



PRODUCTIVE JOBS WANTED

TANZANIA
COUNTRY ECONOMIC MEMORANDUM
EXECUTIVE SUMMARY



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Chanda Atulinda Lwansa

World Bank Children's Art Contest Winner 2014

The illustration used on the cover is the winning entry by **Chanda Atulinda Lwansa** in the World Bank Children's Art and Drawing Contest which was conducted between March 17, 2014 and April 17, 2014.

Chanda, 12, is a Form One student at Feza Girls Secondary School in Dar es Salaam and likes to draw as a hobby. "I love drawing and I keep myself busy with it all the time," says Chanda.

Chanda loves reading novels and writing short stories. Her favorite subjects are biology and chemistry. While she is "not sure" what she wants to be when she grows up, Chanda confesses to big dreams. "If I were to choose, probably I would choose to be an animator or a designer. I want to have a job that is important and make a difference in the world."

On her depiction of men and women engaged in different occupations, Chanda explains: "I feel that no Tanzanian should feel limited in their aspirations for good jobs and higher incomes."

Chanda was born on March 16, 2001 to Akiza and Mulenga Lwansa. Her little sister, Namara, 7, also loves drawing and writing fiction.



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This report benefited from several different consultations with different groups of stakeholders, including government officials, businessmen and others in Tanzania. These consultations took place between October 2013 and April 2014, and we thank the President's Office Planning Commission and the Tanzania Private Sector Foundation for facilitating them. In October 2013, a workshop was organized in Washington D.C., with the participation of World Bank and academicians as well as key Tanzanian policy makers including Benno Ndulu, Servacius Likwelile, Philip Mpango, Longinus Rutasitara, Joseph Massawe, Danny Leipziger, Jim Adams, Marcelo Giugale, Gaiv Tata, Deon P. Filmer, and Ejaz Ghani. Lastly, the report was enriched by focused topic discussions at the Business Environment Labs between February and April 2013 and in March 2014 as part of the Big Results Now initiative.

The report also benefited from the insights of several peer reviewers, John Page, Celestin Monga, Bill Maloney, and Samuel Wangwe. The team received guidance from Albert Zeufack and Philippe Dongier. Jamie Yang and Loy Nabeta edited the report, while Justina Kajange provided invaluable assistance during its preparation.

Over the past 18 months, the World Bank has been working on a comprehensive plan to address the challenge of productive jobs in Tanzania, is presented in the new Country Economic Memorandum entitled 'Tanzania: Productive Jobs Wanted'. This study represents a step towards a better understanding of how to promote job creation in Tanzania. Indeed, the growth of productive jobs is vital for alleviating poverty and promoting shared prosperity – two important goals of Tanzania's economic strategy.

This booklet highlights the three-pillar plan for job creation derived from the Tanzania Country Economic Memorandum. By focusing on a comprehensive set of concrete actions, the goal is to stimulate debate as well as to build ownership and accountability among policy-makers and key stakeholders in the country. Those are necessary steps for accelerating the adoption and implementation of the plan. Inaction is not an option for Tanzania. Her labor force will double by 2030, as almost one million new workers enter the labor market every year. Jobs –productive jobs– have to be created with a sense of urgency.

The three pillar plan for job creation in Tanzania is the result of a highly intensive participatory process. The process involved extensive collaboration between the World Bank and the President's Planning Commission. Several other stakeholders were consulted in different forums, including meetings with Tanzanian business owners in both the informal and formal sectors, and with foreign investors. The draft action plan was also discussed with representatives from almost all Ministries, and presented to different groups in forums organized by REPOA and the Tanzania Private Sector Foundation. Focused discussions took place at the Business Environment Labs as part of the Big Results Now initiative, and a workshop was organized in Washington DC bringing together top policy makers and experts from the World Bank as well as top universities.

This is an executive summary of the Country Economic Memorandum. The full report will be available on request and on the World Bank website starting from September 2014.

