

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing August 2022

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#### Mozambique Summary 11 August 2022

*President Filipe Nyusi (2015-present) presents a new economic programme, **Pacote de Medidas de Aceleração Económica (PAE)** (programme for the acceleration of the economy) on 9 August. The plan aims to stimulate Mozambique's economic growth and address the cost-of-living challenges facing consumers over the next two years as the government continues to pursue a stronger economic relationship with Russia. Mozambican security forces announce the rescue of over 600 hostages from insurgents based in the Catupa forest, Cabo Delgado on 2 August. Sporadic attacks by insurgents in the province are also ongoing. Government makes a stronger commitment to improve governance structures, transparency bodies and its funding prospects for economic development aims. Ncondezi Energy Limited announces it has launched a feasibility study for a 300MW solar photovoltaic power plant as well as a Battery Energy Storage System (BESS) within the firm's mining concession 5967C. The concession covers approximately 25,000 hectares in the districts of Moatize and Chiuta in the Tete Province. United States district judge, William Kuntz, signs off on a restitution agreement on 22 July for Credit Suisse as fallout from the hidden debts scandal continues. Mozambique continues to record low case numbers of Covid-19.*

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#### Government unveils economic stimulus plan

President **Filipe Nyusi** (2015-present) presented a new economic programme, **Pacote de Medidas de Aceleração Económica (PAE)** (programme for the acceleration of the economy) on 9 August. The plan aims to stimulate Mozambique's economic growth and address the cost-of-living challenges facing consumers over the next two years. The programme comprises of 22 measures split into two reforms - the first targeting fiscal and economic stimulus and the second focused on promoting an improved business environment, transparency, and governance.<sup>1</sup> Notably, at the fiscal level, measures include select tax reductions such as the reduction of Value Added Tax (VAT) from 17% to 16% as well as lowering Corporate Income Tax in agriculture, aquaculture, and public transport sectors from 32% to 10%.<sup>2</sup>

The PAE will also focus on greater localisation of natural resources, increasing the share of revenues for the provinces from which they were extracted from 2.5% to 10%. Another element of the PAE is access to finance for underserved consumers, with the government planning to establish a mutual loan guarantee fund valued at \$250m to enable financial institutions to provide credit at improved interest rates.<sup>3</sup>

However, economic headwinds abound over the near term. On 10 August the economy ministry's report on the implementation of the **Economic and Social Plan and the State Budget** divulged that it expects the Mozambican metical to lose value over the next five years and outlined three factors which it cautioned could lead to budgetary deviations: an economic slowdown, a weakened exchange rate as well as accelerated inflation. It predicted "*the probability of occurrence [of the three aforementioned events] estimated at 42.9 %, 71.4% and 42.9%, respectively, in the medium and long term.*"<sup>4</sup>

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<sup>1</sup> Further Africa, 9 Aug 2022

<sup>2</sup> Club of Mozambique, 10 Aug 2022

<sup>3</sup> Club of Mozambique, 10 Aug 2022

<sup>4</sup> Club of Mozambique 10 Aug 2022

The government is also continuing to pursue a stronger economic relationship with **Russia**. Notably, Mozambique abstained from a **United Nations**-led vote to rebuke Russia for its ongoing military operation in **Ukraine** (see *ARC Briefing Mozambique March 2022*). The Russian ambassador to Mozambique, **Alexander Surikov** met with the **Confederation of Economic Associations of Mozambique** on 1 August to discuss a range of issues stemming from the Russia-Ukraine conflict. The parties discussed how Mozambican companies could gain direct access to Russian suppliers of wheat products, Russia's continued interest in investing in Mozambique, considerations of the opening of a Russian bank in Mozambique to support bilateral trade between the two countries as well as the potential for Russia to sell cheaper fuel to the country.<sup>5</sup>

### Insurgents continue sporadic attacks in Cabo Delgado

**Mozambican** security forces announced the rescue of over 600 hostages from insurgents based in the Catupa forest on 2 August. The rescue operation was backed by **Rwanda's** army and **Southern African Development Community (SADC)** forces operating in **Cabo Delgado**, in northern Mozambique. The security commented in the press release:

