Elements for an Inclusive Growth Process in Mozambique
Key Messages from the Nordic-Mozambican Conference 2012
Foreword by the Nordic Partners

Mozambique and the five Nordic countries of Denmark, Finland, Iceland, Norway and Sweden share 35 years of active cooperation and fruitful partnership. Early this year a joint Nordic-Mozambican initiative was launched to take the partnership one step further when it was decided to share challenges and experiences on different pathways for inclusive growth. The result was a 2-day conference with the purpose of enhancing the dialogue and creating platforms for exchange between Mozambican institutions and organisations, and the Nordic countries with respect to the agenda on inclusive growth and societal dialogue.

The conference was organized at a crucial time for Mozambique. The discovery and beginning exploitation of natural resources like coal, natural gas and minerals in Mozambique are indeed an opportunity for the country. But there are also challenges. On one hand, the extraction and export of natural resources create an enormous potential for economic transformation, job creation and revenue for the country. On the other hand, Mozambique faces key challenges related to how to facilitate the economic transformation, how to ensure accountability and transparency in the management of the natural resources and how to establish a sustainable tax regime to support the country’s development.

If managed well, these new developments may contribute to building a resilient state which can provide new opportunities and improved social services for its citizens. If managed poorly, the natural resources can also become a curse for the country.

The five Nordic countries have all developed from relatively poor nations, with nascent agriculture and production methods, to strong and egalitarian welfare states with equal access to economic opportunities for an increasing number of people. Even though the Nordic countries have followed different paths in their respective developments, they do share key common characteristics of what is broadly known as the Nordic Model.

The Nordic Model stipulates a consensus-driven and inclusive development process, which largely builds on trust, transparency, equality, solidarity, consultation, freedom and efficiency.

The development process has been and is still guided by clear policies and priorities related to employment, taxation, education, health, gender equality and environment, which over time have translated into improved living standards of all citizens.

This booklet contains key findings from the joint Nordic-Mozambican conference on inclusive growth in Mozambique. The purpose of the booklet is to provide a contribution to the dialogue on how to enhance the inclusive growth process in Mozambique and suggest possible ways forward for the continued cooperation between Mozambique and its Nordic partners.

Maputo, October 2012,
Mogens Pedersen, Ambassador of Denmark
Matti Kääriäinen, Ambassador of Finland
Ágústa Gísladóttir, Chargé d’Affairs, a.i. of Iceland
Tove Bruvik Westberg, Ambassador of Norway
Ulla Andrén, Ambassador of Sweden
Foreword by the Minister for Planning and Development

The joint initiative of the Nordic Countries and the Government of Mozambique to organize a conference in Maputo on 23 and 24 May 2012 on “Inclusive Growth: Opportunities for Mozambique, sharing experiences from the Nordic Countries” is an indication of the interest and openness of the parties concerned to jointly look into the challenges of sustainable and broad-based development in Mozambique and to share the experiences of inclusive growth, sustainable development and the participatory, consensual and equitable model of the Nordic countries.

This conference was also an excellent opportunity to engage in dialogue and build a platform for future exchanges between institutions from Mozambique and from the Nordic countries on inclusive growth.

The conference was successful in securing the active participation of politicians, government officials, the civil society, business associations, the private sector, trade unions and researchers both from Mozambique and the Nordic countries.

In the course of these two days we succeeded in identifying the challenges and discussed alternative solutions to expand job creation, for economic transformation and the exercise of transparency and accountability in natural resources management, taxation development and State building. In this connection, lessons highlighted by the conference include:

The experience from the Nordic countries in achieving high levels of social and personal welfare, as measured by their per capita income, life expectancy at birth and other social indicators constitutes a source of inspiration for Mozambique. The priority that these countries attach to investment in education and in the human capital in their initial phase of development, which prompt us to think that Mozambique’s options are aligned to such model.

Another lesson drawn is that the Nordic countries have implemented a policy of intolerance towards social and economic inequalities, on the premise that development should bring benefits for all.

