



AFRICAN DEVELOPMENT BANK GROUP

High Level Policy Seminar on Managing Revenues and Optimizing the Benefits of Coal and Gas Resources in Mozambique

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Maputo, 27 February 2013



**Honorable Mrs. Esperança Bias, Minister of Mineral Resources,
Honorable Mr. Ernesto Gove, Governor of the Bank of Mozambique,
Honorable Members of the Government of Mozambique,
Distinguished Guests and Participants,
Ladies and Gentlemen,**

1. It is my pleasure to welcome you all and on behalf of the African Development Bank make an opening statement at this High Level Policy Seminar on Managing Revenues and Optimizing the Benefits of Coal and Gas Resources in Mozambique. This Seminar is an initiative which derives from the visit of Dr. Donald Kaberuka, President of the African Development Bank Group in August 2012 to His Excellency Armando Emilio Guebuza, the President of Mozambique, when he promised the Bank's assistance to advise on the better use of revenues through better natural resource management. This Seminar aims to provide an opportunity to share experiences by peer countries that can inform the government on the way-forward in natural resource management to achieve inclusive growth.

2. Mozambique has experienced considerable economic growth in the last decade, with an average growth rate of over 7 percent. This trend can be attributed to a series of reforms including improving the legal, policy and institutional framework for natural resource sectors; strong attraction of Foreign Direct Investment; and expanding services, transport and communication sectors. The exploration of the immense coal and gas reserves will lift the country's growth trajectory to a new level and lead to a spurt in extractive activities over the coming years. Recent discoveries show estimated reserves of coal at 25 billion tons, and gas of 120 trillion cubic feet (tcf). Seismic activities in the Rovuma off-shore Basin suggest that possible gas reserves could actually exceed 150 trillion cubic feet (tcf). Mozambique has therefore become the focus of discussions and the preferred destination for energy-related investment projects in Africa. Good natural resource management will be key and is highly needed to be incorporated in the country's development agenda. The aim is to better mobilize the natural resources towards a sustainable and inclusive socio-economic development of the country.



3. Ladies and Gentlemen, as you are aware, the coal and gas sectors, if appropriately managed, can be extensively linked with other sectors in the national economy and will greatly influence the path of medium to long term growth:

- i) First, the large scale discovery of reserves will trigger a new round of capital inflows, mainly in the form of foreign direct investment (FDI) and international banking credit.
- ii) Second, the extraction and export of coal and gas will crowd in complementary infrastructure development, mainly in the forms of power grids, roads and ports.
- iii) Third, the expanding coal and gas sector will create more jobs, especially for skilled labor.
- iv) Fourth, the financial sector will receive a boost with increasing banking credit to the extractive sector and deepening trade financing service.
- v) Fifth, global integration of Mozambique will be intensified through enhanced interaction with trade partners.
- vi) Sixth, government revenues will be increased, enabling more fiscal space, policy accommodation capacity and hence greater investment for the socio-economic development of the country. This, no doubt, will improve the well-being of the citizenry thus promoting social cohesion.
- vii) Last but not least, regional integration will largely benefit from Mozambique's booming coal and gas production in energy pooling and cross-country infrastructure development.

4. The discovery of coal and gas was followed by rising expectations and concerns about how the resources generated in these sectors can or will benefit the country. These expectations and concerns are not baseless. The historical record of discoveries of large reserves of natural resources in developing economies has not always been good, as resources have often been expropriated by a few at the expense of the majority; the underlying patterns of consumption and investment have tended to favor short-run benefits over the long-run ones. The well-known phenomenon related to countries with huge natural resource endowments and under development, the so-called "Resource Curse": is the result of poor governance, intense social tension, political conflicts, high inflation, narrow export concentration, foreign exchange



misalignments, flow of hot money, and Balance of Payment (BOP) vulnerability to commodity price fluctuations.

5. Therefore, it comes as no surprise that attempts to answer the question of how the exploitation of coal and gas in particular and natural resources in general, can benefit the average Mozambican has prompted several national debates, often most of them being emotionally and politically charged. People seek to understand whether the country is ready to deal with the underlying issues in terms of the appropriate institutions, availability of skilled labor to the high growth sectors; availability of an appropriate regulatory framework; environmental safeguards; tax policy, effects on and need for an appropriate macroeconomic management.

6. Going forward, opportunities and risks co-exist and Mozambique needs to maximize the potential benefits by curbing the downside risks. The surge of coal and gas sectors presents an opportunity for Mozambique to enhance its strategies and action plans towards inclusive socio-economic development. Mozambique's medium-term Action Plan for Reducing Poverty PARP (2011- 2014), aims to reduce the poverty headcount from 54.7 percent in 2009 to 42 percent in 2014; close the country's infrastructure gap and promote human and economic wellbeing through rapid and inclusive growth. Its three objectives include: (i) increase in agricultural and fisheries production, (ii) employment promotion, and (iii) social and human development. The National Strategy is aimed at bringing Mozambique to a middle-income country (MIC) status by 2025. To achieve these, channels of transmission have to be established to ensure that benefits generated from the coal and gas resources flow to the economy as a whole.

