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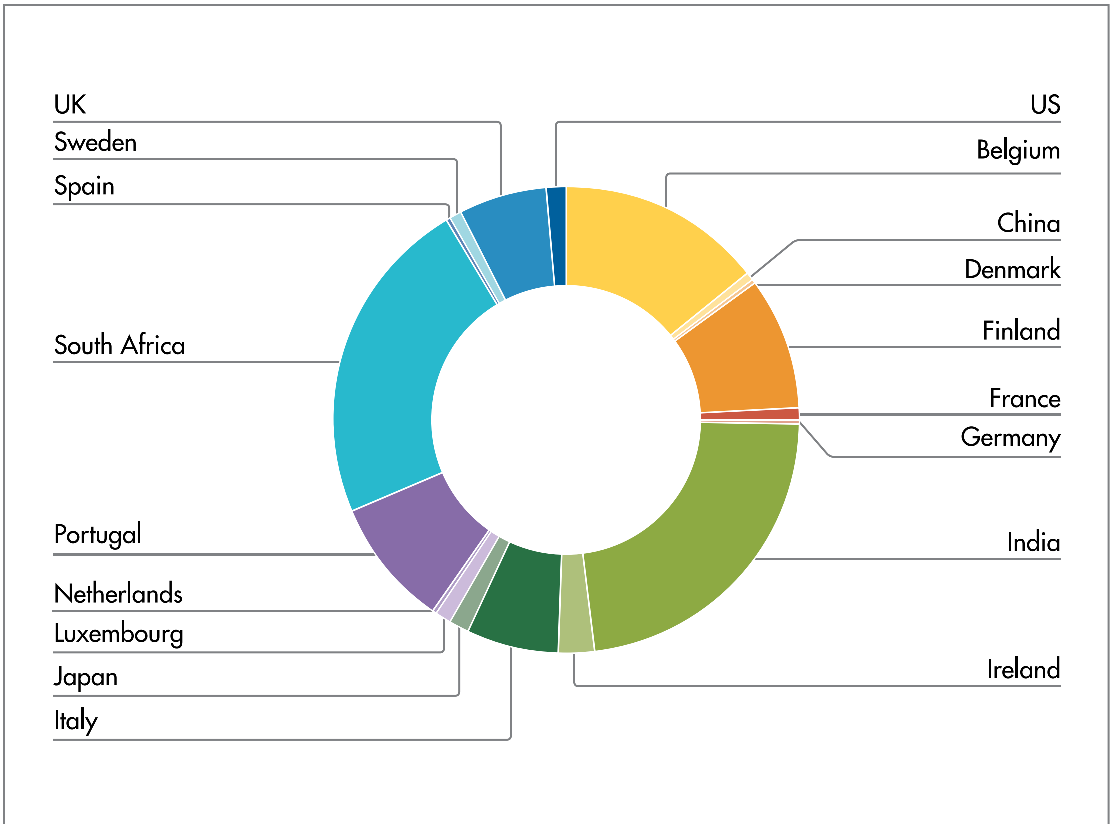
MOZAMBIQUE: OPTIONS FOR MULTI-SECTOR APPROACHES TO FDI

LESLEY WENTWORTH



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ABSTRACT

Historically, Mozambique has relied heavily on aid flows to finance post-war reconstruction. It is also Africa's biggest recipient of overseas development assistance (ODA) – about 50% of government spending is financed from ODA. Post-war economic reconstruction efforts came mainly in the form of large projects focused on rebuilding the country's infrastructure. These projects were financed for the most part by foreign debt and equity, aided by multilateral and regional development banks. Large foreign direct investment (FDI) projects therefore became an important driver of economic growth, especially in the extractives industries and the supporting infrastructure sector. Investments in these sectors were aided by liberalisation and stable macroeconomic policies on the one hand and widespread donor support on the other. Notwithstanding this strong economic growth, Mozambique's gross domestic product (GDP) per capita is below the low-income country average, and it ranks 180 out of 188 countries in the 2014 Human Development Index.

The country's economic growth showed positive momentum from the mid-1990s until the real impact of the sustained slump in commodity prices was felt, beginning in 2011. Public debt increased from 40% of GDP in 2011 to 56.8% in 2014. The Mozambican government has recognised the importance of growth in agriculture and large-scale foreign investments have been seen in this sector, with hoped-for spillovers to local smallholder farmers.

There is, however, an emerging argument for sharing the technology, expertise and access to resources (including land and water) that the extractive industries have enjoyed in Mozambique since the 1990s, to further develop the agriculture sector. It is possible to transform mineral resources into long-term sustainable developments, but this can only happen when these operations are embedded in secure and prosperous communities. Environmental impacts must be rigorously addressed and risk mitigation and management strategies diligently applied. Joint committees that include private company representatives, government agencies and the community should have continuous and robust engagements.

ABOUT THE AUTHOR

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ABBREVIATIONS AND ACRONYMS

CSR	corporate social responsibility
ENDE	National Development Strategy
FDI	foreign direct investment
Frelimo	Frente de Libertação de Moçambique (Mozambique Liberation Front)
GDP	gross domestic product
HIPC	Heavily Indebted Poor Countries
ICP	international co-operation partners
IMF	International Monetary Fund
LNG	liquefied natural gas
MDC	Maputo Development Corridor
MDRI	Multilateral Debt Reduction Initiative
ODA	overseas development assistance
ProSAVANA	Programme of Triangular Co-operation for Agricultural Development of the Tropical Savannahs of Mozambique
Renamo	Resistência Nacional Moçambicana (Mozambique National Resistance)
SL	simple licence
SMME	small- micro- and medium-sized enterprise

