

# Industrialisation for Economic Transformation: Economy-wide Impacts of Agro-processing Development in Tanzania

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## Background and Study Objectives

- Primary agriculture is still the dominant activity in most African economies – employment, output and significant share in exports
- This lack of economic transformation has resulted in persistence of poverty, underemployment, poor quality jobs and vulnerability to economic shocks across Africa
- The development of the agro-processing sector is identified to be crucial in fostering this economic transformation, top agenda in various Tanzanian development plans.
- The study explores the role of agro-processing and impacts (focus on trade and incomes) of policies (productivity increase and educated labour) for expanding the agro-processing sector.
- **Agro-processing** is a subset of manufacturing that processes raw and intermediate products from agriculture, forestry and fisheries (FAO, 1997) – includes food and non-food industries.

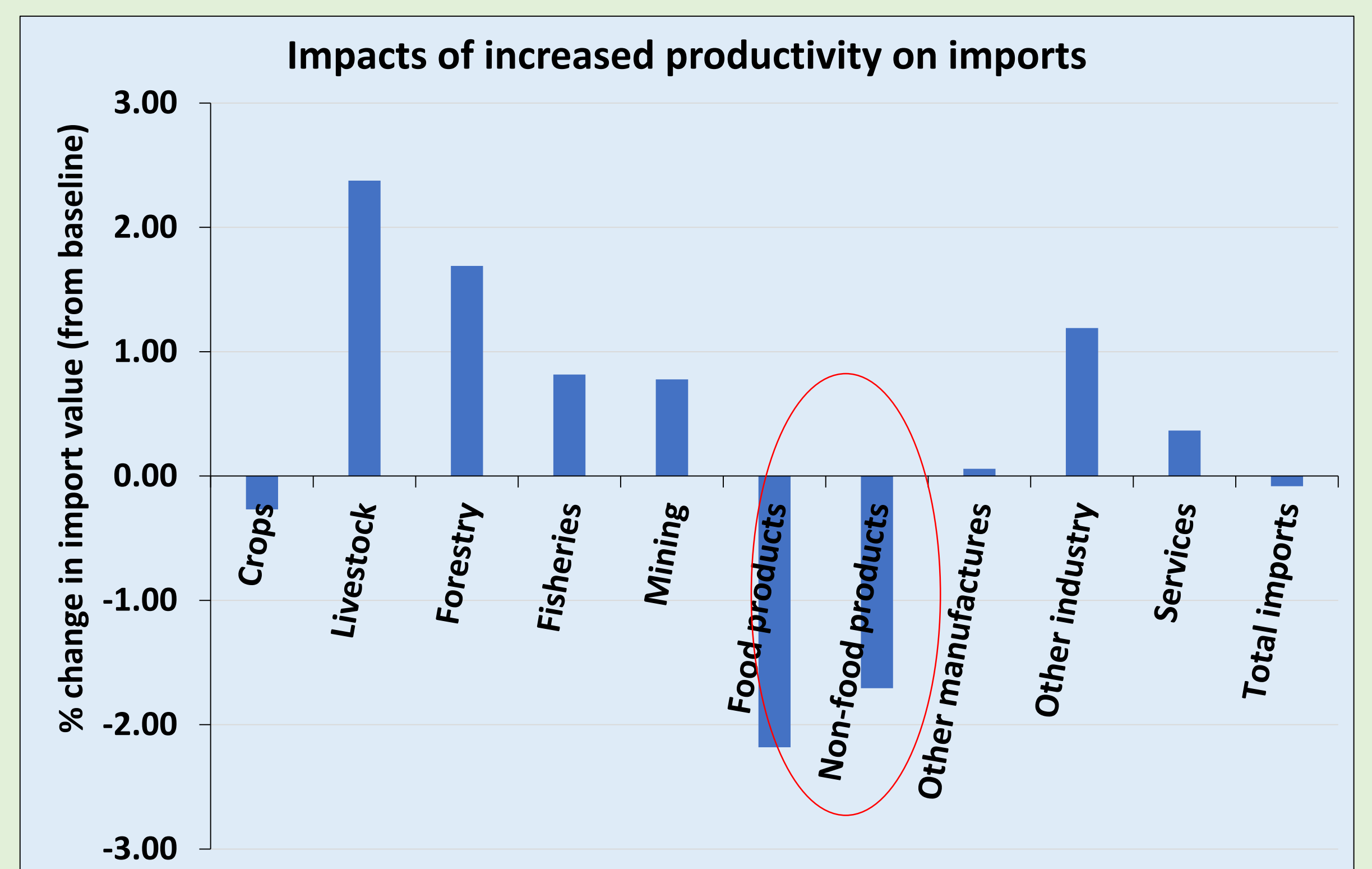
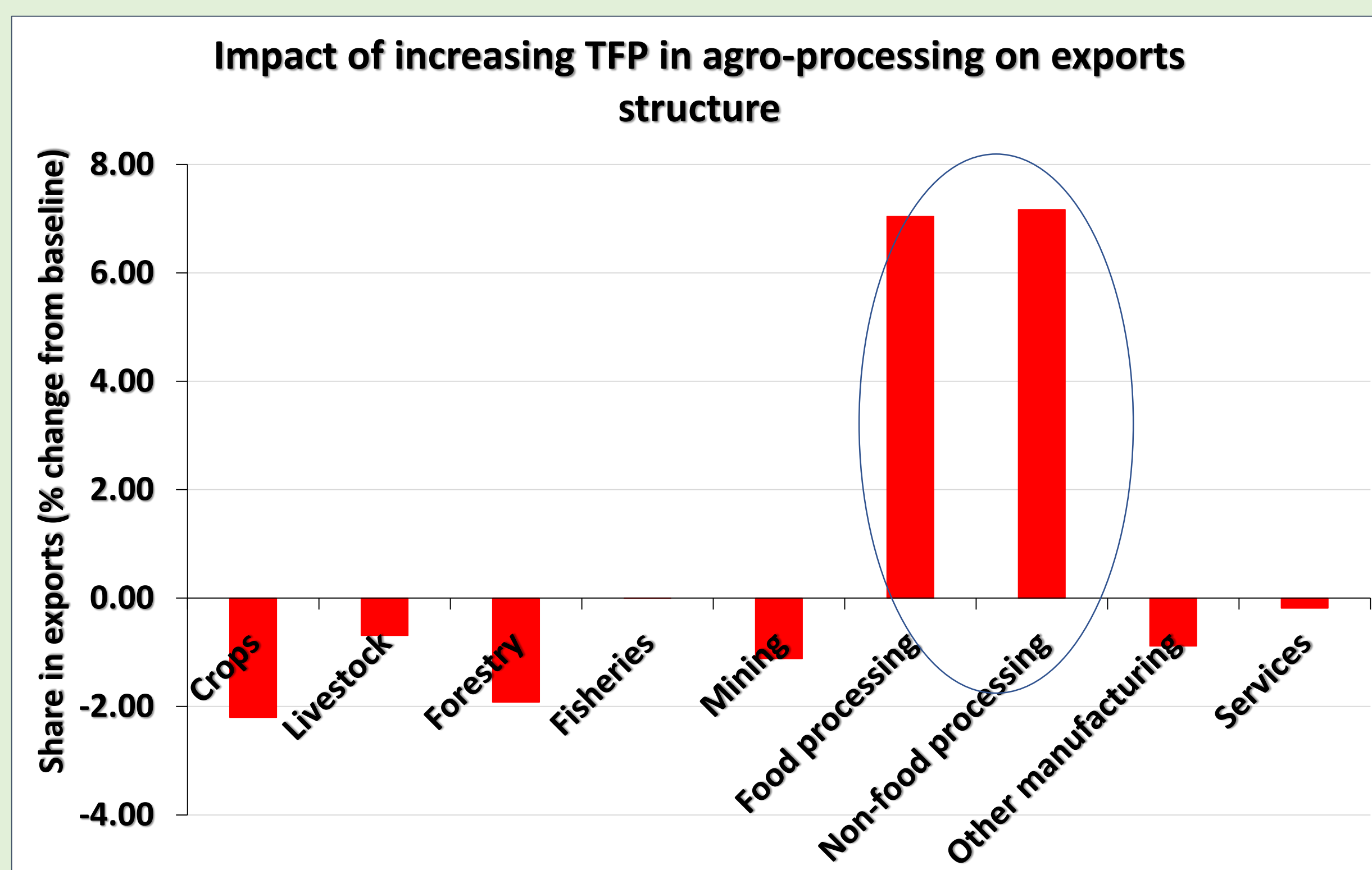
## Methodology

