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No 46 September 2014

Repoa Brief

From Passive to Active Industrial Policy: Improving Locally Manufactured Supplies to the Tanzanian Health Sector

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Key messages

- Industrial policy in Tanzania is largely passive; a shift is required to actively support prioritised industrial sectors;
- Access by local firms to national markets is essential for industrial growth; the health sector offers a large and expanding market currently dominated by imports;
- Industrial policy can target and improve local supplies to the health sector, through better knowledge of and collaboration with local businesses, moving away from favouring imports;
- Targeted support is required for process and product upgrading in local health sector suppliers; supply chain strengthening; aligning procurement with industrial support; and sector-specific skills training;
- Collaborative engagement between Ministries is required to clarify and stabilise tax rules, expedite decisions, support investors, and work actively with donors.

Overview

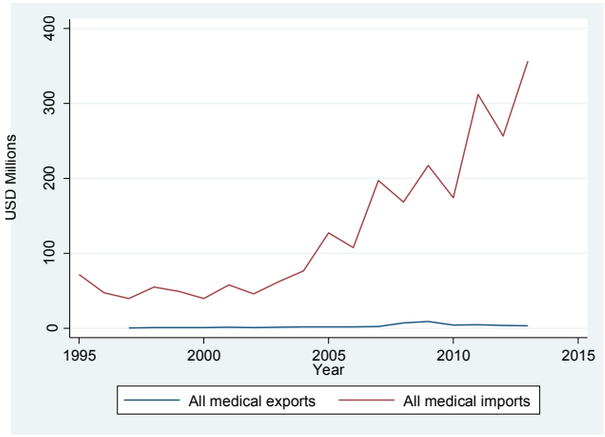
Seizing a major opportunity: industrial development with health sector benefits

Local manufacturers in Tanzania are not sharing in the large and expanding market for health-related commodities. The health sector buys medicines and other supplies such as cotton wool, protective gloves, syringes, diagnostic test kits, laboratory supplies, medical equipment, and infection control items such as soap and disinfectant. Imports soared to over USD 350 million in 2013, with donor funding, but a small rise in exports has petered out (see Figure). REPOA's 2013 research found that just 16% of medicines and 22% of other health supplies were made locally (Tibandebage et al. 2014). Local firms supply a declining share of medicines (Wangwe et al. 2014) and a narrow range of other supplies including bed nets, bed sheets and mattresses, topical products such as white spirit, medical furniture and cleaning products (Israel et al. 2014)

Health professionals interviewed thought that better local supplies could reduce damaging shortages. Donors now view local suppliers positively (Sidibé et al. 2014). To seize this market opportunity, local manufacturers must invest, upgrade and expand. To do so, they require active and targeted industrial policy support.

This brief reports findings from a REPOA research project, with the Open University, UK, and ACTS, Nairobi, on *Industrial Productivity and Health Sector Performance,* including interviews in 2013–14 with seventeen manufacturers and distributors.

Figure: The expanding Tanzanian health market opportunity



Source: Comtrade data, http://comtrade.un.org/data/, downloaded 5.8.14

Findings

Active industrial policies needed for improving health sector supplies

Improvement in government knowledge of local suppliers

"When were you last here?" Half of manufacturers interviewed complained of lack of government interest: no replies to suppliers' enquiries, rare visits to plants, lack of knowledge of local products, and failure to consult. Procurement officials did not know some local suppliers existed, and consultation was limited. One Managing Director said, "If the government really wants to promote local producers, it should first come to see us".

Movement from general rule-setting to targeting local health suppliers as a priority sector

Government interviewees confirmed that industrial policy does not promote specific sectors, trying rather to influence the general business environment. However, this hands-off approach is not working: manufacturers' policy environment is uncertain, thus discouraging investment, and Tanzania scores poorly on business environment comparisons. Targeting scarce policy resources to support selected sectors would be more productive (Dinh et al. 2012). Although technologically diverse, suppliers of health commodities face common challenges, including tax rules and quality requirements, thereby forming a coherent sector for policy purposes. Their potential health impact justifies priority support.

Provision of sector-specific support for technology upgrading

Almost all manufacturers interviewed were upgrading to meet competition and regulatory requirements. Investments included air handling machinery and automation of production processes. Many firms struggled to find technical information through trade fairs, and relied on machinery suppliers to install and train staff to use technology efficiently. Information and technical assistance is required for upgrading within clusters of related firms. Currently this is rare: the Ministry of Industry Kaizen Unit assisted one enterprise interviewed, and some firms appreciated TFDA's (Tanzania Food and Drugs Authority) technical advice. Government was otherwise a constraint: delaying approvals of new products, imposing costly regulatory changes unexpectedly, taxing machinery imports while delaying permits, and blocking visas for technical experts.

