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12 Elite capture and the development of natural resource linkages in Mozambique

Lars Buur and Celso Marcos Monjane

Introduction

Since the end of the 16-year, devastating civil war in 1992, Mozambique has enjoyed a remarkable turnaround, with strong and sustained economic growth averaging approximately 7 per cent per year. But as "the low hanging fruits from post-war reconstruction were reaped" (IIM, 2012: 11), growth has largely been driven by overseas development assistance (Jones and Tarp, 2012) and mega-project investments in the form of large, capital-intensive, and foreign-owned operations, without any clear signs of a structural transformation taking place (Whitfield *et al*., 2015).[1]

Since the first democratic elections in 1994, mega-projects have functioned as 'showcases' for successive Mozambican governments, exposing Mozambique to potential investors. Mega-projects have been considered important for investors and donors for at least two reasons. First, foreign investment-driven mega-projects have counteracted the negative, investor-hostile image of the country's post-independence socialist period (Buur and Baloi, 2009). Second, the successful attraction and protection of large-scale foreign investments have been seen as a litmus test showing potential investors the Mozambican government's readiness to act in an open liberal economy and as a catalyst for investment in much-needed infrastructure development (Clément and Peiris, 2008).

However, while mega-projects account for most of the overall growth in industrial manufacturing and exports, this has been growth with little sustained formal employment creation or broad-based poverty reduction, as investments have led to little or no development of national entrepreneurialism or capabilities of substance in the productive sectors of the economy. This is somehow surprising, as in many ways there has indeed been a push to make 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 in key government documents that Mozambique faces three key challenges: "(a) to diversify its economy, (b) to begin the process of structural transformation, and (c) to achieve broad-based gains in living standards" (IIM, 2012: 11).

The paradox is that, even though relatively elaborate official organizational and institutional arrangements based on policies, strategies, and units have emerged over time in order to reap the benefits, particularly in terms of linkages of large-scale investments in the extractive sectors to local firms and the economy more broadly, such linkages rarely take place. Linkages are important because they can form part of triggering the economic transformation processes of resource-rich developing countries if foreign investments succeed in linking up to local firms so that domestic firms are upgrading, transfer of technology, knowledge, and skills are facilitated, business and management practices are improved, and access to finance and markets are eased. Strong linkage creation can as such promote "production efficiency, productivity growth, technological and managerial capabilities, and market diversification in local firms" (UNCTAD, 2013: 1). For poor but resource rich countries like Mozambique the importance of creating linkage development related to resource investments is pertinent, as it seems, besides taxation, to be the most important avenue for reaping the fruits of its rich natural resource endowment. It is only by linking the national economy to extractive investments that the economy can move from extreme dependence to a more fair engagement with the global economy.

However, the shift to natural resources that Mozambique has experienced over the last decade has not played a pivotal role in the transformation of the economy. Instead, economic growth has increased the already enormous disparity in wealth that sustains the political-cum-economic elite coalition linked to the Frelimo Party that has increased its grip over power in the two decades since the peace accord of 1992. In important ways this seems to reproduce Mozambique's predicament, mentioned by Castel-Branco (2010), that the country has become an extractive service economy, bucking the formal imperative of industrial and economic transformation that has been the policy of the Frelimo party since independence. Consequently, the present development pattern seems to be making the Mozambican economy even more of an "enclave economy" (Morrisey, 2012), thus mirroring key features of the critique of foreign direct investment (FDI)-driven development and the 'resource curse' literature's quite negative assessment (Killick, 2004) of the potential for abundant natural resources economies to break the logjam of economic transformation and inclusive growth.

This chapter explores these broader processes from the perspective of linkage creation in Mozambique related to mega-projects in natural resource extraction and development from a political economy perspective. From a resource fairness perspective, linkage creation is essential as it allows for a more fair distribution of opportunities for local firms to gain from large-scale natural resource investments and for learning and spillover effects to other parts of the economy. In a longer term perspective, it is a potential key source of economic transformation towards higher value

added activities and more and better local employment, therefore reducing dependence on resources.

