

Local Content Enhancement Programmes: Case Study Of Seed And Food And Beverages Sectors In Zimbabwe

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Abstract:

Zimbabwe since the turn of the new millennium witnessed incessant trade deficits which has seen the country importing goods which can be produced locally. Current account imbalances have been singled out as one of the destabilising factor in the Zimbabwe economy. Government of Zimbabwe crafted a local content strategy as one of its policy measures in addressing trade imbalances. In view of this, this study evaluated existing local content enhancement programmes in the seed, food and beverages sector on job creation, import substitution and export development. The study used purposive sampling approach and observed that firms in the seed, food and beverages sectors used various schemes of local content enhancement programmes ranging from contract farming, extension services support, provision of ready market and training. These programmes were effective in reducing the import bill in the respective sectors while in some cases imports were eliminated. With respect to exports, whilst there were mixed results on the impact of local content programmes on export growth, there is evidence which shows that with time sectors can build internal capacities to eventually export. However, some sectors in the beverages sector are exporting an average of 75% of the total output. Local content programmes were observed to be positively related to job creation. In order to both expand gains noticed in these sectors and extend them to other sectors of the economy, Government of Zimbabwe should consider various tax incentives and ease of doing business reforms with a view to create an enabling environment for business to invest in local content enhancement programmes.

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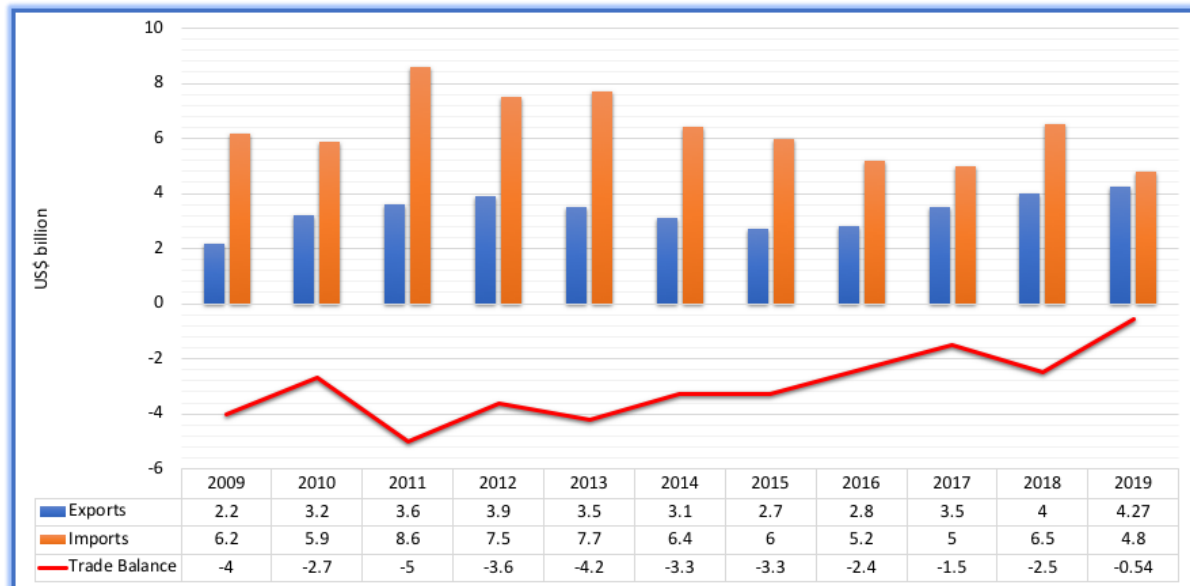
1. INTRODUCTION TO PROBLEM SETTING

Over the years, especially in the last twenty years, Zimbabwe struggled with ever increasing trade account deficit which

is largely dominated with goods which can be produced locally. For example, in the last eleven years, that is since 2009, the country faced incessant trade deficits which has accumulated to \$33.0 billion

which is 157.3% of the country gross domestic product (GDP) (see figure 1.1).

Figure 1.1: Current Account Performance



Source: UN COMTRADE (2019) & ZIMSTAT

The trade deficit narrowed down in 2019 after imports plummeted by 55% in 2019 due to drought of foreign exchange which saw key raw materials declining by 30% (ZIMSTAT, 2019).

