



Vale Operations in Mozambique. Socio-Economic Impacts



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1. Background

Mozambique has a range of natural resources wealth, including coal, natural gas, mineral sands and potential oil reserves. Other minerals and metals include gold, uranium, titanium, coal and bauxite. The Manica belt spanning western Mozambique is the primary source for the country's gold, copper, iron ore, bauxite and lead resources. The country has two of the biggest coal reserves and natural gas in the world.

Although Mozambique's impressive economic growth in the past ten years, with average of 6-8% annually, makes it one of the fastest economic growth countries in sub-Saharan Africa, it continues to be one of the poorest countries in the world, ranking 184 out of 187 in the 2011's United Nations Human Development Index.

Most of Mozambique's natural resources and minerals are yet to be exploited. The Tete Province contains the world's largest known and unexploited reserve of coking coal in the world. Estimates put reserves in the billions of tonnes, with coking and thermal coal exports exceeding 100 million tonnes a year by the end of the decade (Hanlon, 2011).

Extractive resources (minerals, gas and oil) have attracted increased attention from Direct Foreign Investment (DFI) in the form of megaprojects. Investments are from a number of companies from countries such as Australia, Brazil, China, India, Ireland, Russia, South Africa and, the United Kingdom signifying the emerging importance of Mozambique's mining industry in its economy. Exploitation will become increasingly important in the near future when several large projects begin to show results in production and exports.

Minerals being currently exploited include titanium, tantalum, marble, gold, coal, bauxite, granite, limestone and gemstones. Vale, the Brazilian mining giant and one of the biggest mining companies in the world, started coal production at the large open-cast mine in Moatize, Tete. There are also known deposits of pegmatite, platinoids, uranium, bentonite, iron, cobalt, chromium, nickel, copper, granite, fluorite, diatomite, temeralds, tourmaline and apatite.

There are also other minerals on a small scale, including gold and semiprecious stones, artisanally exploited, mainly illegally and out of government's control, by national citizens and foreigners most of them from the Great Lakes and Western Africa.

The extractive sector has the potential to contribute more towards the economy than it is currently. According to the Ministry of Mineral Resources, Esperança Bias¹, it is expected that the sector will become the leading export in a near future.

However, currently megaprojects, especially in extractive industry, contribute very little to the country's economy, because of the excess tax holidays and exemptions that they enjoy. Castel-Branco (2011) asserts that if megaprojects were to contribute adequately through taxes, the State budget could grow by 25% to 30% and therefore reduces the external dependency on donors of the State budget from 48% to 37%.

1.1. Natural Resources and Development Strategy

Historically Mozambique has not been a traditional mining country, when compared to other Southern African rich mineral resources countries. The political economy and civil war after the country's independence, contributed to the stagnation of industrial

¹ The Minister stressed it at Public Debate on Mineral Resources in the Fight of Poverty. A Politénica University, 28th April, 2011.

development of mineral resources. The current weak institutional capacity (human and technical) is associated to the historical background of the country.

The Mineral and Extractive Industry sector in Mozambique needs to define a policy and a clear concept of sustainable development, especially related to resource governance. The lack of an appropriate strategy has led to mining licences conflicting with current land use (for example mining licenses awarded within protected areas). Furthermore, the country has not developed a national and provincial land use plan, which would define land use and development priorities; although there is a legal framework that entitles to do so.

As a result, there is a process of unplanned growth and development, improper exploitation of natural resources, conflicting activities resulting in environmental and social damages. Furthermore, there is lack of inter-institutional and inter-sectorial coordination.

Most of the sub-Saharan Africa resource rich countries rank as the poorest countries in the world. Arguably, most of the citizens and local people do not benefit from the wealth derived from resource extraction in these resources rich countries; on the contrary resource extraction becomes a burden, especially to communities where extractive activities take place.

The challenge is therefore to develop and apply a framework to turn resource wealth into effective and sustained economic development that is inclusive and contributes to poverty reduction, including through infrastructure development, linkages with local industries, the transfer of capital and technology, job creation, and capacity building (Vale Columbia Centre, 2011).

Resources extraction activities can have significant local economic, environmental, and social effects. Thus, the decisions to explore or develop the resource extraction industry should be informed by an understanding of the possible local economic, environmental and social consequences, usually through a strategic impact assessment. Therefore, there is a need to develop and apply a strategy for managing resources including resource revenues, within a long-term development planning that brings coherence to national and sector-specific plans; identifying public investment priorities aligned with land use planning.