BACKGROUND

At the 'Africa Rising' Conference in May 2014 – jointly organised by the International Monetary Fund (IMF) and the Mozambican Ministry of Finance – IMF head Christine Lagarde praised the country for its remarkable growth. Lagarde claimed that Mozambique exemplified the positive economic outlook for the continent.[1] Mozambique's gross domestic product (GDP) had grown by between 6.3% and 8.7% from 2003 to 2012 and was projected to stay above 8% for some time.[2]

In April 2016 the IMF stated that the Mozambican government had announced an amount in excess of $1 billion in external debt that had not previously been disclosed to the fund.[3] Given the continuing fluctuation in commodity prices, growth was more restrained in 2015 at 6.3% because of lower export earnings and public expenditure, with expectations of an expansion to 6.5% in 2016. Economic growth was helped by higher production in the agriculture, power and extractive industries sectors. Despite a significant reduction in 2015, foreign direct investment (FDI) also remained a major driver of Mozambique's growth.[4]

Historically, the country has relied heavily on aid flows to finance post-war reconstruction. It received debt relief via the World Bank's Heavily Indebted Poor Countries (HIPC) Initiative in 1999 and 2001 and the Multilateral Debt Reduction Initiative (MDRI) in 2006. Mozambique is Africa's biggest recipient of overseas development assistance (ODA) – about 50% of government spending is financed from ODA. The country has also benefitted from the Enhanced Integrated Framework, an international Aid for Trade initiative, since 2009. In 2010 there were over 20 international co-operation partners (donors) involved in the country.

Post-civil war economic reconstruction efforts came mainly in the form of megaprojects focused on rebuilding the country's infrastructure. These projects were financed largely by foreign debt and equity, aided by multilateral and regional development banks. The country's economic growth showed positive momentum from the mid-1990s until

1 Lagarde C, 'Africa rising: Building to the future', Keynote Address, 'Africa Rising' Conference, Maputo, 29 May 2014, http://www.imf.org/external/np/speeches/2014/052914.htm, accessed 7 January 2016.

2 AfDB (African Development Bank), OECD (Organisation for Economic Cooperation and Development) Development Centre & UNDP (UN Development Programme), 'African Economic Outlook 2016, Special Theme: Global Value Chains and Africa's Industrialisation', 2016a.

3 IMF (International Monetary Fund), 'IMF Statement on Mozambique', Press Release 16/184, 23 April 2016, https://www.imf.org/external/np/sec/pr/2016/pr16184.htm, accessed 7 May 2016.

4 AfDB, OECD Development Centre & UNDP, 'African Economic Outlook 2016, Special Theme: Sustainable Cities and Structural Transformation', 2016b.

the real impact of the sustained slump in commodity prices was felt in 2011. Public debt increased from 40% of GDP in 2011 to 56.8% in 2014.[5]

The extractives industries and big supporting infrastructure projects have been driving Mozambican growth for two decades. Investments in these sectors were aided by liberalisation and stable macroeconomic policies on the one hand, and widespread donor support on the other. Notwithstanding this strong economic growth, Mozambique's GDP per capita is below the low-income country average.[6] The country ranks 180 out of 188 countries in the 2014 Human Development Index, and is rated at 0.416 below the average of 0.505 for countries in the low human development group and below the average of 0.518 for countries in sub-Saharan Africa.[7]

OVERVIEW: POLITICAL AND BUSINESS ENVIRONMENT

The October 2014 presidential elections in Mozambique saw the ruling Frelimo (Frente de Libertação de Moçambique) returned to power, with President Filipe Nyusi taking over from outgoing president Armando Guebuza in January 2015. Frelimo won 144 seats, down from 191 seats in the previous election. Renamo (Resistência Nacional Moçambicana) increased its seats from 51 to 89 and the Movimento Democrático de Moçambique from eight to 17.[8] There is an ongoing low-intensity conflict between the government and Renamo, which refuses to accept the results of the 2014 election. Subsequent to the new administration taking over, the long-term National Development Strategy (ENDE) for 2015 to 2035 was approved. This policy document emphasises industrialisation and the priority areas of agriculture, fisheries, industrial diversification, infrastructure, extractive industries and tourism.

The IMF's forecast of 6.3% growth in 2015 is supported by the recently released African Economic Outlook report.[9] The growth forecast for 2016 remains below potential at 6.5%, largely because of the slowing mining sector and substantially tighter fiscal and monetary policies. In the medium term, growth recovery at 7.5–8% is expected, supported by

5 *Global Finance*, 'Mozambique GDP and economic data: Country report 2015', 6 February 2015, https://www.gfmag.com/global-data/country-data/mozambique-gdp-country-report, accessed 7 May 2016.

6 World Bank, 'Global Economic Prospects: Less Volatile, but Slower Growth', 7 June 2013, http://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-June-2013-Less-volatile-but-slower-growth.pdf, accessed 7 January 2016.

7 UNDP (UN Development Programme), 'Human Development Report 2015: Work for Human Development, Briefing Note for Countries on the 2015 Human Development Report: Mozambique', http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/MOZ.pdf, accessed 7 January 2016.

8 *ENCA News*, 'Mozambique National Electoral Commission announces vote results', 31 October 2014, http://www.enca.com/africa/southern-africa/mozambique-national-electoral-commission-announces-vote-results-0, accessed 7 January 2016.

