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Demand and Opportunity Assessment and Analysis: Linkages in Mozambique



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List of Abbreviations

ACIS	Associação de Comércio e Indústria
AgDevCo	Agricultural Development Corridor
AIMO	Industrial Association of Mozambique
BAT	British American Tobacco
CAMEC	Central African Mining Exploration Company
CDM	Cervejas de Moçambique
CEPAGRI	Centro de Promoção da Agricultura
CFM	Caminhos de ferro do Mocambique
CIM	Companhia Industrial da Matola
CPI	Centro de Promoção de Investimentos
DECA	Desenvolvimento e Comercialização Agrícola
DFID	Department for International Development
ENDE	National Development Strategy
ENH	Empresa Nacional de Hidrocarbonetos
ENRC	Eurasian Natural Resources Corporation
EPCM	Engineering, Procurement, Construction and Management
EU	European Union
FDI	Foreign Direct Investment
GAZEDA	Gabinete das Zonas Económicas de Desenvolvimento Acelerado
GDP	Gross Domestic Product
GoM	Government of Mozambique
GTIS	Gross Tonnes In Situ
HCB	Hidroelectrica de Cahora Bassa
ICC	International Capital Corporation
IFC	International Finance Corporation
IGC	International Growth Centre
INE	Mozambican Institute of Statistics
IPEME	Instituto para a Promoção das Pequenas e Médias Empresas
LNG	Liquefied Natural Gas
MITUR	Ministry of Tourism
MPDC	Maputo Port Development Company
Mtpa	Million tonnes per annum
MZN	Mozambican metical
NGO	Non-Governmental Organisation
O&G	Oil & Gas
ODA	Overseas Development Assistance

OEM	Original Equipment Manufacturer
PACDE	Competitiveness and Private Sector Development Project
PARP	Poverty Reduction Action Plan
PPE	Personal Protective Equipment
PPP	Public Private Partnership
QA / QC	Quality Assurance / Quality Control
RTCM	Rio Tinto Coal Mozambique
SA	South Africa
SABS	South African Bureau of Standards
SME	Small and Medium Enterprises
SMEELP	SME Empowerment Linkages Programme
SOCIMOL	Sociedade Comercial E Industrial De Moagem Sarl
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
USAID- SPEED	United States Agency for International Development – Support Programme for Economic and Enterprise Development
WTTC	World Travel and Tourism Council

EXECUTIVE SUMMARY

Introduction

Genesis Analytics and ICC were commissioned by Building Markets to conduct a Demand and Opportunity Assessment and Analysis study on Linkages between major buyers and SME suppliers in Mozambique.

The specific objectives of the assignment were to:

1. Understand demand for locally sourced products and services in the extractives sector and in other key sectors with the potential to create jobs among SMEs
2. Understand current attitudes and approaches towards local sourcing among major buyers, and requirements for linkages programmes
3. Map relevant product and services supply
4. Understand key capacity constraints among SMEs

Methodology

The analysis is based on extensive desktop research and qualitative primary research gathered through face-to-face interviews with 18 major buyers and 27 SMEs (potential and actual suppliers), as well as surveys completed by 10 buyers.

From the desktop research undertaken, as well as in-country knowledge, a number of sectors that present the largest potential for linkages, investment growth, and spillover job creation were selected. These were: coal, natural gas, mineral sands, construction, retail, industry and manufacturing, tourism and travel, and the international development sector. Key players across demand sectors were then identified as interviewees and survey respondents.

On the supply side, a database of over 5000 local companies was generated by merging a number of databases. The database served as an indication of the distribution and type of suppliers across the economy, as well as a basis to identify and select suppliers for interviews.

The locations of demand- and supply-side informants, as well as desktop research, informed the field work locations, which were Maputo/Matola, Tete, Beira, Pemba/Palma, Nampula and Nacala.

Due to a number of data limitations, summarised elsewhere in the report, it was not possible to perform a quantitative, aggregated demand analysis. Instead, the focus has been on qualitative analysis of demand information provided by buyers and inferred through desktop research.

Context

Mozambique has experienced high GDP growth rates over the past decade, and this is expected to increase following significant investments in the country's extractives sector. However, Mozambique has a weak private sector, with limited supply chain linkages and value addition within the country's borders. Large buyers do not have a strong local supplier base to draw on, and instead resort to procuring goods from companies that trade in imported goods. Currently, a number of megaprojects in Mozambique's emerging natural gas and coal sectors and their associated infrastructure investments dominate Mozambique's investment and growth profile. In order to avoid Mozambique becoming a mono-economy, it is recognized that

other sectors (such as manufacturing, commercial agriculture, tourism and retail) should be developed and economic linkages stimulated in order to ensure more broad-based, inclusive growth for the country. Particular emphasis should be placed on sectors that show the potential for large-scale, relatively low-skilled job creation to absorb the growing labour force. Developing and deepening supply chain linkages between established, formal sector industries and emerging SMEs is globally recognised as one effective means of achieving this.

Policy and regulation

There is currently no universally accepted definition of local content in Mozambique and no overarching legal and regulatory framework that guides or enables local content requirements at a national level, despite it being considered an important contributing factor to achieving the country's objectives.

Demand

Current and planned investment in Mozambique is dominated by the extractives sector and the development of the infrastructure required to support this sector. The extractives and construction sectors were therefore identified as the principal demand 'anchors' for this study, complemented with other key sectors and buyers. Demand-side findings by sector are summarized in the table below.

Table 1: Demand-side findings per sector

Sector	Findings
Coal and natural gas	Direct investment activity in the extractives sector is predominantly in Tete and Cabo Delgado provinces, where the country's coal and natural gas reserves are located respectively. Investment timelines indicate that coal sector procurement opportunities may have largely been missed in the construction stage, and the focus should now be on the operational stage. However, there is significant potential for SMEs to benefit from construction opportunities related to the natural gas sector over the next 5 years.
Mineral sands	Operations are conducted predominantly by remote, enclave companies spread across the country. The majority of these are small exploration operations that require basic services, while the Kenmare Resources operation in Nampula province requires supplier economies of scale. Locally-based SMEs would most likely only be able to supply the remote Kenmare plant, with little potential for market diversification.
Construction	As a sector that employs large numbers of relatively unskilled laborers, relies on relatively low-technology inputs, and is expected to continue to grow at a high rate for some time, the construction sector offers an attractive opportunity for linkages and supplier development interventions. The information gap between construction companies and local suppliers needs to be addressed in order to exploit these opportunities.
Industry and manufacturing	Due to diversity in production, size and ownership in this sector and its subsectors, generic supply chain needs are difficult to identify for the purposes of local procurement. However, in terms of local procurement, many local suppliers remain undeveloped and unable to service the large industrial corporations during the early stages of these businesses. Some subsectors within the industry and manufacturing sector do show promise of linkages and growth, given the significant investments expected in the sector. However, more research into opportunities for SMEs by subsector is required.
Retail	The entry of regional and international retailers into Mozambique presents opportunities for local sourcing of a number of goods, such as agricultural produce, as well as support services, such as transportation and packaging. While these opportunities in the formal retail sector may be limited, given the stringent quality criteria demanded by large buyers, there appears to be untapped potential for improved linkages in the informal market.
Travel and	Although there are potential sweet spots for local sourcing in the travel and tourism sector, such as food and beverages, services and maintenance, these are often

tourism	supplemented with imported goods. Focus should be given to up-skilling and diversifying local SMEs to provide continual supply of both basic and higher value goods and services, with particular attention paid to smaller establishments whose quality requirements do not preclude local suppliers. Also, scope exists for a range of local value-added recreational services to be developed around key tourism nodes, most of which are conducive to SME providers.
International development	<p>The international development sector makes significant contributions to general government and in many instances provides services that at some point in the future will be taken over by the government, or which are in fact delivered by the government. This is therefore a source of demand (for example for inputs to the country's health and education systems) that will continue for a long time into the future and can be seen as offering sustainable opportunities for local sourcing.</p> <p>Given the overarching social objective in the international development sector, increasing local content in projects would be an effective way to 'spend the aid dollar twice'. Further, since such a large amount of aid 'spend' is spread across a relatively small number of organisations, successful advocacy for changes in procurement policy could have a big impact on the local economy. However, caution must be exercised to avoid aid expenditure distorting and disrupting local SME supply and service markets and their potential for sustainable growth.</p>

Overlap of demand

There is significant overlap in the demand, and hence procurement, from the extractives and construction sectors. Demand overlaps occur most notably in the categories of non-core services and support goods. Smaller companies are able to supply these products and services, which require less expert skills and pose a smaller threat to core operations if unfulfilled in the short term. These include:

- Construction raw materials
- Plumbing and electrical equipment
- Crates, pallets, pans
- Fresh produce
- Fuel and lubricants
- Furniture
- IT equipment and services
- Office supplies and equipment
- Personal protective equipment
- Replacement parts and vehicle spares
- Signage
- Tools
- Uniforms
- Basic construction services
- Catering
- Cleaning/janitorial services
- Consulting services (e.g. labour broking)
- Maintenance and repair
- Security
- Transport and logistics

Supply

A database of suppliers shows that the majority of SMEs are located in and around Maputo, followed by Sofala and Nampula provinces, where the port of Beira and Nacala Corridor and Special Economic Zone are located respectively. Within Maputo, SMEs fall mostly into the

commerce, construction, industrial and services sectors. The majority of SMEs in Sofala and Nampula are industrial firms.

In terms of goods, there is an existing base of manufacturing companies to link to demand from major buyers, particularly in the apparel (uniforms and PPE), fabricated metal products (construction raw materials) and furniture subsectors, which suggests a starting point for where future research and linkages activities should focus their efforts. While these are important sectors for job creation, it is important to work to increase the scale of existing suppliers to take on larger contracts or upgrade to more valuable products.

Demand for local services is dominated by non-core services, which are theoretically those that local firms should be able to provide. As the technical nature of the service increases, so does the opportunity to partner with international firms and/or to provide technical training to local suppliers.

Supplier constraints

Constraints facing SMEs fall into a number of categories: SME capacity; access to information; access to finance and cash flow management; and infrastructure and the environment. In terms of innovation, the majority of SMEs have not introduced a new product or service in the past 2 years, and report the high cost of innovation and a lack of funding as the most significant constraints to doing so.

Buyers' attitudes

The attitudes of buyers to local sourcing are ambivalent. Most buyers do not have an internal policy favouring local suppliers, and the regulatory framework does not (in general) require them to do so. Even so, most buyers are keen to increase local content, but commercial considerations and risk aversion often preclude them from doing so. There is some consensus among major buyers that a combined linkages and supplier development programme delivered by a domestic institution would facilitate local sourcing, and buyers are prepared to contribute to the costs of such a programme.

Next steps

The lack of comprehensive and reliable data on the extent of cumulative quantitative demand in each sector, and the extent and capacity of local suppliers in each sector, is a significant finding for this study. Filling these information gaps and sharing this knowledge with major companies operating in Mozambique and promising local suppliers, will identify the 'low hanging fruit' with regards to local procurement opportunities and channels and may result in 'quick wins' in terms of local content.

This study is therefore only the first step in closing the demand-local supply gap in Mozambique, and should serve as a base for further studies with the same objective to boost local content and SME development in the country.

Recommendations

In light of our analysis and findings, we offer the following recommendations:

- 1. Conduct further targeted research and develop information sharing mechanisms**

In order to promote a better quality and flow of information about supplier capabilities and industry demand requirements, we would recommend exploring the following initiatives (either as independent research or, preferably, as part of a targeted linkages programme):

- Within specific high potential industries, and preferably on a regional basis, gather and share information on identified procurement opportunities over a set timeframe together with an attempt to forecast demand. Buy-in from major buyers, as well as collaboration amongst them, is critical to this. Companies will benefit from shared learning and a cluster approach to SME incubation, which will help to overcome competition and fragmentation in the design and delivery of SME support programmes, something that frequently characterises such programmes – even within industries.
- Assess and communicate the capacity of domestic firms to meet current and future demand in each industry. In particular, the competitiveness of suppliers (price, quality, delivery) and which interventions would improve these without distorting the market. Important in this is better understanding the current markets for those products where there is an existing supplier base. Business associations such as ACIS and tender platforms and databases would provide a valuable starting point for this type of research, which can be commissioned by private sector and international development agencies looking to contribute to linkages in Mozambique. This should be updated and communicated on a recurrent basis through business association websites and conferences.
- Extend these assessments to regional markets in terms of demand, and constraints to regional competitiveness on the supply side.
- In large industries, particularly the extractives sector, and as part of a targeted linkages programme, new forms of cooperation should be explored by the implementing partners between different types of suppliers, for instance between large tier 1 engineering, procurement and construction management (EPCM) contractors and potential suppliers of spare parts and maintenance.

2. Design and implement targeted linkages programmes

Following on from the research described above, linkage promotion efforts should be focused on the highest potential industries and supply chains which offer the greatest opportunity for SME linkages relevant to local supply capacity. A critical criterion for identifying these opportunities is that of additionality, whereby the linkage intervention (whether financial or non-financial) catalyses further investment and activity that would not have happened in its absence.

The objectives of these programmes would be to identify and facilitate the entrance of local SME suppliers into established companies' supply chains as long-term partners. Over time such support should help strengthen capabilities to allow emerging suppliers to grow and diversify, and shift into higher value-added products and services. To achieve critical mass, the programme should combine several large buyers, preferably by industry, to allow for a broader selection of suppliers as well as greater scope for industry demand. Where several large buyers are included, **harmonisation across companies' criteria and qualification systems** in selecting suppliers for these programmes should be encouraged, so as to smoothline procurement systems and decrease the administrative burden and cost for the emerging suppliers.

Importantly, any such initiative should address the key constraint of **access to finance, the provision of business development services to firms and skills development through internships and mentoring**. A number of globally recognised models exist in the region, which provide equity, loan finance and BDS support to SMEs within sponsoring companies' supply chains. Long term, such access to finance constraints can be effectively addressed through the development of feeder partnerships between these programmes and the market of banking and microfinance institutions, for future commercial financing of growing SMEs.

Successful local content programmes are often a result of collaboration between companies, government, and domestic and international agencies. These are designed for the long-term and aligned with government priorities, with a clear exit strategy for supporting agencies. While linkages programmes should be **driven by the buyers themselves**, government departments, NGOs and international development organisations can play an important role in supporting them, by for example assisting in identifying suitable supplier participants, disseminating programme information and supporting learning forums where experiences are shared.

The integration of local SMEs into large companies' supply chains is a complicated process and has a number of associated risks and costs (linked to quality, reliability, safety, price etc.) for large buyers. A role for donors could therefore be absorb some of this risk through the provision of matched funding to companies actively engaging in well-designed linkages activities. A number of such initiatives are in operation in the region, which should be consulted as a reference for adaptation to Mozambican circumstances.

The effectiveness of such initiatives, especially in their early stages, is directly correlated with focus. If a programme begins by targeting a specific industry and, most likely a defined geographic region, its design, promotion and operation can be tested in a contained environment, and a successful model established for expansion and replication in other industries and in other parts of the country.

3. Monitor and encourage local content and communicate effectively

Both government and industry have an interest in improved monitoring and reporting on domestic procurement. Effective local content policy will depend on the quality of information about whether or not local firms are securing meaningful business opportunities. A clear and practical approach to monitoring and reporting on local content will also allow companies to more effectively understand and communicate what works and why. Success is a necessary but insufficient basis for replication. Effective communication, through a variety of formats, is critical. **Important to this is agreeing to a widely accepted definition of 'local'**. For many programmes this definition is limited and based on citizenship or place of registration, rather than the degree of value addition taking place domestically.

1. INTRODUCTION

Genesis Analytics and ICC were commissioned by Building Markets to conduct a Demand and Opportunity Assessment and Analysis study on Linkages between major buyers and SME suppliers in Mozambique.

The specific objectives of the assignment were to:

5. Understand demand for locally sourced products and services in the extractives sector and in other key sectors with the potential to create jobs among SMEs
6. Understand current attitudes and approaches towards local sourcing among major buyers, and requirements for linkages programmes
7. Map relevant product and services supply
8. Understand key capacity constraints among SMEs

This report presents emerging findings on potential opportunities for local suppliers in Mozambique, based on the investments, timelines and types of locally sourced products and services currently, and expected to be, demanded across key sectors, particularly the extractives sector. This is based on a desktop review of secondary sources as well as primary field research involving 18 buyers and 27 suppliers.

It is hoped that this work will contribute to the evidence-base for the design of programmes and interventions aimed at linking buyers with suppliers and building suppliers' capacity to respond to identified demand, ultimately resulting in job creation and poverty reduction in Mozambique.

1.1. BACKGROUND TO THE STUDY

Despite consistently impressive economic growth in Mozambique in recent years, this has not been inclusive, and the promise of pro-poor, private-sector-led economic and social development is not being realised. The economy's further growth potential has increased substantially following the recent discovery and consequent commercial development of natural resources on a globally significant scale. However, while a number of extractive-industry investments have injected foreign capital into the economy and improved export performance, the Mozambican economy remains undeveloped, especially in the SME sector, where the potential for job creation and poverty reduction is high. While large buyers across Mozambique are under increasing pressure to source their goods locally, inadequate capacity of most SMEs to meet buyers' requirements for quality, consistency of supply and price has meant that few domestic SMEs have been incorporated into larger buyers' supply chains.

Job creation and the strengthening of the SME sector is a Government of Mozambique (GoM) priority, stressed in national development strategies. Previous efforts to marry demand and supply through linkages programmes in the country have met with some success, but have not reached SMEs at scale. These programmes also illuminated some of the constraints that impede the ability of local companies to respond to market opportunities. These include existing capabilities at the firm level, the need for market-based business development services, and limited access to information on market demand for goods and services.

SME growth initiatives must be demand driven, with potential drivers of demand including mega-projects, large domestic corporations, the public sector, growing sectors such as agri-business, construction and tourism, as well as neighbouring economies. Any intervention aimed at improving linkages between buyers and SME suppliers for job creation and poverty

reduction impact should be designed to address identified opportunities on both the demand side and the supply side. There may be significant untapped opportunities to pool demand both within and across sectors. However, both the potential demand for domestically-produced products and services across a range of sectors and suppliers' capacity to meet this demand are poorly understood in Mozambique. This study aims to contribute to closing this knowledge gap.

This study was commissioned by Building Markets, with support from the Skoll Foundation and Peace Nexus, and benefited from significant in-kind support from ACIS and KPMG.

1.2. METHODOLOGY

The analysis is based on extensive desktop research and qualitative primary research gathered through face-to-face interviews with 18 major buyers and 27 SMEs (potential and actual suppliers), as well as surveys completed by 10 buyers. Unless otherwise specified, SMEs are categorised according to the government of Mozambique's classifications:

Table 2: Government of Mozambique's SME classifications

	No of employees	Turnover (MZN)
Micro	1-4	< 1 200 000
Small	5-49	1 200 000 – 14 700 000
Medium	50-100	14 700 000 – 29 970 000

Demand side

High-level desktop research was conducted to collect background information on key demand sectors in Mozambique. This research focused on Foreign Direct Investment (FDI), investment plans, location of operations and supply chain models. The key demand sectors were narrowed down to: coal, natural gas, mineral sands, construction, retail, industry and manufacturing, tourism and travel, and the international development sector. From the desktop research undertaken, as well as in-country knowledge, these industries present the largest potential for linkages, investment growth, and spillover job creation.

The industries were then analysed using publicly-available information on the size of investments to understand the potential for linkages with SME suppliers. **This analysis identified the extractives and construction sectors as the principal demand anchors** to be complemented with other key sectors and buyers.

A contact database of key players across demand sectors was then created. Priority demand informants were selected based on which players have the largest market share in their respective industries as well as an ex ante assessment of their relative local sourcing attitudes or leadership roles. A letter was sent to each priority informant with the endorsement of Building Markets and the business association ACIS. Interviews were then requested with the senior manager and/or procurement manager at each of these large buyers.

An online survey was also sent to a larger group of demand-side companies to complement both the quantitative and qualitative data collected during the desktop and field research phases.

The demand-side interviews and survey attempted to collect quantitative demand data. Respondents were asked to provide monetary values of their total procurement spending over a selected period of time and then to disaggregate this according to purchasing in

Mozambique versus the rest of the world, as well as by good/service category. Respondents were then requested to identify categories where opportunities for local procurement exist, as well as to describe their future expansion plans, and the impact these will have on their procurement spending.

Supply side

On the supply side, a database of over 5000 local companies has been generated by merging databases from ACIS, the Mozambique Consultancy Association, Business Edge Providers (IFC Training Toolkit), the Ministry of Industry and Commerce, CEPAGRI, CPI, GAZEDA, IPEME, the Mozlink programme, the Ministry of Planning and Development, the PACDE programme and ProSavana. This was further complemented with desktop research and internal sources. The database served as an indication of the distribution and type of suppliers across the economy, as well as a basis to identify and select suppliers for interviews.

The locations of demand- and supply-side informants, as well as desktop research, informed the field work locations, which were chosen in agreement with Building Markets during the inception phase of the study. The locations were Maputo/Matola, Tete, Beira, Pemba/Palma, Nampula and Nacala. The geographies represent the following sectors:

- Maputo/Matola – Headquarters of large companies across sectors, Industry and Manufacturing, Retail, Government, Donors
- Tete – Mining, Construction
- Beira – Infrastructure, Mining coal chain
- Pemba/Palma – Natural gas, Tourism
- Nampula – Transport corridor, Infrastructure
- Nacala – Infrastructure, Mining coal chain, Suppliers within Special Economic Zone

The desktop research was then supplemented with data from buyer and supplier interviews and survey responses to better understand the types of goods and services that are, and will be, demanded locally by sector, as well as SMEs' constraints to meeting that demand. SME innovation behaviour and constraints to innovation were analysed using a subset of KPMG's Business Confidence Index (2012).

Limitations to the study

Due to a number of data limitations, it was not possible to perform a quantitative, aggregated demand analysis. These limitations include:

- In many instances, only very rough estimates of procurement spending by good/service were provided by buyers, and these were often aggregated to a high level.
- Secondary information on SMEs in Mozambique is opaque, thin and dated, especially given the large overlaps between formal and informal sectors for SMEs, and the rapid change the economy is currently undergoing.
- Detailed public procurement by the Mozambican government is generally not possible to establish due to a lack of systems to record such information or the non-availability of informants.

- It is not possible to effectively unpack the extent of donor involvement in the country, as it is usually dispersed across many sectors and channelled through public agencies.

Instead, the focus of this study has been on qualitative analysis of demand information provided by buyers and inferred through desktop research. The qualitative information was used to report descriptive indicators which provide a general snapshot rather than a bottom up analysis.

1.3. STRUCTURE OF THE REPORT

The report begins by describing the Mozambican context in Section 2, including the country's growth and private sector profiles, and an overview of high priority investments and the local content policy and regulatory framework. An overview of demand is then provided in Section 3, focussing on demand drivers and the attitudes of buyers to local sourcing. In Section 4 the key demand sectors are then explored in detail; and lists of goods and services where demand exists, as well as key players, major investments and local procurement implications are provided by sector. The supply side is then introduced in Section 5, and analyses of supplier locations, constraints and gaps with demand are explored. Conclusions and recommendations are provided in Sections 6 and 7 respectively.

A list of study participants and an overview of linkages programmes in Mozambique are provided as appendices to this document.

2. MOZAMBIKAN CONTEXT

Mozambique has a population of approximately 23.7 million people, with an annual population growth rate of 2.3% recorded in 2012.¹ The labour force in the country amounts to 9 million people, and this is expected to grow to 15 million in 2030, with between 300,000 and 500,000 people entering the labour force annually. Mozambique is a young country, with approximately 46% of the population under 15 and 21% of the population between the ages of 15 and 24 in 2012².

Although there have been improvements in reducing poverty levels, more than half of the population still lives below the poverty line, with improvements mainly concentrated in the Maputo area.³

In 2010, the adult literacy levels of males and females were 70.8% and 42.8% respectively, with education and technical skill levels being extremely low.⁴⁵ Further to this, women are underrepresented in both education and formal sector employment.⁶

There is hence a need to build a more inclusive economy through economic diversification, employment creation and the expansion of social protection.⁷ These aims, however, are

¹ African Development Bank, *African Statistical Yearbook*, 2013

² CIA World Fact Book, *Mozambique*, 2013

³ International Monetary Fund, *IMF Executive Board Concludes 2013 Article IV Consultation with Mozambique*, 2013

⁴ CIA Factbook, 2013

⁵ This is the most recent data available, but is expected to have increased following the increase in primary and secondary enrolment rates in recent years (AllAfrica, 2009, "Mozambique: Illiteracy Rate to Drop to 30 Percent by 2012")

⁶ Business Monitor International, *Mozambique Business Forecast Report*, 2013

⁷ Ibid

dampened by a number of constraints including the country's weak human capital, deficient infrastructure, high cost of credit and burdensome regulations.

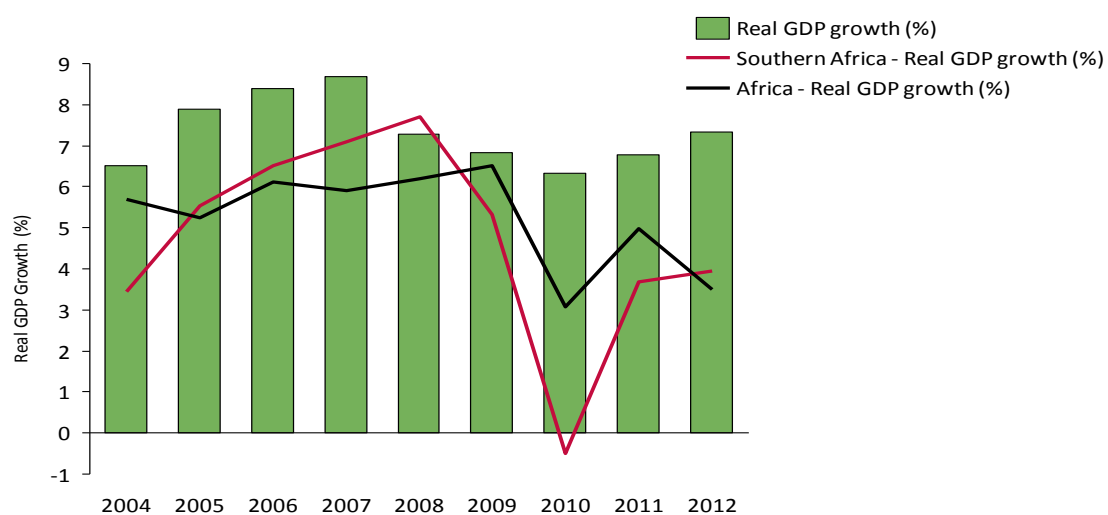
2.1. GROWTH PROFILE

Mozambique has experienced high GDP growth rates over the past decade, and this is expected to increase following significant investments in the country's extractives sector. To avoid Mozambique from being a mono-economy, it is recognized that other sectors (such as manufacturing, commercial agriculture, tourism and retail) should be developed and economic linkages stimulated in order to ensure more broad-based, inclusive growth for the country. Particular emphasis should be placed on sectors that show the potential for large-scale, relatively low-skilled job creation to absorb the growing labour force.

Since the signing of the Rome General Peace Agreement that ended Mozambique's civil war in 1992, Mozambique's socio-economic outlook has been steadily improving. After the first multi-party election in 1994, the Government embarked on a programme of structural reform to reshape the formerly planned economy to a more market-orientated economy; involving the privatisation of most state-owned companies and opening all sectors to the private sector. Mozambique's liberalisation and foreign direct investments, coupled with prudent management and the support of development partners has resulted in uninterrupted growth since the end of the civil war.

Real GDP growth was recorded at 7.4% for 2012 and it is anticipated that the economy will grow by 7.1% in 2013.⁸ It is further expected that the country's GDP growth rate will reach a peak of around 15.9% when production from the country's recently discovered gas reserves commence.⁹ The growth trajectory from years 2004 to 2012 is represented in Figure 1 below.

Figure 1: Real GDP growth in Mozambique



Source: Genesis Analytics analysis, 2013 | African Economic Outlook, 2013

The agricultural sector, which accounts for roughly 80% of employment¹⁰, has traditionally been the backbone of the economy. The country's formal economy is, however, mainly

⁸ This drop in growth has been attributed to the impact of floods on agricultural output in the first quarter.

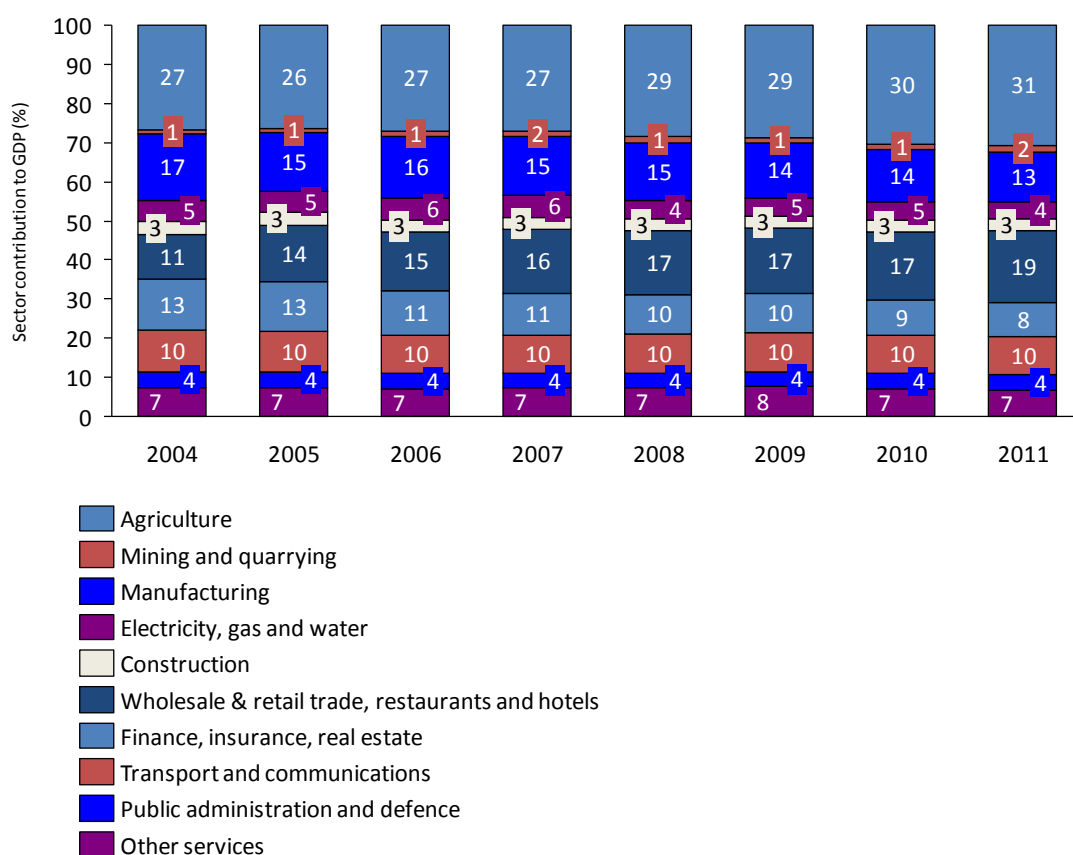
⁹ Business Monitor International, *Mozambique Business Forecast Report*, 2013

¹⁰ African Economic Outlook, *Mozambique*, 2013

dominated by ‘megaprojects’ - large-scale projects which are mostly financed by foreign capital and concentrated in the extractives industry.

