports by local production of the raw material in its beer production process. Barley production is concentrated mostly in the Northern Zone in Kilimanjaro, Manyara and Arusha regions. There output is still low (about an average of 500kgs per acre, but with proper cultivation methods up to 1,000kgs can be harvested. Other regions where barley can grow are Sumbawanga and Iringa. In total, 28,883 acres of barley are farmed country-wide with annual production of about 12,000 tons of barley per year. Annual demand in the country is about 50,000 tons.

✓ ***Rubber:*** This crop was initiated by government in the 1970s when two rubber plantations located at Kalunga and Kihuhwi in Kilombero and Muheza districts respectively were established in order to provide raw materials for the government tyre manufacturing plant in Arusha. Both the rubber plantations and the tyre factory are promoted by the NDC. The latter strives to include small holders in rubber growing in order to generate income in the communities surrounding the plantations.

✓ ***Cacao:*** Cocoa was introduced into Tanzania in the 1950s. It is a minor crop, even though it supports an estimated 25,000 farmers and their families (thus over 125,000 people). The crop is grown by small farmers almost exclusively in Kyela district in Mbeya region (Kyela produces about 80% of the country's output because of its climatic conditions). Other areas with smaller production volumes are Sumbawanga in Rukwa region as well as Morogoro and Tanga regions.

✓ ***Flowers:*** Production of horticultural products has been rising in recent years in Tanzania. Horticulture exports from Tanzania amounted to 38% of all agricultural exports in 2014[xix], recording a figure of $477 million in 2014, compared to $375 million in 2013 and $380 million in the previous year. Most of the horticultural produce exported are flowers (**Picture-1**), flower cuttings, beans, peas and berries that go to Europe and Kenya[18].

Only about 10% or less of the flowers are exported to other neighbouring countries, such as Comoro, Malawi and Mozambique as well as South Africa. In the last few years Austria has become an important market for Tanzania flowers, with a market share in the flower business in this country increasing to 30% in the past few years[xx].

Picture-1: FlowerGreenhouse (Source Internet)

[18] Mainly for re-export

6. MINING SECTOR DEVELOPMENT

Though the mining industry is relatively small in its contribution to GDP, with a mere 3.5% share in 2012[19], its contribution to the country's total merchandise export revenues is significant (about 50.4% in 2012)[20].

At the moment gold is the most important mineral activity in Tanzania. If mining (exploitation) of natural gas is also included, then the mining sector is credited for a having huge impact on the economy. The other significant mineral deposits apart from gold include diamonds, coal, nickel, uranium, cobalt, copper, iron, silver, phosphates, soda ash, gypsum, bauxite and gemstones[21]. There are also other minerals that have not yet gained importance equal to those mentioned above such as, garnet, limestone, salt, gravel, sand and dimension stones. The major gold mining is undertaken by African Barrick Gold (Acacia[22]) and AngloGold Ashanti. Altogether, there are 11 most significant gold mines in the country as shown in **Table-3**.

Table-3: Major Gold Mines in Tanzania

No.	Mine Location	Deposit	Owner
1.	Geita	20.0M oz AU	Anglo Gold-Ashanti Ltd
2.	Golden Pride	2.7M oz Au	Resolute Mining
3.	Bulyankulu	19M oz Au	Barrick
4.	Tulawaka	1.7M tons	Pangaea
5.	Buckreef-Rwamagaza	1.9M oz Au	Spinifex
6.	Nyakafuru	0.14M oz Au	Spinifex
7.	Chocolate Reef - Buzwagi	2.4M oz. Au	Anglo Gold-Ashanti Ltd-Pangaea
8.	Golden Ridge	1.6M oz. Au	Barrick-Pangaea
9.	Kitongo	0.33M oz. Au	Ashanti-Spinifex
10..	Kukuluma-Matandani	1.96M oz Au	Anglo Gold-Ashanti Ltd
11.	North Mara	4.0M oz Au	Placer Dome

NB: * oz AU denotes Australian Ounces

Source: Tanzania Resource Wealth (Lake Victoria mining Company)

Besides, there are several locations of artisanal or small mining operations in different parts of the country. These are often labour-intensive, entail low capital investments, low degree of mechanization working with basic equipment and carry a high degree of working risks. Of late many conflicts have arisen among large-scale and small-scale minors, frequently resulting from evictions or just insensate relocations of small minors with little or no compensations. During the quarter under review, the following notable developments in the mining industry were observed:

(a) ***Kabanga Nickel***. This entails a mining operation on a deposit located in Ngara district Kagera Region. It employs about 55 staff members as well as contractors. In addition, it maintains a corporate office in Dar es Salaam and an exploration camp in Ngara District. To its credit, the project already remits annual license rental fees of about $434,000. The joint owners of Kabanga Nickel Glencore Canada and Barrick Gold Corporation decided to sell their interest in the project in 2014. This decision to sell the Kabanga nickel mine was reached following a careful review of the global nickel market outlook and the increasingly intense competition for scarce capital across the spectrum of all commodities.

(b) ***Graphite:*** ASX-listed junior Magnis Resources has inked a binding agreement with offtake partner China National Nonmetallic Minerals Industrial Limited Corporation (Sinoma) for US$150-million in funding to press forward with the Nachu graphite project in Ruangwa district (Mtwara region). Magnis in December 2014 signed an 80,000 tons per annum binding agreement with vertically-integrated

[19] Annual Economic Survey 2012

[20] Ibiden

[21] Annual Economic Survey 2012

[22] Acacia Mining is the new name for African Barrick Gold Company since 2014

Sinoma for graphite offtake from the Tanzania operation[xxi].

(c) ***Gold:*** Acacia Mining delivered a steady production, underpinned by continued strong production at North Mara. Several short term challenges at Bulyanhulu were encountered, principally related to the tailings reclaim and equipment availabilities; but were promptly addressed so as to deliver progressive improvement at the mine over the rest of the 2015.

(d) A new mining venture by Tanzania Royalty Exploration Company is being initiated that could, among other things, bring back to life gold mining at Buckreef to be known as the Buckreef re-mining gold project, located in north-central Tanzania. Apart from the dormant Buckreef Gold Mine, it will also involve known mineralization at Buziba, Tembo and Bingwa. The Buckreef Project is a joint venture between Tanzanian Royalty with 55% shares and Tanzania State Mining Corporation (STAMICO) that holds the remaining 45% of the shares.

The decision cited above about the sale of the Kabanga nickel mine has rekindled the debate in Tanzania over the need for such sales to give preference to local buyers. This matter was first raised by the Tanzania Private Sector Foundation (TPSF) but has since been bought by the GOT. The other objective of GOT is to convince more private companies to offer shares to local citizens through the Dar es Salaam Stock Exchange (DSE).

The biggest gold miner in the country (in fact among top five gold producers in Africa), African Barrick Gold, is doing this already. It is listed at the DSE. Another mining firm, Swala Oil And Gas Tanzania Plc (subsidiary of Australian Swala Energy Limited), also listed at DSE during the second quarter of 2014 under the DSE's Enterprise Growth Market (EGM) window.

SWALA's Initial Public Offering (IPO) intended to sell 9.6 million shares in order to raise TZS4.8 billion so as to boost its capital as well as enable wide participation of Tanzanians in its share ownership. In the end, it managed to sell 13.3 million shares worth TZS 6.65 billion[23], thus realizing more than what it had planned. This over-subscription was approved by the CMSA.

Natural Gas Development

As reported in QER-III of 2014, natural gas discoveries in the country may be as high[24] as over 50 trillion cubic feet (cft) in both on- and off-shore basins. Yet more audacious estimates put up the reserves to over 200 billion cft for the near future[25]. Even though most of this gas is found in the southern regions of Lindi and Mtwara, this discovery of large amounts of gas raised a lot of excitement in the whole country, owing to expected benefits to accrue for national development. On the other hand, the inhabitants of the two regions were initially reluctant to accept promises that they will be given preference in sharing the benefits.

