

AFRICA RISK CONSULTING

Mozambique Monthly Briefing May 2020

Mozambique Summary 11 May 2020

President Filipe Nyusi (2015-present) extends the state of emergency for the month of May to slow the spread of Covid-19. Confirmed cases remain low at 87, with no deaths. The Mozambican government is hoping to delay the peak until December. The virus and its impact on world trade continue to have a devastating effect on Mozambique's economy, with reported monthly manufacturing losses in Mozambique of \$58.7m. The International Monetary Fund (IMF) claims Mozambique's debt remains in distress with "significant uncertainties and downside risks", as the country receives a \$309m loan through its Rapid Credit Facility (RCF) fund. Violence increases in the resource-rich Cabo Delgado province, and a United States-based Global Initiative special edition Southern African Risk Bulletin finds that the insurgency tactics are shifting towards greater involvement in illicit trade. The main outbreak of the virus has been in the camps of France-based Total SA, which is heading the liquefied natural gas (LNG) projects. The coronavirus, together with the increase in violence and decrease in investments, is threatening the expected flow of \$60 billion from LNG projects in northern Mozambique.

President Nyusi extends state of emergency

President **Filipe Nyusi** (2015–present) on 29 April extended the state of emergency in **Mozambique** for a further 30 days until 30 May to slow down the spread of **Covid-19**, continuing restrictions on movement of people and foreigners into the country, as well as social distancing measures and the closure of schools.¹ In announcing the extension, President Nyusi stated:

"We concluded that the reasons that led to the introduction of a state of emergency prevail."

The number of confirmed Covid-19 cases remains low at 87, with 34 recovered cases and no deaths at time of writing.² Compared to neighbouring **South Africa** with 9,420 confirmed cases and 186 confirmed deaths on 9 May,³ Mozambique seems to be containing the virus for the moment and state of emergency measures seem to be working. Health minister **Armindo Tiago**, speaking to reporters at the end of a **Conselho de Ministros** (council of ministers) meeting on 21 April, stated that the government is hoping to delay the peak of the Covid-19 infection until December.⁴ It is now up to the government to find a balance between keeping the virus contained and opening up economic activity to save Mozambican industries.

Covid-19 and its impact on the world economy and trade continue to have a devastating effect on Mozambique's economy. The **Confederação das Associações Económicas (CTA)** (confederation of economic associations) estimates that Mozambican industry is losing \$58.7m per month.⁵ **Parque Industrial de Beluluane** (Beluluane industrial park) (**Maputo Province**) director general **Onório Boane** reported on 7 April that the manufacturing sector has suffered a loss in productive activity of up to 70%, while the sugar, non-alcoholic drinks, oil and soap industries are facing monthly billing losses of up to 65%.⁶

¹ News24, 30 Apr 2020

² Club of Mozambique, 9 May 2020

³ News24, 10 May 2020

⁴ Club of Mozambique, 23 Apr 2020

⁵ Club of Mozambique, 8 May 2020

⁶ Club of Mozambique, 8 May 2020

Mozambique's tourism and aviation industries are also struggling. Transport minister **Janfar Abdullai** reported on 4 May that Mozambique's state-owned airport company, **Aeroportos de Moçambique (AdM)**, has been incurring operational losses of \$2.4m a month.⁷ With the ban on international travel continuing in the next month, Mozambique's already struggling aviation economy is threatened to the edge of collapse.

Five international air transport and tourism bodies – the **International Air Transport Association (IATA)**, the **UN World Tourism Organisation (UNWTO)**, the **World Travel & Tourism Council (WTTC)**, the **African Airlines Association (Afraa)** and the **Airlines Association of Southern Africa (AASA)** – launched an appeal on 6 May to international donors, financial institutions and country development partners, seeking \$10 billion in urgent relief funding to support Africa's travel and tourism sector and save it from collapse.⁸

IMF claims Mozambican debt remains in distress

In its updated **Debt Sustainability Assessment (DSA)** published on 29 April, the **International Monetary Fund (IMF)** concludes that Mozambican indebtedness remains in distress, and that the \$309m **Rapid Credit Facility (RCF)** the country is receiving from the IMF to combat Covid-19 is 100% of its quota from the fund.⁹ The report states that Mozambique's capacity to repay the loan is adequate, but *"subject to significant uncertainties and downside risks"*.

