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Resource Abundance in Mozambique: Avoiding Conflict, Ensuring Prosperity

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ABSTRACT

From as early as the 1960s companies have been exploring the natural resource wealth of Mozambique. However, it is only in the past decade that the potential of these resources has been realised. Indeed, Mozambique is now thought to have some of the largest deposits of gas and coal on the African continent, and beyond. The country is also one of Africa's few post-conflict success stories and has experienced unprecedented positive economic growth since 1994, exceeding the growth of many of its peers across the continent. However, there are a number of very real concerns about how successfully the government will be able to govern its mineral resources. This is particularly relevant in the light of renewed political tensions between the Frelimo-led government and the official opposition, Renamo, that have been on the rise since early 2013.

This paper investigates the likelihood of violence as a result of natural resource abundance in the country. Specifically, by combining general typologies of conflict and more specific theories on natural resource abundance and conflict, this paper identifies six risk factors for conflict in Mozambique: its history of violence and political party dynamics; geographic distribution; poverty and inequality; expectations; corruption; and the cost of extraction.

In order to avoid conflict and ensure broad-based prosperity for the Mozambican population as a whole, the government will have to navigate carefully several complex issues in the governance of its natural resources. This paper examines these factors against the likelihood of violence and concludes that although there is a high likelihood of the emergence of pockets of violence, there are various efforts the government can make to avoid negative outcomes associated with the country's resource abundance. Indeed, the task of translating its newfound mineral wealth into the development of the country itself while balancing local expectations and political tensions is a very large one that will require the establishment of clear and strong policies, institutions, legislation and regulatory frameworks.

ABOUT THE AUTHORS

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ABBREVIATIONS AND ACRONYMS

FDI	foreign direct investment
Frelimo	Frente de Libertação de Moçambique (Liberation Front of Mozambique)
GDP	gross domestic product
LNG	liquefied natural gas
MDM	Movimento Democrático de Moçambique (The Democratic Movement of Mozambique)
MEND	Movement for the Emancipation of the Niger Delta
Renamo	Resistência Nacional Moçambicana (The Mozambican National Resistance)
RTCM	Rio Tinto Coal Mozambique
SADC	Southern African Development Community

INTRODUCTION

Mozambique, considered to be one of Africa's few post-conflict success stories, is now on the cusp of a resource-abundant future. Increased interest in the country has spurred significant growth and investment as a result of the increase in vast and varied resources discovered there in the past decade,¹ from coal and mineral sands to offshore gas and gold. However, there are a number of very real concerns about how well the government will be able to manage its new circumstances, particularly in the light of renewed political tensions between the ruling party, Frelimo (Frente de Libertação de Moçambique – the Liberation Front of Mozambique), and the opposition, Renamo (Resistência Nacional Moçambicana – the Mozambican National Resistance), that have flared up since early 2013. The country's growth, while remarkable, is coming off a very low base, poverty remains widespread and there is a lack of institutional capacity across the country's political landscape.

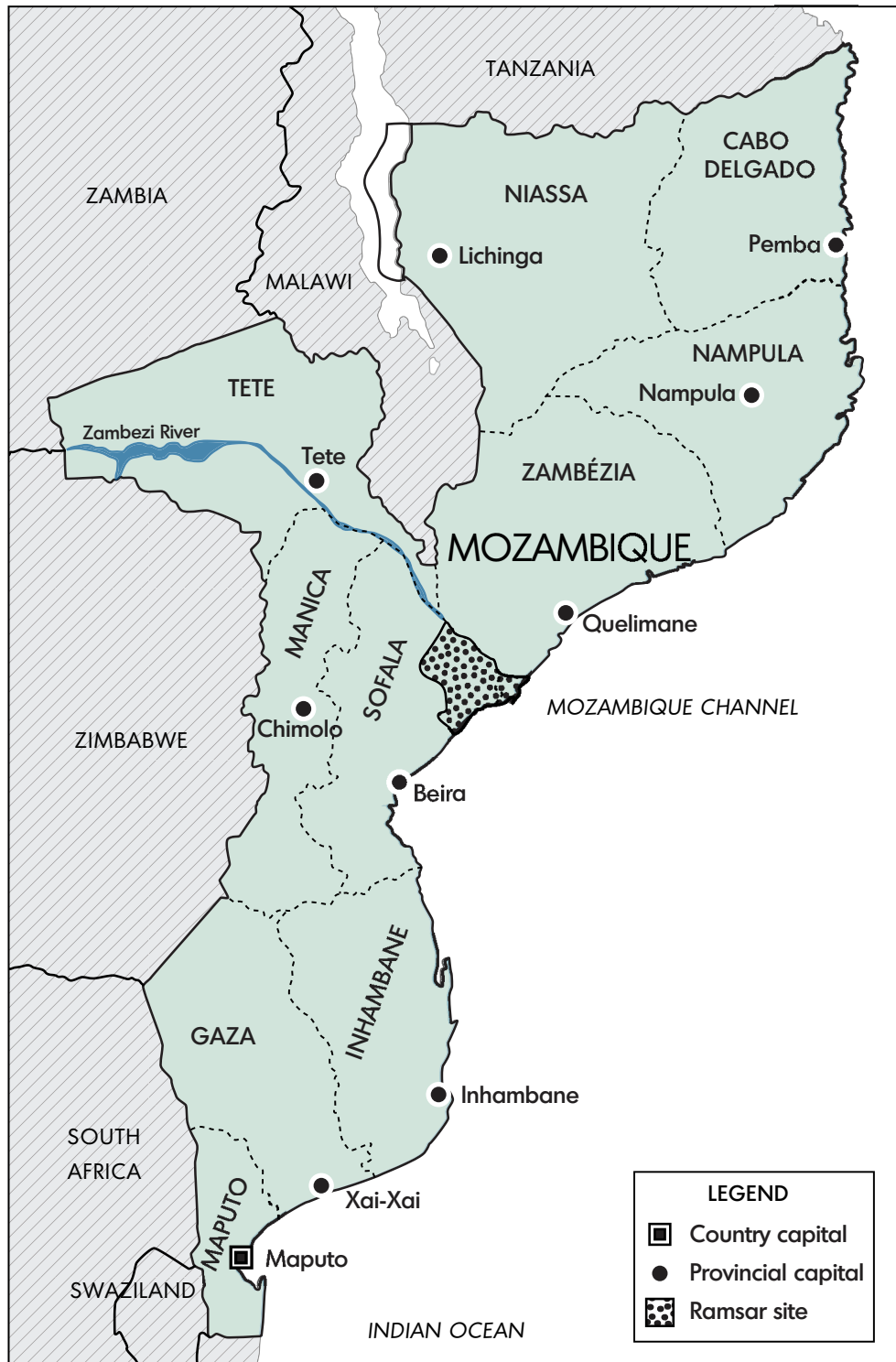
Indeed, while significant improvements have been made since the first multiparty elections were held in 1994, 59.6% of the Mozambican population was still living below the poverty line by 2009.² Similarly, while Mozambique has seen phenomenal economic growth since 1994, having sustained an average gross domestic product (GDP) growth rate of 9% between 1997 and 2007, and having achieved a real GDP growth rate of 7.4% in 2012,³ the low base from which this growth began means that a large percentage of the Mozambican population still suffers from deprivation in education, health care and basic service provision. Moreover, the government has been very dependent on donor support, with donor funding from a group of 19 donors accounting for around 40% of the Mozambican annual budget in 2012.⁴