By end of March 2015, it was reported that the construction of the natural gas pipeline from Mtwara to Dar es Salaam (532kms) had been technically completed at an estimated cost of US$1.2 billion met partly from a loan from the Export-Import Bank of China[26]. Only testing activities and pre-commissioning inspection works remain. According to TPDC sources, the gas from the pipeline is expected to reduce the cost of producing thermal electricity by almost three times, from the current USD 0.34 cents to USD 0.12 cents per megawatt.

With completion of the pipeline construction phase, attention will be focused on construction of natural gas processing plants at Madimba (in Mtwara) and SongoSongo Island in Kilwa. The natural gas will be used for production of electricity in the southern regions and more importantly in Dar es Salaam; as well as in manufacturing fertilizers in a factory to be put up at Mtwara. The Dangote conglomerate is also likely to utilise the natural gas to supply fuel for its Mtwara cement plant.

23 TanzaniaInvest.com Distributed By Apo (African Press Organization) on Behalf of Swala Oil and Gas Tanzania Plc

24 Reuters 9 June 2014

25 TanzaniaInvest.com 23 August 2013

26 TanzaniaInvest.com 31 March 2015

7. TOURIST SECTOR

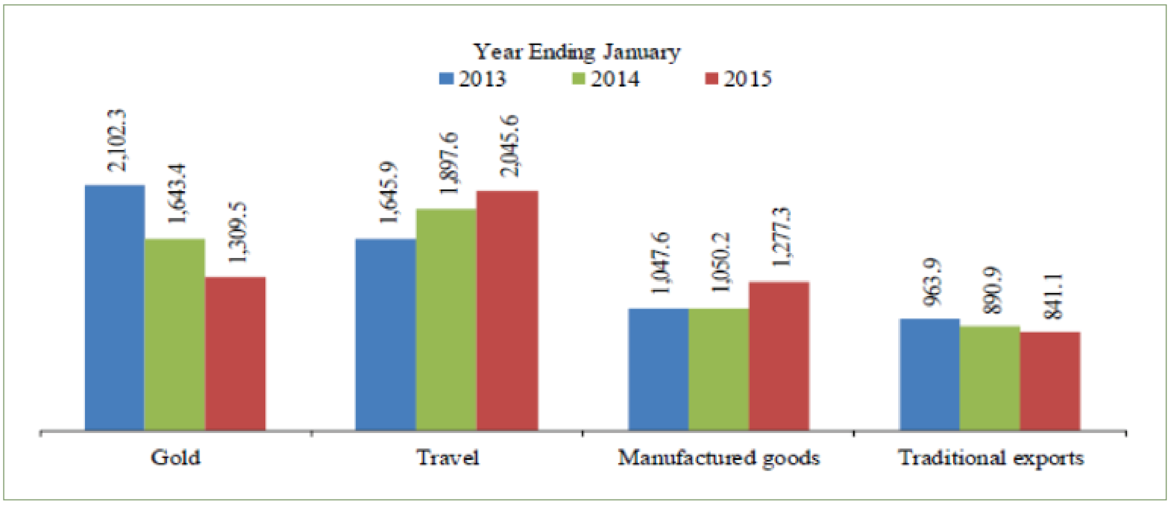
As informed in QER-III of 2014, Tanzania is one of the most attractive tourist destinations in the African continent, in that context surpassed by South Africa, Egypt, Morocco, Tunisia and Mauritius[27]. Its landmark tourist areas are outstanding attractions for visitors. These include particularly: (i) the famous Mount Kilimanjaro, Africa's tallest mountain; (ii) Zanzibar; (iii) the Ngorongoro Crater and (iv) the Serengeti National Park.

With its number of tourists rising progressively in the last decade, Tanzania in 2012 hit a 1 million mark of tourists arriving in the country. In 2013 the number of tourists was 1.135 million[28]; and in 2014 the figure rose to 1.2 million. This figure is expected to reach 1.6 million in 2015, with projection by the Tanzania Tourism Board (TTB) for 2017 of over 2 million tourists.

Since 2014 tourism became number one forex earner, surpassing gold in this respect (**Chart-3**). In the year ending January 2015, tourist revenue hit USD 2,045.6 million, rising from USD 1,897.6 million, or a growth of 7.8%[xxii] in one year. In this respect during the year ending January 2015, income from gold export reached US$ 1,309.5 million.

Chart-3: Export Performance of Selected Activities (2013-2015) in Million US Dollars

Millions of USD



Source: Bank of Tanzania

Tanzania is likely to "benefit" from the terrorist fallout in Kenya and with the right strategies even could surpass Kenya in the short-run. It can more than treble its tourist arrivals in 2 years if among other options it diversifies its geographic tourism spotlight away from Northern circuits and Zanzibar. It must also attract low-budget local and regional tourists who are a large constituency and have more resistance to media whims and reports on insecurity. Another direction should be in diversification of foreign tourist markets to promote tourisms particularly in emerging market economies like China, India, Russia and Korea.

Tanzania has on the other hand to take care of its own security worries, which in recent years have been fueled by sporadic rumors or threats of insecurity in Arusha and Dar es Salaam for example. And the knock-on effect from Kenya

27 Africa Tourist Monitor by AfDB et al September 2013
28 MNRT and TanzaniaInvest 14 October 2014 with MNRT sources

insecurity is real, either in form of potential cross-border terrorists or their recruitment of local supporters. More importantly, Tanzania must wage a vigorous campaign against the impression among less-traveled tourists who regard East Africa as one small country. On a more positive note, the conflict between Kenya and Tanzania about cross-border tourists[29] who go by land was fortunately subdued after the Kenyan and Tanzanian Presidents ordered that it be settled amicably.

The 2015 and 2016 tourism growth expectations in Tanzania could be lowered by the above worries, in addition to the fact that the forthcoming General Elections and the Referendum to take place in 2015 may cause jittery feelings in overseas countries, given that such events in Africa occasionally result in conflicts if not outright violence.

8. TRANSPORT SECTOR DEVELOPMENT

Tanzania is served by a transport infrastructure whose quality differs among its four major modes of transportion. While it is served relatively well by air in terms of routes and flight frequencies within the domestic network, the other modes of transports have mixed attributes.

For instance trunk roads are now relatively good but rural connectivity is still challenging and has been a significant constraint to rural development (i.e. agricultural sector) and other promising sectors. Highlights on different developments and plans are as follows:

(a) Railways

The rail system comprises principally the Central Railway run by TRL (from Dar port to Mwanza and Kigoma) as well as the TAZARA Railway (from Dar to Kapiri Mposhi in Zambia). Both require huge investments to reach requisite standards and cater for both domestic and neighbouring markets. A number of major railways development projects are under active planning with a price tag going into in several billions of dollars.

For example: (i) a new wide standard gauge railway linking the three countries of Tanzania, Rwanda and Burundi, comprising a 1,627km line from Dar es Salaam to Isaka (Tanzania), then a 460km branch from Isaka to Kigali (Rwanda) with a spur to Musongati (Burundi), all slated to cost about US$14.2 billion when completed in 5 years' time[xxiii]; then (ii) a US$2.7 billion project for a new railway line from Tanga to Musoma on Lake Victoria; (iii) the rehabilitation of the TAZARA railway, being supported by a Chinese assistance program of US$66.2million in loan and grant; and (iv) World Bank assistance for the Central Railway with a credit of US$300 million for general improvement of the existing line operation.

A well functioning railways system in Tanzania will also have the benefit of improving productivity of the Dar port; and both facilities will enhance Tanzania's ability to serve its six neighbouring countries that are land locked, namely Uganda, Rwanda, Burundi, DRC (eastern part), Zambia and Malawi[30] ; as well as Zimbabwe.

The efforts to improve the railways are not limited to injection of capital and loans, but equally address the performance lag of the operating

[29] The conflict was sparked by Tanzanian tour vans being banned from crossing into Kenya without licenses, including dropping or picking visitors at the Jomo Kenyatta International Airport (JKIA).

