

AFRICA RISK CONSULTING

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Mozambique Summary 10 February 2022

President Filipe Nyusi (2015-present) meets with the CEO of French-headquartered TotalEnergies Patrick Pouyanné on 3 February in the northern province of Cabo Delgado. The latter has engaged a consultant to assess the current security situation as it mulls over the lifting of the force majeure declared over its LNG project in April 2021. Linda Greenfield, the United States (US) ambassador to the United Nations, calls for greater efforts to repel insurgents expanding south from Cabo Delgado, whilst pledging US support to work with Mozambique in the United Nations Security Council to achieve this aim. Domestic security is further in the spotlight as instances of cross-border crime between Mozambique and South Africa raise the risk of social unrest, while the killing of a Renamo member causes concern for the peace deal agreed between Frelimo and Renamo parties. Instituto Nacional de Estatística (national statistics agency) reveals that Mozambique recorded its highest average inflation rate since the aftermath of the 2016 hidden debt scandal in 2022. The annual inflation rate for 2022 is recorded at 10.2%. Bank of Mozambique's (central bank) Monetary Policy Committee opts to keep its benchmark policy rate of 17.25% unchanged but cautions the government of its high public debt. The government also establishes a working group to ensure Mozambique's removal from the global Financial Action Task Force's (FATF) 'grey list' whilst earmarking strong investment in the country's agriculture sector to drive growth.

President Nyusi courts TotalEnergies...

President **Filipe Nyusi** (2015-present) met with **Patrick Pouyanné**, the chief executive officer of the French-headquartered **TotalEnergies**, on 3 February in the embattled **Cabo Delgado** region, where Pouyanné was visiting to review the security and humanitarian situation.¹ Pouyanné visited the towns of **Palma** and **Mocimba da Praia** and the TotalEnergies **Afungi** gas site and then met Nyusi in **Pemba**.² The CEO's visit to the country is significant as the company's project remains shuttered since declaring force majeure on 26 April 2021 citing the high-security risks in the country after insurgents attacked Palma, near its gas project.³ The project is valued at over \$20 billion and includes the development of two fields located in **Offshore Area 1** and the construction of two liquefaction trains with a total capacity of 13,1 million tons per annum.⁴

Nyusi has long sought to reassure investors that state-backed forces have regained control of the region, and managed to neutralise the threat from insurgents, making a return to operations safe. He has called on firms to invest in the region and begin operations, which a few have heeded. Although, Pouyanné noted that the security situation in the Cabo Delgado region has "improved significantly", also acknowledging the role played by several **African** nations who "committed themselves to restore peace and security," he divulged that the company has engaged the services of **Jean-Christophe Rufin**, a humanitarian and human rights expert to conduct an independent assessment to determine "whether the current situation allows for a resumption of activities while respecting human rights".

¹ Times Live, 4 Feb 2023

² All Africa, 6 Feb 2023

³ Spectrum Local News 10 Feb 2023

⁴ TotalEnergies, 3 Feb 2023

Pouyané made it clear that the lifting of the force majeure would require security in the region, the resumption of public services and a “return to normal life”⁵ for inhabitants of the region, all of which Rufin will assess and provide a report on by end-February.⁶ In response, the Mozambican government has stated that it is “very optimistic” that TotalEnergies will resume its operations by March.⁷

Pouyané’s visit also comes as a **London (United Kingdom)** court dismissed an appeal by the environmental rights group **Friends of the Earth**, which challenged the validity of the **UK** government’s investment in the TotalEnergies-led liquified natural gas (LNG) project in **Mozambique** on 13 January. The court found insufficient merit in the rights group’s argument that the UK government’s funding of the project was incompatible with the **Paris Agreement** on climate change. This will also help throw weight behind the project, and possibly speed the process up if it resumes.

Mozambique carried out its first shipment of LNG in November, to be sold to UK firm **BP**, under a 20-year contract with an optional 10-year extension (*see ARC Briefing Mozambique Dec 2022*). A resumption of operations by TotalEnergies would provide a significant boost to Mozambique’s profile and potential for long-term LNG development, however, this is by no means a certainty over the near term.

