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**Research Article**

# Economic Opportunity for Economic Development: The Linkage between Extractive MNCs and SMEs: The Case of Extractive Firms in the Gas Sector in Tanzania

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**Abstract:** The linkage between extractive firms and local SMEs is so important in economic development of the country including SMEs development. Many people have engaged themselves in the running of SMEs and therefore the linkage with extractive firms will enable the broad participation of the local population in the oil and gas sector. However, the key issue is not on the linkage itself, but it is on what type of linkage is formed and how it is formed. With this fact, the study focused on two issues, namely to examine the type of linkages and identifying the strategies and policies used by extractive firms to promote the linkages with local SMEs. The study used two cases from extractive firms and one case of SMEs to support its findings. The findings revealed that the backward linkage is the type of linkage that exist in the gas sector and many SMEs link with the extractive MNCs through the indirect channel of backward linkage. Moreover, despite the fact that some extractive firms have policies and strategies that guide their linkage with local firms, the strategies and policies do not explicitly guide the linkage with SMEs rather they focus on the local firms in general. Therefore the study, among others, recommends that the extractive firms must develop policies and strategies that will aim at promoting the backward linkage with local SMEs. Additionally, the extractive firms are advised to develop the selective procurement procedures that will be in favour of local SMEs without undermining the need of delivering products that meet the predetermined quality standards.

**Keywords:** Economic development, extractive MNCs, foreign direct investment, gas sector, linkages, SMEs

## INTRODUCTION

Many developing countries have been advocating on attracting Foreign Direct Investment (FDI) as a means of advancing their economies (UN, 2005). One of the factors that attract the huge FDI inflows in developing countries including Africa is an availability of natural resources, particularly Oil and Gas (Dupasquier and Osakwe, 2006; Asiedu, 2002). African countries have gas and oil but they don't have enough financial resources to explore and extract oil and gas. Therefore the extractive Multinational Corporations (MNCs) play a major role in the exploration and extraction of oil and gas resources. However, FDI may not produce the anticipated results to the host economy, if there are no linkages with the economy at large (Morrissey, 2012) particularly with SMEs.

There are several definitions of linkage, as they have been cited by Hansen (2013), linkage can be defined as a way for Multinational Corporations (MNCs) to collaborate with other firms in order to be able to focus on core competencies (Prahalad and Doz, 1987), sharing risks (and opportunities) with other firms (Altenburg, 2001) and/or complement own resources and capabilities (Barney, 1991). From the local firm perspective in host countries, linkages to MNCs may be a way to expand businesses, learn new skills and acquire new technologies that will allow them to move into higher value-added activities (Humphrey and Shmidth, 2001). For the sake of this study (on the local firm perspective), linkage is defined as a way of expanding business relationship through increased market accessibility, information sharing, skill upgrading and increased value-added activities.

Linkages can be divided into two groups, namely 'development' linkages and 'dependent' linkages (Dicken, 2007). "The development linkage is the linkage which creates jobs, develop skills and upgrade capabilities in the local economy. The dependent is the one which keeps host economies specialized in low value-added functions (activities) and offer no possibilities of upgrading" (Dicken, 2007). Linkages can also be divided into three groups, namely backward linkages, forward linkages and horizontal linkages "Backward linkage relates to industries (businesses) that supply inputs to the MNCs; while forward linkage

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consists of industries that use inputs from the MNCs. The horizontal linkage is the one that may not be directly linked to the MNCs, but might have potential of unlocking indirect business and employment opportunities in other sectors of the economy (Deloitte, 2004).

Focusing specifically on the African extractive industry from the value chain perspective, Morris *et al.* (2011a) argue that backward linkage have larger development potential than other types of linkages. Therefore most of the evidence of linkage broadening and deepening from African extractives comes from backward linkages (Deloitte, 2004) and with this fact; the study considers the backward linkage to be the dominant one, but it should be the developmental one. In recent years there has been renewed focus on extractives (particularly in oil and gas) as an engine of development in Africa (Deloitte, 2004) and the key issue is on how to link the extractive industries to the local economy. For example, Morris *et al.* (2011b) argue that many linkages between MNCs and the local firms in African extractives seem to be simple 'widow-dressing' activities, transferring their efficient imports of suppliers by MNC with less efficient imports by local entrepreneurs (business owners).

