

AFRICA RISK CONSULTING

Mozambique Monthly Briefing December 2022

Mozambique Summary 13 December 2022

The conflict between the Mozambique government and the Islamic State-sponsored insurgency, against a backdrop of declining donor funding, will continue to fuel a large-scale humanitarian crisis in Cabo Delgado in 2023. The government will maintain close collaboration with its military partners to fend off the terror threat, particularly as Mozambique's liquefied natural gas (LNG) projects regain momentum in 2023 following the country's first shipment of LNG to British Petroleum. A Mozambican court rules in the country's first-ever trial related to the hidden debts scandal that emerged in June 2015 over management of state-owned tuna fishing company Empresa Moçambicana de Atum SA (Ematum) between 2013 and 2015. This is likely to drive momentum for further investigations and prosecution of other parties involved. The International Monetary Fund remains positive about Mozambique's continued economic recovery, forecasting economic growth of 3.8% for 2022, set to rise to 5% in 2023. However, inflation remains a concern, as high food and fuel prices will have an impact well into 2023.

Terror threat to persist in 2023

The battle of the **Mozambican** government and its allies against the **Islamic State (IS)**-sponsored insurgency that began in late 2017 will continue to fuel a large-scale humanitarian crisis in **Cabo Delgado** in 2023. Persistent sporadic attacks in 2022 forced inhabitants to flee their homes and negatively impacted businesses, despite the bolstered presence of the allied forces. Led by the **Southern African Development Community (SADC) Mission in Mozambique**, the allied forces helped to repel the insurgents, pushing them into smaller pockets of the region.

The **United Nations (UN) International Organization for Migration (IOM)** estimates that by June, 950,000 Mozambicans were internally displaced.¹ The conflict is expected to drive food insecurity in the region in 2023. This will be exacerbated by a decline in donor funding for many organisations providing critical food aid to the population in Cabo Delgado. The **World Food Programme** noted on 24 October that it is at risk of halting its humanitarian assistance in the region in January unless it receives \$59.1m to continue delivering aid for the period January to March 2023.²

Insurgent attacks have struck at the heart of business in 2022. Cabo Delgado-based projects such as **Australia**-headquartered graphite mines **Triton Minerals** and **Syrah Resources**, as well as **Guernsey**-registered **Gemfields' Montepuez Ruby Mining Limitada**, grappled with IS-linked attacks on their projects, forcing them to briefly shutter their operations, which negatively impacted their share prices on their respective bourses (*see ARC Briefing Mozambique July & Nov 2022*). Notably, the attack on the ruby mine was the first reported in the **Ancuabe** district, as the insurgents have mainly focused their attacks on **Macomia**, **Mocimboa da Praia** and **Meluco** in the north of Cabo Delgado. In 2023, there is a higher risk that the insurgent group will increasingly focus its attention on sites outside of these core districts, targeting areas of economic activity to weaken investment in the region.

The state is likely to deploy further resources to these areas in 2023 as it faces pressure from investors to ensure a secure environment. Despite the current security challenge in Cabo Delgado, some investors appear to be taking a longer-term view of the region. Triton Minerals on 6 December recommitted to its project, with plans to begin further development of its graphite mine to ramp up

¹ International Committee of the Red Cross, 4 Nov 2022

² World Food Programme, 24 Oct 2022

production to 60 kilotonnes of large flake graphite per year over a 27-year period. Triton Minerals chair **Rod Zhang** described the project as “world class”, saying it provides:

*“a sound basis to secure premium sales prices in a highly competitive market and combined with the proximity to port, road and power infrastructure, and location”.*³

The government will continue its close collaboration with military partners in 2023 as it looks to fend off the terror threat. This will include an increased focus on navy services to help protect Mozambique’s maritime water and relevant infrastructure. The 1,800-km long **Mozambique Channel** is a vital route for the global shipping industry, supporting around 30% of global tanker traffic,⁴ and its security will be even more crucial as the country’s liquefied natural gas (LNG) projects regain momentum in 2023.