Figure 2 below highlights the contribution of key sectors to GDP over time. It shows that the Mozambican economy has not undergone significant structural economic changes, despite more than a decade of robust economic growth.¹¹ The economy remains largely driven by the agricultural sector. The sector, which is important both for social and economic reasons,¹² has consistently increased its contribution to GDP from 2004. Within the agricultural sector, however, value addition remains unchanged. The sector is characterised by low scale (1 ha) subsistence family farms expanding into new land, rather than intensive scale (>10,000 ha) commercial farming increasing the productivity of existing land.¹³

Figure 2: Contribution to GDP per sector¹⁴



Source: African Statistical Yearbook, 2013

While the mining sector’s contribution to GDP has been consistent throughout the years, this is likely to increase dramatically over the coming years given the large investments in the industry, specifically in the coal sector. This will be addressed in detail later in this report. The *wholesale and retail trade, restaurants and hotels* sector is the only other sector whose

¹¹ Hofmann, *Economic Transformation in Mozambique*, 2013

¹² Most of Mozambique’s people live in rural areas, and almost all of them depend on farming. Agriculture occupies around 80 percent of the labour force, mainly through small-scale subsistence farming.

¹³ FAO, 2013

¹⁴ It is important to note that manufacturing here mainly reflects the Mozal aluminium smelter mega-project, rather than a broader manufacturing sector, which is extremely small and weak in Mozambique

contribution towards GDP has noticeably increased over this time period, while the contribution of manufacturing and financial services has decreased¹⁵.

The Mozambican economy is therefore primarily agrarian and resource-based in nature. Although processed aluminium ingots are the leading export item, this is generated by a single factory in Matola and masks the reality of an economy that is increasingly dependent on raw material exports (coal, electricity, cotton and natural gas). Yet there are negligible economic linkages between the robust growth in natural resource extraction and those sectors which traditionally create more jobs in developing countries. Manufacturing and commercial agriculture, for instance, are weak in Mozambique, whilst the retail and services sectors are only in their infancy. Unless economic linkages are stimulated, this trend is likely to deteriorate due to the effects of “Dutch Disease”, where the increased exports of natural resources appreciate the local currency at the expense of the competitiveness of non-resource tradable goods and services.

So while growth projections for the economy remain positive, critics argue that the surge of investments exclusively in the extractives industry, and its associated infrastructure, may render Mozambique a mono-economy. Therefore, other sectors should be developed in order to ensure more inclusive growth for the country. **Particular emphasis should be placed on sectors that show the potential for large-scale job creation to absorb the growing labour force**, such as agriculture and manufacturing.

2.2. HIGH PRIORITY INVESTMENTS IN THE EXTRACTIVES SECTOR

A number of megaprojects in Mozambique’s emerging natural gas and coal sectors, and associated infrastructure, are expected to contribute significantly to the country’s economic growth, exports and fiscal revenue in the medium term.

FDI will be a key driver of the Mozambican economy in the coming years. Coal operations in Tete province are led by Vale and Rio Tinto, while Indian and Chinese firms have also shown an interest in the sector. Most recently, Mozambique’s government awarded four coal concessions with a value of USD 5 billion.¹⁶ These investments, as well as the various existing coal investments in the country, are likely to boost medium-term growth, bringing in more than USD 3 billion in associated railway and ports infrastructure over the next five years. Further, natural gas reserves have been discovered off-shore in the Rovuma basin, with Anadarko and ENI planning to start the construction of LNG extraction, manufacturing and transport facilities in 2014.¹⁷ The total project cost of approximately USD 40 billion covers all upstream and midstream activities.¹⁸ **Table 3** represents a list of megaprojects in the extractives industry that are currently in operation, while **Table 4** lists several potential new megaprojects that are currently in exploration and development stage.

¹⁵ It is important to note however that GDP, and thus absolute figures per economic sector, have been increasing over this time period.

¹⁶ The Herald, *Mozambique to overtake Zimbabwe on coal production*, 2013

¹⁷ Ibid

¹⁸ Upstream activities refer to exploration and drilling while midstream activities refer to the construction of the LNG plant itself. Downstream projects are not included in the amount of USD 40 billion.

Table 3: List of current extractives megaprojects in Mozambique

Company name	Sector	Location	Capacity	Construction	Production
Hydroelectrica Cahora Bassa – HCB – HCB_North	Electricity generation	Cahora Bassa, Tete	– 2075 MW – 1240 MW	1995 – 1997	1998
Mozal – Mozal I – Mozal II – Mozal III	Aluminium smelter	Beluluale Industrial Park, Maputo	– 245 000 tonnes – 245 000 tonnes	1998 – 2000 2001 – 2003	2000 2003
Sasol – 50% expansion	Natural gas	Pande and Temane gas fields, Inhambane	– 154 GJ – 183 GJ	2002 – 2004 2011	2004 Ramp up by 2016
Kenmare – 50% expansion	Heavy sands	Moma, Napula	– 600 000 tonnes – 300 000 tonnes	2004 2011 – 2012	2007 2013
Vale	Coal	Moatize mine, Tete	25 million tonnes per year	2007 – 2011	2011
Rio Tinto	Coal	Benga mine, Tete	45 million tonnes per year	Acquisition in 2010	2012
JSPL	Coal	Changara district, Tete	10 million tonnes		2012 – 2016 ramp up
Beacon Hill	Coal	Moatize, tete	87 million tonnes of reserve	Acquisition in 2010	2013

Source: International Monetary Fund, 2013

Table 4: List of Mozambique potential or developmental megaprojects in Mozambique

Company name	Sector	Location	Capacity	Construction	Production
Mphanda Nkuwa	Electricity	Zambesi river, Tete	1500 MW	2014 – 18	2018
Anadarko (US)	Natural gas	Rovuma basin	10 million tonnes per year	2014 – 19	2020
ENI (Italy)	Natural gas	Rovuma basin	10 million tonnes per year	2014 – 19	2020
Statoil (Norway)	Natural gas	Rovuma basin			
Petronas (Malaysia)	Natural gas	Rovuma basin			
Minas de Revuboe	Coal	Revuboe, Tete	5 million tonnes per year	2013 – 2015	2016
Ncondezi (integrated mine and power plant)	Coal and thermal power	Tete	1.2 million tonnes per year / 300MW	2015	2016 (mine), 2017
Baobab Resources	Iron ore	Tenge/Ruoni deposit, Tete	725 million tonnes		
ENRC – Coal transport logistics – Coal mines	Rail line Coal	Tete Tete	– 40 million tonnes per year – 20 million tonnes per year	2014 – 2015 2014 - 2015	2016 2016
Corridor Sands	Heavy sands	Chibuto, Gaza province			

Source: International Monetary Fund, 2013

The discovery of coal deposits in Tete and the off-shore gas fields in Rovuma Basin are set to strategically position Mozambique as a leading producer in mineral and hydrocarbon-fuel. There are over 32 million tonnes of confirmed coal deposits and 130 trillion cubic feet of confirmed gas reserves, with even further discoveries anticipated in the short- to medium-term. In all, these megaprojects in Mozambique's emerging natural gas and coal sectors are thus expected to contribute significantly to economic growth, exports and fiscal revenue.

2.3. PRIVATE SECTOR PROFILE

Mozambique has a weak private sector, with limited supply chain linkages and value addition within the country's borders. Large buyers do not have a strong local supplier base to draw on, and instead resort to procuring goods from companies that trade in imported goods.

Despite robust economic growth and a large influx of FDI, Mozambique was ranked 139 out of 189 countries in the World Bank's *Ease of Doing Business* Index for 2014. Some of the most pressing constraints on the private sector include obtaining financing, high corruption, inadequate infrastructure and difficulty in registering property. The economy is characterised by a feeble private sector, with relatively poor integration of SMEs into the rest of the economy, low levels of inter-purchasing between sectors and negligible value adding activities. This implies that **large buyers, whether they be foreign multinationals or government agencies, do not have a strong local supplier base to draw on, and instead resort to procuring goods from companies that trade in imported goods.** The result is that the employment creation potential of economic growth will continue to be extremely limited unless the SME sector is strengthened. To this effect, the government is considering the introduction of local content requirements in an attempt to strengthen economic linkages with the domestic economy to bolster job creation and technology spillovers.¹⁹ This has been reflected in the government's long term strategy for 2015 – 2035 which favours local transformation of natural resources to generate wealth and reduce poverty.²⁰

2.4. LOCAL CONTENT POLICY AND REGULATORY FRAMEWORK

There is currently no universally accepted definition of local content in Mozambique and no overarching legal and regulatory framework that guides or enables local content requirements at a national level, despite it being considered an important contributing factor to achieving the country's objectives.

There is currently no universally accepted definition of local content in Mozambique. Local content is generally understood as procurement of goods and services from local suppliers, whether goods are produced locally or imported. The term "local" can be interpreted to mean a firm that is registered in Mozambique, as opposed to being "Mozambican". The definition of what is "Mozambican" is also a subject of debate; however it is commonly understood as a firm that has 51 per cent or more Mozambican ownership.

In terms of higher level policy, the Poverty Reduction Action Plan (PARP) 2011-2014 is Mozambique's medium-term strategy for putting into place the Five-Year Government

¹⁹ African Economic Outlook, *Mozambique*, 2013

²⁰ Ibid

Programme (2010-2014). These are both focused on combating poverty and generating inclusive economic growth. The PARP highlights the mining sector as a strategic sector for encouraging linkages between large corporations and small enterprises, particularly in mega projects. In terms of local content, the Five-Year Government programme highlights the promotion of business linkages between large corporations and small and medium enterprises, and the expansion of the country's special economic zones and industrial parks as priority actions.

The Mozambican government is also currently working on a 20 year National Development Strategy (ENDE) for 2015-2035. This document has a strong focus on industrialisation as a means to stimulate growth and create jobs. Specifically, the extractive industry is highlighted as a priority sector for local content. The document makes further reference to incentives for private companies which stimulate private sector investment and SME growth; however, these are not explicitly defined.

The most recent draft of the new Corporate Social Responsibility Policy, which is currently being circulated, will oblige natural resource mega-projects to promote local content development. The draft proposal includes general local content principles, but it is hoped that the final draft will be more detailed and specific in order to clarify the role of the government; extractives companies; and the private sector more generally.²¹

In summary, these plans illustrate that whilst increasing local content is not a specific national objective; it is considered by many as an important contributing factor to achieving the country's objectives.

There is no overarching legal and regulatory framework that guides or enables local content requirements at a national level; rather local content requirements are decentralised to the mandate of each sector. A recent USAID-SPEED study found that the decentralised nature of the regulatory framework resulted in conflicting local content definitions and requirements; creating confusion and legally conflicting guidance.²² The study further highlighted key stakeholders' low levels of knowledge of existing laws; and inconsistent enforcement as weaknesses in the existing local content legal and policy framework.

The regulatory regime for the extractives sector is currently under revision. The only reference to local content in the older regime was in the Petroleum Law (Law 3/2001, of 21 February 2001) and its regulations, which stated that companies must "give preference to Mozambican products and services whenever they are competitive in terms of price and comparable in terms of quality and supply"²³. The new draft mining law – which is expected to be passed by Parliament in the near future – extends this legal requirement to the extractives sector.

The Petroleum Law has also subsequently been revised, approved by the Council of Ministers and sent to Parliament for final approval and enactment. The revision calls for the same preference for Mozambican firms with a 10 percent margin of preference in terms of price, assuming equal quality, time in delivery and quantity availability²⁴.

Other key legislation is the Public Private Partnership (PPP)/Megaprojects Law. This Law applies to all projects that involve investments above USD500m, irrespective of sector, and states that PPP investment must benefit the Mozambican economy, create jobs for

²¹ <http://www.clubofmozambique.com/solutions1/sectionnews.php?secao=business&id=31221&tipo=one>

²² USAID-SPEED, 2013

²³ Freshfields Bruckhaus Deringer, 2013

²⁴ KPMG, 2012, *Mozambique Country Profile*

Mozambicans, and help to build local SMEs²⁵. Similarly, the Ministry of Labour has implemented stringent laws on hiring foreign workers, requiring that companies in petroleum and mining operations hire foreign workers based on a quota system set by the Government. The quotas set are percentages, hence dependent on the size of the company. It is now a requirement that companies specify the number and category of Mozambican and foreign workers to be employed in their investment proposal.

Overall, despite the Government's aims to increase local content, there is a general perception among the Mozambican private sector that policies - and their respective incentives - remain biased towards megaprojects and foreign companies. This perception is underpinned by the lack of regulation targeted directly towards SME development and domestic investment.

3. DEMAND OVERVIEW

3.1. DEMAND DRIVERS

Current and planned investment in Mozambique is dominated by the extractives sector and the development of the infrastructure required to support this sector. The extractives and construction sectors have therefore been identified as the principal demand 'anchors' for this study, to be complemented with other key sectors and buyers.

The desktop research, as well as in-country knowledge, identified a selection of sectors that present the largest potential for linkages, investment growth, and spillover job creation. These sectors include:

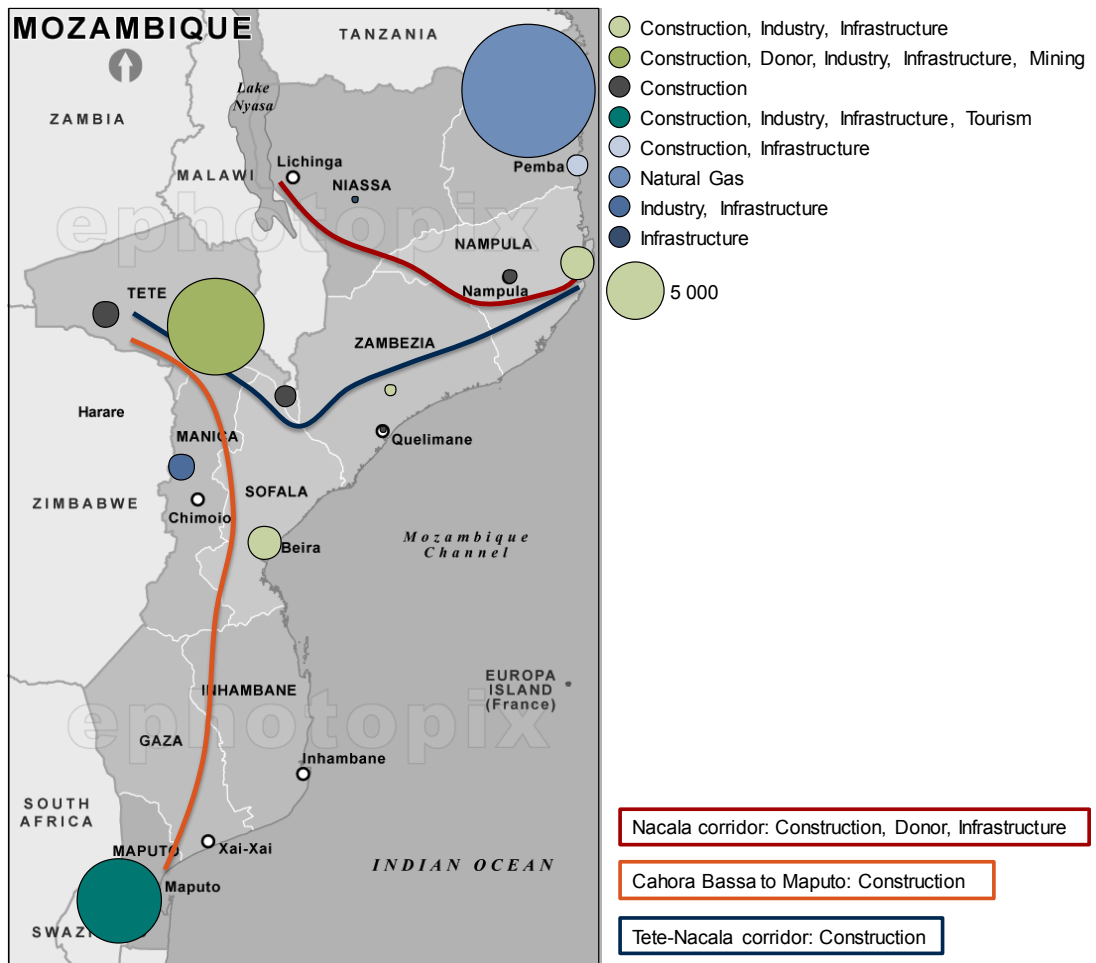
- Extractives, including coal, natural gas and mineral sands
- Construction and infrastructure
- Industry and manufacturing
- Retail
- Travel and tourism
- International development (donors and international organisations)

The sectors were then analysed using publicly-available information on the size of investments to understand the potential for linkages with SME suppliers.

The map below depicts a selection of current and planned investments in various sectors across the country, with the size of each bubble representing the investment size in USD million. These investments are by no means exhaustive but rather an indication from publicly available information, including various media reports, research papers and industry associations.

²⁵ UNCTAD, 2012

Figure 3: Geographic distribution of a selection of planned investments in Mozambique



Source: BMI 2013, World Bank Country Partnership Strategy 2012-2015, AfDB 2011-2015 Mozambique Country Strategy Paper, <http://www.cpi.co.mz/index.php/en/business-opportunities/infrastructure>

The map reveals that investment is due to take place largely in the provinces of Maputo, Tete and Cabo Delgado, with smaller-scale (but still significant) investments in Nampula, Sofala and Manica provinces. Many companies are looking to set up a home base in Maputo to facilitate production exports into South Africa and Swaziland. Access to the Maputo port has also developed the market for logistics and warehousing for large mining companies such as Vale and Rio Tinto that are looking to transport large volumes of coal from Tete province. The country's largest industrial park, Beluluane, and the Mozal aluminum smelter are both located in Maputo/Matola, and a mini-boom has taken place in real estate including hotel chains due to the increased business activity in these adjacent urban areas²⁶.

Tete province is home to large planned investments in the construction, infrastructure, mining and industry sectors. With much of Mozambique's coal deposits in this province, mining majors such as Vale, Rio Tinto and Jindal have established operations in Tete. Inadequate infrastructure such as road, rail, accommodation, and power stations has resulted in these mining companies investing in large construction projects.

As in Tete, the discovery of natural gas reserves off the northern coast of Mozambique has seen an influx of investment in the Pemba region in Cabo Delgado province. Although the area

²⁶ <http://www.ft.com/intl/cms/s/0/c3782fa8-df00-11e2-a9f4-00144feab7de.html#axzz2l6icj9P4>

is traditionally known for its tourism activities, the gas fields of the Rovuma basin have seen exploration investment entering the region. Both US-based Anadarko Petroleum and Italian oil and gas company Eni have made significant discoveries recently²⁷ with the most significant investment in the region in the next 5 years to be the construction of LNG facilities and related industries, such as fertilizer and power plants²⁸.

Several investment corridors are being developed in Mozambique. Planned investments include the Nacala corridor, the Tete-Nacala corridor as well as infrastructure development from Cahora Bassa to Maputo. Confirmation from the government on supplies of natural gas have prompted the Japanese International Co-operation Agency to guarantee USD 200 million in funding to rebuild the 304-km road between Niassa's main cities, Cuammba and Lichinga, linking them to the Nacala Corridor, which runs from Nacala Port, through the two cities, to Malawi²⁹.

Nampula province is registering historically high volumes of investment into transport, including an international airport being built by Brazilian infrastructure group Odebrecht, a railway linking Moatize and Nacala port by a consortium of Brazilian, Portuguese and Spanish infrastructure companies led by Vale, and roads and water infrastructure (the latter being funded mostly by the Millennium Challenge Account), including a water supply system in Nacala and dams in Nacala and Nampula.

There is also noticeable investment going to road construction in the Pemba region in Cabo Delgado province, linking the main towns of Pemba and Mocimboa da Praia to Palma, the nearest point in the country to the gas fields in the Rovuma Basin.

This demonstrates that current and planned investment in Mozambique is dominated by the extractives sector and the development of the infrastructure required to support this sector. **The extractives and construction sectors have therefore been identified as the principal demand 'anchors'** for this study, to be complemented with other key sectors and buyers.

3.2. ATTITUDES OF BUYERS TO LOCAL SOURCING

The attitudes of buyers to local sourcing are ambivalent. Most buyers do not have an internal policy favouring local suppliers, and the regulatory framework does not (in general) require them to do so. Even so, most buyers are keen to increase local content for reasons outlined below, but commercial considerations and risk aversion often preclude them from doing so. There is some consensus among major buyers that a combined linkages and supplier development programme delivered by a domestic institution would facilitate local sourcing, and buyers are prepared to contribute to the costs of such a programme.

The following section explains the attitudes among major buyers to local sourcing and the main issues that encourage or prevent buyers from sourcing locally.

What is local?

'Local' is usually defined by major buyers as a company that is registered in Mozambique. This therefore includes local subsidiaries of international companies, local companies that import

²⁷ <http://www.howwemadeitinafrica.com/five-african-boom-towns-that-should-be-on-every-investors-radar/17869/>

²⁸ <http://www.alarabiya.net/articles/2012/06/19/221465.html>

²⁹ <http://voicesofmozambique.com/news-articles/foreign-investors-target-mozambique-s-expanding-manufacturing-sector>

entire products and trade them locally, as well as companies that import parts/raw materials, and then assemble and sell the product locally. Buyers in general do not record what is actually manufactured or produced within Mozambique's borders. This means that the data received from companies is difficult to disaggregate to the degree to which the company is really adding any value in Mozambique.

Policy and regulatory environment

There is a focus in government on **local employment practices (i.e. the ratio of foreign to local employees), rather than procurement**, and no overarching prescriptive or enabling government policies on local procurement exist in the country to date. Some industries, such as poultry and sugar, are protected through quotas and duties, which favour local suppliers. Some large companies, particularly in the extractive industries, are required to show a commitment to local procurement and supplier development under a clause in their concession contracts that requires the companies to contribute to local social and economic development, but there is no national framework or structure on how to do this. Resource contracts are negotiated on an ad hoc basis without any standard criteria and are not publicly available.

Drivers and constraints to procuring locally

Interviews with demand-side informants indicate that, when making procurement decisions, buyers are mostly driven by commercial considerations, namely price, availability and time to deliver, as well as capacity to supply goods across the country regularly and with consistent quality. Most do not have an internal prescriptive policy that favours local suppliers. Procurement decisions in large multinational companies are also often centralised outside of Mozambique, without local purchasing targets, in order to deliver greater value to shareholders by achieving economies of scale in procurement decisions.

Some buyers do perceive the development of local suppliers as a way of ensuring security of supply, while those in the mining industry in particular face pressure nationally and internationally to do so. Some buyers also reported an expectation of there to be a change to local content policies and regulations in the future. As such a number of big buyers are committed to increase local sourcing and are investing/are willing to invest in supplier development programmes to do so.

Linkages and supplier development programmes

There is a group of major buyers in the extractives sector that would like a linkages and supplier development programme to be implemented. Previous Mozlink partners identified challenges faced by the programme, and would require a significantly improved approach if they were to be involved in a new programme. Major buyers believe a combined programme, run by a national institution and financed in part by corporates, would be the most efficient model. Supplier companies should be identified, their capacities understood and the programme developed to capacitate the companies. Buyers also feel that linkages should be approached holistically, including business development, technical assistance and access to finance.

In addition, the following are thought to be essential to ensuring the success of supplier development programmes in Mozambique³⁰:

³⁰ ICC, 2013

- Large corporations need to view supplier development programmes from a strategic perspective that makes business sense, rather than as a corporate social responsibility activity.
- The selection of participating SMEs needs to be rigorous, with clearly outlined, and adhered to, selection criteria.
- In order to avoid false expectations developing among SMEs, the objectives of the programme should be clearly outlined to all parties involved.
- The expectations of the big corporations in terms of service and product quality should be clearly stated so as to ensure that training and mentoring activities are aligned to these expectations.
- The ability and current performance of participating SMEs should be understood such that training and mentoring is targeted appropriately.
- Training and mentoring needs to focus on both technical expertise and business development.
- Although training and mentoring is vital, there are other constraints to doing business that need to be addressed, such as access to finance and access to information.
- There needs to be dedicated ownership of, and accountability to, the programme. This should be achieved through the establishment of a Steering Committee that “owns” the programme.
- Supplier development programs should have a comprehensive monitoring and evaluation framework.

4. KEY DEMAND SECTORS

This section describes each key demand sector in detail. Each sub-section begins with the results of the demand analysis and a summary table of the types of goods and services currently, or intended to be, procured locally by major buyers. This is followed by key points on sector size, geographic distribution, growth projections and key players. Local procurement opportunities are also discussed, and are framed in terms of relevance to demand. Where buyers’ requirements face sector-specific constraints on suppliers, these are noted. As the extractives sector is seen as the biggest demand driver (as discussed in Section 3.1), it is covered in the greatest detail.

It is important to note that, given the methodological limitations explained above, the **demand analysis has not been quantified, but rather provides indications of where we expect to see local demand.** The lists provided are not exhaustive, but represent a consolidation of results from desktop research, publicly available information and interviews with a selection of major buyers on the types of goods and services that buyers currently, or intend to, buy locally. **There remains a significant knowledge deficit around the quantity of what is demanded and what can be supplied locally.**

4.1. OVERVIEW OF THE EXTRACTIVES SECTOR

Direct investment activity in the extractives sector is predominantly in Tete and Cabo Delgado provinces, where the country’s coal and natural gas reserves are located respectively. Investment timelines indicate that coal sector procurement opportunities may have largely been missed in the construction stage, and the focus should now be on the operational stage. However, there is significant potential for SMEs to benefit from construction opportunities related to the natural gas sector over the next 5 years.

As demonstrated in Section 3.1 above, the majority of direct investment activity in the extractives sector in Mozambique is in two provinces, namely Tete, where the country's coal reserves are located, and Cabo Delgado, where vast natural gas reserves have been discovered.

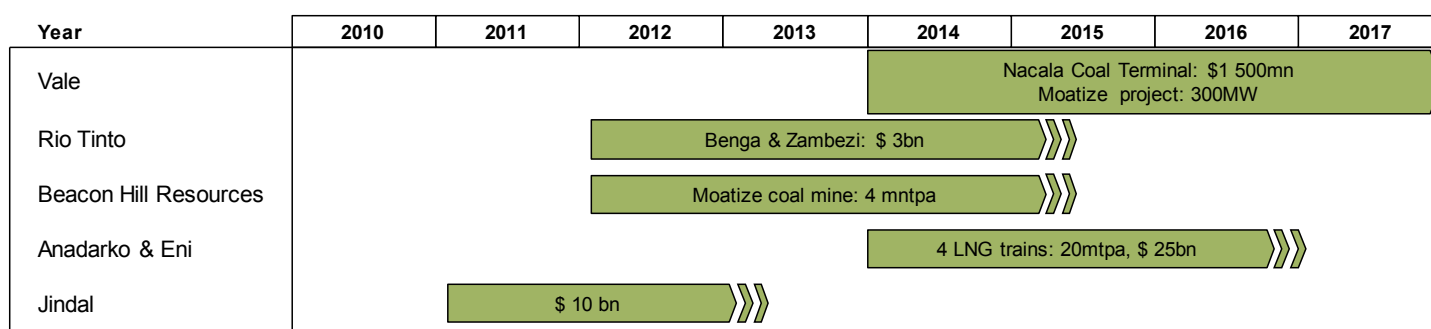
Of interest is the timeline of when these major investments will be coming online. Figure 4 below gives an indication of when a selection of these investments will be taking place. These investments are by no means exhaustive but rather an indication from publicly available information, including various media reports, research papers and industry associations.

Mining operations typically present the largest procurement opportunities at the construction phase during the mine complex development. This period is associated with capital outlays requiring large numbers of low skilled labourers, construction of mining infrastructure and the resulting purchasing of a wide range of basic goods and services. At the operational stage the value of procurement spend drops significantly, with few employees and contractors required to maintain operations, equipment and processing systems. This implies that the greatest opportunities for suppliers are at the early stage of mining development.

As Figure 4 below shows, many of the extractive industry investments and related infrastructure projects in Mozambique have already begun, particularly those in the coal industry. So while mining sector procurement opportunities may have largely been missed in the construction stage, the focus should now be on the operational stage, which for some mines can last up to 25-35 years³¹.

The figure also shows that the next 5 years will prove to be a critical period in Mozambique's growth story, particularly for SMEs that hope to benefit from the potential positive spillover effects that construction opportunities related to the natural gas sector, such as the construction of LNG facilities and related industries, will bring. These opportunities are discussed in detail in Section 4.3 below.

Figure 4: Timeline of a selection of major investments in the extractives sector³²



Source: BMI 2013, World Bank Country Partnership Strategy 2012-2015, AfDB 2011-2015 Mozambique Country Strategy Paper, <http://www.cpi.co.mz/index.php/en/business-opportunities/infrastructure>

In terms of demand, there are overlaps across companies in the extractives sector in terms of the types of goods and services they procure locally. These overlaps are provided in detail in Section 4.10 below.

³¹ Vale's Moatize mine is expected to have a life of 35 years from 2011 (http://www.sourcwatch.org/index.php/Mozambique_and_coal)

³² Projects ending with a double arrow indicate that while details of the project start are available, the total duration is unspecified.

It is important to note that mining procurement is divided into several tiers of subcontracting or supplier levels. Often only at the third or fourth tier do the poorest producers or basic agricultural SMEs become involved, by selling their produce directly to traders. Linkage and supplier development interventions therefore need to understand the procurement tiers closely in order to identify the means for smaller SMEs to participate in the supply chain. This is especially true at the first tier, such as Original Equipment Manufacturers (OEM) or Engineering, Procurement, and Construction Management (EPCM) contractors, which by their scale and skill requirements tend to be foreign multinationals.