9 African Economic Outlook, 'Mozambique', http://www.africaneconomicoutlook.org/en/country-notes/mozambiqua, accessed 8 May 2016.

massive investment in natural gas projects and higher coal production. This is dependent on key agreements being reached for coal and gas sector development. The Bank of Mozambique's medium target for inflation will be 5–6%, due to the depreciation of the metical (MZN)[10] and adjustments in administered prices.[11]

Mozambique's ranking in the World Bank's Doing Business Index is 133 (down from its 2015 ranking of 127) out of 189, ranked before Lao PDR, Grenada and Palau (134, 135 and 136 respectively) and after India, Egypt and Tajikistan (130, 131 and 132 respectively). As a comparator, South Africa is ranked 73 (down from 43 in 2015) and Japan 34 (down from 29 in 2015).[12]

National Development Strategy (ENDE)

The ENDE is an integrated development approach based on the UN Millennium Development Goals, the Regional Indicative Strategic Development Plan of SADC and Mozambique's Agenda 2025. This long-term vision document is intended to see Mozambique graduate from least-developed country status by 2035. The Mozambican Ministry of Commerce and Industry points to the importance of four major development aspects:

- human capital development;
- investment in and development of infrastructure;
- research, innovation and technical capacity development; and
- co-ordination and institutional co-ordination.

Agriculture and industry are given prominence, and there is emphasis on the need for proper territorial planning, especially for infrastructure development.[13]

Historically, the country has relied heavily on aid flows to finance post-war reconstruction, from debt relief through the World Bank's HIPC Initiative in 1999 and 2001 and the MDRI in 2006. Mozambique is one of Africa's biggest recipients of ODA, and since 2005, net ODA has averaged 22% of gross national income.[14] Mozambique has also been a beneficiary of the Enhanced Integrated Framework since 2009. The country's post-war

10 Currency code for the new Mozambican metical.

11 IMF (International Monetary Fund), 'Republic of Mozambique: IMF Country Report No. 16/9', January 2016, http://www.imf.org/external/pubs/ft/scr/2016/cr1609.pdf, accessed 8 May 2016.

12 World Bank, *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, October 2015, http://www.doingbusiness.org/reports/global-reports/doing-business-2016, accessed 8 May 2016.

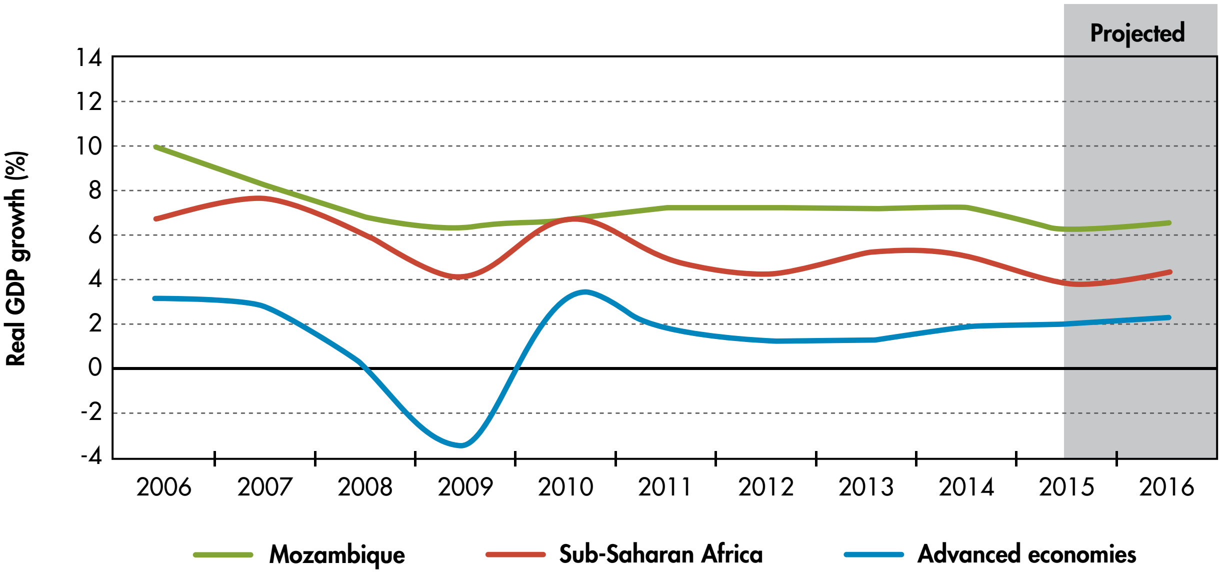
13 Government of Mozambique, Ministry of Industry and Trade, 'Mozambique Report', July 2014, http://unohrlls.org/custom-content/uploads/2014/10/Mozambique-Report.pdf, accessed 8 January 2016.

14 OECD (Organisation for Economic Cooperation and Development), 'Aid Effectiveness 2011: Progress in Implementing the Paris Declaration – Mozam-bique', https://www.oecd.org/dac/effectiveness/Mozambique%203.pdf, accessed 12 July 2016.

economic reconstruction efforts came mainly in the form of large projects focused on rebuilding infrastructure. These projects were financed for the most part by foreign debt and equity, with aid from multilateral and regional development banks.

The country's economic growth showed positive momentum from the mid-1990s until the real impact of the sustained slump in commodity prices was felt, beginning in 2011. Apart from the increase in public debt of over 16% of GDP,[15] Mozambique's balance of payments deficit, declining international reserves and falling currency have had an overall dampening effect on the economy.