Productive Jobs Wanted

can't make my ends meet in farming these days," laments Robert Umala, a young farmer from Western Tanzania. "All my friends are moving to cities to become traders. There is a better future there." Finding a job, with a decent pay is the aspiration of approximately 800,000 Tanzanians who enter the labor market every year. Recent history shows that sustaining employment is central for economic prosperity and political stability. This is the lesson from East Asia – China, Thailand and Vietnam have all been able to create many jobs with higher earnings over a long period of time.



To address the challenge of job creation, Tanzania will have to transform itself. Today, many Tanzanians are employed, but in activities with low productivity. In rural areas, they are confined to farms, which are on average five times less productive than in China. In cities, they tend to run small businesses which are more about survival than about 'true' entrepreneurship. To accommodate a rapidly growing labor force into productive jobs, the economy will not only have to grow faster over the next decade, but there will be need to move the country's labor force from unproductive to productive sectors.

Why focus on jobs?

3 main challenges in Tanzania:

High poverty levels

Poverty stuck at 30% and policymakers are searching for ways to create more jobs.

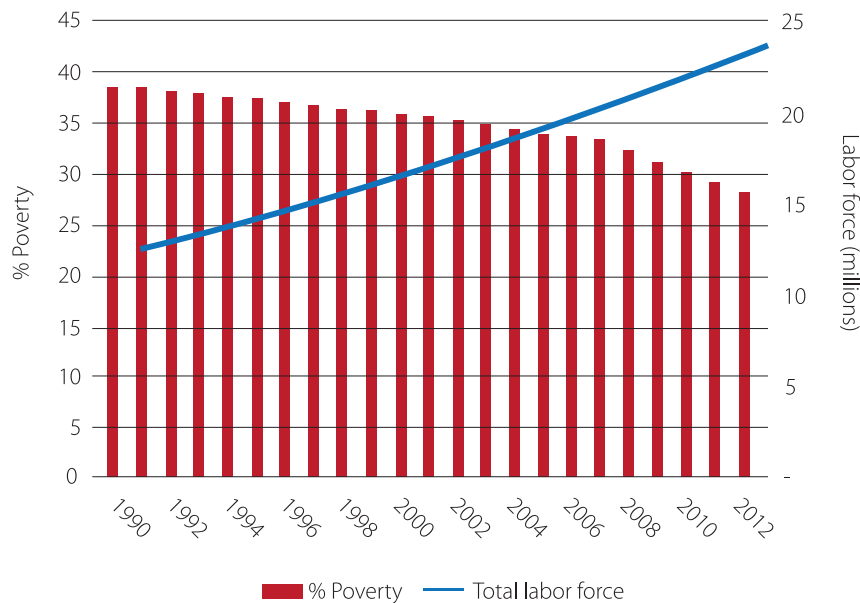
Demographic challenges

Mostly young population; over 700,000 new entrants on the labor market every year

Rural to urban migration

People moving towards urban centers -> transformation of occupations and job prospects