As such, questions arise as to how the Mozambican government will deal with a scenario that is fiscally very different from its previous circumstances – one that will propel it from a position of donor dependence to one of financial independence – and how it will manage a new set of demands at both a social and institutional level, as it enters an era of resource abundance.

With new finds of coal and gas in Mozambique, serious concerns are being raised as to how the government will manage its persistent developmental challenges. It has been well established in academic literature that resource abundance does not necessarily result directly in economic growth or social development, and there is a vast array of theories examining the difficulties that resource-abundant countries experience. One of the resultant difficulties that has been found to be most detrimental to development is the increased risk of violent conflict.⁵

This paper seeks to investigate the literature available on the prevalence of violence associated with resource-rich settings. In the light of the existing body of work, several indicators will be analysed that can link resource wealth to conflict in Mozambique or that may act to mitigate conditions of violence or conflict. On the basis of this evidence, the paper will conclude with relevant recommendations on how Mozambique might decrease the risk of conflict, and what policy positions it might pursue in order to optimise its resource wealth and bring about broad-based development and prosperity.

Figure 1: Provinces in Mozambique



Source: Pritchard D, Bamba A & F RillaMarromeu, 'Complex Ramsar site, Mozambique (2009)', Ramsar Advisory Mission No. 62: Mozambique (2009), *Mission Report 16–20 August 2009*. Gland: Ramsar, http://www.ramsar.org/cda/en/ramsar-documents-rams-ram62/main/ramsar/1-31-112%5E24429_4000_0_, accessed 2 October 2013

BACKGROUND

For 15 years (between 1977 and 1992) Mozambique was engaged in a bloody civil war that finally ended with the signing of the Rome General Peace Accords by the two belligerents, the current ruling party, Frelimo, and the rebel movement turned opposition party, Renamo. Despite the length of the civil war, Mozambique has since emerged as an African success story, sustaining a system of democracy for over two decades.

The post-war years have been largely peaceful, only occasionally being interrupted by protests, riots and small pockets of conflagration. At the time of writing, it appears that the tensions between Frelimo and Renamo are escalating, but analysts still perceive the probability of civil war to be remote.⁶ Indeed, many Mozambicans proclaim themselves to be war weary, and are eager to strive for continued peace and avoid relapse into conflict.⁷ For many, the years of war have been a characterising period in their lives – the memory and legacy of which still reside with them – and older generations in particular are therefore adamant that future conflict must be avoided.

Beyond Mozambique's ability to maintain a relatively stable political environment, it has also made impressive gains in its economic development. Significant economic growth has gradually decreased the portion of the budget supported by donors; and the eurozone crisis has resulted in some donors scaling down their commitments. Nonetheless, Mozambique remains donor dependent and, as such, the government of Mozambique enjoys close relationships with its donor countries.

In coming years Mozambique is expected to gain financial independence on the back of the country's substantial resource discoveries. As mentioned, economic growth experienced thus far has come off a low base, but this has meant that opportunities have abounded in the country for both local entrepreneurs and foreign investors. Indeed, foreign direct investment (FDI) has not been limited to the resources sector, but has also increased in the tourism industry, infrastructure development and the provision of services. This has been aided by the fact that the country's currency, the metical, is one of the most stable in the world, thereby promoting further confidence in the country.

RESOURCE ABUNDANCE IN MOZAMBIQUE

Mozambique has a wealth of resources beneath its soil, including substantial coal deposits, with a total estimated reserve of 20 billion tonnes of coal.⁸ These reserves are found mostly in the country's north-western provinces, mainly in Tete, but also in the Manica and Niassa provinces.⁹ The largest licence holder in the coal fields in Tete is Vale (of Brazil), while other important investors include the Rio Tinto Group (which is Anglo-Australian), Nippon Steel and Sumitomo Metal Corporation (from Japan), and Jindal Steel Power Limited (of India). While there still appears to be much prospective investment in Mozambique's coal reserves, certain recent developments have served to dampen the original optimism.

The Rio Tinto Group reported a \$14 billion impairment for 2012, of which \$3 billion pertained to Rio Tinto Coal Mozambique (RTCM). The Benga licence areas in the Tete province were bought by RTCM from Australian-owned Riversdale Mining in 2011 for \$4.1 billion, but the asset has since been devalued by Deutsche Bank to only \$37 million.¹⁰

This \$3 billion impairment resulted from a combination of several factors. The first was the inadequate infrastructure in Mozambique. RTCM originally envisioned transporting its coal on barges down the Zambezi River, but was denied government approval, purportedly over environmental concerns.¹¹ There is currently only one railway line available, the Sena Railway, but it is running at full capacity (which is only 3–4 million tonnes per year) and thus companies operating in Tete must also make use of road options for transporting coal, which dramatically increases their operational costs.

The second setback for RTCM has been the decrease in the revised estimate of the recoverable volume of metallurgical coal in the region.¹² This, combined with a re-evaluation of the overall ramp-up schedule, led to the announcement of the impairment. The Rio Tinto Group is reported to be reviewing the viability of its RTCM project, while it has also been reported that Coal India, the world's largest coal miner, may be in the market to buy the RTCM coal mines.¹³

The challenges imposed by slow infrastructural development have also been experienced by Anglo American, which had signed a \$540 million deal to acquire a 58.9% share in the Revuboe coking coal prospect in Tete province but subsequently withdrew from the deal, citing unmet conditions.¹⁴ This has caused Japan's Nippon Steel, a 33% shareholder in Minas de Revuboe, to voice its reservations.¹⁵