4.2. COAL

Summary of demand analysis

The table below summarises the goods and services where there are local demand opportunities in the coal mining industry in Mozambique. The information is aggregated from various sources including interviews with procurement divisions of coal mining companies, their tender notices and public presentations.

Table 5: Goods and services demanded locally by Coal industry

Technical Core Services	Non-Core services	Construction Materials	Capital and Equipment	Support goods
<ul style="list-style-type: none"> • Project topography • Quality control • Sanitary landfills 	<ul style="list-style-type: none"> • Accommodation • Basic construction services • Catering • Consulting (e.g. labour broking) • Maintenance and repairs • Medical services • Security • Transport and logistics 	<ul style="list-style-type: none"> • Construction raw materials 	<ul style="list-style-type: none"> • Mobile mechanic equipment 	<ul style="list-style-type: none"> • Fresh produce • Furniture • IT equipment • Office supplies and equipment • Personal protective equipment (PPE) • Replacement parts and vehicle spares • Signage • Tools • Uniforms

Introduction

According to the World Bank, the emerging extractives industry could provide the means for Mozambique to reach the status of a middle-income country by 2025. According to the Mineral Resources Minister, the past 5 years have seen the coal mining sector contribute taxes worth USD 1 billion and 15 000 jobs to the Mozambican economy³³. The boom in this sector has the potential to trigger a diversification of economic activities, which will be imperative to sustainable economic growth, and provide a platform for SME development.

Key players and investments

There are 36 active coal companies in Tete province³⁴, the focus of the country's coal reserves. The largest mining concessions are held by the Brazilian Vale do Rio Doce (Vale)

³³ <http://www.miningweekly.com/article/mining-sector-helps-mozambique-but-stronger-links-needed-with-local-business-2013-11-01>

³⁴ <http://www.miningweekly.com/article/mozambique-coal-reserves-expected-to-jump-to-100-million-tons-a-year-in-next-decade-2012-06-08>

and Rio Tinto, while smaller concessions belong to Ncondezi, Beacon Hill, and Jindal Steel. The table below details the coal mining projects where production has begun, or that are most likely to be implemented in the near future:

Table 6: Current coal projects in Mozambique

Mine	Owner	Production start date	Production capacity ³⁵ (metric tons per annum)
Ncondezi	Ncondezi	2014	129.45 Mt (GTIS)
Revuboe	Revuboe	2016	17 Mtpa
Minas Moatize	Beacon Hill	2011	2.36 Mtpa
Benga	Rio Tinto	2012	2 Mtpa
Zambeze	Rio Tinto	2014	20 Mtpa
Moatize Phase 1	Vale	2011	11 Mtpa
Moatize Phase 2	Vale	2015	22 Mtpa
ENRC Estima	ENRC	2013	1.033 Bt (GTIS)
Jindal	JSPL	2013	10 Mtpa

Source: Updated from Rosenfeld, D. (2012), The coal mining sector in Mozambique: a simple model of predicting government revenue, Instituto de Estudos Sociais de Economicos Conference Paper no. 19

The top three projects are owned by Vale and Rio Tinto and are all set to start production by 2015. This is a tight but opportune period over which Mozambique's SME growth may potentially take favourable shape. In 2008, Vale was awarded a five-year development license, which enabled it to build a \$1.3 billion coal mine in Moatize. The company is expected to produce 12 million tons of coal, mainly for export to Asia. To transport the coal, the company currently uses the rehabilitated railway to the Beira port. However, due to the limited capacity of the port, Vale is planning the construction of a new 912km railway line to connect Moatize to the port of Nacala. This project is planned to be completed by 2015³⁶. This will also contain a new USD 4.4 billion coal terminal, which is being renovated by other Brazilian investors. The Nacala Corridor in the north is the target of development assistance not only by Brazilian commercial farming investors but also by Japanese foreign aid through the Pro-Savana agriculture project.

The second largest mining company operating in Tete is British–Australian Rio Tinto, which began producing coal from its Benga mine in May 2012. Rio Tinto holds mining concessions of 290 000 hectares for the Benga and Zambezi projects. The company has also been listed as a preferred bidder for a government tender for the development of a 525 km rail line from Tete to Macuse, in Zambezia province, as well as for a new port with the initial capacity of 25 million tons of cargo per year and the potential for this to double in the future³⁷.

To fuel the large steel industry in India, Jindal commenced its coal explorations in Mozambique in 2008 and has completed construction of its \$200 million mine in Cahora Bassa, Tete. Coal mining is underway at their open cast operation with the first export, via Beira, in May 2013. During the first year of operations the project is aiming to produce 3 million tonnes per annum. Reserves imply that it is possible for production to exceed 10 million tonnes per year of high

³⁵ Includes both coking and thermal coal resources

³⁶ <http://www.railjournal.com/index.php/signalling/ptc-chosen-for-mozambique-coal-corridor.html>

³⁷ <http://www.mineweb.co.za/mineweb/content/en/mineweb-political-economy?oid=185722&sn=Detail>

grade coal. The local impact of the company's plans is the employment of 2 000 workers and the relocation of 563 households³⁸.

London-listed Kazakh miner Eurasian Natural Resources Corporation (ENRC) is another large player in Mozambique's coal extraction activities. ENRC entered the Mozambican market following its acquisition, in 2009, of the Central African Mining Exploration Company (CAMEC). The company currently has 12 licenses with a projected production of 40Mtpa by 2015 and 100Mtpa by 2020³⁹. ENRC also plans to begin production at one of its mines to coincide with one of its logistics projects, a rail line construction from Tete to Nacala⁴⁰.

The investment that takes place in the coal industry is well-placed to influence various other industries. One of the largest opportunities is in power generation, demonstrated by the call for developers and operators of a power plant to support Rio Tinto's Benga mine. Coal mining in Tete has already necessitated the development of other infrastructure, including the rehabilitation of the 600 km Sena railway line, the upgrade of the Port of Beira and the construction of a 20-million-ton-a-year coal terminal⁴¹.

The lack of infrastructure in Mozambique has prevented coal companies from getting coal to market and, despite the upgrades of old railway lines, floods in early 2013 caused significant disruptions to the coal majors⁴². Transportation alternatives to rail remain limited, with the government disallowing the transport of coal down the Zambeze river on barges, citing environmental damage as a reason. Jindal has taken the drastic measure of trucking its coal to Beira, a journey of nearly 700 km.

The quality and quantity of coal reserves in the region has lately been brought into question, and decreasing international coal prices have added to the industry's challenges. The price of thermal coal, used to generate power, has fallen from USD117 a ton in June 2011 to about USD75 in September 2013. Rio Tinto is currently evaluating its Mozambican strategy following a period of significant write downs of its Mozambican coal assets and cancellation of million dollar contracts, and is reportedly considering a whole or partial sale of its coal unit in Mozambique.⁴³ Under pressure from these constraints, Rio Tinto has dismissed 60 people in Mozambique, amounting to roughly 10% of its workforce⁴⁴.

In 2011 the Mozambican government decided to suspend the issuing of new licenses for coal mining in Tete province to better assess the extent to which companies holding licenses were complying with government contract stipulations⁴⁵. The issuance of mining licenses has been 'reinstated with a round of bidding in Tete and Niassa opening in June 2014'⁴⁶.

Procurement and demand for goods and services

Although each coal mine is unique in its detailed supply chain, a generic coal supply chain with the most important procurement areas is shown in Figure 5, below. Each phase of the life cycle of a standard coal mine is mapped with the various procurement needs corresponding to

³⁸ <http://allafrica.com/stories/201308161480.html>, August 2013

³⁹ ENRC Plc, Mozambique Coal Indaba 2012, February 2012

⁴⁰ <http://www.iol.co.za/business/international/enrc-to-build-mozambique-coal-rail-port-1.1427656>

⁴¹ <http://www.miningweekly.com/article/rio-seeks-interest-from-possible-developers-of-600-mw-moz-power-plant-2012-06-18>

⁴² <http://www.bdlive.co.za/africa/africanbusiness/2013/04/17/news-analysis-mozambiques-shaky-transport-set-to-shrink-coal-bonanza>

⁴³ Wall Street Journal, June 25 2013, 'Rio Tinto considers sale of Mozambican coal unit'

⁴⁴ <http://www.bdlive.co.za/opinion/2013/09/23/hazards-of-extracting-coal-on-mozambiques-new-frontier>

⁴⁵ <http://www.clubofmozambique.com/solutions1/sectionnews.php?secao=mining&id=22943&tipo=one>

⁴⁶ <http://www.miningweekly.com/article/mozambique-to-launch-coal-bidding-round-in-june-2014-2013-11-26>

that phase. Those highlighted in red have been identified as set-asides by the largest coal producers, Vale and Rio Tinto.

In 2013, **81% of Rio Tinto Coal Mozambique's procurement spending was within Mozambique**⁴⁷, with US\$ 218 million going to 370 local suppliers, and the company has started a Business Centre for local suppliers in Tete.⁴⁸ The company's 14 set aside categories to be procured locally in Tete are highlighted in Figure 5 below.

However, the lack of skills and quality of services in the local supply chain has affected local procurement practices in the coal industry. Mozambican civil society has raised concerns that most major procurement contracts do not go to local companies, but rather to Brazilian, Indian and South African companies. Local communities complain that most of the goods utilised by the mining companies – from equipment to material and even food – is still imported from outside the country. In terms of a linkages policy framework, the intention is for the experience from the Mozal aluminium programme to be carried into coal mining policy⁴⁹.

Conclusion

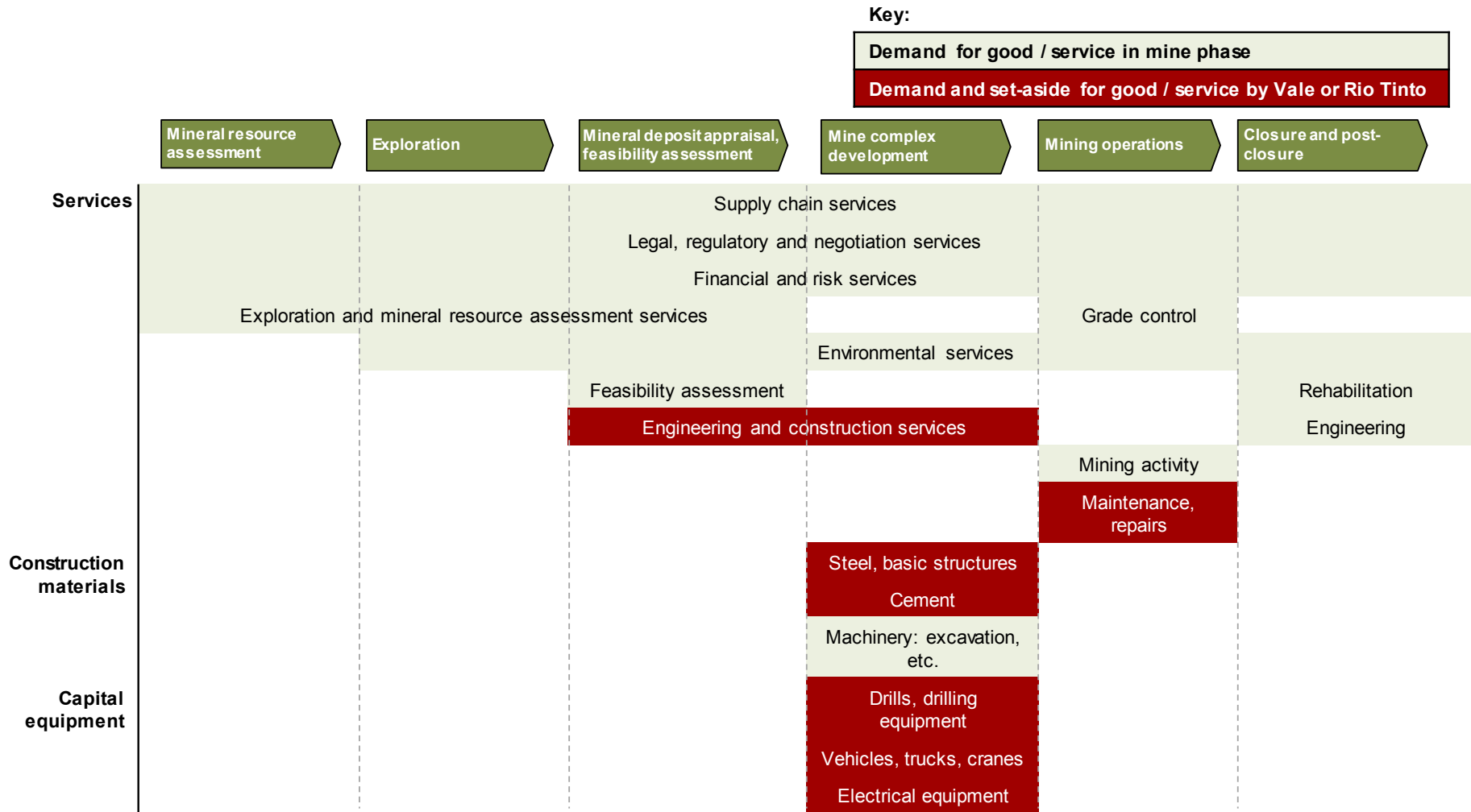
In general, the window of opportunities for SME linkages in the construction of large coal projects is diminishing, with many coal mining projects nearing or at the end of their construction phase. Opportunities will exist, however, during the operational phase of the mines, which will stretch over the next several decades. The timing of such investments is crucial, with SMEs facing the need to grow fast enough and position themselves to capitalise on future phases in the value chain. In particular, the nature of mining requires the rigorous adherence by suppliers to high quality health and safety standards, which local SMEs often fail to do. While imported goods, more likely to meet such standards, are easier to procure, some large mining companies do show a willingness to assist local suppliers in improving their products/services and compliance standards.

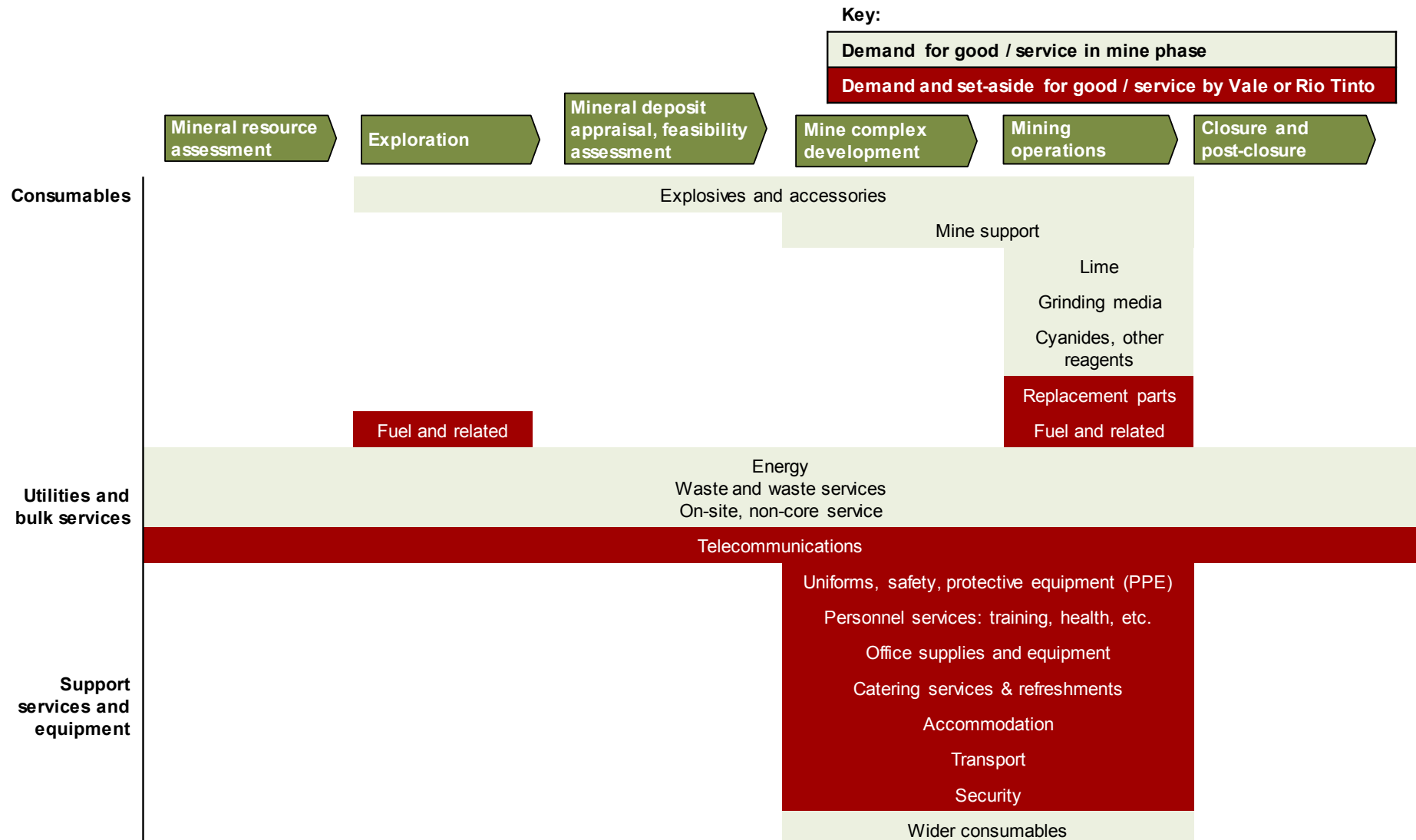
⁴⁷ It is unknown whether this was RTCM directly, or through Tier 1 suppliers

⁴⁸ Rio Tinto Business Link presentation 2013

⁴⁹ Perkins, D. & Robbins, G. (2011), The contribution to local enterprise development of infrastructure for commodity extraction projects: Tanzania's central corridor and Mozambique's Zambezi Valley Making the Most of Commodities Programme Discussion Paper No. 9

Figure 5: Extractives industry supply chain





Sources: Esteves, A. et al, *Procuring from SMEs in local communities: A good practice guide for the Australian mining, oil and gas sectors*, 2010; Genesis Analytics interviews, Vale Procurement Opportunities presentation, 13 September 2012

4.3. NATURAL GAS

Summary demand analysis

The opportunities for local suppliers in the natural gas sector over the next few years are centred around the construction of LNG facilities and related industries. As such, there is expected to be local demand for construction and transport related goods and services, as well as provisions for a large number of employees, such as accommodation, catering and office supplies.

Table 7: Goods and services demanded locally by natural gas sector⁵⁰

Non-core services	Construction materials	Capital and equipment	Consumables/Support goods
<ul style="list-style-type: none"> • Basic construction services • Catering • Cleaning/janitorial services • Consulting (e.g. labour broking) • Freight • Landscaping • Maintenance and repair • Transport 	<ul style="list-style-type: none"> • Construction raw materials • Piping • Pre-fabricated housing, doors and windows • Security fencing and gates 	<ul style="list-style-type: none"> • Plumbing and electrical equipment 	<ul style="list-style-type: none"> • Crates, pallets, pans • Fuel • Furniture • IT equipment • Office supplies and equipment • Personal protective equipment (PPE) • Replacement parts • Signage • Tools • Uniforms

Key players

Mozambique has large onshore and offshore sedimentary basins that contain natural gas resources, but much of it is unexploited. The country does not have any proven crude oil reserves.

Natural gas has been produced from two onshore gas fields in the south of Mozambique, Pande and Temane, through a joint venture between Sasol and the state hydrocarbon company, Empresa Nacional de Hidrocarbonetos (ENH) since 2004. In 2011, 3.8 billion cubic metres of natural gas were produced from the Pande and Temane fields, the majority of which was exported via an 865 km pipeline to Sasol's chemical plants in South Africa. The pipeline has 5 outlets in Mozambique to supply the local market, and is sold by the Matola Gas Company in and around Matola and by ENH in Vilanculos and the Bazaruto island group. The local industrial ecosystem that exists where gas is extracted, transported and used within the domestic economy suggests that there are opportunities for local suppliers in this ecosystem, and there is potential for these suppliers to supply other industries that demand similar goods and services. In 2013, the Pande and Temane gas fields had proven reserves of 100 billion cubic metres. Given the globally significant gas discoveries within Mozambique's borders, Sasol is increasing its exploration of both on and offshore extractions in central and northern Mozambique. This will require a ramp-up in construction and field development between 2016

⁵⁰ Based on interviews and documentation provided by study participants.

and 2020 and will translate into an increase in demand for construction materials, civil engineering services and unskilled labor, as well as support services for staff and contractors.

Since 2010, there have been a series of natural gas discoveries in the offshore Rovuma Basin off the coast of the northern Cabo Delgado province that are large enough to support liquefied natural gas (LNG) projects.

The Rovuma Basin is divided into 6 areas, and various consortia have exploration licenses for each of these, as is shown below.

Table 8: Exploration rights in Rovuma Basin

	Consortium	Reserves
Area 1	Anadarko 36.5%, Mitsui & Co 20%, Videocon 10%, Bharat Petroleum Corp 10%, PTTEP 10%, ENH 15%	32 – 65 trillion cubic feet
Area 2/5	Statoil 40%, INPEX 25%, Tullow Oil 25%, ENH 10%	-
Area 4	Eni 70%, Galp Energia 10%, KOGAS 10%, ENH 10%	75 trillion cubic feet
Area 3/6	Petronas 50%, Total 40%, ENH 10%	-

Major investments

The U.S.-based Anadarko and Italy-based Eni have led exploration activities in the area and will be collaborating in the construction and operation of the LNG feeds and facilities. **Once developed, this could make Mozambique one of the largest producers of liquefied natural gas (LNG) in the world.** It is noteworthy that the Mozambican government pressured the companies to opt for a conventional offshore production unit design of export pipelines, an onshore LNG plant and near-shore offloading facilities and vessels to ensure as much value to local economy as possible.

Initially two onshore LNG ‘trains’ of five million metric tons per annum (mtpa) each will be installed approximately 30 miles from the nearest discovery. The first train is due to begin construction in 2014 with a total duration of design, construction and commission lasting 51 months. However, the entire construction process will be phased with the second train lagging six to nine months behind the first. The design has dimensioned the project to allow it to expand up to six trains. In parallel, other infrastructure, LNG plant facilities, marine construction activities and offshore reserve development will start in 2015.

There is thus likely to be a sustained market for civil works and related activities, given that demand is unlikely to plummet as soon as the facility reaches operations. This is due to the sequenced plan for building trains with rolling construction periods adding capacity on top of existing production between 2014 and 2031.

In terms of capital expenditure, **EPCM contractors estimate that each train is likely to cost approximately USD 5 billion.** On top of this, surrounding infrastructure could cost between USD 1 billion and USD 3 billion. If four trains are built, therefore, the **total cost is likely to cost up to USD 23 billion.**⁵¹ A lower figure of USD 15 billion is provided in other estimates⁵². Of this contractors estimate 3-5% to be spent on local goods and services.

⁵¹ Interviews with Bechtel Mozambique management.

⁵² Palma LNG Project Environmental Impact Study – <http://www.erm.com/PageFiles/13352/NTS-Flyer-FINAL-20-08-2013-ENG.pdf>

Construction of the LNG facility could require up to 10 000 subcontractors. This will decrease to 1000 people during the operational phase.

The case study below indicates the significant potential for local SMEs in Palma in Mozambique as a result of the investment in the LNG facilities.

Box 1: Angolan LNG case study

The Angolan LNG project in Soyo can be used as a proxy for the Palma case. Soyo is similar to Palma in that it is remote, on the coast, far from any manufacturing centre, and has extremely limited infrastructure. Exports began in 2013.

8,300 workers were involved in the construction of the 6.8 billion cubic meters/year LNG facility. According to Bechtel, the EPCM contractor on the project, most food, clothing and supplies were shipped in to the operations via the port and there was a massive demand for shipping and transport services as a result of the project. One million tons of imported aggregate material and equipment were used in the construction of the LNG train.

Between 2005 and 2010, 302 contracts were awarded to Angolan businesses. These were mostly for very basic goods, worth USD 214 million (amounting to 2,700 jobs).

The magnitude of the intended midstream LNG facility will have enormous knock-on effects for SMEs outside of the O&G supply chain. The use of natural gas feed stocks is currently being evaluated for industrial projects in the vicinity of the Palma LNG plant including the establishment of:

- A 140-230 MW natural gas fired power plant by 2020;
- The construction of a 450,000 tons/annum ammonia and urea plant by 2022;
- A 912,000 tons/annum methanol plant by 2025; and
- A 50,000 barrels per day Gas-to-Liquids plant by 2023.⁵³

Local procurement

The high expenditure values and technological complexity of the upstream O&G sector implies that from a supply chain management perspective it is more efficient to bundle procured goods and services into large contracts. O&G companies thus outsource their supply chain functions to large EPCM contractors, or Tier 1 contractors. Tier 1 contractors in turn have responsibility for sub-contracting to Tier 2 contractors for the provision of goods and services.

The range of goods and services bundled into Tier 1 contracts are typically segmented according to the scale and sophistication of potential subcontractors. Tier 2 contractors may be main contractors or consultants that also require their own suppliers of components, raw materials or services. The less sophisticated the activities, the more local suppliers in an undeveloped market are expected to emerge.

Figure 6 below provides a breakdown of major activities conducted at each value chain stage according to the supply chain tier and basic supply chain categories associated with each value chain phase. This shows decreasing complexity in the nature of goods and services from Tier 1 to Tier 2.

⁵³ Gas Master Plan

Figure 6: Indicative O&G supply chain opportunities associated with the project life cycle and procurement tiers

	Exploration	Construction	Production		
Tier 1: Oil and Gas companies	Integrated majors	Large/small dependencies	Energy utility companies	Non-operating companies	Logistic support companies
Supply chain categories	Reservoirs	Drilling	Facilities/ infrastructure	Production and maintenance	Support and services
Tier 2: Main contractors and consultants	Reservoir engineering/management contractors	Well service contractors	Engineering, operation, maintenance and decommissioning contractors	Maintenance sub-contractors	Catering/facilities management
	Data acquisition and processing contractors	Drilling companies/well coating companies	Engineering consultants	Heavy lift contractors	Transportation services
		Drilling consultants		Pipeline contractors	Communication
Tier 3: Products and Services suppliers, Component sub-contractors and sub-suppliers	Geosciences consultancies	Cement contractors	Machinery and plant design and manufacture	Non-specialised production suppliers	Recruitment and training
	Data interpretation consultancies	Drilling equipment design and manufacture	Engineering support contractors	Non-specialised equipment maintenance suppliers	Medical services
	Data storage	Laboratory services	Specialist engineering services		Legal services
	IT hardware/software		Inspection services		Banking services
					Energy consultancies

Source: Genesis Analytics, 2013, adapted from Oil and Gas UK; Oil and Gas Intelligence Centre

Benchmarking with the international experience of O&G companies shows that for the most part local procurement is done by unbundling the simplest of goods and services from large contracts and setting them aside for local producers, as illustrated by set asides recommended by the IPIECA in the table below.

Table 9: Basic goods and service set asides for local contractors in the upstream Oil and Gas Industry

Sector	Supply Opportunities
General services	<ul style="list-style-type: none"> Accommodation Basic professional services (e.g. legal and accounting) Catering Cleaning and laundry services Forestry and environmental services Landscaping and gardening Logistics and warehousing Mailing and courier services Personnel agencies Pest control Printing and photography Security Translation services Transportation services
Construction and trades	<ul style="list-style-type: none"> Air conditioning maintenance Carpeting and floor coverings Civil works maintenance Earthworks Fencing and paving Low-voltage electrical maintenance Painting and corrosion protection Waste recycling and management Road marking and signage Roofing and waterproofing Sewerage, stormwater and drainage Simple mechanical maintenance Small vehicle maintenance Telecommunications and data systems
Goods (wholesale,)	<ul style="list-style-type: none"> Appliances Furniture and fixtures

distribution, manufacture)	<ul style="list-style-type: none"> • Automotive parts • Cleaning supplies • Construction supplies and hardware • Food supplies • Fuels, lubes and greases 	<ul style="list-style-type: none"> • Laundry equipment • Machined tools and spare parts • Office equipment and stationary • Small motor vehicles • Uniforms
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Source: Local Content Strategy: A guideline document for the Oil and Gas Industry (IPIECA, 2011)

While this approach lacks a systematic means to identify suitable categories according to the O&G value chain phasing, these goods and services are largely in line with interview responses from large buyers in the Mozambican O&G sector with regards to opportunities for local suppliers.

EPCM contractors indicated that, for the Palma LNG project, it expects that few goods and services belonging to the permanent LNG facility are likely to be procured locally. Instead, opportunities will be sourced in areas like furniture, doors, windows, signage, landscaping, security fencing and gates, plumbing piping, communication equipment, prefabricated housing, office supplies, office equipment, janitorial services, consumables, tools and building materials.

In December 2013, Anadarko released a call for Expressions of Interests from national companies for future tenders relating to the LNG facility, given in the box below.

Box 2: Goods and services to be used in the construction of the Palma LNG facility

1. OCTG (Oil country Tubular Goods)
2. Sea Floor Coring services
3. Accommodation camps
4. Buildings – warehouses, offices and medical facilities
5. Engineering consulting services
6. Car rentals
7. Transportation of freight – road, sea and air
8. Drafting and reproduction services
9. Construction – roads, yards, drains, foundations and towers
10. Electrical services and materials, including generators, consumables, cables and technical assistance
11. Earth moving services and equipment
12. Fuel supply (diesel, gasoline and JET A1)
13. Medical and laboratory equipment and similar
14. Geotechnical services
15. LIDAR services (Light Detection and Raging)
16. Dredging services
17. Environmental consulting
18. Chemical supply
19. Onshore surveying
20. Steel fabrication and welding services
21. QA/QC Inspection
22. Corporate Social Responsibility consultants
23. Unexploded ordinance (UXO) clearance
24. Local labor training consultants
25. Security services including fencing and patrols
26. Sandblasting/painting/coating services
27. Crew transport onshore and offshore
28. Subsea surveying
29. Small boat marine services for miscellaneous near coastal surveys including personnel transport
30. Geophysical, geotechnical and fisheries census
31. Marine Offloading Facility (MOF) engineering and construction
32. Manufactured and fabricated offshore deep water subsea equipment including large bore

- subsea valves and subsea line pipe and bends
33. Supply of subsea equipment such as distribution hardware, large bore valves, subsea line pipe and bends, umbilicals, jumpers, flying leads, pig launchers, flow meters, corrosion probes, production Christmas trees, manifolds, connectors, junction plates, umbilical termination assembly (UTA), controls, sand detectors, mud mat and installation and work over control system (TWOCS)

Source: Noticias, December 2013, Anadarko Eol

4.4. MINERAL SANDS

Summary demand analysis

As per the table below, and using Kenmare Resources as the main driver of demand in the mineral sands sector in Mozambique⁵⁴, local demand is predominantly for services related to transportation and logistics, catering and construction, as well as goods such as spares, equipment and fuel. Kenmare is currently the only company operating in this sub-sector, with Rio Tinto the predominant company evaluating deposits. Demand for goods and services is therefore concentrated in Nampula province.