The chapter proceeds as follows: the first section briefly considers the scope of mega-investments and their relation to Mozambique's economic structure. The second section describes how linkage development has been pursued in relation to mega-investments and explores the organizational and institutional realm that has developed over the last 15 years. The third section reviews the limitations to linkage development and analyses why the present wave of mega-investments in the extractive natural resource economy is struggling to engage in linkage formation. A brief conclusion ends the chapter.

Extractive FDI investments in Mozambique

Mozambique's history of natural resource extraction is relatively recent. Mozambique opened up the economy after the General Peace Accord in 1992. From 1997 to 2009, mega-projects generated FDI inflows amounting to approximately US$8.4 billion (Mwanza, 2012: vii). Since the end of the 1990s, it has seen investments in aluminium processing, gas extraction, heavy sand flow, and most recently coal-mining (see Buur *et al.*, 2013). The first large extractive investment was the MOZAL aluminium smelter outside Maputo which went online in 2001.[2] At present, the government has already granted more than a hundred coal exploration licences, even though production has only started for nine main extraction projects. The biggest coal investor is the Brazilian company Vale, which is "expecting to invest into the total project up to US$8.2 billions" (MCMP, 2013: 74). Nevertheless, this is far below future investments in gas and liquid natural gas (LNG) facilities, which are expected to exceed US$50 billion over the next ten years (Besseling, 2013; Ledesma, 2013). Mozambique is expected to become one of the world's largest producers of LNG and is aiming at the Asian growth markets. In contrast, the biggest agricultural investments in the sugar sector amounted to the much lower figure of approximately US$400 million after the programme was initiated in 1996, with another US$300–400 million after the millennium (see Buur *et al.*, 2012a). Moreover, Mozambique's GNP lingers around approximately US$13 billion, so foreign investment in the extractive natural resource industries is considered a 'game changer'.

Castel-Branco (2010, 2012) argues that mega-investments in Mozambique are a continuation of a far longer history of an *extractive development economy* characterized by considerable path dependencies. The Mozambican extractive development economy is characterized by an extreme concentration on a limited set of export products, services and firms in the energy and extractive sector that account for most of the economic growth. The economy is also a typical *consumption economy* rather than an economy based on investments for production. Urban centres rely

on imported consumer goods of everything from hardware to foodstuffs. This has been exacerbated by the *service economy*, which has dominated more than 50 per cent of GDP from 1994 onwards. The service aspects of the economy have undergone dramatic structural change, 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 fallen significantly over the past 30 years, from 35 per cent in the 1980s to approximately 20 per cent at the beginning of the new millennium, this is due to a fall in agriculture's *relative* weight since the MOZAL and following extractive investments. 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 processing industries (Whitfield *et al.*, 2015). Agriculture has remained important for the economy because this is where most people find employment and make their livelihood. Industry's contribution to GDP was only 21.1 per cent (KPMG, 2013). From 2000 onwards, mega-projects such as the MOZAL aluminium, coal and mineral sands exploitation accounted for the majority of growth in the 'industry' component of GDP, with MOZAL alone accounting for two-thirds. Besides mega-projects, the other major industries include beverages, tobacco, sugar, and more recently the re-emergence of cashew processing (Hanlon and Smart, 2008). In terms of exports, the MOZAL aluminium smelter alone accounted for 31.38 per cent of all exports in 2012, followed by coal (12.52 per cent), electricity (6.73 per cent), tobacco (6.57 per cent), gas, and sugar.[3]

In other words, 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 (Weimer *et al.*, 2012). One important implication of the extractive nature of the economy is that domestic capitalist class accumulation and income are based not on production in productive sectors, but on the rents of the services linked to extractive economies, while the economy is heavily dependent on external capital inflows, with a tendency to generate cyclically negative capital outflows. The economy's extractive nature creates a mode of accumulation that relies on natural resources and existing infrastructure, as well as creating structural inequalities in capitalist development across the different regions of the country (Castel-Branco and Ossemane, 2010: 143).

The dependence on the extractive sectors and related FDI investment can be seen in the incentive packages provided for the first and second generation of mega-investments. Even though there are vast differences between what has been granted as tax breaks and holidays in order to attract FDI, a clear pattern has developed. According to the African Peer Review Mechanism (APRM, 2009: 163–164), as a first mover, MOZAL was granted Africa's most generous tax exemption benefits. Added to this

is 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 Kaufmann, 2011: 49). Moreover, both the SASOL gas investment and the Kenmare heavy sand investments have received generous tax holidays. Calls for contracts to be re-negotiated have therefore been made. But since the content of most contracts is not made available, the issues of incentives granted for investing in Mozambique and possible links to the ruling political elite are wide-ranging.

