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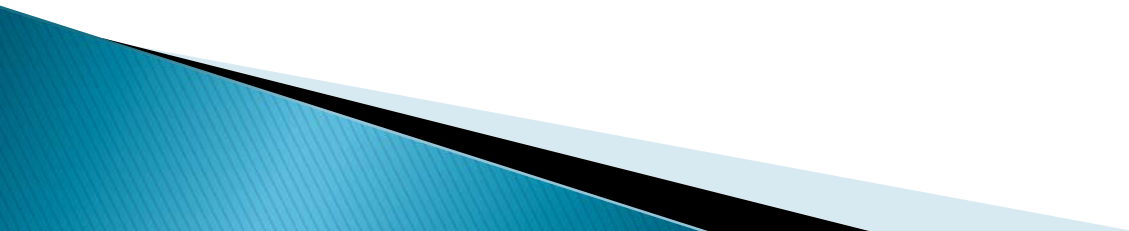
MAJOR INVESTMENTS IN OIL, GAS AND MINING AS DRIVERS OF NATIONAL SKILLS AND INDUSTRIAL DEVELOPMENT THROUGH LOCAL PROCUREMENT AND CONTENT

*24 and 25 OCTOBER 2012,
BEIRA –MAPUTO*

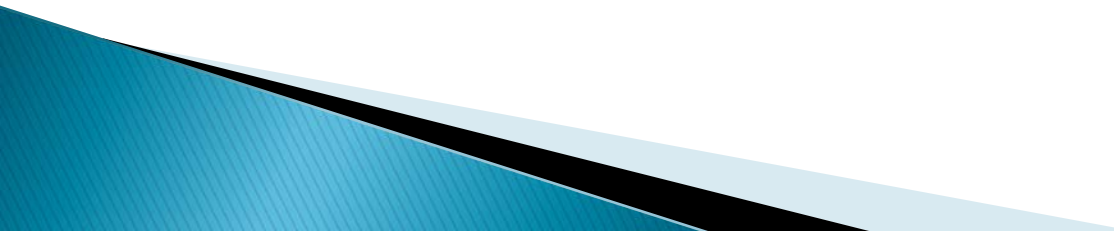
Programme

Time guide	Agenda	
09:00 – 09:15	<i>Welcome</i> Mozambique in context	Gabriel Machado
09:15 – 10:00	Global trends in local procurement and local content in the extractive industries	John James
10:00 – 10:30	Business linkages – the South African experience	John James
10:30 – 10:45	A rough guide for prospective suppliers to prepare for opportunities	Leida Schuman
10:45 – 11:30	Break	
11:30 – 11:45	Open discussion: Mozambican perspectives	Vice Presidente Da CTA para Região Centro Senhor Prakash Preahlad
11:45 – 12:00	Closing Remarks	Gabriel Machado

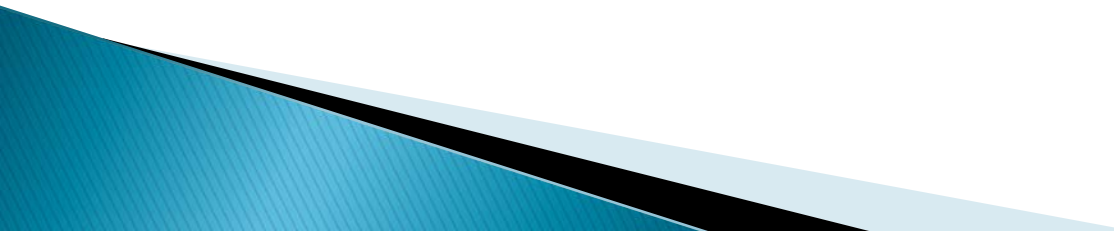
Global trends in local procurement and local content in the extractive industries



CONTEXT

- ▶ Expected major investments in gas and energy sources
 - ▶ Blessing or a curse
 - ▶ Policy choices and actions now and for the long term
 - ▶ Balance political and commercial realities
 - ▶ Dialogue between policy makers, civil society & industry
 - ▶ Learn from other countries (Oil, Gas, Mining)
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DEFINING LOCAL PROCUREMENT AND CONTENT

- ▶ LP: buying goods and services from local and domiciled companies
 - ▶ LC: proportionate value in goods and services contributed through the use of domestic labour, materials, capital and infrastructure.
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WHY LOCAL PROCUREMENT AND CONTENT

- ▶ Domiciling technology
- ▶ Building infrastructure
- ▶ Expanding and deepening national value chains
- ▶ Improving national skills and training infrastructure
- ▶ Developing local suppliers for mainstream supply chains
- ▶ Increasing employment opportunities
- ▶ Growing national income and tax base