- The IFPRI recursive dynamic model was applied in the study (2017 – 2025)
- The database is the 2016 Tanzanian Social Accounting Matrix (SAM) developed by IFPRI
- A baseline scenario is developed which maintains the current growth trends in Tanzania – results of different simulations are presented as percentage changes from the baseline outcome

## Main Findings

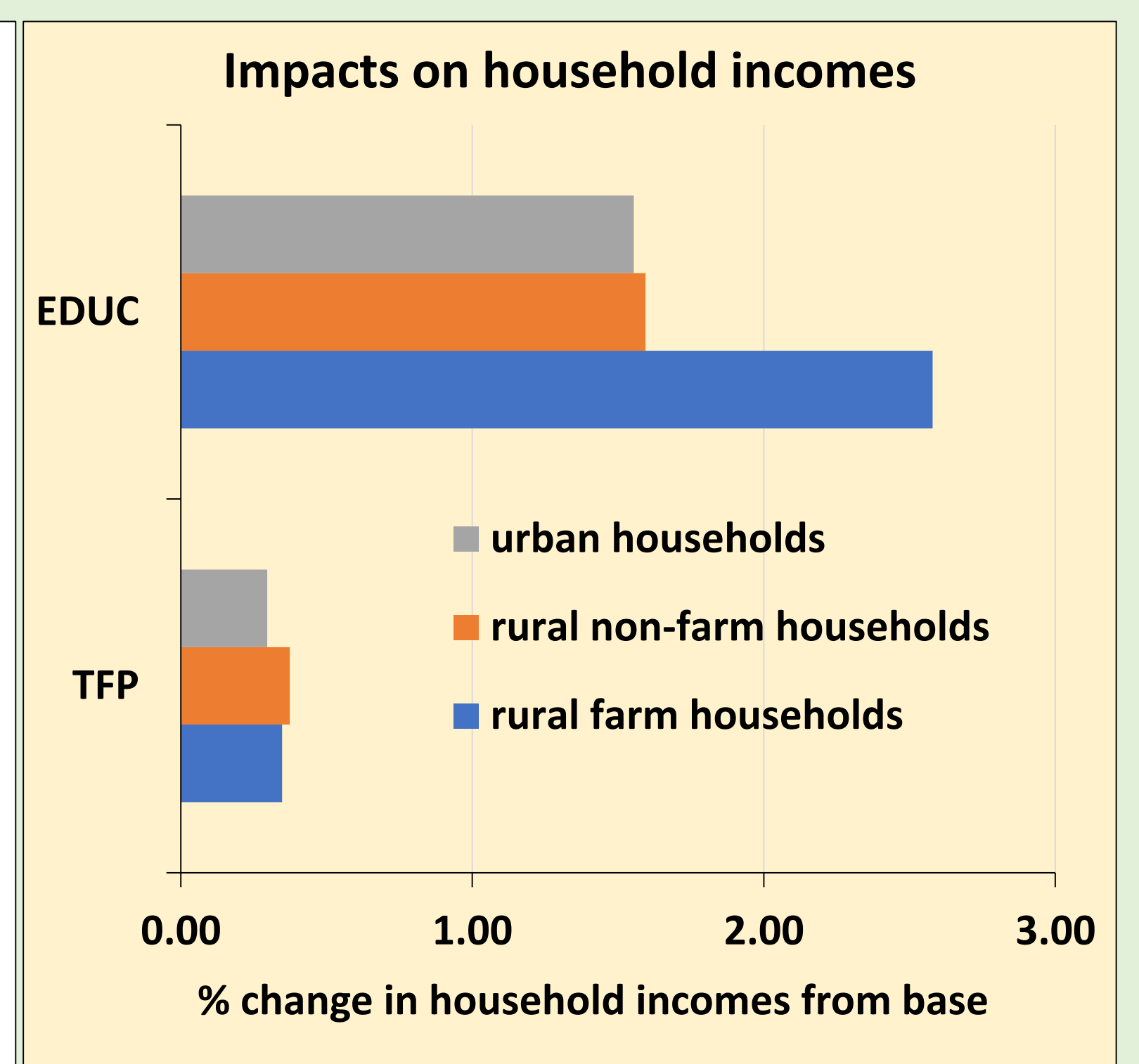
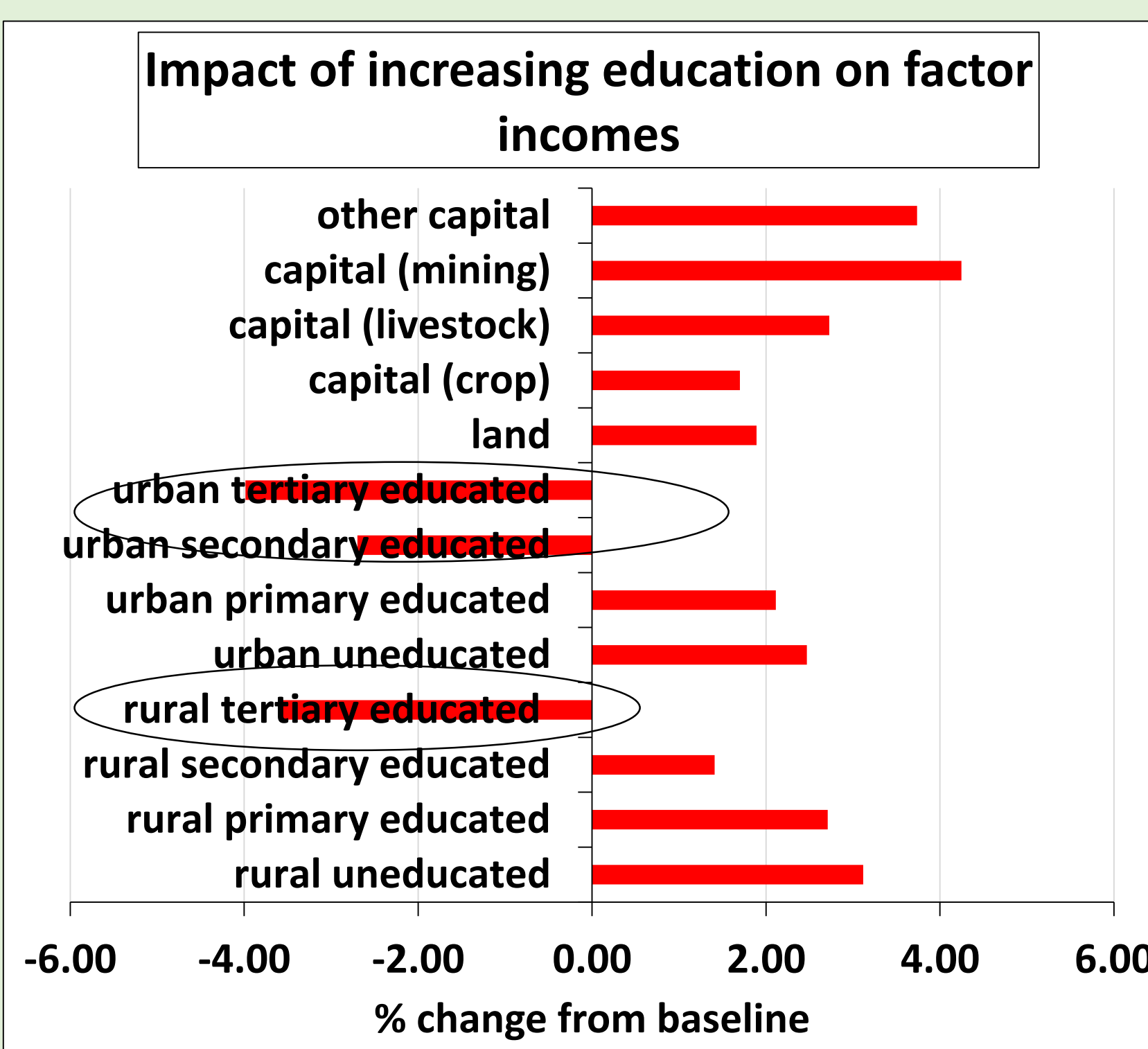
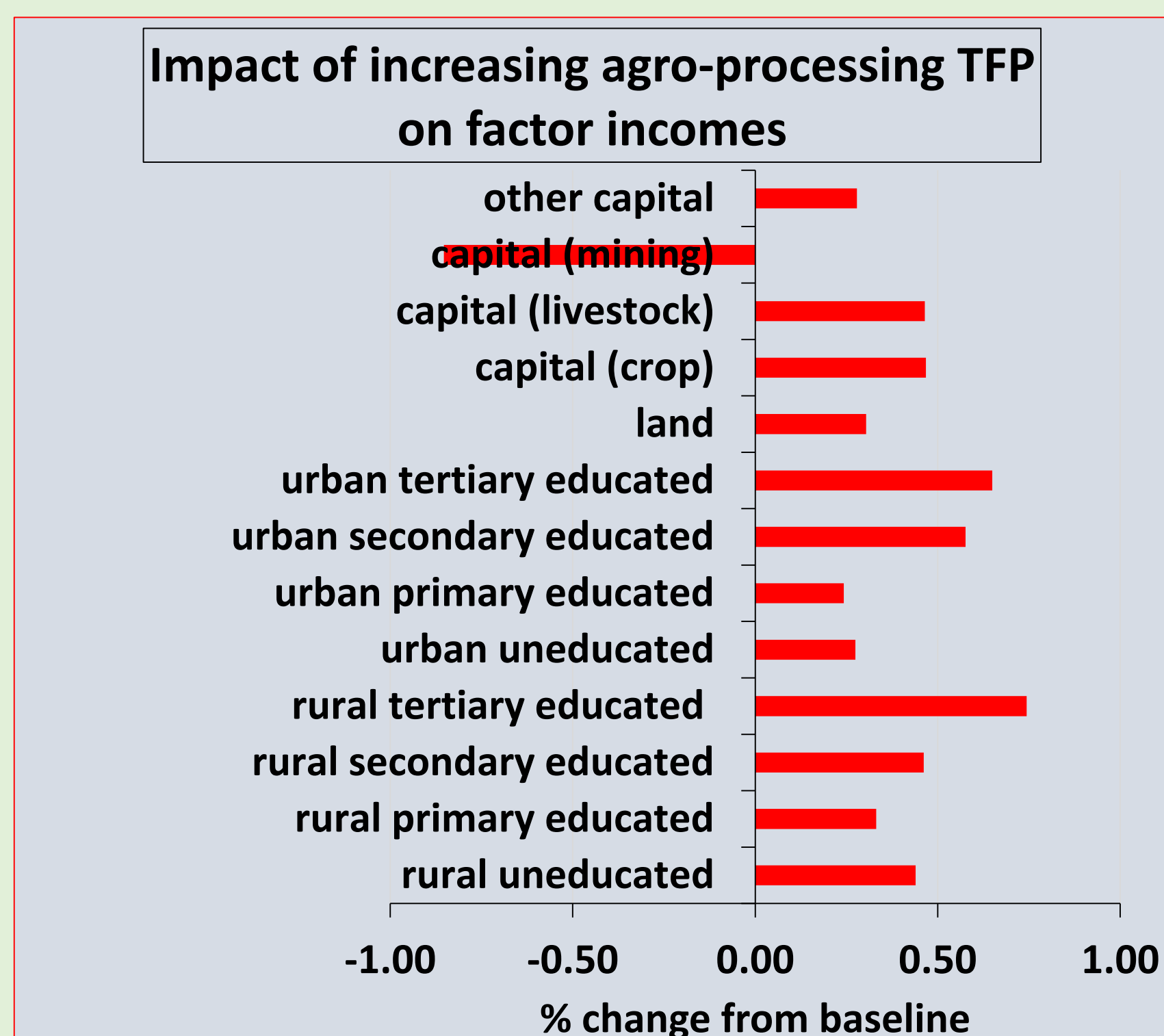
### 1. Increasing productivity (TFP) has major impacts on trade

- It enhances competitiveness of the sector and expands the sector's exports
- Exports of primary agriculture becomes less attractive – more products are processed leaving less for agricultural exports
- However, other exports also decrease → this a challenge, development entails diversification and increased sophistication of exports
- Increased efficiency enhances import substitution of processed agricultural products → decrease in food import bill



### 2. Increasing productivity and the quantity of educated labour have different outcomes on factor and household incomes

- Productivity improvements result in increased incomes for all labour factors → demand for the factors increases significantly as production increases
- Increasing quantity of educated (secondary and tertiary) labour results in the fall in wages but quantity demanded increases
  - a fall in the incomes of highly educated labour = increase in quantity demanded is not more than enough to offset the decrease in wages
- Major share of rural farm household incomes is derived from less educated labour (underemployed) → wages are fixed and increased factor demand = more income
- Both policies result in additional incomes with the rural households gaining more



## Conclusion

- Developing the agro-processing sector is important for expanding exports and increasing both factor and total household incomes
- Productivity increases are important for export expansion but should also be considered in other industries to enhance diversification of exports
- Increasing education should be matched with other policies for industrial expansion to increase the demand for the labour and counter the effects of fall in wages