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## Local Content versus Economic Diversification: what is right for Mozambique?

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# Structure

1. Country context
2. The recent journey of extractives and development
3. 'Industrial policy' in the context of the extractive resources sector
4. Why industrial policy is back
5. 'Local Content' as industrial policy
6. Where does Mozambique stand on Local Content VS Economic Diversification?
7. Conclusion

# 1. Mozambique – country context

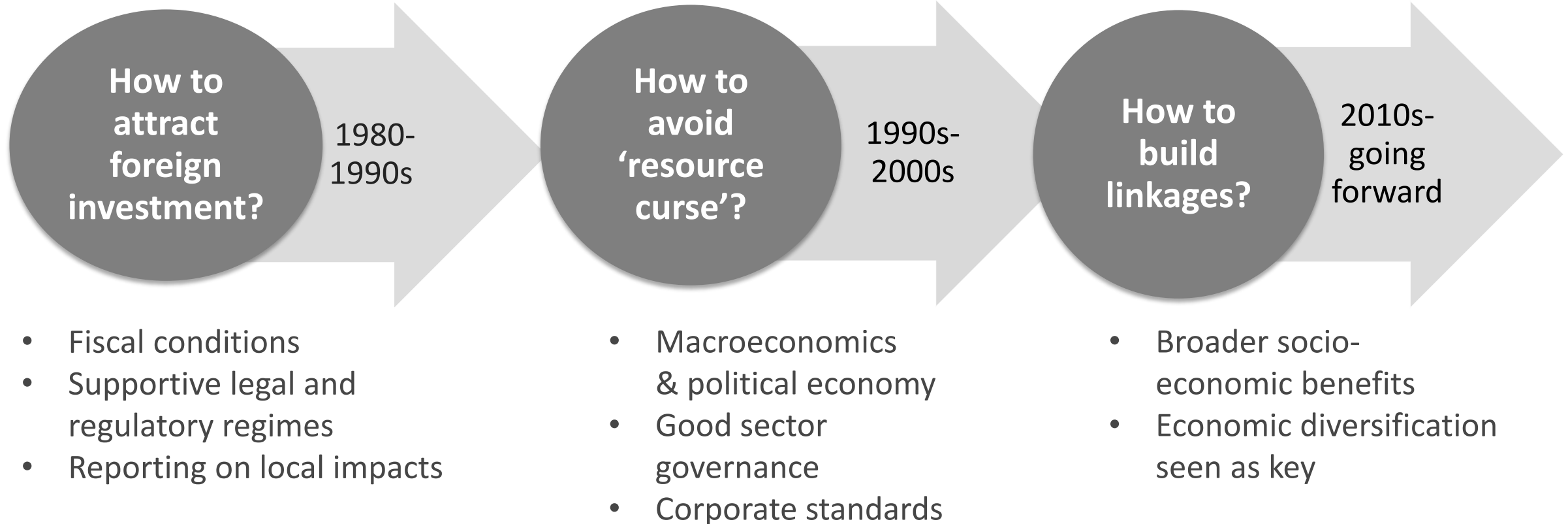
## Positive outlook for Mozambique's extractive industries...

- **Oil & Gas on-shore** – producing asset monetising previously 'stranded' gas
- **Oil & Gas off-shore** – huge play, but high cost, early days ...
- **Mining**, still an emerging sector with considerable potential
- **Other mega-projects** - Hydro-power & aluminium smelter, growth corridors

## ...but challenging circumstances for the economy more generally!

- **Dual economy** – alongside its mega-projects, the country is distinctly rural, with a small non-extractive formal economy and a low level of domestic human capital and other forms of 'non-endowed' capital
- **Fiscal situation** of 'bust before boom'

