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Mozambique: the challenge of fighting external dependence, between aid and hydrocarbons

The discovery of the Mamba gas field, off the coast of the Quirimbas Island, in Mozambique, has definitively subverted the way Mozambique is perceived as a country. Generally portrayed as one of the poorest countries in the world, devoid of the mineral riches of neighboring South Africa, Zambia and Zimbabwe, after the 20th of October 2011, Mozambique turned to be home to the single biggest gas discovery by the Italian gas company, ENI¹. This discovery, coupled with Anadarko's finding in the Rovuma basin, could position Mozambique as the 25th gas producer in the world². Mozambique is/has been found rich not only in gas: the recent mineral findings (iron, coal, heavy sands, tantalum) have allowed «mining output to have expanded by 27% during the first half of 2011», according to government data published by the Economist Intelligence Unit in the November 2011 Country Report . This means that, according to the Ministry of Finance, the contribution of mining to GDP should increase from less than current 3% to 10-11% within three years.

Since the end of the Mozambican civil war and until the mineral findings (soon, it seems, oil will be found as well), Mozambique has been one of the largest aid recipient in Sub-Saharan Africa. Aid was granted on accounts that the government was ready to undertake poverty reduction policies, but it did not possess the resources to finance them. Given the amount of aid flows accruing to/received by the country, some authors have suggested that aid in Mozambique has promoted a rent-driven growth, which might endanger the sustainability of the country's growth path in the future³. Other authors –

¹ *Mozambico, Eni scopre maxigiacimento di gas*, in «Lettera 43», 20 October 2011, <http://www.lettera43.it/economia/aziende/29167/monzambico-eni-scopre-maxigiacimento-di-gas.htm>.

² *Huge gas reserves in Ruvuma basin*, in «Mozambique 187, News reports and clippings», 23 November 2011.

³ R.M. AUTY, *Aid and rent-driven growth. Mauritania, Kenya and Mozambique compared*, UNU-WIDER Research paper no. 35, 2007, pp. 12-14.

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Abstract

In a few years, Mozambique turned out to be a resource-rich economy rather than a financially-constrained poor country. The discovery of a gas field off the coast of the Quirimbas Island, however, poses the country all the issues that resource-rich countries face.

The mineral riches represent an opportunity to defy the external dependency deriving from aid, in so far as resources can open up commercial opportunities to the country that go beyond the North-South axis of influence along which aid is disbursed. However, mineral resources might represent yet another step of external dependency.

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(*) The opinions expressed herein are strictly personal and do not necessarily reflect the position of ISPI.

chiefly, the Mozambican economist Carlos Nuno Castel-Branco and the long-time observer of Mozambique Joseph Hanlon – have raised/pointed to the issue of ownership: given the amount of foreign resources accruing to the Mozambican state, what is the influence of foreign donors on Mozambican politics? Can the country's elites decisions be considered as autonomous or hetero-directed by powerful foreign interests?

The debate on the issue of ownership seems to mirror closely the one connected with the issue of energy security, as intended from the perspective of the country that supplies energy sources. In fact, countries that are large aid recipients risk to be influenced in their behavior by their sponsors/donors, as much as countries that supply a monopsony risk are under the threat of their sole buyer.

This analysis intends to investigate whether the hydrocarbon discoveries off the coasts of/the discoveries of the offshore hydrocarbon and mineral deposits in Mozambique can influence Mozambique's state of dependence. Can hydrocarbons be considered as a future substitute for national revenues and aid flows? Can hydrocarbons reduce Mozambique's aid dependence? Will the aid experience help Mozambique fight the main risks connected with the dependence on energy sources? How will the recently discovered energy and mineral deposits in Mozambique change the country's international orientation? Mozambique in fact, up to the recent discoveries in the mineral sectors, has always been considered a country with stronger ties with the West, rather than with the East. The presence of non-natural resources, however, is attracting many investors from the East (and the South), thus reinforcing Mozambique's relationship with non-traditional partners (i.e. with partners that are not Western donors).