*"The terrorist groups of the Islamic State in Mozambique (IS-MOZ) have been forced to flee to the localities of Nkoe and Nguida... they are still being tracked by the joint forces".<sup>6</sup>*

The ongoing conflict between Mozambique and its allies against the **Islamic State**-sponsored insurgency has been ongoing in the country since 2017 and resulted in a large-scale humanitarian crisis in Cabo Delgado.<sup>7</sup> The bolstered presence of allied forces in Cabo Delgado has significantly helped to repel the insurgents, pushing them into smaller pockets of the region. However, these groups continue to attack villages and other targets in the area. Insurgents attacked an un-escorted convoy of vehicles on 1 August travelling between **Nova Zambézia** and **Vida Nova**, killing a driver of a vehicle. 90 attacks attributed to the insurgents were reported in the region between 1 June and 21 July.<sup>8</sup>

These security challenges continue to pose significant risks for businesses operating in the area. Most recently, the **United Kingdom**-based gemstone supplier **Gemfields** confirmed a 13 July attack in **Muaja** village, around 30km away from its **Montepuez Ruby Mining Limitada (MRM)**, in Cabo Delgado. Two men are reported to have been beheaded during the attack. MRM produced 83,990 carats of rubies in 2021 and has reported sales revenues of \$827m since 2014. The firm stated that it has not halted operations but will be continued with "*increased vigilance*".<sup>9</sup> This attack comes after **Australian** mining firm **Triton Minerals** confirmed reports of an 8 June attack on its graphite mining project in the **Ancuabe** district of the Cabo Delgado province. This attack also resulted in the beheading of two staff at its site, an event which had an immediate impact on Triton Mineral's share price. **Syrah Resources**, another Australian-owned graphite mine in the area, also temporarily suspended its operations in light of the attack (see *ARC Briefing Mozambique July 2022*).

The **United Nations High Commissioner for Refugees (UNHCR)** released data on 27 July indicating that the ongoing conflict has resulted in over 784,000 people being internally displaced.<sup>10</sup> In response to this, the government has continued to pursue the rehabilitation of damaged areas in the country, encouraging displaced people to return to areas that it deems to have been secured by the armed forces. Director of the provincial health services, **Anastacia Lidimba** announced on 7 August that the region's health authorities would reopen most of the 34 health units which had been damaged during conflict between insurgents and armed forces.<sup>11</sup> However, aid organisations have long cautioned

<sup>5</sup> All Africa, 9 Aug 2022

<sup>6</sup> All Africa, 5 Aug 2022

<sup>7</sup> Relief Web, 11 Jul 2022

<sup>8</sup> All Africa, 5 Aug 2022

<sup>9</sup> Al Jazeera, 20 Jul 2022

<sup>10</sup> Relief Web, 30 Jun 2022

<sup>11</sup> All Africa, 7 Aug 2022

against a rush to reintegrate people back into the region, particularly as the security situation remains in flux. **Johan Viljoen**, director of the **Denis Hurley Peace Institute**, raised concerns regarding the sporadic attacks in Cabo Delgado stating on 25 July:

*“Renewed attacks in areas that were considered safe and stabilized are escalating, are increasing and are leading to massive displacement.”<sup>12</sup>*

Viljoen also noted that the terrain of the area poses a persistent challenge for long-term security, stating that insurgent groups “*attack and simply disappear into the bush*”, a factor which weighs on the ability of government security forces to track them.<sup>13</sup>

SADC leaders agreed on 15 July to extend the deployment of the bloc’s armed forces in Cabo Delgado. The extension is provisional pending a meeting by heads of states of the bloc set for 17-18 August to consider the progress of the mission.<sup>14</sup> Outgoing ambassador of the **European Union (EU)**, **Antonio Sanchez-Benedito Gaspar** announced on 13 July that the EU had approved €89m (US\$91.9m) in funding for the country’s counter-terrorism operation in Cabo Delgado. The funds will be used for the training of security forces as well as the acquisition of non-lethal protective equipment.<sup>15</sup>

