

POLITICAL ECONOMY ANALYSIS
OF THE PETROLEUM SECTOR IN
MOZAMBIQUE



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Final: 16.12.2013

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Acronyms

OfD	Oil for Development Programme
PEA	Political economy analysis
ToC	Theory of Change
MIREM	Ministério dos Recursos Minerais (Ministry of Mineral Resources)
INP	Instituto Nacional de Petróleo (National Petroleum Institute)
ENH	Empresa Nacional de Hidrocarbonetos (National Oil Company)
ENHL	Empresa Nacional de Hidrocarbonetos Logistics
MICOA	Ministério para a Coordenação da Acção Ambiental (Ministry for the Coordination of Environmental Affairs)
DNAIA	Direcção Nacional de Avaliação do Impacto Ambiental (National Directorate for Environmental Impact Assessment)
AT	Autoridade Tributária de Moçambique (Revenue Authority)
CoM	Council of Ministers
GoM	Government of Mozambique
FRELIMO	Frente de Libertação de Moçambique (Mozambique Liberation Front)
RENAMO	Resistência Nacional Moçambicana (Mozambican National Resistance)
MDM	Movimento Democrático de Moçambique (Democratic Movement of Mozambique)
HDI	Human Development Index
IHDI	Inequalities in Human Development Index
ODA	Official Development Assistance
GDP	Gross Domestic Product
LNG	Liquid Natural Gas
GMP	Gas Master Plan
TCF	Trillion Cubic Feet
NOC	National Oil Company
IOCs	International Oil Companies
EPCC	Exploration and Production Concession Contracts
CGT	Capital Gains Tax
EITI	Extractive Industries Transparency Initiative
IMF	International Monetary Fund
DFID	Department for International Development (UK)
WB	World Bank
MAGTAP	Mining and Gas Technical Assistance Program
USAID	United States Agency for International Development
Norad	Norwegian Agency for Development Cooperation
MASC	Mecanismo de Apoio à Sociedade Civil (Civil Society Support Mechanism)
CSO	Civil Society Organization
CTV	Centro Terra Viva
CIP	Centro de Integridade Pública (Centre for Public Integrity)
IESE	Instituto de Estudos Sociais e Económicos (Institute for Social and Economic Studies)
OTM	Mozambique Workers' Organization

LDH	Human Rights League
FDI	Foreign Direct Investment
AFD	Agence Française de Développement (French Development Agency)
AMOP	Association of Foreign Petroleum Operators
CTA	Confederation of Mozambique Business Associations
CIRPC	Corporate Income Tax Code
PPP	Private Public Partnership
DNAIA	National Directorate for Environmental Impact Assessment
TCF	Tax Common Fund

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EXECUTIVE SUMMARY

Norway has been providing petroleum-related assistance to Mozambique for three decades, most recently through its Oil for Development (OfD) programme. The overarching goal of the programme is poverty reduction, with the operative goal being “economically, environmentally and socially responsible management of petroleum resources, which safeguards the needs of future generations”¹. The recent world-class discoveries of gas in Mozambique are regarded by many as a game-changer for the country. The question in many minds is whether Mozambique can translate that resource wealth into social and economic welfare for its people and thereby avoid the resource curse that has befallen other countries in Africa. The question is all the more salient today as escalating tensions between the ruling and one of the opposition parties – driven in large part - by the unequal distribution of economic and political power – flare into open conflict and violence.

The petroleum sector in Mozambique, centered on liquid natural gas (LNG), is moving into a critical phase of development. A gas master plan and draft petroleum law are currently being finalized to provide a roadmap and framework for development. However, Mozambique will continue to face a number of concurrent challenges in the years ahead at the national and regional level. Expectations are high in a country where more than half of the population lives below the poverty line and where the development of gas and mineral resources holds the promise of generating substantial wealth for the country. The new OfD programme cycle will therefore come at a time when Mozambique is embarking on potentially one of the most defining opportunities of the nation’s history.

This report undertakes a political economy analysis (PEA) of the petroleum sector to identify interest groups in Mozambique with competing claims over rights and resources. The PEA approach will be used to (i) gain an improved understanding of what drives political behaviour and how this shapes particular policies and decisions in the petroleum sector, and (ii) assess how continued Norwegian assistance may best contribute to responsible and sustainable management of petroleum resources for the benefit of Mozambicans (or mitigate the worst effects of the resource curse). The report provides an overview of the political and economic context in Mozambique, outlines petroleum-related structures, and identifies key opportunities and barriers for achieving the OfD goals. Finally, the report sets out a number of policy recommendations to be considered in the planning stages of the next OfD programme cycle in Mozambique.

OVERVIEW OF POLITICAL AND ECONOMIC CONTEXT

Mozambique has undergone a significant number of transitions since gaining independence from Portugal in 1975. How successfully it has managed these transitions is a matter of debate. The country is among the top 10 fastest growing economies in the world today, and has managed average GDP growth rates of 8 per cent from the period 2001-2011. Despite its impressive economic trajectory, there is little evidence of improvement in the socioeconomic situation of a large majority of the population. Mozambique remains one of the poorest countries in the world with more than half of its population living below the poverty line, and

¹ The programme has also formulated three outcomes: i) policy makers set goals and define and assign responsibilities, ii) the authorities regulating the petroleum sector carry out their assigned responsibilities, iii) policy makers and regulatory authorities are held accountable for their management of the petroleum sector.

with generally low scores on human development indicators. The World Bank has expressed concern in recent years about the decelerating poverty reduction rate. Mozambique also ranks poorly on a range of recent governance indices including the Ibrahim and World Bank Indices on Governance, Transparency International's Corruptions Perceptions Index and Revenue Watch International's Resource Governance Index.

The main ruling party FRELIMO dominates the State, causing many to remark that 'FRELIMO is the State and the State is FRELIMO'. President Guebuza has led an intensive drive for centralizing control around the executive both within the FRELIMO party and across the State. Executive dominance over the legislature, Parliament and the judiciary on the one hand, and strong party discipline and loyalty to the President on the other, render formal institutional checks and balances as ineffectual. There is also a very close relationship between the leading cadres of the party and business interests.

Broader political dynamics such as elite capture of the state, rent seeking and patrimonialism are, unsurprisingly, played out in the petroleum sector. President Guebuza and his close network have positioned themselves to profit from the sector by functioning as industry gatekeepers for foreign companies and by lining up private companies to take advantage of contracts, particularly in the area of logistics. The gas boom is likely to further intensify rent-seeking, patronage and corruption in Mozambique as rival political factions within the ruling party seek to shore up their own business interests, and others fear being excluded from their 'cut'.

OVERVIEW OF PETROLEUM-RELATED STRUCTURES

A number of institutions have regulatory functions with respect to the petroleum sector including the Ministry of Mineral Resources (MIREM), the National Petroleum Institute (INP) and the national oil company, Empresa Nacional de Hidrocarbonetos de Moçambique (ENH). According to the petroleum governance structure, INP has the core regulatory functions relating to the sector. While being a separate institute, the body is not wholly independent, as it remains subordinate to MIREM and hence subject to political control and management. Additionally, the Council of Ministers (CoM) has ultimate responsibility for decrees, policy development, concessions granting and royalty collection. This arrangement likely promotes effective and timely decision-making, but deprives Parliament of any meaningful oversight of the sector and leaves the door open to corruption. With reference to the petroleum sector, the Ministry for Coordination of Environmental Affairs (MICOA) regulates Environmental Impact Assessments (EIAs).

Upstream activities within the petroleum sector are governed by the Petroleum Law (Law No. 3/2001 of 21 February) and its decree, the Regulation of Petroleum Operations (Decree No. 24/2004 of 20 August). The fiscal regime is set out in, *inter alia*, Law No. 12/2007 of 27 June (Taxation of Petroleum Operations) and Law No. 13/2007 of 27 June (Fiscal and Taxations Incentives for Petroleum Operations). The 2001 Petroleum Law has been redrafted and is currently awaiting approval by Parliament. The main rationale for revising the petroleum law is to address, and regulate liquid natural gas (LNG), which is not addressed explicitly under the existing legislation. The revised laws are, *inter alia*, expected to strengthen the fiscal regime, improve controls for environmental and community protection and create more stringent local content requirements for companies operating in Mozambique.

Although the legal and regulatory framework in Mozambique is generally considered adequate, its implementation is weak due to a lack of formal compliance mechanisms. Secondly, the national petroleum-related institutions face significant challenges in fulfilling their mandates due to a critical absence of petroleum-related experience and technical expertise, centralized and bureaucratic command structures that lead to institutional paralysis, ineffective coordination across the sector and political interference. The combination of factors above create significant barriers to promoting responsible and effective management of the petroleum sector, and in particular to improving transparency and accountability in the sector.

KEY OPPORTUNITIES AND BARRIERS FOR ACHIEVING OFD GOALS

There are limited opportunities for changing the political economy of Mozambique in the short-term. Questions of reform and good governance may largely be limited to how oversight mechanisms can check the excesses of patrimonialism, corruption and rent seeking as well as their impacts. The implications are two-fold: firstly, OfD and its partners cannot operate as if the political economy – and its resulting contradictions and constraints – do not exist. Secondly, although space for maneuvering is limited, a few opportunities for shifts in the longer-term could be leveraged. These will require a significant scaling up and longer-term commitment, however.

In the medium-longer-term, there are opportunities to strengthen vertical oversight mechanisms as well as a coming generational change within FRELIMO that could bring a (slightly) different style in governance. Previous OfD programmes have focused on (1) building up the legislative and regulatory framework in the petroleum sector and (2) strengthening institutions capable of implementing these rules. The new programme cycle presents an opportunity to build up a critical mass of citizens who can understand and defend these institutions. Promoting broad-based coalitions for change – including the media, parliamentarians, civil society, community-based organizations and professional associations - can build social accountability in a context where horizontal accountability is absent. Another key opportunity for addressing transparent and accountable revenue management presents itself now, before gas royalties begin flowing into the state treasury around 2018.

KEY RECOMMENDATIONS

In planning the design and implementation of the next OfD programme cycle in Mozambique (2014-2018), OfD could consider the following recommendations:

- **Improve transparency and accountability** by having the Embassy take a leadership role on transparency issues within the G19 Extractive Industries Task Force and other donor fora; advocate going beyond EITI to address conflict disclosure and beneficial ownership; strengthen citizen-based demands for transparency and accountability; and address financial transparency in the context of illicit capital flows.
- **Move from increasing government take to focusing on society's take** by scaling up activities in the revenue management pillar significantly; increasing support to broader revenue management initiatives through the Tax Common Fund, IMF initiatives or the World Bank MAGTAP programme; supporting AT to review

exploration cost recovery claims and exploring how countries in the region with weak governance systems have addressed financial transparency and integrity in the sector.

- **Improve donor coordination** to promote a better understanding of OfD's goals and approach in Mozambique, explore areas of potential collaboration which would enable scaled up impact, and respond to perceptions of Norway's petroleum-related assistance as being 'behind-the-scenes' and divergent from the advice provided by the broader donor community in Mozambique.
- **Better contextualize its programme interventions** by grounding programme design and implementation in the political economy of the petroleum sector in Mozambique; supporting broader national ownership and participation; and sensitizing all implementing partners on the political dimensions of the change process in this sector.
- **Integrate sustainability in programme delivery** by replacing short-term missions with longer-term technical assistance; drawing on a wider pool of expertise outside of Norway; considering language and cultural barriers to knowledge transfer; and ensuring programme interventions are demand-driven in content but also approach.
- **Improve programme coherence and overall strategy** by testing implicit assumptions in programme interventions; developing a roadmap of specific and measurable interventions required to bring about desired outcomes (theory of change is a possible tool); and deciding on 'red lines' and criteria for an exit strategy.
- **Support broad-based coalitions for change** which empower civil society, the media and parliament to demand accountability by facilitating training and mentoring, knowledge networks, and opportunities for participation in dialogue and sector-related processes.
- **Present diversity of good practice in petroleum management** by drawing on south-south or triangular cooperation in addition to Norwegian expertise and facilitating regional workshops for the exchange of experience, innovations and lessons learned in natural resource management in similar country contexts.
- **Consider alternative approaches for supporting responsible environmental management** outside of formal cooperation with MICOA. Options include creating an informal reference group on environmental protection and governance bringing together a range of technical experts from across government, civil society; and for Norwegian actors to provide INP with capacities to coordinate this role.

1 Introduction

Norway has been providing petroleum-related assistance to Mozambique for three decades, most recently through its Oil for Development (OfD) programme. With recent gas discoveries in Mozambique being regarded as a game-changer for the country, the question is whether Mozambique will translate its resource wealth into social and economic welfare for its people and in so doing, avoid the resource curse that has befallen other resource-dependent nations. The questions are all the more salient in light of the deteriorating security situation in Mozambique. Conflict between FRELIMO government forces and the RENAMO opposition movement has escalated dramatically since April 2013; an initial attack on RENAMO leader Alfonso Dhlakama's headquarters in Satungira in October 2013 by military forces resulted in a series of attacks and counter-attacks with security and civilian casualties². A sharp upswing in economically motivated kidnappings – implicating members of the police and security apparatus – adds to the growing tensions and unrest.³ To date, at least one company – Rio Tinto – has decided to withdraw expatriate employees' families from Mozambique and others (Vale, Jindal and India Coal) have taken on security firms to protect their property and staff, in a sign that the security situation is worrying investors.

This report explores the primary political and economic forces driving developments in the petroleum sector. The purpose is to assess how continued Norwegian assistance may best contribute to responsible and sustainable management of petroleum resources, or at worst, mitigate the worst effects of the resource curse. To this end it asks what entry points the OfD programme can leverage; what is politically feasible in the Mozambican context; what risks exist and to what extent they can be adequately managed and what assumptions – implicit or explicit – has current OfD programming been based on. The report aims to provide relevant inputs to inform the planning process of a new OfD programme in Mozambique to commence in 2014.

1.1 Scope of the Report

This report undertakes a political economy analysis (PEA) of the petroleum sector; it is not a report on the petroleum sector per se, but an exploration of political and economic drivers that influence or constrain the path of development and/or reform in the petroleum sector.

The report covers the emerging petroleum sector in Mozambique and emphasizes existing structures of governance as well as institutional, regulatory and other gaps that will require attention in the years to come. Secondly, as the report is intended to inform the design of a new programme, it underlines past experience and the current political context and dynamics within Mozambique with a view to discerning key interest groups, incentives, rules of the games and their implications for OfD programming. Due to limited resources, the report is not able not undertake a detailed gender analysis⁴ or assessment of the Tax for Development

² Mozambique Test: War or Peace, 24 October 2013, BBC News Africa; RENAMO rejects Mozambique; Is Mozambique sliding back toward conflict, Alex Vines, Global Public Square, 25 June, 2013

³ Anxiety in Mozambique: Ransom Notes, The Economist, 1 November 2013.

⁴ Interviews were held with, inter alia, the gender and energy focal point from the Ministry of Energy in Mozambique and gender and energy focal point in Norad. It was acknowledged that gender assessment best lent

programme at this time⁵, though consideration is given to both throughout the report and in particular, to their relevance for the OfD programme. Meetings were held with a number of gender and energy representatives in Mozambique and Norway. Many of the issues raised related primarily to the downstream petroleum sector, which falls outside the scope of OfD petroleum support. The section on opportunities and barriers addresses this issue in more detail including ways to address this shortcoming.

1.2 Methodology

This study uses a political economy analysis (PEA) approach to identify risk factors for OfD programme interventions in Mozambique and suggest ways forward that are feasible in the national context. According to DFID⁶, a PEA is concerned with “contestation and bargaining between interest groups with competing claims over rights and resources,” as well as the economic processes that generate wealth, and influence how political choices are made. It

“helps us understand what drives political behaviour, how this shapes particular policies and programmes, who are the main ‘winners’ and ‘losers’, and what the implications are for development strategies and programmes.”⁷

The analysis is based on a combination of literature review and interviews with relevant stakeholders. The desk-based review comprised programme documents and selected academic and policy literature on the petroleum sector in Mozambique. Semi-structured interviews were held with representatives of government ministries and public agencies, parliament, academia, civil society, think tanks, media, private sector and donor partners in Mozambique and Norway. A total of 45 stakeholders were interviewed in Mozambique during a country visit from 19 to 27 September 2013, and 16 participants were interviewed in Norway in September and October, 2013. A number of international experts were also consulted⁸.

A study of this nature is sensitive, and particularly so in Mozambique where there is a low level of access to information and high degree of opacity and centralization of control. Obtaining interviews with public agencies and ministries relevant to the study was a highly bureaucratic process and dependent on political approval from the highest levels. These interviews demonstrated the tight hold on information within the Government of Mozambique (GoM); many senior civil servants and even ministers lacked information on critical decisions or developments taking place within the sector. A number of informants asked that their comments be made non-attributable.

1.3 Disclaimers

This report has been prepared in good faith on the basis of information available, with independent verification undertaken where necessary. In cases where conflicting information was received, verification by a third and fourth party was sought. A number of challenges to

itself to downstream activities in the petroleum sector, which is outside of the scope of the current OfD programme.

⁵ The scope of the report and days assigned do not permit a more in-depth analysis at this time, though these issues are important and merit further analysis.

⁶ DFID. 2009. Political Economy Analysis: How To Note. London: DFID. <http://www.gsdr.org/docs/open/PO58.pdf>

⁷ *ibid.*

⁸ See interview list in Annex 2

gathering information were presented. The petroleum sector in Mozambique is opaque; there is a serious deficit of public information and the sector is not well understood, even by those in government. Secondly, information on policies, strategies and programme activities from OfD implementing agencies was limited or fragmented.

Many of the informants consulted had strong opinions on Norway's approach to providing petroleum-related assistance to Mozambique. One comment raised repeatedly was the lack of transparency on what advice Norway was providing and whether it was attempting to promote a Norwegian 'model' of petroleum management in Mozambique. Whether these observations are based on perceptions or realities, or somewhere in between is another matter, but it bears pointing out that perceptions matter. A lack of clear information on OfD activities can give rise to misinformation – and suspicion – about Norwegian priorities, approaches and 'agendas', particularly since Norway has commercial as well as developmental interests in Mozambique. This issue is discussed in more depth in the section on opportunities and barriers for reform.

1.4 Petroleum-Related Cooperation: Then and Now

Norway has been providing Mozambique with petroleum related development assistance since the early 1980s. Cooperation was initiated in 1983 at the request of Mozambique's state oil company Empresa Nacional de Hidrocarbonetos (ENH), known then as the State Secretariat for Coal and Hydrocarbons (SECH). The focus of the petroleum-related assistance was primarily on internal skills strengthening and establishing a database of the country's geological structures, in short, oriented towards *resource management*. In contrast, the OfD programme has as its overarching goal: 'economically, environmentally and socially responsible management of petroleum resources which safeguards the needs of future generations'. While the end goals of programme cooperation have shifted from resource management to broader developmental assistance, the approach has not. Firstly, there is a continued reliance on technocratic rather than good governance⁹ approaches to institutional strengthening, and secondly too little focus on the revenue management pillar, which is critical for redistribution of natural resource benefits.

There have also been major shifts in Mozambique and in the developmental landscape since Norway began providing petroleum-related assistance in the early '80's. Mozambique has enjoyed significant economic growth and foreign direct investment over the past decade and is one of the top ten fastest growing economies in the world. It has discovered an abundance of natural resources including world-class coal and gas reserves, which are often referred to as a game changer for the country. A better question may be, 'is this is a different game altogether for Mozambique'? Certainly, it could be argued that Mozambique today is a different client, on a different trajectory and with vastly different needs given the scale of gas reserves discovered within its boundaries. Furthermore, there have been significant changes in the way that development is 'done,' with an increasing emphasis on good governance, as well as an ever-growing number of donors (including non-traditional) vying to provide Mozambique with advice on how to manage its newly found resource wealth. These

⁹ There is no single and exhaustive definition of 'good governance' or its scope. According to the OECD, the term is characterized by participation, transparency, accountability, rule of law, effectiveness and equity (see OECD website: <http://stats.oecd.org/glossary/detail.asp?ID=7237>). The World Bank puts forth five dimensions of good governance including public sector management, competitive private sector, structure of government, civil society participation and voice, and political accountability (see World Bank Strategy and Implementation Plan on strengthening Governance). Good Governance is also linked to sustainable human development, inter alia in Resolution 2000/64 of the Human Rights Commission.

relatively new developments will have important implications for the design of a new OfD programme cycle in Mozambique.

1.5 Unpacking assumptions

Development policy tends to focus on how the country *should be* while political economy shows how the country *is*. By its nature, PEA highlights the unpredictable, unknown and ‘messy nature’ of development reform¹⁰. It requires us to acknowledge what we do not know, to increase our flexibility in how we frame questions, problems and solutions, and to unpack any assumptions we may have made based on incomplete information. To this end, this report will present and test what it perceives as several implicit assumptions made in the context of petroleum-related assistance in Mozambique. It is worth noting here that Theory of Change (ToC)¹¹ is a useful tool for examining assumptions about the change process made in international development programming. ToC as part of broader programme analysis can help map out how planned interventions within given contexts can lead to specific change. As such, it can complement political economy analysis and identify ‘what works or what does not work and under what circumstances’. Making ToCs explicit at the start of the new OfD programme cycle can help in identifying what will need to happen in order to get from ‘here’ to ‘there’. Moreover, a ToC for the new OfD programme will help make assumptions *explicit* rather than implicit, which has been the case so far.

10 Implicit Assumptions on OfD Cooperation with Mozambique

Assumptions on Mozambique

1. Maximizing revenue for the state will maximize benefits for the people
2. Pockets of efficiency can be created in the petroleum sector despite overall weak governance, rule of law and citizen demands for accountability.
3. Establishing laws, defining responsibilities and strengthening capacities will enable institutions to better fulfill their mandate, which leads to better managed petroleum resources
4. Building technical capacities at leadership level will ‘trickle down’
5. The OfD experience with oil and gas fits just as well with LNG realities in Mozambique

Assumptions on Norway

6. Norway is perceived as capable of separating its commercial, foreign policy and development agendas
7. Capacity deficits are to be found, primarily, on the Mozambican side
8. Norway does not gain from broader donor coordination on extractives
9. Cultural and language differences can be overcome for successful impact
10. Norwegian expertise - utilized across all OfD components - is relevant and represents value for money.

¹⁰ DFID. 2009. Political Economy Analysis: How To Note. London: DFID. <http://www.gsdr.org/docs/open/PO58.pdf>

¹¹ See, for example, recent DFID review on Theory of Change <https://www.gov.uk/government/news/dfid-research-review-of-the-use-of-theory-of-change-in-international-development>

2 Political and Economic Context in Mozambique

2.1 Managing Transitions

Following independence from Portugal in 1975, Mozambique underwent a 16-year armed conflict that ended in 1992 only. The country is considered as having made a successful transition to peace, political stability and democracy. However, the state-building project in Mozambique was marked by a number of challenging dynamics: the transition from a colony to independent nation, the promotion of national unity vs. regionalism and tribalism, a shift from Marxism-Leninism to liberalism and from single-party to multi-party politics. How successfully these transitions have been handled are a matter of debate: the current spate of clashes between RENAMO and State forces have their roots in long-standing grievances over abrogation of terms of the 1992 peace agreement, accusations of electoral fraud and vote-rigging¹², increasing FRELIMO monopolization within the State and economy, and marginalization of RENAMO. The natural resource boom in Mozambique – in particular the question of how economic benefits will be distributed – is a further significant driver for the current conflict.

2.2 The Political System

The political party system in Mozambique is patterned on national liberation movements, and coloured by the recent liberation struggle (1964-1974). Three parties currently have parliamentary representation: the majority party FRELIMO (Mozambique Liberation Front); the main opposition party, RENAMO (Mozambique National Resistance), and MDM (Mozambique Democratic Movement), a breakaway party from RENAMO, created in 2009. Multi-party politics in Mozambique went from increased competition in the nineties to the almost universal electoral dominance of FRELIMO in the 2009 elections¹³. This is less a reflection of popular support for and perceived legitimacy of the party than it is of FRELIMO's skills in 'managing' party membership and electoral processes as well as RENAMO's failure to present a credible alternative¹⁴. FRELIMO has won every election since 1992. In the 2009 national elections, FRELIMO secured approximately 75 percent of the presidential vote and more than 75 percent of the seats in Parliament. Moreover, FRELIMO Mayors were elected in 42 of 43 municipalities¹⁵. The main opposition parties, RENAMO and MDM, complained of election fraud and disruption of their campaigns. International observers including the EU, the Commonwealth and Electoral Institute for Southern Africa (EISA) criticized the elections as lacking transparency, integrity, impartiality and independence and as failing to present a level playing field and equal opportunities for all¹⁶.

¹² International observers have noted irregularities in all elections conducted in Mozambique though not severe enough to mark the elections as not being free and fair. In particular, it is widely alleged that Dhlakama and his party RENAMO in fact won the 1999 elections.

¹³ Political Economy Analysis Mozambique, September 2012. Confidential report compiled for the EU Delegation in Mozambique. NOTE: The report has been kept under a tight hold, distributed to EU members only. ILPI was able to obtain access to a hard copy. As a non-EU member, the Norwegian Embassy did not have access to the report.

¹⁴ FRELIMO party membership is extremely high (ca. 3.8 million members) and party cell command structures at district and local level are effective at mobilizing voters and creating barriers to prevent the opposition from voting.

¹⁵ United States Department of State, Country Reports on Human Rights Practices for 2012, Mozambique.

¹⁶ See US State Department Country Report on Human Rights Practices for 2012 in Mozambique as well as the EISA Interim Statement from its Observer Mission to the 2009 Presidential, National and Provincial Assemblies Elections in Mozambique accessible at: <http://www.eisa.org.za/EISA/pr20091030.htm>

The President of Mozambique, Armando Guebuza, is head of State and Government. Under President Guebuza there has been an intensive drive for centralizing control – both at the level of state with increasing executive dominance of the executive in governance, and within the FRELIMO party¹⁷. Formal checks and balances instituted by the Constitution are countered in practice by strong party discipline and loyalty to the President. Parliament and the Judiciary - both FRELIMO dominated and subject to political interference - are largely discounted as accountability mechanisms. Parliamentarians are chosen through a party list rather than directly elected and Parliament has no real representation of the different regions, operates on a part-time basis and is hindered by high turnover. These two dynamics – the increasing dominance of FRELIMO within the political system and the increased centralization of control around the president within the FRELIMO party– can be said to represent the greatest challenge for establishing a stable and accountable democratic government in Mozambique¹⁸.

Mozambique ranks poorly on a range of recent governance indices as displayed below.

Comparative data			
Variable	Achieved score / maximum score	Rank / N	Comments
2012 World Bank Governance Indicators <i>The data reflect the views of public, private, and NGO sector experts worldwide</i> <ul style="list-style-type: none"> • Voice and accountability • Control of corruption • Gov't effectiveness • Political stability and absence of violence/terrorism • Regulatory quality • Rule of law 	- 0,2 - 0,6 - 0,6 + 0,3 - 0,5 - 0,6		The index ranges from approximately - 2,5 to +2,5. Corruption and effectiveness have regressed since 1996. The other parameters show modest improvement.
2012 World Bank CPIA <i>(range of World Bank indicators on transparency, accountability, and corruption in the public sector)</i>	3/6	Median score	No change since 2005.
2012 Corruption Perceptions Index - Transparency International <i>Based on observers', including investors' and experts', assessment/perception of corruption.</i>	31/100	123/176	Mozambique is in the seventh decile. Slow progress in score but dramatic fall in rank vis-à-vis other states in recent years.
2013 Ibrahim Index of good governance <ul style="list-style-type: none"> • Overall score • Human development • Participation and human rights 	54,8/100 50,5/100 60,3/100	20/52 36/52 14/52	Relatively modest positive change of 2,3 points last 13 years.

