

## **Governing petroleum in Mozambique**

Contentious governance reforms and deal-making

Salimo, Padil

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**Roskilde  
University**

**DOCTORAL SCHOOL OF SOCIAL SCIENCES AND BUSINESS**

PhD THESIS

**GOVERNING PETROLEUM IN MOZAMBIQUE:  
CONTENTIOUS GOVERNANCE REFORMS AND DEAL-  
MAKING**

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A thesis submitted to the Roskilde University and the University of Dar es  
Salaam for the joint PhD degree in Social Sciences

March 2022



**ROSKILDE UNIVERSITY**  
**DOCTORAL SCHOOL OF SOCIAL SCIENCES AND BUSINESS**

# **GOVERNING PETROLEUM IN MOZAMBIQUE: CONTENTIOUS GOVERNANCE REFORMS AND DEAL-MAKING**

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A thesis submitted in fulfilment of the academic requirement for the joint PhD degree  
in Social Sciences at the Doctoral School of Social Sciences and Business, Roskilde  
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## DEDICATION

To the memory of my father,  
Salimo Padil (08 Jan. 2017)  
and  
my mother  
Natifa Amad (05 Mar. 2022)

## DECLARATION

No portion of the work in this research thesis has been submitted in support of an application for another degree or qualification of this or any other university or institute of learning.

Padil Salimo

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In the early stage of my research for this thesis, I thought I would be conducting it surrounded by people involved in the same adventure. However, that was revealed to be a false presumption. Involuntarily my journey was fraught with tremendous loneliness, even though this PhD research thesis could not have come to its end without the support, encouragement, and inspiration from several persons and institutions.

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## ABSTRACT

This thesis focuses on *governance reforms* in the petroleum sector in Mozambique, particularly on the separation of the regulatory and commercial functions and the power underpinning the international agenda of good governance. It grapples with the questions of how governance reforms based on the separation of powers have been adopted and implemented over time, and the implications of this for undermining rent-seeking behaviour by the ruling elites and for transparency in respect of sector management and economic performance. Although Mozambique has been producing natural gas for almost two decades, only recently has the country drawn the unprecedented attention of the international oil companies and the national and international communities. It was the discovery of massive volumes of world-class natural-gas reserves that triggered this attention, and similarly, the demand for efficient management and use of resources has become critical, as expectations of an economic transformation are growing. The thesis argues that, although the reforms in the sense of the separation of powers have ‘formally’ reconfigured the sector’s governance, the intended outcomes fall far short of those that were expected, as the governance arrangements themselves cannot explain the whole set of dynamics underpinning the petroleum sector’s management. Instead, the thesis argues that the way in which the reforms are being adopted and implemented is a function of the country’s configuration of power and the interests of powerful ruling elites’ political concerns. The reforms have been adopted, but hesitantly and without any incentive actually to factually implement them. Instead, they are being treated as a means of facilitating increased investment flows into the country and thus ensuring the creation of income-producing niches necessary for the accommodation of factionalist rentier-elites (rent-seeking elites) and their reproduction.

## RESUMÉ

Denne afhandling fokuserer på *governance-reformer* i oliesektoren i Mozambique, især hvad angår adskillelsen af de regulative (lov og styringsmæssige) og kommercielle funktioner, der understøttes af den internationale dagsorden for god regeringsførelse. Afhandlingen ser på, hvordan governance-reformer baseret på magtadskillelse er blevet vedtaget og implementeret over tid, og konsekvenserne af dette i forhold til at underminere den herskende elites rent-seeking-adfærd samt for gennemsigtighed med hensyn til sektorstyring og økonomiske resultater. Selvom Mozambique har produceret naturgas i næsten to årtier, har landet først for nylig tiltrukket sig en hidtil uset opmærksomhed fra de internationale olieselskaber og det internationale samfund. Det var opdagelsen af enorme naturgasreserver i verdensklasse, der udløste denne opmærksomhed, og på samme måde er kravet om effektiv forvaltning og brug af ressourcer blevet kritisk, efterhånden som forventningerne til en økonomisk transformation vokser. Afhandlingen argumenterer for, at selvom reformerne i forhold til adskillelsen af de regulative og kommercielle aspekter "formelt" (men ikke *de facto*) har ændret styringen af sektoren, er resultaterne langt fra de forventede, da formelle forvaltningsordningerne i sig selv ikke kan forklare alle de dynamikker, der ligger til grund for styringen af oliesektoren. I stedet argumenteres der i afhandlingen for, at den måde reformerne implementeres på, er en funktion af landets magtkonfiguration og den magtfulde regerende elites politiske interesser. Reformerne er blevet vedtaget, men tøvende og uden incitament til faktisk at implementere dem i praksis før det er elitens interesse. I stedet bliver de behandlet som et middel til at skabe øgede investeringsstrømme ind i landet og dermed sikre oprettelsen af indkomstgenererende niches, der er nødvendige for, at rent-seeking-adfærden hos elitens forskellige faktorer kan videreføres.

## MUHTASARI

Tasnifu hii inaangazia mageuzi ya utawala bora katika sekta ya mafuta nchini Msumbiji, hasa katika mgawanyo wa kazi za udhibiti na kibiashara na mamlaka yanayosimamia ajenda ya kimataifa ya utawala bora. Inakabiliana na maswali ya jinsi mageuzi ya utawala kulingana na mgawanyo wa mamlaka yamepitishwa na kutekelezwa kwa wakati, na athari za hii kwa kudhoofisha tabia ya kutafuta kodi kwa watawala na kwa uwazi katika usimamizi wa sekta na utendaji wa kiuchumi. Ingawa Msumbiji imekuwa ikizalisha gesi kwa takriban miaka ishirini, ni hivi karibuni ambapo nchi imevuta hisia za makampuni ya kimataifa ya mafuta, na jumuiya za kimataifa. Ilikuwa ni ugunduzi wa kiasi kikubwa cha hifadhi ya gesi asilia ya kiwango cha kimataifa ambayo ilisababisha tahadhari hii, na vile vile, mahitaji ya usimamizi bora na matumizi ya rasilimali yamekuwa muhimu, kama matarajio ya mabadiliko ya kiuchumi yanaongezeka. Tasnifu hii inasema, ingawa mageuzi kwa maana ya mgawanyo wa madaraka yametengeneza upya kwa sekta hiyo 'rasmi', lakini matokeo yaliyokusudiwa yanapungua sana kuliko yale yaliyotarajiwa, kwa vile mipangilio ya utawala wenyewe hauwezi kueleza seti nzima ya mienendo inayoendelea usimamizi wa sekta ya mafuta. Badala yake, tasnifu hii inahoji kwamba jinsi mageuzi hayo yanavyopitishwa na kutekelezwa ni kazi ya upangaji wa mamlaka ya nchi na maslahi ya masuala ya kisiasa ya watawala wenye nguvu. Marekebisho hayo yamepitishwa, lakini kwa kusitasita na bila kwa kweli kuyatekeleza. Badala yake zinachukuliwa kama njia za kuwezesha ongezeko la mtiririko wa uwekezaji nchini na hivyo kuhakikisha kuwepo kwa miraja ya mapato muhimu ili kutimiza mahitaji ya vikundi maalumu ya watawala (wanaopata pato-nyemelea) na uzazi wao.



## ABBREVIATIONS

AfDB	African Development Bank
AMA	Anadarko Mozambique Area 1
ARP	African Renaissance Pipeline
Bcm	Billion Cubic Metres
BOE	Barrel of Oil Equivalent
BP	British Petroleum Company
CCs	Concession Contracts
CIP	Centre for Public Integrity
CMG	Mozambican Gas Pipeline Company
CMH	Mozambican Hydrocarbon Company
CNPC	China National Petroleum Corporation
CPF	Central Processing Facility
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
CTA	Confederation of Business Associations
CTB	Beluluane Thermal Power Plant / Central Térmica de Beluluane
CTM	Maputo Combined Cycle Power Station / Central Térmica de Maputo
CTRG	Ressano Garcia Power Station / Central Térmica de Ressano Garcia
CTV	Centro Terra Viva
CWFS	Committee on World Food Security
DCPAP	Department of Political Science and Public Administration
DIIS	Danish Institute for International Studies
DNCH	National Directorate for Coal and Hydrocarbons
DNHC	National Directorate of Hydrocarbons and Fuels
DoJ	US Department of Justice
DPR	Department of Petroleum Resources
DUAT	Land Use and Exploitation Rights
EDM	Mozambican State-owned Electricity Public Utility
EIA	US Energy Information Administration
EITI	Extractive Industries Transparency Initiative
EITU	Extractive Industries Tax Unity
EMATUM	Mozambique Tuna Company
ENH	National Hydrocarbon Company / National Oil Company
ENHILS	Mozambican Hydrocarbon Company Integrated Logistics Services
EPCC	Exploration and Production Concession Contract
ESKOM	South African Electricity Public Utility
FCA	UK Financial Conduct Authority

FDI	Foreign Direct Investment
FEED	Front-End Engineering Design
FID	Final Investment Decision
FLECS	Faculty of Arts and Social Science
FLNG	Floating Liquified Natural Gas
FPIC	Free Prior and Informed Consent
Frelimo	Mozambique Liberation Front
GDP	Gross Domestic Product
GoM	Government of Mozambique
GPA	General Peace Agreement
GSA	Gas Sale Agreement
GTL	Gas to Liquid
HAEI	Higher Authority for the Extractive Industry
IBRD	International Bank for Reconstruction and Development
IDPs	Internally Displaced Persons
IFC	International Financial Corporation
IFIs	International Financial Institutions
ILO	International Labor Organisation
IMF	International Monetary Fund
INE	National Institute of Statistics
INP	National Petroleum Institute
IOC	International Oil Company
IOF	Family Expenditure Survey
IPP	Independent Power Producer
ISE	Doctoral School of Social Sciences and Business
KDM	Kuvaninga Energy
LNG	Liquified Natural Gas
MAGTAP	Mining and Gas Technical Assistance Project
MAM	Mozambique Asset Management
MEF	Ministry of Economy and Finance
MGC	Matola Gas Company
mGJ/a	Million Gigajoules per Annum
MIGA	Multilateral Investment Guarantee Agency
MIGA	Multilateral Investment Guarantee Agency
MIMAIP	Ministry of Sea, Inland Waters and Fisheries
MINAG	Ministry of Agriculture
MIREME	Ministry of Mineral Resources and Energy
MITADR	Ministry of Land, Environment and Rural Development
mmcf/d	Million Cubic Feet Per Day

MNCs	Multinational Companies
MOF	Material Offloading Facility
MPLA	People's Movement for the Liberation of Angola
MRV	Mozambique Rovuma Venture
MTC	Ministry of Transport and Communication
Mtpa	Millions of Tonnes per Annum
MW	Megawatts
NamPower	Namibian State Electricity Provider
NERSA	National Energy Regulator of South Africa
NGMP	Natural Gas Master Plan
NIE	New Institutional Economics
NNOC	Nigeria National Oil Company
NNPC	Nigerian National Petroleum Corporation
Norad	Norwegian Agency for Development Cooperation
NPD	Norwegian Petroleum Directorate
OCHA	UN Office for the Coordination of Humanitarian Affairs
OXY	International Oil Company OCCIDENTAL
PBL	Pemba Logistic Base
PCD	Ports of Cabo Delgado
PoD	Plan of Development
PPA	Petroleum Production Agreement
PPP	Population Per Capita
PRG	Partial Risk Guarantee
PS	Political Settlement
PSA	Production Sharing Agreement
PURA	Petroleum Upstream Regulatory Authority
RBLL	Rovuma Basin LNG Land
Renamo	National Resistance of Mozambique
RJV	Rovuma Joint Venture
RMJ	Renamo Military Junta
ROMPCO	Republic of Mozambique Pipeline Investment Company
RUC	Roskilde University
SAA	Sub-Saharan Africa
SAPs	Structural Adjustment Programmes
Sasol	South African Integrated Petrochemical Company
SEC	US Securities and Exchange Commission
SECH	State Secretariate of Coal and Hydrocarbons
SLO	Social License to Operate
SOEs	State Owned Enterprises

Sonils	Sonangol Integrated Logistics Services
SPA	Sale and Purchase Agreement
SPE	Special Purpose Entities
SPI	A Holding Company Owned by Frelimo Party
STIAS	Stellenbosch Institute for Advanced Study
Tcf	Trillion cubic feet
TPDC	Tanzania Petroleum Development Corporation
UDsM	University of Dar-es-Salaam
UEM	University of Eduardo Mondlane
UJV	Unincorporated Joint Venture
UN	United Nations
UNU	United Nations University
UPC	Provincial Peasant Union of Cabo Delgado
UUOA	Unitization and Unity Operation Agreement
WB	World Bank

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The map displays the geographical distribution of oil and gas exploration and production in Mozambique. Key features include:

- Geographical Features:** Lago Niassa, Zambezi River, Save River, Limpopo River, and major cities like Maputo, Inhambane, Sofala, and Tete.
- Exploration Sites (Black Dots):** Numerous sites are marked across the country, including Ling-1, Dec-1, Temb-1, Bar-1, Phe-1, Bui-1, Cach-1, Acha-1, NovM-1, Nha-1, R-N-1, Chipo-1, Coro-1, Zam-1, ZO E-1, Zam-1, B-1, Sof-2, Sen-1, Sof-1X, A-1, Sof-1, Mam-1, N-1, Mup-1, N-2, N-3, Zua-1, Bab-1, Bai-1, Inhac-1, Fur-1, Maz-S-1, Cui-1, S-12-1, Zan-1, ZanW-1, S-2-1, S-4-1A, S-1-1, AS-1-1, and XW-1.
- Production Sites (Red Dots):** A cluster of production sites is located in the central-eastern part of the country, near the Zambezi River and the Save River.
- Legend:** Black dots represent EXPLORATION, and red dots represent PRODUCTION.
- Scale:** A scale bar indicates distances from 0 to 520 Km.
- Coordinates:** The map is overlaid with a grid of latitude and longitude coordinates, ranging from 30°0'0"E to 42°0'0"E and 10°30'0"S to 27°0'0"S.

The above map illustrates the existing wells drilled in different basins in Mozambique. The National Institute of Petroleum (INP) indicated that to date 240 wells have been drilled, the majority for purposes of exploration, totalling 75% or 180 wells. 20.4% representing 49 are related to production wells, and 2.5%, 6 wells are under development.

## CHAPTER 1. INTRODUCTION

### 1.1. Resource abundance

When in 2010 Mozambique discovered massive volumes of natural gas in the offshore Rovuma Basin in the far north province of Cabo Delgado, enormous expectations were immediately triggered. Long before any gas had been extracted, a low-intensity civil war between the ruling Mozambique Liberation Front (Frelimo) party and its long-term enemy, the National Resistance of Mozambique (Renamo), began in 2013, running until the end of 2016 with a contested peace agreement signed in 2019.

A second war started in October 2017 in the Cabo Delgado province, where an Islamic inspired youth uprising attacked Frelimo and state symbols and caused widespread displacement of local populations. The updated information as of September 2021 suggested that more than 700,000 people in Cabo Delgado are now internally displaced persons (IDPs) as consequence of the extremist violence.<sup>1</sup> A hidden debt scandal that came to the fore in 2016, when huge loans by three state-owned enterprises (SOEs) forced the International Monetary Fund (IMF) and the international donor community to suspend budgetary support, has ruined the economy. Add to these, internal conflicts in the ruling (Frelimo) elite, the emergence of “Renamo’s Military Junta”<sup>2</sup> (RMJ), which contested the legitimacy of the new Renamo party’s leadership, and the various wars and crises have created new insecurities in a country that since the general peace accord in 1992 ending a 16-year-long civil war has been regarded as peaceful and as the perfect international donor poster-boy.

The volume of natural gas discovered in Mozambique amounts to over 180 trillion

<sup>1</sup> United Nations (UN) Office for the Coordination of Humanitarian Affairs (OCHA) (2021, September 1), Mozambique: Situation report. Retrieved from: [Mozambique | Situation Reports \(unocha.org\)](https://www.unocha.org/mozambique/situation-reports).

<sup>2</sup> The leader of this armed faction of the opposition party Renamo was killed in October 2021 by the Defence and Security Forces (FDS) in Sofala province. See Reuters (2021, October 12), Mozambique's police kill leader of armed splinter group of main opposition party. Retrieved from: [Mozambique's police kill leader of armed splinter group of main opposition party | Reuters](#).

cubic feet (Tcf).<sup>3</sup> The U.S Energy Information Administration (EIA) suggests that Mozambique contains reserves of discovered and undiscovered oil and gas of almost 46.7 billion barrels of oil equivalent (BOE), or around 279.9 Tcf. More than 70% of these resources are in the offshore Rovuma Basin (EIA, 2013).<sup>4</sup> A study commissioned by the World Bank (WB) and the Government of Mozambique (GoM) for ICF International (ICF) suggests that the country has estimated reserves of natural gas of about 277 Tcf (ICF, 2012, p. 23; see also Cabinet Council, 2014, p. 4).

In the last decade Mozambique and Tanzania were the two Sub-Saharan African (SSA) countries with the biggest discoveries of natural gas. The two countries paved the way ahead for Africa's new hydrocarbon producers, attracting several international oil companies and impressive foreign direct investments (FDI) to flow into these countries, particularly large-scale investments in oil and gas. Nigeria remains in the top producer of oil and gas in Africa, followed by Algeria and Angola. In SSA, Nigeria and Angola are the largest producers in the region (Deloitte, 2018). However, the discoveries of natural gas in Mozambique and Tanzania are reshaping the regional oil and gas landscape.

Recent projections of natural gas production in the decades to come suggest, however, that Mozambique will occupy a key position among the top three regional producers of gas (Deloitte, 2018; Oil and Change International (OCI), 2021) and that it is becoming an important player among the top world LNG exporters,<sup>5</sup> thanks to these massive discoveries of natural gas in Rovuma Basin and the multibillion dollar investments in liquified natural gas (LNG). A report by Oil and Change International (OCI) published in 2021 shows Mozambique to be well placed to become the second

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<sup>3</sup> Njanji, S. and Barbier, A. (2017, May 7) Mozambique gas boom dream under threat. Retrieved from: <https://phys.org/news/2017-05-mozambique-gas-boom-threat.html>.

Frey, A. (2018, November 13) Zim smells oil, gas... as hopes of joining Mozambique, other top SADC producers rise. [Club of Mozambique]. Retrieved from <https://clubofmozambique.com/news/zim-smells-oil-gas-as-hopes-of-joining-mozambique-other-top-sadc-producers-rise/>.

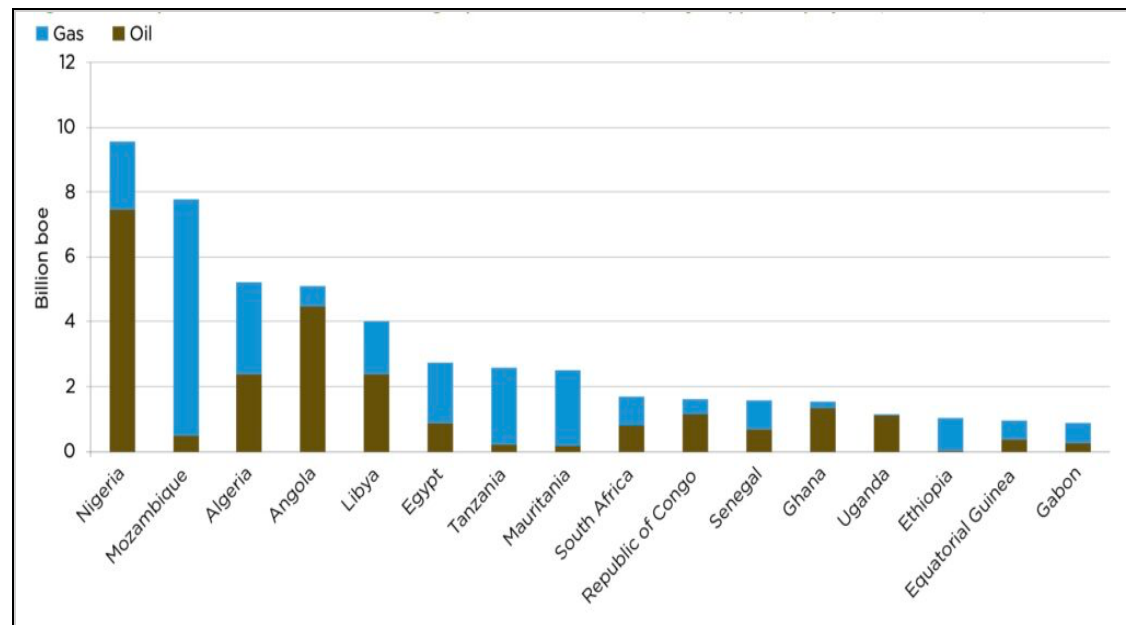
US Embassy (2018, August 30) Mozambique – oil and gas. Retrieved from <https://www.export.gov/article?id=Mozambique-Oil-Gas>.

<sup>4</sup> EIA (2013). Overview: Emerging oil and gas developments in East Africa. Emerging East Africa Energy. May 23, 2013 (Notes). Retrieved from [https://www.eia.gov/beta/international/analysis\\_includes/special\\_topics/East\\_Africa/eeae.pdf](https://www.eia.gov/beta/international/analysis_includes/special_topics/East_Africa/eeae.pdf)

<sup>5</sup> Energy Capital & Power (2020, March 20), Mozambique: The next great LNG player. Retrieved from: <https://energycapitalpower.com/mozambique-the-next-great-lng-player/>.

largest natural gas producer among African countries in the years to come, as shown in Figure 1 below.

Figure 1. Top African countries for oil and gas production, not-yet-approved projects (2020–2050)



Source: Oil Change International (OCI) (2021, p. 31)

The discoveries of natural gas in the Rovuma Basin have involved over time all the major oil companies from North America, Europe, and Asia. Massive investments in LNG have been elicited and a Final Investment Decision (FID) has been taken for two LNG projects in 2017 (by the consortia led by Eni), and in 2019 (by the consortia now led by Total Energies). The third FID for Mozambique Rovuma Venture (MRV), led by ExxonMobil, was expected to be announced in April 2020, but the surge in the coronavirus pandemic that hit the world since January 2020 affected the oil price in the wake of the dramatic fall in demand, while the surge of extremist violence in northern Mozambique created uncertainties and delays over FID.<sup>6</sup>

The drop in the oil price, which was strongly hit by the Covid-19 pandemic and the demand for the green energy transition, is blamed for contributing to pressure on the

<sup>6</sup> Reid, H.; Rumney, E. and Jewkes, S. (2020, March 21). Exclusive: Coronavirus, gas slump put brakes on Exxon's giant Mozambique LNG plan. Retrieved from <https://www.reuters.com/article/us-health-coronavirus-exxon-mobil-mozamb/exclusive-coronavirus-gas-slump-put-brakes-on-exxons-giant-mozambique-lng-plan-idUSKBN2173P8>.



international oil companies (IOCs) to restrain fossil-fuel investments in line with the global political agenda towards achieving sustainable carbon emissions (see OCI, 2021; Walsh et al., 2021). The *Wall Street Journal* recently published an article on ExxonMobil's potential reduction of the \$30 billion investment in the Rovuma LNG field due to pressure on it to rely on cleaner energies in the future.<sup>7</sup> This was immediately denied by the ExxonMobil representatives, who claimed that their intention to develop the LNG project in Mozambique was unchanged.<sup>8</sup>

The expected investments in the Rovuma Basin amount to nearly \$60 billion overall,<sup>9</sup> which will represent the largest foreign direct investment (FDI) ever in a single African country. Mozambique is therefore emerging on the map as a potentially major LNG exporter for the coming decades.<sup>10</sup> But gas is not new to Mozambique. Apart from these discoveries, since 2004 Mozambique has been producing natural gas in Inhambane province, located in the south of Mozambique at the Pande and Temane fields (Mondliwa and Roberts, 2017; World Bank, 2014; CIP, 2013). Sasol, the major South African petrochemical company, is the operator and the gas produced in Pande and Temane is mostly exported to South Africa through an 865-km, 26-inch diameter pipeline connecting the Pande-Temane fields to Sasol's plant in Secunda, South Africa.

The speed with which gas has been explored in Mozambique over the last decade is remarkable, but is not a coincidence, nor is it pushed solely by Mozambique. In the 1990s, as Mozambique emerged from the civil war, the government, aided by International Financial Institutions (principally the World Bank, International Financial Corporation (IFC), African Development Bank (AfDB), and the International Monetary

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<sup>7</sup> The *Wall Street Journal* (2021, October 20), Exxon debates abandoning some of its biggest oil and gas projects. Retrieved from: [Exxon Debates Abandoning Some of Its Biggest Oil and Gas Projects - WSJ](#).

<sup>8</sup> Further Africa (2021, October 30), Mozambique: Exxon senior VP confirms plan to press ahead with the US\$30B LNG project. Retrieved from: [Mozambique: Exxon Senior VP confirms plans to press ahead with US\\$30B LNG project - FurtherAfrica](#).

<sup>9</sup> Frey, A. (2018, May 18). Mozambique: Rovuma Basin will attract about US\$60 billion – Omar Mithá. [Club of Mozambique]. Retrieved from <https://clubofmozambique.com/news/mozambique-rovuma-gas-will-attract-about-us60-billion-omar-mitha/>.

<sup>10</sup> See Bowker, T. (2015, January 15). Mozambique will be transformed by gas reserves in 10 years. [Petroleum Economist]. Retrieved from <https://www.petroleum-economist.com/articles/markets/outlook/2015/mozambique-will-be-transformed-by-gas-reserves-in-10-years>.



Fund (IMF) in coordination with bilateral aid partners) aggressively embraced the strategy of promoting and finding foreign investors for natural gas exploration and production in exchange of a very generous fiscal regime (low taxation) of petroleum operations (World Bank, 2014).

Furthermore, since the early 2000s, governance reforms in the oil and gas sector have been hesitantly embraced. International investors required the implementation of these reforms to ensure financial stability and protection as they began investing in a risky political environment after the civil war (1977-1992) between Renamo and the Frelimo-led government. The war prevented the exploitation of gas resources in the 1990s. After the war, the country was left devastated by very poor economic and social conditions and profound socio-economic vulnerabilities.

The boom in natural gas production that is the goal of the potential future LNG exploitations represents a significant game-changer (Hubert, 2018; Macuane et al., 2018; Buur and Monjane, 2017). As mentioned above, following the announcement of gigantic natural gas reserves in the Rovuma Basin, increased expectations emerged of the potential for extracting rents among ruling coalition and opposition groups, leading to a low-intensity civil war and a major debt scandal (see Frynas and Buur, 2020), whilst civil-society groups hoped gas revenues would provide the necessary resources for economic and social transformation in the country generally.

Experience from implementation of the previous natural gas project by Sasol from 2004 suggested nonetheless that gas production and exports did not automatically translate into increased revenues and economic development (Salimo et al., 2020; Mondliwa and Roberts, 2017; see also CIP, 2013). Graham and Ovadia (2019) argue that countries that are rich in oil and gas, whether developed or developing countries, both come to rely on those resources for revenue and growth. However, endowment in natural resources such as oil and gas have arguably produced distinct outcomes in different countries.

The literature on the so-called “resource curse” suggests that in developing countries natural resource endowments are associated with poor economic performance

(Sachs and Warner, 1995; Boschini et al., 2007; Mavrotas et al., 2011). It is this outcome of natural resource wealth that has come to be known as the “resource curse”, an argument which suggests, paradoxically, that natural resource abundance generates a ‘curse’ rather than a ‘blessing’ (Di John, 2011, p. 169). Several studies suggest that the effects of natural resource endowment is associated with bad economic growth (Sachs and Warner, 2001; Gylfason and Zoega, 2002), bad institutions (Mehlum et al., 2006; Baggio and Papyrakis, 2010), conflict (Collier and Hoeffler, 2005; Ross, 1999; 2006), rent-seeking behaviour (Lane and Tornell, 1999; Arezki and Gylfason, 2013; Harvey, 2014), and/or poor democratic accountability (Ross, 2001; Auty, 2006). As may be clear from the resource curse view, wealth in natural resources drives a nation to poor performance, whether in terms of economic growth, or in terms of social and political instability.

Criticism has been growing against such a view, and various scholars have suggested that natural resources *per se* do not lead to poor economic performance or anything like a curse (Mavrotas et al., 2011; Mehlum et al., 2005; Gylfason, 1999; Ross, 1999). However, the literature on natural resource dependence argues that the way rents from natural resources are allocated means they may either be channelled into the productive economy or to private elite interests, depending on the quality of the relevant institutions (Mehlum et al., 2005; Mavrotas et al., 2011).

Countries with abundant natural resources have a greater potential to generate significant revenues and rents, which may increase the interest in resource rent extraction or rent-seeking by specific groups in society (Mavrotas et al., 2011, p. 125). Ross (1999) argues that resource-rich developing countries managed their economies poorly because of the activities of predatory politicians using their political power for private ends.

Indeed, as many scholars have noted, in developing countries, natural resources are important sources for the ruling elites, as they can potentially generate rents that are necessary for them to stay in power (Khan, 2010; Arezki and Gylfason, 2013; Whitfield et al., 2015; Buur et al., 2020).

In Angola, oil has been crucial in financing the emergence of a petro-elite group linked to the ruling party, the People's Movement for the Liberation of Angola (MPLA), and the inner circle of the former President José Eduardo dos Santos (Shaxson, 2020; Soares de Oliveira, 2007), facilitated by clientelist networks developed under the national oil company, Sonangol (Soares de Oliveira, 2007; Ovadia, 2012; Oppong et al. 2020; Shaxson, 2020). These dynamics are equally seen in many other developing countries, where access to and the distribution and allocation of resources and rents from the extraction of natural resources, particularly from oil and natural gas, become dependent on how politics is pursued by those holding power.

The 'holding power' (Khan, 2010, p. 6) of ruling elites is nonetheless not distributed evenly. Ruling elites are constrained both by the distribution of power in society and by how it is configured at specific moments in time (often referred to as 'political settlements'; see Khan, 2010), as well as the power of 'transnational policy coalitions' (Hickey et al., 2015), which in the case of Mozambique and its gas involve a potent cocktail of international donors, international financial institutions (IFIs), international oil companies (IOCs) and financial institutions demanding sectoral governance reforms that could promote and protect large-scale investments.

This thesis focuses on *the governance reforms* in the oil and gas sector in Mozambique by analysing how reforms are used by the ruling elite to reproduce their power and the politics related to natural gas-related projects. This is developed through analyses of:

- (i) The underlying historical paths of institutional reforms of the oil and gas sector by addressing the issue of the separation of regulatory and commercial functions and the ruling elite's incentives to implement these reforms, including the important new issues of 'resettlement' and compensation, which emerged with the reforms and LNG investments.
- (ii) The complex fiscal arrangements regarding Sasol's domestic gas production under the Production Sharing Agreement (PSA) and the ruling elite's politics

of private rent extraction supported by the long-term agreement between the emerging gas-to-power plants and the public utility company – *Electricidade de Moçambique* (EDM) – for purchasing electricity.

- (iii) The LNG deal-making focusing on domestic gas from the Rovuma Basin in order to understand why the government and multinational oil companies operating in Areas 1 and 4 have so far failed to secure enough gas to meet the country's natural gas-related industrialization.

In addition to these three perspectives, I also explore the relationship between IOCs, the ruling elite and local populations and the reconfiguration of local state power in terms of the ability to negotiate fair compensation and resettlement with local populations over the land the latter have lost to IOCs. In the following subsection, I discuss the puzzle behind the research focus of this thesis.

## 1.2. The research thesis puzzle

This thesis focuses on governance reforms in the Mozambican oil and gas sector, and particularly on the separation of regulatory and commercial functions underpinning international norms tied to good governance. Mozambique has for many years been recognised as the international “donors’ darling” (see de Renzio and Hanlon, 2007; Bunk, 2018) thanks to its ‘successful’ transition from a devastating civil war that lasted from 1976 to 1992, and to peacebuilding and democratization (1992-2013). The literature on oil and gas governance suggests that the separation of power between the regulatory and commercial functions is a key condition for the sector’s successful economic development (Thurber et al., 2010; 2011; Kumah-Abiwu, 2017).

The good governance perspective, which evolved with the World Bank (see Engleton-Pierce, 2014; Lateef, 2016), highlights the ideas of transparency and accountability in line with the separation of powers. These ideas were brought into the Bank’s policy intervention to be promoted in developing countries (Engleton-Pierce, 2014) to ensure the establishment of mechanisms that could help to solve the crisis over problems of governance. Indeed, aspects such as the competitive market economy, the prevention of corruption, client-patron networking, and public support to

government's policy choices were used to consolidate the narratives regarding the promotion of the idea of good governance.

Thus, the World Bank's pushed for the 'good governance' agenda be adopted, and that was central to the implementation of reform programs, most of them associated with the reconfiguration of institutions necessary for economic growth. As suggested by Arezki and Gylfason, for example, the World Bank's former President Zoellick once argued that good governance is essential for successful development, without which any political system is liable to fail (Arezki and Gylfason, 2013, p. 553). International agencies and various research institutions all over the world have advocated this as part of an ideology that fitted the Washington Consensus (see Williamson, 1994) policies very well, thereby becoming a universal model similarly applicable in both developed and developing countries as a recipe for fast growth (Grindle, 2004).

The thesis also examines the effects of the reforms as both the hidden debt scandal that devastated the economy after 2015 (Macuane et al., 2018), This was engendered by revenue-earning expectations from the massive Rovuma Basin natural gas (see Frynas and Buur, 2020); Renamo's internal conflict, initiated by a new faction of Renamo's militias contesting the new leadership, as well as the return to a low intensity civil war in 2013; and a full-blown 'Islamic' inspired youth insurgency in Cabo Delgado after 2017 (Habib, Forquilha and Pereira, 2019; Morier-Genoud, 2020; IPSS,<sup>11</sup> 2020; International Crisis Group (ICG), 2021). These events suggest that natural resources and how they have been managed have been neither smooth nor simple. Therefore, in light of the growing evidence of failure on the promise of effective economic growth under institutions of good governance, the research thesis puzzle focuses on how governance reforms have been implemented and appropriated by the ruling Frelimo elite and what the outcome(s) have been.

The thesis therefore grapples with questions like how have the governance reforms been adopted by the ruling elite in Mozambique over time? Are there any possible links between the transparency reforms that have been pursued and, for example,

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<sup>11</sup> Institute for Peace & Security Studies (IPSS) (2020), Mozambique: Conflict insight. Addis Ababa University, Peace & Security Report, Vol. 1, April 2020. <http://ipss-addis.org/wp-content/uploads/2020/04/MOZAMBIQUE-Conflict-Insights-vol-1-Conflict-Insight-and-Analysis.pdf>.

the hidden debt scandal? Have the reforms undermined the possibility of rent-seeking by the ruling elite in the extractive sector or the securing of more revenues for the state for socio-economic development and economic transformation? In other words, the thesis is concerned with both the adoption and implementation of governance reforms in the gas sector, as well as the possible effects or outcomes of such reforms.

The overall research question guiding this thesis is therefore:

***How have the reforms of the oil and gas sector, with a particular focus on the separation of the regulatory and commercial functions, as well as the resettlement and compensation policy, been adopted by the ruling elites, and what have been the possible outcomes with regard to transparency and rent-seeking?***

The working questions guiding the exploration of the overall question are as follows:

- Why and how have the reforms related to the separation of power between the commercial and regulatory functions in the oil and gas sector been adopted and implemented by the state and ruling elites over time?
- How has Sasol's natural gas project been implemented over time, and how have the ruling elites been able to create spaces for the extraction of rents?
- How has the deal for the allocation of domestic gas aimed at promoting gas-related industrialization in the Rovuma Basin been implemented so far, and what are the possible outcomes for rent-seeking and industrialization?
- How has the institutional framework for compensation and resettlement related to LNG investments affected local state-making?

### 1.3. The thesis' argument

While the ideas related to the reforms of governance in the gas sector have played an important role and have influenced the outcomes of resource governance in Mozambique, I will argue that the intended outcomes have not necessarily been as

expected, nor can the governance reforms alone explain how the gas sector has been managed. In this thesis I argue that the dynamics shaping reforms, the Sasol gas investment in the south of the country and the implementation of LNG projects in the north of the country are also influenced by the configuration of power and interests of the ruling elites who have been in charge of implementation and have tried to benefit from the gas investments.

Following the political settlement approach (Whitfield et al., 2015; Hickey et al., 2015; Khan, 2010; for a summary see Behuria et al., 2017), I argue that the powerful groups in charge of the implementation of governance reforms will try to prioritize their interests over the interests of other social or political groups in the Mozambican society. As a result, those in possession of holding power<sup>12</sup> are more likely to prevail and potentially to do so in a way that undermines the interests of other powerful groups (see Buur et al. 2017). I borrow the concept of powerful groups from Kelsall, who defines them as 'coalitional factions or blocks that form around a society's main conflict lines and which have the potential, acting collectively, to seriously disrupt or overturn existing political institutions' (see Kelsall, 2018: 7).

In many resource-rich African countries, ruling elites represent the most powerful groups because they have control over the resources of the state, which helps them determine the distribution of power and benefits, as well as to impose changes on political institutions (Whitfield et al., 2015, p. 100). As Kelsall (2018) suggests, these resources may include official authority positions that empower members of factions to change the constitution, persuasive economic and military resources, and supporters who may be mobilized in elections or political conflicts.

The distribution of economic and material benefits are, relatively speaking, most highly valued in developing countries, as they are important resources that ruling elites use to win others' loyalty (see Khan, 2010; Heilbrunn, 2014). Therefore, ruling elites have strong incentives to extract rents from natural resource wealth in order to

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<sup>12</sup> The concept of holding power will be defined in Chapter 3. Here it is sufficient to point out that the concept was first developed by Khan (2010) and that it relates to the ability of an individual or group to engage and survive in conflict. The key factors that inform about the ability to engage and win conflicts are, first, the ability to impose costs on others, a second, the ability to absorb costs inflicted on them (Khan, 2010, p. 6).

support their clientelist networks and patronage continuously, given especially the poor productive sectors that overwhelmingly characterize developing countries (Khan, 2010; Whitfield et al., 2015). This being the case, I argue that the ruling elite's incentives are driven by rent-seeking behaviour regarding natural gas-related business in Mozambique.

I further argue that the large-scale investments in natural gas and LNG create an opportunity space for ruling elite to extract revenues for the state's coffers and to consolidate a long-term base for the large-scale rent extraction<sup>13</sup> necessary to generate the different types of resources they need for private interests and to sustain their power. These resources are strategically important for the ruling elite's survival. Therefore, the dynamics characterizing the ruling elite's support to or engagement with the implementation of a specific natural gas-related project will depend mostly on how they can secure private opportunities for extracting material benefits. This happens whether we refer to institutional reforms and policy change, or project implementation.

#### 1.4. The empirical and theoretical contribution of the research

The oil and gas sector in Mozambique is an emerging sector. Very little academic research has been undertaken on the governance reforms and politics of domestic gas deal-making and local state-making (for exception, see Salimo, 2018; Salimo et al., 2020; Macuane et al., forthcoming; Buur et. al., forthcoming). This thesis is built on discussions that pervade the politics of oil and gas sector development. It analyses the implications of the ruling elite's extractive politics on the sector governance reforms involving the separation of powers and asks how these are influencing implementation of the domestic gas-related industrial project. I also argue that the reforms, together with the de facto investments, are reconfiguring the local state's power in its negotiations with multinational oil companies over the compensation to be paid to local populations for the loss of their land and livelihoods.

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<sup>13</sup> My use of the term 'rent' will be further developed in Chapters 2 and 3. Here it is sufficient to point out that rents refer to 'an income which is higher than the minimum an individual or firm would have accepted given alternative opportunities' (Khan and Sundaram, 2009, p. 5).



Natural gas exploitation in Mozambique started in 2004, with a gas project operated by Sasol located in Pande and Temane fields in the south of the country. This happened under an agreement that for a decade was protected from public exposure and scrutiny. The gigantic reserves of natural gas in the Rovuma Basin, at least, has stimulated attention to the oil and gas sector in recent years. Even though much has remained the same, the few studies that exist have focussed on legal and contractual issues (Oyewumni, 2015; Barros, 2017) and the potential effects of natural gas investments on economic development (Gqaba, 2013; Uetela and Obeng-Odoom, 2016 and others, including reports from civil society organizations). This emerging literature includes my research paper on LNG politics and local state power published in a book on extractive industries and changing state dynamics in Africa.<sup>14</sup>

Empirically the major contribution of this thesis relies on its solid material demonstrating the dynamics of the sector's reforms over time, which has never been presented in any previous research studies that I have not organized or been part of. It also shows how this is related to the ruling elite's deal-making on domestic gas as a way of boosting local industrialization. This thesis has the ambition to provide a wide understanding of existing natural gas projects, essentially identified by their specific dimensions in terms of the volume of natural gas reserves and investments, the location and the multinational oil companies involved. I explore both the Sasol gas project in the south of Mozambique, operated by the South African petrochemical company Sasol, and the LNG projects off- and onshore in the Rovuma Basin, in the north of Mozambique, operated by oil giants ExxonMobil, Total and Eni.

Theoretically, this thesis provides new insights into understanding the dynamics of the bargaining and distribution of power between the ruling elite, transnational actors and others in the context of large-scale investments in oil and gas and the implications for the implementation of reforms and sector development. The reforms embedded in the good governance 'agenda' have been widely promoted by

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<sup>14</sup> See Salimo, P. The politics of LNG: Local state power and contested demand for land acquisition in Palma, Mozambique. In: Schubert, J.; Engel, U. and Macamo, E. (eds.) (2018), *Extractive industries and changing state dynamics in Africa: Beyond the resource curse*. USA: Routledge This is a reworked Chapter which is part of this thesis.

international financial institutions, particularly the World Bank, since the late 1980s (Hickey et al., 2015; Brautigam, 1991; Williams and Young, 1994; Lateef, 2016).

This was after several developing countries were facing tough economic crises and conflicts (World Bank, 1989; I.; Eagleton-Pierce, 2014), called by the World Bank a 'crisis of governance' (World Bank, 1989), or associated with what has been called the 'crisis of governability' of the 1970s (Eagleton-Pierce, 2014).

The reforms associated with good governance, such as the rule of law, transparency, accountability, anti-corruption, etc. were the remedy for the crisis in developing countries. In the oil and gas sector, for example, reforms towards the separation of power between the regulatory and commercial functions are basically grounded on the good governance perspective, which is associated with the idea of transparency and of effective sector performance and growth (Al-Kasim, 2006; Thurber et al., 2010, 2011; Graham and Ovadia, 2019). This perspective relies on scholars in the New Institutional Economics (NIE), who emphasize the significance of the quality of institutions for economic growth. However, the poor outcome of the reforms in most developing countries (Grindle, 1999; Gray, 2012; Khan, 2019) has frustrated the NIE due to its inability to provide satisfactory explanations for why this is so (see also Khan, 2010; Behuria et al., 2017).

My ambition is therefore to fill in this gap. On the one hand, I provide a contribution to the literature on understanding of oil and gas sector governance that goes beyond the conventional discussions led by civil-society organizations and scholars. The latter emphasize either that natural gas endowment is critically seen as a curse, in the sense that it negatively affects the quality of institutions and the economy (Sachs and Warner, 1995; Ross, 1999; Di John, 2011). On the other hand, I examine the NIE's focus on the quality of institutions as the main determinant of successful economic behaviour (Acemoglu et al., 2002; Acemoglu et al., 2005; Mehlum et al., 2005; 2006).

I do this through an analysis drawing upon political settlement theory (Khan 2010; Whitfield 2015) within whose framework I integrate ideas (Hickey et al. 2015; Lavers, 2018) and transnational actors (Hickey et al., 2015). I do so to further enhance the

analysis of how reforms in the direction of a separation of powers were introduced and implemented over time, given the conditions of the country-specific political context in which ruling elite strategies to maintain themselves in power and thus ensure they keep control over state resources are complex. According to Whitfield et al., (2015) the underlining assumption of the political settlement approach emphasizing the political survival of the ruling elite is based on the view that their calculus, motivations and strategies have a significant influence on policy choices and changes, including the choice and implementation of policies that are intimately related to ruling elite survival strategies (2015, p. 11).

This analytical architecture allowed me a clear view and understanding of how reforms of governance, which are widely recognised by the NIE and those pushing for good governance agendas, are not good enough to overcome the problems of poor sector performance or economic growth that many developing countries face. Instead, institutional arrangements or reforms in the petroleum sector aiming to separate the regulatory and commercial functions have been adopted not because of an interest in consolidating the sector's performance and growth. As I explain, this is true as long as adopting reforms goes hand-in-hand with the politics of the ruling elite to secure investments that allow for private rents and more or less systematic reproduction of power. Below I present the outline of the thesis.

### 1.5. Thesis structure

The thesis consists of nine chapters, including the conclusion. This introduction is followed by a literature review, in Chapter 2. The literature on the political economy of natural resource governance in Africa offers the most important food for thought in this thesis. This body of literature is complex and contingent, as it does not constitute a single nor even homogeneous approach. Instead, studies of the political economy of natural resource governance in Africa include, but are not limited to, the resource curse, new institutional economics, and reforms of good governance. Oil and gas are primarily the key natural resources in this thesis' research. This discussion has clarified the position on the analytical perspectives regarding natural resources, and particularly oil and gas extraction and deal-making, that convincingly provide

insights for understanding how they are related and how they shape the dynamics and outcomes of natural resource governance politics.

Chapter 3 presents the analytical framework. One of the most promising theoretical approaches to understanding the politics of governing natural resources in Africa among scholars within political economy and among some economists is the political settlement approach (Khan, 1995; 2010; Whitfield et al., 2015; Hickey et al., 2015). This research therefore adopts political settlement theory as its primary theoretical approach, which it complements with new avenues within the political settlement framework by integrating analysis of the role of ideas and international policy coalitions (Hickey et al, 2015; Hickey and Izama, 2016). These combined elements, integrated into these frameworks, are assessed in consideration of their adequacy concerning country-specific context, as well as the objectives and arguments made in this thesis' research.

Chapter 4 presents a detailed approach to the methodology used in the research process. The thesis' research is based on qualitative analyses of the path of oil and gas sector governance reform over time. This analysis is based on empirical observations and interviews with different actors and their relations to ruling elites and multinationals, including donors. I also explore how these relations have impacted on the outcomes of the sector reforms and institutional change, as well as the nature of deal-making emerging with the implementation of specific projects, either under the domestic natural gas related project, or compensation and resettlement negotiation process and its implementation.

The following Chapters, 5, 6 and 7, provide analyses of the governance of oil and gas in Mozambique and show how it is related to the political settlement in the country and the ruling elite' politics of rent extraction and power. More particularly, Chapter 5 provides a historical sketch of the oil and gas sector in Mozambique and further explores the institutional architecture of the petroleum sector's governance reforms involving the separation of powers between the regulatory and commercial functions over time, also analysing how and under what conditions these reforms were adopted and implemented.

Chapter 6 focuses on the analysis of the Sasol gas and pipeline project and the role played by the ruling elite regarding domestic gas and the related gas-to-power industry, which is strongly controlled by factional groups of the ruling elite, showing how these industries operate and to what extent they contribute to the survival and reproduction of the ruling elite.

Chapter 7 explores the LNG investments in the Rovuma Basin and the gas-related industrialization projects whose implementation depends on the availability of domestic gas, a matter that is contested. The deal between the ruling elite and the concessionaires of Areas 1 and 4 regarding the allocation of domestic gas represents a threat to the implementation of the government's natural gas-related industrialization and revenues. The chapter explores how and why the awards of domestic gas-related projects that are dependent on the natural gas from Areas 1 and 4 are in limbo.

In chapter 8, I analyse the politics of negotiating compensation and resettlement for land required for LNG investments as an empirical perspective for understanding and explaining the dynamics and process of the reconfiguration of local state power through large-scale investments in liquified natural gas (LNG). The chapter explores the relationship between investors and local populations concerning how this relation underpins the power and authority of local government in the negotiation of fair compensation to be paid to the local population under competing interests between the ruling elites and the multinational oil companies. Lastly, Chapter 9 provides a conclusion to the thesis.

**CHAPTER 2**  
**THE POLITICS OF GOVERNING OIL AND**  
**GAS IN AFRICA: A REVIEW OF THE**  
**LITERATURE**

## CHAPTER 2. THE POLITICS OF GOVERNING OIL AND GAS IN AFRICA: A REVIEW OF THE LITERATURE

### 2.1. Introduction

This chapter will briefly review and discuss three types of literature related to natural resource endowment: the resource curse and new institutional economics, as well as the political economy of natural resource governance. My aim is to understand how the general literature has discussed natural resource governance with the aim of assisting the development of my own analytical framework in Chapter Three.

Gas and oil are the most the important natural resources behind world politics and power (Phillips et al., 2015; Heilbrunn, 2014; Silverstein, 2014).<sup>15</sup> Countries endowed with oil and gas are generally in possession of a resource with massive potential to transform the economy, making poor countries rich and thereby changing the predicament of less developed countries. In other words, oil and gas endowments potentially represent an important source for any given country's economic and social transformations. As Ross (2001) argues, petroleum wealth shapes any nation's development either positively or negatively, though others like Silverstein (2014) argue that it is the most powerful commodity in the world. Heilbrunn (2014), however, suggests that oil revenues bring wealth to a society and thus represent an increase in government receipts which is necessary for its expenditure.

While petroleum wealth has promoted economic growth in many developed countries like the United States, Canada, Great Britain, Australia, and Norway (Humphreys et al, 2007; Thurber, 2011; Ross, 2012; Dorik and Dimovski, 2018), developing resource-rich countries, such as Nigeria and Angola (Heilbrunn, 2014; Kopinski, 2018; Olayungbo and Adediran, 2017; Obi, 2019; Oppong et a., 2020) or Equatorial Guinea (Silverstein, 2014), have failed to generate economic growth and development. These countries have instead seen conflicts, war, impoverishment, corruption and bad governance, which are said to be associated with natural resource wealth (Humphreys et al., 2007; Olayungbo and Adediran, 2017). This

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<sup>15</sup> I will use hydrocarbon and petroleum interchangeably to refer to oil and gas.

phenomenon Karl (1997) called the 'paradox of plenty'. Within the existing literature on natural resource governance, these pervasive outcomes of natural resource wealth in developing countries have widely been explained as bad for development because natural resource endowment then comes to be seen as the source of a 'curse', i.e. a range of social, economic, or democratic illnesses.

The resource-curse literature has dominated debates concerning the links between natural resource endowment and economic development. This body of literature supports an existing straightforward relation between wealth in natural resources and poor economic governance, including inefficient institutions in developing countries. However, new avenues of research have contested this view, which is represented either by the literature in the so-called 'new institutional economics' (NIE) (North, 1990; 1993; Acemoglu et al., 2001; 2003), or by the political economy of natural resources (Poteete, 2009; Hickey et al., 2015; Hickey and Izama, 2016).

Instead, these bodies of literature argue that wealth in natural resources represents both an opportunity for a country's development and a potential trap. The literature suggests that the contexts of politics and power relations can give a rise to 'rentier elites' who indulge in resource predation by creating patronage networks (Beblawi and Luciani, 1987; Khan and Sundaram 2009) powered by rents from natural resources (mainly hydrocarbons and minerals), for the purpose of maintaining their own power (Heilbrunn 2014; Shaxson, 2020; Oppong et al., 2020).

I draw on these bodies of literature, especially that related to the political economy of natural resource governance in Africa, by analysing the politics of reform of the oil and gas sector in Mozambique. In my framework, presented in Chapter Three, I will also draw on the literature on land governance and resettlement, which will briefly be discussed here. The rest of this chapter is organized as follows:

The second section goes into a deeper discussion concerning the paradox of natural resource wealth by analysing the resource curse literature. The third section addresses the scholarship debate about the governance of institutions and natural resources. It also analyses the institutional reforms underpinning the good



governance discourse as a condition for the successful management of the natural resource endowment. The fourth section discusses natural resource wealth in relation to rent-seeking. The fifth section presents an analysis that relies on the separation of functions in the oil and gas sector as part of the agenda of good governance. This is followed by a section on the large-scale investments in natural resource extraction and the resettlement and compensation of local populations. Lastly, the seventh section presents the conclusion.

## 2.2. Resource curse and the paradox of natural resource wealth

Wealth in natural resources such as oil and natural gas (hydrocarbons) and minerals has been associated with extraordinary opportunities for economic growth and rent extraction (Heilbrunn, 2014). Polterovich et al. (2007), for example, suggesting that countries that are endowed with natural resources have the advantage of the potential to grow faster than countries that are poor in resources. The possession of abundant natural resources, particularly oil and gas, generates exceptional expectations regarding economic growth and transformative patterns of development (Doric and Dimovski, 2018; Frynas and Buur, 2020). This is true for both developed and developing countries, possibly because of the higher economic value they represent and can generate.

Oil and natural gas have for many decades been the major global sources of energy, having unprecedented importance to the global industry (Obi, 2019; Doric and Dimovsky, 2018). Indeed, as Krueger (1980) and Obi (2019) observe, oil and natural gas play a role in the economy and politics of any given country and could be a source in generating massive rents. The majority of oil-rich countries in developing countries rely on rents from oil to sustain their economies. However, it is also the case that control over oil and gas rents is inevitably relevant to elites seeking to consolidate their power.

Despite the massive opportunities of exploiting natural resources to transform economies and socio-political patterns of poverty, scholars have been arguing that in the majority of developing countries, especially in Africa, natural resources have

failed to contribute to generating economic growth to transform economies (Sachs and Warner, 1995; Karl, 1997; Di John, 2011; Kaplinsky et al., 2012; Obi, 2019; Papyrakis and Pellegrini, 2019) and build effective developmental policies and institutions (Acemoglu et al., 2001; Robinson et al., 2006; Mehlum et al., 2006).

Sachs and Warner (1999) and Auty (1994; 1998) found a contradictory pattern of growth in resource-rich economies in their analysis of economic performance in relation to natural resource abundance in the period between the 1960 to 1990, when the per capita incomes of resource-poor countries grew two to three times faster than their resource-rich counterparts (see also Vahabi, 2017; Polterovich et al., 2007). A growing amount of empirical research has been produced in the last few decades demonstrating the existence of a negative correlation between natural resource endowment and sustained economic growth (Ross, 1999; Sachs and Warner, 1995; 2001; Auty, 1993).

This particular combination of natural resource wealth and poor economic performance is generally known as the 'resource curse' (Sachs and Warner, 1995; 1999; 2001; Auty, 1993; 2006). The resource curse is widely seen as the perverse effects of natural resource wealth on a country's economic, political or social well-being (Sachs and Warner, 1995; Ross, 2001; Vahabi, 2010). The argument presented by scholars of resource curse suggests that endowments in natural resources, particularly oil and natural gas, actually retards economic growth (Gylfason and Zoega, 2002; Alexeev and Conrad, 2005; Leong and Mohaddes, 2011; Di John, 2011; Kaplinsky et al., 2012; Harvey 2014).

The literature on the resource curse provides various definitions. The resource curse has become a complex phenomenon in which different factors are understood and interpreted as belonging to one common type of phenomenon. Thus, it is considered a mechanism related to rent-seeking and corruption (Ross, 1999; Torvik, 2002; Mehlum et al., 2006), conflict (Collier, 1997), or the so-called 'Dutch disease' (Frankel, 2011; Morris et al., 2011), as consequence of context-specific dependence on the type of resource (Auty, 1998), the nature of socio-political institutions (Boschini et al.,

2007), or a failure to link the sector to the rest of the country's economy (Hirschman, 1981; Hansen, 2014; Buur, 2014).

The earliest explanation of the resource curse is attributed to Raul Prebisch (1950) and Singer (1950), known as Prebisch-Singer hypothesis (Cuddington et al., 2007; Polterovich et al., 2010; Gilberthorpe and Papyrakis, 2015). Prebisch and Singer pointed out the tendency for primary goods to see prices decline while the prices of manufactured goods increase. They suggest that the share of primary goods in Gross Domestic Product (GDP) will diminish due to technical progress. Thus, as they explain further, countries relying on primary goods will grow more slowly over time than those relying on manufacturing (Polterovich et al., 2010, p.3; see also Gilberthorpe and Papyrakis, 2015). The main concern in their view was related to the issue of increasing the per capita income gap between industrialized and developing countries and their relation to international trade. Their main argument was that international specialization has excluded developing countries from the fruits of technical progress that enriched the industrialized world (Cuddington, 2007, p. 104).

In effect, the idea of a resource curse was first popularized by Richard Auty's book, published in 1993, in which he explores the macroeconomic policies of mineral-dependent economies (Auty, 1993). However, in 1995, Jeffrey Sachs and Andrew Warner published the work *Natural resource abundance and economic growth* (Sachs and Warner, 1995), which examines ninety-seven countries over a period of nineteen years, in which they provide strong evidence using statistical regression to show the existing inverse association between natural resource endowment and economic growth (see discussions by Alexeev and Conrad, 2005; Gylfason and Zoega, 2002).

The study by Sachs and Warner (1995) was the first cross-country study to demonstrate the negative correlation between mineral abundance and long-term economic growth or to assess the underlying crowding-out mechanisms. The phrase 'crowding-out mechanisms' refers to the process in which sectors such as manufacturing and agriculture shrink (for example, receive fewer investments) as a result of specialization in certain commodities (Beverelli et al., 2011).

Within the literature on the resource curse, the so-called ‘Dutch disease’ theory has largely been explored in relation to the macroeconomic effects of mineral endowments on trade and economic growth (Gilberthorpe and Papyrakis, 2015, p. 383). Sachs and Warner (1995) have pointed out that the Dutch disease is characterized by a situation of concentration in resource exports, which they assume to have less potential for growth in productivity. According to Bravo-Ortega and de Gregorio (2007), to understand the intricate relation between the Dutch disease phenomena and economic growth requires the identification of the long-term mechanisms that link shocks to the natural resources sector with the country’s productive part of the economy and its long-term performance (Bravo-Ortega and de Gregorio, 2007, p. 72). These authors emphasize the role of human capital in tackling the perverse effects of natural resources on economic growth.

Bravo-Ortega and de Gregorio (2007, p. 72) suggest two main reasons why natural resources might exert negative effects on growth and development. The first reason is related to the presence of weak institutions. They argue that weak institutions generate conditions for the emergence of ‘voracity effects’, which allows interest groups to involve themselves in capturing economic rents from natural resources. In such an economy, the allocation of talents and rents are distorted, as resources may be diverted to unproductive activities. The second reason is the productive structure of the economy, where the allocation of resources among different activities with different spillover effects limits the aggregate growth.

The resource curse debate over natural resource-related influences on economic development and on the quality of institutions, as well as political and social stability, had never been conclusive. Instead, criticism of the perspective’s limitations in providing valid explanations has been growing over the last few decades. While the resource curse literature suggests that poor economic and political outcomes are unavoidable in developing resource-rich countries (Sachs and Warner, 1999;), instead, a growing number of scholars have challenged this argument (Di John, 2011).

The most compelling argument comes from scholarship in new institutional economics (NIE) (Mavrotas et al., 2011; Mehlun et al., 2006; Acemoglu et al., 2001)

and from the literature on the politics of natural resource governance (Philips et al., 2015; Hickey and Izama, 2016; Vokes, 2012), whose arguments suggest that the curse is not in any way related to natural resources as such (see also Harvey, 2014).

The natural resource endowment matters. And as Karl suggests, the dynamics associated with economic outcomes represent a paradox, which she called 'the paradox of plenty'. According to Karl, dependence on oil rents shapes a country's social classes and regimes, as well as the institutions of the state, which in turn has a deeper impact on the economy (Karl, 1997, p. 5). Amidst the interaction between economic forces, resource wealth and political institutions lies the confusing relationship between wealth and economic performance. Countries like Angola, Nigeria, Equatorial Guinea, South Sudan, and Chad are endowed with oil that has been exploited for years (Soares de Oliveira, 2007; Phillips et al., 2015; Obi, 2019), but nonetheless they have proved incapable of changing their economy so that it benefits national development.

In most developing, resource-rich countries, government revenues depend on their hydrocarbons and minerals. For the majority of African oil producers, oil accounts for more than 70% of government revenues and 95% of export earnings (Kopinski, 2018; Obi, 2019). For Angola, by 2016 oil represented 96% of the country's export value, and approximately half of its fiscal revenues after the dramatic falls in oil prices in 2014 (Fjeldstad et al., 2020, p. 1191, see also Oppong et al., 2020). For South Sudan, oil represents 98% of government revenues and 90% of export earnings (Obi, 2019, p. 1).

Watts (2003) explains that oil is underpinned by controversial histories of conflict and violence and an intricate complex of interests among elites dedicated to their selfish efforts to extract rents, which makes it harder for these resource-rich countries to achieve economic growth and build effective institutions (see also Auty, 2006; Di John, 2011).

Phillips et al. (2015) discusses the example of Chad, a well-endowed country, saying that it is perhaps one of the most prominent examples of an inability to grasp and

transform its economy. Instead the country ended up falling into conflict, social disgrace, mismanagement, and environmental disaster. Angola too has seen a strong petro-elite of cronies of the former President, José Eduardo dos Santos, enriching themselves from oil rents at the expense of the country's general population (Soares de Oliveira, 2007; Le Billon 2008; Fjeldstad et al., 2010; Ovadia, 2012).

These examples of failure have not yet been linked to oil and gas as such, as suggested by the resource curse literature. Instead, the focus has been on the centrality of rents from resources that encourages the formation of predatory politicians, who, while pretending to take control of the country's natural resources for purposes of national development, instead do so in order to generate rents for themselves (Di Jon 2011). This in turn ends up undermining the institutions that foster economic development (Ross, 1999; Mehlum et al., 2006; Acemoglu et al., 2001). Phillips et al. (2015) arguably see the poor progress in developing resource-rich countries as related more to power relations within and beyond the ruling elite.

Moving from the resource curse perspective to New Institutional Economics (NIE), the latter suggests that introducing institutional arrangements and reforms emphasizing the adoption of good governance practices may lead to the effective management of natural resources. The NIE perspective argues that institutions could function as instruments to avoid the resource curse (Mavrotas et al., 2011; Collier, 2011). The next section reviews the literature concerning natural resources and the institutional reforms underpinning the good governance agenda.

### 2.3. Institutions and natural resource governance

Although the resource curse perspective has remained very popular among scholars, contemporary political economy research suggests that whether a country is endowed with wealth in natural resources is a matter of the different dimensions of what are usually lumped together as the resource curse, which are determined by various structural, economic and political factors. The NIE literature indicates that in developing resource-rich countries the quality of existing institutions underpinning natural resource governance is perhaps the main driving force mediating natural

resource wealth and the country's economic outcome (Frankel, 2010; Mehlum et al., 2006; Robinson et al., 2006; Acemoglu et al., 2001). For instance, Harvey argues that mineral and hydrocarbon endowments seem to be favourable for development, but that weak political and economic institutions seem to encourage unproductive rent-seeking, which undermine economic development (Harvey 2014, p. 2).

Various studies on natural resource governance in Africa agree with the assumption that bad policies and institutions have significantly been associated with weak or poor development. Under such circumstances, as Phillips et al. argue, diverse forms of restructuring practices and liberal norms of economic and environmental governance are supposed to represent the right institutions and structures of management that can stimulate the creation of conditions for the transparent and accountable management of resources (Phillips et al. 2015, p. 2). This view is in line with the World Bank and other international agencies' good governance agendas as a pre-requisite for economic performance in developing resource-rich countries.

The World Bank pioneered the use of the word 'governance'. In 1989, it published the study *Sub-Saharan Africa – from crisis to sustainable growth*, in which the Bank analysed the problems of progress in development, following the reforms of structural adjustment programs implemented with the support of the Bank in the 1980s. The word 'governance' was used to suggest the need for institutional reforms with better and more efficient public sectors in Sub-Saharan countries (World Bank, 1989, p. 55).

The concept of governance evolved over time, even within the Bank, the most important agency in the frontline among the various institutions advocating the introduction of practices that came to be known as 'good governance'. Governance came to be understood as the 'manner in which power is exercised in the management of a country's economic and social resources for development' (World Bank, 1992, p. 1). The Bank understands this concept in terms of public service that is efficient, a judicial system that is reliable, and an administration that is accountable to its public (World Bank 1989).

Grindle translates the concept of governance in terms of changes in political organization, the representation of interests, and processes for public debate and policy decision-making (Grindle, 2004, p. 526). According to Grindle (2004) prescriptions for how to achieve good governance have not been clear. And the list of items to be integrated with good governance responses in developing countries has not been homogeneous. Still, it has been suggested that adopting and practicing good governance would provide some kind of cure for underdevelopment (Grindle, 2004, p. 527).

While the good governance agenda was prescribed to African resource-rich countries going through decades of reforms, the agenda was also imposed as part of practices for the transparent and accountable management of natural resources. Despite institutional progress, less progress has been seen in terms of economic development. In the oil and gas and minerals sectors, normative managerial approaches by voluntary good governance initiatives, such as the Extractive Industries Transparency Initiative (EITI), have been promoted in various regions (Phillips et al., 2015; Oppong et al., 2020), but with little effect in terms of sector performance and economic growth. The liberal reforms implemented in Angola, for example, were adopted to consolidate the oil sector's performance and economic growth, but the expected outcome has not materialized but instead has been shaped by networks of political patronage (Soares de Oliveira, 2007; Le Billon, 2008; Ovadia, 2012; Phillips et al., 2015; Oppong et al., 2020).

The struggle over control and access to natural resource wealth provided rentier-elites surrounding the former President José Eduardo dos Santos with opportunities to benefit from the resource endowment (Soares de Oliverira, 2007; Shaxson, 2020). These powerful elite factions affected the management and performance of the oil/gas sector, as well as the capacity to generate an effective distribution of oil rents to the wider public (Soares de Oliveira, 2007; Shaxson, 2020). Similarly, Nigeria witnessed an intensification of factional struggles over control of oil revenues as part of the campaign for self-determination or resource control by the Niger Delta's ethnic minority elite faction (Obi, 2019, p. 10).



One of the most influential works on the role of institutions in economic development in African resource-rich countries is by Acemoglu et al. (2001), who investigated why Botswana's had experienced a different path of economic development based on natural resource-related economic growth. According to Acemoglu et al., Botswana's development contradicted the general pattern among other African states.

By 1998, Botswana achieved annual growth of 7.7% with an income per capita of \$5,796, which represented about four times the average for the continent (Acemoglu et al., 2001, p. 1). Acemoglu et al. (2001) argue that the success of Botswana's management of its natural resources, largely consisting of diamonds, was mediated by the quality of its institutions, particularly institutions of private property, inherited from the pre-colonial period.

These institutions were essential for the stability of the political elite and contributed to making Botswana special among other African countries (Acemoglu et al., 2001). Furthermore, the broad coalition that emerged around stability and growth during the Seretse Khama administration also played a role, as argued by Poteete (2009) and Harvey (2014). The nature of existing institutions, while protective of property rights, contributed to political stability due to the incentives they created, which together with the participation of the society constrained the predatory political elite's behaviour.

It was assumed that the increase in incomes from diamond did not mobilize the political elite to block good policies; instead, they embraced good institutions, as they would benefit from them in terms of economic interests. These imaginary perceptions have grown at a level that lowered the incentive of groups to contest the control of the state apparatus due to the absence of fears over the expropriation of property by the elites (Acemoglu et al., 2001, p. 23).

Good institutions have been defined as a form of 'social organization which ensures that a broad cross-section of the society have effective property rights' (Acemoglu et al. 2001, p. 5). The revenues from diamonds reinforced the institutions of private

property. In effect, by the time that diamonds had become an important source of rents, Botswana had already become a consolidated democratic polity with relative efficient institutions. Rents from diamonds were widely distributed, which increased the costs of undermining the existing good institutions (Acemoglu et al., 2001).

