

Original article

The politics of domestic gas: The Sasol natural gas deals in Mozambique

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ABSTRACT

This article explores the ways in which the ruling Frelimo elite in Mozambique engaged creatively with the opportunities and constraints created by Sasol's Pande and Temane natural gas project as they have evolved from the early 2000s until today. This is a period that has seen ruling-elite actors become involved in various projects related to the production of electricity from 'domestic natural gas'. We argue that focusing on the initial gas investment and how it evolved over time makes it possible to understand the dynamics related to deal-making during the formative years when the Mozambican petroleum industry was reformed by separating its commercial and regulatory functions. More specifically we explore how access to revenues and rents related to natural gas projects have evolved. We point out that, although the Pande-Temane gas project has increased revenue generation, most of the gas was sold to the South African major, Sasol, for a very low amount of revenue during the first phase of the project. Revenues from the second phase, starting in 2012, did not increase dramatically, even though Mozambique acquired access to 50% of the gas from the extension of the pipeline and increased production. Instead, the increase in domestic gas allocated to the Mozambican market involved the allocation and distribution of gas to private companies at special prices, most of which were controlled by dominant ruling-elite factions under the Chissano and Guebuza governments. We argue that this has been the main mechanism for the transfer of rents from the public to the private domain.

1. Introduction

Mozambique is currently preparing to take its place among the largest global producers of liquefied natural gas (LNG) thanks to the massive volumes of natural gas, amounting more than 180 trillion cubic feet (tcf),¹ that have been discovered in the offshore Rovuma Basin since 2010. The discoveries were made by the medium-size American oil company Anadarko and the Italian company Eni, which led to Eni teaming up with ExxonMobil in 2018 and to an intense bidding war between the two American companies, Chevron and Occidental Petroleum, which erupted in 2019 over control of Anadarko. Occidental won the bid and immediately sold its African assets, including the Mozambican Area 1 gas fields, to the French oil giant Total² in an operation that allowed Mozambique to earn more than \$800 million in capital gain taxes. It is estimated that new investments in LNG will

amount to \$50-60 billion over the next decade, dwarfing Sasol's Pande and Temane natural gas projects (around \$2-3 billion), which have been implemented in the south of the country since the early 2000s.

In light of the secret debt scandal that has ravaged economic and political life in Mozambique since 2016 (Macuane et al., 2018), the question has become how the Mozambican elite can benefit from the gas bonanza through legal means. The scandal has exposed how, through the establishment of three state-owned or state-controlled enterprises, the ruling political elite illegally sourced \$2.2 billion from Swiss and Russian banks based on expected windfalls related to the upcoming gas bonanza from the Rovuma Basin (ibid.). We know from Oyewunmi (2015) that contracts for upstream operations and their outcomes in the petroleum sector are largely dependent on the quality of production contracts, an issue usually addressed within a framework that analyses the rights, interests and operations of both international

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(IOCs) and national oil companies (NOCs) in relation to the state's rights and interests. But how do formal contracts actually allow rent-seeking by ruling elites that are under pressure to secure revenues and rents for political survival and social reproduction in societies where the formal economy is not yet large enough to do so through the formal budget? Today it is well established that the way most developing countries' economies are put together means that the formal economy cannot provide sufficient resources for the reproduction and survival of ruling-elite coalitions (Khan, 2010; Whitfield et al., 2015). Unlike well-developed capitalist economies, which would be able to generate sufficient surpluses and revenues to sustain the regime, developing countries rely to a great extent on informal, extra-legal resources and rents that are typically orchestrated using the state and its control over the government to create spaces for rent-seeking (Behuria et al., 2017).

We develop one main argument in this paper. Using the Sasol³ natural gas projects that have evolved from early 2000s to the present. We show how the dominant ruling elite uses this investment to support its own accumulation and secure resources for the Frelimo party and key ruling-elite factions. More specifically, we explore how local industries associated with the Sasol natural gas project have been developed and promoted, as this, we suggest, is intimately related to rent-seeking by ruling-elite groups. We further argue that focusing on the Sasol investment and the fiscal regime underpinning it helps us understand the dynamics related to deal-making during the formative years of the gas sector in Mozambique, when the Mozambican oil and gas sector was being reformed by separating the commercial and regulatory functions (see Macuane et al., 2020 forthcoming; Salimo 2020 forthcoming).

However, we also show that, while the Pande-Temane gas project has increased revenue generation, most of the gas was actually sold to Sasol's affiliated in South Africa for a very low amount of revenue during the first phase of the Sasol pipeline project (2004–2012). Revenues from the second phase, starting in 2012, did not increase dramatically, even though Mozambique acquired access to 50% of the gas from the extension of the pipeline and the increased production stipulated by the commercial arrangement as it evolved. Instead, the increase in the amount of domestic gas allocated to the Mozambican market following the expansion of gas production involved the allocation and distribution of domestic gas to private companies controlled by dominant ruling-elite factions under the Chissano and Guebuza governments. This natural gas was sold to domestic business groups at very low prices, combined with long-term lucrative contracts for purchases of electricity by EDM, the public electricity company. This has been the main mechanism for the transfer of rents from the public to the private domain. We point out that none of this has been 'illegal' as such, but most commentators would probably consider the rent-seeking mechanisms 'illicit', as they did not involve public tendering or equal access for the wider Mozambican public, nor formal tax payments to any considerable degree.

These dynamics shaping the Sasol natural gas investments have been explored through an extensive analysis of the politics of domestic gas in Mozambique. We draw on materials and information gathered from different types of fieldwork conducted since 2015. Official documents, including materials that are not available for public scrutiny, media and civil society reports, and published material were also analysed. The complexity of the arrangement and the nature of deal-making, alongside connections between the different actors within the industry and those in the political arena, often shrouded in secrecy, makes it difficult to understand deal-making in the gas sector. In particular, the agreements established between the government and Sasol

over time and how the emerging domestic gas-to-power projects secured access to natural gas with the links to public utility company EDM to make them profitable through long-term purchase agreements were complicated, as the information is considered 'secret' by industry parties, even though it should be publicly available. As they involve high-level members of the Frelimo party, state, industry and party members are therefore not ready to speak openly about the deals, though in fact a lot of the information can be gleaned from the Government Gazette by piecing many small items of information together. Besides the Government Gazette, information was also accessed by analysing reports, newspapers and non-public documents from key institutions, though most important source has been informants from within the industry and government.

The list of interviewees and others with whom we met to discuss the topic were not only those directly associated with the industry and its projects, but also those who have for a long time been connected with specific groups controlling the gas-to-power business projects and others whose have been following cases related to deals with Sasol, including members of civil-society organizations.