[30] Keeping in mind that for these countries the Dar ports is the closest to sea more that other competing port.

systems. In this regard, Rail Assets Holding Company (RAHCO[31] agreed with South African Kifaru Rail Limited (KRL) for the provision of railway services in Tanzania on the TRL line; while as indicated above the Chinese are ready to provide finance and technical assistance to help TAZARA operations whose management has not been very effective.

Often it is forgotten that the primary rationale for developing the railway system is also to serve Tanzania's own domestic demand, given the vastness of the country and the fact that for bulk transportation rail transport is cheaper than road movement, without mentioning air transport.

(b) Harbours

Tanzania possesses several ports at its 1,424km coastline on the Indian Ocean. Dar es Salaam port is the biggest port in the country. Other relatively large ports are located at Tanga and Mtwara. Smaller sea ports on the Indian Ocean include Kilwa, Lindi, Mafia, Pangani, Bagamoyo and Mikindani. There are about 8 inland water ports that have significant traffic and quay infrastructure facilities on the lakes.

The Dar Port (**Picture-2**) handles nearly 95% of Tanzania's international trade. In addition to that, it serves six landlocked countries that share borders with Tanzania. The Dar port has a rated capacity of 4.1 million (dwt) dry cargo and 6.0 million (dwt) bulk liquid cargo[xxiv]. Its total quay length is about 2,000 metres with eleven deep-water berths. At the moment, there are impressive plans to boost Dar port's capacity as well as its operational efficiency.

Picture-2: Dar es Salaam Port and Harbour View

Source: Tanzania Transport Sector Review Report (by AfDB Sept. 2013)

[31] RAHCO is Tanzania's state-owned company responsible for developing, managing and maintaining Tanzania rail infrastructure

The Dar port in terms of performance indicators, compares fairly well with other ports in eastern and southern Africa[xxv]. On the other hand, according to TPA sources[xxvi], the Dar port is poised to become one of the most modern and efficient by 2020 in this region, when its expansion and modernization works funded by the World Bank and DfID are completed.

This initiative is planned to use over US$ 596 million and will result in the port's capacity rising from 14 million tons at the moment to 22 million tons, or an increase of 57%. Its ship's dwell time as a result will be reduced to 5 days by 2020 instead of 9 days as by end of 2014.

The project works entail demolition of sheds to pave way for a container terminal, double access roads to several gates as well as dredging of the port's entrance. The project also will address the issue of infrastructure improvement especially access roads and storage for containers.

It also includes general construction of a cargo dry port to be built at Kiserawe in Coast region. The main concern being addressed here is the legendary traffic congestion at the port as well as the challenges posed by the access roads. The cargo taken to Kisarawe dry port will then go through Kibaha town directly by trucks, thus will reduce time and costs compared to the current route that goes arduously through congested Dar roads.

This port improvement initiative is linked to the modernisation of the central railway line cited before and reduction of border barriers, as well as improvement of the Kigoma port for cargo going to and from Burundi.

Despite continuing efforts to invest into the Dar es Salaam port, its location has a finite capacity which by around 2020 could be stretched to its limits. It is in this context that alternative sites for container depots and even new ports have been considered. This includes the Kisarawe Inland Container Depot (ICD) and even a separate new port at Mbegani near Bagamoyo (approximately 60 km to the north of Dar es Salaam)[xxvii]. Further to the north of Dar some 350km away, there is the Tanga port for which in the short term its infrastructures can be improved to a very limited extent.

But near the Tanga port, only 9km south of the existing port site a new and better port location has been found at Mwambani Bay. GOT plans to build this new port, if adequate funding can be secured. Nevertheless, the project will have to take into account the fact that the Mombasa port is only about 200km in the north and its prospects of serving Uganda and Rwanda have been boosted recently by an agreement between Kenya and the other countries to revamp the Mombasa-Kampala Railway, which eventually will be extended to Kigali in Rwanda (thus will reinforce more cooperation under the so-called "Coalition of the Willing" of 2013). Implementation of the Mombasa-Kampala Railway project is already ongoing.

About 580km south from Dar, the Mtwara port is also planned for expansion in view of the impact of the natural gas exploitation in the context of the Mtwara Corridor development.

9. SPECIAL THEME PAPER: TANZANIA INDUSTRIAL SECTOR - SUMMARY OF CURRENT CHALLENGES AND POTENTIALS FOR DEVELOPMENT[32]

9.1 Objective of this Brief

The Theme of this paper has been selected based on the fact that previous QERs in the last three years have covered other subjects and sectors other than the industrial sector. The recently launched THDR-2014[33], however, has provided a compelling reason to focus on this sector. The THDR has particularly highlighted the process of Tanzania's economic transformation that the country is already going through and how it is likely to intensify in the coming decade.

The THDR among other issues underlined the prospect of the industrial sector in contributing more robustly to future growth of Tanzania. During the period 2001 to 2012, some structural transformation has taken place in the country to the extent that the share of agriculture in GDP has fallen from 29% to 24%, while that of industry has increased from 18% to 22.1%.

This paper is not meant to outline a new policy setup for Tanzania's industry or make a groundbreaking revelation on the sector's development. Its main purpose is to provide the QER reader a snapshot of the main trends in industrial development and the challenges that are being encountered in trying to move the sector forward, as one of the major drivers of the country's economy in the midst of great expectations to realise the objectives of Vision 2025.

In this context, the definition of the industrial sector is confined to manufacturing activities, as provided in the Integrated Industrial Development Strategy 2025[xxix] in order to avoid an unwieldy discussion of other aspects of the wider industrial sector.

9.2 Short History of the Industrial Sector

Tanzania's industrial sector has a long history behind it in terms of government efforts to promote the sector. It can be traced before and after independence in 1961, but more serious efforts began in the 1970s[34] with the initiative of a 20-year Basic Industry Strategy (BIS - 1975-1995) adopted in 1975.

It aimed at establishing fundamental industries that would have strongest and widest impact on the whole trend of industrialization in the country in the long run and, in this context, would provide robust industrial growth, generate employment, promote balanced regional development and increase the country's self reliance[xxx]. The 1970s and 1980s period was dominated by *State-led industrial development* under the guidance of the Arusha Declaration launched in 1967. It is during this period that the role of the National Development Corporation (NDC) was consolidated in order to spearhead the process of industrial development. Its relevance is mentioned later below in this paper.

The BIS was to be rolled out in phases through 5-Year Development Plans, and one can say was a precursor to the Sustainable Industrial Development Policy for Tanzania (SIDP2020). However, the implementation of BIS got interrupted by the economic crisis in Tanzania, as a knock-on effect from the world economic crisis which intensified up to the early 1980s. As a result Tanzania had to reverse its socialist path at around 1985 and thereafter adopted indiscriminate economic liberalization, including *inter alia* privatization of almost all its public enterprises.

[32] This paper was prepared by Deo Mutalemwa who is the Technical Editor of ESRF QERs. The views expressed in this paper are his own and do not represent the official position of ESRF

[33] THDR - 2014 carrying the Theme "Economic Transformation for Human Development" prepared by ESRF was launched on 27 March 2015

[34] When the author was working in the Ministry of Development Planning (DEVPLAN) as Commissioner for Sectoral Planning, and supervised the international experts' team that was drafting the BIS

This unleashed policy reforms, that most importantly included prioritization of resource allocation away from creation of new industries in the public sector towards rehabilitating old industrial enterprises. Parallel to this was a new shift in favour of private investments in manufacturing enterprises and overt public policy support to private sector role in the economy. This stance was expressed most explicitly in the 25-Year Sustainable Industrial Development Policy for Tanzania (SIDP-2020) launched in 1996 that aimed at enhancing sustainable development of the industrial sector, with priority accorded to economic transformation, employment creation and equitable development.

The other pillar of the SIDP is to promote industrial exports with reasonable time-bound import substitution. During the period of implementation of the SIDP, the GOT took a more comprehensive stance of economic management and development by adopting the Development Vision (TZV-2025) which places emphasis on the role of the industrial sector for economic development and boldly announces that Tanzania is striving to reach the status of a semi-industrialized country by 2025[xxxi]. One of the main contents of the SIDP is the establishment of Export Processing Zones (EPZs).

