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WIDER Working Paper No. 2013/102

Foreign aid, resource rents and institution-building in Mozambique and Angola

Helena Pérez Niño,¹ and Philippe Le Billon²

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Abstract

Sharing similar colonial and post-independence civil war experiences, Mozambique and Angola's development paths are often contrasted, with foreign aid-dependent Mozambique hailed a success compared to oil rentier Angola. This paper questions the so-called Mozambican miracle and contrasts it with Angola's trajectory over the past two decades. Paying attention to the political trajectory of the ruling parties as well as the different timing and conditions linked to the post-war political economy transition, we discuss differences and similarities in the post-conflict reconstruction trajectory, policy space, and relative institutional fragility. We suggest that large aid flows to Mozambique have contributed to a relaxation of its government's urgency in creating the financial structure capable of capturing rents from natural resources in contrast to Angola, while the relative absence of official development aid has led Angolan elites to seek tenure prolongation partly through high rent capture and incipient socialization of massive oil rents. We conclude by discussing the likely consequences of these factors in terms of the relative 'fragility' and 'robustness' of both states, and discuss implications for foreign assistance.

Keywords: Angola, foreign aid, fragile states, Mozambique, oil, rents

JEL classification: N47, P45, P48, P52

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Acronyms

BSP	budget support programme
CPIA	country policy and institutional assessment
CSO	civil society organization
FRELIMO	<i>Frente de Libertação de Moçambique</i> , Mozambique Liberation Front
GPA	general peace agreement
IDA	International Development Association
IOC	international oil company
LNG	liquefied natural gas
MIGA	Multilateral Investment Guarantee Agency
MSSD	most-similar systems design
NGO	non-government organization
NOC	national oil company
MPLA	<i>Movimento Popular de Libertação de Angola</i> , People's Movement for the Liberation of Angola
O&G	oil and gas
PBA	IDA's performance-based allocation
PRSP	poverty reduction strategy paper
PSA	production sharing agreement
RENAMO	<i>Resistência Nacional Moçambicana</i> , Mozambican National Resistance
UNITA	<i>União Nacional para a Independência Total de Angola</i> , National Union for the Total Independence of Angola

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1 Introduction

Mozambique has been hailed for many years as one of the most successful cases of post-war reconstruction. Following a peace agreement in 1992 that ended a fifteen-year long civil war between the Frelimo government and rebel movement Renamo, Mozambique remained politically stable for two decades and experienced one of the highest non-oil growth rates in sub-Saharan Africa (Nucifora and Pereira da Silva 2011). Pursuing structural adjustments and prioritizing ‘sound’ macroeconomic policies, the Mozambican government maintained the continuous support of a large number of foreign donors investing in multiparty democracy, ‘good governance’, decentralization, and public service delivery. Long aid-dependent, Mozambique has seen in recent years a major growth in extractive sectors that could transform its political economy, yet uncertainties remain with regard to the development of some of these projects and the effective capture of resource rents by the Mozambican state.

Despite historical similarities as a former Portuguese colony having experienced a traumatic post-independence civil war, Angola stands in sharp contrast in most of the literature. Peace agreements signed in 1991 and 1994 between the MPLA government and rebel movement UNITA collapsed, with hostilities only ending with UNITA’s military defeat in 2002. Fuelled by fast-rising oil revenues over the past decade, Angola’s developmental path is often described as highly inequitable and vulnerable to oil price volatilities and finite reserves.

If uncritical approaches often portray Mozambique as an ‘aid-driven success story’, Angola is frequently presented as an archetypical case of ‘resource-cursed state’. A resulting assumption is that Mozambique could be considered a ‘robust’ state, while Angola would be expected to be a ‘fragile’ one.

This paper draws on emerging theory and empirical data to question these characterizations. Our compared re-examination of the fiscal basis of the state and the manner in which tenure prolongation is secured by the ruling parties in each political system leads us to qualify the Mozambican success story in the light of impressive fiscal and managerial achievements in Angola. In both cases, though differently, non-tax revenues have underpinned the strengthening of the ruling party at the expense of democratic consolidation. Using an analytical framework that evaluates state fragility in terms of durability, legitimacy and efficiency (see Stewart and Brown 2009), we find important differences in efforts to translate non-tax revenue into developmental outcomes, with possible implications for the relative fragility of these two states.

By contrasting new evidence and debates about the impact of resource rents and foreign aid on state-building and on the prospects for broad-based growth in sub-Saharan Africa (SSA) with a historical reconstruction of the Angolan and Mozambican political and economic trajectories, we infer possible causal pathways between foreign aid and state fragility, on the assumption that Angola’s resource wealth negatively affected the intensity, duration and composition of foreign aid.

1.1 Methodology

Our analysis of the state-building trajectory in Angola and Mozambique is formulated as case-based paired comparison using a most-similar systems design (MSSD) (Tarrow 2010). Mozambique and Angola are good candidates for MSSD, in virtue of the many commonalities in their colonial history, socioeconomic make-up and political system. In both countries, Marxist-Leninist parties controlled the state after independence and faced

externally-supported armed opposition yet remained in power and abandoned socialism, transitioning at least nominally to multiparty democracy with both historical opposition parties remaining marginal. Our analysis attempts to isolate a key variable that is expressed differently in these two cases, the source of funding underpinning the post-conflict reconstruction and state-building processes. In the case of Mozambique there has been a historical reliance on the financial assistance provided by foreign donors which over the last two decades has been the main contribution to state revenue and social expenditure. By contrast, for reasons explained below, foreign assistance remained significantly lower in Angola with much of the functioning of the state and social provision relying on revenues stemming from the oil sector. Important observations about the long-term effects for state-building in (SSA) can emerge from the comparison with Angola, one of the few countries in the region that has not been through a structural adjustment programme (Soares de Oliveira 2007a). Our analysis links the implications of the reliance on foreign aid or on natural resource rents on the emerging fiscal architecture, the political settlement and the policy space in each case. We hypothesize that the different sources of funding will lead to different outcomes in terms of the three dimensions of state fragility: durability, legitimacy and effectiveness.¹

To further test the robustness of our comparison, we conduct a series of ‘before-and-after’ analyses of the same cases, as suggested by George and Bennett (2005). We study two specific series of exogenous events to evaluate and compare foreign aid relationships with state fragility, both in terms of what these shocks revealed about aid’s contribution to state robustness (or lack thereof), and reactions in the state-donor relations to the shock. The first such case is the end of the cold war and subsequent peace agreements (Rome agreement of 1992 for Mozambique; Bicesse accords of 1991 for Angola) and the second is the series of crises between 2007-09 (food crisis, commodity price collapse, and Arab Spring).

1.2 Structure of the paper

Following this introduction, the second section of this paper provides a brief theoretical discussion of the literature contrasting the effects of foreign aid and resource rent on state institutions, and briefly presents indicators for the three main dimensions of state fragility evaluated here.

The third section traces the most relevant aspects of the aid and rents trajectories in both polities. In the case of Angola we ascertain the reasons for the weak engagement of foreign donors in the post-conflict reconstruction and trace the way in which this related to resource-based funding opportunities for the Angolan state. In the case of Mozambique we trace the economic trajectory of the post-conflict decades, reconstruct the formation of an aid-dependent political settlement and the determinants of the very low taxation rate. The section closes by examining the way in which different sources of revenue may have shaped the party system and the state.

In the fourth section we expand on the comparison of the two systems and propose some analytical implications. Of particular interest is the seeming transition currently taking place

¹ However, we consider that resource or aid dependence are not exogenous but contingent upon a variety of factors discussed in this paper. In other words, it is not only the presence of geological deposits that determines resource dependence, or merely the presence of a large number of donors in a ‘resource poor’ country that results in aid dependence and compliance towards donor policies.

in Mozambique away from aid dependency and increasingly around the management of its more recently discovered gas and mineral endowments. The comparative examination of the fiscal regime in the extractive sector already reveals important differences between Angola and Mozambique, but perhaps this development also signals some margin for future convergence.

We conclude by discussing the likely consequences of these factors in terms of the relative ‘fragility’ and ‘robustness’ of both states and suggesting implications for foreign assistance.

2 Foreign aid, resource rents and state institutions

Debt cancellations and rising commodity prices at the beginning of the new millennium revived interest about the rentier state theories and the negative effects of aid dependence. Most of the studies then concluded that while both forms of ‘unearned’ income could undermine the consolidation of state institutions, aid and rents varied greatly in their effects, largely as a result of distinctive allocation processes. Therkildsen (2002) and Collier (2006: 1485) draw attention to these comparative developmental impacts, noting that while both reduced the need for taxation, at least in the case of aid there existed ‘donor-imposed mechanisms of scrutiny’ that substituted for the reduced pressure from citizens. If aid dependence entails the risk, postulated by Brautigam and Knack (2004), of governments being more accountable to donors than to their own citizens, access to vast resource rents run the risk of sustaining governments accountable to no one, with ‘citizens-as-taxpayers’ and donors being made irrelevant (el-Beblawi and Luciani 1987; Le Billon 2005; Ross 2001).

In light of this debate, Moore (2004) advocates for greater reliance on domestic taxpayers as the main mechanism to finance the state in order to promote a *fiscal (social) contract* between the state and the population, with supposed positive effects on state durability, legitimacy and effectiveness. However, Moore cautions against simplistically expecting that the ‘quality of governance in contemporary developing countries might improve if states were more dependent for their financial resources on domestic taxpayers’. In a similar vein Di John (2011) claims that as the main mechanism binding the state, interest groups and other citizens, the level and quality of taxation reflect the ascendancy of the state over the polity providing a direct and objective indicator of state capacity, but advocates for an approach to tax policy that goes beyond increasing the tax revenue and calls for stressing the impacts of its implementation (a pro-growth rather than a pro-revenue approach).

