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Revisiting Mozambique's Economic Trajectory in an Era of Rising Liquefied Natural Gas (LNG) Exploitation

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I. Introduction

Mozambique is a darling of observers of natural resource governance. Although experiencing a slight decline in growth estimates during the previous year, Mozambique has continually defied expectations with significant end-over-end growth in the gross-domestic product (GDP), with 5.5 per cent during 2017 and 6.8 per cent during the following year (ADBG, Mozambique Economic Outlook, 2016). The African Development Bank credits much of this to a policy approach that seeks to encourage large inflows of foreign direct investment (FDI), an economic backbone derived from natural resources, and a prevalence of export-oriented industries (ADBG, Mozambique Economic Outlook, 2016). Mozambique's rise has prompted headlines such as 'Boom Time for Mozambique, Once the Basket Case of Africa' an allusion to the country's 15-year civil war, which ravaged much of its infrastructure, growth-leading sectors, and population at large (Smith, 2012). But as we are reminded by New York University's Center on International Cooperation, Mozambique's experience provides a salutary story of the challenges and potential of natural resources well. Recent discoveries of resources like gas and minerals provide a major opportunity for additional revenues. But this boom also presents a number of challenges (Bujones, 2014).

Therefore, Mozambique appears to be a modern-day tale of two countries a la mode of Charles Dickins. A low-income economy[2], which has maintained some of the world's highest annual economic growth rates since 2001, allows it to stand in literature as a potential model for the translation of resource wealth into yearly-increased sustainable development. And yet, it is also a country which continues to suffer from the ill-effects of endowments of natural resources. To this end, this policy brief outlines the challenges and potential policy solutions for three critical natural resource areas for Mozambique: oil and natural gas, agriculture, and mining.

[2]As per classification by the World Bank, 2016.

II. Hydrocarbon Sector

Since 2015, Mozambique's hydrocarbon sector has seen indications of strong development and contextually significant investments. This is despite the country's lingering debt crisis and the instability of commodity prices on global markets. In 2016, Anadarko proposed to develop the country's first onshore LNG plant with a total of 12 million tons per year (OGJ Editors, 2017). It would finalise agreements, termed marine concessions, with the Mozambican government in July 2017, which would allow for it to design, build and operate marine-based extraction facilities (Anadarko, "Anadarko Reaches," 2017). By June 2017, Eni SpA had finalised a US$7 billion investment plan in Mozambique's natural gas industry with the formal approval of its Coral South Liquefied Natural Gas Project (Nhamire and Burkhardt, 2017). Once completed, the floating natural gas plant will position itself above the Rovuma Basin off the coast of Mozambique and will work at a capacity of 3.4 million tons per year (Nhamire and Burkhardt, 2017). Coral is being collaboratively developed by Galp Energia SGPS SA, Korea Gas Corp, and Empresa Nacional de Hidrocarbonetos, a Mozambique state owned enterprise, while onshore facilities will be constructed and owned by Exxon Mobil (Nhamire and Burkhardt, 2017). The Rovuma Basin, first discovered in 2010–2012 by Eni, is said to hold between 85 and 180 trillion cubic feet of natural gas, or 20 billion barrels, making it one of the largest finds of this sort in history (Idowu, 2017; Njanji and Barbier, 2017). With its discovery, experts believe that the country could become the world's third largest exporter of LNG (Njanji and Barbier, 2017).

But to leverage the power of its burgeoning hydrocarbons sector, Mozambican policymakers must broach a number of external variables which continue to harm the country's ability to drive growth from oil and gas extraction. Firstly, policymakers would do well to consider both the pursuit of economic diversification and leveraging the potential of adding value, owing to an expected glut in natural gas markets. By 2022, the United States is poised to increase its natural gas production by some 40 per cent, positioning it as provider for one fifth of the global demand, thanks to a significant augmentation and refinement of extraction processes from shale (IEA.org, 2017). This adds to a rise of 50 per cent in global supplies that are expected to emerge by 2021 in Australia, Indonesia, and Russia competing with Zambia for a market share (Pilling, 2017). Research by the Financial Times in November 2017 indicated that because of the glut in supply, several significant onshore LNG projects, including ENI- and Anadarko-sponsored condensing facilities and ports, have been delayed, pending external purchases and funding contracts (Pilling, 2017). Mozambique should seriously consider Asian markets, for a growing demand for LNG there may help to offset the impact of flush supply partially.

Secondly, Mozambique must broach the challenge of developing cast iron legislative frameworks. This must be done while remedying what some have termed the systematic exclusion of the country's national assembly from policymaking processes at large, but specifically prominent in the case of the hydrocarbons sector, resulting in an uncertain and risk-heightened investment environment for private sector actors and a pervasive belief of high-level corruption in government (Gqada, "Boom for Whom," 2013, 15-16, 18). Pilling makes the argument that for companies to commit to some US$40 billion is required to operationalise onshore LNG facilities. These foreign actors must see guarantees in law that will protect their investments and allow for the negotiation of commercial terms as well as flexible financing (Pilling, 2017). Previously, companies including ENI and its Coral South Project, required a deferral of initial financial benefits and first revenues and a special taxation regime valid for 10 years after the approval of the company's development plan from Mozambique. There was no requirement for the inclusion of Mozambique contractors and no requirement that extracted LNG should remain in the country (Caldeira, 2017). Thus, Mozambique is in a situation of a dual challenge: creating value for foreign investment through legislation and taxation exemption, while limiting fear of risk through the drafting of cast iron legislation.