FIGURE 1 MOZAMBIQUE'S GDP GROWTH VIS-À-VIS THAT OF SUB-SAHARAN AFRICA AND ADVANCED ECONOMIES



Source: IMF, 'Country Report 16/9, Republic of Mozambique', January 2016, http://www.imf.org/external/pubs/ft/scr/2016/cr1609.pdf, accessed 7 May 2016

LEADING FDI MOTIVATION: MEGAPROJECTS FOR RECONSTRUCTION AND DEVELOPMENT

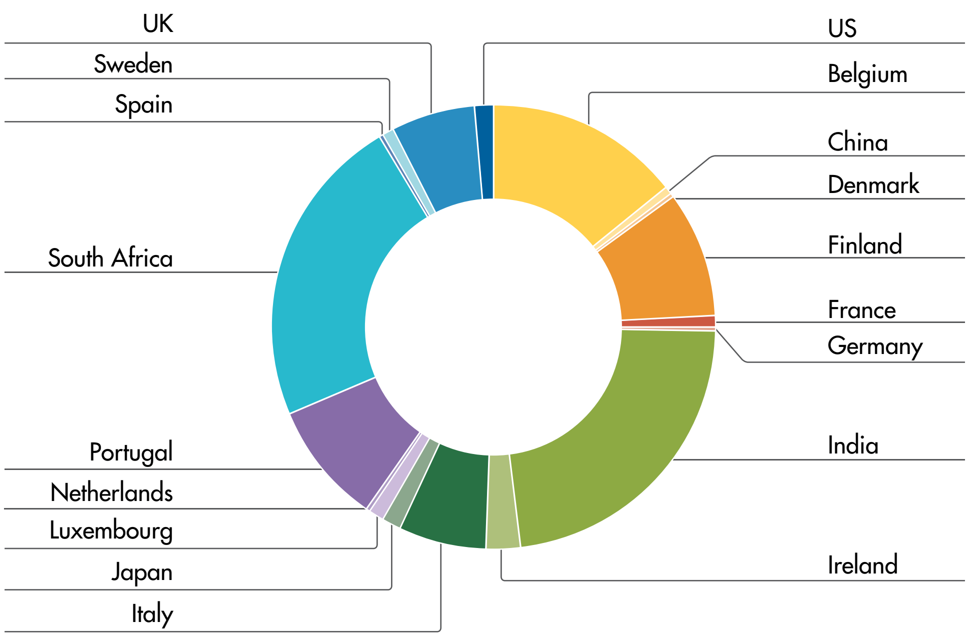
FDI is one of the main drivers of growth, but in 2015 Mozambique experienced a 28% decline from record levels in 2013, although it still reached $4.2 billion (22% of GDP). Figure 2 shows FDI flows into Mozambique by country over the last decade, with South Africa and India shown to be the most prominent investing countries. Public expenditure,

15 *Global Finance, op. cit.*

another major driver of economic growth, increased from 31.6% of GDP in 2012 to a record 41.4% in 2014, with capital expenditure programmes at 14.5% of GDP.[16]

There is a significant range of investors; understandably so, as many foreign investors follow their national governments, which provide aid and other financial support to host countries. In 2010 over 20 international co-operation partners (donors) were involved in Mozambique.

FIGURE 2 RELATIVE INDICATION OF TOTAL FDI BY SOURCE COUNTRY (2003–2015)



Source: Own calculations, Bezuidenhout H, derived from Financial Intelligence, fDi Market databases, 2015

As stated earlier, in the decade after the civil war, which ended in 1992, economic reconstruction efforts came mainly in the form of megaprojects focused on rebuilding the country's infrastructure, such as the rehabilitation of the contested Cahora Bassa hydropower project. South Africa's Trans-Africa Projects helped Hidroelectrica De Cahora Bassa to appoint a joint venture company comprising Consorzio Italia 2000 and Enel.

16 Afribiz, 'Making Business Happen in Africa. Mozambique: Economic Development 2015', http://www.afribiz.info/content/2015/mozambique-economic-development-2015/, accessed 10 May 2016.

The construction of the $2.4 billion Mozal aluminium smelter (1998–2003) was Mozambique's primary post-civil war megaproject – a joint venture between BHP Billiton (47.1%), Mitsubishi Corp. (25%), the Industrial Development Corporation of South Africa (24%) and the government of Mozambique (3.9%).[17] Mozal signalled Mozambique's openness to the foreign business sector, particularly the export sector. Since the establishment of Mozal, Mozambique has been able to diversify its export base from a single agricultural product (cashew nuts) to a range of minerals and metals, dominated by aluminium.

The Maputo Development Corridor (MDC) Initiative was established as a build–operate–transfer concession awarded to TransAfrica Concessions (consisting of French multinational Bouygues and South African construction firms Basil Read and Stocks & Stocks). The MDC connects South Africa's Gauteng province with the Mozambican port of Maputo (via road and rail links in South Africa's Limpopo and Mpumalanga provinces). Other infrastructure investments include the Sasol gas pipeline to South Africa.

From 2004 mining companies began venturing into Mozambique. Examples of this are the Kenmare Heavy Sands project; Brazilian miner Vale and Australian Rio Tinto's coal exploration in Tete Province in 2011; and liquefied natural gas (LNG) exploration in the Rovuma basin offshore.

FDI dynamics in the extractives sector

The major sectors to have benefited from FDI are construction, services to enterprises, transport and communications, financial services and extractives. It remains crucial to maintain competitiveness in terms of FDI attraction while ensuring fiscal and debt sustainability. The fiscal deficit was 10% of GDP in 2014, pushing public debt to 56.8% of GDP.[18] The extractives sector remains Mozambique's economic driver, with the government revising the legal and fiscal framework for the mining and hydrocarbons sector in order to increase revenues and enlarge domestic participation.

