LEVERAGING PROCUREMENT ON INFRASTRUCTURE PROGRAMMES TO UNLOCK ECONOMIC VALUE
The focus of the document is to share high level initial thoughts on the localization situation in Tanzania and highlight potential focus areas.

Focus areas

1. Current localization and industrialization situation within Africa and Tanzania
2. Importance of localization and local content for economic growth
3. Leveraging targeted procurement to achieve localisation and economic growth
4. Going forward – Recommendations, action plan and impact

SOURCE: Team analysis
Agenda

1. Current situation in Africa
2. Current situation within Tanzania
3. Targeted procurement as a strategy
4. Moving forward
Despite enormous potential, the Continent has not lived up to its potential compared to other developing economies

Compared to the BRIC countries, Africa as a continent is large, less densely populated and generally poor.

**Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Africa</th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population 2013 (M)</td>
<td>1,053</td>
<td>200</td>
<td>1,361</td>
<td>1,243</td>
<td>141</td>
</tr>
<tr>
<td>Population Density (people per sq km of land area)</td>
<td>35.0</td>
<td>23.7</td>
<td>145.5</td>
<td>421.1</td>
<td>8.8</td>
</tr>
<tr>
<td>GDP 2013 ($ B)</td>
<td>2,064</td>
<td>2,190</td>
<td>8,939</td>
<td>1,758</td>
<td>2,118</td>
</tr>
<tr>
<td>GDP per capita 2013 ($)</td>
<td>1,960</td>
<td>10,958</td>
<td>6,569</td>
<td>1,414</td>
<td>14,973</td>
</tr>
<tr>
<td>Area (M Sq. Km)</td>
<td>29.4</td>
<td>8.5</td>
<td>9.3</td>
<td>3.0</td>
<td>16.4</td>
</tr>
</tbody>
</table>

SOURCE: Team analysis
A large proportion of African states have low industrialisation as a result of being historical resource led-export economies.

African countries industrialisation performance

- African countries need a renewed commitment to industrialisation in order to diversify their economies.
- Characterized by a strong reliance on unprocessed natural resource exports and a low contribution of manufacturing activities to GDP.
- Average manufacturing value added (MVA) per capita level is below $100.
- No considerable industrial growth during the last 20 years.

SOURCE: UNIDO/UNCTAD

Achievers: Countries with a comparatively high level of industrialization in per capita terms, but whose per capita output has mostly stagnated in recent years. Forerunners: Countries which are on a path towards long-term sustained growth and have already developed sizeable manufacturing activities.
There is a burning need to unlock and accelerate industrialization…

Africa needs to look inward… …and strive to

1. Maximize and unlock the agricultural sector moving to total self-reliance and increased export capability

2. Accelerate infrastructure and manufacturing to enable and beneficiate local value add and regional returns

3. Enhance regional integration to create a compelling and competitive united trade and services network

SOURCE: Team analysis
Tanzania is a growing economy, however more needs to be done to unlock its economic development potential.

Growth and investment prospects

- **Forecasted increase in GDP growth (2015-2019):** 6.8%
- **GDP composition (Top 4 sectors):**
  - Agriculture: 34%
  - Wholesale & Retail: 13%
  - Services*: 10%
  - Construction: 10%

Investment

- FDI Inflows: $2bn
- ODA inflows*: $3bn

**Growth is evident, however economic development requires more focus**

- Despite growth and foreign investment, 28.2% of the population remain poor, the rural population constitute 69% of the population and only 15.3% have access to electricity.
- Exports constitute 18.5% of GDP, whilst imports constitute 29.9% of GDP, signifying Tanzania’s reliance on primary commodity exports and the opportunity to beneficiate or build more local / self-reliant services.
- Despite increased investment in the country and investment in infrastructure development, industrialisation and localisation need to be focused on.

* Finance, real estate and business services
Source: Development AID at a Glance, 2015, World Bank indicators
Currently, there is a large amount of infrastructure development in Tanzania, this can be used to drive economic development.