1.2. Resource Extraction Policy Framework

A sound regulatory framework is necessary to oversee investments, coordinate public and private actors, and ensure equal and fair treatment of all stakeholders. It is widely recognized that investments in mining, especially in the open cast mines, such as the Vale coal mines in Mozambique, disrupt local communities land tenure systems, allows for land grabbing, fertile land is made available for mining and present environmental risks that could result in long-term irreversible impacts if there is no careful management. Community land rights tend to be ignored, although the Land Law in Mozambique entitles communities to negotiate their land rights with investors.

Conflict of interest is still to be addressed and must be safeguarded; public servants and politicians, who oversee the resource extraction sector, should not be involved in the sector business as they influence the decision on awarding contracts, concessions, licences, etc.

Furthermore, the anti-corruption framework in Mozambique should be mandatory and define clearly the conflict of interest or incompatibility of politicians and public servants involvement in the extractive industry business, especially those who oversee the sector.

Resource governance and policy formulation should be guided by the principle of securing the greatest social and economic benefit for current and future citizens, including an equitable distribution of resource wealth.

Adopting environmental friendly practices remains challenging; this is partly because government, while perhaps committed on paper, has failed to enforce it. It is widely acknowledged that the government has weak capacity in terms of human, financial and technical capital to monitor and enforce the environmental management plans to ensure that companies are complying with the Environmental Impact Assessment and Environmental Management Plans. The absence, weakness and/or poor enforcement of regulations governing natural resources extraction, increases openness to foreign investment but may accelerate unsustainable resource use patterns.

According to Bias (2011), Minister of Mineral Resources, the government of Mozambique has developed a mineral sector policy that aims at: a) increasing and optimizing the mineral and hydrocarbons production in a sustainable manner; b) maximizing the benefits for the country; c) increasing exports or the derivate products from minerals; d) enforcing institutional capacity and e) attracting and increasing the participation of the private sector in mining investment.

The main strategic objectives of the policy aim at: a) maximizing the economic value of mineral resources; b) contributing to social development and employment; c) creating conditions for linkages between mineral industries with the rest of the economy. Furthermore, the government of Mozambique has been reviewing and developing political and legal frameworks to attract FDI in mining and the oil sector and mega-projects, based on tax holidays and exemptions. Civil society is calling for removal of tax holidays and exemptions to mega-projects, to contribute effectively to the country's economy.

1.3. Trends on Mozambique's Economic Growth

The current economic growth in Mozambique is based on megaprojects. The mineral resources sector has been registering a considerable growth with the hydrocarbons sector taking the lead. Additionally a series of other explorations for natural gas at Mozambique and Rovuma basins have been undertaken. In 2010, the government announced oil occurrence in Rovuma Basin, pending more exploration in order to determine the commercial potential.

Various projects on mineral (heavy) sands, coal, precious metals, basic metals, iron, graphite, caldarium, bentonite, phosphates, mineral water, etc were undertaken. In 2006 the agreement for the Moatize coal mine was signed, and in May 2011 the large scale coal mines production by Vale begun.

However, investments under the Mining Law are extended import and export benefits. These investments benefit from an exemption from duties owing on the importation of equipments, apparatus, materials and spare parts for prospecting and exploration, mineral production and the exportation of mineral resources. Such imports benefit from an exemption from VAT, and benefit both the contractors and sub-contractors.

Therefore, the impact of megaprojects on economic growth is restricted to raising the Mozambican GDP, due to the large amounts involved in the investments, without a significant contribution to the public revenue. They generate few fiscal linkages given the tax holidays and exemptions that they enjoy. The contribution of megaprojects to the State budget between 2006 and 2010 was less than 5% of the revenues of the minerals investments and mega-projects (Cruzeiro do Sul, 2012).

2. Vale Mozambique Ltd.

Vale Mozambique Ltd. is a private company, subsidiary of the Brazilian Vale. The chronology of Vale in Mozambique is (Vunjanhe, undated):

- 1980: Interest of Vale on mineral resources in Mozambique (first pre-feasibility study)
- 2004: Memorandum of Understanding with the Mozambican Government
- 2007: Licence concession and starting of the first investment in infrastructures, equipment and social projects.
- 2008: Start the installation of the Vale Industrial Park.
- 2009: Start the resettlement process

Relevant facts on Vale operations in Mozambique:

- Total investment Plan: 1, 4 US\$ billions in an area of 23.780 ha (15% shares of the Mozambican Government).
- Investment in social programs up to 170 US\$ million, including the investment in resettlement².
- Open cast mining.
- According to the Ministry of Mineral Resource, Vale Mozambique is the biggest employer in the extractive industry, with 9,000 workers. Furthermore, Vale expects to employ around 15,000 people within the next five years.
- Vale's operations are undertaken in the Central West province of Tete, biggest coal reserve of the country and one of the biggest in the world in.

