



LETSEMA



SADC INDUSTRIALISATION WEEK:

Local Economic Development for Tanzania

Discussion Session

08 August 2019

Contents

- 1 Context and Objectives
- 2 Local Economic Development (LED) Overview
- 3 LED Discussion

Project context and objectives

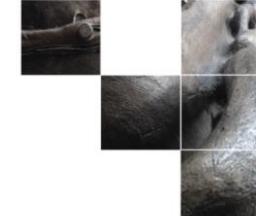
Purpose

This project presents options for the localization, local content development and local performance in the transport infrastructure sector in Tanzania. It aims to develop a better understanding of, and application to, delivering local economic development (LED) in planning, procurement and implementation of transport infrastructure projects



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- The project parameters have been developed through collaboration between the African Development Bank and the NEPAD Business Foundation, in partnership with Letsema Consulting
- While several sub-Saharan African countries were initially under consideration, Tanzania was selected as the country most suited for the study pilot
- It is anticipated that this country study will inform a continent-wide process to developing local capacity, local supply and local policies for economic development, beneficiation and value-addition as part of the industrialization challenge that many African countries face
- It is of highest importance for job opportunities to be provided for the millions of young Africans seeking to enter the labour market annually.
- There is consensus that it will take a massive industrialization drive to address widespread unemployment and poverty, and to achieve sustainable development across the African continent.
- It is expected that this will also lead to technological innovation, skills development, knowledge-intensification and capital accumulation



Objectives of today's session

1 To share and discuss best practice Local Economic Development (LED) learnings

2 To discuss and align on LED landscape in Tanzania

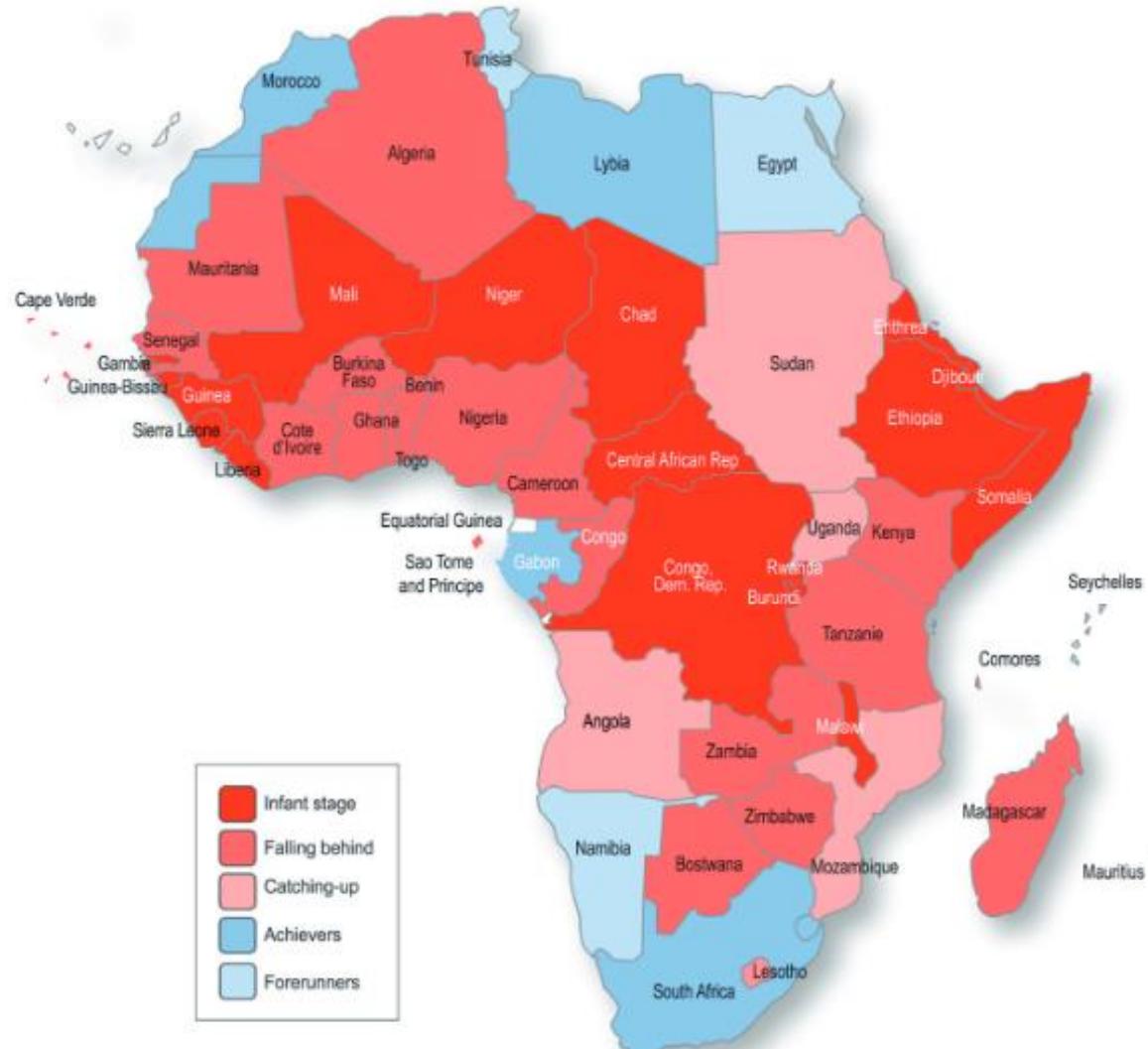
3 To get inputs on LED challenges and opportunities

