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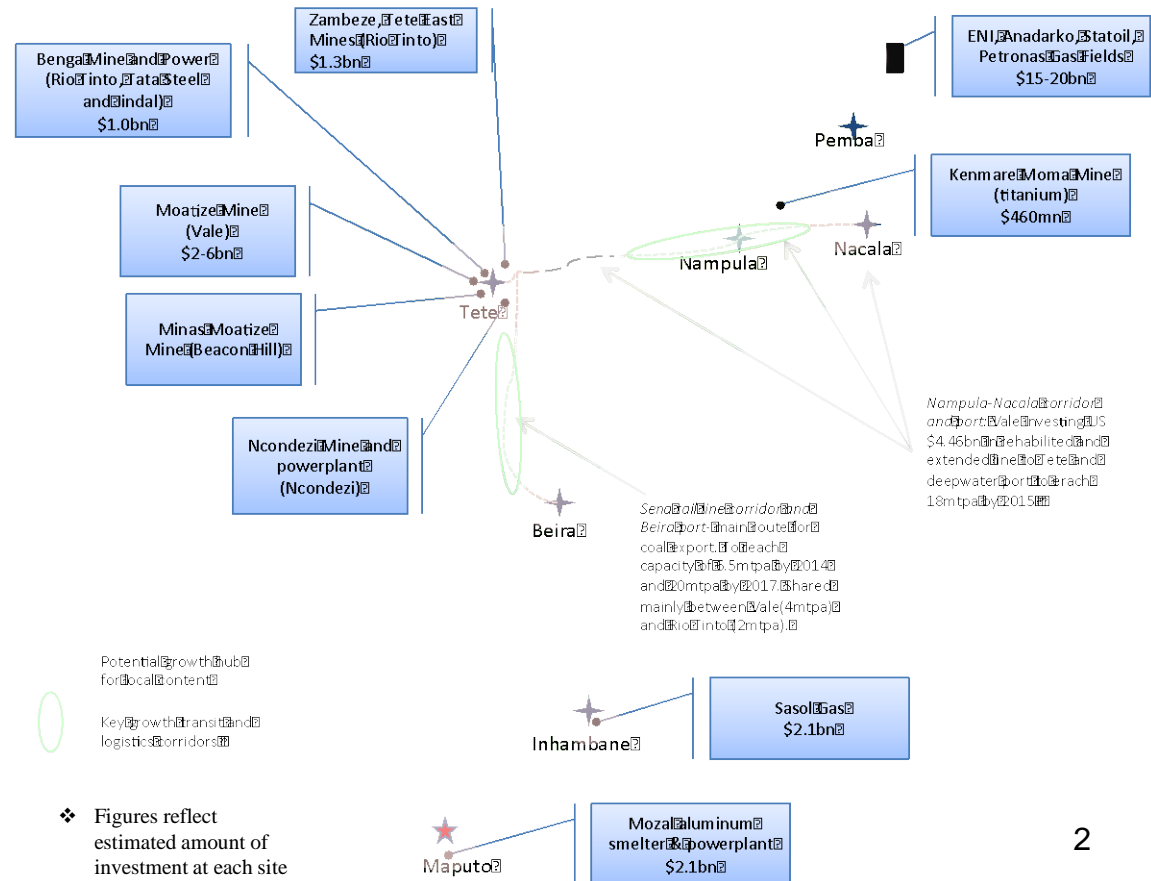
# **Assessing Policy Options for Strengthening Local Content in Mozambique: Presentation of Findings**

