THE OXFORD INSTITUTE FOR ENERGY STUDIES

April 2014

Mozambique's LNG revolution:

A political risk outlook for the Rovuma LNG ventures

Anne Frühauf*

OIES PAPER: NG 86

*Senior Vice President, Africa
Teneo Intelligence

ISBN 978-1-78467-001-6

Contents

Figures

Tables

PREFACE

The discovery of large natural gas fields in the Rovuma basin offshore East Africa represents one of the most exciting upstream exploration successes of recent years. The period of stability after the cessation of the civil war in 1992 allowed the international upstream companies to successfully apply advanced seismic and deep water drilling technology to identify a string of significant discoveries. In a very short time Mozambique found itself the owner of a world-class natural gas resource base.

This however is only the beginning of the story. With technical exploration challenges overcome the energy companies and government of Mozambique are now embarking on the more difficult stage of the journey i.e. constructing a framework for development of this resource. In addition to maintaining an investment framework sufficiently robust to attract the tens of billions of dollars of required investment while ensuring an equitable share of future profits, there are many other challenges to be overcome and constituencies to be kept aligned. Maximising the use of national labour (with attendant training requirements) versus overseas plant fabrication (which would accelerate government cashflow) is one such trade-off. Balancing export volumes (at a high sales price) with the building of local gas-feedstock power generation and industrial processes another. A very much related dimension is the need to avoid corruption and rent-seeking behaviours which would otherwise erode institutions and governance structures.

Mozambique is a ‘real time study’ of how a country of modest financial means succeeds (or fails) in its quest to successfully assimilate unexpected resource wealth. In this paper Anne Frühauf provides an extremely well structured analysis of these complexities as well as a masterful in-depth description and assessment of the political dynamics of Mozambique, which the Rovuma discoveries have re-invigorated, and which ultimately may be the most important factor determining the country’s fortunes.

Howard Rogers & Bassam Fattouh
Oxford, April 2014

INTRODUCTION

Mozambique has been catapulted onto the international investment radar by a nascent natural gas and coal boom. Major gas finds in Mozambique's northern Rovuma basin – potentially in the region of 180 trillion cubic feet (Tcf) – could represent an economic game changer for one of the world's least developed countries. The operators and government alike are brimming with confidence. Al Walker, chairman of Anadarko, the operator of the gas-rich Offshore Area 1 block, says that:

> We believe, as we go into the next decade, Mozambique will emerge as the third-largest exporter of LNG in the world[1]

With plans to construct one of the largest liquefied natural gas (LNG) plants after Qatar, President Armando Guebuza's government expects the Rovuma basin to produce first cargo by 2018.[2]

Amid such ambitious plans and schedules, 2014/15 will be a crucial decision-making period for developers looking to race ahead of other East African ventures, such as those in Tanzania, if they are to succeed in bringing LNG production online by the end of the decade and to finalize long-term contracts with, primarily, Asian buyers before the global price outlook changes.

But as the geological outlook for Mozambique's gas reserves continues to improve, the above-ground political risks will increasingly take centre stage in facilitating – or obstructing – the development of the country's vast natural gas resource. This paper explores how factors relating to political economy will shape risks to gas production. The big questions confronting investors are: Does the country have the political foundations to provide a stable and predictable investment climate that guards against the typical political risks – such as expropriation, nationalization, and unforeseen punitive taxation – to investments?[3] Does it have the institutional capacity to make strategic decisions about the resource boom that will provide a stable investment framework in the very long term? And, could failure to manage the natural resource boom equitably – and to prevent political and economic exclusion – generate a backlash against such investments?

The underlying thesis of this paper is that Mozambique has some of the basic political and legislative conditions in place to facilitate the development of LNG production, if not by 2018, then probably by the early 2020s, and is probably ahead of other East African frontiers such as Tanzania. However,

---

[1] Statement by Al Walker, Anadarko Chairman, President and CEO, www.anadarko.com/Operations/Pages/LNGmozambique.aspx

[2] Mineral Resources Minister Esperança Bias said in 2013 'The intention is to start with natural gas production in 2018 in Rovuma, and I am sure that we will meet this target', *The Business Year*: Interview Esperanca Bias, 2013, www.thebusinessyear.com/publication/article/16/1874/mozambique-2013/experts-in-the-field#

[3] In brief, political risk is typically defined as 'The risk that an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers, or military control.' Source: Investopedia, www.investopedia.com/terms/p/politicalrisk.asp

unless carefully managed, gas production will become a lost opportunity for development and a source of conflict that may generate a political and social backlash against the industry in the longer term.

Beginning with a brief overview of the state of the country's natural gas sector, this paper will assess Mozambique's evolving risk environment from four perspectives: key political trends and priorities influencing the policy process; decision-making in Mozambique's gas sector; the evolving oil and gas policy regime; and operational and governance challenges confronting project developers. All of these factors will have a crucial bearing on the viability and profitability of the Rovuma LNG projects.

INDUSTRY OVERVIEW: THE STATE OF PLAY

Over the next decade, Mozambique looks set to enter the 'major league' of global gas producers. At present the country's proven natural gas reserves stand at a modest 4.5Tcf.[4] After largely fruitless exploration efforts in the 1970s–80s, first natural gas production came online at the Temane field (Inhambane province) within the Mozambique Basin in February 2004.

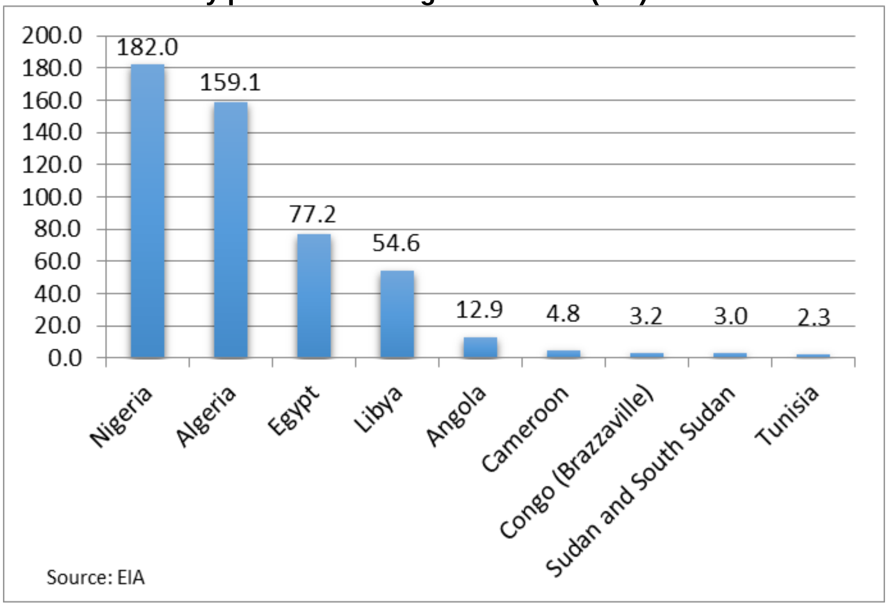
Thus far, Mozambique's natural gas resources have largely served South African interests. Upstream activity in the Mozambique Basin has been dominated by South African petrochemicals giant Sasol and production has primarily catered to the needs of the region's largest economy. The projects have been considered lucrative for Sasol and partners such as iGas, which benefit from a price differential between sales prices in Mozambique and South Africa, as well as from favourable fiscal terms in Mozambique.[5] Production at Sasol's Pande and Temane onshore fields in Inhambane province stood at 135 billion cubic feet (Bcf) in 2011, only 18 Bcf of which were used for domestic consumption.[6] Mozambique's existing gas-related infrastructure is exclusively centred on Sasol's Inhambane operations and the associated 865km pipeline which supplies neighbouring South Africa.

Mozambique's South Africa-focused production was to be but a preamble to massive natural gas finds in the northern Rovuma Basin, where acreage and equity stakes in the two leading consortia have become highly sought after by entities ranging from supermajors to emerging-market national oil companies (NOCs). Arguably Sasol, the early market entrant, has not made the biggest finds, as Anadarko and Eni have led exploration efforts in the northern Rovuma basin. Since 2009, exploration has yielded major discoveries and generated much industry excitement. Recoverable gas reserves in the most promising acreage – Offshore Areas Blocks 1 and 4 – are now estimated at around 180 Tcf, and counting. This could render Mozambique the largest African natural gas play (see Figure 1 below). Natural gas in place in Offshore Area 1 is now estimated at 45–70 Tcf and 85 Tcf in Offshore Area 4.[7]

---

[4] US Energy Information Administration (EIA), Country Analysis Note, www.eia.gov/countries/country-data.cfm?fips=MZ&trk=m
[5] Centro de Integridade Publica (2013)"Pande Temane Gas Exports to South Africa, Edition no 17/2013, Maputo
[6] Ibid.
[7] EIA: "International Energy Statistics," <www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=3&pid=3&aid=6>, accessed 4/7/2013

Figure 1: African countries by proved natural gas reserves (Tcf)



Source: US Energy Information Administration (EIA)[8]

Also remarkable has been the success rate of Rovuma exploration activity, which has produced almost no dry wells. By contrast, early hopes of commercial oil finds seem to have been dashed, to the disappointment of Maputo's energy officials, though Sasol is reportedly in the process of monetizing a minor find (which it expects to produce around 2,000 bpd from 2014[9]) and officials at the National Petroleum Institute (INP) seem to hope that future licensing and exploration will deliver additional finds.

What stands out from a commercial perspective is that the Rovuma play has not been the exclusive preserve of Western supermajors like Exxon, Chevron, or BP. Across the border, in Tanzania, Western IOCs have thus far played a greater role. To date the key consortia, which have witnessed a veritable frenzy of mergers and acquisitions (M&A) over the past couple of years, represent a complex mix of majors (Italy's Eni), mid-cap companies (Anadarko), juniors, and (primarily Asian) NOCs (see Table 1). The biggest winners have probably been Anadarko and Eni, whose reserves will be bolstered thanks to the Mozambique finds (which are beginning to be reflected in the companies' market valuations[10]). The recent M&A activity has markedly increased the role of Asian players (ranging from early entrants such as Japan's Mitsui and Malaysia's Petronas, to China's CNPC,

[9] Petroleum Africa (2014) "Mozambique to See Oil Production in 2014," www.petroleumafrica.com January 2014. <www.petroleumafrica.com/mozambique-to-see-oil-production-in-2014/>
[10] For example, Eni added 1.8 billion barrels to the company's resource base following exploration success in Mozambique, Ghana, Congo, Angola, Norway, Australia, Pakistan, and Egypt in its 2013 results. www.eni.com/en_IT/media/press-releases/2014/02/2014-02-13-fourth-quarter-results.shtml.

India's ONGC, and Thailand's PTTEP). Indeed, it appears that Asian NOCs have won out over Western IOCs in the M&A battles. A case in point is CNPC's 2013 purchase of a stake in Eni East Africa's Area 4 acreage, where it seems to have outbid Shell.[11] Similarly, Thailand's PTTEP battled hard to acquire the junior Cove Energy's 8.5 per cent stake in Area 1 in 2012.[12] Further consolidation and acquisitions in the sector are entirely plausible, particularly as Anadarko and Eni need to raise finance for their LNG investments. What is more, the relative inexperience of an operator like Anadarko would suggest that an IOC partnership could be desirable to get an LNG project of this scale off the ground. There has been much speculation whether Anadarko might farm out of its interest in Area 1 entirely, but this is far from certain. What seems increasingly clear, however, is that Asian entities – and the sovereigns backing them – will have a strong interest in the Rovuma play, not least since Asian customers are considered the principal market for natural gas from Rovuma.

From a geopolitical perspective, Rovuma may therefore become more of an Asian NOC than a Western IOC play. This raises the question over whether the government may give preferential treatment to Asian entrants, for example in contracts or investment projects. However, the emergence of Asian players in Mozambique's gas scene may be more of a function of global geopolitical and economic shifts than a pronounced shift on the part of the government towards favouring Asian NOCs. As Paula Roque and Chris Alden highlight,[13] Mozambique's Frelimo government has traditionally sought to balance multiple external interests – ranging from Western/Bretton Woods institutions to emerging market players. Bilateral relations with China, for example, have been less deep than has been the case in Angola, though technical and financial co-operation are increasing.

[11] Eni (2013) "Eni completes sale of 28.57% of Eni East Africa'share to CNPC," Press release, 26 July 2013 <www.eni.com/en_IT/media/press-releases/2013/07/2013-07-24-completes-area-mozambico.shtml>

[12] Gismatullin, E. and Nguyen, A. (2012) "PTTEP Left Sole Bidder for Cove as Shell Pulls Out of Race," Bloomberg, 17 July 2012, <www.bloomberg.com/news/2012-07-16/shell-drops-out-of-race-for-cove-leaving-pttep-as-winner-2-.html>.

[13] Paula Roque and Chris Alden "China em Moçambique: Prudência, Compromisso e Colaboração," pp.11–12; in Sérgio Chichava and Chris Alden (2012) "*A Mamba e o Dragão. Relações Moçambique–China em perspectiva*," IESE/SAIIA, Maputo/Johannesburg.

Table 1. Rovuma Basin Concessions Areas

Block	Operator/ participating interest	Consortium partners
Offshore Area 1	Anadarko (26.5%)	Mitsui E&P Mozambique Area (20%); Bharat Petroleum Resources Ventures (BPRL) Mozambique (10%); ONGC Videsh (20%); PTT Exploration & Production (PTTEP) (8.5%); ENH (15%, carried through exploration phase)
Offshore Area 2/5	Statoil (40%)	INPEX Mozambique (25%); Tullow Mozambique (25%); ENH (10%).
Offshore Area 4	Eni East Africa (70%)	Galp Energia (10%); KOGAS (10%); ENH (10%, carried through exploration phase); CNPC has 20% indirect participation via its 2013 acquisition of a 28.57% stake in Eni East Africa.
Offshore Area 3/6	Petronas (50%)	ENH (10%); Total (40%, under Oct 2012 farm-in agreement)
Onshore Area	Anadarko (35.7%)	Wentworth Resources (11.59%); Maurel & Prom (27.71%); PTTEP (10%); ENH (15%)

Source: National Petroleum Institute (INP), Anadarko, Eni, Statoil, Petronas, Wentworth Resources

The outlook for finds outside the core Rovuma blocks, meanwhile, is far less certain. A new licensing round should include new acreage, including three new blocks around the existing Rovuma concessions and additional acreage off and onshore. However, the timing of the licensing round, which has been postponed since 2012, is unclear. The INP would like to launch a new round in 2014, but this is contingent on outstanding minerals legislation being finalized, and with presidential and parliamentary elections looming in October 2014, a delay until 2015 is quite possible.

Production outlook

Mozambique is virgin terrain as far as international energy markets are concerned, both in terms of the gigantic scale of the Rovuma discoveries and of LNG infrastructure. The monetization of the massive Rovuma resources will require the development of a completely new natural gas hub in one of the country's least developed provinces, Cabo Delgado, and large-scale LNG facilities geared towards servicing international LNG customers, particularly Asian markets. Mozambique has to start from scratch in terms of LNG production yet plans are gigantic – up to 8–10 LNG trains by the mid-

2020s – requiring investment that would be more than four times the size of Mozambique's GDP, of US$14.59 billion (2012).[14]

Anadarko and Eni initially plan to build two LNG trains each (implying production of 20mtpa). Anadarko's official statements still set 2018 as a target date for first cargoes[15] but this timeframe seems highly ambitious, and first production could easily slip to 2020. The monetization of Rovuma gas represents a massive undertaking, not least for a government that lacks all experience of overseeing the development of large-scale LNG facilities. The government's lack of experience may be reinforced by commercial issues that have yet to be resolved, such as a unitisation agreement[16] and whether Eni will join forces with Anadarko on the same onshore site (or opt for FLNG facilities). Without final investment decisions (FID) – which Mineral Resources Minister Esperança Bias and the companies hope to conclude between 2014 and 2015 – and project plans in place, the production horizon for Mozambique's LNG projects remains highly speculative.

Known unknowns

While the government, civil society, and international donors recognize the Rovuma discoveries as a potential 'game changer' for Mozambique, one of the biggest risks to strategic decision-making is the many unknowns surrounding Rovuma LNG. The government has yet to develop its own model of the economic impact of the resource boom.[17] Economic projections with regard to the extractive industry remain highly speculative, and a lack of official figures make it difficult to anticipate the overall impact on GDP and government revenues in the medium term. Whatever projections are available are based on many assumptions.

Development scenarios

To date, the most detailed projections available are contained in the draft Natural Gas Master Plan (GMP)[18] – prepared on behalf of the government by consulting firm ICF International and funded by the World Bank – and an IMF Country Report.[19] The GMP outlines various 'development scenarios', which include LNG production plus possible downstream options. The base scenario includes the development of 6 LNG plants in Palma (2 in 2018, 2 more in 2020, and a further 2 in 2022), plus power generation plants in Palma (Cabo Delgado) and Ressano Garcia (Maputo province), together with gas processing and export to Secunda in South Africa via the 865 km ROMPCO pipeline. Under this scenario, the GMP estimates that total government revenues (royalties, profit gas, corporate

---

[14] World Bank, Country data, http://data.worldbank.org/country/mozambique.
[15] Anadarko website: www.anadarko.com/Operations/Pages/LNGproject.aspx, accessed 26 December 2013.
[16] A unitization agreement is defined as "joint operations to maximize recovery among separate operators within a common reservoir". Source: http://www.mineralweb.com/library/oil-and-gas-terms/unitization-unitization-agreement-unit-agreement-definition/
[17] Savana, 31 May 2013, print, website: www.savana.co.mz/.
[18] ICF International (2012) "Natural Gas Master Plan for Mozambique," Draft Report, Executive Summary
[19] IMF Staff (2013) Country Report, No.13/200, IMF, Washington DC, < http://www.imf.org/external/pubs/ft/scr/2013/cr13200.pdf>.

income taxes, and tax revenues from local expenditures) could be US$6.26 billion per annum (exceeding Mozambique's current annual budgets[20]). This could rise to US$7.8 billion per year under a more complex scenario involving, additionally to the base scenario, offshore development in Rovuma South, Gas processing and LNG in Pemba, and two more trains (in 2022 and 2024) in Pemba.[21] In its most optimistic scenario, the GMP assumes that a total of 10 trains could ultimately be developed, with the first 2 ready by 2018, four by 2020, and 2 additional trains constructed each year after that.