Botswana's experience had been critically analysed by Amy Poteete in her paper 'Is development path dependent or political? A reinterpretation of mineral-development in Botswana' published in 2009. Poteete created a critical review by recognizing that, in the absence of stable political support, politicians may attempt to create a political base through the provision of rents (Poteete, 2009, p. 7). Therefore, the existence of rents from natural resources generates opportunities for the emergence of rentier institutions or rentier politics, defined as a strategic response to unstable political coalitions (Poteete, 2009, p. 19). The consequences of rentier politics, as Poteete admits, are bad policies and failed economic outcomes. Thus, according to Poteete, the emphasis on structural constraints and institutional legacies (Acemoglu et al., 2001) hides the strategic challenges and opportunities politicians face while competing for power. She therefore argues that behind policies and institutions lies political coalitions (Poteete, 2009; see also Hickey and Izama, 2016).

Acemoglu et al.'s interpretation of Botswana's economic success, based on the institutional legacy of the pre-colonial institution, can be considered limited in explaining the dynamics within the context of rentier politics. Furthermore, as Poteete argues, Acemoglu and his colleagues did not explain how these institutions were incorporated into Botswana's new postcolonial arrangement. Thus, the centrality of institutions is somehow problematic. Poteete, for instance, questions whether policies and institutions can contribute to variations in economic performance or explain cross-national variation in policies and institutions. Similarly, Di John and Putzel (2009, p. 6) emphasise the argument against the centrality of institutions, taking as an example the democratic institutions, by arguing that in specific countries these institutions may be associated with violent conflict and economic stagnation, while in other countries the same institutions may be associated with peace and economic growth.

In addition, Di John and Putzel (2009) and Khan (1995) criticize ideas emerging from the NIE – for example, in the work of Douglas North (1990) – who argues that liberal institutions such as elections generate an incentive structure for change. According to Di John and Putzel, this is the same as saying that liberal democracy and liberal economic market reforms promote growth-enhancing incentives (Di John and Putzel, 2009, p. 8). Di John and Putzel reject this argument in different ways: First, they argue that the simple focus on the role of ‘incentives’ in relation to institutions is limited because institutions also assign privileges and thus distributional advantages. Therefore, if they were only a source of incentives, this would mean that institutions such as democracy, elections and the liberal market would produce the same outcomes. Secondly, political settlement approaches developed by Khan (for a detailed discussion of political settlement, see the analytical framework, chapter 3) assume that institutions are not intrinsically efficient. These are the reason why they are not transferable from one context to another.

The narrative surrounding the ideas of best practice and good governance in oil and gas sector management pose a fundamental problem related to the narrow view of politics and government (Phillips et al., 2015; Hickey and Izama, 2016; Obi, 2019), this being an important gap in this body of literature. Most African states that are rich in natural resources have failed to progress towards economic development, even when reforms to the state’s institutions have been implemented. Prescriptive approaches under the good governance agenda have been strong in the last few decades. They have chiefly been concerned with implementing a variety of institutions to promote better governance. But resource-based failures with uneven economic growth and sector-specific performance have been the norm, despite the implementation of normative standards and enforcement mechanisms (see Schubert, Engel and Macamo, 2018).

Opong et al. (2020), describes the increase in the government’s engagement with multi-stakeholder platforms such as EITI (including commitment with a regular publication of EITI reports), along with higher-profile national/regional and global Non-Government Organizations (NGOs), the involvement of civil society organization (CSOs) and multiple NGOs in governance advocacy, as part of a whole integrated

effort in occupying the space for the legitimization of governance instruments in oil and gas sector.

However, Oppong et al., and colleagues recognize that, despite the emergence of these governance instruments, the ruling elites remained unaccountable, and natural resource wealth, like oil, has not produced development (Oppong et al., 2020, p. 1167; see also Watts, 2003; Soares de Oliveira, 2007; Ovadia, 2012; Obi, 2019; Shaxson, 2020). Instead, as it has been the pattern in these sub-Saharan African countries, the resources from the first natural gas exploitation project in Mozambique were diverted from the public to the private sphere (Salimo<sup>16</sup> et al., 2020). Harvey (2014) observes that across the continent there were efforts to put in place policies suitable for the African Mining Vision. But governments still negotiate contracts in secrecy, and rents from extractives remain even less transparent, despite the establishment of the EITI mechanism, whose aim is to promote transparency.

Harvey argues that mining legislation in Africa should be incentive-compatible with the distribution of political power and therefore credibly build on inclusive development. This is despite the fact that the complex nature of oil and gas governance in Africa requires an appreciation of political dynamics, power relations, political interest and competition within and outside the state, as well as the role of domestic and international actors (Rosser 2006; Watts, 2007; Phillips et al., 2015; Obi, 2019; and others). But despite the limitations related to the NIE and its focus on institutions, I will nonetheless follow the implementation of some of the most important institutions related to natural resource governance in Mozambique in order to see how they have been implemented and used by the ruling elites to further their interests.

#### 2.4. Natural resource wealth and rent-seeking

Scholars working on natural resource abundance (Menocal 2015; Auty and Gelb 2000, and others) suggest that in developing countries the high value of natural

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<sup>16</sup> Chapter 6 of this thesis analyses the Sasol natural gas project in Pande and Temane. The chapter demonstrates how different factions of Frelimo's ruling elite used their privileges and power to control natural gas resources and projects to transfer rents from the public to the private domain.

resources encourages conflicts over rents among predatory political factions. Humphreys et al., asks where the resource rents come from? And they answered this questioning by demonstrating two features of natural resource wealth that make it different from other sources of wealth. According to Humphreys et al. (2007, p. 4), resource wealth is special for two reasons.

First, unlike any other source of wealth, natural resources do not come from any process of production, but instead they are extracted from the ground, therefore they can be generated independently of other existing economic processes in the country. Furthermore, it can take place without major links to other industrial sectors (Hirschman, 1981), as well as without the participation of a massive domestic labour force.

Second, many natural resources, such as oil and gas, are non-renewable, so they look more like assets. Being non-renewable means that once they are consumed over time they will potentially run out. Humphreys et al. (2007) argues in addition that these characteristics, when embedded in domestic political and economic processes, give rise to 'rent-seeking behaviour' (Humphreys, 2007, p. 4).

Khan and Sundaram define rent as 'an income which is higher than the minimum an individual or firm would have accepted given alternative opportunities' (2009, p. 4). Rent-seeking, therefore, can be understood as 'activities seeking to create, maintain or change the rights or institutions on which particular rents are based' (Khan and Sundaram, 2009, p. 5). As argued by these scholars, rents may be produced from different sources, but more significant is the fact that the institutional arrangements and the nature of the distribution of power in society may influence how rents will be accessed by different powerful groups and how the ruling elite will capture rents to reproduce and maintain themselves in power.<sup>17</sup> Ruling elites comprise individuals and groups both within and outside government who together assert a monopolistic control over wealth (Barma et. al., 2012, p. 48).

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<sup>17</sup> For political settlement scholars, ruling elites need to find means of extracting rents in order to redistribute them among powerful groups (Khan 2000 and 2010; Whitfield and Buur 2015; Menocal 2015), as they are important for electoral support. This contrasts with NIE scholars, who see rent-seeking as distorting markets.

In his recent article on Angola oil rents politics, Nicholas Shaxson asks Where did all the money from oil go? He found that the same powerful families surrounding President José Eduardo dos Santos and his cronies of generals controlled the oil wealth. Rents were also distributed within the top of the political system through patronage networks of redistribution in order to secure political support (Shaxson, 2020). In the last years of José Eduardo dos Santos's presidency, he appointed his daughter, Isabel dos Santos, to lead Sonangol, which, as Shaxson suggests, has represented the most pernicious period of the erosion of the company's technical competence, as well as the draining of money from Sonangol for the private enrichments of the dos Santos clan.

In order to counter rent-seeking, international organisations and bilateral donor organisations have promoted the separation of governance functions in the oil and gas sector. This is what I will discuss further below.

## 2.5. Reforms of governance: the separation of functions in the oil sector

The literature on natural resource governance has raised concerns over why petroleum-sector development in some countries, particularly in Africa, fails to produce effective sector performance, while in developed countries it did the opposite (see, for example, Thurber, et al., 2010; 2011; Heller and Marce,l 2012). The literature on oil and gas sector governance reforms suggest that countries can create wealth from oil by ensuring proper governance regimes through administrative models for the management of the oil and gas sectors in the producing countries (Al-Kasim, 2006; Thurber, et al., 2010, 2011; Doric and Dimovski, 2018).

The relative success of Norway in managing its petroleum resources has influenced the oil-rich countries' agenda for reforming the petroleum sector. International agencies, sector practitioners and scholars have been advocating the adoption of the 'Norwegian model' of governing and managing the oil sector (Thurber et al., 2010; 2011; Ryggvik, 2010; Heller and Marcel, 2012; Doric and Dimovski, 2018). Norway implemented a policy of the separation of commercial and regulatory powers in 1972, ensuring that commercial entities and policy-making bodies became formally

separate. The aim was to make governance of the petroleum sector more transparent and accountable, with the goal of making oil wealth a resource for the benefit of all Norwegians (Al-Kasim, 2006; Ryggvik, 2010).

The policy was created based on wider consultations with various sectors of Norwegian society, and various aspects of development were considered in this regard. This included the establishment of higher standards for how oil resources should be managed and relations with existing sectors of the economy and development agencies. The aim was to avoid conflict between the emerging oil industry and other industries and business activities, as well as to focus on infrastructure development (Doric and Dimovski, 2018).

The Norwegian administrative design model is based on the distribution of functions or power among three separate government-controlled bodies (Al-Kasim, 2006; Thurber et al., 2010; 2011). The policy-making body is organized within the Ministry of Petroleum and Energy (MPE), which oversees the process of exploration and production rights. A separate regulatory body called the Norwegian Petroleum Directorate (NPD) is responsible for the supervision of all activities carried out by the oil companies and for collecting petroleum profits, as well as advising the Ministry on technical matters. Finally, a commercial body represented by the Norwegian national oil company is today actively involved in petroleum operations in Norway and abroad (Doric and Dimovski, 2018; Al-Kasim, 2006).

The general view shared by scholars promoting the Norwegian model is that this model can lead a given oil sector to efficient performance. The idea is not far from the perspectives of institutionalists and good governance scholars, although there is a clear comprehension of the limits and requirements that are needed for the model to work in countries willing to implement it. The underlying features of the model and how it has been implemented elsewhere include good governance based on a new institutionalist perspective.

For instance, Thurber et al. (2011) suggest that institutional quality and political stability are required for countries to be able to adopt and successfully implement

the Norwegian model. Doric and Dimovski suggest instead that the Norwegian model of the separation of power in the petroleum sector would make the petroleum sector's performance much better in countries with a stable democracy (2018, p. 122). Kumah-Abiwu (2017) observes that the role of the separation of functions does not stand alone and argues that the protection of property rights and the quality of the public bureaucracy are also important to consider.

Thurber and his colleagues (2010 and 2011) stress that the model itself is not a panacea for the successful governance and performance of the sector. Instead, they argue, the key to its successful implementation is the *quality* of the necessary institutions in terms of their political and bureaucratic capabilities and the degree of political competition. Political competition refers to the situation in which the country's political regime is open to the possibility of the ruling party losing power (Thurber et al 2011, p. 4). Furthermore, in their 2010 paper focusing on the limits of institutional design in oil sector governance, Thurber and his colleagues assert that implementing the Norwegian model without observing certain institutional capacities can be harmful. Thus, they recommend the concentration of functions in a single body until the necessary institutional capacity and technical skills to serve the sector are created (Thurber et al., 2010, p. 4).

Quite a few oil-rich African countries have witnessed the adoption of the Norwegian model of the management of the petroleum sector (see Hickey and Izama, 2019). One of these countries is Nigeria, the first and largest African oil producer, which introduced the model of the separation of functions between regulatory and commercial bodies in different phases of its oil and gas sector commencing in the early 1970s. However, due to the limited technical capacity in the petroleum sector at the time the model was adopted, it was shut down, and in 1997 the Nigerian National Oil Company (NNOC) and the Department of Petroleum Resources (DPR) were integrated to form the Nigerian National Petroleum Corporation (NNPC) (Thurber et al., 2010, pp. 12-13).

In 1980s the model was replenished and then terminated in 1998 and re-established in the following year. The NNPC is the state commercial body, and the DPR oversees



the regulatory functions. Various concerns over the model have been raised in different papers on the politics of Nigerian petroleum governance. Political patronage, corruption and crimes are deeply rooted in petroleum management which interfere with the quality of the enforcement of the petroleum sector's regulations (Asuni, 2009; Thurber et al., 2010; Ekhatior, 2016).

Judith Burdin Asuni (2009) wrote a report concerning the attacks against oil industry in the Niger Delta, in Nigeria. She describes how local and international networks engaged in criminal thefts of crude oil in the Niger Delta are intertwined with the deeper nature of politics of oil in Nigeria, which ends up by affecting the quality of the enforcement of regulations in the sector. Asuni suggests that local youths, community leaders, members of Nigeria military, politicians, some higher-ranking officials of NNPC, retired military officers and multinational companies (MNCs) are all involved in the lucrative oil-bunkering business (Asuni, 2009; p. 5; see also Ekhatior, 2016).

Despite the long history of petroleum exploration and production, Angola instead chose to keep both functions concentrated in a single body, Sonangol (Heller, 2010; Thurber et al., 2010). This approach may have helped Angola to consolidate its rent-capturing capacity and to develop to some extent its technical capacity to govern petroleum. As Thurber et al. (2010) argue, the sector has 'succeeded' despite the absence of checks and balances. Meanwhile, Angola's success in the management of the oil sector, when it is realized how beneficial the sector has been for the general public, seems to be sparse, as wealth is not shared with the majority of Angolans, who remain under the poverty line (Shaxson, 2020).

Tanzania has established separated bodies to perform the commercial and regulatory functions. However, the capacity of both bodies to perform their responsibilities to the full are jeopardized by the lack of capacity and resources. The Tanzania Petroleum Development Corporation (TPDC), created in 1969, is the country's commercial body in the petroleum industry, while the regulatory function is assigned to the Petroleum Upstream Regulatory Authority (PURA) (Mmari, et al., 2019).

According to Thurber et al. (2011), adopting the Norwegian model of managing the petroleum industry is fundamental, as creating transparency in managing such resources is critical to the sector's performance. Kemal brought into this discussion the idea that any economic impact emerging with changes in petroleum governance might be contingent on political conditions (Kemal, 2016). This remains the most critical challenge many African countries face in setting up an effective model of oil governance inspired on the Norwegian model. To this end, it is interesting to consider Rodrik's contribution to this debate, when he argues that 'best-practices' institutions are almost non-contextual. He therefore suggests that 'second-best' institutions should be allowed as appropriate for developing countries. Second-best institutions are those where context-specific market and government constraints cannot be changed or removed easily (Rodrik, 2008).

As Mozambique has formally adopted the Norwegian model, in several chapters I will explore how it has been implemented and begin to trace some of the patterns emerging from its implementation. Another aspect of the good governance agenda that the petroleum sector has been implementing in Mozambique is how to compensate local populations for lost land and livelihoods.

## 2.6. Large investments in natural resources and resettlement

The literature on large investments in natural resources and land acquisitions in Africa has demonstrated extensively that such investments often end up violating the rights of local populations, including loss of their land and access to basic livelihoods (Cotula et al., 2009; Cotula, 2011; Deininger, 2011). Problems of uncertainty among the populations affected concerning the future of their livelihoods (World Bank, 2008; McDowell, 2002; Cernea, 1988), displacement, impoverishment, and environmental issues are, among other things (Wieginki, 2018; Fugikura and Nakayama, 2015; Cernea, 1997), what represent the destructive dimension of these global agendas of development. The majority of large investments in natural resources require resettlement. However, the experience of compensation and resettlement in many developing countries remains an important source of conflict between local populations and investors, and of governments as well.

Experiences from projects funded by the World Bank have provided important lessons that called for a reassessment of the Bank's procedures for its continued improvements, including among its member states in relation to the overall approach to resettlement (World Bank – The Inspection Panel, 2016). Buur et al. have exhaustively explained that investments in natural resources involving large-scale acquisitions of land are inherently conflictual and unequal (2017, p. 7; 2019; 2020). Protests and other types of resistance to international oil companies are well documented in the literature (Wiegink, 2018; Salimo 2018; Pedersen and Kweka, 2017; Cotula, 2011). Mozambique, for example, has seen various protests, including those against coal mining in Tete (Mosca and Selemene, 2011; Human Rights Watch (HRW), 2013; Wiegink, 2018; Monjane, 2019) and forestry projects in Niassa (see Lambert et al., 2013; Weimer and Carrilho, 2017).

Although it is commonly recognised that these investments are problematic for local populations, the later may also undermine the sustainability of investments if they are inadequately compensated (Buur et al., 2017; 2020). Experiences of conflict between local populations and multinational companies or between these actors and the ruling elites have led to a rethink of the model of relations with local populations and host governments in order to make investments socially sustainable and economically viable. For example, multinational oil companies and other international agencies have tried to involve local populations in the large-scale investments that affect their lives and livelihoods, and to provide them with benefits that will, in turn, depend on, the successful implementation of their projects. Whether local populations approve or not the nature of such involvement is not yet clear. Therefore, an effective relationship between investors and local populations is an important factor in stabilizing the implementation of investments (Buur et al., 2017; 2020). Such relationships are established based on an exchange of deals in which investors are willing to gain the trust and confidence of the local population in order to secure the stability of their investments, while the local population are interested in having their rights considered and respected, in being involved and heard, and ultimately in gaining direct and indirect benefits from the project's implementation.

The United Nations (UN) agencies, multinational oil companies and other international agencies have developed different approaches towards establishing fruitful relations between investors and local populations and ensuring that investments are socially and environmentally sustainable. These include references to 1) the Corporate Social Responsibility (CSR), which is generally considered less appropriate for the desired relationship, as it is based on what companies want to offer, rather than a process of clear engagement with the local population; and 2) the Social Licence to Operate (SLO) approach, which, although it introduces the idea of strengthening dialogue with the local population, in practice seldom goes any further than the CSR model; accordingly some studies see little difference between the two (see Perera, 2014; Pedersen and Kweka, 2017; Buur et al., 2017).

More recently the Free Prior and Informed Consent (FPIC) approach has been introduced under the UN Declaration of the Rights of Indigenous Peoples and the International Labor Organisation's (ILO) Convention 169 on Indigenous and Tribal Peoples. The FPIC is considered to provide better inclusion of the local population as it enshrines the idea of consent, as well as the community's right to veto the commencement of a project (Cotula, 2011).

The World Bank has considered concerns around the displacement of populations, the sustainability of social and economic development, and environmental impacts. Other international financial institutions, including the AfDB, as well as international development agencies, have also introduced specific policies to prevent harmful social, economic and environmental effects from the development projects they support (Perera, 2014). In 2012 the IFC of the World Bank Group revised its Performance Standard 5 on Land Acquisition and Involuntary Resettlement, an important policy framework to take into account when local populations are given no alternative to the loss of their land and other resources for their livelihoods than moving somewhere else (Jayawardena 2011; Perera 2014).

In 2012 the IFC of the World Bank Group revised its Performance Standard 5 on Land Acquisition and Involuntary Resettlement, an important policy framework to be taken into account when people are given no alternative to the loss of their land and other

resources than to move to a new place (Jayawardena, 2011; Perera, 2014). Among the main principles, these policies establish that:

- (i) Involuntary resettlement should be avoided or minimized where feasible;
- (ii) When unavoidable, resettlement activities should be developed in a sustainable manner, providing the resources to enable the displaced to share the benefits of the project's implementation;
- (iii) Affected persons should be consulted and should have the opportunity to participate in the planning and implementation of programs for resettlement; and
- (iv) The displaced persons should be assisted in improving their livelihoods and living standards, or at least in restoring them to pre-project levels.

In May 2012 the Committee on World Food Security (CWFS) endorsed the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries, and Forests, which offers guidance on sustainable development and seeks to improve security of tenure for the vulnerable and marginalized. The guiding principles for what are called responsible investments emphasize respect for tenure rights-holders, protecting tenure rights against threats, and calls for consultation, participation, transparency and accountability (Zoomers, 2013). This has been developed with the aim of refining the model of relationships between investors and local populations, as well as the state's responsibilities.

In Mozambique the government approved in 2012<sup>18</sup> a regulative framework for resettlement resulting from investments in economic activities. This regulation was approved as part of a growing contestation of local population over land dispossession and the loss of access to resources of their basic means of livelihoods to extractive companies. The foundation for the adoption of the regulative

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<sup>18</sup> Decreto 31/2012 O Regulamento Sobre o Processo de Reassentamento Resultante de Actividades Económicas. / Decree 31/2012 The Regulation on the Resettlement Process Resulting from Economic Activities

framework for resettlement in Mozambique is inspired on the ideas behind the governance approaches to large scale investments, which is in line with the international agenda to promote sustainable large-scale investments and the protection of local populations rights. I will explore this dimension of institutional arrangements on compensation and resettlement to further understand how it has been adopted and implemented under the massive investments on the LNG in Palma.

## 2.7. Conclusion

This chapter has explored key debates related to natural resource governance, especially oil and gas in economic development. This was made possible by a review of the literature on the political economy of natural resource governance, the resource curse literature, institutional economics and reforms of good governance. All of these perspectives have made strong claims concerning how natural resource endowment and institutional quality are related to economic performance in developing countries. However, criticisms over their weaknesses in including the context of politics and power have been raised. While the resource curse literature argues that natural resource wealth has led to poor economic performance, the NIE and the good governance literature argues that economic performance in resource-rich countries is determined by the quality of institutions in place. Critics of these bodies of literature suggest that neither natural resource wealth nor institutions explains adequately the myriad of undesired outcomes.

I argue that although wealth in natural resources represents an opportunity for a country's development, contextual politics and power relations over resources also gives a rise to 'rentier-elites' who indulge in resource predation by creating patronage networks fed by rents from resource wealth (Shaxson, 2020; Oppong et al., 2020; Khan and Sundaram, 2009). The main gap in the literature relies on the fact that it pays very little attention, if any, to the issues of politics and power and to how they are intertwined with the nature of deal-making in relation to petroleum-related projects. As discussed in the next chapter, I have embraced the political settlement approach as my analytical framework, as I suggest it helps me to understand the

complexity of the dynamics involving institutions and power and how they are related to the governance of oil/gas and sector deal-making in Mozambique.

# **CHAPTER 3.**

## **ANALYTICAL FRAMEWORK: THE POLITICAL SETTLEMENT APPROACH**



## CHAPTER 3. ANALYTICAL FRAMEWORK: POLITICAL SETTLEMENT APPROACH

### 3.1. Introduction

This chapter discusses the analytical framework built around Mushtaq Khan's political settlement (PS) 'theory', which will be the main analytical approach of the thesis.<sup>19</sup> This is combined with the 'political survival of ruling elites' approach developed by Whitfield et al. (2015). In effect, the latter approach has its origin with Khan's political settlement approach. Although there are some obvious similarities, analytically they represent distinctive explanatory perspectives with regard to differences in terms of their respective units of analysis.

The political settlement approaches rests on analysing the distribution of power in society broadly and how institutions are configured for achieving economic transformation, whereas the political survival approach focuses chiefly on the ruling elite and how the ruling coalition holds power as its unit of analysis. Besides these approaches, which are mutually compatible, I emphasize the importance of ideas emanating from Hickey et al. (2015) and Lavers (2018), and international policy coalitions (Hickey et al., 2015; Hickey and Izama, 2016), as the field of natural resource, and particularly oil and gas, are inherently international, and the aspects of implementation are considerably critical Grindle (1999) and Thomas and Grindle (1990).

The chapter is organised as follows. First, following this introduction, I discuss the main foundations of the political settlement approach in developing countries, especially in Africa, and the various dimensions that the distribution of power relates to, as well as the different types of clientelist political settlement. I integrate ideas as a new dimension for analysis within the political settlement framework. Second, I

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<sup>19</sup> Some see the political settlement approach developed by Mushtaq Khan as a 'theory' (1995; 2010), others as a meso-level theoretical approach (Behuria et al. 2017; Whitfield et al., 2015; Buur et al. 2020). In this thesis I treat it mainly as an approach, even though some ideas concerning causal mechanisms and grand ideas concerning intentionality (rational choice for example) are present. It is first and foremost a good way of approaching a political economy analysis and therefore fits well with the aligned 'politics of survival' approach (Whitfield et. al 2015), as well as with the "Effective States and Inclusive Development" (ESID) researchers focus on the role of ideas and international policy alliances.

focus on policy reform and institutional change, including an analysis of the role of international actors within the framework, as this is consistent with the country's sector-specific context. Third, I combine the political survival of ruling elites approach as one dimension within the framework which helps us understand the choices and constraints regarding institutional change and policy implementation. Finally, I present the conclusion.

### 3.2 The political settlement approach

The political settlement framework (Khan, 2010) has attracted considerable attention and interest among scholars, predominantly those analysing the context of economic performance, political stability, policy and institutional change and other such issues in developing countries (Melia, 2016; Behuria et al., 2017; Kelsall, 2018). The development of the PS approach has been attributed to the work of Mushtaq Khan (see also Di John and Putzel, 2009; Gray, 2012; Whitfield et al., 2015), a professor of economics at SOAS, University of London, who developed the framework in the mid-1990s, but it first rose to prominence during the 2000s.

Khan defined a political settlement as an “interdependent combination of a structure of power and institutions at the level of society that is mutually compatible and sustainable in terms of economic and political viability” (Khan 2010, p. 20).<sup>20</sup> This means that, under a situation in which the combination of institutions and power is not viable, the political settlement will not be able to survive, and society will fall into disorder and conflict. Khan argues that political settlement requires institutions (both formal and informal institutions) that will create a structure of benefits in line with the relative distribution of power among different groups in the society (Khan 2010, p. 4).

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<sup>20</sup> The political settlement approach has also been defined by Di John and Putzel (2009, p. 4) as ‘the balance or distribution of power between contending social groups and classes under which the state lies’, while Kelsall (2018, p. 6) has defined it as an ‘on-going, conflict-ending or -preventing agreement among powerful groups over a set of institutions expected to create opportunities for distributions of benefits that is accepted to them’. While Khan, Di John and Putzel focus on the distribution of power, Kelsall claims instead that he and his colleagues at ESID, University of Manchester, have reoriented the analysis by integrating ideas as an institutional solution to ending violence.

The idea advanced by Khan regarding the minimum level of economic and political viability refers to the ability to maintain and reproduce a given political structure or organisation, which on the one hand is achieved through some level of economic performance, while on the other hand, this may refer to an ability to manage dissent, violence and conflict that are not sufficiently disruptive of the core institutional and political arrangements that define the political settlement (Khan 2010, p. 21). In Khan's optic, at some point in time institutions may fail to satisfy the expectations of benefits held by the different groups in society. Thus, when institutions are no longer effective in distributing benefits consistent with the institutional structure and distribution of power, powerful groups in society that are affected by the outcome of the inefficient distribution of benefits may find incentives to mobilize and overturn the existing institutional arrangements.

A key premise of this argument is that in general developing countries are not able to sustain a given political order through the formal state budget (Behuria et al., 2017). This stands in contrast to a small group of capitalist societies where the formal state budget can indeed sustain the political system by satisfying all key political groups in society (see Whitfield et al., 2015; Khan, 2017).

Khan and Roy (2019) in a recent research working paper speaks about a small group of societies (maybe not more than 6-7 countries primarily located in northern Europe) where the political order is organised around the 'rule of law' (where even leaders are subject to the law), a sharp contrast to a vast majority of societies that are 'ruled by law' (where it is those in power that themselves become the law to varying degrees). The powerful shall be engaged in the enforcement of rules, but selectively, they will be acting within the instances of rule by law (Khan and Roy, 2019, p. 12). Even though the distinction may be informative, it is also too rigid, as there are indeed a considerable number of societies that include features of both in different configurations (see Buur et al. 2020). For this thesis, as discussed below, this premise is nonetheless important for exploring how the political settlement in Mozambique reproduces power within a clear 'ruled by law' scenario.

In his recent article and discussion with critics of his approach, published in *African Affairs*, Khan provides an insightful explanation of his original framework and the need for clarification, given that the approach is increasingly being used by a diverse group of scholars, with a divisive debate raging over the pros and cons of the framework (Khan, 2017). Importantly, these debates have provided new perspectives on the original political settlement approach by responding to the real or perceived limitations of the framework's explanatory and methodological foundations (see, for instance, Hickey et al., 2015; Kelsall 2018; Lavers, 2018,). Others, like Behuria et al. (2017), have put considerable efforts into offering an interesting explanatory interpretation and understanding of Khan's original political settlement framework by discussing its usefulness in studying the complexity of the African context and its politics, while also providing important tools to use in its practical analytical operationalization.

The political settlement framework became an alternative perspective for analyses of 'institutions' due to the limitations of the new institutional economics or NIE developed by Douglas North and others (Khan, 2010; 2017), as well as of good governance (Behuria et al., 2017; Kelsall, 2018). The NIE has to some extent provided an important contribution to understanding the origin of the poor economic performance of developing countries. The explanation for such outcomes and institutional performance was that inappropriate institutions are unable to reduce the transaction costs associated with an appropriate way of coordinating social activities (see Khan 2010, p. 14). For the advocates of NIE, institutions matter because they constitute the rules that make the social interactions work.

However, Khan argues that there is a problem with the persistence and continuous failure of institutions in developing contexts, including a lack of emerging effective institutions, and the question is why this is the case. Khan (2017, p. 1) suggests that the political settlement approach posits two main questions related to policy and institutional effectiveness that have made it difficult for the NIE to convincingly explain them. First, why are some countries performing better than others under the same type of policies and institutional contexts? Secondly, why do quite different

policies and institutions appear to solve similar problems in different country-specific contexts?

Taking as examples South Korea and Taiwan in the 1960s, we see that centralized political power proved to be efficient in terms of coordinating technology acquisitions and economic performance. By contrast, in Pakistan, a society with the same characteristics as those of South Korea at the same period, economic performance has not been so successful: the consequence of centralized power under a military regime was a civil war, and by 1971, the country had become fractured (Khan, 1995, p. 9).

Again, as Khan argues, industrial policy institutions designed to provide support to firms oriented to export growth and a centralized management met successful outcomes in South Korea (Khan, 2017, p. 1), but in Pakistan the same institutions operating under the same industrial policy regime failed to be efficient and successful, because the existing fragmented society was constituted by many powerful political groups and those could be used by unproductive recipients of subsidies to ensure protection by weakening institutional enforcement (Khan, 2003, p. 185). In Britain and North America, where political power was relatively dispersed, but property rights were well-defined and enforced, these conditions directed these countries to a strong growth pattern, and the institutions were therefore proved to generate low transaction costs. The quagmire is that the same outcome has indeed also been seen in countries where the centralized political power, interventionist institutions and the weak enforcement of property rights were part of the society, as in South Korea (Khan, 1995) and China today.

These outcomes may be explained by different countries' specific contexts of policies and politics (Khan, 1995, p. 9). Khan (2017) argues that, if the NIE is to understand the emergence and effectiveness of institutions, it has to go beyond the institutions themselves to look at the political and economic contexts in which they are rooted. Thus, a political settlement approach will refer to the distribution or configuration of organizational power in a given society (Khan, 1995; 2010; 2017).

In summary, Khan's political settlement approach starts by identifying the underlying distribution of power in society, bounded by the economic structure and the history of political struggles (Khan, 1995; 2010). By distribution of power, Khan's refers to the different degrees of 'holding power' by different groups and organizations that contest how resources should be distributed (Khan, 2010, p. 1). With a similar foundation but different elaboration, in his recently published article 'Political settlement and the analysis of institutions', Khan conceptualizes the distribution of power on the basis of Jack Knight's definition, which refers to the likelihood of particular organizations 'holding out' in contests seeking to influence institutional outcomes (Khan 2017, p. 5). In turn, holding power should be understood as the ability of an individual or group to engage with and survive in conflict (Khan 2010, p. 6, 20). I use the concept of power to refer to the capacity of individuals or groups to impose preferences on others, and to assert claims to the ownership of income flows through redistribution and production (Whitfield et al., 2015; Behuria et al., 2017).

Within the political settlement framework, institutions are a consequence of substantive distributional conflicts, but they also have influence on the pattern of income and resource distribution in a society. According to Khan (2010), the distribution of power in society affects the ability of social groups to acquire and hold on to property rights that generate an income. This being the case, the focus is on how competition among groups shapes the creation, distribution and use of rents (especially learning rents, which is less relevant for my thesis), as well as the ability of the ruling coalition to implement changes in formal and informal institutions that are contested.

According to Khan and Sundaram, rents, as already discussed in chapter 2, refer to an income that is higher than the minimum an individual or firm would have accepted given alternative opportunities (2009, p. 5). Khan and Sundaram argues that in the real world many incomes might represent rents. In general, they are generated through transfers by political mechanisms, subsidies, profits from monopolistic activities, innovations, illegal operations and other means. Interesting to understand is that rents are not necessarily bad things, and nor they always represent an illegal income. They are important for market to work efficiently. Some rents, when

originating from decent activities, like rents for innovations, lobbying or other activities, they may indicate an existing efficient exploitation of growth opportunities (ibid., p. 5).

Below I discuss the foundations behind political settlements in developing countries and the dimensions of the distribution of power.

### 3.2.1. Political settlement in Africa and the distribution of power

As discussed by Khan (2010), Gray and Whitfield (2014), and Whitfield et al. (2015), the formal economic structure of developing countries cannot sustain the political order, in contrast to what happens in developed capitalist societies. This is what makes developing countries special. This, as Khan argued, is at the heart of the incentives for the emergence of patron–client networks and the predominance of personalized politics that are intimately related to the informal institutions that pervade the nature of relations developed in the public sphere of the state (Khan, 2010, p. 53). Behuria and his colleagues argue that power and institutions are not the same and are not always in reciprocal alignment. Therefore, under such circumstances in low-income countries, the incentives of powerful groups to organize claims on the state will basically work through clientelism (Behuria et al., 2017, p. 511).

This recalls Heilbrunn (2014), for instance, who argues in his book *Oil, democracy, and development in Africa* that clientelist networks have represented a common trajectory in politics throughout the continent since well before independence, being part of the foundational organizational structure, which gives rise to institutions. But in Khan and Whitfield et al.'s (2015) perspective, clientelism, patronage and informal institutions are not cultural *per se* but are based on the socio-economic structure of the given society or political order.

Khan (2010, p. 60) explains in this regard the term 'patron–client networks' to refer to the informal networks that powerful groups use to generate and protect their benefits. Thus, the distribution and organization of holding power in a developing country are characterised as being clientelist political settlement. Therefore, the

characteristic of different clientelist political settlements is determined on the one hand by the organizational structure of the ruling coalition vis-à-vis the way in which power is distributed either within or outside the ruling coalition, and on the other hand by the relative power of productive entrepreneurs within the settlement (Khan, 2010; Behuria et al., 2017), if indeed productive entrepreneurs in a capitalist understanding exist. They rarely exist in a pure form, but the significant point is that there are three dimensions of the distribution of power that characterize the clientelist political settlement. I will explore them one by one.

Firstly, *the vertical distribution of power* refers to the relative power of higher factions compared to that of lower factions within the ruling coalition (Khan 2010, p. 64; Behuria et al., 2017, p. 513). Khan argues that, under a situation in which the higher faction(s) of the ruling coalition have greater relative power in relation to the lower factions, the greater is the ability of the coalition to implement and enforce its policies. Khan argues that this occurs because with patron–client organizations it is well understood that the more powerful the lower-level factions become, the more easily they can block the enforcement of particular rules and policies.

Thus, to implement and enforce rules promoted by the higher-level factions will require the cooperation of many or all the lower-level factions, which may be obtained by distributing rents to these groups. The more common situation in a patron–client hierarchy is that lower-level factions are weaker in relation to higher-level factions and that the former usually depend on the latter. Despite this, the specific situation might arise under which the lower factions are powerful enough to secure some bargaining power, being able to impede or limit the implementation of specific rules or policies if their interests are not satisfied (for example, land transfers or resettlement, as I discuss in chapter 8). Often this depends on the democratic system (how open it is) and therefore on how dependent higher-level factions are on lower-level factions for winning elections (Buur et al. 2020).

A neglected element in Khan's optic is related to competition between high-level elite groups or factions that rarely operate in cooperation with each other. As Whitfield et al. (2015), who identified this oversight, has suggested, the vertical



distribution of power is often over-simplified. For Khan, one reason can be that his approach was originally developed in an Asian context, where it can reflect the typical structure of the patron-client organization through which all factions are integrated into the ruling coalition or opposing factions. Here the differentiation between the higher- and lower-level factions at the higher-level spectrum of the ruling coalition are often lost, particularly in important struggles between high-level factions or families that are struggling over economic and political power and opportunities (see Macuane et al., 2018; Salimo et al., 2020). This is relevant in understanding rent distribution in Mozambique, as I will analyse in relation to the Sasol project (see chapter 6) and LNG investments in Cabo Delgado (chapter 7).

Secondly, *the horizontal distribution of power* 'describes the power of excluded coalitions or factions relative to the ruling coalition' (Khan 2010, p. 64-65). Khan argues that if excluded coalitions or factions are weak, the ruling coalition is likely to be comfortable in embracing a longer time horizon when pursuing policy options, and hence it will be more likely to adopt policies that are relatively aligned with growth and development. Khan presents three important reasons for the weakness of excluded coalitions: first, when all or almost all of the powerful coalitions are incorporated in the ruling coalition; second, when there is an unequal distribution of power across factions and when those within the ruling coalition are significantly more powerful because of their legitimacy or organizational capabilities; and finally, when the excluded coalition is potentially strong but (violently) repressed by the ruling coalition. Furthermore, when the excluded coalitions are strong enough to threaten the ruling coalition's political survival in the long run, then the ruling coalition may act in a short-term perspective. This dimension of political settlement is not applied in this thesis' research.

Thirdly, technological and entrepreneur 'capabilities' are related to the relationship between the ruling coalition and economic entrepreneurs or other financiers (donors, traders, investors, speculators etc.) that are important in financing the settlement (Behuria et al., 2017). Both the ruling coalition and these economically powerful groups, whether they are called entrepreneurs, financiers or business operators, are

willing to support a particular political group in exchange for ensuring some way of extracting rents.

Two characteristics of financiers are of great importance for my analysis: firstly, the technological and entrepreneurial capabilities of entrepreneurs (if they are indeed the drivers financing the ruling coalition); and secondly, the holding power of those who are financing a given political settlement (Khan, 2010, p. 70). The first must be analysed bearing in mind the historical process of accumulation and learning in a given society. The key questions here are how potential financiers are integrated into the ruling coalition, the nature of their dependence on existing clientelist networks and the related implications.

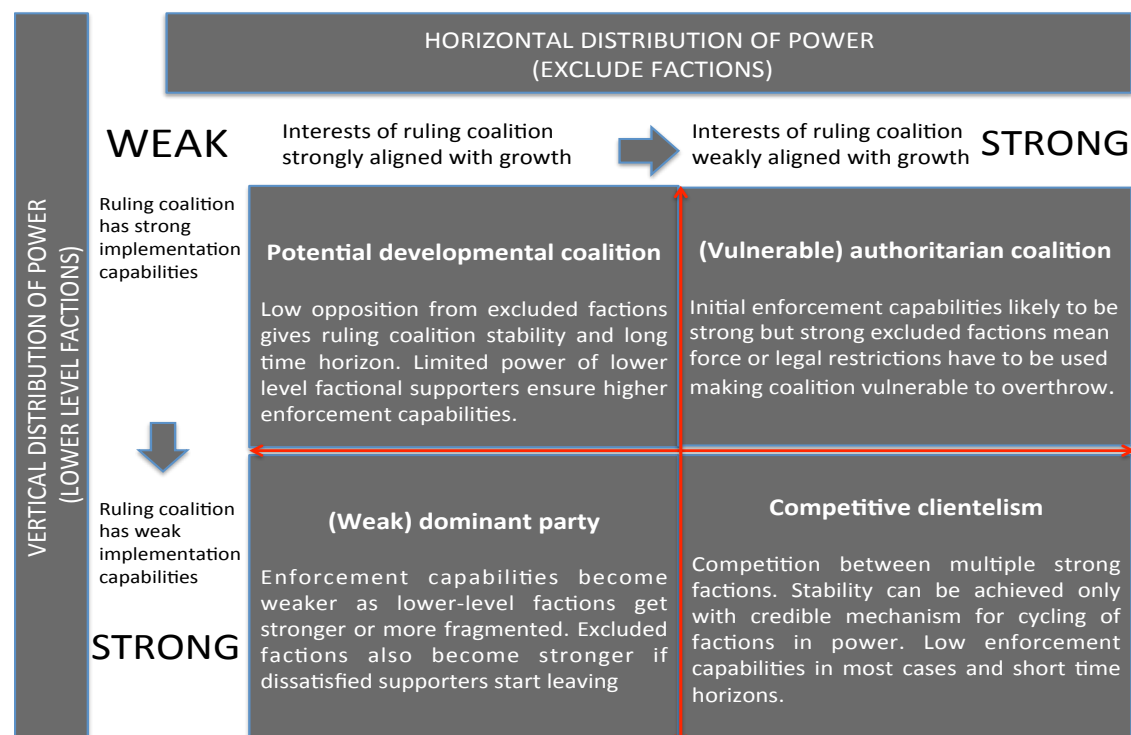
In less polemical terms, Khan suggests that the holding power of emerging capitalists in developing countries – which are the groups he is interested in, which rarely dominate in an African context, no matter how large their organizations are and how high-capability entrepreneurs act – is unlikely to be based on the profits generated by the organizations themselves. Therefore, they are dependent for their survival on the informal networks that lie within the informal power structures through which ‘formal’ rights can be protected and politically organised or managed rents can be accumulated. Thus, powerful political networks usually depend on the resources that entrepreneurs provide from either their formal productive enterprises, which is quite rare in an African context, or from other informal sources of rent generation that may be made available to political patrons or factions.

According to Khan (2010, p. 70), these entrepreneurs are likely to have significant holding power because of their support to powerful factions, which will, in turn, protect them. Financial entrepreneurs may also be weak if the ruling coalition can operate without their support – for example, if the ruling coalition has enough significant alternative sources of rents from traders, aid or illegal smuggling, usually in combination. Another example is when the ruling coalition is involved in the extraction of natural resources or if their own business companies (including party businesses) are involved in lucrative economic activities, as is the case in Mozambique.

### 3.2.2. Typologies of clientelist political settlement

Based on Khan's dimensions of a given political settlement, different typologies may emerge. In Figure 2 below, four different typologies of political settlement are presented based on horizontal power and excluded coalitions. The Figure demonstrates how the model of clientelist political settlement may differ from one specific country context and sector to another.

Figure 2. Khan's different types of clientelist political settlement



Source: Khan (2010: 65).

In Khan's optic, when the coalition of the excluded is weak, the ruling coalition is likely to have a longer time horizon, and therefore its interests are more likely to be aligned with growth and development (Khan, 2010; 2017). Conversely, when excluded coalitions are strong, the ruling coalition is likely to have a limited time horizon and more incentive to pursue short-term strategies to retain power (Khan 2010, p. 65). While no real proof of this has been presented, it persists as an important mantra in much of the literature on political settlement, most prominently in Kelsall (2018).

Khan argues that if the higher-level coalitions have greater relative power than the lower levels, it is more likely that ruling coalitions will have greater implementation and enforcement capacities (Khan, 2010, p. 65). On the other hand, as the lower-level coalitions become stronger, the greater are the chances that they will block the enforcement of particular decisions (Idem, Ibid.). The balance of power between competing groups or factions both within and outside the ruling coalition defines the different types of political settlement, namely competitive clientelism, a dominant party, potential developmental coalitions and authoritarian coalitions (see Figure 2 above).

Mozambique's political settlement has changed over time, although some characteristics, such as centralized management around the ruling party, have not changed as much as could be expected. The typology of political settlement has shifted from a "strong" to a 'weak' dominant party, and from "weak" to a 'vulnerable' authoritarian coalition, the latter being the typology of political settlement that largely fits the current ruling coalition that determines Mozambique's political context. This particular type of ruling coalition faces moderate to strong excluded factions, which at the lower level are relatively weak. However, the excluded factions will not remain weak forever. Over time they may become stronger, thus making the ruling coalition more vulnerable. If they are sufficiently powerful, a weak ruling coalition will put in place measures that consist of either legal or constitutional arrangements, including the use of force against the excluded factions due to fears over particular threats to overthrow the coalition (Khan, 2010, p. 66).

Recent studies with a focus on political settlement analysis have come up with more typologies of political settlement defined by specific country contexts of political economy or sector development. However, they also add considerably to confusion over what is being analysed (see, for example, Kelsall, 2018). Lavers (2018) observes that, while the political settlement approach offers significant and plausible explanations for the constraints that political elites face within the politics of interest-based development, political settlement typologies contribute little to understanding why particular policies are chosen over other plausible alternatives (Lavers 2018, p.

5). One possibly important gap is the role that ideas and ideologies play in generating and implementing policies.

### 3.2.3. Integrating ideas in the political settlement framework analysis

Recent critics of the political settlement approach suggest that the original framework has neglected fundamental questions regarding ideas and actors (Hickey, et al., 2015; Hickey and Izama, 2016; Lavers, 2018), as well as issues of legitimacy (Lavers, 2018). I do not intend to discuss here the relevance of each of these elements, which are emerging as complementary to the political settlement framework analysis. Instead, I shall restrict myself to taking up issues of relevance to my own material related to the gas industry in Mozambique, such as ideas and actors.

Lavers (2018) observed that ideas are inherently intertwined with the interests and institutions that are the key elements of Khan's (2010) political settlement framework. The role of ideas in the analysis of problems in the political sphere is not necessarily new. Grindle, for example, argues that ideas are important elements in policy reforms because of their links with power (Grindle, 1999, p. 17). Importantly, the transnational organizations that intervene in domestic policy agenda settings are facilitated by ideas (Grindle 2017). Within Khan's concept of holding power, understood as actors' and groups' abilities to survive in conflict (Khan 2010, p. 6), ideas are part of what shapes how power is organized and sustained, although it is not clear exactly how. In contrast, Lavers (2018, p. 9) links this to the concept of 'ideational power,' borrowed from the 'ideational approach,' which refers to the capacity of actors to use ideas to persuade and impose preferences over alternative ideas by shaping beliefs and actions, including shaping structures and institutions, which in turn influences the behaviours of actors.

Lavers (2018, p. 9) further argues that, at the level of the political settlement itself, the formal and informal institutions that are subject to negotiation and contestation between contending factions are built on ideational foundations. In this regard, Lavers concludes that a political settlement is not just defined by a set of institutions

providing incentives for resource distribution or ruling elites and their factional interests, but to some degree also by the sharing of ideas between the factions that form a constitutive component of the political settlement. Various authors therefore suggest the need to take ideas seriously (Grindle, 1999; Hickey et al., 2015). Indeed, Khan recognizes the role of ideas in the mobilization of political support when 'elites' are willing to achieve specific political interests, but he does not directly include ideas in the political settlement framework as an important element shaping the interests of actors (Hickey et al., 2015; Lavers, 2018).

Behuria et al. (2017) also recognize the role of ideas, but they find their exploitation by Lavers and others in political settlement analysis confusing in its application. They point out, for example, that Hickey et al. (2015) demonstrated how the interplay between interests and ideas within Uganda's political settlement has influenced that country's governance of its oil sector. However, the problem is that, while ideas played a role in the political settlement of this sector in Uganda, other work by Abdulai and Hickey (2016) focusing on the education sector in Ghana did not find ideas to be as important (Behuria et al., 2017, p. 518). They therefore suggest that the role ideas play in political settlement analysis is highly contingent on context. For example, ideas like 'national unity' in and through the Frelimo party may be used as a strategic tool to keep opponents under control and promote cohesiveness between different factions within the ruling coalition in the face of a potential threat of confrontation, as has been suggested for Mozambique (Buur and Salimo, 2018).

The concerns raised by Behuria et al. (2017) on the role of ideas in the political settlement analysis are not without any importance at all. Indeed, contentious disagreements on ideational analysis have existed for decades among economists and political science scholars in relation to how to define and conceptualize the effect that ideas have on political change (Tønder, 2010, p. 56).

In some ways the controversy was related to the dualistic dichotomy of materiality and ideational representation in the construction of explanatory causality on specific political outcomes (Gofas and Hay, 2010; Tønder, 2010). Tønder provide insights into the use of ideas departing from the concept of what he calls 'immanent causality', by

which he means taking the overall spectrum of ideas (from road maps and programmatic beliefs to political ideologies and religious world-views), and most importantly, (i) paying attention to the relationship between the material and ideational in the way they define and convert from one to another; and (ii) understanding ideas as a form of agency due to its agentic capacity, meaning the possibility of policy-makers being able to comprehend and influence the circumstances in which they operate (Tønder, 2010, p. 72).

Grindle argues that ideas are used as political resources to promote interests and to influence decisions in line with particular outcomes (1999, p. 18). Thus, ideas are used as an instrument to bring people together over specific policy (reform) agendas (Grindle, 1999) and to promote collective buy-ins of reformist policies and institutional change.

Ideas are therefore intimately related to power because the specific groups with knowledge and significant expertise and skills are more likely to affect the way power is distributed throughout the reform process (Grindle, 1999, p. 17). In this thesis, I therefore integrate the role of ideas into Khan's analysis of horizontal power relations between included and excluded factions, as well as into the analysis of the vertical power relations between higher-level ruling elite factions, including those between higher- and lower-level factions within the ruling coalition.

The role of domestic and international actors is also important in the analysis of policy reform due to their influence on the ruling elites when it comes to adopting and implementing these changes. Grindle (1999, p. 17) argues that ideas are an important means through which international actors become important players in a country's domestic policy debates, whether through financing research or negotiating the terms of political and economic support with the ruling government, or through investments in creating movements with a role in influencing the course of the reforms etc. This perspective of international actors is further discussed in the section below.

### 3.3. Policy reforms, institutional change and international actors

As I am specifically exploring the policy reforms related to the oil and gas sector, this section will discuss my approach to this field. In developing countries, internal and external actors influence reform initiatives to a very high degree because reforms often trigger aid and support. Policy reforms are therefore not solely promoted by domestic actors in a given political settlement, such as bureaucracies and political actors, but also by external actors like international financial institutions, donors and even multinational corporations, as I will suggest in chapter 5. An analysis of specific policies and reforms in a country like Mozambique needs to include external actors, reflecting what Hickey et al. (2015) have strongly suggested about the role transnational actors play in shaping policy in developing countries. This is specifically the case in the oil and gas sector, where in many instances international oil companies (IOCs) control access to capital, technologies such as LNG and distribution and marketing networks.

Still, very often policy reforms fail to be implemented successfully or are not implemented at all despite being formally approved (see Thomas and Grindle 1990; Grindle 1999). In their work 'After the decision: implementing policy reforms in developing countries', Thomas and Grindle (1990) suggest that policies suffer from problems of implementation. They therefore suggest that significant changes in policies and institutions are required if developing countries want to implement reforms aimed at better economic and social development. This is because policies and reforms can potentially create the climate for changes that challenge the existing institutions and distribution of power in society (Whitfield et al., 2015). Reforms can as such constrain practices or support the desired changes (Thomas and Grindle, 1990). Thomas and Grindle (1990, p. 1163) argue that the particular characteristics of reforms may generate specific types of conflict and opposition, which may create problems around their implementation.

Thus, the incentives of governments to adopt a specific type of reform and to sustain it through effective implementation may be challenged by conflicts and opposition. Particular policy reforms and attempts at institutional change may be challenged



either by those at the forefront of the policy and of institutional reform or by specific groups in society that can see their interests being undermined by a particular reform. In many developing countries, politicians have adopted policy reforms without any making any real promises to implement them. This undermines policy reforms and means that they rarely meet expectations. These problems, which pervade the implementation of policy reforms and institutional change in many African countries, have drawn the attention of scholars aiming to understand the motivations of politicians in both resisting and embracing reforms (see Grindle, 1999).

In my analysis, I will pay attention to why certain reforms are adopted and how they are implemented in order to explore further the politics of policy reforms and institutional change. My understanding from different studies of policy reforms and institutional change (Thomas and Grindle, 1990; Williamson, 1994; Grindle, 1999; World Bank, 2008) is that the frequent disparity between goals and outcomes in the implementation of policy reforms is not only or most importantly a consequence of administrative failure. Instead, context, interests, conflicts, power, institutions, rent-seeking groups, voters, etc. all play a role.

As Grindle (1999) and Hickey et al. (2020) both argue, different types of contexts require different types of institutional arrangement to achieve effective forms of governance. Thus, in the following section I return to the political settlement approach by zooming in on the political survival of the ruling elite approach. I am taking this approach, which originated from within political settlement theory, to do justice to the specific dynamics of a country-specific case study in which the ruling elite plays a very significant role in policy reforms and implementation.

#### 3.4. The political survival of the ruling elite approach

The discussions above have provided important insights. Nonetheless gaps remain in understanding and explaining why and under what circumstances country-specific policy reforms and changes take place, leaving aside in the first place why or why not desired outcomes are produced. The frequent disparities between the goals and

outcomes of policy implementation and the resistance or the willingness of ruling elites to adopt specific policy reforms or implement institutional changes is far from having been explained through simplified assumptions about selfish interests or the administrative procedures of the state's bureaucratic apparatus. As indicated by different scholars (Khan 1995; 2010; Whitfield et al., 2015 and other) developing countries have their own very particular characteristics, which suggests that politics and power have to be taken into account.

Politics is a competitive business. Although politicians compete to gain and retain public office, they do so because they know that if they can continue to occupy public office this is partially significant in sustaining the power they struggle to achieve and maintain. This being the case, 'holding power' is necessary in order to rule (Khan, 1995; 2010), and therefore it constitutes a means for politicians to exert authority over policy-making and police reform and also to influence institutional change (Whitfield et al., 2015).

Furthermore, the political futures of African developmental trajectories have been characterized with reference to the prevalence of clientelistic networks through which ruling elites are used to protecting their privileges, distributing their rents and maintaining their power (Whitfield et al., 2015; Bunk, 2018; see also Heilbrunn, 2014). It is with these assumptions in mind that I base my framework for the analysis of policy reform and institutional change on the 'political survival of ruling elite approach', inspired by Whitfield et al. (2015) as a way of enhancing the political settlement framework. These authors emphasize the fundamental connection between the interests of the ruling elite in remaining in power and their policy choices and implementation.

The starting point for the 'political survival of the ruling elite approach' is, as stated above, how power is maintained and reproduced. However, for any given ruling elite to maintain power requires that it creates political organizations to act as its political support base. This is usually known as the ruling coalition (see Khan, 2010; 2017). The process of maintaining power, which Khan (2010) calls holding power, is not strictly based on economic capabilities or the inclusion of elites. Rather, according to Khan,

this is primarily a matter of organizational capabilities, the leadership capacity to mobilize individuals, powerful groups or organizations, and the skills to identify and reward the right people through existing formal and clientelist networks (Khan, 2017, p. 5). This suggests that, in understanding the relationship between the ruling elites and the different organizations and/or actors, including the state bureaucracy, as well as those in the particular sector of analysis, it is important to explain where the incentives to adopt or not to adopt a certain type of policy reform and institutional change come from.

Whitfield et al. (2015, p. 12) have observed that the political survival of the ruling elite approach has the same understanding as the state-in-society perspective, which recognizes an existing process of interactions between the state and society within which alliances are forged and developed. Interactions developed between the state and the different groups in society reveal the competing interests of diverse actors holding positions within the state apparatus, political system and society more broadly. According to Whitfield et al. (2015), these competing interests will ultimately create incentives for policy choice and implementation.

However, as also pointed out by the approach, to understand how ruling elites retain power and secure political stability, it is important to recognize that this may depend on the use they make of their access to policy-making and state resources. This thus implies understanding how ruling elite preferences and the institutions that shape them emerge, which has to be grasped in relation to the historical context of the country and sector. This means looking at the nature of the political coalition that supports the ruling elite, their vulnerabilities and the resources to which they have access (Whitfield et al., 2015, p. 12). This also means that the primary unit of analysis is the ruling elite and the coalition that supports it in maintaining its power.

Hence the state's ability to adopt and implement policy reform and institutional change emerge from the ruling elite that is in charge of the state and the ruling coalition that supports it. Methodologically, this obviously poses certain problems related to gaining access to the specific ruling elite, ruling coalition and state bureaucratic network where decisions are made. This is a point I return to in the next

chapter. Here it is sufficient to point out that the focus on ruling elites and ruling coalitions and the social and state bureaucratic systems is a welcome specification of the political settlement approach that allows me to focus on the international, national and sectorial groups, factions and networks involved in policy formulation and implementation.

Whitfield et al. (2015, p. 13) also suggest that one critical path that characterizes the majority of developing countries is the dispersal of power (power is not unified even in an authoritarian and dominant political system like Mozambique), which impels ruling elites to engage in co-opting social groups and powerful organizations with the aim of obtaining their political support. This can take place as they simply engage groups or factions in activities that will end up undermining the abilities of these social groups to mobilize politically.

However, this depends on the different reactions from these social groups and on the relative power they hold. They may agree to be co-opted in exchange for benefits, or they may exert pressure on the ruling elite for a specific change in policy choice or institutions. Within this environment, the state is transformed into an 'arena of accommodation,' as the ruling elite becomes involved in a process of exchanging interests and policy preferences with powerful groups and individuals in return for their political support (Whitfield et al., 2015, p. 13). The consequence of this is that the state's ability to pursue and implement policy will be weakened because of the ruling elite's commitment to the politics of survival, which in Mozambique is based on the idea of 'national unity' in and through the Frelimo party (see Salimo et al., 2020; Buur and Salimo, 2018). Once again ideas, interests and power are intertwined and often quite messy, as I will show in the analysis.

### 3.5. Conclusion

The complexity of the issues analysed in this thesis has demanded an effort to combine the two analytical approaches presented in this chapter. The two frameworks are connected and aligned. The political settlement approach relies on a combination of institutions (formal and informal) and the distribution of power in

society, as well as focusing on the ruling coalition's interests in relation to economic growth and their capabilities in enforcing and implementing policies. The political survival of the ruling elite approach is a variant of the political settlement framework, as it is focused on the ruling elite's interest in maintaining power and political stability, which in turn is related to the specific dynamics of interaction within the ruling coalition and the powerful groups from which the ruling elites want to secure political support. The distribution of power is the key to analysing incentives, which in turn affect policy choices, policy reforms and/or political stability in different ways.

Ideas were integrated within the political settlement approach to enhance the understanding of policy reform and institutional change, thus recognising the fact that ideas are combined with power (Grindle, 1999). Ideational narratives are essential for the analysis within the political settlement approach as they define the intentions of how ruling elites and bureaucrats in the government interpret problems, take decisions and adopt options for both existing and potential problems. Narratives surrounding the dominant ideas characterizing the current political and social contexts of politics may significantly influence the ruling elites' decision-making. I recall the concept of 'dominant ideas' to complement what Merilee S. Grindle once suggested: 'not frequently, leaders of reform initiatives act on the basis of ideas that directly contradict their past claims' (Grindle 1999, p. 17). Much the same can be said about political leaders in Mozambique.

## **CHAPTER 4.**

# **METHODOLOGY**

## CHAPTER 4. METHODOLOGY

### 4.1. Introduction

This chapter presents the methodological approach I have used to develop this research thesis, as well as more detail on how I conducted my fieldwork. In African economies, oil and gas are shaped by a complex dynamic underpinning the specific country's political context (Salimo et al., 2020; Hickey and Izama, 2016; Soares de Oliveira, 2007). This thesis draws on the political settlement framework (Khan, 2010; Whitfield et al., 2015) as described in chapter 3 to understand the Mozambican oil and gas sector's pathways to reforms that are underpinned by the implementation of good governance (analysed in chapter 5) and the related nature of deal-making over domestic natural gas in two different projects (Sasol project – chapter 6, and LNG – chapter 7), as well as compensation and resettlement issues (chapter 8). The Conclusion, chapter 9, presents possible responses to the overall research question, which is neither easy nor simple.

The country context is characterized by deep patronage and clientelistic power relations (Macuane et al., 2017; Buur and Monjane, 2017; Sumich, 2007), therefore requires recognition of the role of politics in shaping reforms to the oil and gas sector and project-related deal-making. Thus, the research was conducted using a basically qualitative methodology, drawing heavily on the broad perspective of political settlement analysis. The methodological approach chosen for this research aims to go deeper in understanding the politics of the dynamics of the oil and gas sector, which in Mozambique is by and large shaped by ruling elite politics. But as Chapter 8 shows, local politics also matter.

This chapter is organized into seven sections. The second section begins with a discussion of Mozambique as the selected country and my use of the case-study approach, which is followed by an overview of the research approach and research methods in the third section. The fourth section provides information on data management and analysis, while in section five I present the main challenges I faced during data collection and the overall limitations of this research. This section is then

followed by a presentation of ethical issues and the PhD project affiliations in the sixth and seventh sections respectively.

#### 4.2. Country selection and case-study approach

In 2015, Roskilde University launched a four-year Research Programme, 'Hierarchies of Rights: Land and Natural Resource Investments in Africa', later extended until the beginning of 2022.<sup>21</sup> The Hierarchies of Rights (HIERARCHIES) research programme aimed to investigate how large-scale investments in natural resources, particularly oil/gas, mining and agriculture, in Sub-Saharan Africa (SAA) affect the land rights of smallholders. The programme was implemented in partnership with the Danish Institute for International Studies (DIIS), the University of Eduardo Mondlane (UEM) in Mozambique and the University of Dar-es-Salaam (UDsM) in Tanzania. The focus of its implementation was on Mozambique and Tanzania. This research thesis is integrated in the HIERARCHIES Research Programme, in which three joined PhD positions formed part of the programme. The PhDs were jointly organised between the Institute of Resource Assessment (IRA), Dar es Salaam University's postgraduate school, and the Department of Social Sciences and Business PhD school at Roskilde University, Denmark.

This research thesis relies on a single case study of governance in the Mozambican oil and gas sector. Case studies have been criticized by some social-science researchers. Some argue that as a method it provides weak validity in terms of the production of general scientific knowledge (Eysenck, 1976), while others see it as the best approach for building strong knowledge about specific social phenomena (Flyvbjerg, 2006). Eysenck (1976), for example, before recognizing the power of the case study in generating potential learning, had previously dismissed the case study as a method of producing anecdotes (Flyvbjerg, 2006, p. 224). In contrast, Flyvbjerg argues that concrete, context-dependent knowledge is well suited to being produced as part of a case study (Flyvbjerg, 2006, p. 223). This represents a powerful step further in social science research and is in line with George and Bennett, who argue that case studies

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<sup>21</sup> For details of the Hierarchies of Rights Programme, see: <https://ruc.dk/en/hierarchies-rights-all-publications>



offer ‘detailed examination of an aspect of a historical episode to develop or test historical explanations that may be generalizable’ (2005, p. 18). Within this view, Yin argued that the case study approach involves an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not evident (Yin 2009, p. 18).

There were different reasons for choosing Mozambique as a case study. First, it was given, as I was hired by the Hierarchies project to work on the Mozambican gas sector and on how investments affected people’s access to land, rights issues and the politics of gas investments. Mozambique was a good case for exploring gas investments, as some of the biggest projects in sub-Saharan Africa were being lined up by different constellations of international oil companies. By 2020 Mozambique indeed issues a Final Investment Decision (FID) for two of the three main LNG gas projects that materialised after 2010, with investments projected to be the single biggest investments in Africa ever, amounting to well over \$60 billion<sup>22</sup> (see Standard Bank, 2018; 2019).

Second, Mozambique has been among the fastest growing economies in Sub-Saharan Africa (SSA), despite remaining one of the top ten poorest countries in the world.<sup>23</sup> During almost two decades since the end of the civil war in 1992, the country’s average annual growth in real Gross Domestic Product (GDP) was 7.4 percent (Ross, 2014).<sup>24</sup> The World Bank conducted a country poverty assessment, which reported that between 2000 and 2016 the annual average rate was 7.2% (World Bank, 2018b).

Data from the World Bank shows the country’s GDP per capita growth since the 1990s, i.e. for almost two decades, with a sharp decline observed since 2016 (see

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<sup>22</sup> *The Conversation* (2021, March 30), Offshore gas finds offered major promise for Mozambique: What went wrong. Retrieved from: <https://theconversation.com/offshore-gas-finds-offered-major-promise-for-mozambique-what-went-wrong-158079>.

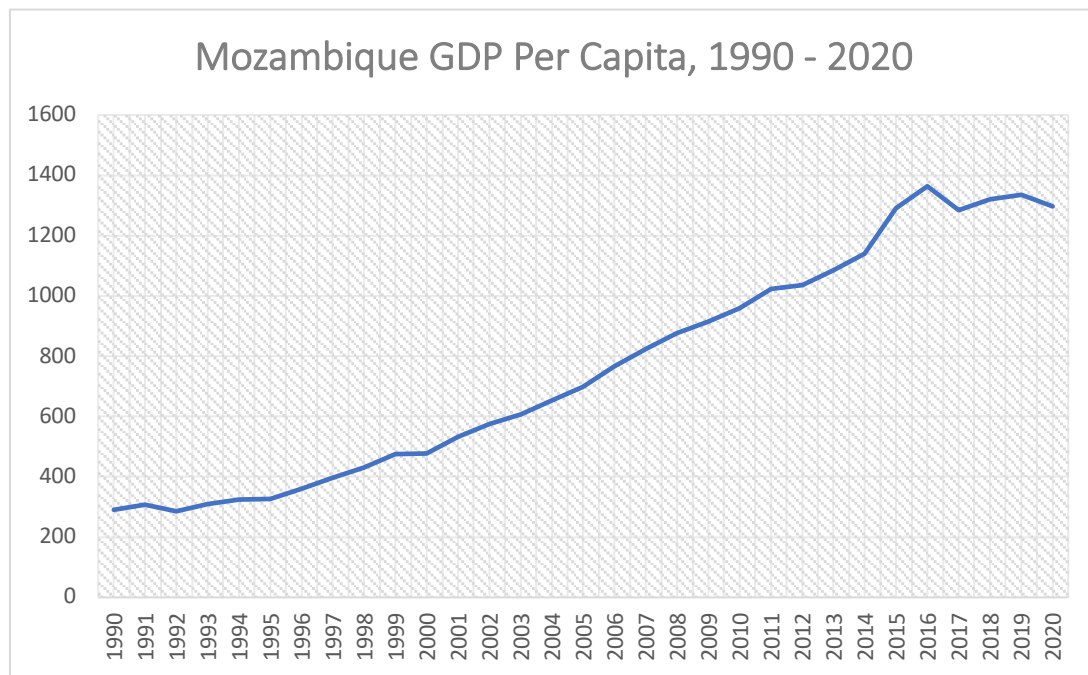
Reuters (2020, July 17), Total signs \$14.9 billion debt financing for huge Mozambique LNG project. Retrieved from: <https://www.reuters.com/article/us-total-mozambique-idUSKCN24I2FZ>.

<sup>23</sup> World Bank (2018b). Strong but not broadly shared growth: Mozambique poverty assessment. Poverty and Equity Global Practice, Africa Region. April 2018. <http://documents1.worldbank.org/curated/en/248561541165040969/pdf/Mozambique-Poverty-Assessment-Strong-But-Not-Broadly-Shared-Growth.pdf>.

<sup>24</sup> Ross, D. C. (ed.) (2014). Mozambique rising: Building a new tomorrow. Washington, D.C.: International Monetary Fund, 2014.

Figure 3). The same pattern was also observed with regard to the annual growth rate in GDP: as reported by the World Bank (2018b), a consistent growth of an average of 7-8 percent until 2015 after a decade and half only saw a substantial drop in 2016, as a consequence of the debt and financial crises that hit the country (see Figure 4 below illustrating clearly the path).