Mozambique reports first LNG shipment amid wider investment developments

LNG projects in the region have faced delays since the onset of the conflict amid the security threat (see above and *ARC Briefing Mozambique Sep 2022*). Despite the insurgency, Mozambique’s long-term prospects for revenues from its LNG sector are positive. In October, **Italy**-headquartered energy company **Eni** began production from its **Coral South** floating LNG project, which lies offshore Mozambique and has a capacity of 3.4m tonnes per year. On 13 November, President **Filipe Nyusi** (2015-present) announced that Mozambique had carried out its first shipment of LNG, to be sold to **British Petroleum**, under a 20-year contract with an optional 10-year extension. Production is set to ramp up over 2023, contingent on a stable security environment. Nyusi billed this development as:

*“a sign of the recognition by the market that Mozambique offers a stable, transparent and predictable environment for the realisation of multi-billion investments”.*⁵

In 2023, the government is set to release the results of the sixth licensing round for the concession of hydrocarbon exploration and production areas which it launched in November. The tender encompassed 16 areas on Mozambique’s coastline covering 92,000 square kilometres and was reported to have received interest from 13 oil companies including **United States (US)**-headquartered **Exxon Mobil** and **France**-based **TotalEnergies**. Stronger interest in the sector is also anticipated in 2023 as several countries, led by the US and the **United Kingdom**, action their pledges to diversify their energy supply chains away from a reliance on **Russian** natural gas in view of the latter’s ongoing military operations in **Ukraine** (see *ARC Briefing Mozambique Mar 2022*).

Plans to establish the sovereign wealth fund will also gain momentum in 2023 as the state prepares to receive LNG revenues. 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

Corruption fight set to continue ...

Maputo City Court judge **Efigenio Baptista** began reading his nearly 1,400-page verdict on 30 November, in the country’s first trial related to the “hidden debts” scandal. News of the scandal broke in June 2015, revealing how state-owned tuna fishing company **Empresa Moçambicana de Atum SA (Ematum)** acquired over \$2 billion in debt between 2013 and 2015, largely without the approval or knowledge of the country’s parliament, and plunged the country into economic distress (see *ARC Briefing Mozambique Jun 2022*). Of the 19 people on trial, the most prominent was **Ndambi Guebuza**, son of former president **Armando Guebuza** (2005-2015). Baptista sentenced Guebuza to 12 years’ imprisonment, finding him guilty of charges including embezzlement, money laundering and criminal association. Other officials such as Ematum general director **Gregorio Leao** and economic unit head

³ Club of Mozambique, 6 Dec 2022

⁴ United Nations Environment Programme, 7 Jan 2015

⁵ Africa News, 14 Nov 2022

⁶ Natural Resource Governance Institute, 17 Feb 2021

Antonio Carlos do Rosario also each received 12-year prison sentences.⁷ Baptista chastised Guebuza as having shown “no remorse for committing the crime” while maintaining that he had been “targeted for political reasons”, noting that the jailed were:

*“expected to be the guardians of public assets for being high ranking leaders responsible for security but instead, they are the key culprits”.*⁸

However, the verdict is unlikely to placate large sectors of Mozambican society, with negative sentiment expected to strengthen in 2023. Professor **Adriano Alfredo Nuvunga**, director of the **Centre for Democracy and Development** and steering committee of the **Mozambique Human Rights Defenders Network**, labelled the trial a “*façade*”, noting that it had not focused on the \$2 billion scandal but instead was “*a trial of the kickbacks paid to Mozambican conspirators who facilitated the scandal*”, amounting to only around \$300m. Nuvunga cited the lack of transparency around the asset recovery process, as well as the perception of the light sentences meted out. Nuvunga suggested that the case should lead to investigation of players who may have made decisions that led to the scandal, including current president Nyusi, who was defence minister at the time the events took place:

*“The scam was around defence and maritime security issues, and then the defence minister played a pivotal role.”*⁹

Former finance minister **Manuel Chang** continues to await extradition from **South Africa** to the US to face charges linked to his alleged role in the scandal. The Mozambican government has long fought the extradition, arguing that he should face charges in Mozambique. Manuel’s situation is likely to see renewed activity in 2023 owing to the increased momentum for accountability following the outcome of the trial. The Mozambique government will need to maintain its anti-corruption posture, as this has been critical for it to regain international funding and support for its economic reforms (*see below*), particularly with municipal elections set for October 2023. As interior minister **Arsenia Massingue** stated on 8 December, investors need to feel confident in the country and feel they will receive a return on their investment:

