



AFRICA ECONOMIC DEVELOPMENT
STRATEGIES

STUDY ON LOCAL CONTENT ENHANCEMENT PROGRAMMES

CASE STUDY OF SEED, FOOD AND BEVERAGES SECTORS IN ZIMBABWE



Produced by

Dr Gift Mugano
Executive Director

Africa Economic Development Strategies

✉ gmugano@aeds-africa.com

☎ +263 772 541 209



Dr Gift Mugano (Author)

Dr Mugano holds a PhD in Economics (Nelson Mandela University), MSc Economics (University of Zimbabwe), MSc Operations Research (National University of Science and Technology) and BSc Hon Degree in Economics (University of Zimbabwe).

He is a renowned academia, author and expert in International Economics with over fourteen (14) years of extensive experience ranging from research & publications, policy advisory, trade negotiations, dialogue facilitation, lecturing, administration and consultancy work.

He has published twenty - three (23) articles in international peer reviewed journals and successfully supervised four (4) Doctor of Philosophy (Ph.D.) (in the field of International Trade & International Finance) and other several postgraduate students.

He is the Registrar at the Zimbabwe Ezekiel Guti University, Member of the Advisory Council for the Minister of Industry and Commerce, Research Associate with Nelson Mandela University, Visiting Lecturer with National University of Science and Technology and External Examiner for University of Cape Town's Graduate School of Business, Durban University of Technology and University of Namibia's Business School. To date, he has examined five (5) Ph.D., theses and several postgraduate theses.

For five years, that is, 2014 – 2018, Dr Mugano

worked as a Senior Advisor to the Government of Zimbabwe under the Department for International Development (DFID) Project – a multi-million-dollar Market System Development programme which falls under the World Bank's reform programme – the Business Enabling Environment Programme (BEEP).

Dr Mugano started his career as an economic advisor with the Ministry of Industry and Commerce (Zimbabwe). During his six years tenure in Government, he represented his country at various forums on trade negotiations and investment missions abroad (Heads of State & Government Summits, Council of Ministers, Senior Officials of Trade & Technical Committees) at bilateral, regional and multilateral levels in Belgium, Switzerland, South Africa, Swaziland, Zambia, Botswana, People's Republic of China and South Korea.

He has done consultancy for the Parliament of Zimbabwe, Reserve Bank of Zimbabwe, Ministry of Industry and Commerce, Metropolitan Bank, DFID, British Council, NIR Sweden, Adam Smith International (UK), IMC Worldwide LTD (UK), Cardno Emerging Markets (Belgium), KPMG (UK), GIZ, UNFPA and the private sector.

He is the Lead Author of the State of the Economy Report, Zimbabwe Agricultural Survey and Zimbabwe Investor Confidence Index. He is a member of the Royal Economic Society and Economic Society of South Africa.

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1. INTRODUCTION

1.1 Setting the Problem

Zimbabwe, for the last ten years, that is since 2008, the country faced incessant trade deficits which has accumulated to \$30.172 billion (see Table 1).

camphor creams, white petroleum jelly, body creams, plastic pipes and fittings, wheelbarrows, flat rolled products of iron on non-alloy steel, metal clad insulated panels, baked beans, potato crisps, cereals, bottled water, mayonnaise, peanut butter, jams, maheu, canned fruits and vegetables, pizza bas, flavoured milk, dairy juice blend, ice creams, cheeses, second hand tyres, baler and binder twine, fertilizers,

Table 1: Zimbabwe Trade Performance (2008 - 2017) (US \$Billion)

Product label	Imported value in 2008	Imported value in 2009	Imported value in 2010	Imported value in 2011	Imported value in 2012	Imported value in 2013	Imported value in 2014	Imported value in 2015	Imported value in 2016	Imported value in 2017
All products	2.832	3.527	5.852	8.599	7.363	7.704	6.380	6.002	5.212	5.437
Product label	Exported value in 2008	Exported value in 2009	Exported value in 2010	Exported value in 2011	Exported value in 2012	Exported value in 2013	Exported value in 2014	Exported value in 2015	Exported value in 2016	Exported value in 2017
All products	1.694	2.269	3.199	3.512	3.882	3.507	3.064	2.704	2.832	2.072
Product label	Balance in value in 2008	Balance in value in 2009	Balance in value in 2010	Balance in value in 2011	Balance in value in 2012	Balance in value in 2013	Balance in value in 2014	Balance in value in 2015	Balance in value in 2016	Balance in value in 2017
All products	(1.138)	(1.258)	(2.653)	(5.087)	(3.480)	(4.197)	(3.316)	(3.298)	(2.379)	(3.365)
										(30.172)

Source: ITC

In each and every year, Zimbabwe exports were roughly equal to 50% of imports. This is not an ideal situation considering the fact that the country must realise trade surplus which is a necessary and sufficient requirement for the stabilisation of currency under a dollarized environment.

Statistics from the International Trade Centre (ITC) show that the Southern African Development Community (SADC) is the major source of Zimbabwe imports with an import share of 79 percent of total imports. Zimbabwe's major imports are finished goods which include mineral fuels, machinery, cereals, motor vehicles, electrical products, pharmaceuticals, plastics and animal and vegetable fats with import value of \$1,499.7 million, \$467.8 million, \$510 million, \$340 million, \$263 million, \$201.6 million, \$181 million and \$154 million, respectively (International Trade Centre).

In response to this, Government of Zimbabwe responded by legislating a number of statutory instruments aimed at restricting importation of products which falls under major import categories listed above.

In May 2016, Government of Zimbabwe gazette statutory instrument number 64 (S.I 64) which covers the following products: coffee creamers,

flash doors, wardrobes and dining room suites, office furniture, tissue wading, shoe polish, synthetic hair products and woven fabrics of cotton.

Products which are covered under other statutory instruments prior to S.I 64 such as the S.I 18 of 2016 (pharmaceutical products), S.I 19 of 2016 (batteries, floor polish, twine, candles etc.), S.I 20 of 2016 (second hand clothing and shoes) and S.I 126 of 2014 (plastic packaging, hoses, conveyor belts etc.) were also legislated to restrict trade which is in contravening of SADC free trade agreement and World Trade Organisation provisions.

Whilst the trade restrictive measures have helped local industry which was on the verge of collapse to recover and raise capacity utilisation, the restrictive measures suffered from a plethora of challenges such as legality which is being challenged at SADC level, failed to provide capacity enhancement measures such as provision of foreign exchange for the importation of key raw materials for the protected sectors, capacitation of local suppliers across the value chain of the protected industry and addressing of other microeconomic competitiveness challenges such as high cost of labour, electricity, water and rates, the cost of paying tax and transport costs.

In view of the foregoing, Government, through the Ministry of Industry and Commerce, from August 2017, started the process of developing a local content policy the main objective of which is to promote the production and consumption of local goods. The local content policy is seen as a panacea which if well-crafted with a carrot and stick approach will be consistent with both SADC and WTO provisions.

1.2 Research Objectives

- (a) Showcase existing programmes/activities aimed at increasing local production in the agricultural sector;
- (b) Establish the extent to which local content initiatives substitute imports;
- (c) Evaluate the impact of local content programmes on job creation
- (d) Establish how local content enhancement programmes has spared exports; and
- (e) Develop clear, practical responses and proposals (solutions) aimed at enhancing local production and supply chain development in the following way:

- Specific recommendations targeting Government of Zimbabwe and its agencies; and
- Specific recommendations to the seed industry and food and beverages sectors on how they can expand local production and supply chain development as part of their business models.

1.3 Justification for Seed, Food and Beverages Sectors Studies



Food and Beverages is divided into two sub-sectors, that is, food and beverages. The food sub-sector consists of cane, oil seed, grain, vegetable, meat production and processing (Ministry of Industry, Commerce and Enterprise Development, 2016). The sector has operations which run from small, medium to large scale. This industry has a high potential for growth and has its back bone in the agricultural sector which provides 60% of its raw material requirements. In addition to the critical role it plays in the value addition of agricultural produce, food processing, the industry directly contributes to the survival of other industries such as those in the agro-based raw material supply (seed, chemicals, fertilizers, equipment and spares, etc) printing and packaging, milling, energy and retail sectors, thereby contributing to the nation's Gross Domestic Product (GDP) in a significant way.