The Nordic experience of national ownership concerning the exploitation of natural resources is a useful learning foundation for countries like Mozambique. It is an interesting approach to gradually prepare the national institutions for the sustainable exploitation of non-renewable resources and to ensure its integration into the diversified system of the rest of the economy. In our country we face this challenge, at a time when we also need to be flexible to keep pace with world developments.

Another aspect that is important with respect to the exploitation of natural resources is the management of expectations citizens have regarding the benefits and other impacts. Transparency and accountability contribute to build trust between the public and the State organs around such expectations.

Equally important is that we continue to look at agriculture as the foundation of our development in view of its human development associated to the need to enhance productivity and farmers’ yields. At the same time, we acknowledge the need for the development and expansion of small and medium size companies, as an expression of the importance of the private sector and their integration with larger companies.

We would like to take this opportunity to thank the Nordic countries for yet another valuable contribution to Mozambique’s development and to assure you that all inputs provided during this conference will have adequate follow-up by the pertinent government institutions and will constitute a basis for the continued interaction between the citizens of the Nordic countries and the Mozambicans.

To the facilitators, panellists, speakers and all local and foreign participants we would like to extend our appreciation and acknowledgement for making this forum a success.

Maputo, October 2012
Aiuba Cuereina
Introduction to the Nordic–Mozambican Conference on Inclusive Growth

The Nordic-Mozambican conference was organised around three important challenges related to inclusive growth in Mozambique, namely:

1. Job Creation and Economic Transformation
2. Accountability and Transparency in Natural Resource Management
3. Taxation and State Building

The themes were identified by joint working groups as key challenges facing Mozambique and at the same time as issues where the Nordic countries have relevant experiences to share. Three issues immediately come to mind: progressiveness, openness and the role of the state in making sure growth has been inclusive.

The first thing the Nordic countries have in common is that they have been progressive in the sense of high economic growth and political development that has provided opportunities for a large percentage of their populations. We can speak of a profound and intense type of transformation with a redistribution that has been consensus-driven and inclusive, and which has as its core: taxation, education, health, gender equality and equal access to economic and political opportunities for an increasing number of people.

The second aspect is that the Nordic societies are open with regard to media, equal rights, and access to information. This has secured both political stability and legitimacy in the political and administrative organization of society and the economy through power-sharing arrangements built on accountability and transparency. Historically, the role of popular movements in all countries such as the agricultural cooperative movement, the labour movement, business organizations, feminist movements etc. has been part of securing relative societal and political stability.

The final aspect of the Nordic experience that has been important in different ways is the increasing reliance on the state as a legitimate arbiter in society and guarantor for the application of the rule of law. The Nordic countries show different degrees of state capitalism with mixed economies but in all cases with a legitimate state in the sense of regulator, as well as (in periods) ownership. This has been possible because the state has been considered relatively fair in its provision of social services and economic opportunities, and in its role as a taxation agent. Furthermore the role of the state as provider of institutions for mediating and intervening in societal struggles has allowed for political and social accommodation of conflicts.

The 2-day conference took place on May 23-24, 2012 in Maputo. Participants were mainly politicians, government officials, representatives of civil society, the private sector and trade unions, and researchers from Mozambique and the Nordic countries. During the conference the three themes were discussed in depth at high-level exchanges, plenary sessions and specific workshops. The findings and key messages from the conference are presented in the following pages.
Mozambique is going through an immense economic transformation. The various megaprojects are producing impressive growth rates for the country. However, the megaprojects are not in themselves a shortcut to sustainable development and inclusive growth. While these projects in many ways are remarkable, their net benefits to the rest of the economy have been questioned. The linkage of megaprojects to the rest of the economy is minimal, and there is almost no spill-over effect or significant job creation in related industries. In addition, the risk of “Dutch disease” where the new megaprojects negatively affect growth prospects in other sectors, possibly creating a dual economy within the country, is real. Mozambique still has an opportunity to consider policies and structures that would allow it to escape the “resource curse”, which has plagued many countries that have initiated exploitation of natural resources at large scale.