¹⁷ As cited by a number of informants and reported in, *inter alia*, Lars Buur, Jose Macuane and Bernhard Weimer (2013), 'Turning to natural resource extraction: A new opening for agriculture or continued neglect in Mozambique?' Background paper, and Bertelsmann Stiftung Transformation Index (BTI) 2012 - Mozambique Country Report. Gutersloh: Bertelsmann Stiftung, 2012.

¹⁸ There is increasing internal disharmony within FRELIMO at this centralization of control. Most recently, a number of centrally placed members were voted out of their positions at the September 2012 FRELIMO congress, including then Prime Minister Aires Ali. Guebuza has thus lost a number of key allies on the committee and his preferred choice for presidential candidate are no longer assured.

2013 Resource Governance Index – Revenue Watch International • Overall Score • Institutional & legal setting	37/100 58/100	46/58 32/58	Composite ‘failing Score’, but relatively good score on legal and institutional parameters.
2014 Ease of Doing Business Index <i>This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators.</i>	54.98/100	139/189	Indicators largely static. Seventh decile.
Qualitative surveys and data			
2012 Afro-Barometer (5 th round) <i>National-level survey with stratified clusters. 2400 respondents.</i>	19 % of Mozambicans felt the country is going in the wrong direction, 71 % in the right. 44 % felt the media were very or somewhat effective in revealing government corruption; 28 % asserted they were not. 61 % thought some or every government official were involved in corruption.		
2010 African Peer Review Mechanism <i>‘comprehensive national self-assessment involving all key stakeholders and grassroots constituencies’</i>	APRM cites voting-related violence; ineffective political opposition; lack of separation of powers (in favour of the executive); high levels of corruption; and low financial accountability as major problems.		
2013 Publish what you pay	Mozambique received a ‘failing score’ in the 2013 resource governance index. EITI compliant country.		

Aside from Mozambique’s score on the Corruption Perceptions Index, declining voter turnout (44% in the 2009 elections) and a number of strikes and violent demonstrations in recent years¹⁹ illustrate citizens’ disenchantment with the political system, and the growing disconnect between FRELIMO and the people they govern. On the other hand, it should be noted, that in comparison to other sub-Saharan African countries, Mozambique’s ‘governance trajectory’ has been relatively positive and now ranks at the middle rather than the bottom.

2.3 Economic Situation: Growth but for whom?

Mozambique is amongst the top 10 fastest growing economies in the world.²⁰ From 2001-2011, GDP real growth rates averaged 8 per cent annually and are predicted to continue at a rate of 7.5 per cent until 2017²¹.

¹⁹ A number of groups including demobilized war veterans, security service retirees, doctors and other health sector professionals have organized strikes and demonstrations demanding better living conditions. In March 2008 and September 2010, violent demonstrations in Maputo brought on by simultaneous rises in food and fuel prices, demonstrated how out of touch FRELIMO are with its populace.

²⁰ Mozambique in Transition and the Future Role of the UN, New York University, Center on International Cooperation, Alejandra K. Bujones, August 2013, page 2

²¹ German Development Institute (2013). ‘Mozambique’s Economic Transformation’, Discussion Paper, 12/2013, page 3.

Table 1: World's ten fastest-growing economies (annual average GDP growth in %)

2001-2010†		2011-2015‡	
Angola	11.1	China	9.5
China	10.5	India	8.2
Myanmar	10.3	Ethiopia	8.1
Nigeria	8.9	Mozambique	7.7
Ethiopia	8.4	Tanzania	7.2
Kazakhstan	8.2	Vietnam	7.2
Chad	7.9	Congo	7.0
Mozambique	7.9	Ghana	7.0
Cambodia	7.7	Zambia	6.9
Rwanda	7.6	Nigeria	6.8

Source: The Economist Online ²².

Despite its impressive growth trajectory, there is little evidence of improvement in the socioeconomic situation of a large majority of the population. Mozambique remains one of the poorest countries in the world with more than half of its population (55.2%)²³ living below the poverty line. It continues to lag at the bottom of the Human Development Index – a measure of basic human development achievements – with a position of 185 out of 187 countries.²⁴ The country fares equally poorly on indicators of equality. The inequality-adjusted human development index (IHDI), which measures the distribution of human development achievements across the population ranks Mozambique at 125 out of 132 countries.²⁵ For comparison, Norway comes in at the top of the index and Angola at 120 (see Table 2 below). Another indicator of inequality – the Gini coefficient²⁶ – shows inequality at the national level as virtually unchanged between 2002-2003 (0.42) and 2008-2009 (0.41), with a slight increase of inequality in urban areas vis-à-vis rural zones.²⁷

Economic disparities are most significant between rural and urban areas and at the gender level. A third index on inequality – the 2012 Gender Inequality Index (GII) – that reflects gender inequality in the areas of empowerment, economic activity and reproductive health ranks Mozambique at 125 out of 148 countries. Issues of inequality and economic redistribution cannot be understated as the current tensions and conflict in Mozambique demonstrate.

²² The Economist Online (2011), 'Africa's Impressive Growth, January 2011. See:

http://www.economist.com/blogs/dailychart/2011/01/daily_chart

²³ New York University, Center on International Cooperation (2013). 'Mozambique in Transition and the Future Role of the UN', , Alejandra K. Bujones, August 2013, page 2

²⁴ Human Development Report 2013, Mozambique, UNDP Human Development Report Statistics available at: <http://hdrstats.undp.org/images/explanations/moz.pdf>

²⁵ Values are taken for 132 countries that have a calculated HDI value.

²⁶ A Gini coefficient of 0 expresses perfect equality while an index of 1 implies perfect inequality.

²⁷ Mozambique Poverty Reduction Strategy Paper, 2011, International Monetary Fund (IMF). Available on IMF website: <http://www.imf.org/external/pubs/ft/scr/2011/cr11132.pdf>

processes. However civil society is starting from a very low base and has typically been concentrated in the service delivery sector rather than in the area of accountability. Moreover, Mozambique is hampered by low levels of education and literacy rates, and weak access to information and public participation in formal processes. In this context, civil society structures and technical capacities are generally weak. Pockets of strength do exist but these are concentrated in Maputo with little representation from the regions. Examples include the Centre for Public Integrity (CIP), Centro Terra Viva (CTV), Impacto, WWF Mozambique, the Human Rights League (LDH) and the Institute for Economic and Social Studies (IESE). Reliant to a high degree on funding by Western donors and without adequate rooting in society, this often leads to the charge that CSOs are donor driven rather than organic organizations.

Although there is a high degree of commitment and desire to participate in the country's governance and development processes by CSOs, their overall impact is weak. Reasons include limited financial and human resources, limited visibility in the media and lack of opportunities for engaging with the state. Moreover, the relationship between NGOs and the Government is often adversarial: in interviews both parties argued that NGOs are vocal and critical of government but often fail to present constructive alternatives or policy recommendations. NGOs also tend to focus exclusively on engaging with the government as opposed to other actors including the private sector, who could be potential allies.

The space for civil society may be narrowing according to several CSO representatives and donors. As a recent example, police detained the Director of CTV, Alda Salmao, in August 2013 under instructions from the Permanent Secretary of the district government³⁰. Salmao had been working with the Quitupo community who will be impacted by developments of LNG onshore installations in Palma. The NGO CIP also receives regular threats in response to its work on issues of accountability and transparency, particularly in the extractives sector.

2.4.3 Media

The media in Mozambique are generally quite weak. The most important medium in the country is the radio: the state broadcaster Radio Moçambique (RM) covers the whole country and has local offices in all provinces. Although it is a state broadcaster, it is still relatively independent. There are also a number of private commercial radio stations, found in the major cities, and more than seventy community radio stations that are important for serving local communities. In addition to the state television company, TVM, there are a number of private TV channels. The most important of these is STV. Other private channels of note include TIM, and Miramar, owned by the Brazilian evangelical church Igreja Universal de Rei Deus.³¹ The printed press consists of three dailies – Notícias, which is controlled by government, but formally independent; O País owned by SOPO.MZ; and the much smaller Diário de Moçambique, published in Beira. The print runs are difficult to establish, but do not exceed 20,000. There are a number of weeklies, most of them independent of government. The most important are Savana, Canal de Moçambique, Magazine Independente, Zambezi, and the free paper A Verdade.³²

³⁰ 'Harassment of Environmental Activist Condemned', 30 August 2013, Paul Fauvet, AllAfrica.Com

³¹ The Igreja Universal de Rei Deus also has a strong media presence in Brazil as well as in Angola.

³² For more a more detailed overview of the media situation in Mozambique, see among others: WAN-IFRA: Financially Viable Media in Emerging and Developing Markets WAN-IFRA, World Association of Newspapers and News Publishers. May 2011 <http://www.wan-ifra.org/articles/2011/06/07/financially-viable-media-in-emerging-and-developing-markets> and UNESCO: Assessment of Media Development in Mozambique– Based on UNESCO's Media Development Indicators. UNESCO 2011. <http://unesdoc.unesco.org/images/0021/002169/216942e.pdf>

Journalism in Mozambique is impeded by a lack of resources and access to information: many of the stories in the media are poorly researched and sourced, and there are few specialized reporters, particularly in areas that demand specialist competence such as economic reporting. In addition, while the 1991 Press Law provides for freedom of the press, other laws set limits on media freedom by criminalizing ‘abuse of freedom of the press’. Political pressure on the media is evident. For instance, the government daily, *Noticias*, often fails to report on events that paint the GoM in a poor light, such as the demonstrations against rising food and fuel prices in Maputo in 2008 and resulting shooting of rioters³³. When the independent daily, *O Pais* reported on the 2010 riots in Maputo, public contracts and advertisements from both state-owned enterprise and private companies were withdrawn, thereby removing a crucial source of income for the newspaper. In another example of censorship, media outlets were warned not to report when US President Barack Obama designated well-known Mozambican, Mohammed Bashir Suleiman as a drug baron under the US Foreign Narcotics Kingpin Designation Act. Suleiman has a close relationship with former President Joaquim Chissano and current President Guebuza and is one of FRELIMO’s largest contributors³⁴.

Some donors and journalists commented on an increasing political pushback on the media in the run-up to the 2014 elections. The GoM has been buying up shares in independent media. Most recently, in September 2013, Jeremias Langa, the Editorial Director of the independent daily, *O Pais* and Director of Information of STV, the main independent TV station was dismissed, allegedly for being too critical of FRELIMO. He has been replaced with someone with closer FRELIMO ties. At the same time, the government daily, *Noticias*, redesigned its website making it difficult to find older articles, which, under the now dismissed editor Rogerio Siteo, were sometimes quite critical of the government.³⁵ Weak investigative reporting, a lack of access to information and political pressure impedes the ability of the media to play an effective oversight role, including with respect to the GoM’s handling of the natural resource sector.

2.4.4 Faith-Based Organizations

Church and religious group leaders, like many other social movement groups, tend to be affiliated with FRELIMO. In most cases, however, these organizations enjoy a greater degree of independence from the party. In Mozambique, faith-based organizations have played a key role in service delivery and awareness-raising at the grass-roots level, specifically with respect to the health sector and in broader civic education initiatives.

2.5 Governance Dynamics: Key Players and Rules of the Game

Several interest groups and dynamics influence decision-making and the rules of the game

³³ The Media Institute of Southern Africa (MISA) and NGO CIP issued a press statement asserting that the lack of coverage on the February 5 demonstrations by media outlets funded mostly by the government – TVM, *Noticias* and Radio Mocambique - confirmed the existence of government censorship of the media.

³⁴ See NYU Centre on International Cooperation (June 2013): ‘Getting Smart and Scaling Up: The Impact of Organized Crime on Governance in Developing Countries: A Case Study of Mozambique, by Charles Goredema at: http://cic.nyu.edu/sites/default/files/kavanagh_crime_developing_countries_mozambique_study.pdf; WikiLeaks memo, Important Drug Trafficking Transit Point for East Africa’, November 2009 at https://www.wikileaks.org/plusd/cables/09MAPUTO1291_a.html; US Department of the Treasury: June 2010, ‘Treasury Action Targets Narcotics Trafficking Network in Mozambique, Builds on President Obama’s Drug Kingpin Identification’ (<http://www.treasury.gov/press-center/press-releases/Pages/tg729.aspx>)

³⁵ Ibid.

when it comes to politics and the State in Mozambique. These dynamics are reflected in the management of the petroleum sector. Key amongst these are the relationships (and tensions) between FRELIMO and the State, within the party itself and between the centre and regions of the country which raise conflicts and collisions of interest.

2.5.1 Relationship between FRELIMO and the State

FRELIMO overwhelmingly dominates the State. The blurring of lines between State and party lead many to remark that 'FRELIMO is the State and the State is FRELIMO'. FRELIMO has been able to exclude RENAMO from power through skilled electoral manoeuvrings³⁶ and exercises almost complete control over the government, parliament, judiciary and economy. Membership of FRELIMO is a pre-requisite for securing a job and access to opportunities and politics seen as a means to self-enrichment. Personal relationships and loyalty to the party are vital, leading to officials placing this above their mandated roles as civil servants³⁷. FRELIMO uses the State as a means to gain access to essential resources, which in turn enables the further consolidation of political control by marginalizing or buying other interest groups. The problem of elite capture means that there is little interest on the part of the State in service delivery or appetite for public sector reform.

2.5.2 Relationship between interest groups within FRELIMO

One of the main conflicts between interest groups is within FRELIMO. Since Guebuza came to power in 2002, there has been an intense drive to centralize all power around his office. This has enabled Guebuza to monopolize economic opportunities, becoming one of the richest men in Mozambique.³⁸ The degree to which power has become centralized around the President's office is unprecedented and the cause of significant internal disharmony within the party. In difficult situations, Guebuza has been able to redistribute rent-seeking opportunities to key party elite factions in order to maintain favour and control over the ruling coalition³⁹. The 'with us or against us' mindset has created a tendency to use inclusion (to party and economic benefits) or exclusion as strategies for control.

2.5.3 Relationship between Regions and the Centre

Political power and decision-making in Mozambique has always been centred around the capital. In the context of the resource boom, the marginalization of the regions takes on a new significance given that gas and minerals are located in the north and centre of the country. Various informants and particularly CSOs who have been engaged at the community level, raised the issue of instability centred around issues of culture, language and in particular ethnicity and the sense that benefits (political or economic) flow to the south of the country. Some sources commented that political forces are already mobilizing these sentiments. On the other hand, regional elites and particularly those in Cabo Delgado with interests in the gas sector may be able to successfully leverage gas as the main resource to influence the current political settlement (which favours the centre). Compensatory measures could thus be applied to offset the historical marginalization of the central and northern regions in political decision-making and the distribution of economic benefits.

³⁶ FRELIMO has won every election since 1992. It has an extremely high membership within the party – 3.8 million – and party cells at local and district levels ensure members vote while restricting the opportunities for the opposition to vote. The politicization of the election commission and sometimes outright fraud (RENAMO leader, Alfonso Dhlakama allegedly won the 1999 Presidential elections) are also part and parcel of this strategy.

³⁷ Bertelsmann Stiftung Transformation Index (BTI) 2012 - Mozambique Country Report. Gutersloh: Bertelsmann Stiftung, 2012.

³⁸ Guebuza's wide-ranging interests in the banking, telecommunications, fisheries, transport, mining and property sectors have earned him the nickname 'Gue-Business'.

³⁹ As an example, Guebuza brought Graca Machel into the fold through joint ventures in an investment house, but sought to exclude the Chissano and Doghi families from access to any contracts related to the petroleum sector including through an internal moratorium.

2.5.4 FRELIMO and the Economy: Political-Business Alliances

Rent-seeking is the central feature of FRELIMO – for personal enrichment and as a means to consolidate further political influence (which in turns enables further rent-seeking opportunities). Guebuza and his close network function as industry gatekeepers vis-à-vis foreign companies – in particular in the gas industry - earning rents through political and administrative decision-making (licensing, project approvals, land titles, fiscal regimes) and secondly, by lining up their own companies to take advantage of contracts (logistics, catering, construction etc). The state and its resources are seen as being at the service of the party. Rent seeking – occurring most often in grey zones which could be termed conflict of interest include: monthly subsidies for FRELIMO from the State budget; the establishment of holding companies such as FRELIMO's SPI Holdings with wide-ranging interests including in the extractives sector; privatization of state property and public resources (land, companies, houses) aid and through public companies and institutes (Aeroportos de Moçambique, National Institute for State Security, LAM-Mozambican Airline Company, EDM-electricity)⁴⁰.

Linked to a narrower level of FRELIMO elites are a sophisticated network of companies. These include holding companies on the one hand, which are entry points for larger scale

Guebuza uses his office as President to makes critical decisions about economic matters that have a direct bearing on his business activities. He has wide-ranging interests in the banking, telecommunications, fisheries, transport, mining and property sectors, which has earned him the nickname 'Mr Gue-Business'. According to a Wikileaks memo⁴¹, which was subsequently reported in various media, Guebuza took a kickback of between USD \$35 -50 million in the handover of the Cahora Bassa Dam from Portugal to Mozambique.

FDI as well as broadly-licensed companies that identify business opportunities, obtain licenses and wait for foreign partners or target public tenders⁴². A detailed mapping of political-business alliances is illustrated below. According to informants and a recently released report on Mozambique⁴³, FRELIMO's economic control hinders the diversification of the economy and specifically, the development of small and medium business enterprises (SMEs). A large, dynamic and diverse SME sector would subvert FRELIMO's predominant objective to control the economy and the mechanisms for social protection.

2.5.5 Impact of the Gas Boom on Rent-Seeking, Patronage and Corruption

The economic incentives from the gas boom and minerals drives further rent-seeking and possible conflict as rival political factions seek to profit from the gas sector and shore up their own business interests. There are also plentiful examples of resource booms leading to a deterioration of transparency and accountability. Internal disharmony within FRELIMO around the distribution of benefits is also only likely to strengthen. The gas boom and its rewards stoke increasingly fierce competition for the various parts of the pie and an increased fear of exclusion. In the absence of conflict resolution mechanisms, the most powerful prevail⁴⁴.

Guebuza is expected to use the remainder of his time as president to try to build up his influence in the natural gas sector. According to a recent country risk analysis report for investors, influential political and business figures will likely encourage foreign investors to

⁴⁰ Political Economy Analysis Mozambique, September 2012. Author Anonymous, Report undertaken for EU Delegation in Mozambique. (Confidential Report)

⁴¹ WikiLeaks Website, Public Library of US Diplomacy, 'Mozambican Businessman talks of Corruption at the Highest Levels of Government', 28 January 2010. Available at: https://www.wikileaks.org/plusd/cables/10MAPUTO86_a.html

⁴² Political Economy Analysis Mozambique: 2012 (No author cited).

⁴³ *ibid.*

⁴⁴ *ibid.*

form joint ventures with Guebuza-affiliated companies, thus acting as industry ‘gatekeepers’, or to hire politically connected contractor firms (e.g. in engineering, surveying, equipment supply, logistics).⁴⁵ From the point of view of investors, it is known that strong relationships with key natural gas industry ‘influencers’ could mitigate contract risks. Industry influencers operate in a myriad of ways including through facilitating the acquisition of licenses or acting as brokers through local partnership with politically-connected companies. Their motivation is secure ‘greater participation and a greater share of revenues in the petroleum sector through participation in state-owned vehicles such as ENH and-or politically-favoured private companies’⁴⁶. The relationships are equally important for private investors as they mitigate contract risks and allow one to bypass bureaucratic bottlenecks or potential obstacles.

Table 3: Key Natural Gas Industry Influencers

Armando Guebuza President of Mozambique	Major business interest is large conglomerate Intelec Holdings. Stakes in Sasol gas joint venture, Trans African Connection (toll roads) and Cornelder (Beira and Quelimane Port operator).
Celso Correia Chairman, Insitec Holdings and BCI	Guebuza favourite and key gatekeeper and partner for ventures with Brazilian investors. E.g. Insitec and Camargo Corrêa have 40% stakes in the Mphanda Nkuwa hydroelectric dam. Currently lobbying for the construction of an LNG plant.
Sérgio Pantle FRELIMO CP Member	Set to become an influential stakeholder in the gas sector through 30% stakes in a number of Nampula-based companies. Already a key minority partner for mining.
António Sumbana Minister in the Presidency	President Guebuza's right-hand man and chief policy-maker. Owns Mbatine Investimentos Ltd., which co-owns Indopetro SA (oil and gas sector asset management).
Salimo Amad Abdula Chairman, Intelec Holdings	Abdula is a key ally of Guebuza. Intelec is the chief service provider to Electricidade de Moçambique (EDM) and is involved in energy transformation deals for gas and oil.
General Tobias Dai Former Defence Minister	Guebuza's brother-in-law. His cousin Jose Edouardo Dai has formed numerous business ventures with Valentina Guebuza. Sister-in-law Maria da Luz Guebuza is also close to Dai.
Valentina Guebuza Daughter of Armando Guebuza	Head of family holding firm Focus 21. Stakes in logistics, trade, mining, telecoms, and real estate companies. Key gas sector player, along with brother Mussumbuluko and nephew Daude Guebuza.
Tania Romana Matsinhe CEO, Intelec Consulting	Cape Town-based Matsinhe gives advice to companies planning to invest in Mozambique. She is a former economic adviser to the Mozambique Minister of Planning and Development.
Petroline	A pipeline joint venture between the state-owned Petróleos de Moçambique (Petromoc) and South African firms. The commercial viability of its pipeline is threatened by South Africa's Transnet's plans to construct its own pipeline.
SPI Limitada	A holding company owned by influential Frelimo members.
N'Naite Joaquim Chissano Son of the former president	Although not close to Guebuza, Chissano owns stakes in Gasóils SA (search, production and marketing for gas sector) and Tupann (construction).

Source: IHS Exclusive Country Analysis, Mozambique⁴⁷

2.5.6 The Question of Presidential Succession

The question of presidential succession is of vital importance as Guebuza nears the end of his second presidential term. Guebuza's priority will be to maintain his influence, control and stakes over the burgeoning gas sector, inter alia through finding a loyal ally to succeed him.

⁴⁵ Mozambique – Political Dynamics, Regulatory Outlook and Infrastructure Risks, Robert Besseling, IHS Country Risk Analysis and Forecasting, April 2013, IHS.

⁴⁶ *ibid.*

⁴⁷ See Besseling: 2013

The upcoming general elections, scheduled for October 2014, have already increased political pressure on parliament to pass the revised petroleum law without delay in order that a fifth exploration licensing round can be launched in early 2014. Significantly, the clause on award of concessions by direct negotiation, which was initially taken out of the draft revised petroleum law, has now been reinserted. The option for direct negotiation was reinserted at some point before the law went to the CoM in March 2013 but after INP had circulated the first draft version in 2012. Guebuza's inability to 'conclude' the successor question, his bid for a third presidential term of the FRELIMO party (which he won and which will provide him with substantial power in the next government) and the reshuffling of cabinet in October 2012 have increasingly fractionalized the party. Loss of support for Guebuza within the FRELIMO party reduces the likelihood that he can handpick a loyal supporter as presidential candidate in the 2014 elections. The conflict in Mozambique has ignited speculation that Guebuza may seek a third term, or seek to postpone elections in 2014 given that he has lost influence over the nominating process, and that FRELIMO lost some influence to MDM in southern and central cities. The implications of the presidential succession question are explored more thoroughly in the section on risks and mitigation.

2.5.7 Relationship between RENAMO and FRELIMO

The relationship between the belligerents from the civil war has always been tense. Grievances on the part of RENAMO include unresolved issues from the General Peace Agreement and their increased marginalization from political power and economic benefits. The growing politicization of the elections commission, redrawing of a number of electoral laws and alleged vote rigging and fraud has enabled FRELIMO to win every election since 1992 (critics claim that Dhlakama won the 1999 elections). An uneasy status quo between the parties has held for many years on the belief that promises for more inclusive distribution of economic opportunities and benefits, including those from the natural resource boom would be honoured. The current conflict was stoked by FRELIMO's approval of a new electoral law in December 2012 without RENAMO's consent. Unsuccessful negotiations on the electoral law and questions of resource distribution sparked a series of small military raids by RENAMO on the main national road in June 2013. In response, the national army raided Dhlakama's base in Satungira in October 2013, killing a senior RENAMO official. Since then a number of attacks and counter attacks have occurred creating a climate of fear and tension (a number of governments have issued travel advisories and at least one company, Rio Tinto, repatriated staff dependents at the time of writing).

2.6 The Role of International Players: A recalibration of influence

Mozambique is heavily dependent on aid; reports put ODA share of the total government budget at between 35%⁴⁸ - 40%⁴⁹ in 2012. However, ODA is declining⁵⁰, both in real terms and as a proportion of the State budget as revenues from the extractive sector and a widening of the fiscal tax base increase. According to the Economist Intelligence Unit⁵¹, revenues from the mining sector will be substantially larger than donor support totals by 2017, which seems highly probable if net private capital flows into Mozambique continue at the same pace. Net foreign direct investment (FDI) flows to Mozambique increased

⁴⁸ Economic Transformation in Mozambique: Implications for Human Security, Katharina Hoffman, August 2013. Friedrich Ebert Stiftung, p6.

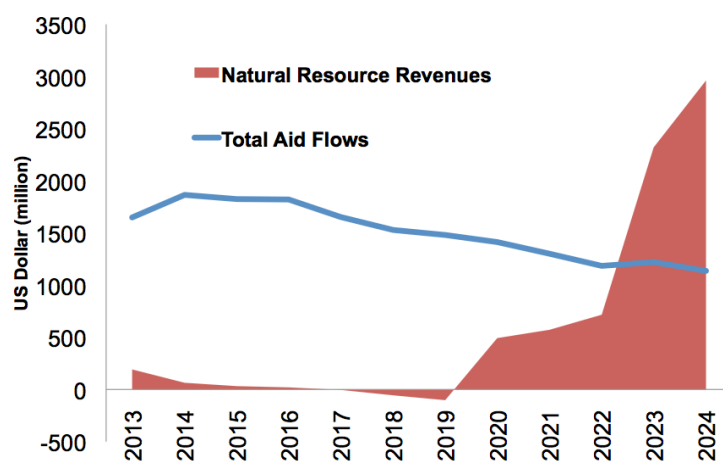
⁴⁹ Mozambique's Economic Transformation: Are efforts to streamline the fragmented aid landscape undermined for good? Discussion Paper 12/2013. Frank Vollmer, German Development Institute.

⁵⁰ In 2011, the ODA as a share of the total government budget was closer to 45%, and more than 50% in 2010 according to the Bertelsmann Stiftung BTI 2012 –Mozambique Country Report, p.7.