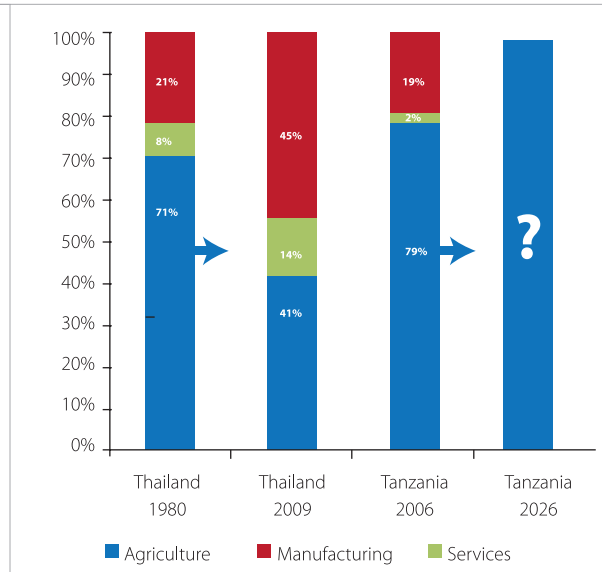
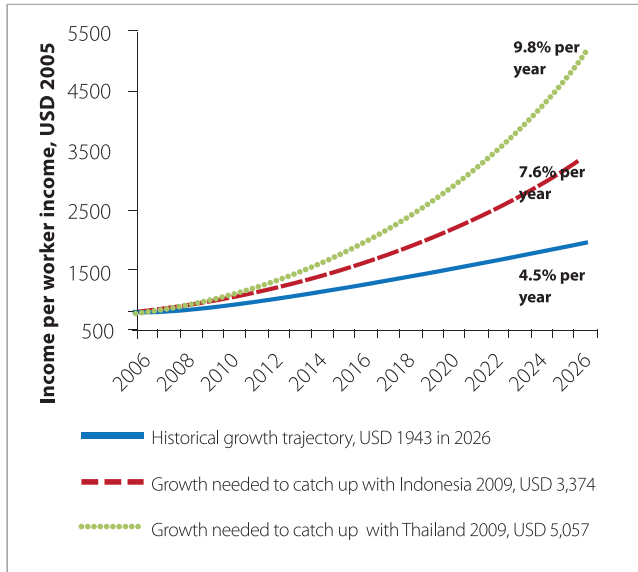
Tanzania's rapidly growing labor force corresponds with slow decline in poverty



Source: World Bank & Household Budget Survey

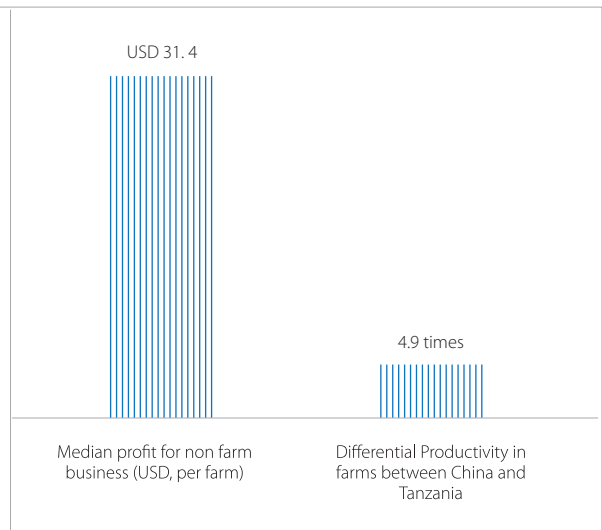
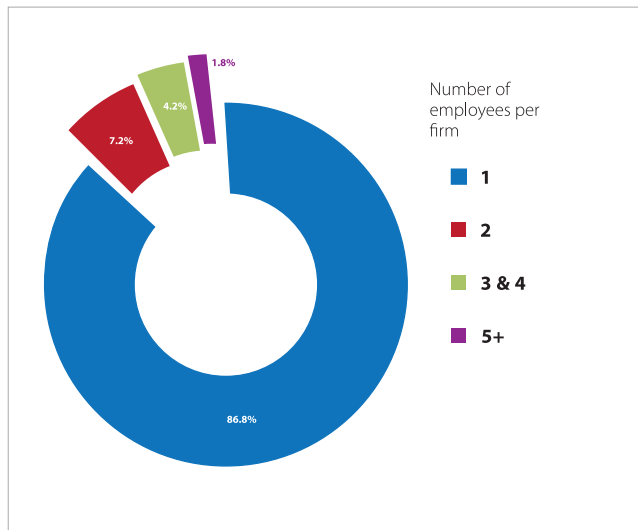
Tanzania will have to grow faster to catch up with emerging countries...

...and change its employment structure.



