

Forced to be Transparent? An Analysis of the Adoption and Implementation of Extractive Industries Transparency Initiative in Mozambique

Liria Langa, Centre for Climate Change, University of Dar Es Salaam

Background

- A key global concern is that many resource-rich developing countries has failed to translate their wealthy in natural resources (NR) into sustainable economic development (Auty, 2001).
- This has led to a conclusion that NR have been more of a curse than a blessing, which is often referred as "resource curse" (Ross, 1999).
- Explanations for the curse suggest that revenues from oil, gas and minerals tend to trigger economic growth collapse and to increase bad governance, conflicts, rent-seeking and corruption (Di John, 2011).
- Transparency is therefore considered a remedy to resource curse.
- Extractive Industries Transparency Initiative (EITI) is one of global mechanisms to enhance transparency and accountability in a country's NR governance, by encouraging both companies and governments to disclose extractive resources revenues.
- In case of Mozambique, public officials and political elites are pointed to be among the main beneficiaries of bad governance and corruption (Hanlon & Mosse, 2009).
- Disturbing the status quo by introducing reforms may imply heavy costs to elites that have always benefited from opaque and embezzled governance processes, by exposing their corrupt and rent-seeking behaviour (Corrigan, 2014).

Research Questions

- What are the key driver incentives underlying the ruling elite decision to join and implement the EITI in Mozambique?
- What have been the challenges of implementing the EITI principles in an environment marred by systematic corruption and rent-seeking?

Hypotheses

- Resource abundance increases the likelihood of adopting EITI
- High levels of corruption increase the likelihood of adopting EITI
- Lower level of Foreign Direct Investment (FDI) increases the likelihood of EITI adoption
- Pressure from international actors increases the likelihood of EITI adoption

Study objective & Motivation

- This paper seeks to analyse the puzzle posed by the contrast between high prevalence of corruption in Mozambique and the country's commitment to implement the EITI, by exploring the government incentives to join the initiative and the challenges associated with the implementation in an environment marred by systematic corruption.
- A review of academic research on EITI membership points out that many explanations have already been provided on why resource-rich developing countries adopt the EITI standard (Ferreira, 2020). However, more in-depth, country-level case studies are still needed to better understand governments' underlying and real motives for joining and implementing the EITI (Lujala, 2018).

Data collection techniques

- Desk review, which included Mozambican EITI (MEITI) validation reports, MEITI work plan and budget, and other planning documents.
- Key-informant interviews in the relevant government entities, extractive companies, donors' institutions, MEIT Coordination Committee and Secretariat, CSOs, etc (planned for July).