Table 10: Goods and services demanded locally by mineral sands industry

Non-core services	Capital and equipment	Consumables/ Support goods
<ul style="list-style-type: none"> • Basic construction services • Catering • Consulting • Maintenance and repair • Transport and logistics 	<ul style="list-style-type: none"> • Plumbing and electrical equipment 	<ul style="list-style-type: none"> • Crates, pallets, pans • Fuel and lubricants • IT equipment • Replacement parts and vehicle spares

Key players and investments

There are a number of heavy mineral sands deposits across Mozambique, containing titanium minerals ilmenite, zircon, and rutile. Ireland-based Kenmare Resources operates a mine at the world's largest titanium minerals deposit, Moma, which is 160km from Nampula, and is looking at further expansion. Operation began in 2007, and between 2010 and 2012 construction was completed with an estimated cost of USD 350 million. The company intends to further increase the mine's capacity to produce ilmenite to 2 million metric tons a year by 2016. The mine has a reserve of around 26 million tonnes of ilmenite, 1.8mt of zircon and 0.55mt of rutile under a license to Kenmare as of December 2011.

Rio Tinto is currently evaluating heavy sands deposits in the provinces of Inhambane (Mutamba deposit) and Gaza (Chilubane deposit) and is running exploration activities near Chibuto, Moma and northeast of Maputo.

BHP Billiton had attempted to grow in the mineral sands industry through the Corridor Sands project near Chibuto, in Gaza province. However, this project was halted in 2009.

In 2011 Pathfinder Minerals prepared a scoping study on the Moebase and Naburi mineral sands deposits in Mozambique. The purpose of the study was to revisit the capital and operating cost estimates of the BHP Billiton TiGen project, undertaken in the 1990's, to a scoping study level. The study found the development of these deposits to be economically viable, but an extensive programme of confirmatory drilling and metallurgical testwork is still

⁵⁴ Given that it runs the largest operation in the company currently

required. The ownership of Pathfinder's licences is currently being disputed, which has halted project development.⁵⁵

A tender for the development of the mineral sands in the Chibuto district, in Gaza province, was annulled in 2012. Rights to exploit the reserves have been granted to three different companies since 2009 – BHP Billiton, Rock Forage Titanium Ltd, and then Zambezi Delta Consortium, but all have been withdrawn due to the rights holders failing to comply with government requirements. The sands at Chibuto contain known reserves of 72 million tons of ilmenite, 2.6 million tons of zircon and 400,000 tons of rutile. This is enough to keep a mine in production for 30 years.

Significant growth and development in this sector, outside of Kenmare's Moma deposit, remain uncertain at this stage. Operations are predominantly remote, enclave companies spread across the country. The majority of these are small exploration operations that require basic services, while the Kenmare operation, with 1300 permanent employees, requires supplier economies of scale.

Procurement and demand for goods and services

In 2012, 20% of Kenmare's USD 273 million procurement spending went to local businesses.⁵⁶ In terms of value, the majority of procurement is from Original Equipment Manufacturers (OEMs) that are mostly located in South Africa, USA and the Netherlands.

The predominant goods and services that are sourced locally by Kenmare include catering, fuel and lubricants, construction, general supplies and vehicle spares. A number of small businesses have already been incorporated into Kenmare's supply chain as the company has advertised its procurement needs to make SMEs aware of the potential to become suppliers, and has provided some financial and technical support to local suppliers.

Kenmare is the only such company in the area and locally-based SMEs would most likely only be able to supply the Kenmare plant, with little potential for market diversification.

4.5. CONSTRUCTION

Summary of demand analysis

From engagements with construction companies operating in Mozambique, one of which is a tier 1 EPCM contractor, the goods and services that they demand locally are summarised in the table below. Further data collection work is required to identify further goods and services that might be locally demanded, as well as the degree of local supply capacity. The interviews highlighted the knowledge gap between what is demanded and the local supply capacity.

⁵⁵ <http://www.pathfinderminerals.com/>

⁵⁶ Kenmare presentation, ACIS BusinessLink, 2013

Table 11: Goods and service demanded locally by the construction sector

Non-core services	Construction materials	Capital equipment and related goods	Consumables and support goods
<ul style="list-style-type: none"> • Transport and logistics • Cleaning/janitorial services • Maintenance and repair • Basic construction services • Accommodation • Catering • Consulting • Security • Blasting • Road marking 	<ul style="list-style-type: none"> • Construction raw materials • Piping • Pre-fabricated housing, doors and windows 	<ul style="list-style-type: none"> • Plumbing and electrical equipment • Mobile mechanic equipment • Steel structures 	<ul style="list-style-type: none"> • Fuel and lubricants • Signage • Furniture • Office supplies and equipment • Crates, pallets, pans etc. • Fresh produce • IT equipment and services • Personal protective equipment • Replacement parts and vehicle spares • Tools • Uniforms

Size of Sector

The current boom in the infrastructure and construction sector of Mozambique is being driven by heavy construction (railways, highways, airports, ports, production plants, etc.). In 2012, the construction and infrastructure sector in Mozambique contributed to 3% of GDP. The construction industry is also forecast to grow at an average real rate of 9% a year between 2013 and 2017.⁵⁷

The country is attracting high levels of FDI and private sector investment for heavy construction projects, primarily to serve the extractives industry. Such investments and infrastructure developments are therefore inevitably skewed towards and concentrated around the natural resource industry. The lack of government capacity to invest in infrastructure itself also contributes to the uneven development of infrastructure, in which the infrastructure requirements of private industry are prioritised⁵⁸.

There is, however, significant rural-urban migration⁵⁹ in the country and an emerging urban middle class that is putting pressure on housing and construction material imports as well as increasing demand for social infrastructure⁶⁰, and the construction of buildings for residential, commercial and public sector use in urban areas⁶¹ is not insignificant.

Geographic distribution

Infrastructure and construction investments are located in correspondence to the extractives industry's needs. The majority of major projects are around the mineral rich areas, the transport corridors from these areas to the coast, and at the ports themselves.

⁵⁷ Business Monitor International, 2013, Mozambique Infrastructure Report Q3

⁵⁸ Ibid

⁵⁹ The rate of urbanisation in Mozambique is estimated to be 3.05% annual rate of change (2010-2015 est.). (CIA World Factbook, last update on 10 July 2013)

⁶⁰ Nhabinde, V, Marrengula, C.P. & Ubisse, A. 2012, "The Challenges and the Way Forward for the Construction Industry in Mozambique", International Growth Centre Mozambique

⁶¹ A sub-sector which is more open to local firms and SME suppliers

Mozambique's three main transport corridors - which run from the Moatize basin in Tete province to the coast – and related construction projects, include:

- **Moatize-Macuse corridor** - to transport coal from the Moatize basin to Macuse (or Chinde) in the central coastal Zambezia province; it is still unconfirmed which port will serve as the coal's final destination
- **Beira corridor** linking the Moatize region with the port of Beira – this requires the upgrading of the Sena railway
- **Nacala corridor**
 - A Vale project linking the Moatize basin with the port of Nacala via Malawi; includes the construction of a railway line and upgrading of Nacala port
 - ENRC Tete-Nacala Project – ENRC also have plans to build a railway and coal export terminal at Nacala, running adjacent to Vale's Nacala corridor
 - China Nacala Port project – to construct a deepwater terminal at Nacala

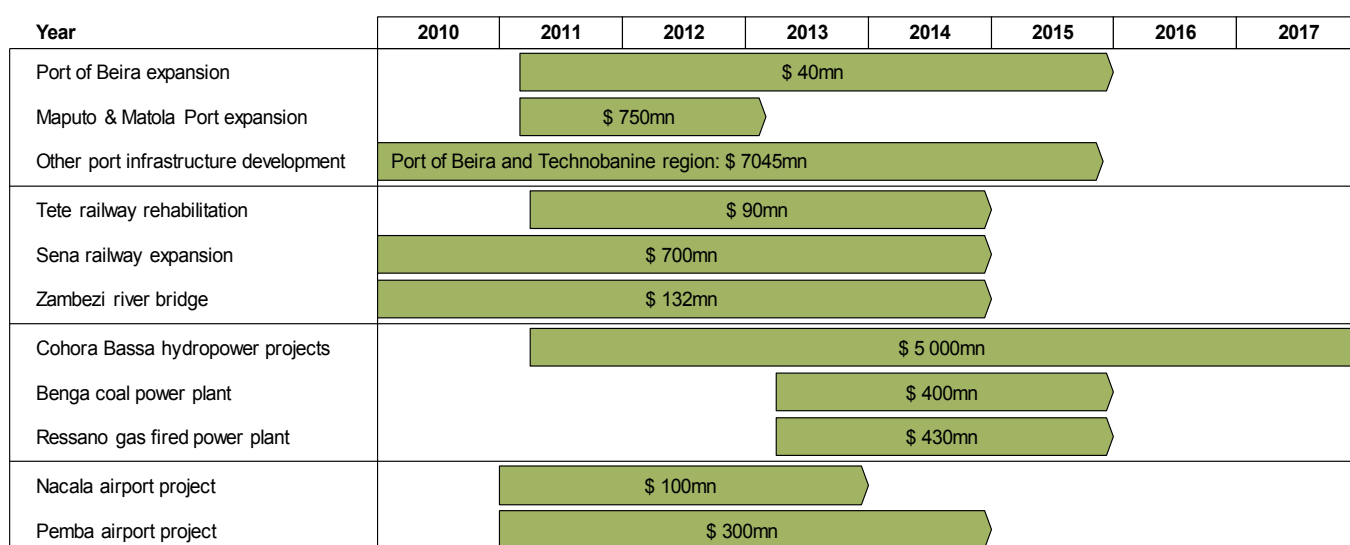
Key players and investments

Investment in mining (particularly coal) and gas exploration (offshore energy exploration more recently) require the construction of support infrastructure, with an estimated USD 30 billion project pipeline⁶².

This pipeline includes transport projects worth USD 17 billion and power projects worth USD 12 billion. Transport projects centre on increasing rail links from mining areas to ports and expanding the capacity of ports. Electrification programmes are underway due to the growing industrial demands for energy supply, and hydrocarbon production that is providing feedstock for new capacity. Mining companies have also been driving the investment into energy generation. The power project pipeline amounts to an estimated a combined 10GW in electricity⁶³.

The breakdown of the project pipeline in terms of timing and value is shown in the figures below. Table 12 shows specific projects, their indicative timing and the companies responsible.

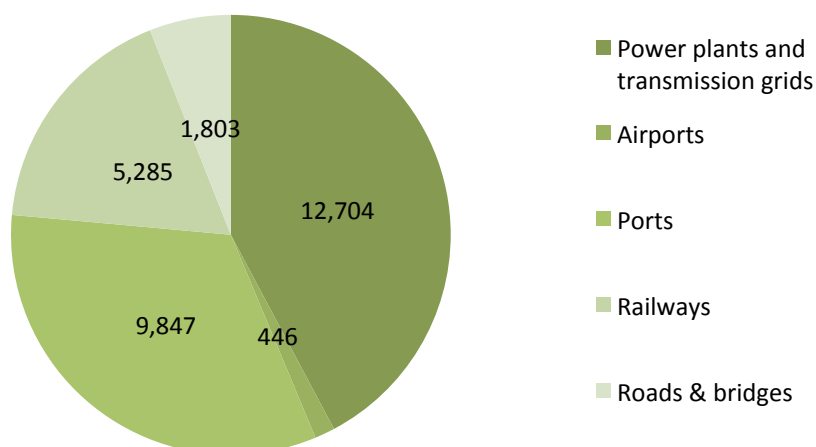
Figure 7: Infrastructure and construction major investment pipeline



⁶² Business Monitor International, 2013, Mozambique Infrastructure Report Q3

⁶³ Ibid

Figure 8: Construction and infrastructure projects to support the natural resource industry in Mozambique: the value of planned and on-going projects, USD million



Source: BMI Key Projects Database, correct as of 17/01/2013

Table 12: Construction and infrastructure projects in Mozambique ⁶⁴

Companies	Investment	Time frame
Ports		
Vale, CFM	USD1500mn - Coal terminal, Port to Nacala	2013-
Johs GRM-Hanssen and Rohde Nielsen	USD52mn - Port of Beira dredging project	2013-
CFM (Caminhos de ferro do Mocambique)	USD400mn - Port of Beira expansion	2011-2014/15
Maputo Port development Company (DP World, Grindrod)	USD750mn - Maputo and Matola port expansion	2011-2030
MPDC	USD7000mn - Deepwater port in the Techobanine region	-2030
Van Oord	USD45mn - Deepening port of Beira	2010/2011 -
Rail		
Vale Mozambique	USD4.5bn - Tete-Nacala Corridor rialway	2012 -
Mozambique Ports and Railways	USD85mn - Tete Railway rehabilitation	2011-2014
CFM	USD500mn - Sena railway line Moatiza-Beira	2010-2012
CFM	USD200mn - Sena railway further expansion	2011-2014
Tender issued 2013	USD3000mn - Moatize-Macuse Railway	2013 -
Plans announced	USD500mn - Nacala corridor railway (Moatize-Nacala)	
Roads & Bridges		
Mota-Engil	USD96mn - Road linking port of Quelimane to Malawi	2011-2012
Estradas de Zambeze (Soares da Costa, Mota Engil, Infra-engineering)	USD132mn - Zambezi River bridge	2010-2014
China Exim Bank Loan (USD682mn)	USD500mn - Maputo to Ponta d Óuro road upgrade	
China Exim Bank Loan (USD682mn)	USD725mn - Maputo-Catembe Suspension Bridge	2012 -
Plans announced	USD350mn - Roads upgrade	2011
Airports		
Anhui Foreign Economic Construction	USD36mn - Maputo International Airport expansion	Completed 2012
DHV (design contract)	Maputo International Airport runway	2014 -

⁶⁴ These are also shown in Figure 3 in the demand overview section above.

	reconstruction	
Odebrecht	USD110mn - Transformation of Nacala military air base into international airport	2011 - 2013
Planning tender	USD300mn - Pemba International Airport	2011 -
Power Plants & transmission grids		
Enventure Partners	40MW Kuvananga Energia gas-fired power project	2012/2013 -
Camargo Correa, Energia Capital, Electricidade de Mocambique	USD4000mn - 1500MW Mphansa Nkuwa hydropower project	2011-2018
Cohora Bassa	USD1000mn - 1145MW addition to Cohora Bassa hydropower complex	2012-2016
Vale	300MW Ncondezi Coal thermal power plant, Moatize	2014-2017
Jindal Steel & Power Ltd	USD3000mn - 2640MW Coal power plant near Songo and Changara, Tete	2011-2015
Funding sought	USD2000mn - 9200MW/1500km power distribution and transmission from Cohora Bassa to Maputo	2011-2017
Riversdale Mining, Rio Tinto, Tata Steel	USD400mn - 2000MW Benga coal power plant	2013 -
Wartsila, Sasol, Electricidade de Mozambique	USD180mn - 140MW Ressano gas fired power plant	2012 - 2014

Source: BMI Mozambique Infrastructure Report Q3 2013

There has been a weak response from domestic construction firms and the building material industry to the demand for both civil and heavy construction; demand which is likely to maintain a steady growth in the near future. Construction services are generally being undertaken by foreign construction firms that have the size and international experience to deliver very large and complex projects; local construction companies are however currently lobbying for more protection. Construction and other related input materials are also generally imported. Few large Mozambican firms have entered the market and are able to compete, and those that have typically end up performing low value-added works⁶⁵. However, some regulation exists that forces foreign construction contractors to form joint ventures with local contractors in all contracts won through the Ministry of Public Works.

European contractors take a significant slice of the construction market share. Portuguese and Brazilian companies have strong historical ties with Mozambique and remain prominent in the country. Chinese companies are also prominent by virtue of leveraging off of China's mineral resources exploration and offering of cheap credit; and South African companies are increasing their presence across Southern Africa.

In addition to pure construction companies, Mozambique's extractives industries have also attracted more niche companies specialising in mining infrastructure or subsectors such as port dredging. Corresponding to their investments in the extractive industry, a growing number of mining companies are also driving heavy infrastructure development themselves, given government's lack of capacity to do so. Vale is one such company that is becoming a strong player in the infrastructure sector.

Some of the major companies, who are currently prominent in major projects (or positioned to enter the market), and their head office locations, are shown in Table 13 below. These companies are the primary contractors and/or clients in the major infrastructure and construction projects.

⁶⁵ Ibid

Table 13: Companies prominent in major investment projects

Company	Head Office Location
Vale	Brazil
Riversdale Mining	Australia
Odebrecht	Brazil
Van Oord	Netherlands
Fluor	USA
Wilson Bailey Holmes	SA
Stefanutti and Stocks	SA
Mota Engil	Portugal
CFM (Caminhos de ferro do Mocambique)	Mozambique
HCB (Hidroeléctrica de Cahora Bassa)	Mozambique
Bechtel	USA

In addition to the companies above, who are prominent in major investment projects in Mozambique; KPMG⁶⁶, in their review of companies in Mozambique in 2011, found the following to be the top ten construction companies registered in the country. It is assumed that the latter in Table 14 will generally be sub-contractors to the former in Table 13.

Table 14: Top ten construction companies registered in Mozambique

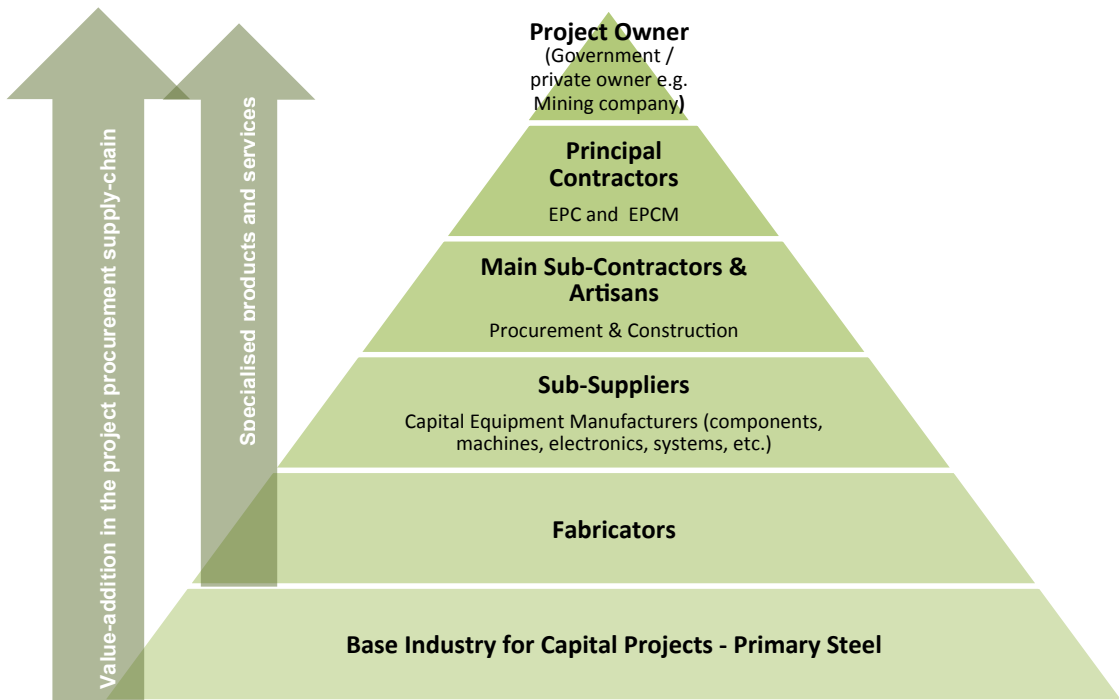
Top ten construction companies registered in Mozambique
1. C.M.C. Africa Austral, Lda
2. Mota – Engil Eng. Constr. SA – Delegacao Mocambique
3. Teixeira Duarte Engenharia e Constructcoes Mocambiques, Lda
4. CETA – Construcoes e Servicos, SARL
5. Conduril, SA – Construtora Durience Delegacao de Mocambique
6. ENOP, Lda – Engenharia de Obras Publicas
7. EMOCIL – Empresa Moc. De Construcao e Promocao Imobiliaria, Lda
8. Frankipile Mocambique Lda
9. ECOB – Empresa Construtora da Beira, Lda
10. CAPA Engenharia Mocambique, Lda (ex Capafrica)

Supply chains and sector-specific characteristics and constraints

In order to assess where opportunities for local procurement in the construction sector are, it is necessary to understand the typical project cycle, and the stakeholders along the supply chain within this cycle. In the figures below, a typical capital project is used as an indicative example to understand the construction and infrastructure industry. Figure 10 shows the project cycle which the value chain and various stakeholders (shown in Figure 9) are subject to; and how the hierarchy interacts through the project cycle to deliver a project from concept to operation.

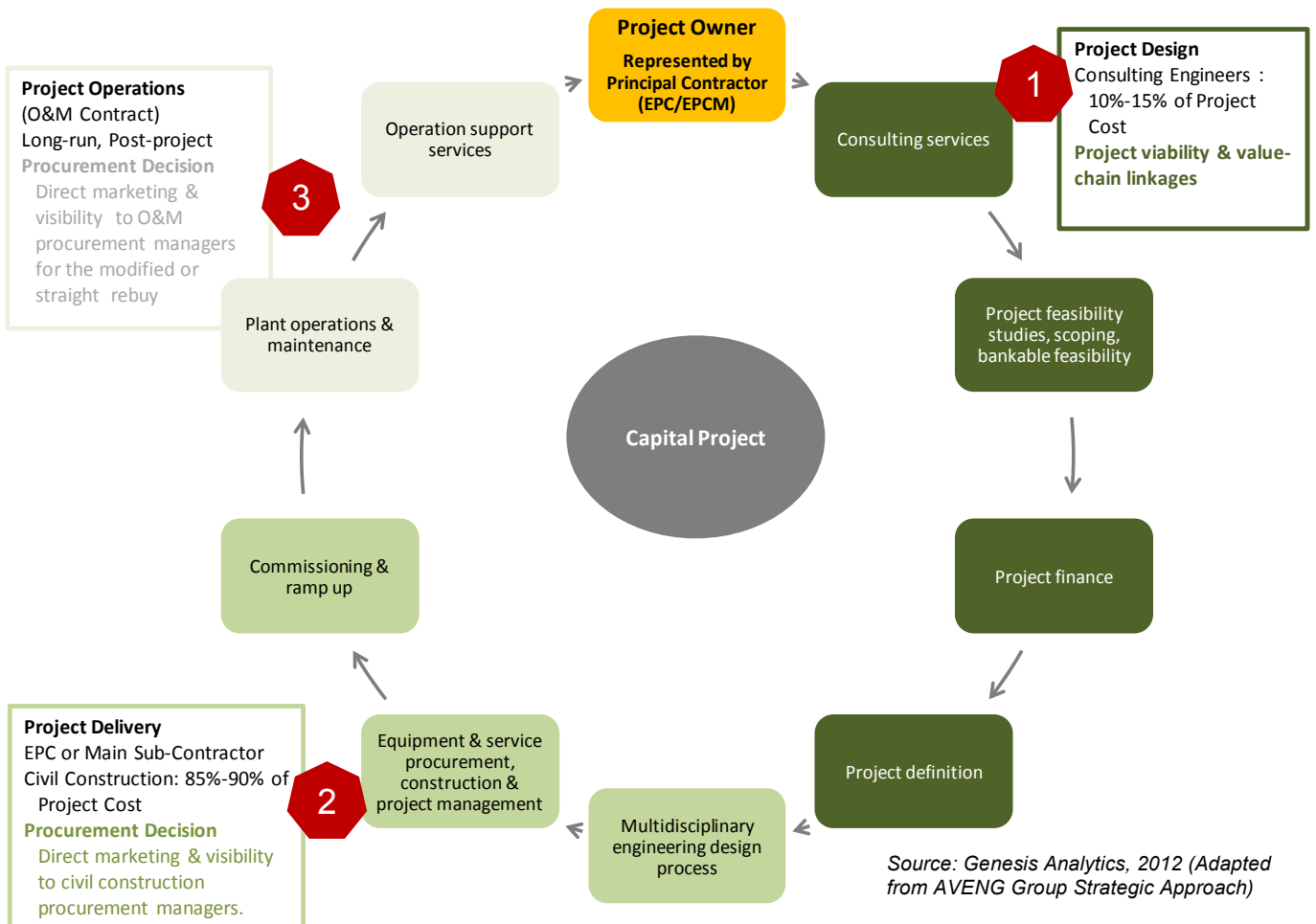
⁶⁶ KPMG, 2011, “The top 100 companies in Mozambique”, thirteenth edition

Figure 9: Stakeholder map and indicative value-chain



Source: Genesis Analytics, 2013

Figure 10: Understanding the industry - the project cycle



Source: Genesis Analytics, 2012 (Adapted from AVENG Group Strategic Approach)

Amongst the essential considerations contractors have to make when tendering for a capital project, is the need to have a firm and secure commitment from supplier companies that they can supply the quantity and quality of inputs needed, and do so at the rate, and according to the specifications, that the contract dictates.

Contractors are tied to contractual obligations by stringent demands that have implications for procurement of the choice of suppliers. For example, contractors sometimes have to provide a performance bond (usually 10% of the entire contract value). If the contractor fails to meet its commitments this is an on-demand bond and can be pulled by the client (the onus is then on the contractor to complain and get it back if the client has been unreasonable). Apart from the 10% quantum there is a significant risk of reputational loss if it is known that a company had its bond called in on a job. Contractors can also face heavy financial penalties for late completion (usually 0.1% of the contract value per week late).

In a country such as Mozambique, contractors have to consider the following when evaluating potential suppliers:

1. Quality – often SABS (South African Bureau of Standards) or another international code of standards;
2. Capacity – can the supplier supply at the rate and timeframe needed?;
3. Price;
4. Track record – has the supplier done it before / have the relevant required experience?;
5. Is the supplier big enough to be able to have similar bonds/penalties imposed on them as those imposed on the main contractor i.e. back to back?

In procuring the major strategic items for infrastructure projects, the above factors also need to be taken into consideration. Such major strategic items would include:

- Cement – are Mozambican cement plants a viable option? The transport of cement is an important consideration (cement has approximately a three month shelf life and must be kept 100% dry)
- Diesel-supply and transport – what are the consequences of a break in supply?
- Sand
- Stone
- Labour – local skilled or unskilled labour is always paramount to keeping costs down, hence on-site training is a crucial opportunity for local entrepreneurs. Additional considerations, however, include:
 - The labour legislation – is the contractor vulnerable to illegal strike action?
 - Are there viable provisions for housing and transporting local labour?
- Local materials and tools – there are numerous items which have the potential for local entrepreneurs to supply, but again they often need support in the five considerations listed above.

Two construction companies were interviewed during the study. Insights common to both of these companies included:

- Procurement decisions are based solely on: price, quality, availability and locality on a project by project basis; there are no formalised internal policies to procure locally and no set-asides.

- The **information deficit in Mozambique is a barrier to local procurement** and makes planning difficult: Mozambican information will be used if available, but tenders are more likely to be budgeted and priced in SA; exploring local supply chains is a challenge as it is **difficult to know the availability and capacity of local suppliers**.

Goods and services which the companies would like to/do procure locally are those that are not part of the permanent facility; such as consumables; cement, PPE, explosives and fuel. Further opportunities identified in the sector for local content are blasting, road marking, steel structures, cement (SA companies are expensive), building materials, farming infrastructure, small light manufactured goods, electricals, painting and signage, and builders.

For the more established company (of the two interviewed) procurement is originated at each site, processed through the Matola office and signed off in SA; and while they look to procure locally first, it is not a written company rule/mandate. **The company has, however, had bad experiences with local sub-contractors (who are often big well-established companies), and have sometimes found that smaller local companies provide better service.**

Furthermore, the perception is that although only a few extractive companies (buyers/clients of construction companies) are beginning to write in clauses in their contracts that require local procurement, **it is inevitable that this will increasingly become a requirement when working on major projects in Mozambique. This is as a result of government and external pressures that these large companies, particularly mining companies, face.**

The move of extractive companies, such as Vale, towards operating in both the mining and construction sectors and delivering their own infrastructure needs, also emphasises the overlap that exists between the goods, services and level of skills required at the same time by the mining and construction sectors. The shared need for local supply in these sectors underlines the opportunity for local procurement and supplier development. Moreover, the obvious potential cost and efficiency benefits for companies from local procurement – and in light of the lack of definitive company policies or mandates for such – highlights an **opportunity around advocacy and information sharing activities to address the clear lack of information barrier between demand and local supply.**

Nhabine *et al* (2012)⁶⁷ discuss the factors behind the limited participation of Mozambican construction firms in the market for civil and heavy construction, as well as the limitations of the construction material industry. Through interviews with government officials responsible for procurement in the construction sector, the construction industry association, and 30 local construction firms (mostly contractors and producers of construction materials), Nhabine *et al* found that local companies cannot compete with foreign companies in the construction market. The primary reasons for this – from both the supplier and enabling environment side are:

- Weak credibility of local contractors given their lack of experience or track record and certification;
- Limited access to credit;
- Lack of skills and qualified manpower;
- Weak use of modern technology.
- The level of value added tax (VAT) and the corresponding delays in reimbursements;

⁶⁷ Nhabine, V, Marraengula, C.P. & Ubisse, A. (2012) “the Challenges and the Way Forward for the Construction Industry in Mozambique”, International Growth Centre, Mozambique

- The multiple and tedious bureaucratic processes associated with state ownership of land which raises costs of access to land in urban areas, increases informality, and hampers the development of the housing sector;
- Inadequate government procurement codes;
- Delays and bureaucratic barriers for importing raw materials; and
- Policy and institutional fragmentation.

Conclusion

As a sector that employs large numbers of relatively unskilled laborers, relies on relatively low-technology inputs (e.g. cement, tiles), and is expected to continue to grow at a high rate for some time, the construction sector offers an attractive opportunity for linkages and supplier development interventions. The information gap between construction companies and local suppliers needs to be addressed in order to exploit these opportunities.

