



LOCAL CONTENT CASE STUDIES

March 2021

List of Abbreviations:

CCIB – Corporate, Commercial, and Institutional Banking

EPC - Engineering, procurement, and construction

IOC – International Oil Companies

LNG – Liquefied Natural Gas

MSP – Multi-stakeholder Platform

SME – Small and Medium Enterprises

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Overview: Local Content Case Studies

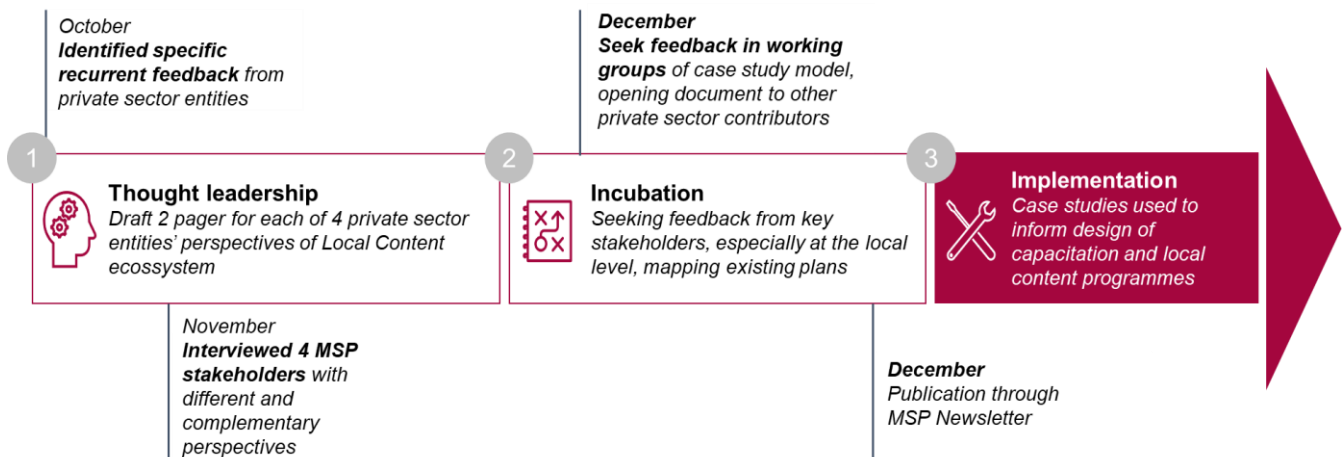
Introduction

The Multi-Stakeholder Platform for the Northern Region of Mozambique, which seeks to foster collaboration and thought leadership around the region's key development themes, has been engaging a diverse group of stakeholders on perspectives for local business participation in the LNG value chains in the context of its Local Content working group for the past year.

As of the time of writing, work is underway in the preparation for natural gas extraction in the region, and an increasing number of local companies are focusing on increased engagement with the LNG megaprojects and their procurement processes. In light of this, the Local Content working group of the MSP has decided to launch a series of Local Content case studies based on the experiences of the Cabo Delgado private sector focusing on the challenges, priorities and best practices for fostering a more inclusive Local Content ecosystem.

Methodology

This document is a working group incubated deliverable. Each working group follows a consistent framework for determining and producing co-created deliverables. The graphic below illustrates the MSP secretariat's approach to the preparation this working group deliverable:



The Local Content Ecosystem

The Local Content working group has defined the Mozambican local content ecosystem by the main pillars: In country value creation, upskilling local talent and investment. These are outlined in greater detail in the figure below. The icons will be used to label the pillar on which is case study focuses throughout the document. For more information on the Local Content ecosystem in Mozambique please see the [MSP's Local Content Mapping](#).



