

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing August 2020

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#### Mozambique Summary 5 August 2020

*Mozambique's state of emergency ends on 29 July as the constitution prevents President Filipe Nyusi (2015-present) from extending it further. Nyusi asks Mozambicans to continue following strict protocols to curb the spread of Covid-19 as total confirmed cases jump to 1,973. France-based Total SA secures \$16 billion in financing of the Area 1 liquefied natural gas (LNG) project in Cabo Delgado province, and estimates that the project will generate \$50 billion in revenue for Mozambique's government over the next 25 years. The LNG projects are expected to increase Mozambique's GDP growth to 11% in 2024. Total's financing includes a \$400m loan from the African Development Bank (AfDB), directed towards ensuring that generated wealth brings socio-economic benefits to all Mozambicans. A dissident group of main opposition party Renamo continues violent attacks in Manica and Sofala provinces in the central part of the country, but United Nations (UN) Secretary-General personal envoy to Mozambique Mirko Manzonei claims "there is no turning back on the road to a definitive peace". US Special Operations Command Africa commander Major General Dagvin Anderson claims the Cabo Delgado attacks have "Islamic State fingerprints" and says outside intervention is needed because "terrorists know no borders".*

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#### State of emergency ends as Covid-19 cases jump

President **Filipe Nyusi** (2015-present) announced on 29 July the end of the state of emergency in **Mozambique**, but called on the Mozambican public to continue to follow strict measures to prevent the spread of **Covid-19** as confirmed cases jump.<sup>1</sup> Nyusi said the pandemic continues to be a threat, and emphasised that "*all the measures currently in force must continue to be followed with the same spirit and the same vigour as always*".<sup>2</sup> Health ministry deputy director **Benigna Matsinhe**, speaking at a press conference in **Maputo** on 3 August, said confirmed Covid-19 cases had risen to 1,973, of which 1,789 are through local transmission and 175 imported, with 14 recorded deaths and 676 recoveries.<sup>3</sup> The majority of cases are in Maputo and in **Cabo Delgado** province, with 303 and 261 infected people respectively.

The **Comissão Permanente da Assembleia da República de Moçambique** (standing committee of the Republic Assembly) convened for an extraordinary session on 4 August to evaluate the president's report on the end of the state of emergency and propose steps forward.<sup>4</sup> Speaking at a press conference after a session of the **Conselho de Ministros** (council of ministers) in Maputo on 4 August, spokesperson **Filimão Suaze** said the government will propose a new law on disaster risk management to the national assembly, in order to deal with covid-19 and Mozambique's future exposure to calamities and emergencies.<sup>5</sup>

Whether or not the new law will replace the state of emergency with similar restrictions is yet to be determined. **Centro de Integridade Pública (CIP)** (centre for public integrity) lawyer **Baltazar Fael** argues against the three-month limitation on the state of emergency. Fael claims that Nyusi can legally decree another state of emergency, saying it is up to the president whether he chooses to extend the

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<sup>1</sup> Lusa, 29 Jul 2020

<sup>2</sup> Lusa, 29 Jul 2020

<sup>3</sup> Lusa, 3 Jul 2020

<sup>4</sup> Lusa, 31 Jul 2020

<sup>5</sup> Lusa, 4 Aug 2020

state of emergency or declare a state of calamity.<sup>6</sup> In a report analysing possible post-state of emergency scenarios, the **Electoral Institute for Sustainable Democracy in Africa (EISA)** claims that a state of public calamity would allow the government to continue strict restrictions until the covid-19 pandemic is under control.<sup>7</sup> The president and the national assembly will need to decide whether a new law on disaster risk management will suffice to tackle the growing number of covid-19 cases, or if a state of calamity or another state of emergency is needed, and what the constitution allows.

