

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing January 2021

#### Mozambique Summary 8 January 2021

*France-based oil major Total SA suspends construction in the Afungi site of its liquefied natural gas (LNG) project following Islamic State (IS)-affiliated insurgent attacks on nearby villages. Offshore drilling in the Coral South Project operated by Mozambique Rovuma Venture (MRV) resumes after an eight-month halt. Foreign assistance to address insecurity in Cabo Delgado province is imminent. Portugal's minister of state and foreign affairs, Augusto Santos Silva, says the European Union (EU) will provide preparatory support in January. The Southern African Development Community (SADC) is set to meet at an extraordinary summit to discuss its involvement in the conflict, while Spain and the United States (US) have expressed interest in helping to combat the violent insurgencies. United Kingdom (UK)-based financial services company IHS Markit changes its 2020 economic forecast for Mozambique from a 2% recession to 0.2% growth. Although confirmed Covid-19 infections have increased in Mozambique, the country's death rate remains low. The African Continental Free Trade Area (AfCFTA) Agreement that came into effect on 1 January is expected to boost "untapped" exports in Southern Africa.*

#### Total withdraws from Cabo Delgado amid growing insecurity...

Continuing insurgent attacks in **Mozambique's** northern **Cabo Delgado** province are having a direct impact on the country's liquefied natural gas (LNG) projects. **Islamic State (IS)**-affiliated insurgents on 4 January claimed an attack on a village inside the major LNG project led by **France-based** oil major **Total SA** in Cabo Delgado province.<sup>1</sup> The insurgent groups attacked the village of **Quitunda**, less than two kilometres away from Total's Afungi LNG concession area, on 1 January.<sup>2</sup> Although Mozambique's **Forças de Defesa e Segurança (FDS)** (defence and security forces) fended off the attack, Total has suspended all construction work on the project, estimated to be worth \$20 billion, due to the risk of violence alongside a new outbreak in **Covid-19** among the workforce.<sup>3</sup> Total dismissed and evacuated over 500 workers from the project site on 4 January, noting:

*"In view of the evolving security situation in Cabo Delgado province and **Palma** district, Total ... has decided to reduce the staff present at the project site in Afungi."*<sup>4</sup>

The new developments create uncertainty for the future of the LNG projects. **United States (US)**-based **ExxonMobil** has twice delayed its final investment decision for its **Rovuma Basin** project (see *ARC Briefing Mozambique December 2020*). Another delay in the implementation of the LNG projects may see long-term postponement of the \$50 billion revenue the Mozambique government expects the projects to yield. Addressing the growing security threat in the region is crucial to the future of anticipated LNG revenues.

Meanwhile, offshore drilling continues. The **Instituto Nacional de Petróleo (INP)** (national petroleum institute) reports that the **Coral South Project** in the Rovuma Basin is resuming activities in January after an eight-month halt from April when the Covid-19 pandemic hit the country.<sup>5</sup> Drilling on the project began in September 2019. The lead operator is **Mozambique Rovuma Venture (MRV)**, a joint venture by Exxon (40%), **Italy-based ENI** (40%) and **China-based China National**

<sup>1</sup> BBC, 4 Jan 2021

<sup>2</sup> Bloomberg, 2 Jan 2021

<sup>3</sup> Zitamar, 4 Jan 2021

<sup>4</sup> Lusa, 4 Jan 2021

<sup>5</sup> INP, 5 Jan 2021

**Petroleum Corporation (CNPC)** (20%). The floating LNG (FLNG) platform is under construction as planned in **South Korea**, with first production expected in 2022. The platform is predicted to have annual LNG production of 3.4m tons.<sup>6</sup>

