

AFRICAN POLICY DIALOGUE MOZAMBIQUE

The Extractive industry should contribute to the growth and structural transformation of the country's economy

- Mozambique must reinforce the nexus: inclusive governance, extractive industry, and the process of transforming its productive structure. The extractive industry must be anchored in the country's development agenda, promoting the diversification of the economy, job creation, and the improvement of Mozambicans' livelihoods.





Roughly two years ago, the Center for Democracy and Development (CDD) established, in partnership with the INCLUDE Platform and the Center for African Studies at the University of Leiden in the Kingdom of the Netherlands, the first African Policy Dialogue (APD) in Mozambique. An initiative aimed at creating an independent space for interaction between representatives of the Government, the private sector, civil society, academics, and other relevant actors to jointly generate empirical evidence on socioeconomic problems that affect the country and, thus, support the design and implementation of policies that can lead the economy towards sustainable and inclusive growth.

Conceptually, the African Policy Dialogue (APD) focuses on issues considered to be priorities for African economies given their development agendas. In Mozambique, the boom in natural resources in the past decade led to the selection of “Extractive Industry, Inclusive Governance and Structural Economic Transformation” as the core theme.

After holding the inaugural conference, in September 2020, APD Mozambique held several webinars, round tables and regional conferences aimed at sharing knowledge and bridging the between research and the policy-making process in

the country, with a focus on the nexus between the extractive industry, inclusive governance and structural economic transformation. Finally, as a call to action, on December 15, 2022, a face-to-face meeting was held with Government officials, civil society, the private sector, and academics to present and discuss the evidence collected, in favor of a more informed decision-making process.

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“The APD allowed bringing knowledge to the policy discussion space”, Prof. Adriano Nuvunga, Executive Director of the CDD



The implementation of the African Policy Dialogue allowed African countries to dialogue with each other, although this dialogue is still weakened. But more than that, the APD allowed bringing knowledge to the policy discussion space. The understanding that existed until then is that policymakers were not connected to those who had the evidence/knowledge, defended Prof. Adriano Nuvunga, Executive Director of the CDD.

Speaking on the theme “Inclusive governance as a catalyst for structural economic transformation in Mozambique: Lessons from ODA Mozambique”, Prof. Nuvunga highlighted the symbolism associated with what is considered the largest discovery of natural gas on the African continent and its potential in the process of growth and transformation of the national economy.

“Don’t forget that during The African Rising Con-

ference, in 2014, Christine Lagarde, who is now President of the European Central Bank, said that Mozambique had the conditions to be the ‘Qatar of Africa’. More than 6 years later, we are here today to question the possibilities of natural resources (and hydrocarbons in particular) and the potential of Youth being placed at the service not only of growth but also of economic transformation”.

For Prof. Nuvunga, inclusive governance is one of the main factors explaining the current situation in Mozambique. In his view, governance that privileges the participation of all segments of the population in major decision-making processes, especially those that operate from the margins (at the community level), promotes “ownership”, contributing to the empowerment of communities and the resolution of potential conflicts.

Catalyzing a structural economic transformation anchored to the development and improvement of the living conditions of communities

Gabriel Manguela – CDD Researcher

Providing a framework for the discussion, Gabriel Manguela, a CDD researcher, began by promoting a reflection around the key concepts of the theme that guided the work carried out over the two years of implementation of the initiative, followed by a presentation of the main findings and recommendations.

Elaborating on the concept of inclusive governance, the CDD researcher explained that it does not refer only to part of the processes (how decisions are made and to what level people can participate in decision-making processes), but also involves the results (considerations about distributive equity, that is, how the results of the policies taken benefit each member of society).

In another development, he explained that the idea of structural economic transformation includes the transformation of the productive structure anchored to development and the improvement of the living conditions of communities. From a productive structure focused on the primary sector, the idea is to move on to the second phase of the process in which there is an industrialization process. What's more, natural resources should contribute to the development of industry, promoting the creation of jobs and thus supporting the increased capacity to generate livelihoods for communities.

However, this remains an unrealized potential for the case of the national economy. Resource abundance and large investments in the extractive industry (70% of FDI flows over the last decade) have not significantly contributed to structural transformation, economic diversification, and improvement of livelihoods in Mozambique.

In addition to the low contribution to the process of growth and diversification of the national economy, the extractive sector makes a low contribution to the generation of means of subsistence. "The extractive sector contributes less than 1% of total employment. Despite the income generated by the sector, job opportunities remain a fundamental challenge for young people", he highlighted.

Elaborating on the revenue sharing process in the extractive sector, Gabriel Manguela explained



that, until the establishment of the ODA in Mozambique, the percentage of extractive industry royalties allocated to community development was legally fixed at 2.75%, one of the lowest in Africa and the world. According to research, this fraction failed to bring development to communities not only because it was too low, but also because it was rarely allocated in full. However, currently, 10% of tax revenues are allocated to development in the provinces where extraction takes place.

