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The Development of Natural Resource Linkages in Mozambique: The Ruling Elite Capture of New Economic Opportunities

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CONTENTS

ABSTRACT

This paper explores linkage creation in Mozambique related to mega-projects in natural resource extraction and development from a political economy perspective. It explores through a focus on linkage development related to extractive industries in Mozambique the 'best practice' attempts between commodity producers and local content providers. The paper argues that a relatively elaborate state organizational and institutional setup based on policies, strategies and units with funding tools has emerged over time in order to begin to reap the benefits of large-scale investments in the extractive sectors. However, despite the formal acknowledgement, very little has been achieved with regard to forward and backward linkages, state institutions are often despite the official government rhetoric of importance simply bypassed not only by foreign investors, but also by the political leadership.

The first section briefly considers the scope of mega-investments and their relation to the economic structure of Mozambique. The second section briefly outlines how linkage development has been pursued related to mega-investments. The third section explores what the limitations to linkage development have been. The fourth section briefly explores what the organizational and institutional response has been, while the fifth section analyses why the present wave of mega-investments in the extractive natural resource economy struggles to engage in linkage formation, and is then followed by a brief conclusion.

INTRODUCTION

Since the end of the destabilization war that over time turned into a 16-year-long, devastating civil war in 1992, Mozambique has enjoyed a remarkable turnaround, with a strong and sustained economic growth averaging approximately 7 percent per year. But as "the low hanging fruits from postwar reconstruction were reaped" (IIM, 2012: 11), growth has largely been driven by overseas development assistance, a peace/war dividend and mega-project investments in the form of large, capital-intensive and foreign-owned operations, without any clear signs of structural transformation taking place (Jones and Tarp, 2012; Bartholomew, 2008: 12; Clément and Peiris, 2008).[1] Mozambique has seen the influx of very high levels of foreign aid, triggered by adherence to 'sound macroeconomic policies' under structural adjustment programs. Since 1993, Mozambique received official foreign aid equivalent to about 14 percent of GDP per year. According to OECD-DAC data, donor aid contributed to around 50 percent of the government budget annually between 1996 and 2008. This situation made Mozambique the world's eighth most aid-dependent country, based on the ratio of foreign aid to Gross National Income. In 2008, after the mega-projects had come on stream, net official aid disbursement was still 22.9 percent of Gross National Income.

Mega-projects have functioned as "showcases" for successive Mozambican governments after the first democratic election in 1994, exposing Mozambique to potential investors. Mega-projects have been considered important for investors and donors for at least two reasons. Firstly, mega-project foreign investments have aimed at counteracting the negative image and sentiments emerging from the country's post-independence, socialist, centralist economic policies and state owner-/leadership of the productive apparatus, which were seen as investor-hostile (see Buur and Baloi, 2009). Secondly, the legacy of war and destruction left limited state capacity to secure and protect large-scale capital investments. The successful attraction and protection of large-scale foreign investments have been considered the litmus tests showing to potential investors the Mozambican government's readiness to act in an open liberal economy. Moreover, mega-projects have been promoted as catalysts for other sectors by creating investment in the much-needed rehabilitation and construction of infrastructure (see Clément, 2008; Clément and Peiris, 2008).

However, while mega-projects in general account for most of the overall growth gains in industrial manufacturing and export, there is a downside. This has been growth with little sustained formal employment creation or broad-based poverty reduction, as investments have had led to little or no development of national entrepreneurial or capitalist capacities of substance in the productive sectors.[2] This can be a surprise, as there has indeed been in many ways a push for making sure that investments have a positive impact on the Mozambican economy, as well as a strong drive towards poverty alleviation. It has generally been acknowledged that Mozambique faces three key challenges: "(i) to diversify its economy,

[1] In a Mozambican context, mega- investments are referred to as investments that exceed USD 500 million.

[2] Even though post-conflict reconstruction investments and aid more generally succeeded in bringing down poverty, poverty reduction has stagnated at approximately 55 percent of the population since the new Millennium (MPD-DNEAP, 2010).

(ii) to begin the process of structural transformation and (iii) to achieve broad-based gains in living standards" (IIM, 2012: 11; see also Jones and Tarp, 2012 for an elaborate analysis). Furthermore, these challenges are indeed acknowledged in key Mozambican policies and strategies such as the Industrial Policy and Strategy (GoM, 2007a; b), The Poverty Reduction Action Plan for 2011-2014 (GoM, 2011), and the Economic and Social Plan (GoM, 2010).

But as it will be argued in this paper, a relatively elaborate state organizational and institutional setup based on policies, strategies and units with funding tools has emerged over time in order to begin to reap the benefits of large-scale investments in the extractive sectors. However, despite the formal acknowledgement (that when push comes to shove so to say), very little has been achieved with regard to forward and backward linkages, state institutions are often despite the official government rhetoric of importance simply bypassed not only by foreign investors, but also by the political leadership. In particular the administration related to the present President Guebuza seems to be uninterested in developing proper linkage programs, if they are not directly related to the President's own business interests. In this way the strong turn to natural resources that Mozambique has experienced over the last decade is not used to transform the economy. Instead economic growth has increased the already enormous disparity in wealth sustaining the political *cum* economic elite coalition related to Frelimo that has developed its grip over power over the last two decades after the peace accord in 1992 and in particular the elite coalition related to Guebuza over the last decade.

In important ways this seems to further reproduce and fasten the predicament pronounced by Castel-Branco (2010) of Mozambique being an extractive service economy bugging the formal imperative of industrializing and economic transformation that has been the prerogative of the Frelimo party since independence. In important ways the present development pattern seems to further turn the Mozambique economy into more of an "enclave economy" (Morrisey, 2012) mirroring key features of the Foreign Direct Investment (FDI)-driven development critique (Prebish, 1950; Singer, 1950; Nunnenkamp and Spatz, 2003) and the resource curse literature's (Gylfason, 2001; Killick, 2004; UNCTAD, 2013; UNECA, 2013) quite negative valuation of the potentials offered by abundant natural resources economies to break the logjam, inclusive growth and economic transformation. The enclave argument essentially holds that natural resource-seeking FDI, contrary to what is the case with market- and efficiency-seeking FDI, will tend to create isolated enclaves in the host economy, with few linkages to local product and labour markets and only small contributions to economic growth.

This paper explores these broader processes from the basis of linkage creation in Mozambique related to mega-projects in natural resource extraction and development from a political economy perspective.[3] It explores through a focus on linkage development related to extractive industries in Mozambique the attempt at "achieving optimal and best-fit alignment between the commodity producers and their current and potential suppliers and the processors of their output" (Mor-

[3] See Buur et al., 2013 for the general political economy approach to linkage formation and Whitfield et al., 2013 and Whitfield and Buur, 2014 for shorter concise versions of the general approach to political economy analysis as it has been developed as part of the Elites, Production and Poverty programme (EPP) hosted by DIIS in Copenhagen.

ris et al., 2011: 9). Generally, such best-fit arrangements are concerned with extending the scope of alignment between usually FDI-based and Multi-National Companies (MNC)-driven extractive industries and local 'suppliers' and processors of natural resources and thereby growing the scale, range and depth of domestic capabilities. Best-fit alignments are as such concerned with "putting in place visions, policies, strategies and implementation plans to bring about the systemic competitiveness of any particular commodity value chain" (ibid.).

