

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing January 2023

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#### Mozambique Summary 12 January 2023

*Islamic State-aligned Ansar Al-Sunna Wa Jamma (ASWJ) conducts sporadic attacks in Cabo Delgado, plaguing residents and businesses, despite the government's promises of an improving security situation in the province. Mozambique's cabinet approves a bill formalising the involvement of local militia groups in the government's offensive in Cabo Delgado as the state continues to collaborate with external partners to quell the terror threat. The Southern African Development Community Mission in Mozambique (SAMIM) investigates a video circulating on social media of its soldiers reportedly engaging in improper conduct. Government approves the country's economic and social plan and state budget, forecasting economic growth of 5% in 2023 with a focus on sectors including construction, agriculture and industry. However, downsides to this outlook abound, particularly in the agriculture sector amid Mozambique's increasing climate insecurity. The European Commission also adds Mozambique to its list of jurisdictions considered to be high risk, citing concerns over its money laundering and terrorist financing combating frameworks. On the upside, Mozambique aims to leverage its electricity surplus to be a net exporter of power to the wider Southern Africa region. Investment in expanding renewable energy sources increases as well as the development of the country's internal road network and port infrastructure.*

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#### Attacks continue in Cabo Delgado amid scrutiny of SAMIM

**Islamic State-aligned Ansar Al-Sunna Wa Jamma (ASWJ)** has continued to conduct sporadic attacks in **Cabo Delgado** province, plaguing residents and businesses, despite the government's promises of an improving security situation in the province in recent months. ASWJ claimed responsibility for an attack carried out on 30 December on **Namande** village in the district of **Muidumbe** which resulted in the death of at least two people and property damage. State forces retaliated against the group with clashes forcing some inhabitants to flee the village.<sup>1</sup>

The recent attack comes as the government is facing mounting pressure from investors to ensure a secure environment, particularly after Mozambique carried out its first shipment of Liquefied Natural Gas (LNG) in November to be sold to **United Kingdom** oil giant **BP**, under a 20-year contract with an optional 10-year extension (see *ARC Briefing Mozambique Dec 2022*). Despite this positive development, the unstable security situation in Cabo Delgado has hampered the development of the sector. **Instituto Nacional de Estatística** (national statistics institute) released a report on 11 January noting a decline in natural gas production from 192 million gigajoules in 2018 to 188 million gigajoules in 2021, attributing the decline to the security environment.<sup>2</sup>

The government has continued its close collaboration with its broad base of military partners to fend off the terror threat with parliament approving a bill legalising the involvement of local militia groups in the government's offensive in Cabo Delgado on 19 December. Defence minister **Cristóvão Chume** told parliament that this bill is necessary as the Mozambican army is not able to repel the insurgents on its own. Although the state already engages the help of local militia for its armed forces, the new law is expected to enable improved "structuring, organization and logistical support" for these groups.<sup>3</sup> Chume also noted that militia groups currently involved do not have a "permanent presence"

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<sup>1</sup> Agenzia Fides, 2 Jan 2023

<sup>2</sup> O Pais, 11 Jan 2023

<sup>3</sup> Agenzia Fides, 19 Dec 2022

necessitating the state's continued investment in building up its defence and security forces. However, beyond bolstering its military presence, the state will need a stronger focus on rehabilitating the territory it has reclaimed, with massive investments in critical infrastructure needed to enable displaced persons to reintegrate into their communities. **Inácio Lucas**, the Bishop of the diocese of **Guruè (Zambézia province)** has also cautioned of the ripple effect of the conflict outside of the hotspot of Cabo Delgado, stating:

*"We speak of Cabo Delgado as if it were a unique case, but it is not, the whole country is affected by this war... the situation in Cabo Delgado affects all of us".<sup>4</sup>*