In order to reinforce the SIDP, in June 2010 an Integrated Industrial Development Strategy (IIDS) 2025 was adopted. Among the latter's objectives is the intention to build an industrial sector that is competitive domestically as well as internationally. Even before the on-set of the IIDS, GOT introduced the Long Term Perspective Plan (LTPP:2011/12-2025/26), as a roadmap for realization of the TZV-2025 by elaborating the path for industrial transformation in future economic growth. The flurry of grand policy precepts climaxed with the **Integrated Industrial Development Strategy 2025 (IIDS - 2011).**

Yet what matters most is not the numbers of policy prescriptions and documents that will propel Tanzania industrial progress forward, rather it is the resources that will be systematically provided to effect genuine implementation of the set policy objectives. And in views of inherent scarcity of funds and manpower, without forgetting other constraints that commonly befall policy implementation, the biggest challenge that Tanzania has faced has been ineffective prioritization of investments both directly and indirectly in supporting industrial interventions.

9.3 Performance Characteristics of the Manufacturing Sector

The above account on policy dynamics in the preceding section could be misleading, as it ends with a dull note purporting to portray the final outcome of all the above efforts as futile or disappointing. On the contrary, there were many areas of success in the industrial development path. Likewise many challenges were also encountered, as indicated in the following sections.

Manufacturing Value-added

One important encouraging indicator of industrial performance has been the growth of the manufacturing value added (**Table-4**). In this context, Tanzania's MVA growth has surpassed and reduced the gap between Tanzania and other neighbouring countries, for example Zambia and Kenya in per capita terms. In fact, Tanzania's MVA growth is currently higher than that of most comparator nations.

Yet, the foundation of Tanzania's industry has continued to be one of the lowest worldwide, with a per capita MVA in 2011 of barely US$ 44. Tanzania has also done exceedingly well in industrial exports in terms of growth as depicted in **Table-5**. Even then this exciting picture must be qualified, as in relative terms, like by taking the country's size into account the performance is still low. In 2010 MVA per capita was US$44 and its growth rate was 5%, thus lower than that of China (11%) or Mozambique (6%).

Table-4: Tanzania MVA compared with selected countries 2000 and 2010 (Ranked by growth rate)

Country	Manufacturing value added (constant US$ 2000 million)			Annual growth rate (%)		
	2000	2005	2010	2000-2005	2005-2010	2000-2010
China	384,942.3	630,818.5	1,115,270.8	10.4%	12.1%	11.2%
Mozambique	452.3	896.6	1,017.4	14.7%	2.6%	8.4%
Tanzania	894.1	1,318.3	1,991.7	8.1%	8.6%	8.3%
Uganda	439.7	591.4	834.2	6.1%	7.1%	6.6%
Zambia	329.4	420.4	549.8	5.0%	5.5%	5.3%
Indonesia	45,785.8	58,367.9	70,687.4	5.0%	3.9%	4.4%
Botswana	245.7	293.2	368.3	3.6%	4.7%	4.1%
Kenya	1,309.2	1,522.5	1,882.2	3.1%	4.3%	3.7%
Malaysia	28,946.8	36,300.0	40,694.8	4.6%	2.3%	3.5%
Malawi	202.6	152.6	271.0	-5.5%	12.2%	3.0%
South Africa	22,926.7	26,678.2	28,849.6	3.1%	1.6%	2.3%
Mauritius	941.0	910.8	1,041.8	-0.6%	2.7%	1.0%

Source: World Development Indictors, copied from the Tanzania Industrial Competitiveness Report 2012

Manufactured Exports

It must be said on a positive note that Tanzania's manufactured exports[xxxii] have increased substantially in past decade (**Table-5**), and have done so outstandingly even when compared to other comparable countries.

Table-5: Tanzania Manufactured Exports Compared with Other Selected Countries

Country	Manufactured exports (US$ million)			Annual growth (%)		
	2000	2005	2010	2000-2005	2005-2010	2000-2010
Tanzania	129	292	1,904	18%	45%	31%
Uganda	30	120	401	32%	27%	30%
China	228,407	722,628	1,518,587	26%	16%	21%
Zambia	310	529	1,408	11%	22%	16%
Malawi	68	126	294	13%	19%	16%
Kenya	586	1,988	2,525	28%	5%	16%
Rwanda	22	42	93	14%	17%	15%
Mozambique	60	207	172	28%	-4%	11%
South Africa	18,355	32,465	48,842	12%	9%	10%
Indonesia	42,990	55,118	94,804	5%	11%	8%
Malaysia	87,643	120,622	165,590	7%	7%	7%
Botswana	2,654	4,254	4,398	10%	1%	5%
Ghana	477	1,079	653	18%	-10%	3%
Mauritius	1,457	1,368	1,424	-1%	1%	0%

Source: Tanzania Industrial Competitiveness Report 2012

The only catch in this achievement was that nearly half the manufactured exports in 2010 were resource-based products, which discounts somehow what otherwise appears as impressive performance of Tanzania's manufactured trade compared to other countries. Related to this, is the fact that Tanzania manufactured exports currently rely mostly on a few products which have low value addition and suffer from high price fluctuations, thus exposing the county to risks in export revenue flows and thus jeopardizes sustenance of high growth momentum of industry in the long run.

The share of manufactured exports in all exports in 2010 was 48.5% compared with 19.7% in 2000. Of course, this may be tiny in absolute size of exports and even in proportion when compared with some countries like China and Mauritius who have shares of above 96%. On per capita basis, Tanzania's manufactured exports grew from US$ 3 to US$ 42 between 2000 and 2010. In this regard, Tanzania has overtaken Ghana and Malawi and managed to reduce the gap with Kenya.

The above information notwithstanding, there are still many gaps and missed opportunities that are experienced in exportation. Three important ones are summarized here:

- Over reliance on low value-added, resource-based manufactures and low-tech manufactures in comparison with such countries as Mauritius for example, or Malaysia and China in Asia, or even Kenya[35] for that matter. Tanzania's export products mix is less diversified compared to other countries like South Africa or Kenya, although better than Ghana, Uganda, Zambia, Rwanda or Malawi.

- Tanzania has concentrated its manufactured exports in a few destination countries, mostly to the EU, though in recent years exports to other areas like to sub-Saharan Africa and East Asia & Pacific have gained in importance.

- The opportunities provided by regional integration processes have not been fully exploited. These opportunities seem to be obvious, like in trading in an expanded market; and easy flow of goods that foster competition and diversification of production, all seemingly in Tanzania's favour at first glance. But removal of fiscal and administrative bottlenecks within the EAC and SADC regional groupings has been slower than expected.

Domestic Market Penetration

Any manufacturing entrepreneur firstly looks at the immediate market potentials as the key to success for any manufacturing undertaking. The domestic market in this regard is often the first target. For a large country like Tanzania with a large potential consumer base[36], the domestic market should ordinarily become the initial preference for testing new products in respect of product acceptability, cost vis-à-vis profit matching, prospects for sales expansion and achieving a sustainable competitive advantage in the future.

A large domestic market can even afford to absorb products that are not so competitive in quality or prices, more so when market information to the consumer is not that efficient or when infrastructure obstacles are so daunting as to make procurement from distant sources uncompetitive. This scenario looks like a *de facto* protected market situation, but it can be taken advantage of by manufacturing entities at least in the short run. Of course, protection can be artificially built also through public fiscal support or administrative measures.

Otherwise put, most Tanzanian producers would by nature first look at the existing domestic market demand before they turn to export opportunities. The main reason is that they are familiar with market's characteristics, pertaining to customer tastes and needs, or geography features, population structure and dynamics as well as the requirements for products distribution. The

[35] Source: UN Comtrade in Tanzania Industrial Competitiveness Report 2012
[36] Tanzania population is now almost 50 million and could reach 65 million in ten year's time; its purchasing power is also likely to grow fast during this period.

above notwithstanding, it does not mean that all entrepreneurs must obligatorily go through supplying the domestic market before going to regional or global markets. Otherwise, it would be difficult to attract greenfield manufactures in EPZs, FDIs and MNCs[37] that are targeting export markets from the start.

