Policy Brief

Confederation of Tanzania Industries

TEXTILE, PHARMACEUTICAL AND FOOD PROCESSING SUB-SECTOR VALUE CHAIN IN TANZANIA

Overview of the Food-Processing, Textile and pharmaceutical Value Chains in Tanzania

The World Bank's 2019 Ease of Doing Business Report ranked Tanzania the 36th out of 48 sub-Saharan African countries for ease of starting a business. This is below regional counterparts such as Kenya (25th), Rwanda (4th), Burundi (5th) and Democratic Republic of Congo (7th). Despite efforts to improve the ease of doing business in the country, regulatory and fiscal challenges arising from over-regulation have held back growth and development of manufacturing sector particularly the food processing, textile and pharmaceutical sub-sectors.

The food-processing sector in Tanzania provides employment to about 58,000 people, which represents 56% of the total employment in manufacturing and comprises the largest proportion of manufacturing firms in Tanzania. Almost a quarter of all registered manufacturing enterprises are in food processing. Food processing value chain is comprised of a variety of enterprises with wide variety of operations linking primary production, and marketing. This has great potential to contribute to economic development in terms of generating employment, adding value to crops, improving diets and earning foreign exchange.

The textile value chain has huge poverty-reducing potential, as it hosts more than 500,000 smallholder cotton growing farmers, concentrated in the poorest and least fertile regions of Tanzania. However, cotton yields have remained below expectations at an average of 283,600 tones (five years' average) where 80% of this cotton is exported in raw form. It is projected that, once challenges related to fiscal and regulatory environment are addressed, the textile value chain has the potential to lift up to 650,000 people out of poverty in cotton-growing areas by doubling household incomes from the current US$540 per year; creating 50,000 decent textile and garment jobs; and increasing textile and garment export revenues six fold to US$800 million.

The Tanzania's pharmaceutical market is among the largest in Sub-Saharan Africa. However, the industry is still nascent with huge untapped potentials. Quick facts reveal that:

- There are only 42 medical products manufacturing facilities of which 18 are engaged in manufacturing pharmaceutical products and 24 medical devices.
- The industry's capacity is limited in range of products and primarily produces only generics.

- Tanzania remains a net importer of its pharmaceutical products, where evidence from the United Nations COMTRADE database on international trade shows in 2021 more than 80% of pharmaceutical products worth US$458.77 million were imported.
- Local capacity to produce pharmaceuticals domestically has declined from 33% in 2009 to between 10% and 20% in 2022.

This implies that, while the market has been growing at an estimated annual rate of 9%, the domestic product's value share in the market has been declining to ranges between 10 and 20 percent.

Rationale for Simplifying Regulatory Framework for Food Processing, Textile and Pharmaceutical Sectors

Despite good intention behind these policy interventions, and substantial efforts by the government to improve them overtime, the existing regulatory framework and its practice is characterized by over-regulation which has amounted to unbearable cost of compliance to businesses. High compliance cost affects domestic and international competitiveness, of these businesses leading to some closing down, capacity underutilization, no further investments, falling exports with corresponding loss of jobs, incomes and forex.

In particular, the analysis conducted by CTI indicates that:

i) There are at least 22 different laws and 15 different regulators regulating food processing, textile and pharmaceutical value chains. This has resulted into over regulation due overlaps and duplication of regulatory functions performed by regulators on businesses. Businesses experience burdens such as production down time to attend multiple inspectors, meeting compliance requirements, and other resources incurred to facilitate the compliance process.

ii) It takes at least 39 person-days, to register a business and at least 167 person-days to comply which include down-time to attend inspectors, preparation of documentations, follow-up on regulatory issues and attending mandatory trainings.

iii) The impact of the regulations on the value chain is enormous. It is estimated that the cost of compliance by a food-processor during the start-up phase is Tanzanian shillings 6,482,600/=. While annual compliance direct cost is estimated to TZS 15,513,000/= and indirect cost estimates for labour, transport, communication and loss productivity amounting to at least TZS 9,271,666.67/=. Therefore, total compliance cost estimates (direct and indirect) is 31,267,266.7/= per single business per annum. In the textile and pharmaceutical value chains, it is estimated to be TZS 67,378,666.7 as regulatory compliance cost per year.

iv) Reluctance in harmonizing the national policies with regional policies especially in the area of tariffs on imports and import verification practices. While the agreed common evaluation and verification of garments imported in EAC is to be based on weight measured by kilogram, in Tanzania that has not been adopted and the same is by meter or pieces. This is rather difficult to do verification which results into under-valuation of imports. Further to that, across all countries worldwide, kitenge/Kanga is valued at 1 USD CIF whereas the same is valued at 0.4 USD CIF value. This results into less tariff for imported garments and low prices in the market. The locally produced textiles are relatively expensive and less competitive in the market.

v) Tanzania applies higher tariffs on imported food processing and textile inputs than the common tariff agreed among the EAC member countries (25% instead of 10%). This has made locally made textiles and edible oil expensive allowing for imports from the neighboring countries to take lead