Ramdoo (2013) also argued that, although extractive sectors have contributed positively to foreign investment, revenue generation or foreign currencies, much remains to be done to translate opportunities arising from the good economic performance into real and high quality employment to attain high level of (economic) development. Therefore the impact of MNCs as measured in terms of indirect job creation (ADB, 2013; Lundstøl *et al.*, 2013; McMahon and Tray, 2012; Kapstein and Kim, 2011) has not vividly seen in the African countries.

The African countries will be able to create indirect job opportunities when they promote the growth of Small and Medium Enterprises (SMEs) since they are the main source of employment and have the significant economic growth prospects. This is supported by Eggenberger-Argote (2005) who argued that "micro enterprises as a means of subsistence are the economic backbone of the livelihoods of larger sections of the population in low income countries. However, often they offer only limited (economic) growth prospects". Thus this study will focus on SMEs only; however, it does not undermine the importance of micro enterprises in the developing economies.

It is further acknowledged that one of the most sustainable ways to raise income and to trigger long term economic development in Africa, is undoubtedly to encourage private sector; (Ramdoo, 2013), particularly local SMEs. Eggenberger-Argote (2005) argued that SMEs play a leading role in creating employment and income generation for broad- and less-privileged section of the population. Employment is key source of income to the African local population. In the late 1990s, World Bank argues that next to illness and injury, the scope of entrepreneurial activity and availability of jobs is the most important factor in determining the fate of the poor for better or for worse (World Bank, 2001 Cited by Beth, 2007). Thus employment is key to the poor (Karnani, 2007; UNDP, 2004) and SMEs plays a very important role (Nelson, 2007).

However, Eggenberger-Argote (2005) argues that SMEs would not survive without some link to large scale enterprises (e.g. extractive MNCs). But just a linkage between the extractive MNCs and SMEs may not have significant economic contribution in Africa since the key issue is on what kind of a linkage formed and how it is formed. Deloitte (2004) argues that more immediate opportunities for greater engagement with local SMEs may be through the procurement of goods and services that are less directly related to the core business of the extractive MNCs. Therefore backward linkage plays a significant role as compared to other types of linkages.

Despite the importance of Extractive MNCs - SMEs linkage in the African countries' economies, there is a debate on who is responsible in creating and promoting the linkage. For instance, "many large firms argue that, a lack of opportunity for the poor is not their responsibility. Therefore, enabling poor people to build skills, find employment and start their own business is not their job, it is however a responsibility of the government" (Beth, 2007). MNCs further argue that lack of linkages in African extractives is caused by the capability gap between MNCs and local industry (SMEs) including financial incapability to serve the MNCs (Diyamett *et al.*, 2012; Robbins *et al.*, 2009; Morrissey, 2012; ADB, 2013; UNCTAD, 2013).

It is also differently argued that MNCs act as a barrier in promoting MNCs- SMEs linkage. Hansen (2013) argues that MNCs impose different and sometimes conflicting standards and requirement. Additionally, the supplier contracts are often denominated in USD and when the currency appreciates, the input prices will grow, thus undermining the competitiveness of local suppliers (ADB, 2013) who have largely engaged themselves in SMEs. Despite the debate on the key actors on SME development in the host economy, extractive MNCs still play a major role in promoting the linkage. Beth (2007) argues that in today's market environment, in which large firms must be both local and global at the same time, there are compelling reasons for companies (MNCs) to engage into the promotion of local SMEs development.

Bekefi *et al.* (2006) argues that dependence and unmet expectation, due to lack of economic opportunities, may fuel stakeholder perception that firms (MNCs) are profiting at local communities' expense. Deloitte (2004) also argues that a more developed and supportive relationship between corporations (MNCs) and SMEs is required. This will help SMEs to bridge the quality gap between what is required by MNCs and what is offered by SMEs. With this fact, it is important to study the linkage strategies used by extractive firms (MNCs) to promote their linkages with SMEs. For the purpose of this study, the linkage strategies include skill upgrading, market accessibility and information sharing.