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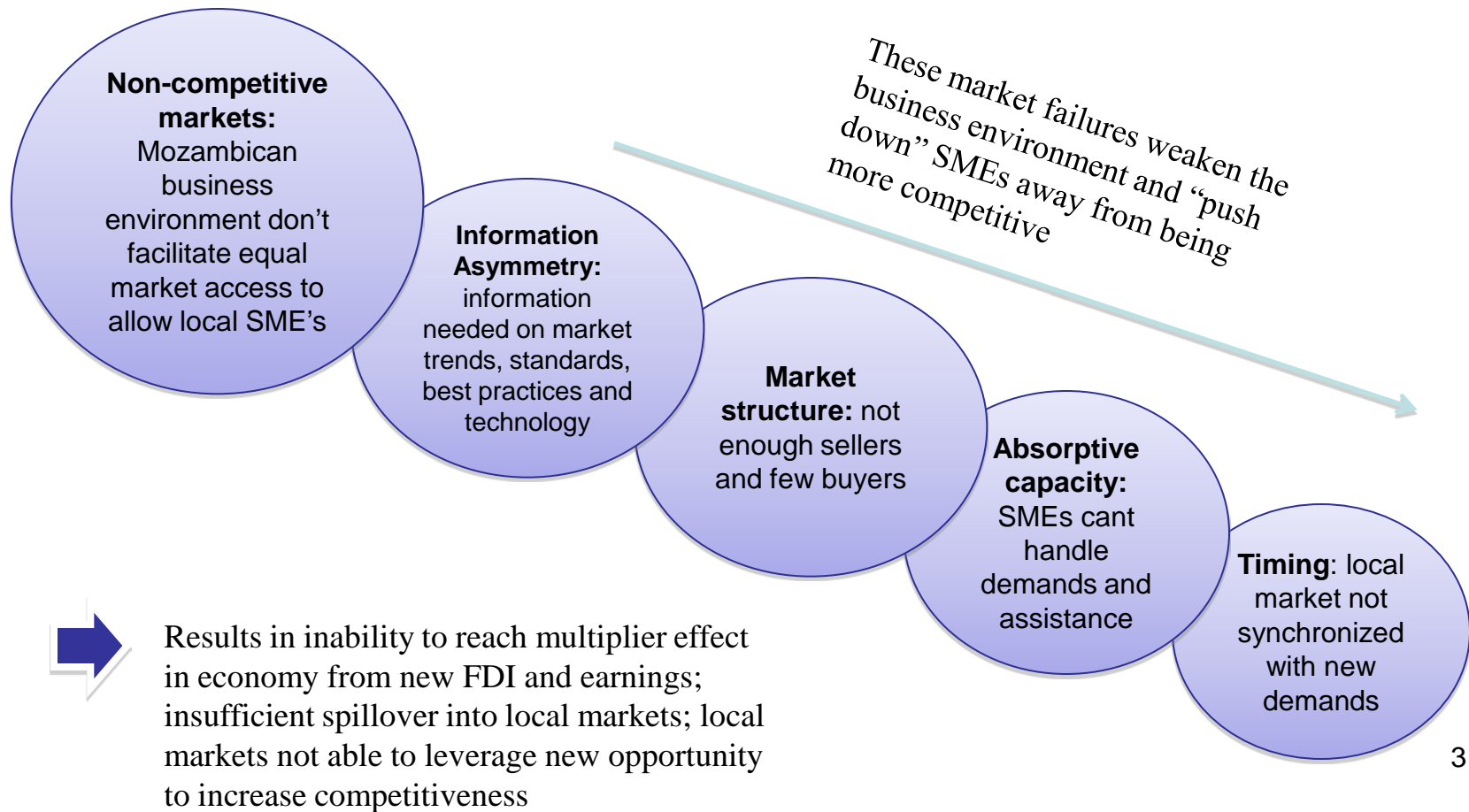
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# Large investments in infrastructure and services in the extractive sector is opening up new markets for local SMEs

- Potential size of new end market generated from these investments is around US\$20-35bn in next 5-10 years
- Already at least US\$5-6bn has been spent in Mozambique



## Any local content initiative must first identify the key market failures



# Other country experience with local content can inform Mozambique's action

Brazil, South Africa, Nigeria, Angola, Ghana, Trinidad and Tobago have all wrestled with local content with different results. Table shows some key aspects of a few (circles indicate some key features):

	Nigeria	Ghana	South Africa	Trinidad and Tobago
Policy Instrument	Nigerian Oil and Gas Industry Content Development Bill, 2010	Local Content and Local Participation in Petroleum Activities Policy, 2010; legislation pending, 2013	Broad based socio-economic Charter for the South African Mining and Minerals industry, amended 2011	National Policy Guidelines for the Utilization of Local Goods and Services for Government and Government related projects, 2004
Local price margin	Yes, <del>within 10%</del>	Yes, within 10%	BEE specific targets	No
Tender requirements	Nigerian content plan Employment plan	Employment and training plan within 12 months of license	Employment and training plan 4 year period	Encourages J/Vs; creation of Local Content Chamber;
Distinguishing features	Highly prescriptive by sector and good; requires significant growth of institutions; development Fund	<del>Process</del> started with a Policy before law; sets vision; designs development Fund	Guidelines on how to calculate local content; highly complex system of procurement and enforcement;	Limited to Policy; establishment of Local Content Chamber; use of J/Vs to transfer skills and technology