The oil and natural gas sector is one of the most sensitive in Mozambique, as it is in many other African countries (see Hickey and Izama, 2016), with a significant potential of conflicting interests to emerged among ruling elite members. Given the increased tensions over demands for transparency, particularly in the aftermath of the secret debt scandal, as far as possible we have kept interviewees anonymous to protect them from threats or intimidation. In many cases we have given the names of institutions, while in other cases and under certain circumstances where there would be clear difficulties in identifying informants, we have given their positions, but only in the case of former officials of specific organizations. The material was produced by the first author as part of his PhD research thesis on the political economy of oil and gas governance, together with two periods of three and four weeks of joint fieldwork by the whole team in 2017 and again in 2018. The data from the different sources have been crosschecked, triangulated and analysed in depth and confronted with the existing materials. The framework was jointly developed in an internal workshop in December 2018. A draft of this work has already been discussed publicly in academic conferences in Maputo, Manchester, Copenhagen and Edinburgh.

In the next section, we briefly discuss our framework for analysing the political economy of domestic gas based on an approach that places the fiscal regime at its heart. We base this heuristic framework on the formal separation of the commercial and regulatory functions and the fiscal regimes that evolved with Sasol's gas projects in Mozambique. This is followed by four sections that analyse different aspects of deal-making related to Sasol's natural gas projects from 2004 until today, with a particular focus on production sharing agreements (PSAs) and the domestic gas related to the Sasol gas deals. In the conclusion, the argument of the paper is restated with reflections on its relevance to understanding the LNG gas deals in Mozambique.

2. The political economy of domestic gas: A heuristic starting point

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: 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'.⁴ For this article what

³ Sasol is a South African integrated petrochemical company founded in Sasolburg in 1950. The company is the biggest in South Africa when it comes to the production of liquid fuels, chemicals, electricity and the marketing of technologies. It was the first company to produce natural gas from Mozambique and since 2004 it has been piping natural gas from the Pande-Temane fields in the southern region of Mozambique to South Africa via a pipeline.

⁴ For Khan (2010: 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.

is particularly important is the vertical distribution of power between different elite factions and how a political settlement is financed.

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. 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 (Whitfield et al., 2015; Whitfield and Buur, 2014). In the case of Mozambique the ruling Frelimo party, which has been in power since 1975, has been led by a series of strong leaders, characterized by centralized policy- and decision-making. Historically the Frelimo party leaders have also been the country’s presidents. Around them particular factions have emerged that it has been important to accommodate over time so that the party continues to stay in power and avoids splintering. 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 a high degree of dependence on external aid, all of which have influenced the articulation of the political settlement.

The third dimension of power in the political settlement approach focuses on how political settlements have been and are financed. This 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 means. Whereas Khan’s (2010) original work focused on the relationship between ruling coalitions and economic actors in most developing countries, including Mozambique, economic actors are not necessarily capitalists in the sense they do not exclusively depend on the market for their reproduction (Wood, 2002). Instead, economic actors usually emerge from within the Frelimo 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 (Buur et al., 2012; Macuane et al., 2018).

By rents, we mean incomes that are higher than would otherwise have been earned if market dynamics had been followed. Rents in this understanding include, but are not limited to, the ‘monopoly profits, subsidy transfers organized through the political mechanisms, illegal transfers organized by private mafias, short term super profits made by innovators and so on’ (Khan, 2010: 5). From this broad definition of rents, different types of rent can be deduced, such as monopoly rents, natural-resource rents, rents based on transfers, innovation rents and learning rents. Based on Khan, we focus on transfers organized through ‘political mechanisms’ (ibid.) that often serve as the basis for accumulation, and sometimes for the emergence of new capitalists or economic actors. Public assets and goods are therefore converted into private assets or goods that may be legal or illegal.

The political settlement approach calls for more explicit attention to be paid to how the social order in a particular country is funded and how rents are generated in order to allow ruling coalitions to survive and reproduce themselves. This needs to be done in such a way that a combination of power and [formal and informal] institutions that is mutually compatible and also sustainable in terms of economic and political viability’ is secured (Khan, 2010: 4). However, as Behuria et al. (2017: 511) suggest, power and institutions are ‘often not in alignment [this] misalignment between the formal institutions of the state and the ways that powerful groups organize to make claims on the state [being] a significant driver of clientelism in low-income countries’. This is even more the case in societies that are constantly undergoing reforms in order to avoid ‘corruption’ and misappropriation by ruling elites.

Recent developments in the political economy of natural resource governance have opened up new avenues of analysis. Hickey and Izama (2016: 165) advocate the role of transnational actors and ideas as

important shapers of political behaviour. Following this turn Mohan et al. (2018) and Lavers (2018) have suggested that the relevance of ideas is often neglected in interest-based political settlement analysis. Mohan et al., for example, suggest that actors’ ideas about development and politics are sometimes the drivers of change, suggesting that political settlement analysis needs to take the role ideas play seriously (Mohan et al., 2018: 4–5). 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.

We acknowledge the role of ideas – for example, foundational ideas – such as those related to ‘national unity’ in Mozambique (Hodges and Tibana, 2005) that the Frelimo party embodies (de Brito, 2016). Foundational ideas like national unity take on a particular feature in former one-party states that have managed to reproduce power, as they can inform how patronage and clientelism are organised (Buur and Salimo, 2018: 5). As Buur and Salimo (2018: 8) have argued, all policies are ‘measured against whether they support or undermine “national unity”’. 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. (Buur and Salimo 2018: 8)

While cracks in the party’s unity have always been evident, despite claims to the contrary, the recent debt crisis in the context of a shift to a resource-based economy is just the latest example (Macuane et al., 2018). The intertwined relationship between interest-based political settlement organisation and the role of ideas has particular consequences for natural resource governance and attempts at reforming the sector. We argue that not only are economic opportunities, including rent opportunities, distributed to members of the ruling Frelimo elite factions; opposition is zealously excluded, and reforms that potentially could undermine Frelimo rule are either only half-heartily implemented or directly opposed.⁵

The institutional reforms that most resource-rich countries have been introducing over the last two decades, aimed at separating the commercial and regulatory functions related to resource governance, is of particular interest here because of the mixed outcomes of the related deals that have been implemented under these reforms. We take as our starting point the attempt to separate the regulatory and commercial functions in the Mozambican gas industry. 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.⁶ These became the norm after the liberal reforms that followed democratization in 1994 (Hanlon, 1991; 1996), especially after the first reform of the petroleum legislation in 2001. In reality the idea of a PSA was not abandoned fully, but it was certainly jeopardized by bad deal-making following the production-sharing agreements of the 2000s, which favoured the allocation of significant fiscal incentives to Sasol in order to secure the first real investments in gas production. The re-emergence of

⁵ 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 50 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, accessed November 21, 2016.