4 To get strategic inputs into LED design

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A large proportion of African states have low industrialisation as a result of being historical resource led-export economies



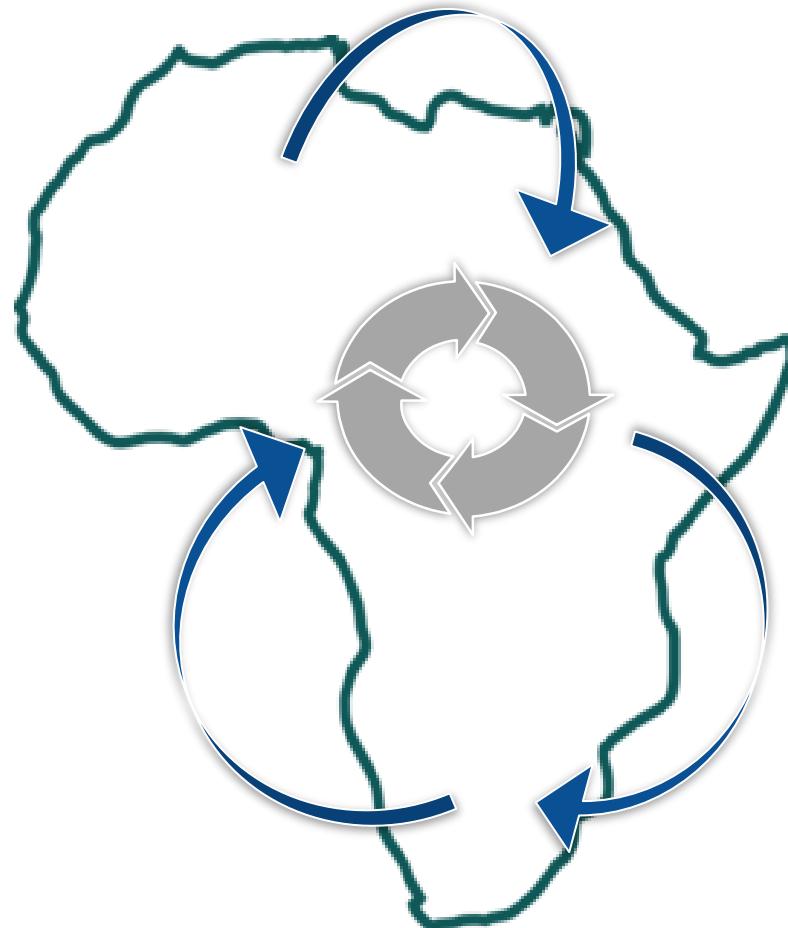
- African countries need a renewed commitment to industrialisation in order to diversify their economies
 - Instead characterized by a strong reliance on unprocessed natural resource exports and a low contribution of manufacturing activities to GDP
 - Average manufacturing value added (MVA) per capita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

SOURCE: 1 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...