The state-backed military presence in Mozambique has also come under significant scrutiny in recent days as the **Southern African Development Community Mission in Mozambique (SAMIM)** announced on 10 January that it is investigating a video circulating on social media of its soldiers engaging in improper conduct. The video appears to depict soldiers, one of whom seems to be wearing a **South African National Defence Force (SANDF)** uniform, burning corpses in Mozambique. **Qatar**-based media outlet **The Peninsula** reported that the incident took place in November while the SANDF has labelled the video a "*despicable act*" with South Africa's shadow defence minister **Kobus Marais** stating:

*"What is shown on the video is unacceptable and must be rejected in the strongest possible way."*

### Government forecasts 5% economic growth despite several risks

Mozambique's parliament approved the country's economic and social plan and state budget on 10 December with a speech by Prime Minister **Adriano Maleiane** indicating the state projects the economy to grow by 5% in 2023, but that the cost of living will continue to rise in 2023. Maleiane noted that government expects the annual inflation rate to reach 11.5% in 2023, up from the 10.7% estimated for 2022.<sup>5</sup> Food prices also remain elevated in the country and in November annual inflation stood at 11.2% down from 11.8% in October, but an increase in the prices of food items such as tomatoes (4%), corn in grain (7.3%), onions (4.9%) and peanuts (3.3%).<sup>6</sup> The government introduced a reduction of the Value Added Tax (VAT) rate from 17% to 16%, which entered into force on 1 January, as one measure to combat this higher cost of living but the impacts of this measure remain to be seen.<sup>7</sup>

This forecast comes as Mozambique's economy remains in a fragile condition in the context of several factors including continued **Covid-19**-related disruptions, the impact of the ongoing conflict between **Russia** and **Ukraine** and the elevated security threat in Cabo Delgado. Maleiane forecasted an increase in exports of goods and services owing to "*the growth in foreign demand, the higher prices on the international market, and the start of operations of the floating liquefied natural gas platform*". He also noted that the government aims to rely on the "*greater dynamism*" of private investment to spur economic growth in 2023, setting a goal of attracting MZN134.2 billion (\$2.1 billion) to promote opportunities in the private sector.

However, downsides to this outlook remain and in addition to the ongoing insecurity in the north of the country, the government must also contend with increasing climate insecurity. Extreme weather events in the form of severe and sudden cyclones, storms and prolonged drought periods have ramped up in recent years, hampering the growth of the agriculture sector. **Instituto Nacional de Meteorologia** (weather institute) issued a storm warning on 6 January for **Gaza** province on the southern coast, noting potential periods of heavy rains as well as gusts of wind which could reach up to 60km per hour as Mozambique experiences its rainy season lasting from October to April.

<sup>4</sup> Agenzia Fides, 19 Dec 2022

<sup>5</sup> Mozambique 360, 12 Dec 2022

<sup>6</sup> Xinhua, 16 Dec 2022

<sup>7</sup> Orbitax, 12 Jan 2023

**Direcção Nacional de Gestão de Recursos Hídricos** (directorate for water affairs) also warned on 6 January of the possibility of further flooding in the capital **Maputo** during the season, impacting road accessibility with the worst of the flooding affecting **Matutuine, Manhica** and **Boane** districts. The institution expects that over 200 households in the province could be impacted with over 3,000 hectares of crops submerged. A cholera outbreak, a disease which is strongly related to climate, is also raging in neighbouring **Malawi**, prompting the government to place the bordering provinces of **Niassa, Zambézia** and **Tete** on alert. Concern centres on Niassa, where more than 500 cases and eight deaths have been recorded.<sup>8</sup>

The directorate further warned on 9 January that the **Pequenos Libombos** dam on the **Umbeluzi** river (Maputo province) has reached over 80% of capacity necessitating discharges of over 50 cubic metres of water per second to prevent the flooding of riverside areas.<sup>9</sup> This comes as the country's 2022/2023 cropping season is well underway and expected to conclude in January, with the **United Nations Food and Agriculture Organization** anticipating around 2.7 million tonnes of cereal at the end of the season against cereal import requirements of 1.6 million tonnes for the country for the 2022/2023 marketing year.<sup>10</sup>

Mozambique's standing on the global financial markets has also taken strain with the **European Commission** adding it to its list of country jurisdictions considered to be high risk due owing to "strategic deficiencies" in their money laundering and terrorist financing combating frameworks on 20 December.<sup>11</sup> This will impede efforts towards improving transparency, and governance and rebuilding Mozambique's reputation as a trustworthy investment and donor partner.