Figure 3. GDP per capita, 1990-2020



Source: Author, based on the World Bank world development indicator database

Figure 4. Mozambique GDP Growth, Annual % (1981-2019)



Source: Author, based on the World Bank national accounts data

Third, despite solid economic growth, the share of benefits remained poor. During these almost two golden decades of economic growth, different economic and social indicators registered improvements, in part because of the macroeconomic policies and structural reforms adopted by the government, consistent budget support from donors and the boost in the economy driven by the discovery of natural resources, particularly aluminium, coal and natural gas (World Bank, 2018b; Ross, 2014). The pattern of growth witnessed until 2014 has fallen significantly since 2016. Low commodity prices, droughts, military conflicts, and fiscal crisis, followed by the undisclosed commercial loans of \$2.2 billion, publicly known as the hidden-debt scandal, contributed to the downturn in economic growth and increase in the economy's vulnerability (World Bank, 2018b, p. 15; see also Macuane et al., 2017; and Frynas and Buur, 2020).

Fourth, Mozambique was also a very good case for exploring the reforms of good governance and their implementation, on which I focus in this thesis. The country's good record in adopting liberal reforms that were firmly rooted in the international agenda of neoliberalism (see Brenner et al., 2010) and good governance created the

environment for a massive influx of foreign direct investment (FDI), largely dominated by investments in the extractive sector, especially since the early 2000s (World Bank, 2018b; Buur and Monjane, 2017; Ross, 2014). Here the investments in pipeline gas in the south of Mozambique from early 2000 were of particular importance, as they allowed me to begin tracing the process in which the governance reforms have interacted with and become intertwined with investments over time.

A report published by the United Nations Conference on Trade and Development (UNCTAD) indicated that Mozambique was among the top five host economies for FDI, the third after South Africa and Congo (UNCTAD, 2015). More than 50% of this FDI consisted of investments in the oil and gas industry. For example, the acquisition of a 10 per cent stake in Area 1 of Rovuma Basin by the ONGC Videsh Ltd alone was 53% of the total of FDI in 2014 (UNCTAD 2015, p. 34). The volume of natural gas Anadarko and Eni discovered offshore of the Rovuma Basin in northern Mozambique in 2010 placed it among the ten most important oil and gas discoveries over the last ten years anywhere in the world.<sup>25</sup>

The liquefied natural gas (LNG) plants that are to be built onshore and offshore in the Rovuma Basin are likely to make the country the world's third largest natural gas exporter (Salimo, 2018; Macuane et al., 2018). Leerberg (2014) and Standard Bank (2018; 2019) argue that the revenues expected from natural gas will transform the country's economic prospect and, if appropriately managed, will significantly boost the economy and related industrial development. All this has justified my choice of both Mozambique and its oil and gas sector as the case study for my research thesis.

When I started my research for the thesis, the focus had been on resettlement associated with large-scale investments in oil and gas. That had been motivated by the interpretation I wrongly made, thinking that the thesis should be in line with the HIERARCHIES research programme's objectives under which my doctoral programme was being funded. In reality, land and resettlement had not exactly been my greatest interest in terms of my research, although the study of resettlement was linked to

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<sup>25</sup> See *OE Offshore Engineer* (2014, December 14), Biggest discovery of the last 10 years. Retrieved from: <http://www.oedigital.com/energy/lng/item/7620-biggest-discoveries-of-the-last-10-years>.

governance in the oil and gas sector, the area I was passionate about. Indeed, my main interest has since been in exploring the ruling elites' interests in businesses related to oil and gas exploitation and how the liberal reforms were related to such interests. In the course of the programme, I was able to change my focus and take the thesis' orientation in the direction of what I found to be important in terms of my interest in more complex scientific research issues concerning the governance politics of oil. My interest in the liberal reforms and governance was related to the sector itself (oil and gas) and the relevance of it for Mozambique's politically and economically changing landscape. It was also attractive to me due to the vast literature available on the political economy of natural resource governance.

As consequence of this journey, I therefore came to embrace the politics of the separation of functions in the oil and gas sector. According to the literature on good governance, the separation of functions between different bodies has largely been seen as the foundation for effective sector performance and economic growth associated with oil and gas exploitation (Hickey et al., 2015; Thurber et al., 2010; 2011; Al-Kasim, 2006). From this point on, I came to explore the possible outcomes of the reforms separating these functions in the oil and gas sector in relation to projects associated with domestic gas deal-making. I have focused on this in relation to the Sasol natural gas project in the south of Mozambique and the LNG projects in the north of country. As a way of providing a direct contribution to the HIERARCHIES research programme's objectives, and to give justice to my previous choice of research topic, I kept the commitment to integrate an investigation into smallholders' rights to compensation for their land and their resettlement due to the large-scale investments in LNG in the district of Palma, in Cabo Delgado province into the thesis.

My case study is therefore related to the reform of oil and gas sector governance. I embarked on this analysis focussed on two different investments in oil and gas in Mozambique. The Sasol gas project in the Mozambique Basin took off from 2004 but had been planned from the early 1990s, while the LNG projects in the Rovuma Basin only began to materialise from 2010, with investment take-off expected from 2022, at least in relation to one of the three projects, Coral South, led by the Italian oil company Eni. These two investments are different in many ways. First, the Sasol

project is located in Temane and Pande Fields in Inhambane Province in southern of Mozambique. Investments have reached about \$3 million over time (Salimo et al., 2020). This is the first experience of gas exploitation in Mozambique, which has been producing gas for export to South Africa since 2004.

Mozambique has witnessed the emergence of a gas-to-power industry driven by private interests using public companies to create huge rents. These industries were developed thanks to government deals with Sasol to secure a percentage of the natural gas produced for the domestic market, known as 'domestic gas' (discussed in chapter 6). As part of this project, a pipeline was built with almost 900 km long connecting Pande-Temane with Secunda in South Africa. Despite being totally implemented onshore, the project had been developed smoothly. In the beginning the project attracted no significant attention among civil-society organizations or citizens in general, nor among political parties or academics. It is not known for any significant conflicts over compensation paid to the families affected by the project, despite being an onshore operation involving a pipeline crossing three provinces.<sup>26</sup>

The second experience is related to investments in LNG projects in offshore and onshore in the Rovuma Basin in Cabo Delgado province. This project is still in its development phase, but will involve massive investments of approximately \$60 billion. National industrialization had been defined as the main area to be boosted by the natural gas produced in Rovuma Basin,<sup>27</sup> but guarantees regarding how domestic gas will be allocated remain unclear. The LNG infrastructure is being developed onshore, on the Afungi Peninsula, Palma District, which affects thousands of people needing to be compensated and/or resettled in new areas (Salimo, 2018; Wiegink, 2018). The resettlement project alone is estimated to cost US\$180,000,000.

Civil-society organizations have been active in promoting the protection of rights, especially land rights, and campaigning for fair compensation to families affected by the project. While the Pande and Temane fields were initially covered by Petroleum Law 3/1981 of 3 October, the operation in the Rovuma Basin comes under Petroleum

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<sup>26</sup> The Resettlement Planning and Implementation Programme linked to Sasol's natural gas project was estimated to cost \$1,579,447. This particular programme is not covered in this thesis.

<sup>27</sup> Council of Ministers (2014). Natural Gas Master Plan.

Law 3/ 2001 of 21 February, although in both cases the development of both projects was initiated during the implementation of new legislation, such as Law 3/2001 for the Pande and Temane natural gas fields, and the new Petroleum Law 21/2014 of 18 August for the Rovuma Basin projects.

These two pieces of legislation differentiate the projects in terms of their contractual and legal arrangements and the procedural rights that have been put in place. The two investments have different patterns in terms of the materiality of their resources, the incentives of the ruling elites in implementing policies and projects, their engagement in terms of rent-seeking, and tensions over the rights of smallholders. Exactly because of these differences, which focus separately on the two investments, I will argue that some processes, such as those related to elite accumulation, should be more clearly depicted for the Sasol case, whereas it is still difficult to fully understand the evolving picture emerging from the Rovuma LNG investments.

#### 4.3. [Research approach and methods](#)

The research thesis was developed in the form of a monograph, as this is required by the University of Dar-es-Salaam. However, the thesis could also have been developed as an article-based thesis, as for its analysis it relies on papers that have either been published or that exist as drafts aimed at publication. At all events, the thesis uses qualitative research methods. By qualitative research I refer to a form of data collection that relies on narratives and non-numerical information (Carter and Henderson, 2005). This method focuses on people's experiences and meanings in order to analyse how and why people make associations with things and with their immediate environments (*ibid.*, p. 215).

Historically, this type of research has largely emphasized quantitative methods (Guba and Lincoln, 1994). Disciplines making less use of quantification have long been considered 'soft', their production of knowledge dismissed as producing inaccuracies. This perception changed with the growing consensus among researchers in the social sciences about the role that context and the human behaviour underpinning specific

decisions and actions plays in understanding social phenomenon (see Gil et al., 2008; Carter and Henderson, 2005; Guba and Lincoln, 1994). Social phenomena are complex and cannot easily be captured and understood appropriately under the umbrella of quantitative methods (Gil et al., 2008; Guba and Lincoln, 1994).

As Guba and Lincoln suggest, human behaviour is hard to understand without reference to the meanings and purposes of human actors and their related activities (1994, p. 106). According to Gil et al., an appropriate way to build a comprehensive sense of human relations depend on the use of qualitative methods, as these provide a 'deeper' understanding of social phenomena than would be obtained using purely quantitative methods (Gil et al., 2008, p. 292). The same considerations apply to this thesis, where I explore 'how the reforms of the oil and gas sector, particularly the separation of the regulatory and commercial functions and the resettlement and compensation policy, have been adopted by the ruling elites and the outcome they have produced in terms of transparency and rent-seeking'. The question how suggests immediately a particular manner of looking for answers that may consist in analysis based on suggestions and inferences, and possibly even causal mechanisms, which is more in line with qualitative methods of research.

It would not be rigorous or comprehensive to pretend to understand the dynamics involving the incentives of ruling elites to implement certain reforms or adopt specific policies and deals through a quantitative-based research method, as they are inherently associated with the interests, ideas and expectations underpinning politics. The most compelling way is to focus on qualitative methods of data collection, as they provide the best way of deepening comprehension of the incentives driving ruling elites' and other relevant actors' behaviour in relation to institutional change in the oil and gas sector and the outcomes of specific policy and project implementation.

Furthermore, I applied process tracing. Collier (2011) argues that process tracing is not only an analytical tool but that it can also be conceived as a strategy for qualitative analysis. According to Collier, it is a matter of drawing descriptive and causal inferences from diagnostic pieces of evidence based on prior knowledge or a



hypothesis that can form part of sequenced facts, events or phenomena over time (Collier, 2011, p. 823). Beach (2017) suggests that process tracing involves more than the production of detailed, descriptive narratives about the causes of an occurrence and its outcomes. Instead, it probes the theoretical causal mechanisms that link causes and outcomes together (Beach, 2017, p. 3). Process tracing is thus an important methodological tool for making causal inferences from case studies in the social sciences (Beach, 2017; Collier, 2011). I look at empirical manifestations of causal mechanisms and their outcomes, a process that has been privileged more or less explicitly in all the empirical chapters (chapters 5, 6, 7, and 8) of this thesis.

Among other methods of data collection, I conducted an in-depth literature review of secondary and primary documents. The primary documents included the official reports of governments and oil companies, documents from civil-society organization, newspapers and online articles. I also conducted semi-structured interviews (see, for example, McIntosh and Morse, 2015) with various stakeholders in the oil and gas sector and those somehow related with the oil and gas projects and other related project implementations.

Conducting interviews represent an appropriate way of gathering qualitative data, where detailed insights are required from individual or group participants. They are also particularly recommendable for exploring sensitive topics. I applied a multi-method approach, especially to ensure I had multiple sources of information and data. As Shih (2015) writes, the multi-method approach is advisable for those doing research in authoritarian regimes, which is likely to be the path Mozambique has been treading in recent years, as indicated in a report published by The Economist Intelligence Unit (EIU) (2018).

Interviewees were identified through a simplified snowballing method of using already known networks I gained for almost five years from my former professional experience as an advisor for public-sector reform under the Technical Unity for Public Sector Reform (UTRESP) in Mozambique, as well as many years as a consultant and teacher at the Department of Political Science and Public Administration (DCPAP), Faculty of Arts and Social Science (FLECS), University of Eduardo Mondlane (UEM),

combined with identifying new key informants and asking them for new contacts until I somehow reached saturation point (see Noy, 2008; Biernacki and Waldorf, 1981).

I therefore conducted both individual and group interviews, as well as focus-group interviews (Interview guide in Annex 5). A list of those I interviewed is anonymized in order to protect interlocuters' identities (Annex 6). While focus-group interviews were mainly conducted among community groups (smallholders) and local private sectors, as well as with CSOs, particularly at the local level, interviews with public officials, oil practitioners, oil companies, and specialists in the fields of oil policy and resettlement were mostly conducted individually. I had also been compelled to conduct several focus-group interviews with officials from different departments in one of the strategic petroleum governance bodies, this being the option adopted by its managers. Individual interviews were mostly conducted with government officials, oil companies, oil practitioners, researchers in academia, party representatives, former generals in the liberation struggle, journalists and CSOs representatives. Several of those interviews were conducted more than once. Participant observation was part of the process of capturing some of the dynamics and patterns of behaviour among the main stakeholders related to project implementation, most significantly regarding the resettlement project in Palma.

I also participated in three of the four ordinary community consultations and negotiations between IOCs and local populations for purposes of compensation and resettlement. Due to contacts I established with the provincial government of Cabo Delgado and the district government of Palma, and as part of an agreement to participate in these consultative processes conducted by the multinational oil companies in coordination with these governments, I benefitted from early communications I received from the local authorities to ensure that I could manage to participate in the meetings organized in Palma district. Such meetings allowed me to establish productive networks with several people representing different sectors, including local communities' representatives.

The government and the multinational oil companies involved in the Rovuma Basin LNG-related projects conducted four ordinary public community consultations in Palma, of which I participated in the last three. I also attended other sorts of meetings between the international oil companies (IOCs), the local government, the local communities of different villages in Palma district and CSOs, including my own observations in the field from 2015 to 2018.

During the elaboration of this thesis, I have also been making the effort to find new avenues for the collection of data and information by expanding the space and the public from which data could be collected and reassessed. I did this through a process of sharing and gathering knowledge and experience with and/or from researchers and oil industry practitioners, including governments. I therefore participated in two international oil and gas summits in Maputo and Cape Town, in which the major oil companies operating in Mozambique participated. This allowed me to establish contacts with key people in the oil companies with whom it would have been impossible to meet otherwise. I also attended an international conference in Johannesburg organized by Good Governance Africa (GGA), a continental non-government organization aiming to improve governance performance in Africa, where I had the opportunity to meet senior Sasol's officials.

Furthermore, I attended several academic conferences focussing on either the governance of natural resources in Africa, in some cases particularly addressing the politics of governing oil, or a discussion over producing a political settlement. These academic conferences were organized in different universities, including the University of Stellenbosch, University of Cambridge, University of Oxford, University of Edinburgh, University of Manchester, University of Eduardo Mondlane, University of Dar-es-Salaam, University of Western Cape, and at a conference organized in Maputo by the Institute of Social and Economic Studies (IESE).

This research thesis aims to address a particular research question, namely *how the separation of regulatory and commercial functions, as well as issues of compensation and resettlement, have been adopted by Mozambique's ruling elites and what have been the possible outcomes with regard to transparency and rent-seeking*. This

research question is explored through four working questions. Details of how this was operationalized are described in Table 1 below.

Table 1. Research question and the means of data collection

Research question	Working question	Means of collecting data	Theoretical framework and methodological approach	Corresponding chapters in the thesis
How the separation of regulatory and commercial functions, as well as issues of compensation and resettlement, have been adopted by the ruling elites and what have been the possible outcomes with regard of transparency and rent seeking?	Why and how the reforms leading to the separation of functions were adopted and implemented over time	<ul style="list-style-type: none"> <li>• Literature review</li> <li>• Legal documents review</li> <li>• Primary documents assessment</li> <li>• Semi-structured interviews</li> <li>• Informal interviews</li> </ul>	<ul style="list-style-type: none"> <li>• Political settlement (focus on the role of ideas and separation of functions and transparency)</li> <li>• The political survival of the ruling elite with focus on incentives for institutional change and policy implementation.</li> <li>• Process tracing</li> </ul>	Chapter 5
	How the Sasol project been implemented and how ruling elites have been able to create spaces for rent extraction	<ul style="list-style-type: none"> <li>• Primary documents assessment</li> <li>• Semi-structured interviews</li> <li>• Informal interviews</li> <li>• Observation</li> <li>• Conferences</li> </ul>	<ul style="list-style-type: none"> <li>• Political settlement with a focus on rent distribution within and outside the ruling coalition</li> <li>• The political survival of the ruling elite, analysing ruling party incentive in extracting and controlling rents</li> <li>• Process tracing of decision-making processes (is due process followed?), and how rents are accessed and distributed.</li> </ul>	Chapter 6
	How deals on domestic gas for industrialization have been implemented so far, and what are the possible outcomes for rent-seeking and industrialization	<ul style="list-style-type: none"> <li>• Primary documents assessment</li> <li>• Review of policy and legislation</li> <li>• Semi-structured interviews</li> <li>• Informal interviews</li> <li>• Conferences</li> </ul>	<ul style="list-style-type: none"> <li>• Political settlement with a focus on rent distribution within and outside the ruling coalition, policy implementation (industrialization) and international actors.</li> <li>• The political survival of the</li> </ul>	Chapter 7

Research question	Working question	Means of collecting data	Theoretical framework and methodological approach	Corresponding chapters in the thesis
			ruling elite, with a focus on the role of the ruling party to secure control over rents <ul style="list-style-type: none"> <li>• Process tracing, focus on</li> </ul>	
	How the institution for compensation and resettlement related to LNG investment affected local state-making	<ul style="list-style-type: none"> <li>• Literature review</li> <li>• Primary documents assessment</li> <li>• Semi-structured interviews</li> <li>• Informal interviews</li> <li>• Participant observation</li> <li>• Focus group meetings</li> <li>• Conferences</li> </ul>	<ul style="list-style-type: none"> <li>• Political settlement framework with focus on incentives for policy implementation (resettlement), and transparency; and to study ruling elite politics and implications for local state power.</li> <li>• Process tracing to analyse the path for compensation and resettlement deals.</li> </ul>	Chapter 8

Source: The author.

#### 4.4. Data management and analysis

I used mixed methods in recording the interviews, depending on the location and the wishes of those I interviewed. I could type on my laptop, write in a notebook, or record the interviews. However, in a few circumstances I just held an open conversation without taking notes, nor recording, which required some additional effort to push the main aspects of the conversation from my memory after I was done with the daily interviews and type them into my laptop. I also had to record field notes from my participant observation during the fieldwork both in Inhambane and Cabo Delgado, but I put a lot of effort into participant observation in Cabo Delgado due to the fact that I was also looking at the politically sensitive dynamics of issues related to negotiation over land rights, and the compensation and resettlement of local communities affected by LNG investments to understand how it affects local government power and authority.

I stored the data in a word-processing program grouped according to the type of interviewees, i.e. oil industry practitioners, oil companies, public officials from oil and gas-related sectors, CSOs, local communities, the domestic private sector, and others. The data were codified inspired by the theoretical framework. The data and further information were systematized in order to facilitate the interpretation and analysis of causal relations. The tables that follow below provide some overview of the basic methodological approach of the analyses and interpretations I have engaged in.

Table 2. Project deal-making indicator

Dimension of governance	Level/type of performance	Indicators/evidence base
Separation of functions, and implementation of the resettlement framework	<ul style="list-style-type: none"> <li>• Mainly domestically driven, supported by external advice</li> <li>• A balance of domestic commitment and external pressure and advice</li> <li>• Mainly external pressure</li> </ul>	<ul style="list-style-type: none"> <li>• Trajectory of policies and legislation</li> <li>• Details on how the process unfolded</li> </ul>
<i>Deal-making (focus on major investments and projects – Sasol natural gas and pipeline, with focus on gas-to-power deals; LNG and the domestic gas related projects, and Resettlement)</i>	<ul style="list-style-type: none"> <li>• Is deal-making open to all parties, or only to those with political connections?</li> <li>• Is deal-making generally ordered or disordered (i.e., do most deals stay in place are they frequently renege on/overturned?)</li> <li>• Does the deal-making approach differ in accordance with the resource and/or project involved?</li> <li>• Do the governments (central and local) committed to protect local communities' rights?</li> <li>• Does local state capable to maintains its authority and power over ruling party elites interests?</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis of (un)successful bidders</li> <li>• Rules on bidding</li> <li>• Are deals generally honoured?</li> <li>• The local government power in relation to demands from ruling party and central ruling elites.</li> </ul>
<i>Dominant decision-making mode around deal-making</i>	<ul style="list-style-type: none"> <li>• Predominantly rules-based/technocratic</li> <li>• Mixture of politicised-technocratic</li> <li>• Predominantly personalised and politicised</li> </ul>	<ul style="list-style-type: none"> <li>• Process-tracing of decision-making processes (is due process followed?)</li> <li>• Protection/undermining of regulatory and commercial bodies autonomy in deal-making process?</li> </ul>

Dimension of governance	Level/type of performance	Indicators/evidence base
		<ul style="list-style-type: none"> <li>• Locus of decision-making (e.g., within sector ministry/autonomous bodies?)</li> </ul>

Table 3. Explanatory variables

Explanatory variable →	Configuration of power within PS (horizontal, vertical, finance)	Factionalism within the ruling coalition	Ideas	Transnational actors
Dimension and level of Performance ↓				
<i>Dominant decision-making mode?</i>	Where is the power concentrated (holding power) - the potential for centralised or fragmented control	Exerts an increasingly negative influence (e.g. weak capacity to hold accountability or promote transparency, control over rents)	Resource ideas driving the commitment to a largely rules-based approach	International actors around policy change and implementation, and the impact on deal-making

In order to establish a foundation for the systematic organization of information and data, Table 2 provided directions for a precise follow up on the information and data that informed the trajectory and dynamics in relation to the key aspects of governance of oil and gas in Mozambique. This included how deal-making is organized, as well as helping me grasp where power lies within the structure of policy decision-making and implementation. Table 3 provides a simple and indicative path toward the analysis of the key aspects of the framework, discussed in chapter 3.

#### 4.5. Challenges faced and limitations

The oil and gas industry represents one of the most powerful, most secretive and most politically sensitive of all economic sectors (Silverstein, 2014). The government and the oil companies rarely made relevant information public. The argument for such non-disclosure is generally rooted in the idea of protecting the stability of

businesses investing in insecure contexts. However, transparency as a practice is also shaped by the contexts of different countries' political histories. As a state, Mozambique was created with a strong culture of withholding information and secrecy (see Bussotti, 2015), which made the field research a difficult exercise and enterprise. Doing research in Mozambique is in fact becoming increasingly difficult due to tensions emerging as part of the nature of political elites, who in Mozambique, according to The Economist Intelligence Unit (2018), are changing into an authoritarian regime.<sup>28</sup> Depending on the nature of the issues under investigation, there may be a degree of risk to researchers and respondents as well, a practice that resonate with the Shih (2015) and Krause (2021) arguments, as evidenced by the faith of my co-supervisor José Macuane who has been a victim of kidnapping and shooting, simply for speaking out on controversial issues concerning governance.<sup>29</sup>

From the beginning of my journey to completing this research thesis, I knew there were certain risks and that my research would be highly complicated because of its highly sensitive subject. I was aware of the constraints I would face in terms of access to information, and also of the potential risk of violence I could incur through misunderstanding how certain political and state actors would understand my research, especially when it came to the ruling elite and public officials, including community leaders. I faced constraints in accessing information at both the central and local levels, although in many cases it was possible to overcome the barriers relatively easier due to my excellent networks in the state, the Frelimo party, the private sector and the international donor community. While I used my letter of introduction from the University of Eduardo Mondlane in Mozambique, where I am employed, this was useful in some cases but not in others. Thus, another letter of reference, more specifically one provided by the provincial government, was more

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<sup>28</sup> Episodes of increasing human rights violation are described in several reports by US Department of State, for example the "Mozambique 2018 Human Rights Report" <https://mz.usembassy.gov/mozambique-2018-human-rights-report-2/>.

<sup>29</sup> In May 2016, Macuane was kidnapped and shot on his legs. It occurred following the critics about the hidden debt. It's suspected that death squad were involved. Since 2015 this group is involved in abducting and often assassinating members of political opposition and critics of Frelimo policies. See Global Voices (2016, May 31), Professor and political pundit kidnapped and shot in Mozambique's capital. Retrieved from: <https://globalvoices.org/2016/05/31/professor-and-political-pundit-kidnapped-and-shot-in-mozambiques-capital/>.



important in obtaining access to local government institutions and local communities in both Inhambane and Cabo Delgado provinces.

The time I dedicated to reading existing documents related to the oil and gas sector in Mozambique proved worthwhile at various points. Although I initially focused on issues of resettlement and compensation, I kept my mind open to read whatever I could find related to the gas sector, bearing in mind that there were not many academic studies of oil and gas in Mozambique. However, there was a booming 'grey' literature on the sector. By acquiring a comprehensive understanding of the broader literature, I managed to move to mapping stakeholders so as to involve government institutions, development partners, oil companies, the private sector, civil-society organizations, think tanks and key personal in the industry. This was to a large extent possible because I myself was considered a valuable resource worth discussing and meeting with.

I recall that my very first meetings were with the regulatory agency, the National Institute of Petroleum (INP), which was then followed by several other meetings within the INP but separated according to its different departments. This was made possible from the first day, on the one hand because the senior officials I met for the preliminary interview were aware of the importance of the research and how knowledgeable I was. On the other hand, I was already known in state offices thanks to an assessment of Norwegian support for the oil and gas sector in Mozambique, where I was one of the assessment team.

Norway is Mozambique's most important bilateral partner in the petroleum sector (Itad, 2015; Orre and Rønnin, 2017; Salimo et al., forthcoming). Through these various assignments and participation, I gained access to other key institutions, including the National Oil Company, (ENH),<sup>30</sup> the Ministry of Mineral Resources and Energy, the National Public Utility Company (EDM<sup>31</sup>), development partners and various other organizations and people with past or current relations with the industry, as well as gas-to-power companies.

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<sup>30</sup> ENH - Empresa Nacional de Hidrocarbonetos.

<sup>31</sup> EDM – Electricidade de Moçambique.

I collected data at the central and provincial levels, including at the oil and gas project sites, namely Pande-Temane and Palma. From 2015 to 2018, I travelled to Inhambane and Cabo Delgado at least twice a year for periods of one to two months. And other trips were made later in 2019 and 2020. These trips to the provinces were important in obtaining interviews with local governments, key personnel in oil-company operations, local populations, local civil-society organizations, the private sector and others, thus ensuring participatory observation in the field. Concerning Cabo Delgado in particular, I was also interested in meeting veterans of the liberation struggle due to their role within the ruling party and the influence they play in the configuration of the state (Pitchard, 2003).

The vast majority of people I met in government institutions were intentionally selected by myself, but others were recommended to me. I used snowballing as a technique to identify other key interviewees working in the oil and gas sector or on gas-related projects, as well as organizations engaged in activities associated with gas operations. The article 'Sampling knowledge: the hermeneutics of snowball sampling in qualitative research', written by Chaim Noy (2008), was an important tool in my journey to encounter some of my informants, as it allowed me to understand how some of the basic connections between the informants formed different sort of social network and power relations.

Over the years of my research, I consolidated relations with some key people in different sectors. This was an important strategy, as it allowed me to obtain access to documents, although it became common for public officials to suggest the material they provided be kept confidential.

The people I interviewed are not mentioned by their names in this thesis. The Given the present political context, it is neither appropriate nor safe to mention the names of those who provided me with valuable information for this research thesis. This includes those cases where specific public officials, for example, were officially delegated to attend interviews and arrange for documents to be provided to me. For the same reason, I have not included a list of those I interviewed, but I provides indicative information of institutions and where the interviews were conducted,

though such a list is available separately for any assessment that may be required by the thesis committee. Cases of violence, including death threats, have resulted for those involved in the investigation and in research into sensitive issues. Therefore, protecting such people is not only an ethical and moral imperative, but above all it is a way of protecting their rights to life.

#### 4.6. Ethical issues

As just noted, the research has sought to address issues that are politically very sensitive (Krause, 2021). Thus, there were ethical challenges to be observed during the research process, bearing in mind that this is qualitative research, and that I would be interacting and talking with people who have their own beliefs, practices and interests. So, considering the sensitivity of the issues at the heart of this research, and the people and organizations involved as participants in the interviews, observations or as specific types of information provider, in interacting with them I had to respect their political, cultural and religious views and practices, and to treat them with dignity.

Moreover, assessing information was solely done in accordance with previous consent obtained from the informants. I obtained their consent simply by requesting their availability for a conversation regarding the research I was conducting. I did not use any specific letter of consent, which usually has to be signed by the interviewee, because in the context of the country's case study this could cause more concerns to those about to be interviewed than otherwise. To encourage open and agreed collaboration from the various institutions, companies and individuals I sought information from, a letter of presentation (credentials) with a succinct explanation of the main objective of the research thesis. The letter was provided by the country's affiliated institution, the University of Eduardo Mondlane.

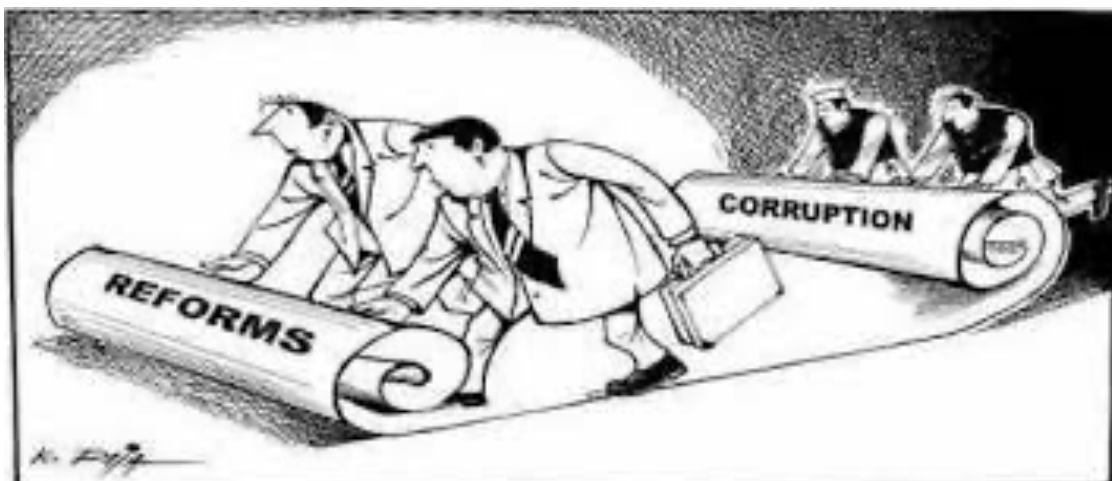
In terms of producing data, it was almost inevitable that some relevant informants would for some reason try to manipulate information in order to push and/or maintain a good image of themselves or their allies. This is almost unavoidable in a context of massive control over information and an established culture of repression

and fear. Thus, as a researcher I was aware about it, and took it into account in the context of my obligation to understand that the interests and beliefs of the people involved are important. However, responsibility for the information is also important, and this trade-off always suggests a complex challenge regarding which methodologies to adopt. I therefore assumed the importance of looking for different sources of information from a broader spectrum of key actors and institutions, as mentioned earlier in this methodology chapter.

#### 4.7. Institutional affiliations

This PhD project is based at the PhD school at the Department of Social Sciences and Business (ISE), Roskilde University (RUC). As part of the PhD project, I am affiliated with both Eduardo Mondlane University in Mozambique and the University of Dar-Es-Salaam in Tanzania. In effect, this PhD project is a joint project with the University of Dar-es-Salaam through the Institute of Resource Assessment (IRA). The PhD research project is being supervised by Associate Professor Lars Buur of the Department of Social Sciences and Business at Roskilde University, and two co-supervisors, Associate Professor José Jaime Macuane from the University of Eduardo Mondlane, and Professor Opportuna Kweka from the University of Dar es Salaam.

## CHAPTER 5. REFORMS TO THE SEPARATION OF POWER IN GOVERNING THE PETROLEUM SECTOR



Source: Jois Blog: <https://strategicprspring.wordpress.com/page/5/>

## CHAPTER 5. REFORMS TO THE SEPARATION OF POWER IN GOVERNING THE PETROLEUM SECTOR

### 5.1. Introduction

Mozambique is preparing to take its place among the world's largest producers of liquefied natural gas (LNG) thanks to the massive volumes of natural gas discovered in the Rovuma Basin. However, questions have been raised around the best models for resource wealth management in order to meet the expected outcomes in terms of economic growth and social transformation. Actors from different arenas, including political parties, civil-society organizations, the private sector, academia, ordinary citizens, and international agencies, have in their different ways joined in a conversation about how the natural gas bonanza should be governed (Uetele and Obeng-Odoom, 2016). This should be done in a way that will not harm the country's seemingly unique opportunities for economic growth and development. Underpinning any answers as to how the gas bonanza should be governed is, in my view, a need to understand the role and principles of governance and management for petroleum resources, which over time has been a moving target.

The vast body of literature on petroleum management in developing countries suggests that separation of the commercial and regulatory functions in the oil and gas sector is important in order to ensure better performance and management of oil wealth (Kumah-Abiwu, 2017; Thurbel et al., 11). This model is widely known as a Norwegian model of managing the petroleum industry, as it is assumed that it allows transparency (Thurbel et al., 2010, 11). Countries like Norway were used as an example of how the separation of functions in governing the oil sector can contribute to making improvements to the sector's performance in terms of economic growth (Al-Kasim, 2006; Thurber et al. 2010; 2011). However, in many oil-rich developing countries, particularly in Africa, oil wealth is associated with weak economic growth, poverty, conflict and corruption (Sachs and Warner, 1995; Karl 1997; Ross 1999; Heller and Marcel 2012).

As Oyewunmi (2015) has noted, contracts for upstream operations and their outcomes are largely dependent on the quality of production contracts, which in general are addressed within the framework that governs the rights, interests and operations of the international oil companies (hereafter IOCs) and national oil companies (NOCs) in relation to those of the state. However, in oil-rich developing countries, the rules of the game are at the centre of controversy regarding their effects on policy outcomes (I argue this drawing on Khan, 2010; Whitfield et al., 2015). I will therefore argue that the politics of petroleum-sector governance in Mozambique is underpinned by the intricate relationships between the ruling elites and the interests of the IOCs.

This chapter explores the governance reforms in the petroleum sector in Mozambique in order to answer the first working question of this thesis: why and how have the reforms related to the separation of power between the commercial and regulatory functions in the oil and gas sector been adopted and implemented by the state and ruling elites over time? In other words, I focus on the separation between the regulatory and commercial functions or powers across the state's different public bodies. I explore how these institutional arrangements evolved over time and why they have been adopted and implemented, as well as the role the historical legacy of the one-party-system form of management has played in the dynamics of the reforms to oil-sector governance.

I argue that the government adopted the model of separating the commercial and regulatory functions between different public bodies in order to align itself with the best international practices in petroleum-sector governance. The alignment was made less out of an interest in good governance and more out of a concern to attract investments from international oil companies in a way that allowed the ruling elite to continue extracting rents from the lucrative petroleum sector for the state and for the ruling elite's own survival (as I explore in subsequent chapters).

The chapter is organised as follows: the second section provides an overview of the institutional reforms to petroleum sector governance in Mozambique. The analysis is presented chronologically, based on the historical moments in the reforms to the

petroleum law, focusing on the separation of functions between commercial and regulatory bodies. The third section focuses on the way in which the legacy of the one-party system has influenced the way Frelimo has hesitantly adopted the petroleum governance practice of implementing a separation of powers. In the last section I present a brief conclusion.

## 5.2. Institutional reforms of the separation of power in the petroleum sector: an overview

The petroleum sector in Mozambique has witnessed different phases of reforms influenced by different domestic and external factors, with the country's political and economic conditions playing an important role. The ruling Frelimo party drove forward the first reform, adopted in the 1980s under a Marxist-Leninist regime to provide a framework supportive of the centralized and socialist state-building project. The second phase of reforms to emerge in the 2000s were adopted in the context of neoliberalism reforms, in the wake of the adoption of a multiparty democratic system following the end of sixteen years of civil war between the government and the National Resistance of Mozambique (Renamo) in 1992. The third phase of the reforms was influenced by the emerging investments related to LNG, following the formal discovery of massive stocks of natural gas between 2010 and 2013. I will analyse each of these phases chronologically, keeping in mind that many of these processes are intertwined and overlapping.

### 5.2.1. The first petroleum law of 1981

In 1981, six years after Mozambique was granted independence, the Front for the Liberation of Mozambique (Frelimo) approved the first petroleum legislation (Law 3/1981)<sup>32</sup> with the aim of governing upstream activities.<sup>33</sup> The passage of this

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<sup>32</sup> The Petroleum Law 3/1981, of 3 October, was the first-generation law regulating petroleum exploration and production activities in Mozambique.

<sup>33</sup> In simple terms, in oil language 'upstream' includes exploration, drilling and extraction, for example. Sometimes upstream is followed by 'midstream', which refers to the transportation of crude oil, for example. Downstream activities focus on the refining and distribution of oil/gas products, which is where the big money is made!). To make things complicated, the language of linkages usually talks about backward linkages (referring loosely to upstream) and forward linkages (referring to



legislation was preceded by petroleum exploration activities in the Mozambique Basin during Portuguese colonial rule. The history of petroleum exploration in Mozambique dates back to 1904 (Nairn et al., 1991; Barros, 2017; Loegering and Milkov, 2017). Exploration activities were not developed significantly thereafter for almost fifty years. However, in the 1950s and 1960s exploration activities restarted and were intensified. During this period, the former major American oil company, Gulf Oil, discovered natural gas in Mozambique in the southern and central regions, but declared it to be in non-commercial quantities (Barros, 2017), based on the technology of the time. These discoveries took place in 1961 onshore of Pande field, located in Inhambane Province, in the south of the country. They were followed by discoveries in the Búzi field, located in the central province of Sofala in 1962, and later in 1967 in the Temane field, also in the south (Loegering and Milkov, 2017; Barros, 2017). Further discoveries were later made by Sasol in 2013, in Inhassoro in the south (see Parker and Kreuze, 2013). These four fields are located in the Mozambique Basin, and currently only two petroleum fields are effectively producing natural gas, namely the Pande and Temane fields (Loegering and Milkov, 2017; Salimo et al., 2020).

When Mozambique became independent from Portugal in 1975, a Marxist-Leninist state project was introduced (see Pitcher, 2003; Sumich and Honwana, 2007; Whitfield et al., 2015). In all social sectors, the Frelimo government used the state's machinery to lay the basis for dealing with all social and economic sectors, including upstream petroleum exploration and production management. Despite the state's appetite for intervening in every economic and social arena, these efforts were made in the clear context of a lack of financial and technical capacities, including infrastructure and technology for the petroleum industry.

In general, after independence the government relied heavily on 'gap fillers' provided by the Council for Mutual Economic Assistance of the Eastern European socialist bloc (COMECON) and friendly north European solidarity networks for assistance (whom Tom Young of SOAS has called the 'Red Feet') (Hall and Young, 1997). While the basis

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downstream activities). I hope to avoid confusion in how I use these terms, which are in many ways  
emic to the field.

was laid, little was actually done until the 2000s due to country's financial, technological and political constraints, which prevented the development of these fields (Gqada, 2013). Nonetheless, in 1981 the first petroleum law, Law 3/1981, was approved, and in 1982 a fiscal regime was established by decree. The Law provided an institutional framework for the petroleum sector and established a state company called the Mozambican National Hydrocarbon Company, later, in 1997, transformed into a public company, the National Hydrocarbon Company<sup>34</sup> (hereafter ENH), which is still the national company. This was equivalent to a national oil company or NOC, a common designation in most developed and emerging oil-producing countries. Also, the State Secretariat of Coal and Hydrocarbons (SECH), an institution created in 1979, was integrated into the Ministry of Mineral Resources (Oyewunmi, 2015).

The fiscal regime<sup>35</sup> that accompanied the first petroleum law was limited to a production-sharing agreement (PSA), with 5% of royalties on the gas produced and a corporate income tax. The profit-sharing agreement was based on daily average production specified in terms of the number of barrels, with a division of shares between ENH and the contractors. This sharing mechanism had three different levels, according to which the percentage would increase on one side while being reduced on the other side depending on the number of barrels produced. At the first level of 20,000 barrels a day, the contractor's share was 95% and the remaining 5% went to ENH; at the second level of 30,000 barrels a day, the contractor's share was 90%, with 10% going to ENH; and lastly, at over 50,000 barrels, each party would take a 50% share.

Under Law 3/81, the ENH was thus originally created as a state company. It developed into an all-powerful body in the petroleum sector. Under the liberal economic reforms initiated in the late 1980s, the ENH was transformed into a public enterprise in 1997. Intertwined with the liberal democratic turn was the push by the World Bank and the IMF (with broad bilateral support from the international donor community) for structural adjustment reforms from the mid-1980s that were characterized by privatizations and the transformation of strategic sectors and state

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<sup>34</sup> Known as *Companhia Nacional de Hidrocarbonetos* (ENH).

<sup>35</sup> Petroleum Production Tax Regulations approved by Decree 14/1982, of 3 December.

companies into public enterprises in order for the state to maintain its control (Pitcher 2003; Whitfield et al., 2015).

After the creation of the ENH in 1981, as was common at the time it was given a commercial, regulatory and concessionary role (all in one). At the time, the government also established the State Secretariat of Coal and Hydrocarbons to take charge of organizing, archiving and managing hydrocarbon survey data. Through the company, several agreements were signed that aimed to develop survey activities, focusing in general on short-term technical evaluation agreements that granted exclusive rights to the IOCs (Barros, 2017). This also opened up a space in which to negotiate PSA in case justifiable investment prospects for production were found within the geographical area covered by the existing technical evaluation agreements.

In 1983 the first round of licensing open to IOCs was launched, through which only four blocks were awarded out of seventeen in the bid (Oyewunmi, 2015). No progress was made in developing the awarded blocks, in part because of the civil war between the Frelimo government and the Renamo opposition, which lasted for sixteen years, from 1976 until the General Peace Accord (GPA) of 1992. In the early 1990s, Mozambique adopted the multiparty system, and in 1994 the country organised its first multiparty elections.

During the period from 1989 to 1990, the ENH and the *Tyumengeologia Association of Russia* were involved in exploration activities in the Pande field in southern Mozambique, where they found commercial quantities of gas deposits. According to an independent assessment of Pande's reserves by the Norwegian Petroleum Directorate (NPD), conducted as part of the transition to democracy, the field was assessed as having a volume of gas reserves of around 115 billion cubic meters (bcm) (Abdula and Salman, 1995).

The Temane field was granted to the United States' Atlantic Richfield Co. (Arco), Sasol and Zarara Petroleum of Dubai, while the Pande field was granted to the American Enron energy company. These fields were considered not to be economically viable

unless the gas could be piped to South Africa, where a market for it existed. An assessment indicated that a pipeline with the capacity to export two bmc/year of natural gas would make economic sense, given that the demand for gas in South Africa had soared after the fall of apartheid in 1994.<sup>36</sup>

In the two decades after the first licencing round was launched, no further bidding took place, but direct negotiations were conducted with several oil companies to develop gas from the Pande field. In 1996 Sasol acquired the rights to explore the Pande and Temane natural gas fields from Enron and Arco respectively.<sup>37</sup> In 1998 and 2000, the government of Mozambique signed agreements with Sasol and ENH giving them exclusive access to these two gas fields and granting them pipeline rights in Mozambique.

Mozambique had initiated reforms related to the oil and gas sector before the Sasol deal in 2000, for example, in 1997, when the ENH was transformed into a public company, *Companhia Nacional de Hidrocarbonetos, E.P* (ENH). This followed the liberal economic reforms initiated in the late 1980s and took shape after the GPA in 1992. As part of the reforms, in 1994 the Chissano-led government also created the *National Directorate for Coal and Hydrocarbons* (DNCH) in an effort to remove the regulatory function from the ENH and thus keep the national oil company focused specifically on its commercial role, while the DNCH was formally intended to take on the regulatory function (Smelror et al., 2006).

The attempt to introduce a formal separation between the commercial and regulatory functions with the creation of the DNCH was in line with the aim of reforming governance of the petroleum sector. This came to dominate discussions among practitioners and international agencies such as the World Bank and – more

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<sup>36</sup> ENH and the Ministry of Mineral Resources and Energy (MIREME) tried to promote exploration through direct negotiations, mainly with South African companies that had shown an interest in purchasing gas from Pande. Conversations were held, mainly with South African companies such as Sasol, the Phalaborwa Mining Co., Eskom, AECI and ISOCOR (Abdula and Salman 1995, p. 11), but Sasol did not come on board until 1996.

<sup>37</sup> See World Bank (2005), Project Finance & Guarantees Group (2005), “World Bank provides enclave IBRD guarantee to cross-border gas Project”, December 2005: <https://documents1.worldbank.org/curated/pt/838301468193746769/pdf/534550BRI0PFG110Box345611B01PUBLIC1.pdf>.

significantly regarding the country's long-term friend in the petroleum sector – the Norwegian Petroleum Development (NPD). International 'partners' were all urging the government to move towards the separation of functions and to increase the efficiency and transparency of the sector's management (Ekern, 2005).

However, even though these institutions (ENH and DNCH) had been formally created and were now formally separated, the reform would not actually take effect until significant progress with the implementation of the Pande-Temane project had taken place. This follows a pattern, as I shall show later, as the effects of the formal separation have been far from clear because important pieces of 'regulation' were missing. The attempts at reform thus proved to be piecemeal and therefore constantly open to interpretation and (mis)use, reflecting the specific contextual needs of the government, elite groups and (not to forget) the state bureaucracy, which at times can pursue its own logic when it is allowed to. However, when sufficiently large investments need particular reforms in order to move forward and secure final investment decisions, they tend to happen. It is important to keep this in mind.

Since, under the then existing conditions brought about by many years of destructive civil war, there was a marked lack of previous experience with massive investments in the country, as well as with the basic infrastructure required to support the petroleum industry, Mozambique generally represented a high-level risk for investors. International oil companies were reluctant to invest at their own risk, especially since the state was not even able to offer them sovereign guarantees.<sup>38</sup> Hence, the country's overall political and governance conditions were found to hinder the conclusion of more expansive deals when it was confronted with massive and long-term investments in the extractive sectors. For example, several companies that were willing to develop the Pande and Temane natural gas blocks found it hard to proceed. Arco and Enron, two companies that did have agreements for the

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<sup>38</sup> Interview with former manager of the ENH and DNCH, Maputo, August 2018.

exploration and development of Temane and Pande respectively in the 1990s, eventually abandoned the agreement, selling their rights to Sasol.<sup>39</sup>

The conditions agreed in the negotiations between the government and Sasol over the Pande-Temane project were, it became clear later on, particularly disadvantageous to Mozambique (see CIP, 2013; 2017; Salimo et al., 2020). Sasol required a tax exemption for a period of ten years in order to guarantee the investment and ensure the project's viability. The complexity of the negotiations and fears over the outcome prompted Parliament to intervene in the negotiations with Sasol. Parliament's aim was primarily to protect a minimum of sovereignty for the state over natural gas exploitation, a concern shared by all political parties,<sup>40</sup> but it was also important, particularly for the majority Frelimo block in Parliament, that the Frelimo government was supported in the negotiations and that it succeeded in them.

Parliament's understanding was that Sasol was 'exploiting' the government's weakness to reap the greatest benefits it could from the project. But the potential interest of the ruling elite in acquiring rents from the Pande and Temane investments may have influenced Sasol's options in negotiating deals with the government. Notwithstanding Parliament's lack of understanding of the petroleum business, its political authority was to some extent recognized by Sasol, as the company showed itself to be uninterested in entering into a long-term confrontation with it. As a result, concessions were made, followed by agreements between the government and the company in 1998 and 2000, which also opened the door for discussions on the new institutional framework for petroleum governance, although that was not applicable to Sasol itself.

Following the first approach to reforms to the petroleum framework in 1981, the major immediate change came in 2001, after the Sasol deal, when the government

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<sup>39</sup> World Bank (2005), Project Finance & Guarantees Group (2005), "World Bank provides enclave IBRD guarantee to cross-border gas Project", December 2005: <https://documents1.worldbank.org/curated/pt/838301468193746769/pdf/534550BRI0PFG110Box345611B01PUBLIC1.pdf>.

<sup>40</sup> Information from interviews with a former Member of Parliament and senior government officials. (Maputo and Pemba, November 2018).

signed a PSA and Production Sharing Agreement (PPA). In that year the government also adopted reforms to petroleum legislation by approving a new Petroleum Law (Law 3/2001).<sup>41</sup> It is to these reforms that I now turn my attention, as a key concern of the government of Mozambique was how to accommodate Sasol as a foreign investor while at the same time balancing internal ruling-elite concerns over how the deal could be made to formally benefit Mozambique and maybe more importantly specific factions within the ruling elite.

#### 5.2.2. Institutional reforms under the 2000s petroleum law

The introduction of institutional reforms to the petroleum framework during the 2000s has mostly been influenced by the experience of negotiating with the international oil companies, especially the regional major Sasol, over the Pande and Temane fields and pipeline projects until massive gas deposits were discovered in Cabo Delgado. For the players in the industry, their greatest concern was the country's political and infrastructural risks, including its fiscal stability. However, the institutional reforms were also influenced by external factors. The aim was to introduce transparent and accountable mechanisms into petroleum operations and management, based on the idea that the sector's development and fiscal stability depended on such reforms (see Flemming et al., 2007). Three different factors have played a role in the reforms being adopted under the second generation of institutional changes in the petroleum sector.

First, the introduction of institutional reforms to the petroleum framework during the 2000s was mostly influenced by the experience of negotiating with the oil companies, especially Sasol, over the Pande and Temane fields and associated pipeline projects. The conditions that shaped the international oil and gas market and the mechanisms governing the oil and gas sector, including the demand to adopt transparent models for the management of petroleum resources, became a significant issue for the key players in the industry who were supporting reforms (Flemming et al., 2007). This included principally Sasol and the private-sector arm of the World Bank Group, the

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<sup>41</sup> Petroleum Law, Law 3/2001 of 21 February 2001.

International Financial Corporation (IFC), which took part in the Pande-Temane investments.

Secondly, international donors like the World Bank had been working on the viability of the Pande-Temane natural gas project since 1994 and had pushed for reforms to make the fiscal viability of the investment more secure. Besides the World Bank, the most important international donor was the Norwegian Agency for Development Cooperation (Norad) through the NPD, which had been working on institutional development and capacity-building in the Mozambican petroleum sector since the early 1980s (Michelet et al., 2009). In 1980 the Secretariat of State for Coal and Hydrocarbons invited the NPD to assist the country in establishing organizational and institutional capacity in the petroleum sector, crucially influencing the adoption of the institutional reforms implemented in the 2000s.<sup>42</sup>

The NPD had been assisting the country to establish its overall foundational capacity for the petroleum sector. From the beginning the approach to this support has been focused on the development of technical capacity in the sector. This involved, among other things, direct support in establishing the necessary institutional capacity, institutional design, delivery training and direct technical assistance provided by contracting services and twinning agencies to work within the sector ministry and the other ministries with which the petroleum sector had to coordinate (Itad, 2015). The role played by the NPD in providing technical advice had apparently been made ‘without pressure for change’, as several key sector officials recognized, but it still had a significant influence on the government’s decision to implement the reforms.<sup>43</sup>

The third driver of reforms has been the oil and gas bureaucracy, trained principally by the NPD, as well as the ruling political elites, who over time became more and more dependent on getting the investments moving. Their support for reform was

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<sup>42</sup> See Ernest and Young (2004), “Estudo da sustentabilidade financeira do INP – Instituto Nacional do Petróleo”, Ministério dos Recursos Minerais e Energia, Direcção Nacional de Carvão e Hidrocarbonetos, Versão Final de Maio de 2004.

<sup>43</sup> Interview with senior officials at the Ministry of Mineral Resources and Energy and former top officials in the petroleum sector’s agencies. Maputo, July and August 2018; and October 2019. Nonetheless, whenever Mozambique has taken investment decisions, the Norwegians have been ‘disappointed’, having expected that they had sufficient ‘goodwill’ to swing decisions in their direction.



clearly Janus-faced, as they needed reforms to be initiated to secure investments, but always at a pace and with an impact they could control in order to ensure that diverse factional interests could be accommodated. Whereas the post-independence legislation of the 1980s formally emphasized state ownership, by the late 1990s the fiscal regime and the economic terms introduced under the framework of the first Petroleum Law by means of its further fiscal regime, approved by Decree 14/1982,<sup>44</sup> no longer matched the evolving dynamics within the international petroleum industry (see Abdula and Salman, 1995; Oyewunmi, 2015).

Although since independence Mozambique had never adhered strictly to the ideological tenets of Marxist-Leninist thinking when it came to governance of the oil and gas sector, the formal legal framework that existed by the end of the 1990s consisted of the first Petroleum Law 3/1981 and its 1982 Decree governing the petroleum fiscal regime, which was chiefly state driven and focused. This legislation had important backing within Frelimo, particularly from the older ideological faction around Marcelino dos Santos, which viewed the replacement of state intervention with the facilitation of mega-projects by international investors as a betrayal of key Frelimo policies. This was considered a major stumbling block to foreign investments by all actors, and the fact that the government's negotiations with companies interested in the exploration and production of natural gas in the Pande and Temane fields had been unsuccessful until Sasol came on board in 1998-2000 was seen as a clear indication of the need to make changes.

In 2001, the government approved a new petroleum Law (Law 3/2001), inspired generally by the economic reforms, liberalization and formal considerations of transparency. Despite the creation of the DNCH in 1994, which was integrated into the Ministry of Mineral Resources and established to take over the regulatory function from the ENH in order to keep the national oil company focused specifically on its commercial role, this never happened in reality.<sup>45</sup> The dominant discussions among practitioners and the international agencies, such as the World Bank and

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<sup>44</sup> Decree 14/1982 of 3rd December approved the fiscal framework for petroleum exploration, development and production activities.

<sup>45</sup> Interview with senior officials at the MIREME (July, 2019).

more significantly the NPD, the government's earliest and longest-standing development partner in the oil and gas sector (Michelet et al, 2009; Itad, 2015), focused on reforms to introduce transparency and accountability mechanisms in the sector.

The government was required to introduce relevant reforms to achieve the separation of functions, allegedly to increase the efficiency and transparency of the oil and gas sector's management.<sup>46</sup> Despite these developments in the sector, the petroleum law of 2001 remained silent concerning the separation of functions. The government was intuitively aware of the necessity of the reforms within the adopted legal framework in order to secure funding, but was hesitant to adopt them formally as it feared losing control over the sector.

In other words, from the early 1990s the government accepted these reforms, but only reluctantly, so they would not all be implemented for a variety of reasons until the 2000s (Michelet et al., 2009; Barros, 2017). Among other reasons, it was not considered appropriate to separate the two functions while the necessary capabilities were still lacking and an effective agreement over the production of natural gas in the Pande and Temane fields remained unresolved.<sup>47</sup> The ruling Frelimo elite in charge of the government feared that it would lose control of the gas investments, this partly reflecting the influence of the centralized system of management that shaped the country's political and economic model after independence. As a result, in 2002 when the decision was taken to transfer the regulatory function from ENH to DNCH, it proved to be just a demonstration of intent, as no effective implementation took place in practice (Flemming et al., 2007). It might therefore be said that the main idea to separate the powers and functions was more formal than factual or de facto, as the DNCH director was at the same time the chairperson of ENH, thus perpetuating ENH's continued regulatory control.<sup>48</sup> More positively one could also argue that this reduced transaction costs during the process of transferring powers

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<sup>46</sup> Interview with a former CEO of INP and former CEO of ENH (Maputo, August 2019).

<sup>47</sup> Interview with senior officials at ENH (May 2017, February 2018, and October 2019).

<sup>48</sup> Interview with a former Minister of Mineral Resources. (Maputo, October 2018).

and tasks, which could well go hand in hand with retaining a relatively high degree of control.

Nonetheless, in 2004 the INP was established as an autonomous body with regulatory powers by Decree 25/2004, 20 August, including supervising the activities of the petroleum sector.<sup>49</sup> As a consequence of its creation, the DNCH was abolished, most of its human resources and equipment being transferred to the new regulatory body. The regulatory transfer was therefore carried out by Decree instead of under the 2001 Petroleum Law, which had not even anticipated its emergence. Interviews<sup>50</sup> suggest that the INP emerged in 2004 as the formal regulator because the government wanted to test and understand what such reforms would mean in practice for deal-making and its ability to secure deals that benefitted not only Mozambique, but also the ruling Frelimo elite. Ultimately it was concerned about the consequences of establishing such an institution for its ability to create deals that had multiple end-goals and accommodated different interests.

Under the 2001 Petroleum Law, the contractual right to conduct petroleum operations was changed from a production-sharing contract,<sup>51</sup> which flourished under the first Petroleum Law, to a concession contract.<sup>52</sup> Various practitioners<sup>53</sup> nonetheless argue that Mozambique's current fiscal regime for the petroleum sector is a *hybrid* because, despite the adoption of concession contracts, the ownership of resources remains with the state, and the PSA was integrated into the new regime

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<sup>49</sup> Instituto Nacional de Petróleo (INP) in Portuguese, created by Decree 25/2004, of 20 August.

<sup>50</sup> Interviews at MIREME, INP and ENH (April and August 2018).

<sup>51</sup> The PSA is essentially an agreement whereby the state appoints an oil company to carry out exploration and production operations and agrees to share the petroleum produced on the basis of a pre-defined percentage, while ownership of the petroleum produced *in situ*, as well as the volumes produced, remains vested in the state (Oyewunmi, 2015; Barros 2017). Literally this means in practice that the state guarantees the contractor a share of production for the services the latter performs (Johnston, 1994).

<sup>52</sup> The concession contract changed after 1962, when the UN Declaration of Permanent Sovereignty over Natural Resources for host countries was adopted (see Oyewunmi 2015, p. 5). In its very original design, it was generally a form of contract in which the oil company obtains from the state the title to all land and hydrocarbons *in situ* and produces for a specific period of years, while paying rents to the state. With the reforms to the legal and regulatory instruments, the major petroleum-producing countries secured the ownership of the land and petroleum resources, while granting the oil companies exclusive rights to explore and produce petroleum in defined areas within specific periods, subject to taxes and royalties.

<sup>53</sup> Interviews with key informants at INP, ENH and with a former Minister of Mineral Resources in Mozambique converged in this respect. Maputo, October 2018. See also Barros (2017).

through the participation of the ENH in all the concessions as shareholder. The Law of 2001 defined three types of concession contract: reconnaissance, exploration, and production and pipeline.

The change from PSA to concessions with the 2001 legal framework was intimately related to the fiscal stability (so they could accrue sufficient revenues to pay back their financial outlet) granted to Sasol in exchange for committing itself to the more than \$1.2 billion gas and pipeline project, which began producing gas in 2004. Although the ENH invested in exploration, because of its lack of the capacity, experience and technological and financial resources needed to implement any upstream oil and gas activities, it did so through partnerships with international oil companies, though throughout the 1990s and early 2000s only Sasol had come on board (for further discussion, see chapter 6).

The mechanism for awarding concessions is through rounds of 'open bidding'. In 2005, during the second bidding round for the Rovuma Basin, the government changed the rules of the game in respect of the number of companies applying for concessions by introducing the principle of the diversification of companies. This ensured that a number of companies would compete together in open bidding for petroleum concessions, hence reducing the costs of participation and distributing the risks between them.

However, the reforms the Sasol deal triggered did go beyond the conditions of the fiscal regime to involve institutional changes in relation to which the formal separation between the regulatory (INP) and commercial (ENH) aspects became institutionalized to some degree. One consequence of this was that, in the more than two decades after the first petroleum law was approved a direct concessions of blocks were allocated in the 1980s, and no bidding round were launched. However, the first bidding round were instead launched in 2000s, and following the establishment of the INP<sup>54</sup> in 2004, over a period of ten years between 2005 and 2014, four petroleum license bidding rounds were launched resulting in a massive success in terms of natural gas discoveries, specifically under the second licensing

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<sup>54</sup> The INP was created by the Decree 25/2004, of 20 August.

bidding round of 2005. The 6<sup>th</sup> licensing bidding round is under preparation, following a massive hydrocarbon mapping activities conducted by INP in collaboration with WesternGeco to access the potential of shallow- and deep-water data information, which provided an extensive broadband 2D data covering more than 110.000 Km, and 15.000 Km<sup>2</sup> of 3D seismic data.<sup>55</sup>

### 5.2.3. Rovuma Basin and the institutional arrangement for LNG

In 2005, under the guidance of the INP, the second round of licencing was launched, which has been described as the most important licencing bidding round ever to be held in Mozambique (Barros 2017). As a result, Mozambique became known as potentially one of the world's largest future producers of natural gas and LNG exporters. This was due to the massive volumes of natural gas that would be 'discovered' in 2010 and 2013, as well as the very large-scale investments in onshore and offshore LNG plants planned by IOCs in the district of Palma in Cabo Delgado. These announcements of large discoveries of natural gas in the Rovuma Basin provoked many voices, both within the country and abroad, to defend the need to review Mozambique's petroleum legislation in various aspects.

While the government was formally looking at ways of bringing in revenues and maximizing the social and economic benefits of natural gas, the lack of capacity, technology and experience in managing petroleum operations (ILPI, 2013; Augé, 2020) placed it in a weak position when it came to negotiating deals with the international oil companies (IOCs) (see Salimo, 2018). Civil-society organizations and other stakeholders raised concerns regarding the economic growth and social transformation expected from the massive investments in natural gas in the Rovuma Basin (ICF International, 2012 Gqada, 2013; Uetela and Obeng-Odoom, 2016).

The arrangements for the exploitation of natural gas and LNG in Areas 1 and 4 of the Rovuma Basin mean that they are operated under the Petroleum Law of 2001. However, the main aspects of the deals, including those related to rights, were

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<sup>55</sup> Schlumberger. Offshore Mozambique 6<sup>th</sup> licensing round. Retrieved from: [Offshore Mozambique 6th Licensing Round | Schlumberger \(slb.com\)](https://www.slb.com/offshore-mozambique-6th-licensing-round)

established and secured under the Exploration and Production Concession Contract (EPCC) signed between the government and the concessionaires in 2006/7. In general, it is EPCC practice to leave the door open to the subsequent negotiation of specific issues, so EPCCs are often kept deliberately vague. The implication is that, since the EPCC for the Rovuma Basin concessions was concluded for Areas 1 and 4, and since the discoveries of gas were announced, the government and the concessionaires have been involved in negotiations over possibly contentious issues like capital gains taxes, access to land and sea etc. (see further discussion in Chapter 7), making signing the contract an ongoing process producing different outcomes over time.

An example is the approval of a Special Legal Regime for the Rovuma Basin Projects approved by Decree-Law 2/2014 and applicable exclusively to Areas 1 and 4 as a legal instrument underpinning stable petroleum operation. When the discoveries in Rovuma were announced, significant exploration activities were organized at an early stage requiring the government to settle the legal and regulatory framework in order to protect the investments and create stability with regard to the local community's ability to benefit from future natural gas production.

Despite the fact that the emerging legislation had far less impact on the Area 1 and Area 4 concessions, the international oil companies operating these concessions exerted their own pressure in order to influencing the regulatory framework that emerged from the new situation of the country's gas endowment. Accordingly, in 2014 a third petroleum law (Law 21/2014), regulated by Decree 34/2015, was approved. The current framework is faced with a more complex reality because of the new discoveries of massive volumes of natural gas in Areas 1 and 4, but more significantly, the LNG developments, which are far more complex than the gas operations, have so far been restricted to the south of the country.

While these various attempts at reform have been taking shape, other, more *ad hoc* developments have been taking place at the same time. For example, the government and the lead companies in the Rovuma Basin – the Italian company Eni, and the US company Anadarko, later taken over by Total Energies from France and

the American ExxonMobil – established a ‘platform’ to negotiate special provisions for the projects related to their concessions in Areas 1 and 4. This ‘platform’ is related to the reform package that has been implemented so far. One link is that the concessionaires in Areas 1 and 4 are pushing for a particular regulatory framework that will guarantee fiscal stability.

Secondly, the government has to some extent been unable to resist demands to change the rules related to provisions regarding domestic labour and rules about currency exchange and stock exchange listings etc. in order to speed up the investments. The government badly needed the revenues, having been weakened by the ‘hidden debt’ crisis that the Guebuza and Nyusi administrations created from 2013-2016 (see chapter 7). This anticipated ability to use gas revenues to repay the hidden debt will nonetheless not become available before 2040 at the earliest, and instead the debt crisis has ended up undermining the Mozambican economy. The hidden debt scandal forced the country into an unprecedented breakdown in its relations with international financial institutions, including the IMF and international aid donors, which suspended the issuing of new loan and their budget support (see Hanlon, 2016; Macuane et al., 2018; Roe, 2020; CIP and CMI, 2021).

Adopting new rules of the game thus became important in order to secure and speed up investments. In particular, the 2014 Law now had to deal with liquefied natural gas (LNG) and new types of infrastructure and technological development in the industry, issues that had been left out of the earlier petroleum legislation. The new law had been developed with the aim of guaranteeing investors in the oil and gas industry a competitive environment and regulatory stability. The aim at this time was also to increase the country’s share of the benefits from oil and gas and to protect the environment effectively.

Across the legislation, key requirements have emerged aimed at securing long-term economic and social benefits, such as the formalization of the ENH as the representative of the state in petroleum concessions and the requirement that any investor’s exploration and production activities be carried out in partnership with the ENH. Furthermore, as an aggregator of domestic gas the allocation of 25% of

petroleum production to the domestic market emphasises Mozambique's participation in petroleum-related projects. However, this was just the aim: the reality suggests that new pathways could be followed, leaving behind the obligation to carry local companies, which in general were constrained by their lack of financial and technological capabilities from participating at least in the oil/gas industry's downstream projects.

The 2014 legal framework for petroleum specifies that petroleum operations must be undertaken on the basis of a concession contract. Although this is the same approach as that used in the previous legislation of 2001, the current legislation covers concession contracts for both the construction and operation of facilities, the latter not having been included in the previous law. The other types of concession contract are reconnaissance, exploration and production, and oil and gas pipeline systems. The Petroleum Operations Tax Law 27/2014 mainly lays down the fiscal regime connected with the petroleum legislation, which is regulated under Decree 32/2015. This type of regime is a hybrid consisting of tax royalties and profit-sharing, illustrated in the Table below. The main elements of the taxes on petroleum operations are corporate income tax (32%), a petroleum production tax or royalty element (6% gas, 10% oil) and a profit-sharing mechanism. The concessionaires have negotiated fiscal stability for ten years, to run from the approval of the Development Plan.

Table 4. [Elements of the petroleum fiscal regime](#)

Type of tax	Characteristics		
Fiscal regime	Royalties + profit-sharing mechanism (r-factor)		
Royalties	10% crude oil and condensate		
	2-6% natural gas and LNG		
Corporate income tax	32% ring-fenced		
Production sharing	r-factor	government share	concessionaire
	1.0	15%	85%
	1.5	25%	75%
	2.0	35%	65%
	2.5	50%	50%
	> 2.5	60%	40%
Capital gains	32%		
Tax benefit	Carry / 4-6Y		



	Exemptions 5Y after PoD for goods and equipment
	VAT exemption
Cost recovery ceiling	60% maximum. The government and ENH must have a minimum benefit from the production in kind or in cash (revenue stream from day one of production).