Considering that 70% of the population is dependent on agriculture it is clear that agriculture is indeed the base of the economy. However, at the same time the agricultural sector only contributes 23% to the country’s GDP, which indicates a serious challenge in terms of productivity. The industrial sector employs only 6% of the population but contributes 30% to the GDP and holds a much greater potential. Finally, the service sector provides the largest contribution to GDP at 46%, but employs only 13% of the population. With 300,000 newcomers entering the job market every year, the challenge of creating more jobs for the growing population in sectors with high potential, and at the same time raising productivity, is critical. More specifically, Mozambique is facing a concrete challenge of linking local companies, especially the Micro, Small and Medium-sized Enterprises (MSMEs), to the megaprojects in an effort to widen the social and economic benefits of the current economic transformation.

In an effort to address these issues and explore ways to enhance the creation of jobs across Mozambique, the subject of job creation and economic transformation within the framework of inclusive growth was discussed at the Nordic-Mozambican Conference.
Key Messages

- A diversified economy is essential to reap the benefits of the mega-projects. The development of a diversified economy is dependent on sufficient investments in infrastructure and human capital in terms of broad-based education on all levels.
- Universal, quality basic education is essential to guarantee broad-based growth, but primary education should not be prioritised at the expense of secondary, tertiary or technical education.
- Mega-project concession-holders should have long-term obligations with respect to training of local employees and enhancing the education standards within their respective fields.
- The way forward is industrialisation with agriculture as its core. A range of already identified activities that can rapidly increase productivity in agriculture should be implemented related to access to extension services, pesticides, fertilisers, seeds, and credit.
- The balance between multinationals and MSMEs is important in Mozambique. A better business framework that promote and enforce industrial policies, reinforcing linkages would see more locals employed that add value to products at home. In this respect, industrialisation should move away from simply exploiting and exporting Mozambique’s rich assets of natural resources as primary commodities and instead develop the natural resources into value added products, a shift that will depend on linking megaprojects to local companies as suppliers and service-providers.

Relationship between local companies and megaprojects

Key messages from the conference workshop on how to enhance the integration between local companies and megaprojects in Mozambique:

Building consensus

- Build a national consensus on local content and take the time to make the right decision.
- Nordic experiences show the importance of building state capacity to direct development and govern natural resources use. Governments come and go, whereas good consensual state policies last. Democracy and labour market representation ensure that companies and people are not left behind. This is an important step in building national cohesion.
- The megaprojects need to enter into a long-term dialogue with the state and local communities to address their needs and ensure that the prosperity of the nation and local communities are firmly linked to the prosperity of the megaprojects.
- Integrate the megaprojects in the national strategy.

Lessons learned from the oil industry in Norway

- It is essential to develop national supply chains. In Norway integration of industries was achieved by government looking at the social contribution firms made.
- While subsidising selected industries can be difficult and can be harmful for the development of competitiveness if it is not based on a clear industrial policy, it can be absolute necessary in order to assist infant industries. Prioritising is inherently conflictual so it is necessary that institutions are build that can mediate conflicts of interest.
- Mozambique has gigantic gas reserves that should sustain activity for at least 30-40 years. However, it depends on how fast the reserves are depleted. There is pressure to produce as much as possible as soon as possible. But it is important to
tackle the consequences the industry has on the rest of the economy. Mozambique should move at a pace that allows the country to decide what is in its best interest. Social development should be directed by the government, not oil companies. Oil companies should contribute on Mozambique’s terms.

**Facilitating linkages and building skills**

- Following the Nordic model, Mozambique must ensure that the benefits from natural resource extraction are used to diversify the economy and build capabilities outside the actual megaprojects.

- Mozambique needs to make sure that the megaprojects and extractive industries help build local capacity, not just in their own industry, but also through diversification. Not by forcing local rules on firms, but by entering into a dialogue to make sure that Mozambican firms and workers can supply reasonable levels of goods and services within for example 10 years of the start of production. This can only be achieved if there is a clear policy framework that stipulates local participation.

- It is difficult to work with megaprojects due to the requirement of international standards and especially as the standardisation capacity in Mozambique is limited. Therefore, it is important to build technical capacity of the workforce and the state institutions through megaproject linkages.

- For Mozambican companies access to third party capacity building facilities like Mozlink has been an important factor for achieving success in the shadow of megaprojects. Results have so far been achieved through training, sharing ideas, financial and human resource management, focusing efforts on the client, and improving health and safety of the workers.