Tanzania is one of the Sub-Saharan Countries that is rich in gas resources and attracted several MNCs to explore and produce gas. With this fact, according to Kahyoza (2013), Tanzania developed a number of principles in order to ensure that it becomes a successful gas producing country. These principles include:

- Tanzania to invite investors for the upstream segment; national capacity will be enhanced for strategic participation
- Local content use will be prioritized for the benefits of the broader economy
- It is vital to earn and retain public trust and manage public expectations an
- Build capacity to enable actors to perform in a transparent and accountable manner

Despite the mentioned principles, the gas sector may not produce the expected results if there are no explicitly written and formal linkage strategies between extractive firms and local SMEs.

In spite of its impressive economic growth and richness in natural resources including gas, Tanzania is considered to be one of the poorest countries in the World (Hansen, 2013). A third of the population is below the poverty line as measured by per capital income (Nord *et al*., 2009) and one third of young people are unemployed (Therkildsen and France, 2012). This means that in order for the Tanzania to address the unemployment problem, more is needed than the existing principles, laws and policies andextractive MNCs-SMEs linkage can be one of them.

The existing linkages in Tanzania are not beneficial to the economy. For example, Mjimba (2011) argue that "local" procurement made in Tanzania, was overwhelmingly made from foreign suppliers and that only low value-added and critical tasks were performed by locally controlled companies. Therefore lack of linkages (that benefit the local population) amplifies already widespread concerns that extractive MNCs leaves too few development benefit for the Tanzania Society and among others, the debate is on how to promote the linkage between extractive MNCs and SMEs (Hansen, 2013). In Tanzania, SMEs include businesses that employ at least five people.

Despite all the arguments, the mentioned studies have not addressed some of the key issues concerning the linkage between extractive firms and SMEs. For instance several studies (Ihua, 2010; Deloitte, 2004; Hansen, 2013; Hansen, 2014; Kahyoza, 2013; Kweka, n.d.; Mjimba, 2011; Wamono *et al*., 2012; Ramdoo, 2013; Teka, 2011) did not focus on the linkage strategies used by extractive MNCs to link with SMEs in the gas sector rather they focused on the mining sector and energy consumption. Additionally, the laws and regulations that govern the Oil and Gas sector differ from the ones that govern the Mining sector.

Therefore there was a need of conducting a study on linkages between extractive MNCs and local SMEs. This is supported by Wamono *et al*. (2012) who argue that the opportunities available in the oil and gas sector have not been sufficiently usurped by SMEs due to the information gap on how to create business partnership (linkages). The study was therefore guided by the following questions:-

- What is the type of linkage between extractive MNCs and SMEs?
- How is the linkage between extractive firms and local SMEs formed?

## THEORETICAL DISCUSSION

There is no doubt that the linkage between extractive MNCs and SMEs is inevitable. The linkage with SMEs may enable the local population to perceive that the extractive MNCs perform their corporate responsibility of ensuring economic development to the host economy. With this fact, the study was guided by the Social Exchange Theory (SET). The theory argues that individuals establish and continue with social relations on the basis that such relations will be mutually advantageous (Zafirovski, 2005). The study argues that the reaction and perception of the local community towards MNCs may be positively influenced when the MNCs play their role in promoting SMEs development.

The study is in line with the SET assumptions that individuals are generally rational and engage in calculations of costs and benefits in social exchanges. Secondly, those engaged in interactions are rationally seeking to maximize the profits or benefits to be gained from those situations, especially in terms of meeting individual needs. Thirdly, exchange processes that produce pay offs or rewards for individuals lead to patterning of social interactions. Therefore the linkage with SMEs by extractive MNCs may lead to SMEs growth and thus maximize the benefits of each participant in the value chain. However, the linkages to SMEs may be influenced by the MNCs quality standards and requirements on goods and services produced by SMEs. Conceptual framework in Fig. 1 gives more details.