**Rail**
- Commercial loans will be used to finance a $14.2bn rail network programme, this includes building a 2,561 km railway, linking Dar es Salaam to Rwanda and Burundi and 2 additional lines that will connect Dar es Salaam to mining areas in the south and north.
- Chinese Government have signed a US$42m agreement Tanzania-Zambia Railway Authority (Tazara) to rehabilitate the railway.
- A 1,651 km line is planned to link Dar es Salaam with Isaka (Tanzania), Kigali (Rwanda) and Musongati (Burundi) and estimated to cost US$ 5.1 billion.

**Port**
- The Port of Dar es Salaam is expected to be expanded, at an estimated cost of US$ 400-650 million.
- A new port and economic zone is currently under construction at Bagamoyo and is estimated to cost US$10bn.

**Natural Gas**
- BG Group/Ophir Energy have discovered 7 trillion cubic feet in recoverable reserves from three offshore blocks.
- Statoil/Exxon-Mobil have discovered 9 trillion cubic feet.
- Petrobras/Shell are developing two offshore blocks.
- A $1.2bn, 532km natural gas pipeline is being developed from Mtwara in the south to Dar es Salaam.

**Power**
- China’s Sichuan Hongda signed a US$3 billion coal and iron ore mine and a 600 megawatt (MW) coal-fired power plant.
- General Electric and Symbion Power have signed a co-operation agreement to develop a 400 MW gas-fired power plant.

---

*Source: The Maritime Executive, 2015, Daily Maverick*

*Infrastructure development has been identified as a priority in the National Strategy for Growth and Reduction of Poverty, the government’s five year development plan, as well as in the Big Results Now initiative.*
Plans have been developed to support economic development within Tanzania, however a more detailed approach is required

The current approach to industrialisation is based on the Tanzania Development Vision (TDV) 2025, in which the 4th phase is based on 5 Year Development Plans (FYDP) which is a combination of private sector-led industrialisation and public-private sector partnerships.

**Each FYDP focuses on a specific agenda:**

- **FYDP I** Removal of binding constraints to growth (hard and soft infrastructure, electricity and markets)
- **FYDP II** Industrialisation to be one of the pillars of socio-economic and political development (Intensified industrial development and promotion for structural change-Light manufacturing and resource based strategic industries)
- **FYDP III** Further promoting the competitiveness of the manufacturing sector and a substantial improvement in Tanzania’s share in global and regional trade

• This focus will place industrialisation at a central position in Tanzania’s future growth agenda and will shift focus from an ‘agricultural economy’ to a ‘semi-industrialised’ one essential for the ailing industrial sector

• In addition, Government is also implementing an Integrated Industrial Development Strategy (IIDS) 2011-2025 to enable the realization of the objectives and targets stipulated in the TDV 2025

• Although plans and aspirations have been set at a high level, a more detailed approach is required to maximise economic value

Source: Industrial development and its role in combating unemployment in Tanzania, 2016
However most industries in Tanzania are not capitalising on the opportunity to create sustainable local eco-systems except in Oil & Gas

Procurement arrangements that have been made (Tanzania)...

- Allows for **preferential procurement** including domestic preference (limited to 10-15% margin of preference).
- The **Oil & Gas Local Content Policy** has laid some foundations and can be leveraged
- The existing provisions of Development Finance Institutions include:
  - **International Competitive Bidding (ICB)**, properly administered, and with the allowance for preferences for **domestically manufactured goods** and, where appropriate, **domestic contractors** for works under prescribed conditions
  - The **World Bank supports local economic development** and allows a margin of preference to domestic contractors (up to 7.5%)
  - **African Development Bank grants a margin of preference** of 10% to domestic contractors

...However, there are still challenges that limit potential ED benefits

- There is **no specific local content policy** for infrastructure projects
- Contractual mechanisms and/or **specifications aren't included**
- Based on recent procurement documents, there is **no consistency** in the way that **domestic preference is implemented** (massive loss of opportunity)
- Economic Development requirements need to be amended which may lead to domestic preference having a larger impact

Source: Team analysis; Tanzania Government Online material; NEPAD
Agenda

1. Current situation in Africa
2. Current Situation within Tanzania
3. Targeted procurement as a strategy
4. Moving forward
Procurement in particular is one of the strongest mechanisms to create downstream local value

Through targeted procurement, Tanzania can experience increased competitiveness, capacity and capability where comparative advantages can be achieved in the local supply chain.