### ... as foreign assistance against insurgency is imminent

Foreign assistance in northern Mozambique's escalating insecurity appears imminent amid fears that the violence will continue to spill over the border to **Tanzania** and other neighbouring countries such as **South Africa**.<sup>7</sup> **Portugal's** minister of state and foreign affairs, **Augusto Santos Silva**, stated at a press conference on 6 January in **Lisbon** that a preparatory support mission of the **European Union (EU)** to Mozambique will take place "*later this month*".<sup>8</sup> Santos Silva is the lead on the EU mission to Mozambique, which he states is being prepared at the "*technical level*" between the two diplomatic missions of EU and Mozambique.<sup>9</sup> **Southern African Development Community (SADC)** leaders are set to meet in January at an extraordinary summit to discuss their involvement in the conflict.<sup>10</sup> The conflict has to date claimed more than 2,000 lives and led to the displacement of over 560,000 people.<sup>11</sup>

Until now, Mozambique has relied on military assistance from **Russia** and South Africa-based private security contractors, but the country is now under pressure to accept intervention from neighbours or large-scale support.<sup>12</sup> Portugal's defence minister, **Joao Gomes Cravinho**, said on 11 December that the country would help train Mozambican security forces to combat the violent groups,<sup>13</sup> while **Spain's** ambassador to Mozambique, **Alberto Cerezo**, said on 8 December that his country is willing to assist with military support to fight the insurgents.<sup>14</sup> US coordinator for counterterrorism **Nathan Sales** stated in an 8 December call with journalists after a visit to South Africa and Mozambique that the situation in Cabo Delgado should be seen as a "*global terrorism issue*" and that the US wants to be "*Mozambique's security partner of choice*".<sup>15</sup>

FDS major-general in Cabo Delgado province **Eugénio Mussa** told state-owned **Televisão de Moçambique (TVM)** on 4 January that 2021 will be a decisive year to combat the armed groups in the country's northernmost province.<sup>16</sup> Mussa argued that government forces must act "*rigorously*" in destroying the armed groups carrying out the violent attacks in the region for more than three years.<sup>17</sup>

The **United Nations (UN)** warns of increasing violence in the near future. Speaking to **United Kingdom (UK)**-based news agency **BBC** on 18 December, the **United Nations High Commissioner for Refugees (UNHCR)** deputy director for Southern Africa, **Angéle Dikongué-Atangana**, said the humanitarian situation in Cabo Delgado province is "*really dire*" and urged both the international community and Mozambique's neighbours to intervene in what has been an "*invisible crisis*".<sup>18</sup> Dikongué-Atangana stated that the "*terrorist*" situation is likely to deteriorate with IS-affiliated militants carrying out atrocities in the region, and criticised the behaviour of "*extractive firms*" involved in both gem mines and offshore gas fields. Although the violence has been attributed to local grievances and claims of unjustified access to revenues from the resource-rich region, Dikongué-Atangana says terrorism is the primary threat:

<sup>6</sup> INP, 5 Jan 2021

<sup>7</sup> BBC, 18 Dec 2020

<sup>8</sup> Lusa, 6 Jan 2021

<sup>9</sup> Lusa, 6 Jan 2021

<sup>10</sup> News24, 14 Dec 2020

<sup>11</sup> Lusa, 6 Jan 2021

<sup>12</sup> BBC, 18 Dec 2020

<sup>13</sup> Reuters, 11 Dec 2020

<sup>14</sup> CGTN, 8 Dec 2020

<sup>15</sup> Reuters, 8 Dec 2020

<sup>16</sup> Lusa, 4 Jan 2021

<sup>17</sup> Lusa, 4 Jan 2021

<sup>18</sup> BBC, 18 Dec 2020

*“My real call is that the international community should really start paying great attention to the situation evolving here in Mozambique.”<sup>19</sup>*

### From recession to economic growth...

Despite the economic repercussions of the insurgency and measures to curb the spread of Covid-19, there is a glimmer of optimism for Mozambique’s economic outlook. In its **Global Economic Prospects**, the **World Bank** forecasts that Mozambique will achieve 2.8% real GDP growth in 2021, which will increase to 4.4% in 2022 (see below). These figures are significantly higher than the projected numbers from June 2020 (see below), indicating that Covid-19 and the violence in Cabo Delgado have had less impact on the economic outlook of the country than earlier estimated.<sup>20</sup> However, the report claims that the effects of strict Covid-19 containment measures combined with government debt of several “*low-income countries*”, including Mozambique, will constrain fiscal policy in the coming year.<sup>21</sup> According to the World Bank, a “*globally coordinated debt relief*” would assist the country in its recovery through social protection and fiscal support.<sup>22</sup>

