

# South African Public Financing of the Mozambique Liquid Natural Gas Project

**FairFinance**  
Southern Africa



# About This Report

The Fair Finance Coalition Southern Africa is a civil society coalition working towards ensuring that Public Finance Institutions invest in a socially and environmentally responsible manner in South Africa and Africa. The Coalition focuses on issues of climate change and transparency & accountability as they relate to financial institutions operating within the region.

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*This report has been financed by the Swedish international development agency, Sida. Responsibility for the content lies entirely with the creator. Sida does not necessarily share expressed views and interpretations.*

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# Introduction

In April 2023, the President of Mozambique, Filipe Nyusi, stated that it was now safe for the French transnational energy company, TotalEnergies, to restart its \$20 billion<sup>1</sup> liquid natural gas (LNG) project in Afungi in the northern Mozambican province of Cabo Delgado after the project was halted by TotalEnergies in early 2021 due to widespread violence in the region.<sup>2</sup> This project, one of three major LNG projects in northern Mozambique, reached financial closure in 2019 and was expected to produce approximately 13 mt/year of LNG from 2024.<sup>3</sup> Despite remaining suspended, with no apparent restart date, the project has already resulted in serious negative economic, social, and environmental impacts in Mozambique. Serious negative impacts which will worsen as greenhouse gas (GHG) emissions from the burning of gas from the projects takes place after they commence. In short, 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.

Despite these negative consequences, which will each be briefly outlined in Section One of this report, the TotalEnergies LNG project has received financial support from a number of private and public entities. Section Two of this report will explore these funding arrangements. It will focus specifically on how three publicly funded South African state-owned institutions – the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), and the Export Credit Insurance Corporation of South Africa (ECIC) decided to contribute over \$1.2 billion to the project. Lastly, Section Three will recommend steps that must be taken to reverse the current funding of the project and ensure that funding for similar unsustainable projects does not take place in the future.

1 “\$” refers to US Dollars throughout this case study.

2 Banya, N. & Mucari, M., ‘Mozambique president says TotalEnergies can safely resume \$20 billion gas project’, Reuters, 26 April 2023, <https://www.reuters.com/business/energy/mozambiques-president-says-totalenergies-can-safely-resume-20-bln-gas-project-2023-04-26/>. Accessed 19 July 2023.

3 Gaventa, J., ‘The Failure of “Gas for Development”’: Mozambique Case Study’, E3G, 2021, p. 7.

# Brief Note on Methodology

This research was undertaken between May and September 2023. It was initially hoped that the extensive desktop research undertaken would be supported and enriched by stakeholder interviews with representatives from the IDC, the DBSA and the ECIC. Emails were sent requesting interviews to relevant board and executive members of each state-owned enterprise. No response was ever received from the ECIC. An initially positive response was received from the IDC, but upon sending a list of the questions that were to be asked of them, correspondence from the IDC promptly ceased. A positive response was received from the DBSA which led to a single interview being undertaken with one of its members.

Various emails were also sent requesting access to policy documentation relating to how investment decisions are made within the three institutions. None of these emails resulted in any documents being shared. The policy documents referenced in this report are, therefore, either publicly available or were sourced from other organisations. Transparency and access to information has been a challenge with these institutions. For example, in 2021, the South African environmental organisation, the Centre for Environmental Rights (CER), used the Promotion of Access to Information Act (PAIA) to try and source information from the IDC relating to its decision to finance the Mozambique LNG Project.<sup>4</sup> The IDC refused to release a single document, on the basis that to do so would be a breach of commercial confidentiality. A similar outcome resulted from the CER's PAIA request to the DBSA in 2021.<sup>5</sup>

4 'Request to the Industrial Development Corporation (IDC policies, MMSEZ, LNG project financing and green hydrogen economy)', Centre for Environmental Rights, 20 September 2021, <https://cer.org.za/paia/request-to-the-industrial-development-corporation-idc-policies-mmsez-lng-project-financing-and-green-hydrogen-economy>. Accessed 24 October 2023.

5 'Request to the Development Bank of Southern Africa: Information on Climate Change, Powership funding, the Musina-Makhado Special Economic Zone (MMSEZ) and financing of the Mozambique LNG Project', Centre for Environmental Rights, 20 September 2021, <https://cer.org.za/paia/request-to-the-development-bank-of-south-africa-climate-change-powership-funding-the-musina-makhado-special-economic-zone-mmsez-and-financing-of-the-mozambique-lng-project>. Accessed 24 October 2024.

# Section 1 – Impacts of the Project

This section will briefly examine the economic, social, and environmental consequences of the LNG projects in Mozambique. While the economic, social, and environmental impacts will be considered separately for the sake of clarity, they should not be considered discrete categories because each negative impact inevitably has wider consequences.

Before undertaking this analysis, a brief history of northern Mozambique, and the province of Cabo Delgado in particular, is useful to contextualise the TotalEnergies project.<sup>6</sup> Analysts argue that since the slave trade in the eighteenth and nineteenth centuries, the region has always been associated with extractivism. Before slavery was abolished in the late 1860s, over one million slaves were brutally ‘extracted’ from the region. There then followed a period of agricultural extractivism imposed by Portuguese colonial authorities who were intent on forcing residents of Cabo Delgado to grow cotton as a cash crop at the cost of subsistence farming. So brutal were the work conditions imposed by Portuguese authorities that tens of thousands of residents fled the area to avoid being forced to work on cotton plantations.

The region endured further harms during both the fight for independence against Portugal, and the ensuing civil war that took place in Mozambique between 1977 and 1992.<sup>7</sup> The end of hostilities saw many ex-soldiers being resettled in Cabo Delgado. It is argued that these historical processes of displacement and resettlement ‘destroyed and stagnated the socioeconomic system of the province’ compared to southern parts of Mozambique.<sup>8</sup> A situation that persists in the province to this day.

6 This analysis is drawn from, Namaganda, E., Stsuki, K & Steel, G., ‘Learning from Africana critical theory: A historicized contextualization of the impacts of Mozambique’s natural gas project’, *The Extractive Industries and Society*, 10, 2022.

7 Outbreaks of violence took place until the signing of peace and national reconciliation agreement in 2019.

8 Namaganda (et al), 2022, p. 3.



## ECONOMIC IMPACTS

### The Pre-source Curse – The ‘Hidden Debt Scandal’

Even before financial closure was reached in any of the LNG projects, Mozambique was plunged into a serious financial crisis known as the ‘Hidden Debt Scandal’ which was precipitated by the discovery and promised exploitation of LNG. Three years after extremely large quantities of LNG were discovered off the northern coast of Mozambique in 2010, corrupt government officials from the military and state security sectors secretly contracted (without parliamentary approval) \$2.2 billion worth of illegal loans from European banks which were backed by sovereign guarantees from Mozambique. Supposedly needed to buy ships to protect Mozambique’s coast and fishing industry, hundreds of millions of dollars disappeared in corrupt payments to three fictitious companies with no tangible benefits accruing to the people of Mozambique.

Unable to meet loan repayments, the loans were defaulted in 2016, plunging Mozambique into a serious economic crisis. Fourteen international funders, including the International Monetary Fund (IMF), withdrew financial support, while ratings agencies downgraded Mozambique, increasing its borrowing costs even more. As a consequence of these actions, the Mozambican currency lost 75% of its value and inflation rose to 25% by the end of 2016. This had the effect of ‘aggravating the cost of living for Mozambicans, generating further unemployment and poverty’.<sup>9</sup>

This scandal significantly increased Mozambique’s debt, which escalated from 46% to 126% of GDP between 2012 and 2016. This means that any revenues realised from LNG will be absorbed by debt repayments, rather than entering the public fiscus for many years to come.<sup>10</sup> While no private gas companies were directly involved in the ‘Hidden Debt Scandal’, it is a clear example of the so-called pre-source curse (also known as the ‘economics of anticipation’ or ‘boom-based’ borrowing) where debts or expenses are incurred by corrupt government officials seeking to ‘eat ahead of time’ in anticipation of future natural resource revenues.<sup>11</sup>

Evidence indicates that this spending in lieu of actual revenue can also be blamed on social actors hyping potential natural resource revenues. Research points to how ‘credible resource narratives’ are created by the marketing and advertising

9 Nuvunga, A., ‘Introduction’ in Nuvunga, A., Sitoe, E. & Gwemende, T., ‘Extractive Sector Governance and Violent Conflict in Mozambique’, Oxfam and Centro Para Democracia E Desenvolvimento, 2021, p. 17 & ‘Ernst & Young and the scam that cost Mozambique \$2.2bn’, Daily Maverick, 5 July 2021, <https://www.dailymaverick.co.za/article/2021-07-05-ernst-young-and-the-scam-that-cost-mozambique-2-2bn>. Accessed 19 July 2023 & Wensing, A., ‘Fuelling the Crisis in Mozambique How Export Credit Agencies contribute to climate change and humanitarian disaster’, Friends of the Earth Europe and Justiça Ambiental, 2022, p. 24.

10 Muttitt, G. (et al), ‘Step Off the Gas: International public finance, natural gas, and clean alternatives in the Global South’, International Institute for Sustainable Development, 2021, p. 20.

11 Nuvunga, 2021, p. 17 & Frynas, J. & Buur, L., ‘The Presource curse in Africa: Economic and political effects of anticipating natural resource revenues’, The Extractive Industries and Society, 7(4), November 2020, pp. 1259 – 1263.

efforts of fossil fuel companies, and by compliant politicians and media houses, some or all of whom may only be working in their own interests.<sup>12</sup> It is clear that the LNG finds in Mozambique have been systematically hyped by all the role players who stand to gain from the exploitation of the gas.<sup>13</sup>

## The Resource Curse or the Paradox of Plenty

TotalEnergies states that its investment in LNG in Mozambique ‘encourages additional foreign investment, and contributes to the long-term social and economic stability of the country’.<sup>14</sup> Similar statements have come from President Nyusi who stated in 2022 that LNG in Mozambique would usher in a ‘new era’ for the country and would bring ‘peace, stability, security and (sic) promotion of development ... for the benefit of the people, including future generations’.<sup>15</sup>

The reality in Mozambique is likely to be very different. Experience from other countries, and particularly those from within Africa and South America, demonstrate that having access to highly lucrative mineral resources does not necessarily lead to socio-economic benefits for citizens. On the contrary, evidence unambiguously shows that countries with an abundance of natural resources tend to have lower levels of inclusive economic development and growth than those without such resources. They also tend to have higher levels of inequality and poor governance.<sup>16</sup> This phenomenon is known as the ‘resource curse’ or the ‘paradox of plenty’.

In brief, there are a number of complex interrelated reasons why this is so. Firstly, resource rich countries generally fail to diversify their economies, prioritising the easy gains that come from extraction over more long-term inclusive economic planning. This can lead to what has been described as an ‘enclave economy’ whereby an economy becomes dependent on resource-based exports which are extracted, exported, and sold by foreign capital largely in its interests alone. This often results in unemployment as jobs are not created in other economic sectors, while poverty in rural areas deepens as the agricultural sector is neglected. As analysts note about Mozambique, ‘an important implication of the extractive nature of the economy is that domestic capitalist class accumulation and income are based not on production in productive sectors, but on the rents of the services linked to

12 Frynas & Buur, 2020.

13 See, for example, Saigal, K., ‘Hyped Up Expectations? Total, ENI in Mozambique: Can LNG Deliver on its Promise?’, Africa Report, 28 October 2022, <https://www.theafricareport.com/251824/mozambique-can-lng-deliver-on-its-promise/>. Accessed 31 July 2023.

14 TotalEnergies, ‘About the project’, TotalEnergies, no date, <https://mzlng.totalenergies.co.mz/en/about-mozambique-liquefied-natural-gas-project>. Accessed 21 July 2023.

15 ‘Country to Make ‘Leap’ This Year in Terms of Gas Exports – President Filipe Nyusi’, 360Mozambique, 22 February 2022, <https://360mozambique.com/oil-gas/country-to-make-leap-this-year-in-terms-of-gas-exports-president-filipe-nyusi/>. Accessed 20 July 2023.

16 See, Rosser, A., ‘The Political Economy of the Resource Curse: A Literature Survey’, Institute of Development Studies, April 2006 & Udosen, C, Abasi-Ifreke, S & George, I., ‘Fifty Years of Oil Exploration in Nigeria: The Paradox of Plenty’, Global Journal of Social Sciences, 8(2) & Dauvin, M & Guerreiro, D., ‘The Paradox of Plenty: A Meta-Analysis’, Economix, Working paper 14 & Humphreys, M., Sachs, J., Stiglitz, J. (eds.), *Escaping the Resource Curse*, (Columbia University Press: New York), 2007 & Soares de Oliveira, R., Patey, J., Oppong, N. (eds.), 2020, ‘Special Section: Governing African Oil and Gas: Boom-Era Political and Institutional Innovation’, *The Extractive Industries and Society*, 7(4) & Frynas & Buur, 2020.



extractive economies, while the economy is heavily dependent on external capital inflows'.<sup>17</sup>

Secondly, resource booms can increase the value of a country's currency making exports expensive and imports more attractive, which can have a damaging impact on economic growth. Thirdly, wealth gained from resources tends to be redirected towards corrupt political elites rather than to the state, meaning that wealth is not reinvested, nor is it spent on essential public goods such as education or healthcare. Corrupt political elites are able to redirect funds in this way because of weak political institutions and weak financial management regimes, the weakness of which is often deliberately fostered by political elites. In addition, political opposition is often 'bought off' via patronage networks created through the disbursement of redirected revenues.<sup>18</sup>

These issues are further complicated by volatility in resource prices which causes revenue streams to be unpredictable. This makes it 'difficult to maintain fiscal discipline and leads to short-term planning and spending decisions'.<sup>19</sup> Lastly, when finite natural resources such as oil and gas run out, further problems emerge because of the failure to diversify economies.

Given these realities, it is unsurprising that a report which specifically examined whether the natural gas finds would help Mozambique 'develop' concluded that 'natural gas production is not a silver bullet for development in Mozambique. Rapid growth and shift to an energy-intensive economy won't necessarily uplift the poor and most vulnerable'. The report notes that in the absence of the effective management and investment of revenues, any economic growth from natural gas will do 'little to reduce absolute poverty'.<sup>20</sup>

Nigeria is a perfect illustration of the resource curse. Despite Nigeria earning upwards of \$8 trillion since 1960 from the sale of oil and gas, Nigeria's Human Development Index value for 2021 was 0.535, ranking it 163 out of 191 countries and territories.<sup>21</sup>

## Corruption

The danger of the LNG industry in Mozambique becoming mired in corruption is very real. According to Transparency International's Corruption Perception Index, Mozambique ranked 142<sup>nd</sup> worst out of 180 countries within the index. In terms of 'clean government', Mozambique scored 26 out of 100, with 100 being very clean and

17 Buur, L. & Monjane, C., 'Elite capture and the development of natural resource linkages in Mozambique', in M. Pichler (et al), *Fairness and Justice in Natural Resource Politics*, (Routledge: London), 2017, p. 203.

18 Ross, M. 'What have we learned about the Resource Curse?', *Annual Review of Political Science*, 2015, 18, p. 9.

19 Frynas & Buur, 2020, p. 1262.

20 Porter, A., (et al), 'Can natural gas improve Mozambique's development?', *Institute for Security Studies*, 2017, pp. 3 - 4.

21 Human Development Index, 'Human Development Reports', United Nations Development Programme, <https://hdr.undp.org/data-center/human-development-index#/indices/HDI>. Accessed 21 July 2023.

0 being highly corrupt.<sup>22</sup> A recent analysis of governance in Mozambique concludes that it is 'characterized by endemic corruption and rent seeking practices' because of a lack of transparency and accountability in public finance management.<sup>23</sup> It has been estimated that the annual cost of corruption in Mozambique is close to its annual state budget.<sup>24</sup>

Corruption is endemic in Mozambique because of the deep entanglement between the ruling FRELIMO party and the state, whereby state power is exploited by corrupt political leaders to gain access to resources to serve their interests, rather than those of the public.<sup>25</sup> As a recent analysis notes, 'the state apparatus acts as a strong gatekeeper of Mozambique's economy, enabling elites to capture and control economic opportunities and rents ... Patron-client networks are a strong feature of politics in Mozambique, and elites have configured the country's political economy to maximise the capture of rents and wealth'.<sup>26</sup>

Within this context of fragile governance comes the promise of vast revenues and the potential to illegally capture some of these revenues throughout the entire LNG value chain – the 'demand side' of corruption. The ability to illegally capture revenues in this way is facilitated by an extractive industry where 'corruption is widespread and endemic' – the 'supply side' of corrupt relationships.<sup>27</sup> Observers note that FRELIMO's 'tight control' over policy development and parts of the economy, has meant that to date, 'wealth generated in the extractive sector has tended to flow to the politically connected'.<sup>28</sup>

Like many other countries, Mozambique also experiences illicit financial flows (IFF).<sup>29</sup> It is estimated that between 2005 – 2014, 10% of total government revenue left the country illicitly. This is a deeply worrying reality, given that there is a proven link between the extent of natural resources a country has and the magnitude of IFF. Given how weak governance controls in Mozambique actually are, research illustrates that an 'enabling environment' is actually created for IFF to flourish in the country.<sup>30</sup>

While there is no direct evidence that any of the major gas companies involved in Mozambique have become involved in corruption to date, there is evidence of government officials redirecting funds. For example, there are allegations that funding from TotalEnergies provided to the Mozambican government to provide

22 'Our Work in Mozambique', Transparency International, <https://www.transparency.org/en/countries/mozambique>. Accessed 20 July 2022.

23 Nuvunga, A. & Siteo, E. & Gwemende, T., 'Preface' in Nuvunga (et al), 2021, p. 11.

24 Nuvunga, 2021, p. 16.

25 Nuvunga, A., & Siteo, E., 'Political Economy of Governance: The "Rules of the Game"', in Nuvunga (et al), 2021.

26 Bak, M., 'Mozambique: Overview of corruption and anticorruption', U4 Anti-Corruption Resource Centre, 2020, p. 6.

27 'Basic guide to corruption and anti-corruption in oil, gas, and mining sectors', U4: Anti-Corruption resource Centre, no date, <https://www.u4.no/topics/oil-gas-and-mining/basics>. Accessed 20 July 2023.

28 Bak, 2020, p. 9.

29 IFFs stem from money laundering, bribery by international companies, tax evasion and trade mis-pricing/mis-invoicing.

30 Kukutschka, R., 'Illicit financial flows in Mozambique', U4 Anti-Corruption Resource Centre, 2018, pp. 6 & 13.

security at the Afungi project site has been diverted to connected senior military officials.<sup>31</sup> In addition, concerns have been expressed about the 'opaque beneficial ownership' structures of the Mozambican state oil company, Empresa Nacional de Hidrocarbonetos (ENH), which creates conditions where corruption can thrive.<sup>32</sup>

## Overstated Revenues and Tax Avoidance.

The LNG gas field that TotalEnergies and its consortium partners wish to exploit is located in Area 1 within Mozambique's deepwater Rovuma Basin and contains an estimated 65 trillion cubic feet of recoverable natural gas.<sup>33</sup> In addition to Area 1, Area 4, also located within the Rovuma Basin, is also to be exploited. Area 4 is estimated to contain 85 trillion cubic feet of recoverable natural gas and is controlled by another consortium dominated by ExxonMobil and ENI. Lastly, also within Area 4, is the Coral Sul Liquefied Natural Gas Floating Platform, primarily owned by ExxonMobil and ENI, and with estimated reserves of 16 trillion cubic feet of recoverable natural gas.<sup>34</sup>

In 2018, the government of Mozambique estimated that government revenues from both areas would range between \$31 and \$63 billion over the lives of the two projects, with the likely figure (its base case scenario) being in the region of \$49 billion.<sup>35</sup> The IMF predicted that this revenue could result in GDP growth rates in excess of 20% by the mid-2020s, with LNG accounting for as much as 75% of total exports.<sup>36</sup> For Mozambique, where over 60% of people live in poverty<sup>37</sup>, and where its GDP of \$18 billion in 2022 was matched by the size of its external debt (largely denominated in foreign currency), revenues of this magnitude present the government with an opportunity to make a significant difference to the lives of ordinary Mozambicans.<sup>38</sup>

However, research has indicated that these revenues are significantly overstated. For example, modelling undertaken in 2021 indicates that revenues are likely to be in the region of \$18.4 billion, 70% of which will only come after 2040. If a discount

31 Nhachote, L., 'Humanising Security in Cabo Delgado: A CSO Report on the Drivers of Conflict and its Impact on Civilians', The Investigative Journalism Centre, Mozambique, August 2021, p. 15.

32 Nuvunga, 2021, p. 16.

33 Barradas, S., 'Mozambique Area 1 liquefied natural gas facility, Mozambique – update', Engineering News, 20 Jan. 2023, <https://www.engineeringnews.co.za/article/mozambique-area-1liquefied-natural-gas-facility-mozambique-2023-01-20>. Accessed 19 July 2023.

34 The Coral Sul project made its first LNG shipment to British Petroleum in November 2022. See, 'Mozambique sends first LNG exports to help ease European winter crunch', News24, <https://www.news24.com/fin24/international/mozambique-sends-first-lng-exports-to-help-ease-european-winter-crunch-20221113>. In June 2023, it was announced that ENI had commissioned another floating LNG platform to operate in Area 4 by 2027. See, 'Mozambique: Second LNG floating platform planned: 'Coral North'', Club of Mozambique, 30 June 2023, <https://clubofmozambique.com/news/mozambique-second-lng-floating-platform-planned-coral-north-240091/>. Accessed 16 August 2023.