President Nyusi's report on the state of emergency revealed that Mozambique has already received \$340.8m in emergency aid, which is almost half the \$700m the government requested from partners to cover the State Budget deficit in 2020.<sup>8</sup>

### Total finalises \$16 billion LNG financing...

**France**-based **Total SA**, leading the Area 1 liquefied natural gas (LNG) project in Mozambique's northern Cabo Delgado province, has finalised \$16 billion in financing from several commercial banks and export credit agencies (ECAs).<sup>9</sup> The Area 1 consortium in **Afungi** is owned by Total SA (26.5%), **Japan**-based **Mitsui** (20%), **Mozambican** state oil company **Empresa Nacional de Hidrocarbonetos (ENH)** (15%), **India**-based **Bharat Petroleum** (10%), **India**-based **ONGC Videsh Limited** (10%) and its subsidiary **Beas** (10%), and **Thailand**-based **PTTEP** (8.5%).

The financing includes covered and direct loans from eight ECAs, including **United Kingdom (UK)**-based **UK Export Finance**, **United States (US)**-based **Export-Import Bank**, **Italy**-based **SACE**, **Netherlands**-based **Atradius**, **Credit Insurance Corporation of South Africa**, **Japan Bank for International Cooperation**, **Export-Import Bank of Thailand**, and **Nippon Export and Investment Insurance**.<sup>10</sup> Financial close is expected by the end of September. International law firm **White & Case LLP**, advising the financiers, described the financing as the "*biggest foreign investment in Africa yet*".<sup>11</sup>

Total's chief financial officer, **Jean-Pierre Sbraire**, said on 17 July that the signing shows confidence from financial institutions in the long-term future of LNG in Mozambique. Total estimates that the LNG project will generate \$50 billion in revenue for Mozambique's government over the next 25 years.<sup>12</sup>

The Total SA-led project, which includes offshore gas fields in the Area 1 concession and construction of two-train liquefaction plants with capacity to produce about 13.1 million tons per annum, is just one of several LNG projects being developed in northern Mozambique. The total investment of \$20 billion makes up a third of the estimated \$60 billion that all the projects in Cabo Delgado province are worth.<sup>13</sup> Larger than the Total SA-led project is the US-based **Exxon Mobil**-led **Rovuma** LNG project, expected to be worth \$30 billion, but this has been postponed until next year due to the pandemic and depressed energy prices (see *ARC Briefing Mozambique June 2020*).<sup>14</sup>

Total claims there is growing confidence in the long-term future of LNG in Mozambique; the finalising of the Area 1 financing shows positive prospects for the long-awaited wealth that the LNG projects are expected to bring. The government will need to manage and invest the flow of revenue so that it benefits the population of Mozambique (see below).

<sup>6</sup> Club of Mozambique, 31 Jul 2020

<sup>7</sup> Lusa, 3 Aug 2020

<sup>8</sup> Lusa, 3 Aug 2020

<sup>9</sup> Bloomberg, 16 Jul 2020

<sup>10</sup> Reuters, 17 Jul 2020

<sup>11</sup> Bloomberg, 16 Jul 2020

<sup>12</sup> Bloomberg, 16 Jul 2020

<sup>13</sup> Reuters, 17 Jul 2020

<sup>14</sup> Bloomberg, 16 Jul 2020

### ... and AfDB signs loan to secure socio-economic benefits

The financing of the Total-SA LNG project includes a \$400m loan from the **African Development Bank (AfDB)**, which was signed on 15 July.<sup>15</sup> The AfDB is the only multilateral development institution involved in the LNG project's first phase. The AfDB said the loan is for the “*transformational project*”, which it expects to transform Mozambique’s energy sector and provide broader socio-economic benefits.<sup>16</sup> AfDB president **Akinwumi Adesina** noted when announcing the approval of the loan on 26 November 2019,

*“Through its participation, the African Development Bank again demonstrates its leading role in supporting **Africa**’s transformation. The catalytic effect brought about by the Bank is strategically aimed to help transform Mozambique from ‘developing’ to ‘developed’ nation.”<sup>17</sup>*

The AfDB stated that by working closely with the Mozambican government, it aimed to ensure that the local population of Mozambique benefits from the mega-LNG projects and their anticipated revenue.<sup>18</sup> The LNG projects are estimated to increase Mozambican GDP growth to 11% by 2024.<sup>19</sup>

