

# The local content and value addition in the mining oil and gas sector in Mozambique: Context and resource governance

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## INTRODUCTION

Mozambique is endowed with significant mineral and gas resources, making the country rank fifth in the world in terms of natural gas resources (in place). This is because of the recent gas discoveries in the West Indian Ocean that amount to c. 200 trillion cubic feet (Tcf)<sup>1</sup>, while a considerably smaller field with c.5 Tcf has been producing natural gas and light condensate since 2004 in the Pande-Temane area. The country also has significant coal reserves in the Tete Province, a central part of Mozambique, where production reached the historic record of 19 million tons in 2017<sup>2</sup>. Mozambique is also a 'game changer' in the world market with regard to other resources. These include rubies, graphite, and heavy mineral sands (ilmenite, rutile and zircon) also in production on a large scale. It is because of this resource boom that the country aims to generate endogenous growth based on increased domestic content for economic diversification and industrialisation.

The development of the extractive industry enforces adjustments to legal instruments that govern the sector to make them more consistent and consentaneous with the sector dynamics. In this regard, and with the objective of harnessing the mineral resources sector as one of the primary contributors for the economic development of the country, laws related to mines and petroleum, including respective forms of taxation and fiscal benefits, were reviewed, and approved in 2014<sup>3</sup> and 2015<sup>4</sup>. The government of Mozambique has equally approved policies and a strategy for mining resources, including the *Regulation on Resettlement Resulting from Economic Activities* and *Policies of Corporate Social Responsibility for the Extractive Industry* in 2015 and 2016<sup>5</sup>.

### Local Content

Local content (LC) policies vary widely depending on the context and user. This paper defines it broadly as a policy governing foreign investors or investments, which aims to embed foreign investment more actively in, and catalyse spillovers into and linkages with, the domestic economy. This definition includes, but is not limited to, measures expressly requiring or incentivising the use of local goods, services, and labour. It can also include measures such as those requiring foreign investors to incorporate firms in the host economy, or to make intra-firm expenditures in the host economy.<sup>6</sup> In Mozambique, LC is narrowly defined and refers to the percentage of a product whose added value originates domestically, while a more common definition of LC, sometimes referred to as local procurement (LP), is the purchasing of goods or services from a local supplier<sup>7</sup>.

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<sup>1</sup> Ministry of Mineral Resources and Energy, 2020. Ten years report and achievements.

<sup>2</sup> Ministry of Mineral Resources and Energy, 2018. Annual Report

<sup>3</sup> Lei- no.20/2014-Lei-de-Minas.BR número - serie 66; 18 August 2014

<sup>4</sup> Decreto no. 31/2015. Regulamento da Lei de Minas. BR número - serie 104; 31 December 2015

<sup>5</sup> Diploma Ministerial no. 155/2014 de 19 de Setembro

<sup>6</sup> GIZ, 2016. Space for Local Content Policies and Strategies: A crucial time to revisit an old debate.

<sup>7</sup> Kaplan, Z. 2013 - Policy option for strengthening local content in Mozambique; SPEED - USAID/Mozambique.

### Space of local content in the value chain of minerals, oil and gas (MOG) in Mozambique

The Mozambican draft Local Content Law aims to establish a mandatory preference for products and services containing a certain portion of local inputs (content); the maximisation of added value and job creation through the use of national capacities, products, services and companies, as well as the use of the entire value chain of domestic products; the development of local capacity through training, the transfer of skills, knowledge and technology by doing active research and developing programmes; promoting the domestic industry and domestic production; and establishing the rules for preference with regard to qualified Mozambicans for training and employment.

The government of Mozambique believes that natural gas constitutes the single most promising opportunity to industrialise the country, making it necessary to ensure that part of the natural gas being produced (25%) in Mozambique is used for this purpose, at a price that allows for the viability and competitiveness of industries in the entire value chain (Figure. 1). etc.

