

# Mid Term Review of the INP Agreement Moz-0032 Moz-14/00001

Strengthening of the Oil and Gas Sector in  
Mozambique

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## Norad Collected Reviews **01/2016**

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Sept, 2016



Brief Consultancy Report  
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# SUMMARY

## INTRODUCTION

The INP Agreement MOZ-0032 MOZ-14/0000 (May 1<sup>st</sup>, 2014 to April 30<sup>th</sup>, 2018) is an institutional cooperation agreement between the Instituto Nacional de Petróleo (INP) in Mozambique and the Ministry of Petroleum in Norway implemented through the Norwegian National Petroleum Directorate (NPD). Designed with a budget of NOK 50,460,000, its aim is to contribute to the “economically, environmentally and socially responsible management of petroleum resources in Mozambique”.

This report summarizes the findings from the Mid-Term Review (MTR) carried out by Community Wisdom Partners (CWP) in mid 2016, based on a review of relevant documentation and over 40 in-depth interviews. The aim of the MTR was to verify the degree of progress made in planned activities, to assess results achieved to date, and to recommend any changes or measures to maximize opportunities for the second half of the programme.

## FINDINGS

The MTR revealed positive results. The INP Agreement was designed to meet the most pressing needs of Mozambique’s petroleum sector regulatory environment. It has successfully responded and adapted to current and emerging sector needs. The largest single deviance from plans has been the justified decision to dedicate more time and funds to legal advisory services than initially anticipated, at the expense of other areas.

There is no doubting the impact of the project in terms of building INP capacity. The development of the INP as regulator and gatekeeper of legislation around petroleum in Mozambique has increased greatly since the start of the INP Agreement, an achievement which is in large part attributable to Norway’s support. The country’s great success in O&G over the last five years has been in making itself an attractive investment destination for O&G industry majors with the capital resources and technical skills to lead projects through to production in a socially and environmentally responsible way.

By the end of 2015, the programme had disbursed 56% of core programme funds; and current funding is expected to be exhausted by the end of 2016, with additional funds required for the programme to achieve its goals by the end of the established period.

It is recommended that minor programmatic adjustments be made in the final two years of operations. It is also clear that support will be needed beyond 2018 to address the underlying imbalances in experience, capacity and money – and thus power - between INP and major O&G companies, and build a robust regulatory system and institutions in line with a fast-developing oil sector. These are essential pillars for Mozambique to work towards economically, environmentally and socially responsible management of petroleum resources.

# 1. BACKGROUND

**Key programme information.** The **INP Agreement Case No. MOZ-0032 MOZ-14/001 Responsible Management of Petroleum Resources in Mozambique** is an institutional cooperation contract between the *Instituto Nacional de Petróleo* (INP) in Mozambique and the Ministry of Petroleum and Energy in Norway implemented through the Norwegian National Petroleum Directorate (NPD). The INP Agreement is based on “institutional pairing” between NPD and INP, and brings in additional institutions both in Norway and Mozambique, as relevant. The INP Agreement is today the largest active component of the **NORAD Oil for Development (OfD) Programme in Mozambique**. It stems from over 30 years of cooperation between the Norwegian and Mozambican Oil and Gas (O&G) sectors<sup>1</sup>.

The INP Agreement runs from May 1<sup>st</sup>, 2014 to April 30<sup>th</sup>, 2018. It aims to contribute to the **“economically, environmentally and socially responsible management of petroleum resources in Mozambique”**. At design, the INP Agreement was allocated a total budget of NOK 50,460,000 (approximately USD 6 million).

**Petroleum Sector Context.** Following a set of large discoveries of O&G in recent years in Mozambique, and the entry of major international companies into the country, Mozambique has clear potential to develop an important hydrocarbon industry. Although the country currently has only one O&G project at production stage (SASOL in Northern Inhambane), sector activities are escalating rapidly as a result of gas discoveries in the Rovuma Basin. Development of these resources will involve transformation of natural gas into liquefied natural gas (LNG) using innovative floating LNG technology. However, Mozambique’s petroleum regulatory framework and institutions were unprepared for such rapid sector expansion.