III. Agriculture

Despite the excitement for its budding hydrocarbon sector, agriculture remains the primary and largest economic sector in the Mozambican economy. It employs some 80 per cent of the workforce and has contributed a value-added 24.77 per cent of the country's GDP as of 2016 (Ross et al., 2014, 72; tradingeconomics.com, "Mozambique – Agriculture," 2017). Mozambique's potential agricultural land is approximately 49 million hectares or 69 per cent of the total land available in the country, although arable land covers only 5.8 million hectares today (Zacarias and Esterhuizen, 2015, 2). According to research, rural and peri-urban areas, where the majority of agriculture occurs as livelihood, continue to hold some 70 per cent of the population that remains under the national poverty line (Matteo and Schoneveld, 2016, 3). Estimates suggest that approximately 95–99 per cent of the farmers in Mozambique are smallholders. They work on 1.8 hectares of land or less, often without formal deed, and for the primary purpose of growing staple foods for self-consumption (Matteo and Schoneveld, 2016, 3; Zacarias and Esterhuizen, 2015, 2). The Food and Agriculture Organization of the United Nations (FAO) suggests that 5 per cent of agricultural production comes from commercial farms, of which there are approximately 400 (FAO, "Mozambique," 2017). Cash crops grown include sugar, tobacco, cotton, cashew nuts, tea, and sesame seeds, although maize, cassava, beans, and sorghum remain the largest portion of agricultural growth in the country per used hectare by far (Zacarias and Esterhuizen, 2015). Crop production in particular accounts for approximately 78 per cent of the total agricultural sector GDP input, with forestry, livestock, and fisheries accounting for 9.1 per cent, 7.1 per cent, and 5.6 per cent respectively. This is according to the country's last agricultural census in 2009 (Ross et al., 2014, 72).

It is recommended that policymakers temper a perceived obsession with megaprojects while bolstering financing to spur industrialisation and mechanisation in the agricultural sector. Initially, analysis tends to agree that megaprojects did provide the country with an export boom, pushing numbers from US$700 million in 2001 to US2.7 billion in 2008, after these investments came on board (Wallace, 2011). However, further research suggests that the focus on megaprojects, especially in the extractives and natural resources sectors, have not had a measurable impact on the country's goal of poverty reduction (UNCTAD, 2012, 3). The wealth derived from these megaprojects has simply not trickled down or been distributed in such a way as to foster economic growth for all Mozambicans. Economists at Standard Chartered argue that while the natural resources sector will likely push economic growth as a metric, it does not normally engender the creation of significant numbers of jobs (Wallace, 2011).

In addition, in order to unlock the potential of the agricultural sector, using it to drive poverty reduction and to contribute meaningfully to sustainable development, it is recommended that Mozambique seeks to achieve a higher degree of commercialisation, improved production, higher yields, and a diversification of the labour force concentration beyond agriculture (2012, 83). Furthermore, a limited phase in the private ownership of land as collateral for smallholders could be an important mechanism for access to credit and finance, while the government should ensure that a comprehensive set of pre-defined and transparent requirements for land allocation to large-scale investments must be made available publicly (UNCTAD, 2012, 83). Next, UNCTAD recommends that the government explore investment opportunities for collaboration with other sectors while also establishing regulatory frameworks for enabling large foreign actors to contract smallholders to farm (2012, 83). The government could also work on providing further support for fostering business linkages between FDI and local suppliers and labour (OECD, "Mozambique," 2013, 5). Finally, as with hydrocarbons, there should be further emphasis on export diversification, despite Mozambique adding new products to its agricultural basket (OECD, "Mozambique," 2013, 21).

IV. Building for Tomorrow

Instead of building an infrastructure to push Mozambique away from the resource curse, it appears that the country is negotiating its way into a new dependency, as other countries on the continent have done in the past. It places them in a situation of considerable risk and reliance on the global market prices of LNG, which will likely decrease over the next decade as other worldwide megaprojects come online. With regard to legislation, the country does appear to have a relatively robust system of regulatory compliance, especially when it comes to hydrocarbons, but legislation is only as effective as its applicability.

Beyond the above recommendations, this brief recommends a number of additional policy approaches and responses that can be pursued to effectively leverage natural resource endowments to grow Mozambique's economy in a sustainable way:

1. The country must manage their existing debt crisis by allowing a full, independent investigation of 2016/2017 loans for its mining sector in particular and improve institutional transparency on future loans. The latter is especially critical for state-owned enterprises. Included in this recommendation is the need to establish an independent and legally empowered investigative mechanism for corruption in the natural resources sector.
2. The country would do well to begin a comprehensive and strategic plan development for economic diversification beyond sole-source contributing sectors, including agriculture and hydrocarbons.
3. The country should consider ending the integration of select clauses in special taxation regimes that have thus far inhibited or devalued local beneficiation, namely the use and sourcing of Mozambican products, services, and operators. In addition, Mozambique should ensure that a percentage of the LNG extracted remains in country, as it plans to do with future exploitation in the Temane region. The latter works hand-in-hand with enhanced requirements for domestic investment, namely in infrastructure and alternative economic sectors.
4. Specifically for agriculture, Mozambique should continue to push for full adherence to its Strategic Plan for Agricultural Development while beginning the drafting process for a new vision for the sector in 2030. The government may also consider reconstituting the Agriculture Promotion Centre, with a renewed focus shifting away from megaprojects and towards sustainable development of the country's agriculture sector. This should include a move from subsistence farming towards the attainment of industrialisation goals. In this regard, emphasis should be placed on local ownership, achieved through cooperatives and other similar organisational means.

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