Source: Team analysis
Letsema has developed various processes to accurately classify the opportunities

**Perform spend analysis**
- Perform 5 year future spend analysis (alternatively use current/historic) to determine value per commodity/opportunity

**Understand nature of procurement**
- Understand the nature of the procurement with respect to value, industrial leverage, and strategic importance

**Understand major commodities**
- Understand the commodities which are required for business

**Determine degree of industrial complexity**
- Map the industrial complexity of the parts which make up the capital and operational items

**Develop long term industry goals**
- Map the industrial complexity of the items to the capability and capacity of the existing industry and develop industry cluster strategy (where possible)

**Categorize Supplier Development Opportunity**
- Plot the spend and industrial leverage analysis into the IC³ matrix to determine appropriate level of ESD potential

**Identify & implement interventions**
- Identify practical and relevant interventions for key commodities
- Plan and implement interventions

**Create appropriate sourcing strategy**
- Create sourcing strategy with appropriate evaluation criteria aligned to the developmental goals of the sourcing organisation

**Evaluate bids, negotiate, award and contract**
- Evaluate supplier bids and negotiate most favourable economic development benefits prior to award
- Contract the ESD plan

**Manage & monitor the industrialisation process**
- Ensure supplier complies with economic development obligations
Examples of economic development aspects that have been tried and tested in other countries successfully

<table>
<thead>
<tr>
<th>Support type:</th>
<th>Description:</th>
<th>Potential Intervention:</th>
</tr>
</thead>
</table>
| Enterprise Development | ▪ Range of interventions to assist or accelerate development, sustainability and ultimate financial and operational independence of **beneficiary entities**  
▪ Support of potential **start-up suppliers** | ▪ Incubation  
▪ Partnerships with established suppliers  
▪ Access to funding / Investment programmes  
▪ Soft skills training centers (business hubs)  
▪ Professional management and mentoring  
▪ Provision of facilities  
▪ Training academies |
| Direct Supplier Development | ▪ Range of interventions to assist or accelerate development, sustainability and ultimate financial and operational independence of **beneficiary suppliers**  
▪ Support of existing **small enterprises**  
▪ Direct interventions to **assist large** established enterprises to execute on more complex contracts and facilitate innovation | ▪ Incubation  
▪ Township supplier development  
▪ Partnerships with established suppliers  
▪ Access to funding / Investment programmes  
▪ Shorter payment terms  
▪ Professional management and mentoring  
▪ Promotion of joint ventures  
▪ Training academies  
▪ Supplier Readiness Programmes |
| Indirect Supplier Development | ▪ Development of local suppliers through **execution of contract**  
▪ **Leverage large procurement spend** to influence downstream suppliers to, as part of their contractual commitments, commit to policy targets | ▪ Leverage contracting  
▪ Partnerships with established suppliers  
▪ Promotion of joint ventures  
▪ Sub-contracting  
▪ Set-asides |

SOURCE: Team analysis
Targeted procurement has seen many successes worldwide in optimising country development.

- **Within the Renewable Energy Industry:**
  - The Moroccan Agency for Solar Energy (MASEN) is a public-private agency dedicated to developing energy but also to support the development of a new industrial sector through training, capacity building, and research and development.
  - The country is prioritising the manufacturing of components for photovoltaics (films, cells, panels) solar thermal (flat mirrors, control systems, condensers), and Solar Water Heaters.
  - The government is providing various fiscal incentives to encourage local manufacturing, including low-cost land and related services as well as free-trade-zone status.