But what seems clear is that after much initial excitement, company and government expectations are slowly being moderated. In its July 2013 Country Report for Mozambique, the IMF outlined a more modest baseline scenario[22] which makes multiple assumptions about 'production, investment, cost structure, prices and fiscal regime'. For the purposes of estimating economic impact and revenue, a conservative scenario clearly is more prudent, but even so the IMF cautions that its projections are 'very preliminary'.[23] Its baseline scenario for LNG development factors in:

> Construction of an LNG plant that consists of four LNG production units ('trains') is expected to start in 2014. Each train has a capacity of manufacturing 5 million tons of LNG per year. LNG production would start gradually between 2020 and 2023; the first train is projected to become operational by end-2019, the second by end-2020, and the last two trains by end-2022.[24]

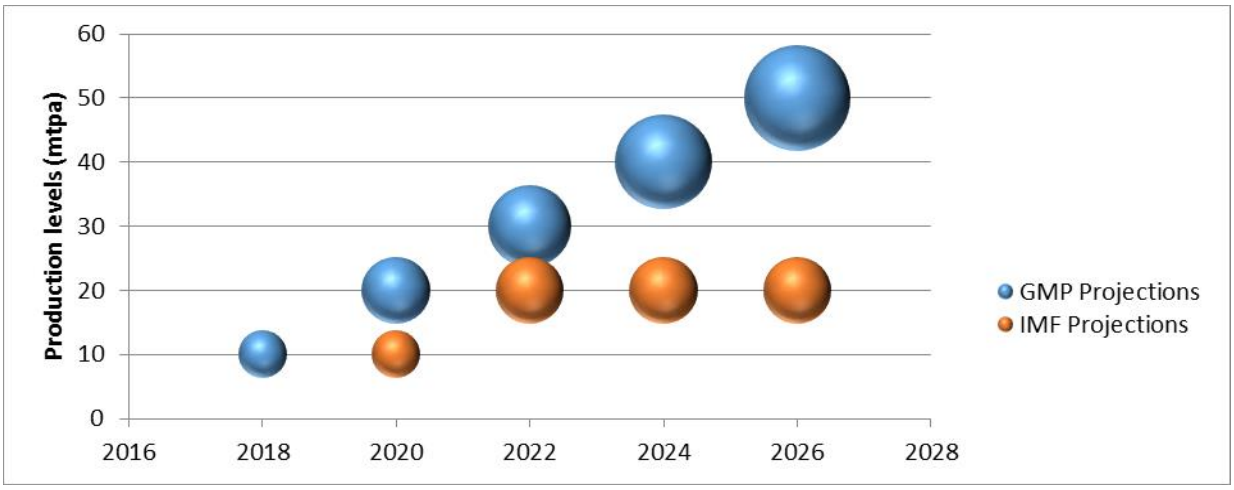
Thus, the GMP and IMF estimates differ considerably in their views for the construction of LNG trains and the production levels to be reached by the mid-2020s. Under the IMF baseline, the Rovuma consortia would construct only around 4 LNG trains, significantly less than under all GMP forecasts.

[20] Extractives Industry Transparency Initiative (EITI) (2014) "Big increase in oil and gas revenue in Mozambique," EITI, 14 March 2014, <http://eiti.org/news/big-increase-oil-and-gas-revenue-mozambique>.
[21] Gas Master Plan, for a summary of scenarios and results of modelling, see p. ES-45.
[22] IMF Country Report, No.13/200, July 2013.
[23] IMF Country Report No. 13/200, July 2013, p. 67.
[24] Ibid.

Table 2: Number of trains and projected production under GMP/IMF scenarios:

Timeframe	GMP best case: no. of trains	GMP production projections (mtpa)	IMF base case: no. of trains	IMF production projections (mtpa)
2018	2	10	--	--
2020	4	20	2 (end-2020)	10
2022	6	30	4 (end-2022)	20
2024	8	40	4	20
2026	10	50	4	20

Figure 2: Projected number of LNG trains and production levels



Source: Draft Gas Master Plan, IMF Country Report No. 13/200

Clearly, the ultimate number of trains will make all the difference for projected production volumes and revenue. Assuming a production capacity of 5 mtpa of LNG per train, the GMP's optimistic initial scenario projects production rising to 30 million tons per annum (mtpa) by 2022, reaching 50 mtpa by 2026. Much more conservatively, LNG production under the IMF's four-train scenario would reach around 20 mtpa by 2023. While the IMF projections could turn out to be more realistic, the gap in production predictions highlights just how variable the impact of LNG development on Mozambique's economy, FDI, GDP, and fiscal revenue may be, especially over the next 5–10 years.

The impact on Mozambique's economy of the development of extractive industries – both LNG and coal – will accelerate dramatically, from a low current base. At present, the contribution of the extractive industries to the economy is limited, with gas and coal contributing just 7 per cent of total exports in 2011[25] and the extractive industries overall accounting for roughly 2 per cent of GDP.[26] Due to the fact that most projects are still in the exploration phase (and partly due to tax exemptions or agreements at below-market prices granted to early developers such as Sasol) the industries' contributions to revenue remains small: the IMF estimated that for the period 2008–10 revenues from mineral and gas resources averaged 0.3 per cent of GDP and 1.8 per cent of total revenues.[27] In terms of employment, the capital intensive nature of the industry means that its direct contribution to job creation is extremely limited, at less than 0.5 per cent of formal sector jobs. According to donors, this is aggravated by underdeveloped local supply networks, which limits the linkages that might create indirect jobs. Bodies such as the IMF currently expect GDP growth to accelerate moderately over the coming years, to around 8 per cent, with the potential to reach double digits when LNG comes online.[28]

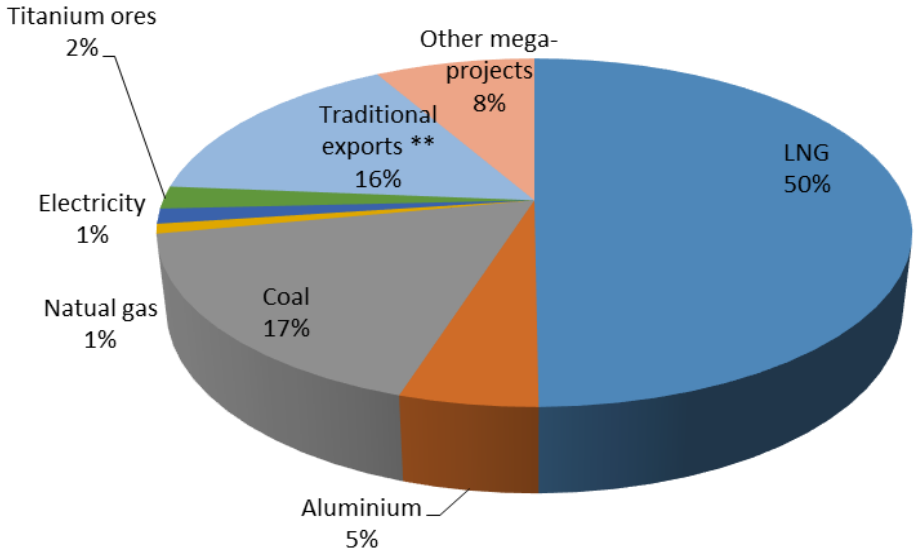
While revenue, especially from LNG, will only have an impact from mid-2020 onwards, the main interim impacts on the overall economy are from FDI related to exploration and construction, assuming the Anadarko- and Eni-led projects reach FID in 2014-15. With the upstream and midstream costs of the LNG projects estimated at US$40bn, LNG-related investment alone would constitute around 2.7 times the size of Mozambique's 2012 GDP.[29] Imports of goods and services are also increasing, with goods imports rising 15 per cent and services imports doubling in 2012 on the back of LNG exploration expenditure. From a revenue perspective, however, LNG's contribution will be extremely modest over the next 10 years, apart from one-off (albeit significant) capital gains tax payments driven by the farm-in frenzy.

The composition of Mozambique's economy and trade is expected to change dramatically in a decade's time, when LNG will likely form the bulk of government revenue,[30] eclipsing contributions from overseas development assistance (ODA) and early-stage mega projects (such as the Mozal aluminium smelter). Until 2023, the contributions to GDP of coal and gas are expected to grow by 2 percentage points per annum. When LNG production reaches near-full capacity, around 2023, LNG exports will represent almost 30 per cent of GDP and nearly 50 per cent of total exports.[31] By 2030, the IMF projects that revenue from both LNG and coal will constitute around 25 per cent of all government revenue or 9 per cent of non-coal, non-LNG GDP.[32]

---

[25] Donor source, March 2013.
[26] Extractives Industry Transparency Initiative (EITI) (2014) "Big increase in oil and gas revenue in Mozambique," EITI, 14 March 2014, <http://eiti.org/news/big-increase-oil-and-gas-revenue-mozambique>
[27] Ibid.
[28] IMF Country Report, No.13/200, July 2013.
[29] IMF Country Report No. 13/200, July 2013, p.67.
[30] Ibid., p.69.
[31] Ibid., p.70.
[32] Ibid., p.69

Figure 3: Projected 2023 exports from Mega-projects (% of total exports)



Source: IMF[33] ** Traditional exports include sugar, tobacco, lumber

To date, the only other independent estimates have been provided by the Maputo-based Institute for Social and Economic Research (IESE)[34] which has modelled various scenarios in an attempt to project possible GDP growth rates to 2030 for the purposes of modelling the country's energy requirements. IESE developed a 'reference scenario' and an 'extractives scenario'. The former mapped out a baseline scenario of the likely growth trajectories of key sectors while maintaining the current GDP structure and only including extractive sector projects already fairly certain to go ahead. The 'extractives scenario', meanwhile, assumes a major shift in composition of GDP, whereby the mining and gas extraction sectors would be the main drivers of growth, and see their share of total GDP considerably increase. It can therefore be interpreted as an optimistic scenario, of the *maximum* impact if all extraction happens as planned, and all planned infrastructure projects occur (railways, ports, and electricity transmission).

In the 'reference scenario' (accounting only for the most likely projects) Extractive Industries (Coal, Gas, Heavy sands, and other Mining) would comprise 13.4 per cent of GDP by 2015 (compared with less than 2 per cent in 2010), reaching 20 per cent of GDP in 2025. In the 'extractives scenario', the Extractive Industries sector would reach 32 per cent in 2025. GDP (at constant 2000 prices) would rise to US$33 billion in 2025 under the 'reference scenario', or US$38billion by 2025 under the

---

[33] Ibid., p.70

[34] Mahumane, G., Mulder, P., and Nadaud, D. (2012) "Energy Outlook for Mozambique 2012–2030, LEAP-based scenarios for energy demand and power growth," IESE, Conference paper 16, Maputo.

‘extractives scenario’. Naturally, these projections are highly speculative, involving assumptions not only around whether specific projects go ahead, and whether planned production is realized, but also around commodity prices and the likely impact of production on GDP. For example, a smaller number of LNG trains than anticipated would considerably change these projections. As the *Centro de Integridade Pública* (CIP) points out, there is only one country in the world – Qatar, which was already at the time the world’s leading LNG producer – that has managed to build LNG plants as fast as assumed in the GMP.[35]

Similarly, revenues accruing to the government are difficult to estimate at this early stage, given uncertainty not only over production volumes but also over pricing, contract terms, and other related matters. The World Bank now assumes that public revenue from both coal and natural gas could reach US$9 billion by 2032, representing 7 per cent of GDP and 21 per cent of total government revenue.[36] This will depend on a host of factors: the developers’ individual contract terms; agreed gas prices; any potential contract revisions; whether government takes up its equity stakes; how much the government takes as cash or in-kind royalty; the final details of the fiscal framework; and even the success of government in building the capacity to independently verify companies’ reported profits. Taking all of this into account, any revenue estimates should be taken with a healthy degree of scepticism. To give an idea of the range of possible estimates, the GMP estimates that annual government revenues from production and use of the governments’ share of the gas could amount to between US$6 billion and US$8 billion by the mid to late 2020s, while the CIP suggests that this figure could be closer to US$1.2 billion in 2026.[37] Based on Mozambique’s experience with its first-generation mega-projects (including Sasol’s), it seems prudent to err on the side of caution, given that revenue has been limited given favourable investment terms and tax breaks.

[35] CIP newsletter 17, quoted in Hanlon, J. (ed) (2013) *Mozambique Political Process Bulletin*, Issue 53, www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/files/Mozambique_Bulletin_53_coal-gas.pdf.

[36] This is based on the assumption of 4 LNG trains being operational, with current fiscal terms in place, until 2032, while coal exports would reach 31 mtpa during the simulation period. Cited in Blanco Armas, E., Gratcheva, E., Pevzner, D., Sharma, N. (2014) “Generating Sustainable Wealth from Mozambique’s Natural Resource Boom,” World Bank Mozambique – Policy Note, Washington DC, p.41

[37] CIP (2013) “As Potenciais Receitas Do Rovuma: Implicações dos contratos de 2006 para as receitas do Estado,” CIP, Nº 07/2013, Maputo.

KEY POLITICAL TRENDS AND PRIORITIES INFLUENCING GAS SECTOR DEVELOPMENT

As the scale of the Rovuma resource becomes clearer, the defining features of the prospects for LNG development in Mozambique will increasingly shift to above-ground risks. While the international outlook for LNG prices (particularly in Asia), together with the developers' ability to secure long-term contracts, will be crucial to the viability of the projects, this paper explores the domestic political factors that will shape official thinking around gas sector development. Here, we examine some of the broad political and socio-economic trends that will shape the government's expectations and strategic priorities around natural resource development.

National development priorities

There can be little doubt that the resource boom is a potential game changer for Mozambique's development agenda. It may provide an opportunity for rapid advancement for a country that currently ranks third from bottom on the Human Development Index, ahead of only the Democratic Republic of Congo and Niger.[38] With massive natural gas revenue on the horizon, middle income country status and a GDP the size of Angola's could be within reach, perhaps within the space of a generation.

However, there are obvious concerns that the dividend from the resource boom may not be equitably distributed, and could instead emerge as a source of social tension and massively increasing inequality.

Given Mozambique's enormous development needs, official debate – backed by Mozambique's programme aid partners (commonly referred to as the G19[39]) – is therefore shifting towards ensuring inclusive growth. This will require a strong and transparent political will, as well as institutions capable of managing all aspects of the resource boom, from contract negotiation and management to revenue collection and improving internal capacity to assess investment priorities and develop plans for sustainable development. One critical challenge in this regard is Mozambique's acute skills shortage, which will make it extremely difficult for Mozambicans, particularly from Cabo Delgado, to obtain anything other than menial jobs during the construction phase. The importation of skilled personnel such as welders could easily become a source of local tensions. (For a more detailed discussion see the section on Labour issues below.)

[38] In the UN's 2012 Human Development Index, Mozambique ranked 185th out of 187 countries: https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k.
[39] For information on the Programme Aid Partnership see www.pap.org.mz/the_g19.htm.

Until now, successive Poverty Reduction Action Plans (PARPs) have focused on reducing poverty, primarily through macroeconomic reform, investment promotion, and interventions in the social sector (such as health and education), backed by aid financing from G19 donors. For example, the 2011–14 PARP aims:

> … to reduce the poverty headcount from 54.7 per cent in 2009 to 42 per cent in 2014; close the country's infrastructure gap and promote human and economic well-being through rapid and inclusive growth

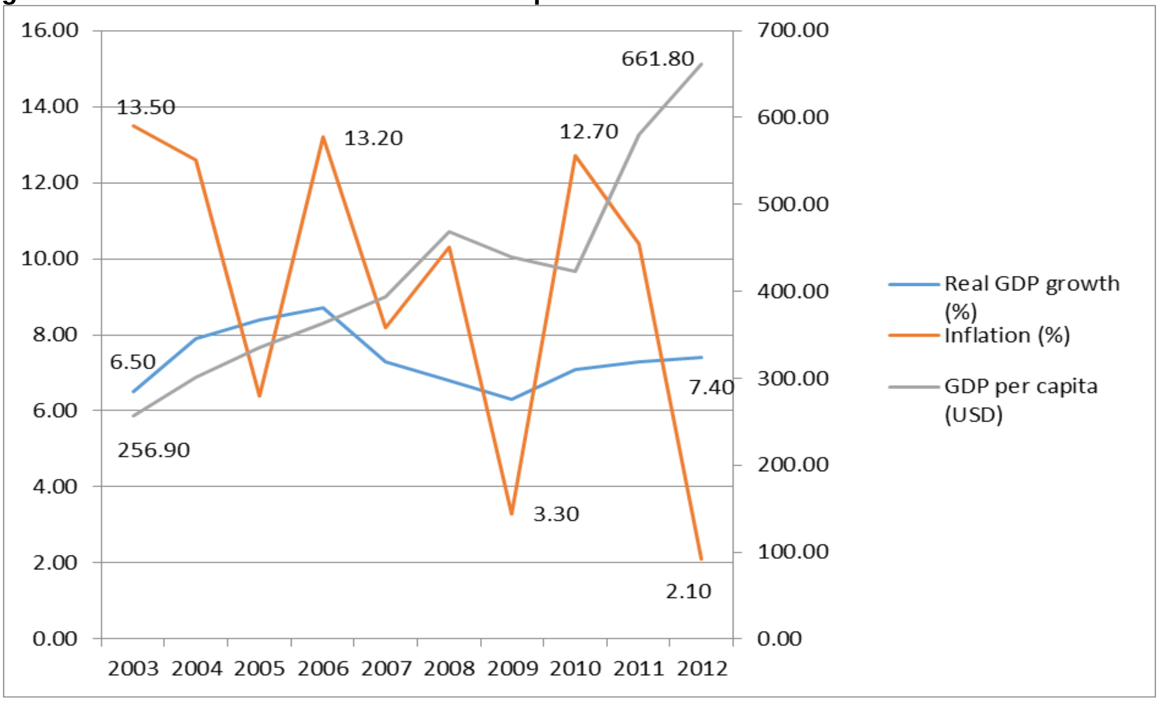
This is based on the promotion of agricultural and fisheries production, employment promotion, and social and human development.[40]

However, even ahead of a full-fledged coal- and gas-fuelled resource boom, the government's development model and ability to achieve 'inclusive growth' is being questioned, for example in the book *Do bicycles equal development in Mozambique?*[41] Despite robust GDP growth over the past two decades, poverty reduction has stagnated over the past 10 years: after initially dropping from 69.4 per cent in 1996 to 54.1 per cent in 2003, the poverty headcount at the national poverty line remained at 54.7 per cent in 2009.[42] The next household survey is currently under preparation, but results may only be available in 2015. Poor results would reignite the debate over Mozambique's development path and its management of natural resources, particularly since the country has also slipped down the Human Development Index (HDI) league table.

