

AFRICA RISK CONSULTING

Mozambique Monthly Briefing March 2022

Mozambique Summary 9 March 2022

Instituto Nacional de Estatística (national statistics institute) reports on 21 February that the economy grew 4.15% in 2022, up from 2.2% in 2021, largely driven by the mining and hospitality sectors. Annual inflation also declines to 9.78% in January from 10.91% in December. The government is negotiating with the European Union and the World Bank to create a Loan Fund Guarantee of \$250m to improve access to financing for micro, small and medium-sized enterprises. The state relief agency, the Instituto Nacional de Gestão e Redução do Risco de Desastres (INGD) denies allegations on 14 February that the World Bank has suspended support to the agency owing to the misuse of funds. Mozambique faces a humanitarian crisis on the back of the ongoing Cyclone Freddy, which peaked at Category 5 hurricane-equivalent intensity, and is expected to make landfall once again in the country. Italian oil company Saipem announces on 6 March that works on its Liquefied Natural Gas (LNG) project in Mozambique, being led by France's TotalEnergies, will resume in July 2023. Security remains a concern, however, as the United Kingdom-headquartered mining firm Gemfields discloses on 14 February that it suspended operations at its Nairoto exploration camp and evacuated staff, following an attack on a village in the area. Government introduces a new terrorism financing bill as it seeks to reverse the country's grey listing by the global Financial Action Task Force (FATF).

Government targets economic boost

Instituto Nacional de Estatística (national statistics institute) reported on 21 February that the economy grew 4.15% in 2022, up from 2.2% in 2021, driven mainly by mining, and hospitality developments.¹ As the **Covid-19** pandemic continued to wind down and the government pushed a stronger vaccination campaign, Covid-19 restrictions could be eased allowing more tourist arrivals.² Government's efforts to rein in inflation have also been successful with the INDE noting on 27 February that the annual inflation rate had decelerated to 9.78% in January from 10.91% in December.³

However, the **South African**-headquartered **Standard Bank** released its **Purchasing Managers' Index (PMI)** on 10 February which is a measure of the direction of economic trends through a survey of the country's manufacturing and service sectors.⁴ The report indicated that PMI activity declined to 48.2 in January, the lowest record for 12 months, indicating a contraction in the economy compared to the previous month. **Fáusio Mussá**, chief economist for the bank said this indicated a "modest deterioration in the health of the private sector economy and the first since the Omicron COVID-19 wave in January 2022".⁵ On the upside, the bank anticipates economic growth of 4.2% for 2023, a result of several factors including a return to some activity in the liquefied natural gas (LNG) sector, improved regulation and government commitment to transparency and governance mechanisms around donor aid and funding.⁶ However, the key downside risks to this outlook stem from the continued climate challenges the country faces as well as the ongoing insurgency in **Cabo Delgado**.

¹ Canadian Mining Journal, 22 Dec 2022

² Instituto Nacional de Estatística, 27 Feb 2023

³ Trading Economics, accessed on 9 Mar 2023

⁴ Investopedia, accessed 9 Mar 2023

⁵ Standard Bank, 10 Feb 2023

⁶ Standard Bank, 10 Feb 2023

In a bid to further stimulate the economy, the government announced on 14 February that it is in negotiations with the **European Union** and the **World Bank** for the creation of a **Loan Fund Guarantee** of around \$250m under the **Pacote de Medidas de Aceleração Econômica (PMAE)**. The PMAE, launched in 2022, is a series of government-introduced economic measures aimed at improving the economy and business operating environment as well as enhancing governance and transparency. The potential fund aims to improve access to financing for micro, small and medium-sized enterprises which comprise a vast segment of the economy. Prime minister **Adriano Maleiane** stated on 8 March that the government aims to transform Mozambique into a middle-income country by 2030, an ambitious feat considering that in 2021 Mozambique's gross national income stood at \$480, down from \$550 in 2011.⁷ The World Bank defines lower-middle-income economies as those with a Gross National Income per capita between \$1,036 and \$4,045.⁸ Maleiane, speaking at **the 5th United Nations Conference on the Least Developed Countries in Doha (Qatar)**, stated:

*"The transition will not be fast. It is going to be gradual so that our new system can develop with security... In the past, \$500 per capita was enough to think about becoming a medium-income country, but now Mozambique needs to reach, at least \$1,000 per capita."*⁹