References

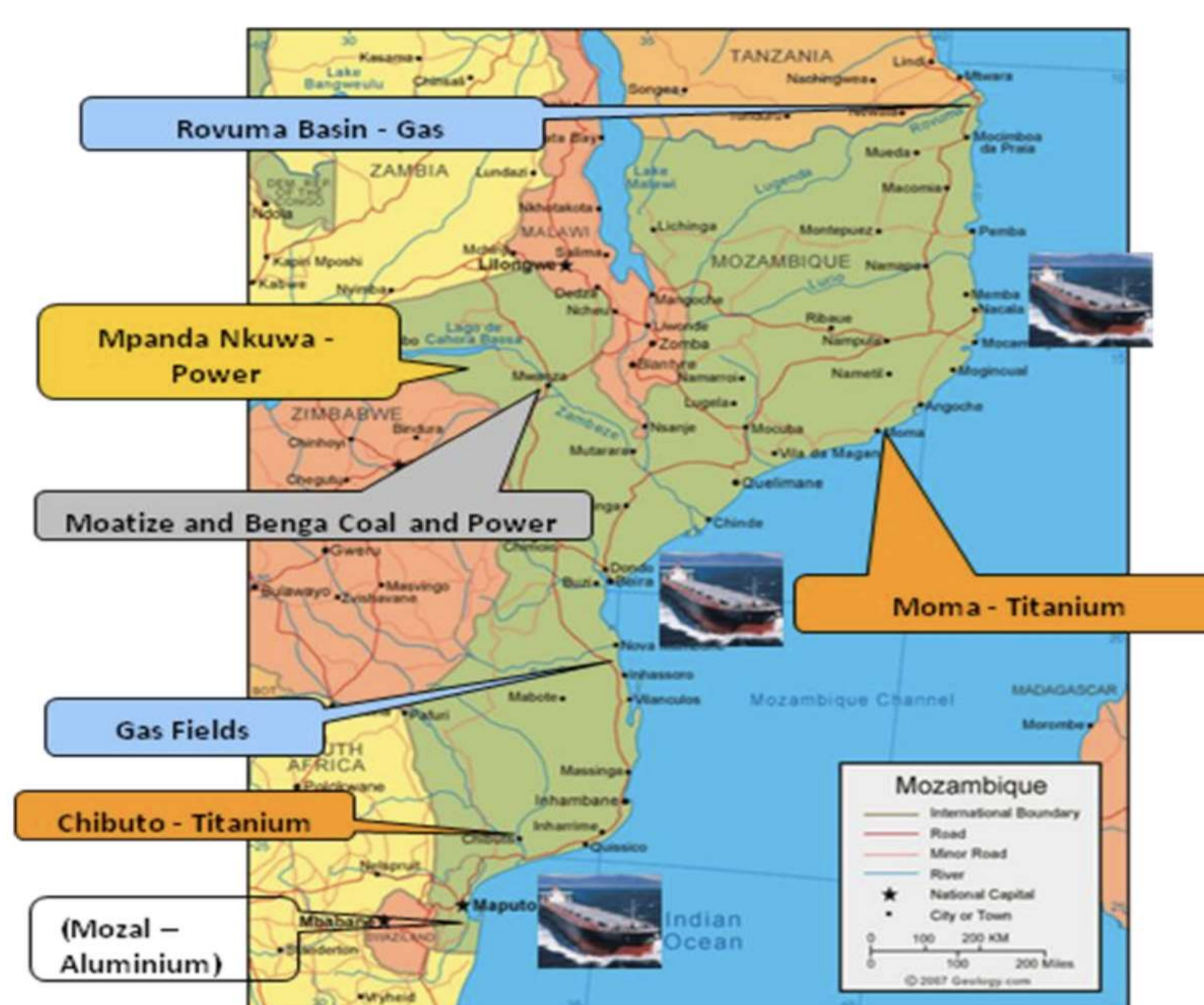
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Analysis and Discussion

Resource abundance

- Mozambique's extractive industry (EI) an important role in the country's development, with its contribution growing from 1.8% to 10.6% of GDP in the last decade, and expected to rise to 16% by 2030 (MEF, 2023).
- The country has one of the largest natural gas reserves in Africa (180 TCF), ranking third after Nigeria and Algeria.
- Before the country's membership to EITI in 2009, one study was commissioned by the government into whether the exploitation of NR in Mozambique would result in a blessing or a curse, and another about the feasibility of joining EITI.

