

# Mozambique at a Critical Juncture: The Political Economy of Natural Resources Management

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## 1. Economic and Financial Outlook

Mozambique is usually regarded by donor countries as one of the few successes in Africa with a story of peace, political stability and economic growth since the conclusion of the General Peace Agreement and the ending of its civil war in 1992. It is also the only country among the fastest growing African economies, for the past 20 years, where there has been political leadership transitions, albeit under the continuing dominance of the liberation party Frente de Libertação de Moçambique (FRELIMO) since the independence from Portugal in 1975, without negatively affecting the country's economic growth. Consequently, donors, in particular European countries, have provided significant financial aid resources to support the country's economic, social and political performance.<sup>1</sup>

The country remains highly dependent on foreign aid but is considered as a model by the World Bank and the International Monetary Fund (IMF), having consistently met most donor demands. In the past years, the international donor community has helped Mozambique to adopt one of the most detailed budget support initiatives, with annual aid flows averaging almost a quarter of annual gross national income and direct budget support accounting for more than half (51.4%) of the national budget until 2010. Budget support is a leading development aid innovation to finance the recipient country's economic and social reforms through the transfer of financial resources from donor countries to the recipient's national budget. The financial resources that are transferred are managed in accordance with the recipient country's budgetary procedures. This is different from what has been the dominant development aid practice of financing specific programmes or projects. However, since 2010, the national budget has begun to be financed by growing domestic revenues derived mainly from the exploration of natural resources and the donor's share of the budget has

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<sup>1</sup> See Paolo de Renzio and Joseph Hanlon, Contested Sovereignty in Mozambique: The Dilemmas of Aid Dependence, *Managing Aid Dependency Project GEG Working Paper 25* (University College Oxford, 2007) available at [http://www.globaleconomicgovernance.org/wp-content/uploads/Derenzio%20and%20Hanlon\\_Mozambique%20paper%20rev%20120107.pdf](http://www.globaleconomicgovernance.org/wp-content/uploads/Derenzio%20and%20Hanlon_Mozambique%20paper%20rev%20120107.pdf)

fallen significantly to reach 39.6% in 2012 and is planned to low further to 33% in 2013.<sup>2</sup>

According to the African Economic Outlook 2012, the country's GDP real growth rate reached 7.2% in 2011 as a result of the first overseas export of coal from the first mega coal mining projects in the province of Tete together with a strong performance in the financial services sector, transport and communications and construction. Private sector investment surpassed USD 1.9 billion in 2011 and a total of 30,000 jobs were created by 285 new projects. In 2012 and 2013, economic growth is expected to hit 7.5% and 7.9%, respectively, as new foreign direct investment (FDI), mostly in extractive industries, continue to enter the country and the agricultural sector and infrastructure-building welcome strong investments. The booming in infrastructure-building is developed around the country's 3 main logistic corridors (Maputo, Beira and Nacala) and is growingly evident with the cement sector expected to triple the production by 2013. Five new companies (the Chinese Africa Great Wall Cement Manufacturer, China International Fund, GS cimento, and Bill Wood and the South African Pretoria Portland Cement) are to enter the market with an expected overall investment of USD 450 million. The most relevant economic development and news of 2011, however, was the discovery in September of extensive off-shore natural gas reserves in the Rovuma Bay in the province of Cabo Delgado, northern Mozambique. The estimates for cumulative natural gas reserves, if proven correct, will position Mozambique in the 4<sup>th</sup> place in the world in terms of natural gas reserves behind Russia, Iran and Qatar. Due to the expectations in terms of reserves, a liquefied natural gas (LNG) plant is to be built in Mozambique. During the last decade, Mozambique achieved an average 7.2% GDP growth to make it one of the fast growing economies in the African continent.<sup>3</sup>

The most recent IMF Fifth Review Under the Policy Support of Mozambique released in early January 2013 states that: "Economic growth remained buoyant and macroeconomic stability was maintained, building on a track record of strong macroeconomic policies that effectively supported growth while bringing down inflation and strengthening international reserves".<sup>4</sup> The growing international confidence in the economic conditions of Mozambique, in particular for 2013, has been further highlighted by Fitch Ratings that has placed the country in a positive outlook leading to a possible sovereign rating upgrade. Yet, to win the upgrade

