

AFRICA RISK CONSULTING

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Mozambique Summary 21 January 2020

President Filipe Nyusi (2015-present) is inaugurated for a final five-year term. He promises a term of development and security. Few western heads of state attend – still smarting from the hidden debt scandal – but Southern African Development Corporation (SADC) leaders turn out in force. Nyusi leaves his cabinet largely unchanged. Russia-owned bank VTB Capital files a suit in the United Kingdom High Court against the Mozambique state and Mozambique Asset Management (MAM). VTB is looking to recover its defaulted debts. The Total SA-led liquefied natural gas (LNG) project is expected to boost growth to around 5% in 2020 and 2021. Falling inflation and currency stability show that the country's economy is recovering. Security conditions deteriorate: an Islamist extremist attack takes place, killing several in the wake of the United States airstrike that killed Iranian general Qassem Suleimani. Of equal concern are economically disruptive armed attacks on Mozambique's main arterial route from Maputo to the central provinces.

Africa's leaders support Nyusi as western donors stay away

President **Filipe Nyusi** (2015-present) was inaugurated for a second and final five-year term on 15 January in a ceremony that opposition politicians and western donors boycotted but which was well attended by leaders from several **African** states, notably from **Southern African Development Community (SADC)** countries. The ceremony and boycott served as a pointer to the difficulties that face the president in his new term and in the new decade.

The opposition boycott was due to disputed October elections where the main opposition **Resistência Nacional Moçambicana (Renamo)** challenged the results – having failed to win control of several provinces where it is widely seen to dominate. The results, subsequently failed legal challenge and now a boycott undermine a fragile peace deal agreed as recently as August.

Western donor countries reportedly downgraded the inauguration due to the continuing impact of a bribery scandal that has had a negative impact on international donor confidence and continues to hit business confidence. Between 2013 and 2014 Mozambique issued an \$850m bond that it sold to investors to finance a tuna fishing fleet. The maritime project collapsed and its debts led to a severe financial crisis after \$200m raised from associated loans was stolen or paid out in bribes.¹ The government compounded the problem when it tried to hide the issue from the international donor community and the **International Monetary Fund (IMF)**.

*"We have had difficulties after the hidden debts scandal: the country is being punished by western donors. For example, when the president was sworn in on Wednesday, the only head of state [present] was the **Portuguese** head of state. And he was here because he has a particular feeling for the country: he was the son of the last colonial governor... In the past you would get lots of western heads of state. But this time even **Russia** transformed its local ambassador into **Vladimir Putin** [2000-2008, 2012-present]! The [Mozambique] propaganda machine tried to overshadow these things and the hidden debt was not mentioned in the speeches nor were there any references to the strains with the international community, but ..."²*

¹ Ventures Africa, 8 Jan 2020

² ARC source, academic, Maputo

Nyusi's cabinet has few significant changes

Despite this inauspicious backdrop, President Nyusi used his inauguration speech to present an era of peace and economic prosperity. In his speech, he made peace and development his priorities as he sought to reach the opposition, claiming:

*"Nobody won or lost. The Mozambican people won. Democracy won."*³

Very quickly after the inauguration, President Nyusi announced his new government on 20 January, which heralded few significant changes but which referenced the president's twin themes of development and security. Incumbents retained the four key portfolios: **Carlos Agostinho do Rosário** remains prime minister; **Adriano Maleiane** retains the finance ministry and **Ernesto Tonela** holds on to the mines and energy portfolio. Nyusi's trusted advisor, **Celso Correia**, stays at agriculture and rural development, although the environment portfolio is separated out and awarded to **Ivete Maibase**, the leader of the ruling **Frente de Libertação de Moçambique (Frelimo)** party in parliament. The former speaker, **Veronica Nataniel Macamo Dlhovo**, becomes foreign minister. **Amade Miquidade**, former deputy director of the security services, stays as interior minister in an acknowledgement to the continuing security problems in the centre of the country and in the far north.