Aid dependence in numbers

Mozambique is the so-called "donors' darling" of the last decade. If one looks at the trends in aid disbursements to Mozambique since the '80s, it is clear that the country has changed its posture towards international aid. While in the first years following independence, Mozambique was an out-cast of the circuits of international aid, the mid-'80s have marked a shift towards increasing aid dependence. Since then, aid flows to the country have risen/increased progressively. In 2008 they reached the unprecedented levels of 1992, the year that marked the peace agreement and the beginning of the costly demobilization of the parties' troops/combatants. If we look at relative aid trends, that is, if we look for example at the relationship between aid and gross national income over the years, we find that aid represents over 20 per cent of GNI between 2000 and 2009.

Table 1 - Aid as a share of GNI in Mozambique between 2000 and 2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008
AID/GNI	22.6	25.5	55.1	23.4	23.0	20.9	24.8	23.9	21.5

This means that on per capita terms in that same period every Mozambican received on average 73 dollar per year. Countries like Ethiopia and Tanzania, which have the same GDP per capita as Mozambique, received on average respectively 27 and 47 dollar in aid per person per year in the same period. If one excludes the year 2002, since it was an exceptional year for debt relief, the difference between what Mozambique receives on average per person per year (that is 68 dollars) and Ethiopia (28 dollars) and Tanzania (40 dollars) is all the more evident. Not only international aid represents an important part of national income, but it performs a vital economic role. As it can be seen from the

Table 2, foreign aid has been the predominant source of investment funds for the last 25 years and it can thus be considered a notable ingredient of what has been known as the “Mozambican miracle”⁴.

Table 2 - Investments and domestic savings in Mozambique as a share of GDP in the period 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007
Investments/GDP	31.0	20.0	30.0	22.3	18.6	18.7	17.7	17.9
Domestic savings/GDP	19.3	18.0	15.0	11.9	14.2	7.6	10.3	7.2

Source: World Bank Development Indicators, 2009 and IMF Data Mapper, 2010. Author's elaboration

Moreover, aid in Mozambique represents an important part of the government budget. In fact, domestic revenues cover roughly only half of government expenditures and thus additional – mainly foreign – resources are needed. Western donors contribute directly, via budget and sector support, to half of the Mozambican state's budget. New donors, especially from emerging countries, have come to play a part in Mozambique and their importance is increasing along with the discovery of Mozambique's mineral riches. For instance, the same day President Guebuza's was sworn into office for his second term, he met with the Chinese minister of Commerce Chen Deming. Later, the Chinese representative and Mozambique's Finance minister Manuel Chang agreed on a 14.7 million dollars loan. Chinese interests in Mozambique are closely followed by Brazilian and Indian attentions. The amount of resources coming from non-OECD donors, including both emerging countries and the so-called vertical funds, is difficult to monitor, since there is no official tracking system but signs indicate that they are increasing.

The debate on ownership in Mozambique

The prominence of aid as the source of most investments, as well as the main supply of service provision in the country, has long alimented a debate over the issues of aid dependency and national ownership. While it is true that any decision a national government takes, including that of letting foreign donors decide in its own place, is a decision taken by that country's government⁵, many authors have underlined how aid has made the Mozambican government more accountable externally than internally.

The prominence of donors in the policy debate in Mozambique has had some positive effects, chiefly for what concerns/especially it regards to the development of a modern and transparent system of public financial management, which is now well-praised internationally. Moreover, donors' presence has contributed to the strengthening of the political discourse in support of good governance, democracy and the rule of law. This, however, has had mixed results: «in spite of continued high economic growth, political stability and considerable [foreign direct investments(FDI)], and a consistent political discourse in favor of good governance, the regulatory quality and control of corruption in Mozambique have deteriorated significantly over the last 5 years. The only factor showing considerable improvement is political stability»⁶. Aid has certainly contributed to the strengthening of the political party in power and, thus, to political stability. On the other side, aid dependence in Mozambique has

⁴ The “Mozambican miracle”, that is the high growth levels experienced by the country since the end of the civil war, has been widely questioned, especially by authors like Carlos Nuno Castel-Branco and Joseph Hanlon. Lately, international agencies such as UNICEF, have started reconsidering the effects of aid and growth spurts on the poorest, UNICEF, *Child poverty and disparities in Mozambique*, UNICEF, Maputo, 2010, <http://www.unicef.org/mz/cpd/>.