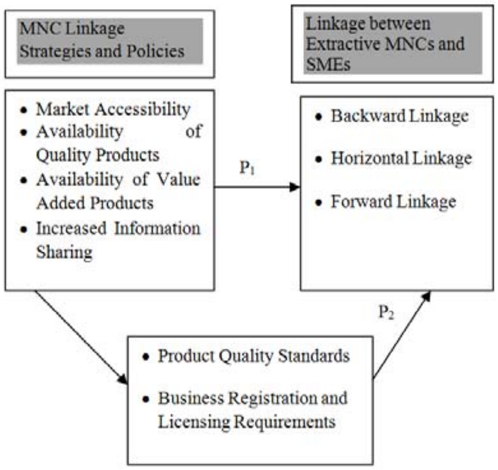


Fig. 1: Conceptual framework of MNCs quality standards (Researchers, 2014)

The type of linkages can be influenced by the business registration and licensing requirements and, product quality requirements. The study proposed that the mentioned requirements are key factors that influence the formation of linkages between extractive MNCs and local SMEs.

## RESEARCH METHODOLOGY

The "Critical Realism" research paradigm was used in this study. The researchers believe that reality is something that is independent from the researchers and it can be obtained through individual interpretations and perceptions. Additionally, the critical realism has been chosen, because the study aims at understanding and not explaining the linkage between extractive MNCs and SMEs. The study used embedded case study design and the four cases, namely Extractive Firm A as Case 1; Extractive Firm B as Case 2 and one Small Business as Case 3 were used as an evidence of reporting the research findings and drawing a conclusion. The two firms (Case 1and2) deal with the exploration of gas in Tanzania while Case 3 consisted of a business which deals with the selling of cashew nuts.

Additionally, the study applied inductive approach since questions number 1 and 2 were answered using informants' perceptions, experiences and interpretations. The study also applied purposive sampling techniques. The researchers deliberately selected the respondents in order to collect data. The unit of enquiry was the management members dealing with procurement, public relations and capacity building programmes. In ensuring trustworthiness and authenticity, researchers focused on the credibility and dependability of the qualitative study. The researchers first gained familiarity with the organizations, which was studied, before data collection dialogues took place. This included the consultation of appropriate documents and make preliminary visits to the organizations.

The researchers also selected a wide range of informants from the extractive MNCs in order to ensure that information collected from the MNCs are verified. The informants involved in this study include chief executive officer and capacity building officers. Additionally, informants were briefed on the key objective of the study in order to familiarize them with the study. Researchers established a rapport with the informants at the opening moments and indicating that there are no right answers on the questions that they would be asked. Researchers further gave right to withdraw from the study at any point to the informants in order to make them participate in the study without fear.

Furthermore, researchers returned the matters previously raised by informants and extract related data through rephrased question. Member checks techniques were also used in the course and at the end of the dialogue. Member check technique focused on two issues, namely if the informants' information had been recorded correctly and whether the informants considered that their words matched with what they actually intended. For the sake of ensuring dependability of the qualitative study, researchers continuously evaluated the effectiveness of the selected data collection technique and enquiry process undertaken by the researchers, however, there were no any weakness identified.

In data collection, in-depth interviews were used to collect data from the informants. The aim of this study was to collect detailed and rich information to allow the detailed understanding on the linkage between extractive MNCs and SMEs. In data analysis, the thematic analysis technique was applied. The qualitative data were screened, coded and classified into three themes, namely data related to type of linkages, policy issues and strategies in order to report the research findings. The findings have been supported by two mentioned cases that provided a picture on the linkage between extractive MNCs in the gas sector and SMEs.

## STUDY RESULTS AND DISCUSSION OF FINDINGS

**Type of linkage between SMEs and extractive MNCs:** In case of types of linkages found, these are presented in Box 1. According to those results it can be observed that extractive firm A and B focus on promoting the backward linkage using the two channels which are the direct and indirect channel. The direct channel of the backward linkage involved the direct linkage between extractive MNCs and local SMEs. The indirect linkage exists when the extractive MNCs link with local SMEs through other suppliers particularly the larger ones. In this case the larger suppliers normally do further processing of products purchased from the local SMEs in order to meet the quality standards set by the extractive firms. Additionally, all companies recognize the importance of promoting SMEs in areas where they operate.