Mozambique GDP: IMF Debt Sustainability Analysis 29 April 2020 <sup>20</sup>							
	2019	2020P	2021P	2022P	2023P	2024P	2025P
Real GDP growth (%)	2.2	2.2	4.7	4.0	8.6	11.0	11.2
Real GDP (excl. mining)	2.4	2.0	3.6	4.0	4.0	4.0	4.0
GDP (billions of \$)	14.9	14.8	15.7	17.3	19.9	22.6	25.6
GDP per capita (\$)	477	462	479	512	576	636	703

President Nyusi’s plans to invest the anticipated revenue are under scrutiny to ensure the wealth benefits the local population and addresses the poverty that is widespread in the Cabo Delgado region specifically and also more generally in Mozambique. Past experience on the continent shows that resource wealth has benefitted only a privileged few and increased the wealth gap between rich and poor.

### Violence continues with dissident Renamo group...

Armed attacks in the central provinces of **Manica** and **Sofala** by a dissident group of the main opposition **Resistência Nacional Moçambicana (Renamo)** continue. The attacks have now claimed the lives of at least 24 people and displaced more than 1,700 people.<sup>21</sup> **United Nations (UN) Secretary-General** personal envoy to Mozambique **Mirko Manzoni** stated on 1 August that the violence is “*an antithesis of the vision of [former Renamo party leader] Afonso Dhlakama*”, which Manzoni said Dhlakama “*fought to preserve during his last years*”.<sup>22</sup>

The violent attacks are attributed to a dissident Renamo group led by former guerrilla leader **Mariano Nhongo**, who is demanding better conditions for the disarmament, demobilisation and reintegration (DDR) component of the peace process signed between Renamo and the ruling **Frelimo** administration on 6 August 2019.

<sup>15</sup> AfDB, 21 Jul 2020

<sup>16</sup> AfDB, 21 Jul 2020

<sup>17</sup> AfDB, 26 Nov 2019

<sup>18</sup> AfDB, 21 Jul 2020

<sup>19</sup> IMF, 29 Apr 2020

<sup>20</sup> IMF, 29 Apr 2020

<sup>21</sup> Lusa, 31 Jul 2020

<sup>22</sup> Lusa, 3 Aug 2020

Although Renamo has officially dissociated itself from the violence of the dissident group, former guerrillas now fear being confused with rebels when they return to their home villages after handing their weapons over in June as part of the DDR process (see *ARC Briefing Mozambique July 2020*).<sup>23</sup> The DDR component has secured the demobilisation and reintegration of 10% of the 5,221 men that Renamo claimed were under arms in its militia. Manzoni claims that the peace process is successfully going forward:

*“There have been some challenges along the way, but I firmly believe there is now no turning back on the road to a definitive peace.”*<sup>24</sup>

President Nyusi and the Mozambican government are now facing violence on two fronts. Local residents continue to suffer from the sporadic violent attacks, while there appears to be little progress in talks or negotiations with Nhongo’s dissident group.

### ... and foreign mercenaries engage in Cabo Delgado conflict

**US Special Operations Command Africa** commander Major General **Dagvin Anderson** stated on 4 August that the insurgency attacks in Cabo Delgado have “*Islamic State fingerprints*”, and require engagement from other countries in the region “*because the terrorists know no borders*”.<sup>25</sup> The violent insurgencies have to date displaced 250,000 people and affected 700,000 who require help.<sup>26</sup>

Anderson’s statement comes amid criticism of the continued use of mercenaries in Cabo Delgado to address the violent insurgencies and the involvement of several private military companies. The government has extended the contract with **South Africa-based Dyck Advisory Group (DAG)** until at least the end of 2020,<sup>27</sup> while both France and the US are discussing possible support in the fight against the insurgents in Cabo Delgado.<sup>28</sup>