⁵ C.N. CASTEL-BRANCO, *Dependência de ajuda externa, acumulação e ownership. Contribuição para um debate de economia política*, Cadernos IESE, no. 7, Maputo, 2011.

⁶ A. BUCUANE - P. MULDER, *Exploring natural resources in Mozambique, will it be a blessing or a curse?*, Paper presented at the IESE conference, 19th of September 2007, Maputo.

meant that the government has at times defined its priorities and its line of intervention according to the donors' wishes, as it happened in the case of the liberalization of the cashew nut market. In other occasions, the government and the donors colluded in order to avoid outcomes that risked to be embarrassing for both sides, as it happened over the issue of the privatization of the Banco Comercial de Moçambique. In any case, aid to Mozambique has often meant that donors have intruded in the country's definition of policies, challenging the notion of ownership⁷.

Hydrocarbons and mineral riches: external dependence continued?

The dependence on aid seems to be somewhat challenged by the diversification of sources of revenues, given the discoveries in mineral riches and the start of many megaprojects in the country. It is difficult to ascertain the impact of non-natural resources revenues: most of the mineral riches, starting with gas (and the prospected discoveries of oil) are yet to be cashed. In order to appreciate the possible impact of energy sources on growth, investments and export, one has to refer to earlier work on the impact of mineral wealth in Mozambique.

According to estimates made by Aurélio Bucuane and Peter Mulder in 2007 (that is, when natural gas and oil exploration hadn't yet brought about any notable discovery), it was expected that non-natural resource exports⁸ would grow by an annual 10 per cent, pushing the value of non-natural resource exports from 365 million dollars in 2000 to almost 6,500 million dollars in 2020. It should be noted that, according to the OECD Development Directorate (OECD-DAC), international donors disbursed 987 million dollars in 2000. If Bucuane and Mulder predictions hold – but the recent hydrocarbon discoveries prove them to be grossly underestimated – non-natural exports in the next decade will overtake and possibly substitute aid as a source of foreign exchange.

Given that data on oil reserves were not available at the time of the study, Mulder and Bucuane make also some hypothesis about the contribution of the hydrocarbon sector – and especially oil – to the Mozambican trade balance. They hypothesize that full exploitation of oil would start in 2015⁹ and draw 4 scenarios, ranging from Mozambique's hydrocarbon reserves to be very small (like Tunisia), medium (like Brazil or Libya) and large (like Norway). Exports by 2020 would increase by an additional 3,5 billion dollars in the first scenario, 30 or 60 billion dollars in the other two cases. Estimates need to be adjusted to the fact that, up to this point in time, Mozambique is known to have gas, rather than oil, reserves.

Even if the presence of non-natural resources could provide Mozambique with a source of rent that, according to the two authors, could amount to almost 1,000 dollars per capita for over a period of 20 years, this will not come without a cost. Growth based on abundant primary commodities is known to be haphazard: the risk of being confronted by the so-called “resource curse” is in fact high. On the political side, mineral riches tend to encourage conflicts for the control of resources and they tend to sustain authoritarian regimes¹⁰. On the macro-economic and commercial side, mineral-rich economies that do not diversify their exports¹¹ tend to depend heavily on market conditions – that is, on the price level as well as on the availability of willing buyers – for their subsistence. The volatility of the prices of primary products and the declining terms of trade constitute important factors explaining the persistent underdevelopment and external dependence of African oil-exporting countries

⁷ The aid modalities adopted and experimented by international donors in Mozambique, chiefly budget and sector support, have facilitated donors intrusion at the policy level.

⁸ At the time of the research, the main non-natural resources considered were: coal, natural gas, hydro and mineral sands. Iron, diamonds, gold and tantalum were yet to be discovered, as well as oil and gas.

⁹ Their prediction turns out to be quite accurate: the exploitation of ENI's gas basin is expected to start in 2016.

¹⁰ P. COLLIER - A. HOEFFLER, *Democracy and resource rents*, Global poverty research group, Working Paper series no. 16, University of Oxford, 2005.

