

AFRICA RISK CONSULTING

Mozambique Monthly Briefing November 2022

Mozambique Summary 11 November 2022

The battle between the Mozambique government and its allies against an Islamic State-sponsored insurgency continues to drive a large-scale humanitarian crisis in Cabo Delgado. Insurgents carry out sporadic attacks in the region, including on Gemfields Group's Montepuez Ruby Mining Limitada mine, dragging down the firm's share price. The World Health Organization notes that there were 33 violent events in Cabo Delgado in September, resulting in 92 reported fatalities, as the World Food Programme warns that it is at risk of having to halt its humanitarian assistance in the region in January unless it receives additional funding. Italy-headquartered energy company Eni begins the production of liquefied natural gas from its Coral South floating LNG project, improving Mozambique's prospects for generating revenues from its large gas reserves. The country continues to benefit from a resumption in donor funding, with international bodies encouraged by a raft of measures implemented by the government to improve transparency, governance and socio-economic development. Mozambique's vulnerable climate position gets attention at the COP27 Summit held in Sharm El-Sheikh (Egypt) as Belgium pledges funds to help it fight climate change.

Mozambique, Tanzania and India collaborate on maritime security exercises

The battle between the **Mozambique** government and its allies against the **Islamic State**-sponsored insurgency has resulted in a largescale humanitarian crisis in **Cabo Delgado**.¹ The **World Health Organization** noted on 9 November that there were 33 violent events in Cabo Delgado in September, resulting in 92 reported fatalities.² Continuing sporadic attacks have forced inhabitants to flee their homes despite the bolstered presence of the allied forces (led by the **SADC Mission in Mozambique**) in Cabo Delgado, which has helped to repel the insurgents, pushing them into smaller pockets of the region.

Insurgent attacks on a village in the **Katapua** area, between 14 and 16 October, caused around 500 people to flee to the nearby town of **Chiure**.³ On 20 October, assailants suspected to be from the Islamic State-linked insurgency, attacked the Cabo Delgado-based **Montepuez Ruby Mining Limitada (MRM)** ruby mine, which is 75% owned by **Guernsey**-based **Gemfields Group**, prompting the firm to evacuate its staff. The firm's shares, listed on **South Africa's Johannesburg Stock Exchange**, fell by 21% on 20 October, the steepest decline since 7 February.⁴ The mine resumed basic operations on 24 October, stating:

*"Mining and processing activities are being resumed in phases after giving due consideration to the threat perceptions in the licence area... MRM remains on a state of high alert and maintains regular dialogue with government authorities."*⁵

Neighbouring provinces have also faced challenges. The **United Nation (UN) Office for the Coordination of Humanitarian Affairs** estimates that 65,000 people were displaced in **Nampula Province** following several attacks there.

¹ Relief Web, 11 Jul 2022

² World Health Organization, 9 Nov 2022

³ France24, 24 Oct 2022

⁴ Bloomberg, 20 Oct 2022

⁵ Miningmx, 24 Oct 2022

From 27 to 29 October, Mozambican and **Tanzanian** navy forces collaborated with the **Indian** defence ministry to conduct the first edition of the **India-Mozambique-Tanzania Trilateral Exercise** to help protect Mozambique's maritime water and relevant infrastructure. The objectives of the exercise are to develop the capacity of the two **African** countries' navies, enabling them to address threats on their waters, to enhance interoperability, and to strengthen maritime cooperation.⁶ The exercises aim to prevent disruption to trade, as the **Mozambique Channel** is the waterway between **Madagascar** and the wider **East African** region, making it an important route for the global shipping industry, supporting around 30% of global tanker traffic.⁷

The conflict in Cabo Delgado continues to drive food insecurity in the region while funding constraints weigh on the efforts of aid organisations operating in Mozambique. On 24 October, the **World Food Programme** stated in its Mozambique Country Brief that it was forced to halve the food aid it provides to families in northern Mozambique to under 40% of the minimum daily caloric needs from April to October. It also noted that it is at risk of halting its humanitarian assistance in the region in January unless it receives \$59.1m to continue delivering aid for the period January to March 2023.⁸