Mozambique’s real GDP growth at market prices (%) <sup>23</sup>						
2018	2019	2020e	2020e	2021f	2021f	2022f
		Jun 2020 estimate	Jan 2021 revised estimate	Jun 2020 forecast	Jan 2021 revised forecast	
3.4	2.2	-2.1	-0.8	-0.8	2.8	4.4

UK-based financial services company **IHS Markit** recently revised its 2020 economic expectations for Mozambique, from a forecast 2% recession to 0.2% growth.<sup>24</sup> The more optimistic forecast, reported on 4 January, is based on a 3% increase in agricultural production in the first half of 2020, representing almost 30% of GDP. However, IHS Markit team leader for **sub-Saharan** economics **Thea Fourie** says Mozambique’s 2020 budget deficit is compounded by both Covid-19-related public expenditure and growing humanitarian needs from the conflict in Cabo Delgado and subsequent displacement of residents. Fourie predicts that the deficit will be above the estimated 10.4% in 2020 and reach 11.7% in 2021.<sup>25</sup>

### ... as Covid-19 numbers continue to increase

Mozambique continues to record high numbers of new cases of Covid-19. In a live online news broadcast on 7 January, the health ministry announced that it had registered 294 new cases of Covid-19 in the previous 24 hours. Mozambique has recorded a total of 19,961 cases in its population of roughly 31.5 million.<sup>26</sup> In the same 24-hour period, the ministry recorded 314 recoveries, bringing the total number of recoveries to 17,455, accounting for 87% of all infected cases.<sup>27</sup> The current number of active cases is 2,506, with the **City of Maputo** and **Maputo** province reporting the majority of cases (70%).<sup>28</sup>

According to data collected by the international live data-collection company **Worldometer**, active cases are increasing from a dip in numbers in November that briefly sparked optimism (see *ARC Briefing Mozambique November 2020*). Active cases are nonetheless lower than in September.

