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Natural Gas and Development: Integrating the Future Gas Revenues from the Rovuma Basin into the Local Development Agenda in Cabo Delgado

Creditos: CIVILINFO

About 10 years ago, Mozambique was the scene of one of the largest natural gas discoveries in the world, with the potential to place the country among the top global exporters. As a result of the research undertaken, in 2010 the first major discovery was announced in the Rovuma Basin, Cabo Delgado province, the first in the Windjammer 2 borehole, followed by other considerable natural gas discoveries in Areas 1 and 4. The total reserves discovered in the two areas, including the trans-zonal reservoirs, are estimated to be around 170 Tcf (trillion cubic feet) of natural gas *in situ*[1] These discoveries place Mozambique as the largest holder of natural gas in Africa (after Nigeria and Alge-

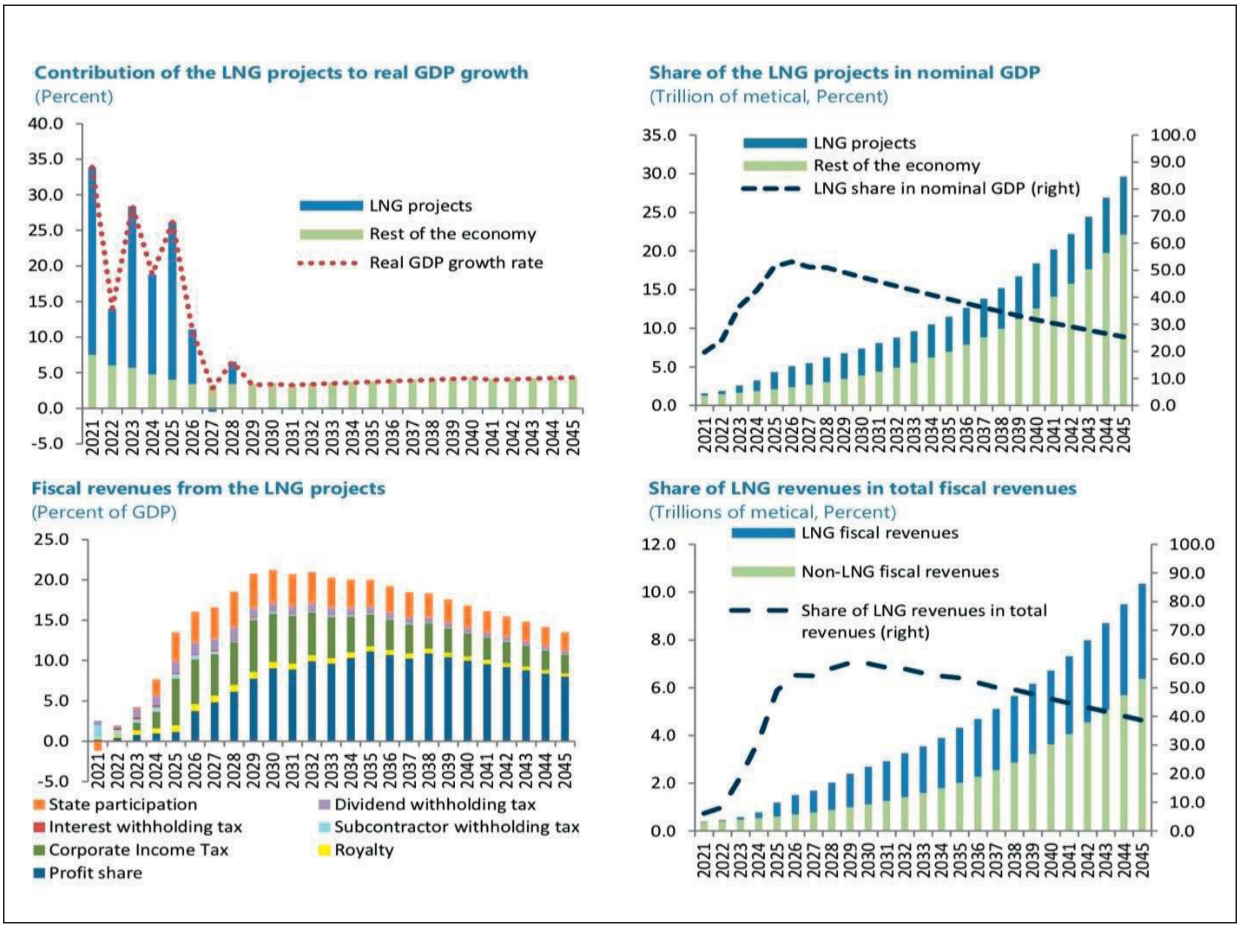
[1] http://www.inp.gov.mz/pt/Pesquisa-Producao/Descobertas-na-Bacia-do-Rovuma/Historia-das-Descobertas-na-Bacia-Sedimentar-do-Rovuma

ria) and the 12th largest in the world. In addition, the development of the offshore Rovuma fields (Area 1 and Area 4) is the largest project in sub-Saharan Africa in terms of investment size, potentially exceeding US$100 billion. It is anticipated that when production peaks, Mozambique could become the third largest exporter of Liquefied Natural Gas (LNG) in the world, after Qatar and Australia[2].

As a result of the large gas discoveries in the Rovuma Basin, three (3) projects have been approved to date, namely, the Coral Sul FLNG Project to be implemented in Area 4 by Eni, the Golfinho/Atum Project, to be implemented in Area 1 by Total Energies, and the Rovuma LNG Project, to be implemented also in Area 4 by Mozambique Rovuma LNG (MRV).

