

AFRICA RISK CONSULTING

Mozambique Monthly Briefing May 2022

Mozambique Summary 12 May 2022

The International Monetary Fund's executive board approves a new three-year Extended Credit Facility arrangement with Mozambique, amounting to SDR340.8m (around \$456m). Economy and finance minister Max Tonela confirms that the Mozambique government is continuing with plans to establish a sovereign wealth fund to manage revenues from liquefied natural gas (LNG) projects set to commence in October. The country is on track for a significant ramp up in longer term LNG projects beginning in 2022, as investors are encouraged by an improving security situation in Cabo Delgado. The average level of prices in the country increased by 7.90% in April, up from 6.67% the previous month, the highest rate since October 2017. The United Nations High Commissioner for Refugees states that it requires \$36.7m to carry out its operations in 2022. Mozambique sees a slight rise in active cases of Covid-19 as the southern hemisphere approaches the winter season when infection rates typically rise.

IMF approves ECF for Mozambique

The **International Monetary Fund (IMF)** executive board approved a new three-year **Extended Credit Facility (ECF)** arrangement with **Mozambique** on 9 May.¹ The ECF will amount to SDR340.8m (around \$456m), or 150% of the country's quota. Mozambique will also be able to draw down on an immediate disbursement of SDR 68.16 million (equivalent to \$91m). The new arrangement reflects the IMF's renewed confidence in the Mozambican government amid its efforts to improve governance, stem corruption and provide greater transparency.

IMF deputy managing director **Bo Li** said the facility aims to support the country's economic recovery and prop up policies to reduce public debt and financing vulnerabilities, along with creating fiscal space for priority investments in human capital, climate adaptation and infrastructure.² The IMF also hopes the facility will provide space for the government to pursue its more ambitious reforms such as the creation of a sovereign wealth fund for the management of the country's liquefied natural gas (LNG) investment returns, when the sector begins operations currently set for late 2022 (see below).

Since 2016, the IMF has granted Mozambique only emergency aid in the aftermath of **Cyclone Idai** in 2019 and provided support to respond to the **Covid-19** pandemic that began in 2020.³ The IMF suspended its programme with Mozambique in 2016, as the extent of the country's hidden debt crisis came to light (see *ARC Briefing Mozambique July 2015*). State-backed companies, established by Mozambique's intelligence service, borrowed \$2 billion for transactions, including the purchase of a tuna-fishing fleet, a maritime protection system and shipyards, between 2013 and 2014, without gaining the approval of parliament and the administrative court as mandated by law.⁴ The discovery of the illegally incurred debt led several international organisations to suspend aid and financial assistance to the country, plunging it into a debt crisis.⁵ A trial to prosecute 19 accused perpetrators, including **Armando Ndambi Guebuza**, son of former president **Armando Guebuza** (2005-2015), is currently underway in the country. Armando Guebuza has already testified in the trial, implicating current president **Filipe Nyusi** (2015-present), who was the minister of defence at the time, in the scandal (see *ARC Briefing Mozambique March 2022*).

¹ International Monetary Fund, 9 May 2022

² International Monetary Fund, 9 May 2022

³ South African Broadcasting Corporation, 10 May 2022

⁴ Mail and Guardian, 4 Mar 2022

⁵ Eyewitness News, 12 Feb 2022

Sovereign wealth fund plans continue ...

Economy and finance minister **Max Tonela** confirmed on 21 April that the government is continuing with its plans to create a sovereign wealth fund as it prepares to commence the export of liquefied natural gas (LNG). The LNG project is expected to generate around \$96 billion in revenues for the country over its life cycle. Tonela said the government is in the process of finalising the draft legislation that will govern the operation and management of the fund.

The **Banco de Moçambique** (central bank) released a proposed model for the creation of the fund in October, including considerations around the objectives of the fund, rules for deposits, governance structure, and the process for domestic spending through the state budget. Under the proposal, the fund will receive savings of 50% of state revenues from the oil, gas and mining sectors until its 20th year of operation, after which the savings will be increased to 80%. The government aims to use the deposits from the fund to ensure fiscal stability and social support for the country's citizens.⁶

Tonela expects the fund to be operational by October, before the country begins its first LNG exports from a project being led by **Italy**-based **Eni SpA**.⁷ The floating LNG production facility will have a capacity of 3.4 million mt/year and is worth around \$7 billion. In April, state-owned oil firm **Empresa Nacional de Hidrocarbonetos** hired **France**-headquartered financial services firm **Société Générale SA** as the financial advisor for its plans to refinance its stake in the project.⁸

