

**Gilman Rutihinda Memorial lecture**

# **Gains from the Natural Gas: Local Content and Tanzania's Industrial Development**



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# An Enterprise Map of **Tanzania**



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# The Big Issue



❧ Can Tanzania's Growth rate be sustained ?

❧ And if so How???

# Tanzania's Growth I



- ❧ Tanzania's Economy has had really strong growth performance over the past decade
- ❧ The good news is that this growth has been broadly based across sectors

# Tanzania's Growth

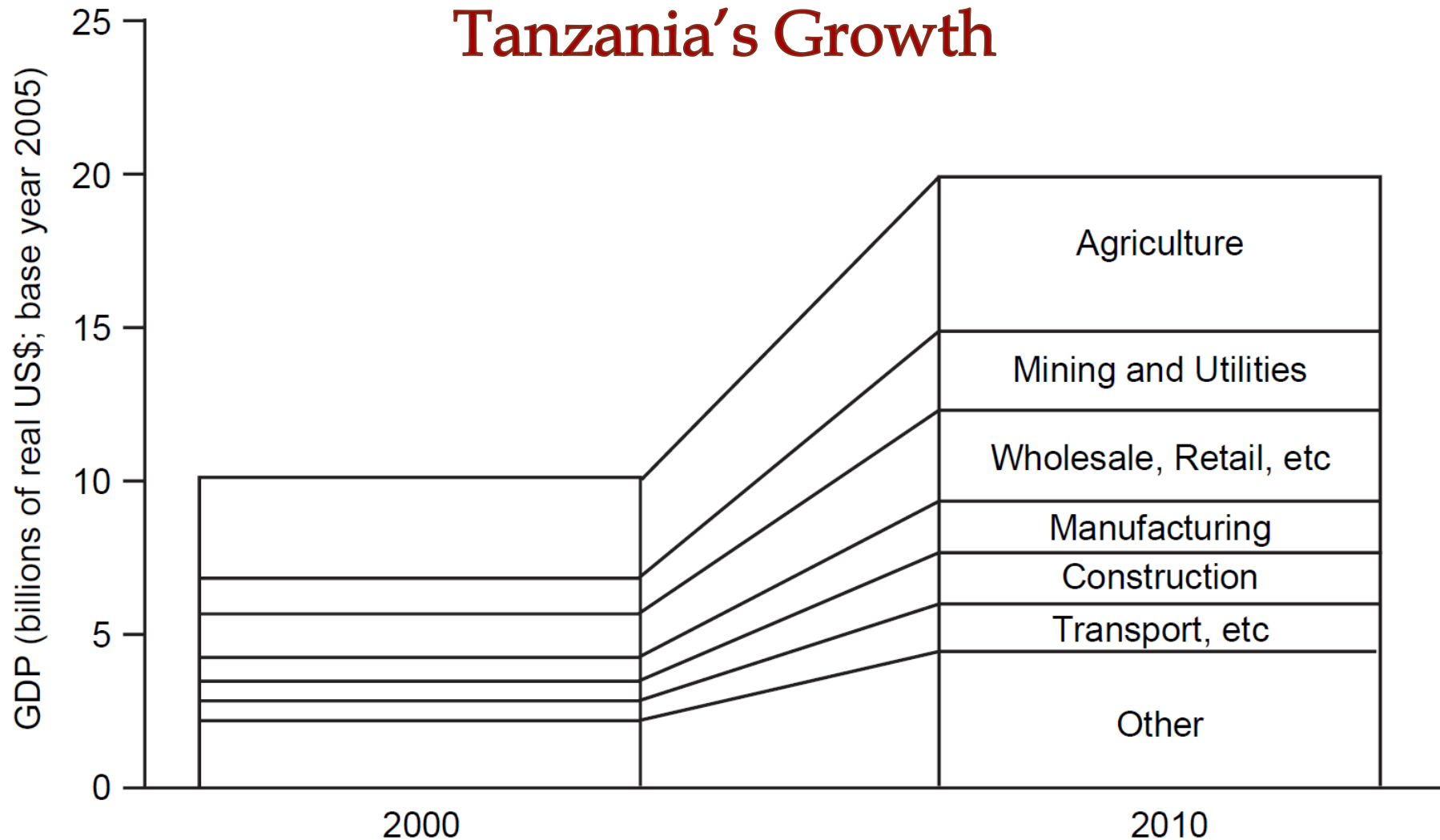


Figure 2. The change in size and composition of Tanzania's GDP, 2000–2010. ('Wholesale, retail, etc' covers wholesale, retail trade, restaurants and hotels. 'Transport, etc' covers transport, storage and communication.) <sup>5</sup>