---

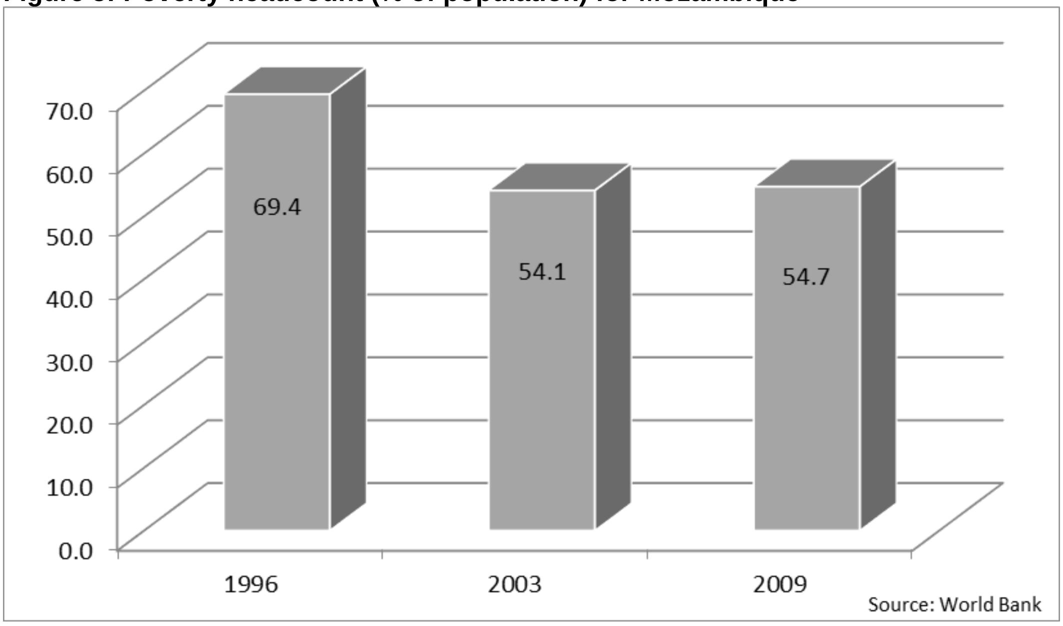
[40] African Development Bank Group (2011) "Republic of Mozambique: Country Strategy Paper, 2011–2015," p.iv, www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Mozambique%20-%202011-15%20CSP.pdf.
[41] Hanlon, J. and Smart, T. (2010) "*Do Bicycles Equal Development in Mozambique?*" James Curry, Woodbridge.
[42] Source: Mozambique: Data, World Bank, http://data.worldbank.org/country/mozambique. Note: Analysis of poverty is subject to debate given a lack of data and methodological discussions. While access to services has improved, debate continues about the real pattern of consumption poverty, with official figures suggesting that it fell rapidly between the first two household surveys of 1997/8 and 2002/3, then stalled between the second and third (2007/8), while some economists (e.g. Van Den Boom and Alfani, Azzarri et al.) suggest that poverty reduction was overestimated in the first period, indicating that poverty was actually falling gradually throughout the whole period.

Figure 4: Economic indicators for Mozambique



Percentages shown on left hand axis, US dollars on the right hand axis.
Source: National Institute of Statistics (INE)[43]

Figure 5: Poverty headcount (% of population) for Mozambique



Source: World Bank

[43] Quoted in Ministério da Planificação E Desenvolvimento (2013) "Estratégia Nacional de Desenvolvimento (ENDE)" Maputo, p. 4.

Against this backdrop, it is questionable whether the coal and natural gas booms will necessarily broaden the impact of economic growth on Mozambique's development and poor HDI ranking. A recent World Bank policy note, for example, makes the case that sustainable wealth generation from a resource boom depends entirely on factors such as effective policy-making, the quality of government spending, and mitigation of political risk, among other factors.[44] While there is as yet no reliable estimate of what impact Mozambique's natural resource boom might have on poverty levels, it is certain that government policies and legislation will play a key role in determining whether poverty will be significantly affected by the resource boom, or largely bypassed. Of key importance will be the ability to link the extractive sector – which is capital intensive and responsible for few direct jobs – to the wider economy. The population's strong dependence on agriculture – which constituted 23.3 per cent of GDP over the past decade[45] – and the limited job creation potential typical of the extractives industry would call for a broad-based development agenda to ensure that the resource boom is used to develop a diversified economy capable of large-scale job creation, improved agricultural productivity, and the promotion of small- and medium-sized enterprises (SMEs).

As nearly 80 per cent of Mozambique's population live in rural areas,[46] agricultural policies will be particularly important, as highlighted by the Strategic Plan for the Development of the Agricultural Sector (PEDSA). These broader goals will have direct and indirect implications for the way in which Mozambique intends to develop its hydrocarbons sector.

National Development Strategy (ENDE)

The proposed 20-year National Development Strategy (ENDE, 2013) – developed by the Ministry of Planning and Development – uses the resource boom as a starting point to effect a shift away from poverty reduction towards industrialization.[47] The plan's overall objective is:

> … to improve living conditions for the population through structural transformation of the economy, expansion and diversification of the productive base[48]

It also envisages that industrialization should bolster growth in agriculture and fishing, and in overall job creation.

The plan projects that Mozambique's GDP per capita will increase five times, while contending – controversially – that inequality will not worsen between 2015 and 2035. The plan aims to achieve 'equitable' growth through proposals such as the creation of industrial parks, development finance via a National Development Bank, and priority sectors which include:

---

[44] Blanco Armas, E., Gratcheva, E., Pevzner, D., Sharma, N. (2014) "Generating Sustainable Wealth from Mozambique's Natural Resource Boom," World Bank Mozambique – Policy Note, Washington DC.
[45] Ministério da Planificação E Desenvolvimento (2013) "Estratégia Nacional de Desenvolvimento (ENDE)" Maputo, p. 4.
[46] Inquérito ao Orçamento Familiar (IoF) survey, 2008/9.
[47] 'Estratégia Nacional de Desenvolvimento (ENDE)', Ministério da Planificação E Desenvolvimento, June 2013.
[48] Ibid., Executive Summary

- Agriculture and fishing (specifically 'Zonas Economicas Especiais de Integração Agraria e Pesqueira' (ZEEIAPs));
- 'Transformative industry': agroindustry (including agricultural inputs), mining, goods for the domestic market, construction materials, electric power generation;
- Extractive industries (with an emphasis on partnerships between local and international companies, goods and services provision); and
- Tourism.[49]

However, the document provides few concrete policy proposals to suggest how the structural transformation of the economy is to be realized.

Natural Gas Master Plan (GMP)

Meanwhile, the draft GMP (discussed in the previous sector) does not outline a single path for hydrocarbons development, but considers a number of potential development scenarios that aim to use LNG development as an engine for development. It highlights the government's official vision, which claims an intention to:

> … develop natural gas resources in a manner that maximizes benefits to Mozambique society by supporting:
> - Growth in domestic public and private sector institutional competencies
> - Growth in domestic industry and businesses, especially small and medium scale industries
> - Increased employment across the country, especially less developed provinces
> - Infrastructure to support expanded economic activities, especially in less developed provinces, and
> - Expanded access to training and education
>
> in order to improve the quality of life for the people of Mozambique, while minimizing adverse social and environmental impacts.[50]

Rather than a pure focus on LNG development, centred on Palma, the government's plan would need to entail an emphasis on broadening the geographic impact of hydrocarbons development as well as prioritizing mid- and downstream development, including the use of natural gas for electric power generation, fertilizer production, gas-to-liquids (GTL) production, and methanol production.

The GMP recommends a number of initiatives to ensure broad-based growth:

- Establishing priorities for mega-project development (i.e. users of the gas), prioritizing electric power generation, fertilizer, GTL, and methanol.
- Using a market-based approach to determine which mega-projects should be approved (e.g. possible auctions for proposed mega-projects to bid for gas supplies).
- Encourage strategic location of mega-projects so they contribute to local economic development (Palma, Pemba, Beira)
- Support businesses capable of supplying goods and services to the gas industry and mega-projects.
- Study the power needs and LNG transportation options (pipeline/shipping/trucking).
- Transparency in taxation and ensuring solid returns from mega-projects for the government.[51]

The authors of and advisers to the GMP process admit that all of these options will require further studies and in-depth analysis.[52] While official rhetoric and plans (laid out in the GMP, the agricultural

---

[49] Ibid.
[50] ICF International (2012) "Natural Gas Master Plan for Mozambique," Draft Report, Executive Summary, Fairfax, VA.
[51] Ibid.

sector plan and ENDE) clearly articulate support for inclusive growth and promoting sector linkages, it remains to be seen whether such initiatives will receive top-level political backing, and whether institutions such as the Mineral Resources Ministry (MIREM), the Ministry of Planning and Development (MPD), and the National Petroleum Institute (INP) (the upstream regulator), can keep up with the institutional planning challenge. Without improved planning capacity, the most likely scenario will be one of private-sector driven LNG development, which will likely focus exclusively on Palma and Pemba in Cabo Delgado province. The structural transformation of the economy, industrialization, and development of a downstream sector will likely lag behind and could well prove elusive.

Political pressures on Frelimo

How well the country does in achieving a broader development agenda and improvements in key indicators – such as poverty reduction – will be determined by political factors, including the political will to promote inclusive growth and institution-building. Significant 'game changing' revenues from gas will not be seen until the late 2020s, so the next government will not immediately benefit from windfall revenue. Instead, it will need to build strong systems (such as public financial management, legislative, and auditing) to prepare for absorbing these in the future, while at the same time prudently managing the macroeconomic environment, resisting pressures to unsustainably increase indebtedness, and keeping international donors on board. This will be a tricky mandate for the next president and will be made more complex given that Armando Guebuza, while stepping down from the presidency in late 2014, will maintain his position of Frelimo party leader until 2017.

From the ground up, Frelimo – which has increased its electoral margins over the past couple of decades – faces increasing pressure from a citizenry eager to see a dividend from two decades of peace and, more recently, from the coal and natural gas boom. Having won around 75 per cent of the vote in the 2009 presidential and parliamentary elections,[53] the ruling party expects to comfortably retain power at presidential and parliamentary elections in October 2014, and probably for at least another 1–2 terms beyond that. However, beneath the surface the picture is less comfortable as voter turnout has dropped below 45%.[54]

Moreover, new parties, like the Mozambique Democratic Movement (MDM), are making inroads at the local level, although they stand little chance of winning at the national level at this point. In the 20

---

[52] ICF International "Towards a Natural Gas Master Plan in Mozambique," Presentation, , 20 February 2013.
[53] EISA (2010) "Mozambique Presidential, Parliamentary and Provincial elections of 28 October 2009," EISA Election Observer Mission Report, Johannesburg, <www.content.eisa.org.za/pdf/eommoz2009.pdf>.
[54] Voter turnout dropped to 44.4% in the 2009 elections; the long-term decline in voter turnout is documented in Hanlon, J. and Smart, T. (2010) "Do Bicycles Equal Development in Mozambique?" James Curry, p.90.

November 2013 municipal elections, Frelimo won the majority of 53 municipalities but the MDM made notable gains, retaining two municipalities (Beira and Quelimane) and winning two additional municipalities (Nampula and Gurue). It also substantially increased its margins in key urban areas such as Maputo.[55] This is concerning for Frelimo ahead of national elections. Frelimo had hoped to retake Quelimane but rather, with the result in Nampula, it has lost 'the capital of the north'. The municipal polls suggest that voter attitudes are changing, with young, urban voters being particularly keen for an alternative to the liberation party. With Frelimo less able to take voter support for granted, its hold on power is no longer quite as assured as it has been since independence in 1975. What is more, it faces the prospect of losing an increasing number of urban areas – many of which are investment hubs and increasingly the sites of unrest – to the opposition in future years. While this may represent more of an urban–rural divide rather than a north–south divide, rising urban unrest may change the way in which the Frelimo government thinks about national developmental priorities, social policies, and how to distribute the benefits from the natural resource boom.

Tensions between Frelimo and Mozambique's hitherto largest opposition party, Renamo, threaten to taint Mozambique's relative success story as a post-conflict graduate over the last two decades. The link between natural-resource economies and violent conflict is well documented, and armed groups can seize on economic grievances to gain legitimacy even when there is 'no clear causal link between unequal distribution of resource benefits and violent conflict'.[56] Since 2012, relations between the Frelimo administration and Renamo have consistently deteriorated, which has spurred a series of armed attacks and clashes, although these have involved probably no more than a few hundred armed men, primarily in central provinces (especially Sofala) where Renamo has traditionally been strong. More recently, however, sporadic attacks have also been reported in other provinces, including Tete. The timing of the clashes is no coincidence – appearing as they did ahead of municipal and national elections – but the broader drivers of the tensions do relate to questions of political and economic exclusion. A worst-case scenario would be if Renamo dramatically broadened its attacks, expanded the targets of its attacks (for example to hydrocarbons), and if copycat armed groups were to emerge. But even without this, the Guebuza government's inability to end the low-level fighting threatens to undermine the carefully cultivated image of a successful post-conflict country, with possible implications for investments and political risk insurance premiums.

Beyond the low-level conflict with Renamo, there are signs of broader public discontent, exemplified by occasional public protests. The worst bouts of protests were in 2008 and 2010 in Maputo; these

[55] Hanlon, J. (ed) *Mozambique Political Process Bulletins*, November 2013–January 2014.
[56] Ross, M.L. (2004) "How do Natural Resources Influence Civil War? Evidence from Thirteen Cases", International Organization, Cambridge University Press, 2004 and Collier, P., "Economic Causes of Civil Conflict and their Implications for Policy", Oxford University, 2006 cited in Blanco Armas, E., Gratcheva, E., Pevzner, D., Sharma, N. (2014) "Generating Sustainable Wealth from Mozambique's Natural Resource Boom," World Bank Mozambique – Policy Note, Washington DC, p.39.

were largely driven by price spikes (especially in food and transport costs). The resource boom is drastically raising public expectations, and there is also the danger that pressures associated with the Dutch Disease (a significant appreciation of the exchange rate) could worsen the experience of price hikes for the majority. Dashed expectations could fuel worse social tensions in future years, unless Guebuza and his successor get serious about putting in place comprehensive policy responses – in terms of monetary, macroeconomic, and broader structural policy reforms that cater to the inclusive growth agenda.

A significant and sudden increase in government revenue can complicate macroeconomic and fiscal management – with a particular focus on the country's absorptive capacity. Many countries that have experienced a similar increase in fiscal revenues from natural resources have been affected by the Dutch Disease. Given the weakness of agricultural productivity in Mozambique, as well as the large proportion of its population dependent on that sector, the potential appreciation of the exchange rate poses a risk for poverty reduction plans and livelihoods. However, this is not a foregone conclusion; a stronger metical[57] could improve rural living standards by reducing the cost of imported basics goods such as fuel oil/kerosene, fertilizers, pesticides, tools, and machines, although efforts to reduce poverty levels through productivity growth (as foreseen in the Agricultural Sector Strategic Plan, PEDSA) could potentially be damaged if exchange rate appreciation made it cheaper to import food than to develop local agriculture.

[57] The metical is the main unit of Mozambican currency.

KEY STAKEHOLDERS SHAPING DECISION-MAKING

In light of the weakness of Mozambique's institutions, political will and leadership will fundamentally determine how the country harnesses the growth potential from the resource boom. There is a clear danger that decisions will be taken on the basis of elite political and commercial interests, not in the public interest, particularly if trends towards political and economic exclusion are reinforced amid the resource boom.

The presidency – concentration of power

The most important decision-making power around natural gas projects emanates from the presidential office (Palácio da Ponta Vermelha). The concentration of power in the presidency has been especially pronounced under President Armando Guebuza. This dynamic is reinforced by his family's vast web of commercial interests, which extend into the energy, transport, ports, and telecoms sectors,[58] and by Frelimo's dominance of the state apparatus. Control of Frelimo effectively means control over the state apparatus, policy-decisions, patronage and, more often than not, commercial opportunities.

Even if the nitty-gritty details of minerals legislation and project approvals are dealt with by ministries such as the Mineral Resources Ministry (MIREM), the National Petroleum Institute (INP, the upstream regulator), Finance, and the Revenue Authority (AT), in reality very few strategic investment decisions can proceed without at least a nod of approval from the president's office. Without this, LNG, coal, or infrastructure projects may simply not advance.