Beyond this immediate project, the country is on track for a significant ramp up in longer term LNG projects beginning in 2022, buoyed by an improving security situation in the **Cabo Delgado** region where several high-value projects are located. In January, **France**-based **TotalEnergies SE** CEO **Patrick Pouyanne** stated that the company would like to resume its \$20 billion project after it declared *force majeure* in 2021, citing the ongoing security situation in the country. The company had aimed to begin production in 2024, however the heightened security challenge in Mozambique led it to revise its projected start date to 2025 at the earliest, only reaching full a production capacity of 13.1 million tons of LNG annually by the end of 2026. These developments continue to hinge on an improving security situation, with Mozambique being propped up by military support from partners such as **Rwanda** and the **Southern African Development Community** security forces' efforts to quell the violent extremism in Cabo Delgado.

There are also positive long-term prospects from the **United States**, which announced on 4 April that it had chosen Mozambique as one of five countries or regions for which it will implement the **Global Fragility Act**, allocating \$1.5 billion over a five-year period to address the root causes of conflict and violence in these countries (see *ARC Briefing Mozambique April 2022*).⁹ In May, **Uganda**'s President **Yoweri Museveni** (1986-present) said his country may consider deploying troops to bolster the Mozambican offensive against the insurgents.¹⁰

The underdeveloped state of Mozambique's LNG sector has prevented the country from taking advantage of surging global natural gas prices triggered by **Russia**'s continuing military operations in **Ukraine** (see *ARC Briefing Mozambique March 2022*). Despite Mozambique's lag in LNG infrastructure, the government views the Ukraine conflict as an opportunity to accelerate the development of its natural gas resources and emerge as an alternative source of supply of energy products, taking advantage of longer-term diversification in global natural gas supply chains.

...amid growing inflationary pressure ...

According to latest data from Mozambique's **Instituto Nacional de Estatística** (national statistics agency), the average level of prices in the country increased by 7.90% in April, up from 6.67% the

⁶ Natural Resource Governance Institute, 17 Feb 2021

⁷ Bloomberg, 24 Apr 2022

⁸ BNN Bloomberg, 22 Apr 2022

⁹ The White House, 1 April 2022

¹⁰ The East African, 2 May 2022

previous month, the highest rate since October 2017.¹¹ Increase transportation costs have been a major driver of inflation, after energy regulator **Autoridade Reguladora de Energia** increased fuel prices on 17 March. Petrol increased from MZN69.04 (\$1.09) to MZN77.39 (\$1.21) per litre, while the price of diesel increased from MZN61.71 (\$0.97) to MZN70.97 (\$1.11) per litre.¹²

Inflationary pressures are expected to continue over the coming months, driven by the continuing conflict in Cabo Delgado as well as the impact of recent adverse weather conditions, which have damaged agriculture-producing areas in the country. Rising global prices, primarily driven by the conflict in Ukraine, have exacerbated shortages and price increases. In May, the IMF commended the Banco de Moçambique's decision in March to increase its policy rate from 13.25% to 15.25%:¹³

"The prudent monetary policy stance is warranted given rising inflationary pressures. The Bank of Mozambique's pursuit of adopting an inflation targeting regime is commendable."¹⁴

The **United Nations High Commissioner for Refugees (UNHCR)** continues to appeal for increased international aid to help it meet the growing humanitarian crisis spurred on by the conflict in Cabo Delgado and recent adverse weather events. At least five tropical storms and cyclones have impacted the country since the beginning of the year, resulting in damage to, and destruction of, homes, schools, clinics and general infrastructure. According to the UNHCR, **Tropical Cyclone Gombe**, which made landfall on 11 March, impacted over 736,000 people, including those in a site for internally displaced people and refugees in **Maratane** settlement.¹⁵ Meanwhile, the fighting in Cabo Delgado, which began in 2017, has internally displaced 783,000 people, with 6,000 recorded as newly displaced in 2022, contributing to rising food insecurity in the region.¹⁶ The UNHCR states that it requires \$36.7m to carry out its operations in 2022 alone.¹⁷ UNHCR director of international protection **Grainne Ohara** stated:

"Mozambique faces these twin challenges in an 'invisible' crisis while humanitarian operations are restricted by chronic under-funding."¹⁸

Covid-19 active case numbers rise slightly

Mozambique continues to record low case numbers of Covid-19. As of 11 May, there were only 64 active cases of Covid-19 in the country, up from 49 cases a month earlier.¹⁹ The slight rise in cases may reflect the impact of the southern hemisphere entering the winter period, when infection rates typically rise. As of 11 May, Mozambique had recorded an average of seven daily new cases of Covid-19, bringing the total number of confirmed cases in its population of approximately 31.5 million to 225,451, with 2,201 Covid-19-related deaths and 223,186 recoveries from the disease.²⁰