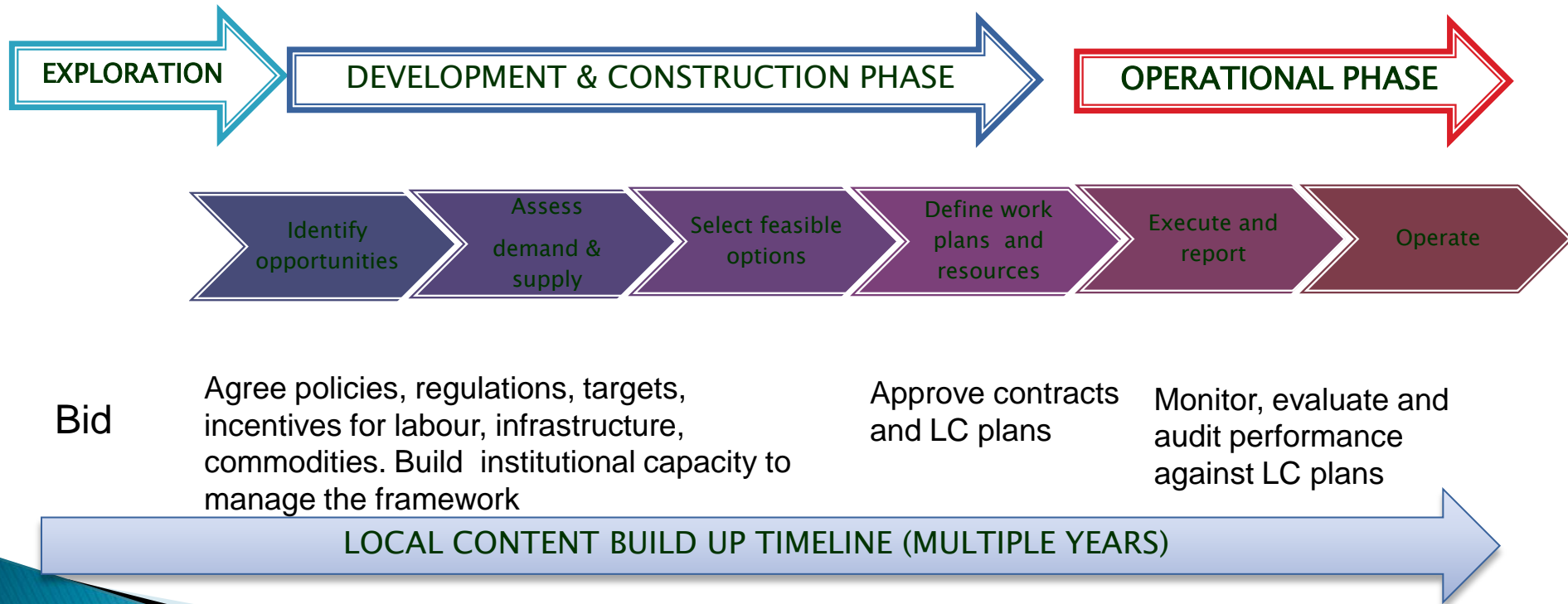
Commandment 1: Thou shall maintain the rules of competition

Commandment 2: Thou shall understand the drivers of investment

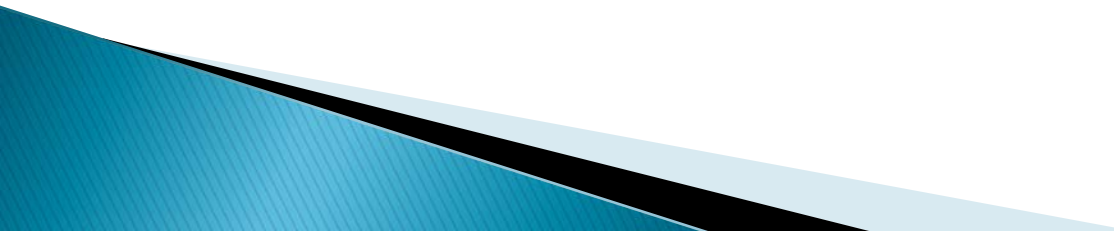
Commandment 3: Thou shall have clear, consistent policies and regulations

Commandment 4: Thou shall monitor and audit agreed commitments


TYPICAL LC APPROACH FOR MAJOR EXTRACTIVE PROJECTS



DON'T INVENT YOUR OWN WHEEL

- ▶ Other countries have learnt the hard way
 - ▶ Understand and adapt solutions to your circumstances
 - ▶ South Africa and Guinea may teach you how NOT to do it
 - ▶ Nigeria, Brazil, Angola may have lessons on how to do it
- 


LINKS BETWEEN POLITICAL AND ECONOMIC REALITIES

- ▶ The evil triplets: poverty, unemployment, crime
 - ▶ Resource nationalism: desire for greater national control and benefits
 - ▶ Growing citizen expectation and civil society activism
 - ▶ Global regional trends: policies/regulation to benefit national value chains
 - ▶ Corporate competitiveness, legitimacy and licence to operate
 - ▶ Need for country industrialization and development
 - ▶ Effects of multilateral and bilateral treaties
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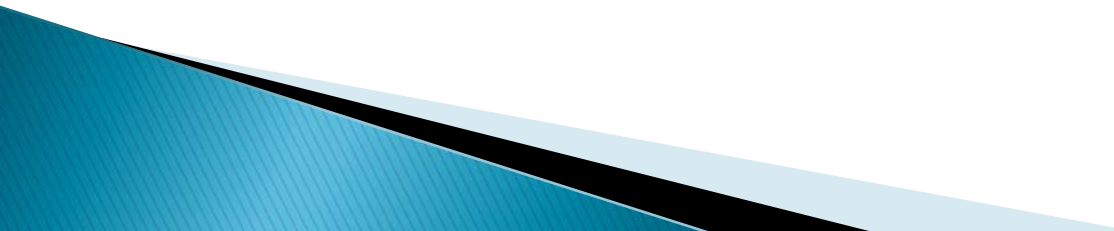
DEFINITION OF RESOURCE NATIONALISM