Frelimo's long record in office means that the line between party and state is often blurred. The party's Political Commission (PC) is at the centre of much decision-making. Its 17 members tend to hold either influential cabinet posts or seats in the National Assembly (AR); this illustrates the strength of party control over the executive and legislative. The PC includes some of the most influential stakeholders in Mozambique's political landscape, mixing political, commercial, and regional interests. Influential PC members include independence general Alberto Chipande, fellow veteran Raimundo Pachinuapa, Speaker of Parliament Veronica Macamo (who also chairs the AR Permanent Commission, which oversees parliamentary schedules and legislative debates), Speaker of Frelimo parliamentary caucus Margarida Talapa (influential in garnering votes in the populous province of Nampula), Agriculture Minister Jose Pacheco, and Public Works Minister Cadmiel Muthemba. The Commission also includes a couple of members who are less closely aligned with Guebuza: Eneas

[58] Luis Nhachote (2012) "Mozambique's "Mr Guebusiness", *Mail&Guardian*, 6 January 2012, http://mg.co.za/article/2012-01-06-mozambiques-mr-guebusiness/.

Comiche, the well-respected former mayor of Maputo, minister of finance, and central bank governor, and Eduardo Mulembwe the former speaker of parliament; both of these men have harboured presidential ambitions and are more closely aligned with the factions associated with former president Joaquím Chissano and former first lady Graça Machel.

Presidential succession

Frelimo's latest presidential succession bears testimony to Guebuza's influence. With Guebuza approaching the end of his tenure in 2014, uncertainty over his successor has fuelled deep uncertainty ahead of the October 2014 elections. Over the last two years or so, rumours had been circulating in Maputo that Guebuza could seek to overstay his two-term limit as head of state. Such a tenure breach could have undermined Mozambique's image as one of the world's fastest growing, politically stable frontier markets and damaged relations with overseas donors (who provide roughly a third of the budget and are thus vital to fiscal stability). Failure to extend his term shows that the president's powers are a little less absolute than those of his Angolan counterpart, Eduardo dos Santos. Unlike Angola, where dos Santos, has held office for more than 30 years, internal transitions of power in Mozambique limit the extent to which a single family can dominate the decision-making apparatus, at least over the very long term.

President-in-waiting: Filipe Nyusi

A mechanical engineer, Nyusi (born in 1969 in Cabo Delgado province) has been a member of cabinet since 2008, when he was appointed defence minister. From 1992 to 2007, Nyusi cut his teeth at CFM (the ports and railways parastatal) a key protagonist in the development of coal-related infrastructure and also in the upstream sector, where it now collaborates with ENH, the publicly owned National Hydrocarbon Company. He is an ethnic Makonde, like independence general Alberto Chipande, the most powerful war veteran on the PC. Chipande has been lobbying for a northern candidate, at least partly with the intention of promoting business interests from Cabo Delgado (perhaps including his own, for example, Quionga Energia), which northerners claim have been sidelined under Guebuza. Nyusi's only documented commercial interest is in the logistics company Sociedade Moçambicana de Estiva, S.A.R.L.

Sources: Hanlon, J., *Mozambique*

This assertion comes with a major caveat, however. Unusual within Frelimo, Guebuza has sought to preserve his influence beyond 2014 through more sophisticated means, by retaining the office of party president and 'guiding' the selection of his successor. In Maputo circles, this has sometimes been described as the 'Putin option'. After lengthy delays, in December 2013 Frelimo's PC (which is mostly Guebuza-aligned) made the unprecedented move of announcing three 'pre-candidates'[59] for the presidency. They were Agriculture Minister Jose Pacheco, Prime Minister Alberto Vaquina, and Defence Minister Filipe Nyusi (variant spelling 'Nyussi'). All three were seen as close Guebuza allies, and their nomination represented a clear

[59] Frelimo Comissão Política, Comunicado de Imprensa, 12 December 2013 and MozManiacos, 12 December 2013, www.noticias.mozmaniacos.com/2013/12/jose-pacheco-alberto-vaquina-e-filipe-nyussi-sao-pre-candidatos-da-frelimo-para-presidenciais-de-2014.html#.

attempt to influence the larger Central Committee (CC), which has the right to select the presidential candidate. Anger over attempts to manipulate the party's internal process prompted a backlash from rival Frelimo factions (particularly those associated with Machel and Chissano); this was expressed in unprecedented open letters and via social media from eminent Frelimo figures.[60] In an emotionally charged CC congress on 1 March 2014, Guebuza's rivals managed to nominate two additional candidates, including the respected former finance and prime minister Luisa Diogo, but she ended up losing to Nyusi in a second round of voting.[61]

This means that Guebuza has achieved his goal of appointing a loyal candidate as his successor. It is therefore reasonable to assume a high degree of continuity in policy and decision-making over the next few years. Nyusi is a loyal party cadre who represents the middle-aged generation in Frelimo and hails from the central/northern regions (a key criterion in the selection process given longstanding complaints in Frelimo over the dominance of southern interests within the party). In the capital, Maputo, bureaucrats and donors seem to take assurance from the assumption that Guebuza's candidate 'will listen to the IMF'[62] (occasional pre-election largesse in the budget notwithstanding).

Nyusi's own personal policy preferences are not well understood or tested at this stage. In a February presentation in Inhambane province, Nyussi focused on redistribution (and decentralization) of wealth generated from natural resources, as well as education (both quality and relevance of training).[63] While Nyusi is unlikely to pursue radical policy change, he is equally unlikely to be an eager reformer in the positive sense. Among Frelimo's technocratic-minded constituencies, Luisa Diogo may have been a more promising choice. Under Nyusi, measures focused on transparency; combating corruption, conflict of interest and rent-seeking; and perhaps more flexible attitudes to local content and labour regulations for expatriates; are unlikely to become true priorities.[64] As a national leader, his erstwhile role as defence minister means that the president-in-waiting is not well placed to resolve broader stability challenges such as the tensions with Renamo.

The longer-term question will be whether, or how soon, a second centre of power (and lobbying) will emerge, as Nyusi establishes a degree of independence from his political sponsor Guebuza. With

---

[60] Facebook page of Eneas Comiche: https://www.facebook.com/eneasconceicaocomiche, accessed 23 Jan 2014.
[61] AIM (2014) "Filipe Nyusi eleito candidato de Frelimo as presidenciais de 2014", 2 March 2014; <http://macua.blogs.com/moambique_para_todos/2014/03/filipe-nyusi-eleito-candidato-da-frelimo-%C3%A0s-presidenciais-de-2014.html>.
[62] Based on conversation with donor source, December 2013.
[63] Canalmoz (2014) "Filipe Nyussi: único ovacionado por membros da Frelimo em Inhambane", Diario Digital, Ano 6, Numero 1125, 14 January 2014.
[64] Ibid.

Anadarko and Eni looking to make crucial project decisions over the coming years, the transition is clearly occurring at a highly sensitive time.[65]

Factionalism

Guebuza is viewed as having 'won' the presidential succession with the appointment of Nyusi, but this consolidation of power may well be challenged from within the party over time. Particularly in countries with dominant ruling parties, the stability of elite coalitions is typically based on a distribution of rents that satisfies the interests of various factions.[66] The stability of such elite pacts can be threatened by changes to the relative power of different factions within the elite coalition, or by the emergence of new factions.[67]

One powerful influence will be the nexus between political and commercial interests. Local companies – often connected to Guebuza and key Frelimo figures – appear to be in a frenzied scramble to tie up deals in ancillary infrastructure, and in supply and service contracts ranging from catering to hospitality and housing at industry hubs such as Pemba and Palma. With the Rovuma ventures moving to development stage the scramble for contracts, and also for land transactions in Pemba and Palma, is accelerating. From an investor perspective, this means that local content policy may be tightened, or applied more strictly in future years.

Frelimo as a party owns a holdings company, SPI-Gestão e Investimentos, which has been involved in sectors ranging from port equipment to telecommunications, to real estate, and to mining. But companies that often feature in infrastructure and strategic growth sectors are typically linked to more particular interests; these include Intelec and Insitec (which are directly or indirectly associated with the Guebuza family and have interests spanning infrastructure, construction, energy, banking, and real estate), and Whatana (associated with Graça Machel's family).[68] Equity and services deals sometimes accommodate a range of Frelimo players, but competition among businesses associated with different Frelimo factions and regional interests is set to grow.

There are already signs that various Frelimo factions are unhappy with the current distribution of political and commercial power. For example, influential players in Cabo Delgado want to see 'northern interests' benefit predominately from the resource boom. Cabo Delgado em Movimento, an

---

[65] Anne Fruhauf (2013) "Mozambique Update: Presidential succession signals political, policy continuity", Teneo Intelligence, New York, 13 December 2013.

[66] North, D.C., Wallis, J.J., Webb, S.B., and Weingast, P.R. (2012) "*In the Shadow of Violence: Politics, Economics, and the Problems of Development*," Cambridge: Cambridge University Press, sets out this theory of violent pluralism (cited in Karl von Holdt, 'South Africa: the transition to violent democracy', *Review of African Political Economy*, 2013, Vol. 40, No. 138, 589–604, <http://dx.doi.org/10.1080/03056244.2013.854040>).

[67] Ibid.

[68] The Centro de Integridade Publica (CIP) maintains a database of commercial interests: <www.cip.org.mz/cipsrcdb/index.asp?src=srca>.

association led by the prominent parliamentarian Mateus Kathupa and backed by Chipande, has been formed to ensure regional interests are realized, via an investment arm, CD-Investimento.[69] Among these northern interests, Quionga Energia and Epsilon Investimentos, which are led by Abdul Carimo Issa and Abdul Magid Osman, are looking to carve out contracts in the energy sector.[70] Quionga, formed in 2013, is associated with Chipande and Pachinuapa.[71] Epsilon owner Osman is a member of the board of Portugal's Galp, which has a 10 per cent interest in Eni's Offshore Area 4 concession. Eni in turn, is a shareholder in Galp.[72] Osman's connections could place Epsilon and Quionga in prime position to benefit from service and other contracts. The interests behind transactions can be difficult to establish, but factional and regional competition around commercial opportunities in the energy sector appear set to intensify.

It is difficult to predict which balance of regional and commercial interests will prevail, but it seem clear that intra-elite competition for economic resources will rise. This may well fuel political grievances and regional tensions, though a rise in outright separatist tendencies (as has been the case on the Kenyan coast) is not yet on the horizon. Much will depend on how the future Nyusi administration, which has strong ties to Cabo Delgado, balances competing interests.

More broadly, factional fighting involving the Chissano and Machel constituencies may mount a challenge to Frelimo's leadership, perhaps as early as the next party congress, due in 2017. While these Frelimo wings currently seem to have been the big losers of the CC's presidential nomination, their incentive to challenge the party leadership will only increase if political and economic exclusion intensifies. Future transitions in power may therefore not be as smooth, and internal power purges may change key decision-makers and attitudes to specific investment projects, especially if certain investment decisions are viewed as being the pet projects of an outgoing politician. This will make it harder to sustain political backing for projects over the long term. The other potential outcome of infighting could entail an even broader political realignment, namely the formation of a breakaway party, which could drastically change the electoral outlook for Frelimo in the long run.

Institutions – under strain

While political battles will pose the long-term headline risk for investors, including those in LNG ventures, institutional deficits pose the greatest challenge for near-term decision-making. Virtually all institutions involved in the decision-making and licensing process are under strain because of the risk of being overwhelmed by the sheer magnitude of the simultaneous coal and natural gas boom in

---

[69] Nacuo, Pedro (2013) "Naturais e amigos querem papel activo no desenvolvimento", *Noticias*, 28 September 2013, <www.jornalnoticias.co.mz/index.php/provincia-em-foco/3625-cabo-delgado-naturais-e-amigos-querem-papel-activo-no-desenvolvimento>.

[70] Africa Confidential (2013) "The Quionga Network", Vol 54, No.8, London.

[71] Ibid.

[72] Ibid.

Mozambique. The key institutions include: the Ministry of Mineral Resources (MIREM); the regulator, the National Petroleum Institute (INP); the Ministry of Finance; the Revenue Authority (AT); the Ministry for the Coordination of Environmental Action (MICOA); together with ministries such as transport, energy, economic planning and development, and commerce and industry – as well as state-owned enterprises such as the national oil company ENH.

This strain can be the result of both staff shortages and a lack of specialist skills. MICOA, for example, faces challenges on all sides: processing environmental licences (given a high volume of applications from mining, oil and gas, and infrastructure projects); ensuring the quality of environmental impact assessments; securing compliance with the approved environmental management plans; and dealing with the lack of transparency and follow-up post-licensing.[73] Capacity challenges are similarly problematic at the INP, the industry regulator. The INP views itself as a one-stop-shop for hydrocarbons companies. But the INP is increasingly overwhelmed by the gas boom and the sheer level of investor interest. A senior INP official stated that he had 50 staff when he really needed 200 to deal with the current natural gas boom.[74] He may well be right in terms of numbers, but the depth of professional experience is also crucial. Inexperienced young law graduates may understandably struggle to handle negotiations with teams of IOC lawyers with years of commercial and industry experience.

Another challenge is presented by the existence of differing agendas regarding the implementation of the development options outlined in the natural gas master plan (GMP) – for instance regarding the development of mid- and downstream industries. Facing a lack of economic data on which to base decisions, these differences are hard to mediate. Finance Minister Manuel Chang, for example, has been grappling with a broad set of challenges: fiscal spending ahead of elections, debt and revenue management, infrastructure financing, the implementation of Public Private Partnership (PPP) legislation, and pressure to renegotiate large investment projects, to name but a few. Rarely have policymakers had to take so many strategic decisions at once.

State-owned enterprises

Given that it has a right to an equity stake in all oil and gas ventures in Mozambique, the principal local partner for IOCs is national oil company ENH (which has two subsidiaries, the Mozambique Hydrocarbon Company (CMH) and the Mozambique Gas Pipeline Company (CMG)). ENH has the right to exercise ownership options at a level of anywhere between 5–25 per cent, but in the Rovuma basin ventures its participation is typically around 10–15 per cent in the concessions operated by

[73] Nazerali, S. (2014) 'Improving the Quality, Capacity and Compliance of Environmental Licensing Processes in Mozambique: The Case of the Oil and Gas Industry', SAIIA Occasional Paper No 178, Johannesburg.
[74] Interview with INP staff, Maputo, April 2013.

Anadarko, Eni, Statoil, and Petronas. The state holdings company IGEPE, which holds a 20 per cent stake in CMH and CMG, is influential but features mostly behind the scenes.

The transformation facing ENH presents major challenges in a number of areas: strategic, technical capacity, and financing. ENH CEO Nelson Ocuane harbours strong ambitions to build the NOC into a large enterprise by booking significant reserves and building an operational capacity. He would like to increase ENH's participation in ventures to a level of up to 40 per cent and even envisages ENH operating its own blocks.[75] Yet the massive financing requirements associated with monetizing the Rovuma resources may ultimately pull ENH in the opposite direction. The company has been advised to consider scaling back its equity participation in the Rovuma ventures, given the massive capital that it would need to raise to finance its participation under 'partial carry' provisions in current exploration and production concession contracts (EPCCs). While politically unpopular, the financial burden associated with the development phase could nonetheless force ENH in that direction. A full-scale farm-out, however, would be very unlikely and politically unpalatable, both to the ENH leadership and to the cabinet, as officials are keen to use some of the gas allocations that Mozambique would receive as a partner for domestic industrial projects.

There is also a danger that ENH will overreach itself. Rather than focusing purely on its equity participation in the Rovuma ventures, the NOC created a new subsidiary – ENH Logistics – in 2012 in order to position itself for participation in a broad range of supply chain services and products. The initiative seems to have top-level political backing, from the presidency and Minister of Industry and Commerce Armando Inroga, but industry advisers to government fear that this will unnecessarily distract ENH from its core business interests (such as financing its participation in the upstream concessions) and that any lack of capacity to deliver the services it plans to provide could have practical implications for the timelines of the Rovuma projects.[76]

The state-owned ports and railway company CFM also presents an operational risk to the Rovuma ventures. It has a right to participate in developments related to port infrastructure, including port facilities at Pemba and Palma, and is collaborating with ENH in the joint development of these areas. To this effect, ENH and CFM formed the Ports of Cabo Delgado Company (PCD), in which the two entities each own a 50 per cent shareholding.[77] In January 2014, the government and PCD signed a 30-year agreement to lease the proposed port terminals at Pemba and Palma that are intended to

---

[75] Mapote, W. and Flak, A. (2012) "Mozambique seeks greater share in future gas blocks", Reuters, Maputo <www.reuters.com/article/2012/04/25/mozambique-gas-stakes-idUSL6E8FPET820120425>.
[76] Interview with senior World Bank official, August 2013.
[77] AIM (2014) "Lease contract for Cabo Delgado ports signed", published in AllAfrica, 23 January 2014, <http://allafrica.com/stories/201401230534.html>.

support the natural gas industry.[78] Given CFM's track record in relation to coal infrastructure in the Nacala corridor, where progress has been slow, some industry insiders have expressed concern over whether CFM's role in infrastructure development could present obstacles for the Rovuma projects.[79] PCD's chairperson John Kachamila has already acknowledged that PCD is 'behind schedule', saying that Anadarko

> … is very advanced with its project and wants to start building the LNG plant in 2015. We have to start before they begin building their infrastructures.[80]

However, an apparent priority to create business opportunities for Mozambican enterprises could pose real challenges to PCD's ability to deliver basic infrastructure in a timely manner.

Overseas donors: "from aid dependence to mineral dependence"[81]

Another major change lurks in the arena of overseas aid, where cutbacks could increase the Mozambique government's fiscal demands on its extractives industry. Even if the true size and impact of the country's resource boom is still uncertain, Maputo's aid community has already begun to prepare for a time when the country will graduate from aid to resource dependence. Overseas development assistance (ODA) has been fairly constant in absolute terms, at around US$2 billion (of which about US$1.6 billion is channelled to the government[82]), but higher internal revenue mobilization has led to a fall in ODA as a proportion of the state budget, from over 50 per cent in 2002 to around 34 per cent in 2012.[83] As outlined above, regular revenue from LNG production is unlikely to rival these sums in the near term, but capital gains tax payments on M&A transactions in the Rovuma basin have already generated substantial, albeit one-off, payments to the state. For example, the Tax Authority (AT) says that it has collected a total of US$1.3 billion in capital gains taxes from the Rovuma transactions over the last two years and expects to tax seven more transactions with an estimated revenue of US$1 billion in 2014.[84] By comparison, total budget support from the G19 donors stood at US$423 million for the year of 2013, and at US$705 million if one adds in the sector support (in other words, aid disbursed outside of the budget). Given the large contribution of aid to government finances (still around 33 per cent), any drastic change in aid flows could prompt the government to attempt to extract more from minerals projects.

