POLICY BRIEFING 56

Governance of Africa's Resources Programme

September 2012

Raising Mozambique: Development Through Coal

Neissan Alessandro Besharati[1]

RECOMMENDATIONS

- Government's policy framework for harnessing foreign mining investment to spur local, provincial and national development processes should include guidelines on community relocations and CSR standards.
- Government should ensure the transparency and public accountability of all its agreements with companies in the extractive industry. This should include publically available information on concessions, taxation regimes, relocation plans and corporate social investments.
- Stronger mechanisms for communication, consultation and co-ordination among government departments, companies, communities and civil society should be established. These should take place at national, provincial and local levels, to promote effective collaboration among all stakeholders affected by mining activities.
- Mining companies should align and integrate their social investments with national and sub-national development plans. Such corporate social projects should foster ownership and capacity development of local authorities and communities. Mining companies should improve their CSR monitoring and evaluation systems and promote learning among companies.

EXECUTIVE SUMMARY

Sixteen years of civil war, which ended in 1992, left Mozambique as one of the poorest countries in the world. Still today Mozambique's human development index ranks the lowest in Southern Africa, with a life expectancy of 52 years and a literacy rate of 47%. Like several other African countries, however, Mozambique's economic potential lies underground. In recent years the discovery of large reserves of gas, oil and coal has attracted foreign investors from across the globe. FDI net inflows of foreign direct investment have risen to 9% of the country's gross domestic product. Coal alone represents 61% of the country's mineral commodities, making Mozambique the second-largest exporter of coal in Africa, after South Africa. Coal production in Mozambique reached 35 700 tonnes in 2010 and is expected to reach 20 million tonnes by 2015. The growing mining industry is also contributing to Mozambique's much-needed infrastructure development, with electricity lines, roads, railways and ports being constructed to service the needs of foreign investors. This coal revolution is bringing high hopes, but questions still remain. It is yet to be determined whether the mining sector can become the new engine of growth for the country, and whether these billion dollar investments will trickle down to the poor. How much is the mining industry really contributing to the development of Mozambique?

THE ARRIVAL OF THE COAL GIANTS

Mozambique's total coal reserves are estimated as high as 20 million tonnes, with most of these deposits situated in the Moatize and

Mucanha–Vuzi basins. Both these reserves, located in Tete province, are expected to produce $1.5 billion in yearly revenue; and could be producing 25% of the world's coking coal by 2025. The government has issued coal exploration and production licences to 40 companies operating in Tete. The biggest mining concessions are held by Vale and Rio Tinto, and smaller concessions, by the Talbot–Nippon Group and Jindal Steel.

The Brazilian Vale do Rio Doce (Vale) started its exploration and feasibility studies in 2005/06 and in 2008 was awarded a five-year development licence, which enabled it to build a $1.3 billion coal mine in Moatize. By the end of the five-year concession, Vale is expected to produce 12 million tonnes of coking and thermo-coal, mainly for its Asian exports. To transport the coal, Vale currently uses the rehabilitated railway to the Beira port. As this corridor has limited capacity, Vale is planning the construction of a new 912 kilometre railway line to connect Moatize to the deep-water port of Nacala with a new $4.4 billion coal terminal, which is also being renovated by the Brazilians. Interestingly, the entire new Nacala Corridor in the north is the target of development assistance not only by Brazilian but also Japanese foreign aid through the Pro-Savana agriculture project.

The second-biggest mining company operating in Tete is British–Australian Rio Tinto, which is currently preparing for the production of coal after acquiring the concession from the exploration company, Riversdale, in 2011. Rio Tinto holds mining concessions of 290 000 hectares for the Benga and Zambezi projects. These two sites are estimated to hold 4 billion and 9 billion tonnes of coal reserves respectively, and might oblige Rio Tinto to relocate the current provincial airport.

Another growing presence among Mozambique's investors is that of the Indian corporations. In recent years companies such as Tata Steel, Bharat Petroleum, Videocon Industries, Petromoc, Rusni, and Coal Ventures International have acquired significant shares of the Mozambican minerals sector. To fuel its large steel industry in India, Jindal commenced its coal explorations in Mozambique in 2008 and has recently been granted a licence for the construction of its $200 million mine in Marara, Cahora Bassa. Jindal is expecting to produce its first 300 000 tonnes in September 2012 and to reach a peak yearly production of 3 million tonnes of coking coal. Coal extracted from Cahora Bassa will be transported down the Zambezi river to Moatize, where it will then be moved by road and railway to the Beira port.

Concerns for both Rio Tinto and Jindal's use of the Zambezi River have been raised with regards to potential environmental hazards. Recently the provincial government declined the request to utilise the river for coal transport.

CHALLENGES OF RAPID GROWTH

Before the mining boom, Tete was similar to the rest of Mozambique, with much of its population living in poverty and in rural conditions. Now, foreign technicians are flocking to the province, and the streets around Moatize are filled with trucks and four-by-four vehicles. Thousands of people cross the iconic bridge daily, which connects Tete city to the Moatize district. Such an influx of resources and people has been unexpected, and Tete province lacks the necessary infrastructure and services (roads, accommodation, restaurants, clinics and schools) to cater for the mining industry.

Local government authorities have been ill-prepared to face the sudden pressures arising from the arrival of the multinationals. A particular challenge has been managing the population relocations to make space for the mining sites. Local government has been faced with the sudden opportunity of channelling the large investments of the mining companies to rebuild the province's social infrastructure. The district government of Moatize, which suddenly had to deal with international corporations, has turned into a 'super district office' forced to build entire new villages quickly. Owing to their operational deadlines, companies have often moved ahead with building new infrastructure without undertaking the necessary consultations or waiting for the government to catch up with their plans. Many mistakes have been made in the process, from which much can be learnt.[2] Provincial authorities have been faced with the challenge of diverse departments – including agriculture, education, health and public works – dealing simultaneously with the mining companies and often sending mixed messages. In 2012 an attempt was made to promote co-ordination among government departments by establishing a Provincial Relocation Commission, aimed at guiding the community development activities of the various coal companies in the province.