To meet any of its economic ambitions the maintenance of trust from donors and investors will be vital, particularly as the impact of the 2015 'Hidden Debt Scandals' continues to plague the country. The state relief agency, the **Instituto Nacional de Gestão e Redução do Risco de Desastres (INGD)** was forced to deny allegations on 14 February that the World Bank has suspended support to the agency owing to the misuse of funds meant for the country's disaster management fund. It is alleged that the agency diverted \$32.5m the World Bank donated, to "*purposes not envisaged in the Fund's Manual of Procedures*". This included claims that over MZM18m (\$281,719) was spent on purchasing vehicles, MZM13m (\$203,463) on water and sanitation infrastructure and MZM1.5m (\$23,476) on the construction of a bridge in **Nampula** province.¹⁰ The decree establishing the disaster management fund, however, states that "*the acquisition of vehicles and civil construction work are not expenses eligible for financing from the Disaster Management Fund*." In response to this claim, the chairperson of the INGD, **Luisa Meque**, confirmed:

*"Clearly this money has been returned. We don't have any problem with the World Bank. We are working normally."*¹¹

Indicative of the good working relationship currently enjoyed between the government and the World Bank, The World Bank endorsed on 23 February a new **Country Partnership Framework** to support Mozambique from 2023 to 2027, an indication of the good working relationship between the two. It will focus on supporting transformation for an economic growth model for job creation, boosting the resilience of society to multidimensional shocks, and establishing a development path which is in line with global climate goals.¹²

As Cyclone Freddie threatens a humanitarian crisis

Mozambique is currently contending with adverse weather events brought about by **Cyclone Freddy**, which peaked at Category 5 hurricane-equivalent intensity, and has become the longest-lasting cyclone recorded on Earth. By 17 February, 89,090 people had been reported as being affected by extreme weather events in Mozambique since the start of the rainy season (which runs from

⁷ Statista, accessed on 9 Mar 2023

⁸ World Bank, 29 Aug 2022

⁹ Club of Mozambique, 9 Mar 2023

¹⁰ Club of Mozambique, 15 Feb 2023

¹¹ Club of Mozambique, 15 Feb 2023

¹² World Bank, 23 Feb 2023

November to April)¹³, with over 34,000 homeless and 15,00 people displaced due to flooding in southern Mozambique alone.¹⁴

Cyclone Freddy, which formed on 6 February, travelled across the **South Indian Ocean**, making landfalls in **Madagascar** and Mozambique since late February.¹⁵ Cabinet declared a “red alert” on 21 February to enable the government to respond more efficiently to the floods impacting the country.¹⁶ Cyclone Freddy made landfall in **Vilanculos** on 24 February bringing high wind levels of 113km per hour and heavy rains destroying agriculture and housing.¹⁷ It also resulted in the death of 10 people and displaced 9,000, and since gone on to impact the **Gaza, Inhambane, Sofala, and Zambezia** provinces.¹⁸

Although it weakened on land, the tropical system is currently re-strengthening over the Mozambique channel and on 8 March it was announced that the storm is expected to make landfall in Mozambique once again on the evening of 10 March as a category 3 cyclone, with current windspeeds at sea of around 110km per hour and gusts of 155km per hour.^{19 20} The **International Organization for Migration** estimated that as of 6 March, 1.75 million people in Mozambique are potentially at risk from the ongoing tropical storm. The ongoing flooding in the country is also raising the risk of the spread of cholera as the country struggles to rein in a cholera outbreak, with at least 1,000 cases registered in the week ending on 3 March.²¹ As a result, the country is at risk of a socio-economic and humanitarian crisis. Looking forward, the government faces significant challenges in restoring basic services, agricultural activity and infrastructure in the affected areas, and reviving economic activity.

Gabinete de Reconstruções Pós Ciclones (post cyclone reconstruction office) announced a tranche of \$15m in funding for small businesses on 9 March, to be used in twelve districts suffering the impact of recent cyclones.²² The floods have also impacted trade between Mozambique and its neighbours as large-tonnage trucks have faced difficulties in transporting goods from the port of **Beira** in Mozambique to **Zimbabwe** and neighbouring **Southern African** countries. This comes as the flood waters damaged the foundation of national highway number 6 near **Mafambisse**, resulting in the collapse of one of the carriageways.²³ The port was eventually closed on 23 February in anticipation of Freddy making landfall.²⁴

LNG sector regaining activity...

