

A MODEL THAT WORKS:

The Psi (Private Sector Initiative) Tanzania

he Psi Tanzania is a development model that works. The Psi is a mechanism for creating sustainable and mutually profitable linkages between large corporations on the one hand, and Tanzania's small and medium enterprises (SMEs) on the other. During its first two years of operation, the Psi Tanzania has made dramatic progress. In 2002, corporate participants in the Psi spent Us\$21 million on inputs from Tanzanian SMEs. In 2003, this figure rose to Us\$30 million – a 43 per cent increase.

Previous page: A sharp eye for quality at Jamana Printers, a beneficiary of the Psi Tanzania.

All photographs by Blue Mango Photography, Dar es Salaam. This strong upward trend in local purchasing is expected to continue. For example, one major corporation participating in the programme reports that in 2004 over 50 per cent of its spending will take place in Tanzania, and that, over the next four years, it will spend about Us\$20 million in Dar es Salaam alone.

Since the election of President Benjamin Mkapa in 1995, Tanzania has been increasingly successful at attracting domestic as well as foreign direct investment (FDI), which is essential for economic growth.

Many developing economies, among them Tanzania's, are characterised by an element of discontinuity, resulting in a 'missing middle'. In these cases, the economy consists of a small number of large, mostly multinational, corporations at the one end of the spectrum, and many small, often informal, local enterprises at the other. The resulting linkages between these large companies and the rest of the domestic economy are often weak, and the developmental impact of domestic and foreign investment – more employment, increased domestic capacities, and greater wealth accumulation – is more limited than it could be.

The challenge is to address this economic disconnectedness and turn the kick-start provided by big investments into making markets work for both the formal and informal economies. Its headline results show that the Psi Tanzania is starting to provide a compelling answer to this challenge.

How does the Psi work?

There are three main reasons why the Psi Tanzania has been such a successful development initiative. First, it is designed to gain maximum development advantage from existing capacity. In developing countries, large corporations are often the most technologically and organisationally advanced entities. The Psi makes extensive use of these capabilities.

Second, the Psi makes business sense. It is not a charitable initiative, or a 'nice to have' corporate social investment initiative. By adopting the Psi, companies simply go about their day-to-day business in a slightly different and often more efficient and less costly way. The Psi participants have found that using local suppliers lowers business costs, primarily by increasing speed and flex-

Printing in progress at Tanzania Litho Ltd, one of numerous suppliers that have grown dramatically as a result of the Psi Tanzania.



Testing labels at Tanzania Printers, a participant in the Psi Tanzania.

ibility and by reducing the amount of stock that they need to carry. Within the Psi, business logic creates sustainable development.

Third, the Psi enables large companies to collaborate more efficiently with each other, with government, and with donor agencies, for their mutual benefit as well as the benefit of the wider Tanzanian community. As Mr Jayesh Shah, managing director of the Sumaria Group, notes: 'The Psi is not about philanthropy; it is a business linkage programme that is mutually beneficial. Big businesses demand consistent quality and quantity. The informal sector cannot be considered to be serious suppliers until they register and obtain the required standards certification.'

Facilitation has proved to be essential

The Psi did not develop spontaneously. It has been actively facilitated by SBP, a knowledge-based organisation that aims to stimulate business-led growth and sustainable development in Africa. Thanks to funding from the Business Linkages Challenge Fund (BLCF), part of a facility funded by the United Kingdom's Department for International Development (DFID), SBP has been able to perform an essential intermediary and facilitating role.

As the former chief executive officer of BP Tanzania and now BP head of country sub-Saharan Africa, Mr Sam Mupanemunda, said in June 2004: 'Without the facilitation that was only possible by using an impartial outside organisation – SBP – the Psi would not have been possible. The process required both outside impetus, and a neutral driver.' Mr Mupanemunda's view is shared

by Mr Harpreet Duggal, manager: corporate planning of the Sumaria Group, who recalls: 'If we – and probably the other corporates too – hadn't been visited by SBP, and confronted with a very persuasive case, the Psi wouldn't have happened.'

All the corporations participating in the Psi Tanzania were active in supplier development and outsourcing prior to the programme's inception, but SBP's facilitative function has allowed these companies to collaborate more efficiently, more cost-effectively, and on a larger scale than was previously possible. The Psi provides a single point of co-ordination for supplier development that reduces the duplication of effort and therefore frees up busy chief executives, managers, and buyers to concentrate on their core activities. It allows knowledge and experience to be shared regularly and systematically. And, by developing shared approaches and tools, it makes the practical tasks faced by purchasing and technical managers looking for reliable local suppliers significantly easier.

