CIP
CENTRO DE INTEGRIDADE PÚBLICA
Anticorrupção - Transparência - Integridade

EXTRACTIVE INDUSTRY

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EXTRACTIVE COMPANIES ACCELERATE THE DEGRADATION OF PUBLIC ROADS

- Shared use of infrastructure with extractive companies accelerates degradation and fails to create links between companies and the local economy

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1. Introduction

Based on a visit to 5 projects between June 2022 and January 2023, namely the Africa Great Wall Maning Company, HAMC-Highland African Mining Company, Lda, Kenmare, Jidal Steel and Montepuez Ruby Mining, a complete deterioration of communication infrastructures was noted, specifically roads, which could stimulate private activities. This raises the question of what role the Government plays in promoting local development.

The Government of Mozambique, as part of its mandate, is responsible for developing approaches that maximise the linkages of extractive projects with the rest of the economy. However, in terms of sharing public infrastructure with companies in the extractive sector, it can be seen that, in addition to the weak connection between the extractive companies and the local economy, the public infrastructure shared with this industry suffers accelerated degradation due to the type of activities they carry out and the intensity of their use, without any intervention from the Government.

It should be noted that the resources collected by the State through the collection of taxes and fees is used, among other purposes, for the promotion of common welfare, through investments in public goods and services such as health, education and security.

In this context, this text aims to lead to a debate on the need for reflection on the role of the Government in guaranteeing adequate conditions for local economic development in the context of infrastructure sharing with extractive projects.

2. Mozambique will not prosper without investing in infrastructure

Mozambique has invested about 348 billion meticais in infrastructure over the last fourteen years. This figure represents an average annual investment of 24 billion meticais which corresponds to an average of 5% of annual GDP.

Estimates by the World Bank show that if sub-Saharan African countries solve their infrastructure problems, in terms of quantity and quality, growth in GDP per capita could increase by 1.7 pp per year, compared to the average GDP growth of developing countries. Infrastructure investment, according to the same estimates, would also enable more inclusive growth and alleviate poverty across the continent[1]. Growth would occur because Government investment can generate improvements in the infrastructure and services system, roads, ports, means of communication, and create positive externalities on private investment, in countries with lack of infrastructure or low provision of public goods, as is the case of Mozambique[2].

World Bank study shows that countries that invested 30% of GDP or more in infrastructure and capital equipment are

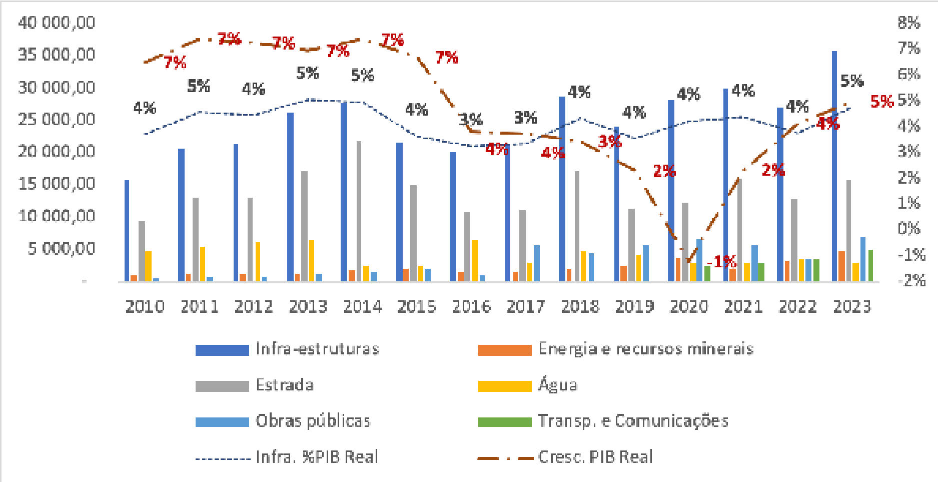
1 https://www2.deloitte.com/us/en/insights/industry/public-sector/china-investment-africa-infrastructure-development.html/#endnote-1
2 Montes e Reis (2011)

among the fastest growing economies in the 2010-2017 period[3].

Looking at Mozambique's expenditure in the period 2010-2023, it can be seen that, in general terms, the country has invested well below the standards indicated by the World Bank study. In the indicated period, the country invested on average 5% of GDP in infrastructure, i.e. 25% less than recommended. See graph 1 below.

