

2017 SADC DFI CEO'S FORUM PRESENTATION

THE INDUSTRIAL EXPERIENCE OF TANZANIA

PAST , PRESENT AND VISION INTO THE FUTURE

Presentation by

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6th July 2017

ORDER OF PRESENTATION

- Rear View Mirror of the Past
- Tanzania's First Attempt to Industrialize
- Primary Causes and Key Lessons from the Economic Crises Past Failures
- Direction of New Industrial Development
- Measuring Effectiveness of Industrial Policy and Efficacy of Development Strategy;
- Domestic and External Industry Development Factors
- Role of DFIs in Industrialization Going Forward

REAR VIEW MIRROR OF THE PAST

- National economy was non-existent with orientation towards the colonial metropolis;
- Pre-independence Tanzania was nearly 100% agrarian economy of commercial agricultural plantations and peasant farms;
- Rudimentary primary agro-processing of sisal, cotton, tea, coffee, copra and pyrethrum done to facilitate packaging and containerization for export;
- Mining and extraction processing of precious minerals (gold and diamonds) complimented agricultural and forestry exploitation on an industrial scale

TANZANIA'S FIRST ATTEMPT TO INDUSTRIALIZE (Late 1960s – 1970s)

- Tanzania first attempted to industrialize *de novo*;
- Motivated and largely driven by political thought of National independence;
- **IMPORT SUBSTITUTION** was the basic premises for formulating National industrial development strategy;
- Industrial State Owned Enterprises created to drive industrialization in absence of domestic markets for capital and entrepreneurs;
- Key Development Finance Institutions deemed strategic were created to initiate and develop the industrial sector through SOEs – NDC, TDFL, TIB and SIDO

PUBLIC POLICY OBJECTIVES OF THE FIRST INDUSTRIALIZATION INITIATIVES

- Industrialization was deemed essential to consolidate National independence;
- To conserve foreign currency and improve the balance-of-payments with reduced imports of finished goods;
- To acquire modern technology and develop an industrial skill base;
- To provide employment to emerging educated class of youth and pre-empt politically volatile urban poverty.

PRIMARY CAUSATIVE FACTORS AND KEY LESSONS FROM THE ECONOMIC CRISES AND PAST FAILURES

- Global Oil Price quantum increase which precipitated BOP crises in nascent economies such as Tanzania;
- Lopsided Global Terms of Trade;
- Lack of capital investment from low domestic savings;
- Domestic Policy Errors and Mismanagement

PRIMARY CAUSATIVE FACTORS AND KEY LESSONS FROM THE ECONOMIC CRISES AND PAST FAILURES

- **Finance:** The Government was the only source of investment capital to develop the industrial sector; and most SOEs were subsidized to operate rather than pay dividends and hence they could not grow or improve technology;
- The unavailability of foreign exchange and the high cost of foreign exchange consequent to the devaluation of the shilling, as well as the high cost (interest) of borrowing shillings.
- SOEs were undercapitalized and hence highly leveraged depending on borrowing from state-owned banks;
- The market related high interest rates were applied simultaneously with a credit squeeze, while the massive devaluation of the shilling made the cost of servicing foreign denominated financial obligations covering importation of spare parts and other inputs untenable, especially to non-exporting manufacturing enterprises.

PRIMARY CAUSATIVE FACTORS AND KEY LESSONS FROM THE ECONOMIC CRISES AND PAST FAILURES

- **Energy:** The high cost of energy, especially electricity, as an essential manufacturing input cost factor. Load-shedding on account of draught worsened the situation by reducing and limiting plant availability for production.

PRIMARY CAUSATIVE FACTORS AND KEY LESSONS FROM THE ECONOMIC CRISES AND PAST FAILURES

- **Tax and Tariff Structure:** A tax and tariff regime which was revenue driven, and did not provide a level playing field with imports. Manufacturers who imported raw materials for value addition were disadvantaged vis-à-vis traders who imported finished goods;
- **Trade Liberalization:** to alleviate acute shortage of industrial goods exposed domestic industries to global competition

PRIMARY CAUSATIVE FACTORS AND KEY LESSONS FROM THE ECONOMIC CRISES AND PAST FAILURES

- **Technology Acquisition and Employment:** The use of obsolete technology resulted in the production of inferior quality goods compared to imports, and in some instances, obsolete technology led to higher energy costs due to inefficiency;
- Foreign aid was used to dump obsolete technology from developed countries rather than serve as a foundation to build skills for innovation.