# Tanzania's Exports

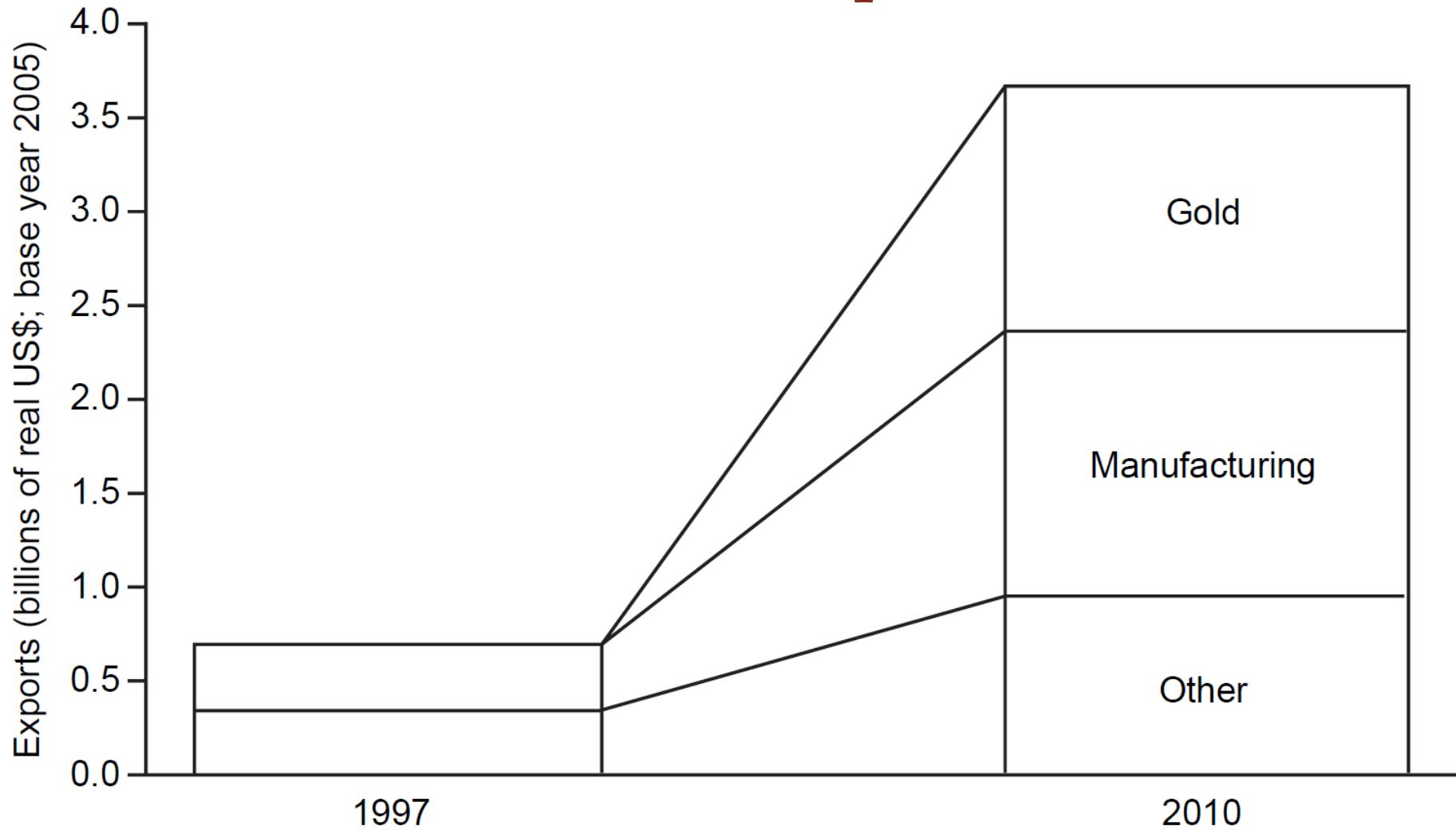


Figure 3. The changing size and composition of Tanzania's exports, 1997–2010.

# Tanzania's Growth II



- ❧ If this continues, Tanzania can become a middle income country in a decade or so
- ❧ But can it continue?
- ❧ And How?
- ❧ .....

# Sources of Growth in GDP and in Exports



- ❧ Some contributions are not of a continuing nature
- ❧ Two factors will be key in sustaining growth



# The 2 Factors



- œ Oil and Gas Sector
- œ Domestic Industry
- œ These must be linked

# Why the 2 factors?



- ❧ Problems with attracting FDI
  - South Africa, Canada and the UK account for half the FDI stock
  - A quarter of FDI goes to manufacturing
  - The UK, US and Kenya are the leading sources of manufacturing FDI
- ❧ The key contribution of FDI
- ❧ How the Oil and Gas Sector can draw in FDI...
- ❧ But really careful management is crucial if benefits to local industry are to flow

# The big picture : Where capabilities come from...



- ❧ Home grown successes (Bharat Forge)
- ❧ From Trading to Manufacturing ( Steel Wire in Zambia)
- ❧ From Equipment Suppliers ( Packaged Orange Juice in Ethiopia)
- ❧ From Supply Chains (Auto Components in India)

# Domestic Industrial Start-Ups



- ❧ What do we know of such ventures in other parts of the world?
- ❧ Are Tanzanian concerns special to Tanzania?

# 'Growth of Firms' Stories



- ❧ It is seen as disappointing in Tanzania that so few local start-ups grow to become mid-size industrial companies....
- ❧ Is this surprising? Special to Tanzania?