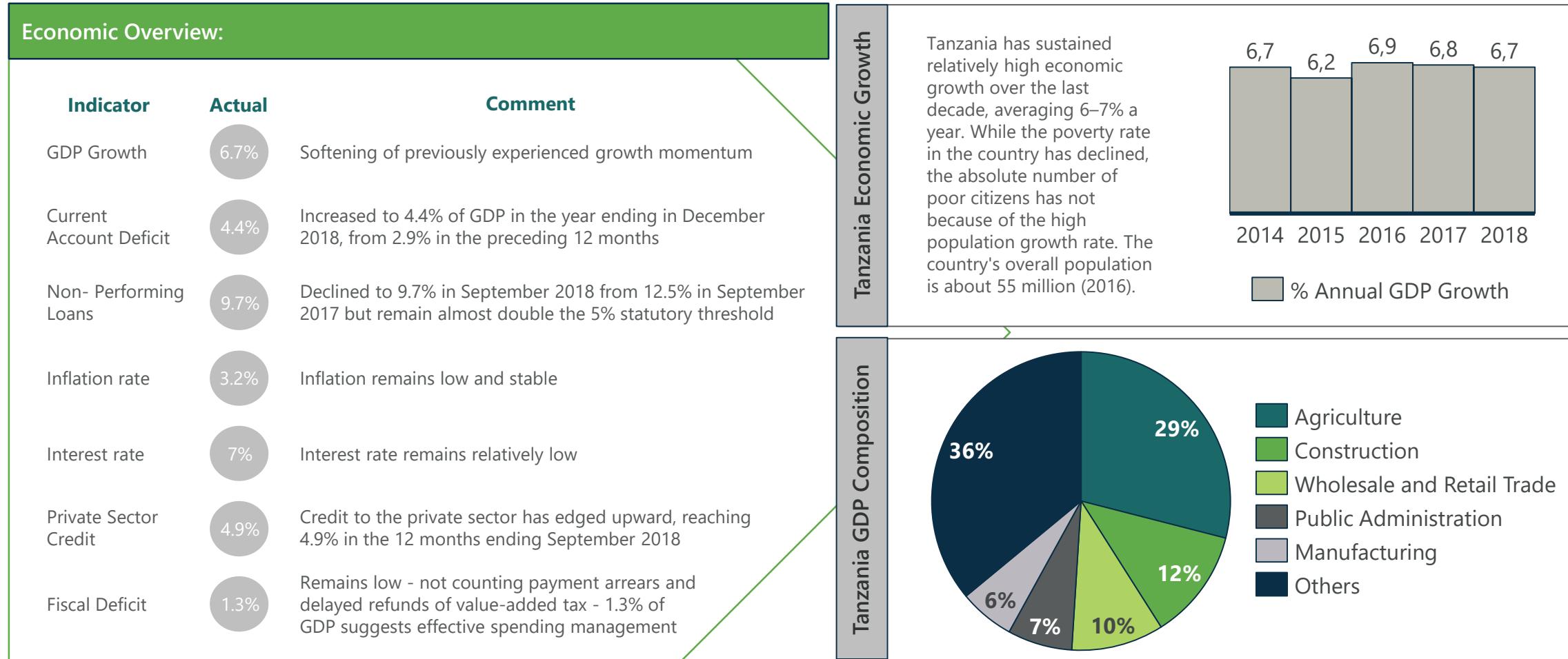
...and strive to

- 1 Maximize and unlock the agricultural sector moving to total self-reliance and increased export capability
- 2 Accelerate infrastructure and manufacturing to enable and benefit local value add and regional returns
- 3 Enhance regional integration to create a compelling and competitive united trade and services network

SOURCE: Team analysis

Understanding the Tanzanian Landscape

The Tanzanian economy has maintained relatively high economic growth – with a high reliance on its agricultural industry



Transport was prioritized as a key enabler for economic development

Analysis of transport infrastructure's effects on elements of economic development

Role of Transport Infrastructure in Economic Development

Empirical research shows that countries with developed transport infrastructure are typically more developed economically than those without good transport infrastructure.

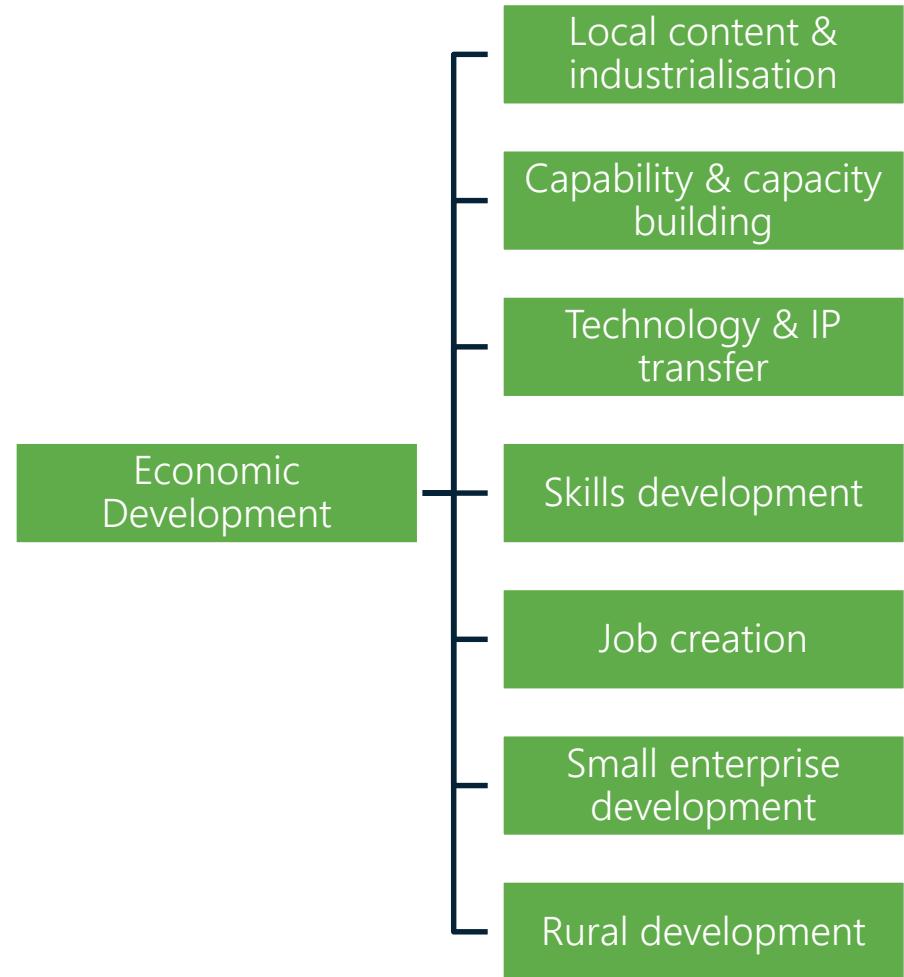
Impact of Transport Infrastructure on ...