4.6. INDUSTRY AND MANUFACTURING

The industry and manufacturing sector in Mozambique comprises various sub-sectors that differ in their supply chain needs. There are a number of factors that limit industrial SMEs ability to compete in Mozambique and the region, including a low-skilled workforce; low-quality products that are more expensive compared to imported alternatives; and the limited size of the market for manufactured products. Many local services thus remain undeveloped and unable to service the large industrial corporations during the early stages of these businesses. However, some subsectors within the industry and manufacturing sector do show promise of linkages and growth given a number of significant investments expected in the sector, but more research into opportunities for SMEs is required.

Summary demand analysis

Table 15 below details the goods and services that are being procured locally by various industrial and manufacturing firms. While this industry comprises a wide variety of subsectors, the most widely used goods in food and beverage production, industrial processing and tobacco production have been investigated. Further research into textile, packaging and others are noted in the detail below.

Table 15: Goods and services demanded locally by Industry & manufacturing industry

Non-Core Services	Construction Materials	Capital and Equipment	Support Goods
<ul style="list-style-type: none"> • Advertising • Cleaning / janitorial services • Consulting (e.g. labour broking) • Maintenance and repairs • Transport and logistics 	<ul style="list-style-type: none"> • Construction raw materials 	<ul style="list-style-type: none"> • Engineering accessories 	<ul style="list-style-type: none"> • Agricultural inputs • Crates, pallets and pans • Fuel and lubricants • Packaging

Introduction

While various initiatives are underway in the country to facilitate the growth of local SMEs, the diversity of manufacturing activities, combined with legacy challenges, make it difficult to provide an aggregated picture of expected demand for local goods and services within this broad sector. This section attempts to highlight the largest players in the industry, their investment plans as well as any additional projects that would hold the most obvious prospects for linkages for local suppliers. Further research remains to be done for the specific needs of the various subsectors of industry & manufacturing.

Key players

Heavy industries account for a large proportion of industrial output. The Mozal aluminum smelter in Maputo province, for example, accounts for half of manufacturing output⁶⁸. The textile, aluminium, iron, steel and agro-industry have been highlighted by Mozambique's Investment Promotion Centre (CPI) as noteworthy industries to consider for development. In Africa, Mozambique is reported to compete strongly in the wood and wood products sector, with 70% of Mozambique's exports to China accounted for by wood products⁶⁹⁷⁰.

The government of Mozambique offers favourable taxation terms for projects that contribute to the country in terms of value and employment, and that are export orientated. BHP Billiton's Mozal aluminium smelter and Kenmare's Moma mineral sands project have both been granted Industrial Free Zone status, exempting them from corporation tax, import duties, export duties and Value Added Tax, requiring only payment of a 1% turnover tax⁷¹.

The largest food, beverages, and tobacco companies in Mozambique include BAT, SAB (CDM), Companhia Industrial de Matola, Sumol Compal, Tropigalia and Coca Cola. Other large industrial manufacturers include Olam Mozambique and Cimentos de Moçambique. Many of these companies are well established in the Mozambican market and have been in existence for between 8 and 15 years.

While the opening of 130 small and medium-sized businesses across the country between 2001 and 2011 has provided 125 000 jobs, mostly in the sectors of agro-industry, engineering and furniture⁷², the industry and manufacturing sector in Mozambique remains small with potential for increased capacity utilisation.⁷³ While there are a number of small-scale operators, some medium-sized firms do also exist, catering mainly for the local market. Within the sector, there are a number of predominantly light manufacturing subsectors including food and beverage, tobacco, agro-processing, cotton, furniture and cement. These are concentrated in the main industrial units of Maputo/Matola, Beira and Nacala.

The agro-processing subsector has important links to agriculture. Companhia Industrial da Matola (CIM), Mozambique's largest local food producer is highly diversified, producing preferred wheat flour, maize meal, pasta and biscuit brands. Based in the industrial city of Matola, the company employs more than 750 people throughout the country. The company sells its products through a well-established national distribution network consisting of 7 depots

⁶⁸ UNIDO Evaluation Group, *Independent Evaluation Report: Mozambique Country Evaluation*, 2011

⁶⁹ http://www.commonwealthofnations.org/sectors-mozambique/business/industry_and_manufacturing/

⁷⁰ <http://www.osisa.org/books/regional/chinese-involvement-mozambique>

⁷¹ <http://www.baobabresources.com/projects/tetel9>

⁷² <http://mozambique.um.dk/da/~media/Mozambique/Documents/Content%20Danish/Danida%20Business/Business%20Development%20Profile%20Mozambique.ashx>

⁷³ DANIDA Business Partnership Programme, *Mozambique Business Development Profile*, January 2013

and a large number of agents. CIM also operates a maize and wheat mill in Beira and has a controlling interest in CIMPAN, a maize mill situated in Nampula⁷⁴.

Thirteen maize millers operate at an industrial scale in Mozambique, including CIM and Mecer Industries in Matola and Beira, DECA in Chimoio and Tete (15% of whose products are sold to the UN World Food Programme), CIMPAN in Nampula, and SOCIMOL in Maputo. These companies produce primarily maize flour and maize bran, which goes largely to poultry feed. Since 2003, Mozfoods has been a large player in Mozambique's agricultural production. It has since invested USD 35 million into Mozambique and employs 2 200 people. Through its subsidiaries and a large outgrower network it grows, processes and packs its produce. It is currently investing in research into rice, maize and wheat varieties adapted for Southern African conditions.

Investments in the industry and manufacturing sector

Private sector investment in this sector was over USD 1.9 billion in 2011. A total of 30 000 new jobs were created by the 285 new projects, of which 13 were in the Nacala Special Economic Zone, representing a USD 400 million investment from export companies. The services and manufacturing sectors took the lead in terms of export company investment⁷⁵. Specific investments include⁷⁶:

- EUR 33 million by Cimentos de Moçambique in 2012 for a new mill in Dondo and upgrades at the Matola plant,
- a USD10 million investment in SumolCompal's Dondo plant for 2013 (30km from Beira),
- a USD 2 million by Olam Mozambique in May 2013,
- a USD 200 million car factory built by China's Tong Jian Investment in Matola in February 2013,
- a USD 174 million Japanese funded construction of a new gas-fired power plant,
- First National Choice building a USD 6 million factory in the agricultural region of Muxungue to export pineapple products to Germany, and
- four Chinese companies (Africa Great Wall Cement Manufacturer, China International Fund, GS Cimento, and Bill Wood) and the South African Pretoria Portland Cement are entering the market with an overall investment of USD 450 million.

Investments with links to the extractives sector

Baobab Resources' iron ore project in Tete has completed a pre-feasibility study and is currently in discussions with the government around the project's tax treatment. The pig iron smelter is able to convert iron ore to iron and steel products, leveraging off power and infrastructure investments in the region. Construction is expected to start in 2014 with production to begin in 2016. To date, USD 30 million has been spent on the project with construction expected to cost USD 1.1 to 1.2 billion over the next 2 years.

⁷⁴ <http://nmigroup.co.za/companies/companies/mozambique.html>

⁷⁵ African Economic Outlook, Mozambique Country Note, 2012

⁷⁶ See more at <http://voicesofmozambique.com/news-articles/foreign-investors-target-mozambique-s-expanding-manufacturing-sector> and <http://www.bdlive.co.za/africa/africanbusiness/2014/01/14/japan-funds-174m-new-gas-fired-power-plant-in-mozambique>

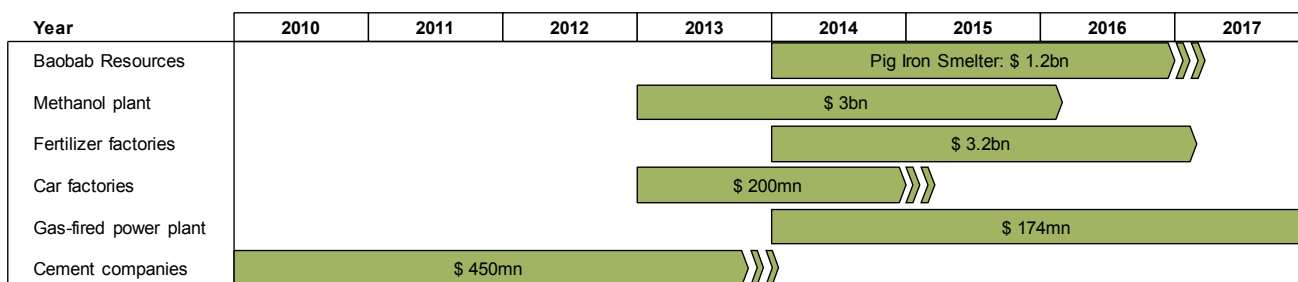
While the discovery of natural gas reserves is significant in export value, in its Gas Master Plan⁷⁷, the IFC notes the priority of related industries, such as electric power generation, fertilizer, Gas-To-Liquids and methanol.

GigaMethanol, in partnership with Insitec, aims to build and operate the world's largest and most efficient methanol plant in Mozambique. With a production capacity of seven million tons a year, the plant will supply 15% of the world's annual output. With investment occurring between 2013 and mid-2016 the plant is estimated to cost about USD 3 billion. With respect to employment, the construction of the first factory will require around 2000 workers, and the full project could involve around 11 000 work stations including construction and downstream activities⁷⁸.

Mozambique's fertilizer industry, which uses natural gas as a raw material to produce ammonia and urea for fertilizer, is also expected to grow as a result of new offshore gas discoveries. Japanese companies Toyo Engineering and Sumitomo are planning to build a fertilizer factory in Beira at a total investment of USD 1.2 billion⁷⁹. Indian fertiliser company, Rashtriya Chemical and Fertilizers Ltd, plans to build a fertiliser project at an estimated investment of USD 2 billion.

Figure 11 highlights the timing of the aforementioned investments. While many of these are only set to take place in the coming years, the potential exists is for SMEs to capitalise on the billions of dollars to be spent during the construction phase.

Figure 11: Timing of industry & manufacturing investments



Competitiveness of the sector

According to the 2010 AIMO research⁸⁰ into industrial competitiveness in Mozambique, the number of SMEs in the sector has failed to grow in proportion to the effort by local government to develop them. In 2009, following the implementation of the new public sector procurement policy, less than 10% of all companies certified by the Mozambique Bureau of Standards were based in the industrial sector. Factors that limit industrial SMEs ability to compete in Mozambique and the region include: a low-skilled workforce; their technology and processes haven't been upgraded; they produce low-quality products which are more expensive compared to imported alternatives; and the size of the market for manufactured products in Mozambique often does not justify the investment that would be required to build the sector.

⁷⁷ IFC, The Future of Natural Gas in Mozambique: Towards a Gas Master Plan, 20 December 2012

⁷⁸ <http://www.insitec.co.mz/en/negocios-e-participacoes/gigamethanol/>

⁷⁹ <http://export.by/en/?act=news&mode=view&id=40807>

⁸⁰ AIMO-FI Federacao Das Industrias research unit, *Challenges for Mozambique Industrial Competitiveness*, 2010

Further themes relating to the sector are noted below:

- **Labour environment:** The existence of a low-cost, abundant and young workforce in Mozambique has the potential to translate into labour input for SMEs and local suppliers. In contrast, inferior skills, technology and labour productivity inhibit the use of local suppliers by larger manufacturers.
- **Industrial inputs:** Investment into the sector has resulted in expanding demand for industrial inputs, particularly in urban centres. In contrast, poor supply of industrial inputs and high cost of imported items, coupled with long lead times due to inadequate physical infrastructure, are prevalent throughout the country.
- **Textile and clothing subsectors:** While these are a priority in the government's strategy in the creation of work opportunities by encouraging companies to use the cotton produced locally to manufacture fabric and introducing various tax incentives, competition from Asian markets in this industry remains high.
- **Protected industries:** Within Mozambique's industry and manufacturing sector, protected industries are not uncommon with cotton, sugar, cashew nut and cement being the most well-known.

Local procurement

Due to the diversity in production, size and ownership in this sector and its subsectors, generic supply chain needs are difficult to identify for the purposes of local procurement.

However, in terms of local procurement, many local suppliers remain undeveloped and unable to service the large industrial corporations during the early stages of these businesses. The result has been the building of internal capacity by these large corporations, out of necessity, to perform various non-core services. These services have developed to a point where local external suppliers are no longer commercially viable. Other issues undermining local procurement by multi-national corporations in particular is the fact that decision making processes are often centralised at head offices located overseas. The effect of this is that procurement is often negotiated with several global suppliers at discounted prices.

Conclusion

Some subsectors within the industry and manufacturing sector do show promise of linkages and growth, given the significant investments expected in the sector. However, more research into opportunities for SMEs is required in the food & beverage, tobacco, chemical processing, metal products & manufacturing, textiles, packaging and furniture production subsectors.

4.7. RETAIL

The retail sector in Mozambique has gained increasing economic importance in recent years, which has been buoyed by the country's proximity to South Africa. The country's relationship with Brazil and Portugal has also contributed favourably to this increased growth in investment. International brands are seeking to enter the market to capitalise on the young and urbanised population whose income is expected to rise over the medium term. This favourable demographic trend indicates huge potential for long-term growth for investors. Activities in this space are also expected to shift increasingly from the south to the north of the country.

Summary of demand analysis

Table 16: Goods and services demanded locally by the retail sector

Non-core services	Consumables/ Support goods
<ul style="list-style-type: none"> • Cleaning/janitorial services • Security • Transport and logistics • Warehousing and cold storage 	<ul style="list-style-type: none"> • Baked goods and ingredients • Food & beverages • Fresh produce • Perishables • Textiles

Key players and investments

Given the sector's growth potential, a number of South African retailers having entered and expanded their operations throughout various locations in Mozambique. Specifically, Shoprite Group has opened a total of five stores since 1997 in Maputo, Beira, Chimoio, Nampula and Matola. Pick 'n Pay and Spar have established a presence in Maputo and Matola, and Spar has opened an extra store in Chimoio.⁸¹ These retailers also have ambitious plans to expand their Mozambique operations into other provinces. Kangel, a subsidiary of Massmart and a supplier of building materials, hardware and related products, entered the Market in 1995 and has a footprint of 16 stores in Maputo, Gaza, Inhambane, Manica and Sofala.⁸² Kangel is planning new stores and the extension of relevant inventory ranges in each of its regional stores. In addition, Masscash, a division of Massmart, has expanded its presence in Mozambique with the opening of a newly built Saverite store, with a R30 million investment. Agricultural group, Agriterra has opened up a second beef retail store in Tete, with an additional four units expected to open in 2013⁸³. Research suggests that there is investment potential in the beverage sector, specifically in beer⁸⁴ (which experienced a growth rate of 8.5% in 2012) and soft drinks, with the likes of Sumo Compal, a Portuguese juice production company, investing in the sector. These investments provide indications of the types and geography of the investments flowing into the country's retail sector, and may create limited opportunities for local suppliers.

The sector, however, is highly underdeveloped, with only around 2 – 3% of food retail sales accounted for by the formal sector and most food shopping done at informal kiosks and markets.⁸⁵ Bulk buying and distribution of goods to informal kiosks may present an opportunity for local SMEs.

The sustained growth of the industry will be heavily reliant on a rise in purchasing power in the country. Currently, only a very small proportion of the population is able to afford commercial products, but this is expected to improve as the economy continues to grow and income levels rise. Formal retail stores are also concentrated in urban areas, such as Maputo, and it is often difficult to reach consumers outside these areas. The poor infrastructure in Mozambique hinders the transportation and availability of goods to consumers throughout the country.

It is also estimated that while opportunities for basic foods exist, the projected increase in consumer spending will allow for higher value foods to be purchased. While most of the agricultural sector is characterised by subsistence farming, commercial farming presents an opportunity for the retail industry. Most notably, agriculture cash crops (cashew, cotton,

⁸¹ Shoprite, 2013

⁸² ACIS Mozambique, 2013

⁸³ Agriterra, 2013

⁸⁴ Business Monitor International, 2013

⁸⁵ Ibid

tobacco, sugar) and fishing agriculture (prawn and shrimp) present an opportunity for local sourcing. Investment opportunities are available in the Mozambique's agro-processing industry, with Nampula alone recently licensing 37 mills, which brought the total number of agro-processing units in the province to 610.⁸⁶ The need for refrigerated warehouses in Mozambique further presents an opportunity for investors: some people who live far away from Maputo will choose not to buy fresh produce and meat from grocery stores because of the absence of refrigerated warehouses.⁸⁷ The sustained growth in the retail sector will also require investments in support services such as transport and logistics. This would help the retail industry in enabling supply chains and distribution networks, providing mobility and ultimately providing employment for its people.⁸⁸

Local procurement

The types of goods and services procured by retailers differ greatly depending on the product range offered. In the formal supermarket retail space, which is potentially a USD 100 million market,⁸⁹ there are significant opportunities for grocery suppliers, such as flour, maize and fresh produce, as well as for packing materials, storage and transportation services.

However, the outlook for local grocery suppliers in the retail sector is cautious because international retailers operate in a margin-tight industry and tend to use established suppliers in robust supply chains delivering just-in-time supply management in bulk. It is extremely difficult for SMEs to meet buyers' standards, and Mozambican SMEs will find it challenging to compete with established international suppliers.

SME constraints

Procurement practices of retailers continue to favour imports because of a number of problems associated with local suppliers, including poor quality and inconsistent supply. Most local suppliers fail to meet certain scale and quality requirements required by larger buyers. Large retailers also tend to use trusted suppliers and importing their products from South Africa and Europe. There is also an absence of internal local procurement policies, with procurement decisions being made on an almost exclusively competitive basis and, in some instances, by large central purchasing departments. Support should thus be geared towards enhancing the skills level and operating capacity of SMEs as well as enhancing the infrastructure for delivery and distribution.

Conclusion

The entry of regional and international retailers into Mozambique presents opportunities for local sourcing of a number of goods, such as agricultural produce, as well as support services, such as transportation and packaging. While these opportunities in the formal retail sector may be limited, given the stringent quality criteria demanded by large buyers, there appears to be untapped potential for improved linkages in the informal market.

⁸⁶ Star Africa, *Mozambique increases agro-processing units in Nampula*, 2013

⁸⁷ Douglas, *Look to local consumers for investment opportunities*, says Mozambican developer, 2013

⁸⁸ Trade Law Centre, *Africa has great potential for logistics investment*, 2013

⁸⁹ Based on buyer interviews

4.8. TRAVEL AND TOURISM

Summary of demand analysis

The majority of local procurement from major buyers in the travel and tourism sector is in food and beverages, including fresh fruit and vegetables, meat and fish and liquor. Cleaning and security services also tend to be outsourced locally, while more specialised maintenance items (such as hardware and light bulbs) and service equipment tend to be skewed towards imports, but present an opportunity for local suppliers. Most of the international hotel chains are concentrated mainly in Maputo, and the need for consistency across chains mean that goods are often purchased from a centralised location outside of Mozambique. However, an opportunity exists for smaller establishments in secondary cities to provide a market for locally produced furniture, linen, toiletries and décor, where the quality requirements are less likely to preclude local suppliers.

Table 17: Goods and services demanded locally by the travel and tourism sector⁹⁰

Non-core services	Consumables/ Support goods
<ul style="list-style-type: none"> • Cleaning/janitorial services • Maintenance and repair • Security • Transport and logistics • Warehousing and cold storage 	<ul style="list-style-type: none"> • Art and decorative items • Crockery and cutlery • Food and beverages • Furniture • Guest supplies • Linen and towels • Office supplies and equipment • Personal protective equipment (PPE) • Replacement parts and vehicle spares • Rugs • Signage • Tools • Uniforms

Size of sector

Travel and tourism is a highly important sector for Mozambique's development, given its potential effects on income, employment and linkages with small businesses across sectors. The government of Mozambique has identified tourism as an important sector, having adopted the Strategic Plan for Tourism Development for 2004 to 2013. The plan encourages high-value, low-volume forms of tourism and identifies certain areas of the country to be developed. In addition, Brand Mozambique was launched in 2009, with the aim of enhancing both domestic and international tourism.⁹¹

According to the World Travel and Tourism Council (WTTC), the direct contribution of travel and tourism to GDP totalled MZN 12.2 billion (approximately USD 409 million) in 2012, which accounted for 3.2% of GDP. This is expected to grow to 3.4% of GDP in 2013. Taking a longer term view, the sector's value in 2023 is estimated at MZN 22.2 billion (USD 745 million), with a forecasted growth rate of 5.8% per annum between 2013 and 2023. The direct contribution of this sector towards GDP comprises 'tourism-characteristic sectors' such as hotels, airlines, airports, travel agents and any services that deal with tourists and business travellers directly.

⁹⁰ An important caveat is that this analysis is based primarily on hotel chains interviewed in this study and may not necessarily apply to all other players in the travel and tourism industry such as tour operators and restaurants.

⁹¹ EuroMonitor, 2011: <http://www.euromonitor.com/travel-and-tourism-in-mozambique/report>

The sector also directly supported a total of 225,000 jobs in 2012 (2.7% of total employment) and shows positive employment growth signs for the next decade, with a forecasted increase to 349,000 jobs.⁹² Mozambique ranks 135 out of 184 countries on the WTTC Index⁹³, which is mainly due to the poor quality of human resources and poor infrastructure.

Some of the major tourist attractions (per province) in Mozambique, are represented in Figure 12. A number of these locations are also important for business travel, particularly Tete, Nampula and Cabo Delgado given the number of large investments occurring in these regions.

Figure 12: Main tourist attractions in Mozambique



Source: Genesis Analytics analysis, 2013

Key players and investments

Some of the main players in the travel and tourism sector in Mozambique are large hotel chains, such as the Radisson, Rani Resorts and Southern Sun. There has been a surge in business travel in Mozambique, particularly in Maputo, Tete and Nacala as many international companies are setting up in the country. A recent study found that while many visitors come to Mozambique for leisure and vacation, almost 60% of visitors arrived in Maputo for business reasons. Recently, Park Inn by the Radisson group opened in Tete, where there is demand for quality accommodation and meeting facilities, given the activity in the mining industry. There is also significant growth potential in the meetings, conference and events sector in these cities.

⁹² World Travel & Tourism Council, 2013: http://www.wttc.org/site_media/uploads/downloads/mozambique2013_2.pdf

⁹³ The WTTC Index is a measure of the factors that make it attractive to develop business in the travel and tourism industry of a country, including the sector's contribution towards GDP, employment, spending, exports and investment

The major stakeholders in the tourism supply chain in Mozambique are service providers and key institutions in both the public and private sectors. Table 18 summarises the main players.

Table 18: Stakeholders in tourism supply chain⁹⁴

	Public	Private
Service providers	<ul style="list-style-type: none"> • Airport operators • Ground handlers • Travel information offices • Transport providers • Public attractions 	<ul style="list-style-type: none"> • Tour operators and travel agents • Domestic and international airlines • Hotels • Transport companies • Restaurants
Key institutions	<ul style="list-style-type: none"> • Ministry of Tourism (MITUR) • National Tourism Fund (FUTUR) • CPI • Ministry of Trade and Industry • Civil Aviation Authority • Customs and Immigration • Various Ministries 	<ul style="list-style-type: none"> • Industry and Business Associations E.g. Hotel associations, tour guide associations etc

Source: Adapted from IFC, 2006

The World Tourism Organisation data shows that the largest tourism destinations neighbouring Mozambique, namely South Africa and Zimbabwe, attracted roughly 9.5 million and 2 million visitors respectively in 2008, earning a total of USD7.9 billion and USD523 million respectively, while Mozambique attracted around 2.4 million business and leisure tourists and earned USD196 million in tourism receipts. The comparison with its neighbours gives perspective on the country's tourism market and those of its neighbours, with which it can connect.⁹⁵ In the last decade, China has shown interest in Mozambique, having announced investment plans of \$13 billion in several tourism projects in Mozambique up until 2015.⁹⁶ The country has also made some progress in diversifying its tourism offering, outside of hotels and lodges, by developing niche products, including water-based activities, ecotourism and cultural tourism, which typically involve relatively high-skilled labour.

Local procurement approaches and constraints

No internal local procurement policies exist among major buyers in the travel and tourism sector, which is a challenge for local businesses. Local companies face severe capacity issues such as poor stock management, untimely delivery and an acute skills shortage. They also do not operate at scale and are not as diversified as their larger competitors, which poses a huge challenge, given that local procurement in the industry is largely driven by price, quality and availability considerations. While the country has some well-developed products, these are often bunched into tourism hubs and inadequately serviced by local suppliers, or they are geographically isolated. Notwithstanding, there are opportunities for suppliers to be integrated into the tourism value chain in the country, especially in light of the sustained growth in the sector.

Conclusion

Although there are potential sweet spots for local sourcing in the travel and tourism sector, such as food and beverages, services and maintenance, these are often supplemented with imported goods. Focus should be given to up-skilling and diversifying local SMEs to provide

⁹⁴ International Finance Corporation, 2006. The Tourism Sector Value Chain in Mozambique.

⁹⁵ United Nations Conference on Trade and Development, 2012. Investment Policy Review on Mozambique.

⁹⁶ EuroMonitor, 2011: <http://www.euromonitor.com/travel-and-tourism-in-mozambique/report>

continual supply of both basic and higher value goods and services, with particular attention paid to smaller establishments whose quality requirements do not preclude local suppliers. Also, scope exists for a range of local value-added recreational services to be developed around key tourism nodes, most of which are conducive to SME providers.

4.9. INTERNATIONAL DEVELOPMENT

Summary of demand analysis

Through limited engagement with donors and international organisations currently operating in Mozambique, those goods and services that are demanded locally are summarised in Table 19 below. The international development sector however, can be seen to create demand on two levels – at a general level, and at a project specific level. On a project specific level, demand and hence local content opportunities will be specific to the nature of the project and corresponding sector (health, education, infrastructure, etc.).

Table 19: Goods and service demanded locally by the international development sector

Non-core services	Construction materials	Capital and equipment	Consumables and support goods
<ul style="list-style-type: none"> • Basic construction services • Consulting • Printing • Security • Transport and logistics 	<ul style="list-style-type: none"> • Construction raw materials 	<ul style="list-style-type: none"> • Plumbing and electrical equipment 	<ul style="list-style-type: none"> • Blankets • Emergency supplies • Furniture • Medicines • Mosquito nets • Office supplies and equipment • Personal protective equipment (PPE) • Replacements parts and vehicle spares • School supplies • Signage • Tools • Uniforms

Size of sector

A 2011 Eurodad report⁹⁷, finds that approximately USD 69 billion annually, more the 50% of total official development assistance, is spent on procuring goods and services for development projects from external providers. **Smarter procurement practices by aid agencies and developing country governments are therefore seen as key to increasing aid effectiveness.**

In the context of Mozambique, foreign aid still contributes to about half of fiscal receipts; although rising mining royalties may soon offset the stagnating aid flows resulting from the downturn in OECD countries⁹⁸.

The total overseas development assistance (ODA) committed to Mozambique in 2013 was approximately USD 8 billion from donors, and USD 41 million from UN Agencies. Actual

⁹⁷ Ellmers, B. (2011) How to spend it: Smart procurement for more effective aid, European network on debt and development

⁹⁸ KPMG Mozambique Country Profile, 2012

disbursements in 2013 were USD 3 billion from donors and USD 31 million from UN Agencies.⁹⁹

The size of the international donor sector from 2007 to 2013 is indicated in Figure 13 below through the size of total disbursements in each year. From 2007 to 2012 the size of annual disbursements steadily increased from USD4.85 billion to USD 7.9billion. This however decreased sharply to USD 4.74 billion in 2013.

ODAMoz does not currently have projections for the size of the sector beyond 2013, however some donors and agencies have submitted some forecasts of future commitments and disbursements – these are discussed in the following section.

Figure 13: Donor and UN Agencies' disbursements (2007-2013)

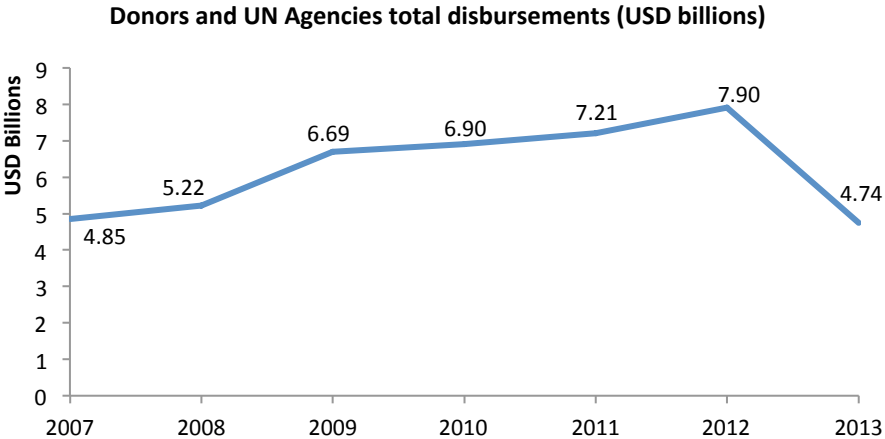
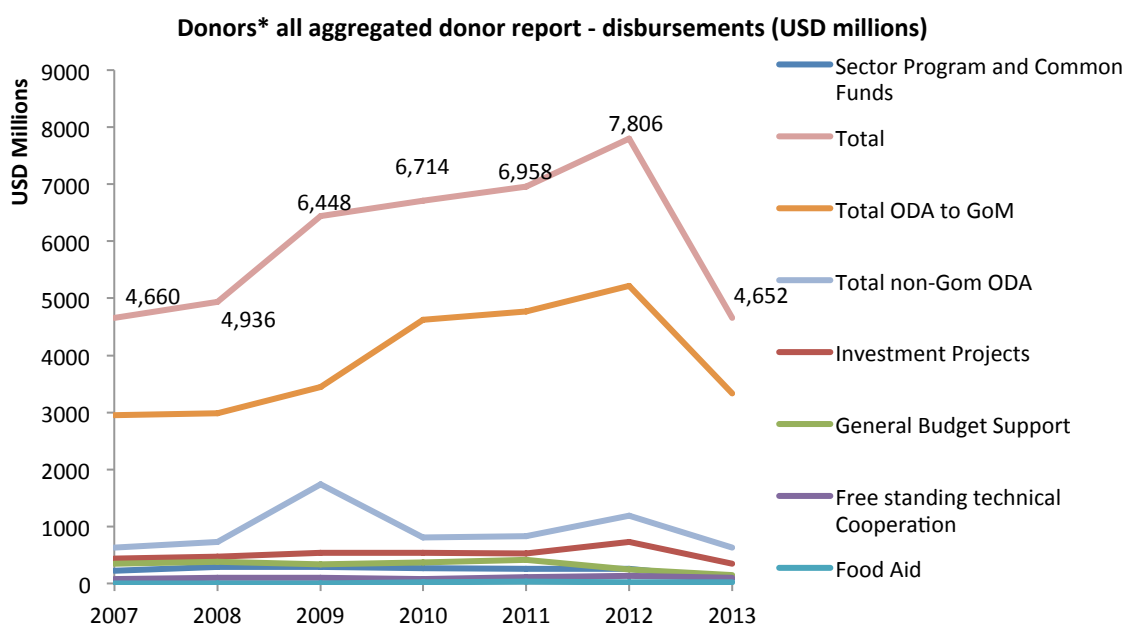


Figure 14 and Figure 15 below show how these disbursements are made up of sector programs and common funds; investment projects; general budget support; free standing technical cooperation; food aid; and ODA to government and not to government. Figure 14 specifically shows that donor disbursements are primarily through ODA to the government of Mozambique; while UN agency disbursements are split relatively more equally between ODA and sector programmes and common funds.