# Status of Ghana's LC activity now

- Since passage of the Policy....
  - Private oil and gas companies have stepped forward to start responding to the local content demands
  - Tullow Oil has been a leader, creating an Enterprise Development Center (in progress)
  - Invest in Africa initiative complements local content activities to bring attention internationally and facilitate partnerships (with EDC)
- Update on Local Content Bill
  - Working its way through parliament
  - Focused currently on specifications of employment, less so on goods and services (could change)
  - 10-year horizon to meet goals (long-term process)
  - Emphasizes making Ghana a preferred Investment Destination in Africa



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## Need to have a common definitions of policy instruments in Mozambique to assess options

- **Policy-** set of principles, vision and strategy explaining government's approach. Approved at either Ministerial level (for sector-specific policy) or Council of Ministers (for cross-sector policy like local content)
- **Law-** set of rules enforceable by courts. Requires Parliamentary approval
- **Regulation-** empowered by law, full enforceability, provides details into how law will be enforced and carried out. Approved by the Council of Ministers



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## Definitions of LC explained in greater detail

- LC narrowly defined refers to the percentage of a product whose added value originates domestically (within the country) while a more common definition of LC, sometimes referred to as Local Procurement (LP), is the purchasing of goods or services from a local supplier.
- There is no clear and unified definition of LC in Mozambique. Generally, most dialogue on LC focuses on defining LC as the purchasing of goods or services from local suppliers.
- What will be important in Mozambique moving forward will be to adopt an agreed upon definition of “local” which will then help determine how to measure LC.

➡ **FOCUS** on the results of local content support such as **job creation, inclusive economic growth** within a particular production area, and wealth creation is more important and should drive decision-making.



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## Three main local content policy options

### Option 1- “Do nothing” option

#### *Advantages:*

- ✓ Prevents market interference
- ✓ Does not introduce new institutions or enforcement mechanisms

#### *Disadvantages:*

- ◆ Does not address market failures
- ◆ Does not respond to political-economy
- ◆ Does not help to take advantage of new opportunities

#### *Risks:*

- Lost opportunity to leverage new sources of growth to strengthen overall business environment

### Option 2- New Law/ regulations or regulations tied to new Mining/O&G bills

#### *Advantages:*

- ✓ Clear and enforceable mechanism
- ✓ Strong response to political economy

#### *Disadvantages:*

- ◆ Not a centralized & coordinated approach

#### *Risks:*

- Codify targets too soon and drive costs up to local businesses
- Protects inefficient and non-competitive businesses
- Drives critical investment out of country

### Option 3- Establish a Local Content Policy framework

#### *Advantages:*

- ✓ Send strong market signal
- ✓ Opportunity to develop vision, strategy and set priorities
- ✓ Build consensus between public and private
- ✓ Link to business environment strengthening

#### *Disadvantages:*

- ◆ Does not carry weight of law
- ◆ Requires follow up legislation
- ◆ Process may cost some lost local procurement opportunities

#### *Risks:*

- Process does not result in strong cross-ministerial participation
- Process stalls quick action



## Recommended Option

### Option 3- Establish a Local Content Policy Framework

#### Principles of the Policy for Local Content

- ✧ Set clear vision, strategy and approach for local content
- ✧ Transparency and information sharing, public and private
- ✧ Focus on jobs not definitions of business ownership
- ✧ Partnership between public and private sectors
- ✧ Alignment- target sectors that have greatest commercial appeal to extractive sector consumption to maximize sustainability
- ✧ Require local content procurement and employment plans
- ✧ Incentive-based rather than regulatory based
- ✧ Strengthen entire business environment

#### Key Content

- ✓ Local Content Procurement Plans
- ✓ Local employment plans and targets
- ✓ Full disclosure and open bidding
- ✓ 3<sup>rd</sup> Party Local Content Center of Excellence (funded by special development fund)
- ✓ M&E strategy based on strong quantitative information to track progress
- ✓ Incentives for investors (i.e. tax)



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## Recommendations continued

- LC Framework should be used to clarify definition, vision, objective and strategy; roles and responsibilities
- Strong tie to GOM's fiscal management of revenues from extractive sector
- Focus on LC outcomes rather than requirements
- Incentive-based approach such as procurement incentives
- Disclose procurement information
- Commitment to enforcement (current and future laws and policies)
- Strong connection to sector plans and strategies
- Partnership with private sector- EDC
- Improve financial sector concurrently
- Continue BEE reforms
- Support CSO dialogue and platform



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## Next steps

- Incorporate comments and feedback from workshops
- Establish a senior-level Local Content Task Force
- Design an action plan for drafting and implementing Local Content Policy Framework
- Establish drafting/advisory team



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Thank you

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