Trade statistics shows that on an annual basis, Zimbabwe imports about US\$2 billion products which can be substituted. For example, in 2019 alone, the country imported \$2.152 billion worth of goods which constitute about 42% of total imports in 2019 which can be domesticated.

Major imports which can be locally produced include machinery (\$467.8 million), cereals (\$519 million), electricals (\$263 million), iron and steel (\$213 million), pharmaceuticals (\$201.6 million), plastics (\$181 million), animal and vegetable fats (\$154 million), soya bean crude oil (\$103 million) and fertilizer (\$104 million) (UN COMTRADE, 2018). In view of the foregoing, Government of Zimbabwe crafted a local content strategy

whose main thrust is to promote the production and consumption of local goods as well as import substitution in line with the provisions of the World Trade Organisation (WTO) provisions. In order to provide inputs into the local content strategy, using the food and beverages sectors, this paper reviews the possible implications of the local content enhancement strategies based on the following 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.

1.2 Rationale for the Seed, Food and Beverages Sectors Studies

The food and beverages sector in Zimbabwe play a dual role of import substitution and foreign exchange generation since it contributes 48.9 % of the country's total exports (ZIMSTAT, 2017). Likewise, the food and beverages also constitute 15% of total imports in Zimbabwe, that is, US\$1 billion.

Seed industry which is provide the seed for wheat, maize, soya beans, vegetables and groundnuts, in particular, provides an important input in the food value chain.

Trade statistics shows that since the turn of the new millennium, Zimbabwe has failed to meet its national food requirement and has been described as a 'basket case'. As a result, on an annual basis, the country

has imported soya beans, fruit and vegetables and cereals amounting to \$250 million, \$203 million and \$500 million, respectively (ZIMSTAT, 2019).

It is on the basis of the foregoing discussions that the seed, food and beverages sectors were chosen to assess the existing local content enhancement programmes with a view to build important lessons for the new local content strategy for Zimbabwe.

2. REVIEW OF LITERATURE ON LOCAL CONTENT PROGRAMMES

This section define local content, reviews various theories and empirical studies, drawing lessons from other countries experiences on local content enhancement programmes.

2.1 Definition of Local Content

Although there is no common definition on local content several definitions are centred on production and local procurement of goods and services for local consumption (Belderbos and Sleuwaegen (1997). In this regard, as noted by scholars such Barclay and Esteves (2011), Oguine (2011) and Ofurhie (2001) a share of inputs (labour, materials and parts) sourced from the local market is used in the production processes.

2.2 The Economics of Local Content

McCulloch, Balchin, Mendez – Parra and Onyeka (2017) local content policies can create both demand and supply of intermediate goods and services if properly implemented through backward and forward linkages. McCulloch *et al* (2017) argued that the objective of a desirable local content policy is to increase the amount, quality and variety of inputs used in production.

In this regard, the local content policy must be accompanied by policy measures such as tax incentives and non-fiscal investments such as provision of uninterrupted supply of key infrastructures such as water and electricity as concessionary fees for companies producing specific products and services (McCulloch *et al*, 2017).

Further, McCulloch *et al* (2017) and Mendez-Parra *et al* (2016) argued that most local content policies implemented by a number of countries were associated with subsidies, quotas on inputs, tariff and tax incentives, trade restrictions, and a number of ease of doing business reforms aimed at increasing local production.

If well - coordinated, the local content policy measures can work in substituting imported inputs with locally produced one thereby reducing the country's trade imbalances. Because Zimbabwe has traditional problem of trade imbalances, the review of the possible implications of local content enhancement programmes in Zimbabwe's seed, food and beverage sectors on imports and exports becomes very relevant.

2.3 Country experiences

This section presents experience from Africa on local content enhancement programmes with specific focus on Nigeria because it has similar context with Zimbabwe. Key binding constraints on local content in Nigeria are showcased in order to draw relevant lessons for the Zimbabwe. In this regard, the Nigerian case study analysed here focuses on agro-processing industry which is somehow related to the seed, food and beverages sector which is being discussed in this paper.

