Website Blurb

South African Public Financing of the Mozambique Liquid Natural Gas Project

The report examines the role of South African finance institutions in funding the largest gas extraction project in Mozambique in the context of the extensive and credibly documented harmful impacts on the peoples, environment and economy of the country.

The report calls on South African DFI's to:

- make concrete commitments to cease new investments in fossil fuel exploration and extraction and all associated activities;
- take their responsibilities in terms of public accountability much more seriously and abandon their culture of secrecy;
- redirect their funding away from LNG to support the provision of utility-scale renewable energy plants in Mozambique. Community ownership models should be explored.

The report is published by Fair Finance Southern Africa : https://www.fairfinancesouthernafrica.org/mozambique-gas-case-study/

Summary Article (long)

South African Public Financing of the Mozambique Liquid Natural Gas Project

The report discussed the role of South African development finance institutions in supporting a project that has already seen grave negative social and environmental impacts and which is not likely to deliver strong economic benefits to Mozambique.

The report states that should certain economic risks be realised, "Mozambique will likely fall into a debt spiral whereby it cannot service its debts or raise new funds because borrowing costs are simply too high. It would then likely default on its sovereign debt with catastrophic consequences for ordinary Mozambicans."

The Mozambique LNG Project is the largest foreign investment in Mozambique and one of the largest in Africa. It is situated in the northernmost part of Mozambique, in the currently conflict-torn Cabo Delgado Province. It began in 2010, when valuable gas reserves were found offshore in the Rovuma Basin in a demarcated area referred to as Area 1. In addition to the offshore rights, the Project was also allocated about 7,000 ha of land onshore on the Afungi Delta for operations, housing, and support industries. The Mozambique LNG Project is owned by seven companies with French company TotalEnergies owning the largest share of 26.5%, and acting as the operator of the project since 2019.

Throughout the development of the project concerns have been raised about whether it brings any real benefits to Mozambique's people and economy. Devastating impacts are already evident and worse is expected.

A number of economic impacts and implications are already evident relating to the project. The report refers to evidence of the "pre-source curse" and specifically Mozambique's "Hidden Debt Scandal", the "resource curse", and corruption. Significant concerns are raised regarding the benefits expected from the project, notably:

- Tax revenues from gas extraction are greatly overstated by the Mozambican government and revenues are likely to only be seen after 2040.
- Gas is not likely to be an effective transition fuel for a number of reasons, which will affect demand and price.
- Investor-State Dispute Settlement (ISDS) agreements place Mozambique at risk/committed to*** of covering the costs of projects or compensating for lost revenues under certain conditions. Notably, they limit Mozambique's ability to introduce stricter regulations or adopt more climate-friendly policies.
- Bi-lateral Investment Treaty with France inhibits the adoption of climate-friendly policies in Mozambique

"It should also be noted that there is no guarantee that LNG prices will remain at a level which makes extraction economically viable. Thus, price fluctuations in gas not only threaten the investments themselves, but also the macro-economic stability of the entire country given the scale of the investments, expected windfalls, and debt repayments. Also, if demand for gas falls because it is not used as a 'transition fuel' (see following section), then predicted revenues are likely to be less, if not far less, than anticipated."

The report presents an overview of the already irreversibly damaged/affected/changed the landscape and social structures in the region. Social impacts include: Dispossession of Land; Violent Insurgency; Militarisation; and Media and Civil Oppression. Considerable local and global environmental impacts are expected, including a worse-than-expected impact on carbon emissions.

"The TotalEnergies LNG project in Mozambique perfectly illustrates how the continued reckless pursuit of fossil fuels is a curse for those who have to live with the consequences – regionally, nationally, and internationally."

Significantly, Mozambique's own gas reserves will not be available for the development of its own people and economy. As discussed in the report, 90% of the gas produced is committed for export in long-term agreements: "In fact, the project was financially de-risked to some extent by the signing of numerous offtake agreements with major global oil and gas companies."

The project was previously expected to produce from 2024, but was halted in April 2021 on account of violence in the region. Violent insurgency arose in Cabo Delgado Province in 2017, and over 3000 people were killed and over a million people displaced between 2017 and 2021.

The roots of the conflict are complex, and gas exploitation has exacerbated pre-existing tensions.

In a devastating attack on Palma City in March/April 2021, hundreds if not thousands of people were killed and tens of thousands of people were displaced. TotalEnergies declared *force majeure* on the Mozambique LNG project and effectively shut it down. Military and security forces deployed by Mozambique and other SADC countries brought some stability to the region but also introduced further waves of brutalisation of civilians. In April 2023, the President of Mozambique declared it was safe for operations to resume, and in late 2023 TotalEnergies declared its intention to resume operations in early 2024.

It is at this point and in light of the delays and the severe impacts of the project that the call is being made to South African Development Finance Institutes to reconsider their support for the project.

[***copied from report]

Area 1 of the Rovuma Basin is owned by a consortium of companies.

OWNER	Percentage Share
TotalEnergies (France)	26.50
ENH (Mozambique)	15
Mitsu (Japan)	20
ONGC Videsh Ltd (India)	10
Beas Mozambique Rovuma Energy Ltd (India)	10
BPRL Ventures Mozambique BV (India)	10
PTTEP Mozambique Area 1 Limited (Thailand)	8.5

"TotalEnergies announced in 2020, that **$14.9 billion** has been raised for the project in debt financing sourced from eight export credit agencies, 19 commercial banks, and from the African Development Bank ($400 million) and the DBSA." Of this, $1.035 billion has been committed from commercial South African banks, with Standard Bank South Africa being "the largest single commercial loaner to the project".

Three South African publicly funded state-owned institutions provided finance to the project in 2019 and 2020 to a total of **$1,220 billion**:

- Industrial Development Corporation (IDC);
- Development Bank of Southern Africa (DBSA); and
- Export Credit Insurance Corporation of South Africa (ECIC)

[***copied from report]

Three South African state-owned enterprises have used public funds to help finance the TotalEnergies project.

State Owned Enterprise	Amount Invested $ million	Date of Investment
Development Bank of Southern Africa	120	July 2020
Industrial Development Corporation	300	August 2019
Export Credit Insurance Corporation of South Africa	800	2020

Each of the three South African Development Finance Institutes enforce stringent guidelines/frameworks/codes of conduct in their decision making about the projects they finance. However, the report argues: “Given all the pre-existing economic, social, political, and environmental issues already prevalent in Cabo Delgado before the investments were made, and the numerous economic, social, political, and environmental risks associated with the investment moving forward, it seems highly unlikely that the decision to invest in TotalEnergies LNG was consistent with the standards which allegedly guide the South African DFIs investment decisions.”

The report recommends: “The DFIs that continue to fund the project need to urgently reassess their support in light of the ongoing economic, political and social drivers of conflict in the region.”

The report calls on South African DFI’s to:

- “make concrete commitments to cease new investments in fossil fuel exploration and extraction and all associated activities”;
- “take their responsibilities in terms of public accountability much more seriously and abandon their culture of secrecy”;
- “redirect their funding away from LNG to support the provision of utility-scale renewable energy plants in Mozambique. Community ownership models should be explored.”

The report also calls on countries in the Global North to “stop any further exploration and extraction of fossil fuels within their respective territories”,

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