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 Economy has had really strong growth performance over the past decade.

The good news is that this growth has been broadly based across sectors.
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.)
Figure 3. The changing size and composition of Tanzania’s exports, 1997–2010.
If this continues, Tanzania can become a middle income country in a decade or so.
But can it continue?
And How?
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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

- Oil and Gas Sector
- Domestic Industry

These must be linked
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?
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
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.
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

- Training Activities
  - Construction Phase
    - Immediate Opportunities
  - Approved Vendor Companies move into supply chain
- Shadowing Scheme
  - Long run spinoffs and new activities
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
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)
Domestic Content Rules and how MNCs can circumvent them

A win-win negotiation approach

Partnering with host governments
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