Mozambique passed a mining law (Law No. 20/2014 of 18 August 2014) that replaced the 2002 act and attempted to re-balance the terms under which mining activities were conducted in favour of local actors and local development more generally. This follows the trend started by the megaprojects law.[19] The mining law and its regulations give priority land use to mining, and the Minister of Mineral Resources has the discretion to issue

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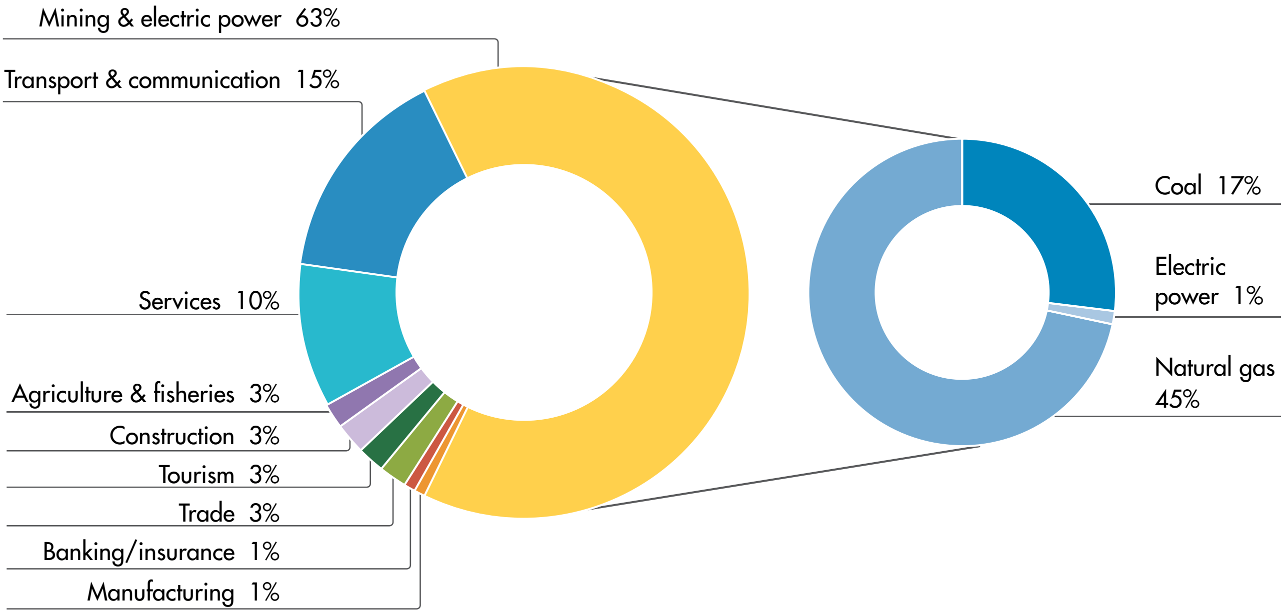
17 BHP Billiton, 'Mozal smelter expansion officially opened', 9 October 2003, http://www.bhpbilliton.com/investors/news/mozal-smelter-expansion-officially-opened, accessed 7 January 2016.

18 AfDB, 'Mozambique Economic Outlook', 2014, http://www.afdb.org/en/countries/southern-africa/mozambique/mozambique-economic-outlook/, accessed 7 January 2016.

19 The Public–Private Partnership and Large-Scale Project Law (Law No. 15/2011 of 10 August 2011) sets some standards for public–private partnerships (PPPs). It reserves Mozambican participation in PPPs by requiring 5% to 20% of shares to be sold via the Mozambican stock market.

exploration licences on the grounds of national interests, even where areas had been excluded for social or environmental reasons.

FIGURE 3 BREAKDOWN OF FDI INFLOWS INTO MOZAMBIQUE, 2014



Source: *Invest Africa*, 'Invest Africa Thought Piece', September 2015, http://investafrica.com/wp-content/uploads/2015/09/IA-Research_Mozambique_Sept.2015.pdf, accessed 7 January 2016

The mining law allows investors to hold a stability guarantee, ensuring that a licence or concession is recognised as an investment project (whether domestic or foreign) and that no changes will be made to the fiscal regime unless it is to the benefit of the investor.[20] Investments under $5,000 are not eligible to register for or benefit from fiscal incentives, thus prejudicing many small-micro and medium-sized enterprises (SMMEs) from participation in incentives programmes. The focus on large commercial land-use projects in the investment frameworks is notable in the mining, energy and agriculture sectors. SMMEs are typically recognised for their potential to increase community-based activities and services that facilitate public participation, improve local livelihoods and

20 Dalupan MC et al., 'Building Enabling Legal Frameworks for Sustainable Land-Use Investments in Zambia, Tanzania and Mozambique: A Synthesis', CIFOR (Centre for International Forestry Research) Occasional Paper, 140, 2015.

reduce poverty. Nonetheless, Vines *et al.*[21] caution that the new mining law bestows land access to concession holders, potentially overruling the customary rights enshrined in the land law. At the local level, provincial administrations must have the political will to apply land and labour laws, as it is possible to misrepresent legislation with the increasing investments in agribusiness, extractives and hydrocarbons. The resultant potential for conflicts over land should not be underestimated.

The Moatize coal developments

Mining giants Vale (Brazil) and Rio Tinto (Australia) have invested nearly $12 billion in coal mines in Tete since 2008, employing approximately 7 500 workers and spurring the transformative development of the region. Multilateral development banks, including the World Bank and the African Development Bank, based on economic assessments of the Tete region, noted that Tete's significant mining potential was set to take off productively. By October 2012 the government had approved 245 mining concessions and exploration licences in Tete province, with coal mining licences making up one-third of these. In 2013, KPMG predicted that Mozambique would be one of the world's top 10 coal exporters by 2017.[22]

However, with the drop in the price of coal from its peak in 2011, some of the mining majors such as Rio Tinto – which had been investing in Mozambique's resources for a number of years – were forced to sell their operations at a loss.