In country value creation

- Maximizing local procurement of goods and services
- Correcting market failures and facilitating information flows between demand and supply
- Encouraging businesses to grow and broaden local sources to enhance supply chain resilience and business continuity



Upskilling local talent

- Capacity building of the local workforce
- Development of local SMEs along the core value chains
- Certification of local companies to meet international quality and safety standards



Investment

- Financing of local businesses within or related to the LNG value chain
- GDP diversification through forward sectoral linkages
- Incentivizing foreign suppliers to establish new opportunities in Mozambique

If you are interested in providing feedback for any component of this document or wish to contribute with a case study to be published at a later date, please contact us at secretariat@mspmz.org.



Kingman Construtora

KINGMAN
é a nossa marca

Overview

Sanlo Moçambique Lda., with his trademark Kingman Construtora, is a Pemba-based construction company, operating in the region since 2012, with over 20 years of sectoral experience in several geographies. They engage in a range of construction activities, from prefabricated projects to highly technical industrial construction. Their clients operate in multiple sectors, but predominantly in oil and gas, logistics, hospitality and real estate. With branches in Maputo, Beira and Pemba, Kingman currently employs 150 professionals in their mission to become a leader in construction and engineering in Mozambique.



An example of recent Kingman projects

If IOCs are interested in boosting Local Content, they can:

- Make tender portals more accessible
- Provide clear support system (including a customer service line) for problem resolution
- Work with the local banking system a way of accepting Payment Orders and Approvals as guarantee for financing local contractors
- Adapt payment timelines to local sub-contractor needs
- Incentivize workforce to live and spend locally

Local Content Perspectives: Small companies and the procurement ecosystem

Kingman presence in Cabo Delgado has given the firm direct engagement with the entire LNG project process from discovery to concession, to planning of the Natural Gas extraction megaprojects. Having worked directly with not only EPC contractors but with IOCs as well, Kingman has a high degree of familiarity with the LNG ecosystem and its limitations. Although they report greater operational and technical capability than most local SMEs in their sector, their recent experiences allowed them to identify what they believe to be the **key barriers to the development of Local Content in industries around the LNG value chain:**

- **Access to tenders:** Local companies often struggle with the online procurement systems for multiple reasons including the technological complexity of procurement portals, the documentation requirements, as well as language barrier
- **Lack of contractor support:** Registering feedback or resolving operational issues with the IOCs is complicated for sub-contractors without a singular portal for customer support
- **Onerous payment timelines:** SME cashflows often cannot withstand payment terms longer than 30 days, which is common for large companies working in the space. The local banking system also does not accept Payment Orders from the IOCs as guarantee for financing SMEs in order to protect the local content and provide these companies with the necessary financial capability to continue to provide goods and services to the LNG projects
- **Difficulty attracting a consumption base:** Given that most professionals driving economic activity in the region live outside of Palma and even Cabo Delgado, there is little increase in local disposable income to be spent on local businesses. This makes it hard for local companies looking to scale up their operations to consolidate a local consumer base beyond the activities of the megaprojects



First National Bank



FNB Mozambique, established 13 years ago, is a commercial bank with active interest in developing a strong portfolio in corporate finance.

The bank recognizes the attractiveness of creating a stronger customer base in the Northern region of Mozambique where growth has been boosted by foreign direct investment mainly in the energy and natural resources sectors. Beyond these sectors, the economy also registers strong performance in the construction, trade and commerce sectors. Agriculture continues to be the activity most practiced by the majority of the population but has low levels of productivity. Tourism has seen increased levels of investment in new facilities and destinations along Mozambique's long coastline, albeit generally accessible only to few and negatively impacted by Covid-19. Table 1 below provides an overview of the key sectors per province where FNB is engaged.