Recommended Policy Actions

Based on the findings, CTI proposes the following policy actions to address the challenges. Generally:

- To improve coordination of EIA and inspection of environmental compliance stipulated in Environmental Impact Assessment Act, 2004, section 8, Industry and Consumer Chemicals Act, 2003, the Sugar Industry Act, 2002, section 47 and the Fisheries Act, 2003, section 52, the Public Health Act, 2009. NEMC should be mandated to conduct an EIA and carry out inspections for environmental compliance in consultation with other relevant authorities.
- To harmonize business registration and licensing activities stipulated in: the Business Licensing Act, of 1972Cap 208, [R.E, 2002]; Business Names Registration Act (Cap 213); Industrial Licensing and Registration Act, 10 Cap 46 [R.E, 2002];Tanzania Medicines and Medical Devices Act of 2019, Section 18; The Explosives Act,56 Cap 45,[R.E 2002]; Fisheries Act, 22 of 2003; the Cashew Nut Industry Act, 2009, section 12(1); the Coffee Industry Act, 2001, section 12(1); and the Tea Act, Cap 251, [R.E, 2002]. Instead of all regulators to provide licensing, the function to be left to BRELA and TFDA after complying with the requirements of the industrial licence, EIA and quality control that ensure good manufacturing practices.
- To Harmonise and improve coordination of product testing. The laws establishing the agencies involved in product testing provide for the establishment of "a system of consultation and cooperation" as stipulated in the Tanzania Food, Drugs and Cosmetics Act, 2003, Section 5 (2) (f), 18 & 20; the Standards Act, 2009, Section 4 (2) (b); Protection from Radiation Act, Section 1983, section 14(10); and the Dairy Industry Act, 2004, section 10 (r), (s). The following ways could be used to improve product testing: a) TBS, TMDA and GCLA to conduct product testing concurrently; b) TBS to focus on setting the quality standards for products, and enforce the quality standards and setting safety standards; and c) once the product has been tested by one of the regulators, the result should be shared with all the regulators.

On Food Processing Value Chain

- To harmonize and enhance coordination of licenses and permits that relate to food hygiene and premises and introduce cross-referencing and amend laws to allow recognition of permit from one authority by other authorities for similar functions.
- Regulators to have frequent consultations with enterprises to provide them with coaching and guidance on how to comply with quality and safety requirements in the entire process of processing and preparing food for human consumption.
- Regulators to prescribe exactly what actions regulated entities must take to improve their performance and

share the checklist of actions with enterprises.

- To invest in educational programs and capacity building to inform and empower all actors within the value chain.

On Textile Value Chain

- Illegal imports of textiles and clothing should be stopped or controlled. All borders and shoreline should be strictly managed against smuggling business
- To harmonize Import duties with the common external tariff agreed among the EAC members. Similarly, to harmonize tariffs between Tanzania Bara Ports and Zanzibar Port.
- To apply the EAC Customs Management Act approved unit of verification for textiles and garments imports which is using weight in kilograms
- To make further modification to tax reform on imported yarn from the current 25% to 10%.
- Trucks and small operations vehicles for ginners and textile industries be categorized as "tax free" goods.

On Pharmaceutical Value Chain

- To restructure trade, tax, and credit policies to favour local producers over importers.
- To impose duties on imports of finished pharmaceuticals particularly those similar with local availability;
- To list only pharmaceuticals which can be imported only if local manufacturers cannot supply reliable quality at acceptable prices;
- To lay down proper identification of pharmaceutical inputs needed for investment in production, and exempt them from duties;
- To remove VAT on inputs to pharmaceuticals;
- To reduce imports from 70% to less than 50% to promote market for locally manufactured medicines and medical devices.
- To reform public procurement policy and regulations to raise the local preference rate to at least 50% from local manufacturers.

Table 1: Proposed Policy Action and Change Agent

CTI proposes the following policy actions	CTI proposes these Change Agents
To harmonise and coordinate the tasks of regulatory agencies	PMOs, Regulatory Agencies (TMDA, BRELA, TBS, NEMC, OSHA, TDB GCLA, TAEC), MOH, MIT, MOF,
To shorten and simplify compliance requirements in registration and licensing	PMOs, MOF, MOH, MIT, TRA, Regulatory Agencies (TMDA, BRELA, TBS, NEMC, OSHA, GCLA, WMA)
To review the budget allocated to regulatory agencies and improve human resources capacity of Agencies	MOF, Regulatory Agencies (TMDA, BRELA, TBS, NEMC, OSHA, GCLA, WMA, TAEC)
To priority compliance over enforcement in policy implementation	Regulatory Agencies (TMDA, TBS, GCLA), MOF, MOH, MIT and Other relevant Government Departments
Tao ddress the unfriendly and unsupportive attitude of regulatory agencies staff	Regulatory agencies (TMDA, TBS, NEMC, OSHA, TRA) and other relevant government departments to provide capacity building on the areas of customer experience management, communication skills, and leadership skills
To apply the external common tariff agreed in regional integrations on imported inputs	MOF and TRA