⁶ For a profound analysis of the reforms, see Salimo et al. (2020 forthcoming ESID Working paper) and Macuane et al. (2020 forthcoming ESID working paper).

commercial arrangements in a limited but still significant form in 2012, 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 that underpinned the first phase of the Sasol gas investment, as it increasingly came to be criticized.

Despite the entanglements in our model, we make a clear and simple formal distinction between concessions (potentially generating state revenues) and production-sharing agreements (PSAs that allow for both some revenue and rent generation) as two types of deal with implications for how, where and when the generation of rents and revenues can take place. As models for deal-making concessions and PSAs often overlap and thus enter into the formation of *hybrid fiscal regimes*, this being the case for petroleum contracts that have been governed by petroleum legislation since the 2000s, but as a heuristic starting point we make the distinction clear. Fig. 1 below presents the general features of the model schematically.

Even though the two models often overlap to form a hybrid fiscal regime in Mozambique, over time it can be constructive to keep them separate for heuristic reasons. In simple terms a PSA is the agreement in which the state appoints a particular oil company to carry out the 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 types of production like fertiliser, energy or chemicals. In contrast, a concession contract transfers rights of ownership of the resource to oil company in exchange for the payment of taxes to the state. In Mozambique concession contracts evolved from this basic form into a more complex model of concession contract whereby the state maintained the right of ownership while granting the oil companies the exclusive right to conduct exploration and production operations in a specific area in a given period of normally twenty to thirty years in exchange for taxes (Oyewunmi, 2015: 5).

A key element in the negotiation of oil and gas deals is how revenues and rents generated by extractive projects are distributed among the various actors and institutions involved, namely multinational companies, state entities and other local or national actors, especially national companies, both public and private. These elements are *formally* defined in the existing legislation and reflected in the contracts. In the context of the relatively non-consolidated legal and policy framework that exists in Mozambique, deal-making is not only shaped by the existing legislation: the legislation itself becomes an objective of the deals, as the prospect of deals or of their signing clearly seems to shape

both the deals and the reforms. As Salimo argues, ‘the intervening actors also embark on a discussion of the policy and legal framework in order to secure advantages in the deals to benefit themselves’ (Salimo, 2020 forthcoming). The fiscal regime defines the rights of different actors to the revenues and the opportunities that stem from the exploited resources. In other words, the type of oil and gas contract the country adopts influences how revenues and rent opportunities flow to different actors.

As already argued, since the creation of the foundational institutions in the petroleum sector in the 1980s, the legal regime for oil and gas in Mozambique has been based on PSAs. However, under the reforms of petroleum law in 2001, the petroleum contract regime became a mixture of concession contracts and PSAs. In concession contracts the country receives revenues through royalties and taxes, while in PSAs rents can come from what is produced, as well as from taxes that formally should be paid by the investor, while the state secures a share of the oil and gas produced. In both cases, companies or concessionaires will favour a fiscal regime that reduces uncertainty in the flow of resources.

Concession contracts place a heavy burden of responsibility on different state actors, as they both capture revenues and rents and distribute opportunities related to gas deals. On the other hand, PSAs can imply a greater participation by national actors as concessionaires or as the beneficiaries from royalties or domestic gas. In the case of Mozambique, this has occurred through the formal participation of the *Empresa Nacional de Hidrocarbonetos* or ENH, the NOC, in all oil and gas projects as some of the concessionaires: ENH manages the royalty and domestic gas, which can be passed to private actors. When the PSA allocates gas to ENH, the latter 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, the key question then being who is being given access to the new opportunities, and at what price?

The fiscal regime and the manner 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 elite groups or factions over control of the relevant institutions that distribute and manage PSA gas. Below we argue that over time the fiscal regime in Mozambique has been modified in order to accommodate the interests of the different ruling-elite factions, particularly those related to the Chissano and Guebuza factions in the Sasol part of the gas sector, with consequences for state revenue capture and cash

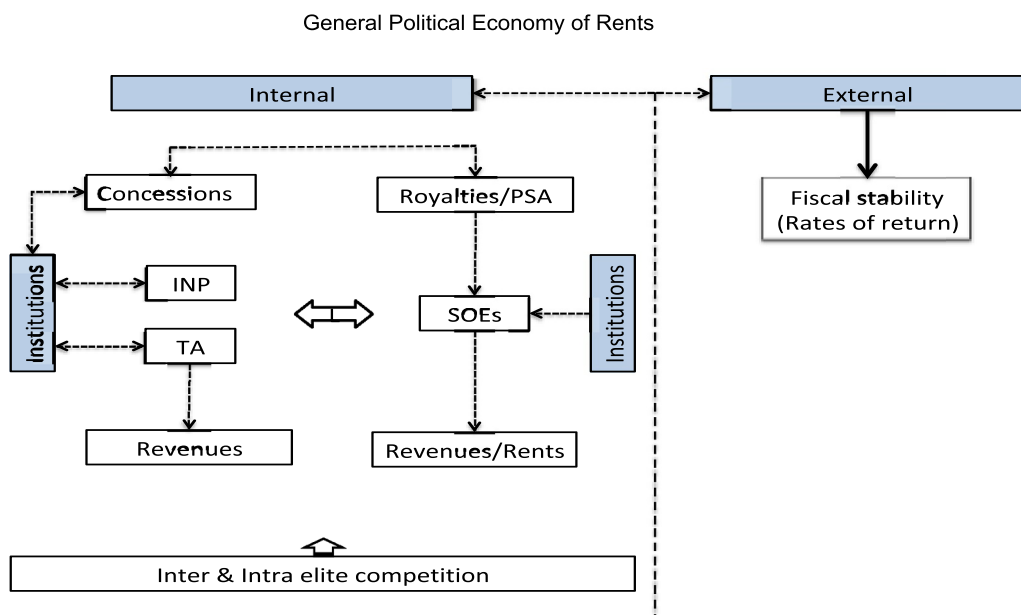


Fig. 1. Generic model for the political economy of rents and revenues. Figure developed by the authors. INP is the national regulator, National Petroleum Institute in Mozambique. TA is short for Tax Authorities (not to be confused with the Administrative Tribunal in Mozambique). SOE is the state-owned oil/gas company or the National Oil Company (NOC), which is designated “Empresa Nacional de Hidrocarbonetos” (ENH) in Mozambique.

royalties for the state. How this occurs is further explored in Sections 4 and 5. In the next section we briefly describe how the Sasol natural gas projects have evolved.

