

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing June 2018

#### Mozambique Summary 25 June 2018

*The Forças Armadas de Defesa de Moçambique (Mozambique armed forces) open an 'operational command' in Macomia and Quissanga districts in Cabo Delgado Province in response to the continuing Islamist attacks in the region. The Banco do Moçambique (BM) (central bank) reduces its benchmark lending rate to 15.75% in response to lower consumer price increases of 3.3% year-on-year in May. China's vice-minister of commerce, Qian Keming, signs four projects worth \$100m with Mozambique's deputy foreign affairs minister, Maria Lucas.*

#### Islamist attacks continue in Cabo Delgado Province

The **Forças Armadas de Defesa de Moçambique (FADM)** (Mozambique armed forces) opened an 'operational command' in **Macomia** and **Quissanga** districts in **Cabo Delgado Province** on 9 June in response to the continuing **Islamist** attacks in the region.<sup>1</sup> The Islamist group is known as **Ahlu Sunnah Wa-Jamma** ('Sunni people') and is also referred to as 'Swahili Sunna' and 'Mozambique al-Shabaab'.<sup>2</sup> Local residents have referred to the group as 'al-Shabaab', although there does not appear to be a link to the **Somalia**-based Islamic terror group. The group was reportedly formed in 2014 in north-eastern Mozambique.<sup>3</sup>

The attacks have increased in severity since October (see *ARC Briefing Mozambique November 2017*) and are close to the **Rovuma Basin**, where international oil and gas companies are exploring the area's vast natural gas reserves. The continuing violence has started to hinder the companies' operations. **Canada**-based **Wentworth Resources** stated on 24 June that the continuing violence has prevented safe access for its workers.<sup>4</sup> Although the group has not attacked natural gas facilities to date, it has shifted its focus from attacks against security or state interests to the civilian population. The group may target company workers or operations next. The **United States (US)** embassy in Mozambique urged US citizens on 8 June to leave the area, or postpone travel plans.<sup>5</sup>

International actors, such as the US and **European** nations, are concerned that Ahlu Sunnah Wa-Jamma will increase Islamic extremism in southern **Africa**, which has been largely free of Islamic terror attacks.<sup>6</sup> Ahlu Sunnah Wa-Jamma has not made any public declarations, making it difficult to know the motives for the attacks.<sup>7</sup> A **United Kingdom**-based professor gave three possible explanations for the violence at a recent conference on the Ahlu Sunnah Wa-Jamma attacks at a **London**-based think-tank:

*"First, they are caused by outside intervention, either by jihadists from the north or by unscrupulous agents of capitalist concerns with their own dark agendas; second, they are reflection of the neglect of the region by the government – 'alienated youth' was a phrase used to describe this; or third, this is a crisis within the local Islamic community and was the work of a radical sect of purely local origin."<sup>8</sup>*

<sup>1</sup> One World, 15 Jun 2018.

<sup>2</sup> City Press, 11 Jun 2018.

<sup>3</sup> City Press, 11 Jun 2018.

<sup>4</sup> News24, 11 Jun 2018.

<sup>5</sup> News24, 11 Jun 2018.

<sup>6</sup> News24, 11 Jun 2018.

<sup>7</sup> News24, 11 Jun 2018.

<sup>8</sup> Source, university professor, London.

Despite reports that radical Islam may have spread across the border from **Tanzania**,<sup>9</sup> most people at the conference discounted the first explanation and suggested a focus on the other two explanations to understand the motives behind the attacks and how the government should respond to the attacks.<sup>10</sup> However, for the government responses to be most effective, it should not attempt to narrow the motive to one explanation. The cause appears to be a combination of regional neglect that has caused economic hardship, and a split in the local Islamic society that has increased Islamist activity.