However, in contrast to what one would expect, and based on its low position on all governance indexes, Mozambique has formally developed an organizational and institutional setup linking the extractive economy to the national economy and small and medium sized enterprises (SME) development in response to the first wave of mega-investments from the mid-1990s and the second, intensified, wave since 2005.

FDI-driven linkages: the institutional and organizational realm

Since 1998, the key driver of linkage and local content awareness and promotion in Mozambique has been intimately related to the experience of the US$2.4 billion *MOZAL aluminium smelter* outside Maputo, until recently the single biggest FDI investment in Mozambique and its first mega-investment.[4] MOZAL has been used as an 'ideal model' showing investors that investments in risky destinations such as post-conflict Mozambique are possible, as well as being a 'best practice' example of the promotion of linkages between FDI mega-investments and SME and local content development. Whereas the first assumption is difficult to assess, the veracity of the second assumption has been thoroughly evaluated in multiple studies, assessments and manuals (see Castel-Branco and Goldin, 2003; Jaspers and Mehta, 2007; Robbins *et al.*, 2009; Sonne-Schmidt *et al.*, 2009; Ernst and Young, 2010; Krause and Kaufmann, 2011; Da Costa, 2012). While some studies herald MOZAL as a prime example of investor commitment and the power of following best practice blueprints, other studies have marked out the limitations of this type of investment.

The MOZAL investment had two phases of construction: MOZAL I was initiated in 1998 and 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. Four steps can be identified in which linkages and local content provisions have been promoted in relation to MOZAL's construction and operational phases.

Identification: From 1997, the Mozambican state, through the Centre for the Promotion of Investments (CPI) and with support from the International Financial Corporation (IFC) and the World Bank, carried out a study as part of preparations for the participation of domestic SMEs in the

construction of MOZAL and its subsequent production. A study screening 370 enterprises in 1997 found that "99% had serious problems with product quality" and generally lacked experience, did not have the necessary portfolio of projects, operated with out-dated and depleted equipment and technology, and had serious management shortages (Castel-Branco and Goldin, 2003: 24). With very low levels of intra- and inter-firm linkages and technological capabilities, and a very thin and dispersed formal enterprise base, there was very little MOZAL could do to tap into and link up with local SMEs. So while opportunities would emerge, there were very few domestic enterprises that could engage with MOZAL. What became particularly clear to 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 engage with (Robbins *et al.*, 2009: 28). One consequence of this was that Mozambican participation in the construction of MOZAL I was limited.

SME Empowerment Linkages programme (SMEELP): Since 2001, there has been a joint MOZAL, CPI, and IFC programme that 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 the potential of enterprises to engage with MOZAL. This was followed up by the redesign and unbundling of MOZAL standard contracts, in addition to the reformulation of procurement standards so that they would better fit Mozambican business realities. Finally, the project engaged in the facilitation, information exchange, and training of the Mozambican SMEs that were considered the most capable candidates for MOZAL bidding, including when they were contracted for follow up through mentoring. In total, 16 SMEs were trained and, over time, 28 contracts worth just over US$5 million were awarded.

Mozlink I: From 2003, SMEELP continued from the construction to the operational phase of the smelter, with a particular focus on banks and financial institutions providing loans to SMEs and 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 and IFC being the key drivers. The programme trained 45 SMEs, and Mozlink enterprises gained contracts worth US$13 million out of a total expenditure on local content of 180 million dollars, in which electricity and water combined accounted for 96 million dollars (Krause and Kaufmann, 2011: 51).

Mozlink II: This expanded 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, n.d.; Jaspers and Mehta, 2007; Ernst and Young, 2010) has trained 75 SMEs and secured US$20 million in revenues for them, with a 40 per cent growth in contract development by Mozlink corporate partners and providing employment for 3,000 employees.

