Adherence to and Reinforcement of 'Local Content' Policies in the Tanzania's Extractive Sector: Review of the Key Strategy and Regulatory Requirements for the Transformation of Tanzania's Liquefied Natural Gas (LNG) Industry

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About the series:

The United Nations University-Institute for Natural Resources in Africa in collaboration with the University of Warwick's Centre for the Study of Globalization and Regionalization, University of Leiden-African Studies Centre, Universidade Eduardo Mondlane and University of Ottawa's Centre on Governance undertook a joint United Nations Economic Commission for Africa funded project on "Engaging the Private Sector for Inclusive Extractive Industries and Sustainable Value Chains in Africa." The project was carried out through the study and analysis of four country case studies: Ghana, Tanzania, Zambia and Mozambique. The two-year study examined and prioritized backward linkages in Africa's mineral extraction and natural resources sectors, contributing to on-going efforts at answering the central problematic of how to leverage the latter industries to support, encourage, facilitate, and drive broad-based and sustainable economic growth and development, both transitionally and in key case study states.

Abstract

A significant increase in the dependence on extractive resources (minerals, oil and gas) for national development in Tanzania has resulted from the discoveries of very large quantities of natural gas, mostly offshore during the past decade. There are both opportunities and challenges involved in utilising these new sources of resource wealth. The aim is to achieve inclusive and sustainable development, in line with the strategies and pathways for economic and social transformation sketched out in the Tanzania Development Vision 2025 (TDV 2025). In the light of the high level of extractive dependence, the transformation of Tanzania into a middle-income country within a decade – as explicitly stated in the TDV 2025 – will depend on the strengthening of economic linkages between the extractive and other sectors of the economy. It will also depend on the creation of value-addition capacities within the extractive and primary production sectors. It is in this regard that 'local content' policies, especially in the extractive sector, assume the crucial role of the main driver and foundation for economic transformation and development. Such policies are designed to stimulate the use of local elements of production, such as labour, capital, and the supply of goods and services, to create value in the domestic economy and hence promote industrial development.

The article will critically review the evidence of Tanzania's interventions and outcomes with respect to local content policies, aimed at creating conditions to take advantage of the opportunities that are opening up for the participation of Tanzanian-owned entities as a consequence of the new oil and gas discoveries. In a wider context, the article will explore local content interventions to foster economic diversification and industrial development. Specifically, and against the background of existing Tanzanian legislation and its institutional setting, it will provide and analyse an update on relevant developments in the policies and regulations pertaining to capacity-building; the transfer of technology; innovative and transformative partnerships; the procurement of locally-produced goods and services; in-country downstream production and manufacturing; and local and regional supply and value chains. The article will end with some main conclusions and recommendations for successful local content policies towards maximising the returns and benefits from natural resources endowment.

I. Introduction: Background and Context – The Importance of 'Local Content' in the Extractive Sector

There has been a significant increase in the dependence on extractive resources (minerals, oil and gas) for national development in Tanzania. This is particularly the case following the discoveries of large quantities of offshore natural gas since about 2012. These discoveries brought the issue of 'local content' as a strategy for increasing local participation and to benefit from the oil and gas industry into sharp focus (Roe, 2016). As is now well known, many resource-rich countries that became excessively dependent on mineral resource exports have not managed to derive sufficient economic, social and political benefits from their extractive resources. In some cases resource endowment has even become a 'curse' rather than a benefit (Stevens et al. 2015; Ramdoo, 2013, Gelb et al, 1998; Sachs and Warner, 1995). Like the estimated 90 per cent of resource-rich countries that have applied one form of local content policy (LCP) or another (McKinsey, 2013), Tanzania has identified LCP as the key policy instrument for stimulating resource-led economic development and transformation. Hence, Tanzania has taken steps towards the enactment of legislation and regulations to support and reinforce local content requirements. These are requirements which are aimed at increasing the participation of the Tanzanian workforce and the development and expansion of local businesses in the extractive sector and, through spin-off effects, across other sectors of the economy.

In this regard, LCP embodies the mechanism for strengthening the correlation between (enormous) resource endowments and (successful) economic outcomes. From an economic policy perspective, the aim of LCP interventions is to develop and strengthen the economic linkages between the extractive sector and the rest of the economy. This must be done by stimulating the use of local factors of production, such as labour, local supplies, domestic capital formation, technology, and the procurement of goods and services, to create value in the national economy. In this way, it will contribute to desirable change in the structure of the economy and especially in industrial development. The needed outcome of LCP in this process of structural change is to ensure that each stage of the value chain being created is sourced from the domestic economy. The core elements that will characterise the impact of LCPs on the economic development trajectory are employment and labour market development, value creation or addition, the development of local industries, and the promotion of innovation, technology, research and development.