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<sup>2</sup> See Paul Malin, EU support to Mozambique, *Great Insights Vol.1, Issue 10* (December 2012) and Isabelle Ramdoo, Mozambique, Aid and Foreign Investment: Trapped between Scylla and Charybdis?, *Great Insights, Vol.1, Issue 10* (ECDPM, December 2012) available at [http://www.ecdpm.org/Web\\_ECDPM/Web/Content/Download.nsf/0/C9912335D7E74BBCC1257AD4002D349B/\\$FILE/GREAT1-10final.pdf](http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/C9912335D7E74BBCC1257AD4002D349B/$FILE/GREAT1-10final.pdf)

<sup>3</sup> See Mozambique, *African Economic Outlook 2012* (AfDB, OECD, UNDP and UNECA, 2012) available at <http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/Mozambique%20Full%20PDF%20Country%20Note.pdf>

<sup>4</sup> See International Monetary Fund, Republic of Mozambique: Fifth Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria, *IMF Country Report No.13/1* (IMF, January 3, 2013) available at <http://www.imf.org/external/pubs/ft/scr/2013/cr1301.pdf>

Mozambique would have to improve physical and social infrastructure while keeping a prudent fiscal policy.<sup>5</sup>

## **2. Social and Political Outlook**

At the same time, while growing fast in the past decade, Mozambique's growth rates have been largely driven by a few, enclave and strong capital-intensive mega projects in the extractive industries that have not had a relevant impact in terms of job creation, better distribution of economic wealth or poverty reduction. The statistical growth of manufacturing as a share of GDP is essentially due to MOZAL's output, the country's largest aluminium producer. To get a formal job in Mozambique continues to be difficult and the estimated annual entrance of 300,000 new job-seekers in the labour market poses difficult challenges to the government. Overall unemployment rate stands at 27% and formal jobs are mostly in the cities and accounts only for 32% of all employment. In consequence, new job-seekers tend to enter the urban and rural informal economy, with little opportunity to find stable employment.<sup>6</sup>

While unemployment remains high in the country, there have been significant improvements in terms of human and social development. The Human Development Report 2011 "Sustainability and Equity: A Better Future for All" shows that from 1990 to 2011, the value of Mozambique's Human Development Indicators (HDI) increased from 0.200 to 0.322, an average annual increase of 2.28%. These figures are higher than the average for Sub-Saharan Africa in the same period (0.90%) as well as low human development countries (1.31%). From 2000 to 2011, the average annual increase in HDI value grew further to 2.49%. During this period, Mozambique was one of the top 5 performers in the world. Yet, Mozambique continues to be ranked at the bottom of the UNDP index. In 2011, Mozambique ranked 184 of a total of 187 countries in terms of HDI.<sup>7</sup>

As aid flows, that have been crucial to sustain human and social improvements, are expected to decrease in the coming years, the diversification and the strengthening of the revenue base, in particular through higher and better taxation of the extractive sector, becomes crucial to

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<sup>5</sup> See Eleanor Whitehead, Sub-Saharan sovereigns: who to watch in 2013, *This is Africa* (December 19, 2012) available at <http://www.thisisafricaonline.com/News/Sub-Saharan-sovereigns-who-to-watch-in-2013?ct=true>

<sup>6</sup> See Gregory de Paepe, The Recent Natural Resource Hype in Mozambique: Putting it into Context, *Great Insights, Vol.1, Issue 10* (ECDPM, December 2012) available at [http://www.ecdpm.org/Web\\_ECDPM/Web/Content/Download.nsf/0/C9912335D7E74BBCC1257AD4002D349B/\\$FILE/GREAT1-10final.pdf](http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/C9912335D7E74BBCC1257AD4002D349B/$FILE/GREAT1-10final.pdf)

<sup>7</sup> See Thomas Kring, Mozambique and the Human Development Index (HDI) 2011, *Economic and Policy Analysis Unit Brief No: 01/2011* (UNDP Mozambique, 2011) available at <http://www.undp.org/mz/pt/Publications/National-Reports/Mozambique-and-the-Human-Development-Index-HDI-2011>

promote and sustain an growth agenda based on the creation of jobs and tackling continuing poverty issues. Mozambique is, like several other African countries in similar conditions, faced with the need to transform its current economic model, now more an “extractive economy” focusing on exporting raw commodities, into one that raises agricultural productivity jointly with the development of new and labour-intensive and more productive economic sectors such as manufacturing and agro-business.

