

THE POLITICAL ECONOMY OF LINKAGES IN THE MOZAMBIQUE'S MINING SECTOR:

A TALE OF THE COAL SECTOR

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ROADMAP

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2. **A SURVEY OF THE LITERATURE**
3. **ANALYTICAL FRAMEWORK**
4. **THE LEGAL LANDSCAPE**
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I. COAL-BASED LINKAGES: Expectations vs Reality

EXPECTATIONS

- Capturing the value of natural resources through taxation and investment in other sectors
- Market opportunities for local goods and services;
- Increase the participation of local firms in the coal companies' value chain;
- Use of coal as inputs to other industries within the country
- Knowledge transfer from MNCs to local firms.



REALITY

- Inability to tax MNCs and the acquired revenues are siphoned-off for the purpose of irrigating other sectors of the economy
- Foreign suppliers dominate the existing linkages opportunities;
- Local firms benefit only from the lowest value added activities;;
- The type of linkages (dependent linkages) offer no avenue for knowledge transfer and upgrading;
- Existing, but limited prospects to used coal locally.

Why has it been so hard for the country to foster productive linkages from its coal mining sector?

2. A SURVEY OF THE LITERATURE

FIRST STRAND

In most RRC diversification out of the primary production is unrealistic due to:

- Shocks in the terms of trade;
- Enclave nature of the commodity production;
- Dutch disease /crowding out effects;
- Predation and rent-seeking;
- Poor and misdirected policies



SECOND STRAND

Linkages are conditional to:

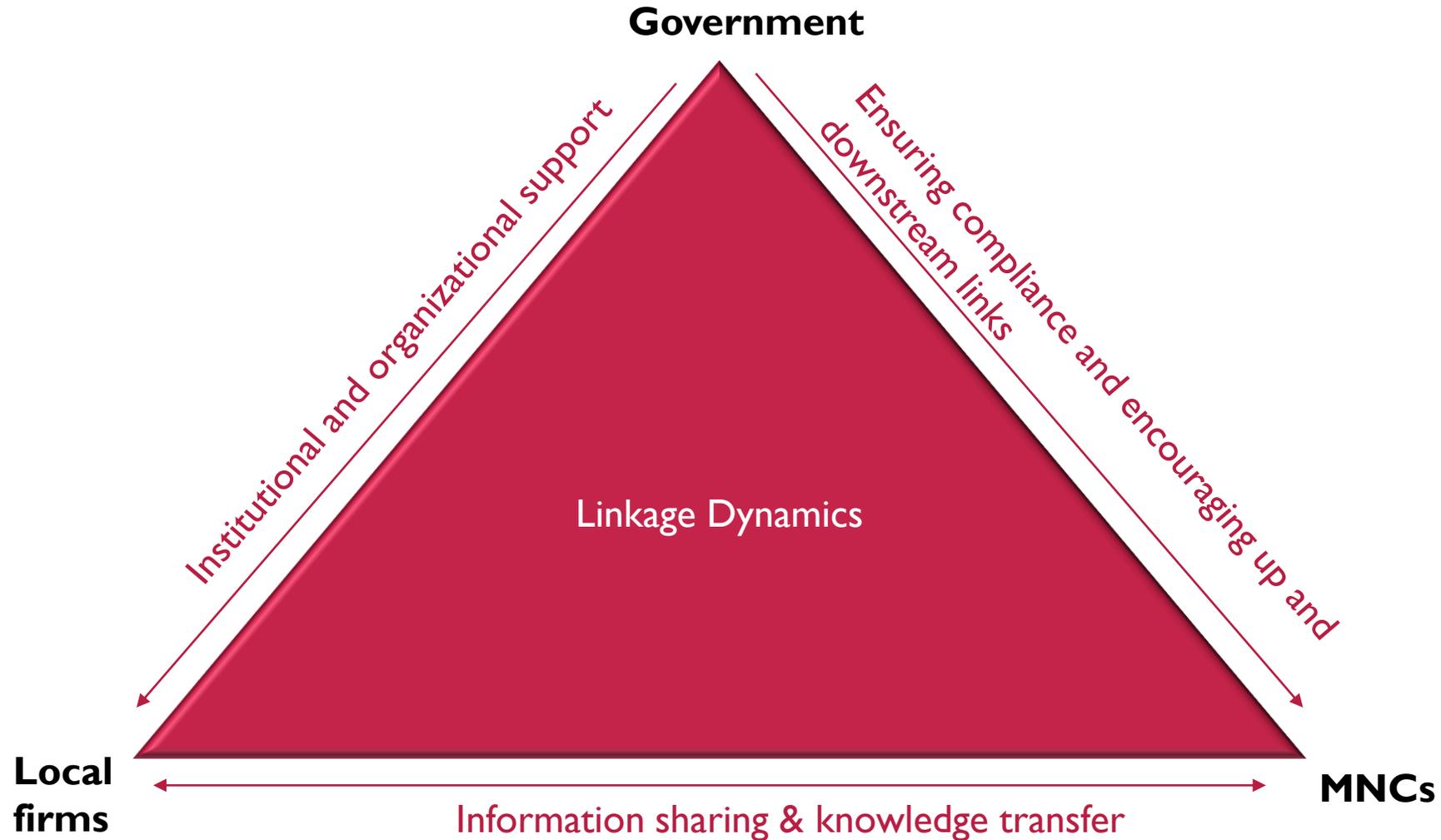
- Degree of relatedness
- Soft infrastructures: *business support and trade facilitation*;
- Local firms' absorptive capacity;
- strategies and capabilities of the government, MNCs and local firms;
- Incentive structure (institutions);
- MNCs' ownership structure

Whether linkages are weak or strong is in the first place a function of the existing technical conditions in relation to the capabilities and strategies of the key players.