3. The Sasol natural gas projects

In October 2000, Sasol, the major South African integrated petrochemical company, signed a Petroleum Production Agreement (PPA) with the government of Mozambique and the *Companhia Moçambicana de Hidrocarbonetos* (CMH), a subsidiary of the state-owned oil/gas company ENH, for the development and production of natural gas in the Pande and Temane fields (World Bank, 2014).⁷ 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, 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).⁸

The Sasol gas pipeline project, signed in 2001, included three main integrated components: the (upstream) development of the Pande and Temane natural gas fields; the construction of a Central Processing Facility (CPF) in Temane;⁹ and the construction of a 26-inch diameter 865 km steel pipeline linking Temane in Mozambique to Secunda, a major petrochemical and gas/oil hub in South Africa (Pretorius 2002; Sasol 2003; IFC, 2008). Sasol became the first oil company to produce natural gas in Mozambique when it came on stream in February 2004. 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. Sasol is the key operator of the project with a 70% stake; CMH holds 25%, while IFC has a 5% stake, acquired from CMH, which originally had a 30% stake. 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.¹⁰

In February 2004 Sasol started gas production in the Temane field, though production in the Pande field only started in June 2009.¹¹ The total estimated reserves of natural gas in Pande and Temane together amount to 3.5 trillion cubic feet (Tcf),¹² which, with reserves in the Inhassoro gas field associated with the Pande and Temane fields, increases to 5.5 Tcf.¹³ 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). Fig. 2 shows the evolution of the capacity of Sasol's pipeline and gives forecasts for the rest of the project period up until 2029.

As can be seen from the figure, an increase in the pipeline's capacity from 120 mGJ/a to 147mGJ/a is indicated for 2010, followed by another increase from 2014 based on a constant level of forecasting data until the end of the project's lifetime. Sasol has been producing 197 mGJ/a since 2016 as a result of the expansion of the capacity of production at the CPF in Temane and the expansion of the pipeline in 2014 through the construction of a second line to it, the so-called 'loop line'.

The Pande-Temane project was designed to export natural gas to South Africa for processing and forward distribution to a number of industries and other types of user over time. Under the first generation of petroleum law dating back to 1981 a more expansive role by the Mozambican state had been envisaged. The first PSA, signed with Sasol in 1998, included the provision of a progressive increase in the PSA, 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. But when Mozambique signed the actual contract with Sasol in October 2000, the Petroleum Production Agreement (PPA) between the government (ENH), Sasol, and *Companhia Moçambicana de Hidrocarbonetos* (CMH), granting Sasol the right to produce petroleum in the Pande and Temane fields, the role of the state had diminished. Apparently, the PSA was changed at the last minute during the negotiations, much to the annoyance of certain sections in Parliament. The contract turned out to be more like a concession deal that gave Sasol access to 95% of the gas leaving ENH, with a royalty gas provision of only 5% (Deloitte, 2018; see also CIP, 2013 for a critical analysis). In the agreement it was stipulated that, if ENH could not or decided not to use the 5% domestic gas share, it could be exchanged for cash, thus giving Sasol access to all the gas and the Mozambican counterpart access to the royalty gas managed by ENH.

4. Rents and revenues from the Sasol deals

As ENH did not have any capacity in the 2000s to use the 5% of gas it acquired from the deal, it was exchanged for cash instead. Exactly how ENH used the cash and the extent to which it ended up in the government's coffers is unclear (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 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).¹⁴ 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 responding to this criticism, Sasol argues that the Mozambique government collected \$495 million in tax revenues between 2004 and 2017.¹⁵ Whether or not this is correct, even Deloitte (2018) has found it impossible to verify, as the Mozambican tax authorities only provide aggregate numbers on taxes paid by companies in the extractives sector, as revealed in interviews conducted in

(footnote continued)

html (accessed 20 November 2018).

¹⁴ 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, while the government saw this as a strategically important way to attract foreign investment.

¹⁵ See <https://www.sasol.com/media-centre/media-releases/sasol-s-response-mozambique-centre-public-integrity> (accessed 17 November 2018).

⁷ See also Sasol (2003).

⁸ Interviews at MIREME and ENH (October 2018). This was changed when the reforms separating the commercial and regulatory functions were split in 2004.

⁹ The central processing facility (CPF) is the infrastructure in which gas is dried, cleaned and compressed after being extracted from the gas fields before being pumped to the pipeline for transportation (see Portsmouth 1995; Pretorius 2007).

¹⁰ 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 significant 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: 3).

¹¹ See CMH (2014), http://www.cmh.co.mz/images/Relatorio&Contas/Relatorio_e_Contas_FY14.pdf

¹² See Cabinet Council (2014), 'Natural Gas Master Plan'. Adopted at the 16th Ordinary Session of the Council of Ministers, 24th July 2014.

¹³ See 'Oil and natural gas in Mozambique', 26 May 2011: <http://mozambique-oil.blogspot.com/2011/05/oil-and-natural-gas-in-mozambique>.

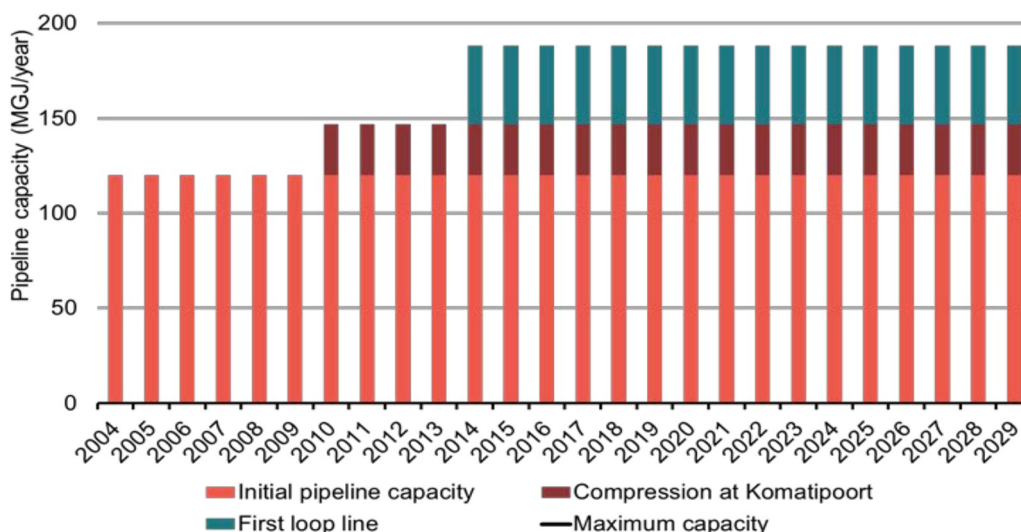


Fig. 2. The capacity of gas-pipeline transportation.
Source: extracted from World Bank (2014: 8).