The specific emphasis we put on 'best fit' contrasts with 'best practice' solutions to such alignments in several ways. More generally when we speak of 'best fit' or maybe more correctly 'good fit' we emphasise the relationship with local contexts, institutions and politics. This contrast with the 'best practices' on which donors typically base their advice – 'best practice' can be 'best fit', but it cannot be taken for granted that it will be. There is often a tendency to discuss linkage formation purely in terms of economic efficiency, thus neglecting especially the political economy context in which such policies are implemented.

The first section briefly considers the scope of mega-investments and their relation to the economic structure of Mozambique. The second section briefly outline how linkage development has been pursued related to mega-investments. The third section explores what the limitations to linkage development have been. The fourth section briefly explores what the organizational and institutional response has been, while the fifth section analyses why the present wave of mega-investments in the extractive natural resource economy struggle to engage in linkage formation, which is then followed by a brief conclusion.

FDI INVESTMENTS IN MOZAMBIQUE

Mozambique's history of natural resource extraction is more recent than Tanzania's, but since the end of the 1990s has seen investments in aluminium processing, gas extraction and heavy sand flow, the combination of which has created a very different dynamic with regard to Small and Medium Enterprises (SME) experiences than has been the case with the Tanzanian gold investments (see Buur et al., 2013; Hansen, 2013). In addition to hydroelectricity, Mozambique is endowed with an abundance of important minerals and natural resources that include gas, coal, gold, titanium, ilmenite, zircon, rutile, marbles and a variety of precious stones and metals and so forth. It is therefore no surprise that the largest and most important investments in Mozambique are found in relation to FDI-based natural resource industries.

Mozambique opened up the economy after the General Peace Accord in 1992. From 1997 until 2009 mega-projects generated FDI inflows amounting to approximately USD 8.4 billion (USAID, 2012: vii). Nevertheless, this pales in relation to future investments in gas and Liquid Natural Gas (LNG) facilities, which are expected to exceed USD 50 billion over the next 10 years (Ledesma, 2013; Besseling, 2013). Mozambique is expected to become one of the world's largest producers of liquefied natural gas (LNG) aimed at the Asian growth markets. Based on estimates that the discoveries hold at least 100 trillion cubic feet (tcf) of natural gas, Anadarko, together with the Italian state company ENI, is currently in the process of designing facilities involving at least two on-shore LNG 'trains', with the capacity to expand to ten trains, each with a capacity to process five million metric tonnes per annum (mmtpa) (Anadarko, 2012 quoted in NORAD, 2012: 13; see also Ledesma, 2013; Besseling, 2013).[4] In contrast, the biggest agricultural investments in the sugar sector amounted to approximately USD 400 million after the programme was initiated in 1996, with another USD 300-400 million after the Millennium (see Buur et al., 2011, 2012a; 2012b) seeming rather insignificant in light of the sheer size of the new mega-investments in gas and energy. Moreover, Mozambique's BNP approximately lingers around USD13 billion, so foreign investments in the extractive natural resource industries is considered a "game changer".[5]

Carlos Castel-Branco (2009; 2010; 2012) has argued that even though mega-investments are more recent in Mozambique, they are a continuation of a far longer history of an economy based on an extraction characterized by considerable patch dependencies (see Weimer et al., 2012 for a summary of what this entails today and where the key features of this economy are outlined below). The Mozambican extractive development economy is characterized more generally by an extreme concentration on a limited set of export products or *point resources*, services and firms in the energy and extractive sector that account for most of the economic growth experienced thus far.[6] At the same time, the economy has become a typical *consumption economy* rather than an economy based on investments for production and the domestic and international markets, in where the urban centres rely on imported consumer goods of everything from hardware to foodstuff. This has been exacerbated by the economy being a *service economy* initially based on the railways and port systems used by neighbouring countries, which have been dominating GNP with a weight of above 30 percent in the 1970s and 1980s, climbing to more than 50 percent from 1994 onwards. The service aspects of the economy have undergone dramatic structural changes, as it is no longer the regionally oriented transport subsector that dominates, but rather the growth of banking, insurance and telecommunications, as well as air travel, domestic transport and tourism.

While *agriculture's contribution* to GDP has dropped significantly over the past 30 years, from 35 percent in the 1980s to approximately 20 percent at the beginning of the new millennium, this is due to a drop in agriculture's *relative* weight, as the MOZAL smelter outside Maputo came online in 2001. The changing status of agriculture is therefore not attributable to a process of economic maturation of the economy based on an increase in agricultural productivity and linkages to the manufacturing and processing industries. The labour force in agriculture as a percentage of the total labour force is approximately 80 percent and continues to provide the livelihood for a great majority of Mozambicans, particularly for women. Lastly, despite the emergence of

[4] Since 2005 four licensing rounds have been conducted, with exploration and production licenses held by companies including Anadarko, ENI, Statoil and Petronas. Over the last year sales of share deals related to the various gas and oil drilling licenses have increased where Chinese and Thai investment groups and companies have bought themselves into the emerging industry. But the gas *cum* oil sector is still waiting for one of three big companies Mobil, Chevron or Shell to commit themselves by entering share deals, but they have so far lost bids to Chinese and Thai companies.

[5] It was described as such by the Norwegian embassy after the formal discovery of gas in 2009 (Internal communiqué 2009). As Jerven (2012; 2013) has shown, the measurement of BNPs are highly contested and this is no less so for Mozambique that still is heavily donor-dependent and therefore needs to manage the size of the economy carefully in order to sustain aid inflows.

[6] Point resources designates resources of great commercial value and international demand, notably mineral resources concentrated in one geographical area ("point"), e.g. coal in the Moatize/Tete region, gas from Cabo Delgado and Pande/Tamana in Inhambane and hydro-power from Cahorra Basso/Tete.

mega-projects, *industrialization* has not taken place over the past 30-40 years (see below). The share of 'industry' within GDP was 13 percent in 2007, around the same level as it was in the 1970s and early 1980s. The level has stayed the same, but the sources have changed. From 2000 onwards, mega-projects such as the MOZAL aluminium and mineral sands exploitation accounted for the majority of growth in the 'industry' component of GDP, with MOZAL alone accounting for two-thirds of it. Outside of the mega-project, the other major industries include beverages, tobacco, sugar and more recently the re-emergence of cashew processing.