The country is also benefiting from the sustained peace between its two main political parties, the ruling **Frelimo** party, and the main opposition **Renamo**. Mozambique’s president **Filipe Nyusi** (2015-present) on 2 August hailed positive developments from the peace agreement he signed with **Ossufo Momade**, the leader of Renamo in August 2019.<sup>16</sup> The peace deal aimed to end armed hostilities between the Renamo militia and security forces, remnants of which remain from the **Mozambican Civil War** which was fought between the ruling Frelimo party and the then-insurgent group Renamo from 1977 to 1992.<sup>17</sup> Under the agreement, the programme for the **Demobilisation, Disarmament and Reintegration (DDR)** has seen the demobilisation of 3,558 former Renamo guerrillas, which account for around 68% of Renamo’s “residual forces” while 12 of 16 known Renamo bases have since been shuttered. **Mirko Manzoni**, the personal envoy to Mozambique of **United Nations Secretary-General Antonio Guterres** expects the DDR to be concluded by end-2022, with plans for 2023 to be a year for “*reintegration and reconciliation*”.<sup>18</sup>

### **Mozambique benefiting from wider funding sources**

The government has made a stronger commitment to improve governance structures, transparency bodies and its funding prospects for economic development aims. This comes as more of the country’s international partners begin to re-engage with the government after they halted funding in the wake of the hidden debts scandal (*see ARC Briefing Mozambique June 2022*). The **World Bank’s** board of directors approved a US\$300m grant on 13 July for the **Institutions and Economic Transformation Development Policy Financing (DPF)** operation. The DPF aims to support reforms such as strengthening of Mozambique’s budgetary institutions and transparency; improving the business environment and increasing access to finance, supporting climate change efforts and addressing constraints in the country’s utility sector.<sup>19</sup> **Idah Z. Pswarayi-Riddihough**, World Bank country director for Mozambique noted:

*“This operation couldn’t come at a better moment as Mozambique’s economy is still reeling from the compounded effects of COVID-19, the protracted slowdown triggered by the hidden debt crisis, and the devastation caused by the tropical cyclones of 2019”*

<sup>12</sup> ACI Africa, 3 Aug 2022

<sup>13</sup> ACI Africa, 3 Aug 2022

<sup>14</sup> Times live, 15 Jul 2022

<sup>15</sup> All Africa, 28 Jul 2022

<sup>16</sup> All Africa, 7 Aug 2022

<sup>17</sup> Al Jazeera, 1 Aug 2019

<sup>18</sup> All Africa, 7 Aug 2022

<sup>19</sup> World Bank, 13 Jul 2022

The **United States (US)**, through the **U.S. Agency for International Development (USAID)**, announced on 13 July \$116m in additional assistance for Mozambique, comprising \$106m in humanitarian assistance for those impacted by the conflict in Cabo Delgado as well as the aftermath of **Tropical Cyclone Gombe** which hit the country on 11 March. This brings the US's total funding of humanitarian assistance to Mozambique in 2022 to \$167m.<sup>20</sup> The Board of Directors of the **African Development Bank Group** on 19 July also approved a \$1.4m technical assistance grant to the **Export Trading Group**. The loan will enable the funding of 600 women-owned enterprises in Mozambique, **Tanzania**, and **Zambia**, with 200 businesses set to be funded in each country. The project will run until 2025.<sup>21</sup>

### Infrastructure development continues at a strong pace

**London Stock Exchange**-listed **Ncondezi Energy Limited** announced on 19 July that it has launched a feasibility study for a 300MW solar photovoltaic power plant as well as a Battery Energy Storage System within the firm's mining concession 5967C. The concession covers approximately 25,000 hectares in the districts of **Moatize** and **Chiuta** in the **Tete** Province. The project aims to connect to the national grid by 2024.<sup>22</sup>

Mozambique's prime minister **Adriano Maleian** on 10 August also called on the country's national energy fund, **Fundo de Energia**, to continue implementing renewable energy initiatives aimed at the mass market. The initiatives aim to achieve universal access to electricity by 2030 in the country under the **Sustainable Development Goals**.<sup>23</sup> In 2020 only 30.6% of the population had access to electricity.<sup>24</sup> Improved electricity security bodes well for the economic development agenda which is focused on improving economic activity in rural areas as well as creating higher value opportunities in the industrial sector.<sup>25</sup>