The beverage industry is divided into two categories namely alcoholic and non-alcoholic beverages. The non-carbonated drinks market is highly competitive. Oranges, grapefruits, lemons, naartjies and nectarines are some of the citrus fruits grown in Zimbabwe. About **50%** total production of these fruits are exported as fresh fruit while the other **50%** is consumed by the local market (Ministry of Industry, Commerce and Enterprise Development, 2016). However, a large portion goes to waste either through failure to get to the markets or simply due to oversupply. Various fruits that include oranges and mangoes are largely produced in rural areas such as Murehwa, Mutoko and Mvurwi.

Zimbabwe's food and beverages sector contributes **48.9 %** of the country export whilst at the same time makes significant contribution towards import substitution (ZIMSTAT, 2017). However, notwithstanding the fact that the food and beverages sector makes significant contribution towards national demand, the country spends close to \$1 billion on imports from the food and beverages sector (ZIMSTAT, 2017). This is quite significant as it represents about **15%** of the national import bill. Food and beverages is one of the key sectors prioritised by the Ministry of Industry, Commerce and Enterprise Development under the Agro-Business subsector (consisting of food, beverages and tobacco; clothing and textiles; leather and leather products; wood and furniture). This prioritisation was based on the importance of the sector in the agricultural sector in Zimbabwe.

The agro-industries, for example, dominate the manufacturing sector of the country in terms of both output and employment accounting for approximately **60%** of manufacturing value added and about **30%** to employment (Ministry of Industry, Commerce and Enterprise Development, 2016).



Seed, that is, maize, wheat, soya beans, groundnuts and vegetables, in particular, provide an important link in the food chain and

is the key input to ensuring food security and poverty eradication. Access to quality seed provides strategic options for easing effects of food insecurity and facilitates food resource diversification and prevention of genetic erosion in rural agriculture.

Recent estimates from the Ministry of Lands, Agriculture and Rural Resettlement (2017) shows that demand for hybrid maize seed had shot up by **50%**, that is, from 25000 metric tonnes per year to around 37000 metric tonnes in 2017. The annual requirement of hybrid maize seed for a minimum of 2 000 000 hectares which is being targeted by Command Agriculture is 50 000 metric tonnes. The question as to whether companies in the seed industry will meet this new demand is a time bound one.

Zimbabwe, since land reform, has failed to meet its national food requirement. However, out of the food basket which include maize, wheat, soya beans, vegetables and other cereals, the country managed to meet its national requirement in maize production beginning 2017. In 2017, the country's import bill of soya beans, fruit and vegetables and cereals amounting to \$250 million, \$203 million and \$500 million, respectively.

The foregoing discussion and the following factors forms the basis for considering the seed, food and beverages sectors as important sectors to undertake studies which is aimed at informing the local content policy:

- Both food and beverages and seed industries provide opportunity for mainstreaming the poor who are in rural areas. Contract farming in dairy keeping, seed out grower schemes and contract farming on various crops which are important local content schemes used by companies in the agricultural sector are expected to raise incomes of the rural population and ultimately reduce poverty;
- Both the food and beverages and seed sectors had been mainstreaming local content enhancement measures as part of their supply chain management practices. A study on the current local content practices is aimed at showcasing the current practices with a view of drawing policy recommendations in line with the 2018 budget statement pronouncement on local content;
- Because companies in the food and beverages and seed sectors have been

implementing local content enhancement practices, it is easy to scale up once incentivised. This is important considering the fact that both sectors are failing to cope with national demand of the final product from their respective value chain;

- Government, business associations and the National Economic Consultative Forum (NECF) have significant interest in these sectors. This interest is evidenced by the Government policy pronouncement and dialogue lined up by business associations and the NECF which are focusing on food and beverages and seed sectors; and
- The seed, food and beverage sectors play a central role in the economy of Zimbabwe by creating business, jobs, government and family wealth and new economic opportunities across the nation. Further, the growing sectoral trade deficit is one reason behind selecting the seed, food and beverage sectors. The mounting trade deficit is largely dominated by imports of finished products and commodities particularly from the seed, food and beverage sectors. These items dominating major imports are finished products and commodities on Statutory Instrument 64 (SI 64) which can be however produced locally by promoting local production. Curbing import growth from these sectors can address economic challenges facing the nation.

Therefore, the study intends to come up with measures aimed at increasing existing local content enhancement programmes and encourage the use of domestically manufactured goods or domestically supplied services. This will help to improve exports, reduce imports and create employment. This can reverse decades of industrial decline in the main competitive sectors of seed, food and beverages which have historically been important to the Zimbabwean economy.

2. REVIEW OF LITERATURE ON LOCAL CONTENT PROGRAMMES

This chapter will start by defining local content. This is followed by reviewing various theories and empirical studies, drawing lessons from other countries experiences on local content enhancement programmes.

2.1 Definition

The term local content has no one common definition. There are several definitions defining local content narrowly as local procurement of goods and services to more broad definitions referring to the total extent of investor involvement with the host economy. However, other academics define local content as the necessities for companies operating in a particular country to locally source a stipulated percentage of inputs (Belderbos and Sleuwaegen (1997). The authors note that initial submission of local content requirements were applied to downstream sectors in host nations in order to encourage the intermediate input industry. The substantial, proportion of inputs (labour, materials and parts) derived from the domestic economy and employed in the production processes for the purpose of adding value to the local economy is also considered as local content (Barclay and Esteves, 2011; Oguine, 2011; Ofurhie, 2001).

Four potential types of local content can therefore be distinguished:

- Purchases from national suppliers of goods and services, this constitutes the narrowest and most shared definition of local content, even though further definitional questions are raised about how 'national supplier' is defined (e.g. location of company registration, extent of value addition in country, or equity ownership).
- Local staff employment, the employment of staff considered local, which in turn could be defined as nationals or those from the immediate surroundings of the extractives operation.
- Local economic development support through local enterprise development or social investment.

- Effects on induced employment: this consist of employed people due to wage spending by employees of the operation in question concerned and, usually, also by the employees of suppliers and customers. Induced employment cannot be straight influenced by the company but could be a government maximization objective. In practice, however, most governments disregard this area's potential for human development, in spite of it usually accounting for most of the employment created as a result of extractive industry investment.

2.2 The Economics of Local Content

McCulloch, Balchin, Mendez - Parra and Onyeka (2017) noted that local content policies if properly implemented, for example, through backward linkages can address either the supply or the demand for intermediate products and services. The first type aims to increase the quantity, quality and variety of inputs available for use in production. Such policies can target specific products and services (e.g. specific tax incentives) or operate affecting the general context and enable the operation of these sectors (e.g. infrastructure). Policies affecting the demand for goods and services aim to make existing sectors more compatible with the sectors to develop as well as to reorient demand toward the domestic market (e.g. domestic buy-in schemes).

These policies operate under the premise that increasing domestic content is a desirable objective. Increasing the share of domestic value added in production and exports, in this view, should entail aiming for more domestic production and employment. This view is generally supported by approaches that consider international trade a zero-sum gain and that the benefits of trade come from achieving and expanding a trade surplus (McCulloch, Balchin, Mendez - Parra and Onyeka, 2017). Consequently, replacing imported inputs with domestic substitutes is a way to achieve micro and macroeconomic objectives. This therefore gives a scope for Zimbabwe to consider local content policy with a view of reducing incessant trade deficits.

McCulloch *et al* (2017) noted that local content policies are frequently associated with trade restrictions, tariff and tax incentives, subsidies and other measures to increase the use of domestic inputs. In some cases, regulations entail quotas for the use of domestic inputs (e.g. domestically produced alcohol in petrol). Export taxes and restrictions, for example, were noted

as key policy measures aimed at developing forward linkages by reducing the export of raw materials while at the same time foster production and export of value added goods (Mendez-Parra *et al*, 2016). In a number of cases, evidence shows that countries have, where there is policy space from trade agreements, modified tariff structure by increasing the tariff on the final product and reducing the tariff on intermediate goods, increasing the effective rate of protection (McCulloch *et al*, 2017).