35 West, J. & Lepiz, D., 'Too Late to Count: a financial analysis of Mozambique's gas sector', OpenOil, January 2021, pp. 11 -12.

36 Nuvunga, A. & Maluana, A., 'From External Dependence to Dependence on Future Gas Revenues', in Nuvunga (et al), 2021, p. 46.

37 In terms of the United Nations Human Development Index, Mozambique ranks 185th out of 191 countries and territories. See, 'Mozambique', United Nations Development Programme, 2022, <https://hdr.undp.org/data-center/specific-country-data#/countries/MOZ>. Accessed 30 July 2023.

38 'Fitch Affirms Mozambique at 'CCC+', Fitch Ratings, 2023, <https://www.fitchratings.com/research/sovereigns/fitch-affirms-mozambique-at-ccc-17-02-2023>. Accessed 22 July 2023.

rate of 10% is assumed, the value of \$18.4 billion is, in reality, closer to \$3.4 billion.<sup>39</sup> This reduction in revenues is due to project delays which are increasing debt repayments, overestimations of the global price of LNG, and tax avoidance techniques used by TotalEnergies, ENI and ExxonMobil.<sup>40</sup> Both consortiums have already established special purpose vehicles (subsidiaries created by the parent company) in arguably the world's leading tax haven, Dubai, to exempt themselves from paying withholding taxes on dividends and interest. It is estimated that this move will cost Mozambican taxpayers approximately \$5.3 billion over the life of the projects. Concerns have also been expressed about the ability of the Mozambican government to properly audit tax affairs associated with LNG.<sup>41</sup>

If discounted revenues are in the region of \$3.4 billion, then there is little hope that the Mozambican government will be able to make any significant progress in paying off its external debt, let alone improve the lives of ordinary citizens. This is especially so given that ENH needs to take out \$16 billion worth of loans to finance its 10% and 15% stakes in Area 4 and Area 1 respectively.<sup>42</sup> Even a Mozambican government report from 2018 noted that government revenues would not reach \$500 million until 2030 and would peak at \$3.2 billion only in 2040. This report was written before the halting of the project in early 2021 which will delay any revenues significantly.<sup>43</sup>

That revenues will likely be lower than forecast should not surprise us. A recent study of 12 African countries which exploited oil and gas resources between 2001 and 2020 found that revenue forecasts were exaggerated in all 12 cases by an average of 63%.<sup>44</sup>

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.

Lastly, it is important to recognise the significance of delays in the exploitation of gas which both stall and reduce expected revenues. Global gas projects take an average of seven years to develop from the point of discovery to exploitation. In

39 West & Lepiz, 2021, p. 3.

40 West & Lepiz, 2021, p. 16.

41 Wensing, 2022, p. 24. See also, Kiezebrink, V., 'Oil and gas multinationals avoid up to \$2 billion in taxes in Mozambique', SOMO, 21 July 2023, <https://www.somo.nl/oil-and-gas-multinationals-avoid-up-to-2-billion-in-taxes-in-mozambique/>. Accessed 12 August 2023.

42 West & Lepiz, 2021, p. 4.

43 Muttitt, 2021, p. 20.

44 Mihalyi, D. & Scurfield, T., 'How Did Africa's Prospective Petroleum Producers Fall Victim to the Presource Curse?', *The Extractive Industries and Society*, 7(4), November 2020, p. 1.

Africa, the average is 15 years, making gas projects less commercially attractive, especially within a context where demand for gas is likely to fall as countries transition away from fossil fuels.<sup>45</sup>

## The Dangers of Investing in Gas.

Investments in LNG in Mozambique are premised on the assumption that sufficient demand for LNG will exist between now and the end of the projects in 2048. According to TotalEnergies, the LNG from Mozambique ‘helps to meet the world’s increasing demand for sustainable, reliable and cleaner energy sources’. TotalEnergies states that LNG from the project will supply Africa, Asia-Pacific, the Middle-East, and the Indian subcontinent.<sup>46</sup>

TotalEnergies’ reference to gas as a ‘sustainable, reliable and cleaner energy source’ posits gas as a ‘transition fuel’ which will be used to enable countries to slowly transition away from ‘dirtier’ fuels such as coal towards energy systems dominated by renewable sources. This role for gas as a ‘transition’, or ‘bridging fuel’, has long been promoted and, if realised, suggests that continued global demand for gas justifies, at least economically, investments in LNG in Mozambique.<sup>47</sup>

However, evidence suggests that gas is not likely to be the ‘transition fuel’ that many expected it to be. One reason for this is because prices for both renewables and battery storage technologies have fallen so dramatically, and are expected to continue to fall, it is now cheaper to transition directly from high emitting carbon sources like coal to renewables without the need for gas as a ‘transition fuel’.<sup>48</sup>

While LNG has lower GHG emissions when burned than coal, LNG suffers from the serious problem of ‘fugitive emissions’. These ‘fugitive emissions’, or leaks, are of methane and can occur all along the LNG production and distribution chain. Because methane is 80 times more harmful than CO<sub>2</sub> as a GHG for 20 years after it is released, the pollution ‘advantage’ of burning LNG over coal can be negligible or, if methane leaks are particularly bad, can be reversed.<sup>49</sup> Evidence suggests that methane leaks are significantly underestimated and the alleged environmental benefits of LNG over coal are grossly exaggerated, calling into question the entire premise of LNG as a ‘transition’ fuel.<sup>50</sup> In addition, it must not be forgotten that both the United Nations and the International Energy Agency have stated that no

45 Mihalyi & Scurfield, 2020, p. 5.

46 TotalEnergies, ‘About the project’, TotalEnergies, no date, <https://mzlng.totalenergies.co.mz/en/about-mozambique-liquefied-natural-gas-project>. Accessed 21 July 2023.

47 Gürsan, C & de Gooyert, V., ‘The systemic impact of a transition fuel: Does natural gas help or hinder the energy transition?’, *Renewable and Sustainable Energy Reviews*, 138, 2021, p. 1.

48 Gray, M., ‘Fuel Switching 2.0: Carbon Price Index for Coal-to-Clean Electricity’, TransitionZero, 19 May 2022, <https://www.transitionzero.org/insights/fuel-switching-coal-to-clean>. Accessed 21 July 2023 & Gürsan & de Gooyert, 2021, pp. 11 – 12.

49 ‘What’s the deal with methane?’, United Nations Environment Programme, 18 Oct 2022, <https://www.unep.org/news-and-stories/video/whats-deal-methane>. Accessed 9 Nov. 2023.

50 Volcovici, V., Abnett, K., Green, M., ‘Explainer: Cleaner but not clean - Why scientists say natural gas won’t avert climate disaster’, Reuters, 18 August 2020, <https://www.reuters.com/article/us-usa-gas-climatebox-explainer-idUSKCN25E1DR>. Accessed 9 November 2023.

new fossil fuels can be extracted if the worst excesses of climate change are to be avoided.<sup>51</sup>

The potential for LNG not to be the transition fuel it is hoped to be is particularly alarming for Mozambique because of the nature of the contracts that have been signed between the government and the private companies exploiting gas. These contracts ensure that the vast majority of revenues flow to foreign companies in the earlier stages, with government revenues 'backloaded in time'. This means that if demand for gas does indeed fall over time as it is predicted to, then 'government revenues more than company returns that will be at risk'.<sup>52</sup>

The implications of gas demand predictions not being met does not only impact Mozambique in terms of expected revenues. Research shows that funds allocated to fossil fuels, such as LNG, crowd-out (redirect) funds for alternative energy sources such as renewables. As one recent study states, 'through crowd-out, investments in natural gas may lead to continued investments in other fossil fuels, because of the accompanying reinforcement of the fossil fuel infrastructure, and diminish investments in renewables'.<sup>53</sup> This crowding-out effect can not only prevent the adoption of renewables and any technological innovations which may occur in the renewables sector, but can also create inertia in decision-making around energy choices which become absorbed in the dominant discourse of fossil fuels. This is especially so if vested interests are reaping benefits from existing fossil fuel sources.

This crowding-out effect runs the serious risk of fossil fuel lock-in (sometimes called 'carbon lock-in'), which is a type of path dependency on fossil fuel infrastructure. If fossil fuel infrastructure, such as that proposed in Mozambique's LNG sector, is developed at great cost it is hard to abandon it because of sunk costs, which are those costs which have already occurred and cannot be recovered. This path dependency can increase a nation's energy costs because cheaper alternative energy sources have not been developed.

Path dependency of this nature can then result in yet another negative outcome. If LNG prices were to fall to such an extent that its extraction becomes economically unviable, or laws are passed in the future preventing the extraction of fossil fuels, Mozambique could face the reality of having stranded fossil fuel infrastructure - fossil fuel infrastructure which can no-longer be used, and which is no longer generating any revenue, but on which loan repayments still need to be made.

These dangers were referenced by Fleetwood Grobler, the Chief-Executive Officer

51 'Guterres calls for phasing out fossil fuels to avoid climate 'catastrophe'', United Nations News, 15 June 2023,

<https://news.un.org/en/story/2023/06/1137747>. Accessed 28 September 2023 and 'Net Zero by 2050: A Roadmap for the Global Energy Sector', International Energy Agency, October 2021.

52 Muttitt, 2021, p. 20.

53 Gürsan & de Gooyert, 2021, p. 4.



of state-owned South African company, SASOL, which operates the Pande and Temane gas fields in Mozambique (see below). He recently stated that the company was not going to support a planned gas pipeline between northern Mozambique and South Africa because the company did not want to get tied into gas for '30 or 40 years' because gas would only be needed as a 'transition fuel' for at most 10-15 years after which 'you need to get out'.<sup>54</sup>

## Investor-State Dispute Settlement Risks.

Investor-state dispute settlement (ISDS) is a system whereby private companies can litigate countries, at the International Centre for Settlement of Investment Disputes (ICSID), to recover the cost of investments, or even future potential earnings from their investments, if countries take actions which foreign private companies think are negatively impacting their investments. In the oil and gas sector, this can include investments that have not yet commenced production (loss of future earnings).<sup>55</sup>

The exploitation of LNG in Mozambique is overseen by treaties and agreements which are compliant with ISDS, making Mozambique the only low-income country to have treaty protected projects. In fact, the LNG production is subject to its own legal framework, the Rovuma Basin Special Legal Framework, which 'establishes a specific contractual framework. This special framework grants foreign investors direct access to ISDS'.<sup>56</sup>

Research indicates that the present value of treaty-protected gas and oil in Mozambique is \$31 billion, which is 160% of Mozambique's GDP.<sup>57</sup> This represents a major potential problem for Mozambique because it makes it incredibly difficult for Mozambique to adopt climate-friendly policies in the future. For example, if it were to decide at some future date to halt the exploitation of fossil fuels in the interests of trying to combat climate change or was compelled to do so by a global treaty, it would likely have to pay billions of dollars in compensation to companies like TotalEnergies and ENI. In addition, Mozambique could also be forced to pay compensation if it decided to introduce stricter regulations in areas such as community engagement, labour relations, environmental protection, or health and safety. This means that the individuals impacted by the social and environmental consequences of natural resource investments of this nature could find themselves without the necessary safeguards because the fear of facing unpredictable

54 'Sasol to ditch South African pipeline project', BusinessTech, 13 April 2022, <https://businesstech.co.za/news/energy/577416/sasol-to-ditch-south-african-pipeline-project/>. Accessed 16 August 2023.

55 Tienhaara, K., Thrasher, R., Simmons, A., Gallagher, K., 'Investor-state dispute settlement: obstructing a just energy transition', Climate Policy, November 2022, p. 1.

56 Di Salvatore, L., 'Energy Transition and Investment Protection in the Global South: The Case of Mozambique', in Wood, G., et al. (eds.), *The Palgrave Handbook of Zero Carbon Energy Systems and Energy Transitions*, Springer, 2022, p. 11.

57 Tienhaara, K., Thrasher, R., Alexander Simmons, B., Gallagher, K., 'Investor-state disputes threaten the global green energy transition', Science, 376(6594), 5 May 2022, p. 4.

liabilities may prevent or delay the introduction of new legislation.<sup>58</sup>

As researchers note, 'ISDS could create a flow of finance from poor and climate-vulnerable countries to private companies based primarily in the Global North ... It will also reduce the public resources in poorer countries that are available for: mitigation and adaptation efforts'.<sup>59</sup> This has the alarming effect of further entrenching fossil fuel extraction, and could dramatically delay any transition to renewable energy in Mozambique. Given that Mozambique is especially vulnerable to the impacts of climate change (see following section on the environment) this is deeply worrying.

## Bi-lateral Investment Treaty.

Mozambique signed a bilateral investment treaty with France in 2002 which could also have potentially devastating consequences for Mozambique in regard to the TotalEnergies project because it severely inhibits any climate-friendly policies that Mozambique may want to introduce in the future. Article 5.2 of the agreement states:

*"Neither Contracting Party shall take any measure of expropriation or nationalization or any other measure the effect of which is to dispossess, directly or indirectly, the nationals or companies of the other Party of investments belonging to them in their territory and in their maritime zone, except in the public interest and provided that such measures are not discriminatory or contrary to any particular undertaking."*

For example, a climate-friendly policy which would curtail LNG production at TotalEnergies' plant would undoubtedly be considered 'any other measure the effect of which is to dispossess, directly or indirectly, the nationals or companies of the other Party of investments'. Such a measure could then trigger compensation payments for TotalEnergies which would need to be paid at market rates 'without delay', or interest would be charged. Article 5.3 indicates that losses 'due to a war or any other armed conflict, revolution, state of emergency or national revolt' need to be compensated by the host nation in similar fashion.

These two articles alone open Mozambique up to having to potentially find billions

58 For the governing Mozambican law see, República de Moçambique Lei nº14/2017- Altera e republica o Regime Específico de Tributações e de benefícios Fiscais das Operações petrolíferas, aprovado pela Lei 27/2014 (28 December 2017). For the impacts of such laws see, Cotula, L., 'Reconsidering Sovereignty, Ownership and Consent in Natural Resource Contracts: From Concepts to Practice', European Yearbook of International Economic Law, 2018 & Gjuzi, J., [Stabilization Clauses in International Investment Law: A Sustainable Development Approach](#), Springer, 2018 & Shemberg, A., 'Stabilization Clauses and Human Rights', International Finance Corporation World Bank, 2008.

59 Tienhaara, 2022, p. 12.

of dollars in claims for lost revenue, no matter how accurate or not they are, that could be made against the country. Article 8 notes that any disputes between the two nations shall be resolved at the ICSID.<sup>60</sup>

## Debt Spiral.

Mozambique's debt as a percentage of GDP stood at 102.6% at the end of 2022.<sup>61</sup> Credit rating agency Fitch states that Mozambique already faces 'substantial credit risk'. It does, however, state that debt will decline as LNG production increases GDP. For this to happen Fitch 'assumes that the construction of Total's USD20 billion Area 1 LNG project will resume in 2024, with positive spill-overs for the country's economy'. In fact, Fitch notes that the only way the country can begin to manage its foreign debt is through the anticipated sale of LNG.<sup>62</sup> As one sovereign debt analyst notes, 'it's really critical for these gas projects to come online and for them to be able to generate the revenue'.<sup>63</sup>

Given the likely economic impacts of LNG in Mozambique outlined above, and the continued delay in the restarting of the TotalEnergies project, this is a bold assumption. If any of the economic impacts as outlined above are realised, then 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.

## SOCIAL IMPACTS

Significant negative social impacts are already being felt in Mozambique due to the emergence of the LNG industry in Cabo Delgado.

### Dispossession of Land.

To enable the processing of LNG, TotalEnergies and its partners are building an LNG processing plant and associated facilities on a 7000-hectare site granted to them by the government of Mozambique in the Cabo Delgado province. Some 557 households in the area have been relocated to enable this development. A government approved relocation plan was drawn up whereby relocated individuals would receive small plots of new land and financial compensation. This process has been far from satisfactory from the start. Relocated community members have

60 'France - Mozambique: Bilateral Investment Treaty, United Nations Conference on Trade and Development, <https://investmentpolicy.unctad.org/international-investment-agreements/treaties/bilateral-investment-treaties/1590/france---mozambique-bit-2002->. Accessed 1 August 2023.

61 'Mozambique Economic Outlook', African Development Bank, 2022, <https://www.afdb.org/en/countries/southern-africa/mozambique/mozambique-economic-outlook>. Accessed 21 July 2023.

62 'Fitch Affirms Mozambique at 'CCC+', Fitch Ratings, 2023, <https://www.fitchratings.com/research/sovereigns/fitch-affirms-mozambique-at-ccc-17-02-2023>. Accessed 22 July 2023.

63 Hill, M., 'Total's LNG-Project Revival Crucial for Mozambique to Pay Debt', BNNBloomberg, 2 March 2023, <https://www.bnnbloomberg.ca/total-s-lng-project-revival-crucial-for-mozambique-to-pay-debt-1.1890181>. Accessed 31 July 2023.

expressed their frustration that the relocation process started before community consultations had ended, and that information explaining the process was inadequate or in languages that could not be understood, both of which breach the principles of Free, Prior and Informed Consent (FPIC). In addition, community members have had problems accessing compensation payments and new land, which was often smaller than the land they had previously worked. In some cases, promised houses have not been constructed, while alternative livelihoods have not been properly provided for. For example, fisherpeople have lost access to the sea as they have been relocated kilometres from it.<sup>64</sup> TotalEnergies and local government officials have also been accused of using tactics to divide communities, by offering key community members the promise of jobs, either working for TotalEnergies or in local government structures.<sup>65</sup>

## Violent Insurgency.

Between 2017 and 2021, over 3000 people were killed in the Cabo Delgado province, while over 1 million were internally displaced, because of widespread violence carried out by insurgent forces in the province.<sup>66</sup> While there are a number of reasons for this violence, it is clear that the exploitation of LNG has contributed to exacerbating pre-existing tensions.

While the violence has been simplistically viewed in the media as a conflict between the Mozambican state and non-Mozambican Muslim fundamentalists intent on establishing a Caliphate in Northern Mozambique, its roots are much more complex.<sup>67</sup> As we have seen, northern Mozambique, which is home to over half of the country's population, has not experienced the same pace of 'development' as has been experienced in southern parts of the country. For example, in 2021, 19% of Mozambicans lived in poverty in the south, compared to 60% in northern provinces.<sup>68</sup>

This disparity has created a sense of resentment in northern provinces, especially among unemployed youths, who feel that the region is continually neglected by the FRELIMO government in the south. This resentment is felt especially deeply in the Cabo Delgado province which, while being rich in natural resources, such as precious stones (especially rubies), gold, heavy sands and now LNG, remains one of the poorest in Mozambique. Numerous reports indicate that people are regularly driven from their land so that resources can be exploited, further fuelling this resentment, while those controlling mines in the province often have links

64 Wensing, 2022, pp. 18 – 19 & Rufin, J., 'Mozambique LNG Human rights Assessment Action Plan', Mozambique LNG, 23 May 2023.

65 Salimo, P., 'The politics of LNG: Local state power and contested demands for land acquisitions in Palma, Mozambique', in Schubert, J., Engel, U., & Macamo, E. (eds.), *Extractive Industries and Changing State Dynamics in Africa: Beyond the Resource Curse*, (Routledge: London), 2018, pp. 101 – 102.

66 Wensing, 2022, pp. 20 – 22.

67 Nhachote, 2021, p. 4.

68 Wensing, 2022, pp. 20.

to FRELIMO.<sup>69</sup> For example, the largest ruby mine in the world, Montepuez Ruby Mining, has proven links to senior FRELIMO officials.<sup>70</sup> As Adriano Nuvunga, the director of the Centre for Democracy and Development in Mozambique, noted in 2021, 'there is poverty across the country, but Cabo Delgado's situation is very particular, because local communities live with images of multi-million investment in extractive industry projects and hear every day that their province is very rich in natural resources'.<sup>71</sup> Studies have repeatedly shown that it is this proximity to resource riches which do not benefit local people that has caused deep seated resentment amongst many people living in Cabo Delgado, both for the government in the South, and towards FRELIMO more specifically.<sup>72</sup>

It is within this extremely fraught context that the insurgency arose in 2017. Despite this insurgency, and the appalling impacts it was having on the lives of ordinary Mozambicans, TotalEnergies continued to develop gas infrastructure in Cabo Delgado promising that it would bring jobs and wealth to the region. However, it soon became clear that few jobs or opportunities would be offered to people in Cabo Delgado. What jobs were provided were low paying and temporary, cleaning and construction, whereas better paid jobs tended to go to more skilled Mozambicans from southern parts of the country, while the highest paying jobs will be dominated by foreign workers because Mozambicans lack the required skills.<sup>73</sup> The development of the LNG plant ended in April 2021 after a serious attack on Palma City which resulted in the deaths of dozens of people, including foreign workers, working for TotalEnergies. On the 26<sup>th</sup> of April 2021, TotalEnergies declared *force majeure* on the Mozambique LNG project, withdrew all its staff, and effectively shut it down.<sup>74</sup> This obviously had the effect of terminating the few jobs for locals that had been created.

While some insurgents do want to establish a Caliphate in Northern Mozambique, and some are little more than gangsters (common criminals and drug-traffickers<sup>75</sup>), there can be no doubt that deep-seated resentment amongst residents of Cabo Delgado has significantly fuelled the recent violence, as many members of insurgent groups have been shown to be local Mozambicans.<sup>76</sup> As João Feijó, from the Rural

69 Nhachote, 2021, p. 18 & Hanlon, J., 'Turning Mozambique into a mafia, resource curse state', The Round Table: The Commonwealth Journal of International Affairs, 2021, 110(3) pp. 406.