Figure 1: Mozambique: Location of Megaprojects

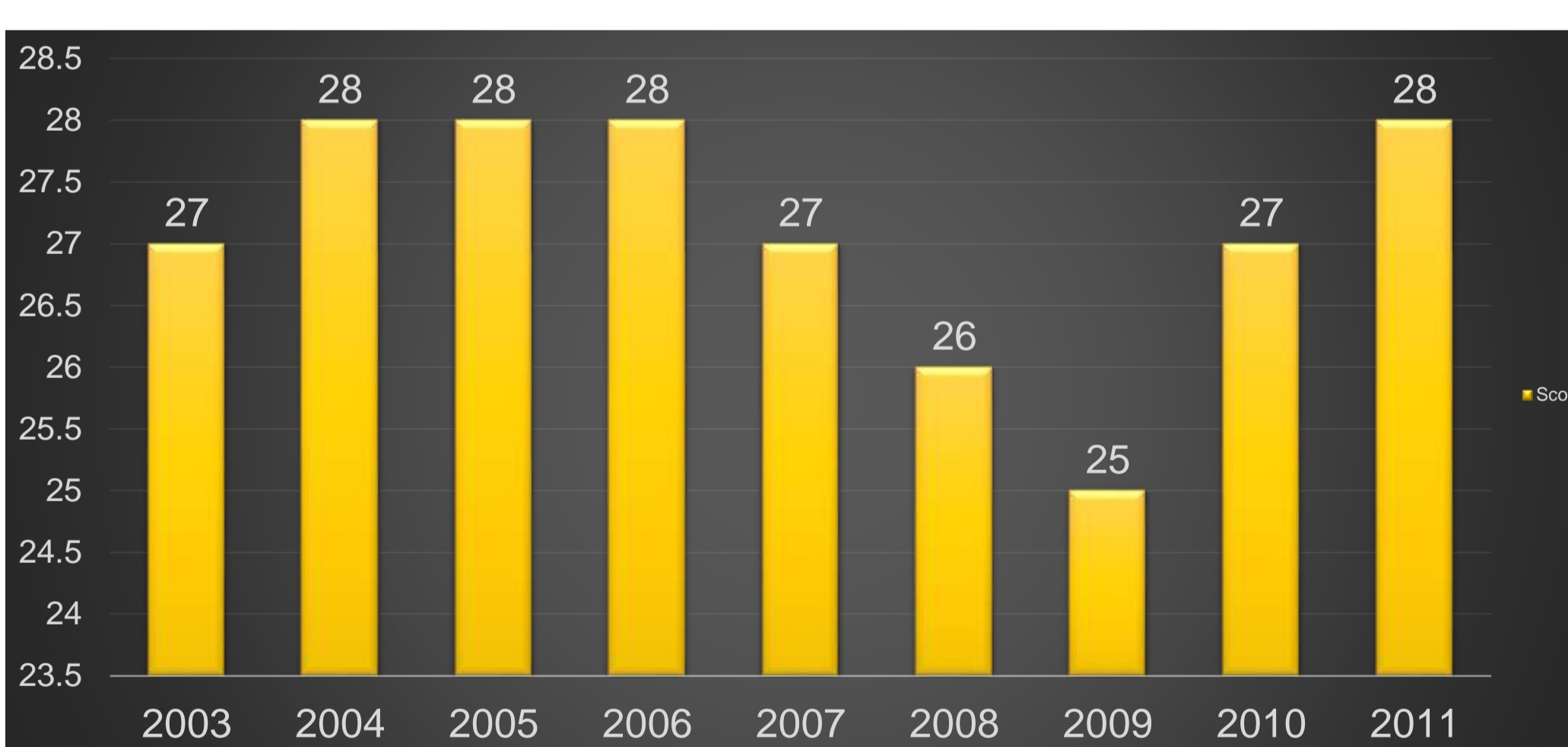


Source: IMF Country Report No. 12/200

High level of corruption

- Figure 2 indicates that during the period in which discussions began about the possibility of the country joining the EITI, corruption was thriving in Mozambique.
- The adoption of the EITI represented a great step to build confidence and international recognition (IMF, 2013).