“The desire of people in resource-rich countries to derive more economic benefit from their national resources alongside the resolution of their governments to exercise greater control over the country’s national resource sectors” – SAIMM

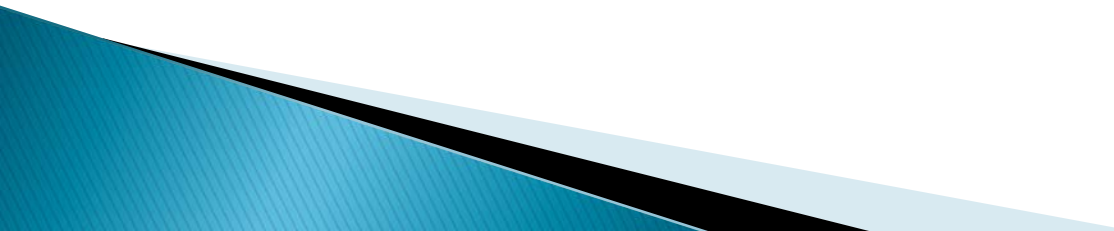
Manifested very widely as:

- ▶ Outright nationalization with or without compensation
 - ▶ Limited nationalization (state holds equity with or without compensation)
 - ▶ State-owned mining companies
 - ▶ Resource rent and progressive taxation mechanisms
 - ▶ Statutory indigenization programs
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LINKING ECONOMIC TRANSFORMATION AND LOCAL PROCUREMENT / CONTENT POLICIES

- ▶ State role and capacity in driving inclusive economic transformation
 - ▶ Targeted sector strategies (*Extractive Industries*)
 - ▶ Investment in human capital
 - ▶ Investment in infrastructure
 - ▶ Labour and employment policies
 - ▶ Commercial interests with transformation incentives
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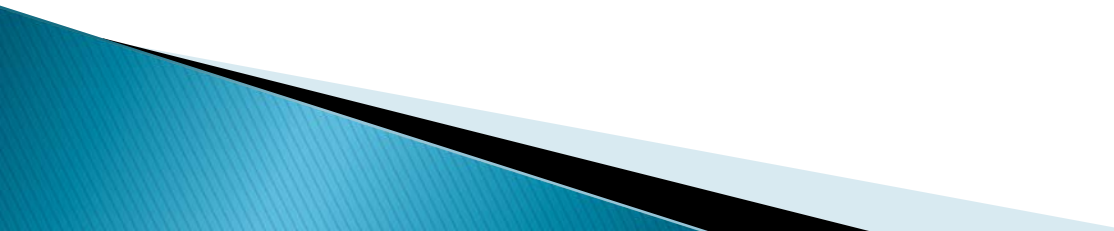
THE MISSING LINKS

- ▶ State capacity
 - ▶ Targeted sector strategies
 - ▶ Dialogue between investors and governments,
 - ▶ Understanding the of drivers of competition
 - ▶ Understanding the drivers of investment
 - ▶ Local Institutional capacity
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GLOBAL TRENDS: REGULATORY FRAMEWORKS IN OIL & GAS

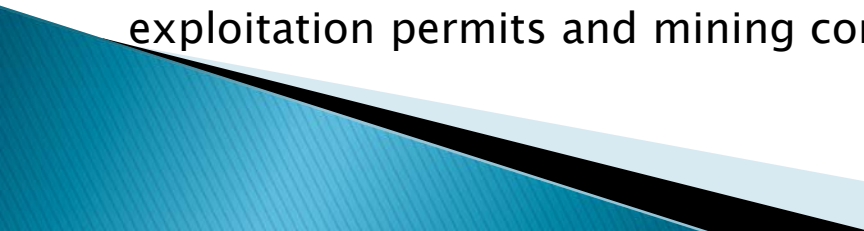
	Brazil	Indonesia	Kazakhstan	Angola
Is there Local Content specific regulation	Yes	Yes	Yes	Yes
Is there a minimum requirement for LC?	Yes – different for exploration and development	Yes – 35% on goods, 50% on services	No – targets exist but no minimum requirements	Requirements are based on selected regimes
Does the LC definition include employment and procurement ?	Yes	Yes	Yes	Yes
Does the LC legislation distinguish between goods and services?	Yes – definition of “local” varies for material, equipment and labour	Yes – definition of “local” varies for material, equipment and labour	Yes	Yes – regulation specifies specific regimes
Does LC feature in the tendering process?	Yes	Yes	Yes	Yes
Are there penalties for non-compliance	Yes– heavy fines	Yes – red card, black card and financial penalty	Yes – as contracts are subject to approval	Yes – as contracts are subject to approval
Is the company & contractor required to report LC % to the government?	Yes – including auditing	Yes – including auditing	Yes – including auditing	Yes – including auditing