No reliable long-term ODA projections currently exist, but the combination of the anticipated boom and growing misgivings over governance issues among G19 donors mean that ODA is unlikely to

---

[78] Ibid.

[79] Interviews with industry observers, March–October 2013.

[80] AIM: 'Lease contract for Cabo Delgado ports signed', published on AllAfrica, 23 January 2014, http://allafrica.com/stories/201401230534.html.

[81] Hanlon, J. (ed) (2013) "Mozambique Political Process Bulletin" Issue 53, Maputo, http://www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/files/Mozambique_Bulletin_53_coal-gas.pdf.

[82] OECD-DAC Monitoring Survey 2011; IMF Country Report No. 13/1.

[83] Donor Budget Execution Report, 2012.

[84] Hanlon, J. (ed) (2014) "Mozambique News reports & clippings" 248, 2 April 2014, p.2

increase. Many G19 members are re-evaluating their commitment to General Budget Support (GBS) due to a series of governance concerns. These concerns range from a 2013 government-backed US$850 million bond for a hastily created, untested tuna fishing company EMATUM,[85] to alleged fraud in the education, health, and agriculture sectors, disappointment with household survey results, and concerns over the future of the PARP.[86] However, given the vested interests that many bilateral donors have – both in development programmes and the investment scramble – a sudden, drastic reduction in aid still seems unlikely. Rather, donors may increasingly switch from direct GBS to sector support, while overall development support may switch increasingly from grants to concessional loans. There is a slight risk of an aid gap if natural resource revenue grows more slowly than expected or if G19 donors (individually or collectively) feel forced to scale back ODA suddenly due to a growing number of governance concerns, creating a fiscal gap for government in the interim years. According to IMF sources, a fiscal gap could arise between now and 2018, before LNG revenue comes online.[87] What is certain is that as coal and gas revenues come on stream, aid will be scaled back, dramatically altering the role and influence of donor institutions.

For its part, Mozambique's government seems keen to reduce its dependence on donors, especially from the G19, and thus limit their tendency to interfere in the country's 'sovereignty'. As such, it has an interest in expediting extractive industry development and in fostering closer trade, investment, and financing ties with the BRICS nations and other emerging markets. To some extent, government thinking around LNG development will also be guided by regional and international interests. The Southern African Development Community (SADC) – while often slow and ineffective – has made strides to improve regional trade and economic integration. Mozambique's most notable infrastructure and trade integration to date has been with South Africa, exemplified by a significant number of cross-border industrial and infrastructure projects, increased South African trade via Maputo port, and electricity exports.

A clear reorientation towards emerging market partners could give Mozambique room to restrict the role of traditional donors and to assert greater government ownership of the development agenda. Government officials have long complained of excessive control and scrutiny by international donors; the expected revenues from the resource boom (as well as the increasing ties with China and other BRICS countries) will change official attitudes. One of the results of this may be a shift in social policy. As the government shifts from high aid dependence towards greater freedom to determine its own

[85] The Economist (2013) "Fishy tale", Maputo, 23 November 2013, <www.economist.com/news/finance-and-economics/21590594-story-dollar-bond-issue-mozambique-parable-easy-money-fishy>.
[86] Based on conversations with donor sources and *Africa Confidential* (2014) "Donors up in arms", Vol 55, No.3, 7 February 2014, London.
[87] IMF sources, September 2013.

priorities, it may shift spending away from the social sectors towards investments in productive sectors and infrastructure.

Technical assistance

Perhaps few other emerging markets have as much international advice at their disposal as Mozambique, together with the potential to apply lessons learnt from other resource-rich nations. To some extent, Mozambique has welcomed external support for institutional capacity building in the extractive industry, perhaps more so than Tanzania.[88] The World Bank, the IMF, Norway, and some other G19 donors are providing detailed support on revenue management, legislative reform, and overall economic planning around the resource boom. This includes everything from legal and negotiations support, to policy advice, economic planning, fiscal regimes, statistical analysis, environmental licensing, tax auditing, and capacity building for parliament on resource governance.[89]

The draft GMP, which was developed by consultancy ICF International and financed by the World Bank, is a case in point. The World Bank has long provided detailed support on infrastructure and other aspects of economic planning, while the IMF has collaborated closely with the Finance Ministry in public finance management and taxation, including the creation of the AT. The G19 donors, for their part, have developed an Extractive Industries Task force to ensure coordination of donor support, while Norway in particular has long provided detailed advice to MIREM on minerals policy.

Yet, it is probably unrealistic to expect external support to bridge all institutional gaps, for two reasons. The first relates to capacity. As Sheila Khama points out: 'The advice you receive is only as good as the questions you ask'.[90] Equipped with limited data and little industry expertise, assessing international advice, which is often contradictory, is no mean feat. The second challenge is political: as the relative financial clout of Western donors wanes and Mozambique's government seeks to overcome its dependence on aid, a rebalancing of donor influence is on the horizon. While external consultants and advisers will be used for technical advice, their influence over policy outcomes and implementation will probably decline, in conjunction with the rise of emerging market powers which provide growing opportunities in terms of FDI, trade, and concessional financing (including for large-scale infrastructure). This is highlighted by trends in concessional financing, particularly from emerging market partners, which is expected to rise steeply, while grants (primarily ODA) are projected to decline over the next couple of decades.[91]

---

[88] Interview with IFI official, Washington DC, August 2013.
[89] Source: G19 donor.
[90] Comment by Sheila Khama, Director, African Center for Natural Resources; African Development Bank Group, Cape Town, February 2014.
[91] Discussion with IMF staff, Maputo, 2013.

Conclusion

The big political picture – especially the transition from a Guebuza to a Nyusi presidency – will offer enough political continuity to enable project approvals for the Rovuma LNG ventures and basic policy decisions. The current elite consensus also poses limited risks to contract stability and other drastic policy changes.

However, longer-term, factional competition may lead to a shift in the balance of power. Since at least some of the factional dynamics are driven by commercial interests, lucrative deals may fuel regional divisions and will also encourage a trend towards tighter local content policies, especially in the area of services and procurement contracts. It may also drive the application of existing provisions – for example the yet to be implemented public listings on the Maputo Stock Exchange and participation of local investors under the Public Private Partnership (PPP) Law.

From the perspective of the project developers, the concern is not the prospect of local participation or state participation per se. Rather, the viability of projects demands that any commercial partners have sufficient financial and operational capacity to deliver into the developers' supply chains. Failure to deliver – or to finance ENH's participation in development costs – could mean real project delays and cost challenges.

Finally, an underlying shift in key external stakeholders will drive a shift from aid to resource dependence, and towards emerging market partners. The consequences for Mozambique's natural gas sector are varied. On the one hand, a gradual reduction in aid (amid rising spending needs) may increase the fiscal needs of the state before projects begin to generate significant tax revenue. At the more technical level, the role of Western policy advice around resource governance may decline, giving the G19 donors fewer opportunities to impart advice and to scrutinize resource governance.

THE EVOLVING OIL AND GAS POLICY REGIME

The hydrocarbons regime in Mozambique has evolved significantly over the past decade, putting it somewhat ahead of East Africa's energy frontiers such as Tanzania, and certainly Kenya, whose petroleum legislation dates back to 1986. Mozambique's 2001 Petroleum Law and model Exploration and Production Concession Contract (EPCC) provided the initial foundation for exploration and development efforts by Sasol and later the Rovuma ventures, but the massive natural gas discoveries and the prospect of developing large-scale LNG facilities require further legislative updates. For example, the original EPCC did not foresee extensive LNG development,[92] the terms of which need to be codified in order to provide certainty for developers like Anadarko and Eni. The Petroleum Law and petroleum fiscal terms are thus undergoing review and will, together with other factors, establish the concepts for a Facilities Concession Contract for LNG projects.[93]

Key legislation

- Petroleum Law 3/2001
- Regulation of Petroleum Operations Decree 24/2004
- Model Exploration and Production Concession Contract 2005
- Fiscal Law for Petroleum Activities 2/2007
- Fiscal Incentives Law 13/2007
- Regulation on Petroleum Production Tax (Decree 4/2008)
- Strategy for Development of a Natural Gas Market in Mozambique (Regulation 64/2009)
- Environmental Regulations for Petroleum Operations (Decree 56/2010)
- Law on Public–Private Partnerships, Large Scale Projects, and Business Concessions (2011)

Draft legislation has been under preparation for a couple of years, but its passage through parliament has been delayed. The government now plans to pass all proposed minerals legislation (both petroleum/natural gas and mining bills) in parliament's first session of 2014, but delays are possible given the electoral calendar.

A broader framework for the development of the industry will be provided by the Natural Gas Master Plan, but technically this has yet to be finalized. The drafts to date – prepared by external consultancy ICF International and financed by the World Bank – have focused on establishing priorities and decision-making hierarchies.[94] Given the many uncertainties surrounding the planning process and development of a domestic gas market, it would still be premature to clarify the balance between an LNG export driven approach and one focusing on domestic industrial demand. The World Bank and ICF International have recommended that LNG export infrastructure be prioritized. MIREM and the INP, and key officials such as Bias and Chilenge, appear broadly on board with this approach, though

[92] CIP (2013) "Implications of the 2006 Contracts for Government Income", CIP, No 07/2013, Maputo.
[93] Ibid.
[94] ICF International (2013) "Towards a Natural Gas Master Plan in Mozambique", Presentation, 20 February 2013.

in the long run they would like to see much more broad-based development – an agenda also pushed by ENH and the Ministry of Commerce and Trade. The result may be a final document that does not provide much clarity beyond the options laid out in current plans, including a series of infrastructure and downstream options. Many crucial issues such as pricing or any future domestic market obligations are yet to be resolved.

Petroleum Legislation

Both the 2001 Petroleum Law and the Fiscal Law for Petroleum Activities are undergoing revision. The same is intended for the fiscal legislation, but the draft law is at an earlier stage of the review process and delays could mean that the bills will not be enacted before 2015.The principal aim of the amendments is to provide for the development phase of the fledgling oil and gas projects by including provisions around infrastructure. Changes focus on: provisions for new facility concession contracts and facilities development plans for LNG; a tightened local registration requirement; a tightened requirement for government approval in the transfer of all petroleum rights; provisions for preferential procurement of local goods and services; and provisions for a share of government revenue from production to go to producing communities.[95] Given that the new law is relatively short, subsidiary regulations – which technically have to be released within 180 days of the promulgation of the law – will be crucial from an industry perspective.

Table 3 provides a summary of the key taxes for the extractives sector, based on the laws currently in force (including personal income tax, corporate income tax, royalties, and profit sharing arrangements).

[95] CIP (2013) "Comments on Draft Fiscal Laws on Petroleum and Minerals" No.10-2013, Maputo.

Table 3: Tax instruments applied to oil and gas sector in Mozambique

Tax	Comments
Individual income tax (IRPS)	IRPS is paid on salaries of employees and is graduated at 10%, 15%, 20%, 25% up to 32%
Corporate income tax (IRPC)	IRPC is paid on profits realized by a company at 32%. The draft petroleum fiscal legislation retains the same rate, while the 2006 EPCC contracts (for Anadarko, Eni, and Statoil, but not Petronas) specify a 24% rate for the first 8 years of production, thereafter rising to the standard 32% rate.
Royalties	Royalties for natural gas are 6% (compared with 3% for coal, 5% for base minerals, and 10% for precious metals) on the sales value of production/extraction.[96] However, the 2006 EPCCs (of Anadarko and Eni) stipulate a lower royalty rate, of 2%.[97]
R-Factor: Excess profit sharing mechanism	Fixed R-factor provisions are not provided for under 2001 petroleum fiscal legislation, but the IMF has pushed for the introduction of an excess profit-sharing mechanism as part of the update to the fiscal regime. It is currently applied to the EPCCs in the gas sector, on a negotiated basis. As a result, the 2006 terms for Anadarko and Eni vary slightly; at R less than 1, their quotas are 90% and 85%, respectively, dropping to 40% and 45% at R greater than 4.
Production bonuses	Draft legislation envisages production bonuses as follows: at the commencement of Initial Commercial Production: \$5 million; when production in the contract area reaches a daily average of 25,000 BOE: US\$10 million; each time that production in the contract area reaches an additional average tranche of 25,000 BOE per day: \$20 million.[98] However, different rates apply for the start of production in the existing EPCCs: \$5 million for Anadarko; \$1 million for Eni; and \$200,000 for Petronas and Statoil.
Capital Gains Tax	There has been some debate over the applicability of capital gains taxes to M&A transactions in the oil and gas and mining sectors based on the IRPS and IRPC codes, particularly in relation to offshore transactions and indirect disposals. A tax law amendment passed by parliament in 2012 came into force on 1 January 2014, imposing a fixed 32% rate on capital gains realized by companies.[99]

Source: Author's interpretation of existing tax legislation

Offsetting the tax burden are a number of tax incentives, which include provisions for accelerated depreciation of assets and loss carry forward. Accelerated depreciation – 25 per cent – allows for capital assets to be depreciated over only four years, significantly reducing tax liabilities for the early years. The state currently sets a five-year time limit on carry forward of losses, which is in line with

[96] "Government revenue from royalty payments and profit share gas will be calculated on the value of the gas as it enters the LNG plant which will be calculated by taking the final sale price and subtracting the cost of processing and shipping." CIP (2013) "Implications of the 2006 Contracts for Government Income", CIP, No 07/2013, Maputo.
[97] Ibid.
[98] Westin, R. (2013) "Mozambique Draft Oil and Gas Tax Law Comments"; Confederation of Mozambican Business Associations (CTA); Maputo, June 2013, p.32.
[99] Mucari, M. (2013) "Mozambique to tax capital gains at fixed 32 pct rate from 2014", Reuters, Maputo, 29 August 2013, <www.reuters.com/article/2013/08/29/mozambique-taxes-idUSL6N0GU2AX20130829>.

international norms of around 5–10 years. The new law is expected to increase the maximum time limit to 10 years.

For developers like Anadarko and Eni the focus will be on ensuring the perpetuity of their current terms through the project lifecycle, potentially through additional legislation, even though the new legislation is not intended to be retroactive.

Any new acreage or concessionaires, meanwhile, would be subject to the terms of the forthcoming legislation. A response commissioned by business federation CTA, criticized the complexity of the draft law and recommended streamlining.[100] The federation's principal concerns are that a more complex royalty regime (Petroleum Production Tax (IPP)) would imply difficult valuations of production instead of using actual sales prices. It also warned that under the new provisions, high-cost production could incur tax rates in excess of 100 per cent of revenues under the proposed R-factor provisions,[101] which would be considerably less favourable to the oil and gas companies than the terms stipulated in the EPCCs of Anadarko and Eni. It also recommended that the government's authority in intercompany pricing rules be clarified. Other items – including income tax, withholding tax, and production-sharing provision – were considered largely within international norms.[102]

Table 4: Proposed R-Factor

R Factor	Government quota	Concessionaire quota
<1	10%	90%
≥1 < 1.5	20%	80%
≥1.5 <2	30%	70%
≥2 <2.5	50%	50%
≥2.5	60%	40%

Source: Draft tax legislation[103]

Capital gains taxes

To date, one of the thorniest issues has been Mozambique's capital gains tax provisions. A flurry of farm-out agreements around the Rovuma basin have raised the stakes in this debate, not least because this represents the most significant tax revenue that the government will receive from the Rovuma projects for some time to come. Starting with the 2012 Cove Energy farm-out deal, M&A activity around the Rovuma basin has surged and – based on transaction taxes reported since then –

[100] Westin, R., 'Mozambique Draft Oil and Gas Tax Law Comments'; Confederation of Mozambican Business Associations (CTA), June 2013.
[101] Ibid.
[102] Ibid.
[103] Ibid., p.31

government revenue from capital gains taxes has surged, likely surpassing both regular tax income from the extractive industry and annual ODA in 2013.

One of the problems has been the difficulty faced by the government in applying its capital gains provisions to offshore transactions and indirect disposals. The proposed tightening of local registration requirements and the transfer of petroleum rights in the petroleum law amendments seeks to strengthen the government's demands in that regard. The specific rates may not be written into the new petroleum bills, but a tax law amendment establishing a fixed rate of 32 per cent came into effect on 1 January 2014, after more than a year's delay.[104]

In the interim, capital gains have been a political reality, even if the legal case for such levies was unclear. The government's ability to withhold approvals for licence transfers gives it some bargaining power vis-à-vis companies. In Maputo circles, a 2011 $3.7 billion coal acquisition by Australian miner Rio Tinto,[105] which took place offshore and of which officials heard from the press, is widely considered to have triggered official concerns around capital gains taxes. Every Rovuma M&A transaction reported between 2012 and 2013 entailed a capital gains tax payment, notwithstanding legal uncertainty. While the 2012 Cove Energy transaction amounted to a 12.8 per cent levy (on the overall transaction value), the finance ministry and AT have sought to demonstrate that a 32 per cent rate was applied on a portion of each transaction. For example, Eni's US$4.2 billion deal with CNPC resulted in a payment of US$400 million, plus an additional pledge to build a power plant worth US$130 million.[106] While Reuters reported that the rate should have been as high as US$1.35 billion if the 32 per cent rate had been applied, such reporting has been somewhat misleading because it calculated on the basis of the entire transaction value rather than the capital gain portion. The AT subsequently released a breakdown to demonstrate that a 32 per cent rate had been applied on a share of the transaction based on the length of the time the asset was held.