The Nigerian local policy agenda placed emphasis on the development of value chain linkages in country's agriculture sector. The main objective was to optimise

raw materials from the agricultural sector and promote value addition of the same within the value chain (Government of Nigeria, 2014). The Nigeria Agriculture Transformation Agenda, which was used as one of the local content frameworks, targeted the use of agricultural raw materials in feed industry, food industry with specific focus placed in the food and beverages sector, palm oil, sugar, cocoa processing, leather industry, textiles and garments and rubber products (*ibid.*).

Although there is scope for improvements, as a result of the local content strategies, food processing in Nigeria has emerged as one largest manufacturing sector in the country (Moses-Ashike, 2012).

Evidence from United Nations Industrial Development Organisation (UNIDO) and the Central Bank of Nigeria (CBN) (2010) and Dalberg (2016) shows that the initiatives by the Nigerian government to improve linkages between farms and the manufacturing sector is still to be fully implemented thereby resulting in a situation where only a few formal backward and forward linkages in agricultural sector.

In cases where the backward and forward linkages were established, UNIDO and CBN (2010) observed that large multinational companies such as Guinness Nigeria, British American Tobacco and Nescafe were involved in contract farming with farmers for key raw materials used in their production processes.

In addition, Chigozie and Chinasa (2016) observed that Nigerian firms in the food and beverages sector adopted backward integrated strategies which resulted in reduction of the import bill. For example, De United Foods Industries Limited was observed to be sourcing 45% of its raw materials from the local market and has built momentum to totally eliminate all its essential raw materials for the production of noodles, flour and sugar (Chigozie and Chinasa (2016).

In the same vein, as a result of the local content strategies, Ogunleye (2014) argued that Dangote Sugar developed a comprehensive backward and forward linkages programme which has seen the company managing the whole supply chain starting from sugar cane plantation, milling to sales and distribution.

Overall, just like the Zimbabwe situation, Nigeria, because of constrained capacities, imports more than 70% of raw materials used in food and beverages sector (National Bureau of Statistics, 2014). Previous studies shows that there has been limited success in the implementation of local content policies in Nigeria (Oladele, 2001; Shirley 2005). Structural barriers, poor investment climate, infrastructure deficits (mainly energy), corruption, high cost of finance and poor quality of local products were major binding constraints that discouraged firms in Nigeria to actively participate in local content enhancement programmes which much be taken into account by Zimbabwean authorities (Oladele, 2001; Shirley 2005 and Government of Nigeria, 2014).

McCulloch et al (2017) further argued that supply side constraints such as availability of local inputs in the right quality, quantity coupled with limited options for procuring locally, limited technology, disintegrated local supplier bases and poor coordination between suppliers and downstream purchasers, inconsistent policies, poor implementation of existing policies and financial constraints dis-incentivised companies in participating in local content programmes.

The discussion presented here shows that the implementation of local content policies is not a straight-forward matter – it varies from country to country and from situation to situation. The question as to whether or not local content programmes are effective in achieving intended goals in Zimbabwe will be tested empirically by

evaluating the impact of local content enhancement programmes in the seed, food and beverages sectors in Zimbabwe.

3. RESEARCH METHODOLOGY

In order to establish the local content programmes being implemented in the seed, food and beverages sectors in Zimbabwe and their subsequent impact on jobs, import substitution and export, this research carried both primary secondary research. In this research, a purposive sample of companies in the seed industry and food and beverages sector were interviewed.

In line with ethical requirements, interviews, after being granted permission, were carried out in strict confidence with view to allow participants to express themselves freely. When presenting the findings of the research, no reference was made to the names of participants or companies save for the situations where the firm in question gave the authors permission to do so.

The population for this survey is constituted of firms in the food and beverages sector, seed industry and officials from the Ministry of Finance and Economic Development, Ministry of Industry and Commerce and Ministry of Agriculture.

Purposive sampling was used in this study since the population is large and diverse. Purpose sampling was used as an alternative research design primarily on the basis that cost effective and effortless when a sample has been identified. In addition, because of flexibility, purposive sampling allows the selection of the interviewees to be based on the objective of the research and competent knowledge in the focus area.

In this research, a sample of sixteen interviewees which is made up of four participants from the seed industries, three

interviewees from government and eight participants from the food and beverages.