Alessandro Puliti, the CEO of **Italian** oil company **Saipem** announced on 6 March that works on its LNG project in Mozambique, being led by **France’s TotalEnergies**, will resume in July 2023. The project is valued at over \$20 billion and includes the development of two fields located in **Offshore Area 1** and the construction of two liquefaction trains with a total capacity of 13,1 million tonnes per annum.²⁵ Saipem will be providing the engineering, procurement and construction services for the Mozambique LNG consortium and has partnered with the **United States-based McDermott International** and **Japan’s Chiyoda** to carry out €3.5bn (\$3.72 billion) worth of work on the consortium’s onshore natural gas-processing facility.²⁶ This announcement comes after President **Filipe Nyusi** (2015-present) met with **Patrick Pouyanné**, the CEO of **TotalEnergies**, on 3 February in Cabo Delgado, where Pouyanné was conducting a review of the security and humanitarian situation

¹³ Climate Links, October 2012

¹⁴ European Commission’s Directorate-General for European Civil Protection and Humanitarian Aid Operations, 17 Feb 2023

¹⁵ Fox Weather, 8 Mar 2023

¹⁶ Club of Mozambique, 22 Feb 2023

¹⁷ Africa News, 25 Feb 2023

¹⁸ International Organization for Migration, 6 Mar 2023

¹⁹ Save The Children, 8 Mar 2023

²⁰ Africa News, 7 Mar 2023

²¹ UNOCHR 3 March 2023

²² Club of Mozambique, 9 Mar 2023

²³ Club of Mozambique, 23 Feb 2023

²⁴ Club of Mozambique, 23 Feb 2023

²⁵ TotalEnergies, 3 Feb 2023

²⁶ Market Screener, 6 Mar 2023

(see *ARC Briefing Mozambique Feb 2023*).²⁷ Pouyanne was mulling a decision to resume operations after declaring force majeure on the project on 26 April 2021 citing the high-security risks in the country after insurgents attacked the town of **Palma**, near its gas project.²⁸

The government is seeking to reassure investors that state-backed forces have regained control of the region, and managed to neutralise the threat from insurgents, making a return to operations safe. However, sporadic attacks continue to weigh on the investment appeal of the area. **United Kingdom**-headquartered mining firm **Gemfields** disclosed on 14 February that it had suspended operations at its **Nairoto** exploration camp in Cabo Delgado and was evacuating staff, following an attack on a village in the area on 12 February.^{29,30} This is the latest in a series of attacks which have taken place against mining projects in the region. **Australia's Triton Minerals Ancuabe** graphite project site was attacked in June 2022 while Australia-headquartered mining firm **Syrah Resources** briefly suspended logistics and staff movement at its **Balama** graphite operation due to assaults near its primary transport route (see *ARC Briefing Mozambique Jul 2022*).

The state is attempting to tighten the laws around terrorism funding, to mixed results within civil society. US-headquartered **Human Rights Watch (HRW)** asked government on 6 March to withdraw a draft law on the 'Creation, Organization, and Operation of Non-profit Organisations' which government says aims to counter money laundering and terrorist financing.³¹ Parliament is due to approve the bill during its sitting period which began on 22 February and runs until end May.³²

HRW contends that in its current form, the bill prejudices and negatively affects the work of civil society and non-profit organisations by limiting their activities.³³ The new bill is the latest government-implemented measure aimed at reversing the global **Financial Action Task Force's (FATF)** grey listing of Mozambique in October 2022. The efforts to remove Mozambique from the grey list are highly necessary as it negatively impacts investor sentiment and investment inflows as well as potential funding from international institutions such as the World Bank and the **International Monetary Fund (IMF)**. The World Bank stated on 27 February that Mozambique's removal from the list is "*necessary to promote access to international financial markets, continue to attract foreign investment and participate in international trade.*"³⁴ However, HRW's deputy **Africa** director **Ashwanee Budoo-Scholtz** cautioned:

*"Mozambican authorities shouldn't use the fight against the local **Al-Shabab** as an excuse to repress civil society organisations"*³⁵