**Type of linkage between extractive firm and local SMEs:**

**Case 1: Extractive firm A:** The 'extractive firm A' started offshore drilling operations early 2012. However, the local office was established after signing the contract with Tanzania Petroleum Development Corporation (TPDC) in April, 2007 and started mobilizing equipments in 2011. It is an energy company in upstream oil and gas activities, exploration, development and production. In Tanzania, the company is doing offshore exploration drilling, as it turns out, for natural gas only. The company is conducting its exploration activities at the offshore Lindi Region called Block 2.

The Company links with SMEs particularly in areas of purchasing office equipments, support staff such as security guards, drivers, catering services, construction works and civil works etc. Despite the fact that the company accepts that it is hard to estimate total spending to SMEs since it does not have a system of tracking SMEs directly, 87% of the total spending is with 8 major suppliers in drilling and exploration services and13% is with SMEs. Generally to mid 2014 from 2010, the company reported that the total spending with Tanzania registered suppliers was about USD 829 Million while to the foreign registered suppliers was USD 271 Million. The Tanzania registered suppliers includes International firms which are registered in Tanzania. However, in order for the large suppliers to win tenders advertised by the company, they have to comply with the local content requirements of their specific sector.

**Case 2: Extractive firm B:** The Company started its operations in 2004. The business deals with exploration and production of oil and gas and operating in two (2) blocks, namely Mafia and Mnazi Bay (Mtwara). Until now, the Company has spent USD 500 Million (estimated Figure 1) for all operations including the purchase of goods and services from SMEs. In order to satisfy its needs, the company largely purchases goods and services from the SMEs. Goods purchased from SMEs are non chemical and non technical such as food, car renting, etc. In the case of technical and chemical products for the exploration and production of gas, the Company imports them. This is due to the fact that local SMEs do not have sufficient capital to do such kind of business.

**Case 3: A small business in mtwara region:** The business was established in 2004 in Mtwara region with only two employees. It is the unregistered business which deals with the selling of cashew nuts on wholesale and retail basis. Initially it was dealing with the retail business but later on 2013, it expanded its scope of business to include the wholesale trade and now it has managed to employ 8 people. The business expanded when the Oil and Gas Companies started their operations in Mtwara region. However the business is not selling directly to the extractive firms rather it sells to other people whom they call in Kiswahili 'madalali' means middlemen. The middlemen normally buy cashew nuts at the very low price compared to what they charge when they sell to extractive firms and therefore it is difficult for a business meet its business goals. The business owner mentioned several challenges that act as a barrier to sell their products directly to the extractive firms. These challenges include inability to package their products, certification of the quality of their products, inability to meet the procurement conditions by the extractive firms.

**Discussion findings one: types of linkages:** It has been found that there are two types of channels that form the backward linkages, namely direct channel and indirect channel. Many SMEs including the unregistered ones are found in the indirect channel whereby they sell goods to the larger supplier who also sells them to the extractive MNCs. The emphasis on the backward linkage by extractive MNCs is contributed by the belief that the backward linkage has the larger impact on extractive firms and local SMEs. For example one of the respondents from the extractive firms argued that:

> *"The domestically-produced goods that are sold by local SMEs are cheaper as compared to the imported ones. This creates the business advantages to both the extractive firms and local SMEs".*

This is supported by Morris *et al*. (2011a) who argue that backward linkage has the larger development potential than other types of linkages. Deloitte (2004) also added that most of the evidence of linkage broadening and deepening from African extractives comes from backward linkages. The extractive firms normally purchase goods and services which are not directly related with gas exploration and extraction. In most cases the extractive firms purchase goods and services such as food, car renting, office equipment, supporting services such as security guards, car renting, catering services, construction works, civil works etc as it has been shown in Box 1. However, the local SMEs do not supply direct services related to the exploration and drilling of gas since it needs the huge investment.

Despite the fact that there is a backward linkage between the selected extractive firms and local SMEs, the selected extractive firms do not know exactly to what extent in monetary terms, they enter into business relationship with the local SMEs. This is contributed by the fact the involved extractive firms do not have the formal linkage strategies which focus on development of linkages with local SMEs rather they focus on the local firms in general. Therefore it is difficult to monitor and evaluate (from the extractive firm perspective) the financial impact of the backward linkage to the local SMEs.