Following in the slipstream of new mega-investments and the attempt to create linkages between the first generation of extractive industry mega-investments, new legislation emerged. Most importantly, at least in name, were the "Industrial Policy and Strategy" (GoM, 2007a) and the related "Strategy for the Development of Small and Medium Size Enterprises in Mozambique" from 2007 (GoM, 2007b). Among other issues, the Industrial Policy formulated mainly by the Mozambican state and government (GoM, 2007a: 4) highlighted the development of linkages between the beneficiaries of industrial development, encouraging them to organize themselves 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 with a major economic and social impact,[5] permitting the promotion of vertical and horizontal integration as well as of industries able to exploit productive resources and capacities adequately and sustainably.[6] If the hallmarks of good industrial policies are the targeting, prioritization, and enforcement of the conditions for productivity, then the Industrial Policy was rather vague, because it did not provide guidance on how to link up with mega-investments (Krause and Kaufmann, 2011: 28), nor clearly provide strategic guidance on how, for example, an investment like MOZAL could be used to boost economic development in the future (APRM, 2009: 165).

In contrast to the overall Industrial Policy, the specific strategy for SME development does set out key priorities and objectives while also proposing a certain sequencing of actions, including the establishment of an Institute for the Promotion of Small and Medium-sized Enterprises (IPEMA). While IPEMA was established in 2008 to drive implementation of the SME strategy, it largely relies on external funding for implementation, as is common for most organizational 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. As few initiatives supported by donor funding have been established by IPEMA, they do not seem to have provided any particular foundation for developing SMEs.

The three key pillars of the strategy – improving the business environment for SMEs, strengthening their technological and management capacity, and the provision of strategic support – depend on changing the overall business environment by "creating a level playing field and reducing transaction costs for SMEs" (Krause and Kaufmann, 2011: 29).

In this sense, IPEMA's role primarily becomes one of facilitation, as its results depend on general policy reform and on support and resources, principally from donor organizations. However, while donor organizations are supportive of 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 grant 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 US$25 million budget is far larger than the budget of the Ministry of Trade and Industry (MIC), not to mention IPEMA. In addition, most national donor agencies, such as Danida, NORAD, and SIDA, run their own support mechanisms for private-sector, SME, and linkage development.

A particularly important point is that, at least to date, no specific *legislation on local content* for Mozambique exists, although some provisions can be found in different laws.[7] Local content policies, understood as the extent to which investors have to purchase inputs and services locally, are contentious in regard to which criteria are used to define a Mozambican company as a firm. The Investment Law (No. 3/1993) suggests that a company or firm is Mozambican when it is formed and registered under Mozambique law, with headquarters in the Republic of Mozambique, and in which the respective capital share belongs at least 50 per cent to Mozambican citizens, companies, or institutions, whether private or public. But what constitutes 'capital' can be interpreted in different ways with the implication that local content provisions can *de facto* be provided by foreign companies with sleeping Mozambican partners that operate as 'fronts' for foreign companies. Another contentious issue has been that local firms will only be preferred under certain conditions, based on the quality of products and services offered locally, as they must be comparable to those offered internationally (Petroleum Law, No. 21/2014, Art. 41). This may as such be 'fair' if the aim is to promote competition, but it has the potential to reduce the participation of local firms, which can rarely comply, given their low capabilities and the relatively low quality of local products and services.

Finally, the legislation described so far overwhelmingly effects backward linkages, those links related to the supply of inputs to the commodity sector. Importantly, the regulatory frameworks also envisage the development of *forward linkages*, where outputs from the commodity sector are used as inputs to other industries. For example, the Mining Law (No. 20/2014) states that "mineral resources should be used where appropriate for power generation in order to achieve national energy security or as raw material for the manufacturing or other applications in the country"

(Art. 21). This means that the state can buy mining products at market prices to use in the local industry whenever the commercial interests of the country require: "whenever possible, treatment and processing of ores exploited in Mozambique must be carried out within the country" (Art. 57).

If this is the institutional and organizational set-up for support to domestic SMEs that came out of the first and second generations of mega-investments, beginning with MOZAL in 1998 and the subsequent specific legislation related to extractive industries, the broader question is, what has been the actual experience of linking domestic firms to mega-investments?