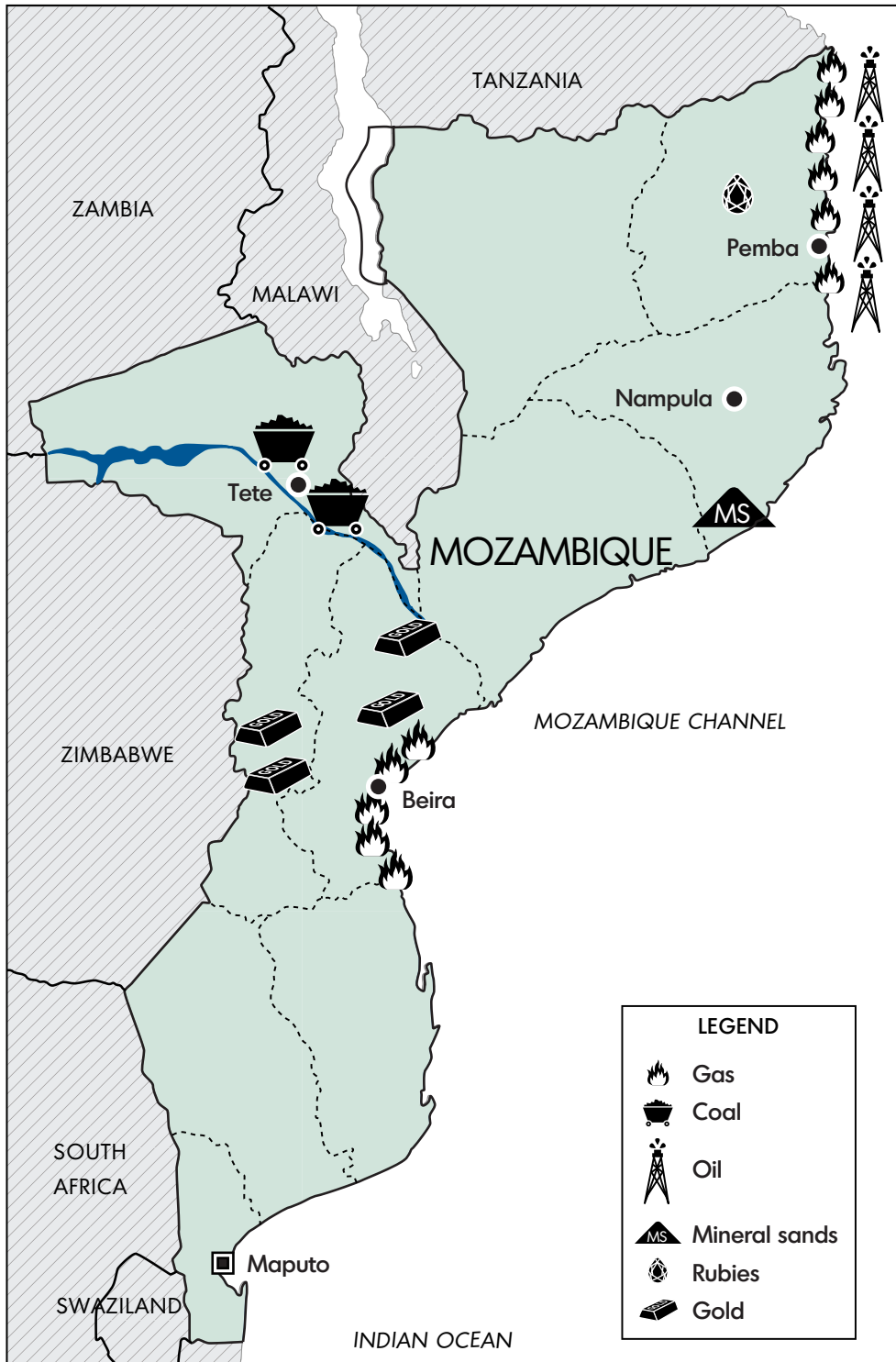
However, other investors such as Ncondezi Coal are not as concerned. Ncondezi is part of an integrated power and mining project – construction of which is planned to start in 2014 – that would make the company less dependent on the development of port and rail infrastructure. The power plant is planned to produce an initial 300 MW of power, which could expand to 1 800 MW and will be dedicated solely to Mozambican demand.¹⁶ Thus, while both Rio Tinto's impairment and Anglo American's withdrawal from investments are concerning, many investors still remain, the government is opening up new licensing rounds and there are continued prospects for exploration.

Mozambique also has extensive sources of hydropower, and has recently discovered an abundance of mineral sands, oil and natural gas reserves. A heavy sands project, which started production in 2007, is currently operating in Moma in Nampula province, while the government foresees that gold production will begin in the Manica province in 2014.¹⁷

However, it is arguably the recent gas developments off the coast of Mozambique that hold the most significant natural resource-related benefits for the country. Recent estimates put the total proven gas reserves in Mozambique at 127.4 billion cubic metres,¹⁸ with expectations having been bolstered by significant discoveries in neighbouring Tanzania. The Mozambican reserves are mostly located in the Rovuma Basin, in the Prosperidade Complex, where production is expected to start in 2018.¹⁹ The government itself has stated that '[t]he Prosperidade Complex is emerging as one of the most important natural gas finds in the world, and there are hopes that it will become one of the top five ongoing projects this decade, making Mozambique one of the largest liquefied natural gas (LNG) exporters by 2020'.²⁰

The government is planning initial two-train LNG infrastructure for gas export, although this could be expanded to six trains in the future, which would make the country the third-largest exporter of LNG in the world.²¹ This has resulted in a flurry of interest in Mozambique, with companies such as Sasol Petroleum International (of South Africa), Andarko (from the United States), the Artumas Group (of Canada) and ENI S.p.A. (of Italy) flocking to the country to conduct exploratory searches. Markets in the region and

Figure 2: Location of natural resource reserves in Mozambique



Source: NordNordWest, Positionskarte von Mosambik, http://en.wikipedia.org/wiki/File:Mozambique_location_map.svg, accessed 2 October 2013

East Asia are mooted targets for resource exports when this phase is reached in coming years, given Mozambique's favourable geo-strategic positioning, which will allow for easy access to the rest of the African continent and the East-Asian region.

TRADITIONAL THEORETICAL PERSPECTIVES ON NATURAL RESOURCE GOVERNANCE

In 1995 Sachs and Warner discovered evidence of a negative relationship between natural resource abundance and economic growth – a phenomenon that has become known as the 'resource curse'.²² Since then, several empirical studies have emerged, examining various caveats and causal mechanisms of the 'resource curse'. Within these theories, a variety of streams of thought can be distinguished.