The argument

The argument

3. ANALYTICAL FRAMEWORK: Conditions for linkages optimization



4. THE LEGAL LANDSCAPE

Mining legislations

BACKWARD LINKAGES

- In order to supply mining operations, a foreign firm should form a partnership with nationals;
- The mining contract must include a clause indicating the minimum of local content and employment
- MNCs must purchase goods and services locally, if they are available at the required quality and in the required quantity;
- Preference to local goods and services if the price doesn't exceed that on available imported goods by more than ten percent;
- The government must strengthen the Geology and Mining Institute of Moatize for the training of technicians.

FORWARD LINKAGES

- The use of minerals where appropriate for power generation
- The used of mineral as raw material for the manufacturing or other applications in the country;
- Whenever possible, treatment and processing of ores must be carried out within the country;
- The government will promote the installation of primary processing industries for minerals and confer the status of free zones on certain industries for the processing of mining products .



TOWARDS THE LAW ON LOCAL CONTENT

- Fresh perspective: whether a supplier is a national or foreign firm is irrelevant, what matters is the use of national factors of production;
- Suppliers must incorporate a percentage of local factors of production;
- MNCs must have a local content plan that includes transfer of knowledge and technology
- The import of final goods to supply companies operating in the national market, preference is given to Mozambican firms or companies.
- Law enforcement: the National Inspectorate of Economic Activities (INAE).

5. LINKAGE DYNAMICS IN THE COAL SECTOR

RELATIONSHIP I: INSTITUTIONAL AND ORGANIZATIONAL SUPPORTING MECHANISMS

IPEME and CPI are the government agencies focus on supporting local business

- It is said to provide information to SME's on the existing business opportunities, and to MNCs on goods and services locally available. It also facilitates knowledge transfer to local business and facilitate their certification;
- CPI is currently hosting a UNIDO program (SPX), aiming at assisting local firms to develop their technical capabilities;
- Most of the firms surveyed in Tete were unaware of any supporting mechanisms created by the government;
- Corruption was said to be the reason for many local firms' backwardness, as there are subject to excessive inspections;
- Farmer's association feel unsupported by the government for failing to facilitate any links between the coal companies and farmers.
- ❖ *The evidence suggests that the strategies of local firms and those of the government are misaligned;*
- ❖ *Weak implementation of legal provisions related to local content has held local firms back;*
- ❖ *Local firms in Tete are left to navigate in the business environment without any 'rudder' or 'dipping compass', with no incentives for them to invest in long-term profitability strategies.*

RELATIONSHIP 2: INFORMATION SHARING AND KNOWLEDGE TRANSFER

- Suppliers to MNCs in Tete are mostly foreigners and supply *capital goods* and *consumables*;
- Nationals supply with *services: security, logistics, accommodation, insurance, catering and other low value-added activities*;
- It is difficult for locals to supply coal companies with a new bunch of goods and services without the first payment being settled;
- Local suppliers are likely to be driven out of existence as they are unable to compete with foreign suppliers;
- Both national and foreign suppliers have a homogenous pool of clients, leaving them vulnerable to coal price fluctuations;
- Vale claims to have spent over \$ 1 billion by 2014 on local firms in the purchase of goods and services - whatever is meant by local firms;
- In the past, Rio Tinto had a local content program aimed at building local capacity, but this effort stumbled back after ICVL took over the assets in 2014;
- ❖ *Local capabilities are unable to keep up with the standards required by the coal industry;*
- ❖ *There were attempts to transfer knowledge from MNCs to local firms based in Tete, local firms were not able to absorb it;*
- ❖ *Also, MNCs may be choosing to work with their traditional suppliers rather than adjusting their procurement processes to accommodate local suppliers.*

RELATIONSHIP 3: ENSURING COMPLIANCE AND ENCOURAGING UP AND DOWNSTREAM LINKS

- The gov. is incapable to quantify accurately (in physical and economic terms) the country's coal assets;
- MNCs have strengthen the control over natural resources due to the asymmetric nature of acknowledgments related to geological information of coal assets;
- The gov. do not push too hard for multinationals to purchase goods and services locally because there is no such goods (local firms in Tete are simple dealers that import goods and sell them locally);
- The potential for the coal sector to generate forward linkages has been limited to power generation:
 - ✓ Vale and ACWA - 300MW power plant
 - ✓ ICVL - 200MW coal-fired power plant
 - ✓ Jindal - 150MW
 - ✓ Ncondezi and Shanghai Electric Corp.- 300MW with plans to expand it to 1800MW
- There is no evidence that the aforementioned projects result from gov. initiatives

6. CONCLUDING REMARKS

1)

- ✓ The efforts the gov. claims to have put into development of local suppliers, whatever their merits, have not produced the intended outcomes;
- ✓ As a result, local firms are struggling to supply basic services such as transport, catering and so forth;

2)

- ✓ Knowledge transfer has not taken place;
- ✓ The flow of information between local firms and MNCs is weak;
- ✓ Local firms are seen as bottom feeders with short-sighted profitability strategies;

3)

- ✓ MNCs and Gov. have been less effective in working together towards the strengthening of linkages;
- ✓ Deficiencies in building up productive linkages point to misalignments between the gov. and MNCs.

Concl.

- ❖ *Beneficial linkages in/from the coal mining sector are far from making their appearance, given that the necessary conditions for the optimization of linkages are somewhat far from being met.*