It is therefore not surprising that it is in the context of the oil and gas industry that local content legislation and policies have become a key priority of host governments and industry players alike (Ramdoo, 2016; Warner, 2011). More resource-rich developing countries are increasingly enacting local content legislation, which advances value creation and addition as a means of maximising the benefits to be gained from oil and gas production. In the case of Tanzania, the government and policy-makers have long since – going back to the establishment of the original Tanzania Petroleum Development Corporation (TPDC) in 1969 – identified the need for policy interventions that would potentially create a much bigger economic development impact from mining, oil and gas operations, and exports through revenues and capital investments. Very large deposits of natural gas, found in the territorial waters of Tanzania, have now pushed the issue of LCP with regard to the country's economic development trajectory to the foreground. These discoveries of known deep sea natural gas reserves are estimated to be at least 20 times larger than the known onshore and shallow water oil and gas reserves that are currently being extracted for local consumption and export. The development of these new natural gas discoveries will therefore have significant implications for the Tanzanian economy and its longer-term development. The purpose of this paper is to analyse these implications. Specific reference will be made to the role of local content policies as a means for leveraging large capital investments in the oncoming Liquefied Natural Gas (LNG) project to create value chains and promote sustainable growth and development.

The paper is organised into three parts. Firstly, it provides a brief overview of the nature and scope of LCP in Tanzania, with illustrations of the key highlights of what the relevant issues are regarding this specific type of policy instrument. Next, it looks at the contribution of LCP to value-chain development in Tanzania. This is done in the specific context of large capital investments in the country's oncoming LNG extractive project, highlighting the main thrusts of policy interventions in different phases of the project. The last part of the paper looks at the industrial and broader development implications of LCPs, mainly through value-chain development, and specifically in terms of job creation, local business expansion, and industrial development.

https://freedomonline.com.ng/tanzania-dangote-cement-haggle-over-price-of-natural-gas/

II. Overview of Local Content Policy (LCP) in the Tanzanian Context

The Government of Tanzania has taken up the challenges posed by the extractive sector, and particular the LNG project, to introduce and reinforce LCP-type initiatives to promote employment creation and foster industrial development. In July 2015, it passed the Petroleum Act which, in addition to laying the foundation for strong governance of the sector, incorporated local content policy interventions as and where appropriate. Certain provisions of the Petroleum Act provided a legislative environment specifically for bringing the oil and gas sector in line with the recommendations under Precept 10 of the Tanzania Natural Resource Charter (TNRC).[1] This is concerned with facilitating private sector investments to diversify the economy and enhance local content in the extractive sector by ensuring an efficient domestic supply of the goods and services needed and produced in the sector (Uongozi, 2016; NRGI, 2016, pp.188-195). Although the Tanzanian LCP is still in draft form[2], the Petroleum Act incorporated provisions for economic diversification, linking the extractive sectors to the wider economy and ensuring that society in general benefits from the industry. It specifically recognised the responsibility of government to provide an enabling business environment for the local Tanzanian private sector to develop and expand; to create new opportunities for jobs and business development triggered by the oil and gas industry; and to ensure that the abundant supplies of natural gas could be used to power Tanzania's emerging economy and stimulate downstream activities in the value chain, in addition to generating revenue from exports.

With specific regard to local content, the Petroleum Act 2015 recognised the national importance of securing maximum local employment and business expansion benefits from the oil and gas industry. This is in line with a new draft LCP and existing relevant initiatives such as those pertaining to local capacity development and a restriction on the employment of non-citizens. In analysing Precept 10, which deals with LCP, the TNRC recognised that the oil and gas sector is essentially an enclave separated from other economic activities. Furthermore, production activity in the industry is by nature highly capital-intensive. Hence, the TNRC benchmarking exercise report concluded that the best opportunity for the local workforce and businesses to participate in the oncoming LNG project is to capitalise on LNG production and related operational activities and resource wealth. These are generated by oil and gas to stimulate broader economic growth and inclusive sustainable development. Accordingly, the best local content policies were conceptualised in the TNRC as those that 'consider a wide scope of businesses that could participate in value and supply chains, and that allow growth in the extractive sector to act as a catalyst for wider growth in the rest of the economy' (Uongozi 2016 p.188). The TNRC also recognised that obligations and incentives to secure local participation in the oil and gas industry, such as through the supply of goods and services, will be less effective unless it is accompanied by positive initiatives towards the development of local human and institutional capacities. These capacities will have to support employment creation and industrial development objectives. Therefore, in seeking to create a demand for local inputs in the industry, attention should also be paid to the requisite supply-side initiatives in the formulation and implementation of a LCP.