	Employment	Investments in transport infrastructure results in direct and indirect creation of job opportunities. Directly, jobs are formed when transport projects are designed, constructed and maintained. Indirectly jobs are formed when there is an increase in demand for the main inputs needed during construction and renovation of transport infrastructure
	Agriculture	Agriculture is the main anchor of economic growth in many African countries including in Tanzania where 70% of the population earns a living directly and indirectly through it. Having adequate transport systems ensures price reduction for agricultural inputs, improves market access for agricultural produce, results in increased productivity and a better standard of living for citizens
	Production costs	Transport infrastructure lowers domestic production costs through timely delivery of commodities. It ensures that raw materials and finished commodities are delivered to markets timeously thereby reducing transportation costs. It also increases trade competitiveness by helping to eliminate trade barriers that slows movement of goods and production inputs
	Developmental impact	Transport infrastructure is important in reducing poverty in developing countries. There is often very limited choice in these areas between motorised and non-motorised transport such as bicycles, carts, camels and donkeys and where motorised transport is provided; they tend to be infrequent, expensive, unreliable, crowded and unsafe
	Access to health centres	Transport infrastructure is necessary to reduce perinatal maternity and infant mortality which is high in developing countries since households are often far from health facilities. As a result, some people die because they cannot get attention from health workers in time. Similarly, many expecting women give birth at home because dispensaries or health facilities are far away
	Education and skills development	According to a study conducted in Morocco, tarred roads increased girls' school attendance by 30% and boys' attendance by 18%. In terms of skills development, it was found that transport infrastructure investments improve skills development of local people involved in construction, operation and maintenance of transport infrastructure

What is LED?

Definition

The process in which local people work together to achieve sustainable economic growth that brings economic benefits and improvements in quality of life for all in a local community



- LED promotes local ownership, community involvement, local leadership and joint decision making
- LED involves local, national, and international partnerships between communities, businesses and government to solve problems, create joint business ventures and build local areas
- LED uses local resources and skills and maximizes opportunities for development
- LED involves the integration of diverse economic initiatives in an all-inclusive approach to local development
- LED relies on flexible approaches to respond to changing circumstances at local, national and international level

High-level LED policy best practice process

Overview of successful LED principles

1



Local economy assessment

Knowing the characteristics of the local economy is critical if stakeholders are to identify and agree a realistic and achievable LED strategy

Tools including SWOT analysis, benchmarking and regional economic indicators may be used to identify key information on the local economy

The assessment will be used to identify public, private and non-governmental resources, collect and analyze existing or critical new quantitative and qualitative information

2



Organizing the effort

Successful LED requires the collaborative effort of public, private and non-governmental sectors

The strategic planning process begins by identifying the stakeholders that comprise and/or impact the local economy

Maintaining and sustaining such partnerships is often the critical and challenging factor determining the effectiveness of LED efforts

3



Policy making

The intent is to achieve an integrated approach to local economic development strategic planning

In devising policy, government and principal stakeholder groups will need to balance local economic development with environmental and social needs

A typical LED policy encompasses the vision, goals and objectives

4



Policy implementation

Every LED strategy should have be based off of the LED policy, together with the specific sector/industry climate

The implementation plan sets out the specific objectives for each sector/industry