Source: petroleum fiscal legislation (Law 27/2014 and Decree 32/2015).

While the previous petroleum law did not make any mention of a regulatory body, this new law mentions the INP as a regulatory body, this time created by law. This is different from the body created in 2004, which was not even defined in the petroleum law of 2001. As part of these reforms, in 2017 a new directorate was created called the National Directorate of Hydrocarbons and Fuels (DNHC – *Direcção Nacional de Hidrocarbonetos e Combustíveis*), a directorate within the MIREME, which was intended to fulfil the policy function. The directorate nonetheless lacks precedence, and significant efforts will be required to consolidate and strengthen it, and how it relates to INP as regulator is not yet clear.

The current petroleum framework laid down the boundaries of the responsibilities falling under the commercial and regulatory bodies respectively, and it has tried to go further than earlier attempts, by establishing under Parliament's initiative a new oversight body, the Higher Authority for the Extractive Industry (HAEI), which lacks support from the key groups within the ruling elite. The body still lacks a clear definition of the role it is to perform, as the 'regulation' for its functioning has not yet been issued (Macuane and Muianga, 2020). Again, this follows the same script with the former law in that only over time will various new institutions be equipped with the important 'regulation' (*regulamento* in Portuguese) that makes them operational. This can take year or may never happen, depending on the government's and the ruling Frelimo elite's needs and ability to control the institutions in a constantly changing environment for international investment and changing power configurations within the ruling elite itself.

However, by formally creating the HAEI as an autonomous higher authority (for further details on HAIE, see Annex 1), the Parliament, in contrast to government,

aimed to control the ruling elite's ability to siphon off rents. As already mentioned, the Law of 2014 also included provisions for domestic labour and rules about currency exchange and stock-exchange listings that the concessionaires considered too restrictive. For the ruling elite around Guebuza and Nyusi, who were growing increasingly desperate to secure the signing of the gas exploration contracts for Areas 1 and 4, the 2014 Law was considered a stumbling block. Under pressure from the Guebuza faction, in 2014 Parliament authorized the government to approve a Decree (Decree 2/2014) establishing a special legal and contractual regime for the Rovuma Basin projects that was only applicable to Areas 1 and 4 (Clifford Chance, 2015).

Broadly speaking, the Decree subjects the concessionaire to legal provisions applicable to the wider range of activities and all other correlated services, infrastructure and markets for natural gas, including both onshore and offshore LNG plants. This specific Decree is vested with power in such a way that any legal provision it contains that is contrary to the Petroleum Law will prevail. In addition, it allows the government to enter into contractual agreements with its concessionaires. This speeded up the development of Areas 1 and 4 with regard to contractual and financing agreements, but it also undermined the requirements of the 2014 Law, such as the availability of 25% domestic gas for purposes of strengthening the country's development of natural gas-related industrial projects, as it is up to the concessionaires to decide whether it is appropriate to allocate gas to the domestic market.

The next section explores the contours of the historical legacies of the party system and their consequences for the dynamics of the oil and gas sectors reforms. The institutional reforms introduced over time were enthusiastically adopted, but largely remained unimplemented, as was the case in relation to the separation of powers between commercial and regulatory bodies.

### 5.3. The legacy of the party system and the model of separation of power

In the years immediately following independence, Mozambique lacked the fundamental basis for state-building (Sumich and Honwana 2007) due to the

departure of the majority of the Portuguese population, who for many years had run the economic and administrative machinery of the colonial state. The ruling Frelimo party that took power after independence in 1975 embraced a centralized management model in governing the state. In this respect, the declaration that Frelimo was a Marxist-Leninist party at its third congress, held in 1977, made the party the most powerful institution in relation even to the state itself, which became subordinated to it (Sumich and Honwana 2007; Sumich, 2008; Whitfield et al., 2015). In addition, the configuration of state institutions, including the state-owned companies, reflected the ideology of the ruling party, their management being under party members' control. This was how the party conceived the nature of the state's organization and the management of the economy, including the dynamics of how natural resources should be governed (Orre and Rønning, 2017).

The establishment of the ENH in 1981 as the sole powerful body in the oil and gas sector was thereafter significantly influenced by the ruling Frelimo ideology, which at some point became concerned to obliterate all remaining signs of the powerful imperialist and capitalist economy, which had nonetheless survived the collapse of the colonial system. This process had in part been addressed through Frelimo's direct control of the country's main assets, the industrial sector and the economy. The ENH remained a state company until 1997, when it was transformed into a public company thanks to the new wave of economic transformation initiated during the second half of the 1980s under the World Bank's and the International Monetary Fund's (IMF) structural adjustment programmes (SAPs) (for a discussion of the liberal reform see Pitcher, 2003; Hofmann, 2013; Orre and Rønning 2017; Cruz and Mafambissa, 2020).

At the third Congress of the Frelimo party in 1977, concerns were voiced over what was regarded as an increase in the 'imperialist powers' interest in controlling resources in the subsoil with a particular emphasis on petroleum resources, a process in which several international companies, such as Clark Oil, Skelly Oil, Hunt, Gulf Oil, Pan American International, Texaco, the Société National des Petroles d'Aquitaine, G.

Bank Bewerk, Anglo-American and World Mineral, were all involved.<sup>56</sup> Thus, the concentration of functions in the ENH was in line with the specific context of the country's politics, which were characterized by a one-party system and a centralized model of governing the state and public affairs. As such it was conditional on the ruling party's understanding of its mandate and the adoption of the most appropriate way of strengthening the party's control over the sector in order to deal with upstream petroleum operations and secure control over the economy of the petroleum sector.

Apart from the country's tradition of management, there was nothing unique about the concentration of power in one institution. At that point in time the majority of petroleum-rich countries followed almost the same practice. Other countries like Angola, with its relatively long experience of petroleum production, are still administering their petroleum sectors by concentrating all functions in the National Oil Company, Sonangol (see Thurber et al., 2010; Lwanda, 2011). This is despite the recent efforts by the country's new president, João Lourenço, to bring in what are considered to be conventional good practices in oil-sector governance, based on the separation of the commercial and regulatory functions.

The whole period in which the commercial and regulatory functions were concentrated in a single body (1981 to 2001) can be divided into two distinct phases. The first phase was influenced by Frelimo's Marxist-Leninist ideology in its management of the economy and state institutions. The second phase was characterized by the introduction of economic reforms anchored in structural adjustment and the adoption of a market-driven economy that was still controlled by the Frelimo party (Sumich, 2008; Buur and Salimo, 2018; Cruz and Mafambissa, 2020). Despite this division into two distinct periods, the ideology of centralized management prevailed. Nevertheless, the economic reforms adopted in 1987 influenced the debate in both the petroleum sector and the ruling party when it came to ideas of 'good governance' and transparency in the management of

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<sup>56</sup> Frelimo (s.d.) Directivas Económicas e Sociais. 3º Congresso da FRELIMO, de 3 a 7 de Fevereiro de 1997. Documentos do 3º Congresso da Frelimo.

petroleum, as well as in determining how access to the sector could be controlled and resources be monopolized (ILPI, 2013; Orre and Rønning, 2017).

Thus, the reforms involving the separation of powers ended up being adopted by the government, even though Frelimo remained at the centre of the control of the bodies, making them look similar.<sup>57</sup> Furthermore, as contracts with Sasol in the early 2000s clearly demonstrated a commitment to explore the resources in the Pande and Temane fields, the actors involved in the petroleum operations, including the government, began to realize that concentrating power and functions in a single body might hamper potential progress in contract negotiations and implementation.<sup>58</sup> Later, with the massive discovery of natural gas in Rovuma Basin and the impressive amount of cash being invested in LNG, a significant change was made in the approach to the separation of functions, with clear definitions and clarifications of roles, and new institutions emerging as part of the new petroleum framework approved in 2014 and 2015 to increase transparency and accountability in the sector management. However, the emergence of the High Authority for the Extractive Industries (HAEI) as a new institution, potentially with an oversight function in the petroleum sector, was not seen by all actors as conducive to their factional interests, thus since formally created in 2014 it doesn't factually exist.

The institutional reforms in the petroleum sector were not based specifically on the separation of the commercial and regulatory functions, but instead involved different dimensions, including the fiscal regime, property rights and accountability. At the organizational level, this implied the strengthening of the INP and included increasing the capacity of the Mozambican Tax Authority (TA) to collect revenues, which resulted in the creation of the Extractive Industries Tax Unit (EITU) in 2017 (Macuane et al., forthcoming). Other key institutions include the Administrative Court, which since 2016 has dedicated itself to auditing extractive sector revenues and

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<sup>57</sup> Interview with members of CSOs (Maputo, November 2017, September 2018 and October 2018). The same view was also presented by senior officials in a meeting at INP (November 2017; July 2018; October 2018).

<sup>58</sup> Relevant interview with former Minister of Mineral Resources and Energy (MIREM), as well as with senior managers from INP and ENH, suggest and confirm this perspective. Interviews in Maputo, February 2018, August 2018.

administrative procedures.<sup>59</sup> Below I present a Table showing the key sectors that have a role in the management of the oil and gas sector.

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<sup>59</sup> As a result of the reforms, several other institutions have played a role, but their responsibilities are specifically related to issues that are marginal but complementary to those directly related to petroleum activities.

Table 5. Key public bodies with a role in management of the petroleum sector

	<b>Government</b>	<b>Ministry overseeing the petroleum sector (MIREME)</b>	<b>INP</b>	<b>ENH</b>	<b>Higher Authority for Extractive Industries</b>	<b>Tax Authority</b>	<b>Administrative Tribunal</b>
<b>Role</b>	Ensure the implementation of petroleum operations policy, approve regulations and prepare legislative proposals	Policy development, implementation and coordination	Regulatory functions for upstream, downstream and midstream operations.	Commercial function and representing the state in petroleum operations	Control of petroleum activities	Ensure the collection of fiscal revenues from the petroleum sector	Ensure the approval of concession contracts and audit-related revenues
<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Enacting regulations for petroleum operations</li> <li>• Regulating and approving concession contracts and their execution, except the survey concession</li> </ul>	<ul style="list-style-type: none"> <li>• The minister overseeing the petroleum sector enters concession contracts for purposes of reconnaissance</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation of concession contracts and hydrocarbon project development contracts</li> <li>• Administration and promotion of petroleum activities</li> <li>• Providing</li> </ul>	<ul style="list-style-type: none"> <li>• Participation in the prospecting, exploration, production, refining, transport, storing and commercialization of oil and gas and their derivatives, LNG and GTL</li> <li>• Management of the oil and gas</li> </ul>	<ul style="list-style-type: none"> <li>• Not provided</li> </ul>	<ul style="list-style-type: none"> <li>• Control of costs for companies' cost-recovery purposes</li> <li>• Collecting taxes related to capital gains, income and corporate taxes</li> </ul>	<ul style="list-style-type: none"> <li>• Approve oil and gas contracts</li> <li>• Audit revenue collection</li> <li>• Analyse reporting on production, sales and related revenues collected by relevant authorities</li> </ul>

	<b>Government</b>	<b>Ministry overseeing the petroleum sector (MIREME)</b>	<b>INP</b>	<b>ENH</b>	<b>Higher Authority for Extractive Industries</b>	<b>Tax Authority</b>	<b>Administrative Tribunal</b>
	<ul style="list-style-type: none"> <li>• Approving development plan</li> <li>• Approval of transfer of rights, interests and obligations in a concession contract</li> <li>• Guaranteeing the financing of the ENH to stabilize its participation in the petroleum sector</li> </ul>		<ul style="list-style-type: none"> <li>guidelines for public and private sector's participation in prospecting and exploration</li> <li>• Organization and administration of awards for concessions contracts</li> <li>• Control of costs for recovery and taxation purposes</li> </ul>	<ul style="list-style-type: none"> <li>allocated for domestic purposes</li> <li>• Monitoring of the recoverable costs in the projects in which it operates as a member of the consortium and at the same time representing the state's interests</li> </ul>			

**Source:** Based on the existing legislation on the petroleum sector.



The overall management of petroleum resources relies on the government, despite the existence of different institutions like the INP, which has a good deal of capacity for some purposes. Generally, in Mozambique, 'independent' institutions lack the power to act independently and depend on government to take the 'responsibility' for key decisions (often after being cleared by Frelimo's political committee prior to decision-making). It is within this overall understanding of 'independence' that the reform of oil-sector management based on the 'good governance' model of management is taking place through the distribution of responsibilities among different public bodies. This is assumed to be a step further toward the governance reforms concerning the separation of powers or functions.

Early in the 2000s, the idea of separating commercial from regulatory powers found a place on the agenda for discussions with the key international donors in the sector, including Norway and the World Bank, and, with a relatively less visible role, the IOCs. Under Law 21/2014 the regulatory function has been placed in the hands of the INP, which includes control and oversight of downstream, midstream and upstream operations, as well as the management of survey data and licencing. The INP also provides technical assistance to MIREME on the regulation and negotiation of concessions and other types of contracts, as well as the monitoring and control of petroleum activities. MIREME has the formal decision-making power regarding the development, implementation and coordination of petroleum policies, but the INP has been assisting the Ministry continually in its formal policy-making role, as technical capacity within the Ministry is weak.

The commercial function falls under the ENH, the sole and exclusive representative of the state in respect of petroleum concessions and commercial contracts. The petroleum legislation stipulates that investor in each concession contract must partner with the ENH. The company can potentially gain an important position as it participates in the whole petroleum value chain, although its weak financial and technical capacity makes its full participation in the share-holding structure doubtful. The ENH has several subsidiaries and affiliates created in and around the ENH in the course of time both upstream, midstream and downstream, such as the *Companhia*

*Moçambicana de Hidrocarbonetos* (CMH – Mozambican Hydrocarbon Company), and the *Companhia Moçambicana de Gasoduto* (CMG – Mozambican Gas Pipeline Company) (see Chapter 6). Through new subsidiaries and affiliates, the ENH is attempting to become involved in gas distribution, petroleum logistics and both onshore and offshore LNG, including land acquisition in Palma related to concessions in Areas 1 and 4 (see chapter 8).

As I will discuss in the next chapter, in this way the ENH has received less public scrutiny but has at the same become more important in rent-seeking by the ruling elite, unlike the INP as the regulator.<sup>60</sup> This is in line with international good governance reforms that have focused on the institutional setting changing the formal rules of the game. Where international capacity-building exercises have focused on the INP and the legal frameworks, the ENH has largely managed to continue doing its business under the radar. As I will discuss in the next chapter, rules and regulations were less important to the ruling elite than access to domestic gas and shares in various public ENH-affiliated subsidiaries secured through the ENH.

#### 5.4. Conclusion

Petroleum sector governance in Mozambique has evolved over time, since the establishment of its foundational institutional framework in the early 1980s. Until the late 1990s, the socialist and centralized form of management was a legacy of the one-party system that had penetrated the bowels of the petroleum sector, bringing about the concentration of commercial and regulatory power in a single body. The neoliberal reforms initiated in the mid-1980s and the political reforms adopted in the early 1990s allowed a much more structured dialogue regarding the reforms of governance that underpinned the separation of powers in the petroleum sector,

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<sup>60</sup> This is clear from capacity-building exercises. The first institution to benefit from Norwegian support was the ENH through specialized technical support. When the INP was created, Norway shifted the majority of its efforts to strengthening the institutional capacity of the new regulatory body. The nature of its engagement in this process of capacity development has been based on different approaches, basically informed by capacity needs assessments made by Norway in partnership with the key petroleum institutions in Mozambique. This involved on-the-job training, short- and long-term training programmes, university degrees, internships with international oil companies and oil-and-gas agencies, study visits etc. Moreover, a twinning approach to capacity development has been adopted in more than three decades of partnership in which resident specialists from NPD sat in INP.

allegedly to promote investments, transparency and the efficient management of petroleum resources. The incentives of the ruling elite in embracing such reforms were essentially driven by the need to secure foreign investment to flow into the country and attract the means for elite reproduction. These reforms had never been taken seriously in any period of major development of the petroleum sector, though they could be adopted, if hesitantly, and selectively implemented by the ruling elite.

Hence, the model of the separation of functions adopted in the 2000s had both internal and external influences. The sector's awakening, brought about by agreements signed with Sasol in 1998 and 2000 for exploration and production in the Pande and Temane natural gas fields, reshuffled the ideas and images of the ruling elite regarding the overall potential of the oil and gas sector. Ideas that became entangled with the 'best practice' model of management that pervades the main international institutions like the World Bank, the IMF, the IFC and bilateral agencies such as Norad and petroleum partners' agencies such as the NPD began taking a foothold in the ruling elite and their image of sector restructuring and management because that would become the effective way to see investments take place and prosper.

Among the external actors, Norad and the NPD were the key drivers for changes due to their recognized role in having built the capacity and the foundational institutional structure of the country's petroleum sector for decades. However, despite the massive investments either by allocation of huge amounts of funds or through different means of training capacity to both INP and ENH, the current level of institutional capacity of petroleum sector institutions remains weak, uncompetitive and highly influenced by elite interests that clearly undermines the sector development (see Heller and Marcel, 2012, p. 30)

In conclusion, the executive and the different key institutions like the ENH (the state-owned gas and oil company that ran a series of subsidiary companies) and the INP have generally embraced reforms with hesitation. The consequences, I suggest, are that considerable discretion on the part of the executive has been a continuous feature of the sector when it comes to making deals. While the regulatory and

commercial aspects of the gas sector have been separated over time and some expertise has been established, the question is how this expertise has been put to use. Long-term developmental outcomes are suggested rhetorically, but concrete policies pushing such ideals are hard to come by. This explains why institutions and the public body tasked with management of the petroleum sector have been overshadowed in key policy-making and management decisions and hampered in their ability to perform their allotted roles.

# **CHAPTER 6.**

## **THE POLITICAL ECONOMY OF RENTS: THE SASOL NATUAL GAS AND PIPELINE**

Ressano Garcia gas-to-power plant (CTRG)



Source: Sasol. Doing business with Sasol: creating access to opportunities for Mozambican-owned business. Retrieved from: <https://www.sasol.com/sites/sasol/files/content/files/1466522385.pdf>

## CHAPTER 6. THE POLITICAL ECONOMY OF RENTS: THE SASOL NATURAL GAS AND PIPELINE

### 6.1. Introduction

In this chapter I explore the deal-making related to Sasol's Pande and Temane natural gas project and pipeline as it evolved from the early 2000s until today, which has seen ruling elite actors become involved in various projects related to the production of electricity from natural gas.<sup>61</sup>

I will specifically use Working Question 2 to explore 'How the Sasol project has been implemented and how the ruling elites have been able to create spaces for rent extraction'. I focus on how local industry in relation to the Sasol gas and pipeline projects has been developed and promoted, as I argue that this is intimately related to deal-making and rent-seeking. On the face of it, the creation of local industry has been put forward as a dominant idea whereby foreign investments have been promoted and protected because they can be used to implement the national industrial policy.

I argue that, although the Pande-Temane gas project has created opportunities for revenue generation, most of the gas has been sold to Sasol in South Africa at a lower price and has thus resulted in the state being able to capture only very low revenues from the project. Revenues from the second phase of Sasol's gas project, starting in 2012 but with effect from 2014, did not increase dramatically, even though Mozambique acquired access to 50% of the gas from the expansion of production and the pipeline. Instead, the increase in the quantity of domestic gas allocated to the Mozambican market following the expansion of gas production and the second Gas Sale Agreement (GSA II) emerged as the key part of the gas deal with Sasol. The process involved the allocation and distribution of domestic gas to private companies with both foreign investments and local Mozambican partners, mostly

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<sup>61</sup> This chapter is a longer version of an article published in *Extractive Industries and Society*; see Salimo, P.; Buur, L. and Macuane, J. J. (2020), The politics of domestic gas: The Sasol natural gas deals in Mozambique. *The Extractive Industries and Society*, Volume 7, Issue 4, November 2020, pp. 1219-1229.

controlled by dominant ruling-elite factions during the Chissano and Guebuza regimes.

Natural gas has been sold to domestic business groups at very low prices, combined with long-term lucrative contracts for purchases of electricity by the public electricity company, EDM, or by selling gas to selected industries. These represent the main mechanisms through which rents are transferred from the public to the private domain. This has been combined with the participation of individuals or private companies in public enterprises formally involved in joint ventures of gas investment projects by securing a stake in these public enterprises, most importantly the Mozambican Hydrocarbon Company – *Companhia Moçambicana de Hidrocarbonetos* (CMH).

This chapter has six sections. The heuristic foundation of the second section, which follows this introduction, recalls the key aspects of the theoretical framework. The third section looks at the dynamics of how the Sasol Pande-Temane gas project and pipeline evolved. The fourth section discusses the politics of natural gas deal-making, covering on the one hand the dynamics of allocations and distributions of royalties and of commercial gas to the domestic market, including on the other hand an analysis of how the introduction of gas-related independent power producers (IPPs) was related to the ruling elites' political power and patronage networks to extract public rents for purposes of private accumulation. The fifth section discusses the issue of confidentiality surrounding gas prices in Mozambique and its implications for transparency and accountability, as well as rents and revenues. Finally, the sixth section presents the chapter's conclusion.

## 6.2. The political economy of domestic gas: retaking the foundations

As highlighted by Bebbington et al. (2018: 10), 'the logic of the political settlement literature implies that the ways in which natural resources [...] are governed would be a function of the political settlement'. Following Behuria et al. (2017, p. 512), a political settlement approach would imply a focus on three key dimensions as the object of study: 'the horizontal distribution of power, the vertical distribution of

power, and how a political settlement is financed'.<sup>62</sup> In this thesis, as mentioned earlier in chapter 3, the vertical distribution of power between different elite factions and how political settlement is financed are the dimensions informing the analysis.

I return to Khan to recall how he defines vertical distribution of power. Khan (2010: 65) describes the vertical distribution of power as 'the relative power of higher compared to lower factions within the ruling coalition'. This is often important, as there may be considerable differences between the interests of lower factions compared to higher level factions or ruling coalition groups in a particular political settlement (Salimo et al., 2020, p. 3; see also Behuria et al., 2017). In his work, Khan nonetheless overlooks the fact that the most important aspect of the vertical distribution of power is often related to contestations between different high-level elite factions and groups (Salimo et al., 2020, p. 3; Whitfield et al., 2015; Whitfield and Buur, 2014). Salimo et al. (2020, p. 3) argues that in Mozambique, the ruling Frelimo party, in power since 1975, has been led by a series of strong leaders, characterized by centralized policy- and decision-making, and since independence the Frelimo party leaders have also been the country's presidents. Around them factions have emerged that it has been important to accommodate over time so that the party continues to stay in power and avoids splintering (Salimo et al., 2020, p. 3).

The post-socialism presidencies of Chissano (1986-2004), Guebuza (2005-2014) and more recently Nyusi (2015 to the present) have operated in the complex environment of a post-war country with strong regional cleavages, a growing but still weak economy, and more recently almost a collapsed economy resulting from the hidden debts discovered in 2016, which caused a critical financial downturn (Macuane et al., 2018; CIP and CMII, 2021). The country has for many years been built up with a high degree of dependence on external aid, which has influenced the articulation of the political settlement, although the aid dependence has significantly

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<sup>62</sup> For Khan (2010, p. 64-65), the horizontal distribution of power refers to the 'power of excluded factions, relative to the ruling coalition'. As this dimension is less important for this article, we will not elaborate on this aspect further here.



been reduced in the last few years, a trend that is expected to continue in the coming years.

The third dimension of power in the political settlement approach focuses on how political settlements have been and are financed. As explained by Salimo et al. (2020, p. 3), it refers to both the overall national settlement and the ruling coalitions that want to stay in power and reproduce their ability to govern in part by excluding other factions (internal or external) from access to financial sources. Khan's original work (2010) focused on the relationship between ruling coalitions and economic actors (Wood, 2002). However, in most developing countries economic actors are not necessarily capitalists, and this is the case in Mozambique where they do not exclusively depend on the market for their reproduction (Salimo et al., 2020, p. 3). Salimo et al. (2020, p. 3) argues that the economic actors usually emerge from within the ruling party coalition or are closely associated with it as backers or financiers, with rent opportunities usually being created and generated using the state apparatus (see also Buur et al., 2012; Macuane et al., 2018).

New insights in the political economy of natural resource governance provided valuable elements for the analysis of political settlement, among them are the role of transnational actors and ideas as important shapers of political behaviour (see chapter 3). Mohan et al. (2018) and Lavers (2018) have suggested that the relevance of ideas is often neglected in interest-based political settlement analysis (Salimo et al., 2020). Mohan et al., for example, argues that actors' ideas about development and politics are sometimes the drivers of change, suggesting that political settlement analysis needs to take the role of ideas seriously (Salimo, et al., 2020, p. 3).

Similarly, Lavers (2018) argues that political settlement is not just defined by a set of institutions providing incentives for resource distribution, but also by the sharing of ideas between factions that form a constitutive component of the political settlement (Salimo et al., 2020, p. 3). This is a critical dimension when analysing Mozambique political settlement as the ruling party, as over time the higher-level factions of the ruling elite have adapted themselves to protecting their holding

power through claims over specific points of ideology as a way to quell attacks on their power by other factions within the coalition.

The idea of 'national unity' in Mozambique (Hodges and Tibana, 2005, de Brito, 2016; Buur and Salimo, 2018) that the Frelimo party embodies and used strategically as a fundamental ideational source of consolidating cohesion and delegitimize contestation (Salimo et al., 2020). The idea of national unity is critical in Mozambique's political settlement. Salimo et al. (2020) explains that 'national unity' "represents a particular feature in former one-party states that have managed to reproduce power, as they can inform how patronage and clientelism are organised" (p. 3). As Buur and Salimo (2018) have argued, all policies are "measured against whether they support or undermine 'national unity'" (Salimo et al., 2020, p. 3). Within this understanding of legitimate power: 'The horizontal distribution of resources and opportunities to opposition factions and their vertical distribution within the ruling Frelimo coalition are zealously guarded and, in the end, become implicitly, if not explicitly, vetted in respect of the project of achieving 'national unity', in and through the Frelimo party' (Salimo et al., 2020, p. 3; see also Buur and Salimo, 2018).

The Frelimo party leadership have always praised unity, but controversies and splits within the party have always been there. Party factionalism have not been avoided or concealed to the point of keeping it unknown. Although, the party has in general been capable of establishing cohesiveness. The recent debt crisis that happened at the defining moment of the turn to resource-based economy is just the latest example (Salimo et al., 2020; Macuane et al., 2018). According to Salimo et al (2020, p. 3) the intertwined relationship between interest-based political settlement organisation and the role of ideas has consequences for natural resource governance and attempts at reforming the oil and gas sector. These authors continue arguing that apart from distributing economic and rents opportunities to specific members of the ruling Frelimo elite factions; those outside the ruling coalition, including the opposition are zealously excluded. Furthermore, reforms perceived by the ruling

Frelimo as a threat to its stability to rule could either be implemented only half-heartily or simply ignored.<sup>63</sup>

For almost two decades the separation of power in the petroleum sector has been praised as one of the key institutional reforms to implement in developing resource-rich countries (Kumah-Abiwu, 2017; Thurber et al, 2010; 2011; Al-Kasim, 2006). Separating the commercial and regulatory functions (see chapter 5) became critical in the context of the petroleum sector governance reforms, and that is of particular interest in this thesis because of the mixed outcomes of the related deals that have been implemented under these reforms in Mozambique. These reforms have seen the fiscal regime underpinning gas exploration oscillate between something that resembles a production-sharing agreement (PSA) giving power to state-owned enterprises (SOEs) after independence, and concession agreements focusing on the state's capture of revenues introduced in the 2000s and particularly materialized under the contract signed with the international oil companies operating in the Rovuma Basin (Salimo et al, 2020).<sup>64</sup>

Despite the reforms operated in the petroleum fiscal regime to embrace the concessional regime, in practice the system had preserved the PSA. This may explain the common perception within industry to call the current fiscal regime, hybrid. However, politics and bad deal-making have certainly jeopardized Sasol's PSA of the 2000s, thanks to allocation of significant fiscal incentives in order to secure investments for Pande and Temane gas project. The re-emergence of commercial arrangements in a limited but still significant form in 2012, under the GSA II, drawing on limited PSA gas provisions focused on securing gas for national consumption and industrial development, appears to be more of a compensatory instrument for the poor structure of the fiscal regime and the deal-making that underpinned the first phase of the Sasol gas investment, as it increasingly came to be criticized (Salimo et

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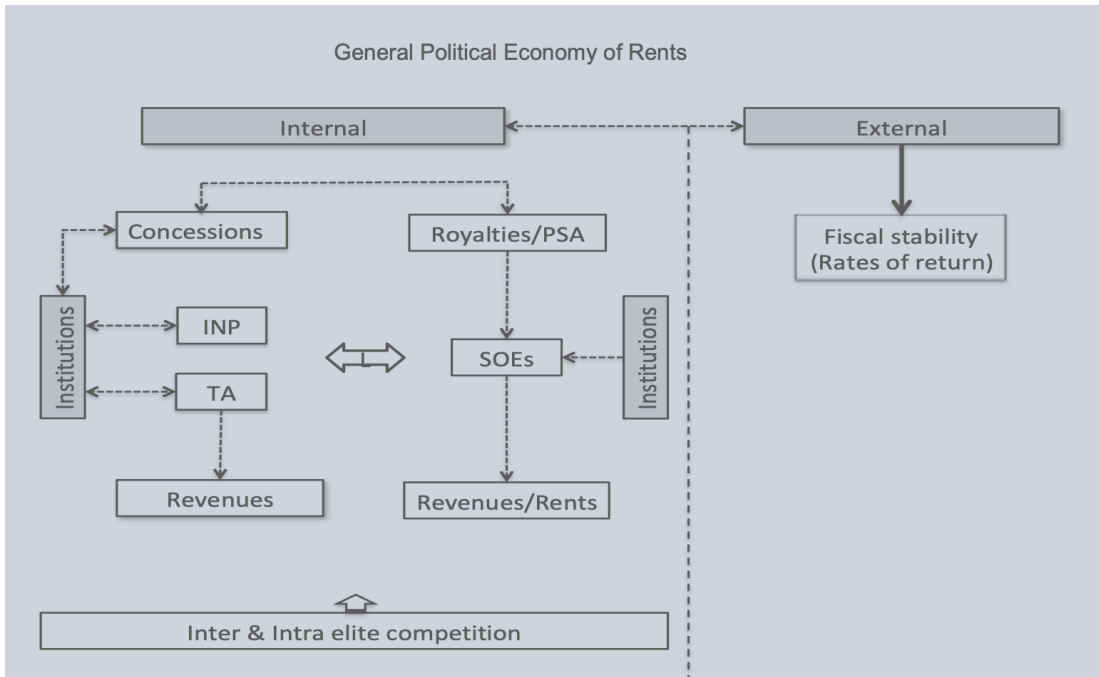
<sup>63</sup> As Alberto Joaquim Chipande, a former general and a member of Frelimo's innermost cabal, stated publicly in 2016: 'Frelimo plans to rule for the next fifty years'. In other words, no matter what the will of the people, Mozambicans will have to forget about those in power ever changing. See [http://dirayetu.blogspot.com/2015\\_01\\_01\\_archive.html](http://dirayetu.blogspot.com/2015_01_01_archive.html), accessed November 21, 2016.

<sup>64</sup> For a more detailed analysis of the reforms, see Salimo et al. (forthcoming ESID Working paper) and Macuane et al. (forthcoming ESID working paper).

al., 2020, p. 3-4; for further analysis see also CIP, 2013; Mondliwa and Roberts, 2017).

Below I present a simplified model of the combined petroleum fiscal system regime, which also allow to distinguish, at least formally, the PSA from the concession contracts. The petroleum fiscal regime in Mozambique, which is a combination between PSA and concession contracts, often overlap and thus entering into formation of ‘*hybrid*’ fiscal regime. As Salimo et al. (2020) suggest, the production-sharing agreements (PSA) allow for both some revenue and rent generation, and the concession contracts allow generating state revenues. Salimo et al. presented the model aimed at exploring the interfaces in which for each of these petroleum fiscal regimes understanding where deal-making lies, and the implications in terms of how, where and when the generation of rents and revenues can take place. Figure 5 below presents the general features of the model.

Figure 5. Generic model for the political economy of natural gas-related rents



Source: Salimo et al. (2020, p. 4).

Even though the two models often overlap to form a hybrid fiscal regime, as Salimo et al. argue, over time it can be constructive to keep them separate for heuristic

reasons. Furthermore, it can also be observed that yet there are in the country petroleum contracts still governed particularly under PSA while others are governed under the concession contracts. To clarify the boundaries, as discussed in Salimo et al. (2020) it can be said that the PSA is the agreement in which the state appoints a particular oil company to carry out exploration and production operations, with the parties agreeing a certain percentage of the gas/oil as the state's share. The state can then sell it or use it for other products, like fertiliser, energy or chemicals. In contrast, a concession contract (CCs) transfers rights of ownership of the resource to the oil company in exchange for the payment of taxes to the state (Salimo et al., 2020, p. 4). The current concession contract model adopted in Mozambique have some particularities, for example, the state holds the right of ownership of the resource but assign to IOCs the exclusive right to conduct exploration and production operations of a block of petroleum in a particular period between twenty to thirty years in exchange for taxes (Salimo et al, 2020; Oyewunmi, 2015).

Formally the legal petroleum framework and contracts are the source for the basic foundations about how rents and revenues are distributed among the key actors involved in particular oil/gas projects. But in developing countries negotiations of oil contracts will not depend fully on these instruments. No matter how strong and well consolidated the legislation and contract models are. Instead, In the context of the relatively non-consolidated legal and policy framework, which is the case in Mozambique, deal-making is not only shaped by the existing legislation: but “the legislation itself becomes an objective of the deals, as the prospect of deals or of their signing shape both the deals and the reforms” (Salimo et al., 2020, p. 4).

This has been seen in the past, including the recent petroleum exploration deals. The legislation and contracts can be re-negotiated and changed to accommodate the interests and expectations of either the international oil companies or powerful groups within the ruling elites. Actors directly interested in oil/gas deals can invest time and effort to influence changes in the policy and legal framework aiming at securing their own interests. The fiscal regime defines the rights that different actors have in relation to the revenues and rents, as well as the opportunities that stem

from the exploited resources. In other words, the type of oil contracts the country adopts influences how revenues and rent opportunities flow to different actors.

As discussed in chapter 5, under the first petroleum framework approved in the 1980s, the fiscal regime for oil and gas was exclusively based on PSA. However, in the reforms taking place from the early 2000s, the petroleum contract regime became a mixture of concession contract and PSA. The work by Salimo et al. (2020), Barros (2017) and Oyewunmi (2015) suggest that under concession contracts the country receives revenues through royalties and taxes. Salimo et al., further argues instead, that in PSA rents can either come from what is produced, as well as from taxes that should formally be paid by the investor, while the state secures a share of the oil and gas produced. Oil companies are essentially concerned in avoiding uncertainties and to secure the maximization of profits.

According to Salimo et al (2020, p. 4) concession contracts place a heavy burden of responsibility on different state actors, in part because they capture either are both a source of capture and distribution of rents and revenues, as well as of opportunities emerging with the gas deals. The PSA can imply a greater participation of the national oil company, and the payment of royalties. The *Empresa Nacional de Hidrocarbonetos*, well known under the acronym of ENH, the NOC, secures the participation of the state in all petroleum concession areas. Furthermore, the ENH ensure the management of royalties and domestic gas. It plays the role of aggregator for domestic gas, which is then distributes it to private companies, at which point issues related to local content and to the development of local industry and consequently the formation of an entrepreneurial class become important (Salimo et al, 2020). The key question emerging from these dynamics is who is being given access to the new opportunities, and at what price?

The nature of petroleum fiscal regime and the way in which different gas provisions have been allocated create different entry points for access to revenues and rents and can trigger power struggles both within and between ruling Frelimo elite groups or factions over control of the relevant institutions that distribute and manage PSA gas (Salimo et al., 2020, p. 4). Below I argue that, over time, the fiscal regime and gas

sale agreements (GSA) related to Sasol gas project has been modified in order to accommodate the interests of the different ruling-elite factions, particularly the Chissano and Guebuza factions, with consequences for state revenue capture and cash royalties. How this occurs is further explored in section 6.4. In the next section I briefly describe how the Sasol natural gas and pipeline projects have evolved.

### 6.3. The Sasol Pande-Temane natural gas and pipeline projects

In 1998, Sasol, the major South African integrated petrochemical company listed on the Johannesburg and New York stock exchanges, together with its partners Arco (from the US) and Zahara Petroleum of Dubai, signed a PSA with ENH for the Temane, Sofala, and M-10 blocks, the first block located in Inhambane and the other two in Sofala Province. In 2000 Sasol acquired the interests of Arco and Zahara. In October 2000, it signed a Petroleum Production Agreement (PPA) with the Government of Mozambique (GoM) and the CMH, a subsidiary of the state-owned oil and gas company ENH, for the development and production of natural gas in the Pande and Temane fields (World Bank 2014; 2018a).<sup>65</sup> This agreement granted the Unincorporated Joint Venture (UJV) exclusive rights to the Pande and Temane fields for thirty years (World Bank, 2018a, p. 5).

The Sasol deal was based on direct negotiations with the government of Mozambique through a team of high-ranking officials at the Ministry of Mineral Resources and the ENH. Until 2000, the ENH had the power to negotiate concessions, meaning that it led the negotiating process on behalf of the Frelimo government, supported by its international partners (like the Norwegian government, which specifically supported the oil and gas sector), which were engaged in capacity development in the sector (ITAD, 2015; Orre and Rønning, 2017).<sup>66</sup>

Sasol started building project facilities for the Pande and Temane natural gas fields in 2002. Under the PPA, these fields should have been developed as a single integrated project. In February 2004, Sasol started production of gas in the Temane field, while

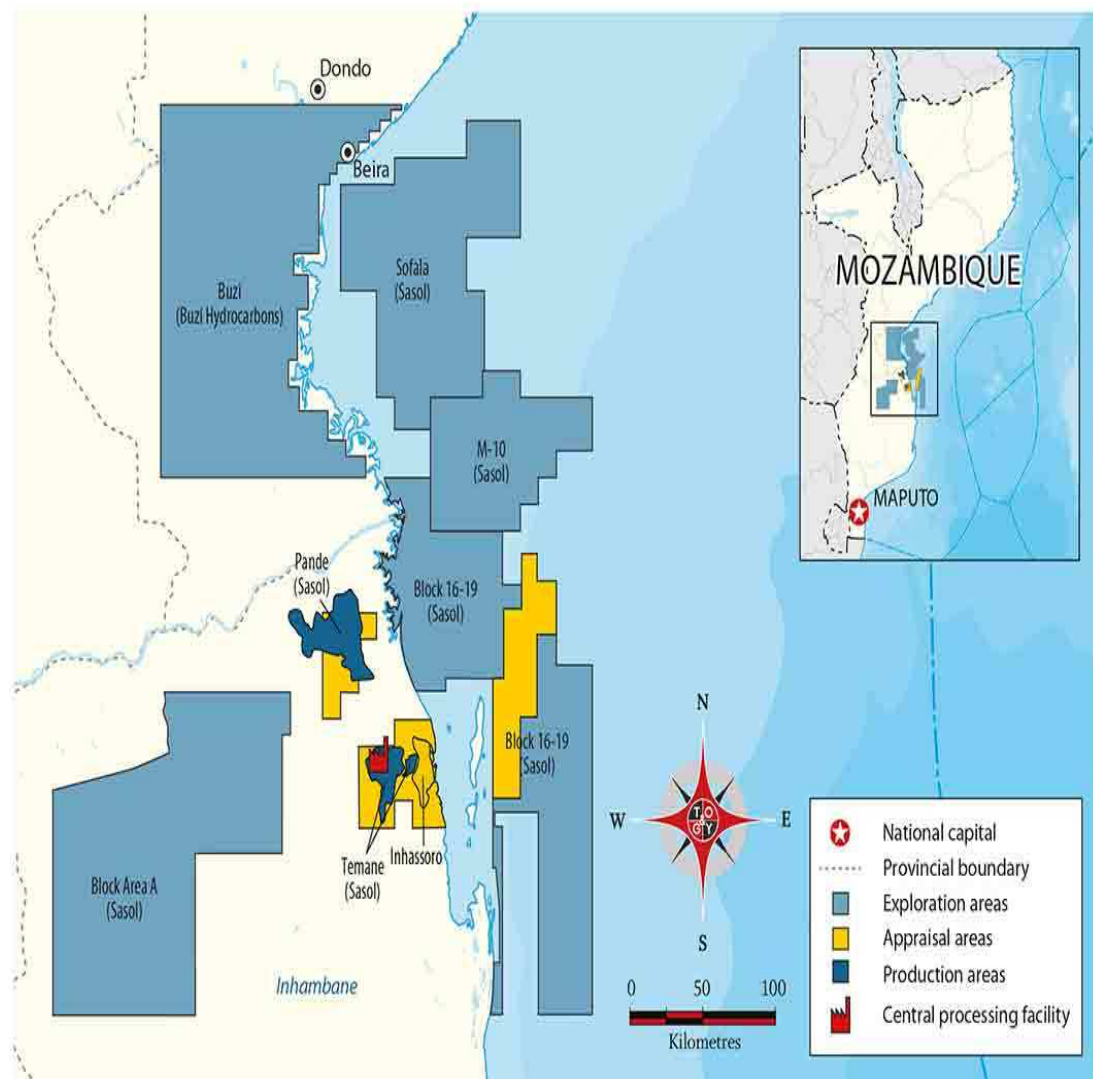
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<sup>65</sup> See also Sasol (2003).

<sup>66</sup> Interviews at MIREME and ENH (August, 2016; October 2017; July-August 2018).

the Pande field only started producing gas in June 2009 (CMH, 2014).<sup>67</sup> The total estimated reserves of natural gas in the two fields amounts to 3.5 trillion cubic feet (Tcf),<sup>68</sup> which, with reserves in the Inhassoro gas field located in the surrounding area of the two fields, increases to 5.5 Tcf.<sup>69</sup> The map below shows the gas fields in the Mozambique Basin in the south and centre of Mozambique.

Map 2. Map of Sasol gas fields in the Mozambique Basin



Source: Wildcat International FZ-LLC, The Oil and Gas Year Mozambique 2013

<sup>67</sup> See CMH (2014), Demonstrações financeiras anuais para o exercício findo em 30 de Junho de 2014. Retrieved from: [http://www.cmh.co.mz/images/Relatorio&Contas/Relatorio\\_e\\_Contas\\_FY14.pdf](http://www.cmh.co.mz/images/Relatorio&Contas/Relatorio_e_Contas_FY14.pdf).

<sup>68</sup> See Cabinet Council (2014), Natural Gas Master Plan. Adopted at the 16th Ordinary Session of the Council of Ministers, 24th July 2014.

<sup>69</sup> Oil and natural gas in Mozambique: published 26 May 2011. Retrieved from: <http://mozambique-oil.blogspot.com/2011/05/oil-and-natural-gas-in-mozambique.html>.



The World Bank Group (WB group) played a significant role in making the Sasol deal a reality, as it provided a guarantee to mitigate the political risk, influencing Sasol's decision to move on to development and production of the Pande-Temane gas fields. The WB group was included after major contractual agreements had been sealed, more than half of the project's facilities had been constructed for the Pande and Temane gas fields, and arrangements for production and transportation had been completed (World Bank 2014, p. 3). But the World Bank made efforts to mobilize investments for the development of the Pande-Temane natural gas fields before the involvement of Sasol. In 1991 the government of Mozambique probably requested assistance from the World Bank on the options for the best use of the natural gas from Pande and Temane.<sup>70</sup>

With respect to Sasol's investment, the role of the World Bank became critically important because it provided a guarantee of 'political risk' mitigation not provided by other insurers (World Bank, 2018a). It therefore helped the project achieve a stable financial structure, which allowed the distribution of risks among the various project stakeholders, including the private-sector sponsors, commercial financiers, development financiers, risk-mitigation agencies and the government (see World Bank, 2014; 2018a).

Foreign investment in Mozambique was unthinkable a decade after the civil war. The political environment remained substantially porous and significantly marked by continuous uncertainties. Indeed, Mozambique has a history as an excessively regulated economy, which Anne Pitcher called a heavily statist economy, influenced by a socialist tradition of centralized economic management (see Pitcher, 2003; World Bank 2018a). Furthermore, the lack of infrastructure to support the oil and gas industry (Pretorius, 2002; Uetela and Obeng-Odoom, 2016; World Bank 2018a), and the presence of a petroleum law of 1981 approved during the most intriguing socialist era was a strong barrier and a cause for serious doubts and fears to investors.

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<sup>70</sup> See World Bank (1995), *implementation Completion Report - Mozambique Energy Technical Assistance and Rehabilitation Credit* (Credit 1806-MZ), June 1995.

It is worth mentioning that Sasol had no experience in the upstream development of the oil and gas industry, any more that did the country for which its investment was destined.<sup>71</sup> The World Bank Group's partial risk guarantee (PRG) worked as a bottle of oxygen and a tool dissolving the participants' fears. As stated in the World Bank's assessment of the project's performance, the approval of the PRG meant facilitating the mobilization of private capital and the commercial debt-financing necessary to push the public-private partnership initiative for the implementation of the gas transportation project further (World Bank, 2018a).

The World Bank Group's support to the project allowed the government to participate in the project through the ENH's subsidiaries CMH and CMG, the latter as a partner in the pipeline project connecting Pande-Temane to Secunda in South Africa. The government's participation had been compromised by its difficulties in raising the finance to take up the 30% share in the overall project as a shareholder of the UJV. IFCs buying 5% of the shares rescued the project and Mozambican participation in it.

In 2001, a \$1.2 billion deal was signed for a gas pipeline project to handle natural gas produced from the Pande-Temane fields (Pretorious, 2002).<sup>72</sup> Other sources indicate that \$1.4 billion was spent on the project, which may have been due to an additional \$220 million invested by Sasol to expand the capacity of the project after 2012.<sup>73</sup> The project included three main integrated components (see Pretorious, 2002; Sasol, 2003; IFC, 2008; World Bank, 2014):

- (i) The (upstream) development of the Pande and Temane natural gas fields;

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<sup>71</sup> The South African government was negotiating with Sasol a potential provision of incentives to begin a process of transition from coal to natural gas. This resulted in an agreement, under which Sasol was granted exclusive rights to the gas market and pipeline infrastructure in South Africa for a period of ten years through a Regulatory Agreement signed in September 2001. In that period, Sasol was a global petrochemical company and an innovator in coal-mining, coal-to-fuel, and fuel-to-chemicals technology but had no experience with oil and gas upstream activities (see World Bank, 2018a).

<sup>72</sup> See Hedge, N. (2001, September 13, Sasol signs \$1.2 billion gas pipeline project deal with Mozambique. Retrieved from: <https://www.ogj.com/articles/2001/09/sasol-signs-12-billion-gas-pipeline-project-deal-with-mozambique.html>.

<sup>73</sup> See Frey, A. (2016, August 2), Pande and Temane oil: Sasol Mozambique braces up to export by sea. Club of Mozambique. Retrieved from: <https://clubofmozambique.com/news/pande-temane-oil-sasol-mulls-exports-sea/>.

- (ii) The construction of a Central Processing Facility (CPF) in Temane;<sup>74</sup> and
- (iii) The construction of an 865-km 26-inch diameter steel pipeline to link Temane in Mozambique to Secunda in South Africa.

Another two other components were also projected, which included conversion of Sasol's petrochemical plants from coal to natural gas and a downstream project for a gas distribution network (see AfDB, 2002). Sasol became the first oil company to produce natural gas in Mozambique. The project was jointly operated by Sasol, the CMH and the International Finance Corporation (IFC), the private-sector financing arm of the World Bank Group (WB Group). Sasol is the project operator, with a 70% stake,<sup>75</sup> CMH holds 25%, and the IFC has a 5% stake, acquired from CMH, which originally had 30% of the project. The IFC equity investment was decisive for CMH's participation in the Pande-Temane joint venture, as the government was struggling to raise the finance to take up a 30% share in the overall project.<sup>76</sup>

The government signed a pipeline agreement with Sasol and the South African government, under which the Republic of Mozambique Pipeline Investments Company (ROMPCO) was created. The pipeline is owned by ROMPCO, a joint venture between Sasol (50% stake) CMG, a subsidiary of ENH with a 25% stake and the South African Gas Development Company (SOC) Limited (IGas), a South African state company with a 25% stake (IFC, 2008; World Bank, 2014).<sup>77</sup> Figure 6 below presents the structure of the Pande-Temane gas project and the Sasol 865 km gas pipeline.

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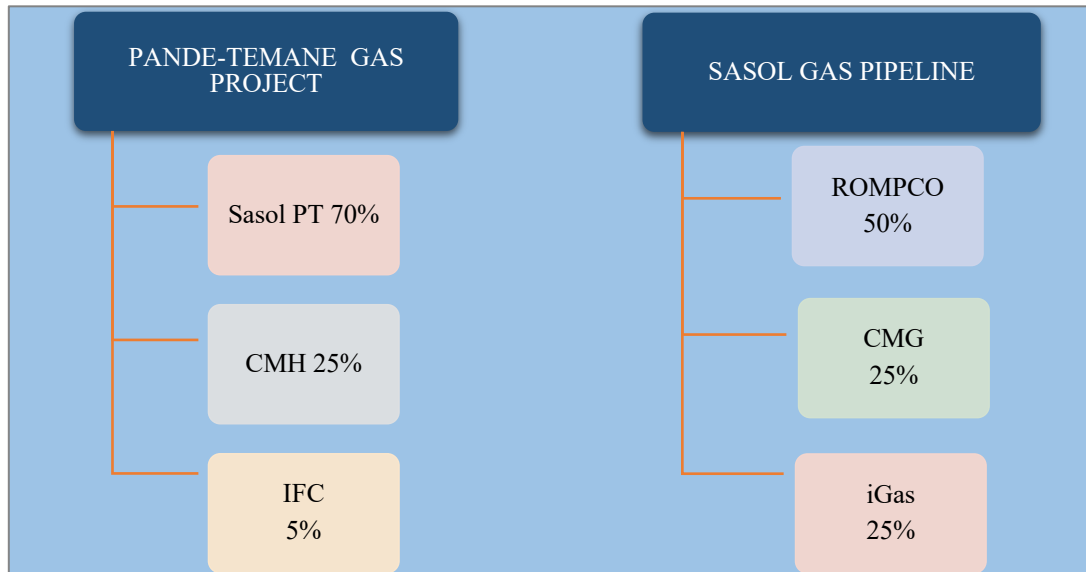
<sup>74</sup> The central processing facility (CPF) is the unit in which the gas is dried, cleaned and compressed after it has been extracted from the gas fields but before it is pumped to the pipeline for transportation (See Portsmouth, 1995).

<sup>75</sup> Sasol is presently contemplating selling its stake in the project.

<sup>76</sup> The World Bank intervened by providing a Partial Risk Guarantee (PRG) (\$30 million), an IFC equity investment (\$18.5 million) and the Multilateral Investment Guarantee Agency's (MIGA) political risk insurance (\$72 million). Combined, these instruments were important to Sasol and the government in order to produce confidence over the mitigation of political risk in Mozambique, thereby facilitating the mobilization of the final long-term finance necessary for the project's construction to be completed. Sasol's approach to mitigating political risk was to involve the national oil company in the project as a partner, as well as through the IBRD guarantee and MIGA's political risk insurance for commercial loans (World Bank, 2014, p. 3).

<sup>77</sup> See also Portsmouth, Derek (1995) International gas pipeline expansion study. 1995 Updated. Prepared for the INGAA Foundation, Inc., United Kingdom. <https://www.ingaa.org/File.aspx?id=30079>

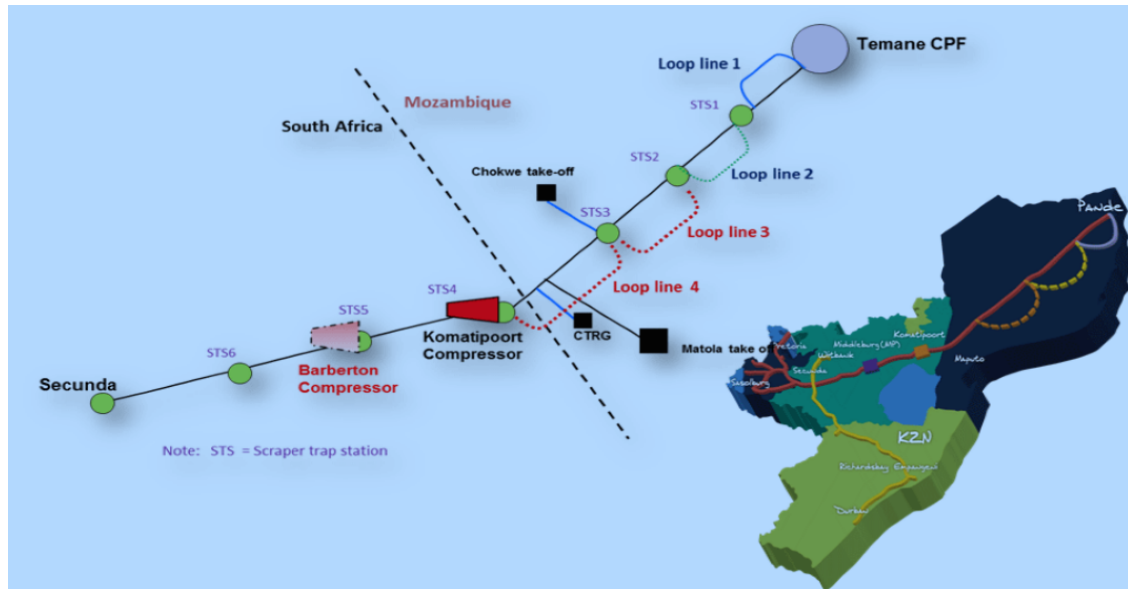
Figure 6. ENH Subsidiaries with shares in the Sasol's gas and pipeline projects



Source: Sasol Natural Gas Project 2003; Cabinet Council (2014).

During the construction of the pipeline (2002 to 2004), it was agreed that five off-take points for gas located in Mozambican territory should be included. This happened despite the fact that no gas market existed at the time in Mozambique, but it was important in terms of the expected future demand for gas from emerging industrial developments and access to rents for different Mozambican elite groups, as I will discuss further in this chapter. The five off-take points are in Ressano Garcia (District of Moamba in Maputo province), Magude (District of Magude in Maputo province), Macarretane (District of Chokwe in Gaza Province), Chigubu (District of Chigubo in Gaza province) and Temane (in Inhambane). Figure 7 below shows the pipeline's trajectory, the five off-take points within Mozambican territory and the extensions of the pipeline with loop-lines that were put in after 2010.

Figure 7. Map of pipeline and the five off-take-points



Source: ROMPCO. <http://www.rompc.co.za/content/overview>

Sasol invested in the exploration and production of Pande and Temane gas aimed at exporting gas to South Africa for processing and forward distribution to multiple industries and other users over time (Salimo et al, 2020; World Bank, 2014). Under the first generation of petroleum law dating back to 1981, a more expansive role had been envisaged for the Mozambican state. Salimo et al. (2020) advocates that the production-sharing agreement signed with Sasol in 1998, included the provision of a progressive increase in the PSA. That included arrangements in which once a specific daily volume of production had been reached, was to produce a 50/50 split in the shares going to each party, giving Mozambique access to more of the gas (Salimo et al., 2020, p. 5). However, when in October 2000 a Petroleum Production Agreement (PPA) was signed, which granted to Sasol the right to produce petroleum in the Pande and Temane fields, the previous role and rights of the state changed to accommodate Sasol's demands for fiscal stability while the ruling elites involved in these deals was concerned with investments to flow into country.

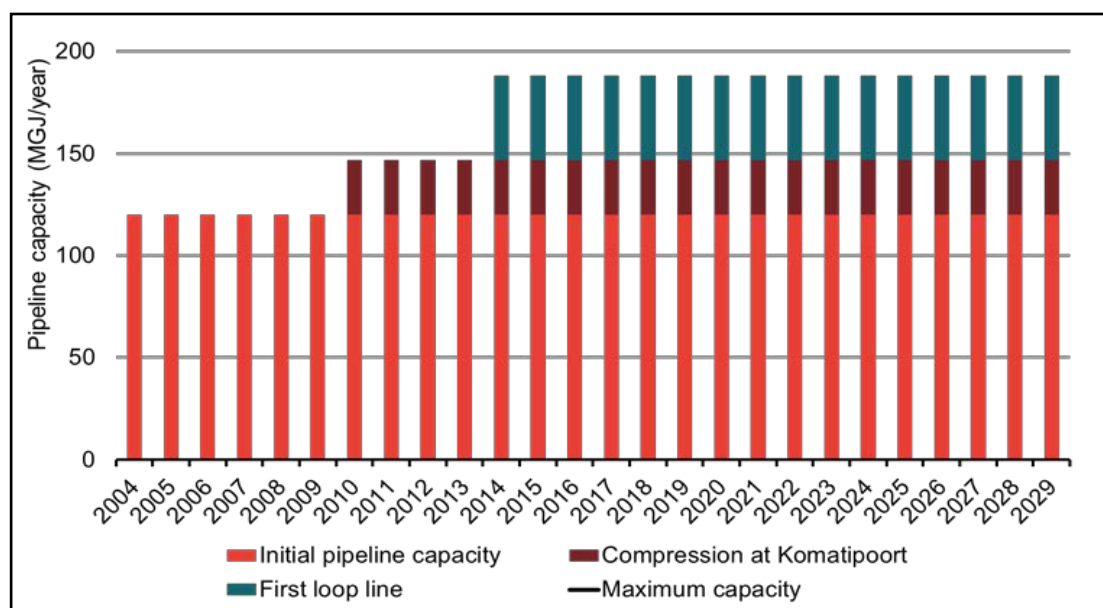
Although this sudden change on the previous fiscal arrangement deals would not be pleased among important groups in the Parliament,<sup>78</sup> even though the country lacked the infrastructure, technology and domestic market to ensure the consumption of natural gas. The contract turned out to be more like a concession deal that gave Sasol access to 95% of the gas leaving the ENH, with a royalty gas provision of only 5% (Salimo et al., 2020, p. 5; see also CIP, 2013 for a critical analysis; and Deloitte 2018). The ENH could decide not to take the 5% domestic gas in kind, which could be exchanged for cash, thus giving Sasol access to all the gas and the Mozambican counterpart access to the royalty gas.

The production capacity of natural gas in 2004, when the project started operations, was 120 million giga-joules per annum (mGJ/a), while in 2012 the quantity of gas produced increased to 183 mGJ/a due to the expansion of the CPF and pipeline (see World Bank, 2014; CIP, 2013). This also allowed the splitting of the additional volume of gas produced in a 50%-50% share between Sasol and the ENH (World Bank, 2014, Deloitte, 2018), made under the Gas Sale Agreement (GSA II). Figure 8 below shows the evolution of the capacity of Sasol's pipeline and gives forecasts for the rest of the project period up until 2029.

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<sup>78</sup> Interview with a former Frelimo Member of Parliament who had been the head of a key parliamentary committee. Pemba, July 2018.

Figure 8. The capacity of gas-pipeline transportation



Source: World Bank (2014, p. 8).

The capacity of the pipeline has been expanded in different ways, for example, by increasing compression, as well as through the construction of a parallel pipeline (the loop line) in 2012. This was simultaneously accompanied by increasing the CPF's capacity with new discoveries of natural gas and light oil fields in Inhassoro, surrounding Pande-Temane. As shown in the graphic above, the capacity of the pipeline was increased in 2010 from the previous 120 mGJ/a to 147mGJ/a, followed by another increase from 2014 based on forecasting data at a constant level until the end of the project's lifetime. Sasol is currently producing 197 million giga-joules per annum (mGJ/a). Since 2016 this has resulted from the expansion of production capacity at the CPF in Temane, as well as the expansion of the pipeline in 2014 through the construction of a second line for the pipeline, a designated loop line II.

#### 6.4. The politics of gas allocation and the transfers of public goods to private individuals

##### 6.4.1. Dynamics of the allocation of royalty gas

The availability of commercial gas to the domestic market has increasingly allowed the emergence of a series of industrial projects related to gas-to-power generation

generally dedicated to power production from natural gas. Since 2012 Sasol has allocated 27 mGJ/a of commercial gas, representing 50% of commercial gas from the total of 54 mGJ/a produced additionally after more gas was found in the existing fields and infrastructural expansion was finalized (World Bank, 2014, p. 8). Furthermore, the share of the royalty gas (2.7 mGJ/a) from the gas allocated under GSA II was also made available for domestic use, making the total volume available 9 mGJ/a. Currently, the total quantity of gas allocated for domestic purposes is equivalent to 36 mGJ/a, comprising 27 mGJ/a of commercial gas from GSA II, and 9 mGJ/a of gas royalties from GSA I plus GSA II (World Bank, 2014; Deloitte, 2018).

Royalty Gas is formally managed by the ENH and is allocated to six companies. Formally, the regulatory body, the INP, conducts the preliminary assessment for distribution among the companies following specific criteria, which complies with government policy. Despite the formal role of the managing and regulatory institutions, interviews<sup>79</sup> conducted among several institutions clearly suggest that the process is greatly influenced by specific economic groups and interests that are closely related to the ruling elite with interests in the sector. Here the INP plays less of a role than the ENH, which manages the gas with limited capacity and resources.

The state-owned ENH receives the smallest volume of royalty gas at 0.2 mGJ/a, which is used to produce electricity and is distributed for domestic use locally in Vilankulo, Inhassoro, Govuro and the Bazaruto islands, close to the extraction sites in Inhambane province. The majority of royalty gas is sold to the Matola Gas Company (MGC) and Electricidade de Moçambique- EDM (the state-owned public utility), both receiving 3.0 mGJ/a each, which represents 66.7% of the total royalty gas allocated. GS Cimentos, Autogas and Lonhro are other companies with access to royalty gas. MGC has an agreement with the government to distribute gas through a pipeline linking the off-take point in Ressano Garcia to the region of Mussumbuluko, in Matola (Maputo province), and then to distribute the gas in the Matola and Machava industrial zones as feedstock for key industries such Mozal (an aluminium smelter), Parmalat (a dairy factory) and other users, including power plants.

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<sup>79</sup> Interviews with top officials at INP and ENH (Maputo August and October 2018).



The gas allocated to EDM is used to generate electricity at the Kuaninga power plant, located in Chokwe district. EDM has signed a tolling agreement with Kuaninga, a company partially owned by the ruling Frelimo party's commercial branch (SPI), under which EDM supplies gas to Kuaninga and in return purchases the electricity produced at a price that does not include the costs of electricity and the gas tariff.<sup>80</sup> The table below illustrates the distribution of royalty gas between selected companies and their projects.

Table 6. Distribution of 'royalty' gas from Pande-Temane gas project<sup>81</sup>

Qty MGJ/a	Beneficiary Company	Utility
0.2	ENH	Power generation in Vilankulo
3.0	MGC	Gas distribution to Matola and Machava industrial zone
3.0	Kuaninga/EDM	Power generation in Chokwe
1.75	GS Cimentos	Cement factory
0.8	Autogas	Gas for use in vehicles
0.5	Lonhro	Tomato-processing factory

Source: Provided by INP, Maputo, August 2018.

For purposes other than electricity production, GS Cement is a Mozambican-registered company with Mauritian and Pakistani capital engaged in producing cement for construction. The company buys 1.75 mGJ/a of the royalty gas. Autogas is a public-private partnership selling compressed natural gas for vehicles. The market for this industry is as yet very small and is confined to Matola and Maputo city. The third company is Lonhro,<sup>82</sup> a British company with interests in agriculture that acquires natural gas from ENH for its tomato paste-processing plant in Chokwe.

#### 6.4.2. Dynamics of the allocation of commercial gas

On top of these companies, and based on GSA II, commercial gas was made available to the Mozambican market. The Ministry of Mineral Resources allocated the

<sup>80</sup> Interview with a senior official at EDM (Maputo, October 2018).

<sup>81</sup> Based on the 2000 agreement.

<sup>82</sup> This company has a long history of working with the Frelimo going back to the civil war (1977-1992).

commercial gas to four companies, namely the Gas-Fired Power Plant in Ressano Garcia–CTRG,<sup>83</sup> Matola Gas Company (MGC)/Gigawatt Ltd, ENH and Electrotec. For each of these companies a specific volume of gas was decided for allocation based on what each had asked for. Thus, CTRG was allocated 11 mGJ/a, MGC/Gigawatt 8 mGJ/a, ENH 6 mGJ/a and Electrotec 2 mGJ/a. How exactly these companies emerged for the occasion is not entirely clear, but based on discussions with ENH and INP staff, as well as with foreign representatives of development partners, it seems to have been based on privileged access to information and connection with the powerful ruling elite.<sup>84</sup>

Gas-to-power plants have since dominated the demand for gas within the domestic market, as President Nyusi emphasized at the inauguration of a combined-cycle power plant in Maputo: ‘the capacity of the country to grow sustainably depends on the level of access to electricity’.<sup>85</sup> Although this view is important for a country with relatively limited access to electricity, the sole focus on electricity generation is undermining the development of other industries that could be boosted by using natural gas, such as the fertiliser, plastics and chemicals industries. The table below lists the volumes of natural gas allocated to the selected companies.

Table 7. Distribution of commercial gas from the Pande-Temane gas project

Qty MGJ/a	Beneficiary Company	Utility
11.0	CTRG	Power plant of 140MW in Ressano Garcia
8.0	MGC/GIGAWATT LDA	Power plant of 140MW In Ressano Garcia
8.0	ENH/Kogas	Power generation, gas distribution in Maputo City and Marracuene

Source: provided by INP, Maputo, August 2018.

During the process of allocating domestic commercial gas, one of the selected companies, Electrotec, decided to give up its gas allocation, maybe because of its

<sup>83</sup> In Portuguese, Central Térmica de Ressano Garcia.

<sup>84</sup> Interviews at INP and with key actors working with foreign agencies (October and December 2018).

<sup>85</sup> Club of Mozambique (2018, November 5), Nyusi inaugurates combined cycle power station in Maputo. Retrieved from: <https://clubofmozambique.com/news/nyusi-inaugurates-combined-cycle-power-station-in-maputo/>.

close relationship to the Intelec holdings group, which is involved in MGC/Gigawatt. The government then decided to reallocate the 2.0 mGJ/a of gas initially projected for Electrotec to ENH/Kogas, thus adding to the previous 6 mGJ/a, a volume of up to 8 mGJ/a.<sup>86</sup>

ENH, in partnership with Kogas, owns the distribution of the gas pipeline system that connects the MGC pipeline from Mussumbuluko, near Matola in Maputo Province, to Maputo City and the district of Marracuene, the two areas where ENH/Kogas has the rights to distribute and sell gas. It is through the ENH/Kogas pipeline that gas is transported to the new combined cycle Power Plant of 106 MW capacity located in Maputo city, which is 100% owned by EDM and is also called the *Central Términa de Maputo* (CTM). The plant is supplied by gas purchased from ENH. EDM has also indicated that a portion of gas used at CTM belongs to EDM through gas that the company had been allocating to the Aggreko power plant in Ressano Garcia.<sup>87</sup>

CTRG is supplying gas to its own power plant to generate 175 MW of electricity, and the gas acquired by MGC is supplied to the Gigawatt power plant, as well as to Aggreko. These companies buy commercial gas directly from Sasol through agreements for gas purchases and gas sales, though each company pays a different price for gas, as can be seen in the table below.

Table 8. Commercial gas price to Sasol's buyers in Mozambique

Agreement	Seller	Buyer	Price	Period
GSA 1	Sasol PT	Sasol Gas	\$ 1.56	Oct.-Dec. 2017
GSA 2	Sasol PT	Sasol Gas	\$ 1.56	Oct.-Dec. 2017
GSA 3	Sasol PT	MGC	\$ 1.25	Oct.-Dec. 2017
GSA 3	Sasol PT	ENH-Kogas	\$ 1.80	Jan.-Dec. 2017
GSA 3	Sasol PT	CTRG	\$ 2.42	Jan.-Dec. 2017
ENH	Sasol PT	ENH	\$ 2.13	Jan.-Dec. 2017

Source: Deloitte (2018).