2.1. Transparency and Accountability

If Vale Mozambique and other megaprojects are properly taxed, it would provide Mozambique with enough revenue to fund its budget to reduce the country's dependence on donors support. The lack of transparency and accountability hinders the development process. Vale Mozambique has paid 123 million US\$ for the mining rights; however, the money has never been registered with the State coffer³. If this is correct, Vale's presence in Mozambique is undermining revenue transparency and accountability (Kabemba and Nhancale, 2011).

It is very difficult to assess what the contribution of Vale Mozambique would be on the Mozambican economy since there is limited information on companies' activities. The company has started its operation in early 2011 and exports in July; contracts between companies and government are confidential. Civil society and citizens do not know the contractual terms between the government and the company. Contract confidentiality remains one of the biggest problems in the country. Therefore, it makes it difficult to assess the contribution to the economy; the fiscal regime in which the company operates is not accessible.

² Although investment in resettlement should not be considered social investment as it is companies' obligation within its project

³ Thomas Selemane, researcher and civil society activist with anti corruption organization CIP (Center for Public Integrity) and member of MEIT Multi Stakeholder Group (MSG).



Figure 1. Vale's open cast mining site (left) and a displaced communities area (right).

2.3. Linkages with the Local Economy

Vale and other coal projects in Tete, have changed the lifestyle of the Tete province, particularly in Tete city and Moatize town. New economic activities have been opening up; banking, hotels, housing and supermarkets, etc., however, they do not benefit local people.

Linkages between extractive companies with local companies are weak. The capacity of local companies is also weak, to supply the demand of the large company. Vale Mozambique, investment and demand for services and goods have been a "boom", so, local companies, service and good providers are not yet prepared for the demand. As a result, foreign companies are benefiting from the procurement of services and goods. Most companies involved in providing services and goods to Vale Mozambique, including catering are from South Africa.

This contradicts Vale self-glorification that it is seeking to stimulate and develop local suppliers of products and services for Moatize. Nevertheless, Vale is said to be carrying out a survey of small and medium companies in the Moatize district and the wider Tete province, to identify potential local partners and then capacitate them (Kabemba and Nhancale, 2011).

2.4. Problems with Resettlement

The dynamics of coal extraction by Vale required resettlement of local communities, which resulted on disruption of the life of local communities. The resettlement process has posed serious problems to local community livelihoods, including access to land and natural resources that they depend on for their subsistence. The Vale resettlement was not properly handled and poses a serious threat to the long term image of the company.

Between November 2009 and April 2010, Vale resettled more than one thousand families in two villages: (1) seven hundred and twenty families have been resettled in Cateme. The families are from four villages namely: Chipanga, Mitete, Malabue-Gombe and Bagamoyo. Cateme village is located in about 40 kilometers from the Moatize town. (2) two hundred and eighty eight families were resettled in 25 de Setembro, and are from the same four communities relocated in Cateme village. 25 de Setembro village is located within the town of Moatize.



A house at Vale's resettled Cateme Village (left), goats grazing within the village (right)

Vale divided the community in two groups: one of the employed and another of the unemployed. The employed villagers were relocated in 25 de Setembro village. The assumption was that relocating them within the territory of Moatize town; would allow them to have easy access to their work place. The unemployed and mostly illiterate were relocated to Cateme village, about 40 km from Moatize town.

The resettlement process by Vale divided communities between those with formal (employed) and those with no formal (unemployed) work. This model is a clear indication of "divide to rule"; it gives an impression that illiterate and unemployed community members can be dumped anywhere. It also suggests that these people or their children would not need, at some stage in their life, access to formal work. The resettlement process by Vale is a living example of discrimination, unbalanced and problematic resettlement (Kabemba and Nhancale, 2011).

2.5. Disruption of Land Access and Livelihoods

Cateme Village, where communities have been relocated is very far from their land. Practically, it is very difficult for communities to exercise claims over their land and natural resources that they have lost access to. The Mozambican Land Law recognizes local communities' rights to use and exploit the land that they occupy and use. Therefore, companies must consult local communities and negotiate access to land. Communities can agree to award the land they use to investors upon agreed compensation or negotiate a partnership agreement, to benefit from the investment as shareholders.

In reality, despite the consultation, communities' rights were not considered; the government focused more on encouraging investment than on implementing community land rights, this is linked to the often poor quality of the "consultations" carried out by the government and investors. Instead of consultation, government general informs the community about the project and its advantages, on promoting development, with promises of employment.