Testing the association between net official development aid (ODA) and domestic tax revenues, Benedek et al. (2012: 1) confirm this crowding-out effect of aid, yet qualify it: as major donors start pushing for domestic revenue mobilization, the effect progressively weakens. The authors also note ODA grants produce such crowding-out effect but not loans. They conclude by noting that aid does have ‘a particularly strong negative effect on domestic tax revenues in low-income countries and in countries with relatively weak institutions’. Overall, this literature points at the mutual influence of revenue sources and institutional quality. While the relative importance of ‘unearned incomes’ tends to negatively affect the quality of institutions, and thereby aggravate the relative fragility of states, these effects vary

according to the type of revenues, most notably foreign aid (or ‘strategic rents’) and resource rents.²

2.1 State fragility and the nature of rents

State ‘fragility’ is a broad term that emerged from development and security studies to denominate a situation characterized by dysfunctional, deteriorating or collapsed central authorities. The term is generally associated with concepts of ‘weak’ or ‘failed’ states, yet—as many have observed—conveys more a sense of vulnerability to *potential* shocks than one of *existing* crisis.³ Such vulnerability, in turn, results in part from ‘weak institutional capacity, poor governance, and political instability’, the defining characteristics of ‘fragile states’ for the World Bank.⁴ For the purpose of this paper we build on distinctions made between state fragility related to durability and authority, as the relative length of political leadership (given institutional expectations such as limits on political tenure terms) and reach of state control over its citizens, resources, and territory; legitimacy, as democratic accountability (or the broader ideological adhesion from the population); and effectiveness of state institutions in terms of developmental outcomes (see Carment, Sammy and Landry 2013; Stewart and Brown 2009).

When state fragility is evaluated in terms of the durability dimension, the literature shows aid and oil rents both as positive *robustness* factors. By contrast the authority dimension suggests that if both aid and oil can help, aid tends to reinforce the politico-legal independence of the state while reducing its policy autonomy (Brown 2013), while high oil rents tend to reinforce the policy autonomy of the ‘petro-state’, yet would reduce incentives for the state to establish dense connections with its population for lack of need of broad taxation (Karl 1997). Despite well-established links between oil dependence and armed conflicts (Colgan 2011; Lujala et al. 2007; Ross and Andersen 2012), and suggestions that negative aid shocks increase armed conflict events (Findley et al. 2011; Nielsen et al. 2011), there is mounting evidence that non-tax revenues contribute to regime durability. The lower taxation burden on the elites and greater social spending are postulated as causal mechanisms.⁵ Wright et al. (2013) observe that ‘greater oil wealth promotes autocratic survival by lowering their risk of ouster by a rival autocrat, not by reducing the likelihood of democratic transition’, while Ahmed (2012)

² This paper does not cover other types of rents such as overseas remittances, which appear to lead to the deterioration of institutional quality (Abdih et al. 2012). Remittance estimates vary greatly. IFAD estimates that in 2006 Mozambique received an estimated US\$565 million or 7.4 per cent of GDP, while Angola received US\$969 million or 2.2 per cent of GDP, compared to a regional average for Africa of 5 per cent of GDP. See www.ifad.org/remittances/maps/africa.htm. The World Bank estimates an annual average between 2008 and 2011 of US\$25 million for Angola (with an outflow of US\$666 million) and US\$129 million for Mozambique (with an outflow of US\$57 million, and an inflow of US\$80 million for 2006). See www.go.worldbank.org/092X1CHHD0/.

³ The crisis states project at LSE distinguishes between fragile, crisis and failed states: see www2.lse.ac.uk/internationalDevelopment/research/crisisStates/download/drc/FailedState.pdf

⁴ The World Bank’s definition of fragile states covers low-income countries scoring 3.2 and below on the Country Policy and Institutional Assessment (CPIA), which is used to assess the quality of country policies and the main input to IDA’s Performance-Based Allocation (PBA) system. This involves around thirty countries. Countries scoring >3.2 on the CPIA may manifest symptoms of fragility in specific sectors or even in sub-national areas.

⁵ Although these operate differently in democracies and autocracies.

concludes that ‘governments in autocracies use aid ... inflows to reduce their expenditures on welfare goods to fund patronage’. Overall, recent studies all find evidence of positive association between higher non-tax revenues and greater regime or political leadership durability (Morrison, 2009; Omgba 2009: 420; Cuaresma et al. 2011; Ahmed 2012; Andersen and Aslaksen 2012).

If state fragility is thought of in terms of legitimacy, including the level of democratization, the literature indicates that under certain circumstances oil rents can qualify as a factor of fragility, and foreign aid as a factor of robustness. Ross and Andersen (2012: 1) conclude that oil wealth becomes a hindrance to democratic transitions if rents are captured by authoritarian factions, while Dunning (2008) finds instances of increasing oil rents promoting democratization in contexts of high inequality if rents are used to mitigate popular grievances if wealthy elites do not consider that their position is undermined. In relation to the effect of foreign aid, Dunning (2004) and Bermeo (2013) find a negative impact of aid on democratization during the cold war, notably through donor support for right-wing autocrats, yet find a positive impact after the post-cold war, probably as a result of the contemporary emphasis on democratization and the good-governance agenda. Wright (2009) further notes, that regime responses to aid conditionality linked to democratic reform receive different responses, depending on the political regime, with ruling parties more likely to accept this type of conditionality in the absence of strong opposition.

Lastly, non-tax revenues seem to affect negatively the quality and effectiveness of institutions, and thereby developmental outcomes. Several studies suggest that both foreign aid and oil rents undermine the quality of political institutions, aid even having a larger effect than oil (Djankov et al. 2008). Brautigam and Knack (2004) observe that the quality of governance and tax revenue share of GDP both decline with higher levels of aid. Girod (2012) qualifies this finding in terms of development outcomes by finding that aid inflows can have a positive developmental impact in ‘post-conflict’ contexts provided that the recipient government is of low strategic importance to donors and lacks access to high resource rent; such context creating strong incentives for recipient governments to pursue the development goals articulated by donors in order to secure much needed aid flows. In contrast, aid provided to strategically important governments with access to high resource rents does not improve developmental outcomes.

The *resource curse* argument suggests that resource wealth negatively affects the quality of institutions through authoritarianism, resistance to reforms, and greater corruption, thus resulting in ‘weaker states’ (Stevens and Dietsche 2008). If there is much evidence to support the view that resource wealth has deleterious effects on the quality of institutions *relative* to those of states at similar income levels (Fearon 2005), many studies also demonstrate that resource-rich regimes are comparatively more durable (Smith 2004), a paradox best expressed by Ricardo Soares de Oliveira’s (2007b) concept of ‘successful failed state’. A recent study accounting for the endogenous effects of oil wealth on economic development finds a significant and positive relation between measures of public goods provisions and oil rents; suggesting that while ‘countries with greater oil supplies may be more corrupt and have worse governance than expected for their level of wealth ... oil also provides the necessary funding to establish better governance’ and delivers public goods (Kennedy and Tiede 2013: 8). Such question of resource-related state fragility needs also to be approached historically, notably in the case of oil (Le Billon 2012; Ross 2012). The 1970s—with much greater oil fiscal earnings from oil nationalizations, contract renegotiations, and booming oil prices—marked a transition point, after which oil windfalls brought greater financial strength

but also new forms of weakness, as fast-growing bureaucracies with still limited absorptive capacities faced new or increased expectations from the population and ruling elites. With the collapse of oil prices in the early 1980s, states became doubly weakened. Financially, petro-states faced massive indebtedness, a debt overhang that resulted in part from the over-optimism and fast growth of the boom period. Bureaucratically, petro-states faced new challenges of underfunding and accompanying structural adjustments. Debt, low prices, and a neoliberal agenda of privatization further moved the balance of power in favour of foreign investors and new civil society organizations. This historical pattern does not apply to all oil producers, but the initial phases of oil windfall occurring in the midst of poor countries with low absorptive capacity are applicable to many, with some caveats in the case of Angola, as discussed below.

Table 1: Main arguments about aid, rents, and state fragility criteria

Dimensions	Foreign aid	Resource rents
Durability and authority	Stable or increasing ODA inflows increase regime durability , but can reduce authority	Rents increase regime durability and sovereign authority , especially of autocratic regimes
Legitimacy	Increases legitimacy as a result of emphasis on democratization and good governance	Decreases legitimacy in the absence of broad redistribution
Effectiveness	Decreases effectiveness through lower tax revenue, unless donor goals are developmental and recipient countries do not benefit from alternative revenues	Decreases effectiveness but only on a relative basis , with high rents still increasing state capacity and public goods provision

Source: Compiled by the authors.

2.2 Assessing ‘state fragility’ for Mozambique and Angola

Several organizations present assessments of ‘fragility’ for Mozambique and Angola. Varying slightly in their methodology, all rank the Angolan state or ‘situation’ as more ‘fragile’ than that of Mozambique, while our analysis stresses in contrast a *potentially* ‘stronger’ Angolan state.⁶ This, we suggest, reflects an analysis based on socioeconomic indicators and perception surveys for individual dimensions (such as corruption) rather than case study analyses able to capture historical contingencies as well as the economic and political particularities and recent trajectories shaping individual states, as presented below. Both Angola and Mozambique have had very durable regimes, with continuous rule by the same political parties since independence despite civil wars and democratization processes. Both states, however, faced important challenges to their territorial authority, with rebel

⁶ The Center for Systematic Peace classified Angola’s fragility as ‘high’ compared to ‘serious’ for Mozambique in 2010 (Marshall and Cole 2012). *Foreign Policy*’s Failed State Index gave a deteriorating ranking and score of 87 for Angola, but an improving ranking and score of 83 for Mozambique (Foreign Policy 2013). The World Bank (2013) classifies Angola as being in a ‘fragile situation’, but not anymore than Mozambique. So does the OECD (2013), which stresses that nearly half of ‘fragile countries’ were now middle-income countries, mostly as a result of high commodity prices. The Country Indicators for *Foreign Policy* notes that while Angola is regularly ranked among the 20 most fragile countries, Mozambique moved out of the top 40 fragile countries as early as 1996 (Carment, Sammy and Landry 2013).