- **Within the Mining Industry:**
  - Of US$484m in procurement in 2004, Escondida reported 82% from local suppliers, and 18% imported.
  - BHP Billiton’s Spence mine reported 86% of its purchases as being national purchases in 2008, representing a spend of US$467m. Of these national purchases, 35% of the suppliers were in the local region.

- **Within the Oil & Gas Industry:**
  - Supplies 50–60% of capital inputs and 80% of the operational and maintenance inputs.
  - Employs 5% of its private-sector labour employed in oil and gas supply chains.
  - Exports approximately 46% of its sales to other countries (with 7 in 10 companies involved in exporting).

- **Within the Transport Industry:**
  - 2000 out of 3000 parts used for the build of 50 new EMD locomotives were sourced locally.
  - Total training intake of 118989 students between 2008 and 2013.

- **Within the Renewable Energy Industry:**
  - Solar PV and Wind are the two main technology types, with local content having commitments having increased from 38% to 53% for Solar PV and from 27% to 47% for wind (% of total project value).

- **Within the Automotive Industry:**
  - Nigeria’s Federal Government introduced the National Automotive Industry Development Plan (NAIDP) which implemented measures in an effort to transform Nigeria’s automotive industry and attract investment into the sector.
  - Three major international brands: Nissan, Peugeot, and Hyundai have already established local assembly plants, with Renault and Kia expected to follow.

- **Within the Oil & Gas Industry:**
  - Local supply has increased from 57% to 75% from 2003 to 2008.
  - Contributes US$9.3bn to the economy.
  - An agreement between Petrobas and SEBRAE - a national small business support association - has generated US$113m in transactions for local materials and equipment supplies.

- **Within the Renewable Energy Industry:**
  - The Moroccan Agency for Solar Energy (MASEN) is a public-private agency dedicated to developing energy but also to support the development of a new industrial sector through training, capacity building, and research and development.
  - The country is prioritising the manufacturing of components for photovoltaics (films, cells, panels) solar thermal (flat mirrors, control systems, condensers), and Solar Water Heaters.
  - The government is providing various fiscal incentives to encourage local manufacturing, including low-cost land and related services as well as free-trade-zone status.

- **Within the Mining Industry:**
  - Of US$484m in procurement in 2004, Escondida reported 82% from local suppliers, and 18% imported.
  - BHP Billiton’s Spence mine reported 86% of its purchases as being national purchases in 2008, representing a spend of US$467m. Of these national purchases, 35% of the suppliers were in the local region.

- **Within the Oil & Gas Industry:**
  - Supplies 50–60% of capital inputs and 80% of the operational and maintenance inputs.
  - Employs 5% of its private-sector labour employed in oil and gas supply chains.
  - Exports approximately 46% of its sales to other countries (with 7 in 10 companies involved in exporting).

Through targeted procurement countries are able to maximise the local value-add, creating business opportunities and raising the levels of skilled employment.

SOURCE: Team analysis
Agenda

1. Current situation in Africa
2. Current Situation within Tanzania
3. Targeted procurement as a strategy
4. Moving forward
Key outputs expected from the current study

1. Current status-quo Local Economic Development for Tanzania
2. Current Local Economic Development mechanisms and estimated opportunity sizing
3. Top constraints and priority focus areas
4. Best practice learnings and applicable elements
5. Consolidated recommendation paper on Local Economic Development. This will include recommendations on target infrastructure programmes/projects and/or related industries
6. Develop Generic Local Economic Development Guideline for Build Programmes (Transport / Energy sector) (first draft)
7. Share first drafts of the following at relevant Public-Private Forum/ Validation Workshop(s) for comment / revision
   a. Local Economic Development Guideline
   b. Recommendations for target infrastructure programmes/projects and/or related industries
8. Revised Generic Local Economic Development Guideline for Build Programmes
9. Revised recommendations for target infrastructure programmes/projects and/or related industries

SOURCE: Team analysis