- ❧ Lessons from elsewhere: a standard pattern.
- ❧ A story from the US: When DO small firms grow?

# Problems and Policies



- ❧ Domestic Industrial companies need a supportive policy environment...
- ❧ Access to Land
- ❧ Anna Temu; Kamal Steel

# The big picture : Where capabilities come from...



- ❧ Home grown successes (Bharat Forge, India)
- ❧ From Trading to Manufacturing (Steel Wire , Ethiopia)
- ❧ From Equipment Suppliers (Packaged Orange Juice, Ghana)
- ❧ From Supply Chains (Auto Components , China)
- ❧ The key nexus: harnessing FDI

# The Big Transition



- ❧ Cement, Beer, Wood Furniture, etc.
- ❧ Clothing and Textiles...a special case
- ❧ International supply chains
- ❧ What REALLY happened to Indian and Chinese industry?



# So if FDI is crucial...



- ❧ What the oil and gas sector can bring
- ❧ Integration of local firms into international supply chains
- ❧ How easy it is to go wrong

# Local Content, Tanzania



- ❧ A Window of Opportunity
- ❧ A Bargaining Power Reversal
- ❧ Building Industrial Capabilities through integration in the Supply Chain
- ❧ Learning from Global Best practice

# My Main Message

- ❧ 1. The focus should be on generating the maximum number of good jobs...and this is best achieved by a successful integration of local firms into the supply chain of the Gas Multinationals.
- ❧ 2. This integration is usually attempted by introducing regulations on local content ; but to achieve high local content , it is necessary to carefully manage the process of involvement , and to put in place a recruitment and training process for appropriate local companies.