Following from the recommendations of the TNRC benchmarking exercise of 2016, a subsidiary legislation was enacted in 2017[3] to update and reinforce LCP aspects of the 2015 Petroleum Act. The aim of this secondary legislation is 'to promote the maximization of value addition and job creation using local expertise, goods and services, businesses and financing in the petroleum industry value chain and their retention in the country'. The subsidiary legislation identified specific areas for policy interventions, namely: 'employment

[1]The Tanzania Natural Resource Charter (TNRC) is adapted from the global Natural Resource Charter (NRC), developed by the Natural Resource Charter Institute (NRGI), which is a set of principles to guide governments and societies on how to best harness the opportunities created by extractive resources for the development of maximum and sustained development outcomes. The global NRC has 12 'precepts', or sets of principles, each of which includes technical guides on practical aspects of implementation. The TNRC is the outcome of deliberations and consultations by a panel of local experts (drawn from government, the private sector, civil society and academia), under the auspices of the Uongozi Institute, charged with preparing a local adaptation of the global NRC to the country-specific circumstances of Tanzania's extractive sector and national development aspirations .The TNRC is also compatible with the Africa Mining Vision which provides continent-wide principles for improving the management of extractive resources in African countries.

[2]See, United Republic of Tanzania, Local content Policy of Tanzania for Oil and Gas Industry, 2014, Draft One, April 2014. A revised second draft was produced in 2016 which, according to the Ministry of Energy and Minerals, was expected to be finalised and adopted in 2017. This version highlights regulations for application of LCP specifically to the LNG industry.

[3]The Petroleum Act 2015 (Subsidiary Legislation) 2017

and training; [a] succession plan; research, development and innovation; [the] procurement of goods and services; technology transfer; legal services; engineering services; financial services; insurance services; and other details which the Authority deems fit'. As an update on the original 2015 Petroleum Act, the subsidiary legislation sought to overcome criticism regarding the sparse specification for local content policies in the initial legislation. The details specified in the subsidiary legislation thus included quantitative targets for the local participation of workers and businesses. It also included the conditions for the effective execution of a succession plan to replace foreign ownership with local ownership. Furthermore, the subsidiary legislation provides a robust framework for formulating and implementing thematic or sector-specific LCPs and regulations. It also indicates the explicit responsibilities of foreign investors and their local contractors (in the case of joint ventures). This could serve as a basis for applying specified penalty provisions for non-compliance. Another positive feature of the subsidiary legislation is that it establishes a 'Common Qualification System' to serve as 'the sole system for the registration and requalification of service providers in the petroleum industry', thereby ensuring an objective yardstick for the evaluation of local content application and verification of contractors' capacities and capabilities.

The legislative and regulatory frameworks summarised above can perhaps be considered as the most comprehensive set of initiatives in relation to a LCP for Tanzania, particularly in the context of the LNG plant construction phase. Yet, there are still practical issues to be addressed in order to ensure effective implementation and the realisation of the full impact of LCP measures. Most important is the need for specific measures to address the issue of an identifiable and adequate state capacity as an oversight authority responsible for monitoring the implementation of local content legislation and policies. As it is now, according to the draft LCP, the responsibility for this important function is nebulous and appears to be spread across several government ministries and agencies in an uncoordinated manner. It creates the risk of inconsistencies and differences in the interpretation of policies and regulations. Ideally, authority for the monitoring of LCPs should rest with a credible and autonomous body that can report and make recommendations to the state. In this regard, it is important for this body to be independent of the state and shielded from politicisation and vested interests which may be motivated by rent-seeking behaviour or even worse by corruption. From a governance point of view, the existence of an independent LCP monitoring authority will not only enhance credibility but will also reinforce transparency and accountability requirements. There are also a number of 'grey areas' in the Tanzania draft LCP on which clarification is needed. If these are not addressed, it could result in inconsistencies, uncertainties and confusion in the scope, coverage and implementation of the policy instrument. Some of these relate to issues of definition and concept (e.g. a joint venture, local ownership, locally-produced goods and supplies, domestic investment, and skills acquisition). It also relates to the measurement of the composition and configuration of quantitative targets for local participation.

Turning back to the Petroleum Act 2015 (and its Subsidiary Legislation 2017), local content requirements are referred to in different parts of the Act. These would need to be brought into alignment with the draft LCP which should constitute a central reference document that will clearly and comprehensively list everything that must be covered by the LCP. This listing can be updated over time and when circumstances change. It is therefore important that the finalisation of the draft LCP for Tanzania must be based on collaboration between the government, the industry and the domestic private sector. It must, for example, develop accurate baseline information of the current capacities and capabilities of Tanzanian-owned companies to become suppliers of goods and services. Similarly, LCP regulations might require procurement plans to be aligned with identified areas for policy interventions, which will undoubtedly require wider consultations.