Finally, there are instances where bank regulations were enacted to increase the availability of credit to purchase domestic inputs and reduce the availability of credit for imported inputs. However, as noted by McCulloch *et al* (2017), these measures constitute a small component of measures being employed by governments to cause local content. This policy aimed at influencing credit allocation has been criticised from an economic perspective on two grounds. The traditional critique points to the inefficient allocation of resources that these measures generate. Although in the short run it is possible to employ some idle resources, an increase in the production of domestic inputs to supply downward industries, for example, is achievable only by subtracting resources from existing activities. Assuming these resources are currently employed in sectors with comparative advantage, the reallocation means a general reduction in efficiency. Moreover, the reallocation of resources is frequently associated with falls in output in the existing sectors; for a given demand, prices will tend to increase, reducing real wages and demand further.

This critique suggests that the use of measures that alter the allocation of resources will affect existing industries. Therefore, such measures will fail because they are economically too costly. In addition to the traditional critique, is a more modern approach based on the idea of international value chains. The international fragmentation of production, whereby the different stages take place in different countries, requires a global look at the value chain. The increase in specialisation in the production of specific components leads to economies of scale that maximise the productivity of the firms involved, the stages and the chain in general. Stages take place in countries based on their capacity to contribute to this process. As firms in each stage use the most efficient and cost-effective goods and services in production, they guarantee the same standards to the stages taking place downstream.

2.3 Country experiences

This section review literature in order assesses the status quo together with prospects, constraints and promising policy approaches to generating greater backward linkages in Nigeria and other countries, with a particular emphasis on maximising linkages from manufacturing back into the economy. The study took specific interest in Nigeria because it is an African country with similar context with Zimbabwe. It looks at the size, extent and nature of backward linkages in the Nigerian economy, highlighting the main sectors currently providing locally produced inputs, examining the extent of internal value chain linkages within Nigeria, outlining the current use of foreign versus domestic inputs in particular sectors and noting promising sectors in which more locally produced inputs could be used. The key constraints are identified to generating backward linkages in Nigeria, distinguishing where appropriate between general and sector-specific constraints, then records approaches employed by countries in developing backward linkages in order to draw relevant lessons for the Zimbabwean context.

2.3.1 Size, extent and nature of backward linkages in the Nigerian economy



McCulloch *et al* (2017) reviewed backward linkages in the Nigerian economy concentrates mostly on the extent of, or potential for, linkages within a few broad sectors (agro-processing, oil and gas and

minerals), with particular emphasis on linkages to the oil and gas sector. The selection on the focus on backward linkages in oil and gas reflects was influenced by the fact that this is the only sector for which local content provisions are currently in place, although the government is considering introducing provisions for other sectors (Warner, 2016).

Key observations drawn from the literature on the size, extent and nature of backward linkages in Nigeria's oil and gas, agro-processing and minerals and metals.



80% by 2020. It also emphasises boosting backward linkages through procurement and utilisation of inputs produced locally (Adedeji et al., 2016). To this end, it sets minimum targets for Nigerian participation in 280 categories of oil services – including engineering, fabrication, materials and procurement, finance, research and development (R&D), shipping and logistics and other categories – with the aim of fostering both

Oil and gas sector

McCulloch *et al* (2017) observed extensive literature on oil and gas in the Nigerian economy largely focused on backward linkages has centred on this sector. Nigeria has a long history of local content policies targeting deeper backward linkages in the sector, beginning with the Petroleum Act of 1969 and including regulations for Joint Operating Agreements and Production Sharing Contracts between the government and foreign oil companies, and directives mandating the use of certain local services (McCulloch *et al*, 2017). As noted by Nwete (2012), the focus on oil nationalism intensified in the 2000s, with policy emphasis on raising the levels of local participation in the sector, and a desire to boost the share of revenue from oil and gas accruing locally. To aid these objectives, a local content division within the Nigerian National Petroleum Corporation (NNPC) was established (in March 2005), alongside creation of the Nigerian Content Consultative Forum (Morris *et al*, 2011; Adewuyi and Oyejide, 2012). Fabrication, engineering, manufacturing, banking and insurance, shipping and marine services, well and drilling and logistics services were among the key areas targeted for greater local content (Bakare, 2011).

The introduction of the Nigerian Oil and Gas Industry Content Development Act (2010) was a major policy development. The Act defines what constitutes Nigerian content and affords preferential treatment to companies qualifying as ‘Nigerian’ (Nwete, 2012). McCulloch *et al* (2017) and Inhua *et al* (2011) noted that the Act lists targets for progressive increases in local content from **45%** in 2007 to **70%** in 2010 and

backward and forward linkages (Ovadia, 2013, 2014, 2015). The Act also requires firms to contribute **1%** of the value of energy contracts to a Content Development Fund designed to support local training and business support services (Ramdoo, 2015).

The introduction of the Act was complemented by the formation of the Nigerian Content Development and Monitoring Board (NCDMB)

to implement local content policies. One of the NCDMB’s core objectives is to ensure as much as possible of the manufacturing and services activities required for extracting resources in Nigeria is domiciled within the country (Ovadia, 2013b). It is also tasked with enforcing compliance with the Act, reviewing local content plans, dealing with applications, setting policies and guidelines and devising programmes to improve Nigerian content through capacity-building initiatives (Ovadia, 2013a).

The more recent legislative and policy commitments towards greater local content in the sector come as foreign oil companies continue to dominate oil and gas in Nigeria. The dominance of foreign participation in the sector – including in the upstream segments of the sector as well as in the supply of goods and services procured – is highlighted in a number of studies (see, for instance, Heum *et al.*, 2003; Nwete, 2012).

In turn, local content and domestic industrial capacity in the sector have reportedly been low for some time (Heum *et al.*, 2003; Oyejide and Adewuyi, 2011). Moreover, linkages from the oil sector to the rest of the Nigerian economy are said to be limited (Ramdoo, 2015).

Despite this, there is evidence that Nigeria has gradually begun to localise and deepen backward linkages in the sector. Adewuyi and Oyejide (2012) present evidence of backward linkages involving manufacturing and knowledge-intensive service sectors – including fabrication and construction, well construction and completion, control systems and information and communication technology (ICT). Balouga (2012) explains how local companies are working in tandem with international counterparts to provide marine transport services for swamp and offshore operations. Oviaia (2013a) documents growth in the number and size of Nigerian companies providing services to the oil and gas industry, ranging from engineering design to specialised tools and equipment, and welding, fabrication and drilling services. He highlights a number of areas in which local content improvements were recorded after 2005, including in engineering person-hours, fabrication tonnage and the number of companies that fabricate pressure vessels or manufacture pipes. Even so, he adds that still only a relatively small share (around **40%**) of average spend for fabrication is domiciled in Nigeria. This is despite, according

to Balouga (2012), fabrication being the most developed local manufacturing activity linked to Nigeria's petroleum industry. The equivalent percentage is even lower in the case of spending on engineering and installation.

Other studies present empirical evidence of growth in local content in the sector. Adewuyi and Oyejide (2012), for example, note that the share of local content in the sector grew from around **3-5%** in the 1970s to **20%** in 2004 and 39% in 2009. Bakare (2011) argues local capacity utilisation in the sector grew by **400%** in the six years following the introduction of the Nigerian Content Policy. Adedeji et al. (2016) suggest the local content policy has had positive impacts on local value creation in Nigeria's oil and gas industry through greater participation of local firms and the development of backward linkages, although the overall effects have been below targeted levels. Their results also show backward linkages have helped create both direct and indirect jobs. In another study, the World Bank (2015) estimates local content policies in the sector have been responsible for attracting \$5 billion into the local economy and created 38,000 jobs.



Minerals and metals

Outside of oil and gas, other extractive value chains also hold promise for developing local value chains in Nigeria. The Nigeria Industrial Revolution Plan (NIRP) emphasises tapping into the country's untapped mineral reserves to develop a strong industry around high-value, high-volume products further down the value chain (Government of Nigeria, 2014). The NIRP recognises the potential for Nigeria to become a major processing hub for solid minerals, with sufficient reserves of 44 solid minerals to potentially support mid and downstream industrial activities. This suggests there may be



significant scope to develop backward linkages linked to downstream local processing activities within the minerals and metals sector. To this end, the NIRP targets the 'expansion of existing downstream processing and assembly capacity in the country, and then [to] gradually facilitate backward integration into midstream\upstream processing activities starting from solid minerals' (ibid.: 42). The Plan focuses specifically on the iron ore value chain, together

with the cement, basic steel, aluminium and chemicals sub-sectors.