The line-up is outlined in the table below:

Cabinet appointments	20 January 2020
Prime minister	Carlos Agostino do Rosario (unchanged)
Economy and finance	Adriano Afonso Maleiane (unchanged)
Agriculture and rural development	Celso Ismael Correia
Land and environment	Ivete Maibase (moves from environment)
Foreign affairs	Veronica Nataniel Macamo Dlhovo , former speaker
Labour and social security	Margarida Adamugy Talapa (head of the Frelimo parliamentary bench)
Defence	Jaime Bessa Augusto Neto
Interior	Amade Miquidade - formerly deputy director general of the security services, SISE
Sea inland water and fish	Augusta de Fatima Charifo Maita
Minerals and energy	Ernesto Max Elias Tonela (unchanged)
Justice, constitutional and religion	Helena Mateus Kida (vice-interior minister)
Health	Armindo Daniel Tiago
Education and human development	Carmelita Rita Namashulua
Industry and commerce	Carlos Alberto Fortes Mesquita
Transport and communication	Janfar Abdulai
Science, technology, higher education	Gabriel Ismael Salimo
Public works and water resources	João Osvaldo Machatine
Culture and tourism	Eldevina "Kika" Materula

³ Club of Mozambique, 15 Jan 2020.

Business outlook dampened as VTB Capital launches a lawsuit

The lingering impact of Mozambique's "tuna bond" bribery scandal was felt again as Russia's state lender, **VTB Capital**, launched in **London (United Kingdom) (UK)** on 23 December a suit against the Mozambique state and **Mozambique Asset Management (MAM)** in the **UK High Court**. According to an online court filing, VTB lent the defendants \$535m. The case filing relates to "general commercial contracts and arrangements" and VTB's investment banking arm (**VTB Capital**).

The loan, together with financing of \$622m from international bank **Credit Suisse**, was meant to finance several projects such as tuna fishing, maritime security and shipyard development, amongst others. The debts led to a severe financial crisis after the maritime project collapsed and \$200m raised from the loans was stolen or paid in bribes.⁴ President Nyusi visited Russia in August to pave the way for a restructuring of the VTB debt. The lawsuit has surprised many⁵ as it now appears the state-owned Russian bank is looking to recover its share of the defaulted debts.

The lawsuit comes close on the heels of last year's momentous events in Mozambique's major liquefied natural gas (LNG) project that had momentarily boosted Mozambique's immediate-term outlook. **France-based Total SA** leads a consortium of oil companies that have signed an agreement with the Mozambican government for the LNG project and the construction of an export terminal in the country.⁶ Total is accelerating the process that will enable a final investment decision in the first half of 2020.⁷ Local sources report that the project is forging ahead:

"The LNG project continues to be developed. They [the consortium] have finished a resettlement town – which is a first-world town bringing to people that have never had it before electricity at a switch for the first time. They just finished an airstrip – first class that big jets can land directly. They are about to finish their first port, logistical facility to receive all sorts of big equipment by sea and with which to build the LNG train."⁸

The VTB Capital lawsuit raises the risk that VTB may be looking to Mozambique government's investment in the LNG project to recover its debt. The Mozambique government's involvement in the project is via **Empresa Nacional de Hidrocarbonetos (ENH)**, the country's state-owned energy exploration and production company. Most recently the **African Development Bank Group (AfDB)** approved a long-term loan of \$400m in support of the project.⁹ If it goes ahead, the project will fuel economic growth not just in Mozambique but in the rest of the SADC region. Total CEO **Patrick Pouyanne** said in October that a final investment decision on the \$3.15 billion LNG project is expected imminently, with gas production forecast to begin in 2023.¹⁰

Hope that sovereign wealth fund will spread LNG benefits ...