⁵¹ Economist Intelligence Unit, Country Report Mozambique, October 2012: www.eiu.com (restricted access)

significantly from US\$43 million in 2009 to US\$568 million in 2011⁵². The GoM predicts independence from aid at current levels in the next ten years⁵³, which has significant implications for donor influence and leverage.

Figure 2: Projected Evolution of Aid Flows and Natural Resource Revenues (in US\$ million)



Source: IMF Resident Representative, September, 2013, 'Mozambique: Aid and Natural Resources'. PowerPoint Presentation at G-19 Retreat, Mozambique.

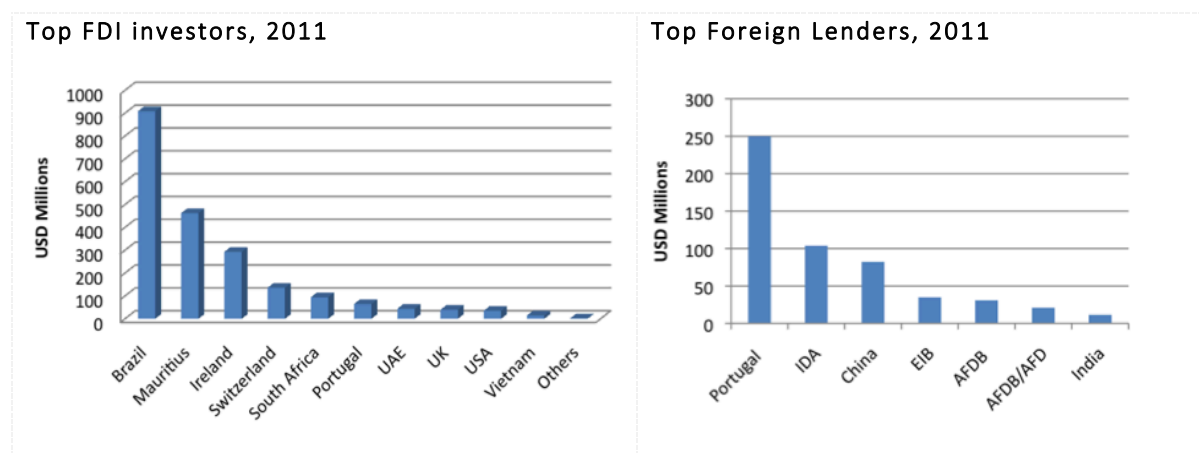
Realizing resource wealth is not without its challenges. While aid flows are predicted to fall, and resource revenues may offset the decline, the transition will be difficult, especially over the next five years. Without controlled government spending and sustained growth in mining revenues and FDI, there is the possibility of a fiscal gap before revenues from LNG exports begin flowing in around 2018. Secondly, a failure to manage expectations, redistribute economic benefits and improve resource and fiscal governance may have a high price. The potential for conflict in times of slow political (and institutional) but rapid economic and societal transformations is high, as the current security situation in Mozambique demonstrates.

The second factor influencing a shift in distribution of power and influence within Mozambique is the increasing investment from 'emerging donors'. Brazil, China, India, South Africa and Australia have significantly increased their footprint in Mozambique investing heavily in infrastructure projects such as railways and roads as well as mining and gas. South Africa and Portugal continue to have important historical ties with Mozambique, accounting for their high level of investment in the country. Most recently, newer discoveries of gas in the Rovuma Basin have brought in investors from Indonesia, Thailand, Japan and Korea. The increase in South-South development cooperation as well as South-South trade means that the spheres of influence in Mozambique are shifting away from traditional (Western) donors to new and emerging partners. These new actors will likely play a stronger role in shaping the future of Mozambique in the coming decade.

⁵² Hoffman, 2013: page 7

⁵³ Hoffman, 2013: page 7.

Figure 1: Top FDI Investors and Foreign Lenders to Mozambique, 2011



Source: Bank of Mozambique.⁵⁴ Note: IDA refers to the World Bank International Development Association; EIB to the European Investment Bank; AFDB to the African Development Bank

Mozambique is thus in a period of significant transition. It remains heavily aid dependent while experiencing substantial FDI inflows, significant levels of poverty and economic disparities despite impressive economic growth over a decade, and a realigning of political and economic interests and influence from the North to the South.

2.7 Core Donors involved in the Petroleum Sector

Alongside Norway, several donors are active in providing support to the petroleum sector. The World Bank through its Mining and Gas Technical Assistance Programme (MAGTAP) provides capacity building and reform support across the hydrocarbons sector (mining and gas). The programme is expansive with components that include institutional strengthening and reform, environmental and social management, strengthening revenue management and transparency, integrating mining and gas into local and regional development, and supporting project management and M&E across the sector. MAGTAP has also supported the development of a Gas Master Plan, which will serve as a (evolving) roadmap for development of the gas sector. The programme budget currently stands at approximately \$60 million (over eight years) and the institutions targeted by the programme include ENH, INP, MIREM and MICOA as well as other agencies impacted by the petroleum sector. Several informants commented that when programme support to ENH ceased, and in particular, when Norwegian funds to INP were frozen in 2012 while an audit and administrative review were undertaken, these institutions looked increasingly to the MAGTAP programme to fill the void.

The IMF is providing support to the GoM on the design of a fiscal regime and tax policy for the extractives sector, working primarily with the Autoridade Tributaria (AT) and the Ministry of Finance. It provides support on both a bilateral basis, and through the Tax Common Fund (TCF), to which it has observer status. Norway also provides support to the TCF along with the UK, Sweden, Canada and Germany. The fund constitutes flexible support for institutional strengthening and is managed by AT in line with its own plans and strategies. Tax

⁵⁴ Bank of Mozambique, 2011, Balance of Payments Report no.8; Available at: http://www.bancomoc.mz/Files/DEE/Boletim%20%20Anual%20%20BOP_2011.pdf

administration areas supported through the fund include audits, internal training, fiscal education and capacity building as well as for ICT. With respect to the civil society sector, the French development agency (AFD) has been providing funding to the Natural Resource Platform, which consists of 33 member CSOs. Several donors (DFID, Irish Aid and USAID) support the strengthening and diversification of CSOs, including in the natural resource sector, through the Mechanism for Civil Society Support (MASC). The US has also recently set up a programme to build up the capacity of media to report on developments in the natural resources sector.

Finally, the G19 Extractive Industries Donor Task Force is a working level group set up to exchange information on the extractives sector, coordinate donor efforts where relevant and ensure coherence in advice provided to the GoM. The task force has been led by DFID since July 2012 where contract transparency has been an important focus. A number of informants commented on Norway's contributions to the forum as being notably limited, and discordant with its global position on transparency and expertise in the petroleum sector. Task force participants feel that Norway could play a valuable and relevant leadership role in the Task Force group.

2.8 The Role of International Oil Companies in Mozambique

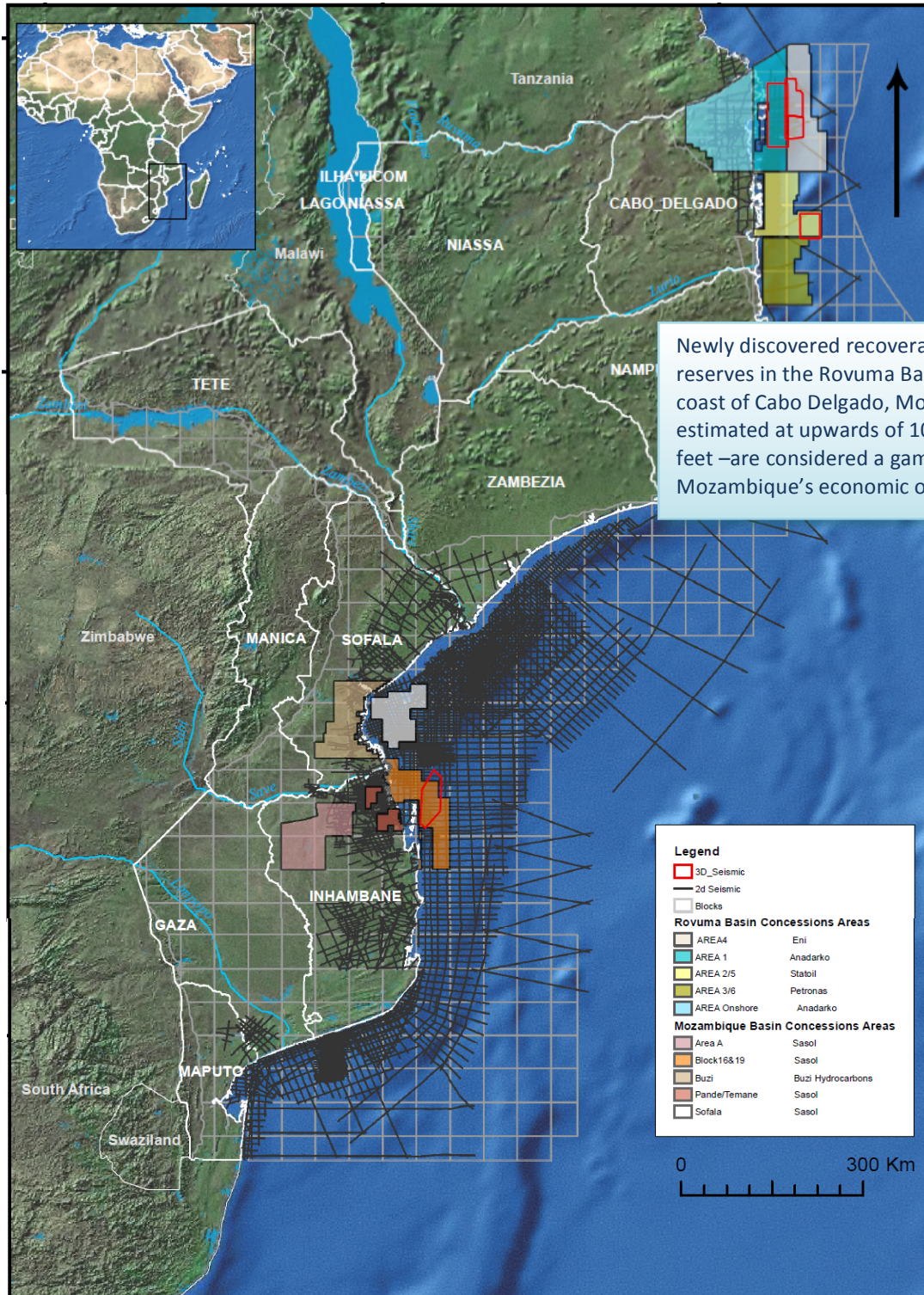
A number of informants referred to the asymmetries in information and bargaining power between the international oil companies (IOCs) and Mozambican institutions tasked with contract negotiations. The IOCs were described as aggressive and as enlisting the support of the best and experienced lawyers in the field, and their government, if need be. The GoM on the other hand had limited capacities, expertise and experience in managing this new and complex sector.

The petroleum-related industry 'landscape' in Mozambique has shifted significantly, and is covered in more detail in section three of this report (see section 3.2 on Industry overview). The so-called BRICS countries and emerging investors from the South are increasingly represented in the petroleum sector in Mozambique. For instance, the Malaysian company Petronas and Indonesian company PT Kalila Energy are amongst the main operators in the Rovuma and Mozambique Basins. ENI, the Italian operator recently sold almost 30 percent stake in ENI Africa to the China National Petroleum Company; other consortium partners include South Korea's Kogas, India's Bharat Petroleum Corporation and Videocon Group, and Japan's Mitsui & Co. Investors from the South will become increasingly influential in shaping developments in the sector with China, Brazil and India being the main drivers of this development. This development may have implications for the country and local communities as these companies may have less stringent national requirements and standards relating to protection of the environment and communities.

On the part of Mozambique, the government is likely to favour South-South partnerships in farm out agreements and future bidding rounds, preferring Brazilian, South African, Indian, Thai and Chinese investors. Bids from these countries often incorporate knowledge, technology transfer and local skills development clauses. IOCs can have a significant role to play with regards to transfer of knowledge and local skills development through partnering with local companies and through setting up training programmes. Anadarko for instance is partnering with Eduardo Mondlane University in Maputo to build up the capacities of local Mozambicans so that they may lead projects in the future. On the other hand, a number of informants in Mozambique also pointed to IOCs as contributing to a 'brain drain' away from the public sector to the private sector, in part due to higher wages.

3 The Petroleum Sector in Mozambique

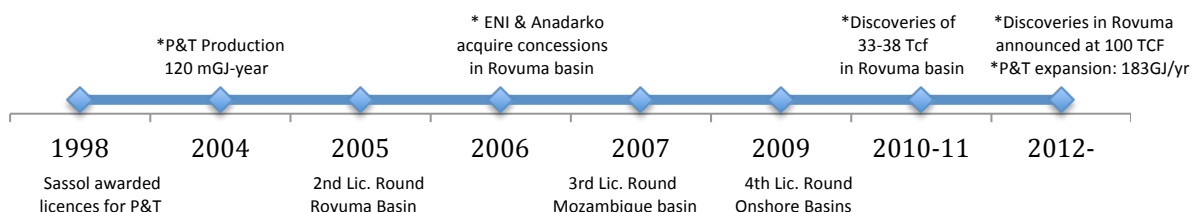
Map 1: Mozambique Acreage Map



Source: National Petroleum Institute, Mozambique (www.inp.gov.mz/Mozambique)

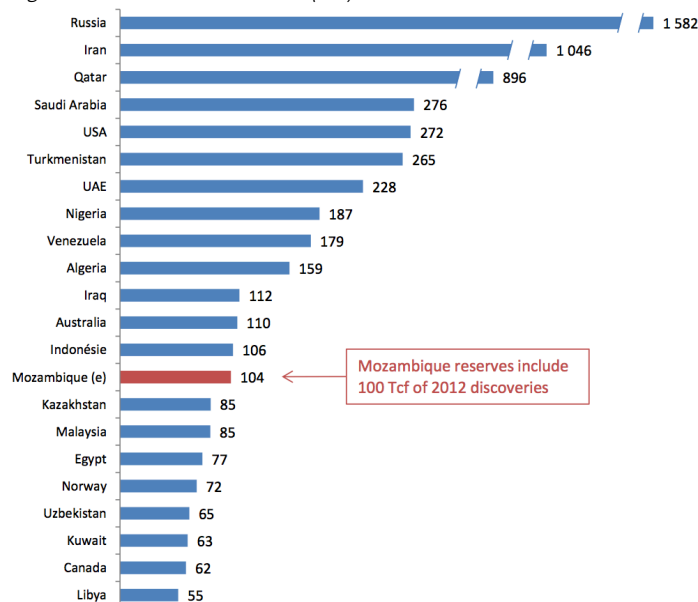
3.1 Estimated size and location of reserves

Fig. 2 Timeline of Developments



Natural gas was first discovered in large quantities in the 1960s in Mozambique’s Pande and Temane fields⁵⁵. Sasol was awarded licenses for the onshore discoveries in 1998 and went on to find proved reserves of gas in the region of 2.7 Tcf with an estimated project lifespan of 25 years⁵⁶. The first production and export of gas began in 2004⁵⁷. Total production capacity was 120 million GJ of gas per year with the bulk of the gas produced being routed to South Africa. In 2012, expansion of the Pande and Temane project increased production to 183 GJ per year. The last several years have seen most interest focus on offshore reserves in the Rovuma basin. In 2010-2011, Anadarko Petroleum and ENI announced discoveries of between 33 and 38 TCF of recoverable natural gas in the basin: more recent exploration suggest estimates of upto 180 Tcf⁵⁸. Statoil and Petronas hold leases in blocks to the South of the Anadarko and ENI blocks (see Map 1 on acreage), where initial drilling has proved disappointing. These new developments position Mozambique as a major player in the sector. For purposes of comparison, Figure 3 illustrates proven natural gas reserves globally.

Figure 3 Proven Gas Reserves (Tcf)



Source; OPEC-CIA Factbook and SPTEC Advisory Estimates⁵⁹. Reserves as of 31/12/2011

⁵⁵ The resources remained undeveloped for nearly 40 years mostly due to the political turmoil in Mozambique.

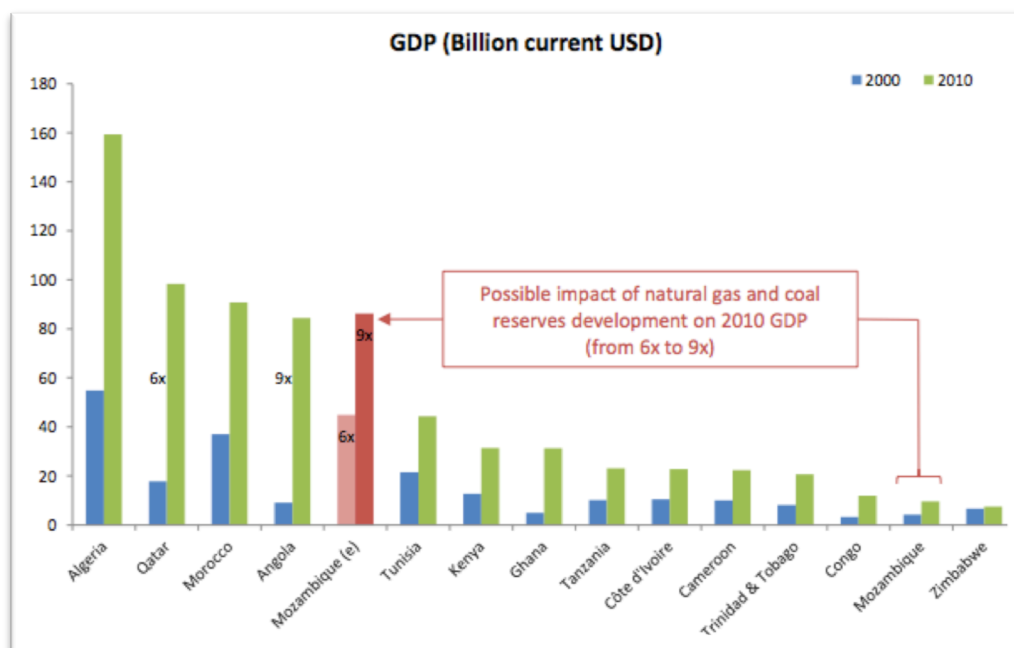
⁵⁶ SASOL, Annual Review, Johannesburg: SASOL, 2004, p.38

⁵⁷ The first exports of gas out of Mozambique began in 2004 after Sasol completed the construction of an 865km pipeline from the Pande and Temane fields to Sasol’s facilities in Secunda, South Africa.

⁵⁸ Developments in the gas sector are moving rapidly: revisions to estimates of recoverable natural gas are likely.

⁵⁹ SPTEC Advisory, January 2013. ‘2012 Country Review: Mozambique: The Emergence of a Giant in Natural Gas’, http://www.sptec-advisory.com/SPTEC_Advisory-Mozambique-The_Emergence_of_a_giant_in_Natural_Gas.pdf

According to some reports,⁶⁰ the development of the natural gas reserves as well as significant coal reserves in Mozambique (over 23 million tonnes) could place the country close to Angola or Qatar in terms of GDP in the future.



Source: World Bank and SPTEC Advisory Estimate⁶¹

3.2 Industry Overview

The major international oil companies (IOCs) or operators in Mozambique are Anadarko, ENI, Statoil, SASOL and Petronas. Investors are given the exclusive right to conduct petroleum operations under an Exploration and Production Concession Contract (EPCC). The GoM holds petroleum interests under each EPCC through its national oil company, ENH. So far these interests range from 10-25% with indications that this could increase to 30% for incoming operators. Mozambique’s blocks are currently licensed as follows, with ENH’s share indicated:

Table 4: International Oil Companies: Blocks and ENH Share

	OPERATORS	BLOCKS	CONSORTIUM PARTNERS	ENH%
EXPLORATION BLOCKS: MOZAMBIQUE BASIN	SASOL	SOFALA	ENH	15%
		AREAS 16 &19	ENH, PETRONAS	15%
		AREA A	ENH	10%
		TEMANE FIELD	ENH	-
		PANDE FIELD	ENH	-
		PANDE-TEMANE	ENH, WORLD BANK	-
	SASOL & PETRONAS (Malaysia)	M10	ENH	15%
PT Kalila Energy (Indonesia)	BUZI	ENH	25%	
	ANADARKO	ROVUMA ONSHORE	ENH MAUREL ET PROM	15%

⁶⁰ *ibid.*

⁶¹ *ibid.*

EXPLORATION BLOCKS: ROVUMA BASIN			WENTWORTH RESOURCES	
		OFFSHORE AREA A	ENH MITSUI VIDEOCON BHARAT PETROLEUM	15%
	STATOIL	BLOCKS 2&5	ENH TULLOW OIL	10%
	PETRONAS	BLOCKS 3&6	ENH TOTAL	10%
	ENI	AREA 4	ENH GALP KOGAS	10%

Source: Table compiled using data from Deloitte Petroview (GIS Oil and Gas Data) and South African Institute for International Affairs⁶²

In December 2012, ENI and Anardarko signed a Heads of Agreement governing the joint development and operation of LNG liquefaction and export terminal facilities in the Cabo Delgado province. Predications on the number of trains to be developed and timelines for export vary. Most estimates converge around the figure of 2-4 trains, with production to begin by 2018, whereas other estimates predict the possibility of 10 trains by 2026.

3.3 Regional Context and Market Dynamics

The primary market destination for Mozambican LNG exports is Asia (particularly Japan) and SADC. Japan and Mozambique signed a MoU in 2012 aimed at supplying energy to Japan⁶³. However, significant discoveries of offshore gas have also been made in Tanzania, leading to claims of an East Africa gas race as each country seeks to be the first to export gas from the region. The LNG market is characterized by a high degree of uncertainty, compounded by the fact that competitors for Asian markets are likely to include Australia, the United States (which expects to begin exporting shale gas from 2015) and Russia (which aims to ramp up exports targeting Asia later this decade).⁶⁴

According to Lloyd's List Intelligence,⁶⁶ both Mozambique and Tanzania need to move fast to become major exporters, as global shale gas exports threaten to 'saturate the markets' before either has had time to export

The LNG Export Race:

The US is expected to begin exports of LNG in 2015 with estimated annual volumes of 70bcm by 2020 and Australia expects to export around 85bcm annually to Asia by 2016. Can Mozambique develop its potential before new supplies pull down prices? As a comparison, Angola is reported to have begun exporting LNG exports at a rate of 7bcm after 11 years of preparation and \$10 billion investments.⁶⁵

any gas. According to ENH⁶⁷, however, first gas from Mozambique LNG will likely be ready for export in 2019 or 2020, depending on progress in contract negotiations and with the final

⁶² See Deloitte, January 2013, 'The Deloitte Guide to Oil and Gas in East Africa: Where potential lies', page 13, and Ichumile Gquada, August 2013, 'A Boom for Whom? Mozambique's Natural Gas and the New Development Opportunity'. South African Institute of International Affairs, Occasional Paper No. 151.

⁶³ Tapping Africa's natural resources - coal reserves as well as natural gas - would enable Japan to replace nuclear energy as its main power driver and also diversify away from Australia and Qatar for supplies.

⁶⁴ 'Bigger Battle awaits Mozambique, Tanzania in East Africa Gas Race', 10 October, 2013, Reuters UK. See: <http://www.reuters.com/article/2013/10/10/energy-gas-africa-idUSL5N0HM2Q020131010>

⁶⁵ 'Bigger Battle awaits Mozambique, Tanzania in East Africa Gas Race', 10 October, 2013, Reuters UK

⁶⁶ 'East Africa gears up for LNG Export Race', Lloyds List Intelligence. 23 September, 2013

⁶⁷ See Artic Gas, October 2013, 'Lack of Infrastructure could delay Mozambique's LNG Plans', available at: <http://www.arcticgas.gov/2013/lack-infrastructure-could-delay-mozambique-lng-plans>

investment decision⁶⁸. Other sources argue that the infrastructure and organizational challenges in Mozambique make a forecast of even 2020 unrealistic.⁶⁹ A number of sources, and at least one partner in Mozambique LNG have voiced concerns that competing volumes from Australia, the US and Canada could create a 'supply glut toward 2020, making it harder for delayed projects to find a market'.⁷⁰ Others, however, claim that strong demands make natural gas oversupply a remote prospect⁷¹.

Rovuma Revenue Projections: Scenarios

Potential revenues from the sector depend on reserves, timing and scale of exports, price and fiscal terms.

Reserves: Current volumes of commercially viable gas found (in excess of 100 tcf) place Mozambique around 15th in size of reserves globally, although more is presumed to exist. ENH has stated that the country's offshore field may hold up to 250Tcf. As more gas already exists than can be brought to market, additional natural gas discoveries in Rovuma are of essentially no consequence for revenue projections through to 2050.

Exports: Revenue projections also depend on timelines for first exports and volume of potential exports. Most projections assume first gas based on the publicly declared target of 2018, but this is an absolutely "best case" scenario based on timelines that have already slipped. If projections should be best estimates it is reasonable to assume two-trains exporting 10mtpa by 2020. Projections beyond two trains are highly uncertain. A design is being completed for a four-train facility. Companies have repeatedly mentioned 10 trains – but this would make Palma the second most expensive energy project in the world and is unlikely to be feasible (if at all) until sometime in the 2030s. Only Qatar has ever managed an expansion on this scale.

Mega-project: It is possible that some gas will be used in support of gas intensive mega-projects instead of LNG exports (particularly from second and third phase LNG trains as first phase will be committed to LNG to secure financing). Companies seeking access to Mozambique gas are reported to be offering far less than market rate for access to gas. Mega-projects might generate additional employment, but government revenues will certainly be less than with LNG exports.

Prices: The LNG market is undergoing profound changes with Asian demand expected to grow and with supply (particularly due to fracking in North America) being highly unpredictable. The market for Mozambique gas is Asia (particularly Japan): their prices have historically been benchmarked against oil prices though there could be a move towards spot-price based markets leading to more volatility and risk for countries like Mozambique. The basis for setting the gas price for calculating government revenue is not yet clear though a netback price (final sale price less transport and processing costs) is the basis for most revenue projections.

Fiscal regime: The fiscal regime governing Rovuma contracts is reported to be one of the most generous in the world. The overall government take is expected to be somewhat below average, and timelines for government revenues are heavily back-loaded. Initial revenues are a 2% royalty and a 3.4% minimum government share of production (35% of production after cost recovery * 10% government share at r<1). This will likely yield just over \$100 million per year per train in government revenue during the first 1-3 years of production. Revenues in 2020 then cannot exceed about \$200 million. The "production sharing agreement" ultimately gives 60% of production to the government when 4>4. The high-end revenue

⁶⁸ According to two informants in Mozambique, ENH has been focusing its efforts on positioning ENH Logistics to take advantage of petroleum-related contracts in logistics and infrastructure, instead of using resources provided (funding and expertise) to focus on reaching a final investment decision.