The **European Union (EU)** announced on 31 October a €23m (\$22.4m) grant to help Mozambique mitigate food insecurity caused by uncertain weather and macroeconomic conditions. Funding will be channelled to programmes to sustainably increase food security and resilience. As one of **sub-Saharan Africa's** largest importers of wheat from **Russia** and **Ukraine**, Mozambique has faced threats to its wheat stocks, fertilisers and food oil as a result of the ongoing conflict between the two countries. To mitigate the impact of Mozambique's reliance on imports of wheat over the longer term, the government is focused on addressing the challenges to domestic production. In August it adopted a raft of measures for the agriculture sector, including the reduction of taxation on companies in the agricultural sector from 32% to 10%, as well as the exemption from VAT on imports of agricultural inputs, whilst encouraging the private sector to start investing in wheat production.⁹

LNG production resumes amid wider investment developments

Despite the continuing insurgency, Mozambique's prospects for revenues from its liquefied natural gas (LNG) sector are bright. **Italy**-headquartered energy company **Eni** announced on 28 October that it had begun production of LNG before September from its **Coral South** floating LNG project, which lies offshore Mozambique and has a capacity of 3.4m tonnes per year. The project is led by Eni but includes other **Area 4** concessionaires: **United States (US)**-based **ExxonMobil**, **China National Petroleum Corporation**, **Portugal**-headquartered **Galp**, **Korea**-based **Kogas** and Mozambique's state-owned **Empresa Nacional de Hidrocarbonetos**.

The resumption of operations is a positive development as LNG projects in the region have faced delays since the onset of the conflict and the ongoing security threat in the region (see above and *ARC Briefing Mozambique Sep 2022*). Although Eni did not provide a date for the loading of the first cargo, this is expected to take place in November,¹⁰ with the cargo set to be sold to **British Petroleum** under a 20-year contract with an optional 10-year extension.¹¹ The Mozambican government plans to use the revenues earned from these projects to help accelerate the development of the sector and to monetise the country's natural resources to boost its economy.

Investment in the wider mineral resources sector also continues. **South Africa's** state-owned investment vehicle, the **Industrial Development Corporation (IDC)**, on 31 October increased its shareholding in Mozambique's aluminium smelter, **Mozal Aluminium**, from 24.5% to 32.45%. The facility is located in **Beluluane Industrial Park**, 20 km from the capital **Maputo**, and was established by the IDC in 1998 in partnership with then **BHP Billiton** (now known as **South32**), **Mitsubishi** and

⁶ Adda 247, 31 Oct 2022

⁷ United Nations Environment Programme, 7 Jan 2015

⁸ World Food Programme, 24 Oct 2022

⁹ The East African, 5 Nov 2022

¹⁰ Reuters, 21 Oct 2022

¹¹ Upstream, 31 Oct 2022

the Mozambican government. Mozal has since grown into one of the largest contributors to the country's export earnings and is also its largest industrial employer.¹²

South Africa-based heavy mineral sands (HMS) exploration company **MRG Metals** signed a binding heads of agreement on 9 November with **European** lithium development firm **Savannah Resources** to acquire the latter's mining concessions through its **Jangamo HMS Project** in Mozambique for \$800,000, paid in cash or shares. MRG has also agreed to pay a 1% royalty in years where the licence area generates a net profit after tax.¹³

Improved governance supports increased donor support

Mozambique is also benefiting from a resumption in donor funding, with international bodies encouraged by a raft of measures implemented by the government to improve transparency, governance and socio-economic development. On 3 November, the EU entered into six funding agreements with the government, amounting to over €148m (\$153m). The areas covered by the funding include education, water and sanitation, and energy efficiency.¹⁴ The bloc announced that it will provide €128m (\$132m) to support additional sectors of economic activity in Mozambique, of which €18.2m (\$18.8m) will focus on supporting the development of a reliable and sustainable electricity supply for the country.