Box 1: Putting state fragility to the test

Several events with global repercussions have tested the fragility of states in the past five years, including sharp food price rise in 2007-8, the economic downturn of 2008-9 and its depressing effect on commodity prices, and public protest diffusion effects of the Arab Spring in 2011-12. Despite their differing impacts on Angola and Mozambique, each constituted an extraneously driven test upon state fragility. We examine each in turn:

Fuel and food crisis, 2007-08. There was no reported riot in Angola, in part because of fuel and food subsidies and a feared security apparatus, and this despite upcoming elections in September 2008 that could have seen the context manipulated for delegitimizing the regime. In contrast, Mozambique experienced some of the most severe protests on the continent, with at least five people killed and more than a hundred injured, many of them shot by the police (Berazneva and Lee 2013). Besides repression, the government responded by cutting down the price of diesel for minibuses and increasing the minimum wage as well as the Ministry of Agriculture's budget with donor support, but a funding gap of half a billion dollars remained for the implementation of a medium term plan (Viatte et al. 2009).

Commodity price collapse, 2008-09. The collapse of oil prices in the second half of 2008 resulted in a major fiscal crisis for the Angolan state, to which it initially responded by tightening fiscal and monetary policies before resorting to a US\$1.4 billion IMF loan. The crisis was short, however, as prices recovered during 2009, though it served to push several reforms including greater fiscal transparency, the creation of a sovereign wealth fund (FSDEA), and a strengthening of tax administration – though these do not seem to challenge much the patronage system (e.g. President dos Santos's son is one of the two FSDEA directors). A net fuel importer, Mozambique was positively affected by the commodity price collapse, while ODA remained constant in 2009, though diminishing thereafter, while the viability of some FDI projects, including major extractive ones were (briefly) questioned.

Arab Spring, 2011-12. Besides Mali, the 'Arab Spring' generally had a limited impact in Sub-Saharan African countries. In Mozambique, the number of protests recorded by ACLED actually declined in 2011 and 2012 compared to the previous two years. Yet in Angola, the demonstrations sharply increased in 2011 and 2012 after having declined to very low levels in the previous decade.* Through 2011 and early 2012, anti-government protests grew in size, though rarely gathering more than a thousand people. Pro-government demonstrations, in contrast, dwindled in size, and the government resorted to pre-emptive violence against protest organizers through using proxy thugs. President dos Santos has also been admonished and jeered at by crowds during some public speeches in 2012, suggesting a growing (yet still limited) defiance of the established order.

Note: * A call for a mass demonstration circulated through the internet in early 2011 drew 17 people, all of whom were arrested, including three journalists and their driver. Eager to demonstrate where 'mass power' resided, the MPLA had spent a reported US\$20 million dollars to organize pre-emptive pro-dos Santos demonstrations, the one in Luanda gathering perhaps 100,000 people, though state media reported a million (de Moraes 2012).

Source: Compiled by the authors.

factions controlling large areas for extended periods, including major towns in the case of UNITA. The Angolan state now appears to be in control of its entire territory, with some rare attacks by Cabinda separatist movement FLEC, while Mozambique is facing a renewed challenge on the part of Renamo.⁷ Both ruling parties, Frelimo and the MPLA, have been

⁷ Several deadly attacks on police forces and civilians took place in Central Mozambique in the spring of 2013, and an official RENAMO spokesperson declared that the movement would block the country's main highway and a crucial rail link to coal fields (England 2013a).

legitimated by repeated victories in elections.⁸ Protests have generally been on the rise in both countries during recent years, with a greater number of them in Mozambique. None of these have escalated into sustained anti-government campaigns, however (see below).

Perhaps more worrying is a large number of protests and lynching at community level in Mozambique, suggesting for Hanlon (2009) growing desperation among a frightened population in the midst of continuing poverty and hunger, a desperation so far resulting more from the absence of effective state than against the state itself.

In terms of state effectiveness, Angola's socioeconomic indicators are generally above those of Mozambique, but Mozambique saw more rapid progress than Angola over the past decade in most areas, including literacy rates, poverty reduction, and under-five mortality, but not in maternal mortality rate.⁹ In terms of governance indicators, Mozambique fares much better than Angola, with improvements in Angola between 2002 and 2008 being mostly the result of greater perceptions of political stability, and to a lesser extent of regulatory quality and rule of law, but not in corruption control and government effectiveness (Kaufmann et al. 2013). Yet while indicators for Mozambique suggest some improvement in government effectiveness and control of corruption as well as regulatory quality (until 2009), political stability, rule of law as well as voice and accountability have declined since about 2005.

Overall, both regimes have so far proven durable, with ruling parties being officially legitimated through regular elections, yet both states continue to lack effectiveness despite important progress made over the past decade or so in some important areas. Both states coped relatively well with a series of exogenous shocks, though there remain important domestic tensions and vulnerabilities, as discussed below. Trends in regime durability and state authority and legitimacy suggest that both ruling parties have consolidated their territorial presence, hold on security, and electoral legitimacy; but Mozambique remains challenged through renewed RENAMO armed contestation and protests, as does Angola to a more limited extent with UNITA and FLEC, and some protests by opposition forces. Trends in socioeconomic indicators could suggest that Mozambique's 'foreign aid-driven model' has been more effective in addressing these socioeconomic issues than the 'oil rent model' followed by Angola, but not sufficiently given the very low baseline from which Mozambique started, and this despite an additional decade of 'peace' in the country compared to Angola. As discussed below, this possibility is backed in part by the priority put by the Angolan government on a trickle down model rather than pro-poor and redistributive model of development. Should that chosen model be effective (or a more mixed-model including greater redistribution and public service provision) and oil rents sustained, however, one could see an acceleration of progress on these issues in Angola. Trends in governance indicators could suggest that foreign aid may have helped to improve government effectiveness and reduce corruption, while resource rents may have allowed the Angolan state to consolidate its authority, but not to become more effective or less corrupt.

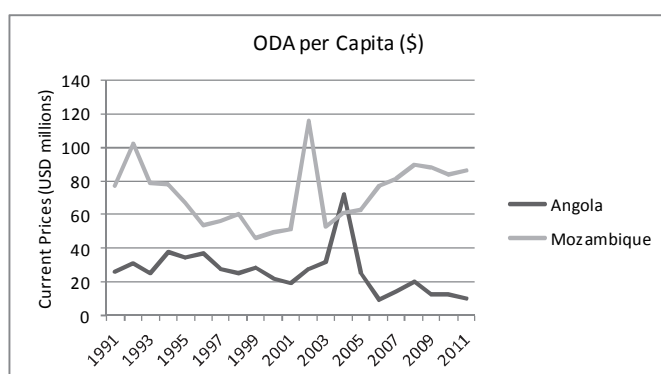
⁸ Though to be treated with caution, only 16 per cent of Angolans surveyed 'approve of the job performance of the leadership of this country', compared to 66 per cent of Mozambicans, Angola ranking the third lowest among all countries surveyed (Gallup 2012).

⁹ Though improving, there is a lack of socioeconomic indicators for Angola and to a lesser extent but more surprisingly (given the heavy presence of international development organizations) for Mozambique to assess state effectiveness, see World Bank's WDI.

3 Trajectories of public finance in Angola and Mozambique

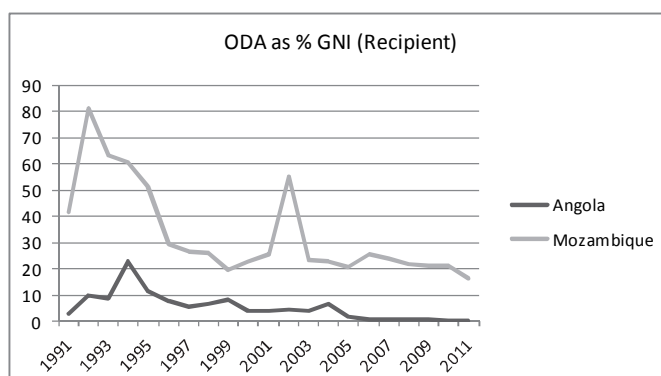
Angola and Mozambique had different relations with donors and creditors starting from independence in 1975. Throughout the period and until the end of the Mozambican war in 1992, ODA flows to both countries were growing year-on-year but Mozambique was better at attracting ODA. In 1992 Mozambique received US\$1.4 billion compared to US\$343 million for Angola. During the following decade and excluding debt-related operations, total ODA to Mozambique stabilized at around US\$1 billion per annum, whereas ODA to Angola—at war until 2002—also stabilized but around a lower average of US\$300 million. Since the end of the Angolan war the trajectories have further diverged, with ODA to Angola contracting to US\$200 million or about US\$10 per capita in 2011, while flows to Mozambique expanding rapidly to reach a peak of US\$2 billion or US\$87 per capita (OECD-DAC 2013).¹⁰

Figure 1: ODA per capita, comparative



Source: OECD-DAC (2013).

Figure 2: ODA as percentage of GNI, comparative



Source: OECD-DAC (2013).

There are manifest differences not only in terms of the total magnitude of ODA but also in its composition. At a lower level, Angola receives a similar proportion from multilateral institutions and DAC donors; in Mozambique DAC donors' contribution has far exceeded the disbursements by multilateral institutions. Furthermore, DAC-donors provided the basis of

¹⁰ Angola's population is estimated at 19 million compared to Mozambique's 23 million (UNSTATS 2010).

the expansion of ODA inflows to Mozambique in the last decade, but as the slight 2008-09 hiatus shows, the financial crisis in the western economies could compromise the sustainability of this level of transfers in the coming decade. In the past year, a number of donors have restructured their strategy in Mozambique and some are pulling out of budget support altogether.¹¹ The impact of this financial contraction will be felt disproportionately in the Mozambican public sector, the main channel of aid delivery in Mozambique. Between 2007 and 2011, 53 to 70 per cent of total ODA went to the public sector in Mozambique, and 10-12 per cent to civil society and NGOs. In Angola the proportion channelled through the public sector and civil society has been roughly on par. In 2011 for example, civil society organizations received US\$95 million against US\$82 million allocated to the public sector. The differences extend to the modality of foreign aid: Mozambique pioneered a budget support programme that saw ODA represent 51.4 per cent of the general budget in 2010 and 39.6 per cent in 2012 (ECDPM 2012), in 2010, 41 per cent of total ODA was allocated to budget support (OECD-DAC 2013). In contrast, budget support has been marginal in Angola, representing 3 per cent of total ODA in 2011 while in that same year 81 per cent of total ODA in Angola went to fund project interventions. With an ODA composition that has over the last decade emphasized budget support, Mozambican public revenue is disproportionately exposed to changes to aid inflows. A similar contraction in Angola would not affect the general budget.