The basket of exports includes traditional exports, but with only 15 products generating more than 1 million USD. The major export commodities were the traditional ones: timber, fish, cashew and cotton. But these exports were declining due to challenges arising from overexploitation of resources, stiff international competition from major producers, and volatile international markets. In 2008, MOZAL aluminium smelter alone accounted for more than half of all exports, followed by electricity, tobacco, gas, and sugar (in that order). Only after 2000, with the coming on stream of major sugar plantations and the MOZAL aluminium smelter, did the value of exports increase dramatically. Before then, Mozambique had balance of payments problems, because imports exceeded what exports could pay for. However, the economy is dependent on a few export commodities and importing a significant amount of goods and services that are consumed or used domestically, making the economy extremely vulnerable to external price shocks for oil and food.

In other words, as a popular saying suggests, the extractive development economy that has evolved in Mozambique is an "economy that produces what is not consumed domestically, and consumes what it does not produce" (see Weimer et al., 2012). Obviously, when 70 to 80 percent of the population rely on subsistence agriculture (including artisanal fisheries), Mozambicans do consume what is locally produced. But the aspiring, upcoming middle-class urban populations in the main centres of the country that account for most of the formal economic output do to a very large degree depend on heavily subsidised consumption, just as the industrial base here under the new natural resource-based economy does. Consequently, the domestic capitalist class accumulation and income are based not on production, but on the rents of the service and extractive economies, while the economy is heavily dependent on external capital inflows, with a tendency to generate cyclically negative capital outflows in which exported capital is higher than imported capital.[7] The economy's extractive nature creates a mode of accumulation that relies on natural resources and existing infrastructures, and that creates structural inequalities in the capitalist development across the different regions of the country (Castel-Branco and Ossemane, 2010:143).

But in contrast to what one would immediately expect and based on its low placement on all governance indexes, Mozambique has in a response to the first wave of mega-investments from the mid-1990s, and the second intensified wave of mega-investments

[7] See Castel Branco, 2010 for what the cyclically negative capital outflows implies for Mozambique more generally. To give a dimension of the capital outflows from developing countries: they lost between USD 723 billion and USD 844 billion per annum on average through illicit flows over the decade ending 2009. In current dollar terms, the flows increased by 15.19 percent per annum from USD 386 billion at the start of the decade to USD 903 billion in 2009. http://www.africafocus.org/docs11/iff1112.php. At present Mozambique experience a net inflow which when investments in coal, heavy sand and gas have paid off the investments potentially can create another cyclical outflow.

initiated after 2005, developed an organizational and institutional setup for SME development. Based on experiences with mega-investments, lessons have been gained and strategies for linking domestic companies to FDI have been formulated. The next section briefly outlines the main features of what the lessons have been with regard to mega-investments and what the formal institutional and organizational responses to natural-resource mega-investments are.

FDI-DRIVEN LINKAGES AND LOCAL CONTENT PROMOTION

The key driver of linkage and local content awareness and promotion in Mozambique has been intimately related to the experience of the USD 2.4 billion MOZAL aluminium smelter outside Maputo from 1998, which until recently has been the single biggest FDI investment in Mozambique and the first mega-investment in Mozambique.[8] MOZAL has been used as an "ideal model", showing investors that investments in risk destinations such as post-conflict Mozambique are possible (and therefore is the mother of all subsequent mega-investments), as well as being a "best practice" example for the promotion of linkages between FDI mega-investments and SME and local content development.[9] Whereas the first assumption is difficult to assess, the veracity of the second assumption has been thoroughly assessed in multiple studies, assessments and manuals (see Castel-Branco and Goldin, 2003; Robbins et al., 2009; IFC, 2007; Sonne-Schmidt et al., 2009; da Costa, 2012; Ernst and Young, 2010; Krause and Kaufman, 2011). Where some of the studies herald the MOZAL as a prime example of investor commitment and the power of following best practice blueprints, other studies have marked out the limitations to this type and form of investment.

The MOZAL investment had two phases: MOZAL I was initiated in 1998, and the construction of the then most advanced aluminium smelter in the world took two and a half years, while the MOZAL II expansion was initiated in 2001 and took only one and a half years to be completed since the foundation for the enlargement had been laid during the first phase. Four phases can be identified in which linkages and local content provisions have been promoted in relation to the construction and operational phases of the MOZAL:

Identification: From 1997 the Mozambican state, through the Centre for the Promotion of Investments (CPI) with support from the International Financial Corporation (IFC) and the World Bank, carried out a study as part of preparing for domestic SME's participation in the construction of MOZAL and the subsequent production. An ACPI study screening 370 enterprises (1997) found that "99% had serious problems with product quality" and generally lacked experience, did not have the necessary portfolio of projects, operated with outdated and depleted equipment and technology, had serious management shortages and so forth (Castel-Branco and Golding, 2003: 24). With very low levels of intra- and inter-firm linkages and technological capabilities, and a very thin and dispersed formal enterprise base,

[8] The construction of MOZAL was followed by the USD 1.4 billion SASOL pipeline from the Pande and Tamana gas fields in the Inhambane province in the south of the country from 2002 and the construction of the Kenmare/Moma heavy sand plant in Nampula in the north of country, from 2003 coming into operation in 2006/7.

[9] The motivation for MOZAL for engaging in SME development and linkage creation was twofold: there was "Public Relations benefits" and there were economic incentives related to "increased flexibility in terms of delivery times and sustainability gained from contracting locally" (Robbins et al., 2009: 25).

there was very little MOZAL could tap into and link up to mega-investments. So while opportunities would emerge, there were very few domestic enterprises that could engage with MOZAL. What became particularly clear for CPI and MOZAL was that the "standard contract format" MOZAL brought with it from South Africa was too large and technologically advanced for Mozambican companies to engross (Robbins et al., 2009: 28). One consequence of this was that Mozambican participation in the construction of MOZAL I was scarce and well below what had been envisioned (Castel-Branco and Golding, 2003).

SME Empowerment Linkages programme (SMEELP): From 2001 there has been a joint MOZAL, CPI and IFC programme that has attempted to develop Mozambican firms so they could become eligible for participation in the enlargement of the MOZAL plant (MOZAL II) through matching grants. This was based on the creation of a Mozambican firm database and the vetting of enterprises' potential to engage with MOZAL. This was followed up by redesign and unbundling of MOZAL standard contracts, in addition to the reformulation of procurement standards so that they better fit the Mozambican business reality. Finally, the project engaged in facilitation, information exchange and training of the Mozambican SMEs considered the most capable candidates for MOZAL bidding and when SMEs were contracted for follow up through mentoring. In total, 16 SMEs were trained and over time 28 contracts worth just over USD 5 million were awarded.

Mozlink I: From 2003 SMEELP carried on from construction into the operational phase of the smelter with a particular focus on providing loans to SMEs by banks and financial institutions, as well as through the provision of technical capacity training. The linkage programme culminated in 2005 with the opening of the Beluluane Industrial Park next to MOZAL, which enjoys "Industrial Free Zone" status and aims at creating clustering effects (Robbins et al., 2009:22), with CPI together with IFC being the key drivers. The programme trained 45 SMEs, and Mozlink enterprises gained contracts worth USD 13 million out of a total expenditure on local content of USD 180 million, in which electricity and water combined for an amount of USD 96 million (Krause and Kaufman, 2011: 51).