The INP has existed as a regulatory agency since 2004<sup>2</sup>. It currently has a staff pool of approximately 70 people with projected 30 new hires (contingent on approval from the Government of Mozambique).

**Political and Development Challenges.** The MTR coincided with one of the most difficult times for Mozambique since the 1992 peace treaty. The discovery of unaccounted State debts in recent months amounting to approximately USD 2 billion led the International Monetary Fund (IMF) and the group of 14 donors (G-14) to halt their support to the State Budget<sup>3</sup>. To date, there has been no public indication however that the network of previously undisclosed financial transfers has involved the INP.

Armed conflict, population displacement, politically motivated threats, assaults and assassinations have also been reported over the last year. Underlying the instability, over nine million people are considered to be facing food insecurity in the country<sup>4</sup>.

**Mid Term Review.** The purpose of the MTR was to verify the degree of progress made in planned activities, to assess results achieved to date, and to recommend any changes or measures to maximize opportunities for the second half of the programme.

This report summarizes the findings and recommendations from the MTR carried out by Community Wisdom Partners (CWP) in mid 2016.

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<sup>1</sup> Globally, the OfD programme encompasses four elements for holistic programming: Resources, Revenue, Environment and Safety. The structure of the INP Agreement focuses strongly on the Resources component.

<sup>2</sup> The INP was preceded by the National Directorate for Carbon and Hydrocarbons, created in 1995.

<sup>3</sup> <http://www.ft.com/cms/s/0/6c755214-057f-11e6-9b51-0fb5e65703ce.html#axzz4FR7ZFpN>

<sup>4</sup> <https://www.wfp.org/countries/mozambique>

## 2. METHODOLOGY

The MTR adopted a robust qualitative approach founded on the Organization for Economic Cooperation and Development (OECD) criteria for evaluating development assistance (relevance, effectiveness, efficiency, impact and sustainability)<sup>5</sup>, in response to the specific questions presented in the Terms of Reference (ToR).

The assignment was implemented in three phases: (i) Inception; (ii) Data Collection / Field Work; and (iii) Data Analysis and Production of Deliverables. Over 40 key stakeholders were interviewed in Mozambique and Norway. No substantial methodological limitations were encountered.

## 3. FINDINGS

### 3.1 Relevance

Programme design and implementation in 2014-2015 responded to the legitimate needs of a young institution (INP) operating in a sector that has undergone rapid growth and which offers the potential of a massive developmental pay-off for Mozambique, if well managed. Interviewees in both Norway and Mozambique judge that the provision of legal support under the programme was particularly important in the evolving Mozambican context.

The structure of the INP Agreement focuses strongly on the Resources component of the OfD framework, and places less emphasis on Revenues, Environment and Safety. This choice is however considered appropriate by the reviewers given the need for the country to create robust foundations for the its O&G industry.

The choice and breadth of interventions considered in the INP Agreement to date demonstrate an understanding of the processes and causal relationship between activities, outputs and outcomes. Likewise, the hierarchy of objectives considered is consistent with the overarching goal. However, the MTR notes that the achievement of final goals depends on strategic and operational decisions to be made both by the INP and the Government of Mozambique over time, including those by the parastatal petroleum company ENH (*Empresa Nacional de Hidrocarbonetos*, National Hydrocarbons Company)<sup>6</sup>