70 Valoi, E., 'Mozambique: The squandered taxes of Montepuez', Zam Magazine, 16 August 2022, <https://www.zammagazine.com/investigations/1513-mozambique-the-squandered-taxes-of-montepuez>. Accessed 30 July 2023.

71 'Cabo Delgado: "Structural and systemic" poverty behind four years of insurgency – analysts', Club of Mozambique, 5 October 2021, <https://clubofmozambique.com/news/cabo-delgado-structural-and-systemic-poverty-behind-four-years-of-insurgency-analysts-202286/>. Accessed 22 July 2023.

72 Ewi, M. (et al), 'Violent extremism in Mozambique: Drivers and links to transnational organised crime', Institute for Security Studies, August 2022, p. 15.

73 Namaganda, 2022, p. 4.

74 'Total declares Force Majeure on Mozambique LNG project', TotalEnergies, 26 April 2021, <https://totalenergies.com/media/news/press-releases/total-declares-force-majeure-mozambique-lng-project>. Accessed 23 July 2023.

75 Global Initiative Against Transnational Organized Crime, 'Are Mozambique's insurgents closing in on illicit trafficking profits?', Daily Maverick, 8 May 2020, <https://www.dailymaverick.co.za/article/2020-05-08-are-mozambiques-insurgents-closing-in-on-illicit-trafficking-profits/>. Accessed 23 July 2023. Also see, Ewi, M. (et al), 'Violent extremism in Mozambique: Drivers and links to transnational organised crime', Institute for Security Studies, August 2022.

76 'What I saw was Death: War Crimes in Mozambique's Forgotten Cape', Amnesty International, 2021, p. 9.

Environment Observatory observes, ‘the factors of the uprising and insurgency in Cabo Delgado are structural and systemic and are based on social, economic and political exclusion’.<sup>77</sup> As another analyst bluntly notes, ‘what happened in northern Mozambique started in Mozambique ... The uprising started because of limited opportunity, marginalization, and alienation’.<sup>78</sup>

People living in Cabo Delgado have not only been subject to violence from insurgent groups, they have also fallen victim to violence carried out by Mozambican security forces and their mercenary proxies who entered the province in an attempt to drive out the insurgents.

## Militarisation.

In an effort to stabilise Cabo Delgado, the Mozambican government deployed police and army units and contracted a private South African mercenary group called the Dyck Advisory Group, as well as the Russian mercenary group, Wagner. In mid-July 2021, these forces were complemented by 1000 police and soldiers from Rwanda, and by a Southern African Development Community (SADC) force of 750 soldiers (from Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, South Africa, Tanzania and Zambia). In addition, a ‘Joint Task Force’, made up of Mozambique police and soldiers and funded by TotalEnergies, has been protecting the LNG site in Afungi.<sup>79</sup>

Throughout the period of the insurgency, some of these forces have inflicted appalling violence (including sexual violence) on ordinary Mozambicans and carried out extra judiciary killings of suspected insurgents. Residents of Cabo Delgado also accuse Mozambican forces, in particular, of beatings, extortion, and the theft of property.<sup>80</sup> Thus, rather than stabilising security in the region, these forces have contributed to human rights abuses and the ongoing brutal militarisation of Cabo Delgado. Despite this, ‘Energy Capital & Power’, an Africa-focused investment platform for the energy sector, stated in a report that government efforts to try and stabilise the region ‘have proven admirable’.<sup>81</sup>

In March 2023, it was reported that tens of thousands of internally displaced Mozambicans were returning to the region where public services were said to be restarting. This is largely thought to be because of the success of Rwandan soldiers in forcing insurgents out of the area, and because of the increasingly precarious

77 Quoted in, ‘Cabo Delgado: “Structural and systemic” poverty behind four years of insurgency – analysts’, Club of Mozambique, 5 October 2021, <https://clubofmozambique.com/news/cabo-delgado-structural-and-systemic-poverty-behind-four-years-of-insurgency-analysts-202286/>. Accessed 22 July 2023.

78 Sithole, T., ‘The Political Economy of Mozambique’s Cabo Delgado Insurgency and its Impact on Southern Africa’s Regional Security’, *Politikon*, 52, 2022, p. 15.

79 These forces seem to have been pushed into Cabo Delgado at the insistence of French President, Emmanuel Macron, who was keen to protect TotalEnergies investment in Mozambique. See, Bond, P., ‘French fossil imperialism, South African subimperialism and anti-imperial resistance’, *Actuel Marx*, 72(2), July 2022, p. 2.

80 ‘What I saw was Death: War Crimes in Mozambique’s Forgotten Cape’, Amnesty International, 2021, p. 9 & 13.

81 ‘Mozambique: Building Capacity in Mozambique’s Energy Industry: A Special Report’, Africa Energy Series, [Africaoilandpower.com](https://africaoilandpower.com), 2021, p. 3.



situation for internally displaced persons in refugee camps in the south.

Returning residents have found their homes, hospitals and schools either destroyed or severely damaged by the fighting. The rebuilding process will inevitably be long and difficult because of the almost complete absence of the Mozambican state from the area which lacks the budget and technical capacity to lead the rebuilding process.<sup>82</sup> As observers note, 'despite some improvements, the State maintains a posture that is too centralized, slow and politicized, to respond to real challenges'.<sup>83</sup> As we have seen, the government of Mozambique has assured TotalEnergies that Cabo Delgado is now secure enough for its operations to continue. However, the company has not restarted the project and what staff it does have in the area continue to travel with armed escorts.<sup>84</sup>

## Media and Civil Society Oppression.

The violence in Cabo Delgado has resulted in the deaths and disappearances of a number of prominent journalists. For example, in 2019, Amade Abubacar from Nacedje Community Radio while interviewing a group of displaced people was arrested, tortured, and detained for three months without charge. Two other journalists working in the area have simply disappeared, while the Mozambican newspaper, Canal de Moçambique, and two of its staff, were charged with 'conspiracy against the state' for reporting on corruption involving army officials in the area.<sup>85</sup>

In August 2022, the International Press Institute noted that it was 'gravely concerned about increasing restrictions on press freedom and the shrinking space for independent journalism in the country', drawing particular attention to the restrictions on access to information and limitations placed on independent reporting in Cabo Delgado.<sup>86</sup>

Civil society organisations working in Cabo Delgado have also reported growing restrictions on their ability to work freely in the area.<sup>87</sup> There are fears that the freedom of civil society organisations to operate in Mozambique may be drastically curtailed by a draft law currently being considered by the government. The Draft Law on the Creation, Organization, and Operation of Nonprofit Organization authorises the government to shut any organization down for a wide range of reasons.<sup>88</sup>

82 Feijó, J., 'Return of the Populations and Reconstruction of the Northeast of Cabo Delgado - From the Weakening of the State to the Emergence of TOTALAND', Rural Environment Observatory, 211, 6 March 2023.

83 Feijó, 2023, p. 15.

84 It should be noted that in September 2022, South Korea sent a patrol boat to guard the Coral Sul LNG platform. See, 'FLNG protection: South Korea sending patrol vessel to Rovuma basin, Mozambique', Club of Mozambique, 14 September 2022, <https://clubofmozambique.com/news/flng-protection-south-korea-sending-patrol-vessel-to-rovuma-basin-mozambique-224739/>. Accessed 16 August 2023.

85 Wensing, 2022, p. 22.

86 'Mozambique: Urgent action needed to safeguard press freedom and democracy', International Press Institute, 21 August 2022, <https://ipi.media/mozambique-urgent-action-needed-to-safeguard-press-freedom-and-democracy/>. Accessed 24 July 2023.

87 Wensing, 2022, p. 22.

88 'Mozambique: Draft Law Threatens Civil Society Groups - Withdraw Abusive Counterterrorism Financing Measures; Uphold

## Access to energy for Mozambicans

Mozambique is one of the most energy poor countries in the world, with 60% of the population having no access to electricity. Even where there is direct access to electricity, relatively high prices make it unaffordable to many Mozambicans. For example, 34% of urban households remain energy poor, despite many having access to the electrical grid. Because of a lack of grid access and high electricity prices, over 90% of Mozambicans still rely on biomass as their primary source of energy.<sup>89</sup>

Given this situation, it would seem that the massive gas finds in Mozambique would offer the country a chance to begin to overcome this energy poverty trap. However, this will not be the case because, as we have seen, TotalEnergies has made it clear that it will be selling the gas in overseas markets. 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.

Initially, TotalEnergies proposes to build two liquefaction trains (the various components to process, purify, and convert natural gas to LNG) which will produce 13.1 mtpa of LNG, although the company has stated that this could be expended up to 43 mtpa.<sup>90</sup> Of this amount, 11.1 mtpa has already been committed in long-term offtake contracts (15 – 20 years) to the following companies:

Freedom of Association', Human Rights Watch, 10 February 2023, <https://www.hrw.org/news/2023/02/10/mozambique-draft-law-threatens-civil-society-groups>. Accessed 24 July 2023.

89 Ugembe, M., Brito, M., Inglesi-Lotz, R., 'Measuring energy poverty in Mozambique: Is energy poverty a purely rural phenomenon?', Energy Nexus, 5, 2022, pp. 1-2.

90 TotalEnergies, 'About the project', TotalEnergies, no date, <https://mzlng.totalenergies.co.mz/en/about-mozambique-liquefied-natural-gas-project>. Accessed 27 July 2023.

OFFTAKER	Amount (Mtpa)
Tokyo Gas and Centrica (Japan)	2.6
Shell International Trading Middle East	2
JERA (Japan) and CPC Corporation (Taiwan)	1.6
CNOOC Gas and Power (Singapore)	1.5
EDF (France)	1.2
Bharat Petroleum Corporation (India)	1
Pertamina (Indonesia) 1.00	1
Tohoku (Japan)	0.28
<b>TOTAL</b>	<b>11.1</b>

In effect, 90% of the gas from the project is already sold under these long-term agreements.<sup>91</sup> The same situation pertains in Area 4, where numerous long-term offtake agreements have already been signed.<sup>92</sup> In fact, 100% of the gas from the Coral Sul project is reserved under a 20-year offtake contract with the British transnational fossil fuel company, British Petroleum (BP). The company has announced that it intends to use the gas to supply the global market.<sup>93</sup>

While the Mozambican government has a 15% stake in Area 1 and a 10% stake in Area 4, there is little evidence to suggest that it will use its share of the LNG to combat energy poverty in Mozambique. Research indicates that overall, 12% of the LNG from Areas 1 and 4 will be retained for domestic use. However, this gas will be predominantly used by industries and businesses linked to the gas sector.<sup>94</sup> In addition, it is highly unlikely that any subsidised gas will enter the domestic market because ENH will likely try to maximise the price it gets from its share of production by selling on international markets, either to help service the national debt, or, because of ongoing poor governance, to enrich corrupt government officials and facilitate their patronage networks.<sup>95</sup>

91 'Project Financing: Review of Mozambique LNG', FTI Consulting, October 2020, p. 2.

92 Yep, E., 'Mozambique's Area 4 partners secure buyers for Rovuma LNG project: ExxonMobil', spglobal, 31 December 2018, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural-gas/123118-mozambiques-area-4-partners-secure-buyers-for-rovuma-lng-project-exxonmobil>. Accessed 22 July 2023.

93 'BP and Area 4 partners sign LNG sale and purchase agreement for offshore Mozambique', British Petroleum, 4 October 2016, <https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-and-area-4-partners-sign-lng-sale-and-purchase-agreement-for-offshore-mozambique.html>. Accessed 16 August 2023.

94 Wensing, 2022, p. 24.

95 Namaganda, 2022, p. 3.

## ENVIRONMENTAL IMPACTS

### Climate Change.

Mozambique is one of the world's most vulnerable countries to the impacts of climate change. In 2016, it was ranked as the 154<sup>th</sup> most vulnerable country out of 181 countries surveyed, while in 2021 Mozambique was ranked the most vulnerable country in the world to extreme weather events triggered by climate change. In addition, it is also considered almost wholly unprepared to properly address the ongoing and worsening impacts of climate change through adaptation.<sup>96</sup> Mozambique is particularly vulnerable to climate change because it is downstream of several major river basins, all of which are expected to produce less runoff for Mozambique, while at the same time the country is expected to get significantly hotter and drier as climate change impacts intensify. Severe water shortages are, therefore, expected to be a key feature of climate change in Mozambique.

This is worrying, because 70 percent of Mozambicans depend on climate-sensitive agricultural production (cassava, sorghum, soybeans, groundnuts, and maize) for their food and livelihoods.<sup>97</sup> In addition, cyclone activity is expected to increase, while sea levels are expected to rise. These problems are exacerbated by Mozambique's 2500 km of coastline which makes it especially vulnerable to cyclones and coastal flooding.<sup>98</sup> This is particularly alarming because 60% of the population live in low-lying coastal areas.

The impacts of climate change have been felt in Mozambique to devastating effect in recent years. In 2019, tropical Cyclone Idai (14 March 2019) and Kenneth (25 April 2019) devastated central Mozambique, killing over 600 people (likely to be a significant underestimate), destroying over 220 000 homes and 3 500 classrooms, damaging over 700 000 ha of food crops, and creating over 2.5 million in need of basic humanitarian aid.<sup>99</sup> Just three years later, the country was hit by another destructive tropical cyclone which destroyed another 132 000 homes, 1 300 classrooms and damaged 391 000 ha of crops. All three cyclones led to extensive and persistent flooding and significant outbreaks of cholera.<sup>100</sup> From a purely financial perspective, the cyclones were equally devastating. Idai and Kenneth are estimated to have cost Mozambique \$3.2 billion, which is equal to 58% of the

96 'Mozambique: Protection Cluster - Factsheet on Climate Related Displacement - Reliefweb, April 2022', <https://reliefweb.int/report/mozambique/mozambique-protection-cluster-factsheet-climate-related-displacement-april-2022>. Accessed 24 July 2023 & Eckstein, D., Kunzel, V., Schafer, L., 'Who Suffers Most from Extreme Weather Events? Weather-Related Loss Events in 2019 and 2000-2019', Global Climate Risk Index 2021, Germanwatch, 2022, pp. 5 & 8.

97 'Climate Risk Profile: Mozambique', USAID, 2018, p. 1. <https://www.climateintelinks.org/resources/climate-risk-profile-mozambique>. Accessed 30 July 2023.

98 Ribeiro, N., Chaúque, A., 'Gender and Climate change: Mozambique Case Study', Heinrich Böll Foundation Southern Africa, 2010, p. 10.

99 'Cyclone Idai and Kenneth cause devastation and suffering in Mozambique', United Nations Children's Fund, no date, <https://www.unicef.org/mozambique/en/cyclone-idai-and-kenneth>. Accessed 24 July 2023.

100 'Mozambique: Tropical Cyclone Freddy, Floods and Cholera Situation Report No. 1', United Nations Office for the Coordination of Humanitarian Affairs Mozambique, no date.

entire government budget for 2019.<sup>101</sup>

Within the already fragile country context, the LNG projects will increase greenhouse gas (GHG) emissions, both in Mozambique and internationally which will obviously contribute to climate change. Even if most of the LNG is not burnt in Mozambique, national GHG emissions will rise significantly because of the overall energy demands made by the LNG process, and because of methane that is emitted during the entire LNG supply chain, including via so-called 'fugitive emissions'. According to the Intergovernmental Panel on Climate Change, the 20-year global warming potential of methane is 87 times larger than that of carbon dioxide.<sup>102</sup> Research in the United States shows that between 2% and 8% of every cubic foot of natural gas drawn from underground or from under the sea escapes into the atmosphere.<sup>103</sup> Because of these direct emissions, it is estimated that Mozambique's annual CO<sub>2</sub> emissions will rise by 14% when all three LNG projects are fully functional, as an additional 13 million tonnes of CO<sub>2</sub> is emitted annually. Even the Environmental Impact Assessment for the project noted an annual CO<sub>2</sub> increase of as much as 10% per year, very little of which can be mitigated.<sup>104</sup>

In December 2021, in its updated Nationally Determined Contribution (NDC), the country committed to reducing its CO<sub>2</sub> emissions by a cumulative total of 40 million tonnes by 2025.<sup>105</sup> Given the extent of the emissions increase to come from LNG, it is not clear how the Mozambican government intends to meet its NDC targets and overall international law obligations under the Paris Agreement. The burning of the LNG by end users will amount to approximately 116 MtCO<sub>2</sub>e per year, which is more than the entire annual CO<sub>2</sub> emissions from the country of Bangladesh which has a population of 161 million people.<sup>106</sup>

## Local Environmental Impacts.

Aside from the national and international climate change implications of the GHGs that will be produced by the exploitation of LNG in Mozambique, there will also be considerable regional and local environmental impacts.

The Afungi LNG park alone covers 70km<sup>2</sup>, much of which is covered by forest and mangroves which provide habitat for numerous species of birds, reptiles, and

101 'Mozambique Cyclone Idai: Post Disaster Needs Assessment', Post- Cyclone Idai Cabinet for Reconstruction / World Bank, 2020, p. 5 & 'State Budget Proposal for Fiscal Year 2019: Mozambique - Analysis of the Social and Economic Sectors, UNICEF, November 2019, p. 2.

102 Gürsan, & de Gooyert, 2021, p. 14.

103 Marchese, A., Zimmerle, D., 'The U.S. natural gas industry is leaking way more methane than previously thought', PBS, 4 July 2018, <https://www.pbs.org/newshour/science/the-u-s-natural-gas-industry-is-leaking-way-more-methane-than-previously-thought>. Accessed 24 July 2023.

104 'The Impacts of the LNG Industry in Cabo Delgado, Mozambique', JA!/Friends of the Earth Mozambique, March 2020, p. 6.

105 'Fuelling the Crisis in Mozambique How Export Credit Agencies contribute to climate change and humanitarian disaster', Friends of the Earth Europe and Justiça Ambiental, 2022, p. 8 & 'Mozambique', United Nations Development Programme - Climate Promise, <https://climatepromise.undp.org/what-we-do/where-we-work/mozambique>. Accessed 30 July 2030.

106 'Carbon Footprint by Country 2023', [Worldpopulationreview.com](https://worldpopulationreview.com), no date, <https://worldpopulationreview.com/country-rankings/carbon-footprint-by-country>. Accessed 24 July 2023.

amphibians. This area will be cleared for the construction of onshore infrastructure. Offshore, coastal seabeds and coral networks will be dredged for the construction of extensive subsea and near-shore facilities. The developers themselves note that this process will lead to habitat destruction and biodiversity loss.

There are also concerns that if a major accident were to happen at the LNG plant, it would have a serious impact on the Quirimbas National Park (a UNESCO Biosphere), which is only eight kilometres from the boundary of Area 1.<sup>107</sup> The potential of a major accident taking place is very real because the gas to be exploited is located under 1 600 metres of ocean. It is, therefore, an example of what is known as 'deepwater drilling'. Deepwater drilling is technically challenging and dangerous because of the pressures and temperatures that exist at great depths. The deeper the drilling, the harder it is to control the flow of gas because of increased pressures. Any failure to control the upward flow, can lead to a blowout.<sup>108</sup> The explosion of the Deepwater Horizon rig in the Gulf of Mexico in 2010 which claimed 11 lives and spilled four million barrels of oil into the ocean, shows how difficult deepwater drilling is.

107 'Mozambique: LNG Mozambique - Impacts', Banktrack, 2022, [https://www.banktrack.org/project/mozambique\\_lng](https://www.banktrack.org/project/mozambique_lng). Accessed 25 July 2023 & Wensing, A., (2022), p. 17.

108 Boulter, J., 'Southern Africa: a new exploration hotspot?', International Oil and Gas, 6 Sept. 2018.



# Section 2 – Funding for the Project

The preceding section has provided a brief account of the likely economic, social, and environmental consequences of the rush for LNG in Mozambique. The following section will review South Africa's role in the development of natural gas in Cabo Delgado. It will briefly explore the history of South Africa's relationship with Mozambique from an economic perspective, before reviewing the private and public entities currently supporting TotalEnergies.

# A BRIEF HISTORY OF ENTANGLEMENT

## Pre-Independence

While the then port of Lourenco Marques (now Maputo) handled a significant amount of Southern African trade, South Africa's pre-independence relationship with Mozambique was largely characterised by Mozambique becoming a labour pool for the South African mining sector. While Mozambican labour was already being used in Natal's sugarcane industry, it was the discovery of first diamonds, and then more importantly gold, that created an enormous demand for Mozambican labour. In the early years of the twentieth century, some 60 000 Mozambicans worked on the gold mines in South Africa, making up approximately 60% of the 'black' workforce. By 1960, 80 000 Mozambicans were working in the mines.<sup>109</sup> When Mozambique became independent in 1975, 27% (approximately 110 000) of the mine workers in South Africa were still coming from Mozambique.<sup>110</sup>

In short, this relationship was one in which the South African mining sector exploited Mozambican labour. By using migrant labour, the industry was able to pay low wages because the costs of the social reproduction of miner's families and dependents could be excluded. Despite these low wages, migrant worker salaries and the importance of Lourenco Marques as a trading hub for South Africa, contributed significantly to the relative 'development' of southern Mozambique when compared to northern parts of the country.