7. More specifically, the development of coal and gas sectors can contribute to overcoming a number of constraints to growth. First the **electricity and energy gap**; Mozambique with a high potential of power generation, lacks the capacity to fully exploit the energy resources and provide the population with reliable and stable electricity. In 2011, only 17 percent of the Mozambican population had access to electricity. In 2012, Mozambique ranked 139 in the World Bank's Doing Business Indicators with access to electricity positioned at 172, accounting for the biggest constraint to private sector development. Coal and gas resources can be exploited to contribute to filling in the electricity gap. To improve electricity availability, accessibility and



affordability, cohesive investments in energy infrastructure are required for power generation and distribution. Moreover, harnessing the national usage of coal and gas as energy sources can help Mozambique achieve its vision of *Sustainable Energy for All* and implement its Green Growth agenda, through building resilience, using efficiently its natural resources, and building more sustainable infrastructure.

8. Revenue from coal and gas should also enhance **domestic resource mobilization to improve macroeconomic stability and social equality**: Coal and gas revenues, under proper management, can help create the fiscal space to finance critical social expenditures. The Government of Mozambique has committed to increase social protection budget allocation to 0.8 percent of GDP to reach some 900,000 beneficiaries and to raise the level of cash transfers towards the poverty line over the next few years. Coal and gas revenues, if properly harnessed, would allow for further expansion of social safety networks.

9. Being capital intensive, the job creation by extractive industry is relatively limited. What is most needed is skilled labor. Moreover, the linkages between the coal and gas sectors and local private sector are not yet widely established. To encourage technological transfer through FDI, it is highly important to build up a labor force with the necessary skillsets to fill in the technical gap. Lengthening the domestic value chain and enriching local content in the coal and gas sectors will also generate spillovers to local private sector and contribute to economic diversification.

10. While the current Seminar is not meant to provide all the answers as to how resources and revenues should be managed, it will strive to be a platform to learn from resource-rich-developing-economies from Asia, Latin America and particularly, from Africa by providing examples of best practices and lessons learned from these countries. It will also seek the views of decision-makers from the private and public sectors and the civil society, and discuss policy recommendations that could best work for Mozambique. The Seminar will seek to shed light on questions such as:

- What is or might be the most appropriate tax policy for resource-rich countries?
- What sort of institutions should there be?



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- What are the most adequate governance and legal frameworks for natural resource management, especially in the coal and gas sectors?
- What is the most suitable macroeconomic framework to avoid shocks and setbacks (such as the Dutch Disease) and to ensure an inclusive and sustainable economic transformation?
- How can the education system be transformed so that the labor force can benefit from employment in or in associated natural-resource sectors?
- How can licensing be made more competitive and transparent in the resource-rich sectors? and
- How can the civil society be empowered to demand and monitor transparency and accountability in those sectors?

11. Honorable Minister, Ladies and Gentlemen, Mozambique's strong economic performance has been lauded and this has created investor confidence in the economy. It is now evident that improved macroeconomic management, economic liberalization and more effective policy implementation are yielding results. In order to fully benefit from coal and gas sectors, it will be necessary to direct the efforts towards ensuring long-run inclusive growth. It will be important to identify development pathways that also reduce the pressure on essential natural assets and that better manage environmental and socioeconomic risks. The High Level Policy Seminar is thus being held with a view to assist the government maximizing benefits from natural resources to complement its economic reform efforts.

12. Honorable Minister, Ladies and Gentlemen: let me inform you that the Bank has recently developed a new strategy – a long term strategy, covering the period 2013 to 2022. The main goal of this strategy is to support Africa's ambitions to transform into a stable, integrated and prosperous continent. Its key pillars of inclusive growth and progressive move towards green growth are clearly relevant to why we are here today. Mozambique is an important partner for the Bank. The Bank has invested about 1.9 billion US Dollars in Mozambique since our cooperation started in 1977. At the end of 2012, the Bank's portfolio in Mozambique consisted of 17 approved and 14 ongoing projects for an amount of around 652 million US Dollars. These operations have provided substantial support to road transport and power infrastructure,



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agriculture and climate change, mining, water supply and sanitation, as well as strengthening the national budget. With these investments, we all can be proud in making a contribution to support the country in its economic and social development.

13. Honourable Minister, the Bank is looking forward to continued assistance to Mozambique through engaging in the inclusive and green growth agenda. The Bank is well equipped with policy and operational instruments and technical expertise, and is ready to share with the Government of Mozambique experiences and lessons learned. We look forward to fruitful discussions, exchange of opinions, knowledge sharing, and learning from international best practices. On this note, I wish you all a very successful seminar.