3.1 Secondary Data

Secondary data from existing literatures such as fiscal and monetary policies, local content strategy, annual reports from firms concerned were used to compliment findings from field research.

3.2 Field Study

In order to guarantee quality of results, senior officials from both government and private sector were interviewed. To be specific key office bearers such as finance directors, technical directors and managing directors were interview in the private sector. In government permanent secretaries were interviewed.

4. KEY FINDINGS FROM THE STUDY

The main objective of this section is to present findings and discussion on local content enhancement programmes in the seed, food and beverages sector in Zimbabwe. In this regard, the results are presented into two sections, that is, Section A which covers demographic analysis of the interviewees and Section B which summaries key findings based on research objective.

4.1 Section A: Demographic Analysis

In this section, as shown in box 1, various demographic indicators such as listed, non-listed firm status, gender and position of the participant in the organization were analysed with a view to assess the robustness and reliability of the results.

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

- The findings show that 15% of the targeted respondents didn't participate

in this survey while 85% were interviewed. This level of participation was found to be reasonably good enough to guarantee the reliability of the results.

- From a gender perspective, 68.8% of the participants were males while 31.2% of the interviewees were female. Although males were the majority, views solicited from females assisted in bringing diversity of views thereby enriching the study.
- The majority of the respondents were directors with 75% of total interviewees while managing directors and permanent secretaries constituted 25% of the total respondents. Based on this observation, *ceteris paribus*, the observations made in this study are both robust and credible since they are informed by authoritative sources and key decision makers in organizations consulted.
- Interestingly, 83% of the firms interviewed are listed on Zimbabwe Stock Exchange while 17% are not listed. The existence of a large pool of listed firms made it easier for the researchers to access data without constraints since it is public available.

4.2 Section B: Presentation of Results Based on Research Objectives

4.2.1 The Seed Sector

(a) Existing local production enhancement programmes in the seed sector

In line with findings from Nigeria, most firms in the seed industry in Zimbabwe are

involved in the production of local seed through contract farming. The seed varieties supported through contract farming ranges from soya beans, maize, sugar beans, wheat, vegetable and sorghum. The study noted that most firms used the availability of a farm, irrigation, farm sheds and farmers past experience as the criteria for the selection of farmers. Most respondents interviewed confirmed that the contract farming model was complimented with the following support schemes and programmes:

- Training and supervision by extension officers;
- Provision of working and input support at all stages of seed production;
- Provision of key infrastructures such as irrigation, seed graders, seed drying units, on farm weather station, tractors and planters, grading sheds and silos; and
- Guaranteed market;

(b) Impact of local production enhancement programmes on import substitution

Interviewed firms argued that in 2009 the country 12,000 metric tonnes of maize seed against a national requirement of 35,000 metric tonnes per annum leaving an import gap of 23,000 metric tonnes. The study noted that, as a result of local content enhancement programme presented in 4.2.1(a), maize seed production shot to 30,000 metric tonnes per annum now against a national demand of 37,000 per year. Although this is still an import gap of 7,000 metric tonnes, the findings show that local content enhancement programmes are effective in substituting imports in Zimbabwe seed sector.

(c) The impact of local content enhancement programmes on job creation

Evidence obtained from various respondents confirmed that the local content enhancement programmes has contributed to both direct and indirect job opportunities.

Based on feedback from respondents, direct job creation was observed as thousands of workers who included farmers themselves and other workers in the whole span of the seed value chain starting from the farm, to seed manufacturing firms, retail outlets and merchandisers.

With respect to indirect job creation, there was confirmation by all respondents that seed ecosystem which includes chemical and packing suppliers, equipment and implements manufacturers, transporters, banking services and retailers witnessed new job creation as a result of the multiplier effect from the seed growing as well as its processing and marketing.

(d) The impact of local content enhancement programmes on export growth in the seed sector

Although the seed industry has capacity to export to more than 18 African countries, because the industry has a deficit of 7,000 metric tonnes, exports are elusive.

(e) Impediments to local content enhancement programmes in the seed sector

From a production perspective, researchers noted that climate change vulnerability which is largely characterized by dry spells with a net effect of reduced productivity caused by high diseases pressure and poor pollination due to high temperatures, is one of the key binding constraints in the seed industry.