The challenge, as recognised in the TNRC benchmarking report, is for the Government of Tanzanian to produce a LCP with clear objectives, definitions and strategic directions. The intentions of government with respect to local content must be made clear in the LCP document. Given the real risks of politicisation and corruption that could affect the framing and execution of a LCP, it is vitally important for the policy to be focused and unambiguous in scope and coverage, with clearly-stated and well-defined objectives, goals and targets. The second (and latest version) of the draft LCP for Tanzania still contains some unresolved issues in terms of scope and coverage (e.g. mining as distinct and separate from oil and gas). Without being too simple, the main objective of the LCP should be to provide guiding principles for maximising the engagement of local Tanzanian workers and businesses in the development of the oil and gas industry. Furthermore, it should ensure optimal benefits to the nation and its people. While this objective may be seen as rather broad, it nevertheless captures the primary purpose of a LCP at the national level. The fine-tuning of the LCP can be made according to the specificities and peculiarities of the context of its application (sector, industry or otherwise), while adhering to the fundamentals of the guiding principles. The following section illustrates and analyses the application of these guidelines to the situation of the oncoming LNG project in Tanzania.

III. Local Content Policy and Value-Chain Development: Evidence from the Analysis of Tanzania's Oncoming LNG Extractive Project

After discovering large quantities of natural gas in Tanzania in recent years, the government and other stakeholders in the industry have focused on new opportunities to utilise large capital investments in LNG extraction and processing. The purpose is to stimulate structural transformation and the longer-term development of the economy with considerable employment and industrialisation benefits. To this end, a key role of a LCP is to provide the underlying legal and institutional frameworks required to bring about a deep change to the basic structure of the Tanzanian economy. This will enable the country and its people to benefit significantly from the LNG project (Uongozi Institute, 2013; Achempong et al, 2016; Ramdoo, 2016). In this regard, the creation of sustainable local value chains represents the main vehicle in the trajectory of structural transformation. The aim is to realise broad-based and inclusive development gains from a future resource-led boom in Tanzania led by LNG.

From a policy perspective, the analysis of LCP and local value-chain outcomes with respect to the oncoming LNG project will revolve around three issues or areas where policy needs to intervene: the alignment of key stakeholders' (i.e. government, local private sector and foreign investment) interests and expectations with regard to the development of local value chains; the encouragement of stakeholders' dialogue to inform with regard to policy-making concerning the identification and the removal of key constraints in the local economy and market; and the enhancement of local content potential through policy and programme interventions designed to develop and sustain human and institutional capacities. These three issues are in effect the pillars that will support a strategy for leveraging large-scale investments in the Tanzanian LNG project. The purpose will be to create jobs and expand local business opportunities through value-chain formation. In order to envisage how the large-scale extraction of natural gas will benefit the average Tanzanian in the foreseeable future, it is useful to recap the basic economic facts about Tanzania's natural gas 'bonanza' against the background of the country's current economic situation.

Tanzania's deposits of natural gas (in both offshore and onshore territorial waters) are currently estimated at about 57.30 trillion cubic feet (Tcf). Onshore gas fields account for about 1.5 Tcf proven and 8–10 Tcf in place but not fully exploited (Roe, 2017; World Bank Group, 2016). Initially, most of the production from shallow onshore fields has been fed into a small pipeline that mainly delivers gas for power generation in or near Dar es Salaam. Since mid-2015, the production and delivery of gas from onshore sources have more than doubled with the construction of a new and much larger Chinese-financed pipeline. The new discoveries of vast reserves of offshore natural gas have radically changed the future perspective for oil and gas in Tanzania. However, exploitation of these offshore natural gas reserves (estimated at over 45 Tcf and located at 2–3 km. depth in the sea) will only be economical if exported via Liquefied Natural Gas (LNG) processing. ExxonMobil, Shell, Statoil and Ophir are among the international companies that have shown an interest in Tanzania's LNG project. Two consortia (led by Statoil and the Shell-owned BG Group) are planning construction of a joint

LNG plant. The overall investments to develop Tanzania's offshore gas reserves are estimated to be in the range of US $35–40 billion over the next 20 years, including US $15–20 billion for the construction and fitting of the LNG facility. Operation of the facility is not likely to start before 2025/26, and gas revenues (estimated at around US$3 billion per year) will only be earned years later (Roe 2017).