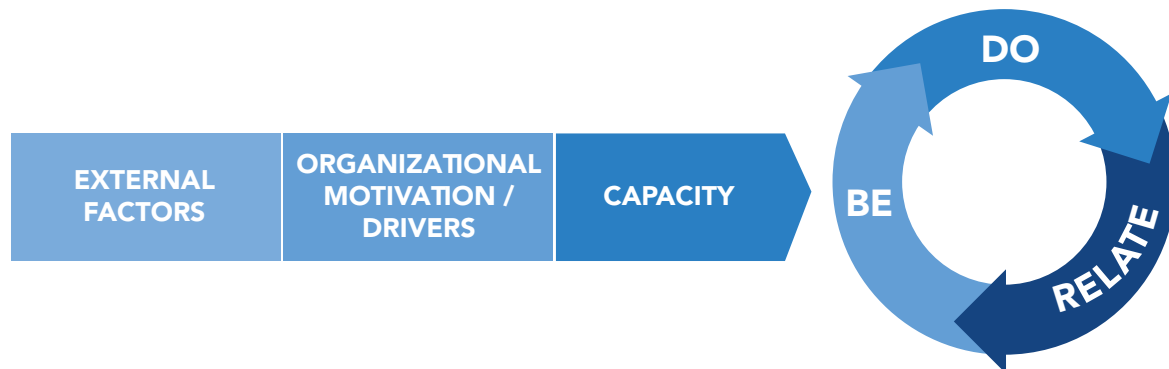
KEY AREAS OF OfD SUPPORT PER COMPONENT	YES / NO
<b>RESOURCES</b>	
Development of legal framework; institutional development; licensing, negotiation & supervision	<b>YES</b>
Mapping of resources	<b>YES</b>
Data management and use	<b>YES</b>
Environmental Impact Assessments	<b>NO</b>
<b>REVENUE</b>	
Petroleum fiscal regime	<b>YES</b>
Petroleum fund issues	<b>NO</b>
Macroeconomics and fiscal framework	<b>NO</b>
Revenue administration	<b>NO</b>
Transparency (fiscal metering)	<b>YES</b>
<b>ENVIRONMENT</b>	
Legal framework	<b>YES</b>
Environmental sensitivity mapping	<b>NO</b>
Environmental Impact Assessments	<b>NO</b>
Compliance monitoring	<b>NO</b>
<b>SAFETY</b>	
Disaster prevention / emergency preparedness and response	<b>YES</b>
Health, safety and environment (HSE) legislation / institutionalization	<b>YES</b>
Cooperation between trade unions, employer unions and authorities	<b>NO</b>

<sup>5</sup> <http://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm>

<sup>6</sup> Experience elsewhere has demonstrated how parastatal oil companies can be used for rent seeking purposes of local elites.

and MIREME (the Ministry of Mineral Resources and Energy, *Ministério de Recursos Minerais e Energia*), together with the development of capacities and performance both upstream and downstream in the industry.

By the same token, the INP Agreement includes the essential components of successful organizational development related to the BE, DO and RELATE functions of organisations.



Source: Produced by authors based on FAO and INTRAC organizational development models<sup>7</sup>.

Over its first two years, the programme has been adapted to address emerging needs in Mozambique's petroleum sector. Amendments have been made with the involvement of all relevant Norwegian institutions and the INP through the annual meeting process and on-going communication between INP, the Royal Embassy of Norway and the NPD.

The O&G sector development in Mozambique took three unexpected turns in the course of the project:

Firstly, the Government of Mozambique developed a Special Regime for the Rovuma Basin in preference to finalising legislative arrangements to enable the use of standardised concessionary arrangements instead of individually negotiated contracts.

Secondly, The Petroleum Law passed by the Parliament in 2014 includes changes additional to the proposed draft that had been developed with Norwegian support. These additional changes increased the need for support in reviewing the corresponding Petroleum Operations Regulations (POR).

Thirdly, MIREME decided to launch a 5<sup>th</sup> bidding round for 15 O&G delineated areas. Related preparatory support and management of the process added to INP's already demanding and increasing workload.

These major Government decisions resulted in a substantial increase of support needs and therefore of actual programme resources and focus, into development of the legal framework for O&G.

<sup>7</sup> FAO, 2010. FAO Capacity Assessment Approach and Supporting Tools. Discussion Draft. Accessed 15<sup>th</sup> May 2016 at [https://www.google.es/?gfe\\_rd=cr&ei=YFN\\_V5-OK42t8wep2KOWAg&gws=ssl#q=FAO+Capacity+Assessment+Approach+and+Supporting+Tools](https://www.google.es/?gfe_rd=cr&ei=YFN_V5-OK42t8wep2KOWAg&gws=ssl#q=FAO+Capacity+Assessment+Approach+and+Supporting+Tools)

FAO, 2012. FAO Approaches to Capacity Development in Programming: Processes and Tools. Learning Module 2.

INTRAC, 2008. Lipson and Hunt: "Capacity-Building Guide: a values-based programming framework".

Although the NPD/INP relationship is the core of the programme, other Norwegian and Mozambican institutions have played their part. The consultants judge that appropriate institutions have been involved in implementing the INP Agreement.