Figure 2: Mozambique Corruption Index 2003 - 2011

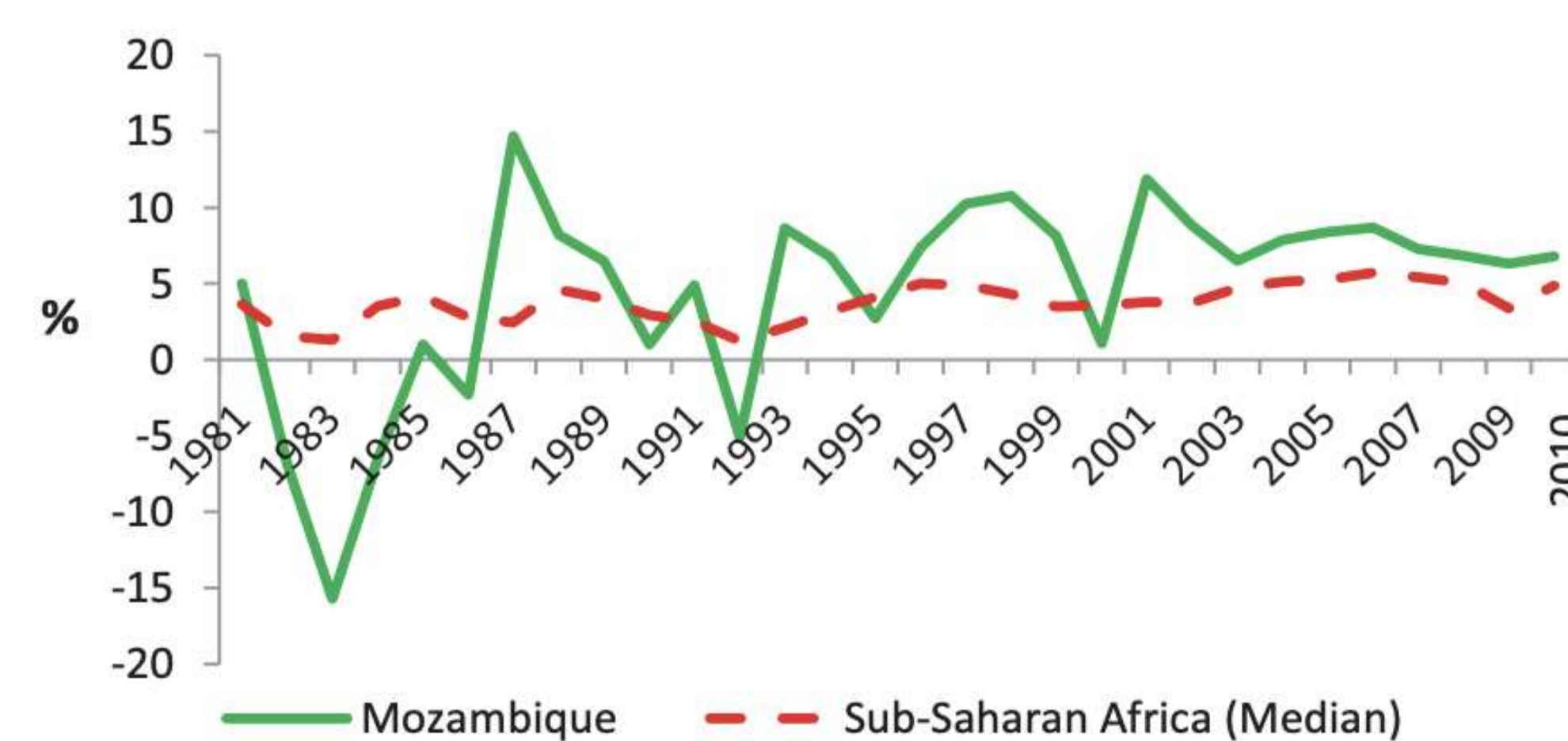


Source: Transparency International

Lower level of investment

- The average annual real GDP growth rate was 7.5% between 1993-2010.

Figure 3: Real GDP Growth, 1981 - 2010



Source: World Bank (2012)