# A Local Content Unit

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- ❧ What is needed is a small , highly professional team that can liaise with Multinational Firms in a co-operative manner ,and with a deep understanding of both (a) local capabilities , and (b) the feasible modes of engagement of local firms in supply chains.

# Looking at Examples



∞ Tullow Oil in Ghana and Uganda

∞ BP in Azerbaijan

# Success and Failure



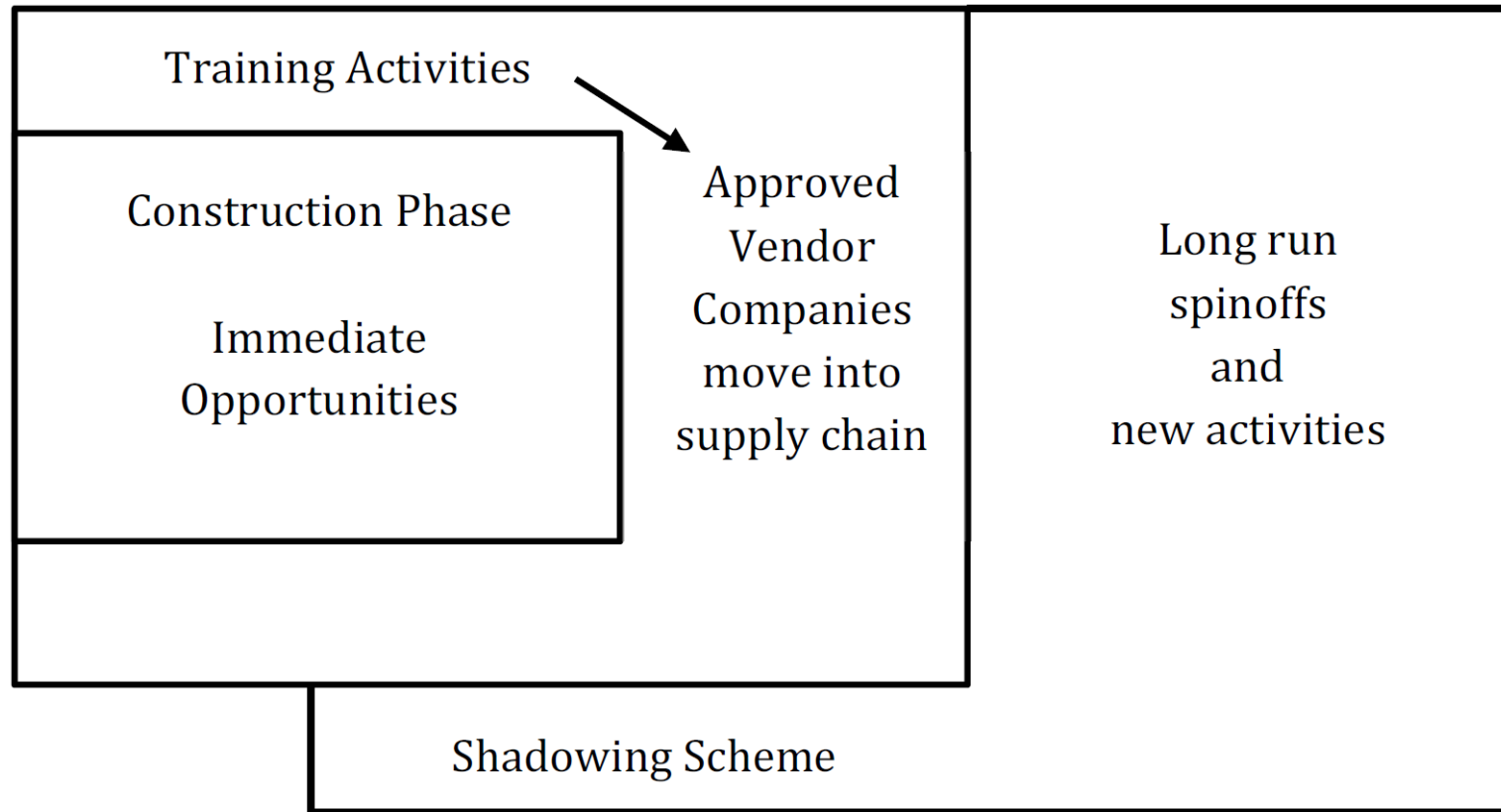
- ❧ Columbia as a success story
- ❧ Tipiel now does engineering design for Italian clients
- ❧ PTS took over Well Testing from Schlumberger/Haliburton
- ❧ Equipo took over Plant Maintenance from Wood Group
- ❧ Angolan achievements
- ❧ Disappointments in Azerbaijan