Mozlink II: This expanded the Mozlink I in 2006 from being tied to MOZAL to including other FDI-driven investments primarily in the gas (SASOL in 2002) and beverage sectors (Coca-Cola and South African Breweries). These were three-year supply-chain programmes aimed at strengthening the business and technical capabilities of SMEs so that they could compete for industry contracts (Ernst and Young, 2010). The key driver was the IFC's Private Enterprise for Africa (IFC PEP Africa). The IFC boasts that Mozlink II (IFC, 2007, 2008; Ernst and Young, 2010) has trained 75 SMEs, securing USD 20 million in revenues for SMEs with a 40 percent growth in contract development by Mozlink corporate partners, which impacted on the employment of 3,000 employees.

LIMITATIONS TO THE FIRST GENERATION OF LINKAGE PROGRAMMES

Compared to the amount of investments in which MOZAL, together with the later Sasol gas project that jointly approached USD 4 billion have been involved, the results that came out of the efforts to build linkages were rather meagre (Nhancale, 2010). Even so, no one has disputed the importance of the linkage programmes that emerged in the slipstream of the MOZAL investment, but there were limitations that are worth taking a second look at, as this is the experience that informs for good and bad how natural resource linkages are pursued today in Mozambique.

First, as Krause and Kaufman (2011: 50) argue, "the effects have been quite limited in number and scope, as well as structure. The results are limited to the creation of a small market niche for local firms that depend almost completely on MOZAL and have not contributed to the development of an industrial cluster of innovative SMEs".

Second, in most cases the companies receiving grants during the First Generation of linkage programmes were often the same for the different phases with each company providing an increased number of services and supply functions (IFC, 2007). This gave the distinct sense that the linkage programmes emerging in the slipstream of MOZAL helped a small favoured number of enterprises instead of enlarging the general SME pool (Krause and Kaufman, 2011: 51). This has clear historical origins, but as pointed out below there are also clear political economic reasons for this concentration and favouritism. Starting from a "ground zero" situation after the General Peace Accord between Frelimo and Renamo in 1992 with a depleted industrial park and generally broken enterprise park, the evolution of SMEs and the building up of technological capabilities faced severe technical constraints. At the core of the technical constraints is the 'missing middle' of SMEs.

When it gained its independence in 1975, Mozambique was the eighth most industrialized country in Africa (Torp, 1979). Combined with 16 years of devastating civil war and subsequent neo-liberal structural reforms after the General Peace Accord in 1992, the Marxist-socialist policies pursued after independence have resulted in a virtual deindustrialization, much like in Tanzania. The enterprise structure is highly skewed, consisting of a few big enterprises owned in part by foreign capital and in part by the state or members of the Frelimo elite, a few formally registered SMEs owned by both foreign and domestic capital, but with little clustering effect, and a large stratum of informal micro-enterprises (sometimes referred to as SSMEs) owned by domestic entrepreneurs that comprise 98.6 percent of the entire enterprise (Cruz et al., 2013; Krause and Kaufman, 2011: 13-14).

One key characteristic of this structure is that SMEs do not emerge from micro-businesses, but are generally created for a particular purpose or – when engaged in export – are "born global" (Byiers and Rand, 2009). The vast micro-enterprise stratum is dominated by trade-related commerce and retail (60%) and accommodation and restaurant services (20%). Manufacturing accounts for approximately 10 percent of all SSME business units, most of which are concentrated in the Maputo and Beira corridors. The skewed nature of the enterprise structure characterized by the 'missing middle' of SMEs has severe consequences for linking up to the present wave of mega-investments in natural resources, thereby offering few prospects for growth for micro-businesses and very limited intra- and inter-firm and sector linkages with strategic clustering and networking (Cruz et al., 2013). The SMEs that have emerged as part of mega-investment linkage programmes have more often than not been new enterprises established for that purpose, and most import the inputs to the mega-projects, with the exception of a few agro-processors who source raw materials from the local economy (Krause and Kaufman, 2011: 14). Because there is "strong competition from informal business and foreign imports" (Krause and Kaufman, 2011: 49), the space for the few competitive formal SMEs who can qualify as the business partners of mega-investments is extremely limited (da Costa, 2012).

Add to the skewed enterprise structure a financial system in which access to credits are generally biased towards the few bigger enterprises or trade houses that exist who typically have a monopoly status (as argued below), an organization of the business-state relationship that caters to the interests of the powerful and well-linked companies and a business environment in which red tape can be mobilized and cut through by the few, but which generally stifles the promotion of SMEs.

Despite these limitations, the MOZAL did over time create more than 200 suppliers of inputs to its operations in metallurgical services, transportation, auto mechanical and electrical products and services, construction, security, cleaning, catering and laundry. But the majority of the enterprises were linked in one way or another to South African companies related to the South African aluminium establishment in Richards Bay and elsewhere (Castel-Branco and Goldin, 2003: 6). They reallocated with MOZAL, which is part of the South African Billiton mining complex. They established subsidiaries over time and in many cases entered partnerships with well-placed Mozambicans.

Third, this type of linkage model had few spillover effects to the Mozambican economy in the form of technological capabilities and learning. It did cater for some infrastructure development in energy, transport and site and service development of an industrial area in addition to the creation of around 1,100 jobs. While the development impact as such was limited, the First Generation of mega-investments still influenced the Mozambican economy dramatically, as GDP increased and external trade gains amounted to approximately USD 400 million a year (Castel-Branco and Goldin, 2003: 6; 11). Over time MOZAL alone came to account for more than half of all exports, removed Mozambique's balance of payments problems, and came to account for two-thirds of all industrial outputs.

While the skill and technological base of SMEs' subcontracting linked to MOZAL increased with adaption to ISO-9000 and similar standards, it was maybe less so the First Generation of linkage programmes with its different phases that contributed to this, rather than joint ventures between foreign specialized suppliers and Mozambican partners (Warren-Rodriguez, 2008: 16-18; Krause and Kaufman, 2011: 51). One reason for this is the fact that MOZAL through Billiton came with an established business structure and model developed from South Africa for how to do linkages both locally and regionally. This had clear advantages as an entire package of companies that could be subcontracted existed and could establish links to Mozambican partners over time, though it also created rather limited and narrow linkage effects in Mozambique.