South Africa’s state security minister, **Ayanda Dlodlo**, stated that the South African government takes “*very, very seriously*” the threats by **Islamic State** to open the fighting front in South Africa should South Africa become involved in the conflict (see *ARC Briefing Mozambique July 2020*). Dlodlo said South Africa cannot extricate itself from the growing conflict in the **Southern African** region.<sup>29</sup> The **South African Institute of Strategic Studies (ISS)**, in an article by **Peter Fabricius** on 23 July, warned that Islamic State has recruited South Africans into its ranks, and that the insurgency will grow if South Africa stays out of the conflict in Mozambique.<sup>30</sup>

The losers of the insurgency continue to be the poorer residents of Cabo Delgado. While a few Mozambicans and several international groups may profit from the war or the region’s resources, the local population gains little from these resources. The continued militarisation of the conflict may cause it to escalate to civil war, which would further delay the forecasted socio-economic benefits from the LNG projects.

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<sup>23</sup> Lusa, 1 Aug 2020

<sup>24</sup> Club of Mozambique, 4 Aug 2020

<sup>25</sup> Lusa, 4 Aug 2020

<sup>26</sup> Club of Mozambique, 27 Jul 2020

<sup>27</sup> Zitamar, 16 Jul 2020

<sup>28</sup> Club of Mozambique, 27 Jul 2020

<sup>29</sup> News24, 19 Jul 2020

<sup>30</sup> ISS Today, 23 Jul 2020

## Planner

10-17 Aug 2020 **Maputo (Mozambique)** The **Southern African Development Community (SADC)** 40<sup>th</sup> Summit of Heads of State (virtual);

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

2023 **(Mozambique)** Local elections;

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

## Chronology

4 Aug 2020 **Stuttgart (Germany)** *Lusa.* **United States (US) Special Operations Command Africa, Major General Dagvin Anderson**, says the attacks in northern **Mozambique** have “**Islamic State** fingerprints”;

1 Aug 2020 **Cheadeia (Mozambique)** *Lusa.* Ex-guerrilla fighters of main opposition party **Renamo** who have been demobilised as part of the **DDR** component of the peace process say they fear being confused with **Renamo** dissident group rebels;

31 Jul 2020 **Chimoio (Mozambique)** *Lusa.* More than 1,700 people have been displaced in central Mozambique following dissident **Renamo** group’s violent attacks in the provinces of **Manica** and **Sofala**;

29 Jul 2020 **Maputo (Mozambique)** *Lusa.* President **Filipe Nyusi** declare the end of the State of Emergency, but asks Mozambicans to continue follow the strict regulations to minimise **covid-19** transmission;

29 Jul 2020 **Maputo (Mozambique)** *Fitch Ratings.* **United States** credit ratings agency **Fitch Ratings** says a recent large financing agreement on **Mozambique’s** LNG project boosts the country’s medium-term GDP prospects, despite security challenges and lower medium-term hydrocarbon prices;

28 Jul 2020 **(Africa)** *Business Day.* An independent review clears **African Development Bank** president **Akinwumi Adesina** of abuse of office, paving the way for him to seek a second term.

21 Jul 2020 **Maputo (Mozambique)** *AfDB.* **African Development Bank** concludes its bid to co-finance the construction of **Mozambique’s** integrated LNG plant by signing a \$400m loan;

17 Jul 2020 **Johannesburg (South Africa)** *Creamer Media’s Mining Weekly.* **South Africa**-based **Standard Bank** confirms it will contribute \$485m in debt finance to the \$20 billion **Mozambique** LNG project;

16 Jul 2020 **Maputo (Mozambique)** *WorldOil.* **France**-based **Total SA’s** **Mozambique** LNG gas project completes as much as \$16 billion in funding involving a score of banks – the biggest foreign direct investment in **Africa**;

14 Jul 2020 **(Africa)** *EMPEA.* **United Kingdom**-based **Helios Investment Partners’** holding company, **Helios Holdings Group**, and **Canada**-listed **Fairfax Africa Holdings Corporation** agree to combine businesses to create pan-**African** investment firm **Helios Fairfax Partners**;

8 Jul 2020 **Maputo (Mozambique)** *Reuters.* **France**-based oil major **Total** secures \$15.8 billion funding for its giant natural gas project, **Mozambique LNG**;

### 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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