PRIMARY CAUSATIVE FACTORS AND KEY LESSONS FROM THE ECONOMIC CRISES AND PAST FAILURES

- **Enterprise Managerial Skills:** Managers in the SOEs did not have the requisite skills and experience for a competitive manufacturing industry, including the capacity development for new products and innovation;
- The attempt to build Human Capital in critical mass was curtailed in part by lack of adequate resources to invest in technical education and skills training.

PRIMARY CAUSATIVE FACTORS AND KEY LESSONS FROM THE ECONOMIC CRISES AND PAST FAILURES

- It should be noted that **FINANCE CAPITAL, ENERGY** and **FISCAL REGIME** listed above, are macroeconomic factors affecting the entire macroeconomic environment, and should be dealt with by Government through public policy support and intervention measures;
- **TECHNOLOGY** and **ENTERPRISE MANAGEMENT** are industry-specific factors which should be dealt with at firm level by the Business community in a market driven environment; and
- **The key lesson** of direct linkage of industry and trade as two ends of the **SUPPLY-and-DEMAND** chain both domestic and external.

THE DIRECTION OF NEW INDUSTRIAL DEVELOPMENT

- Paradigm Shift in industrial and trade policy stance from **IMPORT SUBSTITUTION** to **INTERNATIONAL COMPETITIVENESS**;
- **Mobilization of Private Finance Initiatives (“PFIs”)** to lead investments for industrial development;
- Promotion of **export of manufactured and processed goods to benchmark quality and costs** of industrial production; as well as to improve BOP position;
- Industrial production as medium for **transfer of technology and acquisition of new skills**;
- **Employment creation** for the growing number of youth that comprise the socially necessary labour

THE RATIONALE FOR EPZ AND SEZ DEVELOPMENT SPEARHEAD INDUSTRIALIZATION IN TANZANIA

- EPZA at the core of institutional set-up to spearhead export-led industrialization with development of SEZ/EPZ;
- To provide economic oasis that will attract migratory and mobile global capital relocating to gain investment efficiency or productivity;
- To act as public policy reform laboratories to facilitate rapid industrialization;
- To provide serviced physical platforms for integrated trade and industry development benchmarked to international standards of quality, cost and customer service delivery;
- To provide economic efficient gateways for international trade through integration with transportation and logistics hubs e.g. Kurasini Trade and Logistics Centre; Bagamoyo SEZ; Kigoma SEZ; and Mtwara SEZ;
- To provide growth nodes with supply and demand linkages to the domestic economy, transfer of technology, MSME development and skills development;

THE ROLE AND STATUTORY FUNCTIONS OF EPZA IN RELATION TO SPECIAL ECONOMIC ZONES

- To acquire land in its name and lease or issue derivative rights to investors or erect thereon industrial and commercial buildings for lease to investors;
- To supply offsite and onsite basic infrastructure for the purpose of SEZ operations;
- To prepare national and international programmes for appropriate promotion of SEZs;
- Ensure the provision of security and surveillance, property and equipment maintenance, and availability of restaurants and food services.

SCREENING CRITERIA FOR ESTABLISHMENT OF SEZ

- “For the purpose of establishment of special economic zones, **priority shall be given to economic activities that have maximum propensity** to accelerate domestic production, exports promotion or employment generation”. Sub-section 4(1) of SEZ Act
- To enhance the following measurable sector performance macro indices:-
 1. Productivity;
 2. Competitiveness;
 3. Economic Growth;
 4. Employment generation for poverty eradication.

MEASURING THE IMPACT OF THE INDUSTRIAL DEVELOPMENT PROGRAMME UNDER EPZA

- Efficacy of industrial policy measures and effectiveness of strategy must be quantified – not to be confined to political economy articulation;
- The need to measure the outcomes and achievements of industrial policy objectives to justify strategy;
- Hence the need to measure direct, indirect and induced economic impact of the export-led industrialization initiatives;
- Application of quantitative methodology used to measure performance and to compare with benchmarks.

CRITERIA FOR SCREENING AND EVALUATING PERFORMANCE OF SEZ PROJECTS

- Stock and Quality of Capital Investment;
- Net Export Revenue;
- Employment Creation;
- Linkages to Domestic Economy;
- Transfer of Technology and Skills.