In December Japanese Mitsui & Co. came to the aid of Vale S.A., which was on the verge of closing the Moatize mine. Mitsui obtained a 15% interest in the Moatize mine for $450 million (the final amount that Mitusi pays for the mine will be adjusted based on its future actual performance). In addition, Mitsui acquired half of Vale's 70% stake in the Nacala Corridor between Moatize and the port of Nacala, as well as in the upgrade of the port itself, for $313 million.[23]

21 Vines A *et al*., 'Mozambique to 2018: Managers, Mediators and Magnates', Chatham House Report. London: Chatham House, June 2015, https://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150622Mozambique2018VinesThompsonKirkJensenAzevedoHarman.pdf, accessed 9 May 2016.

22 KPMG, 'Mozambique: Country Mining Guide', https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/mining-country-guides/Documents/Mozambique-mining-country-guide.pdf, accessed 7 January 2016.

23 Mitsui, 'Mitsui to participate in coal and rail & port infrastructure business in Mozambique', Press Release, 9 December 2014, https://www.mitsui.com/jp/en/release/2014/1204957_6473.html, accessed 7 January 2016.

Implications of mining-driven infrastructure

Scholvin and Plagemann[24] explore the link between today's mining-driven transport infrastructure and the colonialist model of infrastructure development intended to extract resources from Africa. Today, the coal-driven economic engines are mostly located in China and India – the countries to which the bulk of Mozambican coal is exported.

Just how beneficial the Moatize–Nacala railroad will be outside of its utility to Vale (and more recently, Mitsui) is still unclear. With large physical infrastructure projects of this nature there is an associated relocation of communities, farms and businesses. Inevitably, this leads to dissatisfaction – even when it is a delayed dispute after the relocation costs have been found to be inadequate post factum. Vale has put some effort into its corporate social responsibility (CSR) programmes and, according to Tete Provincial Finance and Planning Director Maria de Lurdes Fonseca, the company has thus far fulfilled its promised CSR obligations.[25]

With respect to secondary transport infrastructure and multiple usage of the Moatize–Nacala railroad, Abrahamson *et al.*[26] recommend that:

- The stations on the rail link and crossings with rural roads, as well as main roads, should be carefully considered to ensure the benefit of the railway for the majority of the population.
- The government should ensure that freight transport is extended to general freight to open the market to local businesses, thereby decreasing their total transport costs.
- The government should ensure that the user fees charged to passengers and local traders are affordable for the income levels of the area.

Beyond community development programmes, the railway line of over 900km should stimulate economic development in sectors other than coal mining. Ideally smallholder and commercial farmers in Malawi, Zimbabwe and Zambia should be linked to major markets via this rail corridor – a critical market access factor that could unlock agricultural potential in the region. In addition, the development of formal commercial hubs around the mining developments and along the rail link should be further encouraged. While

24 Scholvin S & J Plagemann, Transport Infrastructure in Central and Northern Mozambique: The Impact of Foreign Investment on National Development and Regional Integration', SAIIA (South African Institute of International Affairs) Occasional Paper, 175, February 2014, http://www.thetradebeat.com/book/transport-infrastructure-in-central-and-northern-mozambique-the-impact-of-foreign-investment-on-national-development-and-regional-integration, accessed 7 January 2016.

25 Campbell K, 'Most coal miners in Mozambique not yet meeting social obligations', *Mining Weekly*, 28 March 2014, http://www.miningweekly.com/article/most-coal-miners-in-mozambique-not-yet-meeting-social-obligations-2014-03-21, accessed 7 January 2016.

26 Abrahamson D *et al.*, 'Mozambique mobilizing extractive resources for development', *Capstone Report II*, SIPA (School of International and Public Affairs), Columbia University, May 2013, http://mozambiqueextractivedevelopment.weebly.com/uploads/1/1/0/9/11096909/03_the_need_for_inclusive_infrastructure.pdf.

local content requirements are being pushed by the Mozambican government, regulations and rigorous implementation of quality standards would encourage the utilisation of locally produced goods by foreign investors.

Natural gas

Since the initial offshore discovery of natural gas in 2011, the launch of numerous natural gas projects has been awaited eagerly by existing and potential investors and the government alike.[27] US company Andarko and Italy's ENI are already based in Rovuma, with ExxonMobil also making moves in this direction, awaiting government licences. Mitsui and South Africa's Sasol are also standing by to make informed investment decisions in light of changing dynamics such as the fall in the oil price and increased gas production in Australia and the US.

There is an anticipated reserve of approximately 200 trillion cubic feet of natural gas in the Rovuma Basin off Mozambique's coastline, which would make this the fifth largest discovery in three decades. The first LNG terminal was constructed in Palma, with the logistics hub and port to be based in Pemba. The first LNG exports from the Rovuma Basin are expected to come on stream by 2018,[28] with some of the largest LNG facilities globally expected to be operational in Mozambique by 2028.[29] However, negotiations between the government and LNG operators on new projects have been delayed and final decisions are only expected in late 2016.[30]

The petroleum law (Law No. 21/2014 of 18 August 2014) and the petroleum tax law support the Mozambican government's aim to increase local benefits from hydrocarbon resources. The petroleum law allocates at least 25% of petroleum sales to the domestic market in Mozambique and 35% of taxable benefits to the government.[31]

The bulk of the natural gas currently produced in Pande and Temane in Mozambique is being exported to Secunda, South Africa via a pipeline of approximately 860km.

Regarding the recent offshore discoveries, most of the projects proposed so far by industry stakeholders have to do with developing LNG for export, given the limited local demand at this stage. LNG projects are viewed to have greater potential for quick revenues.

27 AfDB, OECD Development Centre & UNDP, 'African Economic Outlook', 2015, http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Mozambique_GB_2015.pdf, accessed 7 January 2016.