Tanzania imported about US$ 7.5 billion of manufactured goods in 2010, which was an average increase of 18% annually over the last decade, and in this respect more than 93% of imports to Tanzania were manufactures. The implication of this is that domestic production of some of these items is quite possible even based only on the raw materials available within the country. In the presence of large trade balance deficits accumulating due to manufactures to roughly US$ 5.6 billion in 2010, policy makers are looking into import substitutions options, provided they do not contravene existing international trade agreements that Tanzania has committed to adhere to.

Imported manufactures in Tanzania range from high-technology to low technology categories. The Tanzanian domestic market offers substantial room for manufacturing investors to choose the best options. Economies of scale consideration will justify domestic production of many manufactured products provided they learn to compete first in the domestic market and then extend their rich to other countries.

Box-1: Arusha Tyre Factory

The Arusha tyre factory had been producing highly valued tyres in the whole of East Africa but was closed down in 2009 amid incursion of cheap tyres especially from China. Before the factory closure, at its peak, it produced about 1,200 tyres per day and employed up to 4,000 workers[1] and now NDC is struggling to revive it during 2015. The import market for tyres now runs to above TZS 150 million per year and therefore the revival of this factor is among the top priorities of GOT and NDC. Apart from saving and earning foreign exchange, the factory can employ over 400 persons initially, besides employment in the budding rubber plantations that had been abandoned after the factory closure.

The above discussion introduces the question of trade liberalization that emerged under the Structural Adjustment Programme (SAP) introduced in the mid-1980. SAP was adopted wholesale under the pressure of international organisations and other Tanzania's international lenders; but now retrospectively it looks like Tanzania did not have capacity to resist or choose what to adopt in the SAP context. The consequence is what some economists term de-industrialisation of the country.

Notable examples of de-industralisation that took place in Tanzania include the textile mills[xxxiii], which by 1990 left only 2 textile factories in operation out of 24 that existed before. At its peak in the late 1970s, the textile sector employed about 25% of labour force[xxxiv] which was about 500,000 formal employees (with salaries and wages). The closure of Arusha Tyre factory is another example and possibly the most lamentable story to tell (**BOX-1).**

One of the results of SAP was laissez-faire liberalization of importation of goods, some of which were of dubious quality, without mentioning the "mitumba" phenomenon[xxxv]. The mitumba are second hand or sub-standard clothes, footwear, machinery, equipment, spare parts and other goods that flood the market and compete unfairly with domestically produced goods. They are extremely cheaply priced partly because either they are old and used, or new but of low quality, and some because of smuggling and avoidance of taxes. The cheap tyres that undermined the Arusha tyre factory included also second hand types.

If the top 20 imported manufacture products between 2000 and 2010 are picked, it would show that Tanzania increased their importation by more than 17% annually during that period. In fact for goods like wheat and its byproducts,

[37] Multi-National Corporations

flat rolled iron, primary ethylene polymer, plastics in primary form, iron/steel bars/ rods, cement/lime and construction material as well as chemical products, their compound annual increase rate was more than 25%[xxxvi].

What this says is that in these products, there is a growing demand in Tanzania which offers ample opportunity for selective import substitutions, based on local natural resources that now are presently exported in raw or semi-processed raw form. In some areas, Transnational Corporations (TNCs) might be interested to relocate their production to Tanzania, particularly to capture the local market or deepen their penetration[38].

The production of fertilizers and cement is already done domestically though in insufficient quantities to warrant importation of the shortfall; but it is an area where local production can be boosted up in the not distant future. In the case of fertilizers, prospects of using natural gas resources found in the country provide excellent opportunity to meet large local requirements and initiate exportation.

The relatively good performance of the manufacturing industry and the prospects that lie ahead will however require addressing certain constraints that need to be mentioned, as done later below.

Employment in the Manufacturing Sector

As indicated in THDR-2014, Tanzania has attained a high economic growth rate of GDP of about 7% p.a. over the past 10 years. However during this period, poverty has not declined in reverse proportion. The 2011/12 Household Budget Survey shows that basic needs poverty stands at 28.2% and is more entrenched in rural areas mainly due to slow growth of agriculture, a sector that employs over 75% of Tanzania's workforce.

After economic liberalization in the mid-1980s, the change from a planned economy to a market economy implied encouraging more active participation of the private sector so as to accelerate growth and increase the nation's prosperity. Indeed, in this setting with still high dependence of Tanzania's economy on the agricultural sector, industry was considered by policymakers as the best deliverer of economic transformation. On the other hand, there has been a contradiction in this context in that the promotion of manufacturing has not been assigned its due role to generate sufficient employment.

Industrial activities in Tanzania engage a relatively very small share of the population: only about 20% formal employees or 1.86 million[39] (2013); and thus a vast majority is employed in agriculture or informal or subsistence businesses (e.g. trading).

According to the Tanzania Industrial Competitiveness Report 2012, manufacturing employment accounts for less than 5 percent of the total labour force in the country. The largest 40 manufacturing companies employ 36% of all manufacturing labour, which is equivalent to the employment generated by nearly 24,000 micro enterprises. One of the most worrying trends is that new firms tend to generate less jobs nowadays. Thus the Report points out that only 11% of industrial employment has been generated by firms that started since 2005.

One of the possible reasons is that the resource-based sectors (e.g. extractive industries), that have dominated the wave of new comers, are not in the mode of traditional labour-intensive manufacturing such as the erstwhile textiles and clothing, or leather processing factories. To be sure, the new the textile sector has in fact created a largest number of jobs in new companies, while the food sector follows with the second highest number of new jobs, although indeed older companies continue to be the best employers in terms of numbers.

[38] This author intuitively considers the manufacture (assembly) of motor-bikes to be one of these areas as their imports are fast increasing.
[39] NBS: Defined as including Construction and Manufacturing, Mining and Quarrying, Electricity, Gas and Water supply

One of the conclusions from the Tanzania Industrial Competitiveness Report 2012 Report is that manufacturing has failed to create sufficient formal employment for Tanzanians. This also includes even the SMEs, whose primary purpose was precisely to promote employment. One of the reasons for the SMEs to fail to contribute as expected is that they themselves have failed to graduate to bigger formal entities or to train workers[xxxvii] in levels of skills that can allow them to become more employable outside their initial working establishments.

Regional Integration and Industrial Development

Regional integration enhances openness and trade competitiveness for Tanzania products. It enlarges market opportunities for each county's products, given the small size of countries typical in such regional groupings in which Tanzania is involved like EAC and SADC. These opportunities are however to be counter-balanced with risks which may be faced by Tanzania industries in a larger market of a regional grouping. Between 2005 and 2010 a single Customs Union and a Common External Tariff regime on imports from third countries were installed that envisaged to establish duty-free trade between the EAC Partner States as well as common customs procedures.

In 2007, the EAC was expanded from the three original members, Tanzania, Kenya and Uganda, to accommodate Rwanda and Burundi. In 2010 the EAC Partner States signed a Common Market Protocol intended to accelerate the objective of integration and strengthen coordination and regulation of economic and trade relations among the states. The Community even came up with an overall East African Community Industrialization Policy 2012-2032, aimed at creating a market-driven competitive industrial sector in the whole EAC region.

What is important for Tanzania in the EAC integration process is to recognize the central role it plays mainly because of its geographical location. It is the only country among the five members of the EAC that shares borders with each of the other four members. It has the largest potential market in terms of population; and like Kenya it has direct access to high seas. Above all, it has the biggest land territory and fertile land at that.

These advantages are both a boon and a burden at the same time. In terms of trade promotion, Tanzania can boost it trade with any neighbouring country without passing through another country's territory; but in the same vein, it has to make heavy investments in improving its transport infrastructures without relying necessarily on sharing the costs with eventual beneficiary countries across the borders.