Initially, theorists such as Sachs and Warner focused on strictly economic analyses of the resource curse. Of these, three primary arguments exist. The first is that of trade theory, which argues that with time the price of primary commodities will decrease in relation to that of manufactured goods, resulting in countries specialising in primary commodity exports experiencing a detrimental economic effect. The second is the theory of volatile markets, which argues that government planning in developing countries is negatively affected by market volatility. The third is the theory of Dutch disease, which argues that in countries whose exports are dominated by one primary resource commodity, that commodity tends to crowd out other sectors of the economy. Governments then often become overly reliant on these resource exports and simultaneously become vulnerable to external shocks.²³

However, all three of these theories have since been found to either lack causality or only explain the resource curse in part. The emerging consensus is that these theories, based on a purely economic perspective, lack applicability due to their narrow focus. Increasingly, it was argued that theory needed to provide a more nuanced perspective on natural resource governance, especially in relation to the African continent, leading to a shift in the theoretical paradigm of natural resource governance.

Political economists thus developed explanations that specifically examine the role of institutions in natural resource governance. These theories have made a significant contribution towards an understanding of natural resource governance from a socio-political perspective, examining issues such as patronage and rent-seeking. Those that focus on institutional analyses point to the need for strengthened mechanisms of good governance, and to institutional and regulatory frameworks.²⁴

Furthermore, this theoretical shift within the literature on natural resource governance prompted the development of many of the current emerging theories and resultant policy prescriptions on natural resource governance. These emerging theories have sought to provide a more holistic perspective on natural resource governance; one that addresses the unique challenges faced by Africa²⁵ and focuses on the links between natural resources and poverty, democracy, good governance and transparency. Importantly, more than merely identifying the problem, recent literature has focused on specific policy responses. Crucially, the African continent (which was previously all but excluded from analysis by resource governance theorists) has received substantial attention within the current theoretical analyses.²⁶

While these theories provide valuable background information to any analysis of the effects of natural resource abundance on Mozambique, for the purpose of this study it is important to focus on the literature that examines the link between natural resource abundance and conflict. This link is crucial to understand as it forms the backdrop to potential concerns for Mozambique that stem from the threat of violence as a result of its resource wealth.

TYPOLOGIES OF CONFLICT

Conflict can be described as occurring on a broad spectrum, from full-scale civil war and rebellion, at the one end, to local riots and peaceful, non-violent protests, at the other. Thus Kegley²⁷ offers a broad, all-encompassing definition of ‘conflict’ as ‘discord, often arising ... over perceived incompatibilities of interest’. The World Health Organization has also noted the importance of recognising the negative impact of conflict, which emphasises the fact that international organisations need to address pockets of civil strife and multi-level manifestations of violence.²⁸ Mozambique, having previously experienced full-scale civil war, and despite recent escalations in tensions between the Frelimo-led government and Renamo, is now fairly stable and is thus most likely at risk of small-scale pockets of violence and local tension, such as protests and riots. While such instances of conflict are at the lower end of the spectrum, their potential to turn violent should not be underestimated. This level of conflict can serve to destabilise a country and thus have economically and socially detrimental effects on development.

Every conflict is unique and there is no single model that can be applied to any two conflicts. However, despite the complex nature of conflict, a certain level of agreement exists in the field of conflict studies that provides an overarching framework for examining conflict. Indeed, the current research on internal conflicts focuses on four central factors as indicators of conflict in a country: (1) ethnic, (2) political, (3) cultural and (4) economic.²⁹

THEORETICAL PERSPECTIVES ON NATURAL RESOURCES AND CONFLICT

In understanding the roots of conflict in Africa, as related to resources, the context of the global political economy needs to be considered. Africa does not operate in a vacuum – rather, it has often been the victim of global exploitation beyond the colonial era through the activities of multinational corporations and global disparities in production and resources. Obi³⁰ has captured this succinctly: ‘[T]he fundamental issue ... is that the roots of Africa’s conflict lie more in historical, social and distributive inequalities, grievances and the contradictions spawned within the continent by globally-led extraction, and accumulation.’

In this context there are several negative consequences that can result from natural resource abundance. Le Billon³¹ explains that a wealth of natural resources can cause democratic decline, poor economic performance and greed for resource wealth among the elites; and further, that it is associated with socio-economic inequalities. Indeed, Le Billon lists Mozambique as an example where resources have previously been involved

in war and where resources are present for prospective future involvement in conflict. More specifically, Le Billon cites hydropower, shrimp, ivory and timber as 'examples of key resources involved in wars in the 1990s',³² and lists gas as a prospective resource that could drive conflict in future.

Paul Collier's nuanced research into conflict is also important to consider. In his now seminal book, *The Bottom Billion*, Collier examines what he calls the 'conflict trap' and the 'natural resource trap', which appear to be intrinsically linked.³³ Essentially, Collier examines the reasons behind the prevalence of conflict in Africa, and the relationship between conflict and natural resources. He finds both to be traps from which countries struggle to emerge; for example, he shows that three factors make a country more prone to civil war: low income, slow growth and dependence on primary commodity exports.³⁴ Along with this, he also notes that countries that have previously experienced a civil war are 50% more likely to relapse into war;³⁵ and this is even more likely in cases of natural resource abundance. Further, in his previous work on the debate between greed and grievance, Collier showed that in the presence of natural resources it was important that local grievances be curtailed in order to avoid violence.³⁶

Poverty and inequality are other elements that have strong linkages to violence in the context of resource wealth, and of which there are many examples. Obi³⁷ proffers that natural resource wealth is often paradoxically present in many poor and underdeveloped countries, while Clover³⁸ asserts that 'the strong correlation between conflict and poverty includes issues such as deep inequality (one of the foremost causes of violent conflict) expressed in terms of both growth and the distribution of resources'. Ross³⁹ also lists poverty among six structural risk factors for conflict in mineral-exporting states, citing studies that suggest that conflict is more likely to occur in poor countries than in richer ones. Other risk factors identified by Ross⁴⁰ in his discussion on conflicts that most commonly arise from the uneven distribution of resource rents in society include terrain, peripheries, prior regional identity, political institutions and type of minerals.

Certainly, the location of extractive industries in a country's periphery is cited as a likely cause of upheaval in the form of separatist movements.⁴¹ This is because 'peripheral regions are more likely to harbour people who identify themselves as ethnically or linguistically distinct from the rest of the population'.⁴² Moreover, dissenting groups may use their isolated location in the periphery to access funding and weaponry, and to evade government forces by escaping into neighbouring territories.⁴³

Political institutions play a defining role in the emergence of violence in resource-rich countries. The level of stability of the institutions in a country can be the make-or-break element in this regard. There is a host of literature⁴⁴ illustrating the role that functional and strong democratic institutions have to play in avoiding violence and conflict in contexts of resource abundance. Where channels exist for dissatisfied groups to air their views and seek change in a peaceful manner, these groups are less likely to resort to political disobedience and violence to make their case known. Conversely, where governments have failed to implement policies and legislation, and to sustain good governance and institutions that would allow for growth, development and the avoidance of primary resource dependency, conflict is more likely to occur.