## 2. Extractives and development: recent journey

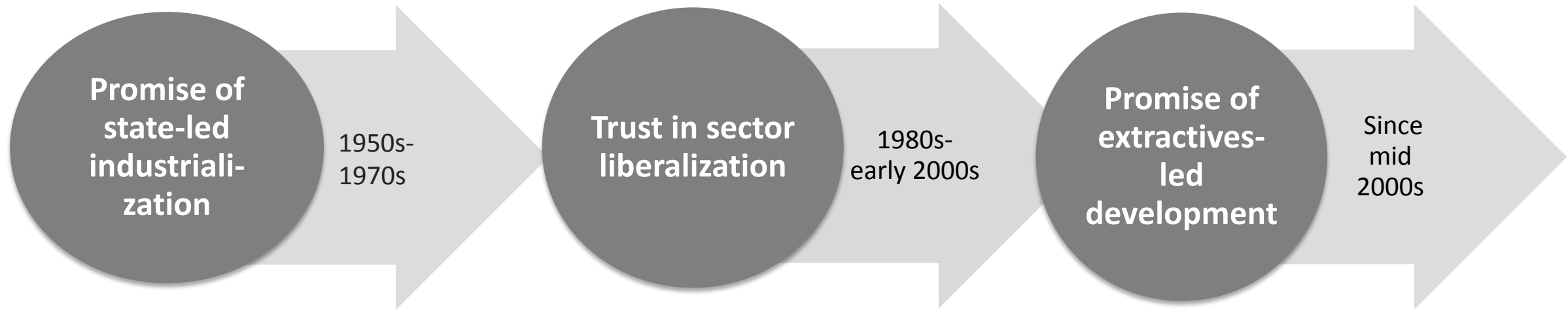


# How to build linkages between the extractive and other economic sectors?

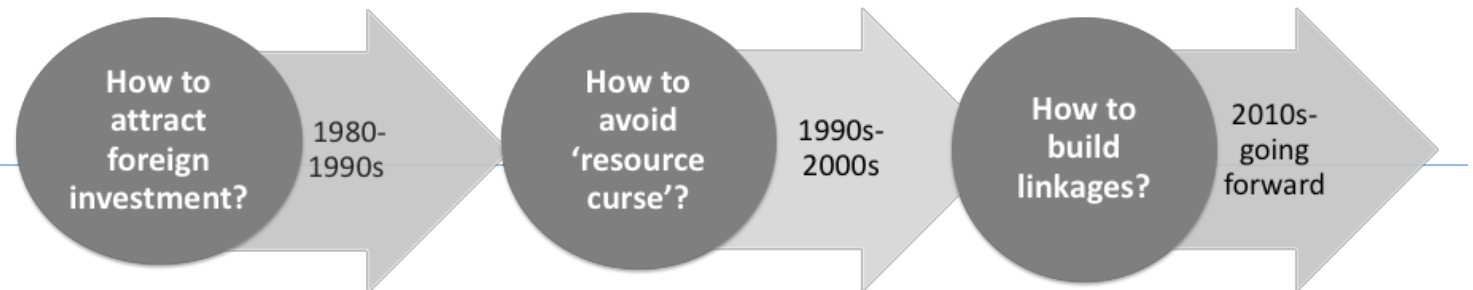
- **Re-discovery of linkage theory** - backward and forward *production* linkages, *fiscal* linkages & *consumption* linkages – as well as *side-stream/ lateral/ transversal* linkages (e.g. African Mining Vision)
  1. Backward linkages → **Local Content** → in-country procurement of goods and services & hiring of local workers and professionals.
  2. All types of linkages → enhancing economic activities as a result of the presence of extractive industries → **Extractives-led Development** → **Economic Diversification** & Structural Transformation
- Both focus areas speak to the subject of ‘**industrial policy**’:
  - Local Content very narrowly, and Economic Diversification more broadly.



### 3. 'Industrial Policy' in the context of the extractives sector



- Resource nationalism and state ownership.
- Oil shocks, then rise of non-OPEC supply.
- Downturn of commodity prices
- Resulting fiscal crises.
- Structural adjustments - policy reforms to liberalise the sector
- Attracting foreign direct investment
- Analyses of rent-seeking & state failure
- Good sector governance as a remedy against 'resource curse'
- But still no automatic trickle-down effects - aiming for economic diversification, by means of building linkages



# 4. Industrial Policy is back... more generally

## 1. Criticism of the development agenda

- Policies incentivising FDI have not delivered ‘inclusive economic development’. No automatic trickle-down effects.
- Pro-poor policies have failed to develop a sustainable private sector.

## 2. Climate change and international environmental policy

- ‘Green’ industrial policy for more sustainable growth and improving resource and material efficiency.
- Risks of ‘unburnable carbon’ and (climate-)‘stranded assets’.

## 3. Disappointment with globalisation

- Re-focusing on national economies

# Industrial Policy is back... yet opinions are divided

**No consensus** – merely **themes** that run across an evolving body of research:

(1) Risk of 'state failure'