<b>INSTITUTIONS INVOLVED IN EACH COMPONENT OF THE INP AGREEMENT</b>		
<b>KEY AREAS OF INTERVENTION PER OfD COMPONENT</b>	<b>MOZAMBICAN INSTITUTIONS INVOLVED / SUPPORTED</b>	<b>OTHER INSTITUTIONS INVOLVED</b>
<b>RESOURCES</b>		
Development of legal framework; institutional development; licensing, negotiation and supervision	INP, MIREME, AT <sup>8</sup>	NPD, Eureka, IFRA, Law firms Simonsen Vogt Wiig, DeGolyer, MackNaughton and Exploration Reservoir Consultants Limited
Mapping of resources	INP	NPD, Schlumberger
Data management and use	INP	NPD
<b>REVENUE</b>		
Petroleum fiscal regime	INP	NPD
Initiatives to promote transparency	INP, EITI <sup>9</sup>	NPD
<b>ENVIRONMENT</b>		
Legal Framework	No direct work in this area as of yet	
<b>SAFETY</b>		
Disaster prevention / emergency preparedness and response	INP, INGC <sup>10</sup> , MITADER <sup>11</sup> , ACQUA <sup>12</sup> , INAMAR <sup>13</sup> , Ministry of Fisheries	NPD, Norwegian Environmental Agency (NEA), PSA, the Norwegian Coastal Administration (NCA)
Health, safety and environment (HSE) legislation and institutionalization	INP, MITADER,	NPD, Norwegian Petroleum Safety Authority (PSA), NEA, NCA, Stavanger Offshore Technical College (SOTS)

The approach used by the Agreement of involving multiple institutions working in the petroleum sector is regarded as positive. It must be noted though that whilst this may have increased the capacity of some individual staff working in institutions outside the INP it does not address the overall capacity gaps of these institutions.

<sup>8</sup> AT is the acronym for tax authorities in Portuguese.

<sup>9</sup> EITI stands for the (Mozambican) Extractive Industries Transparency Initiative.

<sup>10</sup> INGC is the Mozambican Government agency responsible for protecting human life in the context of natural disasters, multi-sectorial coordination in situations of disaster emergency, and coordination of early warning systems, among others.

<sup>11</sup> MITADER is the acronym in Portuguese for Ministry of Land, Environment and Rural Development (previously MICOA).

<sup>12</sup> ACQUA is an autonomous agency in charge of environmental audit and oversight.

<sup>13</sup> INAMAR is the Mozambican Government agency in charge of maritime security, protection of vessels and port facilities, preservation of marine ecosystems and marine administration.

## 3.2 Effectiveness

The programme has made solid and substantial progress towards key achievements, summarized as follows:

KEY DEVELOPMENTS IN THE INP AGREEMENT PER PROGRAMME OUTCOME	
Outcome 1 - Strengthening institutional and legal framework	<ul style="list-style-type: none"> <li>• Development and approval of new Petroleum Law passed in August 2014 through the National Assembly during the febrile period leading up to the elections of November 2014, and legislators took the opportunity to include a number of populist clauses. The INP Agreement was key in influencing the revision of the out-dated Petroleum Law of 2001 although commentators<sup>14</sup> noted that the draft versions of the law were better than the final version.</li> <li>• Development and approval of POR (December 2015) reflecting changes in the new Petroleum Law.</li> <li>• Successful negotiations with Anadarko and ENI over developing the Rovuma Basin finds together with the production of relevant legal documentation.</li> <li>• Supporting the preparation of the model EPCC in line with the new Petroleum Law and corresponding POR to reduce the need for individual license negotiations. Final approval of the model EPCC is still awaited and work remains to be done to finalize EPCC annexes.</li> </ul>
Outcome 2 - Building the capacity of sector regulators to assume their role	<ul style="list-style-type: none"> <li>• Implementing the 5th bidding round for Exploration and Production Concession Contracts with high levels of professionalism.</li> <li>• Supporting the preparation of field Development Plans. The Agreement helped develop INP functional capacity and address power imbalances when negotiating with international petroleum companies.</li> <li>• Designing and inputting material into a national Resource Inventory on hydrocarbons. At the moment this resource inventory is primarily in-house, but it will be important to make this information publicly available.</li> <li>• Some progress has been made in developing capacity in the petroleum sector for emergency preparedness and response, e.g. by facilitating a multi-agency workshop on emergency preparedness and conducting field audits.</li> </ul>
Outcome 3 - Accountability and Transparency	<ul style="list-style-type: none"> <li>• Starting to build the capacity of the INP Mozambican around fiscal metering and auditing.</li> </ul>