Limitations to linkage creation: the political economy of linkages

Compared to the quantity of investments in which MOZAL has been involved, the results of the efforts to build linkages were rather meagre. Although no one has disputed the importance of the linkage programmes that emerged in the slipstream of the MOZAL investment, there were important limitations that are worth examining, as this experience is intimately related to how natural resource linkages are being pursued today in Mozambique.

First, as Krause and Kaufmann (2011) 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.
>
> (50)

Second, in most cases the companies that received grants during the first generation of linkage programmes were the same as those in the following stages, with each company providing an increased number of services and supply functions (Jaspers and Mehta, 2007). This left a distinct impression that the linkage programmes that emerged from the MOZAL slipstream were helping a small, favoured number of enterprises instead of enlarging the general SME pool (Krause and Kaufmann, 2011: 51). This has clear historical origins, but there are also clear political and economic reasons for this concentration and favouritism. Over time, MOZAL created 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. However, 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) that reallocated

with MOZAL. They also established subsidiaries over time and in many cases entered partnerships with well-placed Mozambicans. This seems to be a logical outcome, as MOZAL, through its main investor Billiton, came to Mozambique with an established business structure and model developed in South Africa. This had clear advantages, as an entire package of companies that could be subcontracted and that could establish links with Mozambican partners over time, though it also created rather limited and narrow linkage effects in Mozambique itself.

Third, this linkage model had few spillover effects to the Mozambican economy regarding technological capabilities and learning. Although it catered 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, the development impact as such was rather limited. Even though MOZAL worked with suppliers in a broad spectrum of services, most of the more genuine Mozambican owned and steered enterprises were in the low hanging fruits service sectors related to security, cleaning, and transport with limited knowledge and technological transfers.

Fourth, the concentration and monopolization of opportunities had the potential to trigger the establishment of new enterprises that were better geared and attuned to exhausting the opportunities emerging from the extractive natural resource industry, which does, however, not seems to have happened thus far. Research suggests that the Mozambican enterprises that came out of the MOZAL linkages programmes in fact became specialized and upgraded, being able to satisfy ISO and similar international standard requirements for safety, but also that they struggled to find 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 [lost] some space and ability to work with the traditional market" (Castel-Branco and Goldin, 2003: 29) as they became too expensive and advanced for the Mozambican economy. In this context, the enterprises that emerged in the shadow of MOZAL began a process of de-specialization in order to obtain 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 gains in productivity and technological capability. This then caused problems when the recent wave of mega-investments into coal, gas, and energy came on stream after 2007 as the cluster of smaller enterprises that had evolved out of the MOZAL experience struggled to get contracts with the new investors due to de-specialization.

Finally, while the intention behind the SME programme was to create forward linkages when possible, 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 the lack of specific policies 'forcing' forward linkages. The expectation that the mere 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 proved elusive (Warren-Rodriguez, 2008). For example, gas from the Pande and Tamano fields in Mozambique was transmitted to South Africa, from where it returned as value-added gas for household consumption in Mozambique until a new, smaller plant was set up in Mozambique in 2012 (Nhancale and Vilanculos, 2010).

Hence, 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 such as generous tax, customs, and import agreements (Castel-Branco and Goldin, 2003: 23) – there were also disadvantages and first-mover costs such as the lack of infrastructure investments and institutional and technical capacity. The hope was that the first generation of mega-investments would transform the general business landscape, making it easier for the second generation to link up to the Mozambican economy. However, second-generation investments have neither been as smooth as anticipated nor had the expected outcomes so far. Investments have generally found it very difficult to find small and medium sized Mozambican companies outside a small pool of companies to link up to. One reason remains the underlying problems of lack of capacity to meet the standards the new extractive mining and energy companies require. A second reason is that the national economic policy environment generally failed to give SME's sufficient attention during implementation despite the official focus on local linkages and SME development.

To understand these issues and the earlier and current challenges of linkages creation more generally it is crucial to take into account the – often overlooked – political economy context and consequently the political forces that shape linkage development in Mozambique. This is important as industrial policy inevitably will be about distributing economic benefits and favouring certain economic factions or actors in contrast to other factions or actors. In this regard, the dynamics of linkages related to the new extractive economy must be placed within a broad political economy context in order to understand the nature of the domestic capitalists who have emerged over the last three decades and the scant attention seemingly given to emerging SMEs.