The RCF loan follows a letter to IMF managing director **Kristalina Georgieva** from economy and finance minister **Adriano Afonso Maleiane** and **Banco de Moçambique** (central bank) governor **Rogério Zandamela** on 17 April, stating that:

*"Although the number of coronavirus cases in Mozambique is relatively small, the impact on the economy is already severe and human costs are expected to rise significantly... The cost of coping with this pandemic will be enormous."*¹⁰

The IMF continues to lend money to Mozambique even though it finds the country's debt-carrying capacity *"weak"*. The fund notes the long-term benefits of the current RCF based on its confidence in future profits from the liquefied natural gas (LNG) sector. In its macroeconomic forecast, the IMF describes Mozambique's medium-term outlook as *"positive"* due to the LNG megaprojects, even though the Covid-19 pandemic is expected to hit Mozambique hard,

"... and the macroeconomic assumptions underlying the baseline scenario, particularly for the next two years, have worsened relative to the last DSA".¹¹

Evolution of GDP and deficits between IMF Debt Sustainability Assessment updates ¹²							
Previous DSA: June 2019, Current DSA: 29 April 2020							
	2018	2019	2020P	2021P	2025P	2029P	2038P
Real GDP growth (%)							
Previous DSA	3.3	1.8	6.0	4.0	26.9	2.6	2.7
Current DSA	3.4	2.2	2.2	4.7	11.2	2.7	2.6
Nom. GDP growth (\$ bn)							
Previous DSA	14.4	15.1	16.7	17.9	31.3	43.3	72.8
Current DSA	14.6	14.9	14.8	15.7	25.6	40.2	67.7

⁷ Notícias, 5 May 2020

⁸ African Business, 6 May 2020

⁹ IMF, 29 Apr 2020

¹⁰ IMF, 29 Apr 2020

¹¹ IMF, 29 Apr 2020

¹² IMF, 29 Apr 2020

Evolution of GDP and deficits between IMF Debt Sustainability Assessment updates¹²

Previous DSA: June 2019, Current DSA: 29 April 2020

	2018	2019	2020P	2021P	2025P	2029P	2038P
Fiscal deficit (% of GDP)							
Previous DSA	5.5	6.5	4.8	3.7	-1.4	-2.3	-14.0
Current DSA	7.2	0.2	5.6	3.8	0.5	-1.8	-11.3
Account deficit (% of GDP)							
Previous DSA	30.4	58.0	66.7	62.9	11.3	-1.9	-5.8
Current DSA	30.9	20.7	63.3	66.1	31.3	-6.1	-9.5

The IMF assessment further states that it does not expect the **United States**-based **ExxonMobil**-led **Rovuma Basin** LNG project to start producing until 2026,¹³ due to ExxonMobil's delay of its final investment decision (see *ARC Briefing Mozambique April 2020*). However, the IMF expects the future profits of the LNG projects to materialise. The Rovuma Basin project is expected to produce 15 million tonnes of LNG per year and attract \$54 billion in investment (see *ARC Briefing Mozambique February 2020*).¹⁴ The IMF report concludes:

*"The fiscal situation, that was already difficult, will deteriorate further with the need for additional spending to respond to the health and humanitarian crisis and tax revenue shortfalls due to weaker economic activity."*¹⁵

Talks on a medium-term **Extended Credit Facility (ECF)** agreement are expected to take place between the Mozambican government and the IMF later this year. The IMF report states that "*the [Mozambican] authorities have reiterated their strong interest in such discussions*".¹⁶ Mozambican authorities will reportedly work with IMF staff in the meantime to shape a structural reform agenda with emphasis on governance reform.¹⁷

The **European Union (EU)** and the **United Nations Development Programme (UNDP)** signed an agreement in **Maputo** on 22 April to provide \$37.2m to support post-cyclone recovery in the wake of cyclones **Idai** and **Kenneth**.¹⁸ This support is vital, as the **International Organisation for Migration (IOM)** estimates that nearly 90% of Idai-affected families continue to live in temporary shelters,¹⁹ and there is fear that the Covid-19 pandemic will make matters worse. EU ambassador to Mozambique **Antonio Sánchez-Benedito Gaspar** concluded:

*"This is an essential contribution for recovery and reconstruction after the damages caused by the cyclones Idai and Kenneth. Our aim is to build back better focusing on resilient infrastructure, and promote economic opportunities for sustainable development in the disaster affected areas, in accordance with the commitments made by the EU in 2019."*²⁰

Violence escalates in the north ...