In the last decade between 2000 and 2010, Tanzania achieved a remarkable performance in the EAC: its intraregional manufactured exports jumped from US$ 20 million in 2000 to US$ 183 million in 2010, thus more than a nine fold growth. For that reason, Tanzania in 2010 accounted for around 20% of all EAC intraregional manufactured exports, coming from only 5% ten years earlier. Despite this impressive success, however, there is no delusion that Kenya is certainly the major gainer in the EAC trade arrangement because of its stronger industrial base.

To attest this, manufactured exports from Kenya to the EAC in ten years grew from US$ 344 million to more than US$ 1 billion, whilst actually manufactures from Kenya account for more than 90% of that country's exports to the EAC. Kenya's manufactured imports on the other hand are only about 55%. In this regard, Tanzania on the contrary is a net importer of nearly all industrial goods in the EAC, which mainly come from Kenya.

At the moment, Tanzania is typically trading in the EAC and SADC markets with resource-based manufactures. As both markets are growing very fast, they offer good opportunities for expanding Tanzania's export volumes in this domain. Nonetheless, this opportunity carries an inherent risk as well since in the resource based markets Tanzania is already occupying a rather large space, and thus should other members in the communities expand fast exploitation of their natural resources, they could replace Tanzania's products in the medium to long term.

9.4 Constraints Facing the Manufacturing Sector

(i) Labour Force

There is no doubt that skills constitute a key determinant of industry's capability in the production and technological development at the level of a firm; in enabling its investments in equipment, machines and other capital goods to be as productive as possible.

The more complex the industrial production processes become, the more expensive they turn out in terms of required skills especially of the technical type. Now when local industry is compelled to compete even with internationally renowned manufactures both in the domestic market and in the global market, it has to use advanced factor inputs in order to cope. This includes inter alia well trained labour in a country that has try to balance the need to train and use such labour force as well as allow generation of more employment generally i.e. promote labour intensive production establishments.

The choice can be promoted at the policy, fiscal incentive and regulatory levels but the actual implementation of the public policy directives has to be left to micro-level decisions, at the firm level; which begs for very ingenious public policy design and monitoring to ensure that private operators get the right signals from the policy and regulatory dispensations. It therefore means that government must recognize that it cannot afford to downplay its role in promoting overall employment in the country while at the same time keeping the industry effectively productive.

Tanzania's industrial competitiveness in the past has been compromised by the quality of it labour force. And there have been several factors that have contributed to this situation, such as the following:

- Lack or inadequacy of relevant skills;
- Inadequate skills mix for specific industrial activities at the shop floor level;
- The education system and vocational training schemes are not linked systematically with business firms to provide a self-reinforcing process of skills development that is cumulative and adaptive to new technology or situations;
- Overall and specific skills gaps in the country are not well known or addressed in time in skills training establishments;
- It is not clear how systematically supervised and supported are the mushrooming privately owned skills training institutes and centres;
- Mismatch between higher skills gap and gap among specific types of tertiary educated workers, or what one could call skills intensity and complementarities at different hierarchies of skills (e.g. between professional engineers and those with mere academic qualification and those with lower level technical skills, usually called technicians).
- Though in general the adequacy of core skills in most firms may be alright, there are also worrying incidents of workers who are functionally illiterate completely (i.e. in reading and writing and in numeracy) and thus would be unable to follow written instructions or blueprints on modern equipments and machines.

It is instructive to note also that the level of commitment to work by many workers is wanting in some cases, because of lack if integrity or sheer laziness. Above all and in view of lack of needed efficiency at work, there are those who contend (like this author) that Tanzania labour may not be that cheap, chiefly because of low productivity.

(ii) Public Institutions for Industry Promotion and Regulation

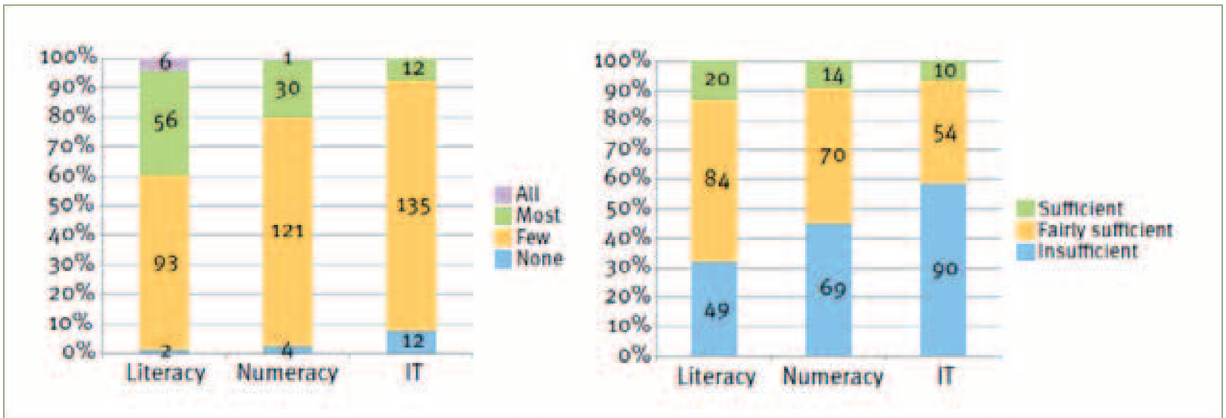
As argued in previous sections, government has got a big role to play in promoting manufacturing, even if not to get directly involved in production. It has particularly to fine-tune its administrative agencies in order that they oversee and/or carry out the policy, fiscal incentive and regulatory functions with efficiency and accountability[xxxviii]. There are many agencies implicated in the manufacturing sector, for that matter.

Apart from those that are directly involved in supporting production like a few ministries, the NDC, EPZs and the like, there are also key regulatory institutions such as TRA, TBS, FDA, Government Chemist, and Weights and Measures, etc, that have high impact on performance of the manufacturing sector.

As industry's domestic technological deepening takes place and especially when Tanzania upgrades by moving from predominantly resource-based and low technology manufacturing, and eventually embarks on medium and high-tech production, it will require an education system that is appropriately redesigned and has skill training programmes that are well oriented to provide requisite manpower. Both should be closely linked to the requirements of industrial activities. Hopefully, that is what the new Education Policy 2014[xxxix] has been initiated to do by including expansion of vocational education at the primary and secondary school levels and in VETA colleges.

The biggest problem hitherto has been that the education system has not taken into account the present and future equipments of the industry in its design of development programs. The school system must raise also the functional literacy, numeracy and yes even IT levels for the Tanzanian workforce to cope with modern manufacturing equipments and facilities. Sometimes functional literacy is taken for granted, but can be a critical determinant if the country is to move fast ahead to a semi-industrial status envisaged in the Vision 2025 or the Mini-Tiger Plan 2020. There are still serious lags of critical essentials, however, in this respect such as shown in **Chart-4.** It demonstrates that in three areas of workers' skills requirement that are highly valued in manufacturing operations the level of functional illiteracy and lack of working numeracy and IT skills are exceedingly high.

Chart-4: Skill Composition and Skill Sufficiency in Tanzania (Between 2000 and 2010)



Source: GOT and UNIDO Industrial Skills Survey 2014[40]; (NB: The numbers in the chart bars represent the frequency of occurrence in each group)

It is instructive and not a digression to mention that countries like Finland and Korea did not industrialize by historical accident. They are both recognized for their impressive progress in moving from primary raw material industry based economies to important exporters of high-technology laden manufactures in a space of few decades; but they also characteristically score high marks in international comparisons in the quality of education[xl].

[40] Copied from the Tanzania Industrial Competitiveness Report 2012

(iii) Infrastructure

All Tanzania's overarching policy documents emphasize the role of good physical infrastructure to achieve their goals. Fortunately, this is an area that has received topmost priory in GOT plans, including inter alia the Long-Term Perspective Plan 2011/12 - 20125/26, and more precisely the first Five Year Development Plan (2011/12-2015/16).

The industrial sector facilitating infrastructure facilities include energy, transport infrastructure (port, railway, roads, and air transport), water and sanitation as well as ICT[xli]. In each of these areas there have been remarkable improvements in the last decade. Perhaps three areas need underlining here to show their strategic importance in the future in terms of promoting domestic industries and marketing their products within Tanzania and in the EAC region. This pertains in particular to the power, transport and communication sectors.