# Managing the process



- ❧ The key to success lies in having a deep understanding of existing industrial capabilities
- ❧ It is crucial to focus on narrowly defined sectors which offer long term viability
- ❧ It is hopeless to expect a large number of ventures

# A Timeline in Three Phases





# Timescale and Phasing



- ❧ The role and nature of a Local Content Unit
- ❧ The initial Phase: Takoradi Port
- ❧ Understanding the huge breadth of opportunities
- ❧ The Offshore Phase

# Openness of Process



- ✧ It is vital to have a fair and open process
- ✧ But it is no less important to carefully design criteria for Approved Vendor status in the light of a deep understanding of Tanzania's existing industrial capabilities

# The Range of Opportunities



- ❧ See the Chapter on Steel, Engineering and Assembly for Tanzania's potential recruits in the construction of Rigs and Terminals
- ❧ See the chapter on Food Processing for leading potential suppliers
- ❧ And see also how, as in Columbia, new forms of sophisticated services can boom.

# Firms and Prospects



- ❧ Using the Enterprise Map volume in Ghana
- ❧ Training centres (Business and Technical)
- ❧ The role of private and public agencies in firm training
- ❧ A 2 year timescale

# Shadowing Schemes



- ❧ How they work
- ❧ Open recruitment by firms
- ❧ Possible scale
- ❧ Payoffs
- ❧ Pitfalls
- ❧ spinoffs

# Education and training



- ❧ How to build university faculties and programs
- ❧ Timescales and opportunities
- ❧ Long run prospects

# Tensions and controversies



- ⌘ How to avoid favouritism and corruption
- ⌘ Open processes but realistic targets
- ⌘ Misconceptions in International Agencies
- ⌘ Getting real with governments: understanding what is feasible (a lot !)
- ⌘ Reacting effectively to standard put-downs from (some) Multinationals

# How to have openness AND efficiency



- ❧ Knowing local capabilities (The Enterprise Map volume)
- ❧ The concept of Approved Vendor Status
- ❧ How firms become approved Vendors
- ❧ The open tender for Approved Vendors



# The Structure of Local Involvement



- ❧ A lead local contractor (by sector)
- ❧ Building the supplier base via the lead local contractor

# The Breadth of Local involvement



- ❧ Construction
- ❧ Services (helicopter leasing)
- ❧ Retail (port development)
- ❧ Catering ( Safety Standards)
- ❧ General manufacturing (furniture)
- ❧ Engineering (lessons from Ghana; Finding foreign partners for local firms in the chain)

# False Trails



- ❧ Domestic Content Rules and how MNCs can circumvent them
- ❧ A win-win negotiation approach
- ❧ Partnering with host governments

# Prospects and Challenges



- ❧ Maintaining High Growth requires inter alia a Broadening of Industrial activity
- ❧ This requires both expanding the activity of local firms, and a surge in FDI
- ❧ Expanding the range of activity demands a qualitative shift in industrial capabilities
- ❧ Whether this transition can be achieved depends crucially on policy choices