Today, most Tanzanians are employed in small firms

...that are neither productive nor profitable



Firms create jobs

A three-pillar plan for growth



This study presents a three-pillar job creation plan for Tanzania focusing on firms and premised on the belief that employment is created by a dynamic private sector. The first pillar looks at job creation from the angle of small non-farm businesses, which have been growing very fast during the rapid urbanization. The second pillar focuses on farms because those still capture the largest share of employment in Tanzania, while the third pillar discusses the job-creation potential associated with business expansion into new markets.

This job-creation strategy argues for the removal of major obstacles to the growth of Tanzanian businesses. It is no small undertaking, as these obstacles are quite formidable in Tanzania's case. They include weak connectivity to markets, low access to finance, sporadic electricity supply, and a relatively low-skilled population. The plan contends that these obstacles—or the ways to address them—might differ across different types of businesses. For instance, the skills needed for productive non-farm businesses, farms, and exporters are not the same.

The acquisition of needed skills also varies depending on location, activity, and initial levels of education of business owners and workers. This principle also applies to other factors such as access to infrastructure, land and equipment. Policy recommendations require some degree of specificity to be effective.

For each of the three pillars, specific actions are proposed with a view to enhancing the economic foundation and competitive conditions necessary for businesses to thrive and generate productive jobs.

References to international practices will be used whenever possible. While these proposed actions cannot cover all constraints faced by firms in Tanzania, they provide a much-needed sense of priority. The plan also attempts to strike a balance between cross-cutting and focused actions. For each pillar, a specific potential growth sector was identified as a focus for Tanzania. Targeting specific sectors can help Tanzania to jump-start its growth in production, employment, and exports and bring faster benefits.¹

The proposed plan identifies 12 key actions organized around three pillars to promote productive jobs in Tanzania

Using the combination of several analytical approaches (revealed comparative advantage, product space, and the growth identification framework), as well as examining potential local and regional demand and impact on employment, three main sub-sectors have been highlighted for their growth potential:

- (i) The leather industry for the expansion of small businesses;
- (ii) High value vegetables for farms; and
- (iii) Tourism for exporting services.

These should however, be viewed as illustrative but not necessarily sufficient examples of growth sectors. While other high-potential niche sectors are mentioned in this report, a thorough exploration of their related industries' potential for growth and job creation is outside the scope of the report.

Each pillar is important in itself but it is their combined application that would really yield greater results. To a large extent, Tanzania's capacity to create jobs will depend on improving the conditions of small firms operating in urban areas. However, this capacity will also depend on the success of the agriculture sector, which should not only produce more food for the growing urban population, but also create job opportunities and promote development in rural towns and secondary cities. The development of urban jobs in the processing industries will also be determined to a large extent by the availability of affordable inputs, including food, cotton, wood and hides. Exporters can create additional jobs by reaching out to new markets and, at the same time, help to accelerate the maturation of small firms by providing further incentives to invest and compete on local and regional markets. Cultivating these types of synergies should be a priority for policy-makers.

1. See "Growth Diagnostics", R. Hausmann, D. Rodrik, and A. Velasco, JFK Kennedy School of Government, Harvard University, Cambridge, 2005.



Pillar 1

Pushing small non-farm businesses to grow

Today there are about five million non-farm businesses in Tanzania, which mostly consist of household enterprises (HEs).² This number is growing fast at approximately 10-15 percent per year, fueled by rapid urbanization and by lack of other employment options for the majority of Tanzanian workers. As a result, about half of small non-farm businesses are located in urban centers today. They are very small (95 percent of them report less



than two employees, including the owner) with little specialization, and tend to operate only a few hours per day or a few days a week. Many of these businesses disappear relatively quickly to re-emerge later under a different name and, sometimes, engaging in other types of activities.

Most of these small businesses are not destined to grow. However, if only 18 percent of them could double their employment base in a year, almost one million additional jobs could be created in the economy. This figure is not insignificant. It underscores the premise that small firms can become central vectors of employment growth in Tanzania, as witnessed in most industrial and emerging economies.