⁶⁹ See Neil Beveridge of Bernstein Research quoted in Ed Crooks, November 2013, 'Global gas revolution starts to take place, Financial Times. <http://www.ft.com/intl/cms/s/0/ce11b67e-5362-11e3-b425-00144feabdc0.html#slide0>

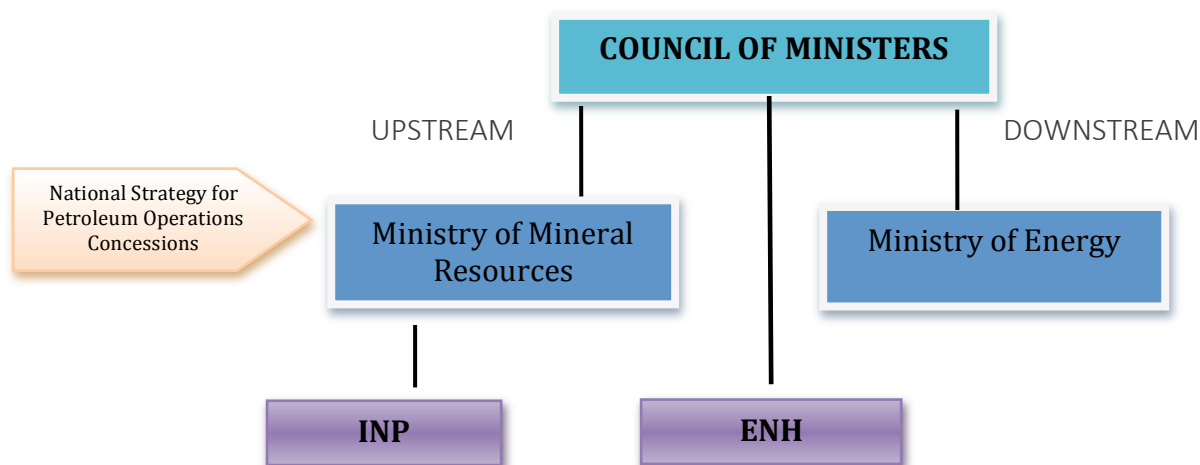
⁷⁰ See Artic Gas, 'Lack of Infrastructure could delay Mozambique's LNG Plans'. Also see Reuters UK article on 'Bigger Battle awaits Mozambique, Tanzania in East Africa Gas Race' and Lloyds List Intelligence report, 'East Africa gears up for LNG Export Race', cited above.

⁷¹ Jason Bordoff, Center on Global Energy Policy, Colombia University cited in Breaking Energy, 2013 at <http://breakingenergy.com/2013/06/27/natural-gas-supply-glut-dont-count-on-it/>

projections when company profits exceed 4 times their entire investment are roughly \$2.5 billion per LNG train. Pricing uncertainty creates significant possibilities that these are over-estimates. The greater the scale of the development (and thus the greater the initial investment), the longer the time to get full cost recovery x 4. Revenues in the multi-billions of dollars per year seem highly unlikely before at least 2026. LNG revenues are a real game changer in the 2030s.

3.4 Petroleum-Related Structures

The core decision-making structure and regulatory functions in the petroleum sector can be illustrated as follows:



3.4.1 The Council of Ministers

The Council of Ministers is the highest government body, composed of the president, prime minister and other government ministers. It is vested with ultimate law making power and authority on policy development and implementation, concessions granting, and taxation and royalty collection.

3.4.2 Ministry of Mineral Resources (MIREM)

The Ministry of Mineral Resources governs the petroleum sector and oversees INP. The Ministry directs and executes policies relating to the exploration and production for, and production of mineral resources, including raw petroleum, coal and natural gas, in accordance with the National Strategy for Petroleum Operations. The Ministry’s remit is (perhaps overly) broad covering all mineral resources including coal and hydrocarbons and matters ranging from commercial to environment to public health and safety.

3.4.3 Ministry of Energy

The Ministry of Energy is responsible for regulating downstream production and distribution within the sector and is therefore not a core focus.

3.4.4 National Petroleum Institute (INP)

INP was established in 2004 as an independent regulator, though in practice it is subordinate to MIREM. It is responsible for negotiating petroleum concession contracts with foreign companies on behalf of the government and for regulatory matters concerning petroleum exploration, production and transportation including technical, economic, and environmental conditions. INP is mandated to ensure the compliance of Contractors with concession agreements.

3.4.5 Empresa Nacional de Hidrocarbonetos de Moçambique (ENH)

ENH is the national oil company through which the State participates in concession agreements with national and foreign private entities. Under model concession contracts (EPCs), ENH holds 10-15% interests in the offshore blocks in the Rovuma Basin and is participating in gas distribution projects in Maputo and Inhambane province.

3.4.6 Other Governmental Bodies

Aside from the core decision-making and regulatory institutions already outlined, a number of other governmental bodies have specific roles and responsibilities relating to the petroleum sector. The most important of these for the OfD programme are the Ministry for the Coordination of Environmental Action (MICOA) and Mozambique's Tax Authority – the Autoridade Tributaria de Moçambique (AT), the Ministry of Finance and the Administrative Tribunal. At a third level, sector-related responsibilities are also linked to the Ministry of Planning and Development, Ministry of Labour, Ministry of Education and Ministry of Defence.

3.4.6.1 Ministry for the Coordination of Environmental Action (MICOA)

MICOA is responsible for implementing the Environmental Strategy for Sustainable Development in Mozambique and coordinating with other ministries to ensure environmental matters are integrated into their projects, programmes and policies. With respect to the petroleum sector, MICOA regulates Environmental Impact Assessments (EIAs), which involves approving the terms of reference for EIAs, reviewing completed EIAs and implementing necessary audit processes.

3.4.6.2 Autoridade Tributaria de Moçambique (AT)

Mozambique's Revenue Authority is a semi-autonomous institution responsible for implementing tax and customs policy and administration. It is independent from the civil service and its semi-autonomous model enables it to keep a greater distance from the Ministry of Finance and any political interference.

3.4.6.3 The Ministry of Finance

The Ministry of Finance is responsible for financial and economic policy in Mozambique including the formulation and implementation of fiscal policies such as tax policy, tax legislation and the enforcement of these laws. The Ministry has as one of its main directorates, the General Tax Directorate (Autoridade Tributaria) which collects royalties, taxes, and profit shares from companies, including in the petroleum sector. The Ministry of Finance faces a number of challenges: these include verifying technical or financial data of companies, a lack of databases and processes for systematizing and sharing data across the

sector, and finally, political interference. Currently, the World Bank provides training to the Ministry through its MAGTAP programme to develop an understanding of the gas sector, and the IMF is providing support with designing a gas fiscal regime.

The fiscal regime has already undergone significant restructuring in recent years in order to create clearer legislation, widen the fiscal base and ensure increased government take from petroleum-related activities. The Ministry will have an important role to play in consolidating economic stability in the context of mineral resource exploration (to avoid Dutch Disease) and in attaining robust and more-inclusive growth (in particular should there be a fiscal gap between reduced ODA and sufficient LNG revenues flowing in). In addition, given increased political pressure for greater local benefits and ownership, existing natural gas projects are likely to be listed for review and renegotiation. Finance Minister Manuel Chang is currently taking the lead on identifying contracts for review and is likely to be heavily influenced by both Guebuza associates and government agencies⁷².

3.4.6.4 The Administrative Tribunal (AT)

The Administrative Tribunal is the main auditing agency in Mozambique. It is legally independent from the executive and enjoys administrative and financial autonomy. Its president is appointed by the government and confirmed by the National Assembly, for a term of five years, and may not be removed from office except for serious dereliction of duty. The constitution stipulates that the tribunal conducts audits of government accounts, including the various funds, public enterprises, the provinces and municipalities. With respect to the petroleum sector, the AT is responsible for auditing the accounts of public enterprises (such as ENH), regulatory bodies (such as INP), the tax authority and the PPPs. In addition, all public contracts involving public resources and public companies must be approved by the Administrative Tribunal. Given its role as an independent auditor of state expenditures, the AT has a potentially key role to play in promoting financial transparency practices in the petroleum sector. Whether this role can be realized is another matter: the AT is currently under investigation by the Central Office for the Fight against Corruption, for financial irregularities and possible criminal practices⁷³.

3.4.6.5 The Central Bank

The Bank of Mozambique is legally independent and has the status of a public enterprise, with a mandate to preserve the value of the national currency. It enjoys administrative and financial autonomy. The President of the Republic appoints the governor and the vice-governor of the Bank of Mozambique and the Prime Minister appoints its board of directors. Under its responsibilities of managing the external (currency) reserves, the Bank can collect external reserves from the exploitation of non-renewable natural resources. This includes oil and gas and the revenues related to capital gains tax. The Bank has expressed concern about the level of public debt and at the high optimism about the 'end' of aid dependence, given that sufficient natural resource revenues (available only from 2018-2020 onwards) may leave Mozambique with a fiscal gap for a number of years. In September 2013, the bank organized a public discussion on the relation between natural resources and monetary policy,

⁷² Mozambique – Political Dynamics, Regulatory Outlook and Infrastructure Risks, IHS Country Risk Analysis and Forecasting, April 2013, IHS.

⁷³ Mozambique: Abuses in Administrative Tribunal under Investigation (2013, October 18). AllAfrica. Retrieved from <http://allafrica.com/stories/201310190225.html>

drawing attention to the need to align monetary and macroeconomic policies with sectoral policies in a context of a natural resource economy.

3.4.7 Other Private Sector Bodies

Aside from the international oil companies and ENH, other interest groups with commercial interests in the petroleum sector include the Association of Foreign Petroleum Operators in Mozambique (AMOPi) and the Confederation of Mozambique Business Associations (CTA). The Mozambican State also participates in the hydrocarbons sector through two other publicly owned corporations aside from ENH; these are the Mozambique Hydrocarbon Company and the Mozambique Company for the Gas Pipeline. These corporations are subsidiaries of ENH (80 per cent) and the State (20 per cent).⁷⁴

3.5 Key Legislative and Regulatory Framework

Mozambique's Petroleum Law has been redrafted recently and is currently before Parliament. This section will therefore only outline key legislation governing upstream activities within the oil and gas sector, as these are subject to change.

In Mozambique, upstream activities within the petroleum sector are presently governed by the following legislation:

- Law No. 3/2001 of 21 February - Petroleum Law (the Petroleum Law)
- Decree No. 24/2004 of 20 August - Regulation of Petroleum Operations (Petroleum Regulations)
- Law No. 12/2007 of 27 June – Taxation of Petroleum Operations (Petroleum Production Tax Law)
- Law No. 13/2007 of 27 June – Fiscal and Taxations Incentives for Petroleum Operations (Fiscal Benefits for Petroleum Industry Law)

In addition to the key legislation outlined above are Exploration and Production Concession Contracts (EPCC) which govern petroleum exploration and production activities. EPCCs are approved by the Council of Ministers, which gives them the force of law. Petroleum operations are also subject to additional legislation such as the general corporate taxation rules as established in the Corporate Income Tax Code (CIRPC) and Private Public Partnership (PPP) Law of July 2012, which sets out requirements on transfer of concessions, local participation and financial returns. Furthermore, the Petroleum Law and Decree specify that petroleum operations shall be conducted in compliance with environmental, health and safety regulations. Specifically, the Environmental Law (Law no. 20/97 of 1 October) requires that any activities likely to cause significant impacts on the environment, either directly or indirectly, be subject to the undertaking of environmental impact assessments (EIAs) before an environmental license to operate can be granted. A number of decrees set out regulations for the EIA process; Decree no. 56/2010 of 22 November is significant in respect of petroleum operations. The environmental regulations and decrees on EIAs stress the importance of public participation, in particular local community engagement in consultation and policy design.

⁷⁴ Insights Africa, Mozambique Oil and Gas, March 2013, Freshfields, Bruckhaus and Deringer LLP

3.5.1 A Revised Petroleum Law

Significant developments in the petroleum sector over the past decade have prompted a revision of the Petroleum Law. The GoM approved a draft of the bill in April 2013 and it is now before Parliament for approval. A key motivation for the new law was that gas-related infrastructure, in particular LNG, should be covered by the new legislation. Anticipated changes to the law are outlined below. Parliament is expected to approve the draft petroleum law by the end of 2013, which would pave the way for a fifth petroleum licensing round to commence in the beginning of 2014 (most likely before Guebuza leaves office). Significantly, the full weight of the revised petroleum law will apply to new entrants only; fiscal incentives provided to existing concessionaires will be protected by grandfathering clauses.

Key Anticipated Changes to the Petroleum Law

- Definition of “Petroleum Operations” extended to address LNG specifically
- Introduction of a new ‘Facility Concession Contract’ relating to construction of LNG liquefaction terminals
- Companies must be registered in Mozambique through a subsidiary or branch) in order to be able to obtain an exploration license or an interest under a concession contract
- Requirement of governmental approval on any direct or indirect transfer of an interest in a concession agreement
- Clarification on controls for environmental and community protection such as restrictions on flaring (though these will be left up to ‘subsequent regulations’)
- A defined percentage of petroleum revenues to be invested in local communities where extraction takes place
- More stringent local content requirements for companies
- Disputes involving state-owned Mozambican companies to be resolved before Mozambique’s courts and not through international arbitration

Notes:

- Although the original draft of the revised petroleum law referred to the awarding of concessions to be based on public tenders, the option for direct negotiations, which was part of the 2001 law, has recently been reinserted into the draft.
- Contract disclosure is still not mentioned in the revised law, with implications for transparency
- Changes to the petroleum law will also be accompanied by changes to the fiscal regime including income tax, capital gains tax, and VAT and clarity on transfer pricing

Whether the appropriate enforcement mechanisms for the new legislation will be established – for instance with respect to protection of the environment and local communities – will remain to be seen. It is recommended that an in-depth analysis of the petroleum law be undertaken once it is promulgated, to assess existing gaps, particularly in the area of compliance and oversight mechanisms.

In addition to the legal and regulatory framework, a Gas Master Plan (GMP) is in the process of being finalized. The GMP provides Mozambique with a detailed roadmap for strategic, policy and institutional decisions with respect to development of the gas sector in Mozambique. The plan aims to support the development of a stable, regulatory, fiscal and financial policy regime to foster private sector decision-making and investment in the sector. As such its focus is on economic and technical issues with less emphasis on socio-economic, environmental, regulatory and governance issues.

3.5.2 The Implementation Gap: Actors' Capacities to carry out Roles and Responsibilities

Mozambique has made important progress in building up its legal and regulatory framework in the petroleum sector in the last few years. A number of additional reforms are set to take place with the passage of a revised petroleum law that will provide further fiscal clarity and protection for the environment and local communities. The main challenge to responsible management of petroleum resources comes from the implementation gap that continues to persist between sound laws and policies and their implementation in practice. The two main factors accounting for this gap are institutional capacity deficits and misaligned incentives. Institutional deficits include weak technical expertise and management capacities, ineffective organizational structures with strong top-down hierarchies and centralized decision-making, and high turnover. The low capacity level is exacerbated by the technical complexities of the petroleum sector; many interviewees from across government cited overwhelm and a fear of making the wrong decisions as a result of their lack of understanding of the sector. The extreme nature of hierarchy - present at organizational and cultural levels - creates institutional paralysis as well as low levels of staff motivation and innovation. With respect to misaligned incentives, political interference and patronage networks create disincentives for strong performance in implementing mandates and responsibilities if this goes against powerful interests. The net effect of the institutional capacity deficits and incentive structures is a constraint on these institutions' abilities to carry out their roles and responsibilities. A primary example is MICOA, where integrity in environmental protection would risk slowing down developments in the petroleum sector, going against the vested economic interests of the elite. According to a number of informants in Mozambique, including a former MICOA employee, the institution has essentially been left deliberately weak.

INP, ENH and MIREM have a higher degree of capacity at the technical and management levels but face the same challenges in terms of top-down organizational structure and culture. The institutions are considered important in helping further political and economic interests (rent-seeking) and thereby enjoy greater influence and a higher degree of autonomy, but are still subject to the same political pressures as other institutions. Staff in MIREM and INP referred to higher levels of capacity vis-à-vis other sectoral actors as creating additional responsibilities and overload for themselves. The imbalance in capacity levels across the sector also creates coordination difficulties with other actors. Specifically, MIREM is overburdened with a mandate that covers both mining and gas, both of which are experiencing simultaneous booms. Though critics have argued for a separation of the hydrocarbons functions including through devolution of responsibilities to the Ministry of Energy or the establishment of a separate body to deal with gas, MIREM will be likely to resist any incursions on its broad mandate (and influence).

INP has a high degree of capacity at the higher levels (directorship) but the centralized 'command structure' disempowers middle-level staff that may otherwise be capable. INP cited a number of challenges it was facing including lack of knowledge and expertise on petroleum taxation, imbalanced workload across the various institutions, and organizational development (developing workplans, restructuring, improved administrative procedures). It cited the imbalance of capacities across institutions in the petroleum sector as increasing INP's own workload, as well as challenges for cross-sectoral coordination. ENH has a higher level of capacity than other actors but was lacking technical experts in several fields including geology. It struggles with a shortage of financial knowledge, in particular the ability to conduct financial modeling of LNG and economic assessments, which constrains decision-making in a range of areas. Interviews with ENH revealed that it also felt that it was being left

behind as a result of the support provided to INP. In practice, a large part of ENH's focus has been redirected to ENH logistics (ENHL), a subsidiary of ENH. ENHL is positioning itself to take advantage of the gas boom in Mozambique through entering into joint ventures with foreign private companies in a diverse range of areas such as infrastructure, logistics, and catering. Through ENHL, a number of private companies owned by elite members⁷⁵ of the ruling 'FRELIMO nomenklatura' – or 'FRELIMO Inc.' – will be able to act as indispensable intermediaries, partners or sub-contractors for future developments in the gas sector.

The general capacity of AT to fulfill its mandate is weak although it is developing skills in auditing across the petroleum sector as a result of support through the Tax Common Fund and Norway's Tax for Development programme. Nevertheless, a senior official within AT remarked that AT's major challenge is a lack of specialized knowledge on the broader petroleum sector, as well as the business side, "We do not have even one colleague who is knowledgeable on the gas and oil sector and how business works and no capacity to verify the figures that companies provide for instance". AT has in the past been largely left alone to do its job, in part because it has an influential leader (an old FRELIMO veteran). Nevertheless, it is not completely free from political interference and corruption scandals, and pressure on the institution is very likely increase once gas royalties start flowing in. An example of political interference is the capital gains tax (CGT) levied on ENI's sale of shares to the China National Petroleum Corporation, an amount which is still being negotiated⁷⁶. According to AT, it is not clear why negotiations are taking place given that the fiscal law is clear on CGT. They chalked it up to companies having different expectations of how Mozambique applies the law. Other sources, however, revealed that President Guebuza himself, had struck a deal with ENI to reduce the CGT paid to a minimal amount with some kind of kickback for himself⁷⁷. With gas royalties expected in the coming years, there is a pressing need to build up the capacity of AT immediately. A window of opportunity exists, but capacity building must be scaled up dramatically and over and above short-term missions, which are considered by AT to be insufficient.

MICOA's ability to implement its mandate for environmental protection is hampered by severe weaknesses in its technical, management and coordination capacities. It has little influence vis-a-vis other ministries or bodies active in the petroleum sector despite its mandate to integrate environmental issues across processes and organizations. It is subject to a high degree of political pressure. Within MICOA, the National Directorate for Environmental Impact Assessment (DNAIA) is responsible for Environmental Impact Assessments (EIAs). EIAs are implemented in a rather informal manner: teams reviewing the EIAs do not have the technical expertise required and public participation is weak in practice as the EIA is viewed primarily as a technical exercise (data collection). Critics maintain that MICOA can rarely say no to the granting of environmental licenses and therefore focuses instead on mitigation measures. Furthermore, compliance mechanisms that would enable MICOA to enforce or penalize violations of environmental regulations are lacking. It appears that the institutional weakness of MICOA is a deliberate political decision to prevent bottlenecks and/or obstacles to exploration or production activities within the petroleum sector, which would affect the economic interests of those with vested interests in the

⁷⁵ A number of reports provide an overview of the business interests of FRELIMO members in the extractive industry. See for instance, the Centre for Public Integrity's report, 'Business interests of public managers in the extractive industry' and Africa Intelligence reports on 'Mozambique: The business dealings of FRELIMO bosses', and 'Corporate dealings of the Guebuza Family'.

⁷⁶ Various media articles have reported that the amount has already been paid but AT and others confirmed the issues is not yet resolved.

⁷⁷ It was not possible to verify this claim at the time of writing this report but it does raise questions about how evenly laws and regulations are implemented.

petroleum sector. This has significant implications for the design of a new OfD programme.

The political pressure, incentive structures and low capacity deficits tend to work against the creation of effective oversight and compliance mechanisms. Finally a key capacity gap exists with respect to cross-sectoral coordination across the various institutions. Sector coordination difficulties are partly related to the strong compartmentalization of public sector management. A number of informants – governmental, donor and private sector – remarked on the low capacities for decision-making and coordination across institutions with claims that this was ‘messy’, ‘next-to-impossible’ and that while cooperation with individual institutions proceeded satisfactorily, the system as a whole ‘kills’ progress. These structural and capacity deficits are explored in more depth in the section on opportunities and barriers for achieving OfD programme goals. As the petroleum sector grows, the institutions associated with the petroleum sector will come under increasing stress.

A more in-depth assessment of the sector with respect to sound petroleum management can be found in the petroleum governance checklist, attached in Annex 1.

3.6 Political Dimensions

3.6.1 LNG development and local populations

Current interests in the petroleum sector are mainly focused on the Rovuma Basin, off the coast of Cabo Delgado Province, where significant gas reserves have already been proven. Anadarko and ENI have signed an agreement for the joint development and operation of LNG liquefaction and export terminal facilities, to be located in the districts of Palma and Mocimboa da Praia. The development will encompass an LNG park with a future production capability of up to 50 million tonnes of LNG per annum.⁷⁸

The developments in Palma District will directly affect households in Quitupo village and other nearby communities in the district. Although definite data on the number of households that will have to be moved will not be available until the government undertakes a census of the area, preliminary estimates suggest that a possible 1,500 households will have to be relocated.⁷⁹ A key concern is that these coastal communities who derive their livelihoods from artisanal fishing may be moved inland without the provision of alternative (and sustainable) sources of livelihood. Additionally, there is compelling evidence that seismic studies, which have already been undertaken in the area, may have already affected marine animals. The impact on fish stocks (by death or migration) has implications for loss of income for coastal communities in the area⁸⁰. Similar concerns exist for the central coastal areas of Mozambique (Mozambique Basin).

Initial public consultations with communities in the Quitupo area, led by a government delegation and ENH officials in September 2013, did not go well. A deep distrust among the community was apparently evident and the meeting ‘degenerated into a shouting match’

⁷⁸ See Anadarko LNG outlook for Mozambique at <http://www.pembaland.com/news/2012/12/21/anadarko-announces-advancement-of-mozambique-lng-project>

⁷⁹ All Africa.com (2013), ‘Mozambique: Distrust at Public Meeting on Gas Liquefaction’, Paul Fauvet, 16 September, 2013. <http://allafrica.com/stories/201309170391.html>

⁸⁰ See SAIIA Report (2013), ‘A Boom for Whom? Mozambique’s Natural Gas and the New Development Opportunity’, page 7 which refers to field research undertaken in the Rovuma Basin in 2009 by Friends of the Earth affiliate, Justiça Ambiental.

between villagers and governmental representatives⁸¹. Accusations of lack of consultation and fraudulently obtained signatures were made and fears over relocation inland and the impact on fishing as a source of livelihood were raised.⁸² The head of the environmental organization Centro Terra Viva, who had been in Palma to advise local communities on their rights, was later detained by police.

3.6.2 *The Impact of Gas Developments on Women in Local Populations*

Women and men living in areas directly affected by oil and gas development often have divergent experiences. A recent World Bank study⁸³ on gender in the oil and gas sector asserts that ‘the industry specifically contributes to ‘gender gaps’ in the unequal distribution of assets and risks’. Examples include the traditional gendered division of labour, which means that women bear a greater proportion of the stress associated with oil-induced social and environmental damage; and that as resource development leads to a more complex economy, the traditional ‘unseen’ work of women (food production, sourcing fuel, domestic duties, care of family members) is often devalued in terms of its economic contribution⁸⁴. This in turn leads to a loss of status.

Gender inequalities in the North of Mozambique are higher than in the South on account of patriarchal attitudes influenced by religion and culture; the impacts described above are therefore, likely to be especially true in Cabo Delgado where LNG production and export will focus. As an example, at recent public consultations in Quitupo village, a number of issues were raised by government representatives including land ownership, the need to undertake a census, and the election of community representatives for a ‘Technical Commission for accompanying and supervising resettlement’⁸⁵. It emerged that the community representation on the Technical Commission consisted of ten men, mostly elderly and all hand picked by the community leader as opposed to being elected. In this particular case, the governmental representative involved in the process – Lina Portugal – advised the community of the government’s requirement to have both women and young people represented on the commission. The need for women to be represented in participatory and decision-making fora is critical for understanding how women and men are exposed to risks, benefits and opportunities from gas sector development. This issue and a number of gender-related concerns are addressed further in the section on opportunities and barriers.

3.7 Incentives for improving transparency and accountability in the sector

Motivations for improving transparency and accountability in the sector are low-moderate depending on the interest group. FRELIMO’s overwhelming dominance over the State (government, judiciary, parliament), use of patronage and ‘you are either with us or against us’ mindset, make it difficult for accountability and transparency to take root in government. Actors are both unable and unwilling to oppose decisions that are made in a narrow circle around the President’s office and strong party discipline discourages oversight or questioning.

⁸¹ See Paul Fauvet’s article in All Africa.com (2013) for an eye-witness account:

<http://allafrica.com/stories/201309170391.html>

⁸² *ibid.*

⁸³ World Bank Oil, Gas and Mining Unit Working Paper (2013). ‘Extracting Lessons on Gender in the Oil and Gas Sector: A survey and analysis of the gendered impacts of onshore oil and gas production in three developing countries’.

⁸⁴ *Ibid*, page 5

⁸⁵ See Paul Fauvet’s article in All Africa.com (2013): <http://allafrica.com/stories/201309170391.html>

To do so would invite swift marginalization. FRELIMO, however is 'not one thing', and the increasing monopolization of power and economic opportunities by Guebuza is creating significant disharmony within the party. The tactics of inclusion and exclusion creates strong divisions: influencers vs. influenced, haves and have-nots, inner vs. outer circle. The latter groups could be more receptive to improving transparency and accountability within the sector.

There is both an interest and commitment to improving transparency and accountability within civil society, within the media and within parliament. The incentive is a genuine concern at the increasing level of autocracy within the party and the State and growing levels of fatigue and impatience at the way development is taking shape in Mozambique. These groups are hampered in playing an oversight role however by a lack of knowledge and information on the petroleum sector. The generation of youth who have grown up with no recollection of the civil war or affected by the ideology of the liberation movements constitute another group that would be motivated for increased accountability and transparency in the governance of the petroleum sector.

4 Opportunities and Barriers for OfD Programme

This section explores opportunities and barriers for achieving the OfD programme's operative goal, defined as 'economically, environmentally and socially responsible management of petroleum resources, which safeguard the needs of future generations'. There are limited opportunities for changing the political economy of Mozambique in the short-term. Questions of reform and good governance may largely be limited to how oversight mechanisms can check the excesses of patrimonialism, corruption and rent-seeking as well as their impacts. In the medium-longer-term, there are opportunities to build up vertical oversight mechanisms as well as a coming generational change within FRELIMO that could bring a (slightly) different style in governance.