With many details of the Rovuma contracts already disclosed, the capital gains tax payments have represented the least transparent aspect of the tax regime. But what seems clear is that the AT – backed by MIREM and the INP – is not willing to lose out on such taxes. Officials could use their power to withhold approval for the transfer of rights as leverage, or indeed in discussions relating to approvals for project plans – especially infrastructure – further down the line. While a tax dispute between operators and the state would seem possible in such an environment, it seems that the vast

[104] Mucari, M. (2013) "Mozambique to tax capital gains at fixed 32 pct rate from 2014", Reuters, Maputo, 29 August 2013, <www.reuters.com/article/2013/08/29/mozambique-taxes-idUSL6N0GU2AX20130829.

[105] Tan, G. and MacDonald, A. (2013) "Rio Tinto Considers Sale of Mozambique Coal Unit", *Wall Street Journal*, 25 June 2013, <http://online.wsj.com/news/articles/SB10001424127887323683504578567441302230314>.

[106] Eni (2013) "Eni completes sale of 28.57% of Eni East Africa'share to CNPC", Eni Press Release, 26 July 2013, <www.eni.com/en_IT/media/press-releases/2013/07/2013-07-24-completes-area-mozambico.shtml>.

majority of companies has already accepted that a capital gains tax deal will form part of transactions, even if they involve entities registered offshore. The imposition of the 32 per cent fixed rate tax, while higher than elsewhere in East Africa, removes at least some room for ambiguity regarding the payments.

Contract security

On top of legislative changes, a debate is emerging around the terms of Mozambique's early 'mega-projects', including BHP Billiton's Mozal smelter and Sasol's gas operations.[107] Questions are being asked over whether the terms granted to early-stage investors were too generous or, at least, whether the time has now come to reduce fiscal exemptions for existing mega-projects (possibly via contract renegotiations or by curtailing incentives for new contracts). This debate has primarily been led by bodies outside government (such as the Centre for Public Integrity (CIP) and the Institute for Social and Economic Research (IESE)) but political party members are also keen to secure opportunities for participation by local companies and ENH. The Ministry of Finance has considered the issue and could identify contracts for review, but it is not clear to what extent changes are on the cards. While the unprecedented investor attention that Mozambique is attracting could bolster official confidence to review contracts, officials in Maputo still seem keen to protect the pro-investment reputation that they have so carefully cultivated since the 1990s.

A more likely outcome is that benefits for future contracts will be reduced, as government works with various international agencies (in particular the IMF) to increase its capacity to assess implications of contracts and to hold contract negotiations. Former Vice-Minister for Mineral Resources Abdul Razak Noormahomed[108] has pointed out that following the 2006 contracts, a number of changes were made to taxes for subsequent contracts, suggesting that the government will prefer not to renegotiate existing contracts but to improve future ones in its favour.[109] Moreover, the price upon which the government's revenue will be calculated has not yet been defined for existing contracts. As a result, the government may find it more convenient to negotiate a favourable price than to renegotiate existing contracts, especially since Sasol contracts are increasingly being criticized in the local media for providing little government revenue – not so much because of tax breaks but because of price agreements.

In January 2014, MIREM made public the principal Rovuma EPCCs. While this was largely spurred by civil society pressure, it will give the government an added incentive not to effect drastic changes to the existing contracts, now that they are public. The very fact that the contracts were released is

---

[107] See various CIP reports: www.cip.org.mz/.

[108] Noormahomed was appointed governor of Cabo Delgado province in March 2014; AIM (2014) "Mozambique: Frelimo Candidate Relieved of Government Duties," AllAfrica, http://allafrica.com/stories/201403150031.html.

[109] Musilli, P. (2013) "Extractive industry: The goal is to give an edge to Mozambicans – Noormahomed", The Africa Report, <www.theafricareport.com/Interview/extractive-industry-the-goal-is-to-give-an-edge-to-mozambicans-noormahomed.html>.

another reason why Mozambique will likely be somewhat less opaque in the application of its policy regime and contract terms than Angola.

OPERATIONAL CHALLENGES FOR PROJECT DEVELOPERS

Beyond top-level politics, national priorities, vested interests, and the policy regime, there are many practical risks on the ground that could affect the prospects of the Rovuma LNG ventures. These can be difficult to quantify in companies' business plans, but they pose real risks to project timeframes and profitability, and to corporate reputations. This section reviews the most critical operational concerns affecting the Rovuma ventures: transparency and corruption risks; infrastructure deficits; challenges facing the domestic energy sector; labour challenges (skills shortages, labour regulations and their implementation); and social risk (unrest and social licence).

Transparency and corruption: 'Angola lite'?

A resource boom on the scale of Mozambique's – generating sudden large inflows of FDI, difficult to track transactions, and one-off payments such as capital gains taxes – justifiably generates concerns around transparency. Corruption is a serious and pervasive phenomenon, but aid partners interviewed were generally in agreement that they expect Mozambique to become an 'Angola lite'.[110] Political and commercial interests are just a little more broadly distributed and 'everything moves more slowly'. While weak institutions and a weak judiciary pose obstacles, Mozambique has some basic foundations that should put it slightly ahead of Angola in terms of transparency.

The overall extent of corruption in Mozambique is comparable with that in other East African countries. Most Mozambicans experience corruption, particularly in public services and especially at the hands of the police.[111] In terms of perception, Mozambique ranks 119th out of 177 countries in Transparency Internationals' 2013 Corruption Perceptions Index (CPI).[112] To date, Mozambique has comfortably outranked Angola.

---

[110] Interview with aid economist Jim La Fleur, Maputo, April 2013.

[111] Transparency International (2011) "Daily Lives and Corruption: Public Opinion in Southern Africa", <www.transparency.org/files/content/pressrelease/20111122_TI-S_Southern_Africa_EN.pdf>. In 2011, TI's survey of public opinion on corruption in Southern Africa highlighted that Mozambicans reported the highest incidence of bribery in the region, with 68% of respondents reporting having paid a bribe in the previous year; 48% having bribed the police; and 35% having paid a bribe for education services. The police – especially traffic police – are publicly seen as particularly corrupt and traffic officers seem to target expatriate residents in particular, in Maputo.

[112] Transparency International (2014) 'Corruption Perceptions Index 2013', <http://cpi.transparency.org/cpi2013/results/>. Mozambique's CPI score is 30 on a scale of 0–100, where 0 indicates that a country is perceived as highly corrupt and 100 as very clean.

Table 5: CPI figures for East African countries

Country	CPI ranking	CPI score
Tanzania	111	33
Mozambique	**119**	**30**
Kenya	136	27
Angola	153	23

Source: Transparency International, 2013[113]

Key gas-related transactions have generally been above-board, especially licensing. Four successive oil licensing rounds have been competitive and well managed. There have been no allegations of corruption regarding any of the INP-administered rounds and a competitive bid system is likely to be maintained under the new petroleum legislation.

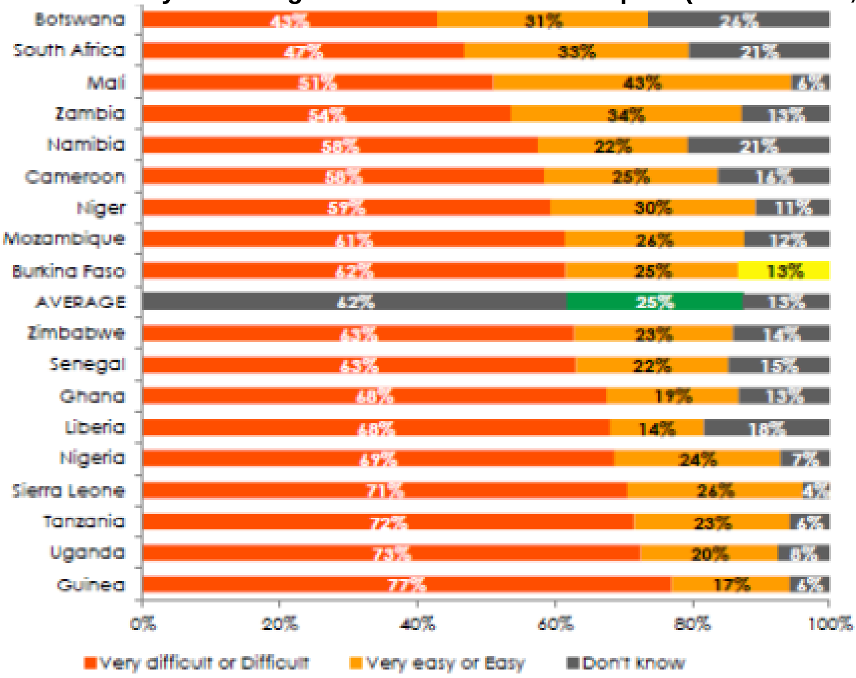
In terms of the Extractive Industry Transparency Initiative (EITI), Mozambique's infant natural gas sector already seems somewhat ahead of Angola's. Unlike sub-Saharan Africa's second-largest oil producer, Mozambique has already sought membership of the EITI (with nudging from the G19 donors) and was accepted as an EITI compliant country in 2012. Mozambique's third EITI Report,[114] launched in December 2012 (and covering the period of 2010), revealed that the government received a total of just under US$65 million from the extractives sector in 2010 of which 70 per cent was from hydrocarbons, up from the US$40 million it had received from the extractives sector in 2009. Anadarko accounted for over 40 per cent of all payments from the extractive industry in 2010 (US$26m), compared with the largest payment declared by a mining company from Vale-Mozambique worth US$9m.[115] While the EITI review generated some civil society concern over the amount of revenue paid by extractives companies, the accounts of both the companies and the government generally added up. There was less than 1 per cent discrepancy between what the government said that it received and the figure that companies said they had paid. This puts Mozambique well ahead of Angola, which has consistently refused to join the EITI and has threatened companies not to disclose tax payments voluntarily.

However, local civil society organizations – rightly so – have serious reservations about transparency in the sector and revenue administration in particular, arguing that certain revenues (such as capital gain tax payments and social fund contributions) are not accounted for under the EITI process and that these are sometimes administered by inappropriate authorities (such as the INP administering payments towards social and community funds[116]). According to a 2013 survey of resource-

[113] Ibid.
[114] 'Mozambique: Extractive Industries', EITI report, http://eiti.org/Mozambique.
[115] Ibid.
[116] Interview with civil society member, Maputo, April 2013.

dependent countries, 61 per cent of Mozambicans believe it is ‘Very difficult or Difficult’ to find out how the government spends tax revenue.

Figure 6: Ease or difficulty in finding out how tax revenue is spent (18 countries, 2011–13)



Participants were asked ‘based on your experience, how easy or difficult is it to find out how government uses the revenues from people’s taxes and fees?’
Source: AfroBarometer[117]

In addition to demanding full disclosure of EPCC contracts – a demand to which MIREM gave in when it published the four key Rovuma contracts in January 2014 – organizations such as the CIP have demanded an ‘EITI Plus’ regime of enhanced disclosure, with good reason.

There are many areas in which corruption and conflicts of interest could impinge on natural gas projects. For example, while many top officials responsible for the petroleum sector operate above-board and make a point of doing so, accusations of corruption and influence-peddling are not uncommon, especially in relation to infrastructure and supply contracts, given the extent of commercial interests held by Frelimo government officials, MPs, and technocrats.[118] It is not clear to what extent the Public Probity Law, which took effect in November 2012, will eradicate this tendency. In theory, the legislation bars all holders of public office – from the president’s office down to the village chief – from receiving wages or fees from other public institutions or companies. As a result,

[117] Gyimah-Boadi, E., Armah-Attoh, D., Awal, M., and Luna J. (2013) ‘Oil and Mining Countries: Transparency low, official impunity high’, *Afrobarometer*, p.4.
[118] See Machel, M. “The business interests of public managers in the extractive industry”, CIP, Maputo, <www.cip.org.mz/cipdoc%5C130_Extractive%20industry%20conflicts%20of%20interest%20in%20Mozambique.pdf>.

about 30 Frelimo MPs have either given up their positions in companies owned (or part-owned) by the state or have resigned from the National Assembly. However, the most likely impact of the law will be that commercial interests of political and technocratic figures will become more concealed.[119] Even if top-level transactions such as bid-rounds are conducted above-board, corruption presents a considerable risk throughout the supply chain.

One such area is infrastructure. Much like elsewhere, the infrastructure sector seems particularly vulnerable to corruption. The first minister to be convicted of corruption, in 2010, was former transport minister Antonio Munguambe. His successor, Paulo Zucula, was replaced by Guebuza's nominee Gabriel Muthisse in 2013, supposedly as part of 'a normal rotation of cadres'[120] but rumours at the time suggested that Zucula had intended to issue a tender for an infrastructure project contrary to political pressure.[121] Major projects such as the dealings of CFM in the Nacala corridor are widely viewed with suspicion, even though corruption has never been proven.

The critical question is, of course, whether Mozambique's existing institutional foundations will be able to withstand the corrupting tendencies of the resource boom over the long run. A 2013 Afrobarometer survey of resource-dependent countries found that:

> … nearly four in 10 (37%) say most or all tax officials in oil and mineral states are corrupt compared with one in three (29%) in countries whose economies are less dependent on natural resources.[122]

Crucially, Mozambique has yet to finalize how it will manage revenue from its resource wealth. The GMP identifies several options for revenue management, including the creation of a sovereign wealth fund (SWF); the creation of a National Development Bank or Sovereign Development Fund (SDF); providing the finance for public private partnerships (PPPs); channelling funds into the private banking system; and even direct cash distribution to citizens.[123] The IMF has been providing advice to government on this topic, but the SWF option, for example, is no longer seen as a guarantee of preventing the ransacking of state funds for political purposes. While a SWF has some backers in the treasury, donors acknowledge that a savings-focused revenue management scheme along the lines of the Norway model would effectively transfer wealth from current generations to future generations, which would not be appropriate given Mozambique's poverty levels and development needs.

Instead, a public investment strategy – if properly assessed – could deliver higher developmental returns and Finance Minister Chang has indicated that extractive industry revenue could be used to

---

119 Interview with a top IFI official, May 2013.
120 AIM (2013) "Mozambique: Replacement of Transport Minister "Normal Rotation" ", AllAfrica, Maputo, http://allafrica.com/stories/201310010952.html.
121 Interview with a donor source, November 2013.
122 Gyimah-Boadi, E., Armah-Attoh, D., Awal, M., and Luna J. (2013) "Oil and Mining Countries: Transparency low, official impunity high", *Afrobarometer*, 11 December 2013, p.2.
123 ICF International (2012) "Natural Gas Master Plan for Mozambique", 26 August 2012.

finance broad infrastructure development,[124] coupled with limited increases in currently modest social protection schemes. These unresolved questions over future revenue management – and the robustness of institutions administering it – signal that it is far from certain whether Mozambique will be able to buck a trend towards opacity so typical of resource-dependent countries.

Infrastructure needs

Mozambique's infrastructure requirements are enormous and pose a significant hurdle for extractive industry projects. Simply put, everything is a priority – roads, rail, ports, electricity, and social infrastructure though the government – with support from the World Bank – has been relatively successful in using a 'corridor and special economic zones' approach to development. Top priority projects include the Cesul electricity transmission line (which would connect the south of Mozambique with northern provinces for the first time) and large power generation projects (such as the Mphanda Nkuwa dam); the Nacala railway line; an additional Moatize–Beira railway line and the Nacala deep water port terminal (crucial for coal exports from Tete province); and a Techobanine coal rail line and port (in the south).

Public investment in infrastructure has emerged as a political priority, evinced by a high rate of public investment (close to 15 per cent of GDP). In addition to traditional infrastructure financing from the World Bank and regional development banks, Mozambique is also securing a growing amount of non-concessional financing for infrastructure from emerging markets such as Brazil, China, and India.[125] The country's anticipated rise in borrowing raises some concerns over its public debt outlook. But in terms of project selection and execution, the government will clearly need to strengthen its capacity to evaluate economic profitability. The Ministry of Planning and Development is preparing an Integrated Investment Program that would provide a clear framework for appraising potential public investment projects.[126] However, it seems that such a plan is being pushed more by the international financial institutions (IFIs) and donors than by the government, which may be reluctant to commit to well-assessed infrastructure investments over what might be political priorities. For example, the decision to invest in the Catembe bridge linking Maputo with the southern bank of the river (currently accessible by ferry) could be mostly politically driven, as several senior party figures are rumoured to have made speculative property investments in Catembe.[127] Similarly, the government's 2013 international bond debut to the tune of US$850 million – which is to finance the tuna fishing fleet EMATUM and ancillary maritime and security infrastructure – may not have made the cut of priority projects had the Integrated Investment Program been in place. The risk of politicized decision-making

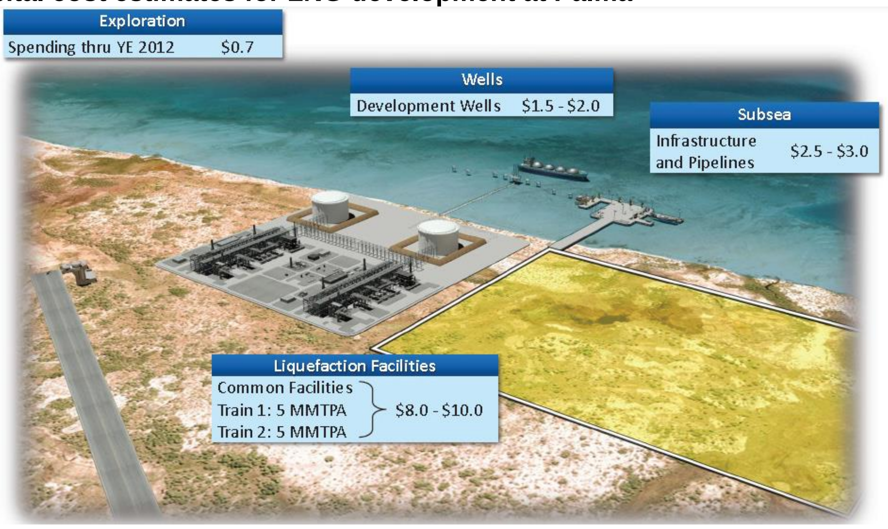
[124] Interview with donor source, 2013.
[125] IMF Country Report (Mozambique), July 2013, Overview of Concessional Loans contracted and in the pipeline, p.86.
[126] Ibid., p.12.
[127] Interviews with donor and local media sources, 2013.

is certain to persist and the question is perhaps: to what extent will political investment priorities be balanced with economically well founded projects?