Additionally there are several challenges facing the extractive firms' efforts towards creating the backward linkages with the local SMEs. These challenges include the following:- This is contributed by the following challenges:-There are few local SMEs which are able to supply goods and services to the Company. For example in Mafia, the local SMEs can be hardly traced; Some of the local SMEs do not produce goods and services of the required quality and standards; Some of the goods such as office equipments are more expensive in areas where the extractive firms conduct their operations as compared to areas like Dar es Salaam. Furthermore, it is difficult to track the certified local SMEs. This is due to the lack of company register and common certification system for suppliers in Tanzania. It is likely that local SMEs can have a license but not registered by Business Registration Licensing Agency - BRELA (FSDT, 2012).

**The formation of linkage between extractive MNCS and SMEs:** In case of the formation of linkages, the findings are presented in Box 2 where it can be observed that the 'extractive firm A' has both policies and strategies of promoting the linkage with the local firms. Therefore the focus is on promoting backward linkage with the local firms/suppliers including SMEs and not specifically for SMEs. The process of combining SMEs together with other firms may not enable the SMEs to compete with the larger firms and therefore being difficult for them to enjoy the benefits of backward linkage. In the case of 'extractive firm B', the company puts more emphasis on the linkage with local SMEs; however, it has no specific policies and formally written-strategies that guide its linkage with the local SMEs.

**Box 2: The formation of linkage between extractive MNCs and SMEs:**
**Case 1: extractive firm A:** The Company has a policy which is known as Sustainability Policy. The core purpose of this policy is to contribute to local content by developing skills and opportunities in the societies in which the company operates. The policy focuses on the following:

- To hire, develop people and promote local sourcing.
- To ensure that local suppliers comply with applicable laws and meet company's expectations and standards.
- To work with others to establish sustainable local enterprises and support the efforts of the suppliers to close gaps in order to meet the predetermined standards.
- To exchange experiences with national partners and, support education and skill building in oil and gas related disciplines to build lasting capacity.

In order to implement its policy, the Company has the following strategies:

- To link with SMEs but registered ones, through procurement process, inviting for tenders and make sure that there are possibilities for local companies to access the market.
- To ensure that the local content requirements are written into big contracts with larger suppliers.

The company has also a number of strategies that can be used to promote the linkage with local SMEs even though it has not yet planned on how to implement them:

- The Company is planning for conducting enterprise development activities for the future.
- To contribute/promote to the establishment of supply development facilities and certification entity.

**Case 2: Extractive firm B:** The company recognizes the importance of backward linkage with SMEs as a means of promoting SMEs growth while putting an emphasis on the quality products. When the company is not satisfied with the products, it changes the local supplier (SMEs). The decision to import is the last resort; the focus is on finding the alternative local supplier. Despite the fact the Company recognizes the need for linking with local SMEs and put more efforts, it does not have a policy or formal strategies which guide the linkage process. There is no formal rule which guides the company on how to use the local SMEs rather it is informally linking with local SMEs. Therefore it focuses on using local SMEs as possible as they can. However, the company has employed a logistic manager, a Tanzanian, who deals with the purchase of goods and services from the local SMEs.

**Discussion of findings two: formation of linkages:** The extractive firms recognize the importance of promoting backward linkages with SMEs and consider it to be the key issue in their operations. Some of the extractive firms have a policy of promoting the linkages with local population in areas where they conduct their operations and some do not have as it has been shown in Box 2. Despite the facts that the extractive firms put more efforts in promoting backward linkage with local SMEs, more needs to be done. This is due to the fact that majority of SMEs which are not registered and licensed that form the larger part of SMEs (FSDT, 2012) and they do not directly link with the extractive firms because they cannot meet the following procurement procedures:

- To be open about Company's activities so that the SMEs can easily understand the Company's operations and be able to identify the business opportunities.
- Announcing tenders in local newspapers.
- Meeting with interested companies for discussion.
- Keeping close dialogue with TPDC on all local content issues.