The **Cabo Delgado** region is undeveloped relative to the rest of the country. **Jasmine Opperman**, director at the **Terrorism Research and Analysis Consortium**, notes that 91% of residents of Cabo Delgado capital **Pemba** do not have basic skills:

*“That means [that for] any economic development in the area, people from the south will be brought in because they have the skills. [The] local community does not benefit. You are sitting with ethnic tensions in that area and that you cannot exclude.”<sup>11</sup>*

Many of the suspected militants are local Mozambicans who grew up in poverty and had few employment opportunities. Some youths blame the mosque, as well as the government, for their situation and looked for other avenues, which led them to travel to **Kenya**, Tanzania and Somalia for sponsored study and training by radical Muslim clerics.<sup>12</sup> This led them to influential fundamental clerics such as Kenya-based **Sheik Aboud Rogo**.<sup>13</sup> Kenyan government agents allegedly killed Rogo in 2012.<sup>14</sup>

While Ahlu Sunnah Wa-Jamma has not named a specific leader, there are reports that the leaders are a **Gambian** citizen known only as **Musa** and a Mozambican national, **Nuro Adremane**.<sup>15</sup> Musa and Adremane allegedly capitalise on grievances against the government to garner support,<sup>16</sup> illustrating the mix of economic issues and Islamic fundamentalism.

Fundamental Islam, as well as smuggling to support the attacks, provides an outlet for the population to oppose the government, which they see as exploiting resources that belong to the people who live there. The presence of the large gas exploration companies has exacerbated the feeling that the population has been left out. Former US assistant secretary of state for African affairs **Johnnie Carson** said the new gas exploration developments are helping to fuel the insurgency:

*“These gas deposits have brought with them ... the thought of greater economic prosperity. But that prosperity is not largely seen by local people.”<sup>17</sup>*

Some analysts see the divide on ethnic lines. Most of the Cabo Delgado population are members of the **Kimwani** group who feel that those of **Makonde** ethnicity, such as President **Filipe Nyusi** (2015-present), are excluding them from politics and the economy.<sup>18</sup> However, Cabo Delgado has always voted overwhelmingly for the ruling **Frente de Libertação de Moçambique (Frelimo)**, despite some strong opposition pockets.<sup>19</sup>

Other analysts, such as political analyst **Joao Cabrita**, offer non-ethnic based explanations. Cabrita believes that the Islamist attacks are a convenient distraction from the government's other failings. Cabrita claims the government will use the attacks as leverage against international organisations to

<sup>9</sup> VOA News, 11 Jun 2018.

<sup>10</sup> Source, university professor, London.

<sup>11</sup> SABC, 20 Jun 2018.

<sup>12</sup> News24, 11 Jun 2018.

<sup>13</sup> BBC, 2 Jun 2018.

<sup>14</sup> News24, 11 Jun 2018.

<sup>15</sup> City Press, 11 Jun 2018.

<sup>16</sup> City Press, 11 Jun 2018.

<sup>17</sup> VOA News, 11 Jun 2018.

<sup>18</sup> Le Point Afrique, 14 Jun 2018.

<sup>19</sup> BBC, 2 Jun 2018.

stop putting pressure on it regarding its financial scandals.<sup>20</sup> Other analysts have noted that private security company **Blackwater** founder **Erik Prince** is due to sign a \$750m contract to provide security in Cabo Delgado and that he may have helped drive this insurgency to obtain the lucrative contract.<sup>21</sup> However, there is no evidence to support the argument that the government or a foreign mercenary may have worked to incite the violence.

The government's response to the attacks thus far has been military force. The **Polícia da República de Moçambique (PRM)** have detained close to 500 people, including 150 foreigners.<sup>22</sup> FADM has also been heavy handed against Muslim organisations and citizens since the group began to attack foreigners.<sup>23</sup> This has led to a vicious cycle of ratcheted-up violence. **Democratic Republic of the Congo (DRC)** armed forces are reportedly providing support on the ground, which threatens to expand the attacks to a regional issue.<sup>24</sup>

To counter growing extremism, the government will need to work quickly to improve the future economic prospects in the region. The government needs to eliminate the illegal trade the group needs to fund its activities, and counter the anti-government narrative that is increasing the group's numbers. The attacks are currently limited to Cabo Delgado, so the government still has time to include the local community to resolve this issue.