Despite the fact that 60 to 70% of the Mozambican population live in rural areas and depend on agriculture for employment or livelihoods, Mozambique agricultural development has failed to become a driver of poverty reduction despite governmental announced intentions for the past decade. As Cabral, Shankland, Locke and Duran point out: “Food insecurity and malnutrition continue to affect the Mozambican population and rural poverty has, at best, been marginally reduced, although increasing in central regions. Mozambique’s crop output has remained stagnant over the last decade. Sorghum and cassava, the main crops produced by the predominant smallholder sector, continue to have poorly developed value chains. Productivity remains low across the board and most growth recorded by the sector is explained by farmed land expansions rather than efficiency gains”.<sup>8</sup>

This is even more striking, when in 2010, less than 14% of the 36 million hectares of arable land had been farmed, mostly by smallholders, and of these only 2% had been irrigated. For Cabral, Shankland, Locke and Duran there are three-tier causational explanation justifying the current condition of the sector. First, the sector has suffered from inadequate technology and extension services, poor infrastructure and absence of markets for inputs, services and outputs (for example, at times food production surpluses from rural areas failed to reach potential urban consumers). Second, these causes are the result of a series of factors such as the legacy of a civil war, ill-fitted public policies, feeble governance, development aid squandering and lack of private capital. Finally, politics can be said to be the ultimate explanation for the sector’s poor performance as policies have tended to discriminate against the majority of smallholders.<sup>9</sup>

This seems to be particularly evident in the most recent mega agribusiness project in the country, ProSavana. Led by Brazil, ProSavana has raised expectations that it could answer some of the recurring issues affecting Mozambique’s agriculture sector. The project aims at transforming 14 million hectares of the savannah along the country’s northern Nacala Corridor into highly productive agricultural land that will be explored by large firms and smallholders. Based on the Brazilian experience, the promoters of the project claim that

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<sup>8</sup> See Lidia Cabral, Alex Shankland, Anna Locke and Jimena Duran, Mozambique’s Agriculture and Brazil’s Cerrado ‘model’: Miracle or Mirage?, *Great Insights, Vol.1, Issue 10* (ECDPM, December 2012) available at

[http://www.ecdpm.org/Web\\_ECDPM/Web/Content/Download.nsf/0/C9912335D7E74BBCC1257AD4002D349B/\\$FILE/GREAT1-10final.pdf](http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/C9912335D7E74BBCC1257AD4002D349B/$FILE/GREAT1-10final.pdf)

<sup>9</sup> Ibidem

smallholders will be supported through locally-fitted technology (improved seeds suitable for Mozambican soils) and environmentally-friendly farming techniques. Additionally, the smallholders will be able to join an export-oriented agriculture value chains through contract farming and the promotion of cooperatives.<sup>10</sup>

But local leaders from the National Peasant's Union (UNAC) after meeting in Nampula in October 2012 to discuss ProSavana released a declaration stating that they were concerned with the lack of information and transparency from the participating governments in the project (Mozambique, Brazil and Japan) as well as the lack of involvement of civil society in the process. They also condemn any attempt of land resettlement and expropriation to give place to mega agribusiness and arrival of Brazilian agribusiness transforming Mozambican farmers into their employees and rural workers.<sup>11</sup>

In addition, another issue that is expected to pose a growing threat to agricultural development and productivity in Mozambique is climate change. A 2010 World Bank Report entitled "Economics of Adaptation to Climate Change: Mozambique" argues that over the coming 40 years, the impact of climate change will lead to a decrease of 2-4% in yields of major crops, especially in the central region. Combined with frequent flooding in rural roads, this could result in an agricultural GDP loss of 4.5% (optimist scenario) or 9.8% (pessimist scenario).<sup>12</sup>