Fourth, one could argue that this type of concentration and monopolization of the opportunities available is not too important, since it is more important that enterprises are created that acquire new capabilities so the total pool of skills and capabilities are increased. This can potentially trigger the establishment of new enterprises better geared to and attuned to exhausting opportunities emerging from the extractive natural resource industry, though in the Mozambican case this does not seems to have been the case at least thus far. Recent work by the Mozambican research and think tank IESE suggests that Mozambican enterprises that came out of the MOZAL linkages programmes, in fact became specialized and upgraded so they for example could honour ISO and similar international standard requirements for safety, but that they also struggled in finding new companies they could link up with until the recent wave of coal, gas and energy mega-investments. Initially due to upgrading, they lost access to "traditional markets, or losing some space and ability to work with the traditional market" (Castel-Branco and Goldin, 2003: 29). In order to meet international standard requirements, they upgraded staff and management capabilities and invested in new equipment, but as part of the process they became too expensive and advanced for the Mozambican economy, as there were few mega-investments they could link up with. In contrast to what could be expected and what was intended, the enterprises that emerged in the shadow of MOZAL began a process of de-specialization in order to gain enough domestic contracts to survive. One of the consequences has been that relaxed company practices needed for survival have spread to the specialized domain of the company, hence undermining productivity and technological capability gains.

Finally, while the intention behind the SME programme was to create forward linkages when possible, the experience from the First Generation of mega-investments spearheaded by MOZAL suggests that this has not happened because of the limited technical capacity of Mozambican companies and lack of specific policies that 'forced' it to establishment of forward linkages. The expectation that the simple existence of MOZAL would create a manufacturing cluster based on aluminium ingots, or that SASOL would create forward linkages in which gas would be used as the raw material for a local industry, has until recently proven difficult (for MOZAL, see Castel-Branco and Goldin, 2003:3; Warren-Rodriguez, 2008; for SASOL, see Nhancale, 2010).[10] Instead aluminium ingots for example provided an easy rent opportunity that could be exploited by a well-placed Mozambican entrepreneur. By transporting cheap aluminium ingots to South Africa, manufacturing took place there instead of building up the capabilities in Mozambique.

Where all the First Generation mega-investments were first-mover investments (aluminium, gas and heavy sand), and therefore had special government attention, often with special institutional arrangements established for example linked to generous tax, special custom and import agreements (Castel-Branco and Goldin, 2003: 23),[11] there were also disadvantages and first-mover costs. These

[10] Gas from the Pande and Tamano fields was transmitted to South Africa, from where it returned as value-added gas for household consumption, until a new, smaller plant was set up in Mozambique in 2012. This followed repeated problems with gas distribution from South Africa, which caused an uproar in Mozambique. A gas turbine was also set up on the Mozambican side of the border in 2012, using gas from Pande/Tamano to produce electricity for the South African market. The company producing the electricity is partially owned by an investment company related to the present President Guebuza, where it is the South African co-owner who holds the technological capabilities. The Mozambican co-owner exploits an easy rent opportunity related to a point resource.

[11] One of the most uncontentious issues in Mozambique has been the incentive packages provided for the first and second generation of mega-investments. A note of caution is nonetheless necessary, as there are vast differences between what has been granted as tax breaks and holidays in order to attract FDI. But since the content of most contracts are not made available, the issue of incentives granted for investing in Mozambique and possible links to the ruling political elite are rampant. According to the African Peer Review Mechanism (APRM, 2009: 163-4), as a first mover, MOZAL has been granted Africa's most generous benefits: Tax exemptions for 50 years with exceptions hereunder on import duties and value-added tax, in addition to a corporate tax rate of 1 percent of sales. Add to this the "preferential treatment" by government agencies establishing "task forces" catering for permits, licences and non-standard procedures in order to compensate for cumbersome standard procedures (Krause and Kaufman, 2011: 49). Moreover, both the SASOL investment and the Kenmare heavy sand investments have received generous tax holidays. Calls for renegotiation of contracts have therefore been made.

disadvantages were a lack of infra-structure investments, institutional and technical capacity, and, as we have seen, few domestic linkages and a general business environment characterized by limited technological capabilities (knowledge, corporate culture and know-how).

The hope was that the First Generation of mega-investments, which all came into production over the first decade after 1998, would have transformed the general business landscape, making it easier for the Second Generation of investments to link up to the Mozambican economy, but much suggests that this did not happen. But one thing that indeed was created was a formal organizational and institutional framework for SME development that followed broad and general trends in 'best practice' organizational and institutional developments, as the next section of the paper illustrates.

AN EMERGING INSTITUTIONAL AND ORGANIZATIONAL REALM FOR LINKAGE PROMOTION

Clearly following in the slipstream of mega-investments and the attempt at creating linkages between the First Generation of extractive industry mega-investments – primarily the MOZAL aluminium smelter and domestic service providers tapping into the construction and processing sides of the investment – new legislation emerged. Most importantly, at least by name: the "Industrial Policy and Strategy" from 2007 (GoM, 2007a) and the related "Strategy for the Development of Small and Medium Size Enterprises in Mozambique" from the same year (GoM, 2007b; Krause and Kaufman, 2011: 29).

Among other issues, the Industrial Policy that was primarily formulated by the Mozambican state and government (GoM, 2007a, 4) highlighted the development of linkages between the beneficiaries of industrial development, encouraging them to organize into productive clusters in order to increase the productivity and efficiency of the entire value chain. The Policy also suggested that industries should focus on areas that have a major economic and social impact[12] and where the promotion of the vertical and horizontal integration could be achieved, as well as the promotion of industries that allow for an adequate and sustainable exploitation of productive resources and capacities.[13] Particularly for the extractive industries, the Policy argued for the promotion of import substitution for the metal, chemical and construction material industries, e.g. through development and strengthening of Free Zones with a view towards attracting both capital- and labour-intensive industries (ibid. as above).

If the hallmarks of good industrial policies are the targeting, prioritization and enforcement of conditions for productivity, then the Industrial Policy was rather vague. As Krause and Kaufmann (2011: 28) argue, one gets the idea when reading the strategy that "the Government does not want to 'miss' anything", as it does not provide guidance for how to link up to mega-investments. Specifically, the African Peer Review Mechanism (APRM, 2009: 165) lambasted

[12] Here, the examples were very specific such as "the food-processing industry, with its capacity to maximize agricultural and fishery potential, and in turn providing multi-sectorial linkages, employment and import substitution, as well as increased and diversified exports" (GoM, 2007a: 4).

[13] Again, the examples were specific "such as industries for the processing of timber and its derivatives, and industries producing construction materials, among others" (ibid.).

the lost opportunity for clearly providing strategic guidance on how for example such an investment like MOZAL could be used to boost economic development in the future.

In contrast to the overall Industrial Policy, the specific strategy for SME development does set key priorities and objectives for SME development, while also proposing a certain sequencing of actions hereunder for the establishment of an Institute for the Promotion of Small and Medium-sized Enterprises (IPEMA).[14] While the IPEMA was established in 2008 to drive the implementation of the SME strategy, it largely relies on external funding for implementation as it is common for most organisational developments in Mozambique. The general idea was for IPEMA to take over from earlier institutions such as the Foundation for the Promotion of Small Industries and the Institute for the Development of Local Industries, which had some state funding, their own staff, and were implementation oriented. A few initiatives supported by donor funding have been established by IPEMA, but do not seem to have given the state any particular foundation for developing SMEs, as Krause and Kaufman (2011: 30) argue "no significant impact has been visible".