4.1 Interest in and incentives for responsible petroleum management

The political economy lens confirms the intensely political nature of developments in the petroleum (gas) sector and the barriers that exist for responsible petroleum management. The impact of resource booms as drivers for increasing centralization of control, secrecy, patronage and rent seeking have been widely documented. In the case of Mozambique, gas revenues provide ruling elites with both the *incentives* for controlling the state apparatus and the *means* to retain control of the state. This vested interest in the petroleum and mining sectors, on the part of the ruling elite, will continue to function as a barrier to serious reform. A redistribution of resource wealth for instance would not only threaten economic interests, but also unsettle existing power relations. Further, responsible social and environmental management of the sector could present delays and obstacles in sector development. The importance of personal relationships and party loyalty - for survival and advancement - ensures that officials will place this above their mandated roles as civil servants.

Opportunities to leverage interest in responsible petroleum management do exist however. Firstly, the growing fractionalization within the FRELIMO party and increasing suspicion and discontent with the management of the petroleum sector create entry points that can be

leveraged by the OfD Programme. Several members of parliament for example showed a keen interest in playing a more active oversight role over developments in the petroleum sector, but felt hindered by a lack of knowledge and information on the workings of the sector. Secondly, OfD programming has been weighted toward building up the capacity of formal state institutions, where incentives for responsible management are weak. The new programme cycle presents an opportunity to work with ‘counter-elites’ and sectors of society that can play a vertical oversight role such as the media and civil society organizations. During the country visit to Maputo, virtually all stakeholders from parliament, ministries, NGOs, media showed a keen interest in more information on the petroleum sector (how it works, key actors, business aspects, social impacts) in order that they could engage in more informed debate and play a more effective oversight role. While the interest and incentives exist, these must be matched by capacity.

According to Paul Collier⁸⁶, the question of whether Africa can harness its natural resources for development depends on its ability to build the following three critical areas:

1. Build Rules

2. Build Institutions capable of implementing these rules

3. Build critical mass of citizens who can understand and defend these institutions

In the early stages of Norwegian support, capacity building efforts understandably focused on the essential task of building up regulatory and institutional structures. The new programme cycle (2014-2018) comes at a different phase of maturity in the petroleum sector and presents an opportunity to address a missing link in the chain: working with the *beneficiaries* of reform. The strengthening of citizen-centred demands for accountability is especially critical now before the bulk of the revenues from gas exports begin rolling in post-2018. Although parliament, media and CSOs are obvious starting points, communities in the resource-impacted regions of Cabo Delgado are also important. An entry point for engaging a broader cross-section of society could be the multi-donor civil society mechanism (MASC)⁸⁷ funded by DFID, USAID and Irish Aid. The mechanism works to improve governance and accountability for Mozambican citizens through the strengthening and diversification of civil society actors engaged in governance-related monitoring and advocacy. Critically, it supports civil society actors at the (often forgotten) local and regional levels with funds, technical support and organizational capacity building and secondly, pools significant funds from a number of donors to enable scale of impact.

⁸⁶ See Paul Collier, November 2011, Can Africa harness its resources for Development?, African Arguments. Available at: <http://africanarguments.org/2011/11/01/paul-collier-can-africa-harness-its-resources-for-development/>. It should be noted that these three critical areas also form the foundation of the OfD outcomes as listed in footnote 1.

⁸⁷ The Civil Society Support Mechanism (Mecanismo de Apoio a Sociedade Civil) was established in 2007 as an initial five-year programme supported by DFID and IrishAid and USAID. It has been extended for a three year period (April 2012- March 2015), with funds USD \$13 million. MASC provides funds and technical support for CSOs to conduct monitoring and advocacy and to strengthen CSO organizational capacity and internal governance. More information is available at: <http://www.masc.org.mz/home/index.php/en/>. For english see <http://coffeycivilsocietyforum.tumblr.com/MASC>

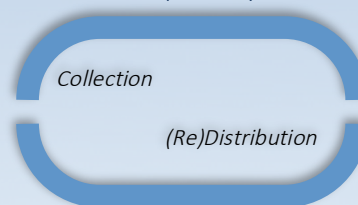
4.2 Strengthening Revenue Management for Broader Welfare

To reach the OfD’s overarching goal of ensuring resource wealth that benefits Mozambicans, efforts in the revenue management pillar needs to be (i) scaled up significantly and (ii) take a broader economic governance-based approach that go beyond mere tax collection and address how revenues are invested.

From Tax Collection to Social Investments:

Norwegian assistance to the AT responds to a critical and immediate need to ensure that world class gas discoveries in Mozambique are met by an effective tax administration capable of calculating and collecting due taxes. On the other hand, effective revenue collection does not automatically translate into social investments. If petroleum resources should contribute to the broader welfare of Mozambicans, then other links in this chain –policies to redistribute wealth, investments in social capital and measures to promote transparency – need to be addressed.

*Tax Collection is only part of the chain.
A missing link in OfD revenue management
is how revenues collected will be distributed.*



The longer-than expected timelines for the LNG revenue stream (and coal revenues) buy some critical time for designing and capacitating governance mechanisms for revenue collection and management. There are three short-term priorities: managing substantial one-off payments, auditing Rovuma “cost recovery” expenses, and caution on incurring debts against future LNG revenues. Longer-term priorities include a strong revenue management law and consideration of a resource/petroleum fund or other mechanisms to translate resource wealth into social investments.

Short Term:

- **Capital Gains Tax Revenues:** Large “one off” payments, particularly signing bonuses have long been associated with high levels of corruption; the money is not integrated into budget planning process and is therefore vulnerable to misappropriation. The same risks exist with the large payments resulting from the imposition of the capital gains tax on the sale of stakes in Rovuma concessions. In the short-term, a fiscal rule needs to be put in place to manage these one-off payments.
- **Cost Recovery Expenses:** Exploration and development costs in the petroleum sector have the potential to undermine government revenue. Under the Mozambican EPCCs, exploration and development costs including debt financing are fully recoverable (capped at 65%-75% per year, but unlimited carry-forward). These costs will also be used as income tax deductions (under slightly difference carry-forward terms) and increase will increase the costs of the 10%-15% “soft-carry” state ownership stake. There are significant risks that ineligible/ inflated expenses have been included in annual “cost recovery” statements. As the IMF reports: “Neglect in auditing exploration and development expenses can cost the tax base dearly as a project

starts to generate income.”⁸⁸ Audits of cost recovery expenses during the exploration phase serve a dual purpose – they protect future government revenue while at the same time strengthening tax administration capacity for the much more important upcoming “development” phase where expenditures will be in the tens of billions.

- Risk of Debt Financing against LNG Revenues: Projecting future revenues from natural resources is notoriously difficult. Commodity prices are nearly impossible to predict. It is common for countries on the verge of generating vast revenues to miscalculate potential earnings and find themselves with substantial deficits. There are indications that Mozambique will expand its commercial borrowing based on future but uncertain LNG revenues. As an example, on 5 September, 2013, an \$850 million bond issue was sold in semi-secrecy by a new Mozambican government company (part-owned by the security services SISE). Donors are alarmed that such a large government guarantee was given without parliamentary discussion (which violates budget law) and at the complete lack of transparency over the deal.⁸⁹

Medium Term

- Tax Administration Capacity: Achieving a “fair” deal in resource revenues ultimately depends on the ability to assess taxes and audit payments. Mozambique’s tax authority already compares well with countries in the region. Mozambique is already drawing on international best practice with the creation of a “large taxpayer” unit. Capacity building to AT via the institutional cooperation agreement with the Norwegian Tax authority needs to be scaled up and go beyond short mission-based trainings for impact and sustainability. Capacity constraints on the Norwegian side (availability of specialized expertise, culture and language obstacles) inhibit scaling up and merit consideration to technical cooperation that draws on north-south, south-south or triangular based cooperation as well as broader donor coordination, inter alia with the World Bank and IMF.
- Revenue Management Law / Petroleum Fund: Mozambique needs a revenue management law for the extractive sector. Discussions of revenue management often emphasize the pros and cons of creating a sovereign wealth fund. But there are many important questions about revenue management short of creating such a fund. Sao Tome and Principe provides an interesting example – putting in place a revenue management law (regulating payments, management, use and oversight of all oil revenues) long before significant revenues arrived. An alternative option to sovereign wealth funds is the creation of a national development bank.

OfD may very well lack the capacity or scope to address all links in the revenue management chain and should therefore consider working with donors active in this area such the IMF and the World Bank and with a broader coalition of national partners that include the Central Bank, Parliament and Ministry of Inance. Donor coordination presents opportunities to scale up impact quickly during this critical window (before 2018) and to address all relevant links in the revenue management chain.

4.3 Institutional Strengths and Gaps

Institutional deficits across the petroleum sector represent barriers to OfD achieving its goals of responsible management of petroleum resources. Capacity deficits are wide ranging with

⁸⁸ Fiscal Regimes for Extractive Industries, IMF, 2012, p. 67.

⁸⁹ Mozambique News (235), 11 November, 2013, Joseph Hanlon

gaps in technical expertise, management competence, and cross-sectoral coordination. While some institutions are stronger than others (INP, ENH), political pressure from vested interests, rather than capacity, determine to a large extent how responsibilities and mandates are undertaken. A lack of effective institutional checks and balances across the system further hinder the potential realization of OfD goals.

A full stakeholder analysis can be used as a valuable tool for identifying and prioritizing relevant stakeholders to engage with in any change project. Furthermore, the stakeholder analysis provides an overview of how to engage with stakeholders based on (i) their level of interest in reform and (ii) their level of influence on proposed outcomes. Identifying who could be strong supporters of reform in petroleum sector management –or who could block it – can provide several benefits such as:

- Understanding your key stakeholders (interests, incentives, what they want, how they are influenced);
- Gaining support from stakeholders with interest, helping you win more resources;
- Using the opinions of powerful stakeholders to shape your project;
- Communicating with stakeholders to ensure they understand the aim and benefits of your project;
- Anticipate reactions to your project and build this into planning

An example of a stakeholder matrix, mapping Mozambican petroleum-related actors, is attached in annex 2. Developing a stakeholder matrix such as this would be a useful participatory exercise for OfD.

Several opportunities for institutional strengthening do present themselves. Norwegian support in the petroleum sector has succeeded in creating pockets of efficiency across and within specific institutions. OfD should capitalize on and further strengthen the capacities of institutions such as the Tax Authority who have demonstrated a demand for increased Norwegian support. AT's role and influence will grow significantly in the next five years once revenues increasingly trickle in, and so a critical window of opportunity presents itself now.

Secondly, institutional strengthening has focused predominantly on line ministries and public agencies. Multi-stakeholder approaches could better leverage existing expertise, create networks for knowledge exchange and innovation, and provide OfD with better feedback mechanisms required to assess on-going or changing risks and opportunities. This could take the form of an informal council or advisory panel of technical experts drawn from ministries, NGOs, academia, research institutes and other donors. The multidisciplinary panel could address issues relating to the petroleum sector (and the OfD components) in a cross-cutting way including ways to strengthen institutions and regulatory frameworks and increase transparency and accountability.

4.4 Improving Transparency and Accountability

Transparency and accountability in the petroleum sector is weak posing a significant obstacle to realizing the larger goals of OfD. Challenges are broad-ranging including legislative and policy deficits, lack of institutional checks and balance and limited incentives on the part of the ruling elite. Opportunities for improving transparency and accountability should consider building up vertical oversight, moving beyond EITI parameters on transparency and providing more information on the OfD programme itself.

4.4.1 Oversight Capacity

Given that a significant extractive sector has emerged in Mozambique only in the last decade, there should be no surprise that national oversight capacity - both within government and outside - is weak. It appears that the first tax audit in the extractive sector was conducted only in 2010 – six years after the start of Pande-Temane production. The Tribunal Administrativo is only in 2013 receiving initial training on overseeing the extractive industries⁹⁰.

➤ *Parliament*

Parliament has a potentially important role to play in the extractive sector – in legislation, representation and oversight - and there are some positive demands for capacity strengthening in what is a complex area. The programme for Parliamentary capacity development on natural resource management and inclusive growth, to be implemented by AWEPA (The Association of European Parliamentarians with Africa) and supported by the Norwegian Embassy in Mozambique is a positive step in this direction. The programme could possibly be scaled up to include relevant stakeholders from civil society, the media, the national human rights commission and even line ministries. Any parliamentary strengthening programme could benefit from initiating dialogue with the UNDP country office in Mozambique, in order to learn lessons from their programme on strengthening Parliamentary oversight (implemented from 2007-2011).

➤ *Civil Society*

Civil society is engaged on the extractive industries, but again capacity is not strong. The Institute for Social and Economic Studies (IESE) in Mozambique undertakes macro-economic analysis that is directly relevant for understanding the broader context in which the extractive sector operates. They have, however, recently relinquished their seat in the EITI multi-stakeholder group. The Centre for Public Integrity (CIP) is the organization most directly focused on transparency and accountability in the extractive sector, and with a high degree of analytical capacity. The Platform on Natural Resources and the Extractive Industries, previously led by WWF and now by CTV, creates the possibility for more linked-up analysis and advocacy, but has tended to be stronger on community-based concerns (environmental and social impacts, community benefits) than on national level transparency and accountability efforts. In summary, there are foundations on which further support to strengthening transparency and accountability can be built. Mozambican participation in the 2013/2014 Norwegian Transparency and Accountability in Extractive Industries (TRACE) program may be a foundation on which to build.

The building of oversight capacity will require multi-year, strategic capacity building programs in order to make a measurable impact. The target focus for capacity building must shift increasingly from formal state institutions to Parliament, CSOs and the media. Linkages between all of these efforts in capital and affected communities in Tete and Cabo Delgado are under-developed and should be cultivated.

➤ *Media*

Mozambican media is characterized by a number of shortcomings including weak reporting, limited technical and professional skills and a lack of financial resources. It is also hindered by political constraints and in some cases captured by private interests. Under these circumstances, there are questions about how and whether donors can ensure that supporting the media will benefit the public interest. The situation is improving to a certain

⁹⁰ Support from Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

degree, not least due to training and educational projects.⁹¹ For instance, there have in the past couple of years been some important stories in among others Savana on the issue of investment in the gas and oil industry, as well as Chinese and Brazilian explorations in natural resources (coal, timber) and their social and economic consequences. There also appears to be an increasing awareness of the importance of economic reporting, indicated inter alia, by Standard Bank's establishment of a prize for economic journalism.⁹²

There are a number of opportunities for OfD to further support critical reporting with respect to the petroleum sector in Mozambique. One option would be to link up to existing media training programmes, such as the USAID-sponsored media-strengthening programme, and provide a targeted component on reporting on the extractives sector. Any media-strengthening programme should include community radio stations as a critical target given their importance as a source of news for most Mozambicans. OfD may consider strengthening the sustainability of journalism in Mozambique by adopting a 'training-of-trainers' approach, by supporting media and journalists associations, unions and press councils⁹³; and providing media business development courses and mentoring. At a broader level, there are opportunities to support advocacy initiatives by CSOs and the media for an access to information law as well as protection for media and whistleblowers, in line with the UN Action Plan on Safety of Journalists.

4.4.2 EITI as ceiling rather than floor

The evolution of global norms on transparency in the extractive sector has had a positive early impact on Mozambique. The process of becoming EITI compliant has placed important information on fiscal terms and revenue data in the public domain. The new EITI standard requiring more information particularly on production, exports and prices is an important step forward. At the same time, EITI has dominated the transparency / accountability agenda in Mozambique with many believing that as long as Mozambique is EITI compliant the transparency box has been ticked. Even while there are reasons to believe that the strengths of EITI do not respond well to the risks facing Mozambique.⁹⁴

There are indications that government adoption of revenue transparency has been externally driven and not internalized. For example, government has been opposed to meeting new EITI standard requirements before the hard deadline, even where technically simple (i.e. reporting on income from gas pipeline company ROMPCO). Furthermore, civil society requests for revenue data from years prior to 2008 (the state of EITI requirements) have been met with outright refusals.

EITI should be seen as the low water mark, not the high watermark, with expectations that best practice in the sector will likely move beyond what can be agreed within the multi-stakeholder process. For example:

⁹¹ USAID has among other things, financed a media strengthening programme to, inter alia, support improved journalism education, sustainable business models and strengthen communities that can protect freedom of expression. See: <http://www.irex.org/region/mozambique>

⁹² For the prize for 2013 see: <http://opais.sapo.mz/index.php/economia/38-economia/28032-premio-jornalismo-economico-distingue-bento-venancio-boaventura-mandlate-e-luis-leitao.html>

⁹³ These bodies work to defend the rights of the profession and are essential to the creation of professional environments in which media independence and quality journalism can flourish

⁹⁴ 'Is the Extractive Industries Transparency Initiative Relevant for Reducing Diversions of Public Revenue? The Mozambican Experience', SAIIA, 2013, Rogério Ossemane.

- Government should publish broken-down details of revenue payments before the full reconciliation required by EITI⁹⁵ (other countries do, and from an anti-corruption perspective, finding discrepancies two years after is too late).
- First drafts of the petroleum law (prepared with Norwegian support) made no mention of contract disclosure; there is no indication yet that subsequent drafts will ensure full disclosure, the law now provides only for “summary terms” to be published in the Gazette. “Summary terms” is not defined in detail, which leaves the door open to ambiguity and interpretation; it leaves the door open to corruption.
- Early discussions of transparency in “beneficial ownership” have not been promising with indications that existing conflicts of interests (individuals holding government regulatory positions also owning companies active in the sector) will present a substantial barrier (see also below)
- Complement reconciliation of payments with analysis of what “should have been” paid. This requires transparency of government / donor revenue projections (always done, seldom released), contract analysis and fiscal modelling, and details on production, exports and prices.

4.4.3 Communications and Transparency

Given the importance of the sector for the future prospects of Mozambique, Norway should place greater emphasis on communicating their contributions in the sector, not least to avoid misperceptions as happened on contract disclosure.⁹⁶ The main contours of World Bank technical assistance in the sector are publicly available – but this does not seem to be the case for Norway. Several informants in Mozambique referred to a lack of information available on the OfD programme, both officially and shared through donor forums. As one stakeholder put it, ‘Transparency is a good thing not just for development partners but for donors as well’. Improved communication on the goals and content of the OfD programme would go a long way to dispelling perceptions and questions concerning Norway’s ‘agenda’ (commercial or development?), its approach (imposing a Norwegian ‘model’ on Mozambique?) and its key message (including who does/does not speak officially on behalf of Norway). Although the donors recognized that Norway (likely) had good intentions, the general feeling was the assistance provided in the petroleum sector was ‘behind-the-scenes’ and undertaken without significant broader coordination or consultation.

4.5 Moving Forward: New Programme, Old Approach?

Petroleum related assistance from Norway to Mozambique has a long-standing history and precedes the creation of the OfD programme. Nevertheless, technical cooperation has continued to proceed in much a business-as-usual manner, despite significant changes to the overarching goals of this assistance from resource management to broader development objectives. Several anachronisms persist posing a challenge to achieving the new goals.

- *Goals:* The goals of technical cooperation have shifted from resource management to broader development including poverty reduction and redistribution of wealth. This requires a greater weighting to the revenue management pillar to facilitate greater

⁹⁵ EITI found discrepancies in the mineral resources revenues reported by the government of Mozambique, and both private investors and RWI criticized the failure to disaggregate revenue streams from extractive sector.

⁹⁶ Donors widely expected that Norwegian support to the drafting process for a revised petroleum law would mean strong content on transparency and contract disclosure. These expectations were not met. See footnote 79 on the next page for additional detail.

redistribution of the benefits that flow from Mozambique's resource wealth. It may also require addressing issues that typically fall outside of the OfD scope such as employment generation and local content (downstream).

- *Change in the special relationship:* Norway's long-standing petroleum-related assistance gave it a position of influence in Mozambique. This may no longer be the case. Today there are more donors - established and emerging - willing to provide both technical assistance and development funds (inter alia, WB MAGTAP, IMF, Brazil, India, South Africa). There are more countries with experience in the energy industry today, including in LNG. And the Mozambique of today has a higher level of confidence and experience, and is willing to shop around for experiences that best fit its needs. Recent high-level missions by the Prime Minister and the President to Angola and Aberdeen, Scotland respectively sought out experience and possible partnerships in the area of hydrocarbons and infrastructure development⁹⁷.
- *Donor Coordination:* Norway has been criticized for a lack of donor coordination in the extractives sector given the importance of this issue on the Norwegian agenda. Norway has an opportunity to provide badly needed strategic vision and coherence to donor assistance to the petroleum sector, alongside the World Bank, IMF and DFID. The Donor Task Force on extractive industries already indicated that it was looking to Norway to play more of a leadership role.
- *Development Approach:* Institutional-twinning, a reliance on technocratic approaches and the continuation of capacity building through short-term country missions do not reflect today's broader governance-based approaches or support sustainability of results. Several ministries claimed that short-term training missions were insufficient; one option would be to deploy longer-term TAs for transfer of technical expertise (this could entail non-Norwegian experts with a better understanding of the local culture and language and to also counter the lack of Norwegian experts able to serve as long-term TAs). Better coordination with donors would enable scaled up impact, maximize innovation by looking outside of just Norway for relevant experiences and provide better value for money.
- *Supply and Demand:* The gas boom has created critical and immediate needs for increased capacities on the Mozambican side. Developments in the sector move at a rapid pace and national partners communicated that they needed additional capacity and they needed it immediately! The supply of relevant expertise in petroleum auditing or in regulatory frameworks is thin given the specialized and highly technical nature of the tasks, as well as the willingness and availability of experts to be deployed on (longer-term) international missions. This capacity constraint means supply does not meet demand (INP-World Bank cooperation strengthened significantly when OfD programme funds were frozen). Options for ensuring that supply of expertise and support better meets existing demands include considering a combination of north-north, south-south or triangular cooperation with respect to capacity-building.

4.6 Programmatic Coherence

Some actors in Mozambique perceived Norway to have somewhat of a 'split personality'. On the one hand, Norway plays a very substantial role in providing highly technical behind-the-scenes advice on the contractual/fiscal terms governing the petroleum sector and capacity building for core petroleum sector institutions (MIREM, ENH, INP). On the other hand,

⁹⁷ A Mozambican delegation, led by Prime Minister, Alberto Antonio Vaquina, made a four-day visit to Angola in October 2013 to seek Angola's experience in the areas of mineral resources and hydrocarbons. In July 2013, President Guebuza made a three-day visit to Aberdeen, Scotland with senior ministers and representatives of ENH to discuss infrastructure development and Aberdeen's experience with offshore energy and development. A dozen Mozambican firms as well as UK and Scottish firms also attended the conference.

Norway has played a prominent role in financing CSO activity and promoting external oversight - what might be called “public governance”- of the sector. There may well be a lack of coherence across these different tracks, as the lack of attention to contract disclosure in the petroleum law would suggest⁹⁸. And given the challenges/risks in the sector, the balance of behind-the-scenes support versus CSO capacity building may be skewed too much towards the formal sector. More importantly, the strategic glue that could link these two efforts – active oversight and engagement by the Embassy in Maputo – seems to be missing. It has been noted in donor circles that Norway is largely absent from key donor mechanisms (the G19 EI Task Force and Economist Working Group) where efforts are made to coordinate broader engagement with the sector. It should be noted here that donor coordination is onerous and the Embassy has many competing demands on its time; OfD could consider providing the embassy with additional resources to coordinate processes at the national level.

There appears to be a substantial opportunity for Norway to find synergies between existing efforts in order to make the whole of their assistance much more than the sum of their parts. First, there are three strands of Norwegian assistance that could be increasingly linked: OfD, Tax for Development, and illicit financial flows. The overwhelming benefit for Mozambique from the petroleum sector will be government revenues. The 2006 EPCC contracts are very generous for the companies. It is crucial therefore that a coordinated effort is made not to lose an even greater share of the revenues through tax avoidance. Norway seems to have several levers that could be usefully employed in a coordinated manner.

Theory of Change: Petroleum related assistance involves multiple actors from the Norwegian side, the implications of which are an overarching programme framework that is fragmented and does not connect outcomes. A new programme cycle presents the opportunity to develop a clear theory of change, which could answer important questions such as whether the programme is producing its intended benefits, spending resources efficiently and providing value for money. A clear theory of change has the benefit of helping connect outcomes and creating a pathway for change.

4.7 Citizen Demand for Accountability

The OfD programme’s efforts to promote accountability have thus far focused predominantly on the State as opposed to broader society. Both are required, however, to facilitate good accountability relationships. The Busan Partnership document on Effective Development Cooperation⁹⁹ recognizes that building effective states requires an inclusive approach and strong non-state institutions, and that there is an increased need to support external accountability institutions in a more holistic manner. The role that social accountability can play in promoting transparency, accountability, and anti-corruption is an opportunity OfD should explore further.

There is a high level of interest in the petroleum sector from many stakeholders. Though interest is high, public information and understanding of the sector - requisite for improving the quality of public debate around important issues – is low. Social accountability is dependent on citizens’ abilities to access information, and more importantly, to interpret and

⁹⁸ Donors expected revisions to the new petroleum law to be strong on transparency/disclosure because Norway was supporting the drafting process and because of EITI. In fact, the law is seen as having only modest changes from the previous 2001 law and with none of the governance elements (disclosure, conflict of interest) that were expected. CIP published an analysis of the law, entitled ‘no transparency, no disclosure’.

⁹⁹ The Busan Partnership document is the outcome document of the Fourth High Level Forum on Aid Effectiveness (Busan, Republic of Korea, 29 November – 1 December, 2011).

use that information. Mozambique has no access to information law and a culture of bureaucratic secrecy prevails across the public administration. According to the Centre for Public Integrity (CIP), “civil society and the media in Mozambique are acting as an opposition force trying to promote greater contract transparency and prevent corruption... however, this opposition force is not strong enough.”¹⁰⁰ Several stakeholders referred to a critical need for more information on the workings of the petroleum sector in order to engage in more informed debate and decision-making. OfD could leverage this interest and supporting the dissemination of more general knowledge and education on the workings of the petroleum sector in addition to the more highly-specialized technical interventions it is already providing to line ministries. Capacity building efforts should be broad-based, targeting the media, civil society, parliamentarians, faith-based organizations, civil servants and professional associations and have a longer-term focus (3-5 year timeframe). Forthcoming efforts with the World Bank Institute on contract monitoring could provide a framework for this capacity building work as well as a focal point for joined-up analysis (particularly bridging the capital/community divide. Over time, this might also lead to joined-up advocacy. The MASC initiative, currently funded by DFID, Irish Aid and USAID also represents a broad-based civil society capacity building initiative and could be a potential partner. Capacity building efforts should aim to strengthen civil society’s knowledge on the petroleum sector in order to facilitate informed debate. Moreover, it should address the relationship *between* State and Society.

Large-scale social change requires broad cross-sector coalitions. Initiatives should link up multiple actors across regions and sectors and focus on creating alliances, *inter alia* for advocacy.