The EU will also grant €20m (\$20.6m) in funding to the Mozambique government to improve access to water and sanitation in the north of the country. This aims to support the government's plan to increase the rate of access to drinking water, currently at 77% in urban areas and 35% in rural areas. This is especially vital, as increasing drought in parts of the country threaten water supply and crop irrigation.

Public works, housing and water resources minister **Carlos Mesquita** disclosed on 1 November that the **World Bank** will invest \$165m to support sanitation projects in **Beira (Sofala Province)**, as well as additional projects in Maputo and the towns of **Tete, Quelimane** and **Nampula**. The projects will include investment in a **Green Infrastructure Park** as well as studies on drainage systems and coastal protection, expected to be completed in 2025. Mozambique's national statistics bureau, the **Instituto Nacional de Estatística**, reports that the country's sanitation coverage is at 59.9% in urban areas and 21.5% in rural areas.¹⁵

Supporting the government's renewable energy ambitions, the **African Development Bank (AfDB)** on 14 October approved a grant of \$2.5m for the Mozambican government to develop renewable energy resources, implemented by the **Mozambique Renewable Energy Integration Program (MREP)**. The funding will support feasibility studies for a floating solar power plant in the **Chicamba** reservoir, the development of energy battery systems storage in up to 10 sites, as well as studies to determine the viability of introducing variable renewable energy sources into the country's energy mix. The AfDB noted:

*"Given that Mozambique is one of the most highly climate-vulnerable countries in the world, the project will help build a more sustainable and resilient power generation infrastructure."*¹⁶

This comes after state-owned utility company **Electricidade de Moçambique** market operations director **Luis Ganje** indicated that Mozambique aims to become a regional power hub by mobilising investments in a number of power-generating infrastructure projects aimed at meeting the **Southern African** region's energy deficit. These include the building of the **Mphanda Nkuwa** hydroelectric facility situated on the **Zambezi River in Tete Province**.¹⁷ Hydroelectric power currently accounts for 75% of the country's installed capacity. However, increasing drought is forcing the country to

¹² Mining Weekly, 31 Oct 2022

¹³ Proactive, 9 Nov 2022

¹⁴ Africa News, 6 Nov 2022

¹⁵ All Africa, 1 Nov 2022

¹⁶ African Development Bank, 14 Oct 2022

¹⁷ All Africa, 21 Oct 2022

focus on diversifying its electricity mix. Over 70% of the population still lacks access to electricity, despite the country's significant energy potential.¹⁸

Mozambique receives funding pledges at COP27

Mozambique's vulnerable climate position was in the spotlight on 7 November at the **COP27 Summit** held in **Sharm El-Sheikh (Egypt)**. Extreme weather events in Mozambique have ramped up in recent years, including severe and sudden cyclones, storms and prolonged drought periods. **Cyclone Idai**, which struck Mozambique in March 2019, caused about \$1.4 billion in total damage and \$1.39 billion in losses, according to an **International Labour Organization** assessment.¹⁹ Speaking at the summit, **Solani Mhlando**, Mozambique's country director for the **World Wide Fund for Nature**, stated:

"I come from Mozambique where 60% of the population live along the coast. And we have cyclones every year, they're becoming more intense. I have seen communities three years after cyclone Idai in 2019; they are still trying to recover."

The **Belgian** government pledged €2.5m (\$258m) at the COP27 summit to support Mozambique from 2023 to 2028 in its fight against climate change. The funding will focus on the prevention and limitation of loss and damage through mapping of vulnerable areas as well as the roll out of early warning systems.²⁰ However, this donation fell flat against the backdrop of calls by several countries, who attended the summit, for compensation for climate-linked losses. Mozambican environmental advocacy group **Justiça Ambiental's Daniel Ribeiro** described the pledge as *"a single act floating in a sea of inaction by the global north"*.²¹