Presently, however, Nigeria's mining industry remains in its infancy, meaning there is a shortfall in the extraction of raw materials, currently made up by importing intermediate processed raw materials (McCulloch et al, 2017).



That said, the production of cement is one area in which Nigeria has already achieved a significant level of backward integration. More than **95%** of the materials used for cement production in Nigeria are sourced locally (Government of Nigeria, 2014). This owes much to implementation of the industry's Backward Integration Policy (BIP) in 2002. The BIP was introduced to regulate imports of cement into Nigeria and stipulated that cement import licences would be granted (for a limited time period) only to importers that committed to building factories to manufacture cement locally using domestic inputs (primarily limestone and gypsum) (Ohimain, 2014; Ramdoo, 2015). The policy also provided incentives to local cement companies in the form of waivers of value added tax and customs duties on imported cement production equipment. According to Ohimain (2014), these policies were instrumental in facilitating the emergence of local and regional players in Nigeria's cement manufacturing industry. The most successful among these is Dangote Cement Company, which is currently the largest cement producer in Nigeria and across Africa and boasts a fully integrated cement value chain, from quarry to depot (Ogunleye, 2014).

On the back of introduction of the BIP, which was complemented by rising demand for cement to support urbanisation, industrialisation and the demand for infrastructure development in Nigeria, the

domestic cement industry has recorded sizeable increases in installed capacity. Data reported in Ohimain (2014) indicate that Nigeria's production of cement expanded from 2 to 28 million tonnes in the decade following implementation of the BIP, accompanied by the creation of around 2 million direct and indirect jobs.

Agro-processing



The thrust of the study on local content policy in Zimbabwe focuses on the agro – processing sector. Hence, the Nigerian experience on local content policy in the same sector presents important lessons for Zimbabwe.

The Nigerian Government's policy agenda emphasises the importance of developing value chain linkages with the country's agriculture sector. The NIRP looks to maximise the benefits from agricultural resources, including by building an end-to-end integrated agro-industrial value chain (Government of Nigeria, 2014). Similarly, the Nigeria Agriculture



Transformation Agenda targets the use of agricultural inputs to feed industry, focusing on food processing (beverages, packaged food products), sugar, palm oil processing, cocoa processing, leather and leather products, rubber products, textiles and garments (ibid.). Food processing is regarded as especially important and is already the largest manufacturing group in the economy. However, there is great potential to source more raw material inputs for food production locally (Moses-Ashike, 2012). As in Zimbabwean case, imports are still the dominant source of inputs for the production of food, beverages and tobacco in Nigeria, accounting for more than 70% of all raw materials (National Bureau of Statistics, 2014).

According to the United Nations Industrial Development Organisation (UNIDO) and the Central Bank of Nigeria (CBN) (2010), there are few formal backward linkages in Nigeria involving small-scale farmer groups, cooperatives or associations and agro-industries. The same study notes that out-grower schemes and contract farming are relatively limited.

In addition, certain agro-industrial processing initiatives devised by the government with the intention of improving linkages between farms and processing facilities are yet to be implemented (Dalberg, 2016). These include the federal government's plan to acquire 10 integrated rice mills and six cassava mills, and the mechanisation projects devised by the Federal Ministry of Agriculture and Rural Development, which aim to distribute tractors to hiring centres with the intention of increasing harvest volumes to supply local processing facilities (ibid.).

However, more encouragingly, however, UNIDO and CBN (2010) noted that some large multinationals contracting local suppliers to source inputs. These include:

- Breweries (Guinness Nigeria, JIB) sourcing sorghum and barley from Nigerian farmers through contracting arrangements;
- A British American Tobacco out-grower scheme involving tobacco farmers in Oyo state;
- Nescafe's strategy to source cocoa, sorghum and soya beans locally from contracted farmers.

Furthermore, a recent study by Chigozie and Chinasa (2016) points to evidence that producers in the Nigerian food market are

adopting backward integration strategies to develop their supply chains. They describe examples of De United Foods Industries Limited sourcing up to 45% of materials locally and looking to eventually produce its noodles using exclusively local content, and Flourmills of Nigeria Plc cultivating a sugar plantation to supply mills. Similarly, Ogunleye (2014) explains how Dangote Sugar has developed an integrated sugar cane plantation, spanning the whole supply chain from milling right through to sales and distribution. However, despite Dangote's efforts at developing backward linkages, the overall level of backward integration in the sugar industry still appears to be low, with the government suggesting this is a result of a shortage of capital investments in processing sugarcane to raw sugar (Government of Nigeria, 2014).

In other areas, products are mostly exported in raw form while the majority of processed products consumed in the domestic market are imported. For example, most crude palm oil for industrial use is imported, although local production is expected to grow significantly by 2020 on the back of efforts to expand plantations, improve yields and conversion rates and raise processing capacity (Government of Nigeria, 2014). Additionally, while the production of cocoa is widespread across Nigeria, it is mostly exported in raw form, with limited local processing (Ogunleye, 2014). That said, the presence of a large domestic market for products produced using cocoa (e.g. chocolate, beverages) suggests there is significant scope to develop a local value chain with backward linkages.

Fundamental constraints to generating backward linkages in Nigeria

Previous studies have highlighted the limited success of local content policies in Nigeria (Oladele, 2001; Shirley 2005). In addition, the NIRP acknowledges that poor backward linkages from industrial sub-sectors have plagued Nigeria's manufacturing sector for many years. In part, this owes to a number of structural barriers and problems in the investment climate that dis-incentivise companies from sourcing local inputs from Nigeria and localising value adding activities within the country. These include poor infrastructure (especially energy infrastructure), high costs of finance (owing to high interest rates), low standards for intermediate and finished goods, security concerns (especially

around the Niger Delta) and pervasive corruption and bureaucracy, which raises the cost of doing business (Heum et al, 2003; Government of Nigeria, 2014).

In addition, a host of supply issues affect the quality, quantity and availability of local inputs, thereby further dis-incentivising downstream processors from procuring local inputs and establishing backward linkages in Nigeria. These include low productivity in manufacturing, lack of local capacity (in many different areas), limited options for sourcing locally, limited access to technology and a lack of technological know-how, poor infrastructure, fragmented local supplier bases and poor coordination between suppliers and downstream purchasers, financial constraints, inconsistent policies and poor implementation of existing policies.

2.3.2 Approaches to developing backward linkages in other countries

Focusing generally on the extractive sector, and drawing on experiences in several different countries (including Brazil, Ghana, the Kyrgyz Republic, Madagascar, Malaysia, Mozambique, Nigeria, Norway, Russia, South Africa and Zambia), Ramdoo (2015) highlights a range of factors that determine the success of local content policies. These include:

- Clearly defined policy objectives;
- Effective implementation and monitoring of local content policies;
- Well-focused policies that can be realistically implemented by the extractive sector;
- Flexibility in regulations, enabling them to be adapted to changing circumstances;
- A balance between mandatory regulatory measures to achieve local content objectives and maintaining competitiveness;
- Strategic collaborative partnerships with private companies to support the implementation of local content policies;
- Ensuring protectionist policies are temporary, performance-based and phased out when local industries achieve the necessary levels of competitiveness; and
- Promoting innovation, R&D, capability upgrading and technology transfer as key elements in building a competitive local supplier base

2.4 Experiences in Backward Integration and Developing Local Content in Oil and Gas

2.4.1 Norway



Norway successfully managed the transition from a country with no direct capabilities in the oil and gas sector on the discovery of oil in the late 1960s to become a competitive producer of a

variety of oil field services and equipment (McCulloch et al, 2017). Today, more than half of the capital inputs used in the sector are sourced locally, along with 80% of the sector's operational and maintenance inputs (Ramdoo, 2015). McCulloch et al (2017) noted that the gradual introduction of local content policies was a key factor in this transition. A local content law, which was in effect until 1994, enabled domestic firms serving the indigenous oil and energy sectors to develop to the point where they were globally competitive. This was not achieved by specifying local content requirements, but rather by stipulating that priority should be given to procuring from firms based in Norway in cases where they were competitive in terms of price, quality and delivery time (Nordås et al., 2003; Oil and Gas IQ, 2010). This approach took into account the reality that the capabilities of local firms were not yet sufficiently developed to be competitive, and sought to facilitate the development of local content by gradually building domestic capabilities to compete internationally.