The reality, however, is that the local authorities do not have much leverage over the foreign investors, as most of the concessions and taxation agreements are negotiated at ministerial level in Maputo. Although the Mozambican government and the major mining companies are signatories to the Extractive Industry Transparency Initiative (EITI),[3] the mining contracts still remain closely guarded secrets. Civil society is not able to monitor the social commitments from these contracts. Mozambique currently lacks a strong mining regulatory framework. The government is, however, making an effort to increase its ownership of extractive activities in the country through the recent establishment of the Mozambique Company for Mining and Exploration. This state-owned enterprise holds a 15% share of Vale's operation in Tete, and is negotiating for 10–20% of Rio Tinto's production.

CORPORATE SOCIAL RESPONSIBILITY

Generally, it is difficult to assess the real revenue for the government of Mozambique arising from concessions and corporate taxes owing to poor transparency and public accountability mechanisms. One could begin to analyse the contribution of the coal companies to the country's development by looking at their corporate social responsibility (CSR) programmes. CSR can be broken down into environmental practices, human resources, support to local economic development and social spending. Mozambique does not yet have solid CSR legislation, as seen in Europe, North America or even South Africa. However, most mining companies operating in Mozambique are large multinationals, that are conscious of their image and endeavour to comply with global standards and those of their home countries.

When a mine opens in a certain area, one of the biggest hopes is that it will provide new jobs for the local population. This does not seem to be the case in Tete, however. Coal mining companies have attributed this to the lack of skilled technicians in the local market. Most workers have to be imported from other countries, or in the best-case scenario, from Maputo, Beira, and other major centres of Mozambican education. All the coal mining companies have nevertheless committed themselves to training processes and have established partnerships with various Mozambican universities and colleges to build local capacities in trades, construction and engineering to assist in the industry's operations.

The lack of skills and quality of services in the local supply chain has also affected the procurement practices. Nevertheless, the coal mining companies have expressed their commitment to promoting local economic development. Vale, for example, is currently conducting a survey of small and medium enterprises in Tete and Moatize, which could potentially be utilised for its operations. Rio Tinto reported that in 2011 it spent $120 million on contracts to 560 local companies, which are mainly providers of construction, furniture and IT products. Mozambican civil society, however, has raised concerns that the bulk of the major procurement contracts does not go to local companies, but rather to Brazilian, Indian and South African companies. Local communities complain that most of the goods utilised by the mining companies – from equipment to material and even food – is still imported from outside.

A more clear-cut contribution to local development by the coal companies is the social investments and community development initiatives. Vale, for example, has rehabilitated two health clinics in Moatize village, and has collaborated with USAID on a night clinic and HIV counselling project. Other socio-economic development projects have included the rehabilitation of nurseries, establishment of vocational training programmes for women and men, and the piloting of innovative farming techniques. Rio Tinto has committed 2% of its investments to social initiatives, with a current 2012 sustainable development budget of $1.8 million solely for Tete. Rio Tinto's projects have included agriculture, livestock and the development of model farms, as well as health projects and clinics. Jindal has also undertaken a number of malaria-prevention projects in Maputo and Cahora Bassa. One of Jindal's major projects has been the computer refurbishment of a vocational training institute. The Indian company has completed a number of public works – including the construction of schools, clinics and parks – in response to requests by the community and government. Jindal, however, has raised concerns over the lack of a coherent government strategy to channel corporate social spending.

Undoubtedly, the largest amount of social spending from the coal companies comes from the relocation process. Between 2006 and 2011, Vale spent $30 million in relocation expenditures, and Rio Tinto attributes 95% of its social spending to the resettlements process. Entire new settlements – including housing, water, electricity, schools, health posts, shops, roads and public infrastructure – have been constructed for communities who are relocated from mining locations. The consensus, however, is that these are actually operational costs that the companies need to incur to conduct their businesses in the area and should not be confused with corporate social investments. Nevertheless, they are significant contributions to public services and socio-economic development, and should be aligned carefully with government plans and local community needs and aspirations.

CONCLUSION

The good and bad experiences emerging from the past few years of mining operations in Tete can provide useful lessons to inform policy of the Mozambican Government as well as that of other African countries experiencing an upsurge of foreign investment from the extractive industry. International companies that are truly committed to CSR and to supporting Africa's development can also learn from each other and continuously improve in their manner of social spending. This should start with strengthening corporate social investments' planning processes as well as monitoring and evaluation systems. Companies should ensure best returns on investments not only in business, but also in socio-economic development. Communities, the private sector and government need to find more effective ways of consulting and collaborating with each other, to ensure that corporate investments are integrated into long-term development planning. This requires transparent relationships among all stakeholders, especially as these operations affect the communities and natural resources of the country. If the correct measures are put in place, the rich minerals of the continent will be converted effectively into agents of socio-economic transformation, which will ultimately better the lives of its people.

ENDNOTES

1 Neissan Alessandro Besharati is a research fellow at the South African Institute of International Affairs, the University of the Witwatersrand Graduate School of Public and Development Management and at the Social Science Research Council.

2 See, for instance, Kabemba C & C Nhancale, *Coal Versus Communities*, Open Policy, 2, Johannesburg: South African Resources Watch, 2012.

3 The EITI is a global and national partnership among government, companies and civil society that promotes agreed standards of revenue transparency from natural resources.

The Governance of Africa's Resources Programme is funded by the Norwegian Ministry of Foreign Affairs. SAIIA gratefully acknowledges this support.