- The government should force the ‘corporate social responsibility’ aspects of the megaprojects to focus on capacity building, job creation and linkages to the Mozambican economy in order to diversify local economies.

- When the revenues start to flow, the money should be used to develop other industries that provide jobs and livelihoods to the Mozambican people. This requires strategic planning.

**Employment and productivity**

Key messages from the conference workshop on how to enhance the employment and productivity in Mozambique:

**Creating jobs**

- The reality for Mozambique is that people are overwhelmingly working in the informal sector. Less than 50% of the population is full-time employed. There have been productivity increases, but they are concentrated in secondary and tertiary sectors, and this has widened the gap between agriculture and the modern sectors.

- Creation of “good jobs”, that is jobs that have development effects, is an important link between economic growth and broadly shared gains.

- The formal sector will not be able to absorb all the new entrants to the labour market in the short or medium term, as 300,000 people are expected to enter the labour market each year – many of them unskilled. Therefore, the informal sector must be included in the national development strategy, as the informal sector has a key role to play – this must be recognized and taken explicitly into account when formulating policies.

- Education levels are still low though they have been rising over time. The focus on educating a young population with appropriate skills is paramount and should be enhanced. A special emphasis might be put on, vocational training. As the population is young and rural a focus on providing jobs and education for young people is important.
Rural development

- Sustainable rural transformation involves a match between three overlapping domains: ecological, social and economic. Where they overlap, there can be sustainability. Rural development changes the social contract in the rural areas. Sustainable transformation happens when a) the mechanization of agriculture is rapid so rural jobs become more and more entrepreneurial and modernized and the productivity rises; b) land and assets are individualized; and c) when farmers think of themselves as entrepreneurs and the farmer communities’ link to the markets and become villages.

- Rural transformation depends on the nature and quality of the governance and traditional rural institutions. There is a need for an institution that can set up the “rules of the game” directing rural transformation.

- Value chain development and diversification have key roles and make it possible to link primary activities with higher value added sectors. Therefore there needs to be a) more value chain development b) more linkages between agriculture and industry as well as other companies that service agriculture; and finally c) the rural economy should be diversified.

- Mozambique needs to rethink distribution policies and rethink its agricultural policies. There is a need to focus more on agriculture, as agriculture gets a very small share of the government budget at present. At the same time huge investments in agriculture over the last 15 years have not had much impact suggesting that the problem is not only related to government budget share.

Accountability and Transparency in Natural Resource Management

As Mozambique initiates and speeds up the exploitation of public goods – in terms of natural resources, energy, land etc. – it faces a series of challenges related to how to ensure transparency and accountability in the process. The theme of natural resources has gained visibility in parliament, in particular in terms of the defence of the citizens’ interests and budgetary planning. Politically and economically the challenge will be to ensure that national and public benefits are maximized at the same time as an open societal dialogue is established.

In an effort to address these issues the conference focused on specific elements of the challenges related to transparency and accountability, in particular access to information and the involvement of parliament.

Key Messages

- The Parliament should actively monitor negotiations between the government, the state and the mining sector over concessions. At the same time the natural resources sector raises new challenges for the parliament in terms of budget planning, monitoring of government and state actions, the impact on local communities, and content of laws dealing with concession contracts.

- The Nordic experience of participatory politics in relation to natural resource management has been positive and the straightforward approach to discussions between the state and civil society could serve as an inspiration for Mozambique.

- Exchanges between the Nordic parliaments and Mozambique’s parliament should be introduced to facilitate the transfer of good practices with respect to accountability and transparency in natural resource management and societal dialogue that can create consensus with regard of policy direction.
The structure of the management of Mozambique’s natural resources will be a deciding factor. Collective approaches will most likely deliver better results than one based on a small and narrow group making decisions.

Access to information is crucial for the legitimacy and accountability of the management of natural resources. The proposed law on access to information for citizens should enhance transparency.

The interaction between media and parliament is also a very important element for enhancing the accountability and transparency in Mozambique’s management of its natural resources.