In order to build domestic capabilities gradually, the Norwegian Government initially introduced specific requirements for international oil companies to play a role in building local capacity. For instance, the inclusion of Norwegian firms was a compulsory requirement for international oil companies looking to bid on contracts, and international oil companies were required to undertake local capacity-building (e.g. through mentoring of domestic firms) as a condition of operating in Norway, and offered tax rebates as an incentive to do so (Ogunleye, 2014). These measures allowed for a gradual improvement of local capacity and knowledge

along with the transfer of technological know-how (Senoo and Armah, 2015). The requirements were gradually dismantled – and completely phased out by 1994 – as the indigenous firms supplying the sector became more competitive.

At the same time, the government prioritised knowledge development through a significant emphasis on R&D to support the local oil and gas value chain. A key focus was on creating strong research capacity (e.g. through the establishment of the RF-Rogaland Research Institute) to support the development of local technologies and expertise in oil and gas. Foreign firms were also encouraged to form R&D partnerships with local suppliers and institutions (Oil and Gas IQ, 2010).

Efforts to gradually build domestic capacity and competitiveness in the sector also focused on skills development and transfer (McKinsey Global Institute, 2013). International firms were required to commit to transferring technology to their local counterparts in order to be allocated licences (Oil and Gas IQ, 2010). A range of different skills transfer and training programmes were also introduced through collaborations between international and national oil companies and local oil field services and equipment firms (ibid.). In addition, the University of Stavanger – widely known as a ‘petroleum university’ – was established with a view of raising the number of oil and gas professionals in Norway. The national oil company, Statoil, was also tasked with training and skills development. According to Jourdan et al. (2012), Statoil has trained more than 80,000 people since its establishment in the 1970s.

It is important to note when analysing the factors underpinning the development of local capacity and backward linkages in Norway’s oil and gas industry that the country was already an industrialised company prior to the discovery of oil and gas. Crucially, this meant a considerable degree of industrial capacity had already been developed in other areas within the economy, and this provided a platform from which these capabilities could be transformed and extended to the oil and gas industry (Heum et al., 2011). In addition, the policies described above were implemented within a conducive economic and political context characterised by a well-governed economy, strong institutions and favourable macroeconomic conditions (Ramdoo, 2015). These conditions are markedly different from the current context in Zimbabwe.

2.4.2 Brazil



Brazil adopted a nationalistic approach to the development of an indigenous oil and gas sector. This sought to develop local content by closing out competition from foreign enterprises (Heum et al., 2011). High

import duties were imposed on specific products, thereby making it easier for local suppliers to compete. At the same time, backward linkages were made an important element of procurement and tendering legislation. Specifically, oil and gas firms operating in Brazil were awarded more points when tendering for contracts if they demonstrated commitment to purchasing higher shares of goods and services from local Brazilian suppliers (Nordås et al, 2003). Specific local content targets were set for onshore projects (70%) and offshore projects in shallow (51%) or deep (37%) water (Ramdoo, 2015). The Brazilian government also made it mandatory for foreign firms to contribute to R&D and technology transfer as a condition for obtaining a licence, and introduced penalties for non-compliance (ibid.).

Estimates suggest as many as 875,000 jobs have been created in Brazil since the implementation of the local content regulations (Mendoza, 2016). In addition, purchases of domestically produced equipment and supplies have reached a value of around \$14 billion (ibid).

However, while the protectionist policies described above may have helped boost domestic capacity and capabilities, they have also resulted in higher costs and lower quality and productivity in the domestic industry (e.g. by limiting access to the use of foreign technology) (Nordås et al., 2003). As a result, the outcome of Brazil’s attempts to build an internationally competitive sector has been mixed (Heum et al., 2011). The Brazilian government has also struggled to enforce compliance with minimum local content targets, given the high cost they impose on participating companies. Warner (2016) reports that in 2014 as many as 14 oil and gas companies operating in Brazil opted to incur

finances for failure to meet minimum legal targets rather than face the cost of meeting the targets themselves.

However, recent efforts to improve infrastructure and allow foreign competition in the domestic market show promise in helping boost the competitiveness of the local oil and gas sector. Ramdoo (2015) identifies the following policy-related factors that are contributing to the emergence of competitive local suppliers and a world-class hydrocarbon sector in Brazil:

- The introduction of a supplier development programme, with emphasis on the development of SMEs (through capacity support and training, and matching SMEs with industry requirements);
- Collaborative partnerships in the form of licensing agreements wherein multinationals allow local firms to 'develop advanced technologies, promote national suppliers and diversify into other industrial activities such as petrochemicals, fertilizers and distribution';
- The creation of a local supplier database to facilitate linkages;
- Efforts to make the state oil company, Petrobras, more globally competitive, including by ensuring the company gives preference only to competitive local suppliers.

2.4.3 Ghana



Ghana's oil industry is still in its infancy. Following discovery of commercial quantities of offshore oil in 2007, the government introduced Regulations for Local Content and

Local Participation in Petroleum Activities in late 2013, seeking to gradually increase local control over the country's oil resources. These regulations require a gradual increase in local sourcing up to the point where 90% of the goods and services required by the industry should be procured from local suppliers by 2020 (Mendoza, 2016). They also contain local staffing requirements; Amoako-Tuffour et al. (2015)

report that Ghana has already made good progress in raising the level of employment of local workers in the industry.

McCulloch et al (2017) noted that Ghana's efforts to extend backward linkages and enhance local content in the industry face a number of challenges. Some targets for local sourcing set in the legislation are unlikely to be realistically achievable within the specified timeframe (Senoo and Armah, 2015). For example, the legislation sets a target for 100% of drilling risers used in the industry to be manufactured locally within 10 years, even though no manufacturing of these products currently takes place within Ghana. Similarly, it stipulates that local firms should provide between 60% and 80% of detailed engineering and other engineering services, even though only one wholly owned Ghanaian firm is currently providing these services.

More generally, most local firms are simply unable to meet the standards foreign companies demand, with limited capacity, a lack of technical know-how and high costs meaning they cannot compete with foreign suppliers (Amoako-Tuffour et al., 2015). The capacity constraints facing these local firms are exacerbated by a lack of access to finance, which serves as both a barrier to entry for new firms and a constraint on purchasing the sophisticated equipment necessary to improve product standards and competitiveness (ibid.).

Encouragingly, however, there are some indications that the situation is improving. Senoo and Armah (2015) note that there is now greater willingness among international oil companies to do business with suitable SMEs and to mentor them. This is reflected in a greater number of joint venture partnerships within the industry and generally more extensive collaboration between them and local subcontractors.

Even so, Ghana is likely to face further challenges related to the enforcement of local content legislation. The legislation cannot be applied retroactively, meaning it does not apply to foreign oil firms already operating in Ghana. This makes it difficult to impose the regulations on existing companies (Senoo and Armah, 2015). In addition, as a middle-income developing country, Ghana's local content legislation is potentially in breach of both the World Trade Organization (WTO) Agreement on Trade-Related Investment Measures and its General Agreement on Trade in Services, and

there is a possibility that companies will refuse to comply with the legislation on this basis (Suleman, 2012).

2.5 Key Lessons for Zimbabwe

The foregoing discussion on the experience of a variety of approaches to developing backward linkages in different country and sectoral contexts. These experiences, as noted by McCulloch et al (2017), provide a number of potentially useful lessons for Zimbabwe:

- Targets for local content should be set in line with what can be realistically implemented given the capacity and capabilities of local suppliers.
- It is important to ensure there is a balance between the regulatory requirements imposed to boost backward linkages and maintaining competitiveness. Requirements should not be so onerous that they discourage compliance or raise costs to the level that they discourage investment and render the local industry uncompetitive. - Similarly, it is critically important to ensure any protection provided to local suppliers is temporary and does not affect their long-term competitiveness in terms of cost, quality and productivity. McCulloch et al (2017) argued that

policies designed to generate backward linkages should be implemented gradually alongside efforts to build domestic capabilities to compete internationally; and protection for local suppliers should be disbanded gradually as they improve their capacity and competitiveness. Priority in procurement should be given only to competitive local suppliers.