4.8 Mainstreaming Gender into petroleum-related support in Mozambique

Gender issues within the upstream petroleum industry typically focus on women’s employment. There, are however, important considerations for gender issues at the intersection of social, environmental and economic issues. Social and environmental impact assessments, for instance, could pay greater attention to systematically examining inequalities in the communities visited, as part of the public hearings and consultations that are mandatory in EIAs and SIAs. This would provide greater insight into the specific (differential) risks, benefits and opportunities for men and women as a result of gas development. The OfD programme could support MIREM and MICOA in developing appropriate policies and importantly, supporting their implementation at the local level. Supporting implementation is vital given that (i) SIAs and EIAs are often seen predominantly as a technical exercise, (ii) community consultations seen as being laborious and (iii) women face greater struggles to assert their voice in local consultations.

Secondly, international companies play an important role at the community level where local government is weak. Many large international oil companies have extensive programmes for investment in local communities. Such companies may strive to uphold international best practices and a significant opportunity therefore exists to ensure that oil companies pay attention to gender-related issues within their community-investment programmes. OfD could work with MIREM, MICOA and the Association of Foreign Petroleum Operators in Mozambique (AMOP) to ensure that gender issues are integrated into social development projects and compensation initiatives managed by companies and-or in partnership with the government. Companies could also look at gender as a barrier to employment and project-

¹⁰⁰ See “Mozambique Poised for Coal Boom.” Andrew England, Financial Times. March 12, 2012. [<http://www.ft.com/intl/cms/s/0/7e201c78-6b6a-11e1-ac25-00144feab49a.html>]

related income, in the framework of their local content policies. A number of reports for instance, cite certain structural inequities facing would-be female entrepreneurs and contractor beneficiaries of local content policies such as unequal access to financing and information on the local market; lower literacy, numeracy and income-generating skills; and cultural biases and stereotypes.¹⁰¹

A third potential opportunity to support the integration of gender-related issues in the petroleum sector is to provide leadership and empowerment training for existing gender focal points in relevant line ministries. For instance, gender focal points are already in place in MIREM, the Ministry of Women and Social Action (MIMAS), the Ministry of Energy (MoE) and MICOA. However, their ability to mainstream gender issues across the sector depends on their ability to voice their message and be heard by key decision-makers. According to the MoE's gender focal point, Gilda Monjane, a network set up for the gender focal points is no longer particularly active. Further, gender focal points are constrained by a number of factors including their level of understanding of gender in the petroleum sector and a lack of financial and human resources. Opportunities therefore exist for OfD to provide training and mentorship to support the professional and leadership capacities of gender focal points, and to link up with broader networks at the regional and international level to share lessons learned, challenges and strategies for dealing with particular issues. The network could function online in a similar fashion to iKnow Politics (International Knowledge Network of Women in Politics), which provides women with an interactive network to share resources, advice and collaborate on issues of interest.¹⁰²

Lastly, a barrier to addressing vital gender issues with respect to the petroleum sector is OfD's focus on the upstream petroleum sector. This means that the downstream distribution of petroleum products, where women's fuel needs could be addressed, or local content and barriers to women's employment fall outside OfD's current scope. OfD could expand its scope, or link up with other Norad programmes supporting local content to ensure that skills development or entrepreneurship for women forms an integral part of its foundation. Vocational training programmes should also have a gender related component and quota for women's participation.

5. Risks and Mitigation

This section outlines key risks for the sector and OfD programming, and mitigation measures where they are seen to be feasible. Not all risks can be managed: it may be necessary to acknowledge that certain contradictions cannot be avoided and that there may be limitations to outcomes. In such a context, seeking a 'best fit' rather than best practice is more realistic.

5.1 External Risk

¹⁰¹ See for example, the World Bank Oil, Gas and Mining Unit Working Paper (2013). 'Extracting Lessons on Gender in the Oil and Gas Sector: A survey and analysis of the gendered impacts of onshore oil and gas production in three developing countries'.

¹⁰² See iKnow Politics at <http://iknowpolitics.org/en>

5.1.1 Security Situation and Gas Revenues

In June 2013, RENAMO threatened to block the Sena railway line and disrupt coal shipments from mines operated by Rio Tinto and Vale SA. The line was temporarily suspended by Rio. Similar security threats to gas infrastructure are probable. The Mozambique channel and Northern Indian Ocean are considered vulnerable to piracy attacks with two attacks on offshore installations in East Africa and product tankers recorded in the last two years¹⁰³. Most recently, the security situation in Mozambique has deteriorated with a series of armed attacks and counter-attacks between RENAMO-FRELIMO and a dramatic increase in economically-motivated kidnappings, the latter of which implicate members of the police and security service as allied with the kidnappers. The latter developments have prompted at least once company, Rio Tinto, to evacuate expatriate dependents. The resource and gas boom will drive increased rent-seeking, patronage and corruption and cannot be discounted as drivers for increased conflict.

5.1.2 A retreat from Democracy

There are concerns that the resource boom in Mozambique will increase corruption, patronage and rent-seeking, as it has done in other states with weak governance and institutional capacities. A number of studies describe how resource booms function as a political incentive for degrading institutional checks and balances within a state¹⁰⁴. The aim of the game is consolidation of control, which may well lead to further institutional deficits including 'information deficits' (lack of transparency on government revenues and spending); monitoring deficits (lack of horizontal checks and balances due to centralization of control) and 'participation deficit'¹⁰⁵ (weakened connection between the State and its people). Weakened governance, poor management of the gas sector, and failures to increase redistribution of benefits when societal expectations are high will increase legitimacy deficits for the State and stoke further discontent and possibly, conflict. Mitigation Measures: Measures to address transparency and accountability need to increasingly target broader sections of society rather than State institutions, including the media, parliament and CSOs. Informed discussion and debate on the petroleum sector is an essential first step to promoting accountability.

5.1.3 Presidential Succession

With general elections upcoming in 2014 and Guebuza nearing the end of his two-term limit, FRELIMO has been preoccupied by the question of presidential succession¹⁰⁶. The inability to resolve the succession question internally and Guebuza's increasing monopolization of control have fractionalized the party. In late 2012, he reshuffled cabinet and sought and got a third-term as president of FRELIMO. This has never been done before and is viewed internally as him having gone too far. Several scenarios could unfold. Two centres of power may emerge in Mozambican politics - one around head of party (Guebuza) and the other around the head of state; Guebuza could change the constitution, seeking a third term as president (unlikely) or more likely, institute a stop-gap candidate for presidency but continue to pull the strings of power from the office of prime minister before returning to the job. Others believe the current conflict in Mozambique has been allowed to escalate as it will provide an excuse for Guebuza to postpone elections. Either way, the implications are

¹⁰³ Statoil and other foreign companies have signed an agreement with the Mozambican ministry of Defence for the provision of 50 navy officers to provide security.

¹⁰⁴ See for example, *Escaping the Resource Curse* (2007) by Jeffrey Sachs, Joseph Stiglitz and Macartan Humphreys

¹⁰⁵ *ibid.*

¹⁰⁶ The President of FRELIMO automatically becomes candidate of the party for the President of the State in the national elections, where the President is elected separately from the National Assembly. Thus the dominant role of both party and office of President underlines the importance of the succession question.

potential for increased conflict and a retreat of democracy which could pose a risk to FDI and decreased accountability and transparency in the petroleum sector.

5.1.4 Political-Party-Business Alliances

Rent-seeking is a means to self-enrichment and consolidation of power and the gas sector is a key pawn in horse-trading. There are clear vested interests in the petroleum sector which would pose a significant barrier to reform, in particular more transparency, accountability and revenue redistribution.

5.1.5 Weak legal and policy framework for revenue management

The legal and regulatory framework has been strengthened to increase government take from petroleum production vis-a-vis companies. Less attention has been paid to how those revenues will be managed. Weak legal and policy frameworks in this area combined with vested party interests pose a risk to OfD goals (redistribution of economic benefits, increased transparency and accountability).

5.1.6 Low institutional capacities

Low institutional capacities across the sector and in inter-institutional coordination are a risk for achieving programme goals. Shortage of technical expertise is accompanied by weak management and leadership capacities, which hinder decision-making and reform.

5.1.7 Negative Social Impacts

Despite long-standing donor support for the development of the extractive / petroleum sector in Mozambique¹⁰⁷, national laws and regulations to prevent and minimize social harms that inevitably accompany resource extraction are inadequate. First generation projects (Sasol gas fields and pipeline) were co-financed by the International Finance Corporation meaning that international “performance standards” and monitoring were required. Donors supported second-generation projects – model contracts, competitive bidding, negotiations – but with no international financing, social impact issues are governed only by national legislation / regulation. A comparison of international and Mozambican standards concluded, “existing legal requirements do not meet international benchmarks for good practice¹⁰⁸. This is particularly true in the area of resettlement, but this is almost certainly just the first in a series of social impacts where prevention / mitigation efforts will be inadequate.

External Risk	Mitigation Measures
Security Situation and Gas Revenues	This falls outside OfD scope and influence.
A retreat from Democracy	OfD focus on accountability to focus on vertical mechanisms for accountability such as civil society organizations, media and parliament.
Presidential Succession	This falls outside OfD scope and influence.
Political-Party-Business Alliances	OfD should be aware that local content initiatives would benefit the nomenklatura who are positioned to gain from petroleum-related contracts and sub-contracts.
Weak legal and policy framework for	Support strengthening of capacities for oversight

¹⁰⁷ Most notably from the World Bank and Norway

¹⁰⁸ Human Rights Watch, “what is a House without Food, “ Mozambique’s Coal Mining Boom and Resettlements, 2013.

revenue management	mechanisms (Parliament, Media and CSOs) and increased knowledge for decision-makers on the workings of the petroleum sector. Link up with other donors so that revenue management is addressed more holistically beyond tax collection (possible partners: IMF, World Bank).
Low institutional capacities	Capacity building initiatives should be scaled up significantly, possibly with other donors for additional impact. Short-term and ad-hoc capacity building missions should give way to longer-term and more sustainable approaches such as the placement of technical advisors within institutions for on-site mentoring.
Negative Social Impacts	The new petroleum law is due to increase measures for social protection. OfD could draw attention and support from other donors on the need for mechanisms to monitor and promote compliance with these measures. Norway could play more of a leadership role on social impact issues within donor fora, inter alia advocating for the translation of UN guiding principles on business and human rights into practice.

5.2 Reputational Risk

At least two reputational risks are worthy of consideration: (1) Norway's development and commercial interests and (2) the tension between traditional technical capacity building and an emerging "public governance" approach to the extractive sector.

5.2.1 Donor's Conflict of Interest

Norway, like other donors, has both developmental and commercial interests in Mozambique with respect to the petroleum sector. On the one hand, Norway is assisting Mozambique to maximize benefits from petroleum exports. On the other hand, Norway's national oil company – Statoil – has commercial interests in the country. Internal firewalls aside, this has implications for donor messaging and the responsibility to be transparent about potentially diverging interests. To date, Norway's dual role in the petroleum sector has not resulted in controversy. Should the Statoil concession prove to be valuable the issue of how Norsk-Hydro¹⁰⁹ secured its concession could become an issue (it is alleged that Norsk-Hydro secured its concession through bilateral negotiations rather than competitive bidding). While the Statoil concession is now routinely listed with the Anadarko, ENI and Petronas as resulting from the 2006 bidding process, public documents from the time show that this was not the case.

5.2.2 Conduct of Norwegian Business

The conduct of business by Norwegian companies poses a reputational risk for Norway. Statoil's concession areas border an important nature reserve operated by the World Wide Fund for Nature. According to Norsk-Hydro's own environmental impact assessment from 2006, seismic shooting would be conducted outside whale-breeding periods and peak tourism seasons. A report by Norwegian Church aid¹¹⁰ claims that in fact, seismic shooting

¹⁰⁹ The license was originally obtained by Norsk-Hydro before it's oil and gas division merged with Statoil

¹¹⁰ Doing good by doing well? Statoil in Sub-Saharan Africa, Norwegian Church Aid, 2013 report commissioned from Fridtjof Nansen Institute.

was conducted on a number of occasions outside of these seasons in 2011, leading WWF to term Statoil as a reputational risk for Norway. The same report raises issues around inadequate community consultations where stakeholder concerns were not sufficiently considered.¹¹¹

5.2.3 Fragmented Approaches

Norwegian support to the sector seems split between a traditional style of ‘behind-the-scenes’ technical assistance (legislative design, contract negotiation, institutional strengthening) and a much more public “transparency-accountability” agenda linked particularly to EITI. The issue of contract disclosure in the draft petroleum law provides a good illustration. The first draft (apparently developed with Norwegian-funded assistance) made no mention of contract transparency yet within the donor community it was widely assumed that these issues would be addressed given the Norwegian role¹¹².

5.2.4 Behind the Scenes Approach

Several donors commented on the ‘behind-the-scenes’ nature of Norwegian assistance in the petroleum sector pointing to a lack of information or transparency on what advice Norway was providing. Questions raised included whether Norway was (inappropriately) promoting its own ‘Norwegian model’ (legal framework, sovereign wealth funds) which diverged from other donors’ advice and on which actors were actually speaking on behalf of Norway. A lack of active participation in broader donor mechanisms including the Donor Task Force on Extractive Industries was also pointed out as surprising given Norway’s activity in the petroleum sector.

Reputational Risks	Mitigation Measures
Donor Conflict of Interest	Better communication on the content and approach of the OfD programme. Also, supporting or collaborating with multi-stakeholder mechanisms (World Bank MAGTAP programme, or MASC civil society mechanism).
Conduct of Norwegian Oil Company	Although there is a firewall between commercial actors and OfD, the Norwegian Embassy in Maputo should through its engagement with Norwegian petroleum companies, such as Statoil, keep an open dialogue on potential ‘conduct’ issues like environmental standards and transparency of concessions.
Fragmented Approaches	Strengthen programme coherence, inter alia through developing a clear theory of change, and ensure all stakeholders involved with OfD deliver consistent messages.
Perceived lack of transparency	Improve communication and information exchange on OfD at the country level, through more active donor coordination. At global level, improve availability of documentation on the OfD programme.

¹¹¹ Ibid.

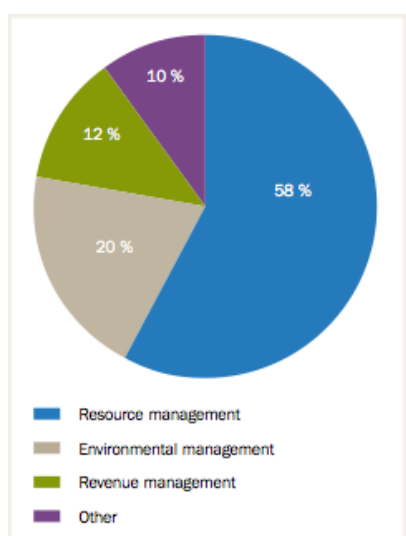
¹¹² This seeming divergence on transparency (lack of transparency provisions in the law but support for EITI and CSOs on transparency issues) was termed by some informants as indicative of Norwegian ‘split-personality’.

5.3 Internal Risk (Programming-Level)

5.3.1 Imbalanced weighting of the 3 pillars

The bulk of OfD programme resources are channeled into the resource management pillar. The OfD programme's annual report for 2011 showed that approximate disbursements were weighted as follows: 58% to resource management, 12% to revenue management and 20% to environmental management. Given that an overarching goal of the OfD programme is poverty reduction, more attention needs to be focused on the revenue management pillar. This support is critical given that revenues from LNG exports are expected to flow into Mozambique sometime from 2018-2020. An imbalance also exists within the revenue management activities taken thus far: a reliance on supporting tax collection will increase government revenues vis-à-vis companies but does not address the social redistribution of wealth. Broader revenue management and policy will become increasingly important in the next years if Mozambique is to avoid aspects of the resource curse, such as Dutch disease.

Figure 4: Disbursements distributed according to thematic area (2010).



Source: Oil for Development Initiative Annual Report, 2010. Norad

5.3.2 Clarity on overall Strategy

A lack of clarity on overall strategy and scenario planning constitute a risk to OfD achieving its programmatic goals. The study found a significant divergence, for instance, between Norwegian actors in terms of views on policy positions, programmatic content and approaches and which stakeholders the programme should engage with. It appears that there is no clear theory of change, which connects all planned interventions required to bring about change; instead programme activities across the three pillars are often ad-hoc and limited in scale. In terms of scenario-planning, there appears to be no evidence of a clearly defined exit strategy or 'red lines', under which Norway would be compelled to close the OfD programme in Mozambique.

5.3.3 Red lines

Although there are no defined red lines for cooperation with Mozambique there is a risk that 'perceived red lines' may be transgressed. The recent Norwegian White Paper, 'Sharing for

Prosperity,¹¹³ provides strong guidelines, and implicit red lines, on democracy and human rights for development cooperation. There are several human rights and democracy challenges in Mozambique, which may gradually or suddenly cross a 'red line' and require Norway to react. These include, the possible forced relocation of households from the Quitupo Village in Palma District, Cabo Delgado without adequate compensation or access to appropriate livelihoods. The government's handling of relocations, such as the hundreds of families displaced by Vale's Moatize coal mine do not inspire confidence¹¹⁴. Other red lines include the possible escalation of FRELIMO and RENAMO fighting, harsh crack down on popular protests and overall shrinking of civil society space. Another very concrete 'red line' relates to corruption where Mozambique and donor relations are already strained. Although the current freeze of funds from Norway to INP reflect poor financial auditing and not corruption, there is a clear risk of Norwegian funds being misappropriated by Mozambique counterparts. Norway is unlikely to support ENH but this report points out that there is a high risk of ENHL taking part in rent seeking and thereby being exposed to potential corruption scandals.

5.3.4 Coordination Structures (Collaboration and Coherence)

A multitude of actors are involved in the OfD programme from the Norwegian side. This raises challenges with respect to the division of roles and responsibilities of the respective partners in programme implementation. The role of the Embassy, in particular, should be clarified with respect to programme design, implementation and coordination. There also needs to be more clarity on what assistance is provided under the framework of the OfD programme's advice from other Norwegian actors in the petroleum sector. For instance, the Norwegian legal firm Simonsen has provided legal support to INP through its own direct agreements. This support has been construed by a number of stakeholders (donors, CSOs and private sector) as being sponsored by Norway, in particular through the OfD programme, but as being implemented 'behind-the-scenes' and possibly as divergent to broader donor advice.

A second area requiring consideration is the OfD coordination structures. The component - approach of the programme leads to compartmentalization of programme activities, and does not provide adequate visibility to the cross-cutting principles of transparency and accountability. The delineation of the programme into upstream and downstream oil and gas activities with a focus on the former only, also creates a barrier to addressing goals relating to poverty reduction, more inclusive growth and local content. Secondly, the OfD steering committee meets quarterly. One informant questioned whether this was frequent enough to keep up with the pace of developments in the petroleum sector in Mozambique at this point in time. The question of how well the committee draws on country-based expertise and knowledge of the political economy context was also raised.

¹¹³ "Sharing for Prosperity", White paper 25 (2012-2013), see also Joachim Nahem, 'Dilemmaer og Utfordringer i Utviklingspolitikken,' MFA 2013

¹¹⁴ About 700 families (5,000 people) were relocated to new 'settlements' about 60km from the Moatize site without adequate compensation. Though provided with housing, the new site was far from vital infrastructure, health and education facilities and without possibilities for subsistence agriculture. A number of people protesting against the relocation were arrested, leading to widespread criticism of the move as an examples of poor practice. See for example, Open Society Initiative for Southern Africa, 'Coal versus Communities in Mozambique: Exposing poor practices by VALE and Rio Tinto' and Human Rights Watch (2013) 'What is a House without Food? Mozambique's Coal Mining Boom and Resettlements'.

5.3.5 Contextual and Cultural Understanding

Programme implementation has to date shown a lack of understanding or attention to political context and cultural differences. Technical interventions and institutional twinning approaches rely on Norwegian experts who have specialized expertise in the Norwegian petroleum sector but without a sound grasp on the local country context or the political nature of the processes they are contributing to. Further attention should be paid to making sure that Norwegian experts engaged in the programme understand the political nature of reform and change, and how this manifests in Mozambique. Non-Norwegian experts with a grasp of the local culture and language may also be better able to engage in knowledge transfer and exchange. The steering committee could also benefit from having a sounding board or feedback mechanism at the country level to provide analysis of the political context.

5.3.6 Weak focus on civil society, media and Parliament

The OfD programme focuses its attention primarily on institutional strengthening at the state level, and in particular to line ministries. This may have limited impact in the context of weak State commitment to oversight and transparency. Attention should be focused on supporting citizen-centred demands for accountability through support to civil society, media and parliamentarians. Support should strive to link to local communities where possible and be long-term for sustainability and scale of impact.

Internal (Programming) Risks	Mitigation Measures
Imbalance of Pillars	Rebalance focus across the four components. Scale up revenue management pillar in particular through bilateral support, increased support to the Tax Common Fund and potential collaboration with WB Magtap or IMF.
Lack of clarity on overall strategy	Develop and communicate overarching strategy, including clear theory of change and scenario planning.
Weakness in Coordination (Collaboration and Coherence)	Improve documentation and exchange of information between OfD Secretariat, Implementing agencies, and Embassy. Draw on embassy/country-based expertise to ensure operational and strategic planning are informed by 'developments on the ground'.
Lack of Contextual and Cultural Understanding	Provide the embassy with further resources to assist in 'contextualizing' programming interventions; consider creating an informal panel of country experts to feed into planning and decision-making, particularly at the level of the steering committee; and provide context-based briefings to implementing agencies.
Weak focus on civil society, media and parliament for oversight and accountability.	Consider longer-term and scaled up support to civil society, media and parliament to increase vertical oversight and accountability. Consider partnering up with MASC for scale of impact.

5.4 Risks to Mozambique

Sustainability of Support

The recent freezing of funds to INP strained cooperation for most of 2012 and 2013. While Norwegian support should not be unconditional, the lack of predictability or sustainability of funds and support presents a risk to Mozambique, in particular forward planning and implementation of existing projects.

Mitigation: Norwegian efforts to work with Mozambique on improving their financial management, including auditing, should continue as this will reduce risk of future misuse of aid funds. Mozambique will need to seriously consider 'back up plans' to continue capacity building should donor funds be frozen again.

6 Policy Recommendations

Summary

- **MAINTAIN** focus on **Resource Pillar** and regulatory Framework, but consider redirecting attention to oversight and compliance issues
- ↑
INCREASE focus on **Revenue Pillar**, in particular broader questions of tax policy and possibilities for transparency and accountability via SWF or national development bank to channel gas revenues into industrial /social development
- **MAINTAIN** efforts on **Environmental Pillar** but redirect focus to non-State bodies such as civil society with a focus on monitoring and oversight, and community engagement
- ↑
INCREASE efforts on **Transparency and Accountability**, through supporting civil society, media and parliaments understanding of, and capacity to conduct oversight of, resource governance

6.1 Conclusion

The study has attempted to provide an overview of the key interest groups and dynamics that influence the governance culture in Mozambique and what the implications of these are for the way in which the petroleum sector is managed. The report outlines how the national context impacts the likelihood of the OfD programme achieving its goals for economically, environmentally and socially responsible management of the petroleum sector. Lines between the FRELIMO party, the State and the economic elite are blurred enabling elite capture and rent-seeking in the broader economy. The same dynamics are playing out in the natural resources sector where industry influencers or 'gatekeepers' have been positioning themselves for greater participation – and a greater share of revenues – in the gas sector.

There appear to be limited opportunities for a change in the political economy of Mozambique in the short-term. Questions of reform and governance are largely questions of how oversight mechanisms can check the excesses of patrimonialism, corruption and rent

seeking as well as their impacts. The implications are two-fold: firstly, OfD cannot operate as if the political economy – and its resulting contradictions and constraints – do not exist. Secondly, although space for manoeuvring is limited, a few opportunities for shifts in the longer-term could be leveraged. These will require a significant scaling up and longer-term commitment. For instance, the dominance of FRELIMO over the State limits horizontal oversight but opportunities to strengthen vertical accountability – by working inter alia with civil society and the media – are currently under-utilized and should be examined further.

The report's findings hold a number of implications for the design and implementation of a new programme cycle in Mozambique for 2014-2018. What follows is a number of recommendations for how the OfD programme can improve transparency and accountability in Mozambique's petroleum sector, target its capacity-building support at the right level, and ensure coherence and coordination in its programming strands so that the sum is greater than the parts.

6.2 Recommendations for OfD Programme

6.2.1 Improving Transparency and Accountability

- A full assessment of the revised petroleum law should be undertaken, once it is approved, with a view to ascertaining whether recommendations to eliminate the option to negotiate contracts directly, and to include contract disclosure have been undertaken.
- The Embassy could take a leadership role on promoting transparency and accountability, inter alia through the G19 Extractive Industries Task Force and other donor fora. Possible issues to raise and to address in its own programming include contract disclosure and beneficial ownership, which is likely the greatest corruption risk in the sector.
- Norway should support the EITI process but be clear that it is a starting point only.
- As formal institutional checks and balances are weak, OfD should strengthen the capacity of civil society, media and parliament to engage in informed debate and demand accountability for how the petroleum sector is managed. The MASC mechanism for civil society support could be considered as a potential partner.
- Financial transparency should be addressed in revenue management-related activities and within donor fora given that an amount estimated at 10 times the value of ODA is siphoned out of developing countries every year through illicit capital flows.

6.2.2 Revenue Management: From Increasing Government Stake to Society Stake

- The revenue management pillar of the OfD programme should be scaled up before gas royalties begin flowing into the treasury in 2018. Norway could consider increasing its own bilateral support, contributions through the Tax Common Fund, and coordination activities with the IMF and World Bank MAGTAP programme who are active in this area.
- Tax Administration capacity is crucial for Mozambique to generate the share of revenue owed to it through the EPCCs. Those revenues are potentially at risk from ineligible or inflated exploration expenses. OfD support to AT could assist in the review of exploration cost recovery claims from the largest concessions. These audits will become even more important in the development phase (2018 onward) and examining exploration expenses provides valuable on-the-job training.

- OfD activities in Mozambique have focused on increasing government take vis-a-vis the international oil companies. The next programme cycle provides an opportunity to focus on how revenues are invested and redistributed to improve the welfare of Mozambicans.
- Consider mechanisms adopted by other petroleum countries to ensure integrity of revenue management and the minimization of revenue 'seepage', including creation of revenue management laws, sovereign wealth funds or national development banks. Experiences from countries with similar contexts and governance challenges should be prioritized.

6.2.3 Donor Coordination

- Improved donor coordination at country level can help identify areas of complementarity (or duplication) and areas for collaboration; help communicate OfD policy and practice; and enable the exchange of comparative experiences and models for petroleum-related assistance.
- At a more involved level, Norway could play a leadership role with respect to the petroleum sector, which is expected by donor and civil society.
- Donor coordination in complementary areas of programming would enable OfD to achieve a greater scale of impact and sustainability in its assistance. An example is in working with MASC to further strengthen and diversify civil society representation in the natural resource sector.
- More active coordination and dialogue with donors would go a long way to addressing perceptions of Norway's petroleum-related assistance as being 'behind-the-scenes' and as imposing a Norwegian 'model' on Mozambique.

6.2.4 Improve accessibility and visibility of information on OfD

- Information on OfD programme activities is somewhat fragmented. Efforts could be made to consolidate information on country activities across the different components, through accessible reports, and online platforms.
- Strengthen awareness-raising for the OfD Programme – its approach and basis - and profile its objectives and achievements. Primary targets would be OfD countries and other donors. Secondary targets could include media and broader civil society.
- Improved communication of the programme tenets would address perceptions of Norwegian assistance as lacking in transparency.