CORPORATE PARTICIPANTS IN THE Psi TANZANIA

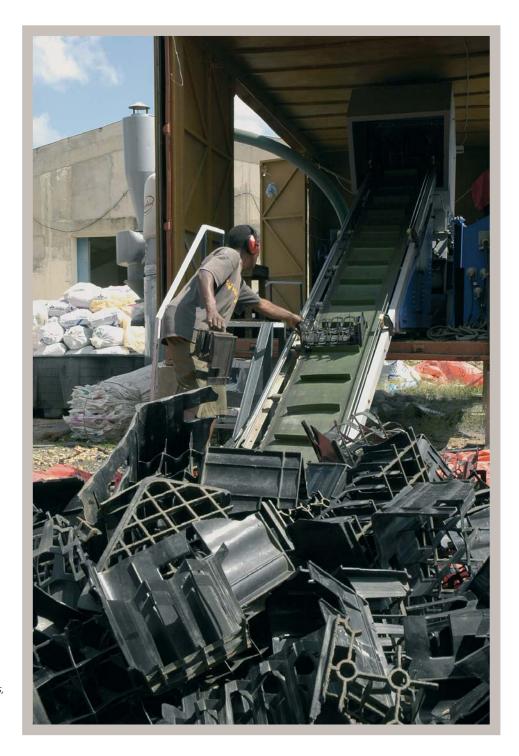
BP Tanzania
Kahama Mining Corporation
Kilombero Sugar Company
National Microfinance Bank
Sumaria Group
Tanga Cement Company
Tanzania Breweries
Tanzania Cigarette Company

The Psi database

An important tool developed by SBP for the Psi has been a database of indigenous SMEs. This is now in the process of being updated, and placed on an intranet which will be accessible by each corporate member of the Psi.

SBP has designed this database from scratch, and collated all the data from the Psi participants themselves. As BP managers told SBP: 'We use the database all the time. It's the first point of reference in dealing with supplier issues. Thanks to the Psi database, things we once bought from abroad can be sourced locally.'

The long-term sustainability of the Psi is illustrated by the fact that the Psi companies took over full ownership and maintenance of the database from SBP in mid-2004. As Mr Akshay Shah, chief executive officer of Simba Plastics, says: 'The bottom line in this is that we and our corpo-



A worker at Tambi Terrazo Ltd recycles crates for Simba Plastics, a subsidiary of the Sumaria Group, a corporate participant in the Psi Tanzania.



Nampak Tanzania's ISO 9001 certificate, the first ever issued by the Tanzania Bureau of Standards.

rate partners have a practical interest in the database. It has become a key quality management tool, and makes the lives of our purchasing managers much easier.'

Beyond the numbers

The success of the Psi Tanzania is not fully revealed by the numbers alone (impressive as these are), but requires an understanding of the initiative's impact on the socio-economic development of Tanzania in general. The Psi has helped to increase the country's economic capacity, and helped organised business to participate more effectively in policy formation and dealing with issues relating to the investment climate as a whole. The Psi has also attracted a great deal of positive international attention to Tanzania and Tanzanian business.

The Psi and economic capacity

The Psi has increased the capacities of its corporate participants in the ways we have seen, but it has also deepened, broadened, and raised the quality of Tanzania's manufacturing and services sector. It is worth mentioning one or two of these instances.

The Psi member Tanzania Breweries Ltd once imported all the crowns used for beer bottles. Today the vast majority of these are made by Nampak Tanzania (formerly Carnaud Mettalbox) in Dar es Salaam. Nampak Tanzania's products have been – and continue to be – developed to meet rigorous international standards; in July 2004, it received IsO 9001 accreditation. The accrediting agent in this case was the Tanzania Bureau of Standards, and the IsO certificate awarded was the first ever by that organisation. Nampak will always be the holder of IsO certificate number 1 in this category in Tanzania. This is a fine example of the way in which pioneering work by one corporation can produce positive 'externalities' that increase the capacity and international competitiveness of the whole economy.

IMPORT SUBSTITUTION MAKING BUSINESS SENSE

It is all too easy to see socio-political pressures for import substitution merely as an added cost to business. But the Psi has been able to reveal and unlock a strong business case for it.

Import substitution can help to develop a local economy, but it can also improve the profitability of large corporations when – as through the Psi – reliable local suppliers are developed. This is happening in Tanzania because the Psi participants can:

- carry less stock when they have reliable local suppliers
 there's no need to keep large stocks of spare parts;
- pay lower transactions costs when interacting with local suppliers – driving across town is far cheaper than flying to Mumbai or Johannesburg; and
- minimise the time and the hassle factor of clearing goods through customs.



A poster is played out at Monier 2000, another company that has benefited from the Psi Tanzania.