¹¹ Mineral wealth tends to reduce incentives for diversification, given issues like Dutch disease and exchange rate appreciation.

like Angola and Nigeria. The discovery of mineral riches in this respect will not free Mozambique from external dependence.

Moreover, foreign investments towards Mozambique will sky-rocket in the near future: ENI alone has announced it will invest in the country about 50 billion euro in the next few years. To have a term of comparison, net foreign direct investments in Mozambique in 2009 amounted to 78 billion. Castel-Branco¹² attempts an estimate of the contribution of hydrocarbon exploration to the share of investments to Mozambique. In 2007, for example, coinciding with the first non-natural resource explorations, FDIs skyrocketed to over 5,5 billion dollars, from less than 100 million dollars the year before. A more disaggregated analysis shows that Mozambique is highly dependent on foreign sources of capital especially for the investments that are necessary for non-natural resource exploitation¹³. Therefore, mineral wealth seems to reduce the dependence on foreign donors, but it increases the dependence on foreign buyers and on foreign investors.

Aid versus gas: from the West to the East

Mineral wealth in Mozambique might decrease the dependence from international donors, but it will not reduce external dependence, unless the country embarks on a virtuous path of reinvestment of mineral rents following, for example, in Ghana's footsteps¹⁴. The shift that the increasing reliance on non-natural resources rents might produce therefore does not concern the structure of the Mozambican economy (which will remain extroverted/dependent on external factors for many years to come), but rather its geopolitical position. In fact, aid has been a powerful tool used by the Mozambican elites to cement its relationship with the West.

Mozambique managed to be a show-case window for most donors agencies and Western powers competed in order to gain a privileged position among the group of contributing nations¹⁵. Despite initial diffidence and difficulties with non-traditional donors, these have started acquiring importance, given also their less intrusive profile. According to a view by president Guebuza, for example, «China is "a partner, not a colonizer", because, unlike Western countries, China is committed to developing Africa and has always kept its promises»¹⁶. Non-traditional donors started increasing their influence thanks to views like this, that aid dependence has reinforced.

¹² C.N. CASTEL-BRANCO, *Economia extractiva e desafios de industrialização em Moçambique*, Cadernos IESE, no. 1, Maputo, 2010.

¹³ Mozambican entrepreneurs and elites are known to be rather nationalistic in their investments: they tend to reinvest their wealth in Mozambican assets or enterprises, rather than fuelling capital flight. However, the investments required/necessary to start exploiting the national hydrocarbon reserves are of such magnitude that only foreign companies can afford the start-up costs.

¹⁴ The discovery of oil off the coasts of Ghana has allowed the country to put in practice on the one side the lessons learnt from its neighbors' mistakes (starting with those of Nigeria) and on the other side to stick to the mantra of transparency and poverty reduction spelled out by international donors (Ghana was the "donors' darling" for most of the '80s, and it continues to receive vast inflows of aid). Ghana in fact is trying, with some difficulties, to create a transparent fund for the management of oil revenues, which are to be destined to macro-economic stabilization, productive diversification and ultimately to poverty reduction.

¹⁵ For example, Mozambique, once a Portuguese colony, is the only African country which is a member of the Francophonie, the Commonwealth and the Community of Lusophone countries.

¹⁶ S. CHICHAVA, *Mozambique and China: from politics to business?*, Discussion paper no. 5, 2008, p. 2.

When aid stops to be the primary leverage used to influence Mozambique's geopolitical orientation, its place will be taken /it will be replaced by commercial interests and investment relationships connected with non-mineral natural resources, and especially gas. This means that countries that are ready to invest in Mozambique's riches will be the first to benefit from any new discovery. Secondly, Mozambique will become an interesting market for Eastern buyers. ENI has already announced that it intends to sell Mozambican gas to emerging Asian buyers. In the next few years, the country might change its commercial partners, as well as it will strengthen the ties with those countries, like Brazil, India, Australia, China, Malaysia, that have been quicker to invest in Mozambique's mineral wealth. Soon, Mozambique might turn Eastwards. It will remain dependent on external partners, but it will be able to negotiate with interested buyers in a way that its aid dependence has not yet allowed the country to do.

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