<sup>86</sup> Interviews with senior officials at INP (Maputo, October 2018).

<sup>87</sup> Interview with a senior officer at EDM (Maputo, August 2018).

The table above shows that the prices for natural gas are not fixed, and therefore Sasol can negotiate a specific deal for different buyers. CTRG and ENH are buying gas at a higher price than Sasol Gas, the main buyer of the gas produced, almost 80% of the total, or the other two customers, namely MGC and ENH-Kogas. Of all the buyers, MGC is purchasing gas at the lowest price.

The way how these companies were awarded IPPs contracts was not clear, and even more confusing how their local partners were selected, despite their lacking financial capacity, technology, and technical capacity in turning gas into electricity.<sup>88</sup> People interviewed in the government oil-related sectors and foreign development partners argued that privileged access to primary information and power facilitated these connections and opportunities.<sup>89</sup> Salimo et al. (2020, p. 6) further suggests that this “appears to have been based on their enjoying privileged access, through INP and ENH, to information about business opportunities related to the installation of the various loops paid for by ROMPCO and Sasol”. The local companies involved in the gas-to-power business are linked to powerful factions of the ruling elite associated to Chissano and Guebuza (Salimo et al, 2020).<sup>90</sup> According to Hanlon (1996) Chissano was in charge of the main liberal reforms in Mozambique initiated after 1994 which he and his cronies also benefitted from them.

In 2003, Guebuza became president of the ruling Frelimo party, and in 2004 he won the country’s presidential election. During his presidency (2005-2014), Guebuza tried to find ways of accommodating factions related to him and his own appetite for business contracts, which was important in keeping the unity of the ruling Frelimo party intact (Salimo et al., 2020, Macuane et al., 2018). This involved also creating mechanisms to allow the Frelimo party to benefit directly from rents related to the domestic gas related IPPs, as the party’s private-sector investment arm, SPI – *Gestão*

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<sup>88</sup> Under the first phase of the Sasol deals, towards the end a few minor users of domestic gas emerged, and here too almost 74% of the total gas produced and allocated domestically under the first phase of the Sasol deal was used for producing electricity (Parker and Kreuze 2013, p. 17)

<sup>89</sup> Interview with senior official at INP and MIREME (August 2016 and May 2017); Interview with development partners (October 2018).

<sup>90</sup> Interviews at INP and with key actors working with foreign agencies (October and December 2018).

*e Investimentos Limitada*, became one of the beneficiaries, as shown further in the following subsections.

#### 6.4.3. Rents from the Sasol gas project deals

The ability to extract rents from Sasol's natural gas project in Pande and Temane has been questioned in terms of its viability for the country's development. While, as argued by Heilbrunn (2014) and other scholars, natural gas investments represent an opportunity for the country's development, the experience of almost seventeen years of gas exploitation in Pande and Temane by Sasol has generated much more disappointment than prosperity. The historical path of the political elite in Mozambique, and more significantly that of the ruling elites, shaped how rents were negotiated and captured for the benefit of specific factions of the ruling Frelimo party that enjoyed significant power over these deals.

Despite the relative cohesion within Frelimo, different 'disciplined' factions have since been competing with one another over the control of power and thus of the resource. Control over the ruling political power is significantly important within the country's political settlement because patronage and clientelist networks (Whitfield et al., 2015; Macuane et al., 2018; Buur and Salimo, 2018), which are considerably important for the survival of the ruling Frelimo party, depend on the ability to retain power within both the Frelimo party and the state.

In the 2000s, the ENH did not have any capacity to use the royalty gas (5%) acquired from the deal, so it was exchanged for cash instead. Exactly how the ENH used the cash and the extent to which it ended up in the government's coffers has never been crystal clear (Deloitte, 2018). However, one thing is clear, namely that the fiscal stability of the concession part of the contract granted to Sasol was quite unprecedented, as Sasol not only acquired access to all gas for a ten-year period, it also only paid a wellhead price for it. Sasol's deal with the government of

Mozambique has been considered very generous (Castel-Branco, 2010; Kuegler, 2007).<sup>91</sup>

In fact, Sasol paid less for the gas in Mozambique than it paid in taxes to the South African government on the same gas it provided on the other side of the border. In response to this criticism, Sasol argued that the Mozambique government collected \$495 million in tax revenues between 2004 and 2017.<sup>92</sup> Whether or not this is correct even Deloitte (2018) has found it impossible to verify, as the Mozambican tax authorities only provide aggregate figures for the taxes paid by companies in the extractives sector, as revealed in interviews conducted in 2018, insisting that the specific tax and revenue data of individual companies are confidential.<sup>93</sup>

However, as indicated in Mondliwa and Roberts (2017), during the period from 2004 to 2014 the South African tax authorities collected \$1.597 million in revenues from Sasol's operations in Mozambique (see Salimo et al., 2020, p. 6). CIP (2013; 2017) argues that Sasol's contribution to state revenue is unfair and that is basically related to the low price at which Sasol sells gas to other Sasol companies in South Africa, in contrast to the same gas being sold on at seven times that price in Mozambique. In addition to that, Sasol received a large deduction due to capital overspend on the project, as well as allegedly inflated capital expenses (Salimo, et al., 2020; CIP, 2017; Mondliwa and Roberts, 2017).

A World Bank performance assessment report on Mozambique's regional gas project suggests that the country has exceeded its projections of the revenues the government would obtain from the Sasol project, a figure of about \$500 million over the 25 years of its operation. This amount may have been calculated in an overly modest manner, as some critics suggest (see CIP, 2013). Within the fourteen years of

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<sup>91</sup> Extending the fiscal generosity to large-scale investments in Mozambique has proved to be a contentious issue due to the massive losses in tax revenues the country has been subjected to as a result of what many civil-society organizations and some research institutions consider bad deals over mega-projects. By contrast, the government saw this as a strategically important way of attracting foreign investment.

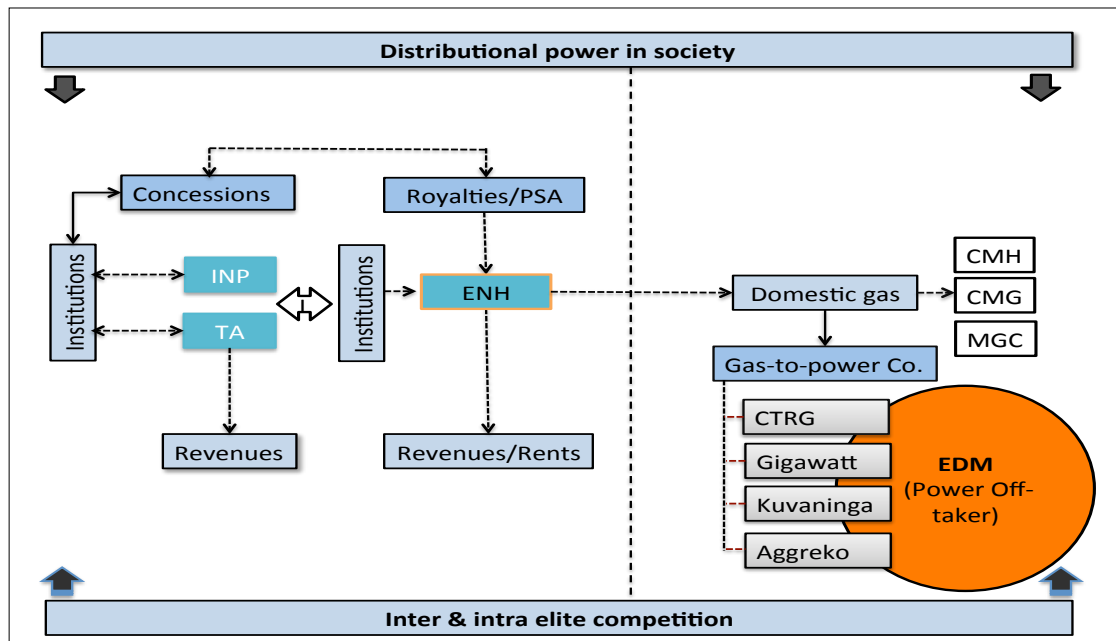
<sup>92</sup> See Sasol (2017, November 2) Sasol's response to the Mozambique Centre of Public Integrity. Retrieved from: <https://www.sasol.com/media-centre/media-releases/sasol-s-response-mozambique-centre-public-integrity>.

<sup>93</sup> Interview, Tax Authority (Maputo, August 2018; April 2021).

project implementation (2004-2018), the government received \$395 million in tax and royalty payment, and on the top of this CMH's net profit was \$439 million, of which the government received \$106 million in dividends (World Bank, 2018a, p. 16). These figures do not include revenues from the gas pipeline, which are indicated as potentially having reached more than \$600 million within the same period.

Behuria et al. (2017) argue that in low-income countries, power and formal institutions do not necessarily have to be in alignment for economic and political viability to be achieved, as this can be done in combination with informal institutions (Salimo et al., 2020, p. 7). Instead, the ways in which powerful groups mobilize to make claims on the state, lies the foundations for clientelist politics. Thus, as Salimo et al. (2020, p. 7) argue, the complex structure of these deals and of EDM, the purchaser of electricity, are therefore facilitated by well-established and long-standing networks of patronage relations in the energy sector among powerful groups in the ruling elite (see also Nhamire et al., 2019). These deals are used to transfer significant rents to companies controlled by business groups within both the high-ranking ruling elite and the ruling party itself through the Frelimo-controlled SPI investment house, as will be discussed in the section below. In general, all agreements between EDM and the gas-to-power plants have been concluded without public bidding (Deloitte, 2018). In Figure 9 below, I depict the political economy of rents related to Sasol's gas project.

Figure 9. Political economy of rents from Sasol's gas project and pipeline



Source: Salimo et al. (2020).

The model in Fig. 9 shows CMH, CMG and MGC (the Matola Gas Company), three state-owned companies and subsidiaries of ENH, each being involved in specific areas of the natural-gas value chain. CMH is upstream in the chain as part of the joint venture with Sasol in the Pande and Temane natural gas projects. CMG is part of the joint venture in the gas pipeline project. MGC is the main beneficiary of the domestic gas from the ENH, which then sells gas to newly established 'private' companies for energy generation and to other industrial consumers. These deals enabled the energy-generating private companies to obtain cheap domestic gas and sell electricity to the state-owned utility, electricity company, EDM.

Few groups within the ruling elite of either the Chissano or Guebuza eras, including President Guebuza himself, as well as the ruling party through SPI, which had shares in Kuvaninga, obtained access to rents from the protected production of electricity based on lucrative contracts for uptake provided by the national electricity company, EDM. Competition over access to rents within the ruling elite takes place both within and between state institutions, and among different factions of the ruling party. These competing factions are emerging as part of the changing dynamics of the gas



sector in which reforms in the direction of greater transparency have been used to further privileged access to rents, despite the delays in implementing them.

Institutions governing the petroleum sector, and the reforms adopted over time from the early 2000s and later in 2012, when GSA II was signed and commercial gas became available to the domestic market, have privileged good practices in terms of the separation of functions (see chapter 5) and the adoption of a fiscal regime. These reforms have been conducive to stimulating foreign investments in the oil and gas sector and tentatively securing revenues for the state, which in practice has revealed to be substantially weak, despite its contribution to the emergence of domestic industries connected to gas-to-power generation controlled by specific groups within a ruling Frelimo faction (for a further discussion of this, see the following sections of this chapter). The reforms and the existing institutions of governance have therefore been used to create a protected market for powerful groups within the ruling elite to take control of the gas business in a trade-off whereby potential public revenues and resources have been exchanged for purposes of private accumulation.

The first phase of the Sasol gas project, which coincided with the period of implementation of GSA I until 2012, did not just benefit Sasol. Since June 2008, 10 percent of ENH's share in the UJV was publicly sold to some 1,300 Mozambicans, and then listed on the Mozambique stock exchange in April 2009 (World Bank, 2018a).<sup>94</sup> The expansion of gas production at the CPF in Temane, in order to increase the production of gas, as stated earlier in this chapter, gave the government an opportunity to renegotiate the allocation of commercial gas on top of the original 95%-5% split between Sasol and ENH for royalty gas and domestic gas. This agreement included favourable conditions in respect of the availability of gas for domestic purposes, under which the split between Sasol and ENH was 50-50 of the additional production of gas since the approval of GSA II (World Bank, 2014, Deloitte, 2018). The shift in the deal could be used to create a commercial market domestically, although this has drawn attention to who exactly benefitted from this.

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<sup>94</sup> See CMH. Acionistas e Investidores. Retrieved from: <http://www.cmh.co.mz/index.php/informacoes-para-accionistas>.

#### 6.4.4. Gas-to-power deals: from public goods to private gains

In 2009 the government of Mozambique approved its first strategy for the development of a natural gas market in Mozambique.<sup>95</sup> According to Salimo et al. (2020), the strategy established the use of royalty gas for industry development purposes, and with the potential to ‘contribute to economic development’. Even though in commercial terms the profitability of this shift could not be guaranteed (Salimo et al., 2020; JICA, 2013). As Salimo et al. (2020) argue, the objective behind the government strategy was obviously a rather broad formulation but lacked the foundation for economic and commercially viable policy. Although the projects were economically unfeasible, even though they had to be developed.

Here too the strategy was quite open, as it just envisaged encouraging domestic private companies to ‘participate in the future gas industry’, which technically could mean anybody (Salimo et al., 2020, p. 6-7). But, in reality, it was a ‘club good’, as the particular way the marketing of gas has been developed did not allow other local and private companies to participate on equal terms than those connected to Chissano and Guebuza factions of the ruling party, as well as the Frelimo party’s private investment arm, as had been witnessed with the SPI (Salimo et al., 2020).

The gas allocated to the domestic market is mostly used to produce power (Parker and Kreuze 2013, p. 17, see Also World Bank, 2015).<sup>96</sup> The domestic market for the use of domestic gas is quite small. Historically, the most important source for the production of electricity is hydropower. The country’s largest power source is Cahora Bassa Hydro Power Station, with the capacity of 2,075 MW, located in Tete province. By 2014 the total power consumed in the country, about 88 percent were supplied by Cahora Bassa Hydro Power Station, managed by *Hidroelectrica de Cahora Bassa* (HCB).<sup>97</sup> The national power generation company responsible for electricity generation, transmission, distribution, and commercialization is EDM, the state-

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<sup>95</sup> Resolução No. 64/2009, de 2 de Novembro: ‘Estratégia para o desenvolvimento do mercado do gás natural em Moçambique’.

<sup>96</sup> Data based on total consumption in 2011 (Parker and Kreuze, 2013).

<sup>97</sup> Ministry of Mineral Resource and Energy (MIREME) (2018), Integrated Master Plan Mozambique Power System Development. Final Report. November 2018.

owned public utility, and the only company involved in supplying electricity to consumers.

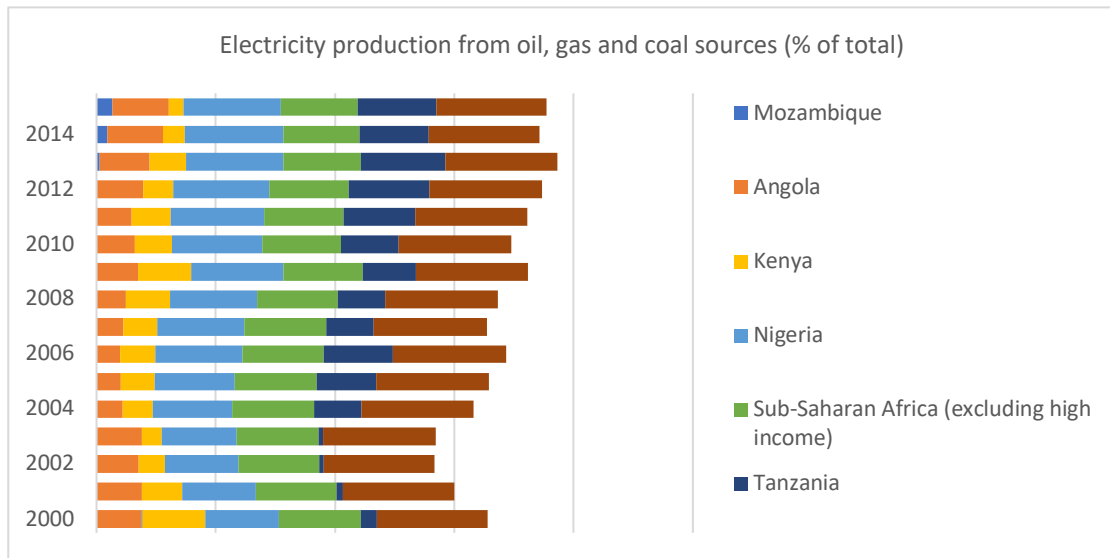
The EDM capacity for power generation is poor. According to MIREME (2018), EDM generates only 6 percent of the power consumption. The private players, independent power producers (IPPs), are operating particularly at the generation segment (MIREME, 2018). The existing capacity to generate electricity remains low. The access to electricity is only benefitting a quarter of Mozambicans.<sup>98</sup> The need to increase access to electricity was simultaneously a meaningful pathway for monetizing the domestic gas from the Pande and Temane fields, which is linked to the development of gas-fired power generation for domestic and regional supplies (World Bank, 2015).

Although Mozambique is a natural gas producer, the government effectively started mobilizing private investments for natural gas power generation industry only recently. Figure 10 below compares the trends in the use of oil and gas with coal as a source of electricity generation in countries like Angola, Kenya, Nigeria and Tanzania, compared to Mozambique and the whole Sub-Saharan African (SSA) region. Mozambique is only just emerging in this context, and only recently, around the 2013/4, did it start generating electricity, thus lagging behind other countries in the region.

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<sup>98</sup> EDM. EDM Strategy 2018-2028.

Figure 10. Power generation from oil, gas and coal, as % of total

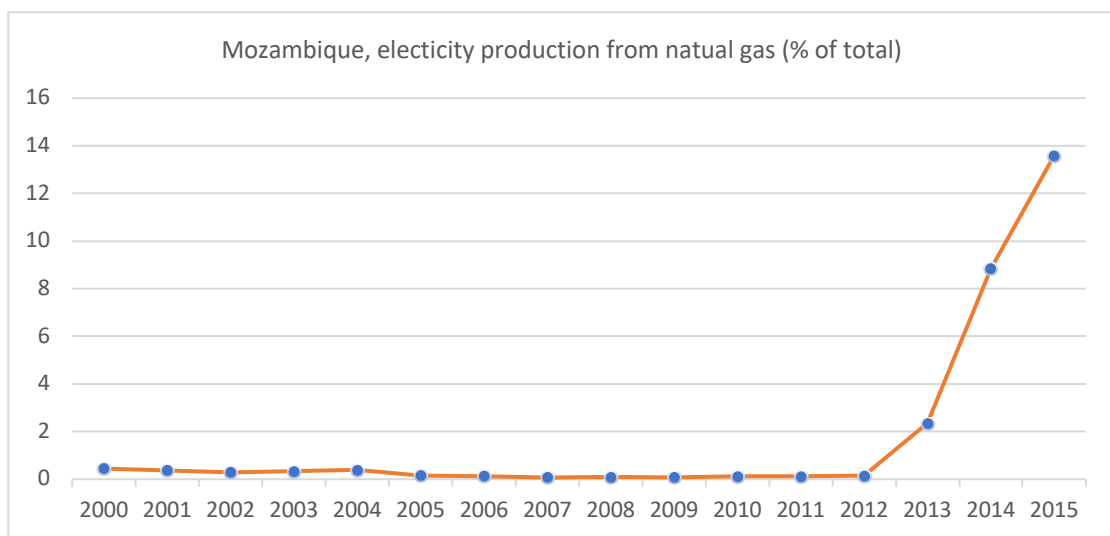


Source: The author, based on IEA Statistics OECD/IEA 2014

(<http://www.iea.org/stats/index.asp>)

Figure 11 below, shows the pattern of growth of electricity produced from natural gas compared to other sources of production. A strong increase can be seen from 2013 due to the emergence of gas-fired power plants built in the southern region, which followed the increase in the volumes of natural gas allocated to the domestic market under GSA II.

Figure 11. Electricity produced from natural gas, as % of total



Source: The author, based on IEA Statistics OECD/IEA 2014

In early 2012, Aggreko took forward the idea of running a gas-to-power plant utilizing an unused gas concession to Mozambique<sup>99</sup> under the PSA with Sasol. This was made possible through a sub-concession agreement that Gigawatt Mozambique S.A. signed with Aggreko and its partner Shanduka, a South African company linked at that time to the current President of South Africa, Cyril Ramaphosa, with the aim of building a temporary gas-to-power plant in Ressano Garcia (bordering South Africa). The original concession was granted to Gigawatt Mozambique S.A. in December 2010. Aggreko was supplying electricity to EDM, the Mozambican state-owned electricity public utility; Eskom, the South African electricity public utility; and NamPower, the Namibian state electricity provider.

The main gas-to-power projects started operating in 2015, and by 2018 four new power plants had been constructed. The first and most important power plant to use natural gas was the CTRG located in Ressano Garcia, which had a capacity of 175 MW and entered into operation in 2015 (World Bank, 2015; World Bank, 2018; Salimo et al., 2020). CTRG is a public-private company owned by the Mozambican state electricity company EDM (51% stake) and Sasol (49%), a stake in which Sasol sold to Azura Power<sup>100</sup> at a cost of \$145 million in 2020. The CTRG was negotiated between the Mozambique government and Sasol. The concession, as indicated by different sources in the government and Sasol, did not involve a public tender. According to a source linked to Sasol,<sup>101</sup> relevant government institutions in the petroleum-sector governance regime conducted and led the process, and the World Bank also played a role.

The nature of arrangement to establish the CTRG was particularly important for both the Mozambique government and Sasol, given increasing concerns among the public and particularly civil-society organizations (CSOs) regarding the alleged lack of benefits from the extraction of Pande and Temane natural gas. A senior official from the Ministry of Mineral Resource and Energy (MIREME) claimed that the

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<sup>99</sup> Interview with senior public official at MIREME, Maputo, October 2018; Interview with senior official at EDM, September 2019.

<sup>100</sup> Energy Voice (2020, December 21), Sasol sells CTRG to Azura Power. Retrieved from: [Sasol sells CTRG to Azura Power - News for the Energy Sector \(energyvoice.com\)](https://energyvoice.com/sasol-sells-ctrg-to-azura-power/).

<sup>101</sup> Interview with Sasol's Senior Manager (Maputo, November 2020).

construction of the CTRG plant was a government's initiative of which it was agreed that Sasol should be a part.<sup>102</sup> Sasol was convinced that developing the CTRG project could to some extent change the narratives against the company, as it would be taking the first step in financing the construction of the power plant as a way of monetizing Pande-Temane natural gas within the producing country. Sasol had supported the EDM's participation in the project due to company's limited financial capacity to do so.

In 2016 the CTRG was followed by the construction of a Gigawatt gas-fired power plant with the capacity of 120 MW.<sup>103</sup> In 2017 the Kuaninga gas-fired power plant located in the District of Chokwe, Gaza Province, which had a capacity of 40,29 MW, entered into operation. Recently, in October 2018, a new gas-fired power station,<sup>104</sup> CTM, with a capacity of 106 MW, was inaugurated in Maputo.

The emergence of gas-to-power in Mozambique is intimately related to its ability to provide important sources of rents for different ruling elite constellations, as well as being a way to increase the monetization of Sasol's natural gas production in the Pande-Temane fields. Even though a few Mozambican companies have emerged to embrace this particular business, they usually do so in a joint venture with either a state entity or foreign companies, the latter usually being of South African origin. However, the most interesting and significant aspect of these deals to have emerged in the slipstream of GSA II between Sasol and the ENH may be the specific role played by EDM, the state power supplier.

EDM has become the central player in ensuring the economic viability of IPPs in Mozambique by signing long-term power-purchasing agreements with the gas-to-power companies. The only exception is the agreement with Aggreko, which is governed by a temporary agreement of a year, renewable only if its electricity is

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<sup>102</sup> Interview with a senior official at MIREME (Maputo, September 2020), and reconfirmed in interview with a senior advisor at MIREME (Maputo, October 2020).

<sup>103</sup> The Moguldom Nation (2016, February 21), Gigawatt Mozambique opens 120MW gas-fired power station. Retrieved from: <https://moguldom.com/119908/119908/>.

<sup>104</sup> See ESI Africa (2018, March 27), Maputo combined cycle power station switches on first gas turbine. Retrieved from: <https://www.esi-africa.com/maputo-combined-cycle-power-station-switches-on-first-gas-turbine/>.

actually needed. An official interviewed during fieldwork in Maputo refers to Aggreko as ‘a source if emergencies arise’.<sup>105</sup> EDM is a monopoly supplier of electricity in Mozambique, which may explain its centrality. Generally, it has signed long-term contracts with the new power-generating companies that sell electricity to EDM at a higher price than what the regional market offers. Table 9 provides a structure of the agreements between EDM and the existing gas-to-power generating companies.

Table 9. Structure of deals between EDM and gas-to-power companies

STRUCTURE OF DEAL	Power-Generating Company	Off-Taker of Electricity	Power-Generating Company	STRUCTURE OF DEAL
<ul style="list-style-type: none"><li>• Tolling agreement: EDM allocates natural gas to Kuvaninga to generate electricity</li></ul>	KUVANINGA	EDM	CTRG	<ul style="list-style-type: none"><li>• Shareholder (51%) of the power plant</li></ul>
				<ul style="list-style-type: none"><li>• Power Purchasing Agreement</li></ul>
<ul style="list-style-type: none"><li>• Gas Supply Agreement with ENH, to purchase gas at the off-take point in Chokwe</li></ul>			CTM	<ul style="list-style-type: none"><li>• Owner (100%) of the power plant</li></ul>
	<ul style="list-style-type: none"><li>• Gas Supply Agreement with MGC</li></ul>			
<ul style="list-style-type: none"><li>• EDM pays Kuvaninga for capacity charge, operations and maintenance costs, not for electricity</li></ul>	<ul style="list-style-type: none"><li>• Gas Transportation Agreement with MGC</li></ul>			
<ul style="list-style-type: none"><li>• Short-term agreement for power purchases for one year, renewable in case of need</li></ul>	AGGREKO		<ul style="list-style-type: none"><li>• Gas Transportation Agreement with ENH-Kogas</li></ul>	
		GIGAWATT	<ul style="list-style-type: none"><li>• Power Purchasing Agreement</li></ul>	

Source: Salimo et al. (2020, p. 8).

The structure of the agreements between EDM and the above-mentioned companies for purchasing and/or sales of power or gas supplies varies. For example,

<sup>105</sup> Interview with a senior officer at EDM (Maputo, August 2018).

electricity produced by Aggreko is said to cost EDM around 15 US cents per KWh, and electricity from Gigawatt around 9.5 US cents to 10 US cents per KWh. The cost of electricity bought from Kuvaninga's power plant is lower at about 7.5 US cents to 8 US cents per KWh,<sup>106</sup> even though it is also very close to that charged by Gigawatt, despite the fact that EDM is supplying gas to Kuvaninga to produce electricity under the tolling agreement.<sup>107</sup> The prices for electricity from these power plants are far higher than the price EDM pays for electricity from the Mozambican Cahora Bassa Hydropower (HCB), which is around 3.5 US cents per KWh.<sup>108</sup>

Criticisms of EDM's energy-purchasing deals go back a long way, beginning with the seemingly very unfair agreement with the South African company ESKOM, from which EDM has been buying electricity to meet the demand in southern Mozambique. EDM had been paying a price of 30 US cents per KWh for the same energy that ESKOM buys from HCB at 0.35 US cents per KWh before relaying it to Mozambique.<sup>109</sup> This electricity is in part used by the Mozal aluminium smelter in Matola next to Maputo, where ruling elite links and benefits are obscured by a lack of information (see Salite et al., 2021).

One way of seeing these agreements is as part of the overall sector dynamics of power generation, where public utilities like EDM are used to transfer significant rents to companies controlled by high-ranked ruling-elite business groups, as well as the ruling party itself, either through the SPI investment or the companies themselves. Local Mozambican companies in the gas industry typically start by selling and distributing natural gas and using royalty gas (e.g., MGC), only going into the gas-to-power generation business after 2015. They have only been able to secure their participation in the industry by establishing links with international

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<sup>106</sup> Interview with a senior official at EDM (October 2018).

<sup>107</sup> Information based on interviews at EDM and people related to power generation companies. See also A Verdade (2016, February 16), Nyusi inaugura central termoelétrica de Guebuza que vende energia à EDM pelo triplo do preço da HCB. Retrieved from: <http://www.verdade.co.mz/tema-de-fundo/35-themadefundo/57002-nyusi-inaugura-central-termoelectrica-de-guebuza-que-vende-energia-a-edm-pelo-triplo-do-preco-da-hcb>.

<sup>108</sup> Idem.

<sup>109</sup> Idem.



companies, which are more experienced and technologically well advanced in the industry and have the capacity to mobilize financial resources.

EDM itself is investing significantly in building partnerships with foreign companies, examples being the CTRG power plant and the new power plant it is planned to build in Temane with a capacity to produce 400 MW,<sup>110</sup> in partnership with Sasol. In 2018 EDM inaugurated the combined-cycle power station in Maputo,<sup>111</sup> Central Térmica de Maputo (CTM), which is 100% owned by EDM, but funded by the Japan International Cooperation Agency (JICA) with a grant of \$194,791.<sup>112</sup> EDM is also mobilizing resources for the construction of gas-fired power plants in order to take advantage of the natural gas produced in Pande-Temane in Maputo and Temane. The complex structure of deal-makings between IPPs and the EDM, the purchaser of electricity, has been facilitated by a well-established and long-standing network of patron-client relations.

However, EDM became the sole purchaser of electricity produced by the CTRG, as it is with all other IPPs as well. Promiscuous links between the ruling-party elites and business are well known to be an aspect of Mozambique's political settlement (see CIP, 2013; Buur and Monjane, 2017; Salimo et al., 2020; Salite et al., 2021). Public officials interviewed during the long period of fieldwork stated that was not the case with the CTRG project, adding that 'the project has since evolved with no major issues and considerations over political or reputational issues'.<sup>113</sup> However, this seems to be just apparent, as since then EDM has been failing to comply with its obligations under the Power Purchase Agreement (PPA).

A World Bank assessment of EDM found that the company had been funding its financial deficit in large part by accumulating arrears with its suppliers, including the

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<sup>110</sup> Club of Mozambique (2017, February 24), EDM promises to pay HCB accumulated debt this year. Retrieved from: <https://clubofmozambique.com/news/edm-promises-pay-hcb-accumulated-debt-year/>.

<sup>111</sup> See Club of Mozambique (2018, November 5), Nyusi inaugurates combined cycle power station in Maputo. Retrieved from: <https://clubofmozambique.com/news/nyusi-inaugurates-combined-cycle-power-station-in-maputo/> (accessed 05 November 2018).

<sup>112</sup> See JICA (2013), EDM preparatory study on gas fired-power plant development in southern Mozambique, Final Report, March 2013.

<sup>113</sup> Interview with relevant public official in the MIREME and senior officials of EDM (Maputo, October 2018, September-October 2019, September 2020).

IPPs. For example, by the end of 2015 the company owed about US\$93 million to Cahora Bassa Hydroelectric (HCB), and in 2016 the situation continued with increasing payment arrears with the IPPs as well. This has implications for the company's reputation, as well as for the private investment environment for power systems and future gas-to-power projects (World Bank, 2017, p. 57). This discussion is described further in the following subsection, which explores the connections between the ruling party and the IPPs.

#### 6.4.5. Frelimo's connections with gas-to-power businesses

The emergence of IPPs in southern Mozambique is related to the opportunities created by the availability of domestic natural gas from GSA II. In 2004, when Sasol start producing natural gas, ENH, in partnership with private companies, created the Matola Gas Company (MGC), a company controlled by private capital from both South Africa and Mozambique. MGC started by selling and distributing royalty gas allocated by the government. Its partners were also involved in the establishment of Gigawatt Moçambique S.A. What is common to these two activities is the fact that they arose when a specific ruling-elite faction took control of the emerging opportunities in the gas business with the support of the government and top-ranking ruling Frelimo elites related initially to the Chissano faction and in the case of later deals the Guebuza faction.

The approval of the first strategy for the development of a domestic market for natural gas in 2009 envisaged encouraging domestic private companies to participate in future gas-related industries. The intention was quite positive, but the mechanisms whereby the process was then developed have been criticized for not being conducted openly to allow other local and private companies than those related to a few ruling-elite factions to participate on equal terms.

The development of local industries associated with natural gas is all somehow linked to EDM, the company that emerged to become the most important vehicle for the economic viability of the gas-to-power IPPs. There is not necessarily anything illegal in the way EDM is used to convert public gas provisions into privately

generated power, nor to convert public goods into private goods that involve members of the ruling elites.<sup>114</sup>

In general, the gas-fired power plants established in Chokwe and Ressano Garcia, such as Kuaninga and Gigawatt, are partnerships between foreign and local companies. Key project documents related to the gas-to-power initiatives refer to a government policy to use some of the gas produced in the country to stimulate the economy, reduce poverty and allow more people access to electricity, hence contributing to the country's development.<sup>115</sup> However, the exclusionary mechanism of access to resources and opportunities associated with natural gas-related IPPs is contested.

The example of Kuaninga is useful in illustrating how public resources can be made to benefit the ruling elite by being transferred to private companies. In 2016 the Kuaninga power plant started producing electricity. The plant is owned by three private companies: Investec Bank (IBL) of South Africa, with a 37.5% stake; Eventure Partners (EPL), with 37.5%; and Kuaninga Energy (KDM). While Kuaninga is the local company, the other two partners are foreign companies. KDM has as one of its shareholders SPI – Gestão e Investimentos (29.10%), known to be a ruling-party holding with interests in various economic sectors. The other four companies holding a share in Kuaninga are Executive Option Ltd (20.80%), Meridional Investimentos Lda (19.40%), Luminoc Ltd (29.70%) and the Clackson Power Company (Pty) Ltd (1%). Of these only Clackson Power is a foreign company, the other three, including SPI, being Mozambican (see Table 10 below for details). The plant is fed by natural gas provided by EDM to produce electricity.

A tolling agreement governs the relationship between the two companies. There are different views of how suitable tolling agreements are for the respective parties involved. In general, however, according to Deng and Xia (2005), there is a common perception that they involve a contract between the buyer and the owner of a power plant in which the owner decides to lend the power plant to the buyer for the

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<sup>114</sup> Interviews with officials on the EDM's deals (Maputo, August and October 2018).

<sup>115</sup> See MPD (2013), 'Estratégia Nacional de Desenvolvimento – ENDE', Maputo.

latter to operate, or simply gives the buyer the right to take the electricity produced during a pre-defined period subject to certain constraints.

The arrangement was negotiated after Kuaninga and EDM had previously signed a Power Purchase Agreement (PPA)<sup>116</sup> in 2009 through which EDM would purchase the electricity produced. This was a year before Kuaninga agreed a term-sheet with INP, the petroleum sector regulator, in order to receive an allocation of 3.0 mGJ/a of the royalty gas with the purpose of changing gas-to-power. However, the arrangement with INP failed to be implemented, and the Frelimo government, through a ministerial decision, pulled out of the deal to allocate gas directly to Kuaninga and restored the gas to EDM before ‘forcing’ the companies (Kuaninga and EDM) to enter into a new arrangement based on a tolling agreement.<sup>117</sup>

Under this arrangement, EDM allocates natural gas to Kuaninga to generate electricity, which in turn is bought up by EDM at an agreed price, thereby benefitting the Frelimo holding, SPI. According to Salimo et al. (2020) the tolling agreements are a common contractual practice in the energy sector, but it remains unclear what the incentives were for the government to change the previous deal to allocate royalty gas to Kuaninga and how effective the new deal would be in generating state revenues.

It seems more appropriate to see this arrangement as an enabling factor that allowed Kuaninga to obtain gas for free in exchange for supplying electricity to EDM at a lower price, but still generating a huge rent in exchange, as the gas was free (Salimo et al., 2020). This business model suggests that EDM has to buy the gas from ENH, provide it to Kuaninga and then pay to get the electricity produced by Kuaninga, despite the fact that the price only covers the costs of production (Salimo, et al., 2020). Thus, public enterprises are being used to finance the business ventures of private companies that support specific ruling-elite factions. Table 10

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<sup>116</sup> Ibid.

<sup>117</sup> Kuaninga Energia. Gas fired power Project in Mozambique: Executive Summary of project information. November 2011, Updated 28 August 2012. Retrieved from: [http://grupovidere.co.mz/wp-content/uploads/2015/05/Kuaninga-Energia\\_PIM\\_Ministerio-das-Financas.pdf](http://grupovidere.co.mz/wp-content/uploads/2015/05/Kuaninga-Energia_PIM_Ministerio-das-Financas.pdf)

below sets out the links between energy companies and different ruling-elite factions.

Table 10. Companies and ruling party connections

Companies	Shareholders	Connections with individuals, companies, or other details
CTRG	EDM (51%); Sasol (49%)	Public-private partnership. There is no indication of individual or any other specific companies participating in the shareholding.
MGC	Gigajoule (42%); Eagle Holding (32%); and Electrotec Holdings (26%).  MGC is the key company in gas distribution and sales, with access to royalty gas, as well as commercial gas. Among the three companies with the right to access commercial gas, this is the one paying the lower price to purchase gas. The company is assigned 11 mGJ/a of natural gas from the total 27 mGJ/a allocated to the domestic market, and it also receives 3 mGJ/a of royalty gas.	Eagle Holding is a group owned by the former Minister of Industry and Commerce, Carlos Morgado, who has passed away. Electrotec Holdings is part of Intelec Holdings, a group in which A, a member of the ruling party and a former member of parliament who is also linked to Intelec Holdings, has interests. Another important name mentioned as being part of the Intelec Group is the former President Armando Guebuza, who led the country for two terms from 2005 to 2015. Electrotec was transformed into public limited company in 2007. The shareholders in Electrotec Holdings <sup>118</sup> include Visabeira Telecomunicações e Construção, SPGS, S.A., with a 29% stake; Intelec Holdings with a 70% stake; and A with a 1% stake.
CMH	ENH (70%); Government of Mozambique (20%); Private (10%)	CMH is a subsidiary of ENH, which is participating in the Pande and Temane gas project with Sasol and the IFC as part of the UJV. The companies and individuals who represent private participation in the CMH stake are not publicly known, but information from various sources indicates that individuals connected to the ruling party, including companies, are part of it. But this is critically contested, with some individuals saying that the 1,300 shareholders of the 10% stake in CMH are not all members of the ruling party. On the relevant Facebook page, is possibly to identify Intelec Holding, the group that is

<sup>118</sup> Boletim da República, III Série, No. 43, 26 de Outubro de 2007.

Companies	Shareholders	Connections with individuals, companies, or other details
		participating in the MGC shareholding, and is also one of the companies with a stake in the CMH.
GIGAWATT	Gigajoule Power (42%); and various Mozambican citizens	The Chairman of Gigawatt is a former Minister of Mineral Resources of the Chissano administration, while B, the son of a late Minister of Industry and Commerce, is also involved. Gigawatt was established under a proposal submitted by the three MGC shareholders.
KUVANINGA	Luminoc Limitada (29,70%); SPI – Gestão e Investimentos (29,10%); Executive Option (20,80%); Meridional Investimentos Lda (19,40%) and Clackson Power Company (Pty) Ltd (1,00%)	Except for Clackson Power, the other four companies are local. Luminoc is a company linked to former President Guebuza's nephew M in partnership with D, who had business interests in South Africa. <sup>119</sup> SPI is a company that is closely related to the Frelimo party. Several top members of the party are indicated as partners on behalf of the party, such as two former General Secretaries of the party, former members of Frelimo's political commission, such as TW, and other members of the Frelimo Secretariat such as JP.

Source: Salimo et al., (2020, p. 10).

The above table and analysis could suggest that EDM is being used as a milch-cow for those parts of the gas business that involve members of the ruling elites.<sup>120</sup> In general, the gas-fired power plants established in Chokwe and Ressano Garcia, namely Kuaninga and Gigawatt, are partnerships between foreign and local companies. Key project documents related to the gas-to-power initiatives refer to a government policy<sup>121</sup> to justify using the gas produced in the country to stimulate the economy, reduce poverty and allow more people access to electricity, hence contributing to the country's development.

However, the centrality of the ruling Frelimo party is clear, as it is directly and indirectly the main source of the distribution of benefits (Salimo et al., 2020;

<sup>119</sup> Luis Nhacote (2012, January 6), Mozambique's Mr Guebusiness in: *Mail&Guardian*. Retrieved from: <https://mg.co.za/article/2012-01-06-mozambiques-mr-guebusiness>.

<sup>120</sup> Interviews with officials on the EDM's deals (Maputo, August and October 2018).

<sup>121</sup> See MPD (2013), *Estratégia Nacional de Desenvolvimento –ENDE*. Maputo

Carbone, 2003; Sumich and Honwana, 2007; Sumich, 2015, Buur and Monjane, 2017). Even though, only specific groups of the higher-level factions of the ruling coalition related to the Chissano and Guebuza regimes benefit the most from the Sasol gas investments and the supply of domestic gas (Salimo et al., 2020). Furthermore, the party itself is also benefiting from rents generated by gas-to-power projects through its private-sector investment arm, SPI, and other means of rents extractions including transfers from companies participating in IPPs joint ventures. According to Salimo et al. (2020) these different mechanisms of distribution of rents are fundamental for the party unity. Indeed, as Salimo et al. (2020) suggest, it provided the party with the resources to play multi-party electoral games, in which the party had come under increasing pressure after the main opposition parties, Renamo and the MDM, increased their popularity during the 2013 and 2014 local and national elections (see also Weimer et al., 2012; Macuane et al., 2018). Where Renamo is concerned, this was even more the case in the latest elections in 2018 and 2019.

Despite the references to government policy, the overall process characterizing these energy projects seems to be centred more on specific group interests rather than national development. As a former minister and senior member of the ruling elite argued:<sup>122</sup>

‘The sad thing about our country is that, although the potential exists to support transforming the country’s economic landscape, so it falls along a development path, the fact is that the (ruling) politicians are focused on a limited cycle of their governance. They, unfortunately, don’t think about the country, but only in terms of the opportunities they have to organize their own lives (i.e., business opportunities).’

Pursuing business opportunities does not come from nothing but is closely related to privileged access to information and the use of confidentiality clauses whereby price agreements between producers and buyers of natural gas and power produced through gas-fired power plants are kept confidential.

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<sup>122</sup> Interview with a senior member of the ruling party and former minister (Maputo, September 2018).

### 6.5. The politics of natural gas price agreements: secrecy and confidentiality

Both companies and the government argue that for strategic reasons it is necessary to keep information on prices confidential, this being important for business development, regardless of the demand for increasing transparency in gas-sector governance, for example, through reform of the industry and the related Extractive Industry Transparency Initiative (EITI) process. While this may be the case in many instances, having transparency regarding prices does not necessarily act against or undermine the development of natural gas projects, nor of the sector as a whole.

However, secrecy facilitates the politics of ruling-elite rent formation, as the elite uses gas-to-power plants to further and consolidate its interests in rent extraction. This becomes even clearer when one looks at the pricing policy related to the two dimensions of natural-gas project developments: first, gas-pricing by Sasol, and secondly, price-setting for electricity produced by domestic gas-fired power plants and purchased by EDM. Here, the secrecy and confidentiality related to pricing and costs has implications for concessional revenue generation and the distribution of rents from Sasol's Pande-Temane gas project.

Regarding Sasol's gas prices, the Centre for Public Integrity (CIP, 2013 and 2017)<sup>123</sup> has explored the reasons why Sasol contributes so little to state revenues and thereby Mozambique's development. CIP concluded that the failure to contribute a fair share to state revenues is significantly related to:

- (i) The low price at which the UJV, led by Sasol, sells gas to other Sasol companies in South Africa, where the same gas is sold in South Africa for around 5-7 times the price in Mozambique;
- (ii) The removal of the production sharing provision from the signed contract in 2000 (where the PSA was removed and kept the royalty gas); and

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<sup>123</sup> CIP is a donor-funded Mozambican civil-society organization promoting anti-corruption and public integrity.



(iii) The large deductions due to capital overspends on the project, as well as the expenses incurred by Sasol in other projects under implementation.<sup>124</sup>

Focusing just on gas-pricing, I refer to the EITI Report written by Deloitte (2018). Deloitte reinforced what CIP has previously argued, namely that the price for gas charged by Sasol to buyers, which also includes Sasol Gas based in South Africa, is linked to the price at the 'well-head', meaning that the price is pushed down, as it is related to the price at the point of production, did not involve the cleaning, condensation and pipeline costs.

The EITI report for 2018 suggests that Sasol concluded a deal with its purchasers regarding the price of gas, which in general is at a lower cost. The company therefore removed the processing costs and ended up lowering the price of the natural gas produced in Pande and Temane. This has been the practice since the project started to export gas to South Africa, and the government of Mozambique agreed to this under GSA I and II. While that experience was significantly advantageous to Sasol, given that the main buyer of the gas produced in the Pande and Temane fields is Sasol Gas in South Africa, it meant payment of lower taxes in Mozambique, while in South Africa the revenues were significantly higher than in Mozambique.

The implication is that Sasol only pays a fraction of the real cost in tax revenues. In its response to CIP's assessment, Sasol<sup>125</sup> did not contest these allegations. Instead, it tried to explain the price differences by describing the factors determining gas prices, which include regional market dynamics, the cost of alternative energy for users, the existing agreements on commercial terms, the petroleum production agreement, and the fact that in South Africa prices are regulated by the National Energy Regulator of South Africa (NERSA).

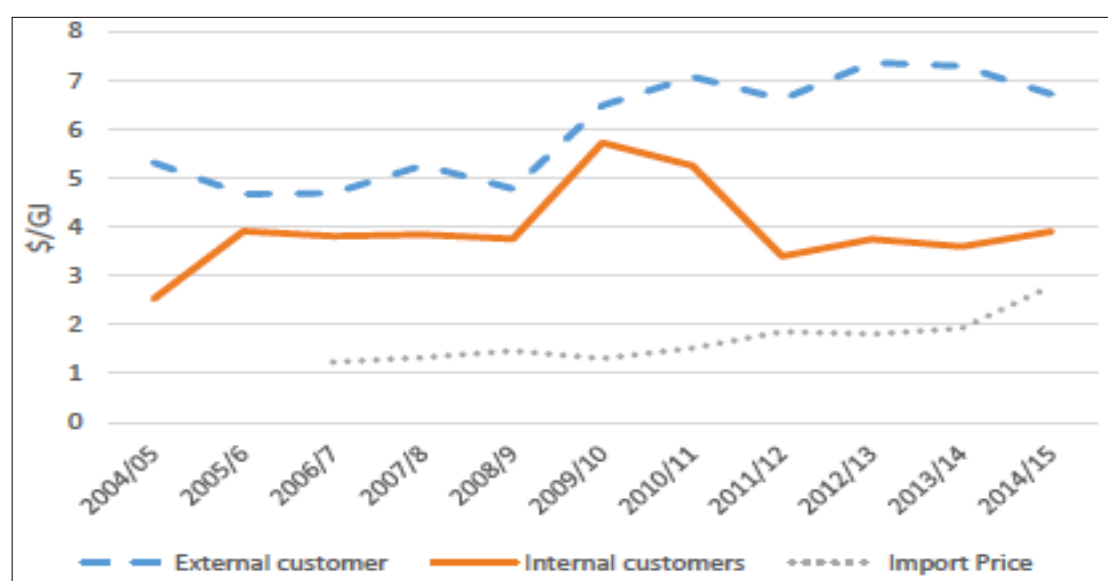
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<sup>124</sup> See also see also Mondliwa and Roberts (2017).

<sup>125</sup> Sasol (2017, November 2) Sasol's response to the Mozambique Centre of Public Integrity. Retrieved from: <https://www.sasol.com/media-centre/media-releases/sasol-s-response-mozambique-centre-public-integrity>.

The response by Sasol may suggest that the company is aware of most of the concerns that have been raised in relation to its poor performance in contributing to the country's revenues rather than its own profits from sales of natural gas. This suggests further that such practices represent a deliberate mechanism supported by the nature of the deals agreed with the ruling elites. Figure 12 below shows the average gas price charged to internal and external customers in South Africa in comparison to the price of gas imported from Mozambique.

Figure 12. Average natural gas to internal and external customers



Source: Mondliwa and Roberts (2017)

It is worth noting that the price of gas in Mozambique has remained significantly lower in relation to that charged to buyers in South Africa. Prices are revealed to be different within South Africa between internal and external customers. The internal customers include Sasol's subsidiaries in downstream activities, and they represent the largest customer niche for the natural gas imported by South Africa from the Pande and Temane gas fields. Mondliwa and Roberts (2017, p. 12) estimate that between 2004 and 2015 about 53% of the gas imported from Pande-Temane was purchased by Sasol's internal customers. Sasol's annual report suggests that its downstream subsidiaries consumed up to 62% of the total gas from Mozambique

(see Mondliwa and Roberts, 2017). For external customers, the price gap compared to that in Mozambique was substantially higher compared to internal customers.<sup>126</sup>

Why is the gas price relatively so low, given that this was where the Sasol gas concession might have generated substantial revenues for the state? The argument is that the deal on gas prices was beneficial to both parties, that is, to both Sasol and the ruling elite that negotiated the deals. One consequence of these deals has been that overall Mozambique has incurred a significant loss of revenues that might have gone to the state under the concession. But nor is there any clarity regarding the gas-for-cash royalty gas part of the deal, which covered the original gas concession. The 2000 deal between the government and Sasol established that, of the volume of gas produced from the two fields, 6 mGJ/a should be allocated to Mozambique as part of the royalty gas, equivalent to 5% of the total gas produced per year.

The World Bank (2014, p. 13) has suggested that by June 2012 the total volume of gas produced in Pande and Temane since February 2004 had reached 875 mGJ, of which 852 mGJ had been exported to South Africa, representing 97.4% of the total gas produced in almost eight years. The remaining gas consists of the royalty gas that Sasol formally provided to the government (5%), which could be in either cash or in kind. The figures suggest that only roughly a half of the gas royalties were duly allocated during this period. The INP, which formally regulates the industry, suggests that the figure of 5% of gas royalties was never achieved during the first ten years.

Reports from EITI and CIP have claimed that the country has not received the entire volume of gas royalties it is due (see CIP, 2013; Deloitte, 2018). The fact is that less is known about what has been done with the remaining volume of gas or how much the government received in cash. The INP has been criticized for not being able to access this information as part of its oversight role, while the ENH, the key state institution in the management of the gas royalties, has not been able to provide any

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<sup>126</sup> Here I am referring to aggregate prices and consumption between external customers' prices, which are not necessarily equal, but vary from case to case, as I also suggested for domestic gas.

information either. This suggests more broadly that both INP and ENH are too weak to challenge ruling-elite interests over control of these royalties.<sup>127</sup>

While this has been publicly criticized by NGOs and discussed in Parliament, it has been argued that this was the price for obtaining such a significant foreign investment in the first place. These deals have been defended several times by Frelimo and top state officials as having been necessary at that time, but the same pattern is repeatedly being witnessed today, reinforcing the idea that it is part of a game being played by those with considerable direct interests in building lucrative businesses from the gas deals. Allowing Sasol to buy gas cheaply and sell it at a high cost pays for providing gas to domestic companies at a low cost, where substantial rents can be generated from EDM buying electricity at a high cost. In practice this pricing and cost structure make possible the transfer of potential public revenues and resources to private companies for purposes of accumulation.

## 6.6. Conclusion

Since gas production in Pande and Temane came on stream, the ruling elite, supported by the World Bank, has argued that its aim has been to use the investment to signal to the world that Mozambique is a safe and attractive place for large-scale foreign direct investments. This argument has been used to silence suggestions that the natural gas discovered in Pande and Temane should have been used more rigorously to generate revenues for the country's economic development, so that Mozambique should have benefitted more from the gas. While the Pande-Temane gas fields have been useful in showcasing Mozambique as a future destination for gas investments, they have also been used for other purposes.

During the first ten years of gas production under GSA I, Mozambique only received a proportion of the corresponding 5% of royalty gas and tax revenues based on well-head pricing. With limited use of gas as its main feedstock and limited domestic demand in the early years, the government received royalty gas in cash, although details regarding how much it received in cash and revenues remains unclear. This is

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<sup>127</sup> Interview with former minister of mineral resources (Maputo, October 2018).

because the Mozambican Tax Authority only provides aggregated information on revenues from natural resources; information on volumes, pricing and consumption are covered by confidentiality clauses.<sup>128</sup> The GSA II increased gas production, and new deals were negotiated that saw a range of IPPs emerge, facilitated by patronage networks sourced by the ruling party factions in collaboration with foreign investments.

In this chapter, as argued in Salimo et al. (2020, p. 10), the transparency reforms initiated after liberalization in the 1990s have been used to increase still further privileged access to rents from the gas sector by competing elite factions. The reforms were adopted and implemented in such a way that resources could be maintained, and ruling-elite interests accommodated (Salimo et al., 2020). The overall institutions governing the petroleum sector, as well as the reforms adopted over time starting from the 2000s and later, in 2012, when under the GSA II a relatively significant volume of gas were supplied to domestic market, resembles the good practices in the industry (Idem.).

Among these are the separation of functions and the adoption of a new commercial arrangement, which despite the intension behind it, involving the set-up of a transparent and efficient management of the industry and the sector as a whole, instead they did not avoid creating exclusive opportunities and space for specific ruling-elite factions to reproduce (Salimo et al., 2020).

These reforms were also adopted strategically to clear the way for foreign direct investments in the oil/gas sector, to secure revenues to the state and to create the incentives for the development of local industries (Salimo et al., 2020). As further discussed in the chapter, the reforms and the existing institutions of governance have also been used to create a protected market for powerful groups within the higher faction of the ruling elite (Salimo et al. 2020, p. 10; see also Whitfield et al., 2015). This enabled the latter to take control of the gas business in a trade-off

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<sup>128</sup> Interviews with key informants within the sector government (Maputo, September and October 2018).

whereby potential public revenues and resources have been exchanged for private accumulation and for the survival of the ruling party (Salimo, et al. 2020, p. 10).

The specific dynamics of privileges accruing to few selected powerful groups with access to natural gas at very low prices, and whose control over gas-to-power industries is sustained by lucrative long-term contracts for the sale of electricity to EDM, this would become the main mechanism under which rents are transferred from public to private domain. Under the Sasol natural gas and pipeline these factions of the ruling-elite could manage to establish linkages with Sasol and with the IPPs investors, but this nonetheless had its limitation (Salimo et al., 2020).

As discussed in the next chapter, the early evidence of domestic gas-related projects to be developed using the LNG produced in the Rovuma Basin could not be used in the same way to extract rents accommodating the new ruling-elite groups at the heart of the secret debt scandal that came to public in 2016. Furthermore, the multinational oil companies involved in the LNG are by its size and nature, far different from Sasol, and as major in the oil industry they operate on a different scale than pipeline gas and, due to their reputational risks as publicly listed stock-exchange companies, they are seen as more accommodating of public disclosures (Salimo et al., 2020, p. 10).

While the LNG is not yet under production and none of domestic related projects will be implemented if the gas from Rovuma is not available, some uncertainties will remain about the ability of the ruling-elite to easily establish linkages in the same way they did with the Sasol natural gas and pipeline related projects for private rents extraction. Even though, this is something that only the future will probably provide with the appropriate answers. However, if this explain the elite engagement in secret loans that happened exactly during the transition from the Guebuza presidency to the Nyusi presidency, i.e. from 2013-15, has not yet been addressed and explained. Nonetheless, as argued in Salimo et al. (2020), this represents a good starting point for understanding why the debt scam was created, but also the future attempts to extract rents from the LNG bonanza. For example, this might be related to the 'linkage formation' request, 'national content' deals and the conversion of

domestic gas into 'national benefits' by shipping LNG gas to Maputo for energy generation. Recent joint development agreement between Total Energies and Gigajoule suggests this will be the case. This issue is discussed further in chapter 7 below.

## **CHAPTER 7**

# **ROVUMA LNG DEAL-MAKING AND THE POLITICS OF DOMESTIC GAS**



Source: Anadarko Petroleum (Photo courtesy).

Transocean's Deepwater Millennium performs an accelerated well test at Anadarko's natural gas wells offshore Mozambique.



## CHAPTER 7. ROVUMA LNG DEAL-MAKING AND THE POLITICS OF DOMESTIC GAS

### 7.1. Introduction

Massive discoveries of natural gas in the Rovuma Basin in the northern province of Cabo Delgado by the Texas-based independent<sup>129</sup> oil company Anadarko and the Italian company Eni, operating in Areas 1 and 4 respectively, has catapulted Mozambique into the position of a potential frontline investment destination for the oil and gas industry. In 2017, the concessionaires in Area 4 were joined by the American oil giant ExxonMobil through its acquisition of a 25% indirect stake.<sup>130</sup> On the other hand, in 2019 the US-based Anadarko entered into an intense bidding war. Occidental, the US major, won that bid and immediately sold the African assets, including the northern Mozambican Area 1 gas fields, to the French oil giant Total Energies.<sup>131</sup>

The South African Sasol company (discussed in Chapter 6) pioneered the production of gas in Mozambique. However, the company lost its frontline position in the country's oil and gas sector with the opening of the Rovuma Basin to exploration. The massive volume of gas in the Rovuma Basin amounts to over 180 trillion cubic feet (Tcf), i.e., more than fifty times the volume of gas reserves in Pande and Temane, where Sasol has been extracting natural gas since 2004.

In 2014 the government of Mozambique approved the Natural Gas Master Plan (NGMP) a policy aimed at boosting local industrialization by taking the advantage of the emerging natural gas windfalls in the Rovuma Basin (see Cabinet Council 2014). Soon afterwards, the government launched a domestic gas tender, inviting companies to develop natural gas-related development projects. The tender award was known in January 2017, three companies being awarded the right to develop

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<sup>129</sup> Independent oil companies operate exclusively upstream. These companies are not involved in the downstream operations, such as refining or marketing (for further understanding of the categories of upstream oil and gas companies, see Al-Fattah, 2013).

<sup>130</sup> Eni (2017, December 17), Eni completes sale of 25% interest in Mozambique Area 4 to ExxonMobil. Retrieved from: [Eni completes sale of 25% interest in Mozambique Area 4 to ExxonMobil](#).

<sup>131</sup> See Club of Mozambique (May 10, 2019), 'Mozambique: Occidental's deal with Anadarko to be completed in H2'. Retrieved from: <https://clubofmozambique.com/news/mozambique-occidentals-deal-with-anadarko-to-be-completed-in-h2/>.

the projects: Yara International, Shell Mozambique, and GL Energy Africa. The 2014 Gas Master Plan set out the Mozambique government's vision for a diversified natural gas industry. For instance, apart from liquified natural gas (LNG), which represents the main business, fertilizer, power and gas to liquid (GTL) are set out as priorities in relation to the use of domestic gas for gas-related industrial projects.

This chapter explores the way in which deal-making around the Rovuma domestic gas-related industrial development project evolved over time, and examines the constraints underpinning rent-seeking by elites over domestic projects, and how these deals are related to the reconfiguring of Mozambique's political settlement.

The natural gas bonanza in the Rovuma Basin and LNG have opened rent-seeking opportunities for the elites, but the story of how these opportunities evolved is complicated compared to the opportunities created under the Sasol natural gas and pipeline project. We are faced with an apparently story-book example of how a potential natural-resource windfall can corrupt a government.

Since 2016, Mozambique has been ravaged by what has become known as the secret debt scandal, involving a sum of \$2.2 billion. Exposing the secret scandal revealed how, through the establishment of three state-owned enterprises (SOEs), key factions in the ruling political elite around both the former President Guebuza and the current President Nyusi illegally sourced \$2.2 billion from Swiss and Russian banks based on expected windfalls related to the upcoming gas bonanza from the Rovuma Basin (see Hanlon, 2016; Macuane et al., 2018; CIP and CMI, 2021).

This scandal undermined Mozambique's economic and international credibility, the political reputation, if there were any, and the already poor social condition of the population worsened (CIP and CMI, 2021). It resulted in the International Monetary Fund (IMF) terminating its Mozambique country programme, while the donor community withdrawn its budget support. It is worth asking why the prospects of LNG production in Rovuma Basin became embroiled in the debt scandal, while the Sasol natural gas and pipeline deals a decade earlier did not invite similar excesses?

I argue that developing local industrial projects using domestic gas from the Rovuma natural gas reserves is intimately linked to the ability of the ruling elites to involve themselves in such projects. This suggests that the barriers that otherwise impede their involvement in the opportunities for rent-seeking may undermine the effective implementation of industrial projects driven exclusively by foreign companies. While the ruling elites seek to find 'gates' through which to increase their extraction of state revenues, to some extent they are strongly driven by the incentive to secure private rents from domestic gas-related industrial projects associated with the massive investments in LNG.

Furthermore, while the ruling elite became involved in various rent-seeking projects related to the production of electricity from 'domestic gas' linked to the Sasol natural gas and pipeline project in the south (Chapter 6), this mechanism is probably not possible in the case of LNG, at least not in the initial period of LNG production. Moreover, it was not possible at the critical point in time, as it coincided with the transition of elites from the Guebuza to the Nyusi administrations, the geographical origins of one of the key factions in power, constituted by "Makonde" ethnic group<sup>132</sup> from Cabo Delgado, the scale of the investments involved, the material nature of the resource and the type of investor.

This chapter is organized as follows: in the second section I focus the analysis on the discoveries of natural gas in the Rovuma Basin and their implications for the volume of investments made to exploit the existing natural gas. The third section addresses the institutional arrangements governing the allocation of domestic gas to the domestic market. The fourth section present an analysis of the contested perspectives of different ruling-elite factions over control and access to resources associated with LNG in Cabo Delgado and how it affects the dynamics of local projects development. This is followed by the fifth section on the politics of domestic gas, and its effects on deal-making concerning the volume of natural gas required to make the domestic gas project potentially implementable. The sixth section provides

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<sup>132</sup> The Makonde ethnic group is the smallest one in Cabo Delgado. They are intimately linked to the idea of bravery in the struggle for independence of Mozambique against the Portuguese colonialism. Their current relative strong influence and power in politics is associated to the historical legacy of their strong support and participation in the liberation struggle (see Santos, 2010).

an analysis of how the materiality of natural gas, the extremely higher forecast investments in LNG, and the type of international oil companies involved in the exploitation of the massive natural gas discoveries in the Rovuma Basin prompted the Guebuza's administration to take out the hidden debt. It did so by predicting the use of future gas revenues for repayment, but facilitating anticipated rents to accrue to small elite groups, while undermining domestic gas projects and the country's participation in the LNG projects. The final section is the conclusion.

## 7.2. The Rovuma Basin: discovery of natural gas and LNG investments

In 2005, a second round of licensing for the oil and gas concession blocks in Rovuma Basin was launched, being considered the most important licence-bidding round ever in Mozambique (Barros 2017).<sup>133</sup> The Rovuma Basin is an area of land and sea covering approximately 60,000 km<sup>2</sup>. Before the launch of the second bidding round the Basin consisted of a single block, which was then divided into seven new exploration and production concession contract areas, six areas offshore and only one onshore.<sup>134</sup> Mozambique became known as potentially one of the world's largest future producers of natural gas and LNG exporters as a result of this bidding round in the Rovuma Basin, due to the massive volumes of natural gas that had been discovered (or confirmed, as it was known there was gas, but the volumes had not yet been proved) by Anadarko and Eni offshore during the period from 2010 to 2013.

Massive onshore and offshore investments are taking place in the construction of LNG plants by the French oil giant Total Energies, operating in Area 1, and Eni and ExxonMobil, both operating Area 4. In 2019 Total Energies acquired Anadarko's 26.5 per cent share in the Mozambique LNG Project for \$3.9 billion from the oil company Occidental (OXY).<sup>135</sup> The ExxonMobil, Eni and China National Petroleum Corporation (CNPC) established the Rovuma Joint Venture (RJV) in 2018, after ExxonMobil acquired a 25% indirect stake in Area 4 after buying Eni's share for \$2.8 billion;

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<sup>133</sup> From 2007 to 2014, INP launched the 3rd, 4th and 5th bidding rounds for licences.

<sup>134</sup> Interview with senior official at the Ministry of Mineral Resource and Energy (MIREME), Maputo, September 2018.

<sup>135</sup> Power Technology (2019, September 30), Total buys share in Anadarko's Mozambique LNG Project. Retrieved from: [Total buys Anadarko share in Mozambique LNG project \(power-technology.com\)](https://www.powertechnology.com/news/total-buys-anadarko-share-mozambique-lng-project).

together they have 70% of the interest in Area 4. The massive reserves of natural gas discovered in the Basin require the construction of LNG plants, the only way of guaranteeing economic feasibility and transportation to the main markets in Asia and potentially also in Europe.

The volume of investments in LNG infrastructure for gas production in Rovuma Basin Areas 1 and 4 may amount to about US\$60 billion. This is significantly higher than the previous investments made in developing Sasol's Pande and Temane natural gas project and pipeline, which amounted only around \$3.0 billion over time.<sup>136</sup> It has been suggested that the volume of investments would put the country in the loop as the largest investment destination for natural gas and LNG in Africa (Gqaba, 2013; Augé, 2020). Furthermore, it has been argued that the country will be among the world's top three LNG exporters.<sup>137</sup>

The IMF's projection for investments in the Rovuma Basin suggest that it may exceed \$100 billion (Cook, 2019). It is estimated that Mozambique's GDP, which is linked to these investments, will jump from 4% in 2022 to 11.1% in 2024, when Eni, which has the smallest project, was expected to start producing the LNG in Coral South field. As yet, this is the only project to be entirely implemented in offshore (Cook, 2019, p. 16). The country's GDP could increase annually by \$10-14 billion as a result of LNG exports. Moreover, the government's revenues should increase to \$4-5 billion annually over a 25-year period<sup>138</sup> after production comes on stream and the initial debt is cleared.

Areas 1 and 4 are currently the most important concession areas in the Rovuma Basin. Total Energies is leading the construction of two trains with the capacity to produce 12.88 million tonnes per annum (mtpa) of LNG. The construction of LNG

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<sup>136</sup> Information provided by the CEO of the ENH. Club of Mozambique (2018, May 29), Mozambique: Rovuma gas will attract about US\$60 billion – Omar Mithá. Retrieved from: <https://clubofmozambique.com/news/mozambique-rovuma-gas-will-attract-about-us60-billion-omar-mitha/>.

<sup>137</sup> England, A. (2018, November 23), 'Mozambique strives to get liquified natural gas projects online', *Financial Times*. Retrieved from: <https://www.ft.com/content/27c165a6-91d3-11e5-bd82-c1fb87bef7af>.

<sup>138</sup> Maya, M. F. (2020, March 10). Mozambique: toward an economy transformed by gas. Retrieved from: <https://africanbusinessmagazine.com/sectors/energy/mozambique-towards-an-economy-transformed-by-gas/>.

infrastructure onshore on the Afungi Peninsula in Palma district is expected to start production in 2026, after the project declared force majeure to resume operations due to the insecurity and violence perpetrated by Islamist youth groups.<sup>139</sup> ExxonMobil and Eni are jointly leading the concessions in Area 4, in which Eni is leading all the upstream operations and the construction of a Floating LNG (FLNG) for the Coral South project, with the capacity to produce 3.4 mtpa.