GLOBAL TRENDS: REGULATORY FRAMEWORKS IN MINING

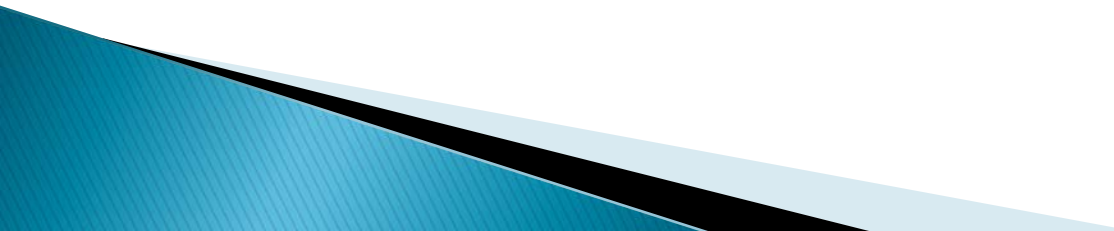
- ▶ At an early stage of development
 - ▶ Preference to local suppliers as long as they are competitively priced, and meet quality, health and safety and delivery requirements
 - ▶ Localization and training of staff
 - ▶ Local community development
 - ▶ Not properly monitored and enforced
 - ▶ Growing move to regulate and adopt and adapt from Oil & Gas industry
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GUINEA – MINING CODE 2011 AND 2012


Article 107 on Preference of Guinean enterprises

- ▶ ...must give preference to the Guinean enterprises for all contracts, provided such enterprises offer comparable prices, quantities, quality, and delivery times.
 - ▶ In all cases the share of work given to the SMEs/SMIs and enterprises belonging to or controlled by Guineans shall gradually increase in compliance with minimum thresholds, as follows: 10% during exploration phase; 20% during mine development; and from 15% from years 1 to 5 to 25% in years 6 to 10, and 30% in years 11 to 15.
 - ▶ ...required to submit and implement a plan to support the creation and/or capacity reinforcement of SMEs/SMIs (or of companies belonging to or controlled by Guineans) to supply goods and services necessary for their business.
 - ▶ Articles 30 and 37 require submission of support plan and reporting for Guinean owned or controlled companies
 - ▶ A support plan for creation or capacity development of SMEs/SMIs or companies owned or controlled by Guineans is required as part of applications for exploitation permits and mining concessions
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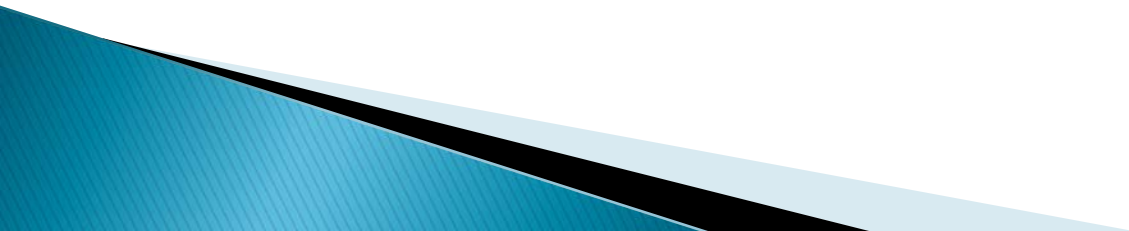
GHANA AND MALI

- ▶ In process of developing regulations specifically to give effect to local procurement provisions
 - ▶ Requirement for mining companies to submit plans and report on a local procurement implementation
 - ▶ Mali considering a similar step for local content
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NIGERIA LOCAL CONTENT (NOGIC ACT 2010)

- ▶ Investors must submit local content plan to NC Monitoring Board
 - ▶ Sets minimum levels of Local Content
 - ▶ Specifies services which must be procured in Nigeria e.g. welding and legal services
 - ▶ Petroleum Inspectorate can revoke licenses if requirements not met
 - ▶ \$380 billion (95%) of industry spend externalised in 30 yrs pre-LC policy
 - ▶ \$191 billion (65%) of industry spend domiciled in last 10 yrs post-LC
 - ▶ 300,000 direct jobs created in engineering, fabrication, welding, etc
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Business linkages – the south African experience