United Kingdom-based data access project **Our World in Data**, run by non-profit organisation **Global Change Data Lab** and the **University of Oxford**, estimates that 46.1% of Mozambique's population had received at least one dose of a Covid-19 vaccine by 8 May.²¹

President Nyusi extended Mozambique's **State of Public Calamity** on 16 February, but announced further changes to the restrictions in force to contain the spread of Covid-19, effective from 19 February (see *ARC Briefing Mozambique Mar 2022*).²² Relevant changes to Covid-19 restrictions include:

¹¹ Instituto Nacional de Estatística, accessed 12 May 2022

¹² Club of Mozambique, 16 Mar 2022

¹³ Bloomberg, 30 Mar 2022

¹⁴ International Monetary Fund, 9 May 2022

¹⁵ United Nations High Commissioner for Refugees, 10 May 2022

¹⁶ Caj news Africa, 11 May 2022

¹⁷ United Nations High Commissioner for Refugees, 10 May 2022

¹⁸ Caj news Africa, 11 May 2022

¹⁹ Worldometers, accessed on 11 May 2022

²⁰ Worldometers, accessed on 11 May 2022

²¹ Our World in Data, accessed on 12 May 2022

²² US Embassy in Mozambique, accessed 11 May 2022

- The reopening of all border posts;
- The lifting of curfew throughout the country;
- An increase in the maximum number of visitors in hospitals, while a ban on visits to Covid-19 patients remains in place;
- Restaurants and bars may remain open until 11:00 pm.
- Private social events, religious services, public and private meetings and state events may now have a maximum of 500 participants indoors and 1000 outdoors, without exceeding 50% of the venue's capacity.²³

On 20 April, Nyusi announced a transition from a State of Calamity downgrading to a Public Health Emergency, effective immediately. Travellers can also enter Mozambique without the need to show a negative PCR test if they present a valid certificate showing proof of full vaccination against COVID-19.²⁴

Planner

23-28 Sep 2022 **(Mozambique) Frelimo Party** hold its 12th Congress
 2023 **(Mozambique)** Local elections;
 2024 **(Mozambique)** Provincial and presidential elections;
 2025 **(Mozambique) Area 1 LNG** production expected to commence;

Chronology

10 May 2022 **Geneva (Switzerland) United Nations High Commissioner for Refugees United Nations High Commissioner for Refugees** international protection division director **Grainne Ohara** states that the organisation is short of resources and needs \$36.7m to fund its operation in **Mozambique** in 2022;

9 May 2022 **Maputo (Mozambique) News24. India's** deputy national security advisor, **Vikram Misri**, meets with Mozambique's ministry of defence and interior security officials with the parties agreeing to revive their joint working group on defence to boost counter-terrorism efforts, promote their blue economies and fight drug trafficking;

9 May 2022 **Washington DC (United States) International Monetary Fund. The International Monetary Fund** approves a three-year Extended Credit Facility, granting **Mozambique** SDR 340.8m (around \$456m), amounting to 150% of the country's quota;

8 May 2022 **Maputo (Mozambique) All Africa. Cabo Delgado's** provincial attorney's office establishes a specialist section comprising magistrates, law officers, and staff of the **Serviço Nacional de Investigação Criminal** (national criminal investigation service) to handle matters concerning terrorism;

27 Apr 2022 **Entebbe (Uganda) Voice of America. Mozambique's** President **Filipe Nyusi** arrives in **Uganda** on a three-day official visit to hold bilateral talks with President **Yoweri Museveni**;

24 Apr 2022 **Washington (United States) Bloomberg. The Mozambican** government confirms progress in its plans to establish a sovereign wealth fund, as it prepares to commence natural gas exports in late 2022;

²³ US Embassy in Mozambique, 9 Mar 2022

²⁴ US Embassy in Mozambique, accessed 11 May 2022

22 Apr 2022 **Maputo (Mozambique)** *Voice of America*. **Mozambique** and **Malawi** launch a power transmission project to help Malawi meet its electricity demands, aiming to produce 50 megawatts of electricity for Malawi upon completion;

17 Apr 2022 **Maputo (Mozambique)** *All Africa*. Public electricity utility **Electricidade de Moçambique** agrees to provide 100 megawatts of electricity to **Botswana Power Corporation** for one year, subject to request and the availability of surplus power on Mozambique's national grid.

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