Pushing small firms to grow requires a combination of four actions. First, business owners should be able to enhance two main assets – their own skills as well as their fixed capital. Secondly, they should be better connected physically and virtually to their suppliers and customers. Thirdly, they should be able to avoid spending scarce resources in excessive payments to bureaucrats and on strategies to cope with operating in an insecure environment. Lastly, they should work together to achieve the economies of scale needed to increase joint competitiveness.

2. 'Household Enterprises' as defined in Kweka, J. & L. Fox (2011) are small informal non-farm businesses owned by households. These enterprises include self-employed people running informal businesses and family members working in those businesses.

Action 1:

Build small business owners' assets by promoting the development of skills and fixed capital

Target training programs to accelerate skills acquisition by combining financing and training programs for young entrepreneurs.

Provide outsourced financial and accounting services to small business owners who cannot accumulate all technical and management skills.

Develop simple contracts with local authorities to help small business owners secure their workplace and encourage them to invest in fixed capital.

Action 2:

Encourage urban mobility by reducing congestion costs in cities, which can absorb as much as a third of the income collected by a typical worker in Dar es Salaam

Improve space planning for industrial and businesses zones as well as urban transportation corridors, with special attention to secondary cities.

Make strategic investments and provide incentives to encourage collective transport modes (i.e., rapid train and buses).

Reduce distances by encouraging virtual connectivity through new communication technologies (information sharing, payments, etc.).

Action 3:

Reduce the amount of resources spent by small firms on administrative and security costs so they can reallocate these resources to productive activities

Close the gap between small operators and local administration by strengthening their capacities and simplifying existing procedures.

Provide smart incentives to invest in security through information sharing, co-financing collective infrastructure, and improved enforcement of sanctions for trespassers.

Implement laws, reduce opportunities for rent-seeking behaviors by administration and agencies, and enforce sanctions.

Action 4:

Create economies of scale to reduce operating costs by using external sources of labor and financing, and creating opportunities for cooperation

Promote the use of external workers by small firms through the reduction of search costs and improvement of labor regulations.

Enhance semi-formal sources of external finance by lowering entry costs for providers and users.

Develop small business associations/incubators and strengthen existing associations to reduce fixed costs associated with training programs, financing, and other services.



Sector focus

Light manufacturing - leather: While small businesses can in principle flourish in a number of activities, only a few sectors appear competitive in Tanzania. This study examines the leather industry, which appears already competitive by international standards. For example, the cost of producing a pair of leather shoes is today 20 percent lower in Tanzania than in China. However, the leather industry has failed to develop in recent years due to several bottlenecks. The following targeted measures can make a difference:

- Improve quality (skills and standards) of skins and hides by providing technical assistance to livestock owners through associations.
- Promote new investments in clusters of transforming industries, which will be located close to suppliers and/or customer markets. This should help reduce transport costs and improve access to affordable and reliable energy as well as promote a skilled labor force.
- Reduce (and gradually remove) export tax on raw hides and skins with the objective of promoting gradual competition on inputs price and quality.

Pillar 2

Promoting farms productivity

Farming is the main activity of most Tanzanians. About six million farms exist today, providing occupation for approximately three quarter of the labor force. Looking ahead, employment in this sector of activity can be boosted by the purposeful expansion of agriculture into uncultivated lands. However, this strategy is likely to be constrained as most fertile lands are already in high-density areas and large infrastructure projects would be necessary to connect new lands with markets.



Over the past two decades, Vietnam and Thailand have shown that productivity gains can coincide with the creation of jobs, especially more productive jobs, in the agriculture sector.