SOUTH AFRICA – FROM MINING CHARTER TO BBBEE CODES

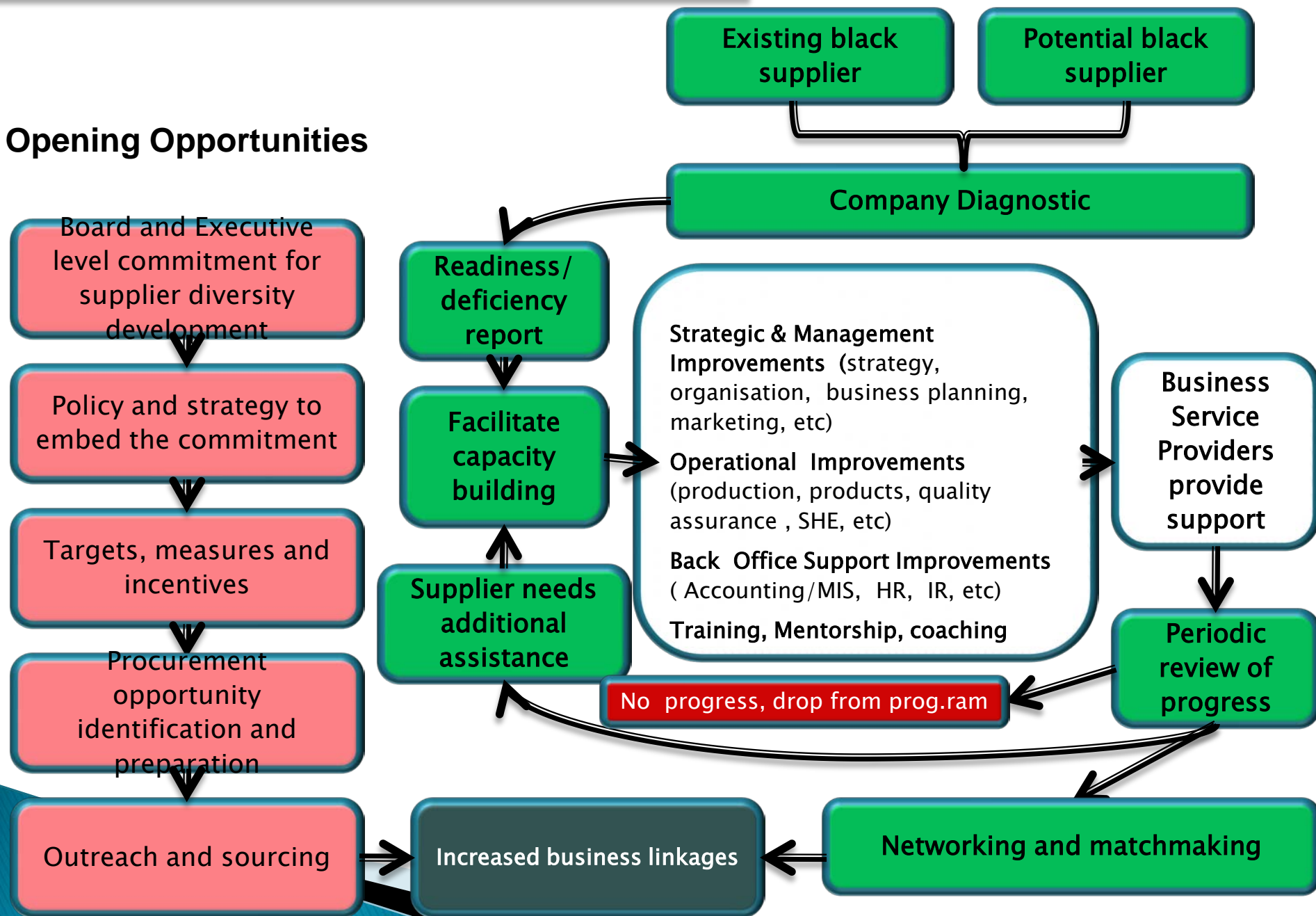
Code 500 of the BBBEE Codes of Good Practice deals with preferential procurement in three measurement categories, each with its own weighting

- ▶ **BEE procurement spend from all suppliers (12 points):**
Targets 50% in years 0–5 and 70% in years 6–10
- ▶ **BEE procurement spend from Qualifying Small Enterprises (QSE) or Exempted Micro–Enterprises (EME) (3 points):**
Targets: 10% (years 0–5) and 15% (years 6–10)
- ▶ **BEE procurement spend from black-owned and black women-owned enterprises (5 points):**
Procurement spend on suppliers that are 50% black-owned (max. 3 points), with a compliance target of 9% (years 0–5) and 12% (years 6–10)
Procurement spend on suppliers that are 30% black women-owned (max. 2 points), with a compliance target of 6% (years 0–5) and 8% (years 6–10)