2018 with the authors, and insist that the specific tax and revenue data of individual companies are confidential.¹⁶ In contrast, from 2004 to 2014 the South African tax authorities collected \$1.597 million in revenues from Sasol's operations in Mozambique (Mondliwa and Roberts, 2017: 16). The failure to contribute a more comprehensive share to state revenues is related to the low price at which Sasol sells gas to other Sasol's company in South Africa, in contrast to the same gas being sold on at seven times that price in Mozambique (CIP, 2013).¹⁷

However, the first phase of the Sasol gas project did not just benefit Sasol. Since April 2009, CMH has publicly listed a 10% stake in the Pande-Temane gas project, currently held by Mozambican individuals, on the Mozambique stock exchange.¹⁸ Exactly why and how this particular group of individuals was given access to the project or whether they paid for the shares is not information that has been made public, but the private shareholders are all directly or indirectly related to the *Frelimo nomenklatura*.

More significant are the opportunities emerging from the construction of the 865-km pipeline linking the Pande and Temane fields to Sasol's petrochemical plant in Secunda, South Africa (2002 to 2004). The pipeline included five gas off-take points on Mozambican territory. The pipeline was and is still owned today by the Republic of Mozambique Pipeline Company (ROMPCO), the joint venture involving Sasol (50% stake), the *Companhia Moçambicana do Gasoduto S.A.* (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). The five off-take points were included despite there being no domestic gas market for industrial gas in Mozambique at the time, but this move was considered important in terms of the future business opportunities related to royalty gas and domestic gas, particularly after 2012, when more gas became available as production increased. The five gas off-take points were established during the construction of the pipeline, being located at Ressano Garcia, Magude, Macarretane, Chigubu and Temane respectively.

The expansion of gas production at the CPF in Temane, in order to increase the volume of gas produced in 2012, gave the government an

opportunity to renegotiate the allocation of commercial gas (see World Bank, 2014; Deloitte, 2018). After production was expanded to the Pande field in June 2009, the Pande-Temane field increased gas production considerably. The increase allowed for the establishment of a new gas deal in 2012, with favourable conditions in terms of the availability of natural gas for domestic purposes. In the new deal, on top of the original 95%-5% split between Sasol and ENH for royalty gas and domestic gas, an increase in production after phase two was negotiated. In the new deal that formed part of the second phase of the Sasol deals, the split between Sasol and ENH was 50-50 (World Bank, 2014, Deloitte, 2018). The shift in the deal to 50% of domestic gas (also called commercial gas, as it could be used to create a commercial market domestically) being hived off from the additional gas produced under the agreement has allowed Mozambique a greater share of the deal. The question is then who has benefited?

One would expect government revenues to have been the main beneficiary of the new commercial arrangement, but this is not exactly what happened. Nor did Sasol benefit to the same extent as during the first phase, when it bought the royalty gas share cheaply (however, Sasol continued to buy gas quantum at the wellhead price as before). Instead, the availability of domestic gas has allowed the emergence of a series of industrial projects dedicated to power production from natural gas. Since 2012 Sasol has allocated 27 mGJ/a of commercial gas from the total of 54 mGJ/a of additional gas stemming from the expansion (World Bank, 2014: 8). Furthermore, the 5% share of gas royalties from the gas allocated under the first phase, plus 2.7 mGJ/a from the second phase, was also made available for domestic use, instead of being sold cheaply to South Africa.¹⁹ The Ministry of Mineral Resources²⁰ allocated this commercial gas to four companies, namely the Gas-Fired Power Plant in Ressano Garcia-CTRG,²¹ the 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 their respective business needs. The Table 1 below shows the distribution of commercial gas between the companies.

¹⁹ This makes 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 (World Bank, 2014; Deloitte, 2018).

²⁰ The gas is allocated by the Ministry but is managed by ENH. All the beneficiaries, including ENH, buy the gas from Sasol according to the volume dedicated for domestic use.

²¹ In Portuguese, Central Térmica de Ressano Garcia.

¹⁶ Interview TA (August 2018).

¹⁷ Furthermore, Sasol received a large deduction due to capital overspend on the project, as well as allegedly inflated capital expenses (CIP, 2013; CIP 2016; Mondliwa and Roberts, 2017).

¹⁸ See CMH website: <http://www.cmh.co.mz/index.php/informacoes-para-accionistas> (accessed 7 January 2019).

Table 1
Distribution of commercial gas from the Pande–Temane gas project.
Source: provided by INP, Maputo, August 2018.

Qty MGJ/a	Beneficiary company	Utility
11.0	CTRG	Power plant of 175MW in Ressano Garcia
8.0	MGC/GIGAWATT LDA ¹	Power plant of 120MW In Ressano Garcia
8.0	ENH/Kogas	Gas aggregator, and gas distribution in Maputo City and Marracuene
(2.0)	Electrotec	Gas transferred to ENH/Kogas ²

¹ In 2004, when Sasol started producing natural gas, ENH, in partnership with private companies, created the Matola Gas Company (MGC), a company controlled by private South African and Mozambican capital. MGC started by selling and distributing royalty gas allocated by the government that was not bought by Sasol. The same MGC partners were later involved in the establishment of Gigawatt Moçambique S.A.

² See *Boletim da República, III Série*, No. 43, 26 de Outubro de 2007.

How exactly these companies – all new companies with limited access to financial capacity and technical knowledge to turn gas into electricity – were chosen is not entirely clear.²² According to ENH and INP staff, as well as the representatives of foreign development partners, this appears to have been based on having privileged access to information through INP and ENH about business opportunities related to the installation of the various loops paid for by ROMPCO and Sasol. As we show below, all the companies were linked to different groups in the ruling elite connected to the Chissano faction that had negotiated the original Sasol deal and to the Guebuza faction during his two terms.²³ That the companies came from both factions was important, as the Chissano presidency (1986–2004) had been driving and overseeing all the liberal reforms initiated after 1994 and therefore was seen to have benefitted from them (Hanlon, 1996). When Guebuza (2005–2014) took over Frelimo in 2003 and became president, his ability to find ways of accommodating the factions related to him and his own appetite for business contracts was important in keeping the unity of the Frelimo ruling party intact (Macuane et al., 2018). This arrangement also allowed the Frelimo party to benefit directly from rents related to the domestic gas, as the party's private-sector investment arm, SPI - Gestão e Investimentos S.A.R.L., became one of the beneficiaries, as we show in the following sections.

5. Gas-to-electricity: Turning public goods into private goods

In 2009 the strategy for the development of a natural gas market in Mozambique was approved,²⁴ under which the government expressed its willingness to supply royalty gas to projects with the potential to 'contribute to economic development' but whose profitability could not be guaranteed on purely commercial grounds (see JICA, 2013). This was obviously a rather broad formulation, and as no real commercial or technical capacity existed in Mozambique at the time, it also allowed projects to be supported that were economically unfeasible, as 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. But in

²² 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 gas-to-electricity (Parker and Kreuzer 2013: 17): see https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Angola-Mozambique_-_Gas_Monetization_for_Economic_Development_-_Project_Study.pdf

²³ Interviews at INP and with key actors working with foreign agencies (October and December 2018).