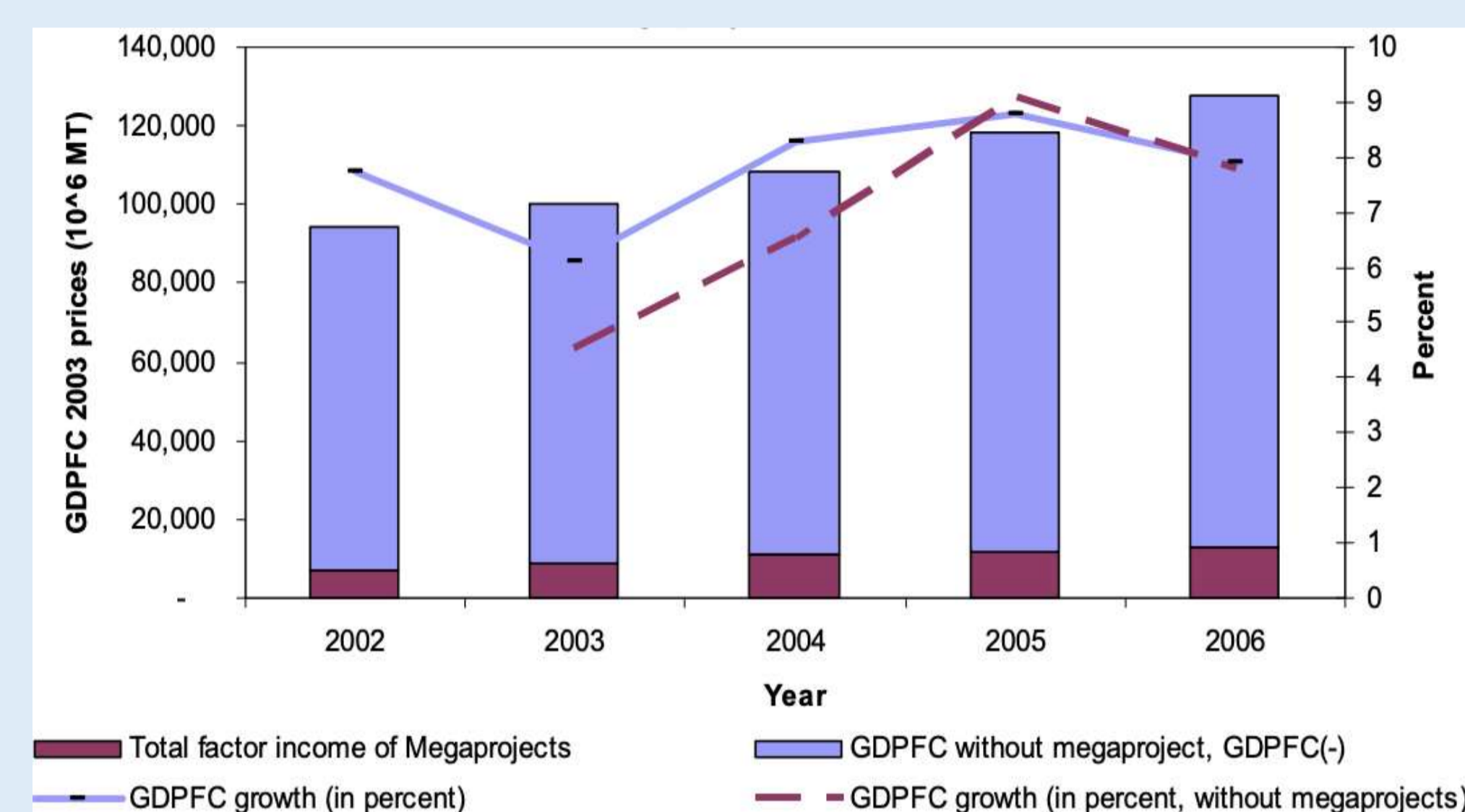
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Cont.

- Though, it is a paradox that higher economic rates didn't led to lower level of aid dependence.
- Although megaprojects had attracted a lot of private investments and influenced changes in the pattern growth, it was government's big concern the fact that their contribution to GDP was less than 1% (Sonne-Schmidt, Arndt e Magaua, 2008).
- More than attracting FDI, the government was also interested in improving its credibility vis-à-vis international actors to have access to credits in the international banking system (Castel-Branco, 2010).