Resource wealth has also been found to have a number of perverse impacts on governance.⁴⁵ These impacts include poor economic growth; disregard for non-resource economic sectors and, therefore, vulnerability to external shocks; inefficient management

of the economy; budgetary mismanagement and indebtedness due to optimistic forecasting; a high Gini coefficient (an index that measures inequality); and increased corruption of government institutions.

A good illustration of poor governance resulting in violence is the situation in the Niger Delta – an oil-rich region in Nigeria where separatist movements and militia such as the Movement for the Emancipation of the Niger Delta (MEND) have turned to violent social upheaval as an expression of their grievances. Political and economic marginalisation often contributes to conflicts such as those in the Niger Delta. Many of the injustices MEND protests against have stemmed from the government neglecting to ensure that the region is protected from the adverse effects of exploitation by both oil companies and local elites, and that resource revenues make their way to the Delta region in a tangible fashion. Indeed, the Niger Delta is now one of the most severely oil-polluted regions in the world,⁴⁶ making the agriculture- and fishery-based livelihoods of local communities nearly impossible to maintain. This has increased the levels of poverty and diminished the quality of life of local communities, and has been further exacerbated by resource rents not filtering down into socio-economic development and service provision in this region.

Ross⁴⁷ points out that the types of resources present in a country can also be an indicator of violence. ‘Unlootable’ resources such as oil and natural gas – which are present in Mozambique – are thought to make the onset of violent conflict more likely. The following reasons are cited: ‘separatist movements may thrive on exaggerated claims about the value of the rents’⁴⁸ as an argument for independence; and the extraction of this type of resource tends not to employ local workers due to high-level skills being required. The result is that the accumulation of wealth in the region where resources are being extracted becomes minimal, while local expectations remain high. This is the situation currently seen in the Tete province in Mozambique, as will be further discussed.

POSSIBLE INDICATORS OF CONFLICT IN MOZAMBIQUE

Mozambique presents itself as a paradox in terms of conflict theory, as no one theoretical perspective perfectly explains all the possible elements of conflict that exist in the country. It is thus an interesting case to analyse within the broader paradigm of resource governance literature as a whole.

Mozambique has more than a decade-long history of civil war; and 20 years into democracy there are still a number of factors that may make it vulnerable to a resurgence of violence. This has been made particularly clear through the political and security developments in Mozambique since April 2013, with Renamo having made use of violent tactics to pressure the Frelimo-led government into acquiescing to its political demands by leveraging the need for a stable environment for investors.⁴⁹

Institutionally, there are several significant deficits in the country, which the Ministry of Planning and Development has noted in relation to the possible detrimental effects of the resource curse: ‘We consider Mozambique to be highly vulnerable to a resource curse caused by the negative impact that natural resource wealth may have on the economy through its deteriorating effect on institutions. The institutional quality in Mozambique is arguably very weak and not significantly improving.’⁵⁰

One example of this has been the absence of a policy on capital gains tax specific to the so-called mega-projects, which has caused tension between the government and foreign investors, most notably the Italian company ENI S.p.A.⁵¹

These factors could severely hamper the government's capacity to maximise the country's resource wealth and enable this wealth to contribute towards tangible socio-economic development. It is for this reason that optimism in Mozambique's future is tinged with concern over what might happen if its natural resources are not well governed, and do not lead to widespread and broad-based economic development.

By combining the more general typologies of conflict and the more specific theories on natural resource abundance and conflict, this paper identifies six risk factors for conflict in Mozambique, which are reflected in Table 1 and analysed in the sections that follow.

Table 1: Conflict risk factors in Mozambique

No.	Risk factor	General conflict typology
1	History of violence & political party dynamics	Political
2	Geographic distribution	Economic, cultural, ethnic, environmental
3	Poverty and inequality	(Socio-)economic
4	Expectations	Economic, cultural
5	Corruption	Economic, political
6	Cost of extraction	Environmental

History of violence and political party dynamics

Mozambique's long history of violence began with the war of independence, followed shortly after by a 15-year-long civil war between Renamo and Frelimo. According to the 2012 Global Peace Index,⁵² one of Mozambique's most concerning issues is access to weapons. On a scale of 1 to 5, with 1 being very low and 5 very high, Mozambique scores 3.0. This is supported by accounts of rural Mozambique that suggest that many former rebels still have access to firearms remaining from the years of war, when at least 5 million AK-47s were obtained by local militia.⁵³ Mozambique also scores poorly when it comes to violent demonstrations and political terror (3.0 and 3.5 respectively), hinting at the existence of underlying political tensions that could spark violence.

This has been borne out in reality, with protests occurring in Mozambique in recent years. In 2008 violent riots in the capital city of Maputo and the northern province of Chimoio broke out over crippling food prices as a result of the global economic downturn. In 2010 anti-poverty riots brought on by a period of donor flight (due to concern about government transparency and levels of corruption) and resultant price hikes of basic necessities required the government to implement policies and subsidies known informally as 'anti-riot policies', which subsidised certain products.⁵⁴

Mozambique's history of civil war, and the outcome thereof, has largely shaped contemporary political party dynamics in the country, which continue to be fragile. An incomplete disarmament, demobilisation and reintegration process, and the inability of

Renamo to transition fully into a political party in a democratic setting have left some gaping holes in the country's social fabric. A senior researcher has noted that if one ventures into the rural areas in the more northern parts of the country, where Renamo is based, it is not entirely unusual to see young men dressed in attire brandishing Renamo's name, carrying AK-47s.⁵⁵ Such accounts are concerning when considered together with Renamo's political and geographical isolation (although mostly self imposed); the latent tension between President Armando Guebuza and Renamo leader Afonso Dhlakama, which has been punctuated by conflagration; and the emergence of a Renamo breakaway party, the MDM (Movimento Democrático de Moçambique – the Democratic Movement of Mozambique), which is already making inroads at the polls.

The increasing alienation of Renamo may become exacerbated if, in future, there is an unfair distribution of wealth and public benefit, particularly in the overlapping areas of natural resource extraction and opposition party dominance. In a somewhat alarmist remark, a Mozambican senior researcher has confided that it would only take a cash injection of \$1 million into Renamo by an investor to spark conflict again in the country.⁵⁶

These concerns have been punctuated by Renamo's retreat 'to the bush' to relocate its operations to its former wartime headquarters at Casa Banana (also named 'Saturjira') in Gorongosa. According to news reports in mid-November 2012, Dhlakama threatened to return to violence and to destroy the country, claiming that his party was tired of the government 'robbing' Mozambique's resources.⁵⁷ This followed accusations by Renamo that Frelimo leaders were planning to assassinate Dhlakama; accusations that Frelimo firmly denied. On 22 October retaliatory attacks occurred between the Mozambican armed forces and Renamo forces, and Renamo signalled the end of the 1992 peace accord. Dhlakama has also hinted at a possible bid to split the country in two, seeking the central and northern parts of the country for his party to lead – incidentally, he is seeking to govern those parts of Mozambique that are host to almost all of the country's natural resources.