(2) Discovery and learning process – based on sharing information

(3) Setting and pursuing socio-economic objectives

(4) Improving productivity

(5) Comparative advantages – conditioned by institutional arrangements

(6) Political economy of institutional change

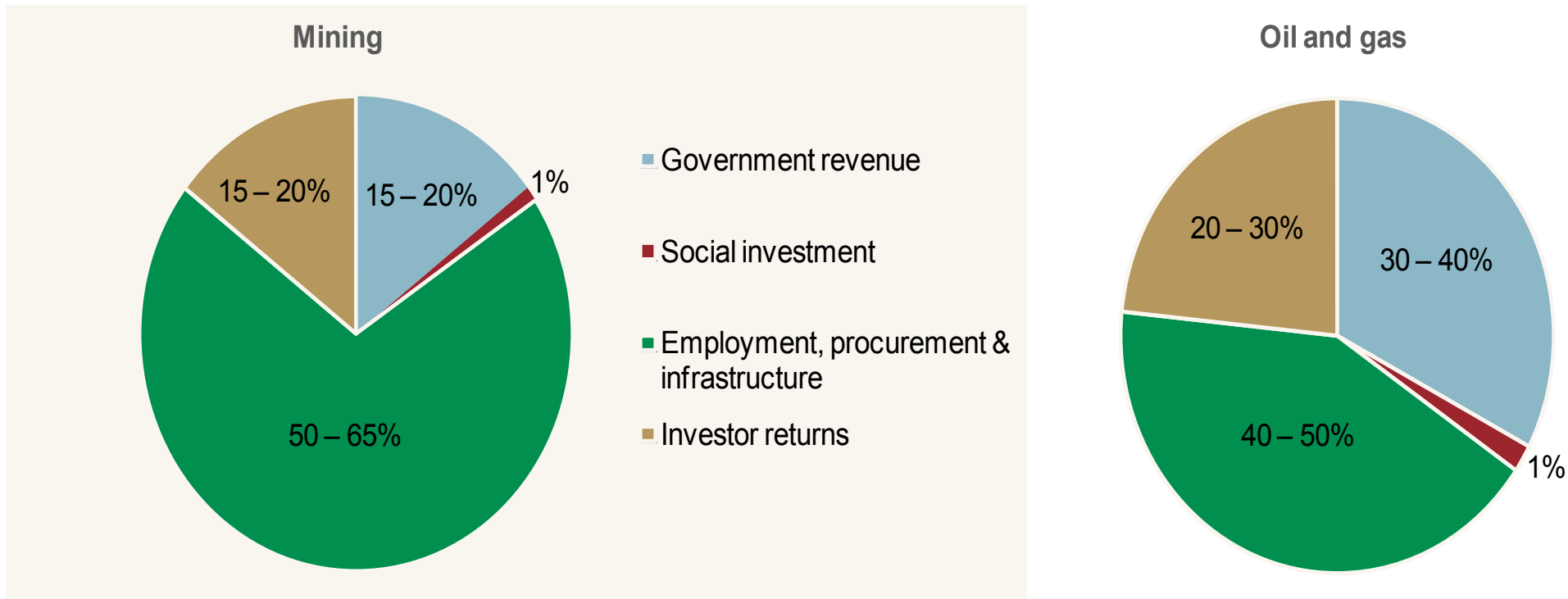


## 5. 'Local Content' = industrial policy, narrowly defined

- Typically defined as local procurement of goods and services and hiring of local workers and professionals.
- Two justifications: (a) capturing more of the pie; (b) improving domestic productive capabilities.
- 'Success' is measured in different ways, and associated risks are viewed differently:
  - (a) safeguarding against 'negative externalities': rent-seeking local business elites benefiting from quantitatively-driven **supplier development**, and potential problem of unsustainable qualitative requirements.
  - (b) looking for, and ensuring 'positive externalities' to build productive capabilities, and correcting policies if such are not forthcoming -- focus on **transferability** of capabilities across different types of linkages (multipliers) – joined up learning and discovery process

# ...capturing more of the pie...

Typical shares of total corporate spend, percent



## 6. Where does Mozambique stand on LC vs ED?

- (+) Debate on Local Content bill not yet concluded:
  - (Hopefully) coming down on ‘value added’ and backed-up by critical assessments of local economic capabilities in relation to (a) capturing more of the pie, and (b) improving productive capabilities.
- (-) Because local capabilities are low, sector-focused ‘Local Content’ unlikely to catalyse Economic Diversification:
  - E.g. MAGTAP studies on potential opportunities have suggested that different sets of policies would be needed for ‘supplier development’ versus ‘broader enterprise development’.
- (-) Implications of fiscal situation placing additional burden on developing local micro /small & medium enterprises.
  - Undermining ‘broader enterprise development’, especially with respect to sub-national level.

## 6. ... continued

- (-) Macro-policy environment not yet sufficiently clear
  - Several policies, strategies and plans by different MDAs with different timelines, lacking clarity how they hang together and how key priorities will be implemented, especially at the sub-national level.
- (+) CSR Policy and Guidance focusing on ‘Local Economic Development’ delivered in the form of SI/LDAs
  - Opportunity for value chain development at the local level - *if* companies, local companies, government authorities and delivery-oriented third parties can work collaboratively and constructively - and with clear strategic focus.
- (-) Sub-national governance structures
  - Potentially undermining building value chains and domestic capital from bottom up.

# 7. Conclusion

- Building linkages between the extractive and other economic sectors would seem extremely difficult – given the dual nature of the economy.
- Economic diversification is not going to come from focusing only on the sector, but beyond the sector and on transferability.
- Positively, Mozambique has not gone down the route of strongly emphasising quantitative local content targets with no regard for existing productive capabilities.
- Opportunity to embrace ‘industrial policy’ with a new sense of joined-up learning and discovering what productive capabilities the country can build around its extractive industries.

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