**Societal dialogue – the role of interest groups and parliament**

Key messages from the conference workshop on how to strengthen the societal dialogue with a special focus on the interaction between the parliament and interest groups. The key word is *trust*.

**Interest groups and policy-makers**

- It is important to develop a social dialogue between the policy-makers and civil society which is based on *mutual respect and trust*. While there is on-going dialogue taking place in Mozambique it is not considered strong, frank and open.
- Parliament represents the wishes of the population. But it cannot represent all voices; labour and civil society groupings also have important roles to play in the law-making process.
- In Mozambique, parliament, labour and civil society are challenged by limited capacity when questions of accountability and transparency in natural resource exploitation are discussed.
- Lessons from the Nordic countries suggest that a close and sound relationship between interest groups and parliament, as well as government, is productive and can facilitate inclusive growth.
- Close and sound relationships have been built on regulations that define political leaders’ economic roles, openness with regard to receipt of gifts and favours from the private sector, as well as political leaders’ private interests. A responsible and free media exposes corruption, which can motivate others to avoid the temptation because there has not been any generalised impunity for economic and political leaders.
- Evidence based analysis is the basis for good arguments which can translate into demands to government. When interest groups can provide information and evidence based analysis much suggests that policy makers take their opinions into account as they are part of forming an informed public opinion. This can lead to more informed and balanced decisions by policy makers. At the conference it was suggested that mutual respect between policy makers and interest groups is built when interest groups have their say and legislators take advantage of the expertise and evidence based analysis.

**Tripartite negotiations**

- One established mechanism for dialogue is that of tripartite negotiations between employers, employees and government, if they result in commitments strong enough to hold independent of the government of the day. In the Nordic countries, tripartite negotiations are built on mutual trust when the parties have agreed on something, everyone will honour it.
- In the Mozambican context tripartite negotiations have so far developed slowly but steadily and can provide one important venue for expanding the societal dialogue between government and labour market partners.
The role of access to information

Key messages from the conference workshop on the role of access to information for societal dialogue and inclusive growth. While several topics were explored, discussions revolved mainly around the issues of having an informed population, as well as the importance of transparency, including the role of the EITI process.

An informed population

- Access to information, communication and participation are important for inclusive growth as knowledge is empowering. However, it is how the information is used that is important.
- Nordic countries have over time created political spaces for citizens to participate, voice their interests and criticise policies. This is a key factor that a large percentage of the population eventually agrees with and takes ownership of policies.
- It is important to create the political spaces that allow for the development of an alert and conscious civil society. Critical and informed citizens strengthen political legitimacy as governments have people who are engaged to be accountable to.
- In Mozambique participation of ordinary citizens is largely lacking when plans are made and government action is monitored. At the conference it was suggested that more than 70% of the citizens have had no contact with any local public administration. When there are no functional mechanisms for the Mozambican population to monitor and engage with public authorities, a “dialogue of the deaf” is created.
- The relative isolation of large parts of the population in part explains the very low voting rates at both general and local elections. While some argue that one important reason for the low level of voter turnout is the low levels of education, much suggests that an equally important reason is the population’s limited trust in public authorities.
- The right to free speech and the right to information are two sides of the same coin. This applies to all organs of the state. The areas where information should not be shared (state security for example), should be decided by law and monitored by public authorities, not individual discretion.

Transparency

- Revenue from Mozambique’s gas sector will be far higher than present aid flows, and it is crucial to ensure transparency in the large companies – private and public – that will be participating. Transparency is based on access to information so that, for instance, discrepancies between how much companies say they pay and how much the government receives cannot arise.
- Lack of transparency creates mistrust in public authorities and allows for corruption to fester.
- While the government has taken a number of steps to address the dominant role of mega-industries in the Mozambican economy and the substantial tax benefits they enjoy, there is still a considerable lack of information on the status of contracts and policies, and lack of openness with regard to conflicts of interest by public servants, members of parliament, and government. This undermined governments legitimacy and trust in the political system.
- The government has applied to join the Extractive Industries Transparency Initiative (EITI) which will increase transparency with regard to payment of taxes but there is ample space for broadening the quality of access to information and scope of transparency in the extractive sectors and thereby the legitimacy of the government and political system.
Recurring themes in relation to the extractive industries and the current possibilities for initiating an economic transformation are the issue of taxation and how to transform non-renewable resources into sustained wealth. As Mozambique initiates and speeds up the exploitation of its natural resources, key challenges relate to how to ensure that appropriate taxation takes place in an effort to sustain the continuous building of the Mozambican state. A good foundation has been built over the last 15 years as the Mozambican tax authority has been able to raise the tax take considerable, so the tax to GDP rate today is one of the best for sub-Saharan Africa.