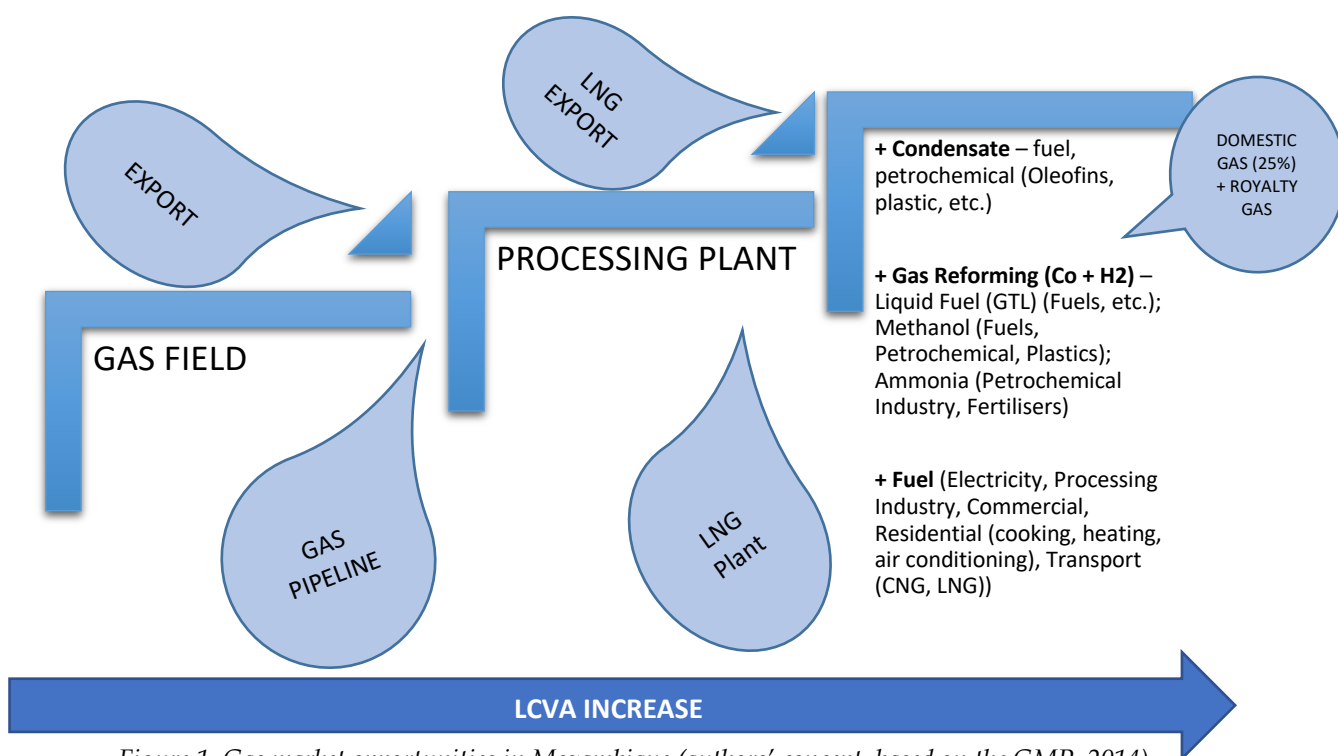


Figure 1. Gas market opportunities in Mozambique (authors' concept, based on the GMP, 2014).

### Local content policies and value addition in Mozambique

In Mozambique, there is an ongoing debate about capital gains<sup>8</sup> from mineral resources. Some segments of the society favour the establishment of a sovereign fund, while others defend the fact that such revenues must be used to reduce the budget deficit and make the country financially more autonomous. Around the world, resource-rich countries have found creative ways to leverage private extractive companies' capital and expertise to build up local industries and labour markets. The results have been mixed, varying according to the enabling regulatory environment, the government vision, private sector participation, and the ability to identify the most promising opportunities on which to focus<sup>9</sup>.

For Mozambique, the priority is and should now be placed on figuring out three things. Firstly, what is the best way to manage new sources of revenue for the state? Secondly, how can this money be invested in the best possible way into core pillars of the economy such as infrastructure, health, and education?

<sup>8</sup> A capital gains tax is a type of [tax](#) levied on [capital gains](#), profits an investor realises when he sells a [capital asset](#) for a price that is higher than the [purchase price](#).