Support for sector-specific training in firms and technical institutes

Poor education is a major block on Tanzanian industrialisation. High levels of workforce illiteracy and innumeracy constrain production efficiency (MIT and UNIDO 2012). All firms interviewed trained their staff. Production staff turnover was generally low, but firms struggled to find and retain technical and higher skilled staff, especially laboratory and pharmaceutical technicians, and to move to more rigorous industrial work cultures. Four firms worked with VETA but found the training insufficient. Sector-specific training support would improve productivity and expand the skills pool.

Support and incentives for improved local input supplies

All firms used some local inputs, such as final-stage packaging. Several mentioned that local inputs such as recycled plastic and metal were key to competitiveness.

One firm supported quality improvement in plastics suppliers through collaboration and contracts. Many complained of poor quality local inputs, including poor quality packaging and poor local bottle supply constraining automated filling. Some produced inputs for themselves. Government-manufacturer collaboration to upgrade local inputs, incentivised by local content rules for health sector suppliers, could lower costs.

Support for smaller firms' marketing skills and tendering

Lack of in-house marketing skills, along with tendering costs, risks, and frustrations, had undermined smaller firms' health market access. Support could expand local supplier numbers.

Support for investors in health sector products

Local entrepreneurs interviewed identified some competitive health sector investments: typically labour intensive and assembly-type operations requiring low skills and using some local inputs, e.g. test kit assembly, gauze and bandage production. While welcomed by officials in competing countries, such proposals, which form a good basis for later upgrading to more complex products, were met with a lack of interest in Tanzania. A shift to active collaboration with existing firms to support new production using local materials can raise investment and reduce imports.

Cheapening and expediting imports for health sector manufacturers.

Manufacturers rely on imported inputs. Problems include port delays and slow, incomplete VAT refunds. Some key inputs, such as highly refined sugar for syrups and powder for coating hospital furniture, have expensive duties. Removal of import duties on final medical commodities created difficulties in identifying and exempting inputs to competing local products. Industrial benefits from removing duties from a range of inputs to health sector manufacturing among other uses might outweigh the resultant fiscal loss.

Public procurement support for local firms' market access

Firms viewed public tendering as expensive, with a low success rate, often financially damaging from slow payment and tiny margins. Smaller firms often sold to the public sector through large distributors more able to shoulder risk. Improved price preferences for local suppliers, associated with longer contracts, higher payment for higher quality, assistance to local suppliers in meeting price and quality hurdles, and trade credit terms matching or exceeding those of overseas suppliers, could raise market access sharply.

Collaboration with donors to support industrial clusters for health benefit

Donors' preferences for large price-focused tenders, use of prequalified suppliers, and removal of import duties can disadvantage local firms. Recently, however, initiatives from African multilateral agencies and the UN, and donors from Germany and Japan, have opened new industrial policy space. Tanzania can respond by building on past success: for example, support for local production of long-lasting insecticide-treated bed nets for the East African market showed what can be achieved by active policy in collaboration with manufacturers and donors.

Recommendations

From passivity to active sector-specific support for health care suppliers

Major shifts in government culture and practice towards active sector-specific industrial policy can help firms to seize health sector market opportunities. These shifts require greater manufacturer engagement, marketing their capabilities more actively to government.

Identify local health sector suppliers as a priority sector for industrial support

Build on work by manufacturers' associations, researchers, and government bodies including MSD and TFDA to identify actual and potential local suppliers to the health sector, and document key constraints to increased market access. Develop policies to target support to the sector's specific needs.

Shift public procurement and tax regimes to actively support local suppliers

Identify ways in which public procurement and tax regimes disfavour local suppliers, and shift these regimes systematically towards support for local producers'

investment and growth. Integrate procurement contracting with active industrial support for small and large suppliers.

Provide access to technical knowledge and advice for upgrading

Continuous upgrading is key to both competitiveness and safe health care. Address the constraining lack of access to sector-specific technical information and support, e.g. by building on the Kaizen initiative with donor support.

Support technical skills upgrading in vocational institutes and firms

Identify key technical skills constraints in the sector. Collaborate with manufacturers to build e.g. sector-specific VETA programmes, and subsidise high quality in-firm training to compensate firms for labour mobility post-training.

Actively support improvement in upstream suppliers

Good quality local inputs are key to competitiveness of final goods. Subsidise and support upgrading of upstream firms as an efficient contribution to sectoral industrial improvement.

Coordinate sector support across Ministries

Policy passivity results partly from fragmentation and confusion of responsibilities for industrial policy across the Ministries of Health, Industry and Trade, Finance, and Education. Build a collaborative culture around targeted programmes of sector support, in which firms can see prospects of improved market access and policy stability, Ministries gain competitive, reliable, and good quality supplies, and donors have confidence in effective use of funds.

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Research jointly supported by the ESRC and DFID

The findings, interpretations, conclusions and opinions expressed are those of the authors and do not necessarily reflect the views or polices of REPOA. Nor do they reflect the views of DFID or the UK ESRC, whose financial support is gratefully acknowledged.