The three key pillars of the strategy: Improving the business environment for SMEs; strengthening SMEs' technological and management capacity; and the provision of strategic support, depend on changing the overall business environment by "creating a level playing field and reduce transaction costs for SMEs" (Krause and Kaufman, 2011: 29). In this sense, IPEMA's role primarily becomes one of facilitation, as its results depend on general policy reform work and on support and resources from principally donor organizations.

So even though the MOZAL experience did not create a new strong SME segment in its slipstream, an institutional and organizational framework for support to SMEs did emerge but also one that follows broad and established 'best practice' hands-off ways of operating. Furthermore, while donor organizations are supportive of the IPEMA, they have largely focused on running, establishing or renewing their own organizations and institutional linkage programmes. Programmes such as the World Bank's "Project for Entrepreneurial Development" (PODE), which operates its own matching grand scheme for co-financing training sessions, consultancies, export promotion and so forth, is a good example and is indeed keen on linking Mozambican enterprises to current mega-investments. In 2009, the Bank added the "New Mozambique Competitiveness and Private Sector Development Project", whose USD 25 million budget is far larger than the budget of the MIC, not to mention the IPEMA. Add to this that most national donor agencies such as Danida, NORAD, SIDA and so on run their own support mechanisms for the private sector, SME and linkage development.

If this is the institutional and organizational setup for support to domestic SMEs that came out of the First Generation of mega-investments beginning with MOZAL in 1998, the broader question is what have so far been the experiences of attempting to link domestic firms to mega-investments during the Second Generation of investments?

[14] In contrast to the Industrial Policy, the SME strategy was elaborated by external consultants with donor assistance and some consultation with the Confederation of Economic Associations and the Ministry for Trade and Industry (MIC).

THE POLITICAL ECONOMY OF THE PRESENT LINKAGE ATTEMPTS

As suggested by the designer of the MOZAL linkage programme, who was then working for the International Finance Corporation, which during the Second Generation of mega-investments became the designer of the Rio Tinto Coal Mozambique (RTCM) linkage programme in 2012: the Billiton MOZAL came into the investment with a tried model developed for the South African aluminium industry for how to establish local and regional linkages (Interview RTCM March 2013 Hotel Polana). None of the Second Generation mega-investments in gas/oil, coal and energy had this advantage, and therefore struggled in a business environment with increased competition and where security with regard to resources, markets, finance and the political environment was still not firmly established.

Instead of using the structures created by the First Generation of investments, hereunder the state organizational and institutional framework related to IPEMA, the two main investments in coal – Rio Tinto Coal Mozambique (RTCM) and Vale Coal – are in the process of establishing their own linkage programmes in Mozambique. In contrast to other coal companies – such as Ncondezi, Beacon Hill Resources, *Minas de Revuboe* who primarily seem to be operating through more traditional Corporate Social Responsibility modalities (community projects, infrastructure investments in health, school and transport, as well as state administration support through construction, assistance with transport, roads, etc.) – RTCM and Vale try to create a linkage programme directed at Mozambican SMEs.

With the Second Generation of investments, the market for local content provision, and thereby backward linkages, has exploded. Whereas MOZAL and Kenmare/Moma together operate with USD 180 million and USD 110 million, respectively, for local sourcing, the market has more than doubled if not tripled over the last five years. Where the smaller coal companies operate with USD 2 to 5 million budgets for CSR and local content provision (USAID, 2012: 14-16), Vale Coal has a budget of USD 162 million for CSR related activities in communities affected by the exploitation of coal, including agriculture, health, resettlement and other social issues. This is on top of what it buys locally. The 2011 budget from RTCM was USD 120 million and for 2012 USD 160 million for local procurement alone, in addition to being involved in substantial CSR activities (Interview RTCM March 2013 Hotel Polana).

In contrast to the MOZAL-related SMEELP and Mozlink I and Mozlink II projects (USD 700,000 out of a budget of USD 1,170 million in which half was paid by MOZAL and the other half raised by IFC), the markets for backward linkages in the form of local content provision in addition to construction are rapidly increasing today, thus potentially offering new opportunities for domestic entrepreneurs. For instance, RTCM maps the Rio Tinto demand side opportunities offered as: 1) Procurement related to its mining operations, 2) Community relations/business initiatives related to catering services, agribusiness, etc. and 3) Potential business opportunities related to coal exploitation (power plants, infrastructure developments, etc.) (USAID, 2012: 13). The tripartite division in economic opportunities clearly allows for the mapping and identification of linkage opportunities for the micro, SME and large-scale down and upstream promotion of investments.

For the second type of demand-side economic activities related to community relations/ business initiatives, RTCM undertakings are at the same time backed up at the community level by a DFID funded AgDecCo programme worth USD 9 million, which focuses on resettled communities. The programme focus on food production for both local consumption and commercialization linked to the mining work force is stimulated through the construction of a new dam and a totally new irrigation scheme. Over time, the aim is that a biofuel component is added that taps into RTCM's high-end operation and service needs (ibid.).

For the first type of demand-side economic activities related to the "procurement related to its mining operations", RTCM clearly acknowledge that they do not have MOZAL's established model for how to do linkages. Over the past year, RTCM together with Vale have begun to set up their own linkage programmes, and have also begun exploring the possibility of merging their programmes (Interview RTCM March 2013 Polana; USAID, 2012:viiii; 13-14). It is worth considering here why roughly five years after a state framework for support to SMEs and linkage promotion more generally have been initiated, the two main MNCs in the coal sector have begun setting up their own training centres for linkage programming outside the institutional and organizational setup.[15]

The motives for "going alone" instead of "going together", using the formal state-regulated and -promoted institutional and organizational frameworks that emerged after MOZAL, and which were promoted by the World Bank Group and the Mozambican state, are related to a combination of technical and political economic reasons.

The country's weak private sector and enterprise structure characterized by a very large informal micro business sector and a few large companies driving the economy with a 'missing middle' of SMEs to link up makes it a struggle for companies such as RTCM to engage with local companies. With a technologically weak manufacturing sector, it is difficult to maximize opportunities offered by technologically advanced processes characterizing MNC operations. Closely linked to the 'missing middle' is the lack of human capital in the form of a trained work force and managerial leadership to meet increasing demands. While acknowledging the institutional and organizational efforts of the state and government in meeting the challenges of SMEs, a second reason is what is often lumped together in the non-conducive "policy environment" that hampers the development and growth of foreign investments and domestic SMEs. The problems that the policy environment caused were referred to as a lack of reforms: the need for more intense and faster economic reforms that could liberate the economy and business from the shackles of past state-directed policies that it is suggested still hold a grip over the economy. Closely related to this was, as proposed by RTCM, a "lack of transparency" (interview RTCM March 2012), as the selection of SMEs for participation in linkage programmes hitherto was not transparent. This was compounded by a general lack of trust in the economic system where the "general perception [is] that Mozambique's policies are biased towards mega-projects and foreign companies at the expense of small investors and SMEs" (USAID, 2012: ix).