More recently, Renamo has been working at bringing its threats to fruition as a means to rectify what it deems to be an unfair distribution of state resources and power. Following a clash after a raid by government forces on a Renamo meeting in April 2013 that left eight dead, the party has been responsible for creating instability through a number of retaliatory attacks. In June 2013 a Mozambican military post and arms depot near Muxunge in the Muanza District in the Sofala province was attacked and five soldiers were killed. Renamo was blamed, but it denied any culpability, arguing rather that the government itself had orchestrated the event. Later in June, attacks on crucial transport infrastructure were reported, particularly on the EN1 road near Muxunge. In one such attack Renamo forces shot at two trucks and a bus in the Machanga District, leaving two people dead and injuring a further four, while a second similar attack took place in Muanza. In response, a heavy military presence was stationed along the road, allowing only travel in convoy during the daytime. However, this did not deter Renamo, and a further two attacks were reported on the road on 24 June 2013.⁵⁸ Beyond the incidents on the EN1 road, Renamo also threatened to target rail infrastructure in the country's central region,⁵⁹ resulting in a brief suspension of services. Such attacks would affect the Sena railway line specifically, which would have a direct impact on the coal-mining companies in Tete.

In August 2013 Renamo was also reported to have boasted about the killing of 36 police officers and soldiers in the Sofala province in what it claims was an act of self-defence following an attack by riot police on Renamo's security unit, known as the 'Presidential Guard'.⁶⁰

One of Renamo's main concerns has been the presence of security forces near its bush base in Gorongosa. As such, the party has indicated its intention to create what it termed a 'security perimeter' that would limit the ability of these forces to access the Renamo base. The party has also made use of its hallmark fiery rhetoric, most recently by warning foreigners to leave the area to escape harm. This has prompted foreign governments to issue travel warnings.⁶¹

These developments have led to talks⁶² between Renamo and the Frelimo-led government which, despite several rounds, have produced little in the way of progress and where, notably, these violent incidents have not been on the agenda.⁶³ Initially, Renamo called for international mediation but the government avoided this, possibly wary of the kind of alarm it could generate and what it could suggest about the severity of tensions. Instead, the government has offered Renamo a platform to discuss its key concerns, primarily electoral reform and its desire for what it deems to be parity in electoral bodies. This has, however, not yet motivated Renamo to desist from its tactic of political isolation. The party continues to boycott all manner of government processes, including the establishment of a new National Electoral Commission and registration to contest the municipal and general elections, scheduled for November 2013 and October 2014 respectively.⁶⁴

While Dhlakama's ability to sustain conflict is questionable, given his self-inflicted isolation and limited support, these changing circumstances are illustrative of concerns stemming from the history of violence in Mozambique and the current political party dynamics at play there.

Guebuza has accused Renamo of wanting the Frelimo-led government to issue a blanket acceptance of its demands, saying: '[T]hey are demanding that the government accept everything they want, which is equivalent to signing a blank cheque and handing it over to them.'⁶⁵

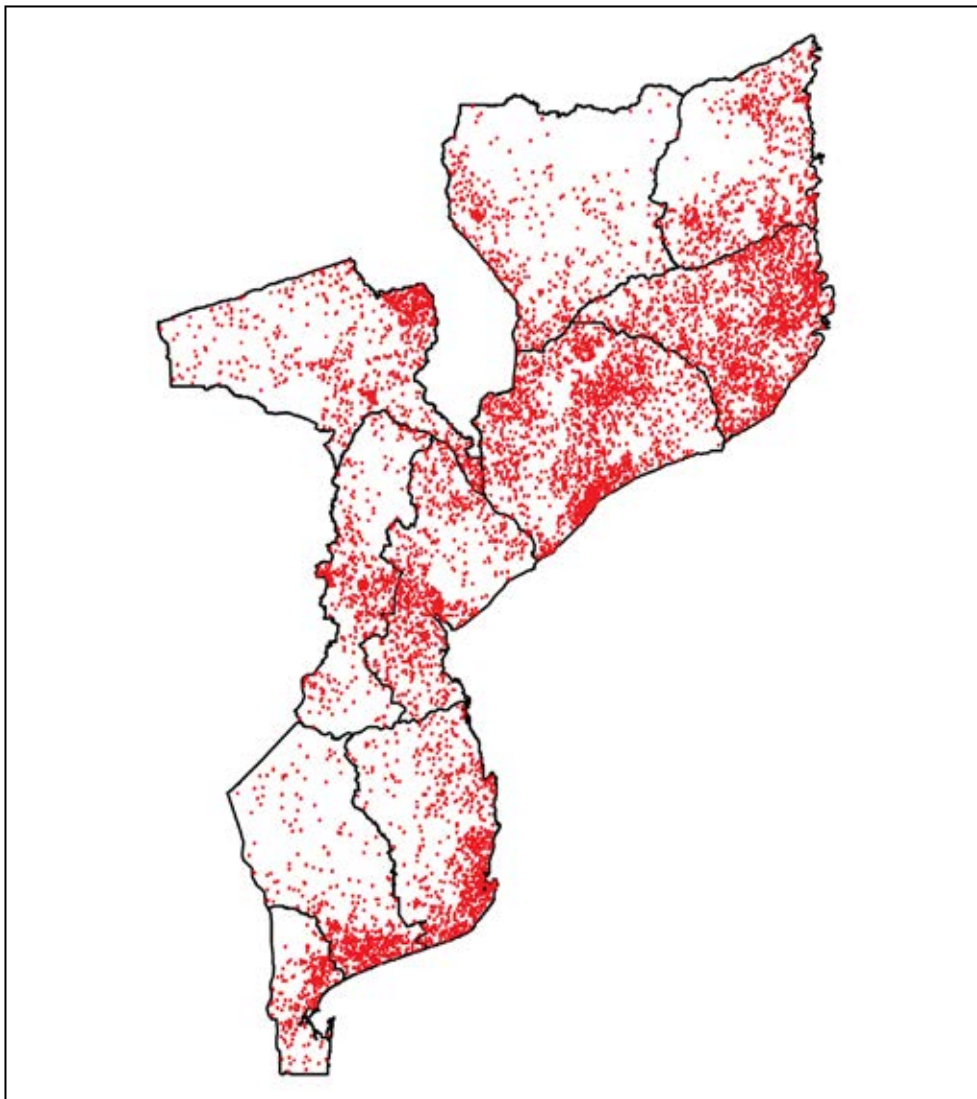
Renamo's support has dwindled dramatically in the 19 years since the advent of democracy, but the party appears still to see itself in its post-peace accord incarnation, where it believes it has a footing from which to make demands, as it did in that context.