Communities have stated that government has been doing most of the negotiations on their behalf. According to local communities the only time they come to know that they are about to be resettled is when government comes to inform them of the imminent move. One community member stressed "There was no consultation and no agreement on all the aspects of the relocation." Indeed communities have no written agreements or minutes of discussions that took place with companies or government (Kabemba and Nhancale, 2012).

Vale did not seriously consider the question of productive land in the resettlement village. Productive land is essential and imperative for the communities to continue with their agricultural activities. Access to fertile land might be the biggest single challenge facing these communities. These communities are small holder farmers; subsistence

agriculture is their main economic activity. The land for farming given for each family in the resettled village is not sufficient, taking into account the rotation and rain fed agriculture system. Each family was promised to receive one hectare of land for farming. The community claims that one hectare is not enough. Some families have not yet received such piece of land. The land which was allocated by the company may be sufficient for housing but it is not enough for farming needs of the communities. Additionally, the land which is being given to the resettled community is not fertile for farming.

Furthermore, the communities were resettled far away from town with very poor access to the main road. The road from the village to the main road is dusty and badly maintained. One needs to walk 10 to 20 km to reach the main road where you can catch a vehicle to town. In Cateme, there is a lack of certain public services, such as Administration, ID services and public transport.

Without a carefully designed approach to investment, productive economic projects and/or employment these communities are expected to languish in poverty in these remote areas (Kabemba and Nhancale, 2011).

2.6. Cracking Houses

Houses built by Vale Mozambique in the resettled villages are of poor quality, roofs are leaking, lack proper foundations, and were built without beams or pillars. Just before the families moved into, some houses had already cracks in walls. Vale Mozambique described the houses as modern and claimed they were very common in Brazil. It was only after communities' anger that Vale Mozambique was forced to correct some cracked houses.

The consultations and registration of households began in 2007, but families were only relocated in 2009. Therefore, since 2009, new families were formed as young people in Chipanga got married and left their parents houses. According to Mosca and Selemene (2011), there were about 50 of these new families, but Vale refused to take any responsibility for them, saying it would only provide new houses for the families that were listed in 2007.

Some families refused to move to the resettlement village, agreeing to be compensated; but there were delays in paying compensation to these families. According to Mosca and Selemene (2011), there were still 30 families who have not been compensated. The compensation scheme was initially set at about 3,230 US dollars, but was then raised to about 4,159 US dollars for each beneficiary, regardless of the size of their original houses.

Vale Mozambique is being accused by local communities and civil society of degrading the value of the houses from the model house negotiated, built and shown to communities; government and the World Bank. The quality of the built houses has not adhered to the promised. In addition, Vale did not keep its promises to build a running water system to distribute water to the houses.

While houses have been built for each resettled family, the community claims that it was never consulted and many promises such as paved roads, running water, ambulance services, land for farming and employment are not met. Additionally, the discussion on housing took place in a form of the company informing them rather than asking for their views, housing construction started even before the community was informed.

2.7. Socio-Economic Hardship

Resettlement has brought socio-economic hardship to local communities; according to Cateme resettled villagers, there has never been a discussion on the socio-economic impact of the relocation on their livelihoods strategies. The community claims that government officials always tell them that mining activities will bring development and employment. Indeed, local communities are always excited when they see mining starting in their community because they expect to find employment in the mining company.

Presently, community members question how they will benefit from employment as they have been moved far away from the mines. This is intended to cut communities' right to claim on the benefits of the mine such as employment and other social benefits, including their land rights. Additionally, there is no written agreement between the community and the company on the agreed promises, during the consultation process; all promises were oral. Therefore, it is difficult for communities to dispute if the company does not keep up on what was agreed.

2.8. Community Claims and Conflicts

In January 10, 2012, more than 500 people from Cateme resettled village prevented Vale coal trains from leaving Moatize, as a result of the badly managed resettlement scheme. The community claims bad conditions in which they live, and that promises were never met.

In December 2011, Cateme villagers sent a document-complaining to the government of Moatize district, to Vale and to the district committee of the ruling Frelimo Party, requesting official and speedy intervention to solve the problems related to resettlement. That letter gave a deadline of 10 January 2012 to see their claims responded. However, neither Vale, nor Government responded to the community document-complaint, and so, by 10 January 2012 about 500 of the Cateme village community members blocked the road and railway to Moatize. For about 24 hours, no trains could move on the line from Moatize to the port of Beira with the coal for export.

The government sent the riot police to disperse the crowd. Some demonstrators were arrested, beaten and their human rights violated by the riot police, instead of the government speaking to Vale in order to ensure that the promises given when resettlement began were kept.