28 Invest Africa anticipates exports of LNG flowing by 2018, however, a recent *Financial Times* article notes that the state-owned energy company, Empresa Nacional de Hidrocarbonetos, expects this date to be 2020 given the changes in commodity prices.

29 Invest Africa, 'Mozambique', September 2015, http://investafrica.com/wp-content/uploads/2015/09/IA-Research_Mozambique_Sept.2015.pdf, accessed 7 January 2016.

30 AfDB, OECD Development Centre & UNDP, 2016a, *op. cit*.

31 Shearman & Sterling, 'Mozambique's decree law: Worth the wait', 30 January 2015, http://www.shearman.com/~/media/Files/NewsInsights/Publications/2015/01/Mozambique-Article-on-Decree-Law-Worth-the-Wait-PDF-013015.pdf, accessed 7 January 2016.

The government is also considering options to use these reserves to supplement the local power supply. Any potential beneficiation of this gas within the borders of Mozambique will depend on foreign investors' technical capabilities.

The extent to which technology transfer and local economic development occur is a subject of discussion in the region under the SADC Industrialisation Strategy and Roadmap. Investors are advised to anticipate these requirements in negotiations with all governments within the SADC region. Efforts to develop value added facilities at (or close to) the point of extraction make investment projects much more desirable for national and regional authorities.

LOCAL CONTENT OBLIGATIONS AND POTENTIAL FOR BENEFICIATION IN EXTRACTIVES

Local content obligations are driven by four common challenges, especially in developing countries:

- over-reliance on the natural resources sector and its contribution to national income, foreign exchange and exports;
- high prevalence of poverty and inequality amid an abundance of resource wealth;
- the need to mitigate social and political risks in domestic populations' expectations for the more equitable distribution of wealth; and
- the need for job opportunities, especially alongside the capital-intensive nature of the extractives sector.[32]

Mozambique's new mining law has at its core the principle of increasing local participation in mining operations, in both the public and private sector. Many of the requirements imposed under this law reflect those recently introduced in the oil and gas sector, which was reformed at the same time.[33]

This law sets out local content requirements for the procurement of goods and services for mining activities that are designed to promote the development of Mozambican businesses and expertise. It also calls for processing activities related to the minerals extracted in Mozambique to be undertaken in the country wherever economically feasible.[34] It is not clear how this requirement will be enforced, and whether there will be an exclusion on exports of un-beneficiated minerals (as in Indonesia, for instance) in the implementing regulations.

32 Ramdoo I, 'Unpacking Local Content Requirements in the Extractive Sector: What Implications for the Global Trade and Investment Frameworks?', European Centre for Development Policy Management, September 2015.

33 As in the oil and gas sector, some of the more controversial requirements imposed by the new mining law did not appear in early drafts of the law but were introduced late in the legislative process.

34 Government of Mozambique, Law No. 20/2014, 18 August 2014, Article 57.

This provision may be of concern to investors, especially as miners are not typically involved in beneficiation. The mining law also provides that mining titles that allow mining activities can only be granted to Mozambican natural or legal persons (although legal persons can be foreign owned). Previously, companies incorporated overseas could hold exploration licences. In addition, operators under the new act have been given shorter maximum terms of 25 years for the exploration licences.[35] As an alternative to local content requirements at a national level, in the SADC region cross-border value chains and a regional industrialisation strategy have emerged.[36] This allows for the clustering of technologies and techniques across bordering countries and has the potential for regional technology transfer to support regional economic developments.

INVESTMENTS IN THE AGRICULTURE SECTOR

The Mozambican government has approved the Mocuba Special Economic Zone in the Lugela District, which will be used in particular to establish agro-processing-driven industries.

The Programme of Triangular Co-operation for Agricultural Development of the Tropical Savannahs of Mozambique (ProSAVANA) is a trilateral co-operation programme[37] by the governments of Mozambique, Brazil and Japan aimed at the development of a sustainable agricultural sector in Mozambique's savannah region along the Nacala Corridor. It aims to transform 14 million ha of land currently cultivated by peasant farmers serving local markets into massive farming operations to produce cheap agricultural goods for export. The project concentrates on environmental sustainability; agrarian development; and regional competitive markets for rural farming.

ProSAVANA was inspired by PRODECER, an agricultural development initiative introduced in the 1970s in the Brazilian savannah (or *cerrado*) with support from the Japanese government. The Mozambican ProSAVANA was officially launched in 2009 with a 20-year horizon.[38]

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35 Shearman & Sterling, 'Mozambique's new mining law: A re-balancing act', 27 October 2014; African Law & Business, 'Mozambique mining law 2016', 24 August 2015, https://www.africanlawbusiness.com/publications/mining-law/mining-law-2016/mozambique/q-and-a, accessed 8 May 2016.

36 SADC, SADC Industrialisation Strategy and Roadmap 2015–2063, 29 April 2015.

37 Trilateral (or triangular) co-operation is understood as the relationship between a traditional donor – typically a member of the OECD's Development Assistance Committee – an emerging donor in the South, and a beneficiary country in the South. Triangular co-operation could also be in the form of South–South–South co-operation or North–North–South co-operation.

38 Funada, Classen S, 'Analysis of the Discourse and Background of the ProSAVANA Programme in Mozambique: Focusing on Japan's Role', Tokyo University of Foreign Studies, 20 January 2013, http://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/files/ProSavana%20Analysis%20based%20on%20Japanese%20source%20(FUNADA2013).pdf, accessed 6 January 2016.

