

Evaluating local and regional supplier inputs to mega-infrastructure projects: lessons from the Moatize railway, Mozambique.

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Background

- 27 companies, 6 institutions and 1 client interviewed
- Why Moatize? Moatize coal deposits are the largest known but not yet exploited reserves in the world.
- The exploitation of the reserves has been depended on investment in the Sena railway line to Beira and the Nacala line through Malawi to the port of Nacala
- Total FDI into Nacala project is equivalent to 35% of Moz GDP
- The study aims to understand whether these investments are organized as part of enclave development or as part of developing diversified local and regional capabilities
- Spatial development initiatives & corridors have been proposed in AU mining vision policy document (AU, 2009)

Research questions

- What drives winning a contract?
- To what extent are local (Moz) and regional (SA) linkages being built given competitive and procurement dynamics?
- What are the challenges to local (Moz) and regional (SA) linkages given competitive and procurement dynamics?
- What partnerships should be built in order to improve local and regional linkages given competitive and procurement dynamics?

Structure of Mozambique construction sector

Classes	# of firms	Maximum value per class 000' Meitcas	Minimum capital requirement 000' Meitcas	Permanent technical team
1	156	350	20	1 civil builder
2	248	850	50	1 civil builder with five years' experience
3	1283	2500	150	1 mid-level engineer and 1 civil builder
4	314	5000	500	1 engineer or architect and 1 mid-level engineer
5	226	15000	1500	2 engineers or 1 engineer and 1 architect or 1 engineer to 2 mid-level engineers
6	49	50000	5000	3 engineers and 1 mid-level engineer or 2 engineers, 1 architect and 1 mid-level engineer
7	214	Over 50000	10000	5 engineers and 2 mid-level engineer or 3 engineers, 1 architect and 2 mid-level engineers with more than 5 years' experience

Winners of Nacala and Sena rail project

Infrastructure construction & bridges	Home Country
Aveng Lennings Railway Services	South Africa
Mota-Engil	Portugal
Samaque	Brazil
OAS	Brazil
Superstructure	
Aveng Lennings Railway Services	South Africa
CR2OG	
Rails	
Nippon Steel	Japan
Sleepers and Culverts	
Wegh	Italy
Infraset	South Africa
Signaling	
Ivensys	United Kingdom
Oversight/Consulting engineering	
SRK	South Africa
Worley Parsons	Australia (South African domiciled)
Diversion and realignment	
CR2OG	
Bridges	
Soares da Costa	Brazil
Sena Line	
Rehabilitation Services	
Mota-Engil	Portugal
Grinrod Rail (Subcontract)	South Africa
Visabeira	Portugal



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Analysis of Procurement Rules

- **Gvt procurement policy-** price and quality are given more weight in the evaluation process, but lack of enforcement of preference margin but enforcement limited by external funding
- **World Bank and European Investment Bank -** Procurement policies have inherent selection and participation (global and private tender) biases favouring multinationals while local Mozambican less likely to participate.
- Participation bias: global and private tender system, tenders are advertised internationally
- Selection bias: competitiveness counts more than building local capabilities
- **Vale and CFM-**Vale categorizes its procurement into local, national and global. Local is purchases from firms that are 51% owned by local citizen- cleaning services, maintenance services
- National- purchases of goods and services made from locally registered companies
- Global-purchases are done globally from international companies. Construction falls in this category. Vale have a vendor list of firms that it has worked with before mainly Brazilian e.g Odebrecht.

Mozambique construction firms response to rail infrastructure investments

- No Localisation of Mozambique's rail infrastructure construction value chain
- Multinational participation and selection biases not a function of price competitiveness but rather:
 - long track record, which is difficult for the local firms to fulfil because at least those interviewed are newly established firms;
 - financial depth required for a mega project, which is difficult to come by as due to the poor capital markets and the firms lack of reputation; and
 - size of the project, which packaged too big for the firms to swallow in spite of their seventh grade status.
- Also face harsh operating challenges such as: chronic shortages and high price of key inputs (cement, machinery equipment)
- Operating environment for local Mozambican firms is even harsher than foreign firms because of queuing system in supply chain
 - Big clients (foreign) served first and then small (local) guys last

Regional response to Mozambique Infrastructure demands

- Regionalisation is taking place in Mozambique's rail infrastructure construction value chain.
- Consulting engineers are the main gateway of entry for second tier South African domiciled firms (i.e. track product producers and civil contractors).
- SA diversified group opened its US\$ 120 million concrete production plant February 2014 employing 75 locals and one SA expat and the firm is soon to refurbish Dondo plant
- Continuation of regionalisation is only partially based on the competitiveness of South African domiciled firms relative to other foreign competitors. Chinese (Finance), Portuguese (Language & cultural)
- Continuation of regionalisation is also contingent on the nature of infrastructure financing as this sets the tone for the procurement strategy pursued.
- Donor sponsored infrastructure stress competitiveness whereas private sponsored and foreign state sponsored it's a combination of competitiveness and national networks.

Recommendations

- Sector Specific Industrial Policy
- There is scope for joint partnerships that could be mutually beneficial in building Mozambican capabilities, including partnerships with South African domiciled firms.
- Regional Development Financing to develop Regional-Local Partnerships in construction sector
- High price of key inputs also reflects the possibilities that exist in building strategic construction material manufacturing and retailing capabilities in Mozambique
- Leveraging Public Procurement for Linkage Development in Civil construction sector
- Skills development civil construction sector – Mozambican government
- Reducing delays at borders

Thank you