### Mozambique to benefit from infrastructure investments

**Marcelino Gildo Alberto** the chairman of power utility **Electricidade de Moçambique (EDM)** divulged on 9 January that the utility plans to scale up its electricity exports to countries in the SADC region. Power exports currently account for 22% of EDM's annual revenues and the firm is benefiting from a power surplus, setting its sights on neighbours South Africa, **Zimbabwe** and **Zambia** which face significant challenges with domestic power generation.<sup>12</sup>

Investments in expanding renewable energy sources also continue, and new solar energy projects are also expected to provide a welcome boost to the economy. **United Kingdom**-headquartered **Ncondezi Energy** announced on 9 January that it has acquired a land use agreement from the state granting it exclusive use of the land to build out its solar power plant operation in Tete province. The firm will also develop a 300 megawatt (MW) solar photovoltaic and battery energy storage system at the plant which will cover an area of 950 hectares, sufficient for the generation of up to 500MW of power.<sup>13</sup> Ncondezi aims for its plant to provide at least 60MW of electricity to the national grid from 2024 with plans to eventually export power to the Southern African power pool.<sup>14</sup>

The government also aims to invest in the development of its internal land transport infrastructure to link rural areas to urban centres and open new routes for travel within the country in 2023. The public works ministry announced on 5 January that it intends to invest MZN20 billion (\$313.3m) in 2023 to rehabilitate rural roads and install bridges across the country. This will be funded by a combination of tax revenues (including fuel taxes and road tolls) and donations from the country's development partners.

The ministry reported that in 2022 it rehabilitated 530km of rural roads and tarred 144km of road infrastructure, however, this does not appear to be sufficient for the country's needs as **Angelo**

<sup>8</sup> Club of Mozambique, 9 Jan 2023

<sup>9</sup> Club of Mozambique, 9 Jan 2022

<sup>10</sup> ReliefWeb, 6 Jan 2023

<sup>11</sup> Club of Mozambique, 21 Dec 2022

<sup>12</sup> Pindula, 9 Jan 2023

<sup>13</sup> London South East, 9 Jan 2022

<sup>14</sup> Club of Mozambique, 9 Jan 2022

**Macuacu**, the chairman of the board of Mozambique's road fund, noted on 13 December that the institution only mobilised MZN457.4 million (\$7.2m) of the MZN8 billion (\$125.3m) required to maintain the roads damaged by the country's rainy season during the 2021-2022 period, a deficit of 94%.<sup>15</sup> Public works minister **Carlos Mesquito** called on the private sector in September to partner with the government to develop the road network, but there have been no reports of this, prompting the government to rather focus on the issue themselves (see *ARC Briefing Mozambique Nov 2022*).

There is also an increased focus on strengthening Mozambique's position as a regional trade hub through investment in its ports. Government plans to increase the cargo handling capacity of the port of **Nacala** from 100,000 twenty-foot equivalent units (TEU) annually to 252,000 TEU through an investment in the rehabilitation and expansion of the port in March 2023. **Edgar Jorge**, the director of the rehabilitation project, said the works will be funded by the **Japanese International Cooperation** which has disbursed \$277.5m for this purpose.<sup>16</sup> Driven by the presence of the 1,800km **Mozambique Channel** as a route for the global shipping industry, supporting around 30% of global tanker traffic, Mozambique's five main ports of Maputo, **Beira**, **Nacala**, **Quelimane**, and **Pemba** experience high levels of activity, necessitating investments in improving their infrastructure and efficiencies over the medium term.<sup>17</sup>