Mozambique's public sector vulnerability to changes in aid inflows is also a consequence of the proportional contribution that these funds make to total public revenue. ODA has consistently represented around 20 per cent in GNI in Mozambique, whereas in Angola it represented less than 10 per cent of GNI before 2004 (see Figure 2). Since then, the growth of oil revenue has reduced aid's contribution to about 1 per cent. Differences in this respect could be attributed to Angola having commercially exploited its oil deposits for a longer period than Mozambique its own gas and coal deposits. As will be shown below, the differences transcend the mere presence of natural endowments and are closely related to the political processes underpinning the design of fiscal regimes to capture and channel resource revenues into state income.

But if Mozambique is vulnerable to fluctuations in aid disbursement, Angola is not less protected from changes in oil prices. The 2008 financial crisis caused an accelerated slump in global oil prices that exposed the extent of Angola's dependence on the oil rents. After hovering around US\$130 per barrel in July 2008, prices fell down to US\$40 in December and would only recover by the end of 2009. The 2009 budget exercise had to be revised downward mid-way through the year to accommodate for the shortfall. Revenue from oil taxes in 2009 fell to US\$14.6 billion, only two-thirds of the revenues obtained in 2007 (Jensen and Paulo 2011). Before the crisis, oil-related revenue was estimated at around 80 per cent of total state revenue: in 2009 it fell to 59 per cent (Global Witness and OSISA 2011). As a consequence of the crisis the Angolan government fell behind in debt repayment, which

¹¹ During 2012 the contribution of most bilateral donors to Mozambique was reduced (OECD 2013b). The total amount received increased to US\$1.264 billion in 2012, up from US\$1.156 in 2011 on the back of multilateral institutions transfers. Among other, disbursements from USA, UK, Sweden, Portugal, Spain and the Netherlands decreased in relation to previous years (*O Pais* 2013b). According to the Ministry of Finance, despite committing to a support programme equivalent to 41.4 per cent of the 2012 budget, due to disbursement shortfalls on the part of donors, BSP amounted only to a 27 per cent of total execution (*O Pais* 2013a).

it tried to compensate in part by accepting a Stand-by-Agreement with the IMF that resulted in a US\$1.4 billion loan in 2009.

An important difference between Mozambique and Angola, however, is the greater degree of autonomy and manoeuvrability allowed by Angola's sovereignty over the oil rent. Although Mozambique has stepped up the tax collection exercise by treasury and deployed other strategies to mitigate the foreseeable diminution of ODA, ODA remains an important component of state revenue over which the government has only limited control. Considering the larger size of the Angolan economy adds an additional layer to Angola's government overall revenue, representing a larger proportion of GDP than that of Mozambique.

3.1 Financing post-war reconstruction in Angola

A brief historical reconstruction of post-war political economy in Angola and Mozambique helps elucidate the determinants of a considerable divergence. Angola was affected by a longer-lasting war with several failed attempts at resolution. During the conflict years the Angolan state had enormous difficulty finding external sources of finance. Desperate for funds to wage the war against UNITA, Angola negotiated access to commercial credit in a series of oil-collateralized loans with public and private creditors. Repayments were transferred directly by the trading agents selling oil on Angola's behalf (Heller 2012; Nicholas Shaxson 2007b). By the end of the war in 2002, Angola had accumulated debt for some US\$10 billion, US\$2 billion of which was to Paris Club countries. As a result of this Angola could not obtain further lending (Brautigam 2011).

In this context, the government and IMF resumed negotiations aimed at establishing a Staff-Monitored Program (SMP) to ultimately allow Angola to find funding for reconstruction. But the negotiations stalled in 2003 because Angola was reluctant to commit to a policy package including macroeconomic stabilization through inflation-targeting; reduction of public expenditure and opening public finance and oil rent accounts to IMF scrutiny (Soares de Oliveira 2007a; Vines et al. 2009).¹²

In 2003 Angola appealed for credit to China, by then one Angola's main trading partners. The Chinese government approved the first of two oil-backed credit lines through the China Exim Bank totalling US\$11 billion, giving rise to the so-called 'Angola-model' of loans backed with natural resources and earmarked for infrastructure and reconstruction projects. These credits are repaid at Libor + 1.5 per cent over 17 years with a five-year grace period and a 50 per cent grant element on the first two billion, in effect a quasi-concessional rate. Corkin (2011) puts this into perspective by noting that these credits are more expensive than non-concessional forms of ODA but far cheaper than similar war-time credits. In the following years Angola would receive loans reported to be worth US\$4.3 billion from a private Chinese financial institution and in 2010 US\$1 billion for agricultural development from the Chinese Development Bank. However, from 2007 onward Angola discontinued the use of oil guarantees. Chinese credit has materialized in some 120 projects with active monitoring and involvement of the Angolan state to ensure that the projects are successfully implemented. Scarce bureaucratic capacity has been mobilized to follow up on these projects

¹² The Angolan government did agree to an 'oil diagnostic' in 2000, but only published its executive summary in 2003 (Human Rights Watch 2004).

because through them the government has gained domestic recognition, which it capitalizes for its political advantage (Vines and Weimer 2011a).

These alternative financial mechanisms relieved Angola from the urgency of an agreement with multilateral institutions and laid the foundations of a more distant relation with traditional donors. The first post-conflict years saw an increase in humanitarian assistance for the repatriation of refugees and the most pressing demining and infrastructure rehabilitation (Le Billon 2005). But after 2006, assistance started dwindling while shifting from humanitarian assistance to education, health and government expenditure.

By far, the main component financing Angola's reconstruction effort were tax and non-tax revenues stemming from the oil sector, with government oil revenues rising from US\$1.5 billion in 1992 to US\$40 billion by 2012 as a result of new offshore oil fields and rising oil prices. The mobilization of these resources was made possible by a consistent and fairly unique state strategy vis-à-vis the management of the oil sector. Immediately after independence, and seemingly in contradiction with the party's geopolitical and ideological position that could have been inclined towards nationalization of the sector, MPLA set up a committee to secure that existing international partnerships remained operative, and masterminded the transfer of the Portuguese-owned oil company, Angol, to the new independent state. The committee convinced part of the Portuguese staff to remain and combined diplomacy and pressure on Gulf Oil (now Chevron) to deal with the new government. By the end of 1976, Angola had returned to pre-independence production levels and the credibility of the committee, which later that year was rebranded as state-owned Sonangol—*Sociedade Nacional de Combustíveis*—Angola's national oil company, convinced other partner IOCs to remain on board (Soares de Oliveira 2007a; Heller 2012).

MPLA gave Sonangol complete leeway on sector strategy because of the imminence of war and the significance of the oil rent. Similarly, the committee's appointees were skilled and experienced but with proven loyalty to MPLA and direct connections to the higher echelons of the party. Sonangol's productivity-enhancing corporate structure was predicated on the alignment of interests of the sectors represented and benefitted by Sonangol and the Presidential military and business entourage. MPLA concentrated its scarce executive capacity into Sonangol, spurred by war and the sheer need of the revenue. In marked contrast to the experience of fragmented NOCs elsewhere, President Neto and the party wisely refrained from interfering in technical decisions and kept Sonangol protected from patrimonial politics, so long as the company guaranteed stable revenue to wage the war (Soares de Oliveira 2007a).

This was possible for an array of reasons. In the immediate post-independence the MPLA that took power was cohesive in the sense that it represented the aspirations of a mostly urban sector. In a way, MPLA could not claim national or broad social representation. But on the other hand, the war meant that MPLA faced armed rather than political opposition: single party status allowed MPLA to avoid the need to negotiate policy-making for decades. In their comparative examination of national oil companies, Thurber et al. (2011) identify three key factors that explain MPLA's willingness to foster and protect efficiency and capacity in Sonangol: this low level of internal political competition (cf. Nigeria); the urgency to fund the war effort; and in the long run, the longer time horizon allowed by the almost uncontested and very long tenure of dos Santos in the presidency as well as his ability to use oil rents to cement regime durability.

Over the years Sonangol designed, implemented and optimized a long-term development strategy that resulted, in a short span, in the transformation of a geological advantage into corporate capacity. During the early 1980s, Sonangol negotiated majority stakes on concessions; actively promoted corporate and individual skills-acquisition through an array of agreements with consultants and foreign NOCs and enforced local content progressively, continuously revising demands upwards to leverage its bargaining position resulting from the combination of large deposits, high oil prices and the company's good reputation in the sector (Victor et al. 2011).

During the war Angola offered to compensate international operators for heightened risk and potential political instability with credible and efficient management of the sector, as opposed to offering royalty or tax discounts.¹³ Sonangol was particularly adept in adapting the institutional arrangement for its own advantage. The evolution of contracts is a good example of the way Angola secured revenue streams in a productive manner. Original tax and royalty contracts in the 1980s in which Sonangol received dividends on the oil sales as majority partner were replaced in the mid-2000s with production sharing agreements (PSAs) in which Sonangol's participation was more limited, but in which the compensation was received in oil, allowing Sonangol to directly commercialize it. Furthermore, shares are calculated according to a progressive formula based on rates-of-return that maximizes Sonangol's share as profits rise. Sonangol is actively involved in designing exploration and production projects and, by having the last word on costs approved and leverage to push for more profitable solutions, it manages to maximize the state's take.¹⁴ Additionally, concession partners pay treasury a 20 per cent oil transaction tax on the sale of their share of oil, as does Sonangol. All these factors combined make the Angolan oil revenue regime one of the most effective existing systems in securing a larger share of oil revenue for the state among countries open to foreign investment at operator level (i.e., besides 'service contracts' to national oil companies found in most Persian Gulf countries). State-owned Sonangol has become a competitive operator in its own right, and through partnerships and local content provisions a national private oil sector has emerged (Heller 2012). Throughout the period Sonangol proved to operate with a long time horizon, less animated by commercial imperatives (i.e., extracting as much revenue, as fast as possible) than by a management strategy that maximized the state's take and prolonged the commercial operation of the fields.