From a policy perspective, all the interviewees engaged argued that price controls and controlled marketing of the

seed by government which have become a permanent feature for the last 20 years have a negative effect of reducing firms' viability as in a number of cases firms makes losses due to sub-optimal prices. High cost of doing business characterized by expensive tax regime, corruption, high interest rates, drought of foreign exchange and inflation were noted by the majority of respondents as major impediments in the seed industry. These findings are in line with the findings of McCulloch *et al* (2017).

4.2.2 The Food and Beverages Sector

(a) Existing Local Production Enhancement Programmes in the Food and Beverages Sector

Food industry

The food sector is a very broad sector. In order to establish local content enhancement programmes, this study assessed the application of local content support measures in the dairy sector.

Through its own initiative, the dairy industry crafted the resuscitation strategy for the dairy industry (Zimbabwe Association of Dairy Farmers' Strategic Plan 2018 to 2022).

The strategic plan was developed by the industry with a view to work towards self-sufficiency in milk production. In this regard, the dairy industry, using its own resource mobilisation strategies, is raising US\$46 million which is earmarked for the production of 131 million litres of milk in 2022.

Based on the interaction with the dairy industry, researchers noted that the following are key programmes which are being implemented by the dairy industry:

- Establishment of the Dairy Empowerment Schemes towards national herd building where an excess of US\$20 million was

invested by firms in the sector since 2011;

- Technical and extension support to farmers where at the expense of the firms, veterinary doctors are employed to assist farmers with extension services;
- On the back of their strong balance sheet, firms borrow money on behalf of farmers which will be used as working capital;
- Provision of essential inputs such as cattle feed and drugs;
- Provision of a ready market for the milk.

Beverages sector

Production of water, tea, coffee, soft drinks and macadamia are the main beverages products most of which will be covered in this study. Researchers noted that most firms in this sector sources their raw materials requirements from plantation agriculture. The following were observed as key local content enhancement programmes which were applied by most firms as part of their supply chain management:

- Contract farming or out grower schemes;
- Provision of essential inputs such as chemicals and fertilisers;
- Provision of mechanisation equipment to farmers such as tractors;
- Support with extension services;
- Since a significant share of the output from the beverages sector is exported, farmers are supported with training in production, quality control and certification with a view to meet international standards;

- Provision and maintenance of important infrastructure support such as roads in tea and coffee plantations.
- Provision of a ready market

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

Food Sector

Below land reform programme, that is, in the mid 1990s, Zimbabwe used to produce over 260 million litres of milk per year which was largely exported. The study noted that due to the fast track land reform which disrupted existing value chains and reduced the national herd drastically coupled with harsh economic environment of 1998-2008, milk production plummeted to 39 million litres in 2009.

Nevertheless, as a result of local content support programme discussed in 4.2.2 (a), the country noted a significant jump of milk production from 39 million litres recorded in 2009 to 69 million litres in 2019 thereby reducing the import bill by 30 million litres of milk.

These results are similar to observations made by McCulloch et al (2017) and Chigozie and Chinasa (2016) in Nigeria local content support programmes have helped in substituting imports in Nigeria. For example, the Nigerian Breweries procured its sorghum and barley from Nigerian farmers; De United Foods Industries Limited is procuring 45% of its raw materials locally and has built momentum to totally eliminate all its essential raw materials for the production of noodles; 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 revealed that, because of local content support programmes, Zimbabwe is self-sufficient in the production of a number of beverages products such as tea, coffee, water, cordial drinks, etc. There are insignificant imports noted in this sector. Actually, the majority of the products produced in this sub-sector is exported to the region and global markets such as the European Union and Asia.

Over and above the impact of local content programmes in the beverages sector, the study noted that firms in this sector have developed a robust supplier development programme and deliberate effort to sign in local producers of products used in the sub-sector's value chain such as plastics and packaging thereby reducing the import bill on the same products.

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

Food and Beverages industry

local content enhancement programmes were noted to have causal link with job creation, that is, both direct and indirect. Various respondents interviewed argued that thousands of jobs were created in various farms, plantations and factories whilst tens of thousands of jobs were created in the value chains of the food industry as well as the downstream effects.