A general trend towards a reduction in the share of spending in GDP can also be noted in this period. Between 2010 and 2014 the level of spending increased from 5% to 7%. However, in subsequent years it has reduced, reaching a minimum of 4% between 2015 and 2022, rising again to 5% in 2023. This inconsistency can be associated to the weaknesses of the overall allocation of the State budget itself, which is mostly for financing operating expenses (about 60%). In the same period, we can see from Graph 1 that the real GDP of the country grew by an average of 5% per year. Considering the World Bank study, this means that if the country had invested 30% of its GDP in infrastructure, the average growth would have been 6.7%.

Graph 1: Government spending on infrastructure in relation to GDP (2010-2023) - Million MT



Source: CGE, BdPESOE 2022 and BdPESOE 1st quarter of 2023

In the same study period, 2010-2017, it can be seen, according to the World Bank study, that economies such as China and India, which invested 44% and 31% of GDP respectively in infrastructure and capital equipment, recorded average GDP growths of 7.9% and 7.3%, respectively. On the other hand, countries in Sub-Saharan Africa, which invested on average only 20% of GDP over the same period, grew by an average of 3%. The average growth of Mozambique in this period, despite being above the average for Sub-Saharan Africa of 3%, is below the economies that grew most. This means that if more investment had been channelled into infrastructure, the country would have grown well above the figures for the fastest growing countries.

3. Access roads to extractive projects are completely deteriorated

Roads represent the most visible infrastructure when analysing the infrastructure shared with the extractive sector. Most of the medium and large natural resource exploration companies in Mozambique are located in areas of difficult access. This makes it difficult for the authorities to access them in order to properly monitor production levels, which essentially affects the production tax collection process. If the inspector is not at the production site, he will never know what has been produced. On the other hand, these companies use the same roads, which existed before the projects, to transport their products, accelerating their degradation with heavy trucks.

During visits to the African Great Wall Maning Company, HAMC-Highland African Mining Company, Lda, Kenmare, Jidal Steel and Montepuez Ruby Mining, it was noted that the access roads to these companies, which also serve as a means for the operationalisation of their activities, are completely damaged (see images below).

The degradation of the roads, according to what was verified, is a result of the high level of activities of the companies and the lack of intervention by the Government, which does nothing about this scenario. This situation represents yet another problem related to the extraction of extractive resources which adds to the already existing and widely discussed problems of land expropriation, environmental degradation and diseases related to extractive exploration.

3 Idem

Figure 1: Images of the roads to access the companies visited between June 2022 and January 2023

Road to Ilha de Olinda - Zambezia : Company Àfrica Great Wall Mining (June 2022)

Road to Marropino -Zambenia: HAMC-Highland African Mining Company (January 2023)

Road to Marara - Tete: Jidal Steel Company (January 2023)

4. Coordination in infrastructure planning can reduce the budgetary effort and cost of business operations

According to the visits, some of the large companies in the sector build infrastructure that facilitates their logistics. But the use of these infrastructures is restricted to them, without creating links between the company and the local economy, which could contribute to integrated development in the communities that host these projects. One can cite the example of the loading and unloading points for heavy sands of the Kenmare company in Nampula and the Africa Great Wall Maning Company in Zambézia. The aerodromes built by these companies can also be mentioned.

The extractive sector still represents a relatively small share of gross domestic product (GDP), less than 3%, and about 7% of State revenues[4]. However, its importance as a potential driver of other sectors of the economy is great.

As demonstrated above, successive governments have invested very little in the infrastructure sector. However, some mining companies invest large amounts in infrastructure such as roads, power generation, rail systems and ports to boost their own activities.

When infrastructures are shared between the Government and companies, on the one hand, these can complement public investments, which are the State's entire responsibility, and with this contribute to a reduction in the budgetary effort. On the other hand, companies have an interest in using quality infrastructures that reduce their operating costs. In this interaction, development occurs naturally, through the coordination of planning. Thus, the Government should plan so that infrastructures related to extractive activities are built taking into consideration other economic activities and local opportunities. But what we see in the places where the projects operate is a complete absence of the State to complement the companies' investments in infrastructure.

5. Conclusion

While it is important to recognise that the grounds for increasing spending on infrastructure must be taken on the basis of needs, capacity and budgetary room for manoeuvre, in general, the Mozambican Government's investment in infrastructure in recent years has been well below the minimum limits recommended to promote more integrated development and, more worryingly, shows a downward trend.

The Mozambicans' expectation, in relation to mineral resource exploration projects, is that this exploration will bring prosperity through increased tax revenue, job creation, improvement of infrastructures, stimulation of growth and creation of wealth for all.

Visits to some project sites show failures in providing transport infrastructure that can boost local development.

In this regard, it is recommended that the Government redesign its infrastructure construction plans for natural resource exploration sites so that they are related to extractive activities and other local economic activities and opportunities.

4 ITIE10th EITI Report

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