For Tanzania to be successful, it needs to urgently improve the productivity of its farms. Most Tanzanian farms report low productivity (for example, maize yields are on average five times lower than in China) with significant room for improvement. If in the longer term a more productive agricultural sector should use proportionally less workers, complementarities between labor and new technologies can be promoted during the transition. Over the past two decades, Vietnam and Thailand have shown that productivity gains can coincide with the creation of jobs, especially more productive jobs, in the agriculture sector. Better food production will also help enhance the development of agribusiness industries – a key potential employer in Tanzania.

Four complementary actions are proposed to boost the productivity of Tanzanian farms. All these actions aim at connecting farmers with markets as commercialization appears to be the best channel to increase their earnings. Indeed, commercialization is associated with high levels of productivity, and commercialized farms in Tanzania are more likely to produce high value products, which generate more productive employment than traditional crops. To invigorate this sector, Tanzania needs to reduce transportation costs, encourage the use of modern inputs, connect farmers to efficient value chains, and ensure that these initiatives are not hindered by inconsistent policies.

Action 5:

Connect isolated farmers

Make strategic investments in rural roads, reduce transport costs, and increase connective infrastructure through PPPs.

Reduce fixed transport costs by promoting cooperation among smallholders, joint storage facilities, and cost-sharing mechanisms.

Promote competition among traders through market information, lower barriers to entry, and proper management of regulations.

Action 6:

Promote the use of quality inputs to increase yields per hectare within the farms

Push modern irrigation schemes through partnerships with communities and local suppliers.

Support fertilizer and improved seeds by phasing out the use of vouchers in favor of contract farming and the use of ICT tools.

Harmonize national and regional quality standards for agricultural inputs and food products.

Action 7:

Promote equity and efficiency through market-based mechanisms

Reduce the asymmetric bargaining power of farmers by delivering information through cell phones and related ICT solutions.

Encourage investments in contract farming in select sectors to enable access to higher incomes, finance, inputs and extension programs.

Action 8:

Ensure transparency and consistency in policies so that farmers are not penalized

Ease export bans to help farmers to bank on external markets when food prices go up.

Reduce taxation, with special emphasis on reforming the highly penalizing "cess" tax collected by local authorities that can reach up to five percent of commercialized production.

Address market failures in land and property rights market through the establishment of district registries and the streamlining of land documentation.

Sector focus

Agribusiness - high value vegetables: The development of productive farms will not only boost agricultural production and employment but it will also lead to better inputs, which in turn can be transformed into more value-added products.

The potential for agriculture and agribusiness is high for Tanzania, but expectations must be set appropriately. Most of the sector is currently non-competitive because of the high costs associated with inputs as well as their relatively low quality. The production of high value vegetables (and fruits), however, is seen as a realistic opportunity, as it ranks high in all the analytical tools used by this study to identify Tanzania's existing and latent advantages. This sub-sector has performed well in recent years, and offers strong potential in view of the sustained demand on domestic, regional and international markets.

The following measures are proposed to boost this activity

- Develop contract farming between farms and processing companies. These should be designed to facilitate access to inputs (seeds, fertilizers) and training for farmers, while processors should be able to secure good quality products.
- Accelerate cluster formation around strategic locations, taking advantage of accessibility to transport and technology as well as skill transfers through joint ventures. One focus should be the Kilimanjaro/Arusha region, which has the benefit of proximity to Kenya.
- Promote quality products by improving the regulatory framework and coordinating capacity building programs for farmers on quality and hygiene standards.
- Encourage the packaging industry.



Pillar 3

Moving toward export markets



Domestic firms expanding into foreign markets are likely to create employment. They are also expected to benefit from technology transfers that will not only increase their productivity but also that of other local firms through linkages. This strategy has been central to the creation of productive jobs in many emerging economies, especially in East Asia.

In spite of fast growing exports over the past decade, Tanzanian exporters are still to catch up. Only one out of 10,000 firms sells its products to foreign markets compared to, for example, one out of 500 in the US. Exporters appear to be more productive and larger than non-exporters. However, while some firms were created large with the immediate ambition to export, especially in mining, others went through gradual growth. They started selling to domestic markets, and slowly moved on to regional and global markets. Many Tanzanian exporters have been through this maturing process in recent years.