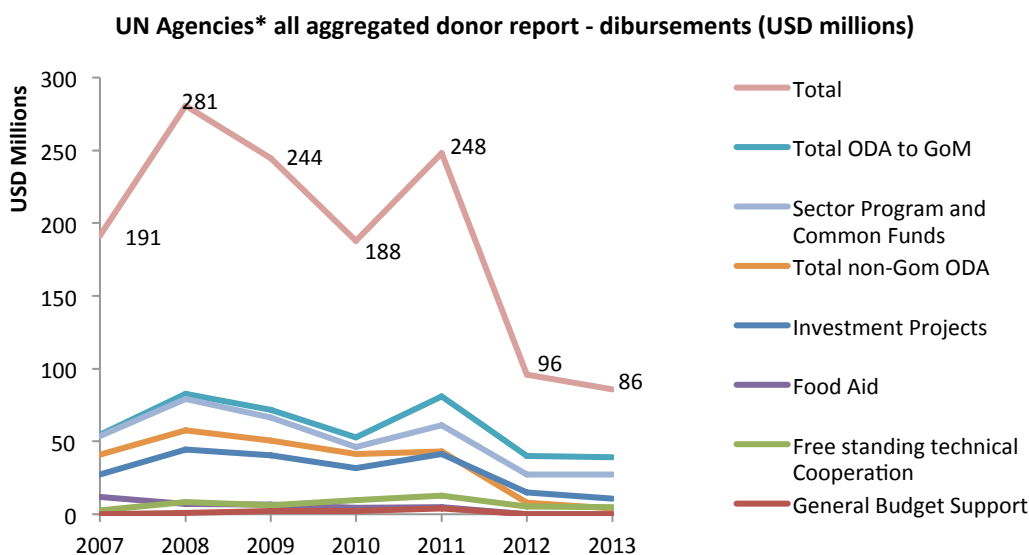
⁹⁹ http://www.odamoz.org.mz/donor_profiles

Figure 14: Total donor disbursements 2007-2013



*The donors included in the analysis are ADB, Austria, Belgium, Canada, Denmark, EC, Finland Flanders, France, Germany, Iceland, Ireland, Italy, Japan, MCC, Netherlands, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, UK, USA; and the World Bank.

Figure 15: Total UN agency disbursements 2007-2013



**In addition to the donors in Figure 14 are UN Agencies shown in Figure 15, which includes FAO; IFAD; ILO; IOM; ITC; OCHA; UNAIDS; UNCDF; UNCTAD; UNDP; UNESCO; UNFPA; UNHABITAT; UNHCR; UNICEF; UNICRI; UNIDO; UN Mozambique; UNODC; UNWOMEN; WFP; and WHO.

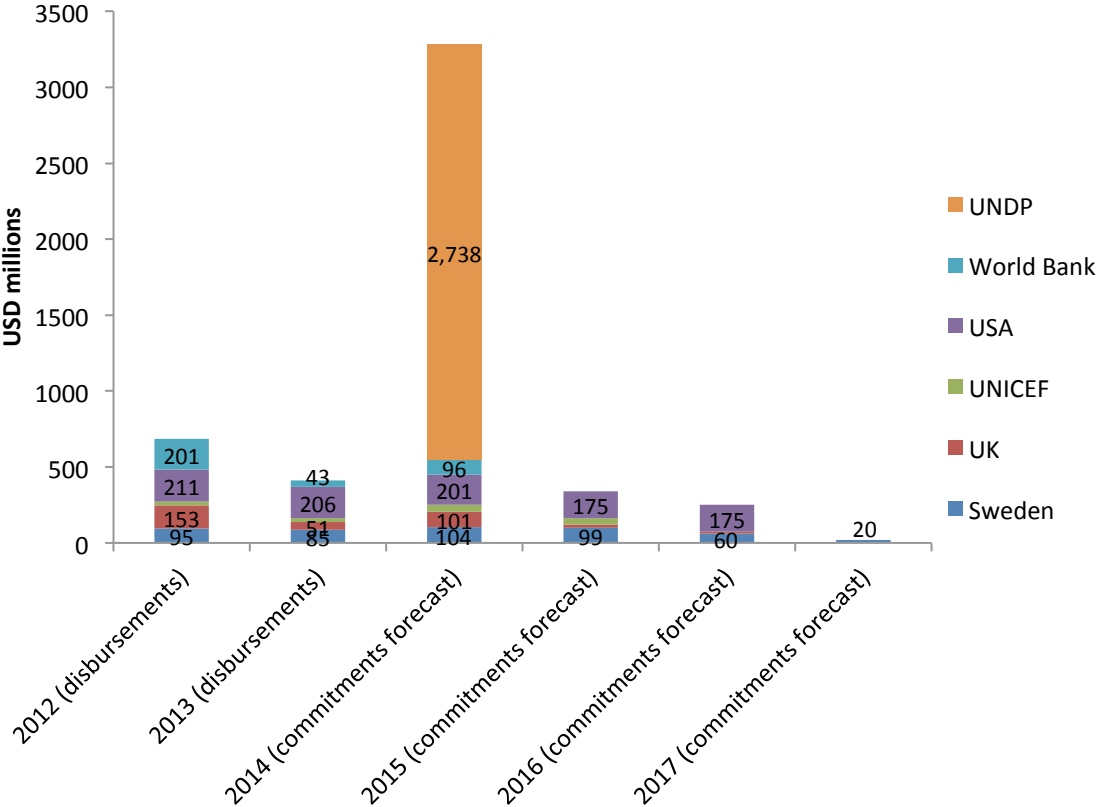
Key players and investments

The largest donors in Mozambique have typically been the World Bank, EU, UK and USAID; and of the UN agencies, the UN Global Fund and UN World Food Programme have traditionally been the largest investors in Mozambique.

As shown in Figure 16, in 2012 and 2013, **the USA** (comprising largely of USAID) was the largest contributor, disbursing approximately USD 416.311m over the two years. **The World Bank** was the second largest contributor disbursing approximately USD 285.807million. **The UK** (comprising largely of DFID) and **Sweden** also made some of the largest disbursements in 2012 and 2013.

The World Bank has a permanent presence in Maputo with approximately 70 employees in country. There is also a major staff presence in country from agencies such as the UN. However, the majority of donor organisations still do not have extensive permanent in-country offices, but run projects through Mozambican government institutions/departments, NGOs or other implementing agencies.

Figure 16: Forecast commitments of selected key players (2014-2017) - USD millions



Looking forward at forecast commitments, the USA remains a key player, with commitments of approximately USD 175-200 million each year until 2016. While the World Bank also remains a key player, commitments are only forecast at USD 96 million for 2014. The UK too appears to have made commitments for 2014 (USD 101 million) but not beyond that as of yet; and Sweden will be a consistently significant player up to 2016 at least.

Lastly, in terms of the **UN agencies**, UNICEF remains present, but most prominent is the **UNDP** with a forecast commitment in 2014 of USD 2.7bn. This commitment dwarfs the other largest players shown in Figure 16, and may be explained by the UN’s Development Assistance Framework (UNDAF) for 2012-2015, under the Delivering as One (DaO) pilot in Mozambique.

The UNDAF combines the efforts of the 21 UN agencies active in the country, to provide more focus, effective and efficient support to the Government's Five Year Plan (2010-2014)¹⁰⁰. The UNDAF results are organised around three focus areas: economic; social; and governance. Within these strategies, the UN's strategy will be on both capacity building of public institutions and policy development support, and on community mobilisation.

Sectors

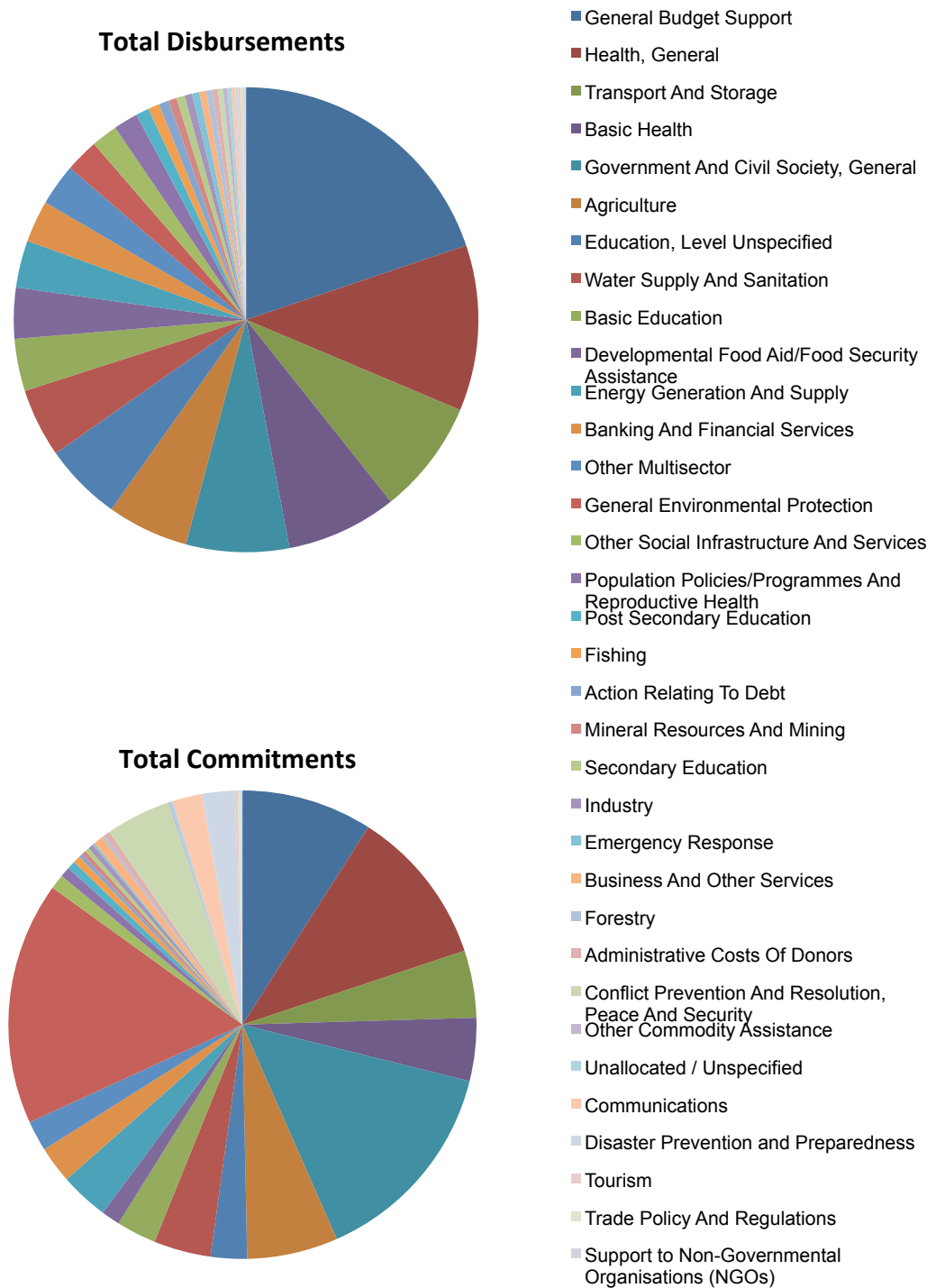
Looking at all the projects recorded on ODAMOZ, from early 1990s to 2018, Figure 17 indicates which sectors have received the greatest amount of funding (total disbursements). General Budget Support (USD 2.2billion) is the largest, followed by General Health (USD 1.3billion), Transport and Storage (USD 873million), Basic Health (USD 845million), General Government and Civil Society (USD 788million), and Agriculture (USD 621million).

Total commitments to each of these sectors vary to some degree from total disbursements, with the exception of General Budget Support for which disbursements almost match commitments. Commitments to sectors such as General Health, General Government and Civil Society (which has the highest commitments), Agriculture, and Water Supply and Sanitation, are significantly higher than actual disbursements¹⁰¹. The allocation of funds also loosely follows the number of projects in each sector.

¹⁰⁰ The UNDAF was developed in conjunction with the national Action Plan for Poverty Reduction 2011-2014 whose central objective is to reduce poverty by 12.7% from 2009 levels.

¹⁰¹ This analysis excludes forecast commitments and forecast disbursements

Figure 17: Total Disbursements & Total Commitments



Location

The vast majority of aid from donors and UN agencies is in ‘National Aid’ (i.e. not directed to any particular province), however, of the aid that does go directly to provinces, the distribution of aid from donors is more or less equally spread across Mozambique’s provinces; while aid from UN agencies has previously been concentrated in Manica and Zambezia.

Figure 18: Number of projects per province

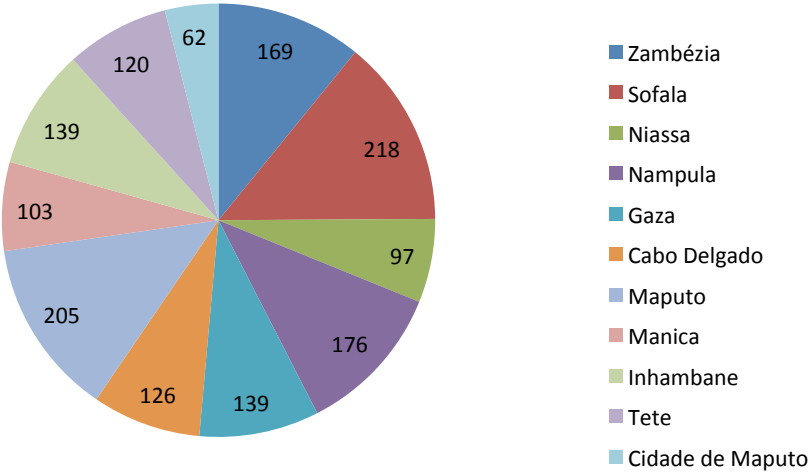


Figure 19: Value of disbursements per province

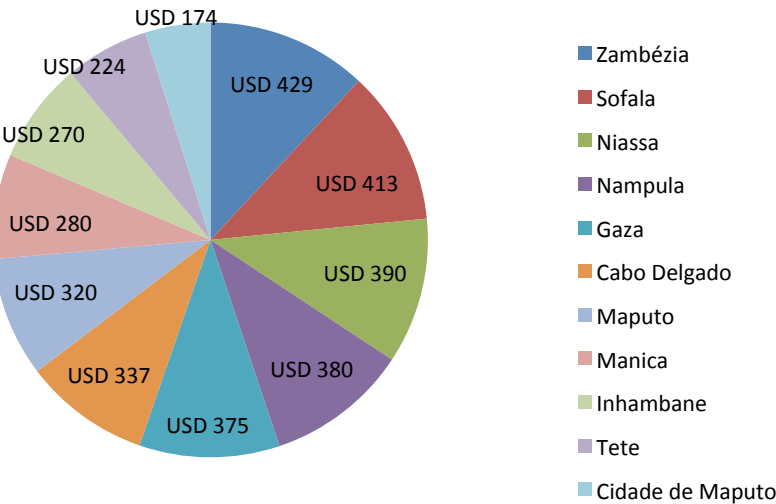


Figure 18 and Figure 19 show that the number of projects, and value of disbursements are fairly equally spread across provinces. Zambézia has the highest value of disbursements (USD 429million), and fourth highest number of projects and Sofala has the second highest disbursements (USD 413million) and most projects.

Sector insights

Engagement with the World Bank in Mozambique provided further insight into local content and procurement in the development sector. The World Bank portfolio is the largest of all donors in Mozambique, with around 70 permanent staff in country.

The World Bank’s procurement in Mozambique is split into two categories – operations (large-scale funded programmes) and corporate (office supplies, furniture, etc.). Bidding for World Bank projects is a competitive process divided into national and international. The USD value of the project determines which of these categories it falls into. Projects below USD 15 million, and goods below USD 3 million, are national. These thresholds were recently increased as

World Bank analysis has shown that there are many more local (existing and potential) contractors. **Local companies are however defined by the World Bank as those that are registered in Mozambique** – local companies could therefore actually be international with a local subsidiary. In addition, World Bank procurement requirements extend only to the selection process; once a contract is awarded, **no policies are imposed on contractors** – commercial guidelines prevail.

The Bank divides its projects into three categories: works; goods; and services.¹⁰² In terms of project value, the majority of financing goes to services (intellectual, consulting and non-intellectual, operations, maintenance) which is predominantly spent with foreign suppliers. Goods and works are estimated to be about 50 per cent spent with local suppliers.

There have been some complaints that the Bank's procurement requirements are so strict that local access is limited. However, the Bank is moving from an input-based model to one that is output based (e.g. km of road built as opposed to amount of cement purchased) – with other donors likely to do so as well – which means that a certain amount of risk is passed on to the contractor. The Bank is also in the process of reviewing its procurement processes and moving towards a more results-based process that uses country systems more. Their role will therefore be less fiduciary (where they just verify and inspect) and more about working closely with clients in achieving development objectives. This is an important development as it puts impetus on the donor to ensure local suppliers can achieve the procurement standards required. **The capacity of local suppliers to respond to private sector demand may be increased through delivering on donor projects and programmes.** However, caution must be exercised to avoid aid expenditure distorting and disrupting local SME supply and service markets and their potential for sustainable growth.

Mozambique is also among the countries where the Paris Declaration Agenda¹⁰³ is most advanced¹⁰⁴. The Monitoring Surveys for the Paris Declaration showed that the percentage of aid that used national procurement systems increased from 44% in 2006, to 54% in 2008. The 2008 Survey on Monitoring the Paris Declaration also indicated an improvement in the quality of country systems and an increase in their use for the delivery of foreign aid. The UN system however is not yet fully utilising national systems, with some agencies being more advanced than others. The UN Adi Effectiveness Report (2010) highlights the need to increase efforts to use country systems for public financial management and procurement¹⁰⁵.

A uniform contract for local UN supply since 2009 has facilitated advancements in the area of procurement; and a procurement working group has also introduced a supplier profiling form and market survey in an effort to create a common UN market database for provincial and national suppliers. The UN website too was expanded to include calls for proposals, increase transparency in the award of contracts, and provide lists of suppliers and contracts of the intranet.¹⁰⁶

Harmonisation of the UN procurement practice is limited to procurement for agency requirements, while the various agencies each have their own approach to using national systems in procurement. While most procurement is still done according to UN agencies

¹⁰² No further detail was provided

¹⁰³ The Paris Declaration is a 'practical, action-orientated roadmap to improve the quality of aid and its impact' that came out of a meeting that took place in Paris in 2005 with over 100 developed and developing countries agreed to change the way they do business (<http://www.oecd.org/dac/effectiveness/45827300.pdf>)

¹⁰⁴ Topping, J. & Oldaemiro Baloi, H.E. (2011) "Mozambique-UNDAF 2012-2015", Maputo

¹⁰⁵ JUNTOS (2010) "UN System Aid Effectiveness in Mozambique: Delivering as One in Mozambique", United Nations, Mozambique

¹⁰⁶ Ibid

regulations, Mozambique's procurement law (64/2005) passed in 2005 largely corresponds to UN rules and regulations, and there is agreement that this law has greatly improved the use of national procurement systems in UN supported projects and programmes; however, the correct application of the law is still not guaranteed.¹⁰⁷

The main remaining difference between the country law and UN rules governing procurement is that the country law requires local and not international tendering. It was also noted that agreements with government on the use of procurement rules in projects, as well as guidance from headquarters, are blurred on this point.

Conclusions

As indicated above, the international development sector makes significant contributions to general government and in many instances provides services that at some point in the future will be taken over by the government, or which are in fact delivered by the government. This is therefore demand (for example for inputs to the country's health and education systems) that will continue for a long time into the future and can be seen as sustainable opportunities for local sourcing.

Using ODAmoz's database, donors supporting the private sector in Mozambique specifically were mapped¹⁰⁸. Total commitments for on-going project support for the private sector amount to USD 1.1 billion; the largest investor being the USA (accounting for 37% of the total), followed by the World Bank (at 24%). **This USD 1.1 billion commitment is largely focused on projects in water and sanitation (43%); transport (22%); agriculture (11%) and energy (9%).** The importance of this investment in private sector development is because it underpins potential opportunities for local procurement. The international development sector overlays a number of other business sectors - construction, agriculture/agribusiness, tourism, energy – and social sectors – health, education, water and sanitation, governance. What is distinct is the source of investment funds, which come from international donors rather than private companies or the government. Given the overarching social objective in the international development sector, increasing local content in such projects would be an effective way to 'spend the aid dollar twice'. Further, since such a large amount of 'spend' is spread across a relatively small number of organisations, successful advocacy for changes in procurement policy could have a big impact on the local economy.

4.10. OVERLAP OF DEMAND

There is significant overlap in the demand, and hence procurement, from the extractives and construction sectors. Demand overlaps occur most notably in the categories of non-core services and support goods. Smaller companies are able to supply these products and services, which require less expert skills and pose a smaller threat to core operations if unfulfilled in the short term. Examples of these include transport and logistics, uniforms and PPE, fresh produce and replacement parts.

Shared demand for common goods, services or skills between different sectors, indicates that there may be a promising opportunity for sustainable local supply given this cross-sector demand, and likely support for local supplier development.

¹⁰⁷ Ibid

¹⁰⁸ Santiago Goicoechea, ODAMOZ Private Sector Support Donor Mapping: Mapping of Donors supporting the private sector in Mozambique, August 2012

There is significant overlap in the demand, and hence procurement, related to the extractives sectors (coal, natural gas and mineral sands) and the construction sector. A contributing factor to this overlap is the investment boom in Mozambique around extractive minerals, and the need to develop the infrastructure required to support this sector. The supply chain in the construction sector fits squarely into the supply for the extractives industry.

The extractives sector is also amongst those with the most government and external pressure to earn a social license to operate, and ensure benefits are felt locally. The development of local suppliers in the construction sector is therefore in the interest of both mining and construction companies; hence the opportunity to focus and pool resources for this development.

The international development sector is currently similarly focused to a large degree around the development of key infrastructure in Mozambique – for basic public services, and to support private sector development. The market for local suppliers (and opportunity for pooled efforts to develop local construction supply chains) may therefore be extended to the international development sector as well.

The table below illustrates the specific goods and services where we expect there to be an overlap of demand. As discussed, this is not an exhaustive list, but is a consolidation of results from desktop research, publicly available information and interviews with a selection of major buyers on the types of goods and services that buyers currently, or intend to, buy locally.

Goods and services highlighted in green in Table 20 depict items which show overlaps in demand across the chosen sectors. Local procurement of capital equipment is something which large companies currently struggle with due to the lack of technical expertise and capacity in the local market, as well as the failure of suppliers to adhere to minimum quality standards. In contrast, construction materials, such as steel reinforcements and cement, as well as engineering accessories such as drill bits and forklifts, are procured locally by several industries, a positive signal for a growing market.

Table 20: Sector overlap of goods & services demanded

Key:

- Products / services demanded by sector (primary source)
- Products / services demanded by sector (secondary source)
- Products / services identified as growth opportunities for SMEs

	Coal	Natural gas	Mineral sands	Industry	Construction	Retail	Travel & tourism	International development
Technical core services								
Project topography								
Quality control services								
Sanitary landfill services								
Non-core services								
Accommodation								
Advertising								
Basic construction services								
Catering								
Cleaning/janitorial services								
Consulting (e.g. labour broking)								
Landscaping								
Maintenance and repair								
Medical services								
Printing								
Security								
Transport and logistics								
Warehousing & cold storage								
Construction materials								
Construction raw materials								
Piping								
Pre-fabricated housing, doors and windows								
Security fencing and gates								
Capital equipment								
Engineering accessories								
Mobile mechanic equipment								
Plumbing and electrical equipment								

Key:

	Products / services demanded by sector (primary source)
	Products / services demanded by sector (secondary source)
	Products / services identified as growth opportunities for SMEs

	Coal	Natural gas	Mineral sands	Industry	Construction	Retail	Travel & tourism	International development
Consumables / support goods								
Agricultural inputs								
Art & decorative items								
Baked goods & ingredients								
Blankets								
Crates, pallets, pans								
Cutlery & crockery								
Emergency supplies								
Food & beverages								
Fresh produce								
Fuel and lubricants								
Furniture								
Guest supplies								
IT equipment and services								
Linen & towels								
Medicines								
Mosquito nets								
Office supplies and equipment								
Packaging								
Perishables								
Personal protective equipment (PPE)								
Replacement parts and vehicle spares								
Rugs								
Schools supplies								
Signage								
Textiles								
Tools								
Uniforms								

Demand overlaps occur most notably in the categories of non-core services and support goods. Smaller companies are able to supply these products and services, which require less expert skills and pose a smaller threat to core operations if unfulfilled in the short term. **Stationery and office supplies** stand out due to the demand from every sector, creating ample opportunity for SMEs in this space. As indicated in the industry and manufacturing section of the report, Mozambique currently produces wood products, the majority of which are exported to China. This, as well as the demand for furniture could therefore be an indicator that a local wooden furniture market could be developed. Further research into this subsector would be able to determine this detail. **Food & beverages, particularly fresh produce,** are in demand across sectors due to the burgeoning work force requirements of the extractives and construction sectors, as well as the increase in travel and tourism numbers. Increasing employees are also the driver behind the extractives industry's demand for **PPE and uniforms,** with companies like Rio Tinto issuing three sets of uniforms a year to every employee. **Crates, pallets and pans** are typically required in the extractives, construction and industrial sectors and show potential growth due to the light manufacturing required.

Transport and logistics in Mozambique is notoriously difficult given the poor infrastructure, and many companies outsource the service. In addition, foreign trucks are prohibited from transporting cargo within the country's borders, which increases the requirement for local transport services. **Cleaning / janitorial services** are often reserved for local procurement due to the low risk (not core to most industries and wide variety of suppliers exist) and high value (suitable for long-term contracts and bulk supply). Demand for **security** services is prevalent, with the country breaking out in sporadic bursts of violence between ruling party Frelimo and Renamo, and the booming extractives economy attracting multitudes of foreigners with perceived wealth, making kidnappings a possibility¹⁰⁹.

Maintenance and repair services include landscaping, gardening and electrical and plumbing repairs, among others. The overlap in demand for these services in industries such as extractives, industry and manufacturing, tourism and construction implies that demand is most likely significant. The question of whether such a market of suppliers exists can only be answered by research into the specific types of skills required to carry out such services and whether these are available within local businesses.

5. SUPPLY

Supplier data, particularly for SMEs, is extremely limited in Mozambique. When analyzing the supply side of this study, a database of suppliers from across Mozambique was created. It is important to note that this database is not representative of all SME suppliers in the country, but rather gives an indication of where they are located, and the sector in which they operate.

This section begins by providing a map of suppliers from the database. It then provides any information uncovered through the analysis about the existence of suppliers in the selected goods and services categories. These categories were selected based on the demand analysis and the areas where we believe an overlap in demand exists. These categories are highlighted in grey in Table 20 above.

¹⁰⁹ <http://www.iol.co.za/business/international/kidnappings-ransoms-blight-moz-growth-1.1633456#.UuEiSRD8LIU>

The main questions we have attempted to answer in each area are whether there is an existing supplier base on which to build or whether this an area that deserves further research. Key constraints facing suppliers are then discussed. This will identify gaps between types of goods and services demanded and the extent to which a potential local supply base could be ready to respond to those opportunities.

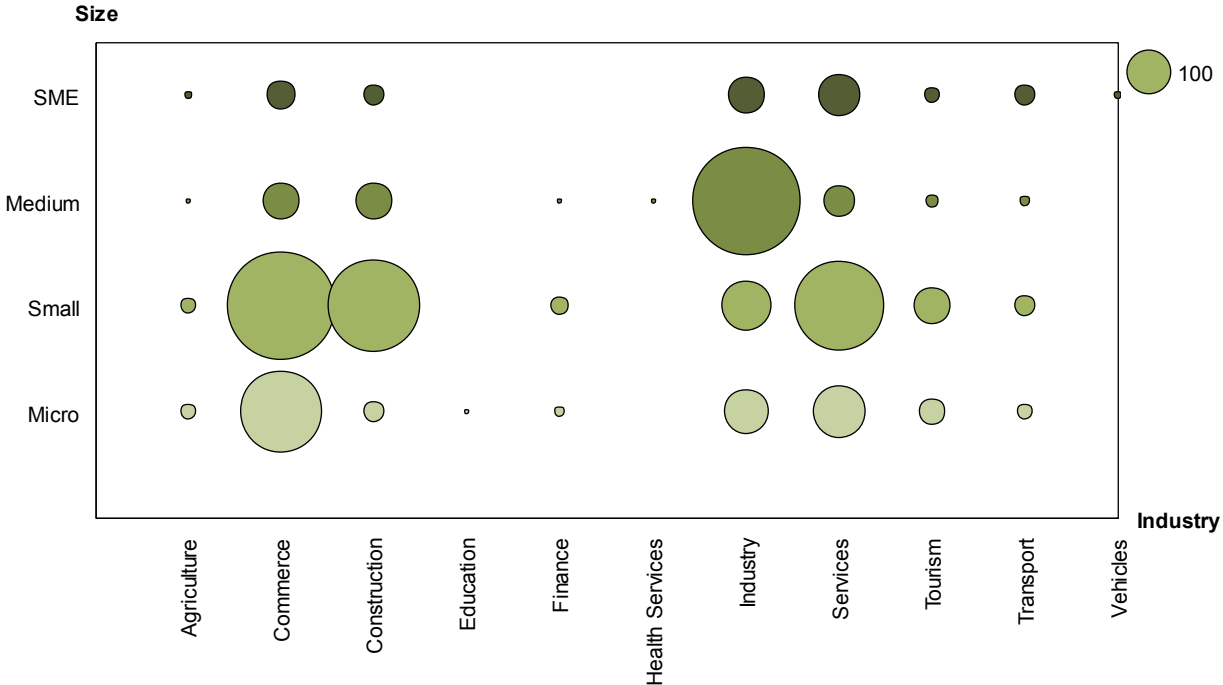
5.1. MAP OF SUPPLY

A database of suppliers shows that the majority of SMEs are located in and around Maputo, followed by Sofala and Nampula provinces, where the port of Beira and Nacala Corridor and Special Economic Zone are located respectively. Within Maputo, SMEs fall mostly into the commerce, construction, industrial and services sectors. The majority of SMEs in Sofala and Nampula are industrial firms.