...as US pledges to support efforts to repel insurgents in Cabo Delgado

Linda Greenfield, the **United States (US)** ambassador to the **United Nations** committed to greater efforts to repel insurgents expanding south from the northern province of Cabo Delgado during a visit to Mozambique on 26 and 27 January. She also pledged the US’s support to work with Mozambique in the **UN Security Council** to achieve this aim. She stated:

“We have to redouble our efforts to push back on terrorist actions and the activities that are terrorising ordinary citizens such as the citizens of Cabo Delgado... we’re working closely with the government to address those issues.”⁸

Despite an improving security situation and the widescale dampening of the insurgents’ presence in Cabo Delgado, the militants have resorted to carrying out sporadic attacks in the region and beyond, contributing to the ongoing displacement of people. US-based **ABC News** reported on 7 February that extremists killed an aid worker from the France-based humanitarian organisation **Doctors Without Borders** in Cabo Delgado.⁹ The **UN Development Programme (UNDP)** also cited the conflict in Mozambique as one of the contributors to making the African continent “the global epicentre of extremist violence” in its **Journey to Extremism in Africa** report released on 7 February.¹⁰ Since the conflict began in late 2017, nearly 5,000 people have been killed and approximately 1 million people internally displaced.¹¹ The Catholic charity, **Denis Hurley Peace Institute** also warned on 3 January of impending famine in Cabo Delgado, stating that internally displaced people in the province are experiencing food shortages.¹²

Mozambique and South Africa collaborate to quell cross-border crime

Instances of cross-border crime have also heightened the conflict risk in the areas of Mozambique which border northern **KwaZulu-Natal** province (**South Africa**), necessitating a response from authorities. Law enforcement officials from both governments committed on 31 January to collaborate to curb the growing instances of cross-border crime which have plagued the border

⁵ TotalEnergies, 4 Feb 2023

⁶ All Africa, 6 Feb 2023

⁷ The New Humanitarian, 3 Feb 2023

⁸ United States Mission to the United Nations, 27 Jan 2023

⁹ ABC News, 7 Feb 2023

¹⁰ Bloomberg, 7 Feb 2023

¹¹ Voice of America News, 27 Jan 2023

¹² AciAfrica, 3 Feb 2023

towns, particularly in light of the rise of syndicates smuggling vehicles drugs, and other goods across the border.¹³

South Africa's national police commissioner general **Fannie Masemola** delivered this commitment during a stakeholder meeting in the **Hluhluwe** community in KwaZulu-Natal which was prompted by residents of the area allegedly burning six vehicles, including a tourist bus and truck, claiming to be frustrated by the increase in the number of vehicles stolen from their area reportedly en route to Mozambique. Masemola stated that a delegation of Mozambican law enforcement officers present had agreed to work more closely with his officers and to respond to the community "*within a week or two*".¹⁴

Such incidents also pose significant risks for trade between Mozambique and South Africa, Mozambique's largest trading partner, as this is a popular route for the transfer of goods between the two countries. Mozambican transporters have already stated that the risks of violence may slow down the carriage of goods between both countries.

In a further development, the South African government's plan to erect jersey barriers on the highly porous border between Mozambique and several South African towns has come to a halt after the South African **Special Investigative Unit's** investigation into the project discovered irregularities in the R8.7m tender for the construction of an 8km border wall.¹⁵ The delay of this project will add to the risks already present and could create further instability in these areas.

Monetary Policy Committee keeps policy rate unchanged

National statistics agency, **Instituto Nacional de Estatística**, revealed on 16 January that Mozambique recorded its highest average inflation rate since the aftermath of the 2016 hidden debt scandal, recording an average annual price increase of 10.2% in 2022.¹⁶ Despite this, on 25 January the **Monetary Policy Committee** of the **Bank of Mozambique** (central bank) opted to keep its benchmark policy rate of 17.25% unchanged. The committee stated its decision was due to:

"The prevalence of the high risks and uncertainties underlying the forecasts for inflation, notably the impact of the liquidity generated in the economy, resulting from the pressure on public expenditure, and the continued geopolitical tension in Europe".¹⁷

The central bank also cautioned the government on the high rate of public spending and resultant debt in the country with domestic debt standing at MZM 288.7 billion (\$4.5m).¹⁸ The **UN Economic Commission for Africa (UNECA)** has expressed similar sentiments, noting it expects to see more countries seek to join the **G20 Common Framework for Debt Treatment** to restructure their debt, although it declined to name them.¹⁹ **António Pedro**, the executive secretary of UNECA, cited the increase in interest rates and appreciation of the US Dollar as factors which may drive more countries to this approach. Mozambique's debt to gross domestic product (GDP) ratio ballooned to over 100% in light of the 2016 hidden debt scandal, however, US-headquartered **Fitch Solutions** expects debt to fall to below 100% in 2023 from 101% in 2022.²⁰ That said, it cannot be ruled out that facing a mounting debt burden, the government may seek to restructure part of its debts under the framework, particularly if it is successfully managed by countries such as **Zambia** and **Chad**.