The state-owned electricity company, **Electricidade de Moçambique**, announced on 2 August that it has electrified the headquarters of the **Machoca** administrative post (Cabo Delgado) at a cost of MZN141m (\$2.2m) funded by the state. This development comprised the installation of 25km of 33 kV medium voltage power lines and 35km of low voltage lines, 14 distribution transformers of 100 kVA and 150 lampposts for public lighting. This is expected to bring 1,500 new consumers online. This marked the electrification of the 40th administrative post in Cabo Delgado, out of a total of 56 in the province. The government plans to electrify all administrative post headquarters by 2024, in line with targets set in its five-year programme for the period 2020-2024.<sup>26</sup>

The country's gas sector is also expected to benefit from increased investment as the security situation improves. The **Norway**-headquartered oil and gas magazine **Upstream** reported on 14 July that **Italy**-based oil major **ENI** is considering the construction of a second floating liquefied natural gas (FLNG) processing vessel offshore Mozambique. The new build is expected to enable the firm to tap additional gas reserves in the area to increase production and allow for faster monetization of the existing gas reserves it is developing in the area.<sup>27</sup>

ENI's operations have stalled owing to the challenging security situation, not having operated in since 2017. Chief executive officer (CEO) **Claudio Descalzi** divulged on 19 July that the company had not decided on the new vessel but that it viewed the moves as *"a temporary fix to work around political risk"* that has hampered its operations in the area thus far.<sup>28</sup> This comes after the 18 June announcement that ENI's **Coral South Project** had achieved the introduction of hydrocarbons to its

<sup>20</sup> Relief Web, 20 Jul 2022

<sup>21</sup> Club of Mozambique, 19 Jul 2022

<sup>22</sup> ESI Africa, 19 Jul 2022

<sup>23</sup> All Africa, 10 Aug 2022

<sup>24</sup> World Bank Global Electrification Database, accessed on 9 August

<sup>25</sup> Power Africa, 26 Apr 2021

<sup>26</sup> All Africa, 2 Aug 2022

<sup>27</sup> Upstream, 14 Jul 2022

<sup>28</sup> Journal of Petroleum Technology, 8 Aug 2022

**Coral Sul Floating Liquefied Natural Gas** plant from the **Coral South** reservoir which also lies offshore Mozambique.

Mozambique is also experiencing improved revenue generation prospects for its gas sector through neighbouring **South Africa**. South African news publication, **Daily Maverick**, reported on 19 July that the South African government's **Central Energy Fund (CEF)** divulged that it was establishing a new gas trading entity, part-owned by CEF and its Mozambican counterpart **Empresa Nacional de Hidrocarbonetos (ENH)**. This new entity will source gas in Mozambique for export to South Africa and is expected to be with only two petajoules (PJ) of gas each year, for a cost of around R280m.<sup>29</sup>

### Credit Suisse to pay restitution to investors in hidden debt scandal

US district judge, **William Kuntz**, signed off on a restitution agreement on 22 July for **Credit Suisse** as fallout from the hidden debts scandal continues. Credit Suisse has agreed to pay \$22.6m in restitution to 18 of its investors whose funds were used to fund fraudulent loans to the Mozambican government dating back to 2013.<sup>30</sup> The pay-outs include \$5m to **NWI Management** a **New York**-based hedge fund and \$4.3m to the asset manager **AllianceBernstein**.<sup>31</sup> Credit Suisse agreed in October 2021 to pay \$475m in fines to US, UK and **Swiss** authorities after pleading guilty to conspiracy to defraud investors in Mozambican bond offerings amounting to almost \$1 billion as well as a syndicated loan Credit Suisse helped to arrange between 2013 to 2016 for the financing of a tuna fishing project led by the government.<sup>32</sup>

### Covid-19 cases remain negligible

Mozambique continues to record low case numbers of **Covid-19**. The new reported daily cases as of 9 August stood at 18, down from 77 cases a month earlier.<sup>33</sup> As of 10 August, the total number of confirmed cases in the country's population stood at 229,777 out of a population of approximately 31.5 million, with 2,216 Covid-19-related deaths.<sup>34</sup>