From the mentioned two (2) cases, the following issues have been found:

Even though some extractive firms have policies that guides the linkage, the firms do not have specific strategies that guide the linkage between extractive firms and local SMEs especially in skill upgrading and information sharing. Moreover, the extractive firms depend on achieving the local content requirements. However, the local content policy stipulates the minimum requirements and more has to be done by the firms. Additionally, in most developing countries including African countries, the local content requirements are not enforceable by law and therefore its achievement depends on the commitment of the extractive firms. For example, The UN (Wilson, 2009) argues that "in order to foster linkages between extractive firms and local firm (e.g. SMEs), in Nigeria, a target of 45% local content was set for oil-related projects by 2006 and 70% by 2010. However Nigeria did not reach even 20% of the local content.

Furthermore, it is difficult for unregistered and unlicensed SMEs to directly link with the extractive firms. This is good since it offers incentive for SMEs to register and license their businesses which reduces the extent of informality in the economy, however SMEs capacity must be enhanced to meet the registration requirements. Some extractive firms have the element of capacity building in their policies; however they do not have strategies on how to implement it. The extractive firms also lack policies and strategies that focus on the linkage with SMEs. The policies focus on the local firms regardless of their sizes that lead to un-concentrated efforts towards extractive MNCs-SME linkage. Therefore it becomes difficult for extractive firms to tell the extent at which their policies have promoted the linkage with local SMEs.

## CONCLUSION

Backward linkage is very important in the oil and gas sector in Tanzania and it is the dominant linkage. The study focused on two key issues, namely:

- To examine the type of linkages between extractive firms and local SMEs
- To identify how linkages between extractive firms and local SMEs are formed

The backward linkage is the type of linkage that exists between extractive MNCs and local SMEs and, the extractive firms recognize the importance of and put more effort on backward linkage. This is because they believe that it is cheaper to use locally-produced products rather than the imported ones. However, many SMEs are found in indirect channel of backward linkage as compared to the direct channel of backward linkage.

Without undermining the efforts that have been made by the extractive firms in the oil and gas sector in Tanzania, there are no explicitly written strategies that guide extractive firms on how to link with local SMEs. Due to lack of strategies on SMEs, little has been done on promoting the capacity of SMEs to comply with applicable laws and, meet the expectations and standards set by the extractive firms. With the fact that unregistered and unlicensed SMEs seem to be not part of the direct channel of backward linkage which limits the benefits they could get out of the backward linkage. Generally, the registration and product quality requirements by extractive MNCs determine the choice of the local SMEs to use either the direct channel or indirect channel of the backward linkage.

## RECOMMENDATIONS

The following recommendations have been made:

- The extractive firms must develop the strategic framework that will guide the linkages between extractive firms and local SMEs. This will help them to monitor and evaluate if their efforts produce the intended results.
- The extractive firms together with other partners must design capacity building programmes that will enable the local SMEs to meet the expectations and standards stipulated by them. The programmes must include the entrepreneurship development activities in areas where the extractive firms conduct their activities.
- The extractive firms are advised to develop the selective procurement procedures that will be in favour of SMEs without undermining the need of having products of the required quality.
- The government is also advised to review the investment laws that will require the extractive

firms to submit policies and strategic frameworks on how they can link with SMEs in areas where they conduct their operations.

- The government is also advised to develop the local content policy and Act that will specifically focus the SMEs while building the capacity of micro businesses to graduate into SMEs. Majority of people have engaged themselves into the running of SMEs and therefore any linkage with the SMEs means linkage with the larger part of the local population.
- There is a need of having the common electronic certification system which can be easier for the extractive firms to trace the list of registered and licensed SMEs.
- The business registration and licensing procedures should be continuously simplified in order to allow SMEs to be registered and licensed. This must go together with the awareness campaign on business registration and licensing.
- The government must strengthen capacity of the Business Registration and Licensing Agency in order to reach more SMEs on where they are
- Local SME, are advised to form the joint business venture that will enhance their financial and non-financial capacity to meet the expectations and requirements of the extractive firms.

## AREAS OF FURTHER RESEARCH

It is important to conduct a study on the effect of backward linkage between extractive firms in the gas industry and local SMEs involving local SMEs. This will enhance an understanding on the extent at which the linkage influence SMEs growth and determine whether the linkages are developmental or dependent.

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