The question of how the economy and the people of Tanzania will benefit now and in the medium and long term from the LCP implications of the LNG project should be clarified, considering the uncertainties about various factors such as the volumes of gas that will be developed; the future prices that production can command in a changing and volatile world market; and the actual dates when production might start. Nevertheless, on balance, if Tanzania's natural gas is managed well, it has the potential to contribute substantially to the long-term sustainable growth of the economy and the diversification into higher value-adding and local value-chain activities. This will ultimately improve the living standards and well-being of Tanzanians across the country. It implies the challenge of ensuring adequate standards of resource management and governance that will generate and transfer sustainable benefits from LNG extraction to all segments of the economy and all strata of the Tanzanian population. This is especially the case for those living below the poverty line (World Bank Group 2016a).

With a population estimated to be about 55 million in 2016 and a per capita GDP of about US$867 (equivalent to US$2583 when adjusted by Purchasing Power Parity), the Tanzanian economy grew by an average of 6–7 per cent during the past decade, establishing a long period of unprecedented sustainable growth that goes back to about 1997. This growth was associated with a mineral-investment boom over a period during which exports of gold overtook all of Tanzania's traditional exports combined, in order to become the largest source of foreign exchange earnings. Since about 2010, the importance of oil and gas – which have been produced in Tanzania on a relatively small scale for about 15 years – was given a big boost as a potential leading foreign exchange earner. This happened because of the discoveries of large natural gas reserves that are now in the process of being developed. Although Tanzania's resource-based economic performance has contributed to bringing its poverty rate down from 60 per cent in 2007 to an estimated 47 per cent in 2016, about 12 million Tanzanians still live in extreme poverty on earnings of less than US$0.60 per day. This is based on the US$1.90 per day global poverty line (World Bank Group, 2016b).

According to the overall national development strategy and goals outlined in the Tanzania Development Vision 2025 (Tanzania Planning Commission, 1999), the approach for using resource wealth to stimulate and sustain impressive human and physical development achievements is to prioritise industrialisation – based on the diversification and strengthening of linkages between the extractive sector and other productive sectors of the economy. Using this approach, foreign investors in the oil and gas industry are required to give priority to and support value addition to economic activities (goods and services) through the participation and development of Tanzanians and local businesses. This includes labour, technology, capital and research capability, in line with the guiding principles of a LCP. The development of local value chains is therefore central to this approach (ACET, 2015; APP, 2013). Recent minerals and mining legislation of Tanzania (e.g. The Mining Act 2010, The Petroleum Act 2015 and related Subsidiary Legislation 2017, and The Oil and Gas Revenues Management Act 2015) has all exhibited an awareness of LCP principle guidelines.

How will LCP Ensure Benefits for the Average Tanzanian from Large Capital Investments in LNG?

Large capital investments are envisaged in Tanzania's offshore gas projects, and it is worthwhile to see how LCP can impact on employment creation and industrial development mainly through the development of local value chains. Using a World Bank Group methodology that focuses on jobs and investment opportunities (World Bank Group, 2016a), it is possible to assess the nature and magnitude of employment and business development gains during different phases of a large LNG extractive project. The methodology is based on the realistic timeframe assumption that if upstream LNG activities (i.e. the planning and construction phase of the LNG plant and facilities) are already underway and completed on schedule in the next 2–3 years, the midstream processing phase would be operational by the mid-2020s, and downstream production and

export activities will be fully operational in the late 2020s (Uongozi, 2013).
Until production and export of LNG commences, benefits for Tanzania from foreign direct investment (FDI) can be computed in terms of:

- value added – linkages between the gas industry and domestic private sector;
- employment – directly and indirectly linked to construction of facilities and infrastructure;
- technology transfer – sub-contracting and collaboration with local firms.

After production and marketing operations commence, benefits form the LNG project will extend to:
fiscal revenues – taxes, royalties, etc. contributing to public expenditure and the capital investment needs of the state;

- opportunities for sustainable jobs – within LNG plant and operations and also from the local procurement of goods and services and sub-contracts;
- domestic gas flow – internal use for central electricity power generation and domestic consumers (cooking gas).

Local Content Policy and Upstream Activities

There will be limited potential for local content in the first few years when the production is centred on upstream activities – exploration, test drilling and planning. Capital investments in the construction of the LNG plant during this phase would involve the employment of many thousands of local construction workers who, in addition to their wages and salaries, will also be contributing to national revenues through pay-as-you-earn income tax. But this will be a short-term phase limited to a period of 3–4 years. However, capital investments undertaken during this initial phase constitute the foundation for realising substantial local content potential within a long-term timeframe. This will ensure greater sustainability with respect to more sustainable jobs and local business opportunities. Furthermore, activities during this short-term planning and construction phase will have an immediate and significant impact on both the availability and the delivery costs of electric power in Tanzania, as more natural gas is piped for use in the domestic generation of electricity – thereby decreasing the dependence on expensive imported diesel fuel supply.

