

Mozambique's gas boom dream under threat

By [Susan Njanji](#) and [Adrien Barbier](#)

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The small, palm-fringed fishing town of Palma was meant to become a symbol of Mozambique's glittering future, transformed by one of the world's largest liquefied natural gas projects.



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But construction has fallen far behind schedule and the town's fate is uncertain after gas prices fell and the government became engulfed in a \$2bn debt scandal.

Tucked between the turquoise waters of the Indian Ocean and thick tropical forests, Palma remains a sleepy village of 3,000 people, still waiting for the promised arrival of new jobs and infrastructure.

The discovery of gas reserves in 2010, estimated at 180-trillion cubic feet (five trillion cubic metres) in the surrounding Rovuma Basin, was the biggest natural gas find in recent decades.

Experts have predicted that Mozambique could become the world's thirdlargest exporter of liquefied natural gas (LNG) - and an African version of wealthy Qatar.

Plans to exploit the reserves moved fast, and Palma's residents were soon looking for opportunities to lift themselves out of poverty in one of the world's poorest nations.

"It's only through such projects that we will get proper jobs because otherwise we just depend on the sea," said 46-year-old fisherman Pedro Abuda-Nchamo.

Since the discovery of the gas, the face of the town has started to change.

Excavators and construction vehicles are working on the planned liquefaction plant and export facilities.

A gated residential complex for the anticipated influx of skilled workers is almost ready, and the town's first shopping mall is being built.

But the much-touted gas project has run into strong headwinds.

Initial estimates were that the first LNG would come on stream in 2016 but now it is expected in 2023 - or later.

The plunge in global gas prices has led energy companies to slow down capital expenditure.

Meanwhile the government in Maputo is caught up in a debt scandal that has triggered an economic crisis unseen since the end of the southern African country's civil war in 1992.

Vast secret debts

News emerged last year that the government had borrowed massively - including three secret loans amounting to \$2bn - between 2012 and 2014 to fund a coastal protection project.

As a result, the International Monetary Fund and World Bank have suspended budgetary support.

The loans, which the government is unable to repay, were taken out in anticipation of the gas windfall that remains elusive.

"The government thought it would repay the loans with gas money," said Borges Nhamire, analyst with CIP, an anti-corruption non-governmental organisation.

Analysts fear that Mozambique's state-owned Empresa Nacional de Hidrocarbonetos (ENH), a minority partner in the gas project, may now struggle to raise its contribution of the share capital - although ENH insists it will honour its share of the deal.

Meanwhile, other players in the multi-billion-dollar gas project appear to be making investment decisions.

In March Exxon announced that it was buying for \$28bn, a 25% stake in Italian energy giant ENI's Mozambique gas resource.

That same month another major player, US oil and natural gas company Anadarko, also said it was investing \$770m in its deepwater project in Mozambique where it "expects to continue advancing" and that it has "made good progress on the legal and contractual framework".

But Nhamire said it will take a "long time" for any benefits from the gas project to reach average Mozambicans.

'Blessing or curse'?

The long-running conflict between the ruling Frelimo party and opposition Renamo fighters engaged in a low-key armed insurgency resurfaced in 2013, but a ceasefire in place since December has raised hopes of progress towards permanent peace.

Yet the debt controversy has dented investor confidence and provoked fears that Mozambique is another African victim of the "resource curse".

"It's been really a pretty serious disaster that impacted right throughout the economy," said Peter Fabricius, a consultant with the South Africa-based Institute of Security Studies.

"What it does indicate is serious deficiency in governance and that is at the heart of any discussion about whether resources are going to become a blessing or a curse."

For a decade until 2014, Mozambique experienced galloping growth of more than seven percent annually, fuelled by foreign capital inflows on the back of coal and natural gas discoveries.

But growth has slowed by half from 6.6% in 2015 to 3.3% last year, and the central bank in April forecast "a continuation of the weakening of economic activity".

"Foreign direct investment declined by 20% indicating a decline in confidence in the economy," said the World Bank in its latest country overview.

For Palma residents, delays in the start of the gas project are breeding anxiety and frustration.

"They promised that when the companies come we would get jobs but until now it has not happen and people are complaining," said Amade Mussa, a village leader.

The government insists the Palma project is still on track and that local people will benefit even as some have to be relocated for the construction of the gas terminal.

"Our priority is to take that community out of poverty," Land Minister Celso Correia told AFP.

Source: AFP

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