## 1975 – 1994

From being a compliant colonial state, post-colonial Mozambique became hostile to the continued colonial and apartheid rule in South Africa and imposed, where possible, an economic and political boycott on South Africa. In response, the South African government attempted to destabilise the FRELIMO government in Maputo. It did so by offering financial and military support to the 'western' backed RENAMO<sup>111</sup>, and by carrying out direct attacks on African National Congress (ANC) members and their supporters in Mozambique, and on Mozambican infrastructure.<sup>112</sup> Alarmed at its reliance on labour from a hostile state, the apartheid government also quickly reduced the number of Mozambican workers in the mines to just over 40 000 and by late 1970s.<sup>113</sup>

Throughout much of this period, FRELIMO offered firm support to the ANC which

109 Beinart, W., *Twentieth Century South Africa*, (Oxford University Press: Oxford), 1994, pp. 64 & 150.

110 Simpson, T., *History of South Africa: From 12902 to the Present*, (Penguin: Cape Town), 2021, p. 222.

111 RENAMO, or the Resistência Nacional Moçambicana, had its roots in the Rhodesian intelligence services and was largely funded by 'western' governments. The civil war between RENAMO and FRELIMO was one of a number of Cold War proxy wars that took place between the United States and the Soviet Union.

112 Hanlon, J., *Beggar Your Neighbours: Apartheid Power in Southern Africa*, (James Currey: London), 1986.

113 Castel-Branco, C., 'What is the Experience and Impact of South African Trade and Investment on the Growth and Development of Host Economies? A View from Mozambique', *Southern African Regional Poverty Network*, no date, p. 3.

was attempting to overthrow the apartheid regime. While the ANC never had a military base in Mozambique, FRELIMO regularly housed ANC members and smuggled ANC operatives into and out of South Africa. While relations between Mozambique and South Africa were 'normalised' somewhat after the 1984 Nkomati Accord (a non-aggression pact which resulted in the ANC members being expelled from Mozambique), Mozambique remained wholly committed to the ANC's cause in South Africa. The relationship between the two parties was also fostered and encouraged by the aid and support both parties received from the Soviet Union and other socialist states from within the so-called Eastern Bloc. The significance of this long-standing relationship between FRELIMO and the ANC should not be underestimated when considering the ANC's continued support for the FRELIMO government in Mozambique.

## Post-Apartheid Relations

Since 1994, South Africa's trade relations with Mozambique have grown dramatically, with a significant shift taking place as foreign direct investment and direct trade 'have replaced labour migration and services as the dominant vectors of economic links between Mozambique and South Africa'.<sup>114</sup> In 2021, South Africa was Mozambique's leading trading partner both in terms of imports and exports, with South Africa exporting \$4.2 billion of goods to Mozambique and receiving \$968 million in return.<sup>115</sup> While South Africa invests in traditional heavy industries and minerals development, it also invests in other aspects of the Mozambican economy such as agricultural production (largely sugar), banking, construction, brewing, tourism and the retail sector.<sup>116</sup> Analysts argue that South Africa is currently investing in a 'new economic diplomacy' with Mozambique to try and deepen already well-entrenched economic ties.<sup>117</sup>

## The Mozal Aluminium Smelter

The South African government signalled its willingness to help Mozambique recover from the war between FRELIMO and RENAMO, by using the IDC to invest in the Mozal aluminium smelter in Maputo. The IDC originally took a 24% equity share in the smelter, but increased this to 32.5% in 2022. IDC Chief Executive Officer (CEO) TP Nchocho said in 2022, 'our investment and partnership with the Mozambican government is in line with one of our core mandates, which speak to sustaining and

114 Castel-Branco, p. 5.

115 'South Africa - Mozambique', The Observatory of Economic Complexity, 2023, <https://oec.world/en/profile/bilateral-country/zaf/partner/moz>. Accessed 25 July 2023.

116 'Trademark data reveals South African investment has opened previously closed markets in Mozambique', World Trade Market Review, 8 April 2021, <https://www.worldtrademarkreview.com/article/trademark-data-reveals-south-african-investment-has-opened-previously-closed-markets-in-mozambique>. Accessed 26 July 2023.

117 Fakir, S., 'Gwede Mantashe's gas plan, the northern jihadists and Russia – the emerging power play in Mozambique', Daily Maverick, 18 September 2020, <https://www.dailymaverick.co.za/opinionista/2020-09-18-gwede-mantashe-gas-plan-the-northern-jihadists-and-russia-the-emerging-power-play-in-mozambique/>. Accessed 13 August 2023.

enhancing regional economic development'.<sup>118</sup> It should be noted that the DBSA is also involved in the Mazal project and has, to date, extended loans to the value of \$83 million.<sup>119</sup>

## The Pande and Temane gas fields

The South African investment in the Rovuma Basin is not the first such investment in natural gas in Mozambique. In 2004, SASOL, a South African company in which the South African government holds significant shares (26.4% by the government pension scheme and 8.5% held by the IDC), started pumping gas from the Pande-Temane gas fields in southern Mozambique into South Africa. This deal is notable for several reasons. Very little of the gas was allocated for domestic use as contracts assured that 95% was exported to South Africa for at least the first 10 years, with only 5% allocated to ENH. The deal that was struck between South Africa and Mozambique for the gas has been described as highly advantageous for South Africa, with commentators describing the price that SASOL pays for the gas as 'very generous'.<sup>120</sup>

After the output of the fields was increased, a new deal was signed in 2012 which split output 50/50 between Sasol and ENH. However, there has been no discernible increase in government revenues from the project in Mozambique. In short, this is because ENH's share of the gas has been used to supply several gas-to-power power stations which have links to 'different ruling-elite constellations' and from which significant rents have been extracted from favourable long-term deals signed with Mozambique's state power supplier.<sup>121</sup> As analysts observe, 'the dominant ruling elite uses this investment to support its own accumulation and secure resources for the FRELIMO party and key ruling-elite factions'.<sup>122</sup> Research has conclusively demonstrated that the deal has 'resulted in lost revenue for the Mozambican government and thus the expected benefits were not fully realised'.<sup>123</sup>

This brief account of the Pande-Temane gas investment indicates how the Mozambican government's, via ENH, share of gas from the Rovuma Basin may be used to extract rents once production starts. It also indicates that South African government interests in Mozambique cannot be assumed to be in the best interests of both countries. SASOL's behaviour in the first phase of the project is especially revealing, given that the IDC and the South African government has a significant

118 'The Industrial Development Corporation of South Africa (IDC) has increased its stake in Mozal aluminium, the largest aluminium smelter in the sub-Saharan Africa', Industrial Development Corporation, 2 November 2022, <https://www.idc.co.za/the-industrial-development-corporation-of-south-africa-idc-has-increased-its-stake-in-mozal-aluminium-the-largest-aluminium-smelter-in-sub-saharan-africa/>. Accessed 26 July 2023.

119 'Welcome to Mozal', PowerPoint Presentation, bhpbilliton, no date, p. 5.

120 Salimoa, P., Buura, J., Macuaneb, J., 'The politics of domestic gas: The Sasol natural gas deals in Mozambique', *The Extractive Industries and Society*, 7, 2020, p. 1223.

121 Salimoa, 2020, p. 1225.

122 Salimoa, 2020, p. 1220.

123 Mondliwa, P. & Roberts, S., 'Economic Benefits of Mozambican Gas for SASOL and the South African Government', Centre for Competition, Regulation and Economic Development, University of Johannesburg, Working Paper 23, 2017, p. 1.

holding in SASOL.

## FINANCIAL INTERESTS IN TOTALENERGIES' AREA ONE

Area 1 of the Rovuma Basin is owned by a consortium of companies as listed in the table below.<sup>124</sup> TotalEnergies purchased its share in 2019 for \$3.9 billion from the US-based oil exploration company Anadarko.

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, from the African Development Bank (\$400 million) and the DBSA.

## SOUTH AFRICAN PRIVATE INVESTMENTS IN TOTALENERGIES' AREA ONE

Four South African commercial banks are involved in financing Area 1 and have committed \$1.035 billion in loans.<sup>125</sup>

<sup>124</sup> West & Lepiz, 2021, (2021), p. 6.

<sup>125</sup> 'Mozambique: LNG Mozambique – Financiers', Banktrack, 2022, [https://www.banktrack.org/project/mozambique\\_lng](https://www.banktrack.org/project/mozambique_lng). Accessed 25 July 2023

Bank	Amount Invested \$ million
Standard Bank	485
ABSA	300
Rand Merchant Bank	100
Nedbank	150

Standard Bank is the largest single commercial lender to the project. It should be noted that both Standard Bank and Rand Merchant Bank (\$100 million) also loaned money to the Coral Sul Liquefied Natural Gas Floating Platform in Area 4. Standard Bank is also a senior sponsor of the 2023 Mozambique Gas and Energy Summit.<sup>126</sup>

## Standard Bank

Before exploring the role of South African state-owned Development Finance Institutions (DFI) investments in the TotalEnergies project it is worth briefly examining the specific relationship that Standard Bank has to LNG in Mozambique. In 2019, the bank published what it describes as an ‘independent, objective assessment’ of the macroeconomic impact of the extraction of LNG from the first phase of Area 4 (owned by ExxonMobil and ENI) on the Mozambican economy.

In short, the report strongly endorses the extraction of natural gas in Mozambique which it claims is a ‘win-win’, which will be a ‘benefit to all’ and ‘makes sense for Mozambique’. Not only will the natural gas produce a ‘massive future revenue stream’, but it will also provide ‘the basis for various linked and ancillary revenue streams and economic developments’. It will do so by creating at least 250 000 jobs (direct and induced); by becoming the ‘leading single source of repayment for Mozambique’s outstanding external debt’; and by adding between \$15 – 18 billion to Mozambique’s annual GDP. The report states that ‘the results are highly attractive for the government of Mozambique’ and strongly urges the government to ‘take a leading role in creating the appropriate commercial, fiscal and legal conditions to enable the timely development’.<sup>127</sup>

Given that Standard Bank had already invested millions of US\$ in the Coral Sul Liquefied Natural Gas Floating Platform in 2018 and was about to invest a further \$485 million in the TotalEnergies project, a clear conflict of interest exists between its allegedly ‘independent, objective assessment’ of the economic potential of

<sup>126</sup> ‘2023 Sponsors’, Mozambique Gas and Energy Summit, [https://www.mozambiqueenergysummit.com/sponsors-partners/2023-sponsors/?utm\\_source=google-search&utm\\_medium=cpc&utm\\_term=&utm\\_content=&utm\\_campaign=delprom](https://www.mozambiqueenergysummit.com/sponsors-partners/2023-sponsors/?utm_source=google-search&utm_medium=cpc&utm_term=&utm_content=&utm_campaign=delprom). Accessed 22 August 2023.

<sup>127</sup> ‘Rovuma LNG Project: Macroeconomic Study’, Standard Bank, 19 March 2019, pp. ii – v.



natural gas in Mozambique and its ongoing activities in that very sector.<sup>128</sup> This conflict of interest seriously compromises the veracity of the findings of the report. This is especially concerning because South African DFIs may have reviewed the Standard Bank report during their investment deliberations and due diligence procedures. In publishing this report, Standard Bank was contributing to the creation of a ‘credible resource narrative’ as outlined above.

## South African State-Owned Enterprise Investments in TotalEnergies’ Area One

No less than 18% of all international public finance for gas in low- and middle-income countries went to Mozambique between 2017 – 2019.<sup>129</sup> Some of this public finance came from three South African state-owned enterprises that 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 <sup>130</sup>	2020

## THE DEVELOPMENT BANK OF SOUTHERN AFRICA

### Rationale

The DBSA states that its mandate is to ‘Build Africa’s Prosperity by driving inclusive growth and finding innovative solutions that spur socio-economic development across the African continent’. It does so by promoting ‘economic growth as well as regional integration for sustainable development projects and programmes in South Africa, SADC and the wider Sub-Saharan Africa’. It claims that by ‘expanding access to development finance and effectively integrating and implementing sustainable development solutions’ it will ‘improve the quality of life of people

<sup>128</sup> Standard Bank also benefits in other ways from these deals. For example, it is the commercial facility agent, onshore account bank and security trustee for the Coral FLNG project. See, ‘Standard Bank and ICBC finance Mozambique LNG deal’, African Global Funds, 22 January 2018, <https://www.africaglobalfunds.com/news/investors/standard-bank-and-icbc-finance-mozambique-lng-deal/>. Accessed 23 August 2023.

<sup>129</sup> Muttitt, 2021, p. 9.

<sup>130</sup> Half of this amount is reinsured by Afreximbank, which is part of the African Development Bank. See, ‘Annual Report’, Export Credit Insurance Corporation of South Africa, 2020, p. 25.

through the development of social infrastructure: support economic growth through investment in economic infrastructure: support regional integration: and, promote the sustainable use of scarce resources'.<sup>131</sup> This commitment to regional development should also be seen within the context of the formation of the SADC in 1992 which aims to 'increase regional integration, built on democratic principles, and equitable and sustainable development'.<sup>132</sup>

In announcing its investment in the TotalEnergies project, Mpho Mokwele, head of Project Finance at the DBSA, stated 'this investment aligns with the DBSA's mandate which seeks to promote regional development by partnering and leveraging skills and expertise from both the private and public sectors. Together with other similar initiatives in the Rovuma basin, the project will catalyse South Africa's gas industrialisation aspirations and the implementation of gas to power projects'. In addition, he drew attention to how South African companies would benefit by providing equipment and services to the project. Lastly, he acknowledged the role that gas will play 'as an alternative energy source'.<sup>133</sup>

The Chief Economist at the DBSA, Zeph Nhleko, recently stated that the decision to fund the project must be seen within the wider context of what he described as the 'energy gap' in southern Africa. This is an 'energy gap' characterised by limitations of supply and availability which, he argues, hinders the ongoing development of southern Africa. Thus, the project was funded because it is said to meet with the specific developmental mandate of the bank.<sup>134</sup>

This investment in Mozambican gas was not the first made in recent years by the DBSA. Its 2019 annual report notes that the bank provided 'significant financing approvals for electricity transmission and LNG projects in Mozambique'.<sup>135</sup> This appears to be related to what the bank describes as 'development support' provided to Companhia Mozambicana Hidrocarbonatos, which suggests that the DBSA provided support to Mozambique to help it exploit its gas resources.<sup>136</sup>

## Guiding Policies

Decision making within the DBSA is guided by its policy documents and its internal corporate governance structures which assess whether investments align with the bank's policies and overall objectives. Several policy documents were in place

131 'About Us', Development Bank of Southern Africa, <https://www.dbsa.org/about-us>. Accessed 8 August 2023.

132 'SADC Objectives', Southern African Development Community, no date, <https://www.sadc.int/pages/sadc-objectives>. Accessed 26 July 2023.

133 'DBSA yields dividends in Mozambique's Liquefied Natural Gas Project', Press Statement, Development Bank of South Africa, 20 July 2022, <https://www.dbsa.org/press-releases/dbsa-yields-dividends-mozambiques-liquefied-natural-gas-project>. Accessed 27 July 2023.

134 Zeph Nhleko, Chief Economist of the Development Bank of Southern Africa, interview with author, 17 July 2023.

135 '2019 Integrated Annual Report', Development Bank of Southern Africa, 2019, p. 70.

136 'DBSA yields dividends in Mozambique's Liquefied Natural Gas Project', Press Statement, Development Bank of South Africa, 20 July 2022, <https://www.dbsa.org/press-releases/dbsa-yields-dividends-mozambiques-liquefied-natural-gas-project>. Accessed 27 July 2023. The DBSA states that it 'supports project planning and development, advocacy and partnership building for resource mobilisation', Integrated Annual Report, Development Bank of Southern Africa, 2021, p. 33.

which are especially applicable to the banks' decision to fund LNG in Mozambique in 2020<sup>137</sup>:

1. 2014 - Environmental Appraisal Framework.
2. 2014 - Social and Institutional Guidelines.
3. 2018 - Climate Change Policy Framework (draft).
4. 2018 - Environmental and Social Safeguards Standards.
5. Annual - Sustainability Reviews.

These documents are designed to ensure that DBSA investments adhere to the bank's overall developmental aims as described above.

## Environmental Appraisal Framework

Before any investment decision is made, it is evaluated against the bank's Environmental Appraisal Framework (EAF) which is designed to ensure that projects contribute to 'sustainable socio-economic development in the region'. The EAF does so by identifying 'potential sources of environmental risk during project and programme appraisal, relating to, amongst others: climate change, natural and built environmental impact, legal compliance, institutional capacity, and public and political concerns'.

Projects undergo an initial screening process which allocates a basic environmental risk category and an estimate of any potential GHG implications. A Project Impact Appraisal is then undertaken 'through engagement with clients, site visits and information and document review'. As part of this risk assessment all investments undergo 'Carbon Footprint', 'GHG', and 'Climate resilience/vulnerability' assessments. These assessments then result in the creation of an overall 'environmental impact appraisal report' and a 'Project Environmental Risk Rating'.<sup>138</sup>

After identifying all risks, projects are given 'quantitative risk ratings' which are used to assist 'with decision-making and serve as an impact and risk management tool that supports the DBSA business with respect to environmental sustainability'.<sup>139</sup>

## Social and Institutional Guidelines

All projects are also subject to social appraisal which is designed to ensure that projects are 'socially sound and sustainable'. As such, projects are assessed for any 'potential social risk'.<sup>140</sup> This social appraisal is guided by several principles which include 'commitment to effective corporate governance; promotion of transparency and disclosure by clients; taking care of shareholders and affected

<sup>137</sup> The DBSA may use other documents to assess the environmental and sustainability risks of projects, but all attempts to gain access to additional documents were rejected by the DBSA on the basis of confidentiality.

<sup>138</sup> 'Environmental Appraisal Framework: Executive Summary', Development Bank of Southern Africa, 2014, pp. 3 – 4.

<sup>139</sup> 'Environmental Appraisal Framework: Executive Summary', p. 1.

<sup>140</sup> 'Social and Institutional Guidelines: Summary', Development Bank of Southern Africa, 2014, p. 1.

community rights; ensuring public engagement with affected communities'. In terms of community engagement, the DBSA's Social and Institutional Guidelines (SIG) state that communities must be fully informed of what is happening at all times and must be able to articulate their views at all times. The guidelines also state that there must be an assessment of the 'socio-political environment of the project' to ensure 'community readiness to receive the project'.

Any negative impacts of the project must be evaluated, as must measures to mitigate them. Lastly, the SIGs state that a 'monitoring plan' must be in place because 'social issues are fluid'. In fact, issues of social risk should be institutionalised 'throughout the investment value chain ... from implementation to close out'.<sup>141</sup>

## Climate Change Policy Framework (draft)

In its Climate Change Policy Framework (CCPF), the DBSA acknowledges that the Sustainable Development Goals and the Paris Agreement 'require DFI's such as DBSA to align country, stakeholder and sector development and financing models to support climate change interventions'. Given this, the bank has identified three actions it can take to 'drive interventions to address climate change'. These are:

1. Promote leadership and increase volumes of climate finance.
2. Enhance due diligence to embed low carbon and resilient trajectories of countries in potential investments.
3. Selectivity of operations: contribute to upscaling financial and investment flows in support of climate change interventions.

According to the DBSA, these three actions will provide 'a structure to implement, grow, and review the Bank's climate change strategy in support of its annual climate change targets'.<sup>142</sup> These targets include South Africa's Nationally Determined Contribution in terms of the Paris Agreement. Importantly, the CCPF also commits the DBSA to 'document how and whether a potential DBSA investment on the continent aligns to national climate change interventions wherever relevant'.<sup>143</sup> Further to this, the DBSA states that its 'mandate supports its climate leadership role in the region'.<sup>144</sup>

The CCPF draws attention to what it describes as the 'business case for addressing climate change in infrastructure financing'. It draws specific attention to several risks that climate change presents to infrastructure investments. These include the risks of making long-term financial loan commitments to infrastructure projects which are not fully realised because of the impacts of climate change. The CCPF draws specific attention here to 'transition or "stranded" asset risk' which 'result from policy, legal, technology and market changes to a shift to a low carbon economy'.

141 'Social and Institutional Guidelines: Summary', pp. 2 – 4.

142 'Draft DBSA Climate Change Policy Framework', Development Bank of Southern Africa, April 2018, pp. 3 – 4.

143 'Draft DBSA Climate Change Policy Framework', p. 6.

144 'Draft DBSA Climate Change Policy Framework', p. 14.

Concomitant to this, it also notes the very real danger of investments leading to technological path dependency which will result in ‘the long term “locking in” of emissions levels and place the burden for the costs for these emission levels on the broader society’.<sup>145</sup>

The CCPF also notes that when making investments, consideration must be given to how the impacts of climate change, such as severe weather events, will damage vital infrastructure. It notes, ‘effective long-term planning for a changing climate, together with long term financial planning of infrastructure assets, is an integral part of safeguarding communities and industries, of ensuring business continuity and protecting and preserving the natural environment’.<sup>146</sup>

The CCPF states that when considered with other policy documents, such as the Environmental Appraisal Framework, the ‘DBSA adopts an integrated approach to assess investment proposals by considering environmental, social, economic, financial and sector factors at each stage of the investment value chain’. This integrated approach, it argues, has enabled it to create a Development Results Reporting Framework (DRRF) ‘to ensure effective alignment and synergies between environmental and social safeguards appraisal and monitoring and evaluation processes to enable effective reporting’. This framework includes:

Development Results Template – to include climate change Indicators and targets.

Development Results Framework – consolidates indicators, monitoring and data received to enable relevant reporting to feed into annual integrated reports.