Local Content Policy and Midstream Activities

Investments in midstream activities associated with the processing and liquefaction of the natural gas through LNG facility operations are likely to yield a higher potential for local content in a medium- to long-term timeframe scenario. Opportunities for jobs and contracts will be less than during the initial construction phase, but jobs created will be more sustainable with higher levels of skills. Also the midstream LNG processing operations phase is when local value chains have the best opportunity to emerge on the LNG industry scene, especially by taking advantage of the provisions of 'local content' legislation and regulations. This type of legislation and regulations require foreign investors to engage local suppliers and contractors as necessary for their operations. The LNG will quickly become the country's largest single export activity, with the export value climbing to over US$5 billion per annum. If managed properly, the multiplier effect of this large injection of cash into the local economy should be substantial for the country's economic development trajectory. It will have hugely significant benefits on several fronts including employment and industrial development.

Local Content Policy and Downstream Activities

The potential for local content in downstream activities (i.e. distribution and end-use marketing after production have commenced) will depend on a number of factors such as the uses of natural gas locally and in the region, the relative demand and industry prioritisation. But there will again be opportunities for local value chains to emerge as suppliers of industry-linked goods and services and end-use distributers and sub-contractors. The extent to which LCP potential is realised during the downstream phase of the LNG extractive project will crucially depend on how the authorities handle planning and regulatory challenges that are likely to exist or emerge. There will certainly be a need for robust institutions and sufficient technical and managerial capacities in both the public and private sector to confront these challenges.

IV. Local Content Policy and the Broader Economic Development Implications: Opportunities and Challenges

A Methodological Approach for Assessing the LCP Impact: Local Value-Chain Analysis

In order to assess the wider economic development implications of LCP, including the impact on industrial development and the international competitiveness of local businesses, the paper has adopted a methodology which is based on the analysis of local value chains that are being created. The methodology first identifies 'priority local businesses' with the greatest local content potential and prospects. Next, these identified prioritised local businesses are analysed from the standpoint of their potential to create sustainable jobs, serve as a source for locally procured goods, and as local sub-contractors in a wide range of business activities. This will be done through opportunities for the development of value chains linked to investments in Tanzania's oncoming LNG extractive industry. Based on the experience of the oil and gas industry in other resource-rich countries at a similar level of development, local value-chain activities would encompass a wide range of procurement and supply services: professional and technical; financial, legal and administrative support; the renting of equipment; building and construction activities; catering; transportation and storage; utility; waste management businesses, etc. At the same time, and with the sustainable development goals in mind, the analysis has to factor in drawbacks in terms of existing gaps and capacity constraints (e.g. skill deficits of the local workforce, limited technical knowledge and technology, scarce investment capita, and fragile institutions) on the development and competitiveness of local businesses that need to be identified and addressed. This is to maximise the local potential to create jobs and business opportunities.

Success of Local Content Policies: Under What Conditions?

The collective experience of a number of resource-rich countries in and outside Africa suggests that the success or failure of local content legislation and policies remains a function of a country's institutional setting and development paradigm (Acheampong, Ashong and Svanikier, 2016; Natural Resource Governance Institute, 2016). From this experience, it can be summarised that successful local content legislation and policies should be anchored on the following guiding principles: the focus of the law and its implementation should go beyond the mere generation of economic rents to include, more importantly, the development of linkages required for sustaining local value chains; the tools or methodologies developed to measure the agreed local content benchmarks must be clearly defined to find acceptance of among stakeholders in the industry; and the entrenchment of local content provisions must be grounded on the availability and capability of a local industrial supply base (enterprise, workforce and technical knowledge) that can act as a growth lever (Besada, Lisk and Martin, 2015; Uongozi Institute, 2016).

Harnessing Financial and Development Benefits from LCP: The Need for Improved Management (Planning, Coordination and Regulation) and Good Governance

There are certainly good prospects for significant revenue gains and additional sustainable development benefits from the Tanzania LNG industry in the medium and longer term. According to a modelling exercise of investment and production estimates jointly undertaken by Oxford Policy Management and the Uongozi Institute, a well-resourced local think tank, (Uongozi Institute, 2013), it was reported that:

- annual inflows of FDI of approximately US$5 billion during the construction phase are about six times the size of annual FDI receipts in the most recent years;
- LNG would quickly become the country's largest single export activity, with exports rising to US$5 billion

per annum when fully operational;
- the net overall balance of payments (BoP) effects in most future years will be positive and significant, with a typical annual improvement of US$2 billion;
- additional revenue to government could be as high as US$2 billion in peak years, equivalent to about 3 per cent of the gross domestic product (GDP);
- thousands of local jobs will be created in the four-year period of construction, although the direct employment impact of the LNG project is likely to be much less during the longer operational phase (perhaps 400–500 direct jobs), due to the highly capital-intensive nature of these types of investment projects;
- additional indirect employment gains associated with LNG extraction and processing from LNG could come from: (1) the provision of ancillary facilities and services needed to support the project and workforce, such as roads, ports, bridges, and housing and (2) downstream spin-off such as investments in manufacturing activities based on reliable and lower-cost energy supply.