Despite this impressive trajectory, Angola struggles to translate high oil rents into improved socioeconomic prospects for a large part of the population. Similarly, although significant advances have been made in bringing the rents more fully into the budget cycle and more recently launching a sovereign wealth fund, instances of delays in rent transfers from Sonangol to the budget, blurred accounting and reports of misappropriation persist.

Although such failures could have caused the demise of the MPLA, economic and political reasons converge to explain this regime's durability. The rent management architecture in Angola is designed to reinforce the stability of the regime. Local content provisions in the oil sector as well as an array of other non-oil service provision contracts are leveraged to reward

¹³ These risks were limited due to the offshore location of oil fields, but also due to the political and military position of the warring parties: FLEC had limited capacity while UNITA was careful to avoid up-setting the US oil company and US government when it had the opportunity of striking key infrastructure, see CTC (1993).

¹⁴ Sonangol's share of profit oil in PSAs starts at 20 per cent when rate of return is lower than 25 per cent and goes up to 90 per cent if rates of return exceed 40 per cent (Heller 2012; PwC 2013).

companies owned by groups and individuals with links to the regime, leading to domestic accumulation by empowering allies, co-opting potential contenders and marginalizing opponents. A result of this is the emergence of a sector of domestic private companies of uneven capacity which take part in exploration and production joint ventures or provide supplies and ancillary services mainly to the oil and gas sector (Heller 2012; Ovadia 2012).

Observers of the oil sector agree that the short-listing of national partners and service contractors, steered by Sonangol, is the main channel for distribution of rents originating in the sector. Key figures in the presidential entourage have stakes in such companies (Ovadia 2012; Burgis 2012a, 2012b). It is difficult to ascertain to what extent rent distribution thwarts the socialization of oil revenue in a more developmental manner, as oil taxes and revenues are the backbone of state revenue and funding of the general budget. However, it is noteworthy that Angola's system of patronage has not been predatory or incompatible with the emergence of an efficient and productive sector, which has been the case in other oil-producing countries.

Furthermore, also the political process cemented regime resilience: As one of three competing national independence parties born in the 1950-60s, the MPLA distinguished itself by its urban roots in Luanda and cross-ethnic constituents including a large number of *mestiços*. This basis, together with a closer affinity to the post-Caetano Portuguese (Marxist military) regime and the backing of Cuban military ensured its dominance in Angolan politics from 1975 onwards. Rarely challenged internally, with the exception of the failed 1977 coup attempt led by hard-liner Nito Alves, the regime evolved from a one-party socialist regime into a pragmatic, incrementalist and highly-centralized regime controlled by the president—Eduardo dos Santos after the death of Agostinho Neto in 1979—and its key advisers (the '*Futungistas*') (Chabal and Vidal 2008). Some forms of dissent do occur within the party, but are rarely public or directly affect the party's grip on the state. State power rests on highly centralized and personalized patronage system ensuring that access to political seats, official functions and the largest business opportunities rest within the remit of presidential approval (Vines and Weimer 2011b).¹⁵

As the ruling party after independence, MPLA found it difficult to assert its legitimacy among the whole population and to extend its authority throughout the entire territory, notably because a large proportion of the population and vast parts of the country remained controlled by UNITA throughout the 1980s and 1990s. Since 2002 the Angolan regime has moved on from the challenges of survival based on military strength and petroleum revenues. The Angolan state now exerts its authority over its entire territory, though with centralized political control, MPLA legitimacy and resource extraction in mind, rather than public service delivery and social contract ethos, doing so in a direct fashion through the presidential nomination of provincial governors and a 'dizzying array of post-war strategies ranging from high-modernist, pseudo-developmental state activism to extensive subcontracting to non-state actors that are used to expand the writ of the state from the political centre and provincial capitals to the remotest regions' (Soares de Oliveira 2013: 165). Externally the Angolan state

¹⁵ Patronage strategies in Angola have notably included: presidential nomination of all senior civil servants; allocation of housing; perks to 'intellectuals' (journalists, professionals, technicians) via the *Comités do Partido de Especialidade*; benefits through imposed local partnering and staff hiring on foreign companies. With now about six million registered members, or nearly every adult Angolan, MPLA membership is perceived as a 'must', while extended family connections play both entitlement and disciplining roles.

has been very proactive, but its influence remains largely shaped by these military and petroleum dimensions (Le Billon et al. 2008; Vines and Weimer 2009). The MPLA was able to survive and come out of the challenging years of the 1990s as a prosperous and unchallenged ruling party, whose official legitimacy was boosted through two rounds of elections, in 2008 and to a lesser extent in 2012. The strength of the Angolan state, however, remains (precariously) based in the centralized control and limited handouts of a party-state, rather than on the legitimacy of inclusive governance or the effectiveness of a developmental state.

3.2 Mozambique: aid dependency and mega-projects

After mediated peace negotiations ended a devastating civil war, Mozambique faced a different peace-building challenge with a transition to multiparty democracy fraught with tensions. Third-party mediation was central to protecting Mozambique's fragile peace, particularly in light of Angola's relapse into war following the failure of the 1991 Bicesse peace accords. Since independence Frelimo had cultivated good diplomatic relations with some western countries and in the mid-1980s, as it began embracing market liberalization, relations with the United States were re-established—a decade earlier than Angola. Italy, especially through the Catholic community of Sant'Egidio, was a critical facilitator of the dialogues that led to the GPA. According to Manning and Malbrough (2010), donors were well versed in Mozambican politics and humanitarian challenges and keen to engage in the peace-building effort despite their diverse political agendas. The United Nations, multilateral agencies and bilateral donors effectively used positive and negative inducements to support the peace-building effort.

At critical points of the post-conflict transition to a multiparty democracy, the coordinated action of donors activated the necessary lever to keep both parties in the game, pushing through stalled legislative debates and providing guarantees in the 1994 presidential elections which Renamo's leader Afonso Dhlakama threatened to boycott. Of these incentives, the most influential was the creation by the UN and bilateral donors of two trust funds to support the emergence of opposition parties. Under this programme 17 emerging parties received US\$150,000 each, with Renamo receiving at its peak a monthly stipend of US\$300,000 (Manning and Malbrough 2010).

This coordinated intervention had two effects: it reassured donors that they were on the right track, giving way to portrayals of Mozambique as a case of aid effectiveness, which in turn legitimized foreign missions in the eyes of their superiors and national constituencies. On the other hand, by having the donor community intervene to solve political deadlocks, international mediation progressively became institutionalized in Mozambican politics, while Renamo and Frelimo found it hard to use democratic mechanisms and build mutual trust, as demonstrated in recent deadly skirmishes occurring in the midst of difficult negotiations over electoral processes and access to resource rents (England 2013a).

The decade following the 1994 elections was a period of accommodation in which Frelimo officials learned to navigate donor relations while complying with the agenda of structural adjustment. The emphasis of the first decade of development assistance was on the consolidation of democratic mechanisms. Support was given to the state at the national level. Donor disenchantment with the political system led in the second decade to a greater emphasis on decentralizing aid disbursements and advancing governance as opposed to the first decade's accent on strengthening democratic participation (Manning and Malbrough 2012). Throughout the period donors have channelled up to 40 per cent of their contribution

through budget support, though assistance was conditioned to a continuous and demanding cycle of planning and performance evaluation by donors (De Renzio and Hanlon 2007).

Mozambique became one of the largest recipients of ODA by western donors and qualified for debt relief through the Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiatives. Mozambique's aid dependence has led some critics to initially fear a 'recolonization' of the country (Plank 1993). In the two decades since the end of the conflict most of the key policy discussions in Mozambique have been influenced by donors, with some examples of the Mozambican government successfully resisting some policy proposals, such as blanket land privatization. Still, donor inflexibility on policy prescriptions coupled with the lack of political will on the part of Frelimo to rethink the rent management strategy and the consolidation of domestic business interests linked to the extractives industry and capable of resisting reforms to increase government take on the sector could be taking a toll on the resilience of the post-war settlement (*Africa Confidential* 2013b, CIP 2013a).

General budget support aimed at reconciling donor and national agendas in the framework of the budget and PRSP cycles. By pooling donor funds it was expected that there would be a reduction in the time officials spent addressing ODA-related requirements. But budget support did not reduce bureaucratic overload in Mozambique and observers have noted that with donors becoming the main counterpart of negotiations with the state, a weakening of domestic mechanisms of oversight and participation was left unaddressed (De Renzio and Hanlon 2007; Manning and Malbrough 2012). Furthermore, as Manning and Malbrough (2012) observe: 'the unintended consequence of strengthening state capacity, has been to strengthen the ruling party's grip on the state', this was the result of the state increasingly functioning on the basis of foreign assistance funds and Frelimo turning social provision and public employment into mechanisms to strengthen the party (Sumich 2010).

As described above, state revenue in Mozambique in the past two decades has been mainly supported through aid inflows, and not resource rents. However since the mid-2000s Mozambique became the focus of interest from investors eager to explore and exploit its abundant natural resources. Electricity generation was already at the core of the colonial economy and at the time of independence there was awareness of the existence of coal deposits. Yet at the end of the Mozambican war in 1992 the prospects for growth and investment were not promising and it was only in the mid-2000s that systematic exploration resulted in the discovery of vast deposits of coking coal and offshore natural gas that are currently at the centre of the country's extractives boom.¹⁶ The low percentage of state revenue originating from natural resources, however, is not only due to the late discovery of the most sizeable deposits and the slow pace of commercial development and revenue generation. Mozambique has been host to a set of mega-projects exploiting the country's endowments (electricity, heavy sands) since the late 1990s, but the post-conflict fiscal regime was not designed to boost revenue collection from the productive activities in the economy, but on the contrary, to provide fiscal incentives to attract investment (Bolnick 2009; Cunguara 2012). Although the 2002 investment code was replaced in 2007 with a new code of fiscal benefits which improved the rate of taxation, the Mozambican state still provides ample incentives in contracts negotiated on a case-by-case basis and taxation and royalty

¹⁶ Offshore gas reserves in the Rovuma Basin are estimated at 124 tcf (CIP 2013b).

rates remain low in comparative terms despite legislative reforms currently being discussed.¹⁷

The first Investment Law approved in 1993 created an exceptional regime for corporate taxation and a 1998 ruling introduced new incentives to set up industrial processing zones. The fiscal incentives regime thus was consolidated in a period in which multilateral institutions advocated strongly for privatization in natural resources (Bridge 2004). The resulting regime for investors willing to set up industrial processing zones reduced corporate income tax from the 32 per cent rate in the regular regime to a 1 per cent flat rate and exempted the approved projects from paying royalties, VAT, customs duties and property transfer taxes.