Any action by Mozambique's government's commercial debtors to use the LNG project to recover debts may momentarily disrupt President Nyusi's reported plans to create a sovereign wealth fund to channel the LNG benefits into economic development. Despite this, officials remain upbeat about the country's economic and business outlook. Local economists are optimistic. On the sidelines of the inauguration, **Bolsa da Valores de Moçambique (BVM)** (Mozambican stock exchange) chair **Salim Vala** expected gas would fuel growth over the next five years and that natural gas would be transformed internally to feed other industries. The **Bretton Woods** institutions chime in agreement: the **World Bank** has projected that the large-scale investments associated with gas production could push growth above its estimate of 4.3% growth by 2021. The IMF for its part anticipates a strong rebound in economic activity and low inflation, with its real GDP growth projected to reach 5.5% in 2020, up from 2.1% projected for 2019.

⁴ Financial Times, 9 Jan 2020

⁵ Ventures Africa, 8 Jan 2020

⁶ Mineweb, 28 Nov 2019

⁷ Gigajoule, 27 Nov 2019

⁸ ARC source, academic, Maputo

⁹ Ventures Africa, 8 Jan 2020

¹⁰ Bloomberg, 27 Nov 2019

This forecast was borne out when in mid-January Mozambique's **Instituto Nacional de Estatística** (national statistics institute) reported that year-on-year inflation in 2019 fell by 41 basis points to 3.5%. Falling inflation and stabilised exchange rates indicate that the economy is recovering. All agree that it is essential for Mozambique to take steps now to avoid the so-called 'curse of oil' through diversification of the economy away from capital-intensive projects and subsistence farming to a more diverse and competitive economy with tourism, transport and financial services mentioned as key.

Local observers reserve judgement,

*"Mozambique gives you a sense of paradise, the land of opportunity is almost next door – you still have to see it. Or we have not seen it yet. Not everyone has a smile on their faces. Drought and floods were the main reasons for the problems and for the impact on the price of commodities."*¹¹

... but security issues are a growing concern

Security issues also temper optimism, as they are a growing problem for President Nyusi, notably in his home territory of **Cabo Delgado Province** and the central **Sofala Province**. Local sources report that in that northern part of the country, suspected Islamists have been perpetrating attacks that have "left hundreds dead".¹² The motive of the terror spree is unclear but it is in the area that is "teeming with new gas discoveries" and where the many US, **European Union** and other international oil and gas companies have their operations.

A fresh wave of attacks followed the air strike that US president **Donald Trump** (2017-present) ordered that killed **Iranian** general **Qassem Suleimani** on 3 January.¹³ On 5 January, jihadist insurgents ambushed a local minibus on a main road in **Macomia** district (Cabo Delgado), killing several people. Although it is not explicit that the two are linked, the **Washington Institute** fellow on Shia Islamist militarism, **Phillip Smyth**, has stated that Iran will look to show its influence on a global scale and he thinks Iran may look for "low-hanging fruit or easier targets that they can go after" in an "unexpected location" – which may be in Africa.

Both the US and the UK governments advise against travel to some northern districts in Cabo Delgado Province following attacks by violent extremists in the districts of **Mocimboa da Praia, Nangade, Palma, Macomia, Ibo, Ancuabe** and **Quissanga**, and areas that border **Tanzania**. To date the attacks have been against local people:

*"These groups have used machetes and firearms to conduct lethal attacks, as well as burned vehicles and homes."*¹⁴

Most of the oil and gas and construction companies operating in Cabo Delgado Province are experienced at operating in high-risk areas, including those facing more experienced terrorist attacks. These are not directly affected by the insurgents but have had to shift to avoid road travel – thereby increasing costs.

Of greater concern to the health of the economy is the increase in violence in the centre of Mozambique, which local sources say is linked to a breakaway faction of the main opposition party, Renamo. The Mozambique prosecuting authority has questioned four Renamo members, **Ivone Soares, Antonio Muchanga, Jose Manteigas** and **Manuel Bissopo**, over a recent wave of highway ambushes that have claimed at 10 lives in the central regions of Sofala and **Manica Provinces**.