Geographical distribution, poverty and inequality

Mozambique is a large, narrow country, with a coastline that extends over a vast 2 470 km.⁶⁶ One of the most endemic challenges facing the government is the existence of distributional inequality in infrastructure, services, poverty, wealth and, indeed, mineral resources. Much of the country's financial wealth, infrastructure and resources are located in the south, around the capital city of Maputo, in contrast to the mostly rural areas north of the capital that are poorly equipped with infrastructure and access to services. Furthermore, there is a strong overlap between the areas that are rich in resources and that are Renamo strongholds. While Maputo (and some other city centres) is experiencing rapid expansion and infrastructure-related developmental improvements, outside Maputo there is very little in the way of transport infrastructure or basic services, and those that

do exist are often of substandard quality and/or in a state of disrepair. Figure 3 shows that the highest density of poor people is present in the northern provinces, away from the capital city.

Figure 3: Distribution of the poor in Mozambique (each dot = 1 000 people)



Source: Simler KR & V Nhate, 'Poverty, inequality, and geographic targeting: Evidence from small-area estimates in Mozambique', Maputo: International Food Policy Research Institute, Ministry of Planning and Finance, 2003, <http://ageconsearch.umn.edu/bitstream/59594/2/fcndp192.pdf>, accessed 2 October 2012

Mozambique is still cited on the UN's list of Least Developed Countries, scoring poorly on the criteria of income, human resources and economic vulnerability.⁶⁷ In the 2013 Human Development Index⁶⁸ Mozambique was placed in the 'low human development' category, and was ranked 185 out of 187 countries and territories. Further, this report

considers 60.7% of the population to be victims of severe poverty. The wealthy portion of the population remains small, as does the middle class. Life expectancy at birth is only 50.7 years, and the expected years of schooling 9.2 years. While Mozambique has made significant improvements across human development indicators since 1985, when life expectancy and years in schooling were listed as 42.8 and 5.3 years respectively, the current quality of life of the average Mozambican remains deplorable. Mozambique also has fairly high levels of income inequality, with a Gini coefficient of 45.6 in 2008, the last time it was measured.⁶⁹

Importantly, this overlap in development and resources is likely to exacerbate several of the challenges the Mozambican government already faces. The lack of infrastructural development in the regions where natural resource extraction is commencing places an imperative on the government to establish adequate infrastructure urgently in order to ensure continued FDI. Simultaneously, the government must ensure that these developments are established in such a way as to improve the quality of life of local communities in these regions.

At present, much of the infrastructural development taking place in the Nampula and Tete provinces is being conducted by investors themselves, to support their activities. The concern is that this may result in the perception that the government is not making a genuine effort to meet the infrastructural and socio-economic needs of local communities in these provinces, but rather is relying on foreign companies to develop the region through their infrastructure and corporate social responsibility projects. In the long term it is crucial for the Mozambican government to ensure that the economic rents received from natural resources are channelled back into, and distributed at, the local level through improved service delivery, access to health care, schooling and general living conditions.

The high levels of poverty that still exist in Mozambique, combined with severe distributional inequalities, could spur citizens to violence or protest if they felt their expectations by way of the distribution of wealth and the provision of services were not met, especially in the light of the significant hope that is being generated by the abundance of natural resources in Mozambique.

Expectations

The expectation of a large portion of the Mozambican citizenry with regard to the resource discoveries in the country, and the subsequent rents that will be received, is that their quality of life will improve significantly. A phrase often used in this regard is that people want to 'feel it in their pockets' and, at present, it appears that the public expectation is that such improvements will become a reality in the short term, despite the fact that resource rents are not likely to be received by the government for at least four to five years.⁷⁰

Guebuza has noted on numerous occasions that this is an issue that needs to be managed, to allow the government to fulfil its tasks and report to an electorate that has realistic expectations of what the government can achieve and within what timeline. Guebuza has called for patience,⁷¹ urging Mozambicans to realise and acknowledge that it will take a number of years before rents are received, and for the outcome of funds allocated to development to become tangible.

However, despite Guebuza's attempts to assuage the populace, the reality on the ground is that for people living in poverty, the urgency of their situation means that the hope for and expectation of improved living conditions do not engender patience. In Tete the notable increase in mining activities has raised the expectations of local communities that employment opportunities will similarly increase. While communities in the region have historically been employed by mines, companies currently require specialised workers with scarce skills sets and, thus, in the short term, at least, are having to bring in workers from Brazil and elsewhere.

Although the government has acknowledged the need for citizens to have an active stake in the industry and the development attached to its success by implementing legislation to ensure set employment ratios,⁷² the reality is that if scarce skills are needed and cannot be provided by Mozambicans, companies will have to look elsewhere. The longer this situation continues, the more likely it is to entrench the idea among local communities that Mozambican citizens have a minimal stake in resource projects. This, in turn, may result in increasing discontentment, which is likely to culminate in protest.

Corruption

Corruption and the entanglement of the political elite in business dealings and government tenders remain a persistent problem in Mozambique. The 2011 Transparency International Corruption Perceptions Index assigns the country a ranking of 2.7 on a scale of zero to 10, where zero indicates a highly corrupt score and 10 indicates a clean score.⁷³ Further, the 2013 results of the Global Corruption Barometer⁷⁴ also painted a grim picture. A total of 45% of respondents suggested that corruption in the public sector was a serious problem, while 48% deemed government responses to corruption to be either ineffective or very ineffective. A variety of institutions in the country were also perceived as corrupt: 74% thought public officials or civil servants were corrupt or very corrupt, while 58% thought the same of political parties.

Indeed, the success of high-profile politicians as businesspeople – foremost among whom has been Guebuza himself (who is informally referred to as 'Mr Guebusiness'⁷⁵) – has cast doubt on the ability of the Mozambican government to separate the interests of the state from those of the political elites acting as officials within its institutions.

The high level of corruption in the government does not bode well for an influx of natural resource rents. Rent-seeking and greed⁷⁶ are extremely likely to result within such an environment, as opposed to one in which strong mechanisms of accountability, regulation and good governance are present.