- Skills development through both targeted training programmes and skills transfer initiatives along with supplier development programmes that include capacity-building and training can be effective in raising the capabilities of local firms to compete effectively with their international counterparts.
- Prioritising R&D and innovation that improve local technologies and expertise is important for enhancing the competitiveness of the local supplier base.
- Collaborative partnerships with the private sector and appropriate incentives (e.g. tax rebates) can be effective in encouraging multinational firms to support local capacity-building and to transfer knowledge and technology to domestic suppliers.

3. RESEARCH METHODOLOGY

In order to gain a deeper understanding of local content policies in the Zimbabwean context, the study undertook a field study aimed at understanding local content support programmes in the agro-processing sector with a specific focus on seed and food and beverages sectors. In this study, leading firms in the seed industry and food and beverages sector were interviewed.

The interviews were conducted in strict confidence to allow respondents to speak freely about their views. As a result, the study do not present a list of respondents and do not refer to the names of any individual companies in our findings, except where the firm in question granted permission to do so.

Again, the information provided was confidential and so the study do not present the figures or responses for any individual firms but rather draw on the information provided to give a sketch of the typical characteristics and responses that we received.

The population for the study was made up of twenty-three seed houses, companies in the food and beverages sector and officials from three ministries, that is, Ministry of Finance, Ministry of Industry and Commerce and Ministry of Agriculture. Because the size of the population is large, the study used purposive sampling.

Purposive sampling method was used in the study based on which company/ government department was in a position to give appropriate and sufficient information on local content enhancement programmes in Zimbabwe. The rationale of using this sampling technique was that it is effortless, time and cost effective since the sample was easily identified. Further, due to its flexibility purposive sampling allowed the selection of respondents based on the objective of the study as well as competent knowledge of the subject area.

This study used a sample of sixteen respondents comprised of four from seed industries, eight from food and beverages and three from government. This sample size had an advantage of saving time, allowing greater focus, saving costs and it has allowed to obtain valid and reliable results.

3.1 Field Study

The researcher undertook interviews senior officers across of respondents. In order to address comprehensive information on local content programmes and accurate information, the researcher sort interviews with key office bearers in a company such as finance directors, marketing directors, technical directors, general managers and in some case Chief Executive Officers. In all the interview sessions, the researcher met a team of directors who were drawn from the categories stated above.

In Government, the researcher interviewed directors and their respective economists in one meeting per ministry.

3.2 Secondary Data

Secondary data which is also known as desktop research was used in the study and this was used to augment data obtained from primary sources. Key reports which were used in this study include the national budget statement, monetary policy statement, report on import management produced by the Ministry of Industry and Commerce, Zimbabwe Association of Dairy Farmers Strategic Plan and various financial reports of listed companies from the seed and food and beverages sectors.

4. KEY FINDINGS FROM THE STUDY

The broad objective of this chapter is to focus on data presentation and discussion of key findings on local content enhancement programmes. To achieve this broad objective, the research results were categorized into two main sections namely; Section A which focus on presenting the demographic data of respondents who participated in the study. Section B Summaries the findings against each study objective.

Section A: Demographic Analysis

This section presents data on the following: respondents who participated versus target, gender, position in the firm and also listed and non-listed companies that were part of the study on local content enhancement programmes.

Box 1: Characteristics of Firms in the Seed and Food and Beverages Sectors Interviewed

75 percent of the targeted respondents participated in the study while 25 percent didn't take part. This level of participation is a reasonable number which guaranteed the credibility of the study.

From a gender perspective, 68.8 percent were male while female respondents constitute only 31.3 percent. In as much the respondents was male dominated, the study managed to get views from females which helped in bringing diversity of views thereby enriching the study.

The researcher's key respondents were largely directors and managing directors with directors constituting 75 percent of total respondents while and 25 percent of the respondents were managing directors. Based on this observation, the key findings which are emerging from this study and the subsequent recommendations are ceteris paribus robust since they are informed by authoritative personnel from various organization engaged.

Out of the 75 percent of the participating companies, 83 percent of the companies were listed on Zimbabwe Stock Exchange while 17 percent were not listed. The large number of listed companies have helped the researcher in accessing information since publicly listed companies have not challenges in disclosing financial information.

Section B: Presentation of Results Based on Research Objectives

4.1 Existing local production enhancement programmes in the seed sector



The majority of seed houses have contract agreements with farmers aimed at provision of a reliable grower base or uninterrupted supply of seed which ranges from maize, wheat, soya bean, vegetable, sorghum and sugar bean seeds. The criteria for the selection of farmers is based on the availability of a farm and irrigation water, farm sheds and the farmer should be an honest individual. In addition, isolation between farms which could be by distance or time (planting time differentials) is another important factor which is considered when selecting growers. There should be a reasonable distance between farms to prevent seed contamination.

The study noted that the seed industry is supporting seed outgrowers with an average land size of 15,000 hectares. In support of the outgrowers' schemes through contract farming, the study observed that companies are applying the following local content enhancement or support programmes:

- Provision of an extension officer for every 400 hectares of land under seed production;
- Provision of working capital and input support. The working capital includes provision of cash for the payment of wages during harvesting;
- Financial support in the establishment of centre pivots, seed drying units, seed graders, on farm weather station, tractors and planters, grading sheds and silos. Since 2015, the seed industry has invested about \$7 million into these key farm infrastructures;
- Provision of a ready market for the seed;
- Overall, the seed industry has played a role of an aggregator where they provide a market for the seed growers whilst at the same time the sector plays a significant role in funding farmers which if left alone have no capacity to access funding from the bank since they have no collateral.

4.1.1 Impact of local production enhancement programmes on import substitution

The seed industry indicated that the period of economic collapse as a result of other factors such as land reform affected their company operations and it forced the company to import seed from other countries. To be specific, in 2009, maize seed production fell to 12,000 metric tonnes against a national requirement of 35,000 metric tonnes per year.

However, as a result of local content support measures, maize seed production increased to an average of about 30,000 metric tonnes of seed maize against a national demand of 37,000 per year. This indicates that the support of local production had a positive impact on reducing imports of seed maize to 7,000 metric tonnes.

With respect to imports of other varieties of seeds, the industry emphasised that the absence of market development caused by the collapse of companies in the seed value chain and land reform, for example, the vegetable market, was the main factor which has resulted in low production of vegetable seeds.

Notwithstanding these challenges, the seed industry has noted that there is now evidence of renewed demand for various seeds as a result of government policy such as command agriculture. In the same vein, the industry noted

that major industries up the seed value chain are resuscitating very well and the farmer productivity has improved. This new development is definitely expected to provide scope for a large market for the seed industry. On the basis of the foregoing, the seed industry is working on a strategy to raise seed production across all seed varieties. This is expected to reduce the import bill of vegetable seed, maize seed, sorghum and wheat seeds.

4.1.2 The impact of local content enhancement programmes on job creation

Although at the time of research the seed industry couldn't quantify total employment created through local content support programmes, it is undisputable that the industry has made significant contribution to direct and indirect job creation in Zimbabwe. Direct job creation was noted to be through the thousands of farmers who are supported on contract farming together with their labourers, employees which are directly employed by the seed houses in the manufacturing plant, retail outlets and merchandisers.

Indirect job creation was noted to be significant around the ecosystem of the seed industry which includes chemical and packing suppliers, equipment and implements manufacturers, transporters, banking services and retailers.

4.1.3 The impact of local content enhancement programmes on export growth in the seed sector

The seed industry has the capacity of exporting seed to 18 countries African countries.

Notwithstanding this opportunity, the industry has not been largely active in exporting seed to the region due to lack of export capacity. For example, the current production of seed maize 30,000 metric tonnes of seed maize against a national demand of 35,000 metric tonnes. This leaves no room for export.