The Mozambican government seems to be intended on accelerating poverty reduction and focus on inclusive economic growth and in its recent letter of intent to the IMF in early December 2012, vowed to accelerate poverty reduction through more inclusive growth through the implementation of the country's Action Plan for Reducing Poverty –PARPA (2011-2014). It will be focused on three main pillars: 1) enhancement of production and productivity in agriculture (aiming at an annual growth of agricultural output by 7 percent to double production by 2020 through higher productivity and expansion of cultivated land); 2) creation of jobs (around 200,000 jobs in the public and private sector each year but with a strong emphasis on commercial and industrial sectors) and 3) enhancement of social and human development (with improvement of access to, and the quality of, social services and infrastructure).<sup>13</sup>

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<sup>10</sup> Ibidem

<sup>11</sup> See UNAC, Pronunciamento da UNAC sobre o Programa ProSavana, [www.unac.org.mz](http://www.unac.org.mz) (UNAC, Outubro 2012) available at <http://www.unac.org.mz/index.php/7-blog/39-pronunciamento-da-unac-sobre-o-programa-prosavana>. See also Grain UNAC Via Campesina Africa, Brazilian megaprojects in Mozambique set to displace millions of peasants, [www.grain.org](http://www.grain.org) (November 29, 2012) available at <http://www.grain.org/article/entries/4626-brazilian-megaproject-in-mozambique-set-to-displace-millions-of-peasants>

<sup>12</sup> See World Bank, *Economics of Adaptation to Climate Change: Mozambique* (World Bank, 2010) available at [http://climatechange.worldbank.org/sites/default/files/documents/EACC\\_Mozambique.pdf](http://climatechange.worldbank.org/sites/default/files/documents/EACC_Mozambique.pdf)

<sup>13</sup> See IMF, Mozambique: Letter of Intent (IMF, December 7, 2012) available at

### 3. Is Mozambique Ready for the Natural Resource Boom?

The discovery of vast reservoirs of mineral resources in Mozambique is expected to reduce the leverage donor countries have had to influence the country's governance. This will open an opportunity for the government to gain more policy space, i.e., more autonomy in designing and implementing public policies. This has led to a growing debate in the country on the role of the state and how to avoid the "resource curse", a common feature in poor but resources-rich developing countries.<sup>14</sup> Mozambican authorities are now facing the need to enhance their natural resources management to guarantee environmentally and intergenerational sustainability. The authorities seem to be aware of the paramount need to update and strengthen the legal, regulatory and institutional frameworks as the country begin to benefit from the natural resources windfall and have to enter into new forms of engagement with the private sector, particularly large multinationals.

The challenges are many as pointed out by the Norwegian Anti-Corruption Resource Center U4: "In Mozambique prevalence of corruption remains an area of concern for both the public as well as donors, who support almost half of the state's budget. Corruption manifests itself through various forms, including political, petty and grand corruption, embezzlement of public funds, and a deeply embedded patronage system. Checks and balances are weak, as the executive exercises strong influence over the legislative and the judiciary. Corruption also affects several sectors in the country, such as the police, public administration, judiciary, and public financial management".<sup>15</sup> The latest Transparency International Corruption Perceptions Index of 2012 ranked Mozambique in 123<sup>rd</sup> out of 174<sup>th</sup> countries.<sup>16</sup>

The declaration in October 2012 that Mozambique had become fully compliant with the Extractive Industries Transparency Initiative (EITI) reveals that the country's authorities are making significant steps to address criticisms for failing to offer more transparency and accountability on issues related to revenues from the exploration of national natural resources.<sup>17</sup> But as important as the legal, regulatory and institutional framework is the way in which the authorities will engage communities in the areas where the exploration of the

<http://www.imf.org/External/NP/LOI/2012/MOZ/120712.pdf>

<sup>14</sup> See Katharina Hofmann and Adrian de Souza Martins, *Descoberta de Recursos Naturais em Moçambique: Riqueza para poucos ou um meio para sair da pobreza?*, *Perspectiva/FES Moçambique* (Friedrich Ebert Stiftung, Agosto 2012) available at <http://library.fes.de/pdf-files/iez/09356.pdf>

<sup>15</sup> See Anti-Corruption Resource Center U4, Overview of corruption and anti-corruption in Mozambique, U4 Expert Answer Number 322 (Transparency International and Chr. Michelsen Institute, March 5, 2012) available at