The following data on various companies in Mozambique has been collected in 2013. These have been sourced from various industry associations and databases¹¹⁰. The sample amounts to 5 520 companies of various sizes - small, micro, medium¹¹¹, large and general SMEs whose exact sizes are unknown. Excluding large businesses the database amounts to 3 543 SMEs. It should be noted that this is not a representative sample but is large enough to capture a reasonable description of Mozambican SMEs, in terms of location and industry, in an environment with little formal data of this kind.

Figure 20 below details the SMEs in the database by their size and industry. The size of each bubble represents the number of businesses in each category in the database.

Figure 20: SME frequency by size and sector, within sample collected



¹¹⁰ These include ACIS, Mozambique Consultancy Association, Business Edge Providers (IFC Training Toolkit), Ministry of Industry and Commerce, CEPAGRI, CPI, GAZEDA, IPEME, Mozlink, Ministry of Planning and Development, PACDE and ProSavana.
¹¹¹ These are categorised according to micro (1-4 employees, <MZN1 200 000 turnover), small (5-49 employees, MZN 1 200 000 – MZN 14 700 000 turnover) and medium (50-100 employees, MZN 14 700 000 – MZN 29 970 000 turnover)

The majority of the companies in the supplier database are medium-sized industrial companies when analysed by size and sector. Small businesses dominate the commerce, construction and services sectors. The number of SMEs in the agriculture, education, finance and health services sectors is significantly smaller than the other sectors. While this may be a result of limited available data on businesses in these sectors, it may also indicate the relatively underdeveloped nature of these sectors in Mozambique. Micro enterprises are predominantly in the commerce sector, and are most likely 'middle man' traders. Those SMEs whose exact size is unknown are mainly present in the services sector. These are probably harder to measure by size where metrics such as revenue and assets are not accurately assessed in a small service business.

Figure 21 below crosscuts each industry by province to show the number of businesses that are prevalent. Unsurprisingly, the largest number of SMEs is in Maputo, regardless of sector. Within Maputo, SMEs fall mostly into the commerce, construction, industrial and services sectors. Looking at these sectors by size in Figure 21, these businesses are mainly medium and small enterprises. A large contributor to the growth of these businesses is the Maputo Development Corridor which connects Mozambique to the economic hub of South Africa as well as Swaziland¹¹². The corridor's transport facilities include road, rail lines and ports. Small business growth is not only influenced by the high volume of goods moving towards the ports of Maputo and Matola but also the construction and operation of the corridor's transport and port facilities. In addition, the entry of large mining and gas companies into Mozambique, and the establishment of their head offices in Maputo, has increased the demand for property and other services to support the growing population¹¹³.

The largest bubble outside of Maputo occurs in Nampula province due to the high frequency of industrial SMEs. Nampula is the country's most populous province and a major productive centre, with the Nacala Corridor increasing investment in various sectors. In particular, the Nacala Special Economic Zone, which was established in 2009, is attracting investor interest in manufacturing, mineral-based industries, services, fisheries and agribusiness, and tourism¹¹⁴.

The port of Beira in Sofala province is the trade access point for landlocked neighbouring countries, including Malawi, Zambia, and Zimbabwe, and is also the closest port to the industrial city of Lubumbashi in DRC. It also connects the coal mining regions in Tete with the sea through the Beira Corridor. The Beira Corridor is being developed into an agricultural growth corridor with many opportunities for agro-processing and related services. In Sofala province, economic activities are mainly the production of shrimp and other seafood, sugar, cotton, and various other agricultural products. Against this backdrop, the prevalence of industrial and commerce businesses in Sofala is not surprising. These enterprises are mainly medium sized.

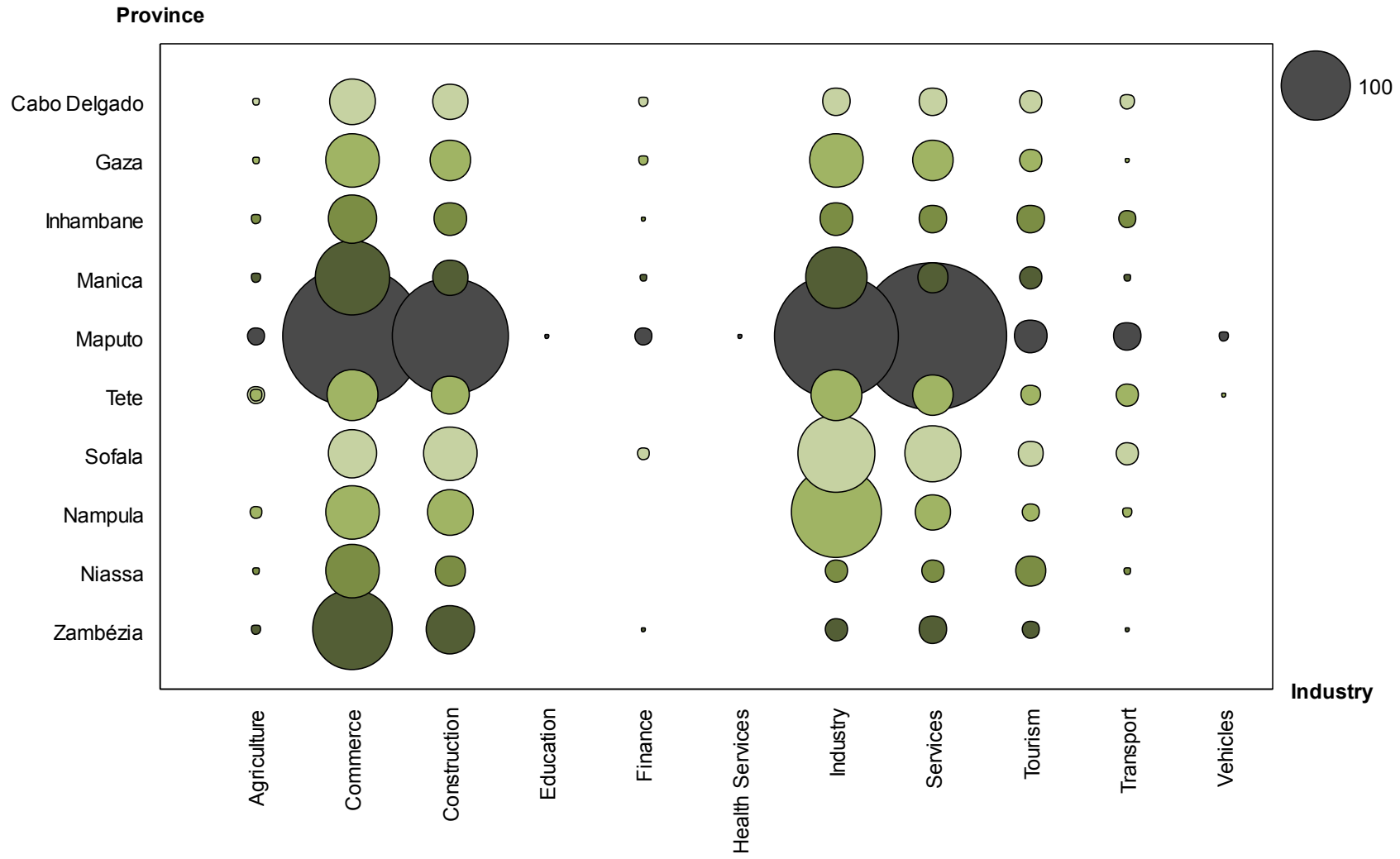
A small number of transport businesses exist across the country, which may increase with the increase in logistics requirements as relatively remote areas such as Tete, Beira, Nampula and Pemba begin to expand with investments in the extractives and infrastructure sectors. The various development corridors (i.e. Beira Corridor, Maputo Corridor, Mtwara Corridor and Nacala Corridor) are also critical to the development of this sector.

¹¹² <http://portandcorridor.org/wp-content/uploads/2013/03/Maputo-corridor.pdf>

¹¹³ <http://www.ft.com/cms/s/0/c3782fa8-df00-11e2-a9f4-00144feab7de.html#axzz2k43wFYZt>

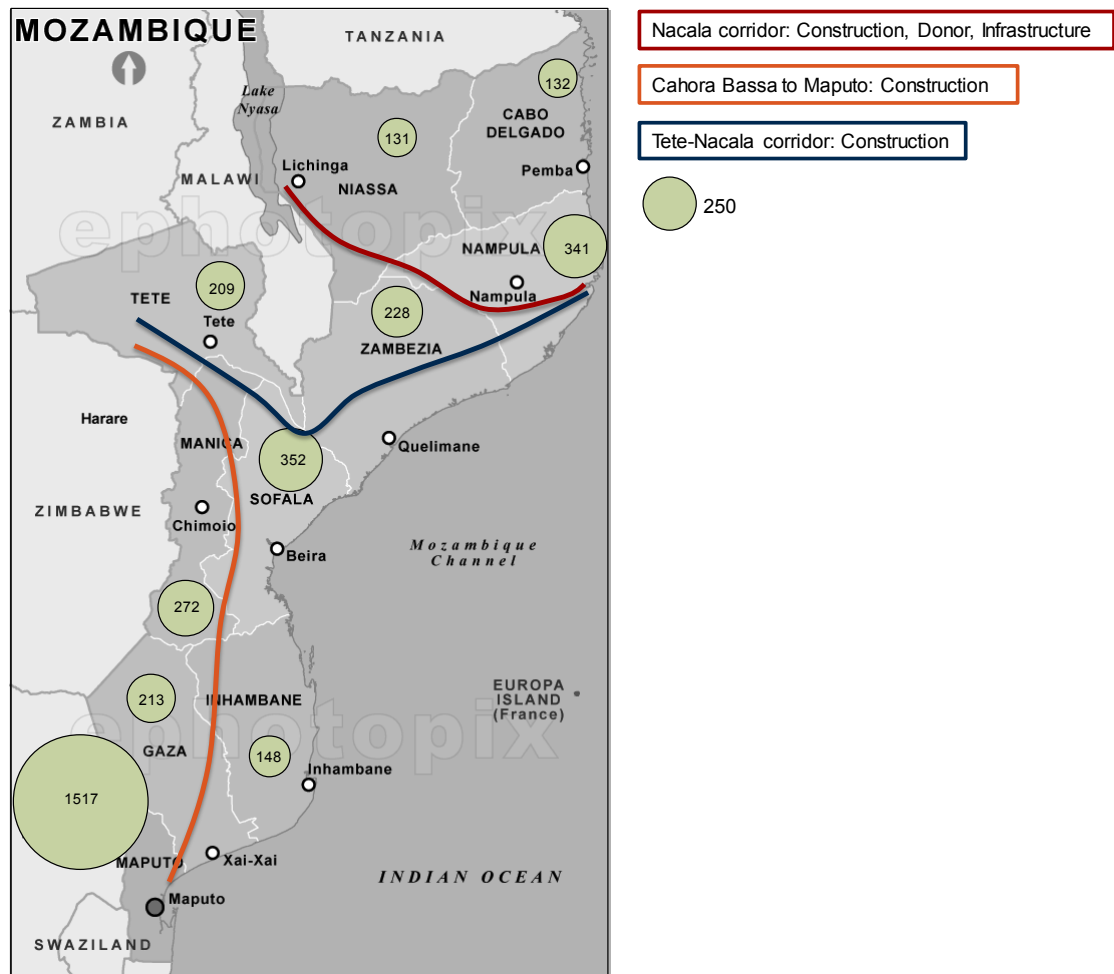
¹¹⁴ http://www.iese.ac.mz/lib/publication/outras/cd_ppi/pastas/governacao/geral/legislativo_documentos_oficiais/FINALMozambique.pdf

Figure 21: SME frequency by province and sector



For easy reference, and to supplement the above analysis of Figure 21, the bubbles in Figure 22 below represent the number of SMEs in the database by province.

Figure 22: Map of SME database by province



5.2. KEY GOODS SECTORS

Our demand analysis suggests that potential areas of opportunity for local suppliers of goods include:

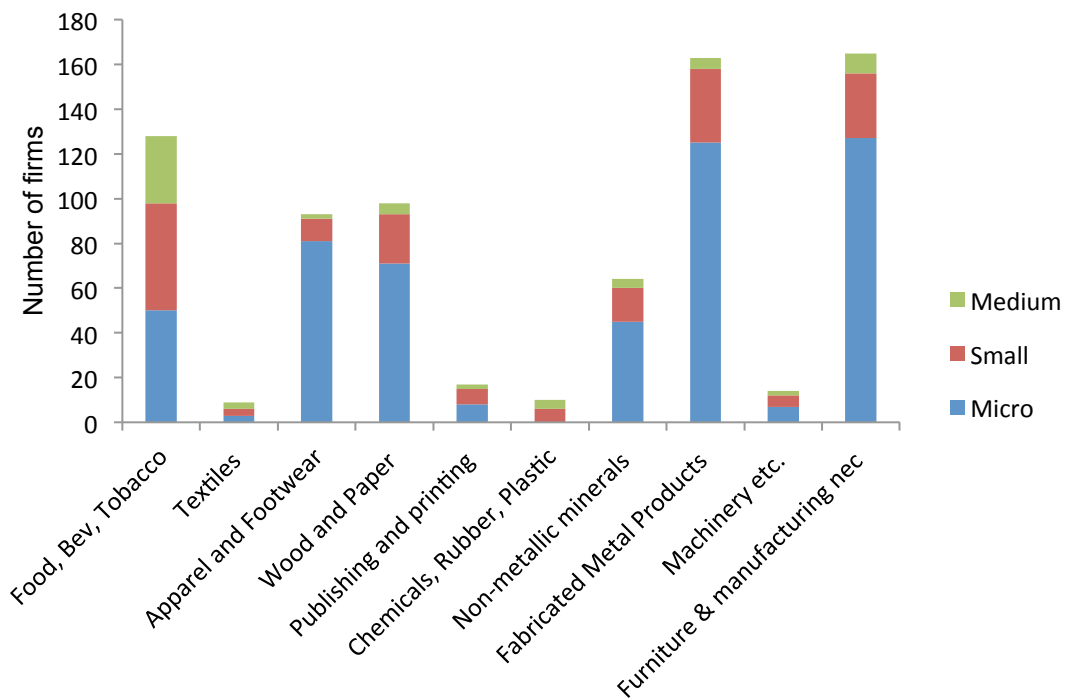
- Construction raw materials
- Plumbing and electrical equipment
- Crates, pallets, pans
- Fresh produce
- Fuel and lubricants
- Furniture
- IT equipment and services
- Office supplies and equipment
- Personal protective equipment
- Replacement parts and vehicle spares
- Signage
- Tools

- Uniforms

The key goods sectors that we have identified are predominantly light manufactured goods, agricultural produce and construction materials, which are considered important drivers of job creation at scale.

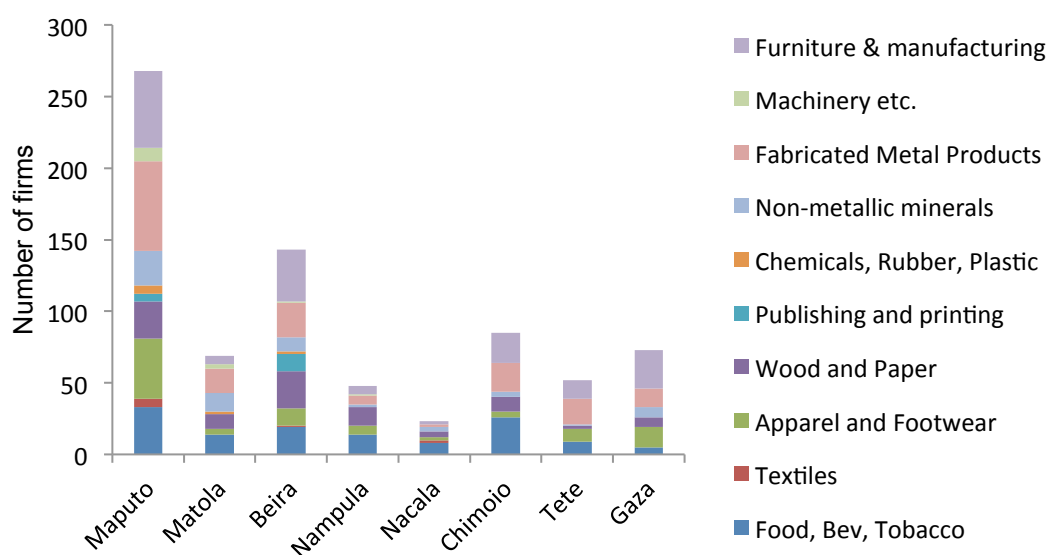
As shown in the figures below, data from the Ministry of Planning and Development’s 2012 Survey of Mozambican Manufacturing Firms shows that Mozambican manufacturing firms are highly concentrated in a few sectors. Firms in the six largest sectors (**food, apparel, wood, non-metallic mineral products, fabricated metal products and furniture**) are represented in all provinces. On the other hand, the more advanced industries (textiles; publishing; chemicals, rubber and plastic; and machinery) remain concentrated in the larger cities, particularly Maputo and Beira.

Figure 23: Number of manufacturing firms by size and subsector¹¹⁵



¹¹⁵ These are categorised according to World Bank classifications: 1-9 employees (micro), 10-49 (small) and 50-299 (medium).

Figure 24: Number of manufacturing firms by sector and province



This shows that there is an existing base of manufacturing companies to link to demand from major buyers, **particularly in the apparel (uniforms and PPE), fabricated metal products (construction raw materials) and furniture subsectors**, which suggests a starting point for where future research and linkages activities should focus their efforts. While these are important sectors for job creation, it is important to work to increase the scale of existing suppliers to take on larger contracts or upgrade to more valuable products.

5.3. KEY SERVICES SECTORS

Our demand analysis suggests that potential areas of opportunity for local suppliers of services include:

- Basic construction services
- Catering
- Cleaning/janitorial services
- Consulting services (e.g. labour broking)
- Maintenance and repair
- Security
- Transport and logistics

Services are not disaggregated in the supplier database compiled for this study. We therefore cannot draw any conclusions at this point about the capacity of existing supply of key services for which there is identified demand, and this is an area that requires further research. These are all non-core services however, and are theoretically those that local firms should be able to provide. As the technical nature of the service increases, so does the opportunity to partner with international firms and/or to provide technical training to local suppliers.

5.4. KEY CONSTRAINTS FACING SUPPLIERS

Interviews were conducted with a selection of existing and potential suppliers to the key demand sectors to better understand the firm-level constraints facing SMEs in Mozambique. The most commonly cited constraints are listed below, from both the buyers' and suppliers' perspectives.

Buyers' perspective

- One of the most crucial requirements of suppliers, particularly across the extractives sector, is their ability to meet multinational mining companies' strict health and safety requirements. This is one of the most commonly cited constraints facing local SMEs, from the buyers' perspective, and is usually a targeted area for training in local supplier development programmes in the extractives sector.
- Local companies often fail to meet buyers' requirements in terms of relevant experience and financial standing.
- The quality of goods produced locally is generally poor and cannot compete with better quality imports. Local firms tend to only be competitive when trading products produced outside of Mozambique at a margin. There is a lack of experience and understanding at the SME level of the importance of quality for the customers.
- Suppliers often do not reliably deliver goods and services within the time-frame or to the schedule they have agreed.
- Suppliers often find it difficult to deliver the quantity of product required by buyers, even when importing goods.
- Buyers are not aware of local SMEs that exist in the market that could potentially provide the goods or services they require. They do not see it as their responsibility to assess a long list of suppliers in terms of technical capacity, and find it time-consuming and expensive to deal with suppliers who have not been vetted for technical competence.

Suppliers' perspective

- There is a payment cycle mismatch between large multinationals, which can take long periods of time to pay invoices, and small companies, which are highly vulnerable to cash flow disruptions. This lack of cash flow, when added with poor internal financial management, has a severe effect on small business survival.
- Multinationals often operate on short time-frames and so import goods rather than develop their suppliers over the long term. Multinationals are often not sure of how long they will be operating in a country, or mid-level managers are waiting for corporate sign-off to proceed to the next stage, leading to short-termism. This means that developing suppliers over the long term is not a priority, despite the good PR it may bring, and they import what they need from suppliers retained on their books. This makes it very difficult for suppliers to plan ahead. For a supplier to survive in these circumstances they also need a number of potential clients, or the continued existence of their businesses may be threatened. Big buyers can also cancel contracts easily, especially in the extractive industry, which is subject to the commodity cycle.
- Poor internal business and financial management skills
- A shortage of skills and expertise in the market overall. The further shortage of skills in the provinces means that skilled people are often hired out of Maputo into the provinces, which increases employment costs. Skilled people are also often absorbed by the development, financial services and extractives sectors, decreasing their availability to the SME sector

- Obtaining credit can be challenging for SMEs, usually as a result of strict collateral requirements
- Poor transport and logistics infrastructure and processes. Time delays and bureaucracy associated with importing goods across borders in particular add significant costs to businesses
- Corruption was raised as a concern and constraint to SME growth in key sectors such as construction and mining

These constraints have also been summarised in Table 21 and categorised according to ways to address them.

Table 21: Constraints facing SMEs

Constraint type	List of associated constraints
SME capacity (which could be addressed with Business Development Services)	<ul style="list-style-type: none"> • Failure of SMEs to meet strict Health and Safety requirements • Poor quality locally produced goods • Short-termism amongst buyers who import rather than develop local suppliers over long term • Poor internal business and financial management skills amongst SMEs • Skills shortage in market, particularly in the provinces
Access to information (which could be addressed with a portal or other information service)	<ul style="list-style-type: none"> • Lack of awareness amongst buyers of potential (qualified) suppliers
Access to finance or cash flow management (which could be addressed through access to finance programs)	<ul style="list-style-type: none"> • Payment cycle mismatch between large multinationals and SMEs • Difficulty amongst SMEs in obtaining credit
Infrastructure and the environment (economy-wide problems)	<ul style="list-style-type: none"> • Poor transport and logistics infrastructure and processes. • Corruption

Constraints to innovation

The innovation subset of KPMG's 2012 Business Confidence Index was analysed to understand firm innovation behaviour and constraints on innovation. A summary of results are provided below:

- 60.3% of survey respondents reported to have not introduced a new product in the past 2 years. 44% of small companies and only 31% of micro enterprises¹¹⁶ have introduced new products over this time period.
- 63.1% of survey respondents reported to have not introduced a new service or changed a service in the past 2 years. Only 27% of micro enterprises have introduced

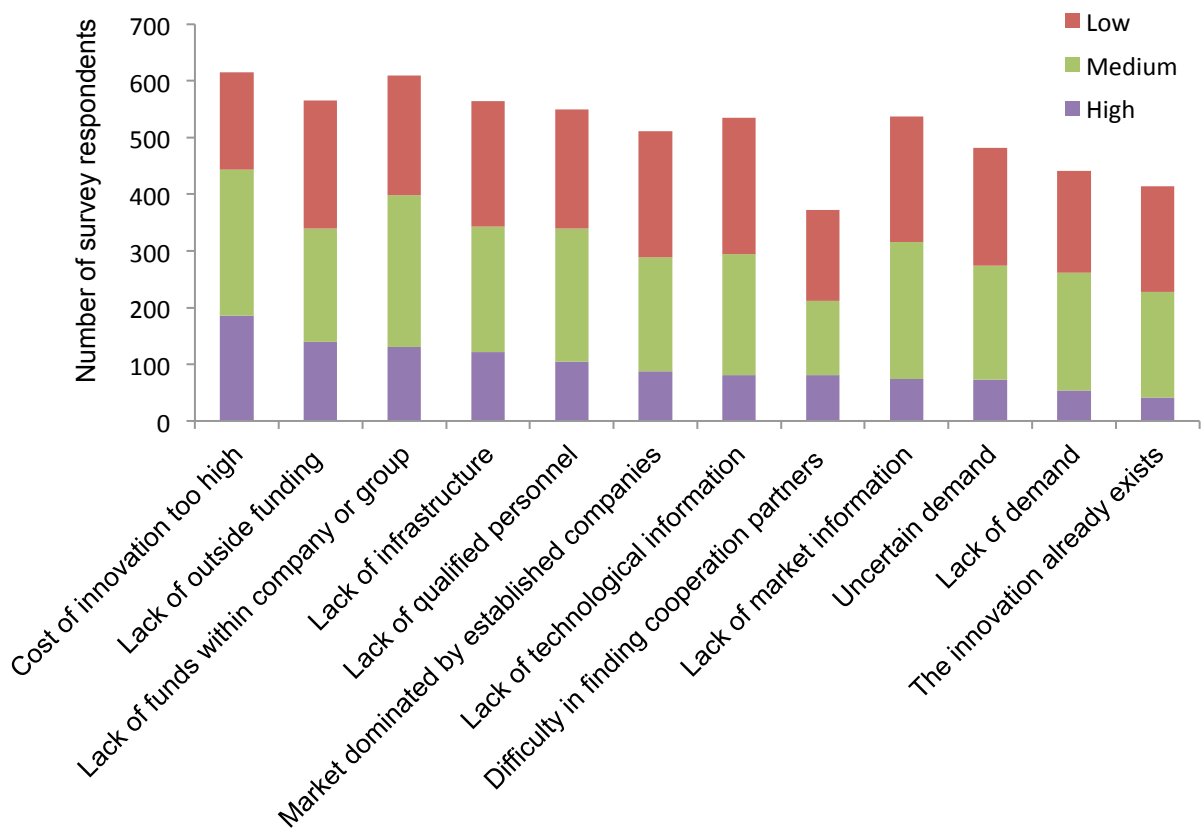
¹¹⁶ These are categorised according to micro (1-4 employees, <MZN1 200 000 turnover), small (5-49 employees, MZN 1 200 000 – MZN 14 700 000 turnover) and medium (50-100 employees, MZN 14 700 000 – MZN 29 970 000 turnover)

new or changed services over this time period, while 53% of large companies have done so.

- The sectors that have innovated the most in the past 2 years are Communications, Information and IT and Finance and Insurance (68% and 67% of survey respondents from those sectors respectively).
- The least innovative sectors from the past 2 years are Agriculture and Fisheries and Transport and Storage (23% and 26% of survey respondents from those sectors respectively).

Cost and knowledge factors that firms reported to influence their level of innovations are shown in Figure 25 below.

Figure 25: Cost and knowledge factors influencing innovation¹¹⁷



Source: Adapted from KPMG Business Confidence Index, 2012

The most significant finding from this analysis is that the **high cost of innovation and lack of internal and external funding** are considered to be the most significant constraints to innovation, while lack of demand and the pre-existence of innovations are less significant.

6. CONCLUSIONS

Current and planned investment in Mozambique is dominated by the extractives sector and the development of the infrastructure required to support this sector. The extractives and construction sectors were therefore identified as the principal demand 'anchors' for this study,

¹¹⁷ A number of respondents did not answer every question. Where there was no answer, this has been excluded

complemented with other key sectors and buyers. Demand-side findings by sector are summarised in Table 22 below.

Table 22: Demand-side findings per sector

Sector	Findings
Coal and natural gas	Direct investment activity in the extractives sector is predominantly in Tete and Cabo Delgado provinces, where the country's coal and natural gas reserves are located respectively. Investment timelines indicate that coal sector procurement opportunities may have largely been missed in the construction stage, and the focus should now be on the operational stage. However, there is significant potential for SMEs to benefit from construction opportunities related to the natural gas sector over the next 5 years.
Mineral sands	Operations are conducted predominantly by remote, enclave companies spread across the country. The majority of these are small exploration operations that require basic services, while the Kenmare Resources operation in Nampula province requires supplier economies of scale. Locally-based SMEs would most likely only be able to supply the remote Kenmare plant, with little potential for market diversification.
Construction	As a sector that employs large numbers of relatively unskilled laborers, relies on relatively low-technology inputs, and is expected to continue to grow at a high rate for some time, the construction sector offers an attractive opportunity for linkages and supplier development interventions. The information gap between construction companies and local suppliers needs to be addressed in order to exploit these opportunities.
Industry and manufacturing	Due to diversity in production, size and ownership in this sector and its subsectors, generic supply chain needs are difficult to identify for the purposes of local procurement. However, in terms of local procurement, many local suppliers remain undeveloped and unable to service the large industrial corporations during the early stages of these businesses. Some subsectors within the industry and manufacturing sector do show promise of linkages and growth, given the significant investments expected in the sector. However, more research into opportunities for SMEs by subsector is required.
Retail	The entry of regional and international retailers into Mozambique presents opportunities for local sourcing of a number of goods, such as agricultural produce, as well as support services, such as transportation and packaging. While these opportunities in the formal retail sector may be limited, given the stringent quality criteria demanded by large buyers, there appears to be untapped potential for improved linkages in the informal market.
Travel and tourism	Although there are potential sweet spots for local sourcing in the travel and tourism sector, such as food and beverages, services and maintenance, these are often supplemented with imported goods. Focus should be given to up-skilling and diversifying local SMEs to provide continual supply of both basic and higher value goods and services, with particular attention paid to smaller establishments whose quality requirements do not preclude local suppliers. Also, scope exists for a range of local value-added recreational services to be developed around key tourism nodes, most of which are conducive to SME providers.
International development	<p>The international development sector makes significant contributions to general government and in many instances provides services that at some point in the future will be taken over by the government, or which are in fact delivered by the government. This is therefore a source of demand (for example for inputs to the country's health and education systems) that will continue for a long time into the future and can be seen as offering sustainable opportunities for local sourcing.</p> <p>Given the overarching social objective in the international development sector, increasing local content in projects would be an effective way to 'spend the aid dollar twice'. Further, since such a large amount of aid 'spend' is spread across a relatively small number of organisations, successful advocacy for changes in procurement policy could have a big impact on the local economy. However, caution must be exercised to avoid aid expenditure distorting and disrupting local SME supply and service markets and their potential for sustainable growth.</p>

Overlap of demand

There is significant overlap in the demand, and hence procurement, from the extractives and construction sectors. Demand overlaps occur most notably in the categories of non-core services and support goods. Smaller companies are able to supply these products and services, which require less expert skills and pose a smaller threat to core operations if unfulfilled in the short term. These include:

- Construction raw materials
- Plumbing and electrical equipment
- Crates, pallets, pans
- Fresh produce
- Fuel and lubricants
- Furniture
- IT equipment and services
- Office supplies and equipment
- Personal protective equipment
- Replacement parts and vehicle spares
- Signage
- Tools
- Uniforms
- Basic construction services
- Catering
- Cleaning/janitorial services
- Consulting services (e.g. labour broking)
- Maintenance and repair
- Security
- Transport and logistics

Supply

A database of suppliers shows that the majority of SMEs are located in and around Maputo, followed by Sofala and Nampula provinces, where the port of Beira and Nacala Corridor and Special Economic Zone are located respectively. Within Maputo, SMEs fall mostly into the commerce, construction, industrial and services sectors. The majority of SMEs in Sofala and Nampula are industrial firms.