5



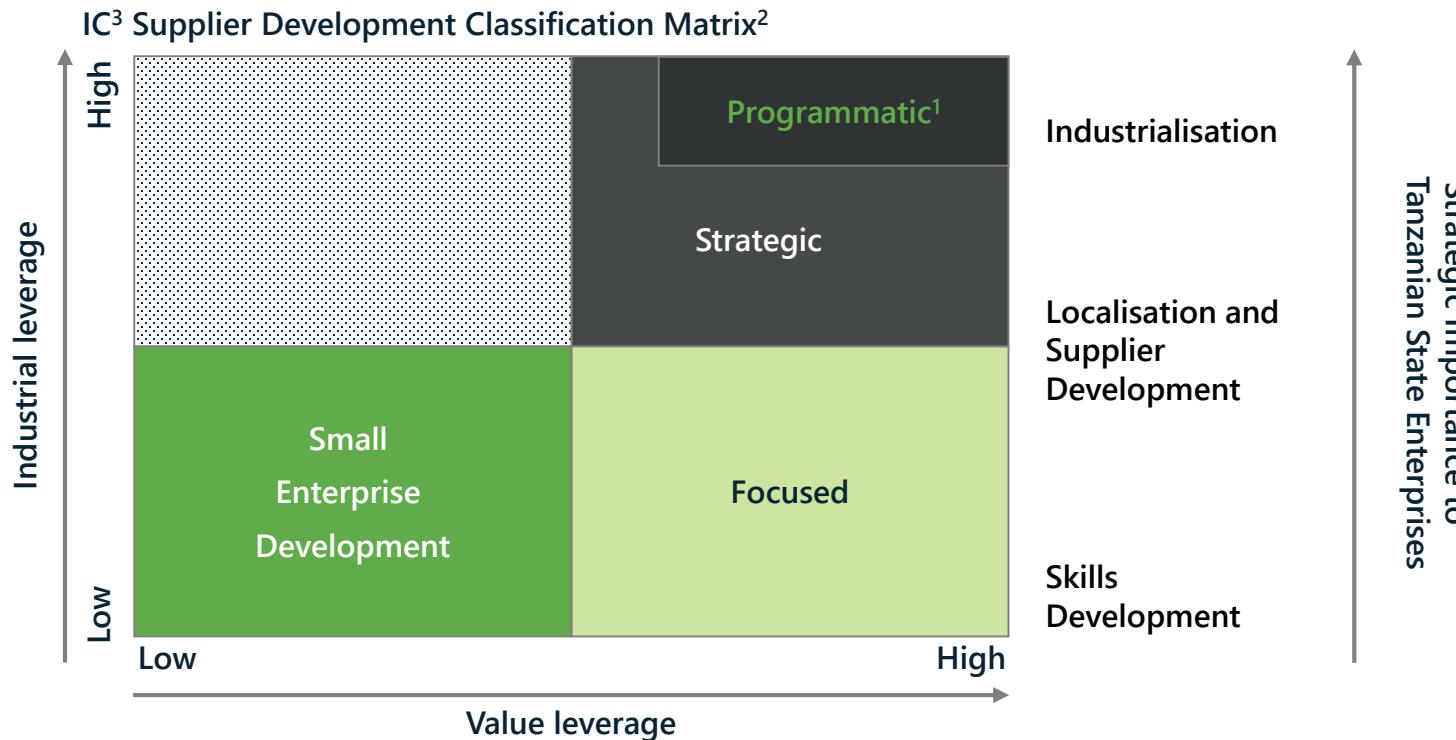
Policy review

The policy should be reviewed annually to allow for adjustment in response to changing local conditions

A more comprehensive revision usually takes place every three years

This review should consider the resources available for the delivery of the policy and include established and agreed monitoring and evaluation indicators of the local economy

Letsema has developed the IC³ localization framework to identify and prioritize local development initiatives



Value Leverage refers to transactions where the financial scale of the transaction allows the buyer the opportunity to negotiate supplier development.

Industrial Leverage refers to transactions whereby the nature of the procurement is such that the scale and the industrial complexity of the item being purchased allows for local supply chain development around a particular industry.

Strategic Importance to Tanzanian State Enterprises refers to the extent to which the product to be procured has an impact on Tanzanian State Enterprises's core business.

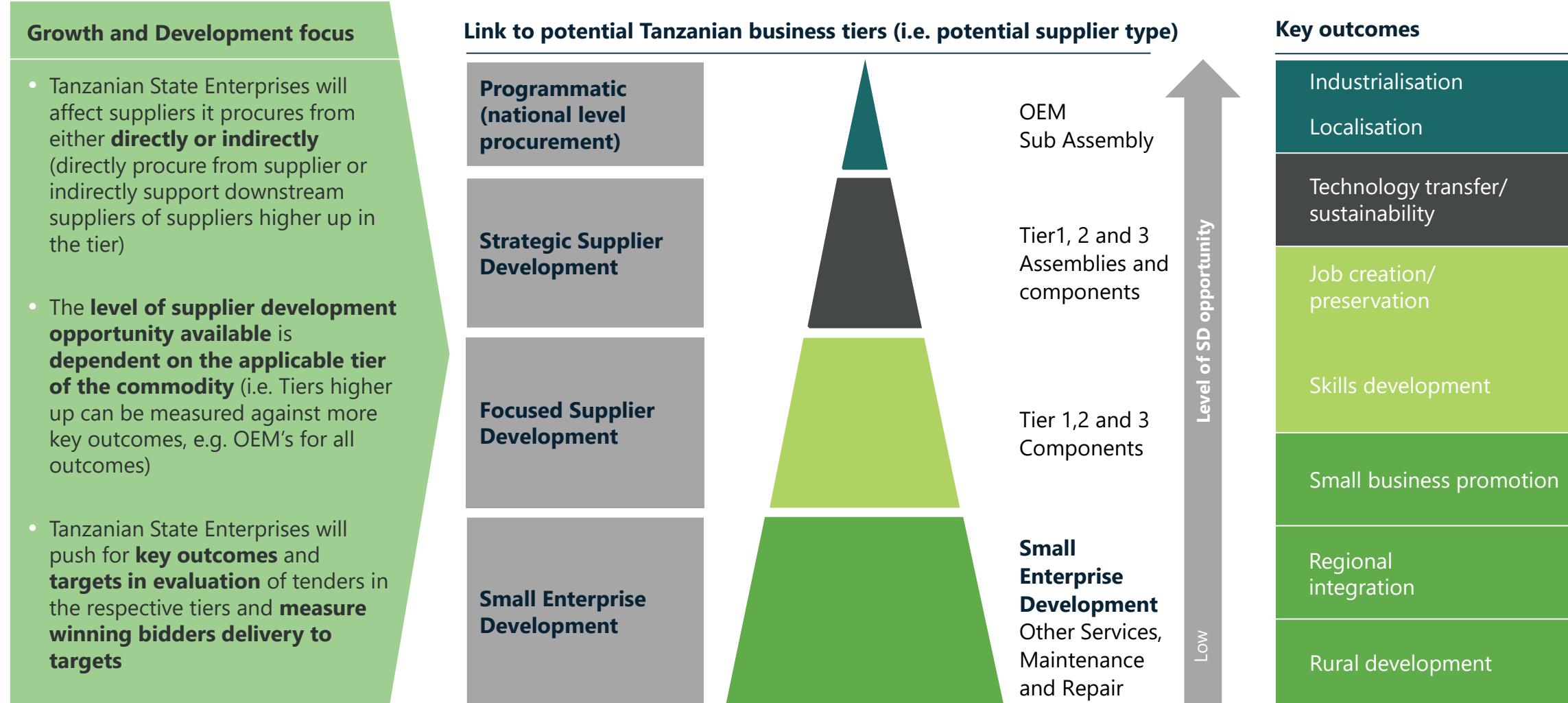
¹ This could be further refined in the future through the Letsema Programmatic Policy