Sustainability Report – DBSA reports to its Social and Ethics Committee on a quarterly basis.<sup>147</sup>

It should be noted that it is not clear how, or even if, the CCPF was used when making the decision to invest in LNG in Mozambique. The document was still in draft form in 2018, and there are several instances in the document where it notes that it is not yet finalised.

## **Environmental and Social Safeguards Standards<sup>148</sup>**

According to the DBSA, the Environmental and Social Safeguards Standards (ESSS) document is ‘a reference guide to assist DBSA clients manage project environmental and social risks and impacts, and enhance project environmental and social performance’. It argues that if clients, like TotalEnergies, adhere to the ESSS they are ‘better assured of meeting DBSA social and environmental financing

<sup>145</sup> ‘Draft DBSA Climate Change Policy Framework’, pp. 9 –10.

<sup>146</sup> ‘Draft DBSA Climate Change Policy Framework’, p. 9.

<sup>147</sup> ‘Draft DBSA Climate Change Policy Framework’, p. 18.

<sup>148</sup> This 2020 document is, according to the DBSA, a ‘refined’ version of the 2018 version of the same document. The DBSA refused requests for the 2018 version of the document. See, ‘Environmental and Social Safeguards Standards’, Development Bank of Southern Africa, 2020, p. 2.

conditions, and thereby speeding up the approval process associated with loan applications'. In sum, the ESSS 'details the standards used by the DBSA to manage social and environmental risks in its investment decision making'.<sup>149</sup>

The ESSS includes 11 Standards, of which the following 10 are relevant to the TotalEnergies project<sup>150</sup>:

#### 1. ESSS1: Project Screening: Environmental and Social Risks, Impacts and Opportunities

ESSS1 is designed to 'screen the project as early as possible, to categorise and manage the project according to the degree of environmental and social risk'. ESSS1 requires clients to 'screen for and report on greenhouse gas emissions, climate change impacts, climate change mitigation and adaptation measures and carbon emission estimates'. In addition, clients must 'develop an Integrated Environmental and Social Management Framework to address and manage project environmental and social risks and impacts/dependencies and promote improved environmental and social outcomes'.

In terms of risk, ESSS1 clearly illustrates that the TotalEnergies project would be considered a Category 1 investment. The DBSA characterises investments into three categories with Category 1 investments being characterised as 'High and Substantial Risk' investments. All projects which are 'Major oil and gas developments including major pipelines' or include 'resettlement' plans are considered Category 1 investments.<sup>151</sup> In terms of ESSS1 specifically, the TotalEnergies project has 'substantial' environmental and social risks associated with it because 'environmental impacts generated by these projects are likely to be significant, broad and diverse. They may be irreversible and could lead to significant impacts on the social, physical and biological environment, and changes in land use'.<sup>152</sup>

As a minimum, Category 1 projects must include: an Environmental and Social Scoping Report; an Environmental and Social Impact Assessment; an Environmental and Social Management Plan; and a Stakeholder Engagement Plan. In addition, the Client is expected to 'assess, manage and monitor the project's environmental and social risks, impacts and outcomes throughout the project life-cycle in a manner and within a timeframe acceptable to the DBSA'. The intensity of this monitoring will be negotiated between the client and the DBSA in terms of 'the project's environmental and social risks and impacts'.<sup>153</sup>

#### 2. ESSS2: Stakeholder Engagement and Information Disclosure

149 'Environmental and Social Safeguards Standards', Development Bank of Southern Africa, 2020, pp. 2 & 16.

150 Standard 11 refers to the Safety of Dams.

151 The DBSA considers Category 2 investments as 'medium risk', while Category 3 are described as 'low risk' investments.

152 'Environmental and Social Safeguards Standards', pp. 21 - 22.

153 'Environmental and Social Safeguards Standards', pp. 24 - 25.



The DBSA defines ‘stakeholders’ as ‘project beneficiaries, project-affected parties and other interested parties’. It notes that ESS2 is designed to ensure that; there is a constructive relationship between all stakeholders; all stakeholders can exercise their rights; all stakeholders are provided with ‘appropriate project information on environmental and social risks and impacts in an understandable, transparent, and appropriate manner which enables stakeholders to make informed choices’; and, stakeholders are provided ‘with accessible and inclusive means to raise their grievances, and allow the Client to effectively respond to concerns raised in a comprehensive manner’. It also states that all information should be provided in ‘relevant local languages and in an accessible and culturally appropriate manner’.

The DBSA states that these objectives will be met by a Stakeholder Engagement Plan which is agreed upon by all stakeholders, and by the creation of a Vulnerable Group Plan.<sup>154</sup> Interestingly, ESS2 notes that the principles of FPIC are ‘essential to any investment undertaken in South Africa which is sponsored by public sector institutions’. The DBSA makes no commitment to follow the principles of FPIC for investments made outside South Africa.<sup>155</sup>

### 3. ESS3: Gender Mainstreaming

All clients must show that they have understood and accounted for any gendered risks and impacts that a project may pose. In addition, they must specially show how gender has been ‘mainstreamed’ into their projects. To this end a Gender Action Plan must be drawn up to ensure ‘that women and girls are considered in the project planning, implementation, and monitoring processes. If there are adverse effects, the project sponsor will need to ensure that they are avoided, minimised, mitigated or compensated for’.<sup>156</sup>

### 4. ESS4: Indigenous Peoples

ESS4 states that clients must ensure that ‘the development process respects Indigenous Peoples human rights, dignity, aspirations, culture, and natural resource-based livelihoods’. Therefore, clients must acknowledge ‘indigenous peoples socio-economic rights and access to services including social welfare, healthcare, education, water, electricity, housing, economic livelihoods and employment’. Importantly, it notes that where negative impacts are ‘unavoidable’, clients must ‘minimise, restore, and / or compensate for these impacts in a culturally appropriate manner commensurate with the affected Indigenous Peoples community’s nature, scale, impacts and vulnerability levels’. To meet these objectives a comprehensive Indigenous Peoples Plan must be drawn up in full consultation with community members.

<sup>154</sup> ‘Environmental and Social Safeguards Standards’, p. 30.

<sup>155</sup> ‘Environmental and Social Safeguards Standards’, p. 31.

<sup>156</sup> ‘Environmental and Social Safeguards Standards’, p. 38.

Particular reference is made to land. ESSS4 notes 'indigenous people are particularly vulnerable if their land and resources are transformed, encroached upon, or significantly degraded'. If access to land is to be lost by a development, then clients must as a minimum 'identify the equivalent replacement resources, provide adequate compensation and identify alternative livelihoods'.<sup>157</sup>

#### 5. ESSS5: Development Induced Displacement and Resettlement

Through the creation of a Resettlement Action Plan, this Standard seeks to 'mitigate unavoidable adverse social and economic impacts from land acquisition or restrictions on land use by timeously compensating for loss of assets at replacement cost and assisting displaced persons to improve, or at least restore, their livelihoods and living standards to pre - displacement levels'. ESSS5 states that all persons displaced must be provided with 'adequate housing, access to services and facilities, and security of tenure' after the 'appropriate disclosure of information' and 'meaningful consultation' has taken place. It also commits clients to ensuring that they 'conceive and execute resettlement activities as sustainable development programmes, providing sufficient investment resources to enable displaced persons to benefit directly from the project'.<sup>158</sup>

#### 6. ESSS6: Labour and Working Conditions

The objective of ESSS6 is to 'promote fair treatment, non-discrimination and equal opportunity for project workers'. Of specific interest to the TotalEnergies project, it notes, 'when implementing collective dismissals, to consider alternatives to retrenchment. Where retrenchment is unavoidable, develop and implement a retrenchment plan to mitigate the adverse impacts of retrenchment on workers'. There is no specific injunction in this Standard to prioritise the employment of people impacted by a development.<sup>159</sup>

#### 7. ESSS7: Community Health and Safety

The primary concern of ESSS7 is to 'anticipate and avoid adverse impacts on the health and safety of project - affected communities during the project life-cycle'. This is to include any risks to community members that are posed within 'a conflict or post-conflict context'. In terms of security arrangements, it notes that all employees providing security services, be they private or government, should at all times 'operate within the law'.<sup>160</sup>

#### 8. ESSS8: Cultural Heritage

Noting that respecting cultural heritage is a key part of sustainable development,

<sup>157</sup> 'Environmental and Social Safeguards Standards', pp. 40 - 42.

<sup>158</sup> 'Environmental and Social Safeguards Standards', p. 45.

<sup>159</sup> 'Environmental and Social Safeguards Standards', pp. 52 - 53.

<sup>160</sup> 'Environmental and Social Safeguards Standards', p. 56.

ESSS8 aims to ‘protect cultural heritage from the adverse impacts of project activities and support its preservation’. It does so through the creation and implementation of Cultural Heritage Management Plans.<sup>161</sup>

#### 9. ESSS9: Biodiversity Conservation and Sustainable Living Natural Resources Management

This Standard is conceived to protect biodiversity and maintain all the benefits derived from it within the project area. It is expected to do so by avoiding, minimising, and mitigating ‘impacts on biodiversity and offset significant residual impacts, where appropriate, with the aim of achieving no net loss or a net gain of biodiversity’. This is supposed to be achieved by the creation and implementation of a Biodiversity (or Ecosystem) Management Plan. This plan should consider and mitigate ‘major threats to biodiversity and ecosystem services, such as pollution and contamination, land conversion, habitat fragmentation, natural habitat loss, deforestation, over-exploitation, hydrological changes, nutrient loading, climate change impacts, invasive alien species, migration barriers, the capturing of wild animals, the harvesting of endemic species and indigenous ornamental flora and fauna and wildlife poaching’. ESSS9 states that a client will not undertake any project activities unless ‘a robust, appropriately designed, and long-term biodiversity monitoring and evaluation programme is integrated into the client’s management programme’.<sup>162</sup>

#### 10. ESSS10: Resource Efficiency, Pollution Prevention and Management

This Standard exists to ‘promote the sustainable and efficient use of energy, water, other raw natural materials and resources’ and ‘to promote adoption and dissemination of cleaner technologies and practices’. In terms of GHG emissions, ESSS10 states that all potential gross and net GHG emissions for projects must be estimated and monitored to enable the DBSA to track project GHG emissions. Also, throughout a project’s life, clients must ‘assess, implement, and evaluate resource pollution – prevention techniques and relevant mitigation measures’.<sup>163</sup>

ESSS10 notes that if a project will impact water quantity, then clients must ‘include drought stress testing and or scenario building in final project feasibility plans’ so that projects ‘ensure a net positive outcome for the impacted catchment and its users’.<sup>164</sup>

## Sustainability Reviews

Every year the DBSA also publishes its Sustainability Review which provides

161 ‘Environmental and Social Safeguards Standards’, p. 59.

162 ‘Environmental and Social Safeguards Standards’, pp. 63 - 64.

163 ‘Environmental and Social Safeguards Standards’, p. 69.

164 ‘Environmental and Social Safeguards Standards’, p. 68.

‘stakeholders with an understanding of our development and sustainability impact’.<sup>165</sup> Despite the DBSA investing in the TotalEnergies project in 2020, there is no mention of the project in either the 2021 or 2022 Sustainability Reviews.

## Decision Making Processes

The DBSA is governed by a Board which is ultimately responsible for all investment decisions. The work of the Board is supported by five Board Committees:

Board Committee	Role
Audit and Risk	Oversees the DBSA's internal control framework, compliance with laws and regulations.
Credit and Investment	Reviews credit strategy, and credit risk management
Human Resources	Oversees human resources within the DBSA
Social and Ethics	Oversight of and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationship.
Infrastructure Delivery and Knowledge Management	Oversees implementation of the infrastructure delivery programmes, and knowledge management function.

There is also an Executive Management Committee with four steering committees; assets and liabilities; supply chain management; investment; and infrastructure delivery.<sup>166</sup>

Before any potential investments are reviewed by Executive Management or Board committees, they undergo a ‘due diligence’ or screening process which explores the technical, legal, social, economic, and environmental implications of each and every project under consideration.<sup>167</sup> This due diligence results in a project ‘appraisal report’ which is then considered by the Executive Management Investment and Infrastructure committees. If these committees recommend investing in a project, then it is passed to the Board’s Social and Ethics, Credit and Investment, and Infrastructure Delivery committees which, if they recommend it, pass it for final

<sup>165</sup> ‘Sustainability Review’, Development Bank of Southern Africa, 2020, p. 4.

<sup>166</sup> ‘2019 Integrated Annual Report’, Development Bank of Southern Africa, 2019, p. 47.

<sup>167</sup> Zeph Nhleko, 17 July 2023.

approval to the Board.<sup>168</sup>

The following diagram approximates the decision-making process within the DBSA based on its publicly available documents.



It appears that the Board's Credit and Investment Committee is of prime importance in this decision-making hierarchy. It can make investment decisions on behalf of the Board and is responsible for managing all material risks that the DBSA may be exposed to.<sup>169</sup> For its part, the Board's Social and Ethics Committee 'has oversight of and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships'. As well as ensuring ethical behaviour by DBSA staff, it is obligated to 'monitor the Bank's activities, having

<sup>168</sup> 'Draft DBSA Climate Change Policy Framework', p. 17.

<sup>169</sup> 'Terms of Reference: Board Credit and Investment Committee', Development Bank of Southern Africa, 2019.

regard to relevant legislation and codes of best practice, in respect of social and economic development, good corporate citizenship, the environment, health and public safety' among other things.<sup>170</sup>

After investments are approved, a process of post-investment management is then undertaken which is designed to ensure that projects progress as anticipated. If 'weaknesses or challenges' are found, the DBSA 'will intervene'.<sup>171</sup> Part of this process includes the submission by the DBSA of quarterly sustainability reports to the Board Social and Ethics Committee. In accordance with its Climate Change Policy Framework, the DBSA also 'supports annual review monitoring and client compliance to obligations'.<sup>172</sup>

## THE INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA

### Rationale

While the IDC's primary mandate is to pursue the industrial development of South Africa, its mandate shifted in the 1990s to enable it to use its funds to promote 'regional development and integration' in Africa more widely. Both in South Africa and regionally, it notes that it is 'committed to promoting environmentally sustainable growth'.<sup>173</sup>

In discussing its investment in the project, the IDC described the project as a 'game changer for the LNG market' which 'has the potential to propel Mozambique to one of the top five global suppliers'. In addition, it drew attention to the potential business opportunities it provided for South African businesses, noting that 'various South African companies will directly benefit from these projects to supply equipment and services during construction and operations'.<sup>174</sup>

### Guiding Policies

The IDC has two specific policy documents which would have been applicable to its investment in the LNG project. These are:

1. 2014 Responsible Investment Policy.
2. 2017 Environmental and Social Framework for Due Diligence.

As with the DBSA, these documents are designed to ensure that IDC investments adhere to the bank's overall developmental aims.

<sup>170</sup> 'Terms of Reference: Social and Ethics Committee', Development Bank of Southern Africa, 2019.

<sup>171</sup> Zeph Nhleko, 17 July 2023.

<sup>172</sup> 'Draft DBSA Climate Change Policy Framework', p. 19.

<sup>173</sup> 'About Us', Industrial and Development Corporation, <https://www.idc.co.za/about-us/>. Accessed 10 August 2023.

<sup>174</sup> 'Integrated Annual Report 2020', Industrial Development Corporation, 2020, p. 39.



## Responsible Investment Policy

This document notes that the IDC undertakes a 'negative screening process' to ensure that investments are 'responsible'. It notes that 'ethical investment combines the ethical, social and environmental considerations of investors with their financial objectives. For businesses this implies that they must take responsibility for the effect of their investments on humans and the environment'.<sup>175</sup>

The policy includes an 'exclusions list' which forbids investment in certain industries (such as tobacco and weapons) or when 'environmental impact assessments have not been conducted or geological reports are not available'. It notes that if the IDC believes funds are being used contrary to its responsible investment policy 'the IDC has the right to withdraw from the transaction'.<sup>176</sup> Finally, in terms of the 'best practise in ethical investing', the policy states that 'as a development orientated organisation, the IDC should be leading and not following the business mainstream'.<sup>177</sup>

## Environmental and Social Framework for Due Diligence

This policy is designed to 'give guidance to all relevant stakeholders during project development, due diligence and post investment phases on the IDC's environmental and social requirements (E&S)'.<sup>178</sup> The document states that E&S considerations of projects must be included to 'mitigate permanent and unacceptable impacts on the natural environment'. This means that the likelihood and magnitude of any E&S risks must be properly assessed, and actions taken throughout projects to either avoid or minimise these risks.<sup>179</sup>

Before any investment is made, all projects receive an E&S risk category rating which categorises investments 'in terms of the inherent environmental and social impacts of the industry, as well as project- and site-specific impacts'. Category A projects are those which have 'potential significant adverse environmental or social impacts that are diverse, irreversible or unprecedented'.<sup>180</sup> One determinant which automatically makes a project Category A, is if the project involves 'involuntary resettlement'. This would mean that the TotalEnergies project is a category A project in terms of the IDC's policies.

Projects are also allocated E&S Risk Ratings 'which reflects the clients' ability to understand, manage and minimise E&S impacts. Lastly, projects are allocated E&S Classifications which are used 'to determine what conditionalities may be imposed and how projects will be monitored' post-investment. The policy notes that all

175 'Responsible Investment Policy', Industrial Development Corporation, 2014, p. 1.

176 'Responsible Investment Policy', p. 6.

177 'Responsible Investment Policy', p. 4.

178 'Environmental and Social Framework for Due Diligence', Industrial Development Corporation, 2017, p. 1.

179 'Environmental and Social Framework for Due Diligence', pp. 2 -3.

180 'Environmental and Social Framework for Due Diligence', p. 8.

Category A projects must be visited at least annually.

In its 2020 Annual Report, the IDC references its Environmental and Social Framework for Due Diligence and states that it uses ‘an internationally accepted project classification system that determines project type, impact and scale for our due diligence process. This includes an analysis of case histories, the environmental and social impact occurrence likelihood in certain industries and a project’s scale and timeframe’. It draws specific attention to the due diligence it undertakes with impacted communities and says that all ‘negative environmental impacts’ must be mitigated within funded projects. Lastly, it also notes that the IDC monitors ‘the carbon emissions of our subsidiaries and major investments and their environmental policies’.<sup>181</sup>

## Decision Making Processes

The IDC is governed by a Board which is ultimately responsible for all investment decisions. The work of the Board is supported by five Board Committees:

Board Committee	Role
Audit	Monitors the adequacy of financial controls and integrity in reporting
Human Capital	Develops compensation policies, resourcing plans and performance goals
Investment Committee	Considers transactions mandated to it by the Board and reviews related party transactions
Risk and Sustainability	Governs risk and responsible stewardship of the Corporation’s assets
Social and Ethics	Promotes corporate fairness, transparency, development and good citizenship and manages the Corporation’s exposure to reputational risk

There is also an Executive Management Committee with several sub-committees.<sup>182</sup>

All decisions made by the Board are in line with the IDC’s 2014 Responsible Investment Policy, the implementation of which ‘contributes to the prevention of long-term financial, social and reputational risks to the Corporation’.<sup>183</sup> All investment

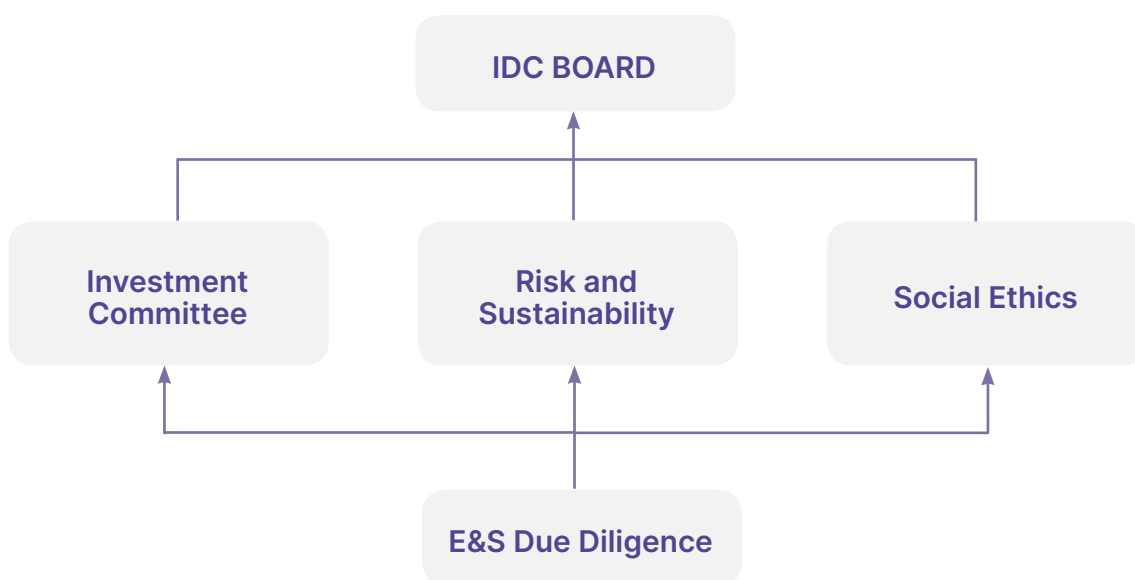
<sup>181</sup> ‘Annual Report’, Industrial Development Corporation, 2020, pp. 12 – 16 & 65.

<sup>182</sup> ‘Annual Report’, Industrial Development Corporation, 2020, p. 60.

<sup>183</sup> ‘Annual Report’, 2020, p. 66.

decisions over R1.5 billion must be passed from the Investment Committee to the Board for ultimate approval, meaning that the decision to invest in TotalEnergies would have been approved by the Board.<sup>184</sup>

The following diagram approximates the decision-making process within the IDC based on its publicly available documents.