MAIN SECTORS OF BANK ACTIVITY PER PROVINCE

Province	Main sectors
Cabo Delgado	Natural gas and Gems
Nampula	Agriculture, Logistics, Trade and Services, Commerce
Beira	Logistics, Commerce and Services
Manica	Agriculture
Tete	Coal and Iron Mining

Table 1: Main sectors of activity per province

Local Content Perspectives: SME Banking Business

With a strong understanding of local financial markets and how these often fail to cater to local companies in a way that can successfully improve their financial situations, FNB seeks innovative solutions for businesses looking to tap into the country's growth potential. More specifically, the Bank recognizes that procurement and payment timelines of megaproject providers are often onerous to smaller sub-contractors looking to work with them. **Some of the main challenges faced by SMEs in the North**, particularly those in the megaproject value chains, include:

- Difficulty in obtaining loans from banks
- Problems in navigating procurement and payment systems of IOCs and EPC contractors
- Limited market opportunities
- Lack of government and bank programs to support SMEs that take into account the specific conditions and challenges of the segment

FNB's SME banking services and offerings

In catering to SMEs, the Bank is looking further to serve the companies that will be involved in the housing construction and other general infrastructure projects in Palma district, led by the IOCs. One way in which the bank has tailored their services to these clients has been through the **use of invoice discounting**. This is essentially a revolving credit facility, a financing method by which companies can get advances on the payments owed by their customers. Given that some contractors wait almost 90 days for payment, this has proven very useful in alleviating small company cashflow issues. However, companies do need to have a reliable turnover and an effective credit management process to qualify for this, which excludes a lot of the smaller companies from eligibility.

Other financial solutions offered by FNB in Cabo Delgado specifically are featured in Table 2 below:

MAIN PRODUCTS OFFERED IN CABO DELGADO

Contractors/Sub contractors	Suppliers	Retailers
<ul style="list-style-type: none"> • Invoice Discounting • Local Purchase Order/Contract financing Lease Back Financing Leasing 	<ul style="list-style-type: none"> • Supplier Chain Financing Invoice Discounting Local Purchase Order/Contract financing Lease Back Financing • Leasing 	Short-term working capital

Table 2: Main products offered in Cabo Delgado

Other ways the **bank has geared their services to serve SMEs are:**

- **Tailored negotiation processes:** FNBs negotiation process for financing strongly relies on both qualitative and quantitative risk assessments, which entails a deeper understanding of the company's profile, needs, network, etc. This allows the bank to customize offers to companies' needs
- **Dedicated relationship management** – All FNB branches have dedicated SME relationship managers who are responsible for understanding the trades of the local businesses under the Corporate supply chain, enabling the bank to improve their services
- **Adequate customer experience** – At times SMEs are focused on getting the quickest and not best solution, which renders sub-optimum outcomes. Ways to tailor customer experience to these needs are:
 - Removing all possible bureaucratic hurdles and providing fast and frictionless onboarding credit application experience
 - Having solutions tailored for different activities, given that even within the SME context no one solution fits all clients
- **Data mining and analysis** - FNB is already starting to mine data to match SMEs with relevant offers and services offered

Lessons learnt and recommendations

In its financing of SMEs, FNB has identified a few **improvements and changes to the financing and procurement strategies and practices that could contribute towards better solutions for these clients.** These are:

- **Identification of segregated solutions:** Commercial banks should develop financial solutions that are responsive to the demand of, separately, small and medium enterprises
- **Consolidation and sharing of due diligence information on SMEs:** IOCs and EPCs could facilitate information collected on companies and SMEs through the due diligence process required by their procurement regulations, reducing the burden on small companies to manage many different information technologies;
- **Timely disclosure of future procurement needs:** Although it is difficult for IOCs to publicly commit to long-term procurement needs, the further ahead they manage to disclose their needs, the easiest it will be for banks to respond to and understand SMEs' financing needs
- **Financial capacitation:** The more that local companies begin to comply with better, more standardized auditing and accounting best practices, the easier the due diligence process will become for banks looking to lend. FNB Moz in the North intends to provide more support to local SMEs – particularly in relation to building their management, financial and market assessment skills
- **Partnerships with local government to support local businesses** - the creation of simplified programs to provide integrated assistance in management and business development (e.g. training and preparation of business plans)
- **Invoice discounts:** It would be helpful to tailor services for SMEs customers of Vale's ecosystem, CLN, Cornelder and Total (Beira, Tete, Pemba and Nacala)