¹⁸ Afrik 21, 8 Nov 2022

¹⁹ Reuters, 7 Nov 2022

²⁰ Reuters, 7 Nov 2022

²¹ Reuters, 7 Nov 2022

Planner

11 Oct 2023 **Mozambique**) Municipal elections;
2025 (**Mozambique**) **Area 1** LNG production expected to commence

Chronology

11 Nov 2022 **Windhoek (Namibia)** *The Namibian*. Namibia hosts **African Union Peace and Security Council** meeting where it was decided that the country will chair the council, and commits to focusing on restoring security in **Mozambique's Cabo Delgado Province**;

9 Nov 2022 **Jangamo (Mozambique)** *Mining Digital Magazine*. **Australia**-based heavy mineral sands (HMS) exploration company **MRG Metals** signs a binding heads of agreement with **European** lithium development firm **Savannah Resources** to acquire the latter's mining concessions, through its **Jangamo**-based HMS Project in Mozambique, for \$800,000 paid in cash or shares;

6 Nov 2022 **Maputo (Mozambique)** *All Africa*. The **European Union (EU)** announces six funding agreements with the government of Mozambique, amounting to over €148m (\$153m), and covering areas including education, water and sanitation, and energy efficiency;

4 Nov 2022 **Maputo (Mozambique)** *All Africa*. **United Nations Secretary General** personal envoy **Mirko Manzonei** states that over 800 former **Renamo** militants have been demobilised over a four-week period, reaching around 90% of total disarmament, demobilisation and reintegration of the group;

1 Nov 2022 **Maputo (Mozambique)** *All Africa*. Minister of public works, housing and water resources **Carlos Mesquita** discloses that the **World Bank** will invest \$165m to support sanitation projects in **Beira (Sofala Province)** as well as projects in Maputo and the towns of **Tete, Quelimane** and **Nampula**;

1 Nov 2022 **Maputo (Mozambique)** *All Africa*. The government approves a new Land Policy and implementation strategy to guarantee access for the use and exploitation of land for Mozambicans as well as foreign nationals;

31 Oct 2022 **Johannesburg (South Africa)** *Mining Weekly*. **South Africa's** state-owned investment vehicle, the **Industrial Development Corporation**, increases its shareholding in **Mozambique's** aluminium smelter, **Mozal Aluminium**, from 24.5% 32.45%;

29 Oct 2022 **Maputo (Mozambique)** *European Parliament*. **The African, Caribbean and Pacific Group of States-EU Joint Parliamentary Assembly** meets in Mozambique until 2 November to discuss issues such as climate change, guaranteeing market access for raw materials, and maritime security;

28 Oct 2022 **Rome (Italy)** *Upstream*. **Italy**-headquartered energy company **Eni** announces that before September it had begun the production of liquefied natural gas (LNG) from its **Coral South** floating LNG project offshore Mozambique, with an annual capacity of 3.4 million tonnes per year.

27 Oct 2022 **Maputo (Mozambique)** *Adda 247*. Mozambican and **Tanzanian** navy forces collaborate with the **Indian** defence ministry to conduct the first edition of the **India-Mozambique-Tanzania Trilateral Exercise** to help protect Mozambique's maritime water and relevant infrastructure, which have seen attacks by insurgents;

23 Oct 2022 **Abu Dhabi (United Arab Emirates)** *Club of Mozambique*. President **Filipe Nyusi** arrives in the **United Arab Emirates** on an official visit **Abu Dhabi** ruler **Mohammed bin**

Zayed Al Nahyan during which the leaders discuss matters related to economic, military and public security, among other issues;

20 Oct 2022 **Cabo Delgado (Mozambique)** *Miningmx*. Assailants suspected to be from the **Islamic State**-linked insurgency attack the **Montepuez Ruby Mining Limitada (MRM)** ruby mine, 75% owned by **Gemfields Group**, in northern Mozambique, prompting the firm to evacuate its staff;

14 Oct 2022 **Maputo (Mozambique)** *African Development Bank*. The **African Development Bank** approves a grant of a grant of \$2.5m for the Mozambican government to develop renewable energy resources, with the project set to be implemented by the **Mozambique Renewable Energy Integration Program**.

About Africa Risk Consulting:

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