Should Tanzania need to capitalize on its abundant natural resources to significantly boost the development of its industries, then continuing with large investments in power and transport projects will be a prerequisite for success. As for the communication sector, it has been advancing very fast and so far it is no longer a big challenge for industrial activities.

On the contrary, it is already making tremendous contribution to the efficiency of the manufacturing sector. The only major snag here in fact is due to power failure and extension of electricity distribution to reach all areas in need.

The power sector prospects and constraints were a subject for the Special Theme of QER-IV of 2014. In the context of the development of the manufacturing sector, we can derive the following lessons relevant to the manufacturing sectors:

- That if you have abundant energy resources, you can use this endowment to great advantage to create high-energy using technology-based economies (i.e. read industry). One can translate this to explain why countries like Dubai and Kuwait have developed significant manufacturing because of oil endowment, but also because of the need to diversify their economies.

- Because of long lag of investments in the power sector, their prioritization order will have to be made very stringently. In this respect, power supply to the industrial sector will have to be accorded priority. To a certain extent this is being done for instance in the South of Tanzania: the Mchuchuma coal fired electric power generation is to be linked to the Iron and Steel Complex envisaged at Liganga being promoted by NDC in the Mtwara Corridor; and also to the Mtwara based Dangote Cement factory now under construction.

One of the biggest obstacles to achieving competitive prices in industry in Tanzania has been unreliable or inadequate power supply. Power cuts (without warning) or voltage fluctuation are common and there are long delays by TANESCO in rectifying power connection problems reported to them. This is corroborated in the UNIDO Report and others[xlii].

Among the latter, the one done by CTI even says that for Tanzanian manufacturers, covered under its survey in 2011, energy accounted for about 19% of total production costs. It further informs that losses due to power problems totaled around TZS 31.7 billion per year. This is besides the losses in taxes to government and assets damage. In addition, it suggested that about 7,340 jobs might have been lost in formal manufacturing firms employing more than ten workers.

As for the **Sector of Communication**, it is one of the areas in which Tanzania portrays competitive advancement. Even then, its coverage in Tanzania remains low and users, such as manufacturers, encounter severe and prolonged power outages that affect their communication networks, thereby hurting industrial operations and particularly in input supply and sales activities.

With respect to the **transport sector** in the context of its support to the manufacturing activities, there are many ways in which both aspects connect. The logistics of transportation in some industries may impose inordinate costs on the products produced, which factor may influence where manufacturing takes place, i.e. near the consumer concentration centres or near the location of the supply of vital raw materials. Thus geography matters to a certain extent as it has considerable influence on geographical distribution of manufacturing enterprises.

No wonder enterprises that depend overwhelmingly on imported raw materials will most likely locate in Dar es Salaam or nearby areas (e.g. plastics manufacturing). Raw material processing factories will likely locate in or near the production regions of the relevant materials, especially if the material is heavy and bulky and/ or needs further processing before large-scale transportation (e.g. Iron and Steel complex in Mchuchuma/Liganga). Likewise, this applies to raw material that easily loses weight or quality if transported over long distances (e.g. sisal, tea and sugar cane).

On the contrary, natural gas can be transported in pipes over a long distance to Dar e s Salaam where it will mostly be used[41]. Being far from raw material base however is not a permanent hindrance to developing manufacturing industries, especially as one steps into higher technology sophisticated production[42].

Otherwise, countries like Japan and the Netherlands, among others, which are not that richly endowed with natural resources, would not have made it to the league of highly industrialized countries; but they did so thanks to high-tech production and/ or the consumer market location factor.

One also needs to look at the scenario whereby easy transport attracts industrial investment. In this context, the availability of good railway facilities and road connection to Morogoro and Mwanza has been one of the strong reasons why some industries have been attracted to install themselves in these cities.

An important aspect in the development of manufacturing industries in Tanzania, is deliberate promotion of trade with other EAC countries, in particular the land locked countries. This matter has been cited above when dealing with Tanzania's exports. In this respect, Tanzania cannot be satisfied merely with providing sea accesses to these countries for their manufactured imports. This however imposes a heavy responsibility for Tanzania to develop its transport routes to these countries to maximum standards, partly but also importantly, in order to match with competitors in alternative routes, (especially the Mombasa-Nairobi-Kampala onward route).

In so doing, however, Tanzania can also facilitate marketing of its own manufactured products in these countries. If our transport costs are competitive, this will also count in the promotion of Tanzania products being sold to these countries. The efficiency of a route is in terms of both the quality of the physical infrastructure and the way it is managed, such that it reduces transportation costs, for instance by avoiding road blocks and other administrative barriers that result in excessive delays.

With a view to reduce transport costs for neighboring countries, Tanzania has taken two approaches that are inter-related to an extent. One is to significantly improve the quality of transport infrastructure, especially under the framework of the transport corridors. The other is the establishment of EPZ.

The transport corridors concerned are (i) the Central Transport Corridor to extend its outreach to service trade with Rwanda, Burundi and Eastern DRC, (ii) The Northern Corridor to facilitate movement of goods to and from Uganda[43], (iii) the TAZARA Corridor for transport service to Zambia and parts of DRC, and (iv) The Mtwara Corridor for connecting to

[41] Which factor has caused consternation in the South (Mtwara and Lindi) and thus has forced government to try to support establishment of some industries like those for fertilizers and cement in the region, as part of the Mtwara Development Corridor in a bid to placate local inhabitants

[42] Such as in production of electronic equipments and tools, computers, semiconductors, medical precision instruments, radio and televisions, etc.

[43] The Northern Transport Corridor at the EAC level often refers to the Mombasa –Kampala route, while within Tanzania name may be applied to the planned transport route from Tanga through Arusha to Musoma

Malawi.

In this regard, it needs to be emphasized that the transport corridors are so called corridors not only for the transport facilities they provide to the land locked countries mentioned above, but even more pertinent because they cover large chunks of of adjoining land territory within Tanzania. Thus, the concept of a corridor connotes also economic activities that are in one geographical zone networked by the main transport modes. In this context, it is possible to understand the logic of setting up the Export Processing Zones (EPZs) that are planned to be set up to accommodate industrial activities in given EPZs.

Many of those that are placed at the borders with the neighbouring countries are focusing on utilizing mostly the raw materials found within respective transport corridor, in addition to taking advantage of Tanzania's geographical location of having direct access to the sea. The EPZs are defined sometimes as Special Processing Zones (SPZs)[44]. In Tanzania they are operated under supervision of the Export Processing Authority. The EPZs were established since 2002 in order to attract and promote export oriented industries. To-date, six industrial parks have been developed and 44 licensed factories are operating under EPZ status.

Boarder specific EPZs are found in Kagera, Mwanza, Kigoma, Tanga, Kilimanjaro, Arusha, Mtwara, and Mbeya regions. SEZs may also involve in other activities apart from manufacturing which is the unique domain of EPZ; EPZ exports most of its products while SEZ sells in both local and foreign markets[45]. (According to EPZA) during presentation to February 2014 at Lake Investment Forum.

9.5 Strategic Approach to Industrial Development

If Tanzania wants to seriously develop into a semi-industrial state as envisaged in Vision 2025, then it has to strategically develop its manufacturing sector as one of its top drivers of its economy. The Integrated Industrial Development Strategy (IIDS) went far in elaborating how to strategically approach this goal. A number of strategic approaches were suggested in the IIDS, one of which is extremely pertinent.

It is the exploitation of Tanzania's natural resources endowment potential as well as its geographical location. In this direction, the IIDS identifies the instrument of accumulating and concentrating industrial firms in development clusters. This is exemplified by creation of Special Economic Zones (SEZ) or EPZs mentioned earlier The following waterfront SEZs were proposed in the IIDS within the concept of the Transport Corridors explained in this paper:

(i) for Dar es Salaam SEZ linked with the Central Railway Line to constitute the "Logistics Corridor"; linked also to TAZARA to constitute an "Agricultural Corridor";

(ii) Mtwara SEZ to be developed as the "Minerals Corridor" and

(iii) Tanga SEZ corridor to serve the areas of northern and north-western Tanzania up to and extending to Rwanda.