In the case of the Rovuma basin, financing, planning, and execution of LNG facilities will largely be driven by the private developers, principally Anadarko and Eni. Current gas production infrastructure is limited to the southern half of the country, to Sasol's Pande/Temane production and the pipeline connecting to South Africa (which opened in 2004) with an off-take line to Matola/Maputo, plus some 225 km of distribution network operated by ENH in Inhambane for energy generation and domestic and commercial use.

Around the Rovuma basin sites in Cabo Delgado, there is zero baseline infrastructure to support gas production. The site for an LNG facility will be Palma, a district so remote and underdeveloped that 'terms like "the middle of nowhere" were invented for Palma'.[128] The LNG trains (up to 10 are planned) will be developed from scratch by Anadarko and Eni. Wood Mackenzie estimates that the first two LNG trains alone, which the government and Anadarko hope to have in place by 2018, will cost around US$25 billion, though plans for an offshore floating conversion plant may also be considered.

Figure 7: Capital cost estimates for LNG development at Palma



Source: Anadarko, Centro de Integridade Pública (CIP), Serviço de Partilha de Informação, Ed. 07/2013; values in billion US dollars.

Even ancillary infrastructure, such as the port at Pemba and Pemba airport, are tiny and will require large-scale investment. For example Pemba, the capital of Cabo Delgado Province, was only

[128] Interview with IFI adviser, August 2013.

connected to the national power grid in 2007. For this reason, most services are transacted in Maputo, roughly 2000 km south of Pemba. In the case of Rovuma, the government will not take the lead on LNG development, but government approvals, participation by state-owned enterprises (such as ENH and CFM), governance concerns, and a scramble by local businesses for project tenders, will all complicate project development. For example, the collaboration between ENH and CFM in the Cabo Delgado Ports (PCD) has only recently been announced, but they must make major headway with investment – currently estimated at US$150 million – in new port facilities at Palma and Pemba to enable the development of the LNG plant.[129]

Overall, infrastructure bottlenecks pose the single greatest risk to the outlook for exports and economic growth, according to an IMF risk assessment.[130] In particular, delays in upgrading transport infrastructure, 'especially railways and ports, electricity supply constraints' are a crucial risk to extractive industry ventures and economic projections.[131] The slow development of export infrastructure in the coal sector is a case in point, and one of the main reasons why forecasts for coal exports have had to be reduced drastically for the period to 2020.

Issues facing the domestic energy sector

Driven by rising demand, the state will increasingly look to natural gas to transform the domestic energy market. A concern for developers is always whether domestic market obligations (DMOs)[132] or prices could be imposed, though at present the government seems more likely to obtain gas via production-sharing or in-kind royalties. What is clear is that the development of the domestic energy sector – including electricity generation but also potentially gas-to-liquids (GTL) or other gas-based fuel options – is a top priority for officials, especially at the Ministry of Energy and the state-owned power utility EDM.

The government's overall electricity strategy is heavily predicated on resources such as hydro and coal power, but Energy Minister Salvador Namburete appears keen to address an anticipated medium-term power deficit through natural gas. According to EDM, peak baseload demand stood at 710 MW in 2012, but demand is rising substantially, at around 14 per cent (in other words, by more than 80 MW) annually.[133] It is driven by a combination of factors which include: Mozambique's export commitments (particularly to South Africa); fast-growing electricity demand from industrial projects;

---

[129] AIM (2014) "Lease contract for Cabo Delgado ports signed", AllAfrica, Maputo, 23 January 2014, <http://allafrica.com/stories/201401230534.html>.

[130] IMF Country Report (Mozambique), July 2013, Risk Assessment Matrix, p.8.

[131] Ibid., p.7.

[132] Ledesma, D. (2013) "East Africa – Potential for Gas Export", Working Paper NG 74, Oxford Institute for Energy Studies, p. 18.

[133] 'AfDB technical assistance aims to optimize development of Mozambique's energy resources', African Development Bank Group, www.afdb.org/en/news-and-events/article/afdb-technical-assistance-aims-to-optimize-development-of-mozambiques-energy-resources-12719/.

and the country's ambitious electrification strategy (electricity access stood at 23 per cent nationwide in 2012, according to EDM).[134] In 2013, Namburete said that he expected demand growth to accelerate further, estimating that Mozambique would need to add generation capacity of at least 100 MW per year, and ideally 160 MW.[135] The needs of major extractive industries projects that have yet to reach FID state will only add to these forecasts.

To some extent, major hydro and coal-based power projects that are currently under construction (between now and 2020, most of the planned additional baseload capacity will come from such resources) should moderate the pressure on gas producers to make large volumes of their production available for electricity generation (unlike the situation in Tanzania, where the government's electricity strategy emphasizes gas). At present, only around 27 MGJ of gas are allocated for power generation, but this is set to increase, with more than 350 MW capacity of new gas power plants to be commissioned by 2015. Most committed projects will all be located in southern provinces, but in 2013 Eni pledged to construct a 75 MW gas power plant at Palma, as part of its CNPC transaction.[136] This would be the first gas-fuelled power plant in the north of the country. It seems likely that the government will look to similar commitments of power plants from other IOCs, especially because the lack of a nationally integrated power grid means that a surge in demand in Cabo Delgado is difficult to service from other power-producing areas of the country. Electricity demand spurred by the resource boom will increase political incentives to look to natural gas to fill a power generation gap. Given that an integrated national transmission grid (and the Cesul transmission backbone) will only be in place from 2020 or possibly later, EDM views the Rovuma discoveries as a major opportunity to develop medium- to large-scale power generation plants in the 200–1000 MW range.

Where power agreements involve gas producers in Mozambique, investors like Sasol have faced some challenges around negotiating prices for gas supplied to power plants; similar issues could arise with the Rovuma basin LNG projects.

Labour issues

One of the most critical operating challenges for the LNG projects will be Mozambique's massive skills deficit, especially if the government cuts back permits for skilled foreign workers too fast, too

[134] EDM (2013) "Overview of Mozambique Electricity Sector: Opportunities and Challenges", Executive Exchange on Developing an Ancillary Service Market, EDM, Maputo <www.usea.org/sites/default/files/event-/Mozambique%20Power%20Sector.pdf>.
[135] *The Zimbabwean* (2013) "Mozambique needs to increase electricity capacity by 100MW a year", May 2013, <www.thezimbabwean.co/news/africa/65436/mozambique-needs-to-increase-electricity.html>.
[136] Reuters (2013) "Update 1–Mozambique, Eni agree tax on gas field stake sale to China", Reuters, 13 August 2013, <www.reuters.com/article/2013/08/13/eni-mozambique-idUSL6N0GE27I20130813>.

soon. For the construction phase of the LNG projects, about 10,000 workers (including many foreigners) are expected to populate Palma.[137]

Of the country's total labour force of around 11 million people the number of skilled workers is extremely low. While this represents a common challenge across East Africa, average schooling and skills levels in Mozambique are poor when compared with, for example, Kenya or Tanzania. In 2010, the Mozambican population had a paltry 1.2 years of schooling, compared with 5.1 in Tanzania.[138] Backed by Western donors, primary school enrolment reached 110.9 per cent in 2011.[139] Nonetheless, even today completion rates for primary school remain relatively low at around 55 per cent and the percentage attending secondary schooling only stood at 22 per cent in 2008/9.[140] Even fewer secondary graduates go on to tertiary studies (at all levels, from 'bachelor' to 'licenciatura' and 'post-graduate'). Education is also overwhelmingly urban-based. Most matriculants come from the largest cities, Maputo and Beira, while Cabo Delgado typically produces among the fewest matriculants of all provinces. Thus, even though literacy and education levels among the young are improving, compared with their parents' generation, education still remains the single most problematic obstacle for developing human capital and the labour market.

The government does acknowledge the skills deficit, and various policy documents – from the GMP to ENDE – recognize that the lack of skills:

> … has already proven to be a bottleneck for maximizing the job creation and poverty reduction benefits of existing private investments (GMP).

The Labour Ministry's current priorities are to improve working conditions, to prioritize job creation, professional training, and the expansion of the social security network. Taipo has also signalled that the government will introduce additional regulations regarding health, safety, and industry-specific regulations. One proposal is to strengthen existing education and labour training schemes. In 2010 the government approved the Strategic Plan for the Training of Human Resources for Mining, a ten-year plan to train 4,200 specialist technicians in the areas of geosciences, engineering, and other cross cutting skills. It also aims to train 1,300 mid-level technicians. There are also government-sponsored training schemes outside the country; such schemes include 15 students being sent annually for mid-level training in Angola, and a project, supported by Petronas, to send students to

[137] Maylie, D. (2014) "Hotel Builders Bet on Africa Gas Boom," Wall Street Journal, April 2014, <http://online.wsj.com/news/articles/SB10001424052702303887804579503472034318530?mg=reno64-wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB10001424052702303887804579503472034318530.html>

[138] UN Human Development Index, 2012, <https://data.undp.org/dataset/Table-1-Human-Development-Index-and-its-components/wxub-qc5k>.

[139] Mozambique: Data, World Bank, http://data.worldbank.org/country/mozambique. Mozambique's gross enrolment ratio exceeds 100 per cent as over-aged and under-aged pupils are included to allow for early or late school entrance and grade repetition.

[140] Source: Inquérito sobre Orçamento Familiar (IOF) 2008/2009, cited in Estratégia Nacional de Desenvolvimento (ENDE), 2013, p.6.

Malaysia for high-level training.[141] At present, however, the bulk of investment in training may need to be shouldered by IOCs.

Unlike the situation in Tanzania, where politicians frequently promise citizens tens of thousands of jobs in the gas industry,[142] the Mozambique government's expectations of massive job creation have already been moderated. Most estimates put job creation linked to the LNG ventures at around 7000–7500.[143]

Nonetheless, the acute danger is that the government – in its understandable quest to prioritize job creation for Mozambicans – goes too far in restricting expatriate work permits and visas. Under Minister Helena Taipo, the Labour Ministry has become increasingly strict in its enforcement of labour legislation. Over the past couple of years, extractive industry companies have drawn particular scrutiny, and Minister Taipo has not shied away from pursuing high-profile targets, such as Ireland's Kenmare and the Brazilian mining company Vale or their subcontractors. Companies, or their subcontractors, have been fined for hiring workers illegally but, a more sensitive issue, incidents of racism have also been reported (particularly at the management level), and these have resulted in the withdrawal of visas for some expatriate staff.[144]

Under the 2007 labour law and related regulations, expatriate staff must not exceed 5–10 per cent of the workforce (depending on the total staff size of a company). However, companies registered as investment projects (including oil and gas companies) under the national investment law may apply for exemptions to the limits on the employment of foreigners. In acknowledgement of the severe skills shortages, a 10 per cent limit has been allowed for oil and gas operations. Under a November 2011 decree for the mining and petroleum sectors, foreigners can be employed on contracts of up to 180 days, and approved projects may have agreed numbers of foreign workers in excess of the standard 5–10 per cent. While exemptions are unlikely to be eliminated, the granting of exemptions is becoming tougher and more arduous as official attitudes are hardening. For example, companies whose contracts pre-date the quota system are under pressure to apply for all permits via 'authorisation' rather than 'by communication,' in which case they can simply notify the ministry of the permits they require. Many extractive industry companies report that expatriate visa applications (or renewals) already present a formidable bureaucratic battle, even in cases where companies are only seeking one or two permits.[145] Clearly, local content and the flexibility to hire foreign nationals,

[141] Interview with Abdul Razak Normohammed, VM Mineral Resources, Savana 31 May 2013.
[142] The Guardian (Tanzania) (2014) "Free social services for people near gas pipeline path – Pinda", IPP Media, <www.ippmedia.com/frontend/index.php?l=64151>.
[143] Biggs, T., (2012) "Explosão Emergente de Recursos Naturais em Mocambique", CTA, Maputo.
[144] Hanlon, J. (2011) "MOZAMBIQUE 187, News reports & clippings", 23 November 2011, <www.open.ac.uk/technology/mozambique/sites/www.open.ac.uk.technology.mozambique/files/pics/d133452.pdf>
[145] Based on various interviews with local embassies, industry, 2013.

especially given the severe skills shortages in Mozambique in general and the oil and gas sector in particular, are pressing issues for IOCs. While the implications of bureaucratic delays are difficult to quantify, they can have real consequences on project timelines and costs.

Social risk

From a social perspective, unfulfilled expectations and promises around the resource boom represent perhaps the greatest risk in the long run. It is perfectly possible to envisage a scenario in which the gas boom results in anything but inclusive growth, in which a dramatic surge in investment provides limited job creation and economic opportunities (for Mozambicans in general and Cabo Delgado locals in particular), leaving residents to feel little but the price impact and Dutch disease pressures associated with the boom, especially at the local level.[146] Indeed, a drastically increased inequality (seen as inevitable by most local economists even if ENDE does not acknowledge it) may well generate perceptions that people are in fact worse off under the boom.

This suggests that policy interventions – local development planning and accountability mechanisms – will be critical to social cohesion and peace over the coming decades. In theory, development planning already exists down to the provincial and district level. Provinces develop strategic development plans (the one for Cabo Delgado runs from 2010 to 2014) that are intended to feed into annual planning (provincial Economic and Social Plans) and poverty reduction strategies. At the district level, district administrations develop five year District Development Plans (PEDDs) with budgets operationalized through District Social and Economic Plans and Budgets (PESODs). These are approved by the district advisory councils, which are supposed to draw representatives from a broad section of the community. However, in reality, districts have limited capacity to develop these plans and limited funds to support them, suggesting that such processes will all too easily become politicized. Moreover, district and provincial planning rarely feeds into the Maputo-centred national planning efforts.

Funding to local institutions is likely to increase under Mozambique's decentralization process, in which districts receive some funding directly from the state budget (known as the '7 million' the original minimum allocation of 7 million meticais annually per district). According to the law, communities have a right to 2.75 per cent of production taxes generated within their community land, and for the first time, in 2013, community level funds from extractive industries were included in the budget for affected communities. With local accountability mechanisms being weak, any controversy surrounding district planning and funds might well be pre-programmed.

[146] If the coal boom is anything to go by, local GDP growth rates in Tete have been estimated at 40%, leaving residents to feel the pinch from massive price surges; Tete residents often remark with resignation 'we cannot eat coal', according to an interview with a Finance Ministry official in 2012.

Equally, the manner in which the social and environmental impacts of LNG development are managed will, to a large extent, determine the social licence that the Rovuma projects receive. Social and environmental impact management is provided for under legislation via the 2007 Environment Law as well as through mining and petroleum legislation, but standards are not very specific beyond references to 'good practice' and 'international norms'. On this front, Mozambique will continue to receive external support, such as that available under the World Bank Mining and Gas Technical Assistance Project; this aims to provide guidance to both MIREM and MICOA on how to integrate environmental, socio-economic, health, and safety concerns into policy, regulation, planning, project development, operations, maintenance, and decommissioning of mining and gas sector activities.

However, if the experience of the coal mining sector in Tete is anything to go by, social grievances have the potential to derail corporate relations with communities. The principal challenges relate to resettlement processes, but public grievances typically link to local procurement, labour and jobs opportunities, infrastructure development, implications for the local economy, and often to a governance deficit. In January 2012, local residents who had been resettled by Vale temporarily blocked the Moatize–Beira coal railway in protest against a resettlement programme in which inhabitants of four villages were divided between two new settlements, Cateme and 25 de Septembro, which respectively housed the unemployed and the employed. Complaints covered Cateme's distance to town, transport costs, poor housing quality, and lack of fertile farm land, running water, ambulances, and employment.[147] Vale has been criticized in terms of the design and execution of its resettlement programme, but inadequate consultation with communities and insufficient clear government engagement and guidance have been equally problematic.

Such disputes are not limited to Tete, or indeed to the extractive industries. Major agricultural projects such as PROSAVANA in Niassa province have faced local opposition, and industrial-scale agricultural projects in the past have faced accusations of 'stealing the rain' from small-scale farmers.[148] According to sociologist Carlos Serra:

> … lynching and the … rain riots in the north are all 'messages of protest' against insecurity and especially against growing social inequality [often] expressed in terms of magic and witchcraft.[149]

---

[147] Documented in Southern Africa Resource Watch (SARW) (2012) "Coal versus Communities in Mozambique: Exposing poor practices by VALE and Rio Tinto", <http://sarwatch.org/paper/mozambique/coal-versus-communities-mozambique-exposing-poor-practices-vale-and-rio-tinto>.

[148] Hanlon, J. (2009) "Mozambique: the panic and rage of the poor", *Review of African Political Economy*, 119, March 2009, <www.artsrn.ualberta.ca/amcdouga/Hist247/winter_2011/resources/mozambique_poverty_hanlon.pdf>. 'In Nicoadala district in Zambezia province, local people are accusing the state of locking up the rain and only giving it to better off farmers. In mid-February three people were killed and six injured, accused of diverting the rain. One farmer was quoted by the Sunday newspaper *Domingo* as saying 'In the farm over there, something is growing, but on mine, nothing. How is it that my neighbour can eat and I can't?' p. 2.

[149] Ibid., p. 4; access to Serra's blog: www.oficinadesociologia.blogspot.com.

In Cabo Delgado province, there have not yet been strong signs of local opposition to gas investment, but this says little about the future trajectory of social dynamics. The fact that much of LNG development will take place offshore does not necessarily insulate the projects from social risks, as they will have large facilities onshore.

Speculative investment in land, especially in and around Pemba (where land transactions with villagers can be observed taking place under the village tree or at a local restaurant on almost a daily basis,[150]) may put cash into people's pockets, but over the longer term could clearly fuel resentment as villagers lose access to land and sustainable livelihoods.