<sup>19</sup> BBC, 18 Dec 2020

<sup>20</sup> World Bank, Global Economic Prospects, Jan 2021

<sup>21</sup> World Bank, Global Economic Prospects, Jan 2021

<sup>22</sup> World Bank, Global Economic Prospects, Jan 2021

<sup>23</sup> World Bank, Global Economic Prospects, Jan 2021

<sup>24</sup> Lusa, 4 Jan 2021

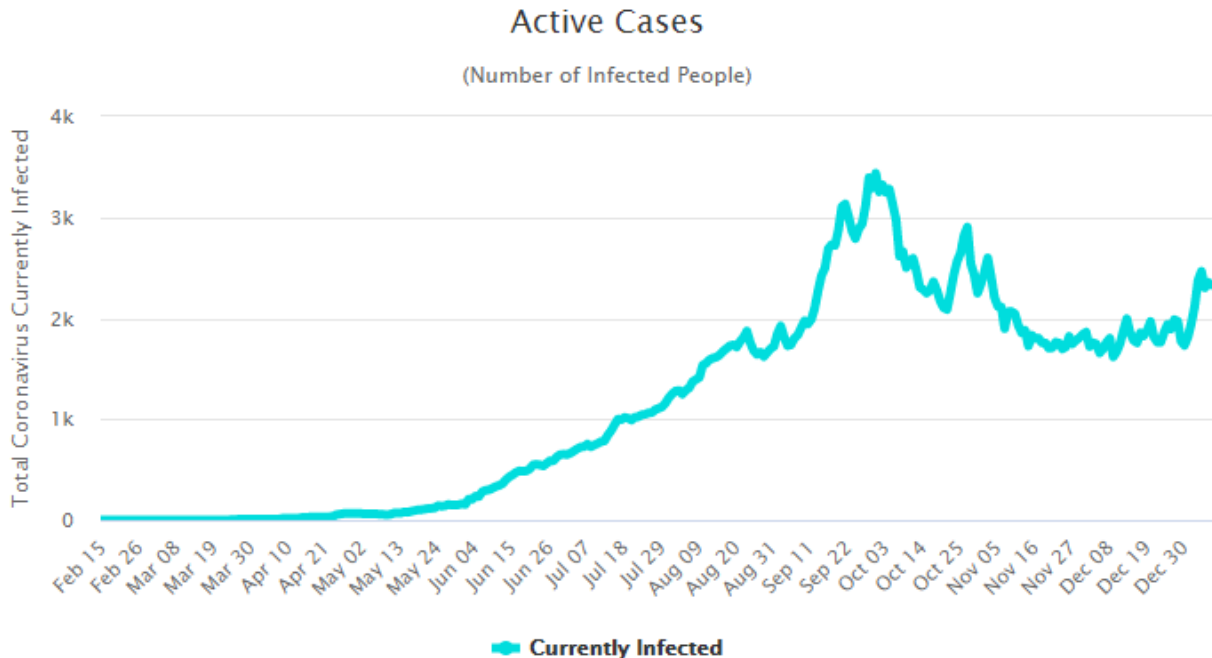
<sup>25</sup> Lusa, 4 Jan 2021

<sup>26</sup> Lusa, 7 Jan 2021

<sup>27</sup> Lusa, 7 Jan 2021

<sup>28</sup> Lusa, 7 Jan 2021

However, with a death rate of 0.88% (176 of 19,961), Mozambique is doing well compared to the rest of the **African** continent, which has seen a death rate 2.38% (69,863 of 2,929,778), amid a global death rate of 2.15% (1,906,770 of 88,506,564).<sup>29</sup>



Source: Worldometer, accessed 8 Jan 2021

The spike in numbers is expected to result in a return of tighter restrictions on travel and other prevention measures, amid fears that the new strain of the coronavirus (**501.V2**) found in South Africa will make its way to Mozambique. The new strain is prevalent in the neighbouring South African province of **Kwazulu-Natal**, as well as in the **Eastern Cape**. Although it does not cause more severe illness, it is more transmissible and is increasing pressure on South Africa's health care system and medical supplies.<sup>30</sup>

Health minister **Armindo Tiago** stated in an interview with state-owned **Rádio Moçambique** (Mozambique public radio) on 3 January that Mozambique expects to receive doses of the Covid-19 vaccine between May and June this year, with vaccination starting in July.<sup>31</sup> Tiago says that the country expects to receive 6 million doses, covering approximately 20% of the population, and that priority groups have been identified.<sup>32</sup>

Increasing Covid-19 infections are not expected to affect Mozambique's exports to a significant degree. The **African Continental Free Trade Agreement (AfCFTA)** came into effect on 1 January, with the **African Export-Import Bank (Afreximbank)** predicting that this can realise more than \$84 billion in "untapped" exports within the continent.<sup>33</sup> Afreximbank estimates that 63% of the export potential is located in **Southern Africa**. With the new trade deal creating the world's largest free-trade zone, this is likely to have a positive impact on the economic outlook of an export-dominant economy such as Mozambique.<sup>34</sup>

<sup>29</sup> Worldometer, Covid-19, 8 Jan 2021

<sup>30</sup> Bloomberg, 7 Jan 2021

<sup>31</sup> Club of Mozambique, 4 Jan 2021

<sup>32</sup> Club of Mozambique, 4 Jan 2021

<sup>33</sup> Bloomberg, 15 Dec 2020

<sup>34</sup> Bloomberg, 15 Dec 2020

## Planner

Early 2022 **(Mozambique)** United States-based multinational oil and gas corporation **ExxonMobil**'s final investment decision on **Rovuma Basin** project expected;