Interestingly, the Social and Ethics Committee noted in 2020 that it ‘considered a report addressing the risk associated with investing in carbon-intensive industries over the long-term and noted that work on reviewing the Corporation’s strategic orientation and policy position on carbon-intensive industries such as mining was underway’.<sup>185</sup>

## EXPORT CREDIT INSURANCE CORPORATION OF SOUTH AFRICA

### Rationale

The stated mission of the ECIC is to provide ‘export credit and investment insurance solutions in support of South African goods and services’. It notes that it has ‘a particular focus on emerging markets in Africa that are considered too risky for conventional insurers’.<sup>186</sup>

184 ‘Annual Report’, 2020, p. 75.

185 ‘Annual Report’, 2020, p. 78.

186 ‘Vision and Mission’, Export Credit Insurance Corporation of South Africa, <https://www.ecic.co.za/vision-and-mission/>. Accessed 11 August 2023.

The ECIC claimed that ‘the exploration, discovery, and subsequent commercial development of natural gas in Mozambique has the potential to deliver significant economic benefits in South Africa as the benefits ripple through various supply chains, benefiting producers, consumers, and government’. It does note, however, that most of these opportunities will be in the construction phase of the project but will, nonetheless, create ‘employment opportunities’ for 26 256 people (including indirect and induced employment) and generate \$94.4 million of tax for the South African government.<sup>187</sup> This is because, of the \$800 million loaned, 50% must be spent on South African goods and services.<sup>188</sup> It should be noted that the ECIC has expressed an interest in offering financing (of at least \$200 million) for the currently suspended ENI and ExxonMobil project in Area 4 of the Rovuma Basin.<sup>189</sup>

In terms of Mozambique, the CEO of the ECIC, Kutoane Kutoane, stated that the LNG investment would ‘help transform Mozambique from a less-developed to a middle-income country’.<sup>190</sup>

## Guiding Policies

As the ECIC does not make any policy documents publicly available, it is very difficult to assess how its investment decisions are guided by social and environmental factors. A very limited amount of information can be found in various publications, but this does not extend beyond very broad assertions of policy. For example, in terms of environmental and social impacts, the ECIC states that it ‘adheres to established Sustainable Development Policies, Principles and Guidelines’ and will not invest in projects which are not compliant with ‘international standards’ or ‘environmental & human rights laws’.<sup>191</sup> The organisation’s Annual Report for 2020 notes that it ‘continually’ monitors, reviews and assesses ‘social and environmental issues with a potential impact on stakeholders’.<sup>192</sup>

## Decision Making Processes

The ECIC is governed by a Board which is ultimately responsible for all investment decisions. The work of the Board is supported by five Board Committees:

187 Mpini, S., ‘The Socio-Economic Impact of Mozambique Liquefied Natural Gas (LNG) Project in South Africa’, ECIC News, Issue 10, 2021, p. 2.

188 D. Parker, ‘Hope Floats for Mozambique LNG Projects’, Mining Weekly, 5 November 2021, <https://www.miningweekly.com/article/hope-floats-for-mozambique-lng-projects-2021-11-05>. Accessed 27 July 2023.

189 I. Esau, ‘ExxonMobil aborts Rovuma’s US Exim Bank loan bid’, [upstreamonline.com](https://www.upstreamonline.com/field-development/exxonmobil-aborts-rovumas-us-exim-bank-loan-bid/2-1-770780), 12 March 2020, <https://www.upstreamonline.com/field-development/exxonmobil-aborts-rovumas-us-exim-bank-loan-bid/2-1-770780>. Accessed 27 July 2023 and see, ‘Annual Report’, Export Credit Insurance Corporation of South Africa, 2020, p. 30.

190 ‘Annual Report’, Export Credit Insurance Corporation of South Africa, 2020, p. 30.

191 ‘Overview of the Export Credit Insurance Corporation of South Africa SOC Ltd (“ECIC”)’, Export Credit Insurance Corporation of South Africa, no date, p. 5.

192 ‘Annual Report’, 2020, p. 13.

Board Committee	Role
Audit	Monitors the adequacy of financial controls and integrity in reporting
Risk	Responsible for the oversight of the effectiveness of the risk, capital management and compliance
Finance, Investment and Insurance	Manages investment strategy, reviews and monitors all investments
Human Resources and Remuneration	Responsible for ensuring that remuneration matters are fair and in line with the corporate remuneration philosophy
Social and Ethics	Drives ethical leadership and a culture of ethical business conduct among employees

There is also an Executive Management Committee with several sub-committees.<sup>193</sup> There is not enough publicly available information to begin to understand how the ECIC makes investment decisions.

Questions must be asked about the alleged \$400 million worth of contracts that are supposed to come to South African companies via the ECIC investment in the TotalEnergies project. These kinds of 'offsets', or dividends against investments, are often exaggerated. In fact, research illustrates that while export credit agencies can increase a country's exports, there is no direct correlation between their activities and higher economic growth or employment.<sup>194</sup> The vast majority of the work at the project site is to be undertaken by three oilfield services companies, Saipem (Italy), McDermott (United States) and Chiyoda (Japan) which have formed a joint venture called CCS JV.<sup>195</sup> This joint venture is to undertake the engineering, procurement and construction work either directly, or via sub-contracted companies.<sup>196</sup> The contract with Saipem is said to be worth \$3.86 billion alone.<sup>197</sup> South Korea's Daewoo was contracted for \$455 million to build a significant proportion of the two liquefied natural gas (LNG) production trains at the site.

193 'Annual Report', 2020, pp. 45 - 48.

194 In, S., 'Do Export Credit Agencies Benefit the Economy?', Korea Advanced Institute of Science and Technology, 2014, p. 1.

195 'Mozambique - Country Commercial Guide: Oil and Gas', United States Department of Commerce, 30 November 2022, <https://www.trade.gov/country-commercial-guides/mozambique-oil-gas-0>. Accessed 27 July 2023.

196 'McDermott, Saipem, Chiyoda JV bags Anadarko Mozambique LNG job', Offshore Energy, 6 June 2019, <https://www.offshore-energy.biz/mcdermott-saipem-chiyoda-jv-bags-anadarko-mozambique-lng-job/>. Accessed 6 September 2023.

197 'TotalEnergies still in talks with Mozambique LNG contractors', LNGPrime, 1 August 2023, <https://lngprime.com/lng-terminals/totalenergies-still-in-talks-with-mozambique-lng-contractors/87588/>. Accessed 22 August 2023.

Reports from before *force majeure* was declared, note that 20% of contracts related to the development of the project had already been signed in 2020. The same report quotes John Rocha, the Africa Chief Director of the South African Department of Trade, Industry and Competition, observing that South African companies had been ‘extremely slow off the blocks’ in terms of the business opportunities offered by the project.<sup>198</sup>

The only known South African company to win project contracts at the Afungi site is the construction company WBHO which won a contract in 2019 to construct a 9 500-person camp, two military barracks, a perimeter fence, and a new quay. In February 2023, WBHO announced that it had won another contract for ‘advance site infrastructure works related to the large-scale gas infrastructure for Total in northern Mozambique’.<sup>199</sup> According to WBHO’s website, the company is also responsible for the earthworks necessary for the LNG processing plant and for building 30km of gravel roads for the resettled residents of Afungi.<sup>200</sup> The value of these contracts is unknown, but they are likely to be relatively small and will contribute an insignificant amount to the claimed \$400 million in investment in South African companies.

It was reported in April 2023 that some major contractors involved in the project were disputing the costs of restarting construction at Afungi. TotalEnergies CEO, Patrick Pouyanne, was quoted as saying some of these contractors were being ‘unreasonable’, stating that contracts would be reissued if necessary.<sup>201</sup> In August 2023, it was reported that ‘very intensive’ negotiations were still taking place around costs associated with the project.<sup>202</sup> These lengthy negotiations illustrate the extent of the ongoing risks of the project, while they also further delay the realisation of any revenue from the project for the Mozambique government.

## South African DFIs and their Respective International Commitments

All three South African DFIs are also committed to standards of corporate behaviour via their membership of various international agreements. For example, both the DBSA and the IDC fully endorse the United Nations Environment Programme’s Principles for Responsible Banking, ‘a unique framework for ensuring that signatory

198 Parker, D., ‘Proximity alone insufficient to assure SA firms any share of Moz gas action’, Engineering News, 6 November 2020, <https://www.engineeringnews.co.za/article/proximity-alone-insufficient-to-assure-sa-firms-any-share-of-moz-gas-action-2020-11-06>. Accessed 22 August 2023.

199 E. Reed, ‘WBHO raises prospect of return to Mozambique LNG this year’, Energy Voice, 28 February 2023, <https://www.energyvoice.com/oilandgas/africa/lng-africa/486571/mozambique-wbho-return-lng/>. Accessed 27 July 2023.

200 ‘LNG Enabling and Security Works’, WBHO, no date, <https://www.wbho.co.za/portfolio/lng-enabling-and-security-works/>. Accessed 27 July 2023.

201 ‘TotalEnergies CEO: Mozambique LNG contractors need to be “reasonable” regarding costs’, LNGPrime, 28 April 2023, <https://lngprime.com/lng-terminals/totalenergies-ceo-mozambique-lng-contractors-need-to-be-reasonable-regarding-costs/80231/>. Accessed 6 September 2023.

202 ‘TotalEnergies still in talks with Mozambique LNG contractors’, LNGPrime, 1 August 2023, <https://lngprime.com/lng-terminals/totalenergies-still-in-talks-with-mozambique-lng-contractors/87588/>. Accessed 6 September 2023.



banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement'.<sup>203</sup> Both DFIs also claim to be guided by the ten principles of the United Nations Global Compact, of which the following five principles are particularly relevant to the investment in Mozambican LNG:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.<sup>204</sup>

According to the ECIC, it adheres to the World Bank's 'Environmental and Social Safeguard Policies'. These policies state that when investments are made, they should 'ensure that the people and the environment are protected from potential adverse impacts' so as to 'avoid and minimize harm to people and the environment'.<sup>205</sup>

The South African state - including its state-owned financial institutions - have international obligations under the Paris Agreement with respect to meeting the overall temperature increase limit of 1.5 degrees celsius, fostering low greenhouse gas emissions and climate-resilient development, and ensuring that finance flows are consistent with that development pathway. In addition, South Africa has particular obligations under customary international law not to cause significant harm to the environment of other States, such as Mozambique.<sup>206</sup>

## Responsible Investing?

This brief account of the environmental and social commitments made by the three South African state-owned DFIs in terms of how they make investment decisions illustrates how they differ both in their approaches to these issues when making investments, and in how they position themselves in terms of public scrutiny and public accountability in their investment decision-making processes. While

203 'About the Principles', United Nations Environment Programme: Finance Initiative, <https://www.unepfi.org/banking/more-about-the-principles/>. Accessed 12 August 2023.

204 'The Power of Principles', United Nations Global Compact, <https://unglobalcompact.org/what-is-gc/mission/principles>. Accessed 12 August 2023.

205 'Environmental and Social Policies', The World Bank, <https://www.worldbank.org/en/projects-operations/environmental-and-social-policies#safeguards>. Accessed 12 August 2023. The ECIC also claims to adhere to the World Bank's International Finance Corporation 'IFC Performance Standards on Environmental and Social Sustainability'.

206 The 'principle of no harm' under international environmental law.

recent research has shown that these DFIs fall short of meeting many of their international commitments in terms of 'responsible investing', they nonetheless do hold themselves, at least in principle, to a broad range of environmental, social and human rights standards and associated commitments that makes the decision to invest in LNG in Mozambique extremely surprising.<sup>207</sup>

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.

## Recent Research Confirms Little Has Changed Since TotalEnergies Took Over

If ever evidence was needed to prove that the South African DFIs did not undertake the due diligence and ongoing monitoring activities they claim to engage in, it was provided by the publication in March 2023 of a 'Report on the socioeconomic, humanitarian and human rights situation in the Palma Afungi Mocímboa area' by consultants employed by TotalEnergies.<sup>208</sup>

Despite being commissioned and paid for by TotalEnergies, it is an indictment of conditions in Afungi three and a half years after TotalEnergies took control of the project. Despite a TotalEnergies press release at the launch of the report claiming that conflict in the area has nothing to do with the development of gas, the report clearly shows that the chaotic implementation of both the resettlement plan and the local economic development (LED) initiatives have indeed fuelled the conflict in the region.<sup>209</sup> For example, while the report recognises multiple causes of the conflict, in a revealing statement, it notes 'there are pressing questions nonetheless about the economic benefits of this project for the region and the insurgency will not fail to exploit them'.<sup>210</sup>

The insurgency is able to exploit local community members because expectations and promises are not being met. Numerous problems exist within the settlement process:

1. Consent – Community members complain that they were not given enough

207 See, Halim, D., 'From Policy to Practice: Is the Industrial Development Corporation a Responsible Investor?', Centre for Environmental Rights, 2021 & Halim, D. & Omar, Z., 'Assessing the Sustainability of Investment Policies for Development Finance Institutions in South Africa', Centre for Environmental Rights, 2020.

208 Rufin, J. & Glowsacki, I., 'Report on the socioeconomic, humanitarian and human rights situation in the Palma Afungi Mocímboa area (Cabo Delgado)', March 2023. The report and its Action Plan can be viewed here <https://totalenergies.com/media/news/press-releases/totalenergies-publishes-jcrufins-report-human-rights-cabo-delgado>. Accessed 12 August 2023.

209 'TotalEnergies publishes JC.Rufin's report on human rights in Cabo Delgado, together with the action plan decided by the Mozambique LNG project partners', TotalEnergies, 23 May 2023, <https://totalenergies.com/media/news/press-releases/totalenergies-publishes-jcrufins-report-human-rights-cabo-delgado>. Accessed 13 August 2023.

210 Rufin & Glowsacki, p. 4.

time to consider the resettlement plan, and documents were in languages they did not understand.

2. Financial Compensation - Community members complain that material assets were not valued fairly and so much time passed between valuations and payouts that increased values were not recognised. In addition, financial compensation payments take too long to be made overall.
3. Land Compensation - Community members complain that: plots allocated are smaller than their existing plots; there is no shade in their new plots; there are long delays between the surrendering of plots and the allocation of new land leaving families in distress.
4. The resettlement village in Quitunda - Community members noted that there was no electricity in the village. As the report notes, 'there is a certain paradox in the fact that a project whose vocation is the production of energy proposes installations that do not provide access to energy'.
5. Relocation of Fisherpeople - Fisherpeople are bused at regular hours to the same piece of coastline which is not compatible with the irregular nature of fishing and causes overfishing.<sup>211</sup>

LED projects have been equally poorly implemented. The report notes that the implementation of LED lacks 'consistency and coordination' and is more about site security concerns than genuine development. The report notes that attempts have been made to create 'circles' of development around the project site to try and increase its security at the expense of any attempt to address the long-term needs of those communities impacted by the project. It observes, 'if we look at the spatial distribution of these programs, we see that they are organised in three concentrated layers around the Afungi base. These layers correspond to the three security zones delineated around the Mozambique LNG project'.<sup>212</sup>

The report recommends that an overall development strategy be created which 'should be based on the interests of the population and not exclusively on those of the project' because 'actions in favour of local populations are an undeniable way to reduce their propensity to support violent rebellions'. The report states that the development plan should have an annual budget for at least five years and should not just look to support local community members but should take 'into account the more distant situation in the whole of Cabo Delgado'. To this end, it recommends the creation of a permanent 'centre for cooperation and development (which) would mark the importance of this dimension of the project'.<sup>213</sup>

The report also draws attention to the security agreements between TotalEnergies and the Mozambican military known as the Joint Task Force. The authors of the report make it clear that this arrangement is damaging to the public image of TotalEnergies because it directly links the company to violence inflicted on local

211 Rufin & Glowsacki, pp. 23 – 38.

212 Rufin & Glowsacki, pp. 14, 15 & 18.

213 Rufin & Glowsacki, pp. 6, 17, & 40.

community members by the Joint Task Force. In fact, it goes so far as to say that legally TotalEnergies could be considered a 'party to the conflict'.<sup>214</sup>

Despite the reports condemnation of both the resettlement plan and LED initiatives, TotalEnergies claim that it illustrates the 'positive impact on the living conditions of local population' the project has already provided.<sup>215</sup> Despite this alleged positive impact, TotalEnergies has nonetheless agreed to implement an 'Action Plan' to try and address the concerns raised in the report. This Action Plan includes no less than 25 remedial steps that need to be taken which include, inter alia, the creation of a socio-economic development Foundation (to be run by a 'recognized professional in the field of socio-economic development') with a multi-year \$200 million budget<sup>216</sup>; the appointment of community liaison officers; and a comprehensive audit of the entire resettlement process from the process for obtaining original consent to the actual physical resettlement of community members; and, negotiation around ending TotalEnergies relationship and support for the Joint Task Force.

The Action Plan is at pains to note that the Foundation 'shall have an extended geographical coverage, ensuring that the Mozambique LNG project delivers a positive impact not only in the Northern districts but also in the whole Cabo Delgado region'.<sup>217</sup> While this Action Plan may produce some positive benefits for local community members, the report's authors note that there is a danger that when the project is resumed after the lifting of the state of *force majeure*, TotalEnergies may simply mobilise 'for industrial activities as a matter of priority and that efforts to help the civilian population will take a back seat or even disappear'. Given this degree of cynicism, it is unsurprising that the report recommends ongoing monitoring. The Action Plan notes that its implementation will be monitored at least once by the authors of the original report.

## Assessment of TotalEnergies' Mozambique LNG Project Human Rights due diligence

In July 2023, a comprehensive research report from the human rights organisation UpRights was published which reviewed the human rights due diligence (HRDD) assessment of the LNG project undertaken by a private consulting firm for TotalEnergies. This report finds that the HRDD 'is incomplete and contains flaws' which have not been properly addressed in the HRDD Action Plan adopted by TotalEnergies.

<sup>214</sup> Rufin & Glowsacki, p. 20.

<sup>215</sup> 'TotalEnergies publishes JC.Rufin's report on human rights in Cabo Delgado, together with the action plan decided by the Mozambique LNG project partners', TotalEnergies, 23 May 2023, <https://totalenergies.com/media/news/press-releases/totalenergies-publishes-jcrufins-report-human-rights-cabo-delgado>. Accessed 13 August 2023.

<sup>216</sup> It is not clear if this is the total budget allocation, or an annual budget allocation. In addition, there is no indication of how many years of financial support will be offered.

<sup>217</sup> 'Mozambique LNG: Human rights assessment performed by Dr. Jean-Christophe Rufin: ACTION PLAN', Mozambique LNG, 23 May 2023. <https://totalenergies.com/media/news/press-releases/totalenergies-publishes-jcrufins-report-human-rights-cabo-delgado>. Accessed 14 August 2023

The report argues that there is a ‘significant disconnect between the LNG project’s public commitment to respect human rights in all aspects of its operations ... and the actual implementation of HRDD in its operations and the human rights situation on the ground’. It states the main problem with the HRDD undertaken by TotalEnergies is that it fails to properly assess the human rights implications of the project within the context of the conflict situation in northern Mozambique. It notes that HRDD ‘almost entirely disregards the potential and actual human rights impacts of the Project in relation to the armed conflict’.

Specifically, the HRDD fails to: assess the impact of the project in terms of the security of community members within the context of the presence of insurgents and Mozambican armed forces; consider the legal implications of the project’s operation in terms of international humanitarian and criminal law frameworks within the context of the on-going conflict; and does not address the particular gender implications of the conflict.<sup>218</sup>

It also notes that the creation of the HRDD was undertaken only after TotalEnergies took over the project, despite best practice noting that HRDD should be an iterative process, especially within the context of a region beset with conflict. In other words, as part of TotalEnergies due diligence it should have undertaken comprehensive human rights assessments before becoming involved in the project.<sup>219</sup> A lack of consultation with community members during the HRDD is also noted, as is a lack of meaningful community participation in the creation of the HRDD Action Plan. Lastly, and importantly, it notes that the HRDD assessment and the HRDD Action Plan largely endorsed the failed existing Resettlement Plan – the numerous weaknesses of which are set out above.<sup>220</sup>

The report notes that if TotalEnergies had addressed these issues properly, then the resettlement and security problems that emerged for community members after TotalEnergies halted the project in early 2021 would not likely have occurred. It ends by asserting that Jean-Christophe Rufin’s report commissioned by TotalEnergies, while being a positive step, is not the kind of comprehensive HRDD assessment that is urgently required to address the ongoing problems that beset the project.<sup>221</sup>

## The Geopolitical Explanation

If the decision of South African DFIs to invest in gas in Mozambique is indeed inconsistent with their alleged desire to adhere to international standards and best practices when it comes to social and environmental concerns, then an alternative explanation is required to explain their investments in TotalEnergies. This alternative

218 ‘Assessment of TotalEnergies’ Mozambique LNG Project Human Rights due diligence’, Uprights, July 2023, p. 3.

219 ‘Assessment of TotalEnergies’ Mozambique LNG Project Human Rights due diligence’, p. 48.

220 ‘Assessment of TotalEnergies’ Mozambique LNG Project Human Rights due diligence’, pp. 24 & 48.

221 ‘Assessment of TotalEnergies’ Mozambique LNG Project Human Rights due diligence’, p. 48.

explanation can be found in the deeply political push throughout the SADC region to exploit natural gas finds.