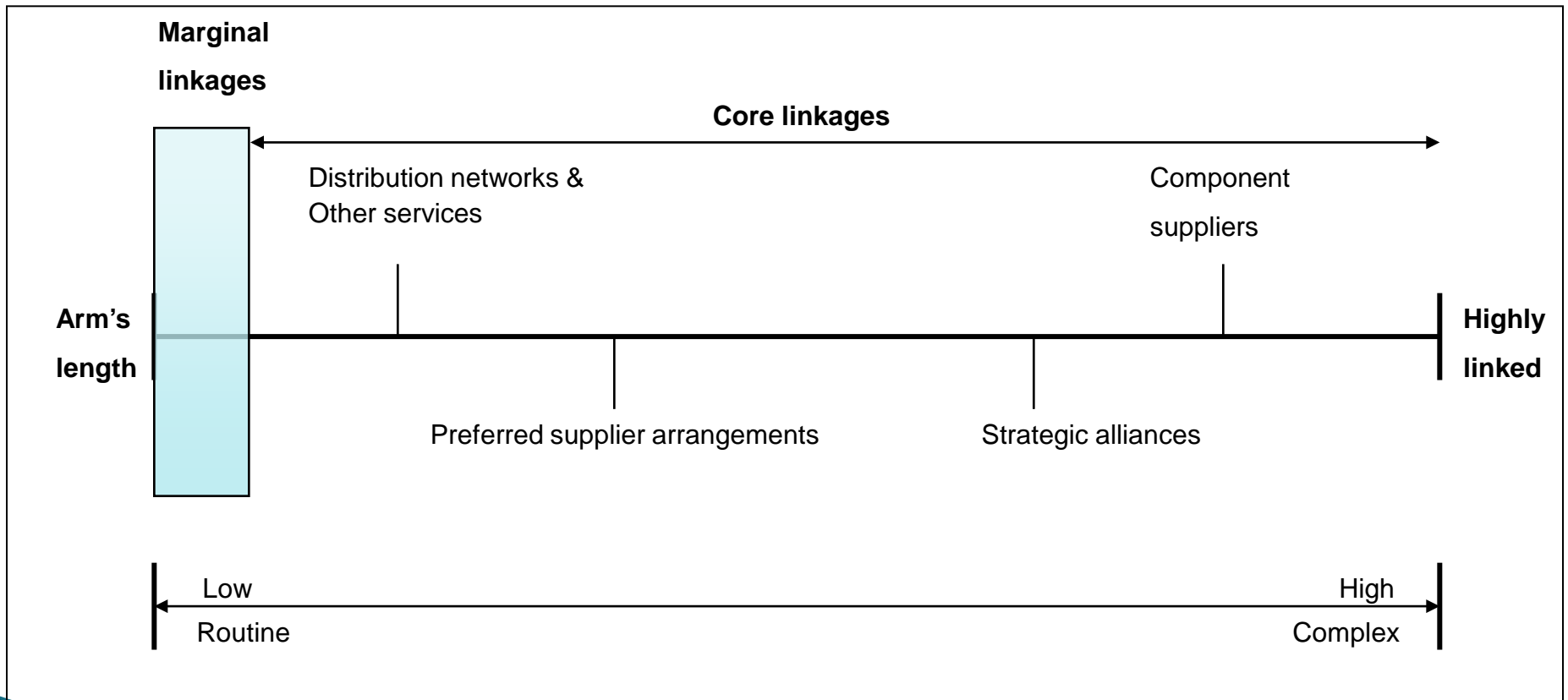
BUSINESS LINKAGES MODEL

Supplier Development

Opening Opportunities




DEFINITION OF SUSTAINABLE LINKAGES



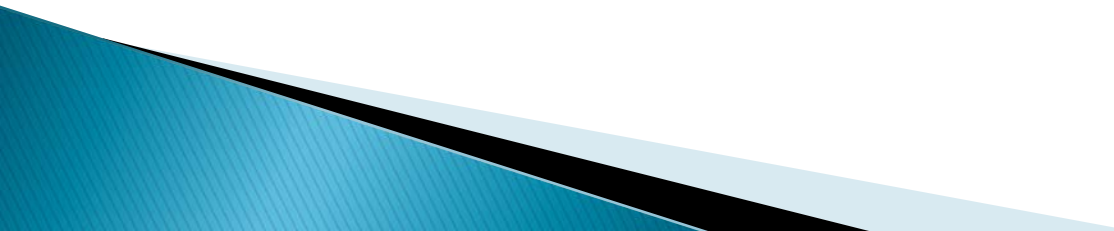
•Adapted from Beyond the firm, Australian Bureau of Industry Economics, 1995

WHY SA MODEL MAY NOT WORK IN MOZAMBIQUE

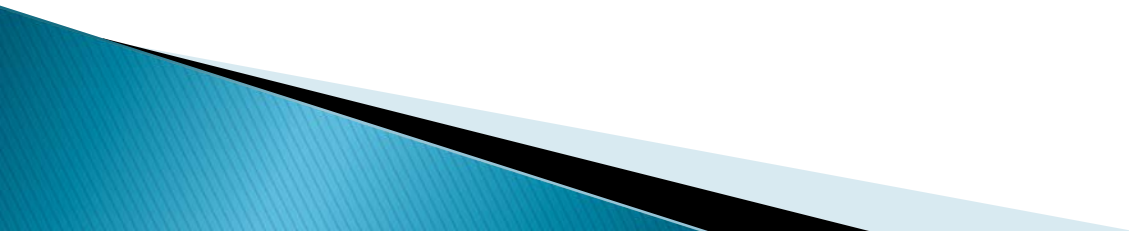
- ▶ Repairing apartheid distortions and integrating two economies
 - ▶ It is not industry based with visible long term investment opportunities
 - ▶ Limited opportunities and mechanisms for linking approval of licenses and contracts and to firm targets and implementation plans
 - ▶ BBBEE scorecards are easy to manipulate and reach required scores
 - ▶ Partnerships and joint action between government, industry and education and technical institutions are weak and difficult to manage across industries
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LESSONS FROM OIL & GAS