A handful of projects benefitted from this regime in the late 1990s: among them the industrial parks linked to two heavy sand projects and Mozal, the aluminium smelter part-owned by BHP Billiton, Mitsubishi Corp., the South African Industrial Development Corporation and with a minority stake by the government of Mozambique. Kenmare's deal included clauses extending the tax exemptions for 20 years, and 50 years and renewable extension in the case of Mozal. Both included stability clauses and a standing guarantee by the Multilateral Investment Guarantee Agency (MIGA) to protect against breach (and renegotiation) of contract (Kuegler 2008).

Mozal is the best-studied case because it was the first and largest project approved—it had an initial investment of US\$2.2 billion—and received the most generous incentives. In many respects it is an outlier, but it is a relevant case for study because it reveals the expectations and ideologies that underpinned contract negotiation in the postwar period. On top of the fiscal exemptions, the government committed to facilitating the repatriation of profits. Mozal also benefits from an attractive price for electricity it buys from ESKOM.¹⁸ The imports custom exemption was an important element of the deal because Mozal's alumina inputs are wholly imported. From inception, Mozal went on to become Mozambique's largest company, with an estimated 6 per cent contribution to GDP by 2006 and accounting for 40 per cent of total exports in 2012 (Sonne-Schmidt et al. 2009). However, with inputs that are imported duty-free, profit repatriation, a minimum demand for local goods and services and only 1,910 workers by 2009 (KPMG 2011), Mozal is an example of the difficulties that arise in establishing productive linkages between capital-intensive extractive projects and the broader economy. It is estimated that from the US\$1.2 billion revenue posted per year, only US\$200 million actually enter the Mozambican economy. In fiscal terms, despite revenues of US\$1,204 million and net profits of US\$414 million in 2006, due to the contractual arrangement the company paid a mere US\$12 million in taxes corresponding to that same year. According to Kuegler's estimations (2008), the foregone revenue, estimated on the basis of the Mozal's fees in the regular regime, was US\$120 million, equivalent to 124 per cent of the total income tax collected by the state on that year. Furthermore, it has been estimated that although 3.4 per cent of the profits accrue to Mozambique as shareholder in the

¹⁷ For details on the expected timing of LNG-related revenue, see CIP (2013b) and (2013c).

¹⁸ South African ESKOM, a buyer of electricity generated in Mozambique's Cahora Bassa dam, provides Mozal with electricity, at a fix rate of 1.1 cents per kWh in 2000-06 and 1.6 cents in 2006-12 in contrast with 4.5 cents for industrial users and 9 cents for domestic users in Mozambique. Also cf. with 2.34 for industrial users in South Africa. It is estimated that Mozal uses 45 per cent of the electricity produced and 65 per cent of the electricity consumed in Mozambique (Jubilee Debt Campaign 2012; Bucuane and Mulder 2009).

project, half of this goes to repay the loan with the European Investment Bank with which the shares were bought (Jubilee Debt Campaign 2012).

The projects approved after the introduction of the 2002 code included, for example, the hydro-power dam of Mpanda Nkuwa, the coalmines of Rio Tinto and Vale in Moatize and more recently the offshore natural gas blocks of the Rovuma basin in concession to Anadarko, Statoil and ENI. Contracts of this generation no longer benefit from the 1 per cent corporate income tax, but most have a 25 per cent reduction on the regular rate. Exemptions on VAT and import duties for machinery also apply. Production tax rates for gas go from 2 per cent to 5 per cent and for oil from 3 per cent to 8 per cent depending on the depth of the reservoir of origin. Coal has 3 per cent production tax at FOB prices minus transport costs (Nuvunga 2013). Draft versions of all-encompassing petroleum and mining law are under public consultation at the time of writing. The new regime would bring Mozambique closer to the Angolan model by introducing a similar tax scale for shared production in oil and gas and profit taxes of 40 per cent in mining. Production tax rates would increase for oil to 10 per cent, for gas to 6 per cent and for coal to 5 per cent (República de Moçambique 2013a, 2013b).

As a result of an investment strategy that has historically relied on fiscal incentives and charged relatively low production taxes, for years Mozambique had low level of tax revenue as a share of GDP. The low fiscal base constrained the capacity and the autonomy of the state and reinforced aid-dependency, confirming the hypothesis that links aid dependence and low tax revenue. Between 1993 and 1999 tax revenue represented 11.4 per cent of GDP and only after considerable reform reached 14.4 per cent in 2006 (Bolnick 2009). As the economy expands, revenue collection has increased. OECD calculates that revenue as percentage of GDP reached 15.6 per cent in 2009 and 19.4 per cent in 2012 (OECD 2013b). Tax revenue from the extractive sector amounts to a mere 5 per cent of GDP, but is set to grow in a decade or so as more extractive projects come fully online. The expansion of the taxbase intends to compensate for the decreasing proportional participation of ODA in funding the general budget, but it remains to see whether it will be sufficient. ODA contributed to financing 40 per cent of the 2012 budget and is estimated that it will decrease to 32.8 per cent in 2013. With a smaller but more varied taxbase, in 2010 Mozambique's revenues from taxes¹⁹ amounted to US\$1.7 billion and revenues from extractives to US\$33 million (OECD 2013a, 2013b).

In contrast, the bulk of Angola's fiscal base originates in revenues from extractives (US\$21.4 billion in 2010) rather than taxation (12.3 billion in 2010). This is increasingly so, as production-sharing agreements provide more revenue to the state in the form of direct profits than tax payments. Both the comparatively larger size of the Angolan economy and its considerable non-oil deficit translate into lower revenues from taxation as percentage of total GDP, but in absolute terms the revenues from taxes estimated in US\$12.3 billion in 2010, far exceed Mozambique's US\$1.7 billion (OECD 2013b). When comparing Angola and Mozambique in terms of the extent to which the tax regimes express the nature of the existing political settlement, Angola is a case of oil-related resources preventing the state from having to tax domestic interest groups, which is a mechanism that in the Mozambican case seems to have been activated by the availability of ODA (Di John 2010). In both cases this relaxation allowed unchecked accumulation by domestic elites, but in the Angolan case this appears to have been more fully controlled by the state, bolstering power centralization.

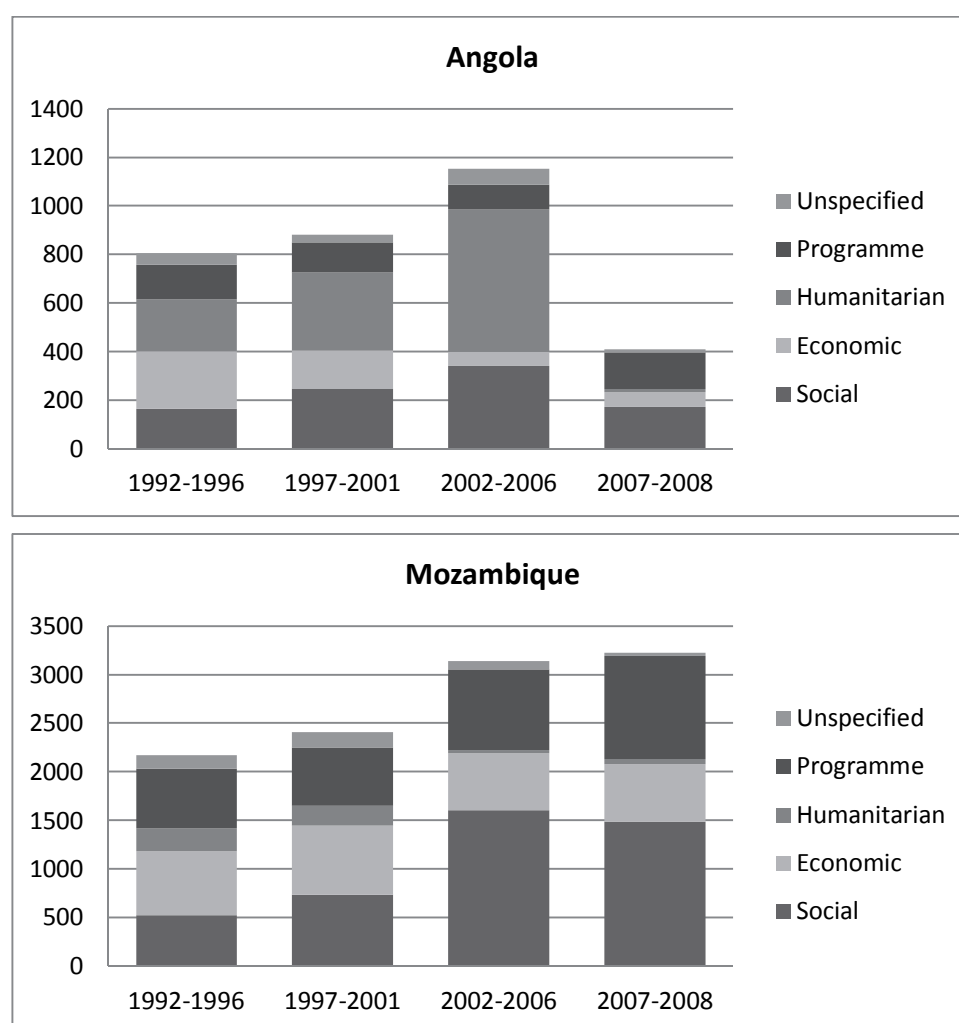
¹⁹ Includes direct, indirect and trade taxes.

