



CENTRO DE INTEGRIDADE PÚBLICA
Boa Governação - Transparência - Integridade

WILL ROVUMA GAS TRANSFORM MOZAMBIQUE?

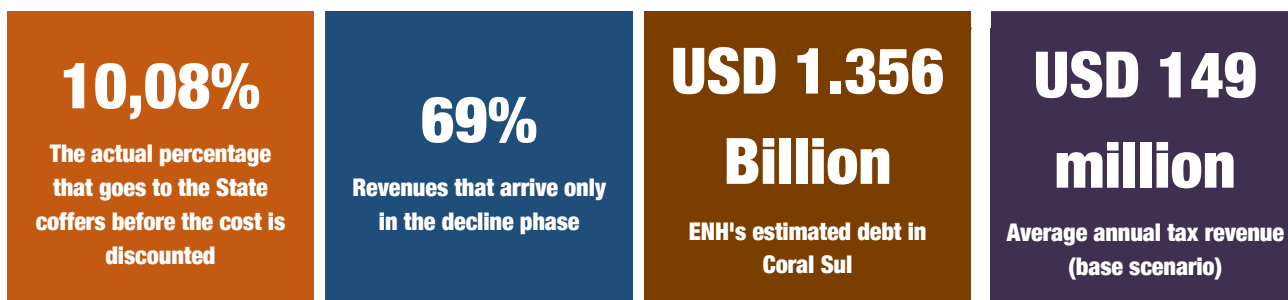
Late revenues, fiscal risks and the limits of the LNG dependency model

Author: Rui Mate | Economist | Researcher | Coordinator of the Pillar of Transparency and Integrity in the Public Sector | CIP

Executive Summary

This Policy Brief analyses the actual tax contribution of the Liquefied Natural Gas (LNG) project in the Rovuma Basin, Mozambique, based on a tax modelling methodology. Contrary to expectations of substantial and immediate revenues, the analysis reveals that the Mozambican state will face a long period of tax deferral, with a significantly modest effective share of gross revenues. The current tax architecture, dominated by the cost recovery mechanism and the deferral of Corporate Income Tax (IRPC), exposes the country to substantial risks, including gas price volatility and the perpetuation of quasi-sovereign liabilities through Empresa Nacional de Hidrocarbonetos (ENH). The document argues that the concentration of resources in LNG represents a high opportunity cost, diverting investments from sectors with greater potential for job creation and economic diversification. It is concluded that LNG, in its current form, is not the promised magic bullet, and strategic recommendations are proposed to promote transparency, diversification and a more robust management of natural resources.

IN NUMBERS



1. THE PROMISE AND REALITY OF ROVUMA GAS

Mozambique, a country rich in natural resources, has placed high hopes in exploiting the vast natural gas reserves in the Rovuma Basin. The promise of transformative tax revenues and a new development paradigm has been a central pillar of the government's narrative and that of international partners. However, an in-depth analysis of the tax architecture and the underlying contracts reveals a more complex and challenging reality. This Policy Brief aims to demystify the expectations surrounding Rovuma Gas by presenting an alternative assessment of its real tax impact and associated risks. The aim is to provide an informed basis for policymakers, civil society and the general public, promoting a transparent and constructive debate on Mozambique's energy and economic future.

2. HOW THE STUDY WAS DONE

The analysis presented in this *Policy Brief* is based on a robust and transparent methodology, focused on the tax simulation of the LNG project in Area 4 of the Rovuma Basin. A Discounted Cash Flow (DCF) model was applied to project tax revenues over the life of the project, considering the specific contractual payments of Area 4. To ensure the reliability of the data, the model was calibrated with real and verifiable information, including data from the Report and Opinion on the General State and Sovereign Fund Account (2022-2025). Multiple natural gas price scenarios were explored (Stress: USD 8/MMBtu; Base: USD 12/MMBtu; Bullish: USD 16/MMBtu; and Energy Transition: a descending deck), allowing the assessment of the fiscal resilience of the project under various market conditions. This multi-scenario approach is crucial to understanding the volatility and uncertainty inherent in large-scale projects in the hydrocarbons sector, providing a comprehensive view of the potential fiscal impacts for Mozambique. The model simulates production and all financial steps: the return on invested money, profit sharing, payment of taxes (such as IRPC and *royalties*) and ENH's final earnings.

3. KEY FINDINGS

3.1 TAX REVENUES: A MODEST AND BELATED CONTRIBUTION

Fiscal projections show that the LNG project's contribution to Mozambican state revenues will be significantly more modest and delayed than widely reported. In the base case scenario (USD 12/MMBtu), the project will generate an annual average of USD 149 million in tax revenues, which represents only 10.08% of the effective *Government Take* on gross revenues (the actual tax that the government collects on total earnings). This figure is marginal when compared to the national Gross Domestic Product (GDP) of USD 22.4 billion. Volatility is a critical factor: tax revenues can vary dramatically, from USD 54 million per year in the *Stress* scenario (USD 8/MMBtu) to USD 420 million per year in the *Optimistic* scenario (USD 16/MMBtu), a change of 7.8 times. This extreme sensitivity to international gas prices exposes Mozambique to considerable fiscal vulnerability, especially in contexts of energy transition or market fluctuations. In addition, most tax revenues, namely Corporate Income Tax (IRPC), will only start to be collected from 2032 onwards, creating a prolonged tax gap.