## The SADC Regional Gas Master Plan: Phase 1

This desire to exploit the region's natural gas reserves was first firmly expressed in 2017, at the 37th SADC Summit in Pretoria, South Africa. At the 38<sup>th</sup> Summit in 2018, the SADC Council agreed that a regional gas plan should be drawn up which resulted, two years later, in the publication of the SADC's Regional Gas Master Plan: Phase 1. A plan which was, incidentally, funded by the DBSA and IDC.<sup>222</sup>

The plan notes that gas finds in Angola, Namibia, South Africa, Mozambique, Tanzania and Botswana, can contribute towards creating 'secure, readily available, and affordable' energy in the region. Accordingly, gas 'can provide a viable path towards socio-economic development, job creation and poverty alleviation within the SADC region' and be 'a catalyser for regional integration, cooperation and development'. The plan also identifies gas as 'an important transitional fuel' which will assist governments in the region in their transition planning, and in meeting their Paris Agreement climate goals.<sup>223</sup>

The Regional Gas Master Plan notes that for natural gas to become part of the solution to the region's energy shortages, and not just be for export outside of the continent, a significant investment will be needed in gas infrastructure in SADC for at present there is simply too little demand for gas in the region. As it notes, 'current demand for natural gas is nascent within Southern Africa'.<sup>224</sup> For this investment to take place, demand for natural gas will need to be created. It proposes doing so by encouraging the development of gas-to-power projects in the region, but more specifically in South Africa, which the Masterplan notes is the 'key component' to this part of the plan. These gas-to-power projects 'would form the basis for developing the market within the region by providing the anchor demand necessary' from which it is 'assumed' that additional downstream demand would arise.<sup>225</sup> So important is gas demand from South Africa to these regional gas developments, that a new 2600 km pipeline, the African Renaissance Gas Pipeline, is proposed to run from northern Mozambique all the way into South Africa.<sup>226</sup>

## South Africa's Gas Master Plan

The South African government views gas as a 'transition fuel' and expressly

222 Sikuka, K., 'SADC to develop regional gas master plan', Southern African Research and Documentation Centre, 15 August 2018, <https://www.sardc.net/en/southern-african-news-features/sadc-to-develop-regional-gas-master-plan/>. Accessed 12 August 2023.

223 'Regional Gas Master Plan: Phase 1', Development Bank of Southern Africa & Southern African Development Community, 2020, pp. 15 - 19.

224 'Regional Gas Master Plan: Phase 1, p. 22.

225 'Regional Gas Master Plan: Phase 1, pp. 23 & 27.

226 'Regional Gas Master Plan: Phase 1, p. 100.



includes gas capacity as part of its energy mix in its electricity plan (Integrated Resource Plan 2019). In 2022, the South African Department of Mineral Resources and Energy (DMRE) published its draft Gas Master Plan: Base Case Report which largely mirrors the findings and recommendations of the SADC Masterplan. The DMRE report notes that natural gas ‘has the potential to completely change the economy by stimulating economic growth and development, stability, and job creation’ while also serving the same alleged role in the transition to a low-carbon economy as claimed in the SADC Plan.<sup>227</sup>

Like the SADC Plan, it notes that while there is currently insufficient demand in the region to develop gas infrastructure, this ‘impasse’ can be overcome by creating ‘significant “anchor” gas demand through the development of a gas-to-power programme’. It goes into more detail than the SADC Plan, by noting that not only can South Africa build new gas-to-power plants (there are plans for 3GW of new gas-to-power by 2030), but it can also convert its existing fleet of diesel-powered Open Cycle Turbines to accept gas and repurpose no less than six major coal-fired power stations to run on natural gas as they reach the end of their life-cycles before 2030. The DMRE report is unequivocal in stating ‘the benefit of prioritising gas for power generation provides for large and concentrated volumes of offtake, making the development of gas transmission infrastructure easier and more financially viable’.<sup>228</sup> The report also briefly notes how natural gas can be used in South Africa as a feedstock for chemicals, fertilisers and for petrochemicals. In sum, it contends that ‘natural gas will play a very important role in South Africa in the future and as the country’s dependency on natural gas grows, the domestic infrastructure will need to be developed’.<sup>229</sup>

This significant push by the South African government for natural gas can be seen in other developments in South Africa. In 2019, the IDC announced that it had invested in a 450 MW gas-to-power plant in Mozambique.<sup>230</sup> In August 2023, it was confirmed that the IDC was investing \$34 million for a 30% interest in phase one of South Africa’s largest onshore LNG plant, with an option for a further 30% interest in phase two.<sup>231</sup>

The South African government has been trying since 2021 to procure nearly 2000 MW of power from floating gas-to-power ships. This attempted procurement of gas has been dogged by issues of corruption, and successful legal action against flawed environmental impact assessments. While the gas for this procurement, if it ever happens, is highly unlikely to come from Africa the procurement is, according

227 ‘South African Gas Master Plan: Basecase Report (v 01)’, South African Department of Mineral Resources and Energy, 2022, pp. 1 & 40.

228 ‘South African Gas Master Plan: Basecase Report (v 01)’, pp. 22 & 25 - 28.

229 ‘South African Gas Master Plan: Basecase Report (v 01)’, p. 37.

230 ‘Integrated Annual Report 2019’, Industrial Development Corporation, 2019, p. 43.

231 Iannucci, E., ‘Kinetiko strikes LNG deal with the IDC’, Mining Weekly, 22 August 2023, <https://www.miningweekly.com/article/kinetiko-strikes-lng-deal-with-the-idc-2023-08-22>. Accessed 23 August 2023.



to one analyst, 'designed to test the market and entrench a gas market pathway in the long term in South Africa'.<sup>232</sup> Another South African state-owned entity, the Central Energy Fund, has also invested \$58 million in a private LNG plant in South Africa's Free State Province.<sup>233</sup>

South African legislation is also being amended to accelerate gas-to-power projects. The 2001 Gas Act is being amended to enable it to 'facilitate the development of integrated energy projects, including gas-to-power projects'. In addition, the 2021 Upstream Petroleum Resources Development Bill has been drafted 'to provide for orderly development of petroleum resources'.<sup>234</sup> The government is also in the process of merging all the pre-existing state-owned petroleum and gas entities into one company called the South African National Petroleum Company. According to the South African Minister for Minerals and Energy, Gwede Mantashe, this 'would allow the state to participate meaningfully in oil and gas developments'.<sup>235</sup> In addition, Mantashe recently stated that South Africa was lifting its moratorium on unconventional shale gas extraction.<sup>236</sup>

This intense support for gas exploration is reflected in ANC policy documents. The party's most recent discussion document on how to manage the South African economy claims that natural gas can be a 'gamechanger' for South Africa because of the 'opportunities in presents'.<sup>237</sup>

## The Politics of Gas and Fossil Fuel Exploration in Africa

This push for natural gas in Mozambique, South Africa, SADC and Africa more generally, must be viewed within the context of a growing political agenda among some African leaders to justify the continent's right to fully exploit its fossil fuel resources.

This right emerged strongly at the COP27 climate talks in Egypt in November 2022. For example, at COP27 the President of the African Development Bank, Akinwumi Adesina, stated 'we must recognise the special nature of Africa. Africa has the highest level of energy poverty in the world ... my interest is how Africa uses natural

<sup>232</sup> Fakir, 2020.

<sup>233</sup> 'South Africa's First Commercial LNG Plant Begins Operations', Energy Capital and Power, 7 September 2022, <https://energycapitalpower.com/south-africa-commercial-lng-renewable/>. Accessed 14 August 2023.

<sup>234</sup> Gas Amendment Bill, South African Government, 2021 & Upstream Petroleum Resources Development Bill, South African Government, 2021.

<sup>235</sup> 'Big shift for petrol in South Africa – with new state-owned company', Business Tech, 16 May 2023, <https://businesstech.co.za/news/government/688487/big-shift-for-petrol-in-south-africa-with-new-state-owned-company/>. Accessed 12 August 2023.

<sup>236</sup> Brandt, K., 'Mantashe: "We will continue with gas and petroleum exploration"', EWN, 17 May 2023, <https://ewn.co.za/2023/05/17/mantashe-we-will-continue-with-gas-and-petroleum-exploration>. Accessed 15 August 2023. It should also be noted that a private South African company is also trying to reach financial close, along with TotalEnergies, on a \$550 million LNG import terminal called Matola near Maputo which is designed to supply both Mozambique and South Africa with gas, partly because SASOL's Pande and Temane gas fields are slowly running dry. See, 'South Africa's Gigajoule expects to import first LNG cargo at new Mozambique terminal by mid-2025', Reuters, 3 March 2022, <https://www.reuters.com/article/safrica-lng-gigajoule-idINL8N2V57C7>. Accessed 14 August 2023.

<sup>237</sup> 'Reconstruction, Growth and Transformation: Building A New, Inclusive Economy – A Discussion Document prepared by the ANC's Economic Transformation Committee', African National Congress, 2020, p. 11.

gas as part of its energy mix to provide electricity for 600 million people today that don't have access to electricity'. Within the wider context of growing international pressure to abandon the exploitation of new fossil fuels, he argued that Africa 'should not now be penalised' for wanting to exploit its natural resources.<sup>238</sup>

Akinwumi Adesina is raising here the very important question of climate justice. It is a fact that Africa is not historically responsible for the vast majority of climate change inducing GHG emissions in the atmosphere and is responsible for only 4% of global GHG emissions today.<sup>239</sup> An argument can therefore be made that Africa should be able to exploit its fossil fuel resources just as the 'developed' world has over the last 200 years. Thus, any instruction from the 'developed world', or from the United Nations Framework Convention on Climate Change (UNFCCC) or global DFIs, that Africa cannot do so, can be understood as an injustice.

This idea that an injustice is being perpetrated against Africa has found a great deal of resonance among some leaders who are championing the right to exploit fossil fuels on the Continent. The President of Senegal, Macky Sall, stated in late 2021 that 'blocking financing for the gas sector would add a great economic injustice to the climatic injustice Africa is already suffering more than any other continent'.<sup>240</sup> The President of Nigeria, Muhammadu Buhari, has been even more forthright when he stated, 'western development has unleashed climate catastrophe on my continent. Now, the rich countries' green policies dictate that Africans should remain poor for the greater good'. He continued, 'Don't tell Africa that the world cannot afford the climate cost of its hydrocarbons ... don't tell the poorest in the world that their marginal energy use will break the carbon budget ... the continent needs a reliable source of power if it is to pull millions of citizens out of poverty'.<sup>241</sup>

In South Africa, this rhetoric has been even more forcefully made by Gwede Mantashe who accused opponents of new fossil fuel exploitation of 'oppressing' economic development. He stated, 'I cannot help but ask myself, are these objections meant to ensure the status quo remains in Africa, in general, and South Africa, in particular? That is, the status quo with regards to energy poverty, high unemployment, high debt-to-GDP ratio at country level, and economies that are not growing and, in some cases, jobless economic growth. We consider the objections to these developments as apartheid and colonialism of a special type, masqueraded as a great interest for environmental protection'.<sup>242</sup>

238 Jessop, S. & Madi, E., 'Africa deserves right to use natural gas reserves - AfDB chief', Reuters, 16 November 2022, <https://www.reuters.com/business/cop/africa-deserves-right-use-natural-gas-reserves-afdb-chief-2022-11-15/>. Accessed 14 August 2023.

239 'CDP Africa Report: Benchmarking Progress Towards Climate Safe Cities, States and Regions', CDP, 2020, p. 3.

240 'Senegal president opposes halting financing of fossil fuel extraction', Africa News, 30 November 2021, <https://www.africanews.com/2021/11/30/senegal-president-opposes-halting-financing-of-fossil-fuel-extraction/>. Accessed 15 August 2023.

241 Buhari, M., 'How not to talk with Africa about climate change', Washington Post, 9 November 2022, <https://www.washingtonpost.com/opinions/2022/11/09/nigerian-president-cop27-africa-climate-change/>. Accessed 15 August 2023.

242 Sgqolana, T., 'Mantashe calls environmental activism 'colonialism and apartheid of a special type' amid opposition to Shell Wild Coast survey', Daily Maverick, 10 December 2021, <https://www.dailymaverick.co.za/article/2021-12-10-mantashe->

The private sector in South Africa has also contributed to this debate. For example, Standard Bank recently defended its extensive fossil fuel investments in Africa. Kenny Fihla, chief executive officer of Standard Bank's corporate and investment banking unit, highlighted the issue of energy access stating, 'it is not possible for Africa and many of the African countries to ignore the shortage of electricity supply'.<sup>243</sup> From this, it would appear that we are supposed to believe that Standard Bank is investing in fossil fuels in Africa for altruistic reasons.

The political perspective on fossil fuel exploitation in Africa has been echoed by the African Union. Last year, the African Union adopted the 'African Common Position on Energy Access and Just Transition' which states that 'Africa will continue to deploy all forms of its abundant energy resources including renewable and non-renewable energy to address energy demand'. This 'Position' notes that the exploitation of fossil fuels alongside the development of renewable energy sources will strike 'a balance between ensuring access to electricity to catalysing the much-needed socio-economic growth in Africa'.<sup>244</sup>

There are serious problems with this political narrative being articulated on the continent.

## The zero-sum game

Firstly, it reduces the debate to a zero-sum game of either exploiting fossil fuels to address Africa's energy shortages or accepting that Africa's energy shortages will remain forever as there is no alternative to fossil fuels. There is, of course, a very viable alternative and that is the rapid and wholesale expansion of the provision of renewable energy throughout Africa. But this is where there is a serious problem, because while the 'developed world' has accepted the principle of 'differentiated responsibilities' for climate change in terms of the UNFCCC, it is not delivering the required financial support to Africa to enable it to pursue renewables energy instead of fossil fuels at anything like the scale it needs to.

Via the UNFCCC, the 'developed' countries agreed in 2009 to commit at least \$100 billion a year in funds by 2020 to support climate action in 'developing' countries. This target has not been met once and still falls far below the \$100 billion, which is itself far less than is actually needed to help 'developing' countries both mitigate and adapt to climate change. Recent research shows that in 2020, 'developed' countries committed just \$83.3 billion, less than 25% of which is actually in the form

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[calls-environmental-activism-colonialism-and-apartheid-of-a-special-type-amid-opposition-to-shell-wild-coast-survey/](#). Accessed 15 August 2023.

243 Burkhardt, P., 'Standard Bank defends investment in fossil fuels due to Africa's energy needs', News24, 9 May 2023, [https://www.news24.com/fin24/climate\\_future/news/standard-bank-cites-energy-needs-in-fossil-fuel-defense-20230509](https://www.news24.com/fin24/climate_future/news/standard-bank-cites-energy-needs-in-fossil-fuel-defense-20230509). Accessed 22 August 2023.

244 'Africa Speaks with Unified Voice as AU Executive Council Adopts African Common Position on Energy Access and Just Energy Transition', African Union, 22 July 2022, <https://au.int/en/pressreleases/20220722/africa-speaks-unified-voice-au-executive-council-adopts-african-common#:~:text=The%20African%20Common%20Position%20encourages,the%20ambitions%20of%20Agenda%202063>. Accessed 15 August 2023.

of grants, with the remainder being in loans, most of which are not concessional.<sup>245</sup> In addition, less than 60% was for mitigation efforts such as renewable energy. Oxfam recently estimated that only \$25 billion of the \$83.3 billion pledged was actually in the form of real climate finance if accounting practises and the actual targets of funds are properly considered.<sup>246</sup>

Even when a financing package is directed specifically at renewable energy, such as the Just Energy Transition Partnership (JETP) negotiated between South Africa and 'developed' countries, less than 4% of the \$8.5 billion to be allocated is in the form of grants.<sup>247</sup> Passing largely commercial loans to already heavily indebted African countries is not going to enable them to transition to renewable energy sources. This is not to suggest, of course, that African governments do not have an appetite for commercial loans when it comes to the development of fossil fuels, as the Mozambique example clearly demonstrates. Africa is also witnessing some 'developed' countries pushing hard to continue to exploit their own fossil fuel resources while encouraging African countries not to do so. Britain is a case in point. Despite being a significant participant in the JETP agreement with South Africa, the British government recently announced that it will issue 'hundreds' of new licences to exploit oil and gas in British waters.<sup>248</sup>

This hypocrisy on the part of the 'developed' world creates the perfect opportunity for African leaders to cry foul and insist on Africa's right to exploit fossil fuels. But, as the saying goes, two wrongs do not make a right. Given the severity of the climate crisis, it is clear that neither the 'developed' or the 'developing' world should be exploiting new fossil fuels.

## Where is the development?

Secondly, and as this report has demonstrably shown, the exploitation of fossil fuels in Africa has not produced the kinds of development that African leaders claim it will. Therefore, the argument that the 'developed' world is preventing Africa from increasing its energy security and enabling inclusive economic growth has no substance. It is worth reflecting on Angola, the only current producer of natural gas in the SADC region, which has become an exemplar of the 'resource curse'. Despite massive oil riches, extensive natural gas reserves and minerals including iron, manganese, bauxite, uranium, gold, diamond, Angola was recently described by analysts as 'a classic example of a state where natural resource endowment does

245 'Climate Finance Shadow Report 2023: Assessing the Delivery of the \$100 Billion Commitment', Oxfam International, 2023, p. 5.

246 'Climate Finance Shadow Report', Oxfam, 2023, p. 9.

247 'Secretly-negotiated South African 'climate finance deal' a gift to private investors while choking local development', Institute for Economic Justice, 10 November 2022, <https://www.iej.org.za/statement-secretly-negotiated-south-african-climate-finance-deal-a-gift-to-private-investors-while-choking-local-development/>. Accessed 15 August 2023.

248 Reed, S., 'British Government Signals Support for Oil and Gas Industry', New York Times, 31 July 2023, <https://www.nytimes.com/2023/07/31/business/britain-drilling-north-sea.html>. Accessed 15 August 2023.

not translate to better living standards for the citizens.’<sup>249</sup> This is largely because political elites in Angola have, because of rampant corruption facilitated by weak revenue management and absent accountability structures and brutal repression, plundered resource revenues for themselves for decades, while foreign companies have exported Angola’s resources to make profits within global markets.

## The Real Colonialism

Despite the rhetoric, it is clear that the real neocolonial relationship in Africa comes with the ongoing foreign exploitation of its resources. The exploitation of LNG in Mozambique by TotalEnergies is a perfect illustration of this as it has remarkable similarities to the extraction that took place under colonial regimes in Africa.


Like a modern-day Concessionary Company, TotalEnergies has staked a claim to a part of northern Mozambique, from which it has removed Mozambican residents, and over which it has privileged rights to exploit a product almost entirely destined for export.<sup>250</sup> It has even done so with the support of a military force and under the cover of legally binding agreements which protect its interests to the potential detriment of ordinary Mozambicans. As the ‘Report on the socioeconomic, humanitarian and human rights situation in the Palma Afungi Mocímboa area’ makes clear, like a concessionary company, it has also dedicated itself to short-term profits over long-term development. In short, a neocolonial ‘enclave’ has been created in Afungi which is dominated by foreign capital and orientated to foreign markets. It is, therefore, clear that contemporary LNG extractivism in Cabo Delgado ‘is re-creating socio-political dilemmas reminiscent of or rooted in the extractivism of the colonial era, which was characterised by various ills including resource plunder, land grabbing, and population displacement and dispossession’.<sup>251</sup>

It is not clear how African leaders expect energy security and meaningful and inclusive economic growth to emerge from such neocolonial economic, political, and social patterns of extractivism and exploitation. There is simply no evidence to say it does. How then, do we explain the push by African leaders to exploit fossil fuels? We can either assume that respective African leaders believe that they can do things differently, that they can break the ‘resource curse’ and ensure that real benefits accrue for their citizens. Or are we to assume that political elites linked to governing parties simply view the rush for oil and gas as an opportunity to enrich themselves at the expense of ordinary citizens on the continent? While there is little evidence to support the first proposition, there is, sadly, plenty of evidence to

249 Anyika, V., & Ani, K., ‘Resource Curse and Environmental Conflicts in Angola’, in Ani, K. (ed.), *Resource Conflict and Environmental Relations in Africa*, (Palgrave), 2023, p. 109.

250 Concessionary companies were private entities which effectively ruled areas of Africa by proxy on behalf of European colonial powers. These companies, such as the Imperial British East Africa Company or the Companhia de Mozambique, were granted concessions which allowed them to extract resources. Granted wide administrative powers, they often had their own private military forces which they used to control local populations. See, for example, Vail, L., (1976), ‘Mozambique’s Chartered Companies: The Rule of the Feeble’, *Journal of African History*, 17(3).

251 Namaganda, 2022, p. 1.



suggest that networks of corrupt politicians, with the support of corrupt business leaners, see the exploitation of natural resources as a means by which to accrue fantastic levels of personal wealth, while also entrenching the power of their respective political parties and support base.

### **The DBSA, the IDC and the ECIC**

If we accept that South African DFIs proactively try and implement their due diligence mandates and are indeed trying to be good ‘corporate citizens’ who ‘invest responsibly’ then we also need to seek an alternative explanation which accounts for their investments in gas in Mozambique. Given the enormous political pressure being exerted in South Africa to develop gas, is it not possible that DFI policy in relation to natural gas is actually being directed and shaped by the executive arm of government? Are South African DFIs, therefore, able to make independent decisions or are they compelled by political forces to invest in projects like LNG in Mozambique?

# Section 3 – Findings and Recommendations

## SOUTH AFRICAN DFIS AND THE INVESTMENT IN MOZAMBIKAN LNG

This research report has comprehensively demonstrated that the investments made by South African DFIs in LNG in Mozambique are entirely inconsistent with the DFI's professed respect for the socio-economic and environmental rights of the people of Mozambique, the continent and the wider world.