That part of the success has been an increased capacity to tax consumer driven imports can turn out to be important in the future, as present export driven investments are to a large extent based on imports of technology, machinery and consumables. Here there are both direct tax possibilities, as well as important knowledge to build on that can form part of avoiding capital flight, as Mozambique clearly has a tax authority that can be trained to assess investments claims and thereby avoid inflated cost structures that form part of capital flight schemes.

Taxation is a way of building a functional state: tax-dependent states are inclined to pursue policies to expand the economy and thus the tax base, they have to build up their institutions to improve tax-raising capacity, and bargaining over taxes is central to building relations of accountability between state and citizens. Furthermore, taxation is the way out of aid dependency. In this regard, a number of reforms have been introduced in Mozambique to reduce the burden of paying taxes, and to broaden the tax base. Special note should be taken of the establishment of the Mozambican Tax Authority (ATM) and the measures to make it more efficient, effective and transparent. However, problems of transparency and perceptions of inequities exist.

The Nordic-Mozambican Conference addressed these issues by discussing the relation between taxation and state building.
Key Messages

- Natural resources are a blessing but can become a curse if managed poorly. Mozambique will have to find its own way of turning its natural resources into wealth. Key international lessons are: a) non-renewable resources are a temporary good; b) when revenues from natural resources rise and fall it can be damaging for other sectors of the economy; and c) the challenge is to transform a once-off windfall into a steady income or to separate the times at which earning and spending take place.

- The Nordic experiences vary. Denmark gave the oil and gas exploitation rights to private interests and when there was political interest in renegotiating the terms and benefits, it turned out to be very difficult. The Norwegian solution has been to create a national industry from the outset combined with the creation of a sovereign fund for the earnings from oil related revenues. The fund is invested in international stock markets and the state budget benefits from the interest only.

- For oil and gas economies it is common to say that a country has only one shot at developing an economic sector as renegotiation of contracts can be very difficult. It is important not to rush the process. Capacity should be built gradually and thoroughly so that after the resource is depleted a lasting legacy of technology, competence, infrastructure and other sources of revenue remains.

- Developing countries often have distorted and regressive tax systems which lack in legitimacy. State building involves increasing institutional, fiscal and administrative capacity to enhance a legitimate tax regime that can underwrite policy objectives. Broadly based tax systems are key to building legitimacy, counterring revenue fluctuations and building institutional capacity.

- Even a resource rich country needs to develop a “regular” tax base as the resource will be depleting. While there are examples from the Gulf States that have been capable of delivering impressive social and educational public goods based on a limited tax base, regime legitimacy can be limited. The reasons are: a) the elite capture the revenues from the natural resources; b) very few countries have enough income from natural resources alone to provide public goods; and c) the revenue from natural resources fluctuates as the market is volatile.

- Contracts with megaprojects should be negotiated transparently and made public and tax exemptions should be - if not totally avoided due to the very large infrastructure investments Mozambique needs in order to get investments working – argued, time limited and public. Mozambique is in a strong investment position with no need to give excessive tax exemptions.
Building the social fiscal contract in natural resource countries

Key messages from the conference workshop on how to build the social fiscal contract in Mozambique.

The tax regime

- Mozambique is in a unique position to develop a sustainable fiscal regime, involving the development of the regular tax system as well as a tax regime based on natural resources revenue. However, Mozambique is faced by a number of challenges. Extensive tax incentives and exemptions have been granted, which leads to lost revenue, creates room for bribery and tax evasion, and distorts competition. This creates a perception of unfairness amongst taxpayers, undermining government legitimacy.