Another compelling example of the developmental potential of the Psi is provided by Sumaria Group's Royal Dairy. Royal Dairy is Dar es Salaam's biggest supplier of milk products. In the city, livelihoods have been created for 60 salespersons, trained and assisted by Royal Dairy, and provided with equipment such as bicycles, pushcarts, and pails. Royal Dairy's supply chain reaches deep into the countryside, collecting milk from as far away as the West Kilimanjaro district. This is a paradigm case of market-led development working directly to stimulate the smallest enterprises.

Towards improving the investment climate in Africa

A key additional (and perhaps unexpected at the design stage) benefit of the Psi has been that large corporates, with help from SBP, have become aware of the policy and regulatory obstacles that smaller businesses have to contend with on a day-to-day basis. Moreover, the large corporates, as a powerful lobby group, have been able to convey these problems to senior government policy-makers, and to have changes made. The potential for large businesses to lobby on behalf of small businesses on the basis of real and practical experience is clearly something worthy of replication, and a key systemic benefit of the Psi. 'The Psi is a strategic tool that enables the exchange of policy ideas among its members,' says Mr Paul Makanza, director: corporate affairs, TCC. 'I sit on the steering committee of the Tanzanian Chamber of Industry, and see the Psi ideas coming through all the time.'

Representatives of many Psi participants observe that the macro level factors which create a conducive environment for domestic and international private sectors to invest, grow businesses, increase trade, and generate job opportunities are in place or being put in place in Tanzania. But it is at the next level down – the operational level, where day-to-day business happens – that the greatest constraints are encountered. It is precisely at this level that the Psi is best equipped to identify problems, and to draw out lessons that can be taken to the government during the policy for-

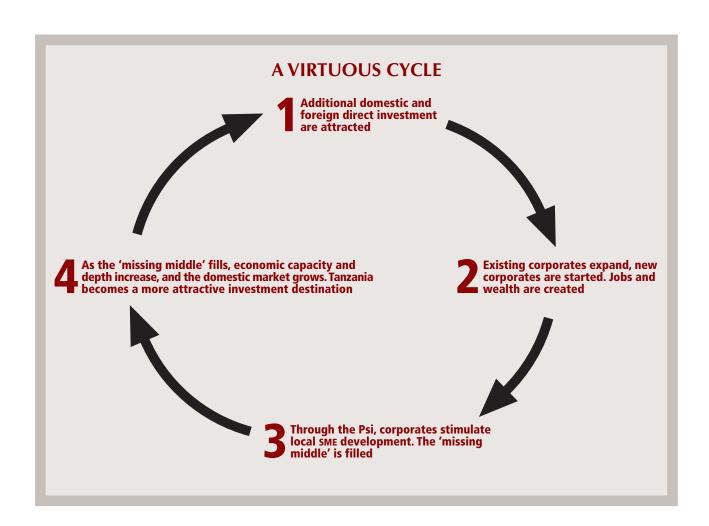
mation process. Mr Sam Mupanemunda, former chief executive officer of BP Tanzania and now BP head of country sub-Saharan Africa, has commented that 'the programme answers some concerns that government has with respect to the economic empowerment of Tanzanian citizens ... the Psi has shown that corporates have practical solutions to this challenge.' The close link between operational issues and policy formation processes is something the Psi can straddle.

The Psi and international perceptions

At the launch of Psi Tanzania in July 2002, the Hon Mr Basil Mramba, Tanzania's Minister of Finance, expressed the hope that the Psi would provide 'a model for countries throughout the developing world'.

This hope is well on the way to being fulfilled. The Psi has been recognised as an outstanding model of business-led development best practice by the UNDP and UNIDO, and in UNCTAD's influential *World Investment Report 2003*. The World Resources Institute has also printed the following extract from Mr Mramba's address in a brochure for its forthcoming international conference entitled 'Eradicating poverty through profit: making business work for the poor', to be held in San Francisco in December this year: 'Tanzania's Private Sector Initiative is not charity; it is hard-nosed business. As we all know, merely handing out money will not solve any problems. Charity does not foster entrepreneurship.'

Existing investors and international observers are spreading the good news that the Psi Tanzania is a model that is working and expanding.





Work in progress at Motisun, a subcontractor that supplies consumables to a participant in the Psi Tanzania.

SBP

Conclusion

By bringing additional momentum and depth to the market-led development process, the Psi has played a major part in setting up a virtuous cycle of economic growth and human development in Tanzania. This will undoubtedly attract yet more investment in a country that is proving – through the Psi and many other mechanisms – that it knows how to take maximum advantage of these investments in order to generate opportunities for all its citizens.

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