4 Comparing outcomes in light of past trajectories

Mozambique and Angola share historical characteristics and feature an array of commonalities to this day. However, post-war state-building and reconstruction processes in the two countries relied on different sources of finance, giving way to the emergence of different institutional responses. Each country's particular political economy interacting with the conditions created by their different source of finance have combined to result in different state quality outcomes. This section zooms in on the comparative analysis and postulates the mechanisms and processes that have set the two countries on divergent paths.

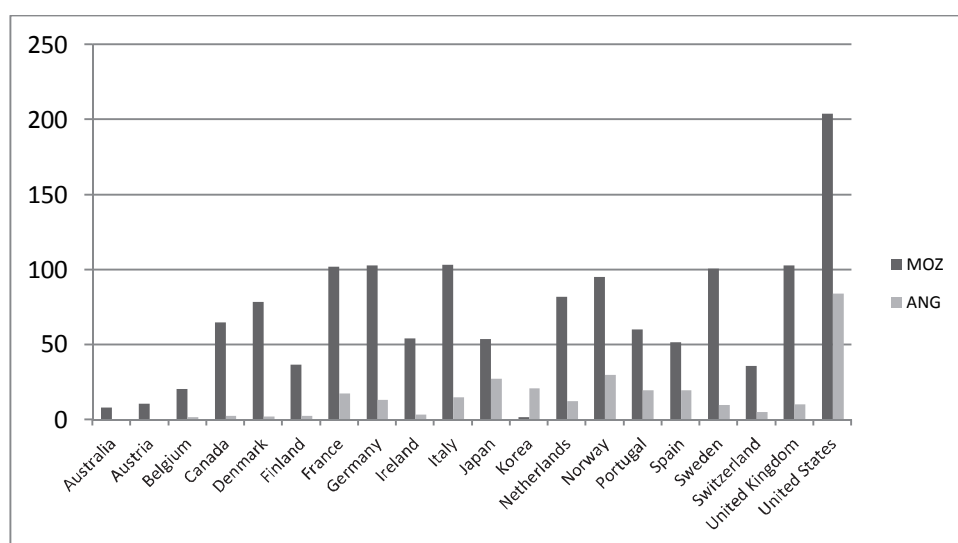
The closer relationship of Mozambique with western donors has geopolitical roots in war-time cooperation and lending aided by Frelimo's more effective diplomacy (Manning and Malbrough 2010, 2012). In contrast, MPLA financed the war with expensive and secretive oil-backed loans from public and private institutions from Brazil, Spain and Portugal (de Oliveira 2011; Shaxson 2007b). The availability of the oil rent as collateral and the reluctance of MPLA to open their accounts to IFI scrutiny meant that faced with a similar challenge of renegotiating debt to re-join the international financial system, Angola and Mozambique parted ways. Mozambique welcomed IMF-led structural adjustment as a condition for further lending and opened its doors to a variety of bilateral donors. Failed negotiations with the IMF

Figure 3: ODA from DAC donors, million US\$, current



Source: OECD-DAC (2013).

Figure 4: Angola and Mozambique ODA by main DAC donors
(total bilateral disbursement, constant prices, 2011 US\$ millions, average 2002-11)



Source: OECD-DAC (2013).²⁰

prevented Angola from entering a similar structural adjustment programme and led donors to engage more marginally. Not only did Angola receive roughly a tenth of what Mozambique received in ODA inflows, but whereas donors prioritized engagement with the government and budget support in the past decade in Mozambique, in Angola most of the resources went to projects and were implemented through NGOs and CSOs.

The timing of the end of the conflict must also be factored in. While the international community's enthusiasm for liberalization, privatization and rolling back the state was at its height in 1992, when the Mozambican conflict came to an end, by the time the conflict ended in Angola a decade later it had somewhat waned. Sustaining the peace agreement in Mozambique demanded substantial intermediation and incentives from donors interested in accelerating the democratic transition. Presidential elections took place only two years later in 1994. MPLA's military victory over UNITA in 2002 left the opposition weakened, giving MPLA ample space to consolidate. With less international pressure and funds pushing for democratic consolidation, the first post-conflict presidential elections came only in 2008. Mozambique, as an early example of liberal peace-building, adopted political institutions with less capacity to direct the economy, whereas the Angolan state, in a process that remains highly undemocratic (Soares de Oliveira 2011), retained a greater degree of command and capacity for intervention.

Similarly, whereas both political systems reflect an alliance between the ruling party and private capital in the hands of a well-connected oligarchy, Heller (2012) and Thurber et al. (2011) identify embedded mechanisms pushing for higher levels of performance and competitiveness at least in the domestic public and private oil sector in Angola. In contrast, Mozambique does not yet have a strong national gas or mining company—public or private,

²⁰ Datum for Portugal to Angola, 2004, not included in the average as it reflects a debt-restructuring deal outside the Paris Club (See IMF 'Angola: 2004 Article IV Consultation, Staff Report).

and the advice offered by IFIs and some CSOs alike is to keep the state at bay.²¹ Empresa Nacional de Hidrocarbonetos, the closest there is to a NOC, advances timidly; a public sector outlet manages state shares in mining and O&G and Mineral Resource and Energy Ministry, though growing in capacity is still no match for the world's largest mining TNCs operating in Mozambique.

Box 2: Comparing ODA inflows to Angola and Mozambique

Looking beyond the differences in magnitude of aid inflows into Angola and Mozambique, important observations arise from a descriptive analysis of the origins of the funds and the way they had been allocated into different sectors. At the time of the peace agreement Mozambique had a varied and balanced pool of bilateral donors. Over the years, however, funding by the United States and the United Kingdom have continued growing whereas funding by other donors has grown less rapidly. Italy's substantial contribution at the time of the negotiations has been falling, whereas the contribution of the group of countries that have been supporting Mozambique since independence, notably the Nordic countries, has in broad terms remained stable. Contributions to Angola were far more limited in the period studied. The United State has been the main post-war donor.

In terms of distributional decisions about allocation, the later end of the conflict in Angola translated into a humanitarian expenditure dominating assistance to Angola and remaining the single largest destination of funds until 2005 after a peak of US\$197 million in 2003. Thereafter the composition of expenditure changes and programme assistance, mainly channelled through NGOs and CSOs takes the lead. In marked contrast with Mozambique, social expenditure does not figure as a main destination during any period, although assistance to the health sector stands out for receiving more funds, likely in line with regional programmatic priorities in the combat against HIV. Funds for infrastructure fall sharply after 2004 when Angola started implementing road and construction projects with Chinese credit lines. Aid inflows to Mozambique have been increasingly dominated by the expansion of the budget support programme, which features under programme assistance and far surpasses funds allocated to any other sector. A comparison of funds allocated to direct social provision provides an idea of the extent to which core social sectors of health, education, water and sanitation have for years relied in Mozambique on donor's contribution, whereas in Angola are only marginally part of the aid portfolio.

Source: The authors, based on OECD-DAC data.

Prospectibility and type of commodity

The degree of certainty about the size and quality of the deposits and the specific type of commodity exploited adds another layer of differentiation, but the defining element here is the institutional arrangement, the operative limitations and the way both combine with each country's political settlement, rather than the commodity per se.

Oil, gas and coal are not readily comparable, but discounting the specific geological challenges of different reservoirs and taking into account the demands of project development and the characteristics of each global market it could be postulated that oil, being easier to produce than gas, is also a commodity that offers more possibilities for states to contrive for themselves an active role in the sector. In essence, Angola has developed an efficient NOC aided in part by its wealth in exploitable and simpler to commercialize oil. However, the comparison with other oil-producing countries with less performing oil sectors underscores

²¹ CIP considers national ownership in the extractive industry risky and based on symbolic rather than financial arguments. The IMF advocates for the participation of the state to be kept modest (CIP 2013c, IMF 2013).

the fact that if this geological advantage may facilitate acquiring local capacity, it is certainly not a sufficient condition.

Most of the national oil companies emerged with force in response to nationalist ideologies gaining strength in oil-producing countries but also as a means to close the information and monitoring deficit in the relation between producers and local states and, although with less cases of success, as a mechanism to boost backward and forward linkages integrated to a broader industrialization strategy (Victor et al. 2011). Unlike oil, which can be sold at the wellhead, gas can only be commercially exported over long distances compressed in the form of liquefied natural gas (LNG).

The development of LNG projects is more capital intensive than oil and gas pipelines. This extends the projects' time horizons and sensibly increases their financial complexity. The financial adaptation is the commercialization through future delivery contracts signed with global utility companies at projected prices. Developing the type of direct commercialization by oil-based Sonangol would be more difficult for gas-heavy Mozambique.

It has been postulated therefore that LNG is more sensitive than oil to political volatility and that the core determinants of the future development of the global gas market are political and institutional. On the other hand, unlike oil, LNG requires that most of the capital investment be made where deposits are located (Victor et al. 2006).

Coal production also presents important challenges in terms of the logistics and infrastructure of transporting produce to port. In the case of Mozambique this is compounded by the requirement to build dedicated transport solutions and by the physical location of deposits and transport links in the hinterland of central Mozambique, one of the epicentres of the civil war and the stronghold of different forms of political opposition. Indeed, the prospects of the sector have lost some steam since concessionaries became more sober about the costs and hurdles to coal transportation (England 2013b). Additionally the options available to states in terms of designing their role in the sector are constrained by current trends towards accelerated global corporate consolidation. Strong competition and the array of variables involved in developing a coal mining project mean that competitive advantage is secured by corporations that can leverage economies of scale to force down production costs and command a portfolio of diversified assets. This explains why coal super-majors are not devoted exclusively to coal production. Consequently, successful examples of industrial policy applied to the development of indigenous coal corporations have been contingent on scale and direct access to markets (Nolan and Rui 2006).