However, in order to maintain a regional presence and raise foreign currency for key import requirements, on a smaller scale the industry has exported some seed varieties particularly maize to neighboring countries such as Mozambique, Malawi and Angola.



4.1.4 Impediments to local content enhancement programmes in the seed sector

From a production perspective, climate change vulnerability was noted to be a key challenge which is affecting the seed industry. The study noted that the industry made huge losses which were caused by excessive rains which made it difficult for the farmers to undertake proper grading and sorting of seeds. The seed industry, as a result of climate change, has seen production yield falling as a result of high diseases pressure and poor pollination caused by high temperatures.

Some of the respondents indicated that the production costs in Zimbabwe are significantly higher as compared with regional peers mainly as a result of the high cost of money, expensive tax regime, acute shortage of foreign exchange and high cost of labour. These observations are in line with the findings of McCulloch et al (2017).

4.2 Existing Local Production Enhancement Programmes in the Food and Beverages Sector

4.2.1 Food industry



The food sector is a very broad sector. As a result, this study placed emphasizes on the local content enhancement programmes in the dairy and milling sectors.

With respect to the dairy industry, the study noted that the dairy sector has come up with strategic plan for the resuscitation of the dairy industry (Zimbabwe Association of Dairy Farmers' Strategic Plan 2018 to 2022).

The strategic plan was developed by the industry with a view of working towards self-sufficiency in milk production. In this regard, the industry is working on mobilising US\$46 million which will be used in local content support

programmes which must yield 131 million litres of milk in 2022.

The dairy industry strategy was mooted when key dairy processors were already working on key local content enhancement programmes which inter alia include:

- Some companies came up with Dairy Empowerment Schemes where an excess of \$20 million was invested in national herd building since 2011;
- Technical and extension support to farmers. The dairy processors have invested in veterinary doctors who are assisting cattle farmers with extension services;
- The dairy processors have used their strong balance sheet to borrow money on behalf of the farmers who have no capacity to do so in the absence of collateral;
- Provision of key cattle farming inputs such as feed and drugs through various value chain finance models;
- The dairy industry came up with a number of supplier development programmes outside the cattle rearing to packing industry;
- Provided a ready market for the milk.

With respect to the milling sector, the study noted that the main local content enhancement programmes are largely related to the provision of a market for the grains produced by farmers and funding of command agriculture.

4.2.2 Beverages sector



The beverages sector covered by this study focused on the production of water, tea, coffee, soft drinks and juice drinks. Most of the firms in the beverages sector draw their raw materials from plantation agriculture. As such they have a number of local content support programmes chief among them include:

- The beverage industry has also put in place programmes to support local production or supply chain development. These programmes include contract farming or out grower schemes to support farmers at four functional levels that is input, production, processing and marketing;
- Provision of key inputs such as chemicals and fertilisers;
- Mechanisation of farmers with key implements such as tractors;
- Provision of out grower support schemes such as contract farming and extension services;
- Provision of training in production, quality control and certification aimed at meeting international standards since most of the produce is exported;
- Infrastructure support such as road maintenance in tea and coffee plantations, in particular.

4.2.3 The impact of local production enhancement programmes on import substitution in the food and beverages sectors

Food Sector

With respect to the dairy sector, the study established that Zimbabwe used produce 260 million litres of milk per year. However, due to the land reform and harsh economic environment which ensued between 1998-2008, milk production plummeted to 39 million litres in 2009. However, as a result of local content enhancement programmes, Zimbabwe witnessed milk production rising from 39 million litres recorded in 2009 to 65 million litres in 2017.

Although the current output is still below the annual national demand of 120 million litres, the country has progressively reduced milk imports from South Africa by about **40%**. The study established that the country used to import **100%** of cremora but it is now locally produced resulting in annual savings of US\$2.6 million. Hence providing market for local industries that supply packaging material had a positive impact on Import substitution. The company now source 80% of the packaging material locally.

Supply chain development programmes in the packing sector for the dairy industry has resulted in the import bill falling from US\$22 million per year to US\$7 million.

With respect to the milling sector, one of the respondents indicated that before supporting local production their company used to import **100%** wheat from other countries but currently the company is currently importing **50%** of wheat as a result of the local content enhancement programmes instituted by the sector supporting local production. The company is further targeting to import only **25%** of wheat in the long run.

These results are similar to observations made by McCulloch et al (2017) in Nigeria, who noted that there are several policies to promote backward integration in food processing. For example, Nigerian Breweries sources sorghum and barley from Nigerian farmers; De United Foods Industries Limited is sourcing up to **45%** of materials locally and looking to eventually produce its noodles using exclusively local content; Flourmills of Nigeria Plc is cultivating a sugar plantation to supply mills; and Dangote Sugar has developed an integrated sugar cane plantation, spanning the whole supply chain from milling through to sales and distribution (McCulloch et al, 2017).

Beverages sector

The study showed that because of local content enhancement programmes, the country is self-sufficient in the production of a number of beverages products which include tea, coffee, water, cordial drinks, etc. There are very minimum imports observed in this sector. Rather, the sub-sector is exporting to the region.

In the same vein, the beverages sub sector's robust supplier development programmes and deliberate approach to sign in local producers of products used in the sub-sector's value chain has resulted in significant reduction of import of products such as plastic and packaging and various raw materials.

4.2.4 The impact of local content enhancement programmes on job creation in the food and beverages sectors

Food industry

One of the companies in the food industry indicated that has created about 150 jobs directly and further created another 150 jobs for contract workers. However, the company indicated that they are investing in a \$6 million

new plant which will create more jobs, that is, both direct and indirectly. The majority of the respondents concur that increased in local production has the potential to create jobs across the value chains particularly through supporting local production and investing in new manufacturing plants to substitute imports.

Beverages industry

In beverage industry a number of respondents have indicated that local content enhancement programmes had a positive effect on job creation. One major player in the beverage industry's company senior to executive manager indicated that their agriculture division created an average of 4,500 jobs while the beverage division had created an average of 5,000 jobs. This indicates that local content enhancement programmes have a potential of increasing production and promote job creation.

4.2.5 The impact of local content enhancement programmes on export growth in the food and beverages sectors

Food industry

Although the companies in the food and beverage sectors are facing numerous challenges, they are still able to export. One of the companies produces an annual average of 300 tonnes of macadamia and 10,100 tonnes of avocado for export. One of the respondents indicated that their company has the capacity to meet both national and export demand. A wide range of products such as cremora, cerevita flakes, milky tea and etc are being exported to neighbouring countries such as South Africa, Zambia and Malawi. This is due to various local content enhancement programmes being undertaken by the companies.

Beverages industry

As a result of various local content enhancement programmes that are being implemented to support local production, major players in the beverage industry export products such as tea and coffee to neighbouring countries and beyond. One of the beverage companies produces tea (**75%**) and coffee (**93%**) for exports. This shows a positive impact of local content programmes. The company can meet local demand and export surplus to the international market.

4.2.6 Impediments to local content enhancement programmes in the food and beverages sectors

Most of the respondents indicated that the production costs in Zimbabwe are significantly higher as compared with regional peers mainly as a result of high cost of money, expensive tax regime, acute shortage of foreign exchange and high cost of labour. As a result, some companies have opted to invest factories in the neighbouring countries where there are lower costs of electricity, water and raw materials for goods destined for exports.

The majority of the respondents reported that the pricing of maize which was pegged at \$390 per metric tonne while the regional countries such as Zambia and South Africa are selling their maize at \$137 per metric tonne and \$150 per metric tonne, respectively. This situation has created an uneven playing field with regional firms. This pricing of maize is negatively affecting the competitiveness of products like stock feeds and other cereal products.

The Reserve Bank of Zimbabwe exchange controls which require companies to utilise foreign exchange earnings within two weeks of receipt was seen as a serious challenge. This has resulted some companies undertaking wasteful spending and in a number of cases has affected the companies' normal procurement cycles. In some cases, companies which have failed to utilise the foreign exchange have lost the foreign.

The respondents in the dairy sector reported that the absence of land security is negatively affecting any effort aimed at reducing the cost of stock feed. Ideally, the stock feed must be prepared at the farms but this requires security of tenure and reasonable farm.