[15] In much the same way, MNCs in the coal sector have also begun to upgrade and expand the country's infrastructure (road and rail) because of its poor state and development, which has become a stumbling block for the exporting of coal.

A tacit assumption in such assessments (never openly articulated) is that mega-projects and foreign companies are in a secrete alliance with the top political leadership of Frelimo. The paradox is that it stays tacit because mega-projects and FDI more generally are strongly supported by the International Financial Institutions and donors more generally, while such investments at the same time buttress the Frelimo regime and its capacity to monopolise the democratic space in Mozambique. The tacit assumption was hinted at in interviews during March 2013 with investors and MNCs such as RTCM and Kenmare, industry organizations such as AIMO and members of staff from state agencies such as CPI and World Bank programmes, which were put in place to promote SME development and linkages between FDI investors and domestic entrepreneurs. A key aspect of this is related to the capture of the local content-market in services and linkages by certain Frelimo factions.

The emergence of domestic capitalists in Mozambique occurred through processes of primitive accumulation after the General Peace Agreement in 1992. In general terms, Frelimo centralized rent management in order to control economic opportunities for accumulation and cut off independent accumulation outside the ruling coalition, with the aim of strangling the political opposition. Here, key Frelimo elites have been known to win contracts as a way of making sure that economic opportunities are restricted and do not benefit or assist opposition forces (Weimer et al., 2012). This created various "bottlenecks" as "point resources", and key service domains related to knowledge and consultancies, transport and port handling, access to finance and currency, the import of food stuff and consumer goods, machinery and technical appliances and the export of natural resources were monopolized by Frelimo elites or Felimo supporting trade houses that came to operate in cartels and monopsony's. This includes the capture of the local content market in services and linkages by certain Frelimo factions.

The SMEs that were created during the First Generation of linkage programmes in Mozambique in connection with MOZAL, as well as the various companies aligned to members of the ruling Frelimo coalition that emerged after the liberalization of the economy during the early 1990s, often in joint ventures with foreign companies, therefore became part of the cartel and the monopsony economy. This is the policy environment that the IFI- and donor-driven good governance agenda on the one hand tries to 'reform' through the depoliticized focus on "business environment" in general, and "investor confidence" scores and open trade policies more broadly. On the other hand, the selfsame donors and international institutions finance and capacitate the Frelimo-dominated and -controlled state at the heart of the democratic system they promote. Over time a relationship evolved that has been characterized as "a 'pathological equilibrium'" (Renzio and Hanlon, 2007: 6), by which Frelimo was allowed to use the state to secure its dominant position and win elections, as long as political stability was maintained.

This system has nonetheless seen changes over time. Whereas the ruling Frelimo coalition led by Joaquim Chissano that ran the country from the tragic death of Samora Machel in 1986 until 2004, when Guebuza took over, have had to balance on a knife-edge, relying on other factions to carry through policies and staying in power and therefore allowing a broad accumulation *within* the coalition, this changed with Guebuza taking power. Since the mid-

2000s, the Guebuza faction has been able to not only secure that investments benefit the Frelimo coalition, but that benefits are monopolised by his economic interests. It is the first time in the history of the Frelimo political organization that party, state and economic power have been concentrated in one faction.

Even though new opportunities are available from the present wave of mega-investments (service delivery and local content provision), and various investment-promoting agencies and linkage mechanisms with substantial funding behind them have attempted to open up space for newcomers, the successes have thus far been limited. Even with a clear demand-side pull from new mega-investments providing fresh opportunities for service delivery and local content provision and various investment promoting agencies and linkage mechanisms with substantial funding behind them, such as matching grants from the World Bank, little happens: "There are opportunities. There is also a lot of talk and conferences at Indy Village (referring to the much used venue for donor and state promotion of governance where at one conference in 2012 discussing SME opportunities related to mega-investments eight ministers participated). They say that we need to "take the opportunities" mega-investments provide that there is enough for all, but then there is silence and nothing happens" (World Bank official, March 2013, Maputo).

This was echoed by the Mozambican industry organization AIMO, which asked "When is a company Mozambican? When it is 100 percent Mozambican or 51 percent, or is 5 or 10 percent enough to be Mozambican? Yes, there are many opportunities with the investments, but they are not there are they? We need laws that clarify when a company is Mozambican and we need laws that tell investors that there needs to be a 20, 30, 50 percent Mozambican content over time. Our members just get promises and they are told of opportunities, but then nothing happens really" (AIMO March 2013).

The companies investing in, e.g. coal expressed similar concerns, but also added an economic dimension to the narrow enterprise base. For example, RTCM argued that while they obviously liked working with foreign companies of a certain standing that they had established links with, and who could guarantee a timely execution, quality and live up to established standards, they were interested in getting more competition for service contracts. The reason was simple: the price level was artificially high, as a small group of companies had ring-fenced port-handling, transport, import of machinery and so forth. The mapping of potential new enterprises that RTCM had done through a consultancy company, and the setting up of a training facility in Maputo that aimed at capacitating companies so they could win procurement contracts over time, was all done in order to create competition and challenge the established monopolies. According to their own perception, RTCM would like to use the state institutional framework and organizations for the promotion of SMEs and they were well aware of the World Bank Matching Grant facility, but after years of "talk with no action" they decided to "go in alone" and make the move with Vale, as the "cost structure had become too high" (RTCM March 2013 Hotel Polana). They simply did not know how to break the stalemate through the established system in which everybody was waiting for somebody to make the call, but nobody dared make any moves since it would challenge the tacit monopoly and monopsony status of a group of companies who stymied competition.[16] Such forms of monopolisation are compound by the limited manufacturing base with few economic entrepreneurs having the required capabilities. This means that when opportunities arise they will nearly always be easy to monopolise, or the only people with capabilities will be from the ruling elite.

Take the example of the Norwegian Oil for Development programme (OfP). It is generally acknowledged that the OfD programme has been successful in supporting demand-driven capacity-building, with the programme's focus on technical capabilities being greatly appreciated by counter-party institutions (NORAD, 2012: 1). Indeed capacity in the extractive natural resource sectors of the economy and state ministries in Mozambique are more or less fully linked to the OfD programme. After 2006, when support was provided through the OfD programme umbrella, the majority of funding was used to provide institutional support for the National Institute for Petroleum (*Instituto Nacional de Petróleo* or INP), with smaller components of institutional development and capacity building for the state-owned oil company (the *Empresa Nacional de Hidrocarbonetos* or ENH) and the Ministry of Environment (MICOA).[17] Both INP and ENH fall under the Ministry of Mineral Resources (MIREM).