The programme is structured into three projects:

- **Project for Improving Research and Technology Transfer Capacity (ProSAVANA-PI):** developing and transferring agricultural technology, and strengthening the operational capacity of the Agricultural Research Institute of Mozambique.
- **Project for Support of the Agriculture Development Master Plan (ProSAVANA-PD):** formulating an agriculture development plan to contribute to social and economic development by engaging private investment to promote sustainable production systems and poverty reduction in the Nacala Corridor.
- **Project for the Establishment of a Development Model at Community Level with Improvement of Rural Extension Service (ProSAVANA-PEM):** elaborating agricultural development models for increased production and improved access to and quality of extension services available to farmers in the region.

These projects have a total budget of $36 million and combine technical assistance, in-kind donations and monetary grants. ProSAVANA's Joint Coordination Committee is presided over by Mozambique's Minister of Agriculture; Japan is represented by the Japanese International Cooperation Agency and Brazil by the Brazilian Cooperation Agency.

The project has potential, and increased efficiency and investment could assist with reducing poverty and addressing the lack of agricultural productivity. However, this is viewed as a top-down development project. These types of projects invariably do not follow through sufficiently on the social concerns of the relevant communities, which are essential to their eventual success.

There is a *perceived* 'clinging' to the idea of subsistence farming where smallholders are resistant to graduating to the next levels of production. However, crop diversification is important on a macro-level to overcome import reliance and bring greater food security to Mozambique. ProSAVANA or a similar type of project, if applied correctly, could harness private sector investment to develop agriculture-related industries, improve agricultural productivity and ultimately increase production through the development of value chains. Through this process, ProSAVANA could contribute to the poverty reduction of farmers, improve food security, and enhance economic development in the Nacala Corridor.

Mozambique's National Peasants' Union (União Nacional de Camponeses) has led a campaign to raise awareness about the situation in the Nacala Corridor and to oppose ProSAVANA. Strong national and international opposition has helped to slow down the project and derail some of its more aggressive land-grabbing components. This does not mean that the government and foreign companies have given up on taking control of the land and water resources of the Nacala Corridor for large-scale agribusiness. In January 2014 high-level government officials and businesspeople gathered for a presentation on a new development project in the Lúrio River Basin. The development involves a massive farm project along the Lúrio River, at the intersection of the provinces of Niassa, Nampula and Cabo Delgado.

Through the Agriculture Development Master Plan for Nacala Corridor, the Mozambican government has mechanisms to establish special economic zones. It also holds control over land and natural resources. The land law is managed by the state and is relatively progressive, allowing foreign governments and corporations to take long leases on state land. Despite the importance of private sector agricultural investments in developing countries, there is controversy around the acquisition of farmland by private capital. Conflicts over land and water resources often occur between private companies and local inhabitants as land acquisitions by foreign investors take place. Local and international non-governmental organisations have also been outspoken about the 'land grabs' from small-scale farmers in Africa, requesting the World Bank to freeze all land investments.

In the forestry sector, simple licences (SLs) are for the benefit of local investors, given the lower requirements compared with other licences or concessions. However, there is a vulnerability to abuse through lack of oversight. Most entrepreneurial activities under SLs need not be in compliance with regulations, meaning the loss of potential state revenue and unsustainable resource use.

POTENTIAL FOR MULTIPLE LAND USE IN MULTI-SECTOR INVESTMENTS

McHenry and Persley [39] make a compelling argument for leveraging the current investment in technology and skills in mining in the agriculture sector. The idea is to integrate FDI strategies in the two sectors with a view to economies of scale and the exploitation of synergies. The authors point to the challenges highlighted by investors in the agriculture sector, such as the lack of power and transport infrastructure, lack of access to land, inability to access markets, and outdated farming technology. Through development beyond corporate social responsibility programmes, and focusing on community and in particular youth skills development, these challenges are foreseeably overcome through exploring commonalities and shared experiences.[40]

The UN Economic and Social Council[41] points out how firstly, international co-operation partners (ICPs) are able to provide additionality, catalysing development in those regions and sectors where the private sector has not been involved previously. Secondly, when investing directly in private equity, ICPs are able to leverage other investors' resources. In sector- or country-based interventions focused on institutional and economic factors, public sector aid has a catalytic effect that should look at removing obstacles to businesses and fostering private investment. Thirdly, ICPs encourage profitability in businesses, in order to ensure that these businesses and their development outcomes will be sustainable when the aid stops. Lastly, ICPs should seek a demonstration effect, so that successful innovative initiatives can be used as best practice examples for investors to multiply development outcomes.

39 McHenry MP & GJ Persley, 'Bread and Stones: Co-investing in Mining and Agriculture in Africa', Africa Australia Research Forum and Crawford Fund, Murdoch University, 2015.

40 *Ibid.*

41 UN ECOSOC (Economic and Social Council), 'Public Aid as a Driver for Private Investment', Development Cooperation Policy Branch Office for ECOSOC Support & Coordination Department of Economic and Social Affairs, October 2013.

The obvious environmental risks associated with extractive investments and operations can be mitigated by the close involvement of local communities (and community-based organisations) in adjacent agricultural operations. This allows greater transparency and sensitivity from investors responsible for exploration and mining activities.

It is possible to transform mineral resources into long-term sustainable developments; however, this can only happen when these operations are embedded in secure and prosperous communities. Environmental impacts must be rigorously addressed and risk mitigation and management strategies diligently applied. Joint committees, including private company representatives, government agencies and the community, should have continuous and robust engagements.[42]

42 Columbia Center for Sustainable Investment, 'Mozambique: Mobilizing Extractive Resources for Development', Columbia University, May 2013, http://mozambiqueextractivedevelopment.weebly.com/uploads/1/1/0/9/11096909/mozambique_-_extractives_for_prosperity_reduced_3.pdf, accessed 7 May 2016.

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