Interestingly, Mozambique was one of sub-Saharan Africa's eight most industrialized countries, at least until its independence in 1975 (Torp, 1979), but "after independence in 1975, the majority of fearful settlers fled back to Portugal and the industry was largely left alone" (Hanlon and Mosse, 2010: 2). With many businesses abandoned, "inexperienced and often poorly educated Mozambicans had to fill the gaps to avoid economic collapse, and five years after independence, Frelimo remained immensely

popular, both for ending colonial oppression and for the expansion of health and education" (Hanlon and Mosse, 2010: 2).

At that time, it was believed that an honest and hard-working elite could develop the country, but the escalating civil war undermined the project of building a new developed state. The mid-1980s saw a shift to a mixed economy under the tutelage of the World Bank, even while the war continued. Liberal economic reforms took place, and state assets, except for strategic enterprises, were largely privatized. On top of access to property, officials and newly emergent business people were also given special access to dollar loans and credits by the state. As Pitcher (2003) argues, the fifth Frelimo Congress in 1989 had eliminated the restrictions imposed on party members, giving them an allowance to participate in the private sector. By doing so, the Congress gave the Frelimo state the power to reward its supporters by giving them state enterprises, while politicians viewed privatization as an opportunity for wealth accumulation.

This history of accumulation suggests that the most recent national capitalists are members of the ruling Frelimo coalition, which includes former government officials, administrators of state enterprises, and members of the security complex. Indeed, "these new capitalists started their careers in the government and in politics and owe their existence or economic expansion to patron client networks" (Pitcher, 2003: 807). The result was that

> more than 40% of the new firms went bankrupt within five years of privatization, more than half of the remainder were traded for cash or shares or transformed into warehouses, and the state could not raise the expected additional revenue from massive selling of its property.
> (Castel-Branco, 2014: 29)

Related to this, the Mozambican 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 ruling 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 owned by domestic entrepreneurs that comprise 98.6 per cent of all enterprises (Krause and Kaufmann, 2011: 13–14).

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 the opposition (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, imports of foodstuffs and consumer goods, machinery and technical appliances, and the export of natural resources were monopolized by Frelimo elites or Frelimo-supporting trade houses acting as cartels and monopolies. 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 linked to members of the ruling elite 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 monopsony economy. Over time a relationship evolved between the Frelimo ruling elite and the international donor community that supported the coalition with aid that has been characterized as a "pathological equilibrium" (Renzio and Hanlon, 2007: 6), allowing Frelimo to use the state to secure its dominant position and win elections as long as political stability was maintained. A tacit assumption is that mega-projects and foreign companies are in a secret alliance with the top political leadership of Frelimo. The paradox is that this alliance between Frelimo and mega-projects (or FDI more generally) are strongly supported by the international financial institutions and donors that aim at promoting good governance and democratization, while at the same time such investments buttress the Frelimo regime and its capacity to monopolize the democratic space in Mozambique.

As Buur *et al.* (2012b) observed, party coalition members who are engaged in economic activities are rarely found in the productive sectors but rather where easy rents can be deducted, as in trade and imports, communications, transport, and banking, often protected by state barriers of entry in one way or another. This is compounded by a limited manufacturing base in which few economic entrepreneurs having the required capabilities. Hence, when opportunities arise, they will nearly always be easy to monopolize, with the only people with capabilities, if any, coming from the ruling elite. Further, smaller entrepreneurs will try to stay 'under the radar' and spread out their activities in order not to attract the attention of politically connected business groups that could feel under threat, as one business man and representative from CTA phrased it in 2012. Thus, even though new opportunities have been made available by the present wave of mega-investments little happens. As a World Bank official noted in 2013:

> 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.
>
> (Interview with Lars Buur, Maputo, March 2013)

One consequence of such monopolization and elite capture is that foreign companies begin to develop their own programmes for local content

development. For example, former Rio Tinto Coal Mining (RTCM) argued that, while they obviously liked working with foreign companies of a certain standing that they had established links with from other contexts, they were becoming increasingly interested in attracting competition for service contracts and hence also work with a larger pool of local firms. The reason was simple: the price level was artificially high, as a small group of companies had ring-fenced port-handling, transport, imports of machinery, and the various types of services they depended on. The mapping of potential new enterprises that RTCM had commissioned from a consultancy company, and the setting up of a training facility in Maputo that aimed to empower companies so they could win procurement contracts over time, was all done in order to create competition and challenge the established monopolies. Thus, instead of using the structures created by the first generation of investments, including the state's organizational and institutional framework related to IPEMA, they were in the process of establishing their own linkage programmes in an attempt to challenge the tacit monopoly and monopsony status of a group of companies that restricted competition.