The institution with the mandate to develop the legal framework for off-shore natural gas exploitation is INP, the semi-autonomous industry regulator based in the Ministry of Mineral Resources (MIREM). INP is also responsible for the monitoring and enforcement of exploration and production contracts. The fact that more or less all people with knowledge of the oil and gas sector have been involved with the OfD programme also means that, in a situation where there are overlapping relationships between the Frelimo Party, the government and business, it is almost inevitable that accusations of corruption will arise. Indeed, as highlighted by the donor funded think tank the Center for the Promotion of Public Integrity (CIP, 2010; 2012), the personal relationships between politicians and senior government officials and bureaucrats, as well as larger companies, take the form of close networks where it is close to impossible to avoid overlapping interests between business and political elites, leading to conflicts of interest.

Whereas the risk of personalized networks and relations has come to dominate the oil and gas sector, it has been suggested that this is partly mitigated by requirements set out by the regulator, INP, that bidders for contracts demonstrate prior experience. This condition which should ensure that 'good governance' rules are followed and protected against corruption and misuse is nonetheless exactly what privileges the OfD-capacitated members of INP and ENH. As illustrated by CIP (2010), all the top senior government officials and bureaucrats in the INP, ENH and MIREM have established companies that can service the oil and gas sector, because they enjoy "privileged access to information on the country's natural resources" (CIP, 2010: 1; see also CIP 2013). Where such close networks and relations between political and technocratic elites and international business are inevitable in a country with a very limited private sector and a recent history of state-

[16] Much in the same way, they had also embarked on resettlement projects together with DFID and others who could be interested, as the state, which had the responsibility for resettlement, did not fulfil their part of the contract. This created conflicts and unrest in the mining areas and negative publicity.

[17] The support for MICOA focused on enhancing the capacity to manage and carry out Strategic Environmental Assessments and Environmental Impact Assessments.

led development, they may be the foundation for a greater ability in the future to manage the resources (as suggested by Pérez Niño and le Billon 2013 in a comparison of Mozambique and Angola). Or alternatively, such monopolisation can form the basis for future conflicts and the development of inefficient resource-driven economies.

The tendency for linkage formation to be politicized and drive towards what we have called "linkage patronage" (see Buur et al., 2013), with consequences for realizing the potential of linkages in extractives, seems to be persistent. One reason for this that is worth further exploration is whether this is because the focus of linkage policies has narrowly been on local content provision and ownership instead of locally added value. When this is the case, the groups that become the main beneficiaries when the lead MNCs involved in extractive industries link up with or move import functions to domestic entrepreneurs are, e.g., those that already control the economy – in Mozambique, the elite groups closely related to and financers of the Frelimo party. When such easy rents from "low-hanging" linkage promotion have been captured by key ruling elite coalitions, it is very difficult to change the distribution of economic opportunities and benefits from linkage policies. The dangers of capture are very real and not necessarily conducive for linkage promotion.

TOWARDS A CONCLUSION

The experience of MOZAL has also been used as a 'best practice' example for the promotion of linkages between FDI mega-investments, SMEs and local content development in Mozambique. It forms part of the packages that are used for how to provide technical assistance and dissemination of experiences with 'best practices' across developing countries. Much can be learned from MOZAL and the Mozambican experience with linkage development so far. But we argue that one should not neglect exploring the political incentives that motivate elites to pursue linkage development, be it directly part of industrial policies or less steered. This is important because policies and government initiatives that aim to stimulate specific economic activities in productive sectors must be industry-specific because learning needs must be adapted to industry-specific institutional and political constraints

Consequently we have argued (see Buur et al., 2013) that industrial policies for linkage development are more about 'good fit' than the 'best practice' thinking. This is based on the central assumption that 'best practice'-based policy recommendations can and ought to be implemented as blueprints for action across countries, regardless of political, economic and social contexts.[18] However, without a 'good fit' with the local context even desirable policies are not likely to be implemented. Context, institutions and politics matter, and they impact on the political incentives that influence elites (political, bureaucratic or economic) to formulate and implement industrial policies. Only by taking such considerations into the equation can one understand how linkage development is exercised in Mozambique.

This paper has argued that even though more opportunities have become available

[18] However, 'best practice' notions have weak theoretical and empirical foundations (Høyland et al., 2009; Sanin, 2009; Khan, 2012; Page, 2013), which the World Bank (2000) clearly acknowledged more than a decade ago. Unfortunately, notions of 'best practice' still dominate much of the thinking and advice offered by the Bank and many other donors (Andrews, 2013: 225).

through large-scale foreign direct investments in Mozambique's rich natural resource endowments from the mid- to late-2000s, access to these opportunities has become monopolized. It is not only that opposition access to the business opportunities generated by these investments does not seem to have been substantially broadened, they have also become concentrated within the ruling Frelimo coalition as a new development. Since the mid-2000s, the Guebuza faction has been able to control rents because the party, state and economic power has now been concentrated in one Frelimo faction. So while the emerging extractive economy is on a scale far exceeding anything experienced so far, the Frelimo ruling elites, especially the faction aligned with President Guebuza, are positioning themselves to control and benefit from it, thereby leaving little space for other Frelimo factions – not to mention independent or opposition groups – to benefit. This has created amble ground for societal conflicts, as we have seen over the last year where Renamo, the old civil war opponent, in a last ditched attempt at renegotiating the General Peace Accord form 1992 and gain access to the present and future revenue streams went to "the bush" before it totally was annulated by the new Beira and centrally Mozambican based opposition movement MDM.

Related to this, the local elections at the end of 2013 saw MDM win three municipals out of 43 that was up for grab but the lections was far from free and fair and much suggest that MDM won in far more locations than what has been officially acknowledged. As it has been the case for local elections the last decades, beside Beira, the success of MDM is partly related to a general fatigue with Frelimo rule. The other side of the success of MDM is related to splits emerging within the Frelimo, where Frelimo party factions opposing or being squeezed out of power by the Guebuza ruling coalition's capacity to monopolise state and party control have boycotted local elections, thereby handing over power to MDM as a way of castigating and attempting to undermine Guebuza's stronghold over Frelimo. This can be seen as a way of delegitimizing his personalized rule by exposing its limits to reproducing Frelimo´s rule.

One can argue that the need of Frelimo elites to control the economy in the same manner that has hitherto been the case will diminish with the gas (and oil) investments, as it will (most probably) be impossible to control the economy, due to the sheer size of the new extractive economy, as tightly as was the case with the aid and First Generation mega-investment economy without unduly strangling it. As a joint result of these dynamics, Frelimo elites may loosen their grip over the economy, but so far there have been no indications that the Guebuza factions controlling Frelimo since 2005 have done so even though internal party pressures from unhappy and excluded party members and the relative success of MDM at the 2013 local elections without doubt have put pressure on Guebuza and his ruling Frelimo coalition.

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