Overall, the data indicate that the country suffers from a natural resource curse. Indeed, more than 50% of Mozambicans live in extreme poverty and with considerably high levels of food insecurity and malnutrition, with the central and northern regions being the most affected. This is a controversial situation considering that the central and northern regions are home to most of the country's natural resources.

At the end of his presentation, Gabriel Manguela made some recommendations for the extractive industry to contribute not only to economic growth but above all to the structural transformation of the national economy and the improvement of Mozambicans' standard of living.

The first consists precisely in employing an inclusive governance model to ensure the involvement of stakeholders in the decision-making process, transparency, and management of natural re-

sources and generated revenues. This model must be complemented by the operationalization of the natural gas monetization plan, linking the Rovuma Basin reserves to specific national development, such as their use to produce electricity, fuels, and fertilizers.

Additionally, it is necessary to ensure that the use of revenues generated by extractive industry projects contributes not only to improving the livelihoods of local communities but also as a

strategy for mitigating conflicts and catalyzing the development agenda. To this end, it is proposed to establish a robust revenue-sharing policy that is efficient, fair, and stable – implying: clarity in defining the allocation objectives and aligning the revenue-sharing system with its objectives; creating a degree of flexibility in the system; national consensus on the formula; codification of the formula in the law; formalization of an independent supervisory body).

“Mechanisms for community participation need to be created and improved”, Stefânia Mónica, Representative of the Ministry of Economy and Finance

Stefania Mónica, MEF Representative

Commenting on the results presented, Stefânia Mónica, Representative of the Ministry of Economy and Finance (MEF), began by interrogating the paradox of abundance in the country's economy. "It is controversial that Mozambique is on the list of the poorest countries in the world when on the other hand it is one of the richest countries in terms of natural resources", she said.

Recognizing the challenges that the country faces in translating its natural resources into improvements in the population's living conditions, Stefânia Mónica emphasized the importance of community participation in the country's development process. As she explained, it is necessary to create and improve mechanisms for community participation, particularly among young people, to solve the country's problems.



“Policies may exist, but the local business community must prepare itself to provide services to these projects”, António Manda, Representative of the Ministry of Mineral Resources and Energy
António Manda, Representative of MIREME

Commenting on the need to anchor natural gas from the Rovuma Basin to the national development agenda, António Manda, representative of the Ministry of Mineral Resources and Energy (MIREME), explained that 25% of the gas discovered in the Rovuma basin should be used for industrialization of the country through the production of fertilizers and other products. As he explained, one of the examples of the government’s actions to use gas for industrialization is the elaboration of the study for the development of a natural gas pipeline connecting the north and south of the country, with ramifications for provinces of interior and some neighboring countries.

However, the success of the monetization process depends not only on the will of the government but also on the “boldness” of the private sector. The issue of local content is a challenge for the government as well as the national business community. “Policies may exist, but the local business community must prepare itself to provide services to these projects”, he explained.

On a separate note, he recognized that, due to the



instability in the north of Mozambique, the private sector has been withdrawing from its decisions regarding projects for the use of natural gas to produce these derivatives – the case of Yara International, which would have been awarded in 2016 to produce fertilizer.

Supporting small and medium-sized companies to boost the local economy

Frederico Paiva – Social Investment Manager at TotalEnergies

In his turn, Frederico Paiva, Social Investment Manager at TotalEnergies, noted the importance of companies in the extractive sector in promoting local content by supporting small and medium-sized enterprises (SMEs). Using concrete examples of the Golfinho/Atum project to be developed in Area 1, Paiva explained that a process of registration and training of small and medium-sized companies is underway in the districts of Palma and Mocimboa da Praia, in the province of Cabo Delgado. Additionally, he stated that there are already agreements with some companies for the provision of meals



and other services, to boost the local economy.

However, as he explained, supporting SMEs linked to the extractive industry/multinational value chain is not the only way to boost the local economy of the communities where the operations take place. The company has also invested in a series of programs to

generate livelihoods in the areas of agriculture and fishing, benefiting around 3400 people. Although their main objective is to contribute to the stabilization of the area currently affected by the conflict, the programs also contribute to job creation, even if they are not directly linked to the project.

Promoting inclusive development in all aspects

Romão Xavier – Director of OXFAM Mozambique

Speaking on behalf of OXFAM Mozambique, Romão Xavier highlighted the role of promoting inclusion in all aspects of the process of economic development: participation not only as a means of transforming the way we see development but also as an end.

To validate his thesis, he questioned the legal limitation of the applications that can be made with the resources received by the communities affected by the exploration projects, since they are often used for expenses that, in principle, should be carried out by the central government.

Finally, he defended the need to reflect on the strategies that can be implemented in the short term so that the boom in natural resources also contributes to the transformation of the agriculture sector. Romão Xavier understands that the importance of agriculture in the economy in terms of its contribution to the Gross Domestic Product (GDP) and labor absorption will not change from one year to the next. Therefore, the development of agriculture would mean taking important steps toward the development of the country.



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