Another example of elite capture is the Norwegian Oil for Development Programme (OfP), which is generally acknowledged to have been successful in supporting demand-driven capacity-building, with its focus on technical capabilities being greatly appreciated by counter-party institutions (NORAD, 2012: 1). After 2006, when support was provided through the OfD programme umbrella, the majority of the funding was used to provide institutional support for the National Institute for Petroleum (INP), with smaller components of institutional development and capacity-building for the state-owned oil company (ENH) and the Ministry of Environment. The fact that more or less all people with knowledge of the oil and gas sector have been involved with the OfD programme means that a situation has evolved where there are overlapping relationships between members of the sector, the Frelimo government, and business (CIP, 2010; 2012). It seems like all the top senior government officials and bureaucrats in the INP, ENH, and related ministries have launched companies to service the oil and gas sector because they enjoy "privileged access to information on the country's natural resources" (CIP, 2010: 1). 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-led development, they may be the foundation for a greater ability in the future to manage resources. But so far much suggests that Mozambique seems to be heading in the direction of inefficient rent usage with little ability to manage its rich resource endowment securing a more fair distribution and use of resources.

Conclusion

This chapter has argued that large-scale FDI in Mozambique's natural resource endowments from the mid- to late-2000s has created fewer linkage opportunities than expected and that access to these opportunities has been monopolized. The tendency for linkage formation to be driven towards monopolies or what we have called "linkage patronage" (Hansen *et al*., 2015) has major consequences for realizing the potential of linkages in extractives for development. The groups that become the main beneficiaries when foreign investors involved in extractive industries link up with or move import functions to domestic entrepreneurs will be those who already control the economy. In Mozambique, this means elite groups closely related to Frelimo. Once 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 conducive to linkage promotion and by implication productive transformation, as the ruling elite focus on trade and service.

One implication of the findings from this chapter is that broader questions related to fairness and a more equal distribution of potential benefits from natural resource exploitation are not solely related to external factors, such as FDI dominance, that create an uneven playing field for least developed economies, but are also intimately related to internal political economy factors, which implies that the political incentives – be they direct, as part of industrial policies, or less steered – that motivate elites to pursue linkage development need to be taken seriously. Here, contexts such as institutions and politics matter, as they impact on the political incentives that influence political, bureaucratic, or economic elites in formulating and implementing policies. Only by taking such considerations into account can one begin to understand how, and whether, linkage development is exercised, and who ultimately gains, and, hence, if these policies and processes provide support or limits to resource fairness.

Notes

1 In Mozambique, investments that exceed 500 million US dollars are referred to as mega-investments.
2 It is owned by the Australian based BHP Billiton Ltd, the Industrial Development Corporation of South Africa Ltd, the Japanese Mitsubishi Corp, and the Mozambican government (with less than 4 per cent).
3 Before the mega-investments began to change the composition of exports, Mozambique had a chronic balance of payments problem. However, the economy is dependent on a small number of export commodities, and it imports a significant amount of goods and services for extraction purposes that are consumed or used domestically, making the economy extremely vulnerable to external price shocks for oil and food.
4 The construction of MOZAL was followed by the US$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.

5 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).

6 Again, the examples were specific, "such as industries for the processing of timber and its derivatives, and industries producing construction materials, among others" (GoM, 2007a: 4).

7 Five pieces of legislation have various provisions of relevance to this chapter: the Investment Law (Law No. 3/93 of 24 June, Mozambique), the Law on Public–Private Partnerships of Large Scale Projects Business Concessions (Law No. 15/2011 of 10 August, Mozambique), the Mining Law (Law No. 20/2014 of 18 August, Mozambique), the Petroleum Law (Law No. 21/2014 of 18 August, Mozambique), and the Policy and Strategy of Mineral Resources (Resolution No. 89/2013 of 31 December, Mozambique).

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