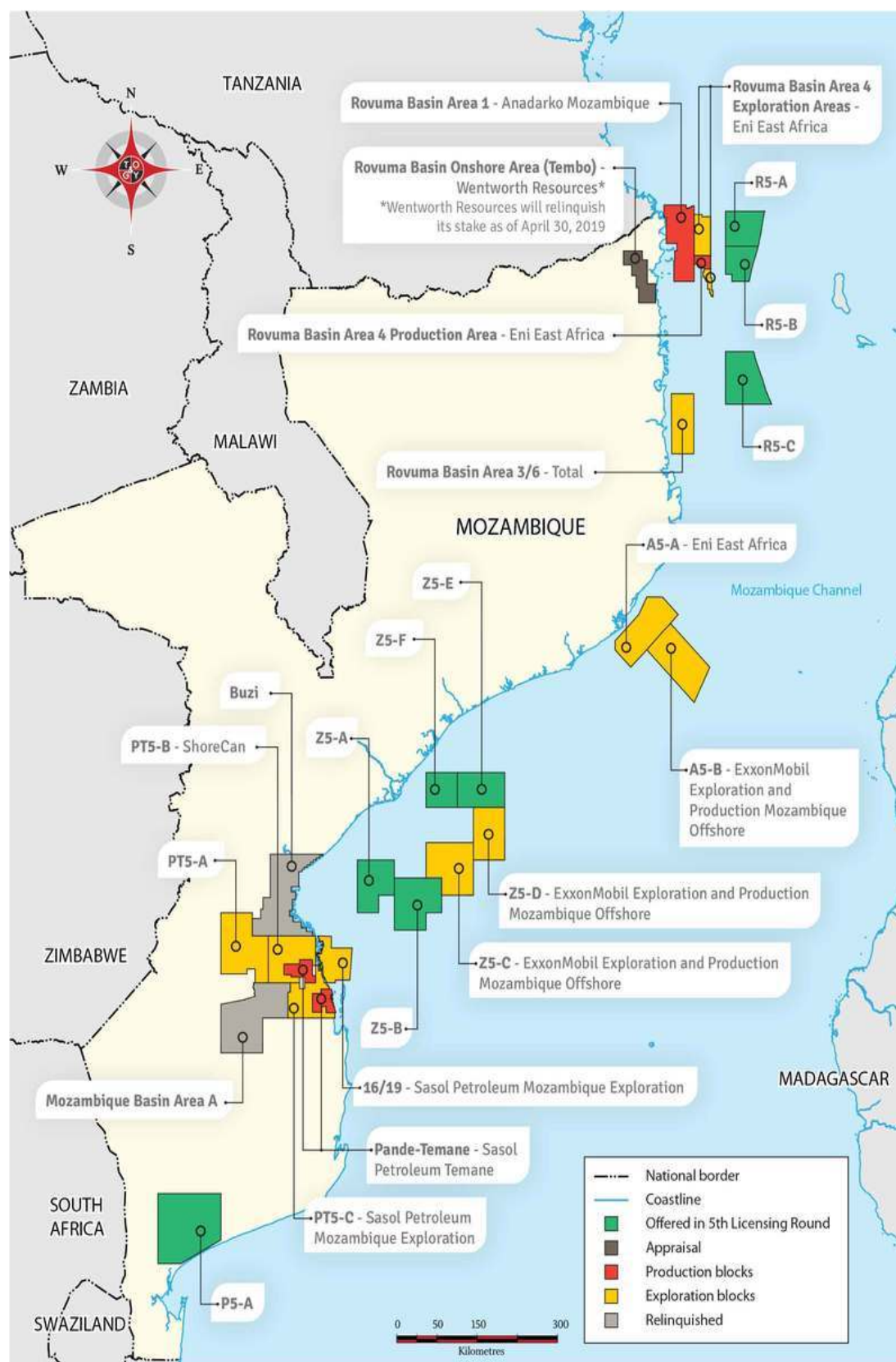
ExxonMobil is leading the construction and operation of LNG onshore on the Afungi Peninsula, in the same area where Total has located its LNG infrastructure. The ExxonMobil-led project includes in the first phase two trains with a capacity to produce 15.2 mtpa.<sup>140</sup> This is the largest of the three approved LNG projects in the Rovuma Basin. A Final Investment Decision (FID) for these projects was made in 2017 for Eni's Coral South FLNG, and in 2018 Anadarko (later bought by Total) reached an FID for Area 1. ExxonMobil's FID is still outstanding, having been postponed with a non-indicative timeframe after a sharp drop in oil prices following the COVID-19 outbreak. The existing natural gas concessions are shown in Map 3, below.

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<sup>139</sup> Club of Mozambique (2021, September 30), Mozambique: Total Energies delays LNG production to 2026. Retrieved from: [Mozambique: Total Energies delays LNG production to 2026 | Club of Mozambique](#)

<sup>140</sup> Reuters (2018, July 12), Exxon expands Mozambique LNG project to cut costs ahead to bank costs. Retrieved from: <https://www.reuters.com/article/exxon-mozambique-lng/exxon-expands-mozambique-lng-project-to-cut-costs-ahead-of-bank-talks-idUSL8N1U751B>.

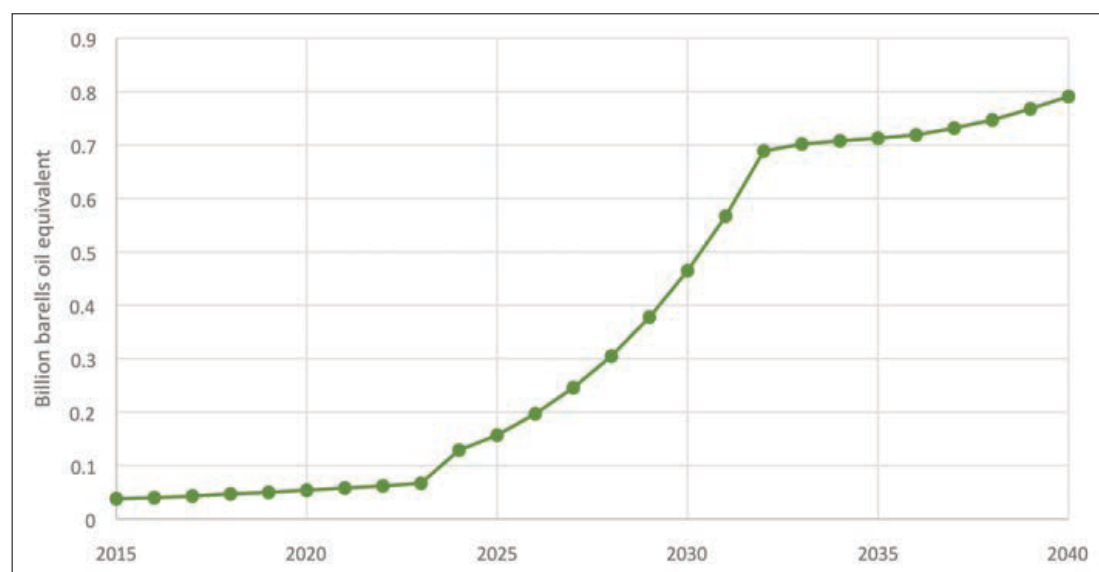
Map 3. Mozambique concession areas and operators 2019



Source: The Oil & Gas Year Ltd, The Oil & Gas Year Mozambique 2019.

The aggregate production capacity of these three projects will reach 31.48 mtpa of LNG in the first phase of production. It is not clear when the second phase will start, but those who are familiar with these projects point to the early or mid-2030s. An increase in production is expected in the long run. Total Energies, for example, predicts an expansion of production of up to 43 mtpa,<sup>141</sup> while for Area 4 the forecasts are of an increase of up to 50 mtpa<sup>142</sup> in the long term, when the second and third phases of the projects will have become operational. This will represent almost three times the initial volume of production. Porter et al. (2017) suggest that Mozambique will produce 460 million barrels of oil equivalent (BOE) (55 million metric tons) by 2030 and 790 million BOE (97 million metric tons) by 2040 if all investments are implemented (see Figure 13).

Figure 13. Natural gas production, Mozambique, forecast



Source: Porter et al. (2017, p. 5).

Table 11 below lists the currently active concessions for petroleum exploration and production in Mozambique. The government holds shares in the concessions through the participation of ENH. But the lack of technical and financial capacity is

<sup>141</sup> Total (sd). Operating a vast LNG project in northern Mozambique. Retrieved from: <https://www.ep.total.com/en/areas/liquefied-natural-gas/mozambique-lng-major-gas-project-future-lng-africa>

<sup>142</sup> See interview with ExxonMobil country manager by *Oil & Gas Year* (TOGY) (March 27, 2019). ExxonMobil partners in Mozambique's LNG future.



strongly undermining effective participation by ENH, turning it into just a passive equity holder. It is clear from this that the LNG concessions for gas in Cabo Delgado province far outweigh investments elsewhere. It is also clear from the table that most concessions are still at the ‘exploration’ phase, with production only taking place in the south of the country through the first natural gas project implemented by the South African company Sasol (discussed in chapter 6).

Table 11. Active oil/gas blocks in Mozambique

Operator	Contract and Year of Concession	Participation interest	Block	Phase of implementation
Eni East Africa S.p.A	EPCC, <sup>143</sup> October 2018	Eni Mozambico (34%); Sasol (25.5%); Qatar Petroleum (25.5%); ENH (15%)	Area A5-A	Exploration
ExxonMobil	EPCC, October 2018	ExxonMobil (40%); Rosnef (20%); ENH (20%); Eni (10%); Qatar Petroleum (10%)	Area A5-B	Exploration
ExxonMobil	EPCC, October 2018	ExxonMobil (40%); Rosnef (20%); ENH (20%); Eni (10%); Qatar Petroleum (10%)	Area Z5-C	Exploration
ExxonMobil	EPCC, October 2018	ExxonMobil (40%); Rosnef (20%); ENH (20%); Eni (10%); Qatar Petroleum (10%)	Area Z5-D	Exploration
ENI East Africa S.p.A	EPCC	ENI (25%); ExxonMobil (25%) CNPC (20%), ENH (10%); Galp Energia (10%); KOGAS (10%)	Area 4 Offshore Rovuma Basin	Development
Total Energies	EPCC, December 2006	Total (26.5%); Mitsui & Co. (20%); ENH (15%); Baharat Petroleum (10%); ONGC Videsh (10%); Oil India Ltd (10%); PTTEP (8.5%)	Area 1 Offshore Rovuma Basin	Development
Buzi Hydrocarbon Pte. Ltd	EPCC, October 2008	Buzi Hydrocarbon (75%); ENH (25%)	Area of Buzi	Exploration
Sasol	EPCC, June 2005	Sasol (85%); ENH (15%)	Bloc 16&19	Exploration
Sasol	EPCC, October 2018	Sasol (70%); ENH (30%)	Area PT5-C	Exploration
Sasol Petroleum M-10, Ltd	EPCC	SP M-10 (42.5%); Petronas (42.5%); ENH (15%)	M10 Offshore Block	Exploration
Sasol	PSA, October 2000	Sasol (100%)	Pande & Temane	Development

<sup>143</sup> EPCC: Exploration, Production Concession Contract.

Operator	Contract and Year of Concession	Participation interest	Block	Phase of implementation
Sasol	PPA, <sup>144</sup> October 2000	Sasol (70%); ENH (25%); IFC (5%)	Pande & Temane	Production

Source: [www.inp.gov.mz](http://www.inp.gov.mz); operators webpages. Updated by author.

This structure of shareholders in the Rovuma Basin concessions is the result of several operations to sell and buy stakes, which characterized the intense demand involving the Rovuma Basin that has been observed since the early phase of exploration in the mid-2000s (see Table 12 below for information on buyers, number of shares, the amount involved and the capital gains for the government).

Table 12. Acquisition of shares in the Rovuma concessions areas

COMPANY	YEAR	% STAKE SOLD	BUYER	COST US\$ bn	CAPITAL GAIN (mn)
ENI	Apr-2007	10%	Galp Energia		N/A
ENI	Sept-2008	10%	Kogas		N/A
ENI	Mar-2013	20%	CNPC	\$4.2	\$400
ENI	Mar-2016	25%	ExxonMobil	\$2.8	\$352
Cove Energy - UK	2012	8.5%	Thai state-owned PTT	\$1.9	\$170
Anadarko	Aug-2013	10%	ONGC Videsh	\$2.64	\$520
Videocon	July-2005	10%	ONGC Videsh	\$2.15	\$227
Anadarko/OXY	2019	26.5%	Total	\$3.9	\$880

Source: INP and MEF

The announcement of large discoveries of natural gas in the Rovuma Basin generated huge and widespread expectations on the part of the government and its citizens alike of a dramatical increase in revenues and rents (Macuane et al. 2018; Frynas and Buur 2020). While the government was formally looking at ways of earning revenues from the natural gas, the lack of capacity, technology and experience in managing petroleum operations, as well as the burden of the secret debt scandal, placed it in an increasingly weak position in relation to the international oil companies when it came to negotiating deals. This was despite the passing of new legislation that could have provided the government with a solid

<sup>144</sup> PPA: Petroleum Production Agreement.

platform for negotiating favourable deals. Below, I address the efforts made to establish a comprehensive and relative strong legislation for the gas sector under the new configuration that was the LNG sector.

### 7.3. Rovuma LNG and domestic gas arrangements

Natural gas in the Rovuma Basin increased the expectations of various groups of actors within and outside country. The reason is simple: the massive volumes of natural gas involved could dramatically change the old and unsolved problems of poverty and weak economic and social transformation affecting the country (Gqada, 2013; Uetela and Obeng-Odoom, 2016). The government saw its future windfall as an opportunity to increase both rents and revenues. From an early stage, the effort was to establish a framework of legal and regulatory instruments in order to facilitate and spur further investments, particularly as the secret debt crisis took hold.

The configuration of the natural gas endowment from Rovuma Basin, relative to its massive quantity, location, the actors involved, volume of investments, and the expectations of society in general, required new ways of managing such wealth. As Hickey and Izama (2016) and Mohan et al. (2018) suggest, actors outside the government became the drivers of change. This was particularly evident in the case of the emerging LNG investment, which invited significant pressures and influences from IOCs and both multinational and bilateral agencies on the government to establish an appropriate legal and regulatory framework. Fragmentation within the ruling coalition could also emerge, thus allowing powerful groups doing the same.

The Natural Gas Master Plan stipulated the use of natural gas to promote the country's industrialization and diversified use of natural gas (Cabinet Council 2014, p. 19). The NGMP establishes that at least 20% of the total gas produced should be allocated to the domestic market, this also being called 'domestic gas' for this reason. The Petroleum Law of 2014 increased the ceiling to 25% after pressure across party lines from parliament, which wanted Mozambique to benefit more directly from the wealth, although these arguments were made with little

knowledge of how the new wealth could be used beneficially. This kind of demand for more allocations of gas to the domestic market could be seen as a kind of resource nationalism (Jacob, 2020). However, formally the gas from such arrangements should have been supplied by the concessionaires of Areas 1 and 4, under a particular gas-sale agreement with ENH, who as the aggregator acts as buyer and seller of the gas allocated to the domestic market.

According to a former minister, top officials in President Guebuza's administration had no idea how Parliament had settled on 25% of domestic gas. Powerful groups in the ruling elite influenced Parliament in determining some key issues during the parliamentary debate over the proposed petroleum law. Key informants in the industry argued that the interests of groups that were closely related to a strong coalition in Parliament were able to force through new provisional arrangements in the legislation, such as the provision for a 25% share of domestic gas, the creation of a Higher Authority for the Extractive Industry (HAEI),<sup>145</sup> and stricter labour requirements. This was severely contested by the Guebuza administration, which feared it would slow down investors committing to the \$50-60 billion required in LNG investments.<sup>146</sup>

One consequence of the 25% domestic-gas provision was that ENH would have both the role of the sole state representative in Mozambique's petroleum sector and the role of aggregator.<sup>147</sup> This meant that ENH would be acting on behalf of the producers in collecting gas, and as was seen in the Sasol case, it would also sell or distribute the gas to potential end-users such as joint ventures, foreign investment projects and domestic investment projects. An aggregator like ENH would therefore not have the title deeds to the gas itself but would simply find users for a share of domestic gas and negotiate prices for it. However, experience from the different phases of the Sasol project (discussed in Chapter 6) suggests that the role of

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<sup>145</sup> Annex 1. I draw on the institutions of accountability created so far in the petroleum sector governance, such as the Higher Authority for the Extractive Industry (HAEI) and Extractive Industries Transparency Initiative (EITI).

<sup>146</sup> Interview with a former Minister of Mineral Resources and Energy (Maputo, October 2018).

<sup>147</sup> Decree-Law No. 2/2014, of 2 December, allowed the ENH to act as the representative of the Government of Mozambique for the sale of its entitlement of natural gas volumes, including sales into the domestic market going to licensed end-users.

aggregator was not always clear and could easily become a vehicle for the distribution of opportunities for rent to powerful elite groups able to exert an influence in MIREME, which has oversight of ENH (Salimo, et al., 2020). In the following section I start looking at how the expected large-scale LNG investments increased fragmentation and competition within ruling party.

#### 7.4. Competing interests over the control of LNG-related rent-seeking opportunities

##### 7.4.1. Natural gas windfall and competing ruling party factions

Investments coming into the Rovuma Basin have triggered struggles between different factions in the ruling party. During President Guebuza's second term, tensions within the party grew in the wake of the increasing opposition to Guebuza's concentration of power around himself and the distribution of resource opportunities to family members and close cronies (see Orre and Rønning, 2017; Macuane et al., 2018). This process evolved over time after he had taken office, some scholars referring to it as the centralization of rent management (see Bertelsen, 2016; Weimer and Carrilho, 2017), as reflected in the increase in conflicts both from within and outside the ruling coalition.

In the October 2014 general elections, Filipe Nyusi replaced Guebuza as President of the country, though Guebuza continued to be the President of the Frelimo party. The ruling Frelimo party therefore remained under Guebuza's effective leadership, with Nyusi and his initial administration's decisions being exposed to challenge by key members of Frelimo's political committee, which was controlled by Guebuza. One example of this was the opposition they mounted to the dialogue with the late Renamo leader Afonso Dhlakama seeking a compromise on decentralization, which Nyusi started building from the beginning of his term in office (Weimer and Carrilho, 2017).<sup>148</sup>

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<sup>148</sup> See Economist Intelligence Unit (2016, February 5). Talks rejected. Retrieved from: [Talks rejected \(eiu.com\)](#).

Opinion-makers from academia and civil-society organizations, including members of the ruling party, demonstrated their concern regarding the situation under which Guebuza maintained effective leadership of the ruling Frelimo party by retaining its presidency (see Weimer and Carrilho, 2017). This took place in a context of the party being at the heart of the state's political and economic policy-making (see, for example, Sumich and Honwana, 2007; Sumich, 2010; Macuane et al., 2018). Under such conditions, Nyusi faced a fragmentation of power with the potential to undermine his ability to govern. Frelimo party members clearly understood the situation and, through Frelimo's Central Committee, the main party decision-making body, they forced Guebuza to resign from the party leadership, replacing him with Nyusi two months after the latter had taken the presidential office.<sup>149</sup>

Since the 1980s, Frelimo has been characterized by its clientelist relationships (see Weimer et al., 2012; Buur et al., 2013; Sumich and Honwana, 2007; Sumich 2010; Orre and Rønning, 2017), an old practice under which those who control political power within the ruling elite use that power to create private wealth for themselves, establish clientelist networks, and forge relations with those in the coalition who are aiming to secure electoral or political support and loyalty in exchange for economic benefits.

The natural gas bonanza in the Rovuma Basin has become a source of competition both within and between factions of the elite. These different factions are competing to secure control and business opportunities from the massive natural gas and LNG investments. In general, whenever the issue of Frelimo party factionalism is raised, it essentially refers to specific groups aligned with either Chissano or Guebuza, and since 2015 also to Nyusi. Only those with significant power within the state and the party machinery were able to exert an influence over the emerging natural gas endowments and therefore determine the distribution of its benefits, if any. This explains why Guebuza tried to force through the approval of

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<sup>149</sup> Club of Mozambique (2015, September 15), More on Political Commission backing Nyusi for President of Frelimo – AIM. Retrieved from: <https://clubofmozambique.com/news/more-on-political-commission-backing-nyusi-for-president-of-frelimo-aim/>.

mechanisms to maintain himself in power, as well as determining his interest in continuing to lead the ruling party when he left office.

During the second Guebuza administration, the massive investments in the natural gas of the Rovuma Basin significantly influenced the aim of a small ruling elite group connected to Guebuza's government and the state intelligence security service (SISE) to push the government to approve a large-scale guaranteed loan of almost \$2.2 billion, allegedly to invest in marine security to protect offshore gas operations and tuna fishing. The loan went to three private companies closely related to the SISE, namely Mozambique Asset Management (MAM, \$535 million), Proindicus (\$622 million) and Empresa Moçambicana de Atum (EMATUM, \$850 million). The loan was agreed by two banks, Credit Suisse and VTB Bank (Hanlon, 2017; CIP and CMI, 2021).

The Wall Street Journal suggests also the BNP Paribas, as a third bank under investigation in relation to this scandal.<sup>150</sup> While the trial over the debt scandal is underway in the capital Maputo, Mozambican citizens and researchers backed by various studies and forensic reports (Krol, 2017; Hanlon 2017; CIP and CMI, 2021) have become convinced that the operation was deliberately organized to steal money and transfer the burden of the loans to the state, which it was to pay back through its natural gas revenues. When in 2016 the hidden debt was discovered, the IMF immediately suspended its assistance to Mozambique, which was then followed by donors suspending their budget support, thus leaving the country in a severe financial crisis (Macuane et al., 2018).

Following the common pattern of sourcing resources from the state, of which we saw a good example in chapter 6 using inflated electricity prices, President Nyusi also established his own clientelist networks within the petroleum sector. Three times in just the first three years of his tenure he has changed his ministers in the Ministry of Mineral Resources and Energy, the institution responsible for policy-making in the petroleum sector. As the head of ENH he appointed Omar Mithá, an economist who had worked in a bank for many years and was originally from the same region as the

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<sup>150</sup> The Wall Street Journal (2017, November 6), FBI investigates european banks for allegedly aiding corruption in Mozambique. Retrieved from: <https://www.wsj.com/articles/u-s-investigates-credit-suisse-vtb-and-bnp-paribas-for-roles-in-selling-mozambique-debt-1509923961>.

President. Mithá is also a former executive director of 'Cabo Delgado em Movimento (CDM)', an association created in the excitement over the discovery of abundant natural resources in Cabo Delgado with the aim of extracting the maximum benefits for the people of the province. Mitha was dismissed as the Chair of ENH in January 2020, and then named as economic advisor to President Nyusi.

Alberto Chipande, a closed ally of Nyusi and maybe the decider of Nyusi's choice as president, is the Honorary President of the CDM Association. Several members of the ruling Frelimo party from Cabo Delgado are affiliated to the Association and have been engaged in establishing partnerships<sup>151</sup> with the aim of securing benefits from the massive investments in the gas sector and other natural resources for some of the veterans and the ruling elite.<sup>152</sup>

Since 2015/16 information has been circulating of a potential deal for a pipeline to link Palma in the north to Maputo and/or South Africa in the south. There are two different proposals for pipelines from Rovuma. One is a proposal by a consortium of Chinese, Mozambican and South African investors, dubbed the African Renaissance Pipeline (ARP). This proposal to construct a 2,600 km pipeline with a distribution facility has been estimated to cost \$6.0 billion. According to the Centre for Public Integrity (CIP), cited in *Club of Mozambique*,<sup>153</sup> the Mozambican partners in the project include ENH and a small private company, Profin Consulting, which is linked to members of Alberto Chipande's family. Another proposal for a pipeline would set up a joint venture between the South African Gigajoule and ENH to construct a pipeline connecting Palma to Maputo. It would be about 2,100 km in length and cost \$3.0 billion. Neither proposal is considered definite: indeed, there is not much enthusiasm for either of them, as the LNG projects in Palma are as yet too far from their production phase.

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<sup>151</sup> See Africa Intelligence (2017, March 28), Chipande links up with Italian in logistics deals. Retrieved from: <https://www.africaintelligence.com/oil-gas/2017/02/28/chipande-links-up-with-italians-in-logistics-deal,108213893-art>

<sup>152</sup> See *Africa Confidential*, 'Frelimo's gold rush', 12 April 2013, Vol. 54, No. 8, pp. 8-9.

<sup>153</sup> Club of Mozambique (2015, March 15), Profin Consulting, SA – A company that belongs to the Chipande family – CIP Report. Retrieved from: <https://clubofmozambique.com/news/profin-consulting-sa-a-company-that-belongs-to-the-chipande-family-cip-report-unabridged/>.



The current ruling Frelimo party leadership, who mainly come from the Cabo Delgado region, are investing their efforts in taking control of the opportunities provided by gas and other natural resources in that region. However, they are facing competing interests from other ruling-elite factions related to Guebuza and Chissano, as well as a private economic group entrenched in the Confederation of Business Associations (CTA), whose prominent members have ties to the Frelimo party and have been lobbying to secure their own participation in the gas bonanza. Alberto Chipande is said to have linked up with the foreign companies in a logistics deal to support the gas operations in Cabo Delgado.<sup>154</sup>

The CTA pushed for approval of the legal framework for local content provision, which is expected to strengthen linkage formation between multinationals in the oil and gas sector and the national private sector. State participation in gas investments is critical to ensure that the economic benefits flow from the massive investments in Rovuma, in connection with which the government included a \$2.2 billion loan in the 2019 state budget to ensure ENH's full participation. This could be difficult to secure as consequence of the country's poor financial reputation, and the country's debt default announced by the government of Mozambique in January 2017, and the weak progresses made since the discovery of the hidden debt scandal.

The previous ten years of President Guebuza's government had seen the centralization of rent management reach its apogee, since the introduction of democratic governance in the 1990s increased the use of political power to promote the accumulation and distribution of benefits through the state. This process became more intense with the discovery of the massive endowment of a highly valuable natural resource such as gas.

In the next section, I discuss the contentious decision to transfer exclusive control of access to the sea and coastline in Cabo Delgado from a public company to the international oil companies as part of the dynamics of party factionalism in Mozambique. The key here is also the need to get the investment moving towards

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<sup>154</sup> Africa Intelligence (2017, February 28), Chipande links up italians in logistics deal. Retrieved from: <https://www.africaintelligence.com/oil--gas/2017/02/28/chipande-links-up-with-italians-in-logistics-deal,108213893-art>.

FID in order to take up new loans backed by future gas revenues. In other words, this is one consequence of the government's leverage to negotiate deals with IOCs and implement projects that could maximize the opportunities from LNG investments.

#### 7.4.2. Contentious deal-making over exclusive access to the sea

Important policies, legislation and agreements over natural gas and LNG investments in the Rovuma Basin were approved during Guebuza's time in power, when several deals were established. But the lack of appropriate legislation or a consolidated policy-reform process meant that several processes related to investments in the approved project needed time for specific milestones to be achieved in order to move forward. In part this was a matter of getting the concessionaires involved in each concession to accept the terms of the agreements and the associated policy reforms. Since the new government led by President Nyusi took office in early 2015, critical negotiations have still had to be concluded. This reflected a break in the continuity of the key actors in negotiating the deals, mainly on the government side, which both stalled certain processes and also created new perspectives in addressing the deal-making, through which changes to the previous deals were more likely to be introduced.

In 2013 Guebuza's administration created a company called Portos de Cabo Delgado, SA<sup>155</sup> (PCD), a joint venture formed by the state railway company (Caminhos de Ferro de Moçambique or CFM, 50% stake) and ENH (50% stake). The PCD subcontracted the 'ENH Integrated Logistics Services' (ENHILS), which will build, operate and manage the Logistics Base of the Port of Pemba. The ENHILS is owned by ENH Logistics (ENHL), with 51 per cent and Orlean Invest, Nigeria, with 49 per cent, in partnership with Sonangol Integrated Logistics Services (Sonils).<sup>156</sup> This company (PCD) signed a concession contract with the government for maritime

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<sup>155</sup> Ports of Cabo Delgado.

<sup>156</sup> CIP (2017, Maio 17), Governo falha no desenvolvimento de infraestruturas para a logística de gás. Retrieved from: [infra-estruturas e logisticas de gas.pdf \(cipmoz.org\)](https://www.cipmoz.org/infra-estruturas-e-logisticas-de-gas.pdf).

terminals and logistics in Pemba and Palma at the heart of the future LNG onshore investments related to Areas 1 and 4.<sup>157</sup>

In Pemba, the capital city of Cabo Delgado, the PCD controls the Pemba Logistics Base (PLB), which is designed to serve as a drilling logistics hub for oil and gas companies in the Rovuma Basin. The PLB was granted an area covering 8,000 hectares under the concession, including the current location of the Port of Pemba. In Palma, the concession provided for the construction of a port and logistics terminal in an area of 6,000 hectares and 300 miles out to sea, which covers the area where the concessionaires of Areas 1 and 4 will build the LNG plants and from which they secure the access to the sea. In practice, the concession provided PCD with exclusive rights to access these areas of coastline and the sea.

However, the new powerful faction of the ruling party, which involves President Nyusi and his protégés, reviewed these deals and created a gateway for the potential entry of new rent-seeking opportunities. The first move in this process involved a ‘review’ of the deals pertaining to the area of 8,000 hectares allocated to PCD in Pemba. This was a controversial move that was in part related to the decision to reduce it to only 1,300 hectares, thus concentrating the PLB in the area that the project allegedly ‘really needs’ in order to develop and implement its operations. Interviews with officials in the central government, as well as at provincial level in Cabo Delgado from 2016 to 2020, pointed out that the aim of this decision was to create opportunities for the president and his allies to establish networks with potential companies interested in developing future projects linked to oil and gas operations and logistics, including tourism.<sup>158</sup>

In an interview with a retired veteran from Cabo Delgado, he expressed concern that Guebuza had taken land from some veterans, among them his former fighting comrades, for his own private interests.<sup>159</sup> The idea of the ruling coalition returning the land to former war veterans could be seen as one way of paying back support for the Nyusi administration. But it later became clear that the remaining land would

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<sup>157</sup> The concession was approved under Decree 87/2013 of 31 December.

<sup>158</sup> Interviews in Maputo and Pemba with relevant officials in key government sectors (August 2018).

<sup>159</sup> Interview (Pemba, July 2016).

not be given back to the former owners but would instead be transformed into a 'state reserve' or *reserva do Estado*.<sup>160</sup>

The term 'state reserve' can refer to any plot of land that could be used for anything the state found important in the future. As such the land could be considered a reserve to draw on when the state had a better idea of how Mozambique could potentially benefit in the future. However, several officials from relevant institutions in central and local government related to land management, sector governments and petroleum argued that the President and his affiliates from Cabo Delgado were more interested in developing 'private' projects that they could potentially benefit from. An example was providing services to oil companies, thus exploiting the opportunities that emerged with the discovery of natural gas in the Rovuma Basin.

In a different move, in 2016, under Decree 4/2016, the Nyusi government withdrew the rights of the PCD to the concession area in Palma, which was then transferred to the concessionaires of Areas 1 and 4. This was done in accordance with the provisions of the Special Legal and Contractual Regime as applied to the Rovuma Basin Project (Decree-Law 2/2014), which advocated the creation of Special Purpose Entities (SPE) to support LNG operations both offshore and onshore in the Rovuma Basin. There were two consequences of this. First, two companies were formally created to serve the concessionaires of the two areas (Area 1 and 4), namely the Mozambique LNG Marine Terminal Company, S.A., and the Mozambique Material Offloading Facility Company S.A (MOF). These two SPEs were granted the exclusive right to conduct activities in the maritime and land areas covered by the LNG Marine Terminal, which is defined as a partial protection zone, and the land area where onshore LNG plants will be built.

Second, the revocation of the rights of the PCD immediately became problematic for the government itself. After approving these concessions to the special purpose entities, the government entered into a complex process in which the intention to negotiate third-party access to the exclusive areas was given high importance.

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<sup>160</sup> Interview with a member of the provincial government of Cabo Delgado who was closer to the process (Pemba, July 2018).

Therefore the government started pressing the concessionaires to review the decision taken by the government itself with the aim of reviewing the rights granted to concessionaires.

The LNG marine concession was approved in June 2017.<sup>161</sup> Through it, the government granted the Area 1 and Area 4 concessionaires exclusive access rights to the LNG marine terminal area. This area covers parts of Tungue Bay and Afungi, both coinciding with the area onshore where the LNG plants will be built, while Tungue Bay covers the area to the sea. After the decision to grant exclusive access to the concessionaires, the same government started demanding that the concessionaires allow access to the sea and the unused area of the land in the LNG Park in Afungi to third parties.

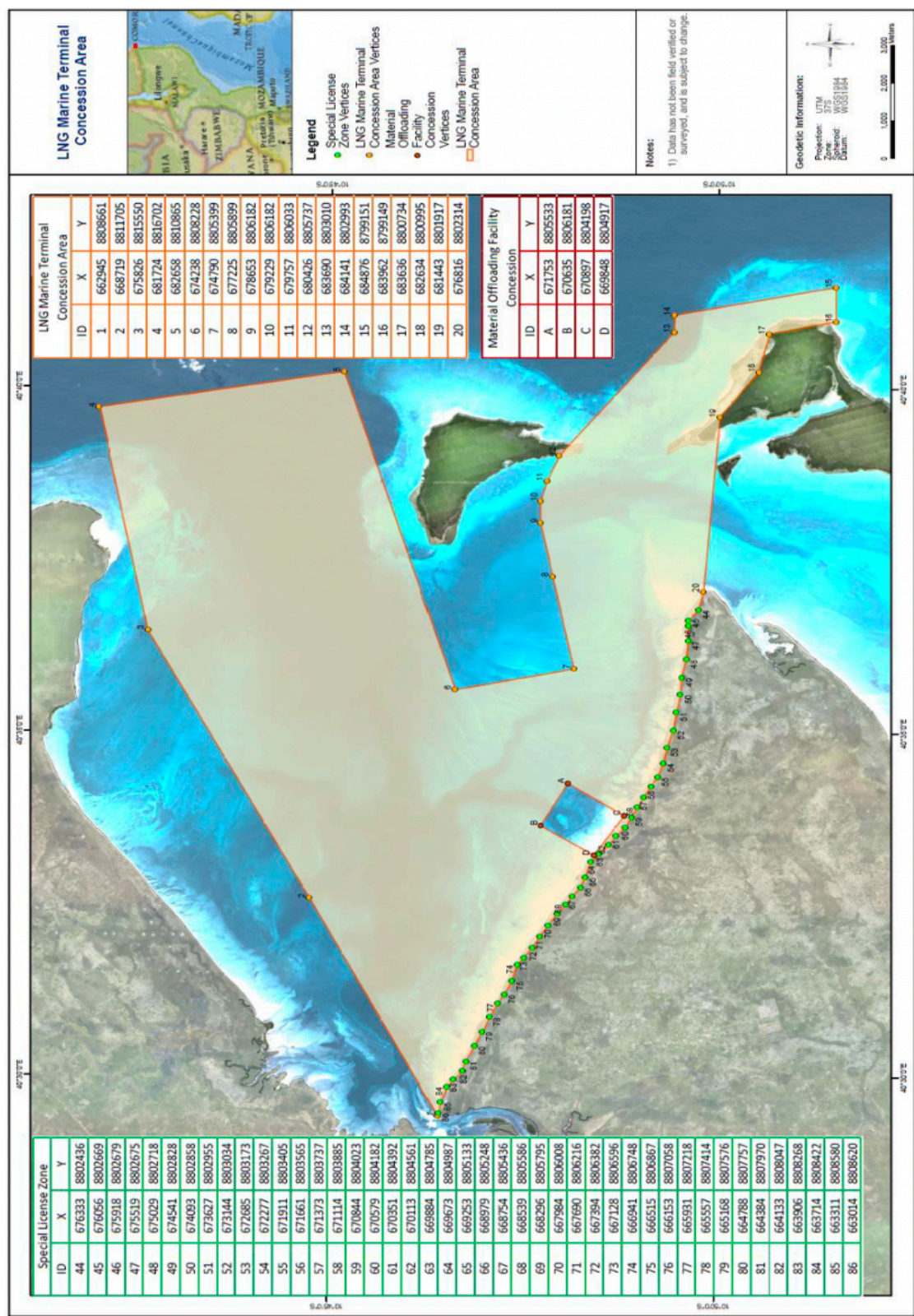
During the evaluation of Anadarko's PoD (later bought by Total), the government took this up as a key issue, among others, to force the concessionaires to agree to review the deal and thus accept a new provision allowing third-party access to the LNG marine terminal area, including the unoccupied land in the LNG Park. This, for example, would be important for investors tapping into 'domestic gas' from the LNG investments related to fertilizer plants (like Yara from Norway), petrochemical production (Shell had a proposal) or gas-to-electricity production, with which government discussed investment plans. However, the concessionaires of Areas 1 and 4 have been arguing that an exclusive right of access is important for technical and safety reasons, as well as to fully control the marine traffic coming in and out of the marine terminal area, which is critical to the industry's operations.<sup>162</sup> In addition, they argue that giving a right of access to third parties could delay or increase the costs of LNG development.

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<sup>161</sup> See Zitamar News (2017, November 25), Analysis: Could Mozambique use Anadarko's POD approval to recover access to the sea? Retrieved from: <https://zitamar.com/analysis-mozambique-use-anadarkos-pod-approval-recover-access-sea/>

<sup>162</sup> Ibid. Information also confirmed in an interview with the oil companies (Maputo, October 2017).

Map 4. LNG Marine Terminal concession area



Source: Concession Agreement between the Government of Mozambique and Mozambique MOF Company S.A., 2017



But why did the government sign this agreement in the first place revoking the rights of the PCD, followed by it approving a concession to the concessionaires for an undesirable outcome, one that gave IOC sovereign rights over Mozambique's seas and coastlines? The answer to this question might lie in coordination problems between institutions, but it might also have something to do with political incentives to decide such matters in a way that is different from the previous government, despite the relatively weak knowledge base.

Furthermore, the idea of an emerging powerful ruling-elite faction creating space for rent-seeking in the future might also have blocked rational decision-making by using the designated state institutions such as INP or ENH. According to interviews in INP and ENH, the Ministry of Transport and Communications (MTC), which took the lead in the negotiations with the concessionaires, together with the Ministry of Sea, Inland Waters and Fisheries (MIMAIP) and the Ministry of Land, Environment and Rural Development (MITADER) – the three main government institutions involved in negotiating and approving the LNG Marine Concession – were not been keen to take advice from the petroleum agencies.<sup>163</sup>

A proposal written by ENH dating from June 2015 offered advice about the construction of the LNG Jetty Terminal and the Material Offloading Facilities, while strongly recommending that the government should avoid making any concession over granting exclusive access to the concessionaires. If this position were to become particularly difficult, the document proposed instead reducing the area covered by the right to exclusive access to the minimum possible.<sup>164</sup> The document therefore explained that any decisions on exclusive access would undermine potential domestic gas-related projects, such as the projects to convert gas to liquid (GTL), fertilizers, petrochemicals and methanol, etc., including construction of the state port terminals that had been planned since the PCD was set up. All these projects will to some extent require access to the sea, and to land as well. In some

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<sup>163</sup> Interview with senior officials at INP and ENH (Maputo, August and October 2018).

<sup>164</sup> ENH (2015), 'Memorando: Projecto de LNG – Interpretação do artigo 12 e 13 do Decreto-Lei No. 2/2014, de 2 de Dezembro. Concessão para a Terminal Marítima e Porto de Descarga de Materiais'. 27 de Junho de 2015 (document not available to the public).

cases, other projects need to be closer to the source of the feedstock, the natural gas, in order to operate in the best possible manner.

In an interview, one of Shell's senior official (one of the companies awarded a contract to develop domestic gas projects) claimed that access to the common facilities that are to serve operations in Areas 1 and 4 was critical to the implementation of their proposed GTL project.<sup>165</sup>

In sum, the government has shown that it is ill-prepared to deal with multinational companies, yet it has deliberately sidelined its own institutions in the petroleum sector, which could have provided it with valuable advice over policy decisions in the sector (actually advice was received but not used). Although the concessionaires are quite justified in expressing the concerns they have been voicing, the exclusive right of access to the LNG marine terminal area will likely undermine the country's participation in the downstream operations of natural gas projects in the Rovuma Basin, with important consequences for revenue collection and the formal capture of rents by the state. This will also pose serious challenges to the development of the local industry associated with the Rovuma Basin natural gas in respect of the existing awards of domestic gas projects (see below, next sub-section).

The government only belatedly understood that something had gone wrong when it became aware of all the potential barriers to the implementation of domestic gas-related projects. The consequence of all this is the potential proliferation of infrastructure providing the same service, which would be onerous for the state due to its inability to recover the costs. These could be avoided if the principle driving the government's idea of unifying the logistical infrastructure in order to serve the petroleum operations was at all certain in this regard. Using the same infrastructure to serve different operators is perfectly possible, but potentially it is only feasible under a non-exclusive access regime, which is currently the big issue between the international oil companies and the government.

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<sup>165</sup> Interview with a senior official from Shell (Maputo, August 2019).



Why did the government hand over the exclusive right of maritime access and land to the IOCs? Much suggests that it was connected with the secret debt crisis hitting it hard in 2016, when the IMF and international donors withdrew their support of the country. The Nyusi administration, in collaboration with Guebuza affiliates, tried to get the IOCs to commit themselves fully and finally to the Area 1 and 4 LNG investments. Getting the investments moving was more important than anything else, as these provided the guarantees underpinning the secret loans – substantial interest payments had to be made – and with the IMF withdrawing, access to internationally managed commercial loans had dried up. The key to unlocking international finance was the LNG investments. I will return to the secret loan scandal at the end of the chapter.

In the next section, I analyse the politics of the domestic gas supply and the challenges faced by companies who have been awarded contracts for domestic gas development projects, following the government's public tender for projects to use gas from the Rovuma Basin to ignite the country's new paths to industrialization and the diversification of natural gas use to produce liquid fuels, power, fertilisers and other feedstocks.

## 7.5. The politics of domestic gas

### 7.5.1. Rovuma LNG and domestic gas-related project development

The government approved Anadarko's Plan of Development (PoD) for the Golfinho/Atum field on 6 February 2018. Approval of the PoD represented an important milestone towards a FID, which was then announced on 18<sup>th</sup> June 2019 in Maputo.<sup>166</sup> The PoD envisages two LNG train projects with a capacity of 12.88 million tonnes per annum (mtpa). The total investment for the project is \$20 billion US dollars.<sup>167</sup> This amount should be indicative, based on the concessionaires' own

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<sup>166</sup> Anadarko Petroleum Corporation (June 18, 2019), Anadarko announces Mozambique LNG Final Investment Decision. Retrieved from: [Anadarko Announces Mozambique LNG Final Investment Decision \(prnewswire.com\)](https://prnewswire.com/news-releases/anadarko-announces-mozambique-lng-final-investment-decision-301121221.html).

<sup>167</sup> Mozambique LNG (sd), About the Mozambique liquefied natural gas project. Retrieved from: <https://mzlmg.totalenergies.co.mz/en/about-mozambique-liquefied-natural-gas-project>

projections, but it may fall within the amount or be a little more, depending on the results of the Front-End Engineering Design (FEED).<sup>168</sup>

The Italian oil company Eni commissioned the construction of a \$2.5 bn Floating LNG. In the mid-November, Samsung Heavy Industry (SHI) the company contracted to build the facility completed the construction and a christening ceremony of the FLNG vessel was held at the SHI's shipyard in Geoje Island, South Korea led both by President Nyusi of Mozambique and Moon Jae-in of South Korea.<sup>169</sup> This FLNG facility will be dedicated to the production of gas from the Coral South field. The FLNG in Area 4 will be the first ever in Africa and only the third in the world (PWC, 2017).

The British Petroleum Company p.l.c. (BP), the UK oil company, reached a long-term agreement with Eni to buy all the LNG produced from the Coral South field.<sup>170</sup> The final investment in the project is valued at \$7.0 billion dollars,<sup>171</sup> which represents a reduction of \$1.0 billion from the previous projection after the FEED was drawn up. In addition, two trains will be built onshore on the Afungi peninsula led by ExxonMobil, assuming that this project will actually be implemented: rumours have been circulating regarding ExxonMobil's potential abandonment of the project in the wake of pressure for investments in less carbon-emitting forms of energy amidst the growing concern over climate change.

ExxonMobil submitted its PoD in July 2018, and the government approved it during the first semester of 2019. This IOC will operate the Mamba natural gas field which is stranded with the Prosperidade field in Area 1, for which a joint operation between the operators of the two areas was agreed under the Unitization and Unity

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<sup>168</sup> In the petroleum industry, the FEED is an engineering process following a feasibility study or project design that focuses on the technical requirements and determination of the precise cost of investments for the project.

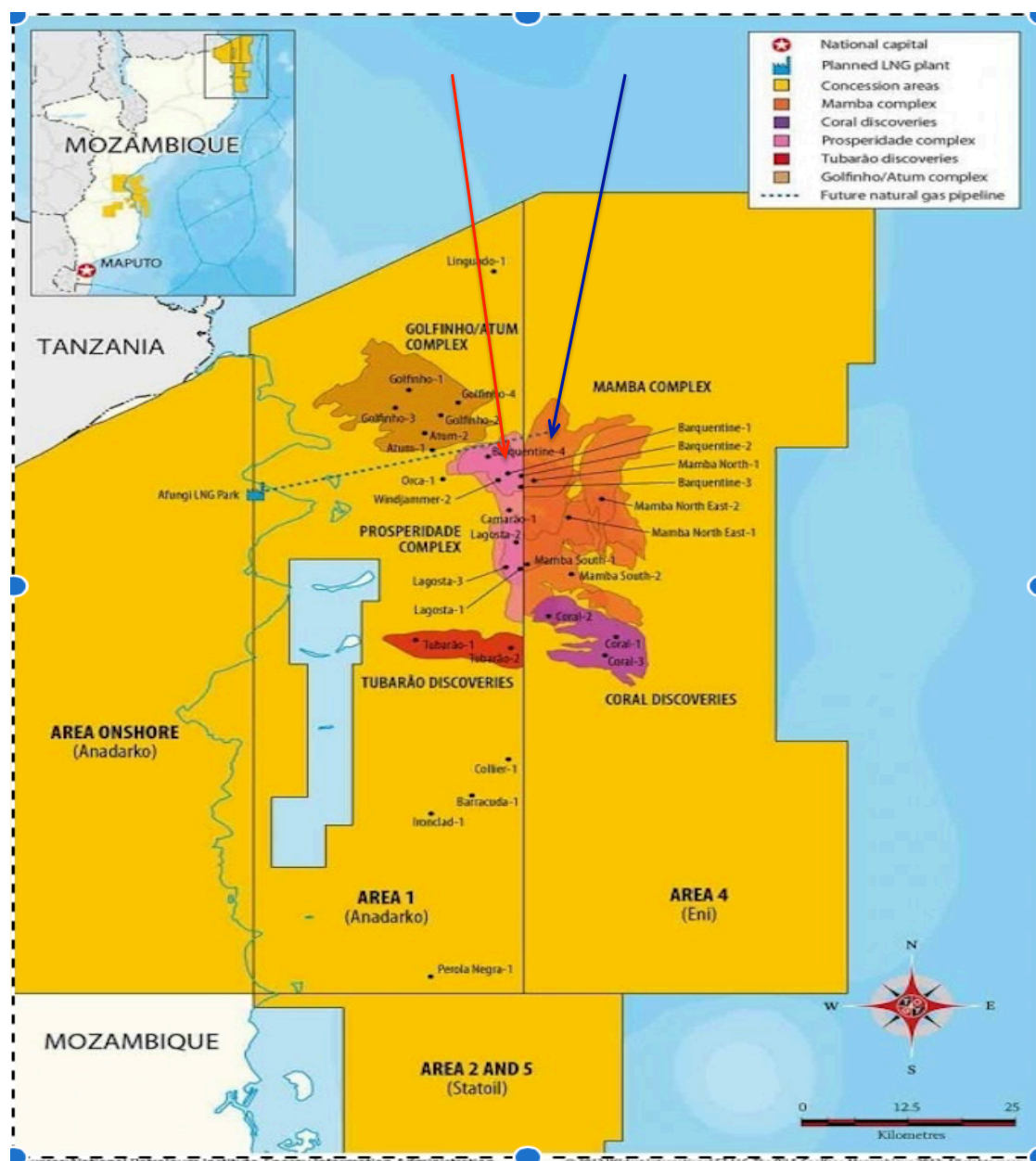
<sup>169</sup> The Maritime Executive (2021, November 15), Samsung delivers \$2.5 B FLNG Plan for Mozambique's Coral South Field. Retrieved from: <https://www.maritime-executive.com/article/shi-completes-flng-facility-for-mozambique-s-coral-south-project>.

<sup>170</sup> Zitamar News (2018, October 30). Eni to use Pemba and Nacala ports as base for Coral drilling. Retrieved from: <https://zitamar.com/eni-use-pemba-nacala-ports-base-coral-drilling/>.

<sup>171</sup> Ibid.

Operation Agreement (UUOA) signed in 2015.<sup>172</sup> Map 5 below shows the current oil and gas fields in the Rovuma Basin, the arrows showing the Mamba and Prosperidade straddling reservoirs.

Map 5. Rovuma Basin concession areas and the straddling fields



Source: National Institute of Petroleum; 2013 Wildcat International FZ-LLC.

<sup>172</sup> Zitamar News (2015, December 03), Anadarko achieves new Mozambique LNG milestones: Utilization Agreement with Eni / MoU for domestic gas. Retrieved from: <https://clubofmozambique.com/news/anadarko-achieves-new-mozambique-lng-milestones-unitization-agreement-with-eni-mou-for-domestic-gas/>.

The two arrows on the map indicate the two complexes of fields straddling the two Areas (Areas 1 and 4) operated by Total Energies and Eni/ExxonMobil respectively. The purpose of the agreement is to combine the two complexes as a unit, to be developed jointly by the two operators, thus avoiding a situation in which one operator could pump gas away from the other operator's adjoining reservoirs.

Under the UUOA, the operators of both Areas agreed to develop up to 24 trillion cubic feet (tcf), or 12 tcf from each Area, in a coordinated but separate manner.<sup>173</sup> However, it has also been agreed that, once 24 tcf has been produced, the operators will establish a joint venture with a 50% stake for each concessionaire for subsequent development of the Unit. As indicated earlier, the Gas Master Plan formally determined that gas from Rovuma is key to the development of domestic industry and the diversification of uses of gas (Cabinet Council, 2014). Accordingly, the Ministry of Mineral Resources (MIREME) launched a public tender to find companies with the capacity and willingness to develop the country's critical industry-related natural gas projects using the roughly 20% of domestic gas from Areas 1 and 4. Below, Table 13 lists the companies that submitted their bids to the public tender.<sup>174</sup>

Table 13. Companies involved in the tender for the project to use gas

No.	Company Name
01	Mitsui
02	Engro Fertilizer
03	Shell Mozambique BV
04	Electricidade de Moçambique (EDM)
05	Yara International
06	Marubeni
07	GL Africa Energy (GLAE)
08	Muinvest
09	Auto-Gas

<sup>173</sup> Offshore Energy (2015, December 3), Anadarko: Mozambique LNG project takes steps forward. Retrieved from: [Anadarko: Mozambique LNG project takes steps forward - Offshore Energy \(offshore-energy.biz\)](http://offshoreenergy.biz).

<sup>174</sup> Africa Business Communities (2017, February 3), Mozambique Government awards three contracts for gas development projects. Retrieved from: <https://africabusinesscommunities.com/news/mozambique-government-awards-three-contracts-for-gas-development-projects/>

No.	Company Name
10	Epsilon
11	Jiangsu Sinochem Construction
12	Union-JNC-JSPDI-VBC-SAL Consortium
13	Gas Nosu
14	MOTSE

Source: Africa Business Community:

<https://africabusinesscommunities.com/news/mozambique-government-awards-three-contracts-for-gas-development-projects/>

In 2017 a list of companies awarded contracts for gas-development projects was made public. Only three companies were selected, namely Norway's Yara International, Royal Dutch Shell and the British firm Great Lakes Africa Energy (GLAE).<sup>175</sup> Since then companies have been negotiating with the government over the technical issues for the project's implementation when the production of gas starts. One critical issue that emerged was the availability of natural gas, which is the primary feedstock of these industries, added to the issue of access to sea and land.

Yara International was granted an allocation of 80-90 million cubic feet per day (mmscf/d) of gas to produce 1.2-1.3 mtpa of fertilizers. It also plans to build a 30-50MW power plant to produce electricity. Shell is asking for 310-330 mmscf/d of gas to convert gas to liquid (GTL). The project will produce 38,000 barrels per day (mb/d) of liquid fuels (diesel, naphtha and kerosene). It also involves construction of a 50-80MW power plant and the production of 1200m<sup>3</sup> per day of treated water, which will also be used for agricultural irrigation. Finally, GL Africa Energy was granted 41.8 mmscf/d of gas for a concession to build a 250MW power station.

The provision of gas to allocate to the domestic market in the form of domestic gas received by the ENH as one of the LNG concessions was nonetheless not clearly guaranteed. Contentious issues concerning price have emerged since then. Although the Gas Master Plan provides a clear perspective on diversified ways of monetizing Rovuma's domestic gas, the main ideas of the ruling elite and the local private sector rest on the transformation of gas into electricity and power, as it happened with

<sup>175</sup> African Energy (2017, February 3), Mozambique: Domestic gas projects. Retrieved from: [Mozambique: Domestic gas projects | African Energy \(africa-energy.com\)](https://africanenergy.com/mozambique-domestic-gas-projects/).

Sasol's gas in the south of the country. According to information from senior officials from EDM, the company is negotiating with Shell and potential investors to establish a partnership for the construction of power-generating plants. The subsection below discusses the issues of the potential unavailability of enough natural gas to satisfy the domestic gas projects that have been awarded so far.

#### 7.5.2. Uncertainty over the availability of domestic gas

The status of the industrial projects approved so far described in the subsection above is therefore at present unclear due to the lack of sufficient domestic gas to ensure their implementation. The government continues to engage in conversations with concessionaires to agree a viable deal for the quantity demanded from these projects. In the meantime, the current commitment from concessionaires indicates that only a limited volume of natural gas for domestic purposes will be available from Anadarko's Golfinho/Atum project.

Golfinho/Atum is a field located in Area 1 from which Anadarko (now Total) and its partner in the concession have committed to allocating up to 400mmcf/d to the domestic gas supply. Anadarko argued that this quantity of natural gas will only be allocated in two different phases.<sup>176</sup> In the first phase, from the start of extraction, the company will provide the domestic market with only 100mmcf/d. In the second phase of implementation of the same Golfinho/Atum field project, it will make available 300mmcf/d.<sup>177</sup> When the second phase will begin after the first phase has been initiated is not clear, as project development has been postponed several times.

In an article written by David Pilling and published in the *Financial Times* (November 13, 2018), the director of Shell GTL's project in Mozambique, Moon Hussain, accused Anadarko of obstructing Shell's plan by refusing to supply gas until the second phase

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<sup>176</sup> Zitamar News (2016, December 6), Mozambique government approves five decrees to unblock stalled LNG projects. Retrieved from: <https://zitamar.com/mozambique-government-approves-five-decrees-unblock-stalled-lng-projects/>.

<sup>177</sup> Zitamar News (2017, June 13), Mozambique government signs three agreements with Anadarko's LNG project. Retrieved from: <https://zitamar.com/mozambique-government-signs-three-agreements-anadarkos-lng-project/>.

of implementation of the Golfinho/Atum project, which is not expected to start until 2031.<sup>178</sup> The narrative set out in the *Financial Times* article resonates with the views of those in the sector who argue that the lack of domestic gas from Anadarko is a deliberate move to avoid providing gas to a company that is a competitor, and that it has never demonstrated any genuine interest in engaging in petroleum exploration and production in Mozambique.<sup>179</sup>

This situation is affecting relations between the two companies, as well as creating a risk of companies withdrawing from the domestic gas-related projects they have been granted.<sup>180</sup> Shell has since been lobbying the top ruling elite, including President Nyusi, with the aim of influencing decisions on the matter. Shell's project is critical for both the company and the government of Mozambique. The project represents an important game-changer for Mozambican manufacturing industry and the country's industrial development, an important step in changing the country's current dependence on imported GTL.

The low level of agricultural productivity could benefit from an increase in production due to the availability of fertilizers and water for irrigation, both of which will be produced by the project. Furthermore, the project will also provide significant revenues to the state coffers. A macroeconomic study of Shell's proposed project, developed by Standard Bank (2018), suggests an impressive increase in Mozambique's manufacturing industry, which is expected to account for 48% of the total impact on its GDP.

Eni will not allocate gas to the domestic market from the Coral South FLNG. The total production of gas extracted from the field is committed to the UK oil company BP. In addition, while development of the Coral South field is taking place in the deep sea offshore and involves complex and risky engineering, the LNG plant will be located exclusively offshore. This means that no infrastructure will be developed to connect either site with the onshore coastal area of the Afungi Peninsula, as such an

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<sup>178</sup> Financial Times. Shell and Anadarko in dispute over Mozambique gas.

<https://www.ft.com/content/a83be082-e642-11e8-8a85-04b8afea6ea3>. (accessed 2 January 2019).

<sup>179</sup> Interviews with different individuals involved in the petroleum sector (Maputo, November 2018).

<sup>180</sup> Interview with senior officer of one of the three selected companies (Maputo, January 2019).

arrangement would require massive investments in order to bring the gas onshore. Thus, Eni and its partners on the project did not commit themselves to supplying any domestic gas from the Coral South field.

Government officials have indicated that the first domestic gas that Total will make available is more likely to be allocated to Yara International, as it covers the quantity of gas demanded by the project.<sup>181</sup> However, as the LNG projects have been delayed with no clear timeline for their production, it has also become difficult to prevent Yara from reducing its aim of moving further with development and implementation. It is likely that Shell will have to postpone its project to a later stage if the government fails to obtain Total's agreement to reconsider its plan of delivery in two phases. Total has indicated that any potential increase in the amount of natural gas going into domestic market will be impossible until extraction begins and the quantity of gas in the field has been certified.

The GL Africa Energy has instead recently signed, in November 2021, a Memorandum of Understanding (MoU) with the government of Mozambique to move further with its project to finance, build and operate a \$400 million investment for a 250-Megawatt gas-fired power plant in Nacala, a district located in the northern province of Nampula.<sup>182</sup> According to the proposal for tender submitted by GLAE, the company envisages 5 per cent ownership in the project going to the public utility EDM allocated on the basis of free carry. Under the MoU signed with the government, an additional share of up to 20 per cent will be made available to the participation of EDM and to Mozambican local citizens and companies.<sup>183</sup>

Almost the same arrangement was also agreed with Yara, who left open a proposal to agree ownership of equity of up to 15 percent for a government entity fully or partially owned by the state. Furthermore, a non-carried 5 percent stake of share capital is expected for Mozambican citizens through a listing on the Mozambican

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<sup>181</sup> Interviews at the MIREME (Maputo, August 2018) and INP (Maputo, October 2018).

<sup>182</sup> GL Africa Energy (2021, November 15), Mozambique power, Humphrey Kariuki for domestic use of Rovuma Basin natural gas reserved for power generation. Retrieved from: <https://www.glaenergy.com/news/rovuma-basin-natural-gas.html>.

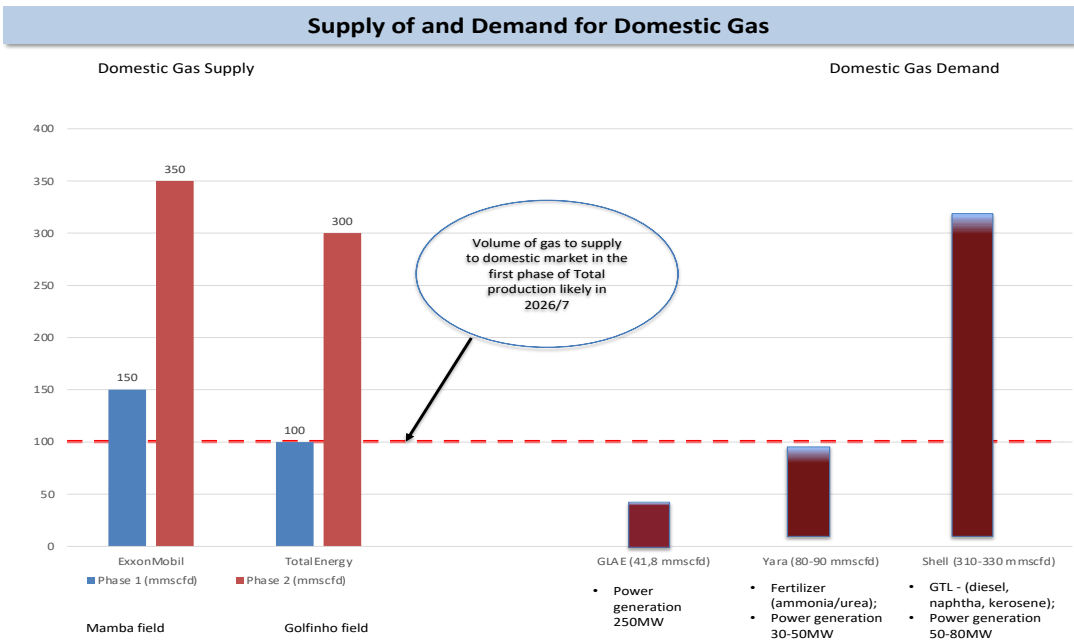
<sup>183</sup> Interview with a senior official in the MIREME (Maputo, July 2018)



Stock Exchange.<sup>184</sup> These arrangements represent the main mechanism under which opportunities for private rents for ruling-elite groups will be made possible from these large-scale project investments in Mozambique.

The ExxonMobil-led project (Rovuma LNG), the stranded Mamba field for which a PoD was approved in 2019, has secured an allocation of gas to the domestic market following the same arrangement as that adopted by Total, to be supplied in two phases. In the first phase of the project, the company will supply 150 mmscfd, and in the second phase 350 mmscfd. However, as the FID for this project has been postponed with no indicative date, it puts considerable pressure on the viability of domestic gas projects.<sup>185</sup> Figure 14 below shows volume of natural gas required by the awarded companies’s domestic gas projects and the volume committed by operators in Areas 1 and 4 of Rovuma Basin.

Figure 14. Domestic gas-related awarded projects



Source: the author.

<sup>184</sup> Proposal for a Memorandum of Understanding (MoU) between the Government of Mozambique and Yara, 2017.

<sup>185</sup> Interview with a senior manager of an international oil company (Maputo, January 2019).

In summary, the current status of the oil companies' commitments regarding the natural gas they are willing to deliver to the domestic market poses a serious risk to the implementation of these awarded domestic gas related projects (see Figure 14 above). The deal-making on domestic gas was apparently conducted as a response to the interests and very specific agendas of a particular faction of the ruling elite, who simply ignored the rules governing the concession contracts before the discoveries of massive stocks of natural gas were made in the Rovuma Basin.

In the oil and gas sector, the rules of the game defined under national and international legislation are key to the IOCs, as they provide protection against potentially harmful policy changes and the corrupt behaviour of domestic elites. In the following section, I explore why the government is failing to secure a deal with the concessionaires on domestic gas, despite the crucial importance of this for economic transformation, and particularly for the economic diversification of natural gas uses and industrialization.

#### 7.5.3. Government lacks leverage to commit companies to supply gas

The issue of domestic gas related to Rovuma Basin LNG is much more complex than it seems at first glance. The launch of tenders for domestic gas projects clearly comes from the government's Gas Master Plan policy and is also covered by the Petroleum Law (2014), which stipulates the need to maximize the use of natural gas to boost the country's industrialization and diversify the economy (Cabinet Council, 2014; Standard Bank, 2018; 2019).

The government's decision to select only international, well-established, financially robust companies with experience in transforming natural gas through gas-to-liquid (GTL), fertilizers, electricity and other relevant feedstock suggests that it was serious regarding the country's gas-related economic development plans. The three natural gas-based industrialization projects were assumed to be strategic to the country. This also met Parliament's wishes reflected in the efforts it made to increase the percentage of natural gas to be allocated for domestic market. But securing domestic gas became a paradox, as it cannot be guaranteed under the existing

Decree framework governing the Areas 1 and 4 concessions (Standard Bank, 2018, p. 11).

Interestingly, if the Petroleum Law (2014) establishes a requirement for 25% of gas produced to be allocated to the domestic market, a deal between the government and the international oil companies operating in Areas 1 and 4 removed this requirement by making it non-applicable to these two Areas, which were governed by a special legal instrument. To some extent, the rules of the game changed with the entry into force of Decree-Law 2/2014<sup>186</sup> of 2 December, also known as the Special Decree-Law for Rovuma Area 1 and 4 operators, which supersedes the general law. Furthermore, the concession contracts signed in 2006 deliberately left out considerations regarding domestic gas. Therefore, the concessionaires may seek to fulfil the government's demands regarding domestic gas deals if they find this economically justifiable, despite friendly negotiations recognizing that companies are not compelled to deliver gas to the domestic market.

On 5<sup>th</sup> February 2019, Anadarko announced the signing of a Sale and Purchase Agreement (SPA) with Shell International Trading Middle East Ltd. for 2 million tonnes of LNG per annum (Mtpa).<sup>187</sup> This announcement created confusing perceptions and interpretations among those interested in the dynamics involving the contentious negotiations over domestic gas which involves Shell's subsidiary in Mozambique. The question emerging from that announcement was how the deal with Shell International Trading Middle East Ltd is related to, or bypasses, the critical issue of 'domestic gas'? The large-scale investments in the Rovuma Basin were primarily developed to export gas to the global LNG market. Hence, although Shell is struggling to acquire enough domestic gas to produce GTL and power, supplier companies are not interested in selling gas under unfavourable economic conditions.

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<sup>186</sup> Decree 2/2014, of 2 December, establish special legal and contractual arrangements governing the Rovuma Basin project, and introduce special labour rules and conditions. The Decree-Law 2/2014 is only applicable to concessionaires in Areas 1 and 4.

<sup>187</sup> Anadarko Petroleum Corporation (APC) (2019, Feb 5), 'Anadarko announces LNG Sale and Purchase Agreement with Shell': <https://www.prnewswire.com/news-releases/anadarko-announces-lng-sale-and-purchase-agreement-with-shell-300789464.html>.

According to officials representing both companies and the government, Shell is willing to obtain gas for its GTL project at a lower price (well-head price). This contradicts the expectations of the concessionaires, which instead are interested in entering into long-term agreements at a good price for the LNG. Thus, seemingly complicated negotiations between Total and Shell over domestic gas did not undermine the negotiations for big business that led to the long-term SPA with Shell's subsidiary in the Middle East, as the business is critically important for both.

Furthermore, and as mentioned previously, it is important to understand that domestic gas was not part of the main framework governing the deal between the government and the concessionaires in Areas 1 and 4. In principle, the Petroleum Law (2014) does not overlap with previous legal provisions established under the concession contract (2006), nor with those in the special regime which was ring-fenced against all the legal powers that emerged out of the established rules of the game. What has been achieved in this regard as part of the deals involving the government, Anadarko (100+300 mmscfd) and ExxonMobil (150+350 mmscfd) represents an effort of goodwill, as the company argues and as seems to be accepted by the government as well. Even though this effort to supply domestic gas remains dependent of the production of gas, yet unclear when it will happen.

More probably Shell will abandon the project or will decide to accept a price that satisfies both parties, and the government will pretend to toughen up its negotiations with the companies. I understand that, despite the established agreements and rules, it is still possible to find a way around this controversial issue. The role of the government in this is key, as the lack of the required volume of domestic gas will clearly undermine the idea of using natural gas to stimulate the country's industrial development, bearing in mind that this represents a unique opportunity for Mozambique to move toward such an objective.