Modest progress was made in other areas such as HSE, including expanding the country's Emergency Preparedness and Response capacity; monitoring of fiscal metering and the development of INP's organizational structure, along with relevant systems. Although also planned in the original programme design, no work has been done to date around environmental legislation or the development of supervisory guidelines. Current plans for the period 2016-2018 include interventions to address these gaps.

The INP Agreement has used a combination of approaches towards capacity building: formal training sessions; on-the-job training approaches through visits of technical experts from Norwegian institutions or service providers contracted by the programme; and the provision of supportive technical assistance based on on-going planned and unplanned needs. This diversity and flexibility has worked well given the dual focus of the programme on processes and results.

The Royal Embassy of Norway in Maputo has proactively made contacts with some players interested in contributing to developing a Gender in Extractives agenda and is attentive to potential opportunities to link with others, as needed. Likewise, effective practical collaboration has been promoted between the INP and other donors working in extractive industries. There has also been effective collaboration between the two main providers of legal services to the INP, namely Simonsen Vogt Wiig (SVW) under this project and Dentons, under the World Bank's Mining and Gas Technical Assistance Project (MAGTAP).

The INP Agreement is managed through a robust process involving various Norwegian and Mozambican institutions. It is based on the annual planning process as well as the implementation of activities, monitoring and reporting.

<sup>14</sup> SPEED/USAID, November 2014. Mozambique: Support in the Development of the Legal Framework for the LNG Projects.



The country's financial and governance crisis could pose new needs and risks, such as uncertainty around the INP's budget and proposed future recruitment, and the potential re-assigning of responsibilities for the development of the sector's legal framework away from INP. These emerging risks require an updating of the programme's risk analysis.

### 3.3 Efficiency

The programme disbursed NOK 28.7 million out of the total NOK 50.4 million budget in the first two years, leaving a balance of NOK 21.7 million for the remaining two years of the programme. The major cause of the higher rate of disbursement has been the higher-than-anticipated legal costs, although these are justified by programmatic requirements and cost less than those incurred by other projects in the sector. The INP Agreement has carefully assessed implementation measures to minimise costs and maximise benefits for the sector.

INITIAL BUDGETARY ALLOCATIONS PER AREA OF PROGRAMME INTERVENTION AGAINST PROGRAMME CASH FLOW (NOK 1,000)								
INP Agreement Areas of Intervention	Initial Budget 2014-2018	Total Transfers 2014-2015	DETAILS PER YEAR					
			2014			2015		
			Approved Budget	Transfers	Deviation	Approved Budget	Transfers	Deviation
Outcome 1	13,000	15,424	4,300	3,469	831	4,000	11,955	-7,955
Outcome 2	21,185	7,151	3,635	1,234	2,401	7,500	5,917	1,583
Outcome 3	2,350	763	850	254	596	750	509	241
Others (including taxes) <sup>15</sup>	13,917	5,366	2,977	1,100	1,877	3,670	4,266	-596
<b>TOTAL</b>	<b>50,452</b>	<b>28,704</b>	<b>11,762</b>	<b>6,057</b>	<b>5,705</b>	<b>15,920</b>	<b>22,647</b>	<b>-6,727</b>

Regular reports are produced by INP, the NPD and service providers, as per programme requirements. Reporting frequency and quality appear to be in line with international standards and to be of use both in terms of decision-making and for accountability purposes.

The fact that the programme has demonstrated flexibility to respond to emerging needs is a key factor in explaining the high level of ownership shown by key staff involved.