The Tanzanian authorities themselves are in no doubt that in order to fully realise the resource wealth and development benefits from LNG extraction, it will be necessary to achieve improved levels of management and governance of natural resources overall (Uongozi Institute, 2016; TEITI, 2015).

In the area of management, it will firstly be necessary for the plethora of government ministries and agencies concerned with minerals and mining activities and resource wealth management to work together to deliver a coordinated and integrated 'all-of-government' approach for planning and regulating the LNG project.

The following government ministries and agencies must be involved:
- The Office of the Vice-President
- The Ministry of Energy and Minerals
- The Tanzania Petroleum Development Corporation
- The Petroleum Upstream Regulatory Authority
- The Tanzania Mineral Audit Agency
- The Energy and Water Utilities Regulatory Authority
- The Tanzania Electric Supply Company
- The Ministry of Lands
- The State Mining Corporation
- The Ministry of Finance
- The Tanzania Investment Authority
- The Tanzania Investment Bank
- The Tanzania Revenue Authority
- The Attorney General's Office
- The National Environment Management Council

This means that government should seek to overcome the 'silo effect' of ministries or agencies or jurisdictions to which different laws pertain (Roe, 2017; Uongozi Institute, 2016). Serious consideration should be given to the idea of having a single independent body charged with the responsibility to monitor and enforce the LCP when adopted. For example, Nigeria, which has been identified as local content monitoring success story in Africa, has an autonomous institution called the Nigerian Content Development and Monitoring Board. Its role is to oversee, monitor and implement its LCP legislation. Similarly, Ghana more recently established an independent 'Local Content Committee' to monitor and coordinate all aspects of the implementation of its Local Content Act 2013 for its oil sector.

Secondly, particular attention should be paid to the integration of the LNG project into the domestic economy – mainly through strengthening linkages between LNG investments and local businesses. In this regard, the key stakeholders – government, the LNG industry investors, and the domestic private sector – must adopt progressive and transformative development partnership roles, rather than confrontational. This must be done in order to achieve broader sustainable economic and social development objectives. Overall, policy reforms and improved programmes are needed to address the problem of weak institutions and limited experience in the underlying managerial and technical issues of the industry. These can undermine opportunities for employment gains and industrial development from extractive sector activities.

In pursuit of good governance, strong and honest leadership characterised by transparency and accountability will be needed at all levels. The aim is to tackle a variety of practical problems arising from the political manoeuvrings and vested commercial interests that are usually associated with foreign investments in the oil and gas industry (Fjeldstad and Johnson, 2017; NRGI, 2016; TEITI, 2015; APP, 2013; Gelb et al, 1998). It may be necessary to enact specific legislation or adopt bold governance reforms designed to curb corruption. This can be done by, for example, closing loopholes, clarifying vaguely worded provisions, and resolving apparent contradictions in existing legislation governing the extractive sector and resource wealth management in the country (mainly the Petroleum Act 2015, the Oil and Gas Revenue Management Act 2015 and the Extractive Industries (Transparency and Accountability) Act 2015).

V. Conclusion

This paper began with a review of the status, motivation and operational context of LCP in Tanzania. Like many national governments of resource-rich economies that are using this particular policy instrument to stimulate economic development, Tanzania is now finalising its LCP. This will include the strategies and regulatory measures necessary to ensure that a minimum acceptable share of the factors (e.g. labour, the supply of goods and services, technology, and knowledge) required for production in the extractive sector and linked value chains is sourced from the domestic economy. The motivation and main thrust of the proposed LCP interventions are to increase local participation in and benefits from the extractives sector. This will mainly be done through the productive and remunerative employment of local Tanzanians and the development of local industries and businesses. The experience from other resource-rich developing countries suggests that three key elements are needed for a successful LCP.

These are:
- the importance of ensuring a common understanding of the concept of local content by the key stakeholders (government, industry, domestic private sector and local communities);
- the importance of ensuring functional monitoring and enforcement mechanisms;
- the importance of concrete and innovative partnerships and joint responsibility in the compliance with and implementation of the LCP (Ramdoo, 2016).