I argue that the ruling elite is likely to engage in ensuring the implementation of domestic industrial development projects if it sees opportunities to participate in the projects themselves. Thus, projects driven exclusively by foreign companies may face some difficulties in guaranteeing that they will be smoothly implemented. I also

argue that, while the ruling elite seeks to find appropriate 'gates' with which to increase state revenues, to some extent it is strongly driven by the incentive to secure private rents from domestic industrial policy development associated with these massive investments in natural gas.

The existing proposed projects for manufacturing industries have since attracted ranking members of the ruling elite interested in securing a share of the project, but without their contributing any capital to it, which they lack. Companies such as Shell, although open to participation by local interests, conceive of such participation strictly as a proportional contribution by shareholders through the investment of capital. This obviously creates limitations for the ruling elite's participation in natural gas-related project development, including participation through ENH, which is also struggling to raise a loan of \$2 billion to secure its own participation in the Rovuma Basin gas project. It seems to be facing significant challenges due to the current economic and financial crisis, which is mostly related to the hidden debt scandal.

#### 7.5.4. The return of the Sasol model of rent-seeking

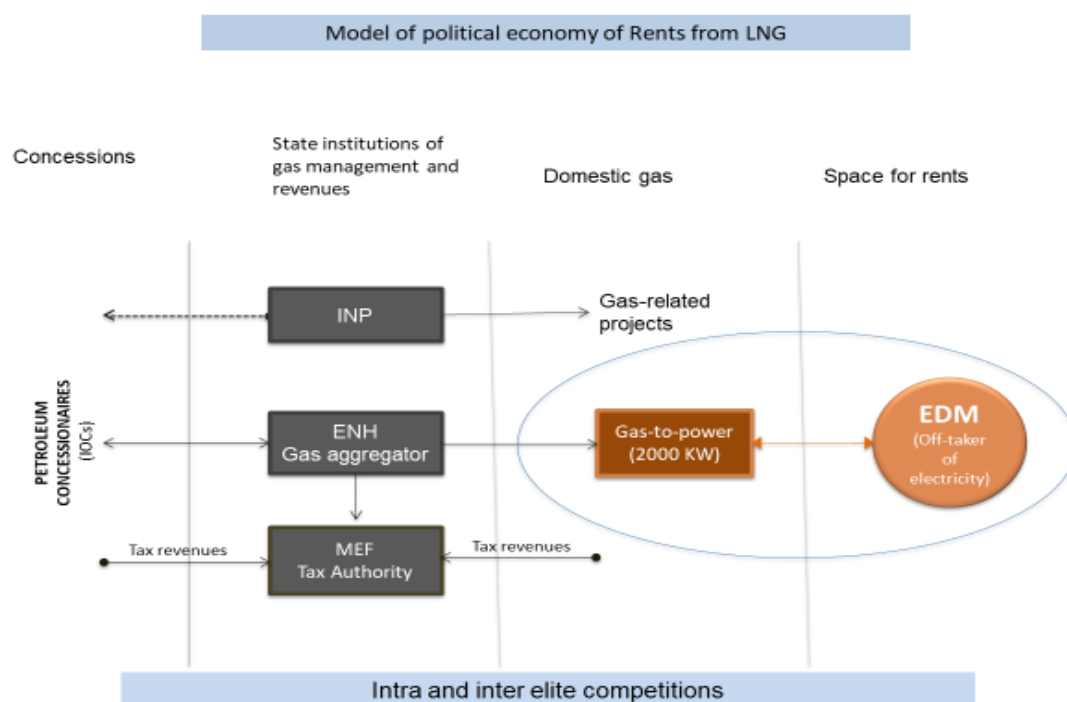
In November 2019, the French oil giant Total Energies signed a joint agreement with Gigajoule Group for annual imports of 200 million metric tonnes of LNG for the generation and consumption of electricity in both Mozambique and the regional southern Africa market more generally.<sup>188</sup> From the Sasol natural gas and pipeline projects discussed in Chapter 6, we learned about the arrangements that facilitated a gas-fired power station to be operated jointly with local partners with strong links to particular ruling party factions using the Sasol natural gas (Salimo et al., 2020). Under the Total and Gigajoule deal, the French oil giant will supply LNG from Rovuma to a floating storage and regasification unit to be anchored in the port of Matola, outside Maputo. The Matola Gas Company (MGC), a company owned by ENH, and private groups linked to the ruling party (also discussed in Chapter 6) will be in charge of the distribution of the gas through the MGC's pipeline infrastructure.

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<sup>188</sup> Gigawatt (2019, November 27), Gigajoule and Total sign joint development agreement. Retrieved from: <https://www.gigawatt.co.mz/en/news/gigajoule-and-total-sign-joint-development-agreement/>.

This deal aims to feed a planned 2000-MW gas-fired power plant,<sup>189</sup> the Beluluane Thermal Power Plant (CTB), to be built in the Beluluane Industrial Park, where is also located the first mega-project in Mozambique, the Mozal aluminium-smelter project in Matola.<sup>190</sup> A complementary pipeline will link the storage and regasification unit in the port of Matola to the CTB. The project resembles the Sasol model of rent-seeking (see Figure 15 below), as it allows both the party and key factions of it, including the Nyusi faction, to benefit from Total's arrival on the LNG scene. According to Gigawatt, the CTB project will be developed in two phases, the first of which is likely to start in the second half of 2022, with the capacity to generate 500 Megawatts.

Figure 15. Model of political economy of rents from LNG



Source: The author

<sup>189</sup> See Club of Mozambique (2019, November 30), Mozambique: Total and Gigajoule sign gas import agreement – AIM Report. Retrieved from: <https://clubofmozambique.com/news/mozambique-total-and-gigajoule-sign-gas-import-agreement-aim-report-148274/>.

<sup>190</sup> Mozal is a \$2.4 billion-plus joint venture between the Australian BHP Billiton (47.1%), Japanese Mitsubishi (25%), the Industrial Development Corporation from South Africa (24%) and Government of Mozambique (3.9%) (see Aurre and Jaén, 2019).

The 2000 MW gas-fired power station will involve an investment estimated to be around \$2.8 billion,<sup>191</sup> but funding for it has not yet been secured. However, Total is emerging not only as a supplier of natural gas but also as a partner in the gas-to-power station and is expected to raise the finance for the project. The power plant is projected to supply electricity to Mozal in Mozambique and other consumers, as well as other countries in the southern African region, including Botswana, South Africa and Eswatini (formerly Swaziland).<sup>192</sup> The plan could potentially boost the volume of natural domestic gas that Total originally committed to deliver (400 mmcf/d, in two phases) to the domestic market under its Plan of Development for the Golfinho/Atum Project, approved by the government in 2017, although the joint agreement between Total and Gigajoule indicates different options for LNG imports, including from other countries, given that Total LNG production in Area 1 of Rovuma Basin is not expected to start as originally planned.

It is likely that, with the arrival of Total, more gas could be made available to domestic market, turning the company's arrival into a plus-sum-game, given its relatively long-standing presence in the country and the warm welcome the company received from the Nyusi government. But it can also turn out to be a zero-sum game. The 2000 MW gas-fired power station seems to be faced with straight competition with the Rovuma Basin, that is, the three tender projects from Shell, Yara and GL Africa, over domestic gas.<sup>193</sup>

This potentially bodes ill for Mozambique's industrialization efforts, which are now thinly spread among the increasing number of elite groups that need accommodating. As the next party congress, scheduled for 2022, will have to select a new presidential candidate for the general elections in 2024, the competition over opportunities for rent-seeking can only be expected to increase further, as it is also emerging within public debates on social media. In particular, a potential plan has

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<sup>191</sup> Gigawatt (2019, November 27), Gigajoule and Total sign joint development agreement. Retrieved from: <https://www.gigawatt.co.mz/en/news/gigajoule-and-total-sign-joint-development-agreement/>.

<sup>192</sup> Idem.

<sup>193</sup> Persistent rumours suggest that the new company, which has a capacity to produce 2000MW, is a kind of gift to the President from TotalEnergies after successfully and speedily negotiating the acquisition of Anadarko's Mozambican assets. Nyusi will leave office after the 2024 general elections. It will be interesting to see if (assuming the rumours to be correct) he can hold on to the company.

been mooted to give Nyusi a third term, even though that would be against the present constitution.

In the following section, I draw on a discussion of the \$2 billion hidden debt that the Guebuza administration placed its hands on as part of an arrangement to establish a domestic capacity for the security service to cover offshore oil and gas operations. This plan was also used strategically to milk illegal rents in collusion with international actors in world-class companies in the supply of marine equipment and defence systems, as well as with western banks, in anticipation of revenues from the LNG that would be used to guarantee debt repayments.

#### 7.6. The secret debt scandal and anticipation of rents from LNG

The massive extractive boom in natural gas in the offshore Rovuma Basin generated extremely high expectations (Macuane et al, 2018; Frynas and Buur, 2020) both internally and outside the country. This is clearly understandable. Mozambique is one of the world's poorest countries, with millions of people living below the income poverty line. The Family Expenditure Survey (*Inquérito sobre o Orçamento Familiar*, IOF 2014/15) published by the National Institute of Statistics (INE) shown that by 2014/15, up to 46.1 per cent of the population were living below the national poverty line (see also UNDP, 2021).

Recent figures from the IOF 2019/20 shows a dramatic increase in poverty during the last five years. About 75 per cent of the population spend less than a \$1 per day, and more than 90 per cent are under the World Bank international poverty line of \$1.90 per day (INE, IOF 2019/20). As in many African countries, in a country with such a poor economy that is unable to sustain a level of economic growth capable of triggering development and a balanced minimum of income redistribution, the existence of huge expectations over the boom in natural gas could hardly be otherwise. Even among international financial institutions, there are the same expectations regarding the massive natural gas discoveries in Cabo Delgado. The



IMF, for example, sees LNG as the future game changer for Mozambique's economic transformation.<sup>194</sup>

Investments in future Mozambican LNG are forecast at around \$60 billion or more, which is substantial. Expected revenues from LNG exploitation are likely to reach about \$95 billion over the course of 25 years of project implementation,<sup>195</sup> although recent studies contest the previous projection of revenues for Mozambique, arguing that the potential revenues captured from LNG will be much lower than expected (West and Lépez, 2021, pp. 10-13). This view was expressed by making comparisons with the INP (2018) projection of \$49 billion, while for West and Lépez, (2021) the revenues will only be around \$18.4 billion instead, of which about 60 per cent will only flow into state coffers after 2040 (West and Lépez, 2021). Critical to this analysis is the understanding that it is fallible due to the severe difficulties in establishing a consistent trajectory of oil and gas prices and demands in the medium and long term. Furthermore, the facts underlying the West and Lépez analysis only relate to two of the three LNG projects in Rovuma Basin, based on the existing projects, with the FID already sanctioned.

The \$95 billion in revenues estimated by the *Daily Maverick*, almost the same as the \$96 billion indicated in an article by *World Finance*,<sup>196</sup> seven times the country's GDP in 2017, which was less than \$13 billion. According to figures from the *Daily Maverick*, the LNG projects in the Rovuma Basin have the capacity to generate up to \$5 billion in revenues annually and increase GDP by between \$15 billion and \$18 billion per annum.<sup>197</sup> As suggested by President Guebuza in a speech at Chatman House, London, on 9 May 2012, this would allow Mozambique to 'make [the] poor

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<sup>194</sup> International Monetary Fund (IMF) (2019, November 21), Regional. Economic outlook for sub-Saharan Africa 2030: Challenges and opportunities for Mozambique. Retrieved from: <https://www.imf.org/en/News/Articles/2019/11/21/sp21112019-regional-economic-outlook-for-sub-saharan-africa-2030-mozambique>.

See also, World Finance (2021, August 17), Mozambique is walking an LNG tightrope. Retrieved from: <https://www.worldfinance.com/infrastructure-investment/mozambique-is-walking-an-lng-tightrope>.

<sup>195</sup> Hill, M (2019, May 16). Mozambique expects \$95 billions of gas revenue over 25 years. Retrieved from: <https://www.bloomberg.com/news/articles/2019-05-16/mozambique-expects-95-billion-of-gas-revenue-over-25-years>.

<sup>196</sup> World Finance (2021, August 17), Mozambique is walking an LNG tightrope. Retrieved from: [Mozambique is walking an LNG tightrope | World Finance](https://www.worldfinance.com/infrastructure-investment/mozambique-is-walking-an-lng-tightrope).

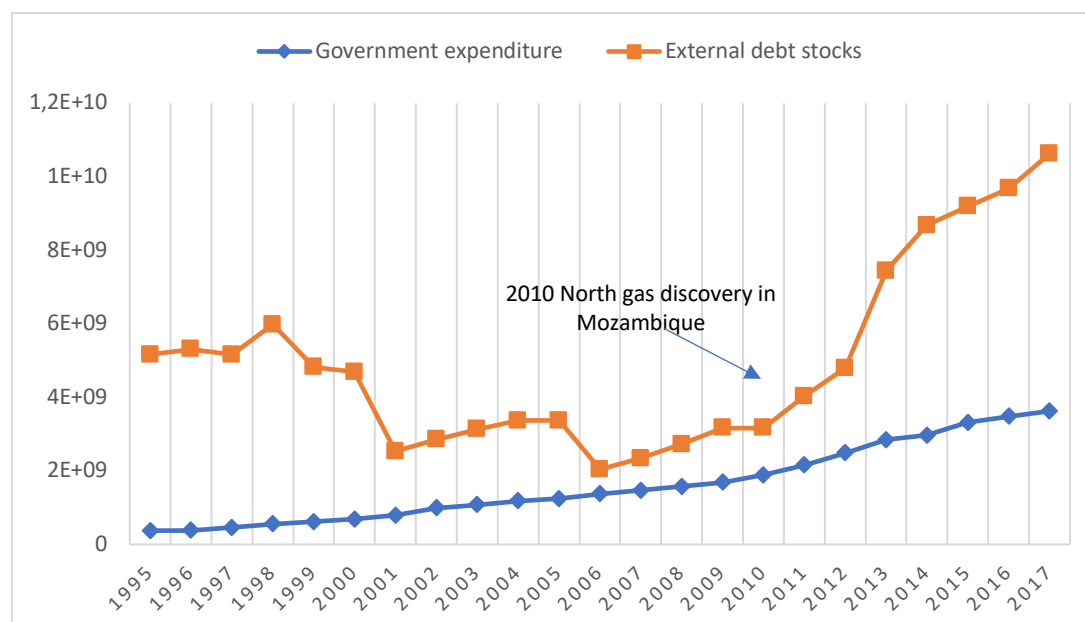
<sup>197</sup> Planting, S. (2019, September 24). Gas in Mozambique – a \$128bn opportunity. Retrieved from: <https://www.dailymaverick.co.za/article/2019-09-24-gas-in-mozambique-a-128bn-opportunity/>

history [by creating the] right not to be poor’ by ‘Harnessing Mozambique’s Mineral Wealth, as the title of his speech suggested (President Guebuza quoted in Marcum 2018, p. 182). This would catapult Mozambique into achieving ‘middle power status’ within ten to fifteen years (ibid.).

The time horizon in 2010 was initially five to eight years, but this was later pushed back to 2020 and is now more realistically expected to begin in 2022/3 as far as the FLNG project on the Coral South field is concerned, and potentially in 2026/7 for Total Energies’ Area 1. Prudence suggests that more constant revenue streams will potentially become available from the late 2030s or early 2040s, when the initial costs have been recovered.<sup>198</sup>

One of the most striking outcomes of the gas discoveries has been that Mozambique’s external debt has increased very sharply since the large gas discovery in 2010, when it became known that massive quantities of natural gas would become available in the near future. Figure 16 shows the trends in government expenditure and foreign debt in Mozambique, 1995-2017.

Figure 16. Mozambique government expenditure and foreign debt, 1995 - 2017



Source: (Frynas and Buur, 2020)

<sup>198</sup> Interview with senior officials at INP and ENH (Maputo, August 2020).

During President Guebuza's second administration, the government and the Serviço de Informação e Segurança do Estado (SISE) hastily set up a series of state-owned enterprises (SOEs) that in 2013-14 secretly took out three loans totalling around \$2.0 billion, backed by state guarantees. The companies and the loans were ostensibly designed to invest in marine security to protect offshore gas operations like tuna fishing in order to create a natural industry, as well as manufacture various security gadgets related to surveillance, weaponry, radars and transport, including a marine repair yard.

As mentioned earlier, the loan went to three private companies<sup>199</sup> that were closely related to the national intelligence agency, SISE, namely Mozambique Asset Management (MAM, \$535 million), Proindicus (\$622 million) and *Empresa Moçambicana de Atum* (EMATUM, \$850 million).<sup>200</sup> The loans were agreed by two banks, Credit Suisse and VTB Bank. They were signed off by the then Minister of Defence, Filipe Nyusi, the former minister of Finance, Manuel Chang, high-ranking national bank officials and a host of other high-ranking state officials.<sup>201</sup> Below, Table 14 presents details of the companies created under the hidden debt scam, together with the names of the shareholders and the related loans with state guarantees.

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<sup>199</sup> The three companies apparently own a fourth company, VIPAS (VIP Asset Management), which was created in February 2016 to supply protection services to embassies (see *Africa Confidential*, Secret security debts devastate economy, 13th May 2016).

<sup>200</sup> The EMATUM loan came to the IMF's attention in September 2013, when the syndicated loan was sold on the international bond market and was turned into a Eurobond loan in 2016. The two other loans were formally first discovered in 2016, but there is strong evidence that IFIs should have identified the influx of money far earlier, during routine audits of the National Bank and the Ministry of Finance.

<sup>201</sup> In fact, a similar scam as that involving Privinvest had been offered to Nigeria in 2014, but the then finance minister, backed by President Goodluck Jonathan, decline the offer (see Ngozi Okonjo-Iweala, 2018, *Fighting Corruption is Dangerous: The Story behind the Headlines*. Cambridge and London: The MIT Press. <https://mitpress.mit.edu/books/fighting-corruption-dangerous>).

Table 14. Secrete loans with the State guarantee

<b>Borrower – The Company</b>	<b>Loan (million US\$)</b>	<b>Establishment of the company and the shareholders</b>	<b>Purpose</b>	<b>Loan arranger (The Bank)</b>	<b>Signature for loan</b>
Proindicus	622	January 2013  (Monte Binga 76%; GIPS/SISE 33%)	Implementation and management of integrated system of security	Credit Suisse (London branch) (\$504 mn) and VTB Bank (London Office) (\$118 mn)	28 February 2013
Mozambique Tuna Company (EMATUM)	850	August 2013  (IGEPE 33.33%; EMOPESCA 33.33%; SISE 33.33%)	Tuna-fishing assets (\$350mn), and maritime security equipment (\$500mn)	European Bond Market (sale handled by Credit Suisse \$500 mn, and VTB \$350 mn)	21 March 2013
Mozambique Asset Management (MAM)	535	May 2014  (SISE 98%; Ematum 1%; ProIndicus 1%)	Naval shipyards in Maputo and Pemba to maintain and repair vessels	Russian State- Owned Bank – VTB (London Office) \$435 mn; and Credit Suisse \$100 mn	20 May 2014

Source: Systematized by the author, based on information from Kroll (2017); Centre for Public Integrity (CIP) and Chr. Michelsen Institute (CMI) (2021); see also, A Verdade (October 11, 2016,) Former finance minister signed loan guarantees. Retrieved from: <https://verdade.co.mz/former-finance-minister-signed-loan-guarantees/>.; Club of Mozambique (February 1, 2017), Proindicus and MAM loans were hidden from audit body – AIM Report. Retrieved from: <https://clubofmozambique.com/news/proindicus-mam-loans-hidden-audit-body-aim-report/>.

A lot has been said over the years about Mozambique’s hidden debt and the economic crises that followed its discovery in 2016 (Hanlon, 2017; Macuane et al., 2018; Frynas and Buur, 2020; CIP and CMI, 2021). The impact of this scam did not take too long to be felt. The country economic growth began to taper off, and its political and financial reputation was severely damaged. The IMF made the immediate decision to suspend its assistance to Mozambique, which was followed by a suspension of budget support by a group of external development partner involved in providing a budget-support mechanism for the country. While initially

Mozambique's total debt service (as a percentage of its exports of goods, services and primary income) increased only slightly from 3.3% to 4.5% during 2010-2014, it subsequently rose sharply from 4.5% to 12.6% during 2014-2018 (Frynas and Buur, 2019).

An international audit financed by Sweden and conducted by Kroll Associates U.K. Limited, revealed a practice of paying bribes to individuals in and outside the government who had strong links with top members of the ruling elite. These bribes also involved payments to high officials in Credit Suisse. Privinvest was the contractor for the loans, a company owned by Franco-Lebanese billionaire Iskandar Safa. The company overcharged the state by at least US\$ 700-800 million out of the US\$ 2.00 billion that was unaccounted for, while the remaining assets were inflated and proved largely useless for the intended purposes (Kroll, 2017; *Africa Confidential*, 28 November 2016). There are strong allegations with strong clear links indicating that the secret loans formed part of an elaborated rent-seeking scam based on predictions of the extent of future LNG-related rents and revenues, which were used as collateral for these loans.

As discussed in Mohan et al. (2017), this same arrangement was also witnessed in Ghana, whereby the acceptance of a \$3bn loan from China was collateralized against future oil earnings, despite there being a law in place against it, which led to the return of an IMF austerity programme. The Director of Chatham House, Alex Vines, argued in timely fashion regarding the Mozambique case that the 'belief that over \$100 billion was being invested into gas prompted the country's elites to seek to carve out their share'.<sup>202</sup> They did so because they could not find any other ways of benefitting from the prospective future riches at a crucial point in time when the elite was transitioning from one presidency to another, while Mozambique itself was potentially transitioning from aid dependence to gas dependence or natural resource dependence.

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<sup>202</sup> See Alex Vines (2016, May 16) How can Mozambique manage its debt crisis? Chatham House. Retrieved from: <https://www.chathamhouse.org/2016/05/how-can-mozambique-manage-its-debt-crisis>.

The secret debt scandal increased the sense of corruption in Mozambique, where even the government (Republic of Mozambique, 2019) had to admit that corruption had increased significantly during both President Guebuza's second term in office (October 2010-January 2014) and Filipe Nyusi's first presidency (from January 2015 to 2019). Unexpectedly, in May 2020, the Constitutional Council/Court of Mozambique decided to nullify MAM's and ProIndicus's debts, just as Ematum's debt had been declared illegal some years before. While the whole scam makes it difficult for Mozambique to access international financial markets, it also provides a platform for contesting the loans internationally, principally in London, as the banks involved are all based there.

Furthermore, following the mess created with the hidden debt and the toughness consequences on financial crisis the country is facing, a public trial began to be conducted by a court in Maputo, involving people accused of receiving bribes, however seen by many as a political trial, as it excludes higher ranked members of the ruling party including the Frelimo party itself. It's argued that the trial is centred in the allies of the former President Guebuza who represents "just a small fish, not the higher profile".<sup>203</sup>

As part of the US and UK investigation into the scandal, Credit Suisse admitted having been involved in fraudulent operations in the financing of Ematum, and both Credit Suisse and the VTB Bank reached an agreement with the US Department of Justice (DoJ), the US Securities and Exchange Commission (SEC) and the UK Financial Conduct Authority (FCA) to pay penalties. However, it is not yet clear whether that represents an end to this scandal as far as the courts in both the US and UK are concerned. Credit Suisse will pay \$475 mn, VTB only \$6 mn.<sup>204</sup> Credit Suisse also agreed to cancel \$200 mn of the \$390 mn Ematum loan. It cannot be assumed that this arrangement will represent a great deal for Mozambique. The consequences of

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<sup>203</sup> For further analysis read BBC News (2021, October 3), Mozambique's tuna corruption scandal puts justice on trial. Retrieved from: <https://www.bbc.com/news/world-africa-58733063>.

<sup>204</sup> The United States Department of Justice (2021, October 19), Credit Suisse resolves fraudulent Mozambique loan case in \$547 million coordinated global resolution. Retrieved from: [Credit Suisse Resolves Fraudulent Mozambique Loan Case in \\$547 Million Coordinated Global Resolution | OPA | Department of Justice](#).

this scandal have been huge, and the country will continue to suffer pressure for the repayment of the loans, despite the efforts the government of Mozambique are making to obtain its cancellation.

While in Mozambique the trial of nineteen defendants allegedly involved in receiving bribes from Privinvest was taking place, it is equally becoming clear that these projects, at least the security, were undoubtedly necessary for Mozambique, given the visible growth of threats to the sovereignty of the state and the important economic opportunities linked to the protection and security of investments in the offshore Rovuma Basin. However, the secret debt scandal had ramifications far beyond the immediate effects on the economy. While direct causality is not easy to establish, it appeared to have affected deal-making related to the LNG investments in the Rovuma Basin, as the government's position in the negotiations was weakened even in respect of its negotiations over land, maritime access and sovereignty, domestic gas provision and the participation of ENH in the LNG projects.

### 7.7. Conclusion

The promising prospects of the natural gas that might be extracted from the new explorations may rapidly bring about the repositioning of new elites with an interest in securing control of and access to the emerging opportunities for business related to natural gas. The enormous potential for powerful local groups among the ruling elite rests on gas-related projects, and more particularly on gas-to-power projects. This particular way of dealing with wealth and the country's policy-making processes is strongly related to the regime of patronage that characterizes the institutions and behaviour of Mozambique's ruling elite, which is the main source of its reproduction.

The idea of promoting the country's industrialization through the development of domestic gas projects emerging from the LNG-related investments in the Rovuma Basin, as stated in the Gas Master Plan, could be seen as having fallen into limbo, as the current existing conditions to allow projects to progress further did not do much to satisfy the ruling elites' incentives. This relies on the practice of making policy decisions that are then changed according to the interests of specific groups, rather

than embodying a long-term perspective of state development. While industrialization consequent on the natural gas bonanza is highly important in bringing about economic and social transformation, the rules of the game and related policy decisions have largely been constrained by patronage and clientelist practices over time, as well as a lack of the capacity and knowledge that is necessary to inform the quality of deal-making and the expected outcomes.

Therefore, the deal-making over domestic natural gas has become a contentious issue between the concessionaires and the companies that have been awarded domestic gas projects because of the lack of any long-term perspective or vision of state development, as policies are mainly decided under circumstances that allow elites to extract rents. This has by large been quite difficult in the case of the Rovuma Basin LNG projects and the companies that have been awarded domestic projects. Apart from the massive opportunities presented by the LNG investments, the existing barrier to the entry of the ruling elites in businesses, namely that capital is a requirement, created incentives for getting involved in the hidden debt scandal. Therefore, the barriers to the direct involvement of the elites in these businesses and their lack of financial capacity to invest in the projects, as well as the problem of a lack of agreement over economically viable prices for domestic gas, should also be noted as an obstacle to the provision of sufficient volumes of natural gas to the domestic market, required to the implementation of domestic gas projects.



## **CHAPTER 8.**

# **LNG INVESTMENTS AND LOCAL STATE-MAKING: COMPENSATION AND RESETTLEMENT**



Source: (A friend's courtesy). The resettlement village in Palma of the relocated people affected by LNG infrastructure investments, showing the area of resettlement, the types of houses and the market infrastructure.

## CHAPTER 8. LNG INVESTMENTS AND LOCAL STATE-MAKING: COMPENSATION AND RESETTLEMENT

### 8.1. Introduction

The recent discovery of massive reserves of gas in the Rovuma Basin in northern Mozambique prompted investments in LNG, which include a combined construction of LNG plants onshore on the Afungi peninsula in Palma District. These projects are led by the petroleum giant Total Energies and ExxonMobil in Areas 1 and 4 respectively (details in Chapter 7). Eni, the lead operator in Area 4 for upstream operations, is constructing a Floating LNG for its Coral South field located offshore. The political economy dynamics related to these investments have resulted in an extraordinary demand for land acquisition in Palma by IOCs, different multinational companies (MNCs), ruling elites in the private sector and others, putting pressure on the local government to manage land acquisitions and undermining local community access to their basic livelihoods (see Salimo, 2018).

The LNG projects in Afungi were projected to occupy an area of approximately 7,000 hectares, affecting more than 1,500 families living in the area who had to be resettled, as well as other families from the neighbourhoods of Maganja, Senga, Palma Sede and Monjane, who had to be compensated for economic losses. Thus, insecurity of land tenure for local communities became a serious concern as the competing interests of multinational oil companies and ruling elites threatened their wishes and rights to 'get a good deal' for the land and livelihoods they had lost. The local government was targeted, as their role in the dialogue and decision-making process related to land acquisitions is conceived by local communities to be incompatible with community interests, being more aligned with the interests of multinational investors and powerful groups within the ruling elites.

I argue that the bargaining power of local government is too weak to secure the interests of local communities when it is pitted against the competing interests of international oil companies and those of the ruling elites. The consequence is that the rights of local communities to land and fair compensation are at risk.

Several studies of large-scale investments in the extractive industry related to foreign direct investment (FDI) show two distinct effects. On the one hand, FDI increases expectations of potential contributions to social and economic development (Deininger, 2011; Melina and Xiong, 2013; Frynas and Buur, 2020); on the other hand, they create suspicions and fears about security of land tenure and access to resources that are indispensable for the survival of local communities (Cotula et al., 2009; Borras et al., 2011; Schoneveld, 2014; Jayne et al. 2014). Borras et al. (2011) argue that investments resulting in large-scale land-acquisition deals are ambiguous and often produce land dispossession, livelihood loss, environmental degradation and loss of access to the land and natural resources upon which local populations depend.

Such confusing mixtures of perceptions are exacerbated in societies where the local government authorities have limited decision-making capacity and power vis-à-vis the respective national authorities (see Weimer and Carrilho, 2017; Salimo, 2018) and therefore a weak commitment to defend local interests in the face of large-scale investments. This is a significant issue when large investments in extractives are related to large-scale land acquisition, due to their displacements of local populations and the resulting fractured access to basic livelihoods they cause, as argued by the literature on land-grabbing (Cotula et al., 2009). This being the case, the questions raised in this Chapter are, what kind of local state emerges with large-scale investment in LNG, and how does it deal with the rights and interests of local populations?

This chapter<sup>205</sup> analyses relations between the international oil companies, the ruling elites and local populations regarding the negotiation of compensation and resettlement for lost land related to the LNG infrastructural investments in Afungi,

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<sup>205</sup> This chapter is the extended and updated version of a paper published as a book chapter by the author of this thesis. The chapter was developed as an integrated piece of work for the thesis, but it was published by Routledge in 2018 as book chapter with the title “The politics of LNG: local state power and contested demand for land acquisition in Palma, Mozambique” (in Schubert, J., Engel, U. and Macamo, E. (eds.) (2018), *Extractive industries and changing dynamics in Africa: beyond the resource curse*, London: Routledge, 1<sup>st</sup> edition). The author would like to express his gratitude for the support provided by Routledge in accepting it for publication.

Palma. I use the concept of local communities interchangeably with the concept of local population. Key to the analysis is an examination of the role played by local government officials in these negotiations. I explore the dynamics related to large-scale investments in LNG and their possible implications for the quality of the compensation paid to local communities when the interests of international oil companies and those of the ruling elite are intertwined. I also ask how this is reconfiguring local state power and authority, as well as reshaping local state-making.

I argue that the negotiations over compensation relating to land and economic losses are intertwined with the contested nature of local government politics. The weakness of the local government's bargaining position and its inability to manage the competing pressures of the multinationals and ruling elites are leaving them unable to defend the interests of local communities, either by protecting their tenure or by securing 'a good deal' for them in terms of compensation for land and other means of livelihood.

This chapter is chiefly rooted in the 'triangle of exchanging relations' framework, briefly discussed in the literature review, but discussions are also articulated under the political settlement approach. The analysis looks at the relations between investors and local communities in order to understand the implication of the role played by the ruling elites in this respect. Relations between investors and local communities, fall under the rubric of 'reciprocal exchange deals', as discussed in Buur et al. (2017; 2020), bearing in mind that each of the two actors has its own expectations and interests that it wants to safeguard.

While investors want to obtain guarantees of the stable development of their investments, the local communities are seeking inclusion in the decision-making process, leading to the establishment of projects and of direct and indirect material benefits from their implementation. Selecting the analytical perspective in this chapter was a simple methodological choice. I would argue that mentioning the other two types of relations, namely between investors and ruling elites and between ruling elites and local populations, is unavoidable because of the existing

practical conditions involving negotiation and compensation, which require local and national government involvement, once the government starts playing a key role in the process.

This chapter is organized as follows. The second section briefly discusses the large-scale investments and resettlement, how IFC Performance 5 inspired the country's framework on resettlement and how the government is important in the process. The third section presents an analysis of the issues of land governance in Mozambique in the context of large-scale investments in extractive industries. The section also presents an analysis of how the LNG investments in Palma are related to the rush for land acquisition, the dynamics of negotiation over land acquisition, compensation and resettlement, and their implications for the land rights and livelihoods of local communities. The fourth section analyses the way in which local government power and authority to protect rights of local populations has been weakened due to the conflicting interests of the powerful groups, the ruling elites and multinational oil companies. The fifth section discusses the local state-making that emerges from the complex dynamics of powerful group interests, expectations, conflicts and power in the context of the LNG investment and land acquisition in Palma. The sixth section is the conclusion.

## 8.2. Large-scale land acquisition, resettlement and the role of government

The rush for large-scale land acquisition that started in 2007 amid a spike in commodity prices is of significant concern to a number of populations in Africa, generally due to insecure land titles and customary property regimes (Schoneveld, 2014), as well as to weak governance institutions that contribute to the displacement of populations without fair compensation (Alden-Wily, 2010; Deininger et al., 2015). The World Bank has raised concerns around the displacement of people, the sustainability of social and economic development, and environmental impacts. Other international financial institutions, including the African Development Bank (AfDB), as well as international development agencies, have also introduced specific policies to prevent the harmful social, economic and environmental effects of the projects they support (Perera, 2014).

The IFC advocates that governments in the host countries should play a central role in land acquisition, resettlement processes and compensation. Additionally, it emphasizes the importance of negotiation as the appropriate way to meet the requirements defined in Performance Standard 5. Existing studies of large-scale investments and land acquisition in Mozambique (Nhantumbo and Salomão, 2010; Fairbairn, 2013; UNAC and Grain, 2015; Cabral and Norfolk, 2016; Filipe and Norfolk, 2017, for example) recognize that the legal framework for land in the country protects local communities' land rights and also secures the rights of investors, but also that law enforcement is as yet ineffective. Local communities are meant to be key actors in land governance mechanisms.

Formally, the allocation of land to investors is a process that depends on a lack of objections from the local community, to be obtained through a transparent process of community consultation (Fairbairn, 2013; Cabral and Norfolk, 2016). However, experience from different places and investments in natural resources has demonstrated that the poor quality of land governance when large investments are involved poses significant threats to local populations' rights to land (Stein and Cunningham, 2015; Schreiber, 2017; Salimo, 2018), resulting in the loss of their land and livelihoods (Mosca and Selemene, 2011; Norfolk and Hanlon, 2012; Human Rights Watch, 2013; Salimo, 2018).

In 2012, amid serious violations of human rights, specifically the rights to land and fair compensation, perpetrated by coal-mining companies in the province of Tete (Mosca and Selemene 2011; Human Rights Watch, 2013) – and as a result of intense pressure from civil-society organizations – the government approved regulations on resettlement resulting from economic activities in Decree 31/2012.

In general, the principles set out in this decree are aligned with those in the IFC's Performance Standard 5 mentioned earlier in the literature review (Chapter 2). As a response to concerns over social and environmental issues, the government introduced this reform not only by approving the decree, but also by integrating it into the legal framework for both petroleum and mining. This specific reform suggests that investments in petroleum that affect local populations in respect of

their rights to access and use of land and other resources for their livelihoods should be eligible for fair compensation and resettlement. Under the petroleum law, the state guarantees that fair compensation will be paid by the concessionaire to the local community, which may have rights to use the land, as well as nearby territorial waters.<sup>206</sup> Fair compensation includes:

- i) Resettlement in dignified housing by the concessionaire, in a better condition than previously held;
- ii) Payment of the value of any improvement in terms of the land law and other applicable legislation;
- iii) Support in developing livelihood activities for those affected by the concession; and
- iv) Preservation of the historical, cultural and symbolic heritage of families and communities.

The involvement and integration of communities in the project is one of the challenges in areas affected by the IOCs' operations. The government has set up two mechanisms for this: the so-called local committees for resettlement, which are constituted by the members of the community and local community leaders; and a government committee on resettlement consisting of government officials, community members and civil-society organizations. The composition of these mechanisms locally, meaning at the district level, is regularly changed whenever the interests of ruling elite members either locally or nationally encounter any risk of being undermined.

### 8.3. Land governance under extractive investments in Mozambique

Mechanisms of land governance in Mozambique are entrenched between the formal and institutionalized processes embedded in the land legislation framework, petroleum legislation, and other legislation relating to specific sectors, such as mining, agriculture or tourism. A number of different institutions play roles (Cabral

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<sup>206</sup> Article 7 of Law 21/2014, Lei dos Petróleos (Petroleum Law).

and Norfolk, 2016), a common phenomenon in African countries (Lund and Boone, 2013; Jayne et al., 2014; Kjær, 2017), given the wide range of issues that relate to rights of access to and use of land among different actors. In many African countries, land management and land governance are primarily in the hands of the government (Cotula et al., 2009; Lund and Boone, 2013; Kjær, 2017). The level of government responsibility for land management will vary according to the system that has been established. Land management can be centralized at the highest levels of government, or be decentralized to varying levels of local government. In some countries it is traditional authorities that are charged with controlling and managing land properties (Lund and Boone, 2013).

Toulmin (2005: 38–39) provides an explanation of the nature of ownership and rights to land in a number of African countries. In Tanzania, for example, the president holds the rights to land in the name of all Tanzanians, presupposing that he secures those rights for all of them. In Senegal, Burkina Faso and Mali, governments claim ownership of the land and see it as belonging to the state domain, even though customary rights to land are recognized. In Ghana, the state holds ownership of only a small amount of land, about 80% of land being private and managed by customary chiefs, although the government has been known to confiscate customary land and control access to it and its allocation because of the potential for large-scale investments (ibid.).

In Mozambique, the land formally belongs to the state, and the government has the responsibility to regulate, control, manage and allocate land, despite the recognition of customary land and the roles local communities and local authorities play in this regard. The legal framework in Mozambique clearly locates the management and administration of land within the government at both the central and local levels, including the municipalities. This chapter focuses on those local government authorities that represent an extension of the central government at the local level, where they answer to the central state rather than the municipality.

Primarily, the administration and management of land falls to the MITADER, created in 2015 after the 2014 general election, which Frelimo and its presidential candidate



Filipe Nyusi won. For many years before that, the responsibility was with the former Ministry of Agriculture (MINAG). At the local level, land was administered and managed by the Provincial Department of Land, Environment and Rural Development (DPTADR) through the Provincial Services of Geography and Cadastre, and at the district level by two institutions: the District Services of Planning and Infrastructure (SDPI) and the District Services of Economic Activity (SDAE).

In general, customary chiefs or traditional authorities in African countries are participants in the management of land and/or in 'decision-making' processes because of existing formal recognition of customary land rights (Kjær, 2017; Cabral and Norfolk, 2016; Lund and Boone, 2013). As Weimer and Carrilho (2017) argues, traditional authorities in Mozambique have little influence in this area. Nevertheless, in some specific political, social and geographical contexts they have played an important role in negotiating land deals with investors and other actors, including members of the ruling elite.

In Palma, community land areas were allocated to private interests in deals facilitated by community authorities, or through an articulated combination with the local state authorities that, in general, seeks to manipulate their support and consent to legitimize acquisitions by investors and other actors. In Palma, when I was conducting the fieldwork for this thesis in 2016, 2017 and 2018, a new particular aspect came to my attention: while chiefs' decision-making powers are relatively fragmented between the interests of local government and those of the ruling elites at the central level, local government authorities used them to persuade local communities and secure land allocations for multinational companies and other investors, including the ruling elites.

Decisions on land allocations are organized according to different levels and organs based on the volume of land involved. For areas up to 1,000 hectares, it is the provincial governor who decides on the allocation; between 1,000 and 10,000 hectares, the decision is made by the minister who oversees land issues; and from 10,000 hectares upwards, the decision rests with the Council of Ministers. This model of the distribution of authority among these actors clearly indicates how

limited the role of local governments is when it comes to decisions on large-scale land acquisitions, although it maintains a role in procedural issues such as administration and management, as well as a key role in the negotiations between investors and the local populations.

A brief survey of cases from a number of African countries, including Mozambique, suggests that institutions invested with the power to decide on land allocations are significantly influenced by 'clientelist' groups (Lund and Boone, 2013). The fact that some groups hold relative power due to their position of authority, or to their financial, political or social influence, within an environment of weak incentives for effective management and performance on the basis of formal institutions (Kjær, 2017), is key to understanding how local government performs its role of managing land issues, as well as to grasping the incentives that drive the ways in which land is allocated, negotiated and compensated.

Exploring the incentives ruling elites have to govern under the formal and conventional institutions may not be helpful when attempting to understand the dynamics and practices of the state management and governance of land in Mozambique. As Kjær (2017) and Lund and Boone (2013) suggest, although institutions are important even in the context of African countries, in general the informal relationships between various groups seem to be much more significant. This is in line with the political settlement perspective that relies on politics and the distribution of power. Land management in Mozambique and the process related to the allocation of land are usually taken out of the rules of the game established in the legal framework and are influenced by the interests of powerful groups within the ruling elite.

The engagement of these powerful groups in land management varies significantly according to their interest in the likely use of the land in question. For example, the massive investments in onshore LNG in Palma, which requires huge tracts of land and has tremendous potential for economic transformation of the area, represents a significant incentive for members of the ruling elite to position themselves above the formal institutions that govern land. Elite groups attached to the higher level of the

ruling party faction hold significant power within the structure of the ruling coalition, determine trends in land management and land distribution, and exert an influence on the authority of local government land management.

In 2014/15, amidst massive demand for land in Palma, members of the ruling elite were able to secure significant tracts for themselves, despite the provincial governor's prohibition on the allocation of any land in either Palma or the neighbouring district of Mocimboa da Praia (discussed further in the following section). The district government's official objection to the allocation of land to high-ranking members of Frelimo and their relatives was dismissed in the context of the 'paternalistic' relations that pervade state politics. District government officials also exploited the opportunity to sell land,<sup>207</sup> enabled by weak enforcement institutions, the nature of politics at both the central and local level and the lucrative rewards for corrupt practices.

#### 8.3.1. LNG and the rush for land acquisition

On 20 December 2006, the government of Mozambique signed an Exploration and Production Concession Contract (EPCC) with the two existing concessionaires in the Rovuma Basin – Anadarko, later acquired by Total Energies; and Eni – following an announcement in July 2005 of the results of the second round of bidding for petroleum licences. The National Oil Company, the ENH, the sole representative of the state in each of the petroleum exploration blocks where these companies had stakes, was also a signatory to each concession contract.<sup>208</sup> The massive volume of proven natural gas reserves discovered by Anadarko and Eni led to an agreement between the concessionaires and the government to develop an onshore-liquefied natural gas (LNG) facility, to be utilized by concessionaires of both Areas 1 and 4. For this purpose, Anadarko and Eni, the offshore operators of Areas 1 and 4 in the

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<sup>207</sup> In 2015, for example, the then district director of planning and infrastructure was placed under investigation in a case involving the illegal allocation of lands (interview with the district administrator of Palma, July 2015).

<sup>208</sup> See the Exploration and Production Concession Contract for Area 1 'Offshore' of the Rovuma Basin, 20 December 2006, agreed between the government, AMA 1 and ENH; and the Exploration and Production Concession Contract for Area 4 'Offshore' of the Rovuma Basin, 2006, agreed between the government, EEA and ENH. Available at [www.inp.gov.mz](http://www.inp.gov.mz).

Rovuma Basin, signed an agreement in December 2012 that allowed both companies to work jointly in the development of LNG plants and other related infrastructure (Gqada, 2013).

The LNG project's aim is to respond to the challenge to develop and monetize the gas reserves discovered in these two blocks. The location of the gas fields and their distance from their main markets in Asia pose significant financial and technological challenges, since the conventional model of supplying natural gas via a pipeline is unfeasible in this case. LNG technology is considered to be the best option, although until recently it has been relatively less well developed in the industry. There were at least seven options of sites<sup>209</sup> for the onshore LNG infrastructure, but the Afungi Peninsula was eventually selected.<sup>210</sup>

The government of Mozambique has indicated that it does not want the operators in Areas 1 and 4 to develop their own separate logistical infrastructures to serve the gas-gathering system. Instead, it has insisted that these massive investments in natural gas production need to be used in a way that promotes the country's industrial development (discussed further in Chapter 7) by investing in the private sector and facilitating job creation.<sup>211</sup>

Before 2010, Palma District was a remote rural region with minimal economic infrastructure. When news of the unprecedented investment in LNG in Afungi broke, it sounded like a unique opportunity for an economic boom and potential opportunities for linkages. Land therefore became one of the most attractive of all assets, and the local government was completely unprepared for the enormous pressure on land acquisition. The land administration's capacity was and remains inadequate, and the government has shown no sign of making the necessary investment to develop capacity in terms of technical and human resources to deal

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<sup>209</sup> The sites were identified between Pemba and the Tanzanian border, with the seven then narrowed down to three, namely the Afungi Peninsula in Palma District, the Londo Peninsula in Metuge District and the Cabo Delgado Peninsula.

<sup>210</sup> Personal interview with key officials at INP and ENH, and confirmed by narratives in Chapter 5, 'Consideration of Alternatives', in the AMA1 socio-economic, marine and terrestrial ecology study, conducted by ERM and Impacto.

<sup>211</sup> This is aligned with industrialization policy through natural gas investments, as established in the Natural Gas Master Plan, approved by the government in 2014.

with the phenomenon. In February 2012, the governor of Cabo Delgado Province, Eliseu Machava (who later became secretary-general of the ruling party from 2014 to October 2017), issued an official order which instructed the district governments of Palma and neighbouring Mocimboa da Praia not to grant any DUAT (Direito de Uso e Aproveitamento da Terra), i.e. land-use and exploitation rights.<sup>212</sup>

Some actors, including several within the government, initially viewed this decision to suspend allocations of DUATs as an opportunity for the local government to strengthen its organizational and technical capacity to manage land issues, although others were concerned that the moratorium might undermine development.<sup>213</sup> However, it seems that some members of the ruling elite were able to exploit the situation because, while allocations of DUATs were restricted for ordinary people, the process of allocating land continued for the ruling elite and other powerful actors in the business world. Thus, that specific administrative decision ensured that key members of the ruling elite maintained control over the allocation of land, particularly in Palma.

The absence of a territorial plan directing future development of the district was part of the narrative used to justify the provincial government's allocation freeze. Then, in 2016, the district government of Palma elaborated two detailed land-planning documents. The first presented the area as an industrial zone, while the second focused on tourism. The provincial governor of Cabo Delgado approved both. Another three plans were drafted and approved in April 2016 detailing housing expansion plans for the villages of Nkumbi, Nkalanga and Manguna, which cover a total area of 994 hectares.<sup>214</sup>

These instruments of territorial planning are key to an informed and relatively well-organized process of land management and allocation, although not necessarily

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<sup>212</sup> Governo da Província de Cabo Delgado, Ofício No. 33/GG/CD/2012, 27 February 2012. The same document was sent to the offices of the Head of State, the Prime Minister, the Minister of Agriculture and the Minister of State Administration.

<sup>213</sup> Personal interviews with senior officials at the district government in Palma, April 2017.

<sup>214</sup> A PowerPoint presentation prepared by the district government of Palma, 20 September 2016. Complementary information obtained from personal interviews with technicians from district services for planning and infrastructure.

sufficient to guarantee that the processes related to land acquisition will be played out within the formal mechanisms and desired standards of territorial development, as many other contextual and informal practices also have roles to play. For one thing, the question of weak administrative capacity and inefficiency in land management and land governance is not limited to local government.

Several studies have shown that the problem is found at every level of land administration, as the relevant bodies are seldom able to perform their statutory functions efficiently (Weimer and Carrilho, 2017; Cabral and Norfolk, 2016; USAID, 2007). The political economy of land management in Mozambique is complex. To some extent, poor capacity favours both members of the ruling elite with interests in land and bureaucrats who can exploit the inefficient enforcement of the institutional framework to manipulate the allocation of land to their advantage. The contextual reality says much about the nature of the state that exists in Mozambique, as discussed earlier.

The pressure on land acquisition in Palma is related to multinational oil companies' need to secure large tracts of land for their natural gas operations. As part of the ruling elite's efforts to maintain control over land access and use despite the onshore LNG investments, in 2012 the National Oil Company (ENH) requested a parcel of land either to secure a certain amount of leverage with the international oil companies in negotiations over natural gas operations and/or to protect specific state interests that are inherently associated with land and sovereignty.<sup>215</sup>

The requested area amounted to 25,731.14 hectares in Palma,<sup>216</sup> but the government guaranteed only 7,000 hectares. It issued the DUAT on 12 December

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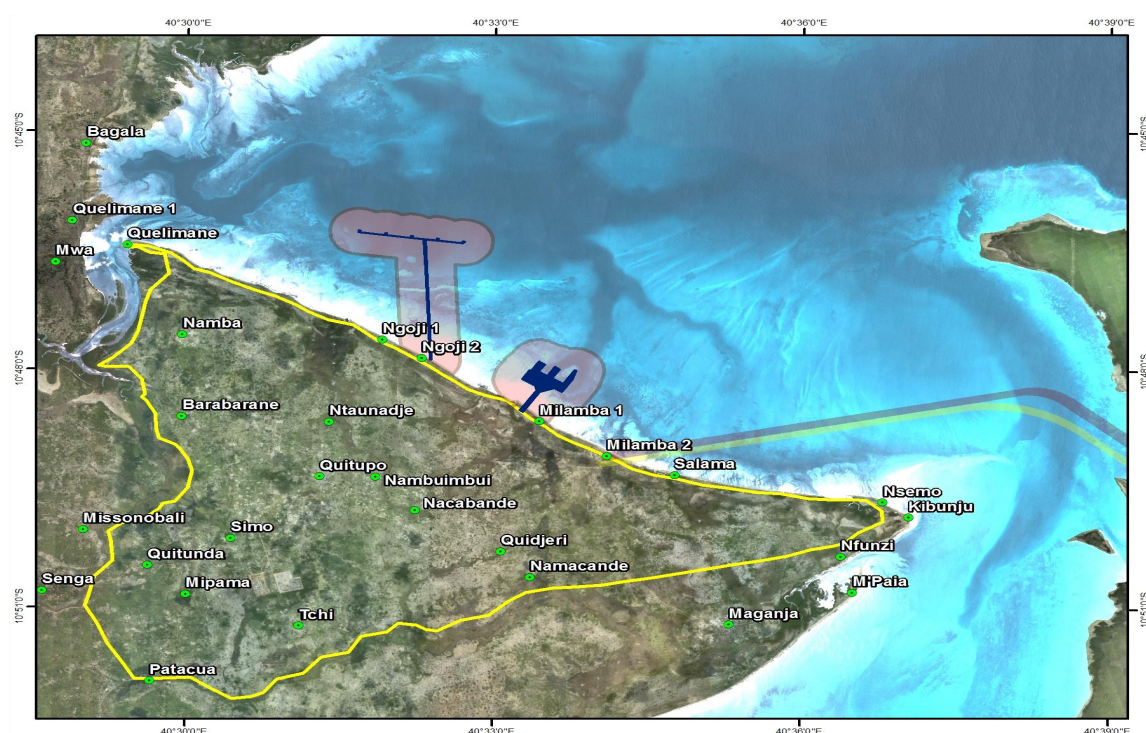
<sup>215</sup> Personal interviews with officials in the key sectors of the government, who argued that this kind of operation was adopted, despite their bypassing the law, to ensure that land was not directly allocated and controlled by the multinational oil companies, thus guaranteeing that the state's sovereignty was not threatened. The government's aim has been to keep land for the development of natural gas infrastructure projects under control of the National Oil Company – ENH – and thus to put this company at the centre of the negotiations with multinationals on the land needed to host the LNG project and other natural gas-related projects in the Rovuma Basin.

<sup>216</sup> The figure is confirmed by details on the map of localization annexed to the provisional DUAT allocated to Rovuma Basin LNG Land (RBLL), issued in Maputo on 12 December 2012, authorized by the Minister of Agriculture, and issued by the National Directorate of Land and Forest. The document also says that the 7,000 hectares of land allocated to the RBLL is unoccupied, which later became the

2012 to Rovuma Basin LNG Land (RBLL) (see below the Map 5 of the area of DUAT), a shell company created the previous month by ENH and Anadarko Mozambique Area 1 (AMA1). The remaining 18,000 hectares were not officially allocated, as no DUAT for them was issued. However, local government officials and key informants in central government institutions assert that ENH does indeed hold the land.<sup>217</sup>

In 2016, the district government of Palma made a presentation to a number of stakeholders interested in investing in Palma.<sup>218</sup> The slideshow suggested that the 18,000 hectares in Afungi have been reserved for ENH to use in forthcoming industrial and urban projects. And recently, the ENH started the process of legalizing the land, and internal discussions have taken place to conceive the strategy for local community consultation, a process that the company was deliberately pretending to ignore.

Map 6. Area of DUAT for the construction of LNG projects and resettlement



Source: Anadarko, Resettlement Action Plan, 2016

main source of contestation by local communities and civil-society organizations against the government and the multinational oil companies.

<sup>217</sup> In interviews, members of the district government in Palma consistently mentioned that the 18,000 hectares of land have been earmarked for ENH's future projects of urban development.

<sup>218</sup> The presentation took place on 20 September 2016.

Map 7. Description of area for LNG and resettlement



Source: Anadarko Mozambique Area 1.

RBLL was created specifically to acquire the DUAT. Although the 7,000 hectares were allocated to RBLL for the development of onshore LNG infrastructure by operators in Areas 1 e 4 of the Rovuma Basin, in reality the RBLL is not a concessionary company in natural gas, meaning that it should not operationalize the aim under which the land was acquired; as a result, the RBLL had to transfer the DUAT to an operator. This arrangement was adopted to avoid the dispersal of natural gas projects along the coast of Palma, something that would have led to a loss of control by ENH and therefore a reduction in the government's leverage over the companies. However, because the RBLL is not a concessionaire in petroleum exploration and production, it had to ask the government to transfer its assignment of DUAT to AMA1.

This was done via an 'Assignment of Exploration Agreement', signed a day after the DUAT was issued to RBLL.<sup>219</sup> In this agreement, RBLL ceded its exploration rights to AMA1 for the implementation of the LNG project. The aim of this was twofold. First, it formalized AMA1's right to implement the project, including the design,

<sup>219</sup> That is, 13 December 2012.



construction, operation and maintenance of all equipment related to the LNG infrastructure. Second, it cleared the way for AMA1, the lead company in the LNG project, to conduct an Environmental Impact Assessment, a key instrument for approval of a Resettlement Plan, on which, in turn, implementation of the entire LNG project would depend (see above, Map 6, which shows the areas for LNG and resettlement village). The idea of ENH controlling the acquisition of and access to land is of considerable importance to the government, even though it has never been addressed openly. Eni has requested land in Quionga, a coastal village located close to Afungi, as a complementary site for future natural gas infrastructure, arguing that the massive volume of natural gas in the Rovuma Basin will generate demand for more land, but its request has not been approved.

### 8.3.2. Land to IOCs and deals for compensation and resettlement

Land acquisition by investors in Mozambique is formally defined. Any investor, including those in the oil and gas sector, must comply with the formal institutions that oversee land acquisition. The land and petroleum legal frameworks (Law 68/1997 and Law 21/2014, respectively), as well as legislation relating to resettlement resulting from economic activities (Decree 31/2012), are the key policy instruments and rules that inform domestic practices related to land acquisition by investors in the oil and gas sector. Additionally, the companies are committed to abiding by international standards regarding best practice, with significant emphasis on the International Financial Corporation (IFC) Performance Standard 5.<sup>220</sup>

The LNG project in onshore Afungi Peninsula will physically and economically affect close to 6,000 families whose livelihoods depend on their use of the land and sea, access to which will be reduced by the project. On land, there will be a number of total exclusion zones and a noise buffer zone, so the population that currently resides in and uses those areas will be substantially affected. Moreover, fishermen will have no access to the security exclusion zone around the jetties and materials

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<sup>220</sup> The Environmental Impact Assessment approved by the government in 2014 and the Resettlement Plan approved in 2016 both refer to specific use of PS-5 and the government of Mozambique's Decree 31/2012.

offloading facility (MOF), while the pipeline corridor will be sealed during the construction phase and possibly permanently.

The dominant livelihood activities of the population of Afungi and the villages of Maganja, Senga, Palma Sede and Monjane revolve around agriculture and fishing.<sup>221</sup> The Resettlement Plan indicates that at least 1,508 households will be directly affected by implementation of the project, with 556 affected both physically and economically.<sup>222</sup> A further 952 households will need to be compensated economically. In addition, 3,285 fishermen, most of whom live in Afungi, will no longer have access to the open sea via the area covered by the maritime infrastructure, such as the MOF and the marine terminal services.<sup>223</sup>

The acquisition of the 7,000 hectares of land in Afungi was conducted without community consultation. The remaining 18,000 hectares requested by ENH are not currently a matter of debate, as this tract of land is not directly integrated into the LNG project. However, it is considered an 'area reserved to the state', represented in this instance by the ENH, and the people who currently occupy the land will certainly be affected by future projects. Therefore, given the absence of consultation on this particular area, it has the potential to generate considerable conflict over land rights. Returning to the acquisition of the 7,000 hectares, the local communities and civil-society organizations have exerted pressure on the government to review the allocation of the DUAT, given that there was no community consultation here either.

For instance, in 2015, Centro Terra Viva (CTV), a civil-society organization working in advocacy and research on land issues in Mozambique, commissioned an independent study to analyse the allocation of land to RBLL. This study, which was

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<sup>221</sup> See Anadarko (2015, 'Resettlement Plan').

<sup>222</sup> See Anadarko (2015, 'Resettlement Plan'); MITADER (2016).

<sup>223</sup> Decree 87/2013 assigned a concession for maritime terminals and logistics in Pemba and Palma to Portos de Cabo Delgado (PCD), but Decree 4/2016 amended those rights and transferred them to concessionaires in Areas 1 and 4. This regulates how the concessionaires of the Rovuma Basin project meet the requirements of international LNG standards applicable to the Rovuma Basin project infrastructure, in both land and maritime areas, with regard to ownership rights, operation and management, including safety and maritime traffic control. The concessionaires of the Rovuma Basin project are granted exclusive rights of access and operations over maritime and land areas where the facilities are constructed, and effective control over all Rovuma Basin project infrastructure, including the LNG marine terminal and the materials offloading facility.

conducted by Trindade et al. (2015), reinforced the claims of local communities and civil-society organizations relating to the lack of community consultation and condemned the process as 'illegal'.

In December 2018, the Mozambique Bar Association announced that it was ruling as illegal the award of land to Anadarko for the construction of LNG projects in Palma. The Bar Association asked the Country's Administrative Court to nullify the transfer of this land to the consortium led by Anadarko.<sup>224</sup> However, the company has refused to admit misconduct in the process of acquiring the DUAT, arguing that the process was conducted entirely by the government and the ENH.<sup>225</sup>

The key issues were publicly announced, and both the concessionaires and the ENH became concerned with the case because they did not even have documents to support them in their defence against the accusation. The most important fault was the lack of community consultation over the acquisition of the DUAT. In effect, the minutes of public consultations that exist were considered fraudulent. Information about the process had been also unavailable to public. However, in 2019 the Administrative Court produced a ruling that obliges Anadarko and the Ministry of Land and Environment to make all relevant information on the land acquisition available to the public.<sup>226</sup>

The government acknowledged that certain procedures had not been adequately followed, but that did not lead to a decision to nullify the DUAT that had been awarded to RBLL and then transferred to AMA1. The multinational oil companies with stakes in RBLL continue to deny any responsibility regarding the claims, insisting that due process relating to the acquisition and transfer of the DUAT was followed according to the applicable legislation. This being the case, the main concern moved from the acquisition of the land to performance standard procedures that were

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<sup>224</sup> Frey, Adrian (2018, December 10), Anadarko denies breaking law to obtain land for natural gas Project in Mozambique: Club of Mozambique. Retrieved from: <https://clubofmozambique.com/news/anadarko-denies-breaking-law-to-obtain-land-for-natural-gas-project-in-mozambique/>

<sup>225</sup> Ibid.

<sup>226</sup> Tribunal Administrativo. Acórdão No. 113/2019, Processo No. 228/2017-1ª. Retrieved from: [Acórdão n.º 113 - 2019 - Processo n.º 228 - 2017 - Ordem dos Advogados de Moçambique \(OAM\).pdf \(ta.gov.mz\)](https://ta.gov.mz/Acórdão%20n.º%20113%20-%202019%20-%20Processo%20n.º%20228%20-%202017%20-%20Ordem%20dos%20Advogados%20de%20Moçambique%20(OAM).pdf)

directly related to implementation of the LNG project. This time, the company, AMA1, expressed an interest in conducting a community consultation process focusing on compensation and resettlement. Over the next two years, after the DUAT was issued, AMA1 held four community consultations, as well as a series of informal meetings with various community groups.

In 2015, a third community consultation exercise was organized amid significant criticism from civil-society organizations. Moreover, the committees created to represent community interests in the consultation process started to fragment as conflicting perspectives regarding the resettlement process and compensation emerged. A report by the Provincial Peasant Union of Cabo Delgado (UPC) stated that these disagreements among the committee members could be attributed to the salaries that some of them had started to receive from the companies.<sup>227</sup>

Additionally, there has been criticism of a lack of transparency and a failure to involve key actors in the local communities and civil-society organizations in the consultation process. Although the stated intention of the oil companies was to involve local communities in discussions over fair compensation, the process has resulted in a controversial proposal for compensation. Community members argue that their contributions have not been given due consideration and that the companies are dragging their heels over both compensation and resettlement packages. Land restoration and some activities relating to compensation have not been finalized, which is impacting negatively on the local populations' social and economic life, as they are not allowed to develop certain durable activities within the project site.<sup>228</sup>

AMA1 commissioned the Centre of Agriculture and Natural Resource Studies (CEAGRE) at the University of Eduardo Mondlane in Maputo<sup>229</sup> to investigate whether the proposed compensation for agricultural crops accorded with PS-5

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<sup>227</sup> UPC (2016), *Consultas Públicas, Manipulação e Falta de Respeito aos Direitos das Comunidades*. Cabo Delgado

<sup>228</sup> Focus group with local communities in three villages – Quitupo, Maganja and Palma – April 2017.

<sup>229</sup> The centre was commissioned to conduct an independent study evaluating the company's proposed scheme for compensation for crops under the LNG project in order to verify whether the proposal was aligned with the 'total cost of replacement' established in PS-5. see Chiulele (2014).

principles. The study recommended the inclusion of a number of crops that were not mentioned in the proposed scheme, as well as an upward revision of prices for those crops that were mentioned. Although the oil companies included the local communities in some of the discussions concerning compensation, the proposed packages failed to meet community expectations. The villagers felt that they had been sidelined in the main negotiations over compensation for their land, crops and other assets, and argued that the compensation framework represents a deal between the investors and the ruling elite.

The concessionaries agreed with the government over the budget and the proposed compensation and resettlement plan. The resettlement plan approved in 2016 was scheduled to occur over a period of sixty months from the date on which the foregoing conditions were satisfied. This includes construction of a resettlement village, different components of compensation, relocation, and the delivery of livelihood programs. The cost of implementing the resettlement plan was estimated at around \$180 millions, as shown in Table 15 below.

Table 15. Resettlement and compensation budget

Item	Resettlement Action Plan: Forecast Activities	Cost range (USD)	
		from	to
1	Resettlement village construction	\$ 70,500,000.00	\$ 85,000,000.00
2	Other structures and business compensation	\$ 850,000.00	\$ 1,150,000.00
3	Compensation for land, crops, trees, fisheries, etc.	\$ 32,000,000.00	\$ 34,000,000.00
4	Transitional food allowance, graves and sacred places, demolitions, etc.	\$ 7,500,000.00	\$ 10,600,000.00
5	Other mitigation and development projects	\$ 12,500,000.00	\$ 16,000,000.00
6	Livelihood restoration programs (agriculture, fisheries, others)	\$ 27,500,000.00	\$ 34,000,000.00
7	<i>Total</i>	<i>\$ 150,850,000.00</i>	<i>\$ 180,750,000.00</i>

Source: Anadarko

The resettlement plan involves the construction of 550 houses built within the DUAT area. As can be seen in Map 2, it lies between the villages of Senga to the west, Quintunda to the south and Missonobali to the northwest. The resettlement plan project includes an expansion area with two hundred housing parcels.<sup>230</sup> By 2020 the infrastructure in the village of resettlement was making significant progress. Some of the houses had been finished, and important social and economic infrastructure was in the process of being built. However, in April 2021 terrorist violence rocked the region, and the companies involved in the construction of the resettlement village and LNG infrastructure had to halt their operations.

Civil-society organizations are working with the local populations in the hope of promoting their rights and strengthening their capacity to negotiate better deals with the oil companies and the government, even though these efforts have proved largely ineffective.<sup>231</sup> Despite the key role the community has been assigned in theory and needs to play in negotiating compensation, in practice its capacity to hold a fair dialogue with powerful groups, such as the oil companies, is poor.<sup>232</sup> This is because the local populations lack knowledge of their rights with regard to land governance and possess an insufficient understanding of the petroleum industry. Also, the divide-and-conquer tactics described above have resulted in certain community members receiving salaries from the oil companies, while others have been promised rewards by local government officials, which in turn has driven the local community into systematic conflict with their traditional authorities or representatives sitting on the committees of local communities.

The local government itself has generally backed the investors over questions relating to implementation of the project, with little consideration of the local communities' demands, and information-sharing prior to the community consultations was lacking. However, the most significant factor has been the politics behind the relations between the companies and the local communities in a context in which the companies are often connected with the ruling elite at the centre, both

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<sup>230</sup> Anadarko (2016), Resettlement Action Plan

<sup>231</sup> Anadarko (2012, 'Community Investment Plan (CIP) (2013–2014)').

<sup>232</sup> Interviews with key actors in Quitupo and Maganja, June 2016 and April 2017.

parties being far less concerned with meeting the local communities' demands than with pursuing their own interests.

As consequence of these dynamics, the negotiations for compensation between the companies and the local populations have generally been undermined. In practice, the key process and issues relating to the negotiations are controlled and directed mainly by the ruling elite at the centre, due to the magnitude of the revenues expected from the investments. Members of that elite have maintained a certain level of control over the benefits from the current project and have done all they can to ensure that the compensation scheme will not jeopardize the implementation of future projects.

#### 8.4. Local government's power and authority to secure fair compensation

The LNG investments have the potential to affect a reconfiguration of local government power and authority. A key question is how influential this power might be, bearing in mind the centralized (Weimer and Carrilho, 2017) nature of politics in Mozambique. There are many examples of large-scale investments in natural resources throughout Africa that raise serious concerns in relation to inadequate compensation and negative impacts on the living standards of the affected populations (Jayne et al., 2014; Borrás et al., 2011). These experiences have prompted the emergence of civil-society organizations to engage with the local populations to oppose poor deals and violations of the rights of those populations (Lund and Boone, 2013).

The activities of these civil-society organizations in the context of profound struggles over rights to the land may also challenge the existing power and authority of the local government, as Lund and Boone (2013) argue. The main question behind the power and authority of the local government in relation to land use is who has the political power to impose one interpretation at the expense of others (Lund and Boone, 2013: 2–3). Lund and Boone suggest that prevailing interpretations of disputes over land will have implications not only for the actors involved, but also for the existing institutional arrangements that guarantee land tenure. Then, as these

authors observe, the politics that generate any changes in the interpretations could shape authority relations in how control over land is distributed.