² Adapted from the Letsema Supplier Classification Matrix focused on Increased Competitiveness, Capability and Capacity.

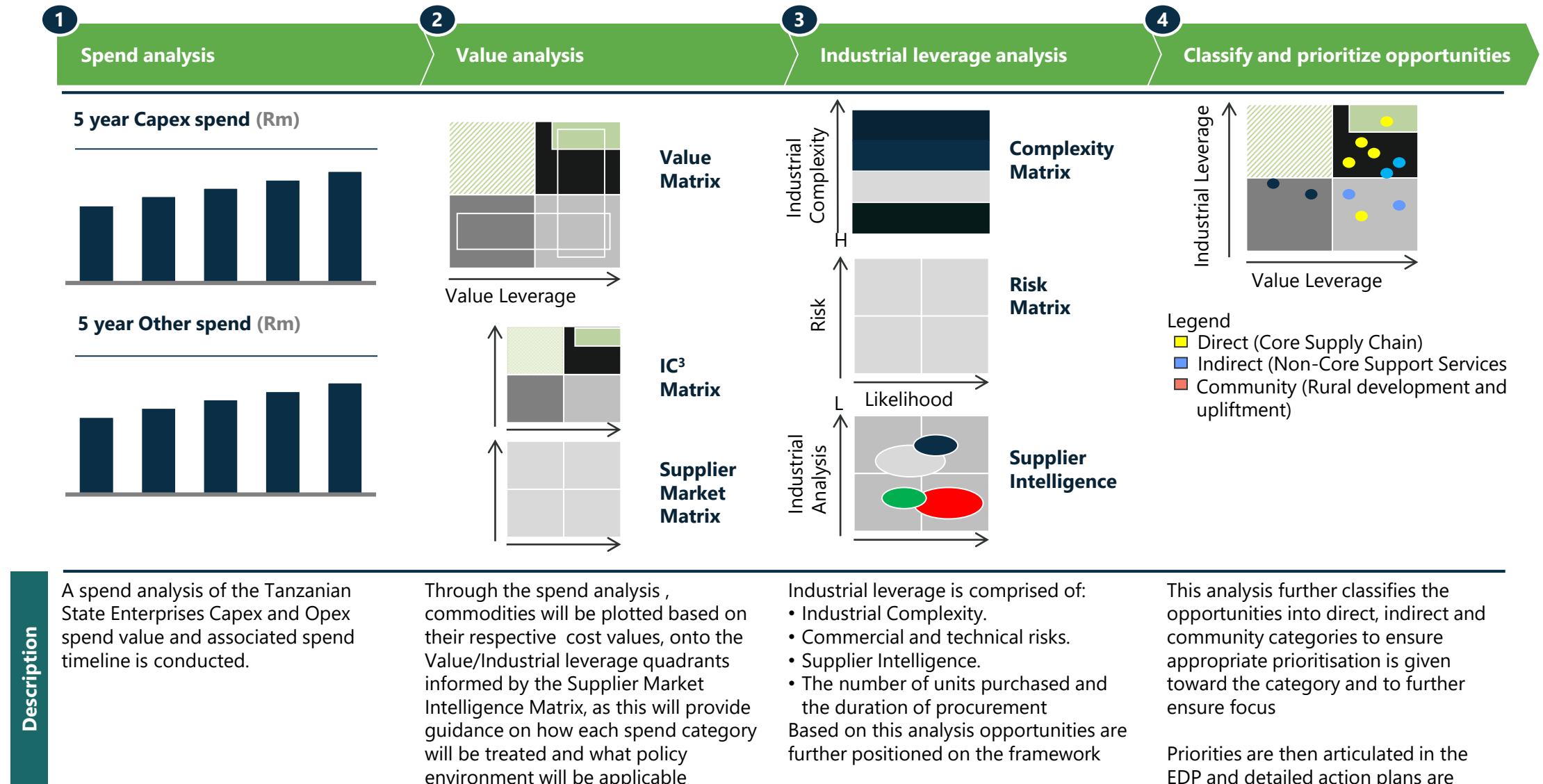
³ This quadrant reflects commodities that have a low value leverage and high industrialisation opportunity, however are not feasible from a competitiveness perspective