2023 **(Mozambique)** Local elections;

2024 **(Mozambique)** Area 1 LNG production expected to commence;

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

## Chronology

6 Jan 2021 **(Africa)** AA. **China**'s state councillor and foreign affairs minister, **Wang Yi**, says China attaches high importance to its relations with **Africa**, during his second day of an official visit to **Nigeria** as part of a five-nation tour of the continent, including **Nigeria**, **Democratic Republic of the Congo**, **Botswana**, **Tanzania** and the **Seychelles**;

1 Jan 2021 **Cabo Delgado (Mozambique)** *World Oil*. France-based oil and gas major **Total** asks some staff to vacate its \$20 billion liquefied natural gas (LNG) project in **Cabo Delgado** province as **Islamist** militants are staging attacks increasingly closer to the site;

1 Jan 2021 **(Africa)** *Bloomberg*. African countries officially begin trading under a new continent-wide free trade area, the **African Continental Free Trade Area**, after months of delays caused by the global coronavirus pandemic.

25 Dec 2020 **Cabo Delgado (Mozambique)** *Bloomberg*. Government says its security forces repelled an attack by **Islamist** insurgents on a town close to the site where **France**-based oil and gas major **Total** is building a \$20 billion natural gas facility in northern **Cabo Delgado** province, and accuses the militants of trying to derail the investment.

21 Dec 2020 **Maputo (Mozambique)** *Reuters*. Investors in loan notes made to **Mozambican** state-owned company **ProIndicus** file a claim in the **English High Court** against the company, the Mozambican government and **Switzerland**-based financial services provider **Credit Suisse** asking for the full amount, \$622m, to be repaid;

21 Dec 2020 **Johannesburg (South Africa)** *Business Day*. State-owned chemicals group **Sasol** sells its **Mozambique**-based gas-to-power plant **Central Termica De Ressano Garcia** to **Africa**-focused power plant company **Azura Power** for \$145m;

19 Dec 2020 **Maputo (Mozambique)** *BBC*. **United Nations High Commissioner for Refugees** deputy director of **Southern Africa**, **Angèle Dikongué-Atangana**, urges neighbouring countries and the wider international community to intervene in what she describes as **Mozambique's** "invisible" crisis in **Cabo Delgado**;

17 Dec 2020 **(Africa)** *Reuters*. A five-page **African Union (AU)** internal memo says a **Chinese** hacking group nicknamed "**Bronze President**" rigged cameras across the AU's headquarters in **Addis Ababa (Ethiopia)**;

15 Dec 2020 **(Africa)** *Bloomberg*. A new report by the **African Export-Import Bank** says a continent-wide free-trade pact could help to realise more than \$84 billion in untapped intra-**African** exports;

14 Dec 2020 **(Southern Africa)** *News24*. **Southern African Development Community** leaders to hold an extraordinary summit in January to discuss the security situation in **Mozambique** as **Islamist** insurgency escalates;

11 Dec 2020 **Maputo (Mozambique)** *Reuters*. **Portuguese** officials say Portugal will help **Mozambique** train up security forces to tackle an insurgency in northern region of **Cabo Delgado**;

8 Dec 2020 (Africa) *AIIM*. **African Infrastructure Investment Managers (AIIM)** completes an \$80m capital increase for its **pan-African** infrastructure fund, **AIIF3**, bringing the total capital committed to the vehicle to \$400m;

8 Dec 2020 **Maputo (Mozambique)** *Reuters*. **United States (US)** coordinator for counterterrorism **Nathan Sales** says the US wants to be **Mozambique's** "security partner of choice," and that the insurgency in northern province **Cabo Delgado** is a "committed" affiliate of **Islamic State** and should be seen as a global terrorism issue;

8 Dec 2020 **Maputo (Mozambique)** *CGTN*. **Spain's** ambassador to **Mozambique**, **Alberto Cerezo**, says his country is willing to offer military support to Mozambique for fighting insurgents in northern province **Cabo Delgado**;

### About Africa Risk Consulting:

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