In terms of goods, there is an existing base of manufacturing companies to link to demand from major buyers, particularly in the apparel (uniforms and PPE), fabricated metal products (construction raw materials) and furniture subsectors, which suggests a starting point for where future research and linkages activities should focus their efforts. While these are important sectors for job creation, it is important to work to increase the scale of existing suppliers to take on larger contracts or upgrade to more valuable products.

Demand for local services is dominated by non-core services, which are theoretically those that local firms should be able to provide. As the technical nature of the service increases, so does the opportunity to partner with international firms and/or to provide technical training to local suppliers.

Supplier constraints

Constraints facing SMEs fall into a number of categories: SME capacity; access to information; access to finance and cash flow management; and infrastructure and the environment. In terms of innovation, the majority of SMEs have not introduced a new product or service in the past 2 years, and report the high cost of innovation and a lack of funding as the most significant constraints to doing so.

Buyers' attitudes

The attitudes of buyers to local sourcing are ambivalent. Most buyers do not have an internal policy favouring local suppliers, and the regulatory framework does not (in general) require them to do so. Even so, most buyers are keen to increase local content, but commercial considerations and risk aversion often preclude them from doing so. There is some consensus among major buyers that a combined linkages and supplier development programme delivered by a domestic institution would facilitate local sourcing, and buyers are prepared to contribute to the costs of such a programme.

Next steps

The lack of comprehensive and reliable data on the extent of cumulative quantitative demand in each sector, and the extent and capacity of local suppliers in each sector, is a significant limitation to this study. It is also however a key finding. A popular challenge cited by interviewees in the demand side interviews conducted was a lack of information around shared demand and local suppliers. A major barrier to linking demand and local supply is therefore simply the deficit of information from both sides.

While the original objective of this study – to analyse the gap between demand and supply – cannot be fully realised because of the lack of information; there is significant value in pin-pointing where the information gaps are. Filling these gaps and sharing this knowledge with major companies operating in Mozambique and promising local suppliers, will identify the 'low hanging fruit' with regards to local procurement opportunities and channels and may result in 'quick wins' in terms of local content.

This study is therefore only the first step in closing the demand-local supply gap in Mozambique, and should serve as a base for further studies with the same objective to boost local content and SME development in the country.

7. RECOMMENDATIONS

In light of our analysis and findings, we offer the following recommendations:

1. Conduct further targeted research and develop information sharing mechanisms

In order to promote a better quality and flow of information about supplier capabilities and industry demand requirements, we would recommend exploring the following initiatives (either as independent research or, preferably, as part of a targeted linkages programme):

- Within specific high potential industries, and preferably on a regional basis, gather and share information on identified procurement opportunities over a set timeframe together with an attempt to forecast demand. Buy-in from major buyers, as well as collaboration amongst them, is critical to this. Companies will benefit from shared

learning and a cluster approach to SME incubation, which will help to overcome competition and fragmentation in the design and delivery of SME support programmes, something that frequently characterises such programmes – even within industries.

- Assess and communicate the capacity of domestic firms to meet current and future demand in each industry. In particular, the competitiveness of suppliers (price, quality, delivery) and which interventions would improve these without distorting the market. Important in this is better understanding the current markets for those products where there is an existing supplier base. Business associations such as ACIS and tender platforms and databases would provide a valuable starting point for this type of research, which can be commissioned by private sector and international development agencies looking to contribute to linkages in Mozambique. This should be updated and communicated on a recurrent basis through business association websites and conferences.
- Extend these assessments to regional markets in terms of demand, and constraints to regional competitiveness on the supply side.
- In large industries, particularly the extractives sector, and as part of a targeted linkages programme, new forms of cooperation should be explored by the implementing partners between different types of suppliers, for instance between large tier 1 engineering, procurement and construction management (EPCM) contractors and potential suppliers of spare parts and maintenance.

2. Design and implement targeted linkages programmes

Following on from the research described above, linkage promotion efforts should be focused on the highest potential industries and supply chains which offer the greatest opportunity for SME linkages relevant to local supply capacity. A critical criterion for identifying these opportunities is that of additionality, whereby the linkage intervention (whether financial or non-financial) catalyses further investment and activity that would not have happened in its absence.

The objectives of these programmes would be to identify and facilitate the entrance of local SME suppliers into established companies' supply chains as long-term partners. Over time such support should help strengthen capabilities to allow emerging suppliers to grow and diversify, and shift into higher value-added products and services. To achieve critical mass, the programme should combine several large buyers, preferably by industry, to allow for a broader selection of suppliers as well as greater scope for industry demand. Where several large buyers are included, **harmonisation across companies' criteria and qualification systems** in selecting suppliers for these programmes should be encouraged, so as to smoothline procurement systems and decrease the administrative burden and cost for the emerging suppliers.

Importantly, any such initiative should address the key constraint of **access to finance, the provision of business development services to firms and skills development through internships and mentoring**. A number of globally recognised models exist in the region, which provide equity, loan finance and BDS support to SMEs within sponsoring companies' supply chains. Long term, such access to finance constraints can be effectively addressed through the development of feeder partnerships between these programmes and the market of banking and microfinance institutions, for future commercial financing of growing SMEs.

Successful local content programmes are often a result of collaboration between companies, government, and domestic and international agencies. These are designed for the long-term and aligned with government priorities, with a clear exit strategy for supporting agencies. While linkages programmes should be **driven by the buyers themselves**, government departments, NGOs and international development organisations can play an important role in supporting them, by for example assisting in identifying suitable supplier participants, disseminating programme information and supporting learning forums where experiences are shared.

The integration of local SMEs into large companies' supply chains is a complicated process and has a number of associated risks and costs (linked to quality, reliability, safety, price etc.) for large buyers. A role for donors could therefore be absorb some of this risk through the provision of matched funding to companies actively engaging in well-designed linkages activities. A number of such initiatives are in operation in the region, which should be consulted as a reference for adaptation to Mozambican circumstances.

The effectiveness of such initiatives, especially in their early stages, is directly correlated with focus. If a programme begins by targeting a specific industry and, most likely a defined geographic region, its design, promotion and operation can be tested in a contained environment, and a successful model established for expansion and replication in other industries and in other parts of the country.

3. Monitor and encourage local content and communicate effectively

Both government and industry have an interest in improved monitoring and reporting on domestic procurement. Effective local content policy will depend on the quality of information about whether or not local firms are securing meaningful business opportunities. A clear and practical approach to monitoring and reporting on local content will also allow companies to more effectively understand and communicate what works and why. Success is a necessary but insufficient basis for replication. Effective communication, through a variety of formats, is critical. **Important to this is agreeing to a widely accepted definition of 'local'**. For many programmes this definition is limited and based on citizenship or place of registration, rather than the degree of value addition taking place domestically.

8. APPENDIX I – STUDY PARTICIPANTS

8.1. DEMAND SIDE

Interviews were conducted with the following major buyers in Mozambique:

Table 23: Completed interviews with major buyers

Company	Sector	Name and position
1. Kangelá	Retail	Paul Soares – Key Account Manager
2. ENH	Oil and Gas	Antonio Cosso – Chefe de UGEA
3. Bechtel	Engineering, Procurement and Construction	Gareth Brown – Country Manager, Mozambique
4. CDM (SAB Miller)	Industry and Manufacturing	Eurico Goncalves - Procurement
5. Shoprite	Retail	Joao Goncelves – National Buyer, Mozambique
6. Southern Sun (Tsogo Sun)	Tourism	Marco Veiga – Deputy General Manager, Southern Sun Maputo
7. World Bank	Donors	Dirk Bronselaer – Senior Procurement Specialist
8. Rio Tinto	Mining	Ismenio Chitata – Local Business Development Manager Ramakrishna Kottagajula – Procurement Manager
9. Kenmare Resources	Mining	Joel Sithole
10. Rani Resorts	Tourism	Nordine Ali Yassine
11. WBHO	Construction	Johann Erasmus – Project Manager
12. ServCo Catering	Catering	Gabriel Correia (Procurement Manager) and Pedro Solipa
13. British American Tobacco	Industry	Arlindo Mendes – Procurement Business Manager
14. Radisson	Tourism	Charl Pretorius
15. Baobab Resources	Mining	Ben James (Managing Director) and Fatima Sang
16. Mozal	Industry	Esmilda Dombo
17. Eni	Oil & Gas	Lucca Ferri
18. Anadarko	Oil & Gas	Brian Smerud

All of the above interviews were conducted in Maputo, apart from Rani Resorts and Kenmare Resources, which were conducted in Pemba and via telecom respectively.

A survey was sent to the following companies to generate demand side data. This was to cover those informants who we were not able to interview up front, and provide a consistent format for collecting data on supply chain opportunities in Mozambique, to be triangulated with desktop and fieldwork findings.

Table 24: Demand-side survey recipients

Sector	Companies
Mining	<ul style="list-style-type: none"> • ENRC • Ncondezi • Syrah Resources
Infrastructure/construction	<ul style="list-style-type: none"> • Aveng • Barloworld • Bell equipment • Van Oord • Mota – Engil Eng. Constr. SA – Delegacao Mocambique • Frankipile • C.M.C. Africa Austral, Lda • Clm civil contractors
Oil & Gas	<ul style="list-style-type: none"> • Sasol • Matola Gas Company • Galp • BP
Industry and manufacturing	<ul style="list-style-type: none"> • Nestle • Tropigalia • Unilever • Mozambique Fertilizer Company • Cimentos de Moçambique • DonaBella Lda • Intersteel Rollings • SumolCompal Mozambique • Olam Mozambique • Maersk
Tourism	<ul style="list-style-type: none"> • Rani Resorts • Visabeira • Pestana
Retail	<ul style="list-style-type: none"> • Delta Trading • Game • ISS
Public departments/agencies/companies	<ul style="list-style-type: none"> • Ministry of Agriculture • Ministry of Education • Caminhos de ferro do Mocambique • FIPAG
Donors	<ul style="list-style-type: none"> • EC • USAID • AfDB • GIZ • DfID

8.2. SUPPLY SIDE

Interviews with the following existing/potential suppliers were conducted.

Table 25: Interviewed suppliers

Area	SMEs interviewed
Tete	<ol style="list-style-type: none"> 1. Ppointel (accounting services and customs clearing) 2. Electro Vera (generators, air conditioners, cold storage and electrical systems maintenance) 3. Consultorios Medicos (medical) 4. Univendas (supply wooden furniture, office supplies, tools) 5. Norco (signage, protective clothing and PPE) 6. Ceconta Lda (accounting and auditing) 7. Pro Imagem (graphics, screen and digital printing)
Beira	<ol style="list-style-type: none"> 8. Fumigação Internacional Moçambique (tobacco fumigation) 9. Terra Nova (fertilizer production)
Pemba/Palma	<ol style="list-style-type: none"> 10. Jose Cavalete Ltd (maize milling) 11. Baobab Constructions (construction) 12. Tipo Magia (image and communications) 13. Municipal Council of Mocimboa da Praia 14. Administrator of the District of the Vila do Ibo 15. Silver Artisans Associations
Nacala	<ol style="list-style-type: none"> 16. Autoridade Tributaria em Nacala (tax authority) 17. GAZEDA (Bureau for the Accelerated Economic Zones) 18. Association for the Sustainable Development of Nacala (ADSN)
Nampula	<ol style="list-style-type: none"> 19. Hocks Design (garments) 20. Sizanine Consultores (BDS) 21. Pamberi Services (accounting and management consulting services)
Maputo	<ol style="list-style-type: none"> 22. Bearing Man Group (engineering components and spare parts) 23. Imagem Real (printing and editing) 24. SBS Moçambique (training in Project Management, Health & Safety, Soft skills and Technology) 25. BKSC (accounting and auditing services, human resources, marketing and investment advisory services and tax advisory) 26. Couto & Graça Associados (legal advisory services) 27. Nutriconsult (Quality management consulting, Safety and environment, food security and nutrition)

9. APPENDIX II - LINKAGES PROGRAMMES IN MOZAMBIQUE

Mozambique's flagship linkages programme to date is the Mozlink programme, centred on the Mozal aluminium smelter. The programme has not proven to be a sustainable model, and has been criticised for a number of factors. These include:

- Limited potential for local downstream linkages, due to the majority of the aluminium being exported.
- Many SMEs assumed automatic integration into the corporate supply chains, which was not the case.
- Business development services were provided free of charge, leading to a lack of ownership by SMEs.
- The presence of one large buyer (Mozal) in a particular region limits the ability of the programme to reach scale in one particular industry.
- The programme required the collaboration of large companies in unrelated industries, which is challenging, particularly if supplier requirements or evaluation criteria are inconsistent.
- Reporting on programme's success was biased towards inputs, such as the number of SMEs trained, as opposed to outputs and outcomes, such as job creation or the increase in firm capabilities. This indicates the lack of an appropriate monitoring and evaluation framework.
- Too much focus was placed on simple goods and services without working to increase the scale of existing suppliers to take on larger contracts or upgrade to more valuable products.

The Mozlink programme, and its predecessor SMEELP, are described in more detail below.

SMEELP

The SME Empowerment Linkages Programmes (SMEELP) was launched in 2001 as a reaction to the lack of key capabilities seen in SMEs during phase I of the Mozal construction.¹¹⁸ This programme was a joint venture between the IFC-managed Africa Project Development Facility (APDF) and the Centre for Promotion of Investment (CPI), with the main purpose of assisting SMEs to win and deliver contracts to phase II of the Mozal aluminium smelter construction¹¹⁹. Private institutions involved in this programme included BHP Billiton Aluminium Project Team (BPT), its Engineering, Procurement and Construction Management Contractor, SNC Lavalin Murray and Roberts (SLMR). Finally, the Mozal Operations Team also supported the programme.¹²⁰

¹¹⁸ There was a need to package contracts more appropriately for SME and to provide more effective ongoing training to ensure success

¹¹⁹ International Finance Corporation, 2003

¹²⁰ IESE, 2009

The major components of SMEELP are described in the table below.¹²¹

Table 26: SMEELP key components

<p>Step 1: Creation of SME Packages</p> <ul style="list-style-type: none"> • Packages solely allocated to SMEs • Ensure realistic scope in terms of size and complexity • Sufficient back up time in case of failure • SMEs included for standard packages, whenever possible 	<p>Step 2: Pre-assessment of SME Capability</p> <ul style="list-style-type: none"> • Financial/Technical capabilities pre-assessed and capable SMEs recommended to the project by CPI • SME database established and periodically updated
<p>Step 3: Training</p> <ul style="list-style-type: none"> • Tendering Training (Pre-tender): How to tender • Induction Training (Post-Award): How to execute contracts • On Demand Training: QA/QC, Business Management etc • Training Modules written and presented in Portuguese periodically updated 	<p>Step 4: Mentorship</p> <ul style="list-style-type: none"> • Custom made Mentorship Plan for each SME • Business Mentorship: Financial/Commercial assistance • Technical mentorship: On/Off Site Technical assistance including Safety, QA/QC

SMEELP was designed to ensure that at least 25 contracts for this expansion would be handled successfully by local companies. In reality, the success of SMEELP surpassed expectations, with 16 companies benefitting from training under the programmes, with a total of 28 contracts to the tune of \$5 million successfully concluded.¹²² The nature of the services offered by these SMEs varied; including maintenance, tools, spares, basic construction, waste removal, employee transport; as well as number of basic services, such as catering, cleaning, security and laundry. In addition, the transfer of technical knowledge to SMEs through training and mentorship was also achieved. Analysis of SMEELP reveals that those businesses that won contracts benefitted from the training and mentoring. Specifically, 88% of the participating firms found the programme useful, while only 12% believed that the programme did not help them.¹²³ Of those who found it helpful, 10% mentioned that the chance of being with other firms and learning about investment opportunities made the programme useful, rather than what was taught.¹²⁴ UNCTAD (2012) moreover reveals that of the 33 SMEs that participated in at least one of the training courses offered, 19 were awarded at least one contract.¹²⁵ However, further to the mentoring and training provided in SMEELP, it was realised that SMES needed access to support services and working capital financing products to help in delivering the contract.¹²⁶ To this end, Mozal began to explore a triangular arrangement with local banks and the SMEs that are awarded contracts: SMEs apply for a bank loan, for which Mozal would stand as the guarantor; then the loan repayments would be deducted from Mozal's payments to the SME for its services. The programme ultimately evolved into Mozlink after the end of the Mozal construction phase.

An important learning from SMEELP (as well as Mozlink I and II) was that a clear business case was required for a long-term commitment by the investor. In addition, it was concluded that opportunities for SMEs should follow a commercial nature, rather than a philanthropic one

¹²¹ BHP Billiton, 2003

¹²² Mozambique News Agency, 2003

¹²³ IESE, 2009

¹²⁴ Ibid

¹²⁵ UNCTAD, 2012

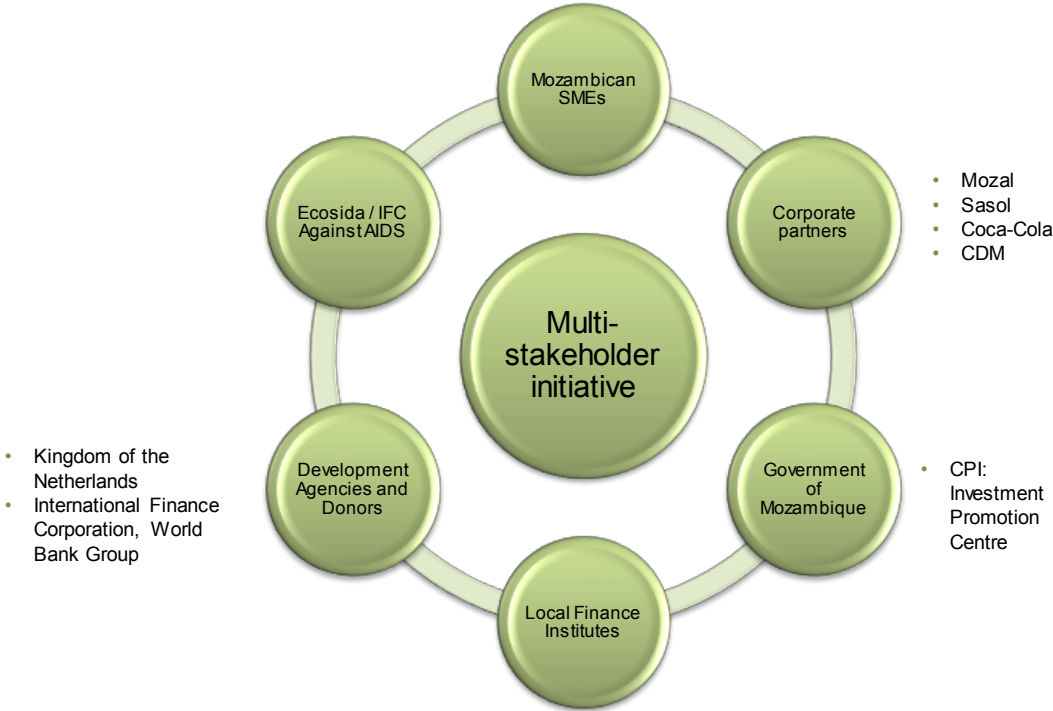
¹²⁶ International Finance Corporation, 2003

because linkage programmes are risky, costly and time consuming for companies.¹²⁷ Further, roles and responsibilities, in the form of corporate leadership, vision and resources, needed to be clearly articulated. This was well demonstrated in SMEELP and Mozlink I; however, this waned in Mozlink II when multiple partners joined the programme.¹²⁸ A major point of contention for Mozlink II was that these partners were often in different industries.¹²⁹ The IESE (2009) describes that the evaluation of SMEELP needs to be reviewed in context. The success of the programme depends on the firm's stage of development and the specific competitive issues that it faces.¹³⁰ Lastly, linkages programmes cannot be evaluated without taking into account the broader industrial strategies and investment climate in the country of consideration.

Mozlink

Mozlink is a development programme for local suppliers which promotes linkages between large investment projects in Mozambique and local SMEs. The objective of the programme is to foster more sustainable and competitive SME's through training, coaching and access to finance. Born out of the success of SMEELP, which assisted businesses in the start-up phase, Mozlink is aimed at the operational phase of Mozal. The success of the programme has resulted in a spinoff, Mozlink II, by Mozal and its four corporate partners – Coca-Cola, CDM, Sasol and CPI. It intends to create market opportunities for local SMEs by leveraging off of the high-capital, long-term industrial projects launched by the five companies in sectors such as mining, natural gas, and others¹³¹.

Figure 26: MozLink Partners



Source: Adapted from BHP Billiton, Mozlink programme and impact on the local economy presentation, n.d.

¹²⁷ USAID, 2012
¹²⁸ Ibid
¹²⁹ Coca Cola and SAB Miler joined the Mozlink II programme. These two companies were not in the extractives industry.
¹³⁰ For instance, firms that have some experience in international tendering would have not been interested in participating in SMEELP.
¹³¹ Mozal and IFC, *Developing SMEs through Business Linkages*, 2008

The diagram above details the partnerships underpinning the Mozlink project.

The Mozlink model centers on training a batch of 15 to 20 SMEs over a 12 month cycle, under the guidance of a team of four mentors. The Mozlink process develops the technical and business skills of SMEs and prepares them to perform adequately on contracts with large companies through a series of assessments, concentrated mentoring, training, and workshops spread out over five phases.

To date, the programme has built the capacity of about 45 SMEs with annual local purchasing from Mozlink-affiliated companies increasing from USD 5 million to USD 13 million over the period 2001 to 2005. Table 27 details the successes of each Mozlink phase:

Table 27: Mozlink achievements

Mozlink I	Mozlink II
75 SMEs selected to undergo capacity building program	Over 140 SME managers trained in management and technical best practices
Over 3,000 employees impacted by the program	75 SMEs actively engaged in the program and implementing individual improvement plans
Over \$20 million in revenues to SMEs generated by Mozlink corporate partners to date	Average of 34% annual total sales growth for participating Mozlink SMEs
40% growth (2007-2008) on new contracts to local SMEs by Mozlink corporate partners	By the end of 2009, corporate partners spent over \$20 million on Mozlink SMEs alone

Source: Adapted from Mozlink, The IFC Mozlink Program, n.d.

The Mozal aluminium smelter in the south of Mozambique was the first major development in the country for decades and was made possible by private investment from international players, facilitation from the government and regional support from the South African Government. By 2007, Mozlink had built the capacity of 45 local small and medium enterprises. In addition, monthly spending on 250 local firms supplying to Mozal increased to \$17 million. SME performance, as measured by quality management, maintenance and safety, improved by 20%¹³².

However, the programme has not been without its inadequacies. Critics have noted that most of the aluminium produced has been exported, leaving little potential for local downstream linkages. In addition, the programme required the collaboration of large companies in unrelated industries which creates a co-ordination challenge. Other criticisms include too great a focus on HIV training, misaligned expectations as SMEs assumed automatic integration into the corporate supply chains and lack of ownership by SMEs as business development services were provided free of charge.

As part of its Program Sustainability Strategy, IFC proposed a reduction in its role in the program in 2010 in order to gradually hand over management of the programme to local institutions¹³³. There are plans for another programme to expand into other regions of the country with the establishment of new corporate partnerships. Realization of these plans seems to be hanging in the balance at present, and depends heavily on the partners involved.

¹³² UN Economic Commission to Africa, *Minerals and Africa's Development*, 2011

¹³³ Mozlink, *The IFC Mozlink Program*, n.d.

Corporate and organisational programmes

The table below provides an overview of some other corporates and organisations with linkages and/or potential linkages programs.

Table 28: Summary of some investments/organisations with linkages programmes¹³⁴

Company / Organisation	Description	Value of CSR Spend (US\$)
Rio Tinto	<p>Rio Tinto's program is still at design stage though significant progress has been achieved.</p> <p>RTCM's program is based on:</p> <ul style="list-style-type: none"> • Mapping of opportunities for local MSMEs (Demand Side); • Identifying priority geographical areas; • Mapping local MSMEs; • Identifying programme partners (such as AgDevCo who partnered with Rio Tinto in the project described below) • Developing a business training centre for suppliers 	
AgDevCo, Agribusiness	<ul style="list-style-type: none"> • The objectives of AgDevCo's work in Tete is to foster off-take contracts between mining companies, Mozambican farmers and catering firms • Main partners are AgDevCo and DFID • Other equally vital partners are Vale, RTCM and other coal mining firms - Beacon Hill Resources, Revuboè, Ncondezi and hotels, restaurants, etc. • TA package structured on institutional support to smallholder cooperatives with a view to tapping mining company demand for food products to feed their project and operational staff. 	
World Bank programmes	<p>PACDE</p> <p>PACDE is a World Bank and Irish financed program, which includes the Small Enterprise Subsidy Mechanism (MESE). It has a 5-year budget of \$4,5million targeting SMEs, micro-enterprises and business associations. There is a financing component structured around the Moatize Coal basin for SMEs targeting the coal mining industry designed on maximizing purchases of local goods by mining companies.</p>	\$4.5million
	<p>Growth Poles program</p> <p>This project involves the design of the Innovation & Demonstration Catalytic Facility (IDCF) of Mozambique's Integrated Growth Poles Project (IGPP), a US\$100m-worth investment lending operation under the World Bank's new Country Partnership Strategy (CPS, 2012-2015). The IDCF is the third component of the IGPP with a total financing capacity of \$35m. The Grant Facility will provide demand-driven cost sharing grant support on</p>	Further studies/scoping of the project is underway

¹³⁴ Genesis Analytics, adapted from USAID/SPEED (DAI and Nathan Associates), 2012, *Mozambique Business Linkages Review*, USAID/SPEED

	<p>a competitive basis to eligible private enterprises to catalyse investments through business linkages between SMEs/smallholding farms and large investors. It will also provide support on a competitive basis for private-public partnerships in the delivery of high quality, demand-driven skills and technology support services for the Zambeze Valley and the Nacala Development Corridor reaching the northern municipalities of Cabo Delgado and the southern municipalities of Zambézia, Manica and Sofala</p>	
SNV – Inclusive Business Model	<ul style="list-style-type: none"> • Sectors: Agribusiness, Renewable energy, water, hygiene and Sanitation • SNV programs are implemented mostly in Nampula, Nacala and Beira corridors • The model is based on building the capacity of smallholder farmers via intermediaries. Large companies such as OLAM work with SNV in this model and provide capacity building/ training to local small farmers from whom they procure agricultural produce. The approach of the Inclusive Business model is to work with all actors in the value chain either as workers, suppliers, distributors and/or consumers • Main products are cotton, sesame, soya beans, oil seeds which are exported to Japan and other markets • Discussions underway with CPI for sustainability 	<p>Program funding of \$500,000, of which \$250,000 from The Ford Foundation. More funding is required to sustain the program.</p>
ACIS – BusinessLink Program	<p>BUSINESSLINK</p> <ul style="list-style-type: none"> • Trade Fair/Exhibition/Networking Annual event free for SMEs but bigger firms pay to exhibit their products • Provides a good platform for networking/information exchanging between large business and SMEs • Participants list given to all attendees ahead of the event to help them plan their meetings in advance • Opportunity to facilitate formation of JVs with foreign companies who participate in the event <p>InBid platform</p> <ul style="list-style-type: none"> • InBid is Mozambique’s online procurement platform. It has been created by ACIS in partnership with Pandora Box and ITMZ- Services and Solutions. • InBid is designed to facilitate business and increase transparency in the procurement process for companies operating in Mozambique. • Any organization officially registered in Mozambique can become an InBid user, on payment of a subscription fee. 	<p>ACIS, business association - 320 members are mostly SMEs with a few large companies. Generally funded from member fees (overheads) and from events such as BusinessLink.</p>
UNIDO – SPX model	<ul style="list-style-type: none"> • Web – based (Portal) program • Process: Matchmaking, Benchmarking & Supplier capacity building program • Focuses on 3 sectors – 1. Metals, 2. Plastic & Packages, 3. Industrial services – all suppliers are 	

	<p>manufacturing companies.</p> <ul style="list-style-type: none"> • Target (150 suppliers): program started in 2011, SPX Centre launched in August 2012 • Supply-driven model as it starts by mapping/selecting SMEs first, big firms are expected to visit/check the portal to find potential local suppliers 	
GLOBAL GAP	<ul style="list-style-type: none"> • Focused on Agribusiness • Chain stores buying produce of local smallholder farmers • Encourages good environmental practices but the cost leading up to certification too high for MSMEs, AV. \$50,000 	

Key lessons learnt from supplier development programmes in Mozambique

The following are thought to be essential to ensuring the success of these programmes¹³⁵:

- Large corporations need to view supplier development programmes from a strategic perspective that makes business sense, rather than as a corporate social responsibility activity.
- The selection of participating SMEs needs to be rigorous, with clearly outlined, and adhered to, selection criteria.
- In order to avoid false expectations developing among SMEs, the objectives of the programme should be clearly outlined to all parties involved.
- The expectations of the big corporations in terms of service and product quality should be clearly stated so as to ensure that training and mentoring activities are aligned to these expectations.
- The ability and current performance of participating SMEs should be understood such that training and mentoring is targeted appropriately.
- Training and mentoring needs to focus on both technical expertise as well as business development.
- Although training and mentoring is vital, there are other constraints to doing business that need to be addressed, such as access to finance and access to information.
- There needs to be dedicated ownership of, and accountability to, the programme. This should be achieved through the establishment of a Steering Committee that “owns” the programme.
- Supplier development programmes should have a comprehensive monitoring and evaluation framework.

¹³⁵ ICC, 2013