²⁴ Resolução No. 64/2009, de 2 de Novembro: 'Estratégia para o desenvolvimento do mercado do gás natural em Moçambique'.

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 under which first the Chissano and later the Guebuza factions of the party operated, as well as the Frelimo party's private investment arm SPI.

In early 2012 Mozambican companies took forward the idea of running a gas-to-power plant utilizing unused gas under the PSA with Sasol.²⁵ The idea was to supply electricity to EDM, the Mozambican state-owned electricity public utility, Eskom, the South African electricity public utility, and NamPower, the Namibian state electricity provider.²⁶ 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 built to use natural gas in the country is CTRG in Ressano Garcia bordering South Africa, which has a capacity of 175 MW and which entered into operation in 2015. CTRG is a public-private company owned by the Mozambican state electricity company EDM (51% stake) and Sasol (49%). This was followed in 2016 by a Gigawatt gas-fired power plant with a capacity of 120 MW, a company aligned to key Chissano backers.²⁷ In 2017 Kuaninga's gas-fired power plant, located in Chokwe District, Gaza Province, entered into operation with a capacity of 40,29 MW. As explained below, this company was closely aligned to the Guebuza business empire. Recently, in October 2018, a new gas-fired power station,²⁸ CTM with a capacity of 106 MW, was inaugurated in Maputo. We therefore suggest that the emergence of gas-to-power in Mozambique is intimately related to the ability to provide important sources of rents for different ruling-elite constellations.

The few Mozambican companies that have used this particular business model usually do so as part of a joint venture with either a state entity or foreign companies, usually of South African origin. However, the most interesting and significant aspect of these deals to have emerged in the slipstream of the Sasol deals with ENH may be the specific role that EDM, the state power supplier, has played in them. EDM has become the central player in ensuring the economic viability of gas-fired power plants in Mozambique by signing long-term power-purchasing agreements with the gas-to-power companies.²⁹ EDM is a monopoly supplier of electricity in Mozambique, and the company has signed long-term contracts with the new power-generating companies, which offer the latter a higher price for electricity than the regional market. Below, in Table 2, we provide an indicative structure of the agreements between EDM and the various gas-to-power generating companies.

The structure of the agreements between EDM and the above companies for purchasing and/or sales of power or for gas supplies varies. For example, electricity produced by Aggreko is said to cost EDM around \$15.0 cents per kWh, and electricity from Gigawatt around \$9.5 to \$10.0 cents per kWh. The cost is relatively lower with regard to electricity bought from Kuaninga's power plant, that is, about \$7.5 to \$8.0 cents per kWh,³⁰ which is very close to the price from Gigawatt, despite the fact that EDM is supplying gas to Kuaninga to produce electricity under the tolling agreement, where the gas is free

²⁵ See <https://www.aggreko.com/en/case-studies/utilities/power-across-borders-in-africa> (accessed 26 October 2018).

²⁶ See <http://venturesafrica.com/afex-sterling-bank-and-binkabi-partner-to-aid-agri-finance-with-lockchain-technology/> (accessed 7 November 2018).

²⁷ See <https://moguldom.com/119908/119908/> (accessed 17 December 2018).

²⁸ See <https://www.esi-africa.com/maputo-combined-cycle-power-station-switches-on-first-gas-turbine/> (accessed 3 October 2018).

²⁹ The only exception is the agreement with Aggreko, which is governed by a temporary agreement of a year, renewable only if its electricity is actually needed.

³⁰ Interview with a senior official at EDM (October 2018).

Table 2
Structure of deals between EDM and gas-to-power companies.
Source: authors.

Structure of deal	Power-Generating Company	Off-Taker of Electricity	Power-Generating Company	STRUCTURE OF DEAL
Tolling agreement: EDM allocates to Kuvanninga to generate electricity	KUVANINGA	EDM	CTRG	Shareholder (51%) of the power plant Power-Purchasing Agreement
Gas Supply Agreement with ENH, to purchase gas at the off-take point in Chokwe EDM pays Kuvanninga for capacity charge, operations and maintenance costs, but not for electricity			CTM	Owner (100%) of the power plant Gas Supply Agreement with MGC Gas Transportation Agreement with MGC
Short-term agreement for power purchases for one year, renewable in case of need	AGGREKO		GIGAWATT	Gas Transportation Agreement with ENH-Kogas Power Purchasing Agreement

(see below).³¹ The electricity prices charged by these power plants are far higher than the price EDM pays for electricity from the Mozambican company Cahora Bassa Hydropower (HCB), which is around \$3.5 cents per KWh.³²

As Behuria et al. (2017) argues, following Khan, 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. Instead, the ways in which powerful groups mobilize to make claims on the state emerge to be the driving force of clientelism. The complex structure of these deals and of EDM, the purchaser of electricity, is facilitated by well-established and long-standing networks of patronage relations in the energy sector among powerful groups in the ruling elite (Salimo, 2020 forthcoming; Nhamire et al. 2019). We suggest that 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 below. In general, all agreements between EDM and the gas-to-power plants have been concluded without public bidding (Deloitte, 2018). Fig. 3 depicts this graphically.

Importantly for the stability of the ruling Frelimo party, quite a few groups within the party elite, first under Chissano and later under the Guebuza government, including President Guebuza himself, as well as the party through SPI, which had shares in Kuvanninga, obtained access to rents from the protected production of electricity. This was based on lucrative contracts negotiated by EDM, the national electricity company, as we show below. Competition over access to rents within the ruling elite is located both within and between state institutions, as well as among the different factions of the ruling party.

6. Connections to the Frelimo party realm

ENH, the commercial branch of the government in the oil and gas sector, is involved in the entire value chain for natural gas, being represented in the upstream segment in the Pande and Temane gas project by its subsidiary CMH, together with Sasol and IFC. These companies have entered into an Unincorporated Joint Venture (UJV) for the Pande and Temane gas project led by Sasol. The statement that ENH is ‘represented in the upstream segment’ is aimed at buttressing ENH’s lack of an active role in the deals, mainly carrying shares in the various activities except when it receives gas allocations. Sasol is not only a majority shareholder but also the *de facto* party to the deals.

The commercial gas allocations are negotiated between Sasol and the three companies that benefit from the domestic/royalty gas. While the gas is formally managed and sold by ENH, the latter is not strictly autonomous, as the Ministry of Mineral Resources, either directly or through the National Petroleum Institute (INP), the regulator, imposes decisions on both ENH and EDM regarding to whom the gas might be sold and the price to be set.³³ The example of Kuvanninga is useful in illustrating how the commercial and regulatory aspects are linked and

³¹ Information based on interviews at EDM and people related to power-generating companies. See also *Jornal a Verdade* (2018): <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>.