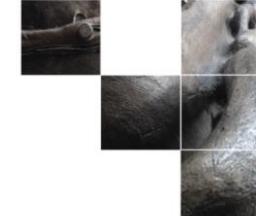
Source: Team analysis

Once a project has been categorised, each quadrant of the IC³ matrix presents the associated developmental potential and opportunities



Letsema has developed various processes to accurately classify the opportunities





Once the opportunity has been classified, a number of different procurement strategies can be explored (not exhaustive)

1 Reservation

Set Asides
Qualification Criteria
Contractual Conditions
Offering Back

2 Preferencing

Preferences at Shortlisting Stage
Qualification Criteria
Contractual Conditions
Offering Back

3 Indirect

Design of specifications, contract conditions and procurement processes to benefit particular contractors

4 Supply side

General Assistance
Other

- The **selection of the correct procurement** implementation method **vital**
- **Optimisation of localisation/ industrialisation** will be **highly dependent** on the **suitability of the method** chosen
- The procurement method must be **implemented in a manner so as to achieve the most favourable outcomes**

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 **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



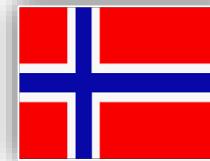
- Within the **Renewable Energy Industry**:
- Solar PV and Wind are the two main technology types, with local content having commitments having increased from 38% to 53% for Solar PV and from 27% to 47% for wind (% of total project value)
- Within the **Transport Industry**:
- 2000 out of 3000 parts used for the build of 50 new EMD locomotives were sourced locally
- Total training intake of 118989 students between 2008 and 2013



- Within the **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 Petrobras and SEBRAE - a national small business support association - has generated US\$113m in transactions for local materials and equipment supplies



- 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

South Africa: Railway Revitalization case study



Detailed description of the contract

- Gibela is spearheading the revitalisation of rail transport in South Africa's metro areas
- Gibela is conscious of its role as a catalyst for economic development and skills development through its majority shareholder, Alstom
- Gibela's factory – also its corporate office – occupies a site covering more than 78 hectares at Dunnottar, Ekurhuleni, Gauteng
- This factory, a cornerstone for the revitalisation of the railway manufacturing industry in South Africa's industrial heartland, is being built to the highest international standards and will be a centre of excellence in its own right

Contractual obligations

The effects of 2 pieces of legislation culminated in the directives of PRASA's specific contractual obligations for the winner of the trainset manufacturing – **BBBEE Act and Preferential Procurement Regulation**

- This empowered the DTI to use its discretion and create;
- Local content procurement targets,
 - Preferential procurement targets,
 - Job creation targets and
 - Supplier development targets which PRASA and Gibela have agreed on

Thus, obligations were created in order to achieve specific LED objectives

LED Impact



Job creation

Through the rolling stock project, Gibela will generate 33000 jobs (indirect & direct) through the supply chain over a 10-year period.



Economic & Supplier development

Gibela will train 19000 people during the life of the project



Preferential procurement objectives

Gibela will help grow smaller companies by offering the assistance in their developmental needs as well as offering them business



Local content procurement objectives

Gibela will achieve a 65% local content procurement objective over the 10 year period.

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Discussion questions

Questions

1. What are the current LED policies in Tanzania?
2. Are the LED policies working well?
3. What challenges are you facing in implementing LED policies?
4. Do you think that LED policy targets were well informed? Are they too high or too low?
5. What are the key success factors for supporting LED?