THE STUDY METHODOLOGY

- ❑ 10 EPZ companies sampled
- Last five years transactions analysed.

Cost to Government:

- ❑ Import Duty, - TRA
- ❑ VAT - TRA
- ❑ Exice duty - TRA
- ❑ Recomputation of Corporate Income Taxes

Benefits to Government:

(Jobs, forex, FDI, value addition, technology, etc)

- ❑ Performance reports analysed
- ❑ Site visits - Physical & interviews
- ❑ Literatures reveviews

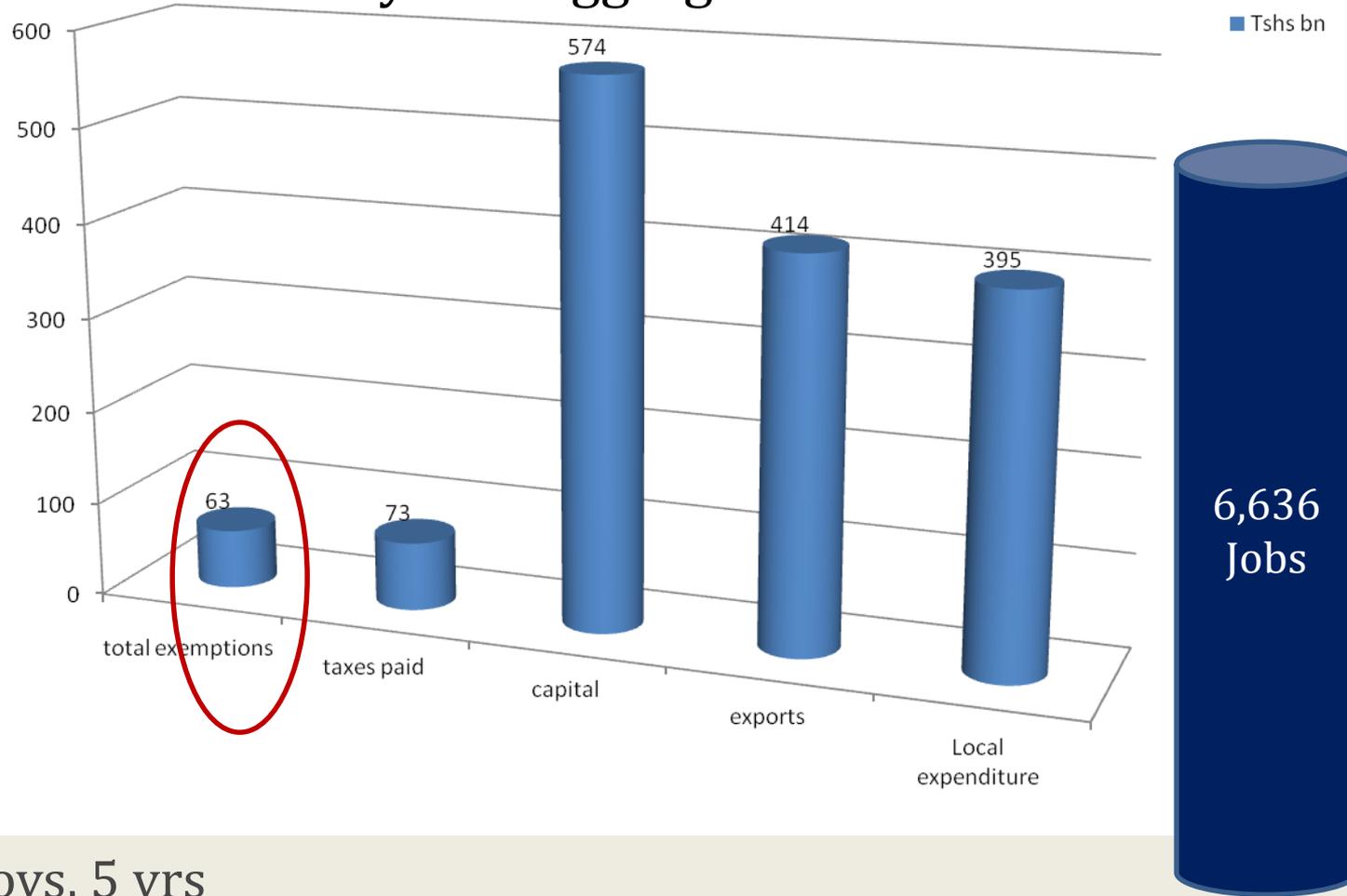
MEASURING THE PERFORMANCE OF EXPORT-LED INDUSTRIALIZATION DRIVE

Quantitative Analysis – CASE STUDIES

SN	COMPANY NAME	YEARS IN OPERATION
1	Vector Health International Ltd	8
2	Net Health Limited	8
3	Africado Limited	4
4	Dekker Bruins Tanzania Ltd.	4
5	Paper Kraft International Ltd	4
6	Quality Purse Exporters Ltd	4
7	Tanzania Tooku Garments Ltd	3
8	Dahong Textiles (T) Ltd	1
9	Jielong Holdings Ltd	1
10	Xinghua International Ltd	1

MEASURING THE PERFORMANCE OF EXPORT-LED INDUSTRIALIZATION DRIVE

Quantitative Analysis – Aggregate Performance Outcomes



10 coys, 5 yrs

TOTAL costs – Tshs 63bn

TOTAL benefits – Tshs 1.3 Trn

DIRECT AND INDIRECT IMPACT OF CASE STUDY INDUSTRIES

- ❑ Local raw materials (58 bn)
- ❑ Transfer of Technology & expertise
- ❑ Product packaging
- ❑ Markets to agricultural products
- ❑ Disposable income (9 bn)
- ❑ Domestic sourced loans (interest income 1.2 bn)
- ❑ Capital spent in local economy (145 bn)
- ❑ Port Charges (38 bn)
- ❑ Utilities (41 bn)
- ❑ Outsourced services (48 bn)

TANZANIA TOOKU

BENEFITS for 3 Yrs (2012 – 2014)

DIRECT IMPACT

Capital Invested - Local Content	3,473,090,942
Gross Salary	3,642,313,375
Port Charges	328,689,193
Transport Costs	56,695,499
Utilities	607,918,926
Outsourced Costs	3,369,707,179
Raw Material Costs – Local Content	1,200,067,296
Taxes Paid	9,532,189,167
Total	22,210,671,577

LOOKING INTO THE FUTURE – DOMESTIC AND EXTERNAL LONG TERM INDUSTRY DEVELOPMENT DRIVING FACTORS

- **Global industry relocation** – impact of the “China Factor”;
- **Macroeconomic stability** – to attract long term capital necessary for industrialization;
- **Social Capital** – human safety and social stability;
- **Institutions** – Financial sector; Judicial system