As discussed earlier, the process of acquiring land in Palma violated both formal institutional procedures (see, for example, Trindade et al. 2015) and the basic governance mechanisms outlined in Mozambique's land legislation, and it has been strongly contested as a result. The potential delay in following the formal mechanisms for accessing the land was considered too risky for the central-level ruling elite who wanted the land. For this sleight of hand to be accomplished, it was crucial to secure state participation and to control the mechanisms for determining land allocation.

The authority to decide on the allocation of such a large area of land rests de jure with the central government, while the administration and management processes rest with local government. However, de facto, decisions made by the powerful Frelimo ruling elite trump any formal mechanisms. For example, RBLL, the company to which the 7,000 hectares in Afungi were assigned, was designed to be able to integrate future concessionaires operating in the Rovuma Basin as shareholders, but the mechanisms involving land allocation were made by bypassing the rules of the game as legally established.

Eni joined RBLL in 2014, at which point the shares in the company were divided equally between Eni, ENH and AMA1.<sup>233</sup> This arrangement gave the government leverage in its negotiations with the multinationals through ENH's control of access to the land. The debate among the key government institutions in the petroleum sector revolved around concerns that allocating land to multinational oil companies might threaten Mozambique's sovereignty: if infrastructure for other projects was constructed along the coast to serve the natural gas operations in the Rovuma Basin, the ENH would have less control in a context of weak financial and technological capabilities for significant participation in these projects.

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<sup>233</sup> 'Rovuma Basin LNG Land', *Bulletin of the Republic*, Series III, No. 68, 22 August 2014.



In 2013, when the government refused Eni's application for a DUAT in Quionga village,<sup>234</sup> on the coast south of Palma, it justified its decision by saying that its preferred policy was for unification of the gas project's infrastructure in the Rovuma Basin; in other words, geographical dispersal was to be avoided. In order to secure control over access to the land, the INP recommended transforming the area requested by Eni into a 'state reserve' (*reserva do estado*) and then giving ENH the role of managing it.

Clearly, against this backdrop, local government has little power to take decisions that conflict with those of the central-level ruling elite, even in the face of clear violations of formal institutional procedures. The violations occurred because certain institutional mechanisms were weak enough to be bypassed, distorting the triadic relations of Buur et al.'s (2017; 2020) model. Such practices, when confronted by increasing demands for fair compensation from civil-society organizations and the ruling elite's responses to those demands, have contributed to local government being reconfigured in order to address the emerging challenges of securing deals between investors and local communities. Simultaneously, the dynamics of the relationship between these two parties are profoundly influenced by the ruling elite's interests in natural gas-related business.

One possible consequence of civil-society organizations' criticisms of how the land was allocated and their dissatisfaction with the mechanisms of community consultation in Palma was the appointment of two new district administrators within the space of just three years. It is important to take into consideration the fact that investment in LNG represents an opportunity for the central-level ruling elite – and indeed local government – to reinvigorate the country's economy, but it also represents an important source of revenue which could be used to secure the elite's grip on power. As such, there is a danger that members of the elite will hamper the local government's efforts to protect community rights and secure fair compensation for the local population.

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<sup>234</sup> In a letter of 22 of April 2013 to the former Minister of Mineral Resources (Ref. No. 145/ENI/13), Eni expressed an interest in obtaining a DUAT for a site in Quionga and discussed the regulatory and contractual framework.

### 8.5. LNG politics, land acquisition and local state-making

The context in which economic transformation is proceeding in Mozambique – specifically with respect to mineral and hydrocarbon discoveries – means that it is imperative to consider the promotion of foreign investment through land allocations (Cabral and Norfolk, 2016; Fairbairn, 2013) and the security of land tenure for local communities. Of course, here the state plays the principal role in both guaranteeing local communities' security of land tenure and granting land-use rights to investors. At the most basic level, it does this by enforcing the implementation of existing formal mechanisms. However, members of the ruling elite may reshape or bypass these mechanisms to serve their own interests (Khan, 2010; Whitfield and Buur, 2014).

The ruling elite and other powerful groups are able to exert significant influence over land governance and land management. In this regard, Lund and Boone (2013) argue that the balance of power among those who hold various forms of institutional authority over land issues governs who is most likely to succeed in achieving their aims. This view agrees with that of Pedersen and Kweka (2017), who conclude that any research into petroleum investments and land acquisition in Africa would benefit from widening the focus to encompass the broader political economy of land and petroleum investments. Importantly they further argue for the need to open up the lenses, rather than concentrating solely on the behaviour of oil companies, as they are unlikely to be the only or most important actors with respect to how land is acquired. Such research is driven by the issue of the type of local state that is constituted as a consequence of large-scale investments in LNG and their related ability to protect local community rights within the context of those investments.

Key to understanding what drives changes at the heart of state power is recognizing the potential influence of a variety of social forces. That being the case, the dynamics involving the multiple actors who interact with and outside the state may have a significant impact on the nature of the state that emerges in the event of large-scale natural resource investments, especially those in natural gas. These multiple actors – members of the ruling elite, multinational oil companies, civil-society organizations,

donors and other international agencies, and local populations – all have their own interests to defend.

Therefore, due to the high economic value of large-scale investments in LNG, relations among these multiple actors are usually conflictual, as they may need to engage in tense negotiations over specific issues, such as compensation deals, future business opportunities and protecting the interests of particular groups. Decisions made by the ruling elite may serve to exacerbate these tensions and generate further conflicts, while the competing demands of rights-holders and other important actors may constrain the state and therefore influence new forms of state-making.

For example, the oil companies must consider the interests of the central-level ruling elite in order to secure the successful implementation of their projects. Likewise, members of the ruling elite must take the oil companies' interests into account because they need to secure revenues and other benefits from the multinationals' investments in the LNG project, including the fact that they foresee potential opportunities for private rents extractions. By contrast, both sides have largely ignored local government, which has left the latter ill-equipped to perform its principal role of protecting the local community's rights and interests during negotiations for compensation.

As a result, the local population has been largely sidelined during these negotiations, weakening its already fragile bargaining position. One consequence of this is the perception within the local community that the government is the enemy of the people and that the oil companies are actually more open to accommodating community interests. In interviews conducted during fieldwork in Quitupo, Senga and Maganja in Palma District, interviewees expressed concerns about government corruption and insisted that they would prefer to receive their compensation from the oil companies rather than through the government.<sup>235</sup> Similarly, in August 2015, during the third community consultation, representatives of the local population

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<sup>235</sup> Interviews in Quitupo, Senga and Maganja, April 2016 and April 2017.

declared that they did not trust the government to manage the funds that were to be allocated to them as compensation.

Although the role played by civil-society organizations in influencing the government to negotiate 'better deals' for compensation have been considered contentious in the eyes of the local government, civil-society organizations have still been able to persist in 'mobilizing' local communities to defend their rights with regard to the land and livelihoods that would be lost due to the LGN project's investments.

The engagement and conflicts pursued by both local communities and civil-society organizations have managed to effect changes in both local and central government behaviour. In 2015, the new government acknowledged that CSOs had an important role to play in negotiations over compensation and resettlement. In this regard, it distanced itself from the problems of previous years, ranging from a lack of community consultation on land acquisitions via an absence of transparency in the consultation process related to compensation and resettlement to tensions between the local government and CSOs.

The new government took the decision to postpone the public community consultation that was scheduled to take place a few months after the government's inauguration. This decision gave the new administration time to understand the project, but more importantly it signalled a positive change in its relations and attitude towards the CSOs, which had previously been viewed as enemies of development. In the wake of these changing approaches, the government invited the CSOs to participate in the process as relevant stakeholders.

An independent evaluation of land allocations to concessionaires in Palma, commissioned by CTV (see Trindade et al., 2015), and previously criticised by President Guebuza's administration, has since been used by the government as a key document to inform the next stage of interventions in Palma and future project investments with implications for land tenure. Subsequently, the government established a network for consultations between itself, CSOs, investors and other

stakeholders, and a network involving these actors has been established to deal with land issues.

Despite far from a broader acceptance of the CSOs within the local community, the CSOs have managed to alter the state's perceptions of the local community's demands and indeed the role of civil society itself. Moreover, they have contributed to increasing the local community's leverage, although it is still very weak, but an emerging perspective over how to tackle negotiations with investors is developing within the community, through training on the issues related to their rights to land and natural resources, how to actively defend the villagers' interests, and how to fight for more social and economic benefits from the LNG project.

## 8.6. Conclusion

This chapter has analysed the relationship between multinational oil companies (the investors), ruling elites and local communities during negotiations for compensation related to land lost to LNG investments. This issue has been examined by highlighting the role played by local government in the negotiation process vis-à-vis its ability to protect the interests of the local population, as well as allowing the latter to protect its own rights in relation to the massive investments in LNG. The main conclusion is that the negotiations over compensation and resettlement are intertwined with the contested nature of local government politics. The competing pressures of the multinationals and ruling elites left the local government incapable of defending the interests of local communities, whether to protect rights under land tenures, or to secure 'a good deal' for them in relation to compensation.

In general, local government has been sidelined during the negotiations, which have been dominated by the central ruling elite and the investors. This has eroded the local government's authority and its ability to protect the local community's interests. Therefore, the type of state that has emerged in the wake of investments in LNG have been strongly influenced by ruling elite politics, which has both undermined and delegitimized local government. This in turn has had a detrimental impact on the relationship between investors and local communities, which has

been distorted due to a lack of information and poor rights awareness, and because the ruling elite has become too influential in determining the path of the negotiations for compensation and resettlement.

The processes involving deals for compensation are seeking an effective alignment with both international and domestic standards, but companies are constrained by decisions taken by the ruling elites when negotiating deals with local communities. This creates the perception among the communities that the government is the enemy of local populations and that the companies are actually more open to accommodating community interests. Hence, the potential ability of the local community to influence decisions can be profoundly influenced by long-term support from strong civil-society organizations. These actors, whether they are called civil-society organizations or non-governmental organizations, emerged as important when analysing the relationships between investors and local populations and between the latter and the ruling elite. At some point the triadic analytical framework adopted here may even benefit from being changed in order to accommodate them.

It was noted that the foundational relationship between investors and local communities in the current context of political settlement – in which ruling-elite groups hold control over power, patronage relations prevail, and local communities are significantly weak and fractured in their ability to sustain themselves in negotiating deals – the principle of ‘reciprocity in exchanging deals’ has clearly been found to be imaginary. Thus, the space belonging to the communities in such relations came to be controlled as decisions were made by the government before being presented to the local communities.

**CHAPTER 9.**  
**CONCLUSION: EXPLORING THE**  
**IMPLICATIONS OF THE POLITICS OF**  
**OIL GOVERNANCE**

## CHAPTER 9. CONCLUSION: EXPLORING THE IMPLICATIONS OF THE POLITICS OF OIL GOVERNANCE

### 9.1. Introduction

Reforms of governance in resource-rich countries have for years been argued to be a critical recipe for effective resource wealth management and economic performance. Interestingly, countries endowed with oil/gas could never be pervaded by doubts in terms of the potential to generate economic and social transformation (Krueger, 1980; Polterovich et al., 2007). However, in many resource-rich African countries, the economic growth that delivers development and economic and social transformation remains to be seen. However, there is a paradox behind this particular outcome (Karl, 1997). The political response to oil and gas wealth has since been addressed through reforms of governance and the institutional setting. Mozambique, as discussed in previous chapters, particularly Chapter 5, had adopted the separation of power and functions between the regulatory and commercial role, a mantra that exists within a wider approach to good governance in the oil and gas industry, which is intended to be the fundamental source of the promise to deliver prosperous oil/gas management (Thurber et al., 2010; 2011; Al-Kasim, 2006). However, this agenda has failed to meet expectations.

This thesis has focused on *the governance* of the petroleum sector in Mozambique by investigating the reforms to the separation of regulatory and commercial powers. It questions how these governance reforms have been adopted by the ruling elite over time, how they are related to transparency, and to what extent their adoption has prevented the rent-seeking by the ruling elite. The key research question is *'How have the reforms of the oil and gas sector, with a particular focus on the separation of regulatory and commercial functions, as well as the resettlement and compensation policy, been adopted by the ruling elites, and what have been the possible outcomes with regard of transparency and rent-seeking'?*

Behind the governance reforms, and particularly the separation of powers between the commercial and regulatory roles in the oil industry, lies the belief that it provides



greater management effectiveness, better performance on the part of the national oil companies, improves transparency, secures positive links between oil and the broader economy, and improves efficiency regarding government rents and revenues (Thurber et al., 2010, p. 9).

The thesis has accordingly explored the dynamics of domestic gas with regard to the two currently existing separate gas projects, Sasol's natural gas and pipeline, implemented since 2004 in the southern region, and the LNG investments in the offshore Rovuma Basin, as well as the multibillions of dollars in onshore LNG investments. Furthermore, the thesis investigates how deal-making by international oil companies, ruling elites and local populations over land compensation and resettlement reconfigured local state-making and power.

The thesis adopted the political settlement approach in analysing the contours of the research questions. Due to the complexity of the country's specific patterns of political dynamics and the nature of its clientelist relations and patronage, the role of ideas (Hickey et al, 2015; Hickey and Izama, 2016; Levers, 2018; Bebbington et al., 2018), the place of international actors (Hickey and Izama, 2016) and the political survival of the ruling elite (Whitfield et al., 2015) were all approaches that were integrated within the larger framework of the political settlement approach. Using the political settlement approach sent a clear signal that it was useful to go beyond the standard recipe of adopting best-type institutions or practices. This meant focusing on the deeper forms of politics and power relations that underpin the institutional development and performance that affects the country's dynamics in respect of its governance of oil and gas.

## 9.2. Revisiting key findings and the main argument

### 9.2.1. Petroleum governance: what is meant by the separation of powers?

The path toward oil and gas production in developing countries has received considerable support from multilateral development agencies, such as the World Bank and bilateral agencies encouraging production, but only when proposing good governance practices. Governments in African and other developing countries were

persuaded to adopt the idea of a separation of powers and functions in the oil and gas sector as a recipe for guaranteeing successful management of the resources (Al-Kasim, 2006; Thurber et al., 2010; 2011; Doric and Dimovski, 2018). Thus, the Norwegian model of petroleum management was the light showing the way to the desired quality of resource management and growth. Despite the faith placed in the Norwegian model of oil management, the same enthusiasts for the Norwegian model, like Thurber et al. (2011), admitted that separating functions alone could not be considered a panacea for the successful management of oil. Instead, they argued, to ensure the model's ability to be effective, strong institutional capacity and robust political competition are required.

Thus, while the ideas related to the reforms of the separation of powers in the petroleum sector have since played an important role in influencing the outcomes of resource governance in Mozambique, I argue that the intended outcomes did not follow the expected path, nor can the governance reforms alone explain how the gas sector has been managed. The ruling elite in Mozambique has since been concerned to ensure that investments continue to flow into the country. Formal arrangements supporting the foundation of ideas like good governance and the promotion of transparency through the separation of the commercial and regulatory functions would be adopted, but as a springboard to enable foreign investments to flow into the country (Salimo et al., 2020). I further argue that the dynamics shaping these reforms, the deal-making concerning Sasol-related domestic gas projects, the implementation of the domestic LNG -related projects, as well as the dynamics of the negotiations over compensation and resettlement, are strongly intertwined with the politics and power running through interests of the ruling elites, that have been in charge of its implementation over time.

The same elite has tried to plunder the benefits of the reforms they endorsed, by exploiting the opportunities created by the natural gas-related projects. For example, the arrangements related to the investments in gas-fired power plants supplied with gas from Sasol proved to be one of the most attractive gas-related investments, being productive in terms of rent extraction by the top ruling elite

groups that benefited from them. The support the ruling elite gave to petroleum-sector reforms toward a separation of powers and the engagement of elites in project implementation are strongly linked to the elites' perceptions of the opportunities for rent-seeking that were emerging. However, the outcomes of the governance reforms that were adopted through the separation of functions did not produce the expected outcomes in terms of transparency and development, nor can the governance reforms alone explain how the gas sector has been managed in Mozambique.

Mozambique's vulnerable authoritarian coalition had been built and reproduced through the strong patronage links and the clientelist networks that have existed ever since the creation of the ruling party and the tradition of centralized power. The top ruling elites under the control of the state and the party are those that have the power, although they are not sufficiently stable to resist pressures from within the coalition, particularly from previously powerful groups, which have generally been excluded from the benefits of the large-scale investments in natural gas and LNG-related projects and the associated business opportunities.

#### 9.2.2. Domestic gas deal-making and failed industrialization

The government of Mozambique's agenda for industrialization was for almost a decade tied to natural gas. It started with the deal between Sasol and the government for the latter to supply gas to the domestic market as explored in chapter 6. More recently it has been pushed by LNG in the Rovuma Basin, although this has involved a controversial deal with the international oil companies operating in Areas 1 and 4, who have resisted committing themselves to a deal to allocate the total volume of natural gas demand through the existing awards of domestic gas projects (largely discussed in chapter 7).

The parliamentary faction in the ruling party pushed for increasing the threshold for produced gas to be allocated as domestic gas to up to 25%. This was allegedly done as part of an effort to revive industrialization. However, whereas the uptake could be seen from a resource-nationalism perspective, it remained an isolated effort due to

the lack of a clear project of resource nationalism (Castel-Branco, 2015), which was contrasted with the rent-seeking behaviour of elites who aimed at contemporizing future rents from potential deal-making regarding the development of gas-related projects. This future differs from the trajectory followed by Mozambique's neighbour Tanzania, which, having also discovered natural gas and minerals, embraced the opposite ambition of moving from a neoliberal regime to one of resource nationalism with limited foreign investments as a consequence (Jacobs, 2020).

Mozambique has investments but lacks the capability, knowledge, or technology to sustain the economic transformation that could in part provide the engine for the desired industrialization process. More importantly, the incentives of the ruling elite to secure appropriate development remained unclear amidst the efforts to grab resources and rents for private interests at the expense of the interests of the state and those of the general public (see Macuane et al., 2018), as was made evident by the Sasol project in the south of the country (Salimo et al., 2020).

I argue that the incentive for the country's industrialization is intimately related to deal-making and rent-seeking. Therefore, projects offering barriers to the ruling elites' ability to collect benefits through rents, despite their own recognition that they lacked the capital that would give them the right to participate in these projects, are likely to face weak support toward implementation. The political settlement dynamic in Mozambique relies instead on the clientelist patronage of networks that evolve around the top ruling elite groups, who contribute to undermining the developmental ideology and the capacity to pursue the path and agenda of industrialization. This type of political settlement has fallen by the wayside within the so-called vulnerable authoritarian coalition (Khan, 2010; 2017), and it is strongly tied to the ruling party's historical practice of centralized governance under a one-party system in the first decade and a half, following the country's independence in 1975 (Orre and Rønning, 2017).

Furthermore, the increase in the effort to acquire centralized rents amidst the massive expectations generated by the natural gas resources and other minerals,

witnessed first under Guebuza administration and later with Nyusi, triggered strong and more evident party factionalism. This gave rise to strong infighting between powerful factions represented by Nyusi and Guebuza, and therefore at high levels within the ruling party. This is confirmed by the arrest of closed cronies of the former President Guebuza, including his son in light of the hidden debt scam in which Nyusi was also involved.

It is important to note that the trajectory of deal-making has changed over time. Since the early deal-making over the Sasol project, and then with the LNG in the Rovuma Basin, the ability of the ruling elites to establish strong networks and secure rents from domestic gas-related projects has also undergone changes. This is likely to have been influenced by different factors, including the nature of the international oil companies involved in the gas concessions, the materiality of the gas and the scale of investments. The leverage of the ruling elite under the Sasol project was substantially greater, thus facilitating many more opportunities for rentier deals. This included arrangements with international companies that possessed the capital to make big investments to operate gas-fired power plants and secure profitable agreements for selling power to the national utility company (EDM), which became the key source for the elites milking the extraction of rents.

However, although the Sasol model of rent-seeking is unlikely to reoccur, it will only be a matter of time before we see powerful ruling elites groups establishing their particular niche for the accommodation of future LNG bonanza-related domestic projects. This will be not as easy as it had been in the case of the Sasol project. This is because the LNG investments in the north involve giant oil companies and super large-scale investments, posing barriers for non-capitalized groups to enter projects, whether upstream, downstream or midstream projects. The Rovuma related awarded domestic gas projects are facing the threat of not receiving the level of demand for natural gas they need to secure operations, in part because the leverage of the ruling elite in negotiating good deals is very weak because of the above-mentioned circumstances, including the mess caused by the debt crisis, as well as the fact that none of the operators in Areas 1 and 4 are by law compelled to supply

domestic gas. Thus, the hidden debt has become an alternative space for different means of extracting rents through mechanisms that could transfer the onus for repayment on to the future gas revenues.

### 9.2.3. Competing interests between ruling elites and IOCs and rights

The discoveries of greater reserves of natural gas and the signal it gave of the future entry of large-scale investments generated a tremendous rush to acquire land in Palma (Salimo, 2018). This situation created huge instabilities for local communities in terms of land security in a context in which powerful international oil companies (IOCs) and other multinational companies, including ruling elite groups and land-market speculators, became a threat to local communities, as they found themselves with insecure conditions for their survival. I therefore argue that the bargaining power of local government is too weak to secure the interests of local communities when pitted against the competing interests of the IOCs and ruling elites. Under such circumstances, I argue that the rights of local communities to land and fair compensation were subjected to clear risks.

The large-scale investments that involve the acquisition of land will inevitably always push investors, the ruling elites, including bureaucrats, and the local populations to address issues concerning land rights and compensations jointly (Buur et al., 2017; 2020; Pedersen and Kweka, 2017; Salimo, 2018). While I addressed the issues of local populations' rights to land, my concern in Chapter 8 was to explore the role of the local government in the negotiations between the IOCs and local populations with the aim of securing good deals for the latter's compensation and resettlement.

Furthermore, I attempted to understand the nature of state-making that emerges when powerful ruling elites' groups are intertwined with the international oil companies. The result indicated that in general local populations are the weakest side in what Buur et al. (2017) called the triangle of investors, ruling elites and local populations. Moreover, the capacity of the local government is either fragmented due to ruling-elite interests, which in general prevail because of the nature of the political settlement, which gives the ruling party and the top ruling elites too much

power. Thus, only the powerful groups can negotiate in a way that secures good deals for them. Despite this, the deals over compensation and resettlement of the affected local populations in Palma, as a result of the construction of the LNG plant, started facing strong opposition from local populations. However, over time, the minimal conditions for compensation were improved due to the role played by civil-society organizations in defending the rights of the local populations.

### 9.3. Implications of thesis' research: a theoretical and empirical perspective

For years, reforms of oil governance have been promoted in African and other developing countries, allowing them to buy into such ideas as the road toward efficient and transparent modes of management (Hickey and Izama, 2016). Indeed, the separation of powers and functions between commercial and regulatory bodies, well described as the Norwegian Model of oil management, was conceived as the best prescription for every ailing petroleum sector (Thurber et al., 2010; 2011). Some African countries, like Algeria and Nigeria, have experimented with the model, while others have delayed its adoption, arguing that they should first undergo a process of consolidating the capacity of the sectors and related institutions before embarking on the separation of powers, as in Angola (Soares de Oliveira, 2007; Thurber et al., 2010). Mozambique's attempt to adopt the model has spent some time in limbo since the country first faced the demands of international institutions, both bilateral and multilateral, in the 1990s.

Although Mozambique lacks the necessary experience of an oil industry, in the early 2000s the country did not resist embracing the model after a visible signal of foreign direct investments to explore the Pande and Temane fields became a reality, there being no hesitation in moving further to Sasol's exploitation of the first natural gas. But what have been the lessons since of the governance reforms associated with the idea of best practices of petroleum management? Humphreys et al. (2007) suggested that 'getting institutions right' is the key to avoiding the resource curse. However, this conversation and the promises of better sector performance, transparency and optimal government revenues, among many other interesting names suggesting the idea of the minimal negative effects of the oil economy, did

not prove to be true of many African political settlements (see Hickey and Izama, 2016; Whitfield et al., 2015; Mohan et al., 2018).

The findings of this thesis' research suggest that it is useful to go beyond this standard recipe of adopting the best types of institutions to focus on the deeper forms of politics and power relations that underpin the institutional development and performance of petroleum sectors. In Mozambique, the ruling party and its higher-level factions' concerns for the reproduction of their power is considered an important source of the dynamics of oil and gas management and development. The way the power balance within the ruling coalition, and particularly how the power and benefits deriving from having access to rents, are distributed among the top ruling elite factions is critical for the stability of the management of the country's petroleum sector. Furthermore, neither the separation of powers nor the concentration of power over the commercial and regulatory roles in the oil and gas industry are likely to be enough to restrain unproductive rent-seeking behaviour.

#### 9.4. Energy transition and the future of Mozambique's natural gas: new avenues for research

The future of Mozambique's natural gas wealth is a matter of controversy outside the country. Within it, however, domestically the government has paid for silence in the debates over the issue, despite the potential impact the shift towards a transition should impose on Mozambique's future economic transformation, given its reliance on natural gas. The uncertainty over the exploitation of gas as a consequence of the increasing pressure toward a shift cleaner energy (Walsh et al., 2021), or concerning the volume of the expected revenues from natural gas exploitation (West and Lépez, 2021), requires an analysis of the implications of these changes for the industry.

In the last two years, the oil price has registered a downturn (and presently an upturn showing the considerable volatility of the sector). A fall in demand has also been witnessed, largely associated with the surge of the COVID-19 pandemic in 2020. These factors have caused several delays in investments in LNG projects, not



only in Mozambique but in other countries too. Furthermore, the ever-growing call for a reduction in carbon to protect the environment and the idea that oil companies should embrace the energy transition will have a huge potential impact on the future of Mozambique's natural gas. It seems that any further step aimed at preventing the country from exploiting its natural gas could generate huge levels of violence against a country that is still struggling with poverty, in a country that makes no significant contribution to emissions of carbon gases (see Walsh et al., 2021). Recently in the UK, the environmental organisation Friends of Earth had been preparing to go to court, probably in December of 2021, to block British funding of natural gas in Mozambique, suggesting that the British government could instead be providing funds to help the country go straight to renewable energy.<sup>236</sup>

However, while the implications of the energy transition are not likely to lead directly to the immediate ending of Mozambique's dream of exploiting its natural gas, instead it may mean more delay in the commencement of LNG production in at least two projects, each led by Total and ExxonMobil, the largest in terms capacity of the LNG production amongst the projected three. All three nonetheless represent the ultimate hope for Mozambique to see huge economic growth in the coming decades, which is expected to be highly transformational.

The UN Climate Change Conference 2021 (COP26), reunited world Leaders at a conference in Glasgow for what was dubbed 'the call for climate action', though at the time of writing the capacity to produce an impressive outcome is not certain. Indeed, as the *New Yorker* has suggested, despite the push to phase out coal as a source of energy, only 13 percent of the world's coal use was affected by plans to stop using coal.<sup>237</sup> In a recent visit by ExxonMobil's boss, Liam Mallon, to Mozambique to meet President Nyusi, he confirmed his company's commitment to implementing the Rovuma LNG project, despite delays in doing so. The concern over

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<sup>236</sup> Club of Mozambique (2021, November 2), Mozambique: British funding of natural gas project goes to court. Retrieved from: <https://clubofmozambique.com/news/mozambique-british-funding-of-natural-gas-project-goes-to-court-203945/>.

<sup>237</sup> The *New Yorker* (2021, November 9), Trust is hard to find in the U.N. Climate Summit in Glasgow. Retrieved from: <https://www.newyorker.com/news/daily-comment/trust-is-hard-to-find-at-the-un-climate-summit-in-glasgow>.

climate change and the pressure on companies to turn towards clean energy are winning responses, but for many international oil companies this does not imply the immediate abandonment of fossil fuels like oil and gas. Instead, the development of technology for carbon capture is, even at this early stage, becoming much more attractive.

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## ANNEXES

### ANNEX 1. Institutions of accountability in the petroleum sector

In 2005, the IMF<sup>238</sup> entered into an agreement with the government to include a compromise in the Memorandum of Economic and Financial Policies Management, aiming at the adoption of the Extractive Industries Transparency Initiative (EITI) in order to create transparency mechanisms for the management of natural resource revenues and to adopt and strengthen fiscal transparency. The government has enthusiastically demonstrated its interest in adopting mechanisms aimed at complementing the overall effort to implement transparent and accountable fiscal and financial management. By 2007 it was also suggested the creation of a specific unit at the Ministry of Finance to monitor the megaprojects' activities.<sup>239</sup> Furthermore, the Department of Studies of the former Ministry of Planning and Development (MPD) conducted an investigation into the extent to which the principles guiding the EITI should be implemented within the existing country framework, as well as considering the issue of fiscal risk.<sup>240</sup>

The EITI seeks to strengthen government and company systems in providing public access to information and promoting the understanding of natural resource governance. Hence, its aim is to ensure that natural resources are managed in a transparent and accountable manner and that information on companies' operations and services, including contracts with and payments to governments, are made public and systematically published. Mozambique became an EITI candidate in 2009, its EITI secretariat was created in 2010, and the first EITI report, for 2008, was published in 2011. The country became compliant<sup>241</sup> with EITI standards in October

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<sup>238</sup> See IMF (2005, December 5), 'Third review under the three-year arrangement under the poverty reduction and growth facility request for modification of performance criteria, prepared by the IMF's Africa Department. <https://www.imf.org/external/pubs/ft/scr/2006/cr0646.pdf>

<sup>239</sup> Ibid., p. 15.

<sup>240</sup> See Memorandum of Economic and Financial Policy of the Government of Mozambique for the First Review of the Policy Support Instrument (PSI) Supported-Program (June 2007-June 2010) (2007, November 12, p. 9 and 14). <https://www.imf.org/external/np/loi/2007/moz/111207.pdf>.

<sup>241</sup> Compliance with the EITI standard occurs when the country concerned has put in place an effective mechanism that allows an annual process of disclosure and the reconciliation of all revenues from the extractive sector.

2012,<sup>242</sup> a process in which it received important assistance from the African Development Bank (Columbia University, 2013, p. 197).

The first years of the EITI in Mozambique have been controlled directly by the government through the Ministry of Mineral Resources. The role of civil society in this respect has been marginal. However, since 2014 the government and companies' commitment to the EITI has softened, while civil society has started to become more active. The civil-society platform for the extractive industry, despite the ups and downs it suffered some time ago due to a lack of transparent management,<sup>243</sup> has partly contributed to civil society increasing its engagement.

The decline in the government's commitment, conversely, may have more to do with the consequences of the failure of both it and the companies to account for themselves to civil-society organizations and other stakeholders, thus making the sector subject to meaningful oversight and criticism of its policy performance. This is aligned with the core politics of the ruling elite, who wish to place barriers to the transparent management of natural resources at the top of the political agenda.

Nonetheless evaluations of EITI reports show improvements in their quality, despite remaining problems with information about the size of the revenues collected and the payments made by the companies. Differences have emerged between the companies' and the government's information regarding the former's payments of taxes and other social disbursements. Despite the gaps, however, improvements have been verified in the last few years (see EITI Mozambique, 2018; EITI Mozambique 2019).

Complaints regarding the EITI's standards have raised questions regarding the commitment and responsibility of both the government and the companies in providing accurate information and in collaborating to this end. Yet, to make

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<sup>242</sup> See EITI News (2012, October 26), Mozambique declared 'EITI compliant'. Retrieved from: <https://eiti.org/news/mozambique-declared-eiti-compliant>; also see the Draft validation report of Mozambique of 30 June 2017, by the Adam Smith International Independent Validator. [https://eiti.org/files/documents/asi\\_validation\\_report\\_mozambique\\_first\\_draft\\_v1\\_with\\_cip\\_comments\\_in\\_en.pdf](https://eiti.org/files/documents/asi_validation_report_mozambique_first_draft_v1_with_cip_comments_in_en.pdf). (accessed 1 July 2018).

<sup>243</sup> Interview with key members of the National Platform for Extractive Industries. Maputo, April 2018.

important information and contracts involving the government and the companies available to the public may be refused. Examples of this is, among others, the structure of price of natural gas Sasol sells in the country and of the specific structure of prices adopted for the *Central Térmica de Ressano Garcia* (CTRG)- (Ressano Garcia natural gas power firing) that are covered in such secrecy.

In 2014, under the Petroleum Law 21/2014, a new public body, the High Authority for Extractive Industries (HAEI), was formally established. From the point of view of civil society, it was hoped that this new body would present an opportunity to establish and strengthen transparency and accountability within the petroleum and mining sectors. Currently there is no specific body tasked with ensuring accountability. Although the INP has been assigned this role, in practice it remains weak due to the lack of political will to secure an effective accountability role.

From the perspective of civil-society organizations and the EITI secretariat in Maputo – the organizations at the forefront of persuading Parliament to establish the EITI – this public body is necessary if the government wants the extractive sector to perform in a way that is both transparent and accountable. Since the 2014 Petroleum Law created the body, it has been expected that a specific regulation would have to be approved in order to implement the HAEI. Civil-society organizations and members of the platform for the extractive industry recently organized a conference in Maputo in which members of the government, donors, the private sector and other stakeholders participated.

Indications from government officials suggest that they feel it was a mistake to integrate the HAEI into the Mining and Petroleum Law. Significantly there are clear indications of a lack or simulated lack of understanding of the role this body would play. It is therefore also not clear how the government sees this new body in relation to the executive's considerable power. Several officials in the government and Members of Parliament from the ruling party, who form the majority in Parliament, clearly have their doubts that the body can be set up, fearing instead that the imminent process of reviewing the Petroleum Law might lead to it being removed from the legislation altogether. This is because the ruling elite and the bureaucrats in

the petroleum sector feel that setting up the HAEI would have implications in respect of removing or partly limiting the political discretion presently enjoyed by the executive, which overlaps with the INP's functions.

More significantly, behind this delay there may be a lack of interest in actually establishing and securing the functioning of the HAEI. There is a certain understanding that the proposed body would undermine the ruling elite's privileges due to the significant power it would have to access information on the sector's businesses and thus expose the interests of the ruling elite. Recently, through the Mining and Gas Technical Assistance Project (MAGTAP), the World Bank commissioned a study to define the potential role and power of the higher HAEI. It is expected that the results of this study will provide information to the government about the role and the type and nature of the public body it should establish, and a road map for finally taking a decision on the implementation of this specific body.

## ANNEX 2. Mozambique's Political Settlement

Mozambique's political settlement has been substantially shaped by the historical process of colonization and the attempt to consolidate a party-state arrangement that to different degrees has lasted since independence from the Portuguese in 1975 (Whitfield et al., 2015; Macuane et al., 2018). Different institutional economic and political reforms in the mid-1980s and early 1990s were formally adopted by the ruling elite, who nonetheless only reluctantly committed itself to their implementation. Even the reforms that aimed to align the governance of the oil and gas sector to so-called best practices – such as those related to the separation of powers between commercial and regulatory bodies in order to increase efficiency, transparency and good performance – were simply embraced to facilitate the desired foreign investments flowing into the country.

Foreign direct investments were most important because the ability of the ruling elites to extract rents for their own reproduction depend on them. Immediately after independence, a centralized government driven by a one-party system was established, and although it formally collapsed in the 1990s, it survived under the cover of the powerful informal dynamics of patronage underpinning the ruling party. The latter has successfully been consolidated through the use of clientelist relations and patronage, which have since been the main factor shaping the state and its institutions, including significant sectors of the economy, which reflected some kind of belonging to the Frelimo party, or absorbing and serving its interests (Sumich and Honwana, 2007; Sumich, 2010, see also Orre and Rønnig, 2017).

Since 2015, Mozambique has been experiencing a new period in its history, for three main reasons. The first is the generational change in the country's leadership. The current president, Filipe Nyusi, who has governed the country since 2015, his second term ending in 2024, is not part of the generation of veterans of the struggle of liberation, which has been the tradition in the ruling party since 1975.

Secondly, Nyusi is from northern Mozambique, Cabo Delgado, a change marking an interruption, albeit temporary, of continuous leadership of the country by leaders originally from the south since independence (see Macuane et al., 2018).

Finally, the huge discovery of natural resources including coal and natural gas in central and northern Mozambique respectively, coupled with the relatively high levels of political tension between the ruling party and Renamo, the main opposition party, is also significant.

Furthermore, Frelimo has a reputation as a very cohesive party, but intra- and inter-elite factional competition always exists, although in some cases this is concealed from those outside the coalition. Factional competition within Frelimo has increased since Guebuza's administration (2005–2014), especially during his second term in office (2010–2014), due to exclusionary practices of governance and to access to power and resources being concentrated around his cronies (see Whitfield et al., 2015; Orre and Rønnig, 2017; Weimer and Carrilho, 2017).

The cohesiveness within the Frelimo party is strongly related to the members of the coalition acknowledging that Frelimo holds the power and controls the country's political and economic resources, and therefore also the redistribution of resources and other benefits. The idea of national unity developed since the period of the liberation struggle has been used as an ideational instrument for building the party's internal cohesiveness (de Brito, 2016; Buur and Salimo, 2018). It has also been used as an instrument of the ruling party and elites to proclaim the importance of unity and thus limit contentious policy issues and ideas with a higher probability of fragmenting their power and authority.

Significant here, as explained by Macuane et al. (2018), was the Chissano era, named after the president who took office in 1986 after the first President, Samora Machel, was killed in an airplane crash (October 1986). Chissano faced strong opposition from the hard-line faction within the party for his political practice of decentralizing power, which they considered a threat to the continued dominance of power centred on the Frelimo party. Thus, 'national unity' could be seen as a vector for

cohesiveness, while actually working as an instrument of the exclusion and consolidation of clientelist networks in favour of the ruling elite.

The political settlement in Mozambique has changed over time. Immediately after independence, the country started out with a strong, dominant Frelimo party, but soon afterwards Renamo launched a devastating civil war that lasted until 1992. The war heightened Frelimo's fear of a loss of power, the immediate solution for which was to embrace authoritarianism (Whitfield et al., 2015).

Despite the transition from centralized management to a market economy in the mid-1980s and the introduction of a multiparty system in the early 1990s, Frelimo consolidated its control over the state machinery, the economy and society by building a vulnerable authoritarian coalition (Whitfield et al., 2015, p. 115-117).

Since then, the country has seen the political settlement shift from a strong dominant party to a vulnerable authoritarian coalition (Whitfield et al., 2015; Macuane et al, 2018). Mozambique's path to a political settlement differs from that seen in its neighbour Tanzania, although they share the same pattern of an absence of political alternation in the governance of the country, which in both cases have been governed by the parties of liberation since independence.

The path of the country's political settlement has also been influenced by the interests and alliances underpinning different incumbents of the office, whether Chissano (1986-2004), Guebuza (2005-2014), or the current President Nyusi (since 2015, currently in his second term, due to end in 2024). All have been subject to an environment influenced by civil war, a weak economy, a high level of dependence on external aid and regionally based political opposition, which for many reasons has since been silenced by the ruling elites, who fear a confrontation over the idea of Mozambique being an ethnically based and divided country, after the elites have invested so hard in national unity.

Although external aid has played a role in how the political settlement has been configured, it has not been so decisive in defining the ruling party's relative capacity to hold on to power. The party has always been able to use different resources of



power to strengthen its power, including military resources, the resources of the state intelligence security service (SISE) and simple violence (see Igreja, 2010) against potential competitors and critics of the regime. This situation has increased notably since 2015, with shootings, kidnappings and killings.<sup>244</sup>

The ascent of Nyusi to the presidency is somehow intertwined with regional demands for power-sharing within the ruling party. The massive natural gas wealth discovered offshore in Cabo Delgado province, the related massive investments in LNG and the historic role of the Makonde tribe from Cabo Delgado in the struggle for liberation have proved the impetus for the transfer of power from the south to the north in establishing the succession. These dynamics paved the way for Nyusi's successful bid for the presidency, which has been said to be due to Alberto Chipande, as discussed in *Africa Confidential*<sup>245</sup> (see also Vines et al., 2015; Orre and Rønnig, 2017; Macuane et al., 2018).

Chipande is ultimately the last man in the ruling Frelimo line of succession that has been mapped out since independence. He is also seen as the most powerful man currently within the ruling party, a veteran of the liberation struggle, and the first Minister of Defence in the post-independence state, who had to be replaced by Nyusi, who is said to be his relative, because of his old age and low level of literacy (see Vines et al., 2015; Macuane et al., 2018). To prevent potential confrontation within the ruling party and the government, Nyusi surrounded himself with Makonde generals in the top positions of the Secret Intelligence Service and the General Commands of Police and Defence, although in recent years he has nominated a non-Makonde allies as Ministers of Defence.

The current configuration of the country's political settlement therefore relies on a vulnerable authoritarian coalition supported by an ethnic and regional power base located largely in Cabo Delgado. This arrangement has increased with the strategic

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<sup>244</sup> OCHA (April 13, 2018), Mozambique: Growing fear among activists. Retrieved from: <https://reliefweb.int/report/mozambique/mozambique-growing-fear-among-activists>.

<sup>245</sup> Africa Confidential (October 25, 2019), Frelimo takes no chance: Despite claims that the election was won through fraud and violence, the result will stand and strengthen the President's hand. Retrieved from: [https://www.africa-confidential.com/article/id/12775/Frelimo\\_takes\\_no\\_chances](https://www.africa-confidential.com/article/id/12775/Frelimo_takes_no_chances).

importance of gas investments in the north, which also allowed an increase in intra- and inter-elite competition over deals, as well as in institutional changes. Strong alliances were created around economic interests wishing to take advantage of gas and LNG-related investments, with huge privileges being created for northerners, mainly from Cabo Delgado (Orre and Rønnig, 2017, p. 32).

The nature of Mozambique's political settlement raises multiple issues when it comes to analysing the oil and gas sector and its importance for the overall funding and capacity to sustain the political settlement. The materiality of the Rovuma basin's natural gas and the projected large-scale investment in LNG explains the fierce competition for political power within the ruling party, which is likely to harden between the factions representing respectively Nyusi and Guebuza.

As discussed in Chapter 7, Guebuza's administration paved the way to consolidating long-term deals with the multinational oil companies through the provision of logistics and security services to onshore and offshore oil/gas operations. The Logistic Base of Pemba and the coastal protection system, the latter involving the three companies associated with the hidden debt loans, Proindicus, MAM and Ematum, would present Guebuza's cronies with an opportunity to secure the anticipated rents from the gas bonanza through illicit payment mechanisms (Hanlon, 2016; Macuane et al., 2018).<sup>246</sup> However, although the coastal security protection system remains necessary, the project's strong links to Guebuza and the lack of strategic and developmental vision on the part of the elites has allowed the project to be halted. While the dynamics within the ruling party has shaped politics and the state, the governance of oil and gas has not only been affected by powerful but controversial elite party factionalism, but also by the international oil companies and other international actors' interests, and ideas regarding best practices.

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<sup>246</sup> See also World Finance (2018, July 11), Mozambique's dramatic economic reversal. Retrieved from: <https://www.worldfinance.com/special-reports/the-mozambique-debt-crisis>.

ANNEX 3. Rovuma Basin Discoveries: Wells and Milestones

Concessionaires	Concession	Complex	Well	Discovery date	Volume of Gas
Anadarko	Area 1 Offshore	Prosperidade Complex	Windjammer	Feb. 2010	75 Tcf
			Barquentine 1	Oct. 2010	
			Lagosta 1	Nov. 2010	
			Tubarao	Feb. 2011	
			Barquentine 2	Aug. 2011	
			Camarao	Oct. 2011	
			Barquentine 3	Nov. 2011	
			Lagosta 2	Jan. 2012	
			Lagosta 3	Feb. 2012	
			Barquentine 4	Apr. 2012	
		Golfinho/Atum Complex	Golfinho 1	May. 2012	
			Atum	Jun. 2012	
			Golfinho 2	Jul. 2012	
Eni East Africa	Area 4 Offshore	Mamba Complex	Mamba South 1	Oct. 2011	90 Tcf
			Mamba North	Feb. 2012	
			Mamba Northeast 1	Mar. 2012	
			Mamba Northeast 2	Aug. 2012	
			Mamba South 2	Dec. 2012	
		Coral	Coral 1	May. 2012	
			Coral 2	Dec. 2012	
			Coral 3	Feb. 2013	

Sources: Author, INP ([www.inp.gov.mz](http://www.inp.gov.mz))

EIA (2013), Emerging east Africa energy. [www.eia.gov/countries/analysisbriefs/East\\_Africa/eeae.pdf](http://www.eia.gov/countries/analysisbriefs/East_Africa/eeae.pdf)

#### ANNEX 4. Key Milestones of Oil Concessions, 2<sup>nd</sup> and 5<sup>th</sup> Bidding Round

Operators (cessionaires)	Public Tender	Applicable Petroleum Law	Concession Block	Exploration & Production Concession Contract (EPCC)	Development Plan	Participant Interest	Sales & Purchase Agreements (SPAs)	Final Investment Decision (FID)
<b>Anadarko/ Total</b>	2nd Licensing Round 2005	Petroleum Law 3/2001 of 21 February; and Decree 24/2004 of 20 August	Area 1 - Offshore Rovuma Basin	20/12/06	Golfinho/Atum Project (12.88 MTPA) - February 2018  (Development phase)	Total 26.5%; ENH 15%; Mitsui 20%; ONGC Videsh Ltd 10%; Beas Rovuma Energy Mozambique Ltd 10%; BPRL Ventures Mozambique B.V. 10%; and PTTEP Mozambique Area 1 Ltd 8.5%	Various long-tem SPAs signed so far totaling 11.1 MTPA, with: i) JERA and Taiwan CPC – 1.6 MTPA [17 Y] ii) Pertamina (Indonesia) – 1 MTPA [20 Y] iii) Bharat Gas Resources Ltd (India) – 1 MTPA [15 Y] iv) Shell International Trading Middle East Ltd – 2 MTPA [13 Y] v) Tokyo Gas and Centrica LNG Company Ltd – 2.6 MTPA [from the start until 2040s] vi) CNOOC – 1.5 MTPA [13 Y] vii) Électricité de France, S.A. (EDF) – 1.2 MTPA [15 Y]	FID June 18 <sup>th</sup> , 2019  (US\$ 23 bn)

<b>Operators (concessionaires)</b>	<b>Public Tender</b>	<b>Applicable Petroleum Law</b>	<b>Concession Block</b>	<b>Exploration &amp; Production Concession Contract (EPCC)</b>	<b>Development Plan</b>	<b>Participant Interest</b>	<b>Sales &amp; Purchase Agreements (SPAs)</b>	<b>Final Investment Decision (FID)</b>
<b>Eni</b>	2nd Licensing Round 2005	Petroleum Law 3/2001 of 21 February; and Decree 24/2004 of 20 August	Area 4 - Offshore Rovuma Basin	20/12/06	Coral South FLNG Project (3.4 MTPA) - February 2016 (Development phase)	<b>Eni</b> 50%; CNPC 20%; ENH 10%; Kogas; and Galp 10%	BP for the entire volumes of LNG produced	Coral South FLNG - June 2017 (US\$ 7 bn.)
<b>Mozambique Rovuma Venture S.p.A (MRV) (Originally Eni East Africa)</b>	2nd Licensing Round 2005	Petroleum Law 3/2001 of 21 February; and Decree 24/2004 of 20 August	Area 4 - Offshore Rovuma Basin	20/12/06	Rovuma LNG Project- Mamba Field - May 2019 - (15.2 MTPA) (Development phase)	<b>ExxonMobil</b> 25%; Eni 25%; CNPC 20% and ENH 10%; Kogas 10%; and GALP 10%	More likely subsidiaries of the co-venture will be the purchasers of LNG	No indicative schedule for FID (≅ US\$ 30 bn)
<b>ExxonMobil</b>	5th Licensing Round 2014	Petroleum Law 21/2014 of 18 August and Decree 34/2015 of 31 December	Area A5-B (Angoche)	Oct-18	Exploration phase	ExxonMobil 40%; Rosnef 20%; ENH 20%, Qatar Petroleum 10%; Eni 10%.	N/A	N/A
<b>ExxonMobil</b>	5th Licensing Round 2014	Petroleum Law 21/2014 of 18 August and Decree 34/2015 of 31 December	Z5-D (Zambezi Delta)	Oct-18	Exploration phase	ExxonMobil 40%; Rosnef 20%; ENH 20%, Qatar Petroleum 10%; Eni 10%.	N/A	N/A

Operators (concessionaires)	Public Tender	Applicable Petroleum Law	Concession Block	Exploration & Production Concession Contract (EPCC)	Development Plan	Participant Interest	Sales & Purchase Agreements (SPAs)	Final Investment Decision (FID)
<b>ExxonMobil</b>	5th Licensing Round 2014	Petroleum Law 21/2014 of 18 August and Decree 34/2015 of 31 December	Z5-C (Zambezi Delta)	Oct-18	Exploration phase	ExxonMobil 40%; Rosnef 20%; ENH 20%, Qatar Petroleum 10%; Eni 10%.	N/A	N/A
<b>Eni</b>	5th Licensing Round 2014	Petroleum Law 21/2014 of 18 August and Decree 34/2015 of 31 December	Area A5-A (Angoche)	17/10/2018	Exploration phase	Eni 59.5%; Sasol 25.5%; ENH 15%	N/A	N/A
<b>Sasol</b>	5th Licensing Round 2014	Petroleum Law 21/2014 of 18 August and Decree 34/2015 of 31 December	PT5-C (Pande & Temane)	17/10/18	Exploration phase	Sasol 70%; ENH 30%	N/A	N/A

Source: Author. Based on various sources, including the INP ([www.inp.gov.mz](http://www.inp.gov.mz))

Anadarko (<http://investors.anadarko.com/news-releases>)

Thesis Research Question	Working question	Main guiding questionnaires
How the separation of regulatory and commercial functions, as well as the compensation and resettlement been adopted by the ruling elites and what have been the possible outcomes with regard of transparency and rent seeking?	Why and how were the reforms of the separation of functions adopted and implemented over time?	<p><b>1. Power relations and dynamics</b></p> <ul style="list-style-type: none"> <li>• What is the configuration of power in the state and how is it constituted?</li> <li>• Who are the powerful groups and why?</li> <li>• What is the origin of their power and influence and how it is exercised?</li> <li>• What is the arrangement of power in the context and who are the political and economic elites?</li> <li>• What is the historical legacy shaping institutional change?</li> <li>• How do power relations shape policy outcomes?</li> <li>• What kind of structural features affect the 'rules of the game' in government and sectors performance?</li> <li>• How do these 'rules of the game' constrain governance practices?</li> <li>• What informal rules of the game affect the quality of sectors development?</li> <li>• Who are the key actors in the petroleum sector and what are their interests? To what extent they influence policy and institutional change?</li> <li>• What are the relations between the key actors in the petroleum sector, what capabilities, resources, and power do they hold?</li> <li>• What are the norms concerning the nature of political authority in terms of its concentration or dispersion?</li> <li>• How political actors are expected to pursue their interests, whether through formal institutions or informal ones?</li> <li>• The way in which benefits are acquired, whether through official public policies or through informal networks or clientelist patronage?</li> </ul>

Thesis Research Question	Working question	Main guiding questionnaires
		<p><b>2. Oil governance reforms of the separation of power/functions</b></p> <ul style="list-style-type: none"> <li>• Are the reforms for the separation of functions between commercial and regulatory role in the petroleum sector effectively implemented?</li> <li>• What are the existing incentives to implement such reforms?</li> <li>• To what extent is the separation of functions domestically driven?</li> <li>• To what extent was the reform supported by external actors?</li> <li>• What actors had been interested in introducing and implementing the reforms of separation of functions and why?</li> <li>• To what extent the establishment of entities to perform the separation of roles (commercial and regulatory) avoided political interference of elites?</li> <li>• What are the links between the transparency reforms pursued and the hidden debt scandal?</li> <li>• Have the reforms undermined the possibility of rent-seeking by the ruling elite in the petroleum sector related projects?</li> <li>• What kind of ideas and/or ideologies</li> </ul>
	<p>How has the Sasol project been implemented and how have ruling elites been able of creating spaces for rent extraction?</p>	<p><b>3. Sasol natural gas deals, domestic gas and rent seeking</b></p> <ul style="list-style-type: none"> <li>• How was the gas-to-power (Independent Power Producers - IPPs) concessions awarded?</li> <li>• Was that process transparent and/or straightforward?</li> <li>• Are there any reputational or political concerns that emerged as part of the awarded projects and implementation at the time or since?</li> <li>• Have the project's operations run smoothly since inception? For example, have there been any issues in receiving payment from EDM (as the off taker)?</li> <li>• More broadly, what is the relationship between the project's leaders and the Mozambican government or ruling party?</li> <li>• What is the current state of EDM's role in the gas-to-power projects? How is the EDM's</li> </ul>



Thesis Research Question	Working question	Main guiding questionnaires
		<p>used for the survival of the ruling elite groups?</p> <ul style="list-style-type: none"> <li>• How has Gigajoule established itself in the Mozambican market so effectively? Did it have the support of any political exposed persons (PEPs) in the process?</li> <li>• Are there any allegations of corruption surrounding the way it secured concessions for the gas -to-power plants and the Matola Gas Company pipeline?</li> <li>• How will it fare in competition with other users over dwindling gas reserves?</li> <li>• How is the allocation of domestic gas operated? Is the process influenced by formal rules or that depends on informal networking?</li> <li>• Is there an established priority order for gas allocation when reserves of natural gas in Pande and Temane fields decrease? How is the Mozambican government likely to prioritize different users?</li> <li>• What is the risk of EDM failing to meet its payment obligations to IPPs?</li> </ul>
	How deals on domestic gas for industrialization been implemented so far, and what are the possible outcomes for rent-seeking and industrialization	<p><b>4. National policy for industrialization driven by natural gas</b></p> <ul style="list-style-type: none"> <li>• What kind of policy was adopted to support a natural gas-related industrialization development?</li> <li>• To what extent is the government committed to implement the existing policy?</li> <li>• What are the factors driving or hindering the implementation of Natural Gas Master Plan?</li> <li>• Is the Natural Gas Master Plan a policy with strong support by the ruling elite? If yes, what are the incentives to so?</li> <li>• Are the IOCs in the Rovuma Basin available and open to adopting the provision of 25% of natural gas production for domestic gas?</li> <li>• Why the law provision on the 25% of produced gas to be allocated for domestic purposes not applicable to Area 1 and 4 of Rovuma Basin?</li> </ul> <p><b>5. Domestic gas awarded projects to LNG investments in Palma</b></p> <ul style="list-style-type: none"> <li>• Are criteria for awarding major procurement contracts for the sector published?</li> <li>• If yes to a), how long in advance of the actual</li> </ul>

Thesis Research Question	Working question	Main guiding questionnaires
		<p>award are the criteria published?</p> <ul style="list-style-type: none"> <li>• Are the award decisions justified according to the criteria and made publicly available?</li> <li>• Are the ruling elite groups securing their future benefits in the awarded projects?</li> <li>• Who are the actors and companies involved in the awarded domestic gas projects?</li> <li>• How were these actors selected?</li> <li>• To what extent the purposes of their projects relevant to the national agenda for development?</li> <li>• How effective was the government in supporting the projects?</li> <li>• Why the supply of natural gas to ensure the awarded domestic gas project to operate became a contested?</li> <li>• Why is the government leverage to negotiating adequate volume of natural gas to be supplied by the oil companies failed?</li> </ul>
	How the institution for compensation and resettlement related to LNG investment affected local state-making	<p><b>6. Smallholder compensation and resettlement for land</b></p> <ul style="list-style-type: none"> <li>• What kind of formal or informal institutionalized spaces for consultation and negotiations exist in relation to land to LNG investment?</li> <li>• How are smallholders represented in relation to state organs in the initial phases of investments?</li> <li>• Was consultation related to the investment carried out?</li> <li>• What kind of spaces emerge for continued negotiations/long-term relationship between smallholders and ruling elites and investors?</li> <li>• Who represents smallholders? Through associations, through representation on boards (compensation for land loss and resettlement), through kin-based authority structures, civil society, or through local government and other political representatives?</li> <li>• What are local authorities' relationships with the state? Are they representatives of the state or of the communities or something in-between as mediators?</li> </ul>

Thesis Research Question	Working question	Main guiding questionnaires
		<ul style="list-style-type: none"> <li>• Which national, provincial, local state organs participate in negotiating, implementing and monitoring the negotiation deals? Which of these are the state authorities with the <i>real</i> decision-making power?</li> <li>• To what extent do politicians and bureaucrats express a will to include, inform, involve smallholders in decisions?</li> <li>• To what extent do the national level state actors expect people to adhere to its decisions related to the LNG investments?</li> <li>• Do the local-level authorities that governments involve in decisions actually represent the smallholders?</li> <li>• When smallholders lodge complaints with investors, who from the ruling elites get involved and how are these conflicts addressed?</li> <li>• Has there been any resettlement and compensation related to the investment here under infrastructure?</li> <li>• How have smallholders' relations with investors evolved in the negotiation for compensation and resettlement?</li> <li>• How smallholders perceive the investors (international oil companies) vis-à-vis the ruling elites at the central and local level?</li> <li>• What kind of relationship between smallholders and local authorities emerged in relation to compensation and resettlement negotiations with oil companies?</li> <li>• Collaboration between civil society and political parties (how do ruling elites use civil-society organizations to further own agenda?)</li> <li>• Can civil society improve the awareness of certain smallholder issues?</li> <li>• What ties are there between civil society and political parties?</li> </ul>

## ANNEX 6. Key Informants

<b>Ident.</b>	<b>Organisation and position</b>	<b>Where</b>
001	District Permanent Secretary	Palma, July 2015; May 2017
	Oxfam, Programme Office for Strategic Partnership for Land Governance	Maputo, August 2017
002	EDM, Director of Projects	Maputo, March and October 2018
003	Member of the Council of Defence, Former Minister of Defence and Former Minister of State Administration	Maputo, November 2020
004	GGA, Executive Director – SADC	Johannesburg, November 2016
005	AMA, Development Coordination Officer	Pemba, June 2016
006	Centro Terra Viva, Executive Director	Maputo
007	MIREME, Senior officials	Maputo, June 2017; April, August, October 2018;
008	EDM, Former Chairperson	Maputo, October 2020
009	ENH, Head of Prospect Evaluation	Maputo, May 2017; February 2018
010	UPC Cabo Delgado, Programme Coordinator	Pemba, July 2018, November 2019
011	WWF, Director	Maputo, March 2016
012	Committee of Quitupo, President	Quitupo, Palma, July 2016
013	Provincial Assembly, Renamo Bench Chief	Pemba, July, 2018
014	MEF-DNPO, Advisor	Maputo, February 2020
015	Provincial Secretariate of Cabo Delgado, Former Provincial Permanent Secretary	Pemba, June 2016 and July 2018.
016	SolidMoz, Executive Director	Nampula, December 2019
017	Planning and Budget Committee, Member of Parliament of MDM Party	Maputo, May 019
018	UPC, Cabo Delgado	Pemba, November 2019
019	UPC, Provincial Union of Peasant	Pemba, June 2016
020	UPCC, Monitoring Officer	Pemba, July 2015, June 2016, November 2018
021	INP, Former Chairman	Maputo, October 2018
022	UPC, Provincial Union of Peasant	Pemba, June, 2016
023	UPCC, Coordinator	Pemba, July 2015, June 2016, November 2018
024	INP, Administrator Exploration	Maputo, November 2017, July and October 2019
025	UPC, Cabo Delgado	Pemba, November 2019
026	District Administrator	Vilankulo, May 2017
027	District Permanente Secretary	Vilankulo, May 2017
028	Provincial Directorate of Mining Resources and Energy, Chief of Geology and Mining Department	Inhambane, May 2017
029	MIREM, National Director of Planning and Development and Chair for Steering Committee for Mozambique Gas Master Plan	Maputo, May 2017, October 2018; July, 2019;
030	UEM, Former Rector	Maputo, April 2020; March 2021.
031	Jornal Horizonte, Journalist	Pemba, November 2019
032	Leader of Community Committee	Quitupo, Palma, August 2015, November 2017
033	District Permanent Secretary	Inhassoro, May 2017,

<b>Ident.</b>	<b>Organisation and position</b>	<b>Where</b>
034	EDM, Lawyer	Maputo, April 2017
035	INP, Exploration Manager / Chair	Maputo
036	Oxfam, Director	Maputo, March 2016
037	Leader of Community	Quitupo, Palma, 2017, 2018
038	Former Governor of Cabo Delgado Province	Pemba, November, 2019
039	Botswana Chamber of Mines, CEO	Johannesburg, November 2016
040	World Bank – MAGTAP, Coordinator	Maputo, March 2016, August 2018
041	MITADER, Head of Department	Maputo, July 2017
042	MEF-DNPO, National Director	Maputo, March 2017, February 2020
043	Gigajoule, Senior Manager	Maputo, October 2018
044	Governor of Inhambane Province	Inhambane, August 2018
045	DPEF-Cabo Delgado, Director	Pemba, July 2018, November 2019
046	MITADER, Senior Inspector	Maputo, July 2016; July 2017
047	Palma District Government, Administrator	Palma, 2017; 2018
048	Chevron, General Manager - Nigeria	Johannesburg, November 2016
049	IMD, Program Coordinator	Maputo, May 2019
050	INP, Head of Cabo Delgado Delegation	Maputo, Oct 2018, Pemba, Feb 2019
051	CTV, Communication Department	Maputo, May 2019
052	CTRG, Representative of Sasol	Maputo, October 2020
053	CIP, Director	Maputo, February 2017; July 2018; November 2019
054	UPC, Provincial Union of Peasant	Pemba, August, 2016
055	UPCC, Gender Training Officer	Pemba, July 2015, August 2016, November 2018
056	Acudes, Executive Director	Inhambane, May 2017
057	AMA, Programme Officer	Pemba, November 2018
058	Former Minister MIREM	Maputo, October 2018
059	WWF, Extractive Industry Programme Manager	Maputo, May 2019
060	DPREME, Provincial Director	Pemba, August 2016; November 2018
061	Planning and Budget Committee, Member of Parliament of MDM Party	Maputo, May, 2019
062	Journalist, TVM	Pemba, 2018; 2019.
063	Forum of CSO of Cabo Delgado (FOCADE), Various members	August 2015, August 2016; July 2018
064	Members of Provincial Assembly of Cabo Delgado	Pemba, June 2016
065	Meeting with CSOs	Palma, July 2016
066	Meeting with Community members	Palma, July 2016
067	Meeting with members of community committee in Quitunda	Palma, July 2016
068	Meeting with Community Members at Bairro Maimelane	Inhassoro, May 2017
069	Focus Group with members of CSOs	Inhassoro, May 2017
070	Parliamentary Assembly, Chairman of Committee of Agriculture, Rural	Maputo, May 2019

<b>Ident.</b>		<b>Organisation and position</b>	<b>Where</b>
		Development, Economic Activities and Services	
071		Kuhuka, Executive Director	Maputo, April 2019
072		SPI, Provincial Director	Nampula, April 2020
073		CMG, CEO	March, 2016; August, 2016; October 2018
074		MITADER Senior Official	Maputo, July 2016; May 2017;
075		INP, Economist	Maputo
076		Instituto Moçambicano para a Democracia (IMD), Executive Director	Maputo
077		Sasol, Senior Manager Legal	Johannesburg, November 2016
078		Planning and Budget Committee, Member of Parliament of Frelimo Party	Maputo, May, 2019
079		CIP, Programme Manager	Maputo
080		APME, President	Maputo, August 2016; March 2017; August 2018
081		INP, Project and Development Manager	Maputo
082		Former Vice-Minister of MIREM	Maputo
083		AMA,	Pemba, November 2018
084		Sasol,	Vilankulo, May 2017;
085		INP, Administration and Finance Director	Maputo
086		Former Minister of Mineral Resources; Chair of Portos de Cabo Delgado, PCD	Maputo, September 2018
087		EDM, Director of Operation	Maputo, April 2017
088		AENA, Executive Director	Nampula, December 2019
089		INP, Geologist	Maputo
090		Former Member of Permanent Committee of Parliament, and Current Ambassador of Mozambique in Russia	Maputo, August 2017
091		MULEIDE, Director in Cabo Delgado	Pemba, March 2018
092		UPC, Provincial Union of Peasant	Pemba, August, 2016
093		DFID/FCDO	Maputo, 2015
094		Embassy of Norway,	Maputo, March 2018,
095		EleQtra, Principal Developer	Maputo
096		MITADER, National Director of Land	Maputo, July 2017
097		EITI; Secretariate member representative	Maputo, May 2019
098		Provincial Assembly, Frelimo Bench Chief	Inhambane, May 2017
099		Norwegian Embassy, Counsellor	Maputo, October 2018
100		AMA, Research Assistant	Pemba, August 2016
101		MIREME, Senior Advisor	Maputo, September 2018, September 2020.
102		Tax Authority, Head of International Cooperation	Maputo, August and October 2018; April 2020
103		Entrepreneur, Pemba	Pemba, August, 2016
104		INP, Head of Local Content	Maputo, 2018; 2019; 2020
105		ENH, Chairman	Maputo, October 2018
106		USAID, Democracy and Governance	Maputo
107		MITADER, Head of Department	Maputo, July 2017
108		GGA, Executive Director - Lagos	Johannesburg, November 2016
109		ENH, CEO	Maputo, September 2017; Pemba, March 2018
110		ENH, Head of Commercial and Marketing	Maputo
111		MEF-DNPO, Chief of Department	Maputo, February 2020
112		TVM, Journalist	Pemba, August 2019

<b>Ident.</b>		<b>Organisation and position</b>	<b>Where</b>
113		GIZ	Maputo, June 2015
114		GIZ	Maputo
115		European Union, Cooperation Attaché, CSO Officer	Maputo, Sept 2016; June 2019
116		European Union, CSO and Citizenship Officer	Maputo, May 2019.
117		Norwegian Embassy, Counsellor	Maputo
118		CTV, Programme Officer	Pemba, August 2019
119		Oxfam	Maputo, June 2015
120		SAIIA, Senior Researcher	Johannesburg, November 2016
121		General of Mozambique Liberation Fight, Former Vice-Minister of State Security, and Member of Political Commission of Frelimo	Pemba, August 2016
122		Joint/ASCUT, Executive Director	Maputo, August 2017
123		Entrepreneur big contract with Sasol	Vilankulo, April 2016, May 2017
124		GGA, Executive Director – West Africa	Johannesburg, November 2016
125		ExxonMobil, Vice-President for Africa	Maputo, March 2018
126		AMA, Executive Director	Pemba, November 2018
127		Sekelekani, Senior officer and Journalist	Maputo, May 2019
128		Sekelekani, Executive Director	Maputo, March 2021
129		Anadarko,	Palma
130		GGA, General Manager, Lusophone	Johannesburg, November 2016
131		Care International, Programme Managwer	Maputo, May 2017, Jan. 2018
132		Sasol, Local Content Specialist	Maputo, March 2017
133		UPC, Cabo Delgado	Pemba, November 2019
134		Terra Nossa, Senior Manager	Pemba, 2016
135		Extractive Industry Tax Unity, TA, Coordinator	Maputo, August 2018; April 2019; December 2019
136		President of Municipality of Vilankulo	Vilankulo, Maio 2017
137		Senior Advisor to the minister of mineral resource and energy	Maputo, August and September 2018
138		General of the liberation fight	August 2016; March, 2018
139		World Bank, senior programme manager	October, 2015; March 2016; August 2016; Feb. 2017; March 2018
140		Former Priest, former liberation fighter, very influent person in Cabo Delgado	Pemba, August 2016
141		Director of Portos de Cabo Delgado (PCD)	August 2016; March 2018
142		ENH, Senior officer	Maputo, October 2017; 2018
143		Taxi Authority, Senior Oficial	Maputo, April 2021
144		MIREME, Senior official at the National Directorate of fuels	Maputo, September 2020
145		Private Sector of Cabo Delgado	Pemba, August 2016; February 2019.