The process of East African economic cooperation and integration also recognizes the importance of Tanzania's transport corridors as already highlighted in Section 3 on EAC Regional Integration.

Since the industrialization process is not a one-off event, the IIDS recognized the need for strategic phasing of corridor transport development based on realistic priorities established in appropriate periods. Thus the industrialization process identifies a range of diversification possibilities within the manufacturing sector. It takes into account most dynamic subsectors that can drive the economy: in terms of output growth, production innovation, and exports expansion, creation of employment and diversity of products to be consistent with competition in the domestic

[44] SEZs may also involve in other activities apart from manufacturing which is the domain of EPZ; EPZ exports most (over 80%) of its products while SEZ services sell in both local and foreign markets (source: Presentation by the EPZA DG of 13-17 February 2014 at Lake Investment Forum)

[45] According to EPZA (during presentation at Lake Investment Forum in February 2014)

and external markets.

The most dynamic manufacturing potential are found in following categories of activities: (i) food processing, (ii) plastic and rubber production, (iii) textiles, (iv) chemicals, (v) basic metal work, and vi) non-metallic mineral products.

In this context, the IIDS suggested the first line of priorities to include the fertilizer and chemicals industry, agro-processing (edible oil, cashew nuts, fruits, milk and dairy products), the textile industry subsector, leather and leather goods industry, light industry manufacturing, iron and steel industry and promotion of tourism backward linkages. It will be noted that the emergence of the natural gas has pushed the chemical and chemical by-products industry into the forefront. This gives Mtwara town and Mtwara Corridor more clout in investment destinations under the different corridor alternatives. Tourism is included as well, in recognition of its contribution to GDP formation, a matter that has been highlighted under the Tourism Section above of the current QER.

With all the good things said above about the merits of the corridor concept in industrial development, one caveat needs to be introduced, which is derived from concerns about balanced industrial development. It is simply based on egalitarian principles referred to in Tanzania's Long-Term Perspective Plan of 2012[46], which reminded about equitable wealth creation and distribution in the process of promoting economic growth. In other words, one should be mindful about excessive geographical concentration of manufacturing activities aimed at miximising their benefits.

The IIDS points out that the Business Survey of 2007/2008 counted 9,354 Tanzanian manufacturing enterprises (operating throughout the year at that time) in the Dar es Salaam metropolis, as against 15,625 in the other regions. Industrial growth that leads to more regional and income disparities among the regions and the people is not desirable in the long run. As this subject cannot be fully explained in this article, it needs to be highlighted in any revision of the Tanzania Industrial Strategy.

For instance, it can be argued that by providing for more efficient integration of the regions through linkages based on corridor development strategies and strategic promotion of rural industrialization or SMEs, Tanzania will be able to attain sustainable industrial development that would effectively advance the aim of reaching middle level income as envisaged in Vision 2025.

9.6 Concluding Remarks

Tanzania is doing its utmost to reach the status of a semi-industrialized nation by 2025, with the Vision 2025 in mind, where the role of manufacturing activities has been highly rated. In this process, comparatively speaking, Tanzania is not doing badly.

As seen in **Table-4** on MVA growth between 2000 and 2010, Tanzania's annual growth with an average of 8.6% was the third highest among the 11 comparator countries of Eastern and Southern Africa as well as South East Asia; in that context surpassed only by China and Mozambique. In an expanded list covering 14 selected countries in **Table-5** showing manufactured exports growth between 2000- to 2010, Tanzania actually came on top with an average annual growth rate of 31%. This is almost unbelievable, considering that the list includes such famous performers like China, Malaysia, Ghana and Mauritius.

This Brief has put forward the view expressed in an ESRF-led publication of THDR-2014 to the effect that the process of Tanzania's economic transformation is already underway. The THDR even delved into how this process is likely to intensify in the coming decade, and how in this context the industrial sector is likely to contribute more to future growth of the country.

This current Paper constantly urged for a strategic

[46] Tanzania Long-Term Perspective Plan (011/12-2025/26) and Tanzania Human Development Report 2014

approach in furthering the industrialization process, in the context of the manufacturing sector. A number of indicative options have been mentioned. The following seem to be more prominent:

a) That the era of exclusively State-led or dominated industrial development is gone; but in certain areas government strong leadership is needed. This is of course required in common-place governance areas like in policy conduct, policy coordination and policy monitoring. It is equally needed in improving the operating environment for an industrial sector to flourish in the economy; in which an enabling environment embraces policy making and regulating, just mentioned, as well as more robust promotion of private sector investments, both local and FDIs. The concept of Public-Private Partnership (PPP) fits well in this context, as well as in strong state participation in emerging opportunities like in the natural gas sector. The PPP approach requires strong systematic state push so that direct state participation in downstream industrial activities in the gas sector is encouraged, of course without neglecting promotion of wide local share ownership by private citizens.

b) The country has to continue maximizing its leverage in exploiting its rich natural resources by promoting manufacturing; and also to take into account its geographical location. The latter refers particularly to the concept of corridors and SEZs/EPZs in this regard.

c) Despite more recent vacillation in the process of EAC integration, the integration process has in the past (between 2000 and 2010) seen Tanzania achieving remarkable performance in export promotion. This performance is still valid and should be continued more forcefully.

d) Despite the above-mentioned progress, a number of challenges still remain and must be tackled boldly and methodically. They include, among others, the following:

- Overzealous liberalization of importation of goods that seem to have opened the import doors too wide; the mitumba phenomenon is a consequence that seems to be difficult to control at present.

- Labour force and employment: Manufacturing has failed to create sufficient formal employment for Tanzanians, particularly in the SME sector.

- Physical constraints of power and transport: inadequate availability of low cost and reliable power supply, railway transport and efficient port infrastructure jeopardizes inflows of investment capital and profitability of large industrial operations.

- The institutional framework for the design and implementation of effective industrial policy and actions is inadequate. The decision-making process is spread across too different agencies and ministries, thus leading to a lack of cohesion between policies and implementation actions.

- Industrialization has lacked strategic approach to regional balancing of locations of industries; whereby the location of industries is not determined decisively by raw material availability or marketing opportunity. In this respect, concentration of industries in Dar es Salaam or its vicinity has continued to be too much self-propelled.

- There does not seem to be a deliberate and systematic strategy to address the weaknesses revealed in various studies such as in Ease in Doing Business of the World Bank, in order to enhance competitivity of Tanzanian industries.

ANNEX: ACRONYMS

(for those frequently used in the Report)

BRN	Big Results Now
CPI	Consumer Price Index
DfID	Department for International Trade
DRC	Democratic Republic of Congo
DSE	Dar es Salaam Stock Exchange
EAC	East Africa Community
EWURA	Energy Water Regulatory Authority
FDA	Food and Drug Authority
FDI	Foreign Direct Investment
GBS	General Budget Support
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
GOT	Government of Tanzania
ICT	Information, Communication and Telecommunication
IMF	International Monetary Fund
IPTL	Independent Power Tanzania Limited
LGA	Local Government Authority
MAFC	Ministry of Agriculture Food and Cooperatives
MDA	Ministry, Department and Agency
MNRT	Ministry of Natural Resources and Tourism
MP	Member of Parliament
MVA	Manufacturing Value Added
NBS	National Bureau of Statistics
NHC	National Housing Corporation
ODA	Official Development Assistance
SADC	Southern Africa Development Community
SMEs	Small Medium Enterprises
TANAPA	Tanzania National Parks Authority
TAZARA	Tanzania Zambia Railways
TBS	Tanzania Bureau of Standards,
THDR	Tanzania Human Development report
TPA	Tanzania Ports Authority
TRA	Tanzania Revenue Authority
TPDC	Tanzania Petroleum Development Corporation
TIPER	Tanzania Italian Petroleum Refinery Company Limited
TRL	Tanzania Railways Line
TZS	Tanzania Shilling
VETA	Vocational Educational and Training Authority

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