[http://www.u4.no/publications/PublicationSphinxSearchForm?PublicationSearch=mozambique&Category=&ThemeID=&Year=&Country=&SearchLocale=en\\_US&locale=en\\_US&action\\_publicationresults=Go](http://www.u4.no/publications/PublicationSphinxSearchForm?PublicationSearch=mozambique&Category=&ThemeID=&Year=&Country=&SearchLocale=en_US&locale=en_US&action_publicationresults=Go)

<sup>16</sup> See <http://www.transparency.org/cpi2012/results>

<sup>17</sup> See <http://eiti.org/news-events/mozambique-declared-eiti-compliant#>



natural resources will take place in the coming years. The recent conflicts between the Brazilian mining company, Vale do Rio Doce, and the resettled villagers from Cateme, in the region of Tete shows that there is still much work to be done on this issue.<sup>18</sup>

In conclusion, the Mozambique government needs to build the capacity to wisely use the revenues from the extractive industries as a platform to diversify the country's productive base, fortify their human capital skill and ultimately create an internal market. This will necessarily requires a better holding of the rents derived from natural resources by the authorities in order to invest these structural changes over time and reduce the country's ongoing dependency on external financing. A joint report released on December 2012 by non-governmental <sup>19</sup>organizations Friends of the Earth Mozambique, Jubilee Debt Campaign and Tax Justice Network, with new information in the public domain and released under the UK Freedom of Information Act, shows clearly how the single biggest private sector project ever made in Mozambique, the Mozal aluminium smelter, pays only 1 percent tax on gross revenue from aluminium sales to the Mozambican government. With an average revenue of USD 1.2 billion, 1% tax would raise USD 12 million in tax a year. Mozal pays no tax on profit, or any sales, customs or circulation taxes. The report estimates that for every USD 1 paid to the Mozambican government, USD 21 left the country in profit or interest to foreign governments and investors.<sup>20</sup> The Mozambican government seems to be now acting on this issue. The current Minister of Finance, Manuel Chang, has already confirmed in late December 2012 that a governmental technical team will renegotiate the megaproject contracts, in particular the tax benefits and other concessions. The megaprojects most likely to be affected are Mozal, exploration of natural gas (Sasol), heavy sands (Kenmare) and coal (Rio Tinto and Vale do Rio Doce).<sup>21</sup> Mozambique is in a critical juncture and ultimately whether or not the country will positively transform its economic structure will depend on the role of the state in managing sustainably the windfalls from the exploration of the country's natural resources.

<sup>18</sup> See Lydia Polgreen, As Coal Boost Mozambique, the Rural Poor Are Left Behind, *The New York Times* (November 10, 2012) available at [http://www.nytimes.com/2012/11/11/world/africa/as-coal-boosts-mozambique-the-rural-poor-are-left-behind.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2012/11/11/world/africa/as-coal-boosts-mozambique-the-rural-poor-are-left-behind.html?pagewanted=all&_r=0). See also João Mosca and Tomás Selemene, *El dorado Tete: os mega projectos de mineração* (CIP, 2011) available at [http://www.cip.org.mz/cipdoc%5C106\\_EL%20DORADO%20TETE\\_Mosca%20e%20Selemene\\_CIP\\_2011.pdf](http://www.cip.org.mz/cipdoc%5C106_EL%20DORADO%20TETE_Mosca%20e%20Selemene_CIP_2011.pdf)

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<sup>20</sup> See Friends of the Earth Mozambique, Jubilee Debt Campaign and Tax Justice Network, Whose development is this? Investigating the Mozal aluminium smelter in Mozambique (Jubilee Debt Campaign, December 2012) available at <http://www.jubileedebtcampaign.org.uk/UK3720backed37203727development37273720factory3720costs3720Mozambique3720millions3720in3720lost3720taxes+8076.twl>

<sup>21</sup> See Rádio Moçambique, Governo Vai Renegociar Mega-Projetos (27 de Dezembro de 2012) available at [http://www.rm.co.mz/index.php?option=com\\_content&view=article&id=6424:governo-vai-renegociar-mega-projectos&catid=1:ultimas&Itemid=50](http://www.rm.co.mz/index.php?option=com_content&view=article&id=6424:governo-vai-renegociar-mega-projectos&catid=1:ultimas&Itemid=50)