- **Population Demography** – growing labour (“Human Capital”) and consumer markets;
- **Raw Materials** – domestic availability and provision of linkages to enhance inclusion of domestic primary production;
- **Energy Resources** – global shift to “green industrialization” with increased exploitation of renewable energy resources;
- **Transport economics** – to determine optimum industry geo-location in considering costs of sourcing inputs and trade transactions;
- **Technology** – innovation for economic development towards the 4th Industrial Revolution

THE ROLE OF SADC DFIs TO FACILITATE INDUSTRIAL DEVELOPMENT – GOING FORWARD

- Innovate and go beyond the traditional “BAU” modus operandi of DFIs and traditional sectors of funding;
- DFIs should give priority to food production, storage, processing and packaging to ensure SADC food security as key enabler of industrialization
- Lead the effort to unpack and repackage large National public-funded projects to facilitate local participation;
- Provide and enhance project planning capacities to create a pipeline of **bankable** industrial projects to motivate and attract Private Finance Initiatives;
- DFIs should market the pipelined projects and support them with participation through subsidiary or associated “Equity Funds”;

THE ROLE OF SADC DFIs TO FACILITATE INDUSTRIAL DEVELOPMENT – GOING FORWARD

- Need to allocate more resources to support SME institutional capacities development in order to provide the ecology for sustainable industrial development;
- **Corporate Governance should be treated as a stand-alone risk factor** especially for SMEs and duly rewarded with favorable borrowing terms – use SADC DFRC to build capacities;
- DFIs should be especially alert to the global agenda of “Green Industry” and environment risks of critical industries given the long term nature of their lending instruments and possibility of being accomplices to technology dumping with offshoring of linked long term environment risks;
- **SADC DFIs should pool and share resources to catalyze industrial development – Whatever happened to the SADC Project Preparation Development Fund initiative by DFIs?**

END PRESENTATION

ASANTENI SANA

THANK YOU FOR YOUR ATTENTION