Planner

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| <p>11 Oct 2023 (Mozambique) Municipal elections;</p> <p>2024 (Mozambique) Provincial and presidential elections;</p> <p>2025 (Mozambique) Area 1 LNG production expected to commence</p> |
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²⁷ Times Live, 4 Feb 2023

²⁸ Spectrum Local News 10 Feb 2023

²⁹ Mining.com, 14 Feb 2023

³⁰ 360 Mozambique, 15 Feb 2023

³¹ Human Rights Watch, 10 Feb 2023

³² International Press Institute, 27 Feb 2023

³³ International Press Institute, 27 Feb 2023

³⁴ Club of Mozambique, 28 Feb 2023

³⁵ Human Rights Watch, 10 Feb 2023

Chronology

9 Mar 2023 **Jersey (Great Britain)** *Jersey Evening Post*. Royal court of **Jersey** rules that £777,581 (\$914,022) of funds deposited by **Carlos Fragoso** in the **Tolvex Trust**, a former Mozambican civil servant, must be returned to the Mozambican government after they were found to be the proceeds of corrupt payments to Fragoso;

6 Mar 2023 **Maputo (Mozambique)** *World Bank*. **World Bank** vice president for **Eastern and Southern Africa, Victoria Kwakwa**, visits Mozambique with a focus on supporting the government's reform agenda, improving resilience and addressing economic fragility drivers.

3 Mar 2023 **Riyadh (Saudi Arabia)** *Club of Mozambique*. King **Salman bin Abdulaziz Al Saud** hosts **Mozambique's** president **Filipe Nyusi** where they discuss bilateral cooperation in agriculture, infrastructure, tourism, and mineral resources and energy;

3 Mar 2023 **London (United Kingdom)** *Reuters*. A **London** high court rules that the **Mozambique** government should allow access to "documents held in state offices" as part of a court case between the country, **Swiss-based Credit Suisse**, the **United Arab Emirates-based** shipbuilder **Privinvest**, and others over a \$2 billion sovereign debt scandal;

2 Mar 2023 **Rome (Italy)** *Food and Agriculture Organization*. Agriculture minister, **Celso Correia**, meets **Qu Dongyu**, director general of the **United Nations Food and Agriculture Organization**, to discuss Mozambique's development of agriculture, food security and challenges related to climate shocks;

27 Feb 2023 **Mozambique Channel (Mozambique)** *Club of Mozambique*. Meteorology institute lifts the shipping ban imposed in the **Mozambique Channel**, which was imposed as a precaution against **Cyclone Freddy**;

24 Feb 2023 **Maputo (Mozambique)** *United Kingdom Trade Commission*. **John Humphrey**, the **United Kingdom** trade commissioner for **Africa**, conducts a working visit to Mozambique, meeting the trade, transport and communications, and energy ministers;

23 Feb 2023 **(Mozambique)** *Linhas Aéreas de Moçambique*. National airline, **Linhas Aéreas de Moçambique**, is forced to reschedule flights owing to the adverse weather conditions brought on by **Cyclone Freddy**;

22 Feb 2023 **Cahora Bassa (Mozambique)** *Club of Mozambique*. **Boavida Muhambe**, president of the **Cahora Bassa Hydroelectric Power Plant**, announces the plant has stopped discharges to curb the increase in the **Zambezi** river's flow as **Cyclone Freddy** approaches;

22 Feb 2023 **(Mozambique)** *Club of Mozambique*. Government increases the national reconstruction tax in 17 districts of four provinces;

14 Feb 2023 **Ponta do Ouro (Mozambique)** *Crisis24*. Protestors blockade the **Ponta do Ouro** border, preventing vehicles from **South Africa** from entering Mozambique, in response to the destruction of Mozambican number-plated vehicles by citizens in **Kwazulu-Natal (South Africa)** province earlier in the month;

13 Feb 2023 **Madrid (Spain)** *Club of Mozambique*. Industry and commerce ministry and the **Mozambican** embassy in Spain participate in the 21st edition of **'IMEX-Madrid Internationalisation Week 2023'** showcasing business and investment opportunities for the country;

10 Feb 2023 **Cabo Delgado (Mozambique)** *Club of Mozambique*. President **Filipe Nyusi** appeals to the **Bank of Mozambique** (central bank) to discuss the reopening of the country's banks and financial institutions' services in the north of **Cabo Delgado**;

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