³² EDM’s power-purchasing deals with the South African company ESKOM, from which EDM have been buying electricity to supply southern Mozambique, have been extremely unfair. EDM pays a price of \$30 cents per KWh for the same energy that ESKOM buys from HCB at \$0.35 cents per KWh and then relays it to Mozambique. See <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> (accessed 20 December 2018).

³³ Interviews with key officials in government sectors and companies (Maputo, August and December 2018).

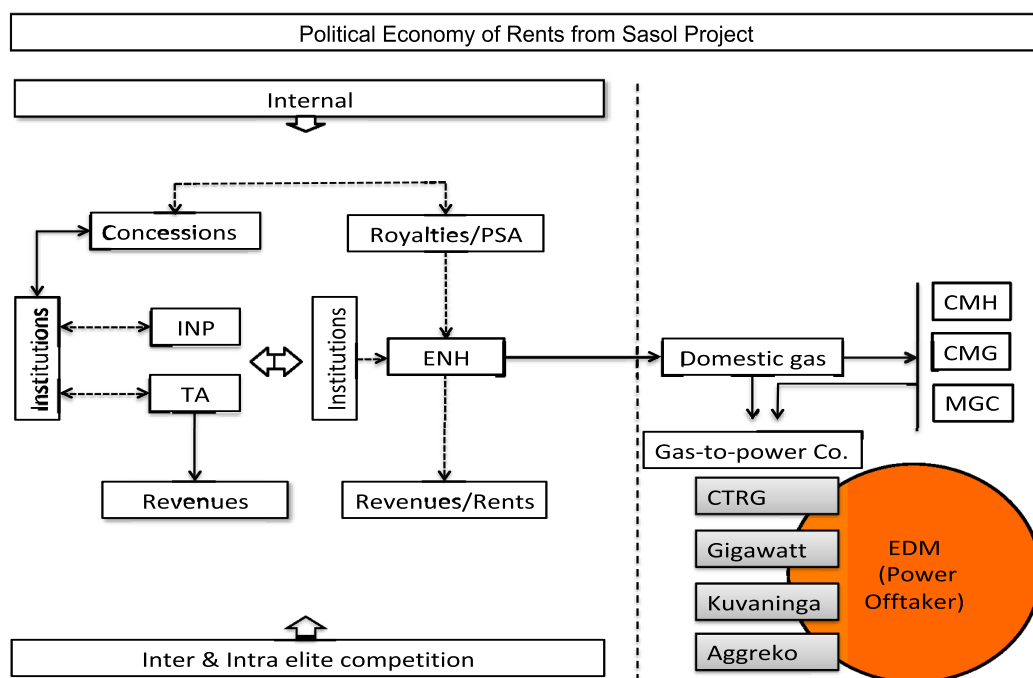


Fig. 3. Political economy of rents from Sasol's gas project and pipeline. Source: developed by the authors. CMH: *Companhia Moçambicana de Hidrocarbonetos* (Mozambican Hydrocarbon Company, ENH subsidiary); CMG: *Companhia Moçambicana de Gasoduto* (Mozambican Gas Pipeline Company, ENH subsidiary); MGC: Matola Gas Company. These three companies, with exception of MGC, belong mainly to the state, and each of them is involved in specific area of natural gas value chain. CMH is in the upstream as part of the joint venture with Sasol in Pande and Temane natural gas project. 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 sell gas to newly established 'private' companies aimed at energy generation. Energy generating private companies receiving cheap domestic gas and sell electricity to the state owned electricity company EDM.

used by the ruling elite to support selected companies, as well as how public resources can be made to benefit the ruling elite by being transferred to private companies. In 2016 Kuvaninga's power plant started producing electricity. The power 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 Kuvaninga Energy (KDM). While Kuvaninga is the local company, with SPI – Gestão e Investimentos as one of its shareholders (29.10%), it is known to be a ruling-party holding with interests in various economic activities.³⁴ The other two partners are both foreign companies. The plant is fed by natural gas based on domestic gas provided by Sasol to produce electricity that is bought by EDM. A tolling agreement governs the relationship between the two companies.

This arrangement was negotiated after Kuvaninga and EDM had previously signed a Power Purchase Agreement (PPA)³⁵ for electricity produced. Originally Kuvaninga had agreed a deal with INP, the petroleum sector regulator, to receive an allocation of 3.0 mGJ/a of the gas royalties with the purpose of producing 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 Kuvaninga and restored the gas royalties to EDM before 'forcing' Kuvaninga and EDM to enter into a new arrangement based on a tolling agreement.³⁶ In sum, EDM allocates natural gas to

Kuvaninga for the latter to use to generate electricity, which in turn is bought up by EDM at a high price, thereby benefitting SPI, the Frelimo party-controlled holding company. Although tolling agreements are a common contractual practice in the energy sector, it remains unclear what the incentives were for the government to enter into such a deal, which basically allows the Frelimo-controlled company to obtain gas for free in exchange for supplying electricity to EDM. This business model suggests that EDM has to buy the gas from ENH, provide it to Kuvaninga, and then pay to get the electricity produced by Kuvaninga at a relative high cost. In this way, public enterprises are used to finance the business ventures of private companies that in this case support the Frelimo party itself.

Table 3 below shows how the different companies are related to Frelimo or key ruling party factions.

There is not necessarily anything illegal in the particular way EDM is used to convert public gas provisions into privately generated power, or to convert public goods into private goods that involve members of the ruling elites.³⁷ In general, the gas-fired power plants established in Chokwe and Ressano Garcia, such as Kuvaninga 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 part 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.³⁸

As the domestic gas produced under the Sasol deals has been dominated by gas-to-electricity business opportunities, they seem to

³⁴ The other four companies holding a share in Kuvaninga are Executive Option Ltd (20.8%), Meridional Investimentos Lda (19.4%), Luminoc Ltd (29.7%) and the Clackson Power Company (Pty) Ltd (1%). Of these, only Clackson Power is a foreign company.

³⁵ In 2009, as part of GSA I, when the first attempts to establish Frelimo-linked electricity companies were emerging.

³⁶ See Kuvaninga Energia, 'Gas fired power project in Mozambique: executive summary of project information', November 2011, updated 28 August 2012: http://grupovidere.co.mz/wp-content/uploads/2015/05/Kuvaninga-Energia_

(footnote continued)

PIM_Ministerio-das-Financas.pdf

³⁷ Interviews with officials on the EDM's deals (Maputo, August and October 2018).