[https://www.investopedia.com/terms/c/capital\\_gains\\_tax.asp#ixzz536pzMkUf](https://www.investopedia.com/terms/c/capital_gains_tax.asp#ixzz536pzMkUf)

<sup>9</sup> Kaplan, Z. 2013 - Policy option for strengthening local content in Mozambique; SPEED - USAID/Mozambique.

Finally, how can it be ensured that the tremendous investment tied to the extractive sector helps stimulate local market growth, small and medium sized enterprise (SME) development, and jobs for locals? What is known is that natural resource-based exploration and production investments do not necessarily contribute to the national economy. This is mainly because its enclave nature does not necessarily result in direct job creation and only allows limited economic and industrial linkages.

### **Policy conclusions and options for Mozambique**

Existing legal frameworks in Mozambique that relate to LC or LC issues are scattered throughout several policies and laws, and do not address LC in a coherent and holistic manner. Thus, the draft LC law is seen as the magic solution for addressing LC in Mozambique.

The LC approach in Mozambique is also aligned with other efforts, such as the African Development Bank's (AfDB's) effort to promote inclusive private sector development and SME linkages with large investments. The AfDB and the government's efforts aim to also promote economic development through the integration of economic activities within infrastructure development (e.g. the Nacala corridor for Moatize coal transportation, and export through the Nacala port in the north of Mozambique)<sup>10</sup>.

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<sup>10</sup> <http://clubofmozambique.com/news/afdb-to-support-mozambique-smes-in-the-construction-sector-along-nacala-corridor/>



## Salvador Mondlane Junior

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**Dr Salvador Mondlane Júnior** is a Mozambican professor of Economic Geology and Economic Evaluation of mineral deposits at the Eduardo Mondlane University. He is the director of Master Course in Mineral Resources Management at UEM since 2012. He is Director of GMSC, Ltd (one stop boutique consulting company in Geosciences, energy and environment). During his 25 years of research, he has focused on: Mineral resources evaluation; ASM in Africa and in Mozambique, its social and environmental impacts, and their maximization or mitigation, and the geological mapping and characterization of Mozambique's mineral resources. Recently he was lead consultant for the development of the training material and supporting the delivery of Training workshop on environment, health, and safety in LVMM artisanal and small-scale mining in Addis Ababa (for East Africa Region) and Accra (for West Africa Region). He has successfully completed a consultancy services with AMDC where he was involved in the implementation of the ASM Pillar on the African Mining Vision at the AMDC/ UN ECA with focus on profiles of ASM in Africa and review of the mining codes in order to understand how they support the development of sustainable ASM in Africa (<https://knowledge.uneca.org/ASM/sites/default/files/docs/ASMStudyReport2017.pdf>)

He was pivotal in the development of UNESCO Policy Brief on "Transforming the ASM sector in Africa through training and research" (2016). He successfully finalized an assignment with ICGLR on preparation of a Regional Formalization Guide for the 12 member states of the great lake region with emphasis to the **3Ts and gold**. Further, numerous assignments as a consultant for international organizations and private companies have cemented Salvador's expertise in Mineral Resources Management and course delivery at University. Furthermore, as consultant he has successfully conducted assignments on Strategic Environmental and Social Assessments, sustainable ASM management and promotion, industrial minerals governance, and institutional capacity building; having participated in the drafting of the Environment, Health, and Safety Regulations for mining and geological activities in Mozambique (2005). More recently Salvador was involved in the Rapid Baseline Study of ASM Sector in Mozambique (2012); he also was involved in the Functional Management Review of the Ministry of Mineral Resources of Mozambique, the INP and ENH (2013); finally, he was involved as Deputy Team Leader on the Functional Management Review of the Geological and Mining Institute (2014). Salvador and his team developed the Training Needs Assessment at the Ministry of Mineral Resources (2013). He also led the team that produced the 10 report of the Ministry of Mineral Resources in Mozambique (2014). He advised the African Union on Hydrocarbons and Mineral resources (2009 - 2012). He produced the book on Oil and Gas status in Africa for the African Development Bank (2009). Salvador holds a *Licenciatura* in Geology from the Eduardo Mondlane University, an MSc. In Mineral Exploration and Mining Geology from Leicester University, and a PhD in Economic Geology from the University of Zimbabwe and Utrecht University; he speaks fluent English and Portuguese and can work in French and Mozambique's southern dialects.