The review of the status of Tanzania's LCP undertaken in this paper revealed that there have definitely been some meaningful consultations among the key stakeholders. This is illustrated by their representation and active involvement in the benchmark exercise undertaken in connection with the preparation of the landmark Tanzanian Natural Resource Charter (Uongozi Institute, 2016) and tripartite (government, industry and civil society) participation in Tanzanian Extractive Industries Transparency Initiative (TEITI) reporting. However, the analysis undertaken confirms that the regulatory and policy challenges, particularly those that require coordination across a range of government ministries and agencies, can be exceptionally overwhelming in countries with relatively weak institutions at the developmental level of Tanzania. Certain conditions will therefore be necessary to ensure the effective functional monitoring and enforcement of the LCP. Currently, there is a need for the improved coordination and a streamlining of various linked and overlapping responsibilities spread over a plethora of government ministries and agencies that characterise the decision-making landscape in the extractive sector in Tanzania. The missing element seems to be, as was put succinctly by one researcher, 'the higher-level understanding of how the separate mandates of these different bodies might be better integrated and coordinated so that they can …deliver a nationally optimal set of outcomes' while working together (Roe, 1017, p11). To address the serious challenge of coordination in the Tanzanian situation, the paper proposed that serious consideration should be given to the need for an independent body to handle the enforcement and monitoring of the LCP.

The huge challenge of effective inter-governmental agency coordination illustrated in the paper is further compounded by political and social constraints. This makes the monitoring and enforcement of LCPs and regulations in many resource-rich developing countries even more difficult. These constraints need to be surmounted, and at its current level of development, it was suggested that external assistance through innovative and transformative international development partnerships could play a positive role. In the context of wider international development issues, such partnerships embodying the joint responsibility (of host and donor countries) could be crucial for stimulating the necessary structural change and promoting an enabling environment needed to support the successful implementation of the LCP. International development partnerships could also be useful for assisting Tanzania to boost its domestic capacities (through training, knowledge, enterprise development, technology, etc.) to support successful LCP implementation and value-chain development. This approach is consistent with Tanzania's long-established tradition of international development cooperation which goes back to the Nyerere era.

The paper also identified the status and challenges facing the Tanzanian authorities with respect to using the opportunities created by large-scale foreign investments in the country's oncoming LNG industry to leverage the development of local value chains that will benefit the nation. This will be both in terms of job creation and the development and expansion of a competitive domestic private sector (Roe, 2017; Warner, 2011). The analysis suggests that the effective implementation of LCP and the adherence to principles of good governance in natural resources management are crucial to the achievement of sustainable development objectives (Ramdoo, 2016; ACET, 2015). The analysis also highlights the various elements that are necessary to have a successful LCP : a common understanding of local content among key stakeholders; functional and effective monitoring and enforcement mechanisms; and effective management and good governance of natural resources overall.

The main areas of focus that emerged from the analysis of Tanzania's oncoming LNG extractive industry project from the viewpoint of the development of industry-linked value chains are: policy, legislation and regulations which constitute the foundation for the rules and practices that ensure good management and robust governance of resource wealth; accountability and inclusiveness which concern the transparency and responsible practices of relevant stakeholders and the extent to which the general public is involved in the governance processes and benefit from LNG investments and resource wealth; and institutional capacity and effectiveness which denote the quality of governmental entities that emphasise the state's ability to govern efficiently and use resource wealth to grow the economy rapidly and inclusively.

In conclusion, the use of LCP to develop domestic and regional value chains linked to the extractive sector should not be motivated by a quick-fix and conceivably politically-inspired considerations. Local Content Policy is more than a 'low-hanging' fruit in terms of creating jobs and supply chains right away to address short-term economic and political needs. The Tanzanian authorities should rather seize the opportunity, created by the forecasted large-scale capital investments in its oil and gas sector, to use LCP to create employment and stimulate local industrial development. This must be done on a sustainable basis and in the context of long-term and dynamic economic development. This implies using the LCP as a means to build and sustain human and physical development capacities and competencies in the extractive sector and across other sectors across the economy. Paramount in this regard is the need for the Government of Tanzanian to seize the economic opportunities created by the oncoming LNG project to prioritise investments in human capital and private sector development within the domestic economy. This must primarily be to raise the levels of labour productivity and increase the international competitiveness of the domestic economy in a significant way. The purpose should be to attract new foreign investments in the manufacturing and service industries and to create additional jobs. In this manner, interventions under the LCP and the creation of supply and other value chains which are linked to the extractive sector could be combined. It can then become the fulcrum for concretising and sustaining the vital connection between resource wealth and inclusive socio-economic development (growth rate and well-being).

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