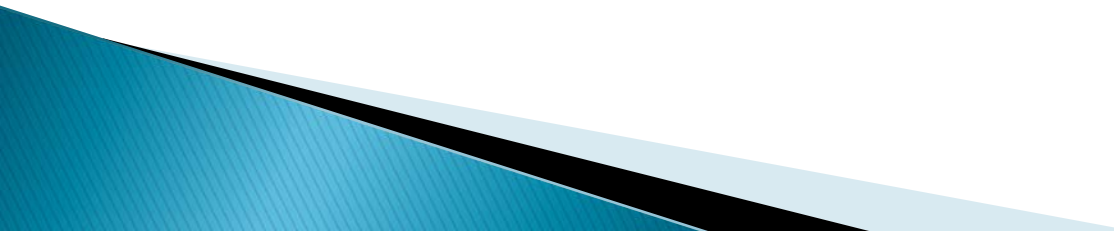
Enablers and Sustainability

- Clear, consistent policies and regulations
 - Properly resourced, staffed and empowered institutions
 - Strong commitment of the operator/user
 - Effective independent monitoring and auditing body
 - Local business adapting to stringent operating standards
 - Timely contract approvals by key stakeholders at all stages
 - Steady flow of work is required to sustain the capacity gains
- 


**A rough guide for
prospective suppliers to
prepare for opportunities**




Expectations

- ▶ “We can supply anything & can do any work”
 - ▶ They have an obligation to procure from us / employ us, because
 - We are local
 - We are poor and hungry
 - We have the skills
 - ▶ Government will make them do it
 - ▶ They promised ...
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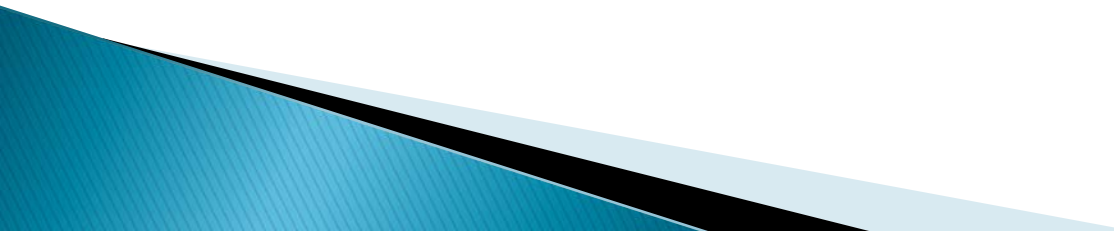
The Reality

- ▶ Drive to keep **costs as low as possible**
 - ▶ They **will buy everything local** ... if goods and services are exactly what they want (quality and volume)
 - ▶ They want to **buy as much as possible from as few as possible** suppliers – “strategic sourcing plans”
 - Less relationships to manage
 - ▶ **Electronic procurement** a reality
 - Cataloguing
 - ▶ **Communication** – electronic & reliable
 - ▶ **Sophisticated plants / mines** – sophisticated demands
 - ▶ **Long-term** agreements – 3 to 5 years
- 


Corporate Fears and Risks

- ▶ **Compromised safety**
 - Compensation payable
 - Bad press
 - ▶ **Compromised quality**
 - Damage to equipment
 - Production losses
 - ▶ **Security of supply**
 - Strategic suppliers not delivering– production losses
 - ▶ **Unstable community**
 - License to operate
- 


Finding the “fit”

- ▶ What the “beast eats”
 - ▶ Windows of opportunity
 - Knowing what is needed when
 - ▶ Cycles in the business
 - Start up, operation, closing down
 - ▶ Collaboration
 - Government
 - Business organisations – e.g. Chambers of commerce, industry groups
 - ▶ Relationships
- 


Becoming a Supplier

- ▶ Supplier application process
 - Mostly online
 - ▶ Note the requirements and provide all
 - Bank statements
 - Audit reports
 - Tax clearance
 - Legal compliances
 - ▶ Clean records
 - They will do security clearances – verify criminal records, financial history, solvency
 - ▶ Site inspections
 - Good housekeeping, systems, management info systems, safety, etc
- 

Getting a Contract

- ▶ Contacts and networks
 - Disqualifying factors – bribes, gifts etc
 - ▶ Timing
 - ▶ Responsiveness to RFQ
 - Attention to detail
 - ▶ Technical expertise
 - ▶ Competitive price
 - ▶ Appropriate means to deliver:
 - Equipment, premises, workshop, storage space
 - JV partner?
 - Access to working capital
 - Relationship with bank?
- 

Other Opportunities

- ▶ Assess opportunities for Sub-contracting
 - ▶ Agencies
 - ▶ Franchises
 - ▶ Supply to mining and industrial communities
 - Household goods and services
 - Municipal contracts (expansion)
 - Restaurants
 - Agricultural produce
 - ▶ Opportunities through increased infrastructure needs like housing, recreation etc
 - ▶ Direct employment
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Enabling Linkages