Some firms complained about the inconsistency of tariff policy within and outside of Special Economic Zones (SEZs). Specifically, firms located in SEZs can obtain a rebate on their import duties. In the same vein, the same firms in the SEZs qualifies for a five year corporate tax exemption and a **15%** corporate tax thereafter. However, the challenge with this policy is that these companies in the SEZs sell their commodities in the local market thereby creating a competitive disadvantage for firms outside the SEZs which have to pay full duties on their inputs as well as corporate tax of **25.7%**. This observation is consistent with the findings

of McCulloch et al (2017) in Nigeria, who noted that the Nigerian Government offered rebates on import duties for raw materials for companies in free trade zones (FTZs) which later sell their goods in the domestic market thereby disadvantaging firms outside the FTZs which have no privilege of duty free raw materials.

One company underscored that there is rampant smuggling of goods in their sector which if not stopped will undermine viability of the firm. The smuggled goods pay no tax and because they are mainly coming from South Africa which has a competitive edge over Zimbabwe are likely to force the firms to retrench about **60%** of the workforce.

4.3 Policy Makers Perceptions on Local Content

Respondents from Government noted that Zimbabwe economy suffered massive losses as a result of stiff competition from the region. For example, respondents noted that the manufacturing sector capacity utilisation has been falling since 2011, from a peak of **57.2%** to **34%** in 2015. Zimbabwe also experienced pronounced company closures and retrenchments. Respondents noted that over 700 companies were liquidated by 2013, with about 2,179 workers being retrenched in 2013 alone, while 168 companies closed in 2014 with 3,881 people being retrenched.

In responding to the effects of stiff competition from the region, government respondents reported that government implemented a number of statutory instruments which restricted importation of specified products in contravention of the provision of free trade agreement signed in the SADC and Common Market for Eastern and Southern Africa (COMESA) and WTO.

However, government respondents noted that the restrictive measures helped the industry in selected products to increase capacity utilisation from **34%** to an average of **50%** and full capacity in some sectors. There were also significant improvements in the areas of new investments into the same sectors, job creation. In addition, value added tax increased by **3%** within a year after implementing restrictive measures.

In order to guarantee the gains which came with the trade restrictive measures and at the same time instituting international best practice on

protecting local industry, Zimbabwe, in line with the observations noted from global experience such as Nigeria, Brazil, Ghana, is working out a local content policy. To date, according to the respondents, government has developed a draft local content policy. Once the policy is completed, the next step, will be to enact a local content policy law which will see the development of regulations on local content and related institutions which will monitor the implementation of local content.

In the interim, the respondents underscored that government fiscal, non-fiscal and monetary incentives will be considered for companies supporting the production and consumption of locally produced goods, supplier development and job creation.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

5.1.1 The existing local production enhancement programmes in the agricultural sector

The majority of the agribusiness companies in the seed, food and beverage industry are implementing various local content enhancement programmes in support of local production or value chain development. The programmes include contract farming or out growers' schemes, procurement (value chain development), provision of technical assistance to farmers and supplies of raw materials, veterinary support and etc. The companies offer assistance to farmers at four functional level that is input, production, processing and marketing. The reasons for implementing such programmes include to have a reliable grower base/uninterrupted supply, strategic positioning of the organization, earning of foreign currency, market share growth, cooperate social responsibility and to increase access of certain products to the poor for nutrition purposes and etc.

5.1.2 The impact of local production enhancement programmes on import substitution

The majority of the companies have witnessed a positive impact of local content enhancement programmes through reduction in imports after undertaking programmes that promote local production or value chain development. However, some small companies in the seed industry are operating below capacity level and they are unable to meet local demand due to a number of constraints. Major players in the industry engaged in various local content enhancement programmes have managed to cut seed imports and the seed varieties are now being produced locally.

5.1.3 The impact of local content enhancement programmes on job creation

Supporting local production or supply chain development had a positive impact on job

creation. Majority of the companies have created many jobs and also created jobs in the downstream industries.

5.1.4 The impact of local content enhancement programmes on export growth

The has shown that local content enhancement programmes have capacity to substitute imports and subsequently create export capacity. The beverages sector, in particular, not only substituted imports but has created export capacity which has resulted in the subsector exporting about 75 percent of its output.

5.1.5 Impediments to Local Content Enhancement Programmes

The study established that the seed and food beverages sectors are negatively affected by challenges ranging from competitiveness, foreign exchange regulations, climate change vulnerability, absence of security of tenure, high tax regime and smuggling of goods.

5.2 Recommendations

5.2.1 Food and beverages sectors

Fiscal Policy Measures

The following tax measures were proposed by the respondents in the food and beverages sector:

- Double tax deductibility for all local content supporting programme expenses, for example, interest accrued, extension services costs;
- Lower tax rates for companies investing in milk supply. The tax regime should be balance sheet or income statement based. This tax incentive can be equated as a tax rebate for the companies which are outside the SEZs and can be used as an instrument of levelling the play field with firms in the SEZs. For example, for the next five years, Government must reduce corporate tax by 5% for every additional \$1 million support or as shown in the table below:

Scale (\$)	Suggested reduction in tax rate
100k-500k	reduce by 2.5%
501k-1 million	reduce by 5%
1 million-2 million	reduce by 7.5%
>2 million	reduce by 10%

This is key as the industry is working on mobilizing \$46 million for national herd building which is targeting to produce \$131 million of milk. At this level of production, that is, in the next five years, the industry will meet the national milk requirements and spur exports whilst at the same time create savings of \$20 million from the current imports of powdered milk. Government stands to get more VAT which comes from the multiplier effects of the \$46 million investment.

As observed in Nigeria, Zimbabwe should consider offering waivers of customs duties and VAT on imported capital goods in order to encourage domestic production of goods and services. In Nigeria, the government provided incentives to local cement companies in the form of waivers of value added tax and customs duties on imported cement production equipment. According to Ohimain (2014), these policies were instrumental in facilitating the emergence of local and regional players in Nigeria's cement manufacturing industry. The most successful among these is Dangote Cement Company, which is currently the largest cement producer in Nigeria and across Africa and boasts a fully integrated cement value chain, from quarry to depot (Ogunleye, 2014).

Monetary Measures

- Removal of restrictive foreign exchange controls which requires exporters to liquidate foreign exchange in two weeks;
- Issuance and finalization of all issues around 99 year leases;
- Removal of restrictive measures around export of ice cream selling equipment;
- Prioritisation of foreign exchange for importation of heifer and drugs;
- Provision of import substitution incentives in the same manner the Reserve Bank of Zimbabwe is providing for export incentives.

Other Policy Measures

- Downward review of the price of maize to around \$200 per metric tonne;
- Provision of land for the cattle breeding and farm stock feed production;

- Policy on duty free powder importation linked to raw milk intake must continue for another 5 years as is current practice. It is expected that the raw milk intake will have responded to reduce the current gap over this period as per industry's Strategic plan.
- As in the Nigerian case where **40%** of Government procurement was prioritised on locally manufactured food and beverages, the local industry is of the view that the same must apply in Zimbabwe.

5.2.2 Seed sector

Fiscal Policy Measures

The following tax measures were proposed by the respondents in the seed sector:

- Double tax deductibility for all local content supporting programme expenses, for example, interest accrued, extension services costs;
- Lower tax rates for companies investing in the production of seed. Like in the food and beverages sector, the tax regime should be balance sheet or income statement based. For example, Government must reduce corporate tax by 5% for every additional \$1 million support or as shown in the previous table.

Monetary Measures

- Removal of restrictive foreign exchange controls which requires exporters to liquidate foreign exchange in two weeks;
- Prioritisation of foreign exchange for importation of key chemicals and equipment;
- Provision of import substitution incentives in the same manner the Reserve Bank of Zimbabwe is providing for export incentives.

Other Policy Measures

- Guarantee of Government tenders on command agriculture and Presidential inputs schemes;
- Provision of land for parent seed production.

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AEDS
AFRICA ECONOMIC DEVELOPMENT
STRATEGIES

📍 445 Ventersburg Park,
Sunway City,
Harare, Zimbabwe

☎ +263 242 852 962

📞 +263786904200

✉ info@aed-s-africa.com

🌐 www.aed-s-africa.com