Meanwhile, Palma district will be the site of LNG-related resettlement; this will require handling land ownership and title (DUAT) transfers, a census of the area, and the selection of community representatives for a Technical Commission. As of last year, Anadarko estimated that 1,500 households will have to be relocated from villages within a 7,500 hectare area, but there have already been signs of disagreement over the process within the communities.[151] During a consultation meeting with provincial government in September 2013, allegations surfaced that titles had been transferred without prior consultation. There was also confusion over which entity the land would be transferred to (ENH, rather than Anadarko), disputes over who had signed the minutes of a 2012 consultation meeting, and concerns that Quitupo – a fishing village – would be moved to a site 50 km inland.[152]

Clearly, the stakes for local communities are incredibly high. The government has taken some steps towards addressing a legal vacuum regarding resettlement. In August 2012, it promulgated a new Involuntary Resettlement Decree as an attempt to establish a framework to govern resettlement practice. Although a move in the right direction, this contains many gaps and seems to fall short of international best practice (as captured in World Bank and IFC standards). In particular more attention is required to establish proper processes for consultation with communities, to ensure the transparency of the process, to define and enforce adequate compensation including support to re-establish lost livelihoods, and to ensure access to social services. In this context, it appears likely that compensation, mismanaged expectations, protection of basic rights of affected communities, and land use rights will all remain thorny issues that could contribute to future social tension and, in some cases, to unrest (linked, for example, to Vale's resettlement activities in Cateme). To a large extent, companies like Anadarko and Eni will be dependent on their partners at ENH and in the provincial and district government to manage resettlement issues – something over which some investors have

---

[150] Interview with local environmental official, Pemba, April 2013.
[151] AIM (2013) "Mozambique: Distrust Surfaces At Public Meeting On LNG Plant", AllAfrica, 17 September 2013, <http://allafrica.com/stories/201309171474.html?viewall=1>.
[152] Ibid.

informally indicated their own frustration regarding the lack of clear guidance and the lack of local government capacities to deal with such complex issues.

Better policies will be required both at the government and at the company level to manage the social and environmental impact of large extractive industry investments. At present, Mozambique has no clear policy framework governing corporate social responsibility (CSR). In the absence of clearly defined criteria and processes, the current approach to CSR by extractives companies is somewhat ad hoc, according to some donors. Licence and contract terms typically include some CSR provisions, but these are neither well integrated into local development efforts nor aligned with local policies and systems, and accountability is low. The forthcoming minerals legislation is expected to provide for a more systemic approach to CSR, including minimum requirements for investors, monitoring tools, and accountability provisions. While the government generally acknowledges the need for strong policies in this area, institutional capacity and overlaps pose clear challenges. For example, the Ministry for Women and Social Action (MMAS) is technically responsible for CSR, but MIREM has been at the forefront of recent efforts to organize CSR in the extractives sector. There is talk of a social fund to be managed by MIREM, MPD, and INP, to which it is understood some of the recent investors in the gas sector will contribute; however, it is not clear whether this will indeed be established or how its funds would be managed.

Civil society will have a role to play in pushing for greater transparency and in ensuring that the government delivers on development pledges. Organizations such as CIP have been increasingly vocal on issues such as EITI compliance, resettlement, and inclusive growth. Nonetheless, civil society – much like the national assembly and the local press – has limited technical ability to analyse many of the complex issues facing the country. Without strong policy frameworks and constituencies to hold government accountable, socio-economic and environmental impact management may simply not improve.

CONCLUSION

There can be little doubt that the Rovuma gas resources offer major commercial opportunities for oil and gas and upstream and service companies. For Mozambique, too, the finds could mean a chance to join the ranks of middle-income countries within the space of a generation or two, but this is not a given.

Mozambique has a set of basic political and legislative components – including a basic legal framework for hydrocarbons ventures – that may facilitate the development of LNG production, if not by 2018, then probably by the early 2020s. Clearly, capacity constraints, inexperience, and a sheer lack of data are complicating the decision-making process. However, the classic political risks to investments (such as expropriation or unexpected, drastic policy changes to the fiscal and regulatory regime) are limited at present, as Mozambique is underpinned by a degree of political continuity among its leadership, and elite consensus around how to manage the resource boom and foreign investment. But beneath the surface, pressures are building. Amid rising public expectations, Frelimo is coming under pressure from within (for example from anti-Guebuza factions) and without (politically from the MDM, militarily from Renamo, and from a general rise in unrest, particularly in urban areas). Political will and leadership will strongly determine whether or how Mozambique harnesses its growth potential. A seeming trend towards political and economic exclusion would be the key source of tension, both within Frelimo and more broadly. Factional interests will, at least partly, be driven by a competition for resources, reinforcing rent-seeking practices that may fuel instability within the party. One of the policy outcomes resulting from rentier dynamics will be a trend towards tighter local content regulations and enforcement.

In the more challenging political context, institutions will struggle to keep up with the needs of the extractive industry, both in terms of sheer manpower and in terms of technical expertise. Under Guebuza, many younger technocrats have been undermined by politicized decision-making and, perhaps, by special interests. This trend could be reinforced by the declining influence of Mozambique's traditional aid partners. While the role of Western donors will understandably remain controversial, for better or for worse, donors have provided a modicum of scrutiny of public finances and have pushed for transparency, either directly or via support for local civil society institutions. With the relative decline of ODA, donors will lose political influence over the next decade to private investors and emerging market partners. Their role will become more restricted to technical advice.

On the policy front, Mozambique has a basic legal framework in place via oil and gas legislation and EPCC contracts, but the unprecedented nature and scale of LNG developments requires major amendments. The government needs to process planned oil and gas legislation as a matter of urgency to fill the gaps confronting developers – which include issues relating to facilities concession contracts. Contract security is relatively well enshrined, and contract renegotiations are not currently favoured by the government. However, the evolving capital gains tax regime has certainly generated ambiguities for developers. Until the imposition of the 32 per cent fixed tax rate on 1 January 2014, the legal case for capital gains tax payments was far from watertight, which had often resulted in negotiated payments. Further out, companies should take the long view and acknowledge that all too favourable terms or cutting corners now could come at a price in the long run – especially if the Frelimo government faces a political backlash.

For now, the most formidable challenge to project development is presented by the nitty gritty operating problems on the ground. While issues such as corruption, infrastructure, domestic energy needs, labour, and social risk may not stand in the way of the Rovuma projects reaching FID, they present significant obstacles for the execution of projects and for developers' bottom lines. On the domestic energy market front, price negotiations and potential domestic market obligations present the key risk to projects. In terms of labour, the simple issue of not being able to import sufficient skilled labour in line with project timeframes can derail entire construction schedules. On the social question, resettlement plans and insufficient CSR policies will likely prove a source of tensions within communities and in their relations with government and operators.

Taken together, the political climate, socio-economic trends, and regulatory gaps will all complicate efforts to achieve broader developmental outcomes from the resource boom. According to one of Mozambique's most eminent economists, 'we are burning coal to produce coal'[153], and the same might be said for natural gas. This statement is something of an exaggeration, but it aptly paints a picture in which Mozambique draws down a finite natural resource without achieving a sustainable, broader transformation to its economy. Gas production could thus become a lost opportunity for development that may generate a political and social backlash against natural gas ventures in the long run, particularly if Mozambique fails to reverse a seeming trend towards political and economic exclusion.

[153] Interview with Professor Carlos Castelo-Branco, Maputo, 2012.

REFERENCES

Africa Confidential (2013) “The Quionga Network”, Vol 54, No.8, London
Africa Confidential (2014) “Donors up in arms”, Vol 55, No.3, London

African Development Bank Group (2011) “Republic of Mozambique: Country Strategy Paper, 2011–2015,” <www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Mozambique%20-%202011-15%20CSP.pdf>.

Africa Energy Intelligence (2014) “Oil contracts under scrutiny,” N°714, Indigo, Paris

AIM (2014) “Mozambique: Frelimo Candidate Relieved of Government Duties,” All Africa, Maputo, <http://allafrica.com/stories/201403150031.html>
AIM (2014) “Filipe Nyusi eleito candidato de Frelimo as presidenciais de 2014”, Macua Blogs, 2 March 2014; <http://macua.blogs.com/moambique_para_todos/2014/03/filipe-nyusi-eleito-candidato-da-frelimo-%C3%A0s-presidenciais-de-2014.html>
AIM (2013) “Mozambique: Replacement of Transport Minister “Normal Rotation” ”, AllAfrica, Maputo, http://allafrica.com/stories/201310010952.html
AIM (2014) “Lease contract for Cabo Delgado ports signed”, AllAfrica, Maputo, <http://allafrica.com/stories/201401230534.html>
AIM (2013) “Mozambique: Distrust Surfaces At Public Meeting On LNG Plant”, AllAfrica, <http://allafrica.com/stories/201309171474.html?viewall=1>

Blanco Armas, E., Gratcheva, E., Pevzner, D., Sharma, N. (2014) “Generating Sustainable Wealth from Mozambique’s Natural Resource Boom,” World Bank Mozambique – Policy Note, Washington DC

Biggs, T. (2012) “Explosão Emergente de Recursos Naturais em Mocambique”, CTA, Maputo

Canalmoz (2014) “Filipe Nyussi: único ovacionado por membros da Frelimo em Inhambane”, Diario Digital, Ano 6, Numero 1125, Maputo

Centro de Integridade Pública (2013) “As Potenciais Receitas Do Rovuma: Implicações dos contratos de 2006 para as receitas do Estado,” CIP, No 07/2013, Maputo

CIP (2013) “Pande Temane Gas Exports to South Africa” Edition No 17/2013, Maputo
CIP: Base de Dados - Interesses Empresariais, Maputo (updated on ongoing basis) www.cip.org.mz/cipsrcdb/index.asp?src=srca
CIP (2013) “Implications of the 2006 Contracts for Government Income”, CIP, No 07/2013, Maputo
CIP (2013) “Comments on Draft Fiscal Laws on Petroleum and Minerals” No.10-2013, Maputo

Chichava, S. and Alden, C. (2012) “A Mamba e o Dragão. Relações Moçambique–China em perspectiva”, IESE/SAIIA, Maputo/Johannesburg

Collier, P. (2006) “Economic Causes of Civil Conflict and their Implications for Policy”, Oxford University

EDM (2013) “Overview of Mozambique Electricity Sector: Opportunities and Challenges”, Executive Exchange on Developing an Ancillary Service Market, EDM, Maputo <www.usea.org/sites/default/files/event-/Mozambique%20Power%20Sector.pdf>

EISA (2010) “Mozambique Presidential, Parliamentary and Provincial elections of 28 October 2009,” EISA Election Observer Mission Report, Johannesburg, <www.content.eisa.org.za/pdf/eommoz2009.pdf>

Eni (2013) “Eni completes sale of 28.57% of Eni East Africa's share to CNPC,” Press release, 26 July 2013 <www.eni.com/en_IT/media/press-releases/2013/07/2013-07-24-completes-area-mozambico.shtml>

Extractives Industry Transparency Initiative (EITI) (2014) “Big increase in oil and gas revenue in Mozambique,” EITI, 14 March 2014, http://eiti.org/news/big-increase-oil-and-gas-revenue-mozambique

Fruhauf, A. (2013) “Mozambique Update: Presidential succession signals political, policy continuity”, Teneo Intelligence, New York, 13 December 2013

Gismatullin, E. and Nguyen, A. (2012) “PTTEP Left Sole Bidder for Cove as Shell Pulls Out of Race,” Bloomberg, 17 July 2012, www.bloomberg.com/news/2012-07-16/shell-drops-out-of-race-for-cove-leaving-pttep-as-winner-2-.html

Gyimah-Boadi, E., Armah-Attoh, D., Awal, M., and Luna J. (2013) “Oil and Mining Countries: Transparency low, official impunity high,” Afrobarometer

Hanlon, J. (ed) (2013-14) “Mozambique Political Process Bulletin” and “Mozambique News report & clippings” various issues, http://www.open.ac.uk/technology/mozambique/
Hanlon, J. and Smart, T. (2010) “Do Bicycles Equal Development in Mozambique?” James Curry, Woodbridge
Hanlon, J. (2009) “Mozambique: the panic and rage of the poor”, Review of African Political Economy, 119, March 2009, <www.artsrn.ualberta.ca/amcdouga/Hist247/winter_2011/resources/mozambique_poverty_hanlon.pdf >

IMF Staff (2013) Country Report, No.13/200, IMF, Washington DC, < http://www.imf.org/external/pubs/ft/scr/2013/cr13200.pdf>

ICF International (2012) “Natural Gas Master Plan for Mozambique,” Draft Report, Executive Summary, Fairfax, VA

ICF International (2013) “Towards a Natural Gas Master Plan in Mozambique,” Presentation, 20 February 2013

Ledesma, D. (2013) “East Africa – Potential for Gas Export”, Working Paper NG 74, Oxford Institute for Energy Studies

Machel, M. (no date) “The business interests of public managers in the extractive industry”, CIP, Maputo,

<www.cip.org.mz/cipdoc%5C130_Extractive%20industry%20conflicts%20of%20interest%20in%20Mozambique.pdf>

Mahumane, G., Mulder, P., and Nadaud, D. (2012) “Energy Outlook for Mozambique 2012–2030, LEAP-based scenarios for energy demand and power growth,” IESE, Conference paper 16, Maputo

Mapote, W. and Flak, A. (2012) “Mozambique seeks greater share in future gas blocks”, Reuters, Maputo <www.reuters.com/article/2012/04/25/mozambique-gas-stakes-idUSL6E8FPET820120425>

Maylie, D. (2014) “Hotel Builders Bet on Africa Gas Boom,” Wall Street Journal, April 2014, <http://online.wsj.com/news/articles/SB10001424052702303887804579503472034318530?mg=reno64-wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB10001424052702303887804579503472034318530.html

Ministério da Planificação E Desenvolvimento (2013) “Estratégia Nacional de Desenvolvimento (ENDE),” Maputo

Mucari, M. (2013) “Mozambique to tax capital gains at fixed 32 pct rate from 2014”, Reuters, Maputo, 29 August 2013, <www.reuters.com/article/2013/08/29/mozambique-taxes-idUSL6N0GU2AX20130829>

Musilli, P. (2013) “Extractive industry: The goal is to give an edge to Mozambicans – Noormahomed”, The Africa Report, www.theafricareport.com/Interview/extractive-industry-the-goal-is-to-give-an-edge-to-mozambicans-noormahomed.html

Nacuo, Pedro (2013) “Naturais e amigos querem papel activo no desenvolvimento”, Noticias, 28 September 2013, <www.jornalnoticias.co.mz/index.php/provincia-em-foco/3625-cabo-delgado-naturais-e-amigos-querem-papel-activo-no-desenvolvimento>

Nazerali, S. (2014) ‘Improving the Quality, Capacity and Compliance of Environmental Licensing Processes in Mozambique: The Case of the Oil and Gas Industry’, SAIIA Occasional Paper No 178, Johannesburg

Nhachote, L. (2012) “Mozambique’s “Mr Guebusiness”, Mail&Guardian, 6 January 2012, <http://mg.co.za/article/2012-01-06-mozambiques-mr-guebusiness/>

North, D.C., Wallis, J.J., Webb, S.B., and Weingast, P.R. (2012) “In the Shadow of Violence: Politics, Economics, and the Problems of Development,” Cambridge: Cambridge University Press
OE (2014) “Eni CEO, Mozambique president discuss progress,” 2 April 2014. http://www.oedigital.com/component/k2/item/5334-eni-ceo-mozambique-president-discuss-progress

Petroleum Africa (2014) “Mozambique to See Oil Production in 2014,” www.petroleumafrica.com January 2014. <www.petroleumafrica.com/mozambique-to-see-oil-production-in-2014/>

Reuters (2013) “Update 1–Mozambique, Eni agree tax on gas field stake sale to China”, Reuters, 13 August 2013, <www.reuters.com/article/2013/08/13/eni-mozambique-idUSL6N0GE27I20130813>

Ross, M.L. (2004) “How do Natural Resources Influence Civil War? Evidence from Thirteen Cases”, International Organization, Cambridge University Press

Southern Africa Resource Watch (SARW) (2012) “Coal versus Communities in Mozambique: Exposing poor practices by VALE and Rio Tinto”, <http://sarwatch.org/paper/mozambique/coal-versus-communities-mozambique-exposing-poor-practices-vale-and-rio-tinto>

Tan, G. and MacDonald, A. (2013) “Rio Tinto Considers Sale of Mozambique Coal Unit”, Wall Street Journal, 25 June 2013, <http://online.wsj.com/news/articles/SB10001424127887323683504578567441302230314>

The Business Year (2013) “Interview Esperanca Bias,” www.thebusinessyear.com/publication/article/16/1874/mozambique-2013/experts-in-the-field#

The Economist (2013) “Fishy tale”, Maputo, 23 November 2013, <www.economist.com/news/finance-and-economics/21590594-story-dollar-bond-issue-mozambique-parable-easy-money-fishy>

The Guardian (Tanzania) (2014) “Free social services for people near gas pipeline path – Pinda”, IPP Media, Dar es Salaam, <www.ippmedia.com/frontend/index.php?l=64151>

Transparency International (2011) “Daily Lives and Corruption: Public Opinion in Southern Africa”, <www.transparency.org/files/content/pressrelease/20111122_TI-S_Southern_Africa_EN.pdf>

Transparency International (2014) ‘Corruption Perceptions Index 2013’, <http://cpi.transparency.org/cpi2013/results/>

US Energy Information Administration (EIA) (2013) “Country Analysis Note,” www.eia.gov/countries/country-data.cfm?fips=MZ&trk=m

von Holdt, K. ‘South Africa: the transition to violent democracy’, Review of African Political Economy, 2013, Vol. 40, No. 138, 589–604

Westin, R. (2013) “Mozambique Draft Oil and Gas Tax Law Comments”; Confederation of Mozambican Business Associations (CTA), Maputo