The spokesperson for the **Joint Command** of the Mozambican **Forças de Defesa e Segurança (FDS)** (defence and security forces), **Orlando Mudumane**, confirmed at a press conference on 20 April that an armed militant group had killed 52 youths in the village of **Xitaxi** in **Muidumbe District** in **Cabo**

¹³ IMF, 29 Apr 2020

¹⁴ See ARC Briefing Mozambique February 2020

¹⁵ IMF, 29 Apr 2020

¹⁶ IMF, 29 Apr 2020

¹⁷ IMF, 29 Apr 2020

¹⁸ UNDP, 22 Apr 2020

¹⁹ Lusa, 5 May 2020

²⁰ UNDP, 22 Apr 2020

Delgado province in the first week of April, after they had refused to join the insurgency group.²¹ This is only one of several recent attacks on civilians in northern Mozambique, which have been escalating since the beginning of the year (see *ARC Briefing Mozambique April 2020*).

“Recently, the malefactors tried to recruit young people to join their ranks, but there was resistance on the part of the youth. This provoked the wrath of the malefactors who indiscriminately killed, cruelly and diabolically, 52 young people in the village of Xitaxi, district of Muidumbe.”²²

Following the incident, the EU’s **European Council** said in a press release on 22 April that it would support peace-building efforts in Mozambique to “*address the current situation*”.²³ The **Tanzanian** minister of state in the Prime Minister’s Office, **Jenista Mhagama**, in a budget estimate presentation in **Dar es Salaam** on 7 May, said the Tanzanian government had dispatched troops to its border with Mozambique to contain security threats posed by **Ahlu Sunnah Wal Jammah (ASWJ)**, locally known as **al-Shabaab**, insurgents.²⁴

The violent insurgency has since its inception in October 2017 claimed more than 1,000 lives and displaced more than 100,000 people (see *ARC Briefing Mozambique April 2020*). Although there is uncertainty about the motivations of the different insurgency groups operating in Cabo Delgado province, a recent report by US-based **Global Initiative Against Transnational Organized Crime** finds that the insurgents may be involved in the illicit markets in the northern region of Mozambique.²⁵

The Global Initiative’s special edition of the **Eastern and Southern African Risk Bulletin** reports that the insurgency tactics are changing in Cabo Delgado province, following the pattern of other insurgencies on the continent and are poised to increase their control over trafficking routes in the mineral and resource-rich region.²⁶

“Things are getting out of hand. The situation in northern Mozambique is now not only destabilised by the violent attacks, but also by the virus outbreak.”²⁷

... and threatens LNG prospects

The LNG projects in northern Mozambique are facing two other serious threats, in addition to the violence in Cabo Delgado Province. Mozambican energy lawyer **Pedro Couto**, in an interview with **Bloomberg** in Maputo published on 3 May, highlights that the projects – which are estimated to generate \$100 billion in state revenue over 25 years – are threatened not only by the violent insurgencies but also by industry spending cuts following the plunge of the oil price and by the spread of Covid-19.²⁸ Three camps of **France**-based **Total SA**, the company leading the LNG projects, have been the epicentre of the Covid-19 pandemic in Mozambique, with at least 47 of 87 confirmed cases.²⁹ There are now reports that Total workers in the **Democratic Republic of the Congo (DRC)** and ExxonMobil workers in **Equatorial Guinea** have been diagnosed with the virus.³⁰

ExxonMobil has delayed its final investment decision on the Rovuma Basin LNG project indefinitely (see *ARC Briefing Mozambique April 2020*), but Total SA has yet to revisit its target to start exporting in four years. If the virus is not contained and extractive industry players respond negatively to the violent insurgencies, the outlook is not positive. The continued stall in the LNG megaprojects is

²¹ Noticias, 21 Apr 2020

²² Noticias, 21 Apr 2020

²³ European Council, 22 Apr 2020

²⁴ The Citizen, 7 May 2020

²⁵ Global Initiative, 7 May 2020

²⁶ Global Initiative, 7 May 2020

²⁷ ARC diplomatic source, Maputo

²⁸ Bloomberg, 3 May 2020

²⁹ Verdade, 27 Apr 2020

³⁰ Verdade, 27 Apr 2020

delaying the expected economic recovery of the Mozambican economy following the financial impact of Idai and Kenneth last year, and Covid-19 this year.

Financial support from the IMF (\$337m), the **World Bank** (\$170m), the **Islamic Development Bank** (\$40m) and the EU (\$37.2) will boost health spending to help the most vulnerable in the country, but it will take Mozambique even longer to repay the public sector debt that currently makes up more than 100% of GDP.³¹ In the long term, these deficits will have the biggest impact on the most vulnerable populations, which will have to wait even longer to experience the socio-economic benefits of the LNG profits.