³⁸ See MPD (2013), 'Estratégia Nacional de Desenvolvimento – ENDE', Maputo.

Table 3.
Companies and ruling party connections.
Source: compiled by the authors.

Companies	Shareholders	Connections with individuals, companies or other details
CTRG	EDM (51%); Sasol (49%)	Public-private partnership. There are no indications of individuals 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 gas royalties, as well as commercial gas. Of the three companies with the right of access to commercial gas, this is the one paying the lowest price to purchase gas. The company is assigned 11 mGJ/a of natural gas from the total 27 mGJ/a allocated to 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 and Morgado, who has passed away. Electrotec Holdings is part of Intelec Holdings, a group in which Salimo Abdula, a member of the ruling party, currently the CEO also linked to Intelec Holdings, the President and Honorary Consul of Malaysia in Mozambique are involved. Another important name mentioned as being part of the Intelec Group is the former president, Armando Guebuza, who led the country in two terms from 2005 to 2015. Electrotec was transformed into a public limited company in 2007. The shareholders in Electrotec Holdings ¹ include Visabeira Telecomunicações e Construção, SPGS, S.A. with a 29% stake, Intelec Holdings with a 70% stake, and Salimo Amad Abdula 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 IFC as part of the UJV. The companies and individuals who represent the 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. On the relevant Facebook page it is possible to identify Intelec Holdings, the group that is participating in the MGC shareholding and is also one of the companies with a stake in the CMH.
GIGAWATT	Gigajoule Power (42%), and various Mozambicans	The Chairman of Gigawatt is the former Minister of Mineral Resources and Energy in the Chissano administration, Castigo Langa, while Bruno Morgado, the son of the late Minister of Industry and Commerce, Carlos and Morgado, is also involved. Gigawatt was established under a proposal submitted by the three MGC shareholders.
KUVANINGA	Luminoc Limitada (29.7%); SPI – Gestão e Investimentos (29.1%); Executive Option (20.8%); Meridional Investimentos Lda (19.4%); and Clackson Power Company (Pty) Ldt (1%)	With the exception of Clackson Power, the other four companies are local. Luminoc is linked to former President Guebuza's nephew Miguel in partnership with Dimitrios Perreiros, who is said to have business interests in South Africa. ² SPI is a company 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, Manuel Tomé, former members of Frelimo's political commission, such as Teodoro Waty, and other members of the Secretariat, such as José Augusto Tomo Psico.

¹ See *Boletim da República, III Série*, No. 43, 26 de Outubro de 2007.

² See Luis Nhacote (2012), 'Mozambique's Mr Guebusiness', in *Mail & Guardian*, 6 January 2012: <https://mg.co.za/article/2012-01-06-mozambiques-mr-gue-business> (accessed 26 December 2018).

come with a cost to the country. But as President Nyusi emphasized at the recent opening of a combined-cycle power plant in Maputo, 'the capacity of the country to grow sustainably depends on the level of access to electricity'.³⁹ This is indeed important for a country with relatively limited access to electricity. However, the sole focus on electricity generation using EDM to generate huge rents for limited elite groups who are closely related to the Frelimo party is nonetheless limiting the development of other industries that could be boosted by using domestic natural gas, such as the fertiliser, plastics and chemical industries. This could have tapped into the broader discourse related to the diversification of the economy related to the huge expectations generated by natural gas development (see [Macuane et al., 2018](#)). Pursuing business opportunities does not come from nothing, but is closely linked to privileged access to information and the use of confidentiality clauses where price agreements between producers and buyers of natural gas and power produced through gas-fired power plants are kept secret.

The centrality of the ruling Frelimo party is clear. The party is directly and indirectly the main source of distribution of benefits ([Carbone, 2003](#); [Sumich and Honwana, 2007](#); [Sumich, 2015](#); [Buur and Monjane, 2017](#)), but not all members or groups within the ruling coalition have the same opportunities to benefits from rents from the gas-related business. Indeed, it is a small group of those among the higher level factions of the ruling coalition related to the Chissano and Guebuza regimes who benefit the most from the Sasol gas investments and

the domestic gas contingent. But as the party itself also benefits from rents generated under the scheme of gas-to-power projects through its private-sector investment arm, SPI, it did not splinter party unity. This also 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 MDM and Renamo had increased their popularity during the 2013 and 2014 local and national elections (see [Weimer et al. 2012](#); [Macuane et al. 2018](#)).

7. Conclusion

In this article, we have suggested that the transparency reforms initiated after liberalisation in the 1990s have actually been used to increase even further privileged access to rents from the gas sector by competing elite factions. Reforms were adopted in such a way that control over resources was maintained and ruling-elite interests accommodated. The institutions that govern the petroleum sector overall, as well as the reforms adopted over time both in the early 2000s and later, in 2012, when gas was made available to the domestic market, have privileged good practices, namely the separation of functions and the adoption of a new commercial arrangement that created exclusive opportunities and space for powerful groups of the ruling elite to emerge and take control of the domestic gas-to-power industry. These reforms have also been conducive to stimulating foreign investments in the oil and gas sector, securing revenues for the state and contributing to the development of local industries. However, 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 ([Whitfield et al., 2015](#)). This enabled the latter to take

³⁹ See <https://clubofmozambique.com/news/nyusi-inaugurates-combined-cycle-power-station-in-maputo/> (accessed 17 December 2018).

control of the gas business in a trade-off whereby potential public revenues and resources have been exchanged for private accumulation and for the survival of the ruling party.

If the sale of natural gas to selected domestic business groups at very low prices, combined with long-term lucrative contracts for purchases of electricity by EDM, was the main mechanism for the transfer of rents from the public to the private domain, this nonetheless had its limitations. The expected LNG bonanza in Cabo Delgado 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 exploded into life after 2016. Foreign companies in the LNG segment operate on a different scale than pipeline gas and, due to reputational risks as public stock exchange companies, are considered to be more accommodating of public disclosures. Whether this will actually prove to be the case can only be determined in the future, but so far the LNG bonanza has not accommodated anything like the Sasol deals have done with regard to ruling-elite involvement. Whether this can explain why the secret loans emerged exactly during the transition from the Guebuza presidency to the Nyusi presidency from 2013–15 has not yet been clearly established. Nonetheless it could prove to be a good starting point for understanding not only the present debt scam, but also future attempts to extract rent from the LNG bonanza, for example, related to the ‘linkage formation’ request, ‘national content’ deals and the conversion of domestic gas into ‘national benefits’ for example by shipping LNG gas to Maputo for energy generation, as recent contracts between Total and ENH suggests will be the case.

Supplementary materials

Supplementary material associated with this article can be found, in the online version, at [doi:10.1016/j.exis.2020.05.017](https://doi.org/10.1016/j.exis.2020.05.017).

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