### Central bank cuts key lending rate

The **Banco do Moçambique (BM)** (central bank) reduced its benchmark lending rate to 15.75% on 18 June in response to lower consumer price increases of 3.3% year-on-year in May.<sup>25</sup> The benchmark lending rate, also known as **Monetário Interbancário de Mocambique (MIMO)**, is the daily reference value for transactions between commercial banks and the central bank.<sup>26</sup> A reduction in this rate will make money cheaper for commercial banks to borrow and then lend to the population. BM governor **Rogério Zandamela** stated that the **Comité de Política Monetária** (monetary policy committee) decided to cut the benchmark lending rate for the sixth consecutive meeting because the inflation rate is expected to stay in single digits.<sup>27</sup> The BM is also attempting to stimulate the economy, which is forecast to expand at its slowest pace in 18 years.<sup>28</sup>

Zandamela stated that the BM did not consider the violence in Cabo Delgado to be an economic risk (see above), but this is due more to the small amount of information available to the BM at the moment,<sup>29</sup> and thus could change if attacks began to centre on the natural gas sector. Larger short-term risks for Mozambique include its internal public debt, which Zandamela stated is currently at 12% of GDP,<sup>30</sup> as well as a foreign debt crisis.<sup>31</sup> Mozambique's foreign debt remains high despite higher prices for coal and aluminium and the government halted payments to foreign creditors on its external debt in 2016 to keep its reserves.<sup>32</sup> Attempts to restructure the debt were unsuccessful in March (see *ARC Briefing Mozambique March 2018*). Mozambique's current international reserves balance stands at \$3.23 billion, which would cover seven months of imports.<sup>33</sup>

While the lower interest rates could help spur investment, foreign investors are likely to remain wary of major capital expenditure in Mozambique due to its growing external and internal debt. The

<sup>20</sup> M&G, 22 Jun 2018.

<sup>21</sup> M&G, 22 Jun 2018.

<sup>22</sup> New Zimbabwe, 11 Jun 2018.

<sup>23</sup> New Zimbabwe, 11 Jun 2018.

<sup>24</sup> City Press, 11 Jun 2018.

<sup>25</sup> Bloomberg, 18 Jun 2018.

<sup>26</sup> Bloomberg, 18 Jun 2018.

<sup>27</sup> Bloomberg, 18 Jun 2018.

<sup>28</sup> Bloomberg, 18 Jun 2018.

<sup>29</sup> Verdade, 19 Jun 2018

<sup>30</sup> Verdade, 21 Jun 2018.

<sup>31</sup> Bloomberg, 18 Jun 2018.

<sup>32</sup> Bloomberg, 18 Jun 2018.

<sup>33</sup> Observador, 18 Jun 2018.

reduced MIMO will be helpful for domestic businesses and investors, which the government hopes will increase domestic spending and create jobs to boost the economy. However, any increased spending will be a small drop in a large bucket of debt. The government will need to find a solution to its external debt issue before it is likely to see the same GDP growth it had several years ago.

### China signs cooperation agreements with Mozambique

China's vice-minister of commerce, **Qian Keming**, signed four projects worth \$100m with Mozambique's deputy foreign affairs minister, **Maria Lucas**, on 4 June.<sup>34</sup> The agreements cover financial assistance in the construction of the **Xai-Xai** airport in **Gaza Province**, a technical institute in **Sofala Province**, a national stadium, as well as cooperation amongst the countries' agricultural experts.<sup>35</sup>

The agreements form part of China's **Belt and Road Initiative**, which aims to develop trade links between China and all parts of the world. China is one of Mozambique's main trading partners and has helped Mozambique to develop its infrastructure and agriculture.<sup>36</sup> Trade between China and Mozambique grew 24.2% year-on-year in the first two months of 2018.<sup>37</sup> China has a large trade surplus with Mozambique, exporting \$1.3 billion to Mozambique and importing \$435m from Mozambique<sup>38</sup> though China has also invested close to \$6 billion in Mozambique, according to the Chinese embassy in **Maputo**.<sup>39</sup>