By any socio-economic and environmental metrics, the exploration and exploitation of gas in Mozambique does not support the concept of sustainable development – a concept which is allegedly at the heart of all investment decision-making by the three South African DFIs.<sup>252</sup> Investing in fossil fuels is entirely contrary to the meaning of sustainable development which the United Nations defines as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’.<sup>253</sup> As this report has made abundantly clear, the exploitation of natural gas in Mozambique obviously does not meet this standard.

It is within this context that the declaration of the *force majeure* by TotalEnergies gives the South African DFIs the perfect opportunity to reassess their respective decisions to invest in fossil fuel in Mozambique. All of the DFIs have mechanisms by which they can reverse their decisions to invest in the TotalEnergies Project. If the DFIs are undertaking the regular monitoring of this project, as they claim they do for all projects of this type, then the DFIs must be aware of how the project, throughout its entire life to date, has not met with the alleged socio-economic and environmental standards expected by the DFIs of their clients.

This is especially true, given all the changes that have taken place since the original decision was made to invest in the TotalEnergies project and because of ongoing problems with the project.

Since the first insurgent attacks in 2017 the violence has escalated, resulting in one of the bloodiest massacres in recent times taking place on 24<sup>th</sup> March 2021, with at least 1193 confirmed deaths (330 of which were by beheading) and over 200 kidnappings. These attacks were similar in scale and violence to the recent Hamas attacks on Israel, but there has been very little media coverage or reflection on why they take place and what they mean for Mozambique.<sup>254</sup>

The initial militarisation to quell the insurgency was extremely problematic because badly trained and weakly vetted military and police personnel, supported by mercenary groups with terrible human rights records such as Wagner group, Dyck Advisory group, Paramount group, recklessly engaged in largely indiscriminate human rights violations including abuse, kidnapping, torture, rape and killings. These appalling actions have sown deep distrust, fear and trauma within communities making it virtually impossible to have any fair and open community dialogue, let alone adhere to the principles of free, prior and informed consent. To date, major human rights gaps remain, and many of the human rights due diligence

252 ‘About DBSA’, Development Bank of Southern Africa, <https://www.dbsa.org/about-us> & ‘About Us’, Industrial Development Corporation, <https://www.idc.co.za/about-us/> & ‘Overview of the Export Credit Insurance Corporation of South Africa SOC Ltd (“ECIC”)', Export Credit Insurance Corporation of South Africa, no date, p. 3. Accessed 28 September 2023.

253 ‘Sustainable Development Goals’, United Nations, <https://www.un.org/sustainabledevelopment/development-agenda-retired/>. Accessed 29 September 2023.

254 ‘Palma Massacre: A Hidden Catastrophe, Uncovered’, Alex Perry, 19 June 2023, <http://www.alex-perry.com/palma-massacre/>. Accessed 16 November 2023.

requirements highlighted by the UpRights report are still absent.<sup>255</sup>

Even though the more recent military support from Rwanda, SADC and the European Union has been more professional and effective, it has not dealt with the socio-economic drivers of the conflict, having focused almost exclusively on securing the project area and the associated infrastructure. This failure to deal with the drivers of the conflict places a huge burden on the project itself to be able to provide the necessary resources for the causes of the conflict to be addressed. However, as we have already seen, the projected economic benefits of the project are exaggerated and unlikely to be realised.<sup>256</sup> If these causes are not addressed, the project would need continuous military support which cannot be sustainable in the long run.

The causes of the conflict have still not been adequately assessed, and did not form any part of the initial assessments when decisions to fund the project were made. 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.

TotalEnergies continues to manage the community resettlement very poorly, with many community members still not having access to adequate farming land, while others have been allocated land that is already farmed by host communities. Many fisher folk are still without access to the ocean, with bus transport to the ocean failing to solve this problem. Given the numerous land grabs by subcontractors, service providers, and due to speculation by political elites, it's hard to see how these land issues are going to be resolved.

As we have already seen, the need to use gas as a transition or bridging fuel is becoming less and less likely. This means that demand predictions made during the investment phase are increasingly out-of-date. The technological and financial case to use gas to transition from coal to renewables has now become so weak, that the European Academics Science Advisory Group recently argued that in the vast majority of cases it is now preferable to transition directly from coal to renewables.<sup>257</sup>

The future demand for gas has also been deeply impacted by global geopolitical shifts caused by the Russian invasion of the Ukraine and the subsequent banning of Russian gas imports into Europe. While this ban caused a temporary 'spike' in demand for and in the price of LNG, it is already becoming clear that this 'spike' has acted to accelerate plans for countries, especially within the European Union, to

255 'Assessment of TotalEnergies' Mozambique LNG Project Human Rights due diligence'.

256 West & Lepiz, 2021.

257 'The Future of Gas', European Academics Science Advisory Group, EASAC policy report 46, May 2023, p. 9. & 'The Cost Of Fossil Gas: The Health, Economic And Environmental Implications For Cities', C40 Cities, October 2022 & Halsey, R, Bridle, R & Geddes, A., 'Gas Pressure: Exploring the case for gas-fired power in South Africa', International Institute for Sustainable Development, 2022.

transition much more rapidly than originally planned to renewables. As one energy analyst recently remarked, 'LNG's current boom will only accelerate its ultimate demise'. This volatility in LNG prices has had similar repercussions outside of Europe where demand for LNG has fallen in Asia – in the key markets of China, Japan, and Korea – where alternative energy sources have been found. While in the Chinese case, in particular, this does not necessarily mean a turn towards renewables, it does nonetheless demonstrate a loss of appetite for LNG.<sup>258</sup>

This potentially significant fall in the long-term global demand for LNG will expose Mozambique to what the DBSA itself describes as 'the extreme economic risk and vulnerability arising from fossil fuel dependency'.<sup>259</sup>

In addition, since the investments were made the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report on Climate Change has been published. According to the UN Secretary-General António Guterres, this report is a 'code red for humanity' and must signal the 'death knell for coal and fossil fuels, before they destroy our planet'. To this end, Guterres stated that all countries should immediately 'end all new fossil fuel exploration and production'.<sup>260</sup>

From a purely financial perspective, project costs have increased significantly since TotalEnergies took over the project. It is estimated that they have risen by at least 25% in the last few years. From an economic perspective this means that those investing in the project need to reassess its financial viability and reconsider their decision to invest in the project. A project which now, at the very earliest, will only produce LNG from 2028.<sup>261</sup>

## South African DFIs and the Funding of Fossil Fuels

South African DFIs need to make concrete commitments to cease new investments in fossil fuel exploration and extraction and all associated activities. In late 2021, the DBSA encouragingly stated that it was adopting a Net Zero by 2050 'pathway' across all of its investment and loan portfolios.<sup>262</sup> This commitment has been adopted in a DBSA policy called the Just Transition Investment Framework which looks specifically at the energy sector. This document confirms the bank's intention to align its investments with Net Zero by 2050 by encouraging investments which

258 Ferris, N., 'Why LNG's current boom will only accelerate its ultimate demise', Energy Monitor, 6 April 2023, <https://www.energymonitor.ai/sectors/industry/why-lng-market-current-boom-will-only-accelerate-its-ultimate-demise/?cf-view>. Accessed 29 September 2023.

259 'DBSA Integrated Just Transition Investment Framework', Development Bank of Southern Africa, January 2021, p. 15.

260 'Secretary-General's Statement on the IPCC Working Group 1 Report on the Physical Science Basis of the Sixth Assessment', United Nations Framework Convention on Climate Change, 9 August 2021, <https://unfccc.int/news/secretary-general-s-statement-on-the-ipcc-working-group-1-report-on-the-physical-science-basis-of>. Accessed 29 September.

261 'TotalEnergies to restart Mozambique LNG project in 2024, first gas in 2028 – Rystad Energy', Club of Mozambique, 10 July 2023, <https://clubofmozambique.com/news/totalenergies-to-restart-mozambique-lng-project-in-2024-first-gas-in-2028-rystad-energy-240700/>. Accessed 2 October 2023.

262 'DBSA Statement on Net Zero', Development Bank of Southern Africa, November 2021, <https://www.engineeringnews.co.za/article/dbsa-commits-to-playing-its-part-in-a-just-transition-to-net-zero-emissions-by-2050-2021-11-03>. Accessed 28 September 2023.

accelerate decarbonisation in the energy sector, primarily renewables.<sup>263</sup>

While the concept of Net Zero is useful in target setting in terms of climate action, it is a very controversial one. Critics argue that the concept of Net Zero can be abused because it allows polluting countries or corporations to continue polluting by offsetting their pollution against carbon credits issued from carbon sequestration sources or by using technology. The problem with this is that many carbon credits being traded are bogus, and much of the technology being promoted to capture carbon is unproven.<sup>264</sup>

In terms of gas, the policy notes that it is a 'transition fuel' and is 'essential for the provision of reliable power supply to support Africa's industrialization and business demands'. The following sentence then states, however, that 'global demand will fall as economies move away from fossil fuel, and the oil and gas majors shift their investment portfolios to consider more sustainable options' leading to the danger of 'transition risk'. A few pages later the framework notes that the DBSA will support African countries to 'transition from coal, oil and gas by accelerating investment in cleaner energy solutions'.<sup>265</sup> The juxtaposition, if not contradiction, revealed in these sentences is important because it indicates a lack of confidence in the future of gas, clearly indicating the lack of certainty around the future global market for gas.

What the Just Transition Investment Framework policy lacks is a clear commitment to end or phase out the funding of fossil fuels. A commitment that is similarly lacking from both the IDC and ECIC. This is particularly concerning because global DFIs are turning away from new investments in fossil fuels because of their commitments to a habitable planet. For example, the World Bank stopped investing in upstream oil and gas in 2019.<sup>266</sup> A similar decision was made by the European Investment Bank in 2021, followed by the development banks of Denmark and Sweden.<sup>267</sup> In addition, 15 European DFIs have agreed to cease all new funding of oil and coal, and limit gas funding to power generation only, before excluding gas by 2030 'at the latest'.<sup>268</sup>

It is high time that South African DFIs follow this urgent global trend and make concrete commitments to end new investments in fossil fuels and phase out

263 'DBSA Integrated Just Transition Investment Framework', p. 22.

264 See, for example, Dyke, J., Watson, R., Knorr, W., 'Climate scientists: concept of net zero is a dangerous trap', The Conversation, 22 April 2022, <https://theconversation.com/climate-scientists-concept-of-net-zero-is-a-dangerous-trap-157368>. Accessed 25 October 2023.

265 'DBSA Integrated Just Transition Investment Framework', pp. 11 & 15.

266 '10 Things You Didn't Know About the World Bank Group's Work on Climate Change', The World Bank, 29 October 2021, <https://www.worldbank.org/en/news/factsheet/2021/10/29/10-things-you-didn-t-know-about-the-world-bank-group-s-work-on-climate>. Accessed 28 September 2023.

267 Ferragamo, M. & Auth, K., 'Do major DFIs finance fossil fuels?', Energy for Growth Hub, 3 May 2021, <https://energyforgrowth.org/article/do-major-dfis-finance-fossil-fuels/>. Accessed 29 September 2023.

268 'EDFI group outlines shared commitments to phase out fossil fuels and mobilise private sector climate finance, aligning with Paris Agreement and high disclosure standards', Association of European Development Finance Institutions, 2 November 2020, <https://www.edfi.eu/news/edfi-climate/>. Accessed 28 September 2023.

existing ones. As UN Secretary-General António Guterres recently stated, ‘financial institutions everywhere must ... commit to end financing and investment in exploration for new oil and gas fields, and expansion of oil and gas reserves – investing instead in the just transition in the developing world’.<sup>269</sup>

## The Transparency and Accountability of South African DFIs

This research has once again demonstrated that South African DFIs do not take their responsibilities seriously when it comes to issues of transparency and accountability. Section 32(1)a of the South African Constitution states that the South African public ‘has the right of access to any information held by the state’. All three DFIs are organs of state which must, according to section 41(1) c of the Constitution, ‘provide effective, transparent, accountable and coherent government’. To realise these rights, the Promotion of Access to Information Act (PAIA) was passed in 2000 which aims to ‘promote transparency, accountability and effective governance of all public and private bodies’.<sup>270</sup> These rights in PAIA are ‘subject to justifiable limitations, including, but not limited to, limitations aimed at the reasonable protection of privacy, commercial confidentiality and effective, efficient and good governance’.<sup>271</sup>

While limitations on access to information are justifiable in certain circumstances it appears that South African DFIs routinely reject requests for information about investments they have made on the basis of commercial confidentiality. While it may sometimes be necessary to protect commercially confidential information, blanket refusals to share information, as this research report illustrates, extends to even sharing policies which the DFIs use to inform their decision making, including consideration of factors that may harm the public, through the allocation of public funds to private companies.<sup>272</sup> This refusal to share even policy documents speaks to the systemic nature of this accountability issue, as these institutions create and implement obstacles to legitimate forms of public scrutiny.

This systemic failure to account to the public for the investment of public funds was revealed in 2020 when a South African civil society organisation, the Centre for Environmental Rights (CER), used the PAIA to try and access information about the DBSA’s role in the LNG projects in Mozambique. All the CER’s requests for information were denied, even one which simply asked the DBSA for documents indicating ‘whether environmental and social impact assessments were undertaken for this project’.

269 ‘Guterres calls for phasing out fossil fuels to avoid climate ‘catastrophe’, United Nations News, 15 June 2023, <https://news.un.org/en/story/2023/06/1137747>. Accessed 28 September 2023.

270 Promotion of Access to Information Act, Government of South Africa, 2000, section 9(e).

271 Promotion of Access to Information Act, section 9(b)i.

272 See also, Halim, D. & Omar, Z., ‘Financing Fairly: Assessing the Sustainability of Investment Policies for Development Finance Institutions in South Africa’, Centre for Environmental Rights, 2020, p. 7 and Panula, B. & van Staden, J., ‘Understanding South African Development Finance Institutions to promote accountability’, Fair Finance Southern Africa, 2022, pp. 50 – 52.

It should be noted that the limitations on access to information as they are inscribed in the PAIA are also limited. The default position of PAIA is in favour of access. Section 46 states that information must be granted, if in doing so illegal activity would be exposed or 'an imminent and serious public safety or environmental risk' revealed or if 'the public interest in the disclosure of the record clearly outweighs the harm contemplated in the provision in question'.<sup>273</sup> Given that people and organisations around the world are now litigating against governments over their refusal to take actions to avoid climate change, it is possible that this section of PAIA could be used to try and gain access to information about the investments in Mozambique, given their impact of global GHG emissions and the threat this poses to 'public safety', in addition to pre-existing threats.<sup>274</sup> It should also be noted, that if an information request is refused, it could be reviewed by the Information Regulator in South Africa which is mandated to ensure that the PAIA is implemented correctly.<sup>275</sup>

Research undertaken in early 2022 indicates that none of the South African DFIs perform well in terms of transparency and accountability, although the DBSA appears to be making more effort in these critical areas than either the IDC or the ECIC.<sup>276</sup> Encouragingly, the DBSA acknowledged in early 2021 that it was aware of the 'growing global requirement for increased transparency in investment allocation and reporting'.<sup>277</sup> There is, sadly, a significant gap between being aware of something and actually doing something in response. That said, it is important to acknowledge that research has shown that the DBSA is more transparent and accountable than either the IDC or the ECIC.

It is quite clear that South African DFIs need to take their responsibilities in terms of public accountability much more seriously and abandon their culture of secrecy.

## Renewable Energy rather than LNG

Research indicates that Mozambique has 'enormous potential in renewable energy' which could come from a mixture of hydropower, biomass, wind, geothermal and solar energy. Upwards of 23 gigawatts could come from these renewable sources which could address the imbalance in energy access between urban and rural areas, while also mitigating climate change. Incidentally, Cabo Delgado has particularly high levels of solar radiation, and is the windiest province in Mozambique making it very suitable for renewable energy.<sup>278</sup>

273 'Promotion of Access to Information Act', section 46(a) and 46(b).

274 'Climate litigation more than doubles in five years, now a key tool in delivering climate justice', United Nations Environment Programme, July 2023, <https://www.unep.org/news-and-stories/press-release/climate-litigation-more-doubles-five-years-now-key-tool-delivering>. Accessed 25 September 2023.

275 See, Information Regulator South Africa, <https://inforegulator.org.za/>. Accessed 27 September 2023.

276 Omar & Thorp, 2022.

277 'DBSA Integrated Just Transition Investment Framework', p. 11.

278 Cristóvão, L., (et al), 'The Potential of Renewable Energy in Mozambique: An Overview', Journal of Energy Technologies and Policy, 11(2), 2021, pp. 30 -34.



Given this enormous renewable energy potential and the alleged interests of South African DFIs in energy access and climate change, they should redirect their funding away from LNG to support the provision of utility-scale renewable energy plants in Mozambique. Community ownership models should be explored.

## Green Finance

Those countries with a historic climate debt need to make a genuine effort to provide the Global South with the resources necessary to enable countries in the Global South to transition away from fossil fuels while also developing their respective economies following the principles of a Just Transition. This is a matter of climate justice which countries of the Global North must take seriously. Current financing is entirely inadequate, and inappropriate. It is inadequate because it is not enough – the current target of \$100 billion per year falls far short of the \$2.5 trillion that the United Nations estimates is necessary to allow countries of the Global South to ‘deliver both climate and development goals’.<sup>279</sup> It is also inappropriate because less than 30% of the money being made available at present is in the form of grants. The vast majority is in the form of loans which increase the debt burden of countries in the Global South.<sup>280</sup>

It is not just climate debt that should be considered here. It is now well-understood that much of the Global North’s economic development was only possible because of the historic exploitation of labour (especially via slavery) and natural resources from the Global South, as well as the wholesale manipulation of Global South economies to serve the specific interests of colonial Global North economies.<sup>281</sup> This long history of oftentimes brutal exploitation has led to ongoing calls for financial reparations to be paid by ex-colonial powers to ex-colonies to compensate them for this exploitation.<sup>282</sup> It was recently calculated, for example, that Britain extracted \$45 trillion out of India between 1765 and 1938.<sup>283</sup> In 1999, at a ‘Truth Commission’ conference, the African Union calculated that the cost of reparations for slavery and other wrongs perpetrated on Africa would equal \$777 trillion (plus interest).<sup>284</sup> There is, therefore, an additional moral imperative for the countries of the Global North to comprehensively finance both mitigation and adaptation climate measures throughout the Global South.

279 Kozul-Wright, R., ‘A climate finance goal that works for developing countries’, United Nations Conference of Trade and Development, 14 June 2023, <https://unctad.org/news/climate-finance-goal-works-developing-countries>. Accessed 27 September 2023.

280 ‘Climate Finance Shadow Report: Assessing the Delivery of the \$100 billion commitment’, Oxfam, 2023, p. 17.

281 See, for example, Rodney, W., *How Europe Underdeveloped Africa*, Verso - New Edition, 2018 & Davies, M., *Late Victorian Holocausts*, Verso, 2017, Wallerstein, I., *Historical Capitalism*, Verso, 2011.

282 Howard-Hassmann, R., ‘Why the West is morally bound to offer reparations for slavery’, *The Conversation*, 25 January 2021, <https://theconversation.com/why-the-west-is-morally-bound-to-offer-reparations-for-slavery-153544>. Accessed 25 October 2023.

283 Hickel, J., ‘How Britain stole \$45 trillion from India’, *Aljazeera*, 19 December 2018, <https://www.aljazeera.com/opinions/2018/12/19/how-britain-stole-45-trillion-from-india>. Accessed 26 October 2023.

284 Craemer, T., ‘International Reparations for Slavery and the Slave Trade’, *Journal of Black Studies*, 49(7), 2018, p. 701.



Unless the Global North is serious about meeting these obligations, efforts to divert countries of the Global South away from exploiting polluting fossil fuel resources will likely fail.

## **Fossil Fuel Exploration and Extraction in the Global North**

As a matter of urgency, countries in the Global North must stop any further exploration and extraction of fossil fuels within their respective territories. The examples set by Ireland, France, and Denmark which have banned the issuing of new fossil fuel exploration licences, must be followed by all countries in the Global North.<sup>285</sup> This imperative for countries of the Global North to take meaningful and forthright action on climate change dates back to the 1992 United Nations Conference on Environment and Development in Rio de Janeiro where the question of climate justice was formalised with the principle of 'common but differentiated responsibility'. This principle acknowledges that while all nations share a common moral responsibility to address climate change, the proportions of such responsibility are differentiated according to how much each nation has historically contributed to causing climate change.<sup>286</sup> It is within the context of this internationally accepted principle that countries in the Global North have an overwhelming responsibility to act. The failure to do so gives real substance to accusations of hypocrisy when the nations of the Global North instruct those of the Global South to transition away from fossil fuels but fail to do so themselves, let alone assist countries of the Global South to transition away from fossil fuels as they need to do.

285 Waltham, D., 'We should ban all new oil and gas fields', The Conversation, 7 December 2021, <https://theconversation.com/we-should-ban-all-new-oil-and-gas-fields-172905>. Accessed 24 September 2023.

286 Zhang, Y., Zhang, C., 'Thirty years with common but differentiated responsibility, why do we need it ever more today?', Blavatnik School of Government - University of Oxford, 4 May 2022, <https://www.bsg.ox.ac.uk/blog/thirty-years-common-differentiated-responsibility-why-do-we-need-it-ever-more-today>. Accessed 10 November 2023.



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