Four complementary actions are proposed to encourage domestic firms to accelerate their transition toward export markets. This process will require that these firms become more visible and more formal, enhance quality at production, connect efficiently to external markets, and think regionally at least in the first phase of their expansion.

Action 9:

Move firms out of the informality trap by providing incentives to potential exporters to formalize their activities

Facilitate access to formal sources of financing by reducing information costs (ID registry, credit bureaus), developing risk sharing instruments (matching grants, leasing), and strengthening capacities of potential exporters to apply for loans.

Improve access to information on potential markets and trading partners through network sharing.

Action 10:

Enhance quality at production

Promote standards by training and information sharing programs, in close partnership with private companies.

Upgrade skills through on-the-job training and vocational as well as technical programs.

Encourage technology transfers by partnerships with foreign investors, imported technologies and equipment, and joint infrastructure.

Action 11:

Improve connectivity and market access through improvements in hard and soft infrastructure, and through the use of special economic zones

Modernize the port of Dar es Salaam and, in the longer run, develop new infrastructure around the agglomeration of Dar es Salaam (such as a dry port) and diversify toward new ports (e.g. Bagamoyo).

Develop special economic zones to leverage agglomeration effects as well as access to transport and electricity infrastructure and markets.

Action 12:

Think regionally to promote exports given their contribution to employment over the past few years

Develop regional corridors, with special rehabilitation of the railways on the central corridor.

Reduce non-tariff barriers with the development of IT solutions at borders, effective appeal mechanisms for traders, and harmonized norms on electronic cargo systems and agricultural products.

Promote regional exports by 'pushing further what is already moving,' including pipes, cement, glass, rice, and tourism.



Sector focus

Services - tourism: Total exports have been growing quickly (over 15 percent per year during the 2000s) and prospects are good in both merchandise and services. There are also many opportunities in light manufacturing and agriculture, as emphasized by the combined methodologies used in the report, as well as opportunities related to the development of off-shore natural gas reserves in the south of the country. Although the exploitation of natural gas reserves is not expected to create many direct jobs, there are job creation opportunities during the construction phase, and more indirectly, through the emergence of forward and backward linkages with domestic firms. At this stage, however, immediate attention should be on services such as tourism, where Tanzania already owns some latent comparative advantages in transit services (since Tanzania is a regional hub), and where the potential exists for job creation through the multiplier (direct and indirect) effect associated with its development.

To foster the employment potential of tourism, the following measures are proposed:

- Improve the policy and institutional environment by revising the Tourism Policy (1999) and Tourism Act (2008) in close cooperation with the private sector.
- Foster an enabling environment for private sector growth in the tourism industry, including small businesses, by rationalizing procedures for licenses and controls.
- Develop linkages with the local economy by strengthening local capacities, including at the community level, for the provision of food, accommodation and other services to tourists.
- Diversify tourism products and attractions, beyond the over-utilized northern circuit and Zanzibar, by promoting infrastructure development as well as innovative marketing and branding initiatives, with special attention to the south.



Next Steps

The proposed action plan identifies 12 key actions organized around three pillars to promote the creation of productive jobs in Tanzania. For many, this number may appear too high (especially given that these actions are subdivided even further). However, the challenge of productive employment cannot realistically be met by a few superficial actions. It is cross-cutting in nature, and the magnitude of the reforms needed to encourage the creation of productive jobs requires the adoption and implementation of a comprehensive action plan.



The goal of this study is to contribute to the debate around job creation in Tanzania by proposing a direction for policy-making.

Only when a consensus emerges among stakeholders should the implementation of the selected actions be discussed in more detail, including timing, financing, and the allocation of responsibilities among implementation agencies, ministries, development partners, and the private sector. This next step will be crucial as actions are of little use if they are not implementable.

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