3.2 FISCAL ARCHITECTURE: THE WEIGHT OF COST RECOVERY AND THE REAR LOADING EFFECT

The fiscal architecture of LNG projects in Mozambique is characterized by mechanisms that prioritize the return on investment of companies to the detriment of immediate tax collection for the State. The main mechanism is Cost Recovery, which allows companies to retain up to 75% of available revenue to amortize capital (CAPEX) and operating (OPEX) costs before the State starts to receive a significant portion. This model, known as rear-loading, postpones most tax revenues, such as Corporate Income Tax (IRPC), to the final stages of the project. Such a deferral exposes the State to considerable risks, including the possibility of low gas prices in the future or an accelerated energy transition that reduces demand for fossil fuels. Additionally, the Oil Production Tax (IPP), which is a 2% royalty on gross production, is the only immediate and guaranteed revenue stream for the state, but its value is relatively low compared to the total potential of the project.

3.3 ENH'S DEBT: A HIDDEN QUASI-SOVEREIGN LIABILITY

The 10% stake of the National Hydrocarbons Company (ENH) in the Area 4 consortium, although presented as a benefit for the State, is in practice a hidden quasi-sovereign liability. This stake is

financed by the consortium partners through a *carried interest* mechanism, which means that ENH accumulates significant debt (estimated at USD 1,356 million) that is remunerated at an interest rate of LIBOR + 1%. As a result, ENH's potential dividends will be fully consumed by servicing this debt until at least 2033. This implies that, for more than a decade, state participation will not generate any net benefit to the state budget, functioning as a financial burden that indirectly pressures public finances. The materialization of real benefits from this participation is conditional on the full repayment of this debt and the maintenance of high LNG prices in the international market, exposing the State to additional risks.

3.4 OPPORTUNITY COST: WHERE COULD THE CAPITAL BE?

The massive concentration of resources in the LNG sector in Mozambique, which absorbed 74.6% of total Foreign Direct Investment (FDI) between 2002 and 2025, has generated a severe opportunity cost for the national economy. This disproportionate allocation of capital and political attention has diverted investments from sectors with greater potential for job creation and economic diversification, such as agribusiness and renewable energy. For example, while offshore LNG requires an investment of USD 3.2 billion per job created, alternative sectors such as agriculture can generate jobs with an investment of as little as USD 3,000 to USD 15,000 per vacancy, representing a 200 to 1,000 times greater employment potential. In addition, dependence on LNG delays the collection of tax revenues, which will only materialize in the long term, unlike other sectors that could generate immediate revenues. This distortion stifles economic diversification and exacerbates Mozambique's vulnerability to external shocks, despite the country's vast potential in renewable energy and a pressing need for universal electrification.

OPPORTUNITY COST IN NUMBERS

DIMENSION	OFFSHORE LNG	AGRIBUSINESS (cashew, soybean)	PROCESSING GRAPHITE	HYDROELECTRIC (M. Nkuwa)
Typical investment	USD 8-30 billion	USD 50-200 million	USD 200 million	USD 5 billion
Recipe Starts	7-10 years post-FID	6-12 months	2-3 years	5-6 years
Direct jobs	500-1.000	+50,000 rural employment	Approx. 3,000	Approx. 3,000
Energy transition risk	Elevated	Low	Beneficiary	Beneficiary
Tax revenues (annual)	USD 149M (model)	USD 100-150M (potential)	USD 200M (potential)	USD 200M+

3.5 Political Economy: Why Does the Dependency Model Persist?

The persistence of the LNG-focused development model, despite its limitations and risks, can be explained by a complex interplay of interests and information asymmetry. The government uses the promise of future LNG revenues to justify indebtedness and legitimize its development model. Oil companies benefit from contractual stability and reduced pressure for tax renegotiations. International creditors see projected LNG revenues as collateral for sovereign debt restructurings. In contrast, civil society is often excluded from the decision-making process due to contractual opacity and the lack of public tax models, which prevents scrutiny and informed participation. This information asymmetry allows for the coexistence of incompatible financial projections, where LNG

serves more as an instrument of debt management and short-term political power than as an engine of inclusive and sustainable development for Mozambique.

4. Strategic Recommendations

To mitigate the identified risks and promote more equitable and sustainable development, the following strategic recommendations are proposed:

- a) **Radical Transparency:** Implement mandatory publication of audited tax models and independent audit reports. Increase the accessibility of information to enable public scrutiny and informed participation of civil society.
- b) **Economic Diversification:** Reform the Tax Benefits Code to create more robust incentives for sectors with high potential for job creation and added value, such as agribusiness, tourism, and renewable energy. Reduce over-reliance on the extractive sector.
- c) **Proactive Liability Management:** Conduct an independent and transparent audit of Force Majeure costs and renegotiate ENH's debt structure. The aim is to relieve pressure on the State Budget and ensure that state participation generates real dividends within a reasonable time horizon.
- d) **Strengthening the Governance of the Sovereign Wealth Fund:** Establish a robust legal and institutional framework for the Sovereign Fund of Mozambique, ensuring its political independence, transparency in the management and application of gas revenues in strategic investments that benefit future generations, avoiding resource capture and corruption.

5. Conclusion

Detailed analysis of the LNG project in the Rovuma Basin reveals that, as it stands, gas is not the promised magic answer to Mozambique's economic challenges. Tax revenues are modest, late and highly volatile, while fiscal architecture and state participation generate significant liabilities and risks. The opportunity cost of disproportionately focusing on LNG is high, diverting resources from sectors with greater potential for inclusive development and job creation. The persistence of this model is fueled by a complex dynamic of political economy and information asymmetry. It is imperative that Mozambique reassess its development strategy, adopting a new paradigm that prioritizes transparency, economic diversification, proactive management of liabilities, and robust governance of natural resources. Only then can the country ensure that its vast natural resources translate into real and sustainable benefits for all Mozambicans.

6. References

1. Full Report: [WHAT ROVUMA GAS REALLY GENERATES FOR MOZAMBIQUE](#)
2. Fiscal Model: [Coral Sul FLNG Final Fiscal Model](#)