"The violence in central Mozambique and northern Mozambique disrupts normal economic activities in the country, which is very upsetting and constraining. It is directed against civilian targets – bus transportation, the people's transportation. It is a big disruption and a severe cut of

¹¹ ARC source, academic, Maputo

¹² ARC source, academic, Maputo

¹³ The Guardian, 3 Jan 2020

¹⁴ US government travel advisory

*the revenues of these small transport companies. Normal traffic between the south and the north has been disrupted along the main supply artery. Unfortunately **Maputo** supplies the whole country. If you want something in **Pemba**, these supplies come all the way from Maputo, so if you have trucks being burnt in central Mozambique, you feel it.”¹⁵*

A dissident group of Renamo fighters who are dissatisfied with the deal between the government and Renamo’s parliamentary wing appear to be responsible for the violence. Local sources say that the violence won’t stop unless the government deals with grievances in material terms:

“First, many of these Renamo fighters are old people and need a pension, a plot of land, some agricultural tools, tractor and small cabin. Secondly, more is needed to facilitate talks within Renamo, to help them to accept the current leadership and to broker some kind of accommodation with different factions to bring them within a political structure.”

Meanwhile, if the government doesn’t act quickly, the problem is likely to get worse:

“Young people are being recruited. It’s easy to attack a truck. You have all the conditions for replication. Better that you have a gun, attack a truck – you get some revenue rather than being poor and unemployed.”¹⁶

For now the government is doing little beyond policing. The army and police are escorting vehicles along more sensitive areas of the road.

Planner

31 March 2020 **Maputo (Mozambique)** *Mondato Summit Africa 2020. Beyond Access: Generating Value from Digital Finance & Commerce across Sub-Saharan Africa Summit* begins;

2 Apr 2020 **Maputo (Mozambique)** *SZ&W Group. 5th East & Southern Africa Gas & LNG Conference 2020* begins;

22 Apr 2020 **Maputo (Mozambique)** *AME Trade Ltd. 7th Mozambique Mining, Oil & Gas & Energy Conference and Exhibition (MMEC)* begins;

28 Oct 2020 **Maputo (Mozambique)** *The CWC Group Ltd. Mozambique Gas Summit* begins.

Chronology

20 Jan 2020 **Maputo (Mozambique)** *Club of Mozambique* President **Filipe Nyusi** announces his new cabinet.

16 Jan 2020 **Maputo (Mozambique)** *Global Voices*. Activist groups say new amendments to the **Mozambican Penal Code** introduced to protect privacy in July 2019 could threaten freedom of expression;

15 Jan 2020 **Maputo (Mozambique)** *News24*. President **Filipe Nyusi** is inaugurated following his re-election in October, which was attended by fellow dignitaries but boycotted by domestic opposition politicians;

14 Jan 2020 **London (United Kingdom)** *UK Investor Magazine*. **United Kingdom**-based **Savannah Resources** says it was granted a licence for its **Mutamba** heavy minerals sand project in **Mozambique** that lasts until September 2024;

13 Jan 2020 **Maputo (Mozambique)** *Macauhub*. **Instituto Nacional de Estatística** (national

¹⁵ ARC source, academic, Maputo

¹⁶ ARC source, academic, Maputo

statistics institute) says year-on-year inflation in 2019 fell by 41 basis points to 3.5%;

8 Jan 2020 **Maputo (Mozambique)** *Zitamar News*. Prosecuting authority questions four opposition party **Renamo** members, **Ivone Soares, Antonio Muchanga, Jose Manteigas** and **Manuel Bissopo**, over a recent wave of highway ambushes that have claimed at least 10 lives in the central regions of **Sofala** and **Manica**;

6 Jan 2020 **Maputo (Mozambique)** *Reuters*. **Russia**-based state lender **VTB** files a lawsuit in a **British High Court** against the **Mozambican** state and **Mozambique Asset Management**, to which it lent \$535m as part of a project now at the centre of a \$2 billion debt scandal;

5 Jan 2020 **Mocimboa da Praia (Mozambique)** *News24*. Several people are killed after a jihadist insurgency ambushes a minibus along a main road in **Macomia** district, northern **Mozambique**;

23 Dec 2019 **Maputo (Mozambique)** *Zitamar News*. The **Constitutional Council** rules that irregularities in the 15 October general election did not substantially impact the outcome, effectively validating the election result;

About Africa Risk Consulting:

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