IMF projections, published in 2016, estimate that in terms of tax contribution, total tax revenues from gas projects over the entire period of the project through 2045 could reach about $500 billion. The main sources of tax revenue are the government's share of the gas profit, the IRPC and the dividends paid by ENH, which has a 15% share in Area 1 and 10% in Area 4.

Fig: Macroeconomic and fiscal implications of the LNG projects in Mozambique



Source: FMI (2016)

[2] FMI, 2016; FMI, 2019.

It is expected that after natural resource discoveries, countries will achieve better levels of development. However, resource-rich countries tend, paradoxically, to have higher levels of conflict and lower rates of stability and economic growth, and thus suffer from the resource curse[3]. In fact, Mozambique already faces the risks of the resource curse, which can prevent resource exploitation from bringing benefits to local communities.

This context raises the need for a deep reflection on the appropriate revenue sharing mechanisms for the integration of producing regions into the local development agenda. The experience of many African countries shows that problems in the management and revenue sharing of natural resources have been a major cause of violent conflicts.

Table 1: Conflicts related to natural resources and revenues in Africa

Country	Origin/Manifestation of Conflict	Problems	Violence/Result
Angola	State corruption	Control of revenue, human rights abuses	Civil war/End to violent conflict
Chad - Cameroon	Elite capture, corruption	Oil pipeline and potential environmental damage and control of revenue	Potential motivation for sabotage and kidnapping similar to Nigeria model
Congo - Brazzaville	State corruption	Control of revenue, human rights abuse	Civil war, allegations of oil company exploitation and involvement
Nigeria	Corruption, secessionist movements, rioting	Oil revenue repatriation, pipeline looting, lack of local revenue sharing	Kidnapping of oil workers and forced takeover of oil platforms, local sabotage to capture resource for use
São Tomé and Principe	State corruption, elite capture, coup d'état	New oil discoveries	None to date
Sudan	Secessionist movement	Oil revenue capture and control	Prolonged civil war

Source: Adapted from USAID and FESS (2006)[4] .

As a way to address these challenges and promote the development of producing regions, many countries share extractive industry revenues among national and subnational authorities in ways that differ from how they share tax revenues collected from other sectors. Globally, there is a trend toward greater revenue sharing as part of greater fiscal decentralization and in response to demands from resource-rich regions for a share of the benefits of extraction. In other countries, such as Nigeria, there has been a renegotiation of resource revenue sharing arrangements in response to local dissatisfaction with existing benefits. Elsewhere, such as in Uganda, resource revenue sharing has recently been introduced as an effort to serve affected communities and prevent conflict. From this

[3] NRGI. The Resource Curse: The Political and Economic Challenges of Natural Resource Wealth. NRGI Reader, 2015. Disponivel em: https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf
[4] USAID, FESS (2006). *Oil and Gas and Conflict: Development Challenges and Policy Approaches.*

perspective, four factors justify the establishment of natural resource revenue sharing regimes, namely, (i) recognizing local claims on natural resources; (ii) compensating for negative impacts of extraction; (iii) promoting economic development in resource-rich regions; and (iv) mitigating or preventing violent conflict[5].

Is there a revenue sharing policy for the extractive industry in Mozambique?

The legal basis on the distribution of extractive industry revenues for the development of the communities hosting the large investments in Mozambique is based on the Laws 11/2007 and 12/2007 of June 27. Although not specific, these laws determine that a percentage of the royalties be allocated to the development of local communities. Six (6) years later, in 2013, through the Budget Law (Law 1/2013 of January 7), the government decided to set a percentage of 2.75% of the royalties. In the same year, the criteria to be observed in the implementation of projects financed by revenues from mining and oil exploitation channeled to communities were defined through circular nr 01/MPD-MEF/2013. According to this instrument, projects aimed at building socio-economic infrastructure (education, health, agriculture, forestry, services, roads and bridges of local interest, and water supply and sanitation systems) are eligible. In 2014, the new mining and petroleum laws were approved, and both also advocate the channeling of a percentage of revenues from the resources to the State Budget for community development.

From a comparative perspective, taking into account the experience of revenue sharing in other countries rich in natural resources, one can see that the percentage of 2.75% that is transferred to the producing communities in Mozambique is one of the lowest in Africa and the world, which raises the urgent need for a review as one of the strategies to mitigate the conflict in Cabo Delgado, placing it on the development agenda of the country. This issue is part of a broad advocacy agenda by civil society organizations[6] . In light of international experience, some important aspects to be observed for an efficient, fair and stable sharing of revenues from the extractive industry are identified: clarity in the definition of the sharing objectives and alignment of the revenue sharing system with its objectives; choice of adequate revenue sources and fiscal tools; definition of simple and enforceable revenue transfer formulas; creation of a degree of flexibility in the system; national consensus on the formula; codification of the formula in the law; transparency and formalization of an independent supervision[7].

[5] NRGI & UNDP (2016). NATURAL RESOURCES REVENUE SHARING. The Natural Resources Governance Institute.
[6] See: AENA (2020). THE GOVERNMENT DOES NOT YET HAVE A LEGAL MECHANISM TO ENSURE RESPONSIBLE MANAGEMENT OF EXTRACTIVE SECTOR REVENUES CHANNELED TO COMMUNITIES; CIP (2020). CURRENT MODEL OF TRANSFER TO COMMUNITIES MAY GENERATE ECONOMIC AND SOCIAL INEQUALITIES: THE TRANSFER RATE SHOULD BE REVISED FROM 2.75 TO 5.75.
[7] NRGI & UNDP (2016). NATURAL RESOURCES REVENUE SHARING. The Natural Resources Governance Institute.

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