- Mozambique should hold consultative meetings between government, private sector and trade unions to develop tax policies and systems that enhance revenue growth both from natural resources and regular tax sources, build up tax administrative capacity at all levels, and prioritise accountability. The tax system should have: a) clear and unambiguous rules with few exceptions; b) long term stability and predictability; c) equal treatment of companies and investors, d) full disclosure of concession agreements in order to foster trust; e) establish clear links between taxes paid and public expenditure so that people see what their taxes achieve.

- There is a need for technical assistance to the Ministry of Finance and to Members of Parliament and the various committees to help understand, write and enforce legislation. Tax administration needs to continue to build capacity and strengthen links between the Tax Authority and the National Institute for Petroleum (INP) to make better tax assessments of mineral projects.

- There is also a need to create a broader citizen engagement around taxation (taxation is too important to be left to experts), and build domestic research capacity on taxation.

- The capacity of the Mozambican tax institutions to analyse the costs and revenues of the sector are a challenge that Mozambique needs to reflect on. Not only technical assistance is needed, but also sufficient and well trained staff.

Tax agreements with megaprojects

- As long as there are opaque agreements with megaproject companies, Mozambique cannot have a legitimate fiscal contract with its citizens. There are trade-offs between a) trying to attract companies (reduce taxes), b) increasing revenue (raise taxes); c) and the desire to develop a large mining or oil/gas industry. Making deals with big mining and gas/oil investors or companies is partly about stabilising income in markets that can be highly volatile.

- Investors and companies are likely to demand specific contracts when they are unsure about the investment climate, particularly in a country that does not have a long history of investment in the specific resource, stable governance arrangements or a predictable policy environment. They may fear changes in laws. There are two approaches to this: legislated concessions and negotiated concessions. But neither of these implies lack of transparency in concession agreements.

- Proper geological knowledge is essential for striking the best bargain with mining companies that employ experts in the field. This will allow the state to auction off the concessions to the highest bidder.

- The Mozambican state or government should not be too rushed in negotiating contracts, because if they get it wrong, it is very difficult to change them later on. They should not be too concerned about losing deals to other countries because of claims that Mozambique has an excessive tax regime as Mozambique has all the strategic resources.

- Norway has had the experience of saying NO to companies requesting tax cuts. It is possible, but Norway had well established knowledge and experience within the sector. Mozambique is building this.
Mozambique should make an evaluation of existing first generation contracts in mining and other such activities, to learn and make appropriate changes to the way it has organised itself with regard of accountability and transparency so far. This also encompasses the role of parliament. This is important because the next megaprojects are going to define the future of the country, not just in terms of revenues, but also how its democratic trajectory will develop.

Making contracts with clauses that allow for flexibility and leave options open for renegotiating content at a later stage will strengthen the state’s role as a regulator.

National investment funds and capital flight

Key messages from the conference workshop on the issues of national investment funds and capital flight.

Development fund

- Mozambique has a large infrastructure deficit and huge development needs, where investments are essential for market access of products, building up human capital and economic development of the population. There are many new investment projects under way to provide roads, bridges, electricity, rail, ports and so on – a key challenge is how to finance these investments.

- There are many models available for what to do with revenues from natural resources. Some examples are a sovereign wealth fund, a macro-economic stabilising fund, an investment bank or any combination of these. Revenues could come jointly from the national budget, royalties, port and railway fees, electricity generation fees, and multilateral and bilateral development funds.

- Sovereign wealth funds carry the danger of political manipulation, but they are likely to be one of the best ways forward. It is important to get the rules right from the start and to be transparent about everything, including details such as who manages such funds, in what proportions, how these change, etc. Finally, the pressure that this reality imposes on parliament means that communication is fundamental.

Illicit capital flight

- Illicit capital flight must be addressed both nationally and internationally - it is the most damaging condition affecting the world’s developing countries.

- It is estimated that 1 trillion USD drains from developing countries to the West every year through a shadowy financial system of tax havens, falsified prices, money laundering techniques and legislative loopholes.