The government has set up a commission to work with the community and some problems such as the provision of quality electricity and water are being considered by the government. However, the most important issues to be resolved are the promises by Vale that are not being respected and kept.

3. Relevant Experiences of Civil Society Actions

3.1. Platform of Civil Society for Natural Resources and Extractive Industry

Civil society organizations have established a coalition; “The Platform of Civil Society for Natural Resources and Extractive Industry”⁴. The platform aims at strengthening the capacity of civil society for vibrant and coordinated intervention, lobbying and advocacy; information and experience sharing, capacity building, and come up with common position and public awareness through the media. Members of the platform range from research institutions, anti-corruption, youth, women, environmental advocacy, governance monitoring and community capacity building organizations. It is a forum of diversity to share skills and learning for collective action to engage the government and stakeholders.

Activities of the platform’s members include capacity building of its members at the national and provincial level; technical and legal assistance, information sharing mechanism and collective advocacy action. In this regard, a group mailing list has been set up, the platform website is under construction, which will have links with platform members, post and host links of organizations without websites, roundtables discussions, public debates, seminars, dissemination of relevant legislation and EITI for public awareness and position papers have been undertaken.

3.2. Assisting Local Communities

Members of the platform on their own capacity have been assisting affected communities and those to be affected by future planned mining activities, building capacity of local communities to hold the companies and government accountable. Tete and Cabo Delgado are provinces with large investment in mineral, oil and gas sectors, therefore, CSOs have been active on building capacity to local partners.

The document-complaint by the Vale’s Cateme resettled villagers is a result of the work of civil society, building capacity to community based organizations, including the legal assistance.

3.3. Mozambique Extractive Industry Transparency Initiative

Civil society in Mozambique has been advocating for transparency and good governance in resource extraction. The government of Mozambique joined EITI in 2009 in part as a result of civil society advocacy.

Through the representatives in the MSG (Multi Stakeholder Group), CSOs have been able to influence the implementation of the Mozambique Extractive Industry Transparency

⁴ The platform of Civil Society for Natural Resources and Extractive Industry in Mozambique consists of and supported by national and foreigner organizations, corporated to Platform G20 and not only, according to the following list: Associação para Sanidade Ambiental/Association for Environmental Sanity (**ASA**), Associação para Apoio e Assistência Jurídica às Comunidade /Association for Legal Support to Communities (**AAAJC**), Action Aid, Centro de Integridade Públic/Public Integrity Centre (**CIP**), Centro Terra Viva (**CTV**), Instituto de Estudos Sociais e Economicos (**IESE**), Iniciativa Moçambique para Promoção da Cidadania (**IMPROG**), Ibis Mozambique, Instituto Panos-Africa, **KUWUKA JDA** – Youth Development and Environmental Advocacy, Mulher Genero e Desenvolvimento/Woman Gender and Development (**MuGeDe**), Observatório sobre o Meio Rural/ Observatory on Rural Environment (**OMR**), Rede de Advocacia Uthende/Advocacy Network Uthende (**RUTH**), and **WWF** Mozambique.

Initiative, proposing the revision of the materiality and inclusion of each company tax regime for the second MEITI report. However, there are still challenges, CSO are calling for more transparency, publication of contracts, inclusion of other resources such as forests and enactment of the Anti-Corruption Law.

3.4. Advocacy and Decision-Making Process

Civil Society Organizations (CSO) have been active in lobbying for their participation in the revision of the Mining Law, currently being revised by the government. In this regard the government has taken action to involve civil society through public consultations.

CSOs have been calling for the re-negotiation of contracts with megaprojects. As a result, the issue has become of national political interest, being discussed at governmental level and within the parliament.

The platform has been elaborating open-letter and position papers to the President of the Republic and relevant Ministries (Mineral Affairs, Environmental Affairs, Governors, etc.,) calling for government intervention on Vale's badly managed resettlement and sustainable management of natural resources for the development of the country and benefit of local communities. The position papers have been largely disseminated through media and communication channels.

CSOs have been influencing the government to adopt a Corporate Social Responsibility CSR policy, in this regard, government has set up a multi-sectoral and multi-disciplinary working group to draft the CSR policy, and CSO representatives were invited to be part of the group.

3.5. Media and Communications

Media and communications play an important role on public awareness; civil society has been training journalists on resource governance and environmental issues, including the extractive industry. As a result, the media and communication sector have been active in coverage and publish on the issues related to resource extraction, resettlement, and the need for contract re-negotiations, informing the public for public awareness on the impacts of resource extraction on the country's development, economy and local communities.

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