Foreign minister **Jose Pacheco** has increased bilateral relations with China, as well as **Russia**, which may prove to be detrimental for the US and European powers in the long term, considering Mozambique's large natural gas reserves. China is one of the largest lenders in **Italy**-based exploration company **Eni** and its floating liquefied natural gas project.<sup>40</sup> China also plans to purchase long-term options for US-based **Anadarko Petroleum Corp's** natural gas.<sup>41</sup> The use of gas in China has climbed significantly.<sup>42</sup> The Chinese government is likely to want to ensure a steady supply of natural gas for its population by controlling the reserves along **East Africa**. While there is low likelihood of expropriation or nationalisation of the gas blocks, investors should be ready for Chinese and Russian influence affecting any future gas block bids.

### Planner

30 Aug 2018 **Maputo (Mozambique)** *Bloomberg* Monetary Policy Committee meeting scheduled

Oct 2019 General elections scheduled

### Chronology

21 Jun 2018 **Temane (Mozambique)** *ESI Africa*. South Africa-based power producer **Globeleq** signs a joint agreement with state-owned energy company, **Electricidade de Moçambique E.P.** to construct a 400 megawatt gas-fired power project in Temane;

19 Jun 2018 **Maputo (Mozambique)** *Bloomberg*. **Instituto Nacional de Petroleo** official **Aghostinho Rodrigues Chibiello** says that exploration contracts from the 2015 licensing round are close to being finalised and drilling should commence in 2019;

<sup>34</sup> Xinhua, 6 Jun 2018.

<sup>35</sup> Xinhua, 6 Jun 2018.

<sup>36</sup> TASS, 28 May 2018.

<sup>37</sup> All Africa, 17 Apr 2018.

<sup>38</sup> www.atlas.media.mit.edu

<sup>39</sup> Macau Hub, 17 Mar 2017.

<sup>40</sup> How We Made It In Africa, 24 May 2018.

<sup>41</sup> Bloomberg, 9 Jan 2018.

<sup>42</sup> Bloomberg, 9 Jan 2018.

19 Jun 2018 **Maputo (Mozambique)** *Bloomberg*. The **Banco de Moçambique** (central bank) reduces its benchmark lending rate to 15.75% due to stable inflation rates;

15 Jun 2018 **Maputo (Mozambique)** *Engineering News*. **United Kingdom**-based **Centrica** and **Japan**-based **Tokyo Gas** agree to purchase liquefied natural gas from **Anadarko Petroleum**;

7 Jun 2018 **Cabo Delgado Province (Mozambique)** *Daily Maverick*. **Islamists** kill five people in **Namaluco** village as violence continues near Mozambique's oil- and gas-rich **Rovuma Basin**;

6 Jun 2018 **Rovuma (Mozambique)** *World Oil*. The **Instituto Nacional de Petroleo** approves **Canada**-based exploration company, **Wentworth Resources'**, request for a one-year appraisal licence extension of the **Tembo** block in the on-shore **Rovuma Basin**;

5 Jun 2018 **Cabo Delgado Province (Mozambique)** *AFP*. **Islamist** attackers kill seven people in the village of **Naud** in continuing violence close to Mozambique's natural gas discoveries;

4 Jun 2018 **(Mozambique)** *Xinhua*. Deputy foreign minister **Maria Lucas** signs agreements worth \$100m with **China** for infrastructure projects;

1 Jun 2018 **(Mozambique)** *Mining Weekly*. **Australia**-based graphite developer, **Triton Minerals**, approves a \$99.4m development of the **Ancuabe** graphite project, with graphite production targeted for the second half of 2019;

29 May 2018 **Palma (Mozambique)** *Radio Mocambique*. A reported **Islamist** attacks leaves ten people beheaded in **Palma**, near the border with **Tanzania**;