## Planner

27 Apr – 28 Apr 2023 **Maputo (Mozambique)** Mozambique Mining, Oil & Gas & Energy Conference and Exhibition (MMEC)

11 Oct 2023 **(Mozambique)** Municipal elections;

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

2025 **(Mozambique)** **Area 1** LNG production expected to commence

## Chronology

11 Jan 2023 **Maputo (Mozambique)** *Club of Mozambique*. Government announces salary cuts for senior state officials including the president, parliament deputies, assembly personnel, ministers, deputy ministers, provincial governors, secretaries of state, mayors, and senior judges;

9 Jan 2023 **Centurion (South Africa)** *Africa News*. **Interpol** officers arrest a **Mozambican** national **Esmael Malude Ramos Nangy**, during a raid at an address in **Centurion (South Africa)**, on suspicion of organising kidnappings for ransom in Mozambique;

5 Jan 2023 **Maputo (Mozambique)** *Club of Mozambique*. **Maputo Municipal Council** announces plans to collect 3MZN.9 billion (\$61.1m) in 2023, stemming from over 90 taxes including vehicle tax, the municipal poll tax and the municipal property tax;

5 Jan 2023 **Nacala (Mozambique)** *Norticias Ai*. **Nacala Municipal Council** guarantees payment of two months' wages to employees within two weeks after a sixth of employees begin an indefinite strike over the arrears;

1 Jan 2023 **New York (United States)** *Africa News*. **Mozambique** replaces **Kenya** as a non-permanent member of the **United Nations (UN) Security Council** for two years after being elected to the seat in June with 192 votes;

<sup>15</sup> Club of Mozambique, 5 Jan 2022

<sup>16</sup> Club of Mozambique, 14 Dec 2022

<sup>17</sup> Lexology, Accessed 11 Jan 2022

31 Dec 2022 **Beira (Mozambique)** *Club of Mozambique*. **MV Greenwich** vessel transporting the first batch of 20,000 metric tonnes of fertiliser from **Russia** arrives at the port of **Beira**;

30 Dec 2022 **Maputo (Mozambique)** *Proactive Investors*. **UK**-based mineral resource development company **Savannah Resource PLC** announces an extension to the due diligence period under its agreement to potentially divest its remaining interests in **Mozambique** after agreeing to sell concession 9735C to **Australia**-listed mining company **MRG Metals** in November;

30 Dec 2022 **Maputo (Mozambique)** *Macau News Agency*. Chairman of the parliamentary commission of enquiry **António Nequice** confirms a probe into allegations of drug trafficking by a ruling party Member of Parliament (MP) at the port of **Macuse**;

20 Dec 2022 **Maputo (Mozambique)** *AFP*. **South Africa**'s supreme court dismisses an appeal by **Mozambique** seeking to halt the extradition of former finance minister **Manuel Chang** to the **United States**. Chang is accused of corrupt practices and has been held in **South Africa** since 2018;

19 Dec 2022 **Washington (United States)** *Club of Mozambique*. **Mirko Manzoni**, the personal envoy of the **United Nations** secretary general to **Mozambique**, divulges that there is a lack of resources to pay pensions to **Resistência Nacional Moçambicana** guerrillas who were demobilised as part of the **Maputo Accord for Peace and National Reconciliation** agreed upon 2019;

14 Dec 2022 **Maputo (Mozambique)** *Club of Mozambique*. **Amélia Muendane**, president of the tax authority **Autoridade Tributária de Moçambique**, announces that the state had collected MZN275.6 billion (\$4.3 billion), or 94% of its annual target of MZN293.2 billion (\$4.6 billion) by end-November;

12 Dec 2022 **Washington (United States)** *World Bank*. President **Filipe Nyusi** meets with **David Malpass**, the president of the **World Bank**, to discuss the collaboration between the institution and Mozambique in the areas of infrastructure, energy access, water, agriculture, and human capital.

### About Africa Risk Consulting:

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