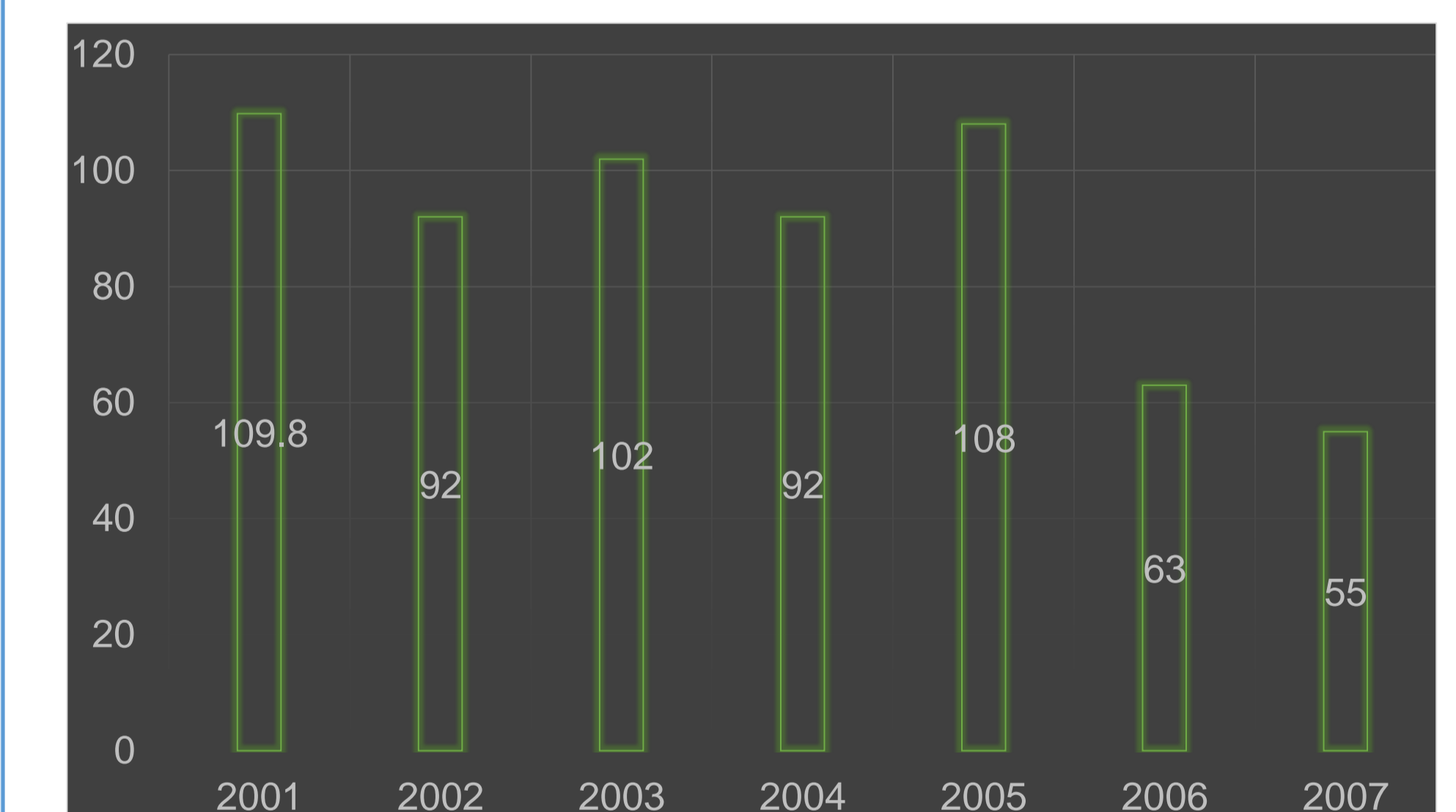
Figure 4: Megaproject share in GDPFC and annual growth with and without Megaprojects



Pressure from external actors

- Around 2006, the World Bank and IMF started to include participation in EITI as a condition for countries to receive the benefits from the Heavily Indebted Poor Country (HIPC) initiative.
- Mozambique, being a HIPC, may also have joined the EITI as conditioning to benefit from the HIPC initiative.
- In 2005, Mozambique was granted 100% multilateral debt relief by the IMF, and was pursuing debt rescheduling agreements with bilateral creditors in 2008.
- An agreement between the IMF and the government was signed in 2007 to include a commitment in the Memorandum of Economic and Financial Policies to adopt the EITI.

Figure 5: Debt situation in Mozambique 2001 - 2008



IMF (2008), Country Report No. 08/220

Preliminary Conclusion

- The adoption of EITI was driven by Mozambican ruling elites' calculus of potential benefits of joining the initiative, in the context of increasing of NR boom and the need to deal with challenges posed by a potential growth.
- The fact that the EI only started to gain significance to Mozambican economy in 2000s meant that, by the time the country joined the EITI, the Mozambican ruling elites had no significant experience dealing with (large scale) EI, what posed a high degree of uncertainty.
- The EITI institutional arrangement represented a strong mechanism to navigate the uncertainty and, thus, the potential benefits of joining it outweighed the costs of potential exposition of corruption associated the transparency promoted by it.