Planner

1 Jul 2020 (new dates to be confirmed) **(Africa) African Continental Free Trade Area** deadline for 90% tariff liberalisation;

28 Oct 2020 **Maputo (Mozambique)** *The CWC Group Ltd.* **Mozambique Gas Summit** begins;

2023 **(Mozambique)** Local elections;

2024 **(Mozambique)** Provincial and presidential elections;

Chronology

7 May 2020 **Dar es Salaam (Tanzania)** *The Citizen.* Government sends troops to the **Mozambique** border to boost security amidst a rise in insurgency attacks in Mozambique's **Cabo Delgado** province;

6 May 2020 **(Africa)** *Ventures Africa.* **MasterCard** survey shows that a significant majority of people in **Africa** and the **Middle East** have turned to contactless payments when making purchases for fear of contracting **COVID-19** from 'infected' currency notes;

6 May 2020 **(Africa)** *African Business.* Five international air transport and tourism bodies launch an appeal to international financial institutions, country development partners and international donors to support **Africa's** travel and tourism sector;

5 May 2020 **Maputo (Mozambique)** *Proactive Investors.* **Africa**-focused power development company **Ncondezi Energy** finalises a binding agreement with **Mauritius**-based renewable power developer **GridX Africa Development** for a pipeline of solar and battery storage projects in the commercial and industrial sector;

5 May 2020 **Maputo (Mozambique)** *Noticias.* **Mozambique Airport Company** has been incurring operational losses of \$2.4m a month since international travel bans commenced in March, which is threatening to collapse **Mozambique's** fledgling aviation economy;

4 May 2020 **(Global)** *South China Morning Post.* **China** joins 18 other **World Trade Organisation (WTO)** members in launching a temporary system for trade disputes, the **Multi-Party Interim Appeal Arbitration Arrangement**;

4 May 2020 **(Africa)** *African Business.* **Pan-African** business leadership network **AfroChampions Initiative** sends an open letter to African heads of state saying coronavirus is a reason to accelerate the commencement of trading under the **African Continental Free Trade Area**, which was due to start in July;

30 Apr 2020 **Maputo (Mozambique)** *News24.* President **Filipe Nyusi** extends lockdown by another 30 days to stem the spread of the **coronavirus**;

³¹ IMF, 29 Apr 2020

29 Apr 2020 **Maputo (Mozambique)** *TVM*. President **Filipe Nyusi** extends the state of emergency for another 30 days until 30 May;

29 Apr 2020 **(Africa)** *African Business*. **African Union** delays the implementation of the **African Continental Free Trade Area** due to disruptions caused by the **coronavirus** outbreak;

28 Apr 2020 **Cabo Delgado (Mozambique)** *Zitamar News*. **Portugal**-based **Mota-Engil África** and **Belgium**-based **BESIX** sign a 50/50 contract awarded by **United States**-based **CCS JV** for extraction of natural gas in **Cabo Delgado** province;

28 Apr 2020 **(Africa)** *EMPEA*. **Africa**-focused growth equity fund manager **Mediterrania Capital Partners** reaches a €286m (\$310m) final close for its third **Africa** fund;

23 Apr 2020 **Maputo (Mozambique)** *The Citizen*. Main opposition **Renamo** accuses security forces of killing 14 civilians in the northern **Cabo Delgado** Province, which has been repeatedly attacked by jihadists;

22 Apr 2020 **Maputo (Mozambique)** *Agencia de Informacao de Mocambique*. **European Union** and the **United Nations Development Programme** sign an agreement to provide \$37.2m to support the implementation of the **Mozambique Recovery Facility** to speed up post-cyclone recovery in the wake of cyclones **Idai** and **Kenneth**;

22 Apr 2020 **Maputo (Mozambique)** *European Council*. **European Union's European Council** says it is ready to support peace-building efforts in **Mozambique**;

21 Apr 2020 **Cabo Delgado (Mozambique)** *Noticias*. Defence and security forces confirm that an armed militant group killed at least 52 youths in **Xitaxi** in **Muidumbe** district, northern **Mozambique**, after they refused to be recruited into its ranks;

14 Apr 2020 **Maputo (Mozambique)** *Macauhub*. Economy and finance minister **Adriano Maleiane** says that state oil and gas company **Empresa Nacional de Hidrocarbonetos (ENH)** has already used 136.1 billion meticaais (\$2.2 billion) of the sovereign guarantee entered in the **State Budget** for 2019;

14 Apr 2020 **Maputo (Mozambique)** *Bloomberg*. Government says two-thirds of **Mozambique's** 28 confirmed cases of the **coronavirus** are linked to the site of **Total SA's** \$23 billion natural-gas project, which has been put under quarantine;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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