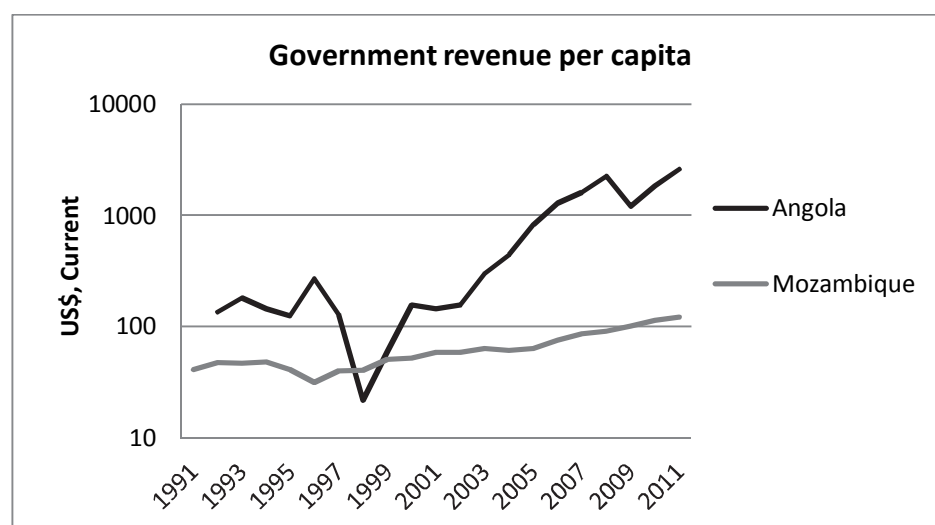
Fiscal base, trajectory and prospects

Our examination of the fiscal architecture in both countries finds Angola deriving revenue both through taxes and profits, imposing higher production taxes on IOCs and pushing for *Angolanização*, a more stringent local beneficiation and skills acquisition regime. On the back of this strategy, the Angolan NOC has acquired global standing and oil rents have funded the state, despite legitimate doubts about the capacity and willingness of the regime to transfer capacity to non-oil private and public sectors.

Mozambique's endowments will take years to fully come online, but the country struggles to break with a post-conflict investment regime that granted corporations excessive incentives and eroded the taxbase. Tellingly while straight out of war Angola managed to impose majority stake in most oil concessions, Mozambique's profits from its minority stake in

Mozal still are mostly destined to repaying the loan with which the shares were acquired (Jubilee Debt Campaign 2012). The compared trajectory seems to disprove the alleged benefits of fiscal incentives. Corporate tax rate in Angola is 35 per cent, but 50 per cent in the oil sector. Profit taxes depend on a sliding scale but can go from 20 per cent to 90 per cent. Corporate income tax rates in Mozambique are 32 per cent but companies with contracts negotiated before the introduction of the 2002 investment code pay a 1 per cent rate. Although the 2007 code rebalances a system that was unduly skewed in favour of large-scale capital-intensive projects and the treasury has implemented new ways to boost tax collection, it is now widely accepted that the regime of fiscal exemptions reinforced the historical pattern of accumulation based on an extractive economy with a weak productive base (Castel-Branco 2010). Some fear that mega-projects could deplete non-renewable resources before their contribution to development materializes (Nuvunga 2013).

Figure 5: Government revenue per capita



Sources: IMF (government revenue as per cent of GDP) and WBI (GDP/capita).

Per capita government revenues decupled, or tripled in constant terms, in Angola over the past two decades, reaching US\$2,500 per person in 2011, twenty times the amount available for the Mozambican government (see Figure 5). Though reduced on a power purchasing parity basis, this sharp contrast entails major differences in opportunities to consolidate the authority and effectiveness of the Angolan state as compared to that in Mozambique, while their source—mostly oil rents—provides much autonomy over their use by the Angolan government. If the Angolan government has seized this opportunity to consolidate its authority, it has not yet demonstrated its effectiveness in delivering public services and broadly shared development outcomes (Soares de Oliveira 2013). Angola's strategy is heavy on infrastructural investment and can be credited with some improvement in terms of welfare indicators. However such improvements remain slow and insufficient both in relation to the needs and to the potential resource mobilization, while on the other hand proving at times hostile to certain groups of the population, for instance with forced evictions of 'informal' urban dwellers (Unruh 2012).

We have described the way in which oil rents in Angola and aid-funded budget support in Mozambique helped provide durability to both states by unwittingly strengthening the ruling party. The different level of state-robustness however is linked to greater rent manoeuvrability and centralization in Angola as opposed to a more fluid political landscape

and more fragmented sources of economic power in Mozambique. Regardless of the origin of revenues, the centralized institutional arrangement that manages the oil rent in Angola is a good match for centralized political regime with scarce and concentrated technical capacity, as Thurber et al. (2011) observe in their comparison of Angola and other oil-producing countries. It may be the case that the institutional design in Mozambique is not attuned to the economic foundations of the state, with its limited fiscal base and, until recently, extreme dependence on external funding.

Both in Mozambique and in Angola ruling parties retained power and further consolidated it after the end of the war. In both cases this took the form of blurring the line between party and state and using the state apparatus to garner support at different levels. In both cases traditional opposition parties have lost steam and new credible opposition parties have emerged. Tensions between Frelimo and Renamo have scaled up over the last year, with the latter threatening to boycott the municipal elections and instigating armed violence in the central provinces. But the consolidation of the ruling parties had a different character in each case. The process that allowed for the concentration of power in the group around President dos Santos in Angola created a vertical and fairly monolithic structure characterized by an efficient and autonomous management of the oil rent.

In Mozambique, the more fragmented rents have led to the emergence of a constellation of groups with representation in Frelimo that have consolidated their business interests as shareholders and local partners for foreign investors. These sectors wield considerable political power and autonomy from a single source of authority within the party (*Africa Confidential* 2011, 2013a). Although ODA inflows turned into social provision were used to buy-in support for the government, aid, as a type of revenue, is not domestically controlled. Growing reliance on taxes collected in the extractive sector could give the Mozambican state a firmer basis for launching a development strategy more in line with the country's political economy, but it remains to be seen if the more multi-polar Frelimo, made up of interest groups which already derive power from their position as local partners in joint ventures and concessions, has the strength and the motivation to renegotiate national resource contracts in order to maximize state revenue.

To sum up, Angola and Mozambique are both dominated by ruling parties that have consolidated through *partidarização*, the 'partization' of the state apparatus through which public sector funds and employment are used to strengthen the ruling party, opposition is openly and covertly discouraged, and elections serve to legitimize the incumbent party.²² Yet the foundations of ruling party consolidation differ in Angola and Mozambique: whereas the political process in Angola led to the emergence of a solid patronage system with President dos Santos firmly positioned at the top, the undisputed dominance of Frelimo in Mozambique is less personalized even if the system also concentrates functions and power in the executive. Some observers postulate growing fractiousness among the ranks (Sumich 2010).

A comparative examination of the political economy process provides part of the explanation for such divergence. Able to secure continuous oil revenues, the MPLA was effective at channelling resources first to fund the war effort and then maintain power centralization through the redistribution of fast rising resource rents and the pursuit of a 'modernist' development vision. In contrast, Frelimo did not benefit from such source of funding: the

²² As in other African polities and beyond, see Amundsen (2011).

basis of the Mozambican colonial economy—e.g., power generation from the Cahora Bassa dam and transport corridors to hinterland countries- was heavily disrupted and sabotaged by Renamo and the Apartheid regime. Relying on international aid and thus ‘adopting’ liberalization’s precepts, Mozambique saw the consolidation of an accumulating yet internally competing elite benefiting from across-the-board privatization and lax taxation. Massive resource development opportunities are now calling for the reformulation of the investment and fiscal framework, but vested interests seem well positioned to prevent it and leave the state aid-dependent.

5 Conclusion

This comparative analysis of relative fragility of the Mozambican and Angolan states challenges the dominant narrative of post-war Mozambique as a ‘success story’ for the international donor community, one that resulted in the state being more ‘robust’ than in Angola, itself portrayed as a fragile petro-state. While many socioeconomic and governance indicators confirm this dominant narrative, we have stressed the durability of the Angolan regime; its purposeful acquisition of productive capacity in the oil sector; some of the rapid changes associated with the conjuncture of its particularly autonomous political trajectory and the decade-old context of military victory over UNITA. As we have discussed, foreign development actors’ role in Angola is more geared towards technical assistance and cooperation than towards financial assistance in the form of budget support, given the relatively minor importance of ODA funds to Angola’s budgets. This sharply contrasts with Mozambique where both technical and financial assistance are closely tied.

Strong oil revenues and access to diverse sources of (oil-backed) finance have resulted in a higher degree of autonomy and self-confidence for the Angolan state. Reinforced by a vast security apparatus, undisputed authority resulting from its military victory over UNITA and historical dividend of having been the leading independence party, the MPLA-led Angolan state can be described as robust from a durability and authority perspective. Furthermore, some signs of a peace dividend and a large propaganda machine attempted to enhance the popularity of the ruling party. Several factors, however, severely test this apparent robustness, including an aging ruler controlling a highly centralized neopatrimonial regime, the frustrated aspirations of the urban youth, and a combination of oil dependence, stagnant economic diversification, and rising indebtedness. Donors may have a limited risk in helping the government -and Angolan society more generally- address some of these risks, notably by prioritizing diversification, productive upgrading and industrialization and by encouraging inclusive social political reforms.

Whereas the Angolan state managed to remain highly centralized through an autonomous liberalization process, enabled in part by the dominance of oil revenues in the economy, the state in Mozambique remained cohesive yet more decentralized and fragmented through a donor-driven liberalization process that resulted in aid dependence. While Mozambique was long considered ‘resource poor’ and highly aid dependent, it now has some opportunity to gain in authority and effectiveness through capitalizing on major extractive projects.²³ Yet we suggest that a context of aid dependence and fiscal incentives seems to have resulted in

²³ This, of course, does not begin to address the problems, also latent in Angola, of a disbalanced economic base failing to diversify away from extractives. See specially Castel-Branco (2010).

low share of resource revenue captured by the Mozambican state and the entrenchment of powerful domestic groups that are not interested or compelled to renegotiate contracts, expand the fiscal base or strengthen the state's direct intervention. Though this would require further investigation, we note that this keeps the social provision dangerously dependent on continued donor support and could more generally undermine state authority, legitimacy and effectiveness, leaving the state more vulnerable to challenges by old and new opposition forces and the broader population. One implication for donors is to assist the Mozambican government in increasing resource revenues by reformulating the fiscal framework and renegotiating current contracts, while seeking to ensure that additional revenues translate into effective developmental outcomes and do not increase the fragility of the state.

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