6.2.5 Contextualization of Programme Interventions

- OfD should consider establishing a national advisory board or reference group. The body would reflect a multi-stakeholder approach with representation from government, civil society, parliament and private sector. It would provide valuable advice on 'contextualizing' programme interventions, offer OfD a valuable sounding board and support broader national ownership. The embassy would have a key role to play in coordinating this mechanism.
- Additional resources should be allocated to sensitizing all implementing agencies and OfD decision-makers on the political economy of the petroleum sector in Mozambique, in particular the political dimensions of reform and change processes.

6.2.6 Programme Delivery

- Short-term training missions were seen as insufficient by several Mozambican partner institutions. Capacity building should be longer term and more sustainable. Possibilities include deployment of Technical Advisors (TAs) to sit within institutions for a six-month period minimum, or supporting local educational institutions, inter alia through linking up with Norwegian academic institutions. AT for instance, cited interest in developing a local Masters degree programme on tax administration.
- Consider expertise from outside Norway to ensure the programme is demand-driven as opposed to aligning with pockets of Norwegian expertise (supply-driven); to ensure value for money, and as a means to address Norwegian capacity constraints (lack of highly specialized experts who can be deployed internationally, lack of Portuguese language skills or work experience in similar environments).
- Mozambique is at a critical period of time in the development of the petroleum sector. Developments in the sector move rapidly. OfD should therefore scale up to meet pressing and immediate needs of Mozambican institutions.

6.2.7 Improved Coherence

- Develop strategy-planning documents and organize regular discussions amongst the OfD country group for Mozambique. This should include a discussion of 'red lines' and criteria for an exit strategy.
- Consider utilizing a theory of change approach to test implicit assumptions in OfD programme interventions and to develop a roadmap of specific and measurable interventions required to bring about desired outcomes (pathways for change) and the main levels at which change can be effected (impact level, influence level, and leverage level).
- Consider how relevant priorities in Norwegian foreign policy and development assistance could complement the OfD programme. OfD already collaborates closely with the Tax for Development programme; it could also look at Norway's efforts on illicit capital flows.

6.2.8 Civil Society and Media: Broad-based Coalitions for Change

- The media can be a powerful vehicle for promoting good governance by informing and empowering citizens to hold public officials accountable for their decisions. OfD could support training for improved reporting on natural resource governance and development of sustainable media business models. One option would be to link up to existing media training programmes, such as the USAID-sponsored media-strengthening programme, and provide a targeted component on reporting on the extractives sector. Such a programme should include community radio stations as a critical target.
- OfD may consider strengthening the professionalization and sustainability of journalism in Mozambique by adopting a 'training-of-trainers' approach, and by supporting the creation of media and journalists associations, unions and press councils, which work to defend the rights of the profession and improve standards of quality. At a broader level, though critically important, are opportunities to support advocacy initiatives by CSOs and the media for an access to information law as well as protection for media

- and whistleblowers, in line with the UN Action Plan on Safety of Journalists. OfD could also consider adding a special prize to The Standard Bank prize for economic journalism
- OfD could scale up support to existing programmes that facilitate linkages between civil society actors for the purposes of knowledge transfer, networking, capacity building and on-the-job mentoring in the resource sector. Examples of existing programmes supported by Norad include Publish What You Pay's Transparency and Accountability in Extractive Industries (TRACE) programme and the Revenue Watch Institute's Capacity Advancement Fellowship.
 - OfD could consider linking up with the mechanism for civil society support (MASC) in Mozambique in order to promote broad cross-sector coalitions for change. This initiative brings together multiple actors including at the (often-forgotten) local community level and presents an opportunity to scale up support to CSOs.
 - Consider creating a virtual network (community of practice) on natural resource oversight, which brings together relevant experts and practitioners from across civil society in multiple countries. One possibility would be to create an online network for OfD countries where partners can engage in dialogue and exchange experiences, lessons learned and practical resources on how to improve management of the natural resource sector and how to reduce the 'implementation gap' between policy recommendations and practice.

6.2.9 Present diversity of good practice in petroleum management

- Capacity building and technical interventions could draw on south-south or triangular cooperation in addition to Norwegian expertise. Mozambique has been looking to Angola to share hydrocarbon experience, for instance, Sao Tome provides interesting experiences on the development of revenue management laws and Timor Leste could provide a useful set of experiences in terms of setting up its Petroleum Fund. These approaches demonstrate locally-owned approaches and solutions to petroleum sector management in similar country contexts.
- Regional workshops would enable OfD and countries in the regions to leverage relevant experience, innovations and lessons learned from similar country contexts. Both OfD and country participants would benefit from examining what works and what does not work, and under what circumstances. This includes questions how to best engage society, how revenues are being managed and allocated in efficient and equitable ways, what kinds of cost-benefit analyses have been done.
- Using global or Norwegian good practice may not necessarily be the 'best fit' for Mozambique's particular social, economic and political context. Drawing on a wider range of practice, and particularly from countries facing similar governance challenges, could yield more realistic and feasible solutions for Mozambique.

6.2.10 Alternative Approaches for supporting responsible Environmental Management

- Consider creating an informal reference group on environmental protection and governance, which brings together technical experts from across government, academia and NGOs. The group could provide innovative but feasible ideas for supporting the environmental pillar, outside of formal cooperation with MICOA.
- Support knowledge exchange and mentoring on environmental issues in the petroleum sector by linking up relevant civil society and experts in Mozambique, Norway and South. The creation of knowledge networks (virtual community of practice) is one

possibility that would enable practitioners to exchange practical experience and lessons learned on environmental protection in the resource sector.

- Consider leveraging the technical and strategic expertise of CTV and Impacto for conducting an assessment of the regulatory and implementation gaps in environmental protection including key vulnerabilities, weak links, incentives and possible entry points.

6.2.11 Supporting the Integration of Gender-Related Issues in OfD programmes

- OfD could host an initial workshop to better assess the existing capacities and needs of gender focal points in Mozambique as well as their key challenges in mainstreaming gender issues in the petroleum sector.
- As a follow-up, consider leadership training and mentoring for gender focal points. Aside from training, one option would be to use the international networking model used by iKnow Politics (International Knowledge Network of Women in Politics) which provides members with opportunities to exchange experience, strategic advice and lessons learned.
- Support the development of 'gender-smart' policies in the areas of local content, employee recruitment by IOCs, vocational training and in community consultation processes. As a starting point, EIAs and SIAs in Mozambique could be used to explore inequalities in local communities, which influence who has a voice in decision-making and how risks and opportunities relating to the gas sector are experienced differently by men and women.
- Consider expanding the scope of the OfD programme to address critical gender issues in downstream development and local content, or link up with other Norad programmes supporting these areas to ensure that skills development or entrepreneurship for women are addressed. Vocational training programmes should also have a gender related component and quota for women's participation.

Report Annexes

ANNEX 1: PETROLEUM GOVERNANCE BASELINE/CHECKLIST – MOZAMBIQUE

Principles	General Indicators	Specific Indicators, Including Adaptations to the Mozambican Context
<i>1. Clarity of goals, roles and responsibilities</i>	1. National development objectives and the role of the oil and gas sector in contributing to those objectives are clear and well communicated to all stakeholders.	<p>a) Is a national development plan in place?</p> <p>b) Is an oil and gas policy, which includes government take, in place?</p> <p>c) Has the oil and gas policy been publicly presented and explained?</p> <p>d) Are the plans and policies referred to above, if in place, also in use?</p> <ul style="list-style-type: none"> ➤ The GoM is in the process of finalizing a Gas Master Plan (GMP). The GMP is envisaged as a stepping-stone to further analysis and studies that will, over time, inform policy development in the sector. ➤ No official national development plan has been elaborated, although there is debate within Mozambique about how the sector can contribute to national development objectives including job creation and infrastructure development. The debate is ongoing and agriculture and tourism sectors, in particular, have been highlighted. ➤ According to the draft GMP, the GoM should develop a communication strategy aimed at all Mozambican citizens and other stakeholders explaining the importance of natural gas (its development and implications). Transparency is seen as a ‘critical weapon’ for tackling misinformation and unrealistic expectations. No communications strategy is yet in place, however. <p><u>Possible Adaptations:</u> These indicators could be extended to assess:</p> <ul style="list-style-type: none"> ➤ <i>how inclusive, transparent and participatory</i> any communication strategy on gas policies, plans and/or national development are; ➤ to what extent the question of <i>regional development</i> is addressed in national development plans or policies. ➤ To what extent, any plans or policies in place are <i>implemented</i>.
	2. The national onshore and offshore jurisdiction is defined and acknowledged by neighboring states, and applies to petroleum activities.	<p>a) Are there ongoing border disputes with neighboring states in areas considered to have petroleum potential?</p> <p>b) Are there agreements in place for joint exploration and exploitation of petroleum in areas where jurisdiction is disputed?</p> <p>c) For coastal and island states, has the continental shelf been delineated according to UNCLOS or has a claim been presented?</p> <p>b) What types of mechanisms/processes are in place to handle border disputes with neighboring states?</p> <p>e) How do ongoing border disputes affect petroleum sector management more generally?</p>

		<ul style="list-style-type: none"> ➤ Relevance of indicator 2: These indicators are not relevant for the assessment of the situation in Mozambique. However, East Africa is a growing ‘hotspot’ for oil, gas and mineral exploration, and the source of several regional disputes (between Tanzania and Malawi, between Kenya and Somalia and between Uganda and South Sudan). Mozambique’s former President, Joachim Chissano has been acting as mediator in the Tanzania-Malawi negotiations.
	<p>3. Laws and regulations governing the petroleum sector are in place and in use.</p>	<p>Are the following defined by law/regulation:</p> <ul style="list-style-type: none"> a) The right to the sub-soil petroleum resources? b) Government access to resource data? c) The way the rights and responsibility for carrying out petroleum activities are transferred from the host government to the industry (including a national oil company)? d) The environmental standards and pollution control requirements in connection with petroleum operations? e) The HSE (health, safety and environment) regulations for petroleum operations, including risk potential for major accidents, and HSE standards for personnel, working environment and assets in the petroleum sector? f) The way the state’s share of the revenue from petroleum is transferred from the companies to the host government? g) If there is direct government ownership through a national oil company (NOC): The NOC’s purpose and mission, including any social objective obligations (e.g. providing employment beyond what is required for the NOC’s activities, selling petroleum products at below international prices to national consumers)? h) Are the laws and regulations referred to above, if in place, the tools the government uses to govern the industry, or are other systems/practices more important? i) Which issues does the Exploration and Production Agreement leave to negotiation between the government and the operator, and which issues are nonnegotiable? j) If some issues are regulated in both the Exploration and Production Agreement and the Offshore Petroleum Resources law, what is the relationship between the two? <ul style="list-style-type: none"> ➤ The Constitution and The Petroleum Law 3/2001 sets out rights to all natural resources in the soil and sub-soil, in interior waters and the territorial sea, on the continental shelf and in the ‘exclusive economic zone’, as the property of the State of Mozambique. ➤ Rights and responsibilities for carrying out petroleum activities are typically set out in EPCCs (exploration and production concession contracts) as well as the Petroleum Regulations (Decree No. 24-2004). ➤ The legal landscape has changed significantly in recent years with respect to the petroleum industry. In 2012, the GoM published a revised draft of the 2001 Petroleum Law, which is currently before Parliament. Anticipated changes include strengthening of HSE regulations as well as limited environmental protections

		<p>(restrictions on flaring). The new fiscal regime also provides better clarity on how the State’s share of revenues is transferred including gas royalties; petroleum production tax (PPT); production bonuses and production sharing recovery costs. A significant challenge will be to what extent the above are <i>implemented</i> in practice as other considerations (vested economic interests of the elite, political-business relationships) may affect implementation of the law.</p> <p><u>Possible Adaptations:</u> These indicators could be extended to assess:</p> <ul style="list-style-type: none"> ➤ <i>Implementation</i> of legal and regulatory provisions; ➤ What <i>monitoring or enforcement bodies</i> exist to oversee compliance with the laws and regulations.
	<p>4. Responsibilities for petroleum sector management are clearly defined and assigned to individuals and/or institutions. Include <i>all</i> institutions/individuals with a mandate/tasks related to managing the petroleum sector – e.g. resource management, environmental management, occupational health and safety, revenue management (including government take management) and any commercial role.</p>	<p>a) Name the institutions/individuals who have formal responsibility for policy-making, strategy-making, operational decision-making and monitoring and regulating industry activity, and their relevant areas of responsibility.</p> <p>b) Are the interfaces (the division of responsibilities) between the different institutions/individuals clearly defined?</p> <p>c) What is the extent of influence from others than mandated institutions/individuals (low-medium-high)?</p> <ul style="list-style-type: none"> ➤ Relevance: Indicator 4 is highly relevant for the assessment of the situation in Mozambique. A number of bodies have responsibilities pertaining to the Petroleum Sector. Key amongst these are the Council of Ministers; Ministry of Mineral Resources (MIREM); INP (national Petroleum Institute) and the Ministry for the Coordination of Environmental Affairs, ENH (the NOC) and the Revenue Authority (AT). ➤ Generally speaking, the mandates of the afore-mentioned institutions are well-defined; the heads of institutions are politically appointed and therefore have a high degree of influence. The exception is MICOA, which has little legitimacy /authority to fulfil its role (coordination of environmental affairs) vis-à-vis other ministries or bodies and has been deliberately kept weak. ➤ The CoM has the highest level of influence; INP and MIREM follow, and MICOA has a very low level of influence. The level of authority granted to the CoM in law making, concession granting and royalty collection pose significant concerns. <p><u>Possible Adaptations:</u> These indicators could be extended to assess:</p> <ul style="list-style-type: none"> ➤ To what extent, the respective institution is able to <i>implement</i> its mandate. ➤ Appropriate checks and balances at institutional and procedural level
	<p>5. Responsibility for the regulatory functions is assigned to</p>	<p>a) Are there any aspects of how regulatory functions are assigned and executed that may lead to conflict of interest and/or duplication of effort?</p> <p>b) Does any commercial organisation, for instance a national oil company, also have regulatory responsibility?</p>

	<p>allow for objective, fair and independent oversight, and to minimize duplication of effort.</p>	<p>c) To what extent does cross-institutional cooperation and data sharing take place between the institutions with regulatory responsibility (low-medium-high)?</p> <ul style="list-style-type: none"> ➤ Relevance: Indicator 5 is relevant for the assessment of the situation in Mozambique. The primary regulatory functions are assigned to the national petroleum institute (INP). However, it is not an independent body, being subordinate to the Ministry of Mineral Resources. It is therefore, susceptible to political pressure. ➤ The CoM has ultimate authority with respect to decision-making in the sector, which leaves the door open to conflict of interest, lack of transparency and corruption. ➤ INP is responsible for the organization, maintenance and consolidation of information and technical data relating to activities of the petroleum industry and national petroleum reserves. Cross-institutional cooperation, including data sharing, falls to INP, but inter-institutional coordination is generally weak. <p><u>Possible Adaptations:</u> These indicators could be extended to assess:</p> <ul style="list-style-type: none"> ➤ <i>Who</i> heads up institutions responsible for regulatory functions and what other interests they may hold in the gas or natural resource sector.
	<p>6. The legal, fiscal and regulatory framework in which foreign and private operators/service companies will operate and any obligations to the country beyond their agreed work program are clearly defined in their contracts/concessions or relevant legislation.</p>	<p>a) What system is in use for transferring the rights for exploration and production to the industry (concessions, production sharing contracts, service contracts or any other)?</p> <p>b) Are all obligations from the companies to the country defined in the companies' contracts/concessions or relevant legislation?</p> <ul style="list-style-type: none"> ➤ Petroleum operations in Mozambique are carried out on the basis of the award of a reconnaissance contract, Exploration and Production Concession Contract (EPCCs) or pipeline contract. The EPCCs are the most common, and are a form of production sharing contract. ➤ Operators' and companies' obligations are defined under the EPCCs, petroleum law and fiscal regime. New EPCCs have to be consistent with the Private Public Partnership (PPP) Law, which came into effect in July 2012. <p><u>Possible Adaptations:</u> These indicators could be extended to assess:</p> <ul style="list-style-type: none"> ➤ Whether contract disclosure will be made mandatory by GoM; ➤ Level of Company/Operator willingness for contract disclosure
<p>II. Sustainable development and risk management as overarching goals for the</p>	<p>7. The national petroleum inventory provides a good basis for the long term planning of the petroleum sector, and petroleum resources are managed</p>	<p>a) Is the uncertainty distribution of the petroleum resources well understood among policy makers?</p> <p>b) Is there an exploration policy in place?</p> <p>c) Does the exploration policy support a long-term systematic mapping of the resources through the licensing of acreage with different exploration risk at a pace that minimizes negative economic impacts on other sectors?</p> <p>d) Does the licensing strategy foster competition and favour technically and financially strong companies?</p> <p>e) Is there an approval system in place for fields and infrastructure</p>

<p><i>sector</i></p>	<p>efficiently and with an aim to minimize negative economic impacts on other sectors.</p>	<p>and their abandonment?</p> <p>f) Is there an approval system in place for annual production plans?</p> <p>g) Is it possible to require revised production plans in order to reap the benefit of increased recovery or improved efficiency in the operation of petroleum fields?</p> <p>h) Are the governance tools mentioned in b)-g) above, if in place, used in practice, or are other systems/practices more important?</p> <p>Relevance of indicator 7 (and sub-indicators): All of these specific indicators are relevant to the Mozambican context. Although Mozambique’s gas sector is still in the nascent stages, indicators relating to sustainable development and risk management are important to establish baseline values.</p> <ul style="list-style-type: none"> ➤ Significant lack of understanding of petroleum resources and how the industry works across many policy and decision-makers. ➤ Exploration policy /Approval Systems: Policy development in this sector is at nascent stages. The Gas Master Plan (not yet finalized) will be the first stepping stone for the further development of policies in the petroleum /gas sector. ➤ The <i>National Strategy for Petroleum Operations Concessions (2009)</i> seeks to ensure the systematic and continuous petroleum exploration in the country’s basins while stimulating investment in the national private sector in oil exploration and production. The licensing of acreage is being undertaken at a rate that is perhaps too rapid to be managed sustainably, and to minimize negative impacts in other sectors. ➤ Licenses can be granted via direct negotiation (and this has been the case in the past) with implications for fair competition and the selection of companies based on their technical and financial strength. <p><u>Possible Adaptations:</u> These indicators could be extended to assess implementation of existing policies and approval systems.</p>
	<p>8. Effective processes and incentives are in place to ensure that the development of petroleum infrastructure and its operations do not result in long-term damage to the environment, unacceptable health, safety and working conditions,</p>	<p>a) What are the requirements (legal/guidelines/policies) for project specific Environmental Impact Assessment (EIA) and Strategic Impact Assessment (SEA) in the various phases (opening, exploration, development, transport, decommissioning) of petroleum activities to ensure that direct and indirect impacts on the environment as well as on society/community and natural resources are assessed?</p> <p>b) Which groups are consulted in these impact assessment processes?</p> <p>c) Are there guidelines in place for compensation of groups that are directly and negatively affected by petroleum activities?</p> <p>d) Are there inspections, monitoring, follow-up and regulatory enforcement systems in place?</p> <p>e) Is there a system in place for performing independent HSE audits?</p>

	<p>unacceptable social impacts or other human rights violations.</p>	<p>f) Is there an oil spill contingency system in place?</p> <p>g) If yes to f) how is responsibility for the oil spill contingency system divided between industry and the regulatory agencies and between the various agencies?</p> <p>h) Are there regulations/guidelines in place concerning gas flaring and emission of climate gases?</p> <p>i) Are there acts, guidelines and regulatory enforcement systems in place addressing corruption?</p> <p>j) Are the governance tools mentioned above used in practice, or are other systems/practices more important?</p> <p>k) Are any environmental and/or HMS standards left subject to negotiation with operators? If so, what is the rationale?</p> <ul style="list-style-type: none"> ➤ The EIA process is set out in Regulations on the EIA Process, Decree No. 45 of 2004, which apply to all public or private activities that may have a direct or indirect impact on the environment. There has been a growing and systematic development of legislation and regulations regarding EIAs: companies are required to provide EIAs before any project activity begins, yet the GoM lacks the capacity to implement the EIA process, in particular to make an independent evaluation of environmental risks. ➤ Regulating EIAs requires significant interaction and coordination amongst a number of government bodies. However, coordination is weak, and the main body responsible (MICOA) lacks authority. Public hearings and public participation in EIA processes are mandatory according to the EIA Decree (45-2004) and Article VI of the Environment Law on Citizen's Rights and Duties. In practice, these consultations are weak as EIAs are regarded by officials as predominantly a technical exercise, and public consultations as being time-consuming, and entailing language difficulties. ➤ The new Petroleum Law, due to be approved before the end of 2013, is expected to define a percentage of petroleum revenues to be invested in local communities where extraction takes place; to provide strengthened regulations on Health, Safety and Environment (HSE), and improved controls /restrictions on gas flaring. ➤ Mozambique's petroleum sector will focus largely on offshore LNG rather than oil. Oil spill response arrangements in Mozambique are very much in their infancy, under the mandate of the Maritime Administration and Safety Authority (SAFMAR). A lack of contingency plans and mostly - lack of resources - would restrict response measures. ➤ Mechanisms or procedures for monitoring and/or enforcing compliance with regulations are insufficient. Penalties for
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		<p>non-compliance are weak.</p> <ul style="list-style-type: none"> ➤ Corruption and impunity, are widespread in practice despite the existence of acts and guidelines addressing corruption. Insufficient government monitoring and poor audit mechanisms mean that there is little oversight of the extractive industries in general. Government officials involved in the sector are not required to disclose potential conflicts of interest.
	<p>9. The government take system maximizes national revenues and promotes profitable investment.</p>	<p>a) If any, what are the government take instruments for petroleum activities (taxes, royalty, production sharing agreements, direct ownership, and/or other)?</p> <p>b) Are the fiscal terms the same for all companies (incl. an NOC)?</p> <p>c) In selecting applicants qualified to apply for an operating license, what are the required criteria, and how do these compare with operator requirements in other countries?</p> <p>d) After initial selection of qualified applicants, how will the bidding process occur?</p> <ul style="list-style-type: none"> ➤ Government take instruments consist of fiscal terms found in the Petroleum Law (Law no. 3/2001), the Petroleum Tax Law (Law no. 12/2007), The Fiscal Incentives Law (Law No. 13/2007) and in EPCCs. These include royalties (2-15% as defined b the Council of Ministers); Petroleum Production Tax (10% for crude oil and 6% for natural gas); Income Tax (current rate is 32% of net profit); Production Bonuses (payable when production reaches a certain level, the amount of the bonus is to be agreed). ➤ The fiscal terms are not the same for all companies as royalty rates and production bonuses are agreed per EPCC. ➤ Operators can be awarded an EPCC following a public tender by way of a licensing round. IOCs bid on the terms of a model form EPCC that include contractors’ participating interest, minimum work commitments and expenditures, production sharing terms and bonuses etc. However, EPCCs can also be awarded through direct negotiation. This clause will likely not be updated in the revised petroleum law. ➤ Any Mozambican or Foreign Legal entity that can demonstrate technical competency and adequate financial capabilities can apply in bidding rounds. Once bids are received INP verifies the technical aspect of a bid. MIREM signs the contract on the part of GoM. Mozambican legal entities and foreign legal entities associated with Mozambican legal entities have preferential treatment in the award of rights to conduct petroleum operations. The State reserves the right to participate in the petroleum operations in which any legal entity is involved in.