Mozambique focuses on regulation to support economic growth

¹³ Daily Maverick, 5 Feb 2023

¹⁴ Sowetan Live, 31 Jan 2023

¹⁵ Daily Maverick, 5 Feb 2023

¹⁶ Instituto Nacional de Estatística, 16 Jan 2023

¹⁷ Bank of Mozambique, 16 Jan 2023

¹⁸ Club of Mozambique, 27 Jan 2023

¹⁹ Club of Mozambique, 7 Feb 2023

²⁰ Further Africa, 2 Dec 2022

Justice, constitutional and religious affairs minister **Manuel Malunga** announced on 21 January the government's plans to ensure the country's removal from the **Financial Action Task Force's (FATF)** 'grey list'. Mozambique was added to the list in November 2022 along with the **Democratic Republic of Congo** and Tanzania after the task force identified "*strategic deficiencies*" in these countries' anti-money laundering regulations and implementation.²¹ The government launched a working group co-led by the **European Union** and the **World Bank** on 23 January to assist the country in meeting the requirements to exit the 'grey list'.²² The **Council of Ministers** has also announced that it expects to consider and approve a new tax benefits regime for the regulation of the country's cooperatives.²³ Through a more harmonised and current regulatory framework, the government aims to enable greater economic participation and protection of players in the country's large informal sector.

The government is also looking for new technologies to drive efficiencies. It announced plans to integrate electric vehicle technologies to tackle the challenge of congestion of its public transport services, and through the transport, communications, industry and commerce ministries, it plans to engage in a public-private partnership to build an electric bus assembly plant in Mozambique, with the first phase seeking to assemble around 1,000 such buses.²⁴ This will enable the government to harness the surplus of electricity being produced by the national power utility **Electricidade de Moçambique** to adopt a more cost-effective transport system, which would also be less impacted by the fluctuations in global fuel prices as has been the case, particularly since the onset of the conflict between **Russia** and **Ukraine** in March 2022. The cost of public transport has been a contentious one for the public, particularly considering increased fuel prices. This prompted the government to introduce a temporary subsidy for public transport costs to quell protests in July 2022 (*see ARC Briefing Mozambique Jul 2022*).

Investments in expanding the agriculture output are also continuing and the resumption of cotton production in the **Sofala** region is expected to provide a welcome boost to the economy. The entry of **Mandorla Investimentos Limitada** into the market with an MZM150m (\$2.3m) investment, replacing **China Africa Cotton** which operated in the region until it declared bankruptcy in 2021, has helped this happen. The firm expects to produce 6,000 tonnes of cotton in 2023.²⁵ The agriculture sector represents a high-priority focus area for the government and president Nyusi announced on 26 January that he is seeking to mobilise \$4.5 billion from international financiers to be invested in the country's agriculture sector over five years. Describing specific sub-sectors of interest to the state, Nyusi said:

"There were ideas in supporting wheat production, rice production, support in youth training in Palma district, in the training of women, and support for innovations. We were also encouraged to embark on the carbon market".²⁶

Planner

<p>11 Oct 2023 (Mozambique) Municipal elections;</p> <p>2024 (Mozambique) Provincial and presidential elections;</p> <p>2025 (Mozambique) Area 1 LNG production expected to commence</p>

²¹ Further Africa, 21 Oct 2022

²² Reuters, 23 Jan 2023

²³ Club of Mozambique, 23 Jan 2023

²⁴ Club of Mozambique, 6 Feb 2023

²⁵ Reuters, 26 Jan 2023

²⁶ Filipe Nyusi Facebook statement, 26 Jan 2023

Chronology

8 Feb 2023 **(Mozambique)** *Anadolu Agency*. **Swiss** President **Alain Berset** visits Mozambique as part of a tour of **Sub-Saharan Africa** where he meets President **Filipe Nyusi** to discuss bilateral issues as well as cooperation in the **United Nations Security Council** and pays a visit to Cabo Delgado;