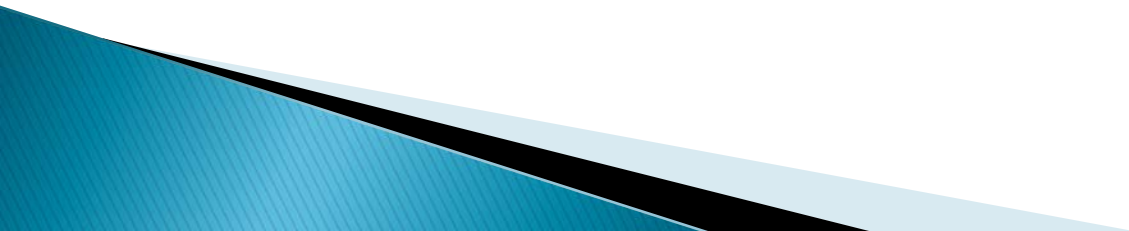
- **Understand and quantify markets**
- **De-bottleneck** the system
- Identify, convene & mobilise **stakeholders**
- Set up “scaffolding” for **sustainable** systemic change and **plan for exit**



Open Discussion: Mozambican Perspectives

- ▶ Facilitator(s): Gabriel Machado

Appendix

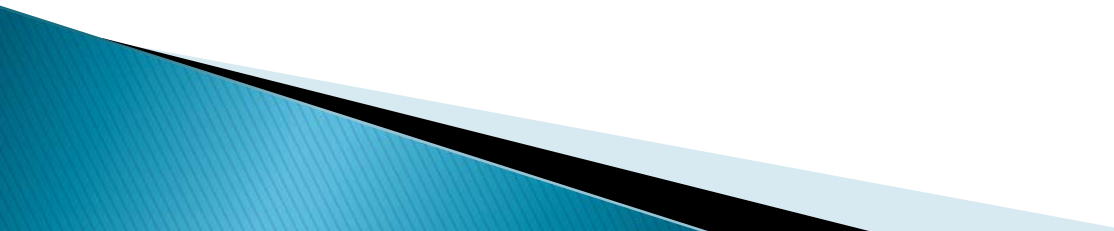


When Linkages work – A SAIBL Case Study

▶ SAIBL Foskor Supplier Development

- Background: Foskor is the only phosphate producer in South Africa and one of the world's largest producers of phosphate and phosphoric acid. SAIBL agreed to work together with Foskor on black supplier development to increase the number of competitive black enterprises supplying to Foskor's main operations in KwaZulu-Natal and Limpopo provinces.

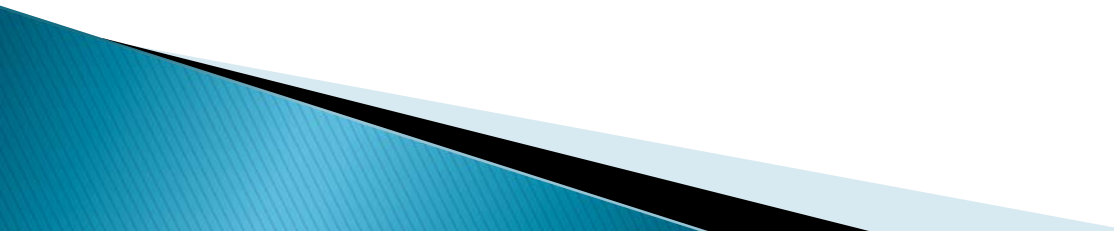
Foskor: What we did

- ▶ Workshops – held with 26 potential suppliers in two locations to inform them on the SAIBL programme, assessment on soundness and suitability as potential suppliers, opportunities, size of opportunities and contract timings.
 - ▶ Screening – of 13 volunteer firms using the Picking Sound Companies (PSC) tool
 - 5 required mentorship/generic training to develop basic business skills (a typical challenge found in most local grown suppliers around the remote mining sites).
 - 6 were found suitable and registered on the SAIBL database to track progress
- 

Foskor: What we did

- ▶ In depth analysis of sound and suitable companies to identify areas of strength and weakness
 - Using Company Diagnostic Tool
 - Agreed with business owners and management on ranking and prioritisation of improving weak areas
- ▶ Worked with network of trained Business Service Providers to address identified areas of weakness
 - Interventions broadly involved strategic plans, quality management systems (safety and health standards) and management information systems
 - In Phalaborwa, we conducted training on “the importance and understanding of financial statements” and “tendering”

Foskor: Key Results

- Of the 10 suppliers that participated, 6 suppliers were awarded new contracts.
 - Two suppliers' new contracts valued at more than R5.2 million were in core areas of rail maintenance and environment management
 - After 12 months of the programme, the suppliers reported a combined turnover of more R9.0 million.
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Foskor: What made it work

- ▶ Foskor knew what it wanted to achieve
 - ▶ Foskor and SAIBL agreed on measures to rate the success of the programme
 - ▶ Foskor agreed to finance part of the support
 - ▶ Buy in from the top – Vice President
 - ▶ Coordination between key role players – procurement and transformation staff
 - ▶ Understanding of supplier diversity
 - ▶ Willingness to identify opportunities
 - ▶ Innovative way of packaging the opportunities and making them accessible to participating suppliers
 - ▶ Tried and tested tools and methodologies
- 