UK-based data access project **Our World in Data**, run by the non-profit organisation **Global Change Data Lab** and the **University of Oxford**, estimates that 98.56 vaccine doses per 100 people had been administered in the country by 26 June.<sup>35</sup> The **International Red Cross** indicated on 28 June that over 1 million people, around 75% of the population in six districts affected by armed conflict in the provinces of Cabo Delgado, **Manica**, and **Sofala** had been vaccinated.<sup>36</sup>

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*).<sup>37</sup> Relevant changes to Covid-19 restrictions include:

- 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;

<sup>29</sup> Daily Maverick, 19 Jul 2022

<sup>30</sup> Financial Times, 22 July 2022

<sup>31</sup> Reuters, 21 Jul 2022

<sup>32</sup> Reuters, 22 Jul 2022

<sup>33</sup> Worldometers, accessed on 11 May 2022

<sup>34</sup> Worldometers, accessed on 11 May 2022

<sup>35</sup> Our World in Data, accessed on 12 May 2022

<sup>36</sup> International Committee of the Red Cross, 28 Jun 2022

<sup>37</sup> US Embassy in Mozambique, accessed 11 May 2022

- Private social events, religious services, public and private meetings, and state events may now have a maximum of 500 participants indoors and 1,000 outdoors, without exceeding 50% of the venue's capacity.<sup>38</sup>
- 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.<sup>39</sup>

## 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

9 August 2022 **Maputo (Mozambique) Macau Business. Mozambique** and **Eswatini** sign agreements through their respective railway companies **Portos e Caminhos de Ferro de Moçambique** and **Eswatini Railways** for direct route connections to increase the volume of goods, mainly coal, transported through the **Goba** border.

9 August **Maputo (Mozambique) Further Africa.** President **Filipe Nyusi** presents the government's new economic programme aimed at stimulating economic growth;

2 August **Beijing (China) Club of Mozambique.** **China's** finance ministry announces the elimination of customs duties for 98% of products imported from 16 developing countries, including **Mozambique**, effective from September;

2 August 2022 **Cabo Delgado (Mozambique) All Africa.** Mozambican security forces backed by **Rwanda's** army and **Southern African Development Community (SADC)** forces operating in **Cabo Delgado**, in northern **Mozambique** announce the rescue of over 600 hostages from insurgents based in the **Catupa** forest;

1 August Maputo (Mozambique) *Club of Mozambique.* **Russian** ambassador to **Mozambique, Alexander Surikov** meets with the **Confederation of Economic Associations of Mozambique** to discuss a range of issues stemming from Russia's ongoing military operation in **Ukraine**;

1 August **Manica (Mozambique) Club of Mozambique.** **Fulgencio Seda**, director general of the **National Migration Service** announces that the **Machipanda** border post, the main border crossing between Mozambique and **Zimbabwe** will increase its hours of operation from eight to 24 hours per day from December;

22 July 2022 **Maputo (Mozambique) Club of Mozambique.** Mozambique's tax authority **Autoridade Tributária de Moçambique** launches a nationwide campaign for the regulation of Value Added Tax (VAT) invoicing;

22 July 2022 **Maputo (Mozambique) Financial Afrik.** The central bank of **Mozambique** extends its suspension of **Standard Bank** from the local foreign exchange interbank market for an additional year, after the bank was banned for engaging in "fraudulent activities" The apex bank cites evidence of serious irregularities on the part of the bank for its latest decision;

<sup>38</sup> US Embassy in Mozambique, 9 Mar 2022

<sup>39</sup> US Embassy in Mozambique, accessed 11 May 2022

13 July 2022 **Cabo Delgado (Mozambique)** *Al Jazeera*. **United Kingdom**-based gemstone supplier **Gemfields** confirms a 13 July attack near its ruby mine in Mozambique's northern Cabo Delgado province but does not halt operations.

13 July 2022 **Maputo (Mozambique)** *All Africa* Outgoing ambassador of the **European Union (EU)**, **Antonio Sanchez-Benedito Gaspar** announces that the bloc has approved €89 million (\$91.9m) in funding for the country's terrorism push-back in **Cabo Delgado**. This will focus on training of security forces as well as the acquisition of non-lethal protective equipment;

13 July 2022 **Washington DC (United States)** *World Bank*. The **World Bank's** board of directors approves a \$300m grant for the **Mozambique Institutions and Economic Transformation Development Policy Financing** operation.

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