	<p>10. The fiscal policy supports a stable development of the economy both in the short and the long run.</p>	<p>a) Is the budget/spending programs exposed to short-term volatility in oil and gas prices?</p> <p>b) Are the official economic statistics available sufficient and of the quality necessary to conduct macroeconomic analysis, i.e. measure economic activity?</p> <p>c) Does the fiscal policy framework take into account the short-term absorptive capacity of the economy?</p> <p>d) Does the fiscal policy framework take into account that in a long-term perspective the revenue from petroleum production will abate and eventually cease?</p> <p>e) Are fiscal risks, particularly risks related to the uncertainty of the price of petroleum and contingent liabilities, explicitly considered in annual budget documents?</p> <ul style="list-style-type: none"> ➤ Fiscal policy is still in the process of being developed and natural gas (Rovuma Basin) is not yet at the stage of being developed. There is a lack of sufficient or quality economic statistics to conduct macroeconomic analysis.
	<p>11. Where there are policies for maximizing national value creation from the petroleum sector beyond generating taxation revenue these policies are realistic and promote diversification of the economy.</p>	<p>a) Is there a policy in place for maximizing local content (“local content” is here defined as “national employment, the use of national goods and services, and transfer of technology and know-how”)?</p> <p>b) Are targets for local content based on an analysis of supply capacity and projected demand?</p> <p>c) Where the industry (including an NOC) is involved in projects aimed at increasing local content, are these projects petroleum sector related?</p> <ul style="list-style-type: none"> ➤ Under Petroleum Regulations, concessionaires must give preference to Mozambican products and services when such goods and services are competitive in terms of price and comparable in terms of quality and supply. Under the Model EPCC and the Petroleum regulations, the concessionaire is required to use citizens of Mozambique who have appropriate qualifications within its organization and as sub-contractors. ➤ In practice, there is extremely limited supply of capacity to provide products and services to the scale or quality required. Elite capture and rent-seeking mean that local content requirements will benefit elites who have positioned /are positioning their companies to take advantage of petroleum-related contracts.
<p>III. Enablement to carry out the role assigned</p>	<p>12. Policy-makers have sufficient knowledge, capacity and internal alignment (agreement) to set effective policy and</p>	<p>a) Name the number and positions of key policy-makers with a mandate/tasks relevant to the petroleum sector.</p> <p>b) What is the average education level of key policy-makers?</p> <p>c) What is the average number of years of relevant experience of key policy-makers, in particular, technical, legal, and/or commercial experience with the upstream petroleum industry?</p> <p>d) What is the extent of internal alignment (agreement) between key policy makers (low-medium-high)?</p>

	realistic and prioritized objectives for the sector.	<ul style="list-style-type: none"> ➤ Extremely relevant indicator in a country with low levels of education and significant deficits in its educational system (particularly at level of higher education). ➤ Technical and policy expertise at a generalized level is already low in Mozambique. Technical and policy expertise relative to the petroleum sector is extremely thin on the ground given the sector's newness and its technical complexity. ➤ General knowledge of the workings of the petroleum sector is weak across policy and decision-makers. Confidence to engage in informed discussion and undertake decisions is low. There is an imbalance of knowledge, expertise and confidence across the institutions and within institutions (concentrated in very small pockets). ➤ <u>Possible adaption:</u> Measure levels of educational years relevant to the petroleum sector specifically. Measure levels of relevant training, experience and confidence <i>across</i> the sector as some institutions are better off than others, and <i>within</i> the institution.
	13. Policy-making is sufficiently institutionalized to enable consistency for long-term policy-making (and to avoid the occurrence of profound policy changes whenever leading government figures leave power).	<p>a) What type of system is in place for transition of political power?</p> <p>b) When did such a transition of political power last happen?</p> <p>c) Have the petroleum sector policies of the current government been consistent with those of the previous government (to a small extent – to some extent – to a large extent)?</p> <p>d) To what extent do policy-makers draw upon input from public sector staff who are not politically elected/recruited (low-medium-high)?</p> <ul style="list-style-type: none"> ➤ Relevance of indicator 13 (and sub-indicators): The specific indicators for this general indicator are highly relevant in the Mozambican context. Mozambique's intricate sub-official and informal decision-making processes are often more important in explaining policy outcomes than the formal decision-making procedures presented on paper.
	14. The NOC, if one exists, is delegated financial and managerial authority to carry out its role and/or function.	<p>a) How is the NOC funded?</p> <p>b) If the NOC is funded over the national budget, how is it ensured that the NOC can meet its contractual obligations?</p> <p>c) Who is the Chairman of the NOC-board?</p> <p>d) What authority is given by the board to the chief executive officer (CEO)?</p> <ul style="list-style-type: none"> ➤ The NOC is funded, inter alia, through developmental financial institutions. The Chairman of the NOC Board (and CEO since 2007) is Nelson Ocuane (formerly with INP). Appointments to the board are political. The NOC is subject to annual audits by the Administrative Tribunal but these

		audits are not public.
15. The industry regulating bodies have the necessary technical skills, financial resources, knowledge, access and legal authority to exercise their powers effectively.	<p>a) What is the number of professional staff in each regulatory body (or department, where only one part of the institution is working towards the petroleum sector)?</p> <p>b) What is the average number of years of relevant experience for staff in each regulatory body or department?</p> <p>c) What is the average education level of professional staff in each regulatory body or department?</p> <p>d) What are the funding mechanisms for each of these regulatory bodies or departments?</p> <p>e) What is the total budget for each regulatory body or department?</p> <ul style="list-style-type: none"> ➤ Extremely relevant indicator for Mozambique where there are low levels of education and experience in the petroleum sector. ➤ Pockets of expertise do exist within INP, ENH and AT but on the whole, general knowledge of the workings of the petroleum sector is weak. Confidence to engage in informed discussion is low and there is a high degree of fear over making the wrong decisions, leading to inertia. ➤ <u>Possible adaption:</u> Measure levels of educational years relevant to the petroleum sector specifically. Measure levels of relevant training, experience and confidence <i>across</i> the sector and <i>within</i> the institution as there is a significant imbalance in terms of where expertise is located. 	
16. Staffing decisions are based on the principle of 'best person for the job'.	<p>a) Is there a civil service act governing recruitment in government agencies?</p> <p>b) If yes, does the act govern the recruitment of employees in all government agencies (including an NOC) with a mandate/tasks related to the petroleum sector?</p> <p>c) Are there provisions concerning the recruitment of relatives?</p> <p>d) Have requirements for education, skills and experience been defined in advance of the recruitment process?</p> <p>e) Are the governance tools referred to in a)-d) above used in practice, or are other systems/practices more important?</p> <ul style="list-style-type: none"> ➤ Relevance of indicator 16 (and sub-indicators): This is an especially relevant set of indicators given that appointments are often based on political considerations and networks of patronage as opposed to merit/skills and capacity for the job. 	
17. Employees in government agencies (including an NOC) with a mandate/tasks related to the petroleum	<p>a) Who defines salary levels for each of the relevant agencies?</p> <p>b) Approximately what would be a (nationally) competitive salary level for professional staff?</p> <p>c) What is the average salary level for professional staff in each of the relevant agencies measured as a percentage of a nationally competitive salary?</p>	

	sector are incentivized to improve performance.	<p>d) Are personnel development/training and/or career plans in place for the professional staff in each relevant agency?</p> <p>e) Are there other incentive schemes than c) and d) above in place for the professional staff in each relevant agency?</p> <ul style="list-style-type: none"> ➤ Relevance of indicator 17 (and sub-indicators): These specific indicators are relevant. In general, average salaries across the civil service are low. Influential persons in petroleum-related institutions very likely have commercial interests in the sector that buttress wages. Generally, opportunities for career development and training, as well as incentive schemes are low. Levels of motivation and pro-activeness are correspondingly low.
	18. The fiscal and budgetary relationship of the NOC to the state is structured to enable the NOC to achieve its objectives efficiently and to ensure that NOC spending is in the national interest.	<p>a) Is there a limit for expenditure decisions that can be made by the board?</p> <p>b) Does the board have authority to borrow money?</p> <p>c) Is the NOC responsible for sale of profit oil/gas?</p> <p>d) If yes, is sale of profit oil/gas an integrated part of the commercial operations or is it a financial task done on behalf of the Ministry of Finance?</p> <p>Relevance of indicator 18 (and sub-indicators): These specific indicators are relevant for an assessment of Mozambique.</p>
	19. The NOC board has the appropriate knowledge, skills and resources to carry out its role.	<p>a) How is the board selected?</p> <p>b) Who are represented on the board?</p> <p>c) How many percent of the board members have relevant experience?</p> <p>d) How are the board members compensated financially?</p> <p>e) For how long are board members selected?</p> <ul style="list-style-type: none"> ➤ Relevance of indicator 18 (and sub-indicators): These specific indicators are relevant for an assessment of Mozambique. ➤ Appointments to the Board of ENH (the NOC) are mainly political.
	20. Operational and commercial decisions of the NOC executive management	<p>a) Can the government give instructions directly to the CEO/Managing Director?</p> <p>b) Who has authority to formally instruct the board?</p> <p>c) Is the rule referred to in point b) adhered to in practice?</p> <ul style="list-style-type: none"> ➤ This indicator is highly relevant in a Mozambican context

	and board are separated from political and other conflicting interventions.	where conflict of interest is prevalent throughout the petroleum sector, and where there is a high intersection of political and business interests.
IV. Accountability of decision-making and performance	21. Mechanisms are in place to ensure that industry participants in the sector work in compliance with national and international laws, regulations and contractual obligations.	<p>a) What are the key monitoring and sanctioning mechanisms used by the regulatory institution/s for ensuring that industry participants in the sector are in compliance with laws, regulations and contractual obligations?</p> <p>b) Are there any areas where monitoring and sanctioning capacity is insufficient?</p> <ul style="list-style-type: none"> ➤ This indicator is highly relevant in a Mozambican context where monitoring and enforcement mechanisms are extremely weak across the board. Revenue Watch Institute's Resource Governance Index (RGI) gives Mozambique a failing score of 37 with respect to 'safeguards and quality controls', as a result of insufficient government monitoring and poor audit mechanisms.
	22. The revenue management system facilitates aggregate fiscal discipline.	<p>a) Are all petroleum related revenues integrated into one budgetary system?</p> <p>b) Do these revenues include those transferred to extrabudgetary fund(s) (e.g., oil savings funds, donor projects)?</p> <p>c) Are there any legislative constraints on the size of the deficit, debt, level of expenditure, or other fiscal aggregate?</p> <p>d) Does the overall fiscal policy framework clearly state the rules used for the management of extrabudgetary fund(s) (e.g. oil savings funds, donor projects)?</p> <p>e) Are state budget audits conducted by institutionally independent agencies?</p> <p>f) How much of the state revenue will be front-end loaded</p> <ul style="list-style-type: none"> ➤ This indicator is extremely relevant for Mozambique where revenue management is characterized by a critical lack of transparency and hampered by lack of institutional capacity. ➤ The tax directorate (Autoridade Tributaria) collects royalties, taxes and profit shares from companies. The INP (regulator) collects payments from oil companies for social and capacity-building funds. These revenues bypass the treasury, and there is no public information about their management. Though Mozambique achieved compliance under the EITI initiative, reporting practices are characterized by a number of weaknesses including failure to disaggregate figures from the energy, mining and hydrocarbon sectors (the finance ministry publishes only aggregated figures for combined revenues from energy, mining and hydrocarbon sectors).
	23. The	a) Which national auditing mechanisms apply to the figures reported

	national petroleum sector as a whole is subject to regular audit, accounting for revenues due to the government, revenues paid to the government and revenues received by the government.	<p>by the different agencies involved in collecting taxes and other revenues from the petroleum sector?</p> <p>b) If the country has signed up to the Extractive Industries Transparency Initiative (EITI), how far has the country come in the process of becoming a compliant country?</p> <ul style="list-style-type: none"> ➤ National auditing mechanisms in Mozambique are critically weak. Public entities including INP and ENH are subject to the audits of the Administrative Tribunal. These are not made public. However, revenues from INP bypass the treasury and there is no public information about their management. ➤ The country achieved EITI compliance in 2012. It has yet to adopt a law requiring disclosure of extractive sector information.
	24. The NOC is subject to regular, functionally independent audited reports and accounts prepared to international accounting standards, such as the IFRS (International Financial Reporting Standards).	<p>a) Which national auditing mechanisms apply to the NOC?</p> <p>b) If there are any national auditing mechanisms that apply, is this audit made public?</p> <p>c) Is there an audit of the commercial operations?</p> <p>d) If yes to c), is the audit made public?</p> <ul style="list-style-type: none"> ➤ Public entities including INP and ENH are subject to the audits of the Administrative Tribunal. These are not made public. Only limited information on revenue streams (such as special taxes and dividends) is provided.
	25. There is capacity and petroleum sector knowledge within the legislature to debate proposed petroleum legislation and to hold the government accountable for decision-making and performance.	<p>a) What is the level of petroleum sector knowledge among the relevant legislative committee/s (low-medium-high)?</p> <p>b) Do the legislators have access to advisors with petroleum sector expertise when debating proposed legislation?</p> <ul style="list-style-type: none"> ➤ There is very low level of petroleum sector knowledge among the relevant legislative committees. There is no access to advisors with petroleum sector expertise. ➤ The legislative branch does not have the capacity to review contracts or provide adequate oversight of the petroleum sector.
	26. There is capacity, independence	<p>a) Is there an independent media in the county?</p> <p>b) What is the level of petroleum sector knowledge among the</p>

	<p>and petroleum sector knowledge among civil society (including media) to create public debate and contribute to holding the government accountable for decision-making and performance.</p>	<p>independent media (low-medium-high)?</p> <p>c) What is the number of civil society organizations with significant petroleum sector knowledge?</p> <p>d) How are these civil society organizations funded?</p> <ul style="list-style-type: none"> ➤ Although there is formal freedom of the press, in practice, self-censorship is high and increasing pressure by the GoM in recent years is in evidence. The level of petroleum sector knowledge among independent media is very low, access to information in Mozambique is very limited and investigate journalism in general is very low. ➤ There are few civil society organizations with petroleum sector knowledge. Only one NGO – centre for public integrity (CIP) has a level of capacity on the extractives sector and on issues relating to transparency and accountability in particular. CSOs are often funded mainly by donors. ➤ The ability of the media, CSOs and Parliament to engage in informed debate and to hold the government to account is currently limited in Mozambique. This is more so in the petroleum sector where technical complexities mean that few understand the workings of the petroleum sector and where there is a high degree of opacity. The level of interest, however, of these institutions to hold the government to account is high. ➤ <u>Possible Adaptions:</u> Indicators should extend beyond measuring capacity to look at level of interest in part of the stakeholders to hold government accountable for decision-making and performance. Indicators should also measure distribution of media and CSO, in particular representation of regional issues and interests.
<p>V. Transparency and accuracy of information</p>	<p>27. A simple, comprehensive guide to the petroleum sector governance structure is available publicly.</p>	<p>a) Is a guide to the petroleum sector available publicly?</p> <p>b) What are the means of publication (website, newspapers, government publication, etc)?</p> <p>c) Is the guide available in the most commonly used national language/s</p> <p>d) Who is responsible for publishing and updating the guide?</p> <ul style="list-style-type: none"> ➤ No guide to the petroleum sector is publicly available. Access to information is low and communication strategies on part of the GoM are lacking. The lack of communication has been recognized as feeding into unrealistic public expectations about when revenues from the LNG exports will begin flowing in. <p><u>Possible Adaptions:</u> Indicators should extend beyond capacity to look at level of interest on part of the stakeholders to hold government accountable for decision-making and performance.</p>
	<p>28. Where information about the</p>	<p>a) Are there acts and regulations effectively securing the public's right to information?</p>

	<p>sector remains confidential (not available publicly), the rationale for that confidentiality is explained and justified, for example, by the need to preserve commercially sensitive information.</p>	<p>b) Are there acts and regulations governing confidentiality related to the petroleum sector (including environmental management and revenue management)?</p> <p>c) Are the laws and regulations referred to above, if in place, used, or are other systems/practices more important?</p> <ul style="list-style-type: none"> ➤ There is no access to information law in Mozambique and public accessibility to documentation is extremely limited, particularly so in the petroleum sector. ➤ A high degree of bureaucratic secrecy prevails in practice in Mozambique. A lack of transparency and corruption/conflicts of interest are noted widely as governance challenges for Mozambique.
	<p>29. Employment policy for each agency within the sector (including the NOC) is transparent.</p>	<p>a) Are positions publicly advertised?</p> <p>b) Is information about the decision/selection, including justification according to the requirements (see indicator 16), available to the public?</p> <ul style="list-style-type: none"> ➤ In practice, positions are filled by way of political appointment. The culture of governance in Mozambique is marked by a high degree of political patronage; membership to the ruling party /personal connections are a pre-requisite for 'recruitment' (appointment) and advancement.
	<p>30. Criteria for awarding licenses are published well in advance of the actual awarding, and licensing decisions are justified according to the criteria and made publicly available.</p>	<p>a) Are criteria for awarding licenses published?</p> <p>b) If yes to a), how long in advance of the actual award are the criteria published?</p> <p>c) Are licensing decisions justified according to the criteria and made publicly available?</p> <p>d) What are the means of publication (website, newspapers, government publications etc)?</p> <ul style="list-style-type: none"> ➤ Bid evaluation criteria are published in the licensing rounds. The criteria are very general, taking the following aspects into 'consideration': 'technical competence and financial strength' of the candidate; the 'technical database used in making the application'; economic terms offered by the applicant; strength of proposed systems for HSE, and levels of institutional support and training. No weighting or clarification is given, although the evaluation criteria cite that preference will given to 'bids which demonstrate an active and cost-effective exploration approach, with satisfying progress'. ➤ Licensing decisions are made via public bidding or via direct negotiation. Licensing justification is not publicly available.
	<p>31. Environmental and strategic impact assessments and decisions</p>	<p>a) Before completing SEAs or EIAs, or before issuing permits, are the draft documents made available for comments from relevant stakeholders?</p> <p>b) Is justification for approval or rejection made publicly available?</p> <ul style="list-style-type: none"> ➤ Public information in both areas is weak /not available.

	to issue permits (for instance pollution permits) are subject to a consultation process and made publicly available.	Though public hearings and participatory processes are a mandatory part of EIAs, in practice they are seldom undertaken with integrity.
	32. The government and other stakeholders receive timely and accurate financial and operational information from industry participants.	<p>a) What type of financial data and data from petroleum operations are made available by the industry participants to the government and other stakeholders?</p> <p>b) What are the reporting procedures/requirements established by the government/other stakeholders?</p> <ul style="list-style-type: none"> ➤ Reporting practices in the petroleum sector in Mozambique. A lack of information persists on the licensing process, contract terms and industry data. The finance ministry publishes only aggregated figures for combined energy, mining and hydrocarbon revenues. MIREM publishes only very basic data provided by companies and INP lists information on exploration activities but very little else.
	33. Criteria for awarding major procurement contracts for the sector (including those awarded by the NOC) are published well in advance of the actual awarding and major award decisions are justified according to the criteria and made publicly available.	<p>a) Are criteria for awarding major procurement contracts for the sector published?</p> <p>b) If yes to a), how long in advance of the actual award are the criteria published?</p> <p>c) Are the award decisions justified according to the criteria and made publicly available?</p> <p>d) What are the means of publication (websites, newspapers, government publications, etc)?</p> <ul style="list-style-type: none"> ➤ Bid evaluation criteria are published in the licensing rounds. The criteria are very general, taking the following aspects into 'consideration': 'technical competence and financial strength' of the candidate; the 'technical database used in making the application'; economic terms offered by the applicant; strength of proposed systems for HSE, and levels of institutional support and training. No weighting or clarification is given, although the evaluation criteria cite that preference will given to 'bids which demonstrate an active and cost-effective exploration approach, with satisfying progress'. ➤ Contracts may be awarded via direct negotiation as well as through public tenders. Award decision justifications are not publicly available.

ANNEX 2: LIST OF INTERVIEWEES *

*A number of informants within government and the private sector requested that their names not be disclosed

Norway
<p>Heidi Sandvand Hegertun, Oil for Development Secretariat, Norad Mette Gravdahl Agerup, Ministry of Petroleum and Energy Øystein Kristiansen, National Petroleum Directorate Monica Svenskerud, Ministry of Foreign Affairs Andreas Benjamin Schei, Norwegian Environment Agency Bryn Kaldberg, Petroleum Safety Authority Norway, PTIL Bjorn-Erik Leerberg, Advokatfirmaet Simonsen Vogt Wiig Frode Vareberg, Advokatfirmaet Simonsen Vogt Wiig Atle Sundelin, Hartmark Vegard Pedersen, Tax for Development, Norad Tanja Ustvedt, Tax for Development, Norad Marit Strand, Section for Development, Strategy and Governance, Norad Svein Olav Svoldal, Section for Private Sector, Norad Kari Marie Thorsen Section for Rights and Gender Equality, Norad Fredrik Aksnes, Norwegian Tax Administration</p>
Mozambique
Norwegian Embassy
<p>Mette Mast, Ambassador, Norwegian Embassy Rasmus Bakke, Counsellor (Economist) Norwegian Embassy Knut Laksas, First Secretary (OfD contact point), Norwegian Embassy Mari Sofie Furu, Counsellor (Energy cooperation), Norwegian Embassy Camilla Høgberg-Hoe, First Secretary (Gender, Human Rights) Norwegian Embassy</p>
Mozambique Government /Public Bodies
<p>Auiba Cuerenia, Minister of Planning & Development Mussa Usman, Economic Advisor to the Minister of Planning and Development Benjamin Chilengue, National Director, Planning and Development, Ministry of Mineral Resources (MIREM) and Chair of the Steering Committee for Mozambique Gas Master Plan. Pascal Mocumbi Junior, Head of Commercial and Marketing, Empresa Nacional de Hidrocarbonetos (ENH) Amad Valy Mamad, Head of Prospect Evaluation, Empresa Nacional de Hidrocarbonetos (ENH) Arsenio Mabote, Chairman, Instituto Nacional de Petroleo (INP) Isabel Chuvambe, Project and Development Manager, Instituto Nacional de Petroleo (INP) João Manjate, Administration and Finance Director, Instituto Nacional de Petroleo (INP) Carlos Zacarias, Exploration Manager, Instituto Nacional de Petroleo (INP) José Branquinho, Geologist, Instituto Nacional de Petroleo (INP) Hélder Siteo, Economist, Instituto Nacional de Petroleo (INP) Mauricio Cumbi, Head, International Cooperation, Autoridade Tributaria de Mocambique (AT) Rosa Cesaltina, Director, National Directorate for Environmental Impact Assessment (DNAIA), Ministry for the Coordination of Environmental Affairs (MICOA) Gilda Monjane, Gender and Energy Advisor, Ministry of Energy</p>
Donors in Mozambique
<p>Claudio David Dimande, MAGTAP Coordinator, World Bank, Mozambique Alexander Huurdeman, Senior Expert, Oil, Gas and Mining Policy, World Bank (Magtap contact, based in DC) Kobi Bentley, Economic Advisor, UK Department for International Development (DFID), Mozambique (<i>Chair of G19 Donor Task Force on Extractive Industries</i>) Alessandro Pisani, UK Department for International Development (DFID), Mozambique (<i>Chair, Tax Common Fund</i>)</p>

<p>Mark Smith, Head of Governance and Economic Policy, UK Department for International Development (DFID), Mozambique</p> <p>Nils Mueller, Director, Democracy and Governance, USAID Mozambique</p> <p>M. da Silva Lemos, Minister Counsellor, Embassy of the Republic of Angola</p> <p>Anders Karlsen, Head of Development Cooperation, Embassy of Denmark</p> <p>Paulina Sarvilahti-Jimenez, Counsellor (Economy and Governance), Embassy of Finland</p> <p>Ilaria Carnevali, Deputy Country Director, UNDP</p> <p>Lisa Kurbiel, Senior Social Policy Specialist, UNICEF</p> <p>Valeria De Campos Mello, Resident Representative, UN Women Mozambique</p>
Civil Society
<p>Fatima Mimbire, Centro de Integridade Publico (CIP)</p> <p>Edson Cortez, Centro de Integridade Publico (CIP)</p> <p>Mia Couto, Managing Director, Impacto</p> <p>Jorge Lacerda, Chief Executive Director, Impacto</p> <p>Felicidade Munguambe, Director Public Relations, Impacto</p> <p>Florencio S.R. Marerua, WWF Mozambique</p> <p>Alda Salomao, Director, Centro Terra Viva (CTV)</p>
Private Sector
<p>Tore Klungsøyr, Project Leader Exploration and HSE, Statoil</p> <p>Cerys Williams, Legal Advisor, Sal and Caldeira /Representation to Association of International Petroleum Operators (AMOPI)</p> <p>Paul Eardley-Taylor, Head, Oil and Gas, Southern Africa, StandardBank</p>
Other
<p>Dr. Franciso Mucanheira, Chairman, Committee of Agriculture, Rural Development, Economic Activities and Services, Parliamentary Assembly, Mozambique</p> <p>Eduardo Namburete, Head of External Relations Department for RENAMO / Human Rights Commissioner (National Human Rights Commission) and Chair of Mozambican Centre for Multidisciplinary Studies.</p> <p>Paul Fauvet, AIM Media</p> <p>Franciso Mabjaia, Independent Consultant in Environment and Development (Involved with Mozambique Gas Master Plan)</p> <p>Don Hubert, Independent Consultant (former Advisor to UN Special Representative on Business and Human Rights, specialist on Kimberly Process, CSR for Extractive Companies, EITI process.</p>
International Experts
<p>Havard Holterud, Technical Assistance Advisor, Revenue Administration, IMF Fiscal Affairs Department, DC</p> <p>Jenik Radon, SIPA, Colombia University</p> <p>Lars Buur, Senior Researcher, Danish Institute for International Studies (Elites Production and Poverty in Mozambique Project)</p> <p>Jurgen Reitmaier, EITI International Secretariat (Mozambique, Tanzania)</p>

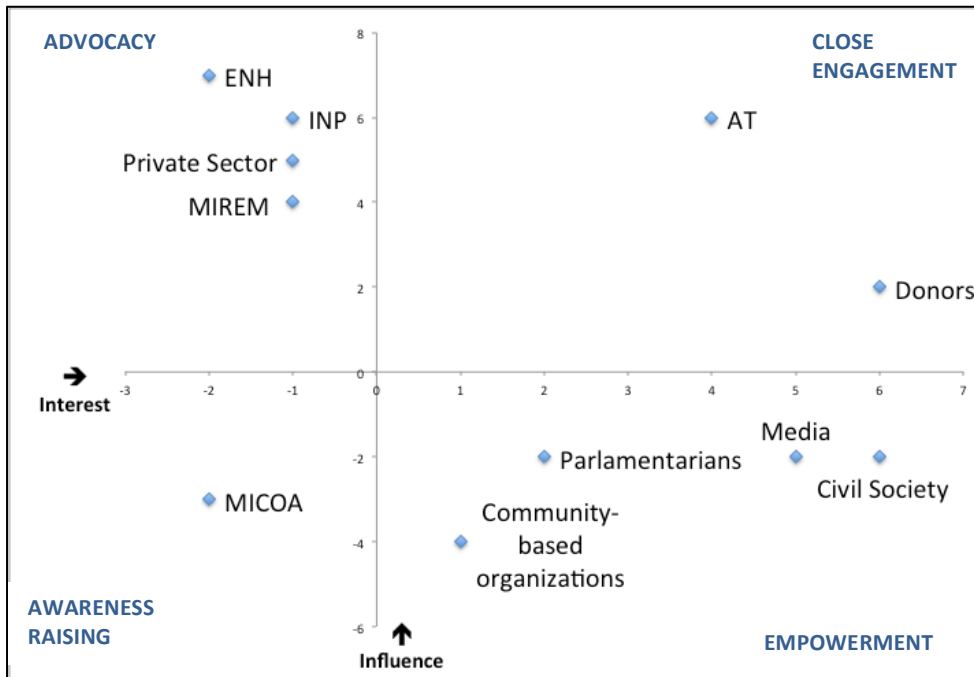
Annex 3: Stakeholder Analysis

The matrix below maps stakeholders in Mozambique according to two main attributes: firstly, how much *interest* they have in the OfD programme achieving its goals and secondly, how strong their *influence* (informal or formal) is to impact the direction and outcome of the programme. Stakeholders are scored on a range of 0-5 with respect to their level of interest in reform and their level of influence on proposed outcomes. The upper left quadrant indicates stakeholders with high influence but low interest and the bottom right quadrant indicates stakeholders with low influence but high interest. The stakeholder matrix below is an example only, and OfD is encouraged to undertake a more detailed assessment for the purposes of completing a final stakeholder mapping. This would help identify who could be strong supporters of reform in petroleum sector management, and/or who could block potential reforms.

In the example below, petroleum-related institutions in Mozambique have been assessed according to their interest in:

- I. the operative goal of the OfD programme, which is “economically, environmentally and socially responsible management of petroleum resources which safeguards the needs of future generations”;
- II. the three OfD objectives, which include sound policy and legal framework, capacity to implement and enforce the policy and framework, and thirdly, that relevant institutions are held accountable by civil society;
- III. indicators from the OfD checklist for the state of petroleum-related governance in OfD countries, which emphasizes sustainable development, accountability and transparency.

Example of Stakeholder Matrix



In the example provided above, ENH and INP are scored highly in terms of influence levels. However, they score rather low on the interest axis. Though they may have an interest in the

development of sound policy and legal frameworks and the capacity to implement those, this could be said to be limited (interest extends mostly as far as increasing government take). The level of interest in the *overarching* goal of OfD (environmentally and socially responsible management of resources which safeguards the needs of future generations); the OfD objective of relevant institutions being held accountable to civil society, and principles of transparency and accountability as per the OfD petroleum governance checklist are arguably much lower.

Using the Matrix to Inform Stakeholder Engagement

The placement of stakeholders on the matrix provides will determine how best to engage with them. For instance:

- Stakeholders with *high influence* and *high interest* in the success of the project are potential ‘champions’ and OfD should engage with closely with them.
- Stakeholders with *low power* but *high interest* are potential allies of the ‘champions’ identified. In Mozambique these groups include civil society organizations, the media and parliamentarians as well as local community-based organizations. These groups should be empowered with a view to moving them into the top right quadrant so that they have higher levels of influence.
- Stakeholders with *low interest* in the success of the project but *high power* have the potential to block or slow down the project. They should be engaged through advocacy whenever possible. There will be situations when, despite efforts, there may be no change in the behaviour or attitude of these stakeholders, as the project may not be of interest to them or may go against their interests. In these cases, analysis is still useful, because it reveals what is realistic and feasible.
- Stakeholders with *low power* and *low interest* could be unaware of the potential benefits of the project. Engagement with this set of stakeholders primarily entails raising awareness.

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