*“We must remove everyone and everything that is gnawing away at us internally, preventing us from delivering the results that society expects from us.”*¹⁰

... amid brighter economic prospects

The **International Monetary Fund** is relatively positive about Mozambique’s continued economic recovery on the back of a successful **Covid-19** vaccination campaign as well as the easing of Covid-19-related restrictions, which it views as a buffer to global headwinds. The IMF expects economic growth of 3.8% for Mozambique in 2022, set to rise to 5% in 2023, supported by renewed activity in its LNG sector.¹¹

However, inflation remains a concern amid high food and fuel prices. High fuel prices drove social discontent and protest action in the middle of the year (*see ARC Briefing Mozambique Jul 2022*). Further instances of unrest are possible in 2023 as an already strained consumer base grows increasingly frustrated. Continuing conflict between Russia and Ukraine is likely to keep fuel prices elevated in 2023, with Mozambique’s energy regulator, **Autoridade Reguladora de Energia**, likely to continue to periodically increase fuel prices. In August, the government adopted a raft of measures for the agriculture sector, including the reduction of taxation on companies in the agricultural sector from 32% to 10%, as well as the exemption from VAT on imports of agricultural inputs, to encourage the private sector to start investing in wheat production. As one of **sub-Saharan Africa**’s largest importers of wheat from Russia and Ukraine, Mozambique has faced threats to its wheat stocks and

⁷ Al Jazeera, 7 Dec 2022

⁸ Al Jazeera, 7 Dec 2022

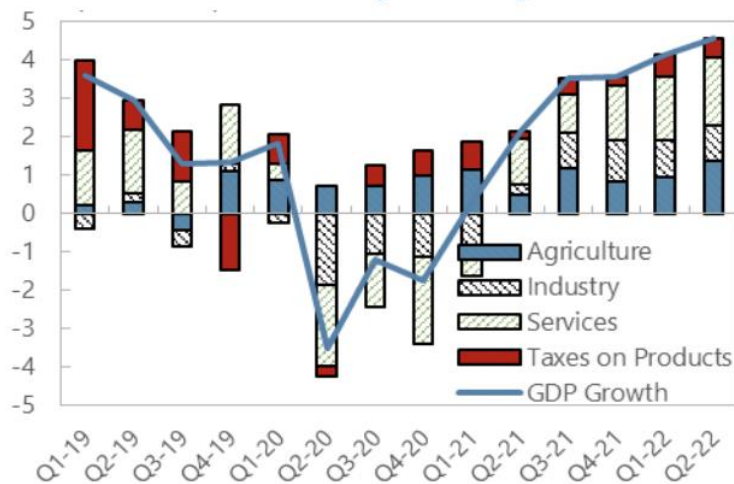
⁹ News24, 9 Dec 2022

¹⁰ Club of Mozambique, 9 Dec 2022

¹¹ International Monetary Fund, 2 Dec 2022

fertilisers as a result of the conflict between the two countries. To mitigate the impact of Mozambique's reliance on wheat imports over the longer term, the government will focus more strongly on addressing the challenges to domestic production.¹² Nevertheless, inflationary pressures are set to continue well into 2023.

Mozambique Economic Indicators Growth 2019-2022 (% year-on-year)



Sources: Authorities' data and IMF Staff calculations

Mozambique's economy has also suffered in 2022 from the impacts of extreme weather events, which have ramped up in recent years, in the form of severe and sudden cyclones, storms and prolonged drought periods. Mozambique is one of the most highly climate-vulnerable countries in the world. The most severe of these events occurred in 2019 when the country was hit by **Cyclone Idai** in March, followed by **Kenneth** in April, causing significant damage and devastation.¹³ An **International Labour Organization** assessment estimated \$1.4 billion in damage and \$1.39 billion in losses.¹⁴ **Cyclone Gombé** made landfall in Mozambique on 11 March 2022.¹⁵ The government, together with its donor partners, which include the **United Nations Refugee Agency**, **Caritas** and the **Red Cross**, will continue in 2023 to focus on bolstering the country's preparedness for these weather events. It will be vital to focus on the implementation of climate-resilient measures across communities, increasing the capacity of state-run emergency services to respond to crises, as well as rehoming or reintegrating those displaced by weather events.