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

Food and Beverages Industries

The study noted that 85% and 90% of macadamia and avocados, respectively are exported to regional countries and

global markets (the European Union). Likewise, most of the daily products produced are exported.

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. On average, the study noted that 75% of tea is exported while 93% of coffee is exported. This demonstrates the positive impact of local content programmes on exports.

(e) Impediments to local content enhancement programmes in the food and beverages sectors

Most of the respondents interviewed underscored that the main challenge in the food and beverages sector is ever increasing production costs in Zimbabwe which are caused by the high cost of doing business in the areas of high tax regime, shortage of foreign currency, high interest rates, and high labour cost.

The respondents from the dairy sector singled out lack of land security and shortage of land as major impediment in running a dairy business since farmers cannot mitigate against rising cost of stock feeds by producing own feed at the farm.

The majority of the firms interviewed argued that the Special Economic Zones (SEZs) Act create an uneven playing field with firms outside the SEZs. To be specific, firms located in the SEZs receives excessive fiscal and non-fiscal incentives such as tax concessions and uninterrupted supply of water and electricity near zero charges something which cannot be passed over to firms outside the SEZs. This situation, gives firms in the SEZs competitive advantage especially when they sell their products in the same local market. This finding is in line with the observation of McCulloch et al (2017) in Nigeria, who observed that the Nigerian Government gives various fiscal incentives

such 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.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

(a) The existing local production enhancement programmes in the agricultural sector

The research shows that most of the firms and respondents interviewed confirmed that seed, food and beverage sectors are applying various local content support programmes. These programmes are largely centred around provision of technical support and extension services, contract farming or out growers' schemes.

(b) The impact of local production enhancement programmes on import substitution

It was evident that most firms in these sectors have made tremendous progress in import substitution notwithstanding the harsh economic environment in Zimbabwe.

(c) The impact of local content enhancement programmes on job creation

Local content enhancement programmes proves to be sustainable and effective models for job creation with the value chain of the product concerned as well as e downstream industries.

(d) *The impact of local content enhancement programmes on export growth*

The research has shown that local content support programmes if well implemented build the necessary impetus for building domestic capacities and ultimately create export capacity. For example, in this study, the beverages sector, didn't only substituted imports but has created export capacity which has resulted in the subsector exporting about 75 percent of its output.

(e) *Impediments to Local Content Enhancement Programmes*

The major binding constraints to local content enhancement programmes in the seed, food and beverages sectors as observed in the study are climate change vulnerabilities, drought of foreign exchange, policy challenges, high tax regime, price controls and absence of security of tenure on land.

5.2 Recommendations

Fiscal Policy Measures

Based on the interviews and international best practice, the following tax measures were proposed by the respondents in the seed, food and beverages sector:

- *Provision of a double tax deductibility which will allow firms*

Scale US(\$)	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%

- In addition, in order to encourage more investment into local production and reduce the excessive tax burden, as observed in Nigeria, Zimbabwe should

to a double recovery of for all local content enhancement programme expenses such as interest accrued and extension services costs;

- *Government of Zimbabwe should consider reducing tax rates for*
- *firms investing in local content enhancement programmes using a grading scale (see table 5.1). The proposed tax incentive, if implemented will address the challenges of tax rebates 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 instance, for the next five years, Zimbabwe should consider reduction of corporate tax by 5% for every additional \$1 million support or as shown in table 5.1:*

Table 5.1: Graded Tax Reduction Matrix

consider offering waivers of customs duties and VAT on imported capital goods. In Nigeria, the as part of local content support

- incentives, the government waived VAT and customs duties on import equipment targeting the
- production of cement. As noted by Ohimain (2014) this policy thrust promoted establishment of firms which were earmarked for cement production. The Dangote Cement Company which has expanded to other regional countries such as Zambia and Ethiopia is one of the beneficiaries of this policy (Ogunleye, 2014).

Other Policy Measures

- In view of the high cost of doing business which is negatively impacting on local content enhancement strategies, taking lessons from Rwanda, the Government of Zimbabwe need to undertake a sustained reform agenda which will see the country addressing the ease of doing business; and
- There is need for the development of climate change policy framework which will deal with mitigatory and adaptation strategies which a view to reduce the costs of climate change vulnerability.

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