- Capital flight out of Mozambique is estimated at around 4-5% of GDP. Combining licit and illicit capital flight, it is estimated to be equal to the GDP growth per year. In Mozambique the most common mechanism is trade mispricing, with estimates for 2010 at around 500 million USD or 30% of all exports. There is a big difference between what is reported as export in Mozambique and what is imported in other countries, a difference which can only really be explained by capital flight.

- In terms of legislation, auditing, and transparency laws, Mozambique’s institutions are not well geared to handle the issue of illicit capital flight.

- Transparency is the answer to illicit capital flight. Transparency can do a lot more than regulation and is a matter of political will.

- Combining transparency and properly implemented legislation can be a powerful tool for policy makers.
Way forward

Based on the above assessment, which explicit and implicit offer suggestions for short, medium and long term actions, the report will sketch three key policy fields where responses to identified needs and challenges for capacity building and expert knowledge can be elaborated, turning analysis and identification into concrete action plans in the short term. The hope is that short term responses can trigger medium to long-term programme responses over time. It is about breaking the ice with considerate actions.

In order to avoid excessive administration it is suggested that the model for financing and implementing suggested actions follows the modus operandi used to finance and planning the conference. For the conference one of the Nordic embassies frontloaded all costs based on a flexible agreement between the Nordic countries and the state on reimbursement. Planning was undertaken by a joint task force from the Nordic countries and MPD involving a range of key ministries and state institutions hereunder parliament. It is suggested that for each of the conference themes the planning of concrete follow up activities will be led by MPD who will join forces with key Mozambican ministries, institutions, and organisations, as sketched underneath. Planning of activities can run over a one to three year period depending on needs and progress.

Firstly, it is clear that Mozambique is confronted with serious challenges in planning and integration of plans for bridging and linking extractive industries with subsistence livelihood sectors like agriculture and fishery, as well as sector specific development and general state core functions like taxation and education. It is suggested that Denmark and Iceland, given their already strong engagement with MPD and DNEAP and based on common pooling agreements between the Nordic countries, make resources available for MPD and a joint coordinating facility so that the necessary expertise in planning can be contracted for the short to medium term, including the training of relevant state personnel for newly identified needs. Possible activities can include:

- Planning of investments in agriculture, infrastructure and creation of linkages to megaprojects and industry development.
- Projection of fiscal revenues based on mineral resources and large scale projects.
Secondly, while the issues related to transparency and accountability are vast and access to information can be a problem, there are at the same time clear indications that the parliament is requesting expertise and training that can secure successful implementation of the 15/2011 legislation, which will give the parliament an active role in monitoring the exploitation of natural resources. The Nordic experience is one of broad consultation and engagement with interest groups and civil society, whereas open platforms for engagement in Mozambique are still at an embryonic stage. It is suggested that Sweden and Finland, given their strong engagement with universities, AWEPA, civil society etc. and based on common pooling agreements between the Nordic countries make resources available for MPD and a joint coordinating facility so that the necessary expertise can be contracted for the short to medium term, including the training of members of parliament and their institutions, key interest groups and civil society platforms. The aim would be to make sure that:

- Resources are made available for capacity development of parliament so that law 15/2011 can be implemented, and platforms for engagement between parliament, civil society and interest groups can be created with the necessary capacity and resources.
- A multidimensional public information campaign on extractive industries and societal benefits are planned and carried out in order to provide transparent information and managing expectations.

Thirdly, issues related to revenue generation - broad taxation, natural resource fees and royalties and how to avoid the excesses of capital flight – and state building, were highlighted across the panels and presentations during the two days. It is suggested that Norway, given its strong engagement with the Ministry of Finance and the tax authorities and based on common pooling agreements between the Nordic countries, make resources available for MPD and a joint coordinating facility that include the Central Bank, Ministry of Finance and the Tax authorities so that the necessary expertise can be contracted for the short to medium term, including the training of staff. The aim would be to make sure:

- The best expertise in contract negotiating is available when requested.
- That capacity to analyse pricing and investments related to megaprojects is available so mitigation of capital flight can be secured.

Finally, we suggest that a new inclusive growth conference between the Nordic countries and Mozambique takes place in three years’ time to assess progress with regard of an inclusive growth agenda and the need to transfer the suggested flexible funding arrangements into a joint common fund.
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