Mozambique will continue to benefit from a resumption in donor funding, with international bodies encouraged by several measures implemented by the government to improve transparency, governance and socio-economic development. More funding will focus on supporting key sectors of economic activity in Mozambique as well as on projects focused on improving social services such as water and sanitation infrastructure, and electrification. The state is championing its green energy ambitions to introduce more renewable energy sources into the country's energy mix. In addition to bolstering energy resources to meet domestic needs, the state will ramp up its efforts as a net energy supplier to the region. In October, state-owned utility company **Electricidade de Moçambique** market operations director **Luis Ganje** indicated that Mozambique aims to become a regional power hub by mobilising investments in a number of power-generating infrastructure projects aimed at meeting the **Southern African** region's energy deficit (*ARC Briefing Mozambique Nov 2022*). More recently, Dr **Sydney Gata**, executive chairman of **Zimbabwean** national utility **Zesa Holdings**, cited

¹² The East African, 5 Nov 2022

¹³ The Independent, 27 Nov 2022

¹⁴ Reuters, 7 Nov 2022

¹⁵ Al Jazeera, 18 Mar 2022

Mozambique as one of the countries that will provide Zimbabwe with 500MW of electricity in the coming year.¹⁶

Planner

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

Chronology

12 Dec 2022 **Washington D.C. (United States)** *Club of Mozambique*. President **Filipe Nyusi** arrives in the **United States (US)** to attend the US-Africa Leaders Summit hosted by his counterpart, **Joe Biden**;

9 Dec 2022 **Maputo (Mozambique)** *Club of Mozambique*. Industry and commerce minister **Silvino Moreno** says Mozambique's **National Assembly** is expected to ratify the **African Continental Free Trade Area** resolution "later this year";

9 Dec 2022 **Maputo (Mozambique)** *Club of Mozambique*. President **Filipe Nyusi** divulges that the state had considered halting the implementation of the new **Unified Wage Table**, which nearly doubles the minimum wage for public servants, for the country's doctors who began a wage strike on 5 December;

9 Dec 2022 **Cabo Delgado (Mozambique)** *The Maritime Executive*. The **United States** government donates a 33-foot (10-metre) patrol boat to the Mozambican navy for its maritime operations in the Cabo Delgado region;

6 Dec 2022 **London (United Kingdom)** *Friends of Earth*. Environmental campaign group **Friends of the Earth** asks a **United Kingdom** court to rule that the British government's funding of up to \$1.15 billion for a liquefied natural gas project in **Mozambique**, through the **UK Export Finance** vehicle, is incompatible with the **Paris Agreement** on climate change;

3 Dec 2022 **Mocimboa de Praia (Mozambique)** *The North Africa Post*. The port of **Mocimboa da Praia (Cabo Delgado Province)** receives the first commercial ship to enter the port in two years, since **Islamic State**-linked insurgents took it over until **Southern African Development Community**-backed state forces drove them out, beginning in August 2021;

23 Nov 2022 **Muidumbe (Mozambique)** *Africa News*. An ambush by an unknown armed group kills an employee of **France**-based non-governmental aid organisation **Solidarités International** on a road in **Muidumbe (Cabo Delgado)**;

23 Nov 2022 **Washington D.C. (United States)** *International Monetary Fund*. The **International Monetary Fund** concludes the first review under its three-year **Extended Credit Facility** arrangement for Mozambique, allowing for the immediate disbursement of funds for budget support;

18 Nov 2022 **Johannesburg (South Africa)** *IOL News*. **South African** power utility **Eskom** says it is attempting to recoup over R1 billion (\$56.6m) in unpaid debts from its Mozambican counterpart, **Electricidade De Moçambique**, for gas supplies from 2019;

14 Nov 2022 **Maputo (Mozambique)** *Upstream*. **China's CNOOC International** emerges as the leading bidder in Mozambique's sixth licensing round for the concession of hydrocarbon exploration and production areas;

¹⁶ The Herald, 9 Dec 2022

14 Nov 2022 **Mozambique Channel (Mozambique)** *Military Africa*. **India's** and **France's** navies jointly carry out a maritime surveillance mission in the **Mozambique Channel** as part of procedures to provide surveillance in the **Reunion** exclusive economic zone.

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