8 Feb 2023 **Maputo (Mozambique)** *Capacity Media*. **iColo** a subsidiary of the global datacentre firm **Digital Realty** launches its first datacentre in Mozambique, which will connect to the **2Africa** subsea cable system set to land in Mozambique during February;

7 Feb 2023 **Vila Nova da Fronteira (Mozambique)** *Club of Mozambique*. State-owned rail operator **Portos e Caminhos de Ferro de Moçambique** successfully carries out the first official railway journey from **Vila Nova da Fronteira (Mozambique)** to **Malawi** on a line which had been out of use since 1986;

6 Feb 2023 **Maputo (Mozambique)** *Club of Mozambique*. **World Bank's** latest **Container Terminal Performance Index** ranks the **Port of Beira** the best of all container terminals in **Southern Africa**, citing factors such as strong investment in human resources, infrastructure, equipment and systems at the port;

6 Feb 2023 **(Mozambique)** *Club of Mozambique*. **Administração Regional de Águas de Sul**, the regional water administration, issues a flood warning for ten districts of **Tete, Doa, Mutara, Tambara, Chemba, Caia, Marromeu, Mopeia, Luabo** and **Chinde**. This is because the **Cahora Bassa** hydroelectric dam has increased the volume of discharges from its reservoir;

6 Feb 2023 **Maputo (Mozambique)** *Club of Mozambique*. Parliament schedules the debate on the election of district assemblies, scheduled for 2024, for the next parliamentary sitting that will start on 22 February and run until end of May;

29 Jan 2023 **Johannesburg (South Africa)**. *South African Broadcasting Corporation* **Josep Borrell**, the vice-President **European Union Commission** states that the bloc will continue to provide technical support and building capacity of troops deployed in **Cabo Delgado** fighting the **Islamic State**-linked insurgency operating in the country;

28 Jan 2023 **Komatipoort (South Africa)** *South African Broadcasting Corporation*. Soldiers recover three stolen vehicles alleged to have been abandoned by suspects outside **Komatipoort** near the South African border with Mozambique;

26 Jan 2023 **Maputo (Mozambique)** *Bank of Mozambique*. Central bank's Monetary Policy Committee raises the **Reserve Requirement Ratio** for liabilities in the local unit (metical) from 10.5% to 28% and also increases the forex Reserve Requirement Ratio, for liabilities in foreign currency, from 11.5% to 28.5%. The measure aims to absorb "excessive liquidity in the banking system with a tendency to generate inflationary pressure";

25 Jan 2023 **Maputo (Mozambique)** *Tornos News*. **Greek** foreign minister **Nikos Dendias** signs a memorandum of understanding with **Aristides Adriano**, Mozambique's foreign ministry's director for **Europe** and the **Americas**, for political collaboration between both countries;

24 Jan 2023 **Krk (Croatia)** *Offshore Energy*. **LNG Croatia**, a state-owned operator of the **Krk LNG** terminal, has received the first cargo from Mozambique, carried onboard the **British Mentor** carrier;

7 February **Tete (Mozambique)** *Club of Mozambique*. **Renamo** political delegate in **Tete** province, **Evaristo Sixpence**, claims that the kidnapping and killing of **Rafael Diquissone**, the Renamo delegate in **Nkoneddzi** in Tete was carried out by unnamed people wearing **Unidade Intervenção Rápida** (rapid intervention police) uniforms;

17 Jan 2023 **Maputo (Mozambique)** *All Africa*. **Zulmira Macamo**, the national director of domestic trade at the industry and trade ministry announces that the government plans to ban

price speculation for construction materials, including cement, iron, and zinc plate by setting maximum profit margins for these products;

17 Jan 2023 **Temane (Mozambique)** *Club of Mozambique*. Government announces plans to invest MZM1.3 billion (\$20.3m) in the country's first production unit of Liquefied Petroleum Gas at **Temane (Inhambane)** and will partner with **South African** oil major **Sasol** to construct the unit which will have the capacity to produce 23 million gigajoules of natural gas per year and 450 megawatts of electricity.

15 Jan 2023 **Pemba (Mozambique)** *News24*. The **South African National Defence Force** dispatches a team to Pemba to investigate an incident recorded on camera, and circulated on social media, in which two of its personnel are purported to be burning the bodies of alleged rebel fighters. The team comprises representatives from the defence information unit, the joint operations and the SANDF's legal department.

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