### 3.4 Impact

The development of the INP as regulator and gatekeeper of legislation around petroleum in Mozambique has increased greatly since the start of the INP Agreement, an achievement which is in large part attributable to Norway's support. Mozambique's great success in O&G over the last five years has been in making itself an attractive investment destination for O&G industry majors with the capital resources and technical skills to lead projects through to production in a socially and environmentally responsible way. Without in any way minimising the risks that remain, this fact means that the country is well placed to develop a large-scale responsible O&G industry. However, insofar as the people of Mozambique and the next generations are the ultimate beneficiaries, an accurate impact assessment lies years in the future when oil revenues, wisely spent, may uplift the country.

By working through and for civil servants, the programme contributes to less measurable results such as high working ethics, values and attitudes at institutional level within INP, as well as among its staff. The level of commitment, professionalism and drive seen at the INP far exceeds most other government entities in the country. The consultants are of the opinion that this

<sup>15</sup> A large proportion of funds included in this "Others" category includes value added tax associated to the provision of legal support services provided under Outcome 1.

is certainly influenced by the unique opportunity that individuals within the INP have to learn and grow – an opportunity largely offered by the INP Agreement. Such a scope for individual professional development is a rare privilege in Mozambique and underpins INP’s institutional self-confidence.

### 3.5 Sustainability

The INP Agreement is well placed to produce lasting effects in its core target institution (INP), as well as in terms of coordination with other key agencies in the country involved in the petroleum sector. However, continued external support will be needed to address the underlying imbalances in experience, capacity and money – and thus power - between INP and major O&G companies. This is particularly true because:

- Petroleum operations are expected to substantially increase in coming years, with the use of new technology;
- The uncertain financial situation of the Mozambican Government means that the current streams of INP income cannot be guaranteed in the medium-term;
- The cadre of motivated and qualified staff in INP is still too small, pending the planned expansion of the institution’s personnel.

Mozambique currently faces a serious governance and financial crisis. This comes at a time in which international donors are already reducing budgets.

## 4. CONCLUSIONS AND RECOMMENDATIONS

The first half of the project has produced very positive results, despite deviations in the implementation of activities with an increased focus on legal support. The emphasis on the Resource component of the OfD framework is justified by the fact that the hydrocarbon industry in Mozambique is still relatively young – although likely to expand dramatically as planned projects come on stream.

The key recommendation for the programme over the next two years is to support the INP to:

- Consolidate the sector’s legal framework to address current needs, including effectively responding to new technology introduced by the O&G industry;
- Consolidate capacities in technical areas that have lagged behind in the first half of the programme;
- Streamline systems, procedures and processes;
- Ensure satisfactory progress on commitments set out in the Gas Master Plan;
- Build a successful model of results-oriented collaboration with less well-resourced arms of Government, to face major issues like spill response, strategic environmental assessments and consideration of EIAs;
- Conclude expected institutional capacity building interventions.

The programme should also consider the following for the period 2016-2018:

- Support the INP in increasing its capacity around common areas of gender inequality in the O&G industry and the formal institutionalization of gender equality within the INP. Also, contribute as relevant to the development of a ‘gender in extractives’ agenda in the country;

- Scenario planning exercises with INP staff around different models of responsibility and funding;
- Ensure that incoming staff is adequately trained;
- Involve the INP in the development of ToR and selection of service providers;
- Increase contact with MIREME to ensure that potential future changes in the attribution of responsibilities between institutions are adequately planned for;
- Involve AT in technical trainings on petroleum value chain to address prevailing capacity gaps. Promote systematization of joint work between AT and INP in relation to cost recovery and fiscal metering.

The reviewers hold the view that continuing assistance beyond the time-span of the current project will still be needed. However, the focus future programmes is likely to shift as major projects move into the production stage.

## ACKNOWLEDGEMENTS

We would like to thank interviewees based in the following institutions in Norway and Mozambique for providing their time, knowledge and opinions, which were invaluable for the production of this report.

### INSTITUTIONS IN NORWAY

NORAD, Norwegian Petroleum Directorate, Ministry of Foreign Affairs, Norwegian Environment Agency, Petroleum Safety Authority and Simonsen Vogt Wiig A.S.

### INSTITUTIONS IN MOZAMBIQUE

The Royal Embassy of Norway in Maputo, INP, MIREME, MITADER, AT, EITI, MAGTAP, DFID, UNWOMEN and UNDP