The Mozambican government has passed anti-corruption legislation, implementation thereof has, however, been very poor and it is often thought that the existence of the legislation is a measure of window-dressing, while the lack of implementation indicates the absence of a genuine effort on the part of the government of Mozambique to eliminate graft.⁷⁷ The Business Anti-Corruption Portal has also described this legislation as inadequate as it 'does not cover other forms of corruption such as the diversion of funds, trafficking in influence, illicit enrichment, and the laundering of the proceeds from corruption'.⁷⁸

At the time of writing, a package of anti-corruption measures was, however, before parliament for consideration. According to the Basel Institute on Governance,⁷⁹ this

included legislation around the protection of whistleblowers and witnesses, and regulations on conflicts of interest under the Law of Public Probity.

Cost of extraction

Natural resource extraction is notoriously detrimental to the environment, as the pollution and environmental degradation that extraction can cause are often highly damaging to the livelihoods of the local population.⁸⁰ This can cause severe grievances to arise in local communities, particularly when the impact of extraction affects their livelihoods and when sufficient measures are not taken by the government to curb or rectify such negative effects. Protest, which may be characterised by violence, is a likely outcome. As previously mentioned, in the Niger Delta region of Nigeria environmental damage as a result of natural resource extraction was overwhelmingly detrimental to local populations, and has been a causal factor of the violence and upheaval that has severely destabilised the region.⁸¹

Another common cost of extraction is the relocation of local communities from areas where mining companies have established operations. This has been seen in Mozambique's Tete province, where local communities have been relocated from districts rich in coal for the purposes of mining. In early 2012 Vale relocated around 700 families to allow for increased coal-mining activities. Local communities who were subject to relocation protested, claiming that they had not been provided with sufficient access to water, power or land to sustain their livelihoods. Grievances arose as a result of the inadequacies of the area selected for their relocation, and the struggles faced by local communities to re-establish their natural livelihoods and lifestyles. Moreover, owing to landownership laws in the country that stipulate that no person or entity can own land, those citizens who have been displaced have not been adequately compensated by either the government or the mining companies. Instead, they have received compensation for the value of infrastructure on the land, which is obviously of very poor quality. Again, this kind of grievance can easily deteriorate and ignite local protest.⁸²

On 16 April 2013 hundreds of people from local communities staged a protest outside the Moatize coal mine, blocking access to the operations. This was but the latest in a string of protests since the relocation of 5 000 people to Cateme from Moatize in 2008 for the purposes of developing Vale's coal operations. While this community was compensated, its members remained dissatisfied and protested in January 2012 about the infertile land in Cateme, and other infrastructural inadequacies such as access to water and electricity.⁸³

London-based political risk firm Exclusive Analysis's Deputy Head of Africa Forecasting, Robert Besseling, has concurred with these concerns, noting the increase in protests and violent incidents associated with mining operations in 2013, many of which have resulted from compulsory displacement and inadequacies in skills transfer and development. Besseling has expressed the concern that 'local communities are becoming increasingly active and belligerent against the development of mining projects ... [and] Mozambique's natural gas sector is likely to face similar protests as it develops'.⁸⁴

Despite efforts by the government to rework and implement legislation governing the natural resource sector, criticism remains with respect to inadequate progress where infrastructural and socio-economic development is concerned. This is further

compounded by the absence of beneficiation projects that would render greater benefit to Mozambique.⁸⁵

CONCLUSION

Mozambique currently has a window of opportunity to put plans, policies and institutions in place to mitigate the risks often associated with natural resource wealth. The government needs to be proactive in addressing these challenges and, while it appears to be taking steps in this regard, it will most importantly be the implementation of such measures that will have the most significant impact.

It is crucial that systems of good governance, particularly those related to transparency and accountability, are maintained throughout the government in the governance of the country's mineral resource sector. Mozambique has recently been recognised as compliant with the Extractive Industries Transparency Initiative Standard,⁸⁶ which is a positive step that will allow it to shape the way the industry develops going forward.⁸⁷ However, Mozambique has low levels of institutional capacity and it will therefore be necessary for the government to build strong institutions to prevent corruption, and to provide a platform for dialogue between the government and the citizenry, and between the government and opposition parties. Indeed, concerns over corruption and the blurred lines between the political and business elites will need to be addressed through the implementation of the existing anti-corruption laws, the promotion of greater transparency in terms of government activities, and the declaration of business interests by politicians.

As resource rents grow to constitute a significant portion of GDP, the question of how the government will use these rents will become increasingly important. It is imperative that the Mozambican government increases its infrastructural expenditure, while simultaneously partnering with existing investors to encourage projects such as the Integrated Transport Development Project. The expansion of Mozambique's road, rail and port infrastructure has the potential to support the country's position as a vital transport hub in the Southern African Development Community (SADC) region.⁸⁸

The Ministry of Mineral Resources has noted that the establishment of a sovereign wealth fund is unlikely in the short term, despite encouragement from observers to consider this option. While stabilisation funds have as yet not been successful in Africa due to the technical nature of their management, such a fund was crucial to Norway's natural resource governance success. Thus, the Mozambican government should call on the expertise of its donor countries to assist in setting up and managing such a fund. Simultaneously, continued economic diversification of the Mozambican economy will help provide a buffer against market volatility and currency fluctuations.

If future violent protest resulting from grievance is to be avoided, public expectations will need to be managed carefully and the government must ensure that the communities affected by resource extraction have a tangible stake in the exploitation of those resources. Similarly, the government needs to promote skills transfers to local communities to enable them to gain employment in the growing resource sectors. This, along with carefully designed policies and legislation, will prevent local communities from becoming disenfranchised. It is also imperative that the deep levels of inequality that still pervade

much of the country are reduced, and that there is an evident and consistent transfer of wealth from the government to the people.

However, even if the government can successfully respond to the heightened expectations of citizens, it remains imperative for it to draw Renamo into the formal political dialogue processes. This is even more important given the increase in recent tensions between the Frelimo-led government and Renamo. Given the increased risk of small pockets of violence from Renamo forces and dissatisfied communities, disciplined civilian and military government forces that are not used as part of the political machinery but rather follow the rule of law and uphold human rights are crucial.

It can be concluded that while the likelihood of violence remains, it is improbable that it will manifest in the form of full-scale civil war. Rather, what is more likely is that pockets of violence may periodically emerge. The extent to which the government is able to establish institutions and implement policies that translate the country's resource wealth into broad-based, sustainable prosperity will be a key factor in determining whether such pockets of violence develop into broader civil conflict. If local communities and Renamo forces continue to perceive themselves as being economically and politically marginalised, increasing escalations of violence in Mozambique may be inevitable.

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