Existing policies and regulatory bodies that promote LED

Understanding Tanzania's existing policies and regulatory bodies which promote LED

Tanzania has an existing Local Economic Development policy framework in place; however, it is narrow and can be further developed

Tanzania has the following legislations that support Local Economic Development;



Petroleum Act



Non-citizen Act



Public Procurement Act



Local content regulations

Not exhaustive

Objectives:

These legislations seek to ensure;

- that Tanzanian citizens benefit from employment opportunities in the country;
- benefit from exploitation of natural resources in Tanzania and
- local firms are prioritised in procurement to support development of Small to Medium Enterprises in the country

Firms and government however violate implementation of these legislations. In some instances, some firms can bypass local content and procurement regulations and are also allowed to bring their own workers violating the Non-Citizens Act



The Non-citizen Act

Understanding how the Non-citizen Act promotes LED

The Non-Citizen Act (Employment Regulation Bill)

The Non-Citizens Act achieves local economic development by creating employment opportunities for Tanzanians by reserving low skilled and semi-skilled jobs for locals

The Act restricts employment of non-citizens in jobs that can be occupied by Tanzanians. It achieves this by imposing exorbitant visa costs in order to limit the number of foreigners applying for Tanzanian job Visas

Because of this, the cost of obtaining a Tanzanian work visa which cost \$250 in Uganda, between \$60 and \$80 in Burundi and \$1976 in Kenya is \$3000 in Tanzania

Apart from high visa costs, foreigners intending to work in Tanzania also must apply for a residence visa separately from the work visa further making it difficult for them to acquire the necessary paperwork to move to Tanzania

This law has however been ineffective in achieving LED objectives of creating employment opportunities for locals since MNCs involved in construction projects directly and indirectly flout it by hiring foreign unskilled labour, or when MNCs are exempted from complying with the legislation further rendering it ineffective for local economic development



Main provisions of the Non-Citizens Act:

Prohibits hiring of non-citizens for jobs that can be done by locals.

Employers who hire foreign workers should make plans that they are replaced by local workers when their permits expire.

Permits are restricted to classes of employment or other occupations specifically listed in a Government Gazette Notice

Work permits are valid for a period of twenty-four months from the date of issue. Renewal is possible, but any subsequent renewals cannot exceed thirty-six months (five years)

Where an investor's contribution is of great value to the economy or to the wellbeing of Tanzanians, then total work period can exceed ten years.

Permits are not transferable and are only valid for the purpose for which there were issued for.

They are three types of permits issued to foreign workers in Tanzania; Category A, B and C permits. Category A is issued to investors, B to employees while category C is issued to missionaries, students and volunteers.

Local content regulations

Summary of some of the local content regulations and how they promote LED

The Public Procurement Act, 2011

The Act requires:

- The procuring entity to grant a margin of preference for goods/services sourced manufactured and/or provided by Tanzanian entities
- Incentives to be used to encourage foreign firms to team up with Tanzanian firms
- Exclusivity for local firms (up to a maximum value) where finance is provided exclusively by a Tanzanian public body

The Public Procurement Regulations, 2013

Further to the above requirements of the Act, the Regulations require:

- The procuring entity to grant a margin of preference of up to 10% for local contractor/service providers
- Evaluation criteria shall be used for consultancy contracts as follows:
 - Participation of local firms:
 - Maximum weight of fifteen percent
 - Firms that demonstrate inclusion of local firms up to fifty percent shall be granted a full score
 - Participation of national experts:
 - Maximum weight of ten percent
 - Firms that demonstrate that more than sixty percent of their key staff is Tanzanian shall be granted a full score
- Procuring entities shall grant a margin of preference of up to 15% to domestically manufactured or produced goods

Petroleum Act, 2017

According to the Petroleum Act, a local company is a company that is either [1] 100% owned by a Tanzanian citizen or citizens [2] or a foreign firm that is in a joint venture with a Tanzanian citizen or citizens whose participating shares are not less than 15%

The objective of the Petroleum Act is to ensure oil and gas firms in Tanzania:

- develop Tanzania local businesses to become internationally competitive through the empowerment of local suppliers to meet the needs of the oil and gas industry;
- to enable local training institutions to run requisite curriculum relevant to oil and gas industry;
- to have appropriate technology transferred to Tanzania to enable Tanzanians to manage and operate the oil and gas industry;
- to maximize participation of skilled and unskilled Tanzanians in the oil and gas supply chain and value chain activities;
- to enhance value addition and job creation using local businesses;
- and to ensure compliance with Health, Safety and Environment standards in the oil and gas industry



Acts and Regulations such as the Non-Citizens Act, Petroleum Act, Local Content Legislations and Public Procurement Act have also **failed to effectively address local economic development** in Tanzania. Still, a significant percentage of people in rural areas and in urban areas still live below the poverty line in Tanzania despite an increase in economic growth in the last year. The failure of the policies **calls for a change in policy direction**. According to analysts and policy makers, **targeting transport sector investments could produce better results for LED than the policies mentioned above**

Thank you

Nirojan Poovendran
Partner

M: 082 777 9057
E: nirojanp@letsema.co.za



VISIT US



GIVE US A CALL



EMAIL US

Tafadzwa Mudyiwa
Senior Manager

M: 079 458 6431
E: tafadzwam@letsema.co.za

1st Floor
34 Melrose
Boulevard Melrose
Arch Johannesburg
2196

011 233 0000

ED@letsema.co.za