

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing December 2020

#### Mozambique Summary 8 December 2020

*The Southern African Development Community (SADC) agrees at an extraordinary summit to respond to the Islamist violent insurgency in northern Mozambique, which continues to threaten the country's security and economic outlook. The United Nations (UN) International Organisation for Migration (IOM) reports that the extreme violence in Cabo Delgado Province displaced more than 33,000 people in one week. Senior main opposition party Resistência Nacional Moçambicana (Renamo) dissident group member Joao Machava hands over his weapons to Mozambique's security forces. South Africa-based Standard Bank's Purchasing Managers' Index (PMI) reports that Mozambican business operators' confidence in future economic activity in the country is at an eight-month high. The stabilisation of the business outlook comes amid decreasing numbers of active Covid-19 cases. United States (US)-based multinational oil and gas corporation ExxonMobil is reportedly in talks with France-based Total SA about renegotiating their contract for the liquefied natural gas (LNG) projects in northern Mozambique, which would allow them to increase extraction from the "straddling" reserves to cut costs.*

#### SADC intervention in Cabo Delgado insurgency becomes reality

At an extraordinary summit in **Gaborone (Botswana)** on 27 November, the **Southern African Development Community (SADC)** agreed to respond to the violent Islamist insurgency in northern **Mozambique**.<sup>1</sup> The violent attacks spreading across the border to **Tanzania** threaten Mozambique's liquefied natural gas (LNG) projects in **Cabo Delgado** province, which are expected to generate billions of dollars in revenue for both the Mozambican government and international companies and investors. Presidents of Botswana, the **Democratic Republic of the Congo (DRC)**, **Malawi**, **South Africa** and **Zimbabwe** attended the summit, while Tanzania was represented by its vice president and Mozambique by its defence minister, **Jaime Bessa Neto**.<sup>2</sup> A summit communiqué noted that SADC had directed "the finalization of a comprehensive regional response and support to the Republic of Mozambique to be considered urgently by the Summit".<sup>3</sup> The Tanzanian and Mozambican police forces signed a memorandum of understanding on 21 November to join efforts in combating the Islamist insurgents,<sup>4</sup> after the violence spread to southern Tanzania in October (see *ARC Briefing Mozambique November 2020*). The agreement includes the extradition of 516 detained insurgency fighters from Tanzania to Mozambique.<sup>5</sup>

The violence in northern Cabo Delgado has amplified in recent weeks. Several attacks have been claimed by an insurgent group that has pledged alliance to the **Islamic State** group.<sup>6</sup> **United Nations (UN)** secretary general **António Guterres** is urging Mozambique to investigate the reported incident in which an insurgency group linked to the Islamic State, **Ahlu Sunnah Wal Jammah (ASWJ)**, locally known as **al-Shabaab**, beheaded 50 people in **Muatide** village in **Muidimbe** district between 6 and 8 November.<sup>7</sup> Between 27 and 29 November there were reported clashes between insurgents and government **Forças de Defesa e Segurança (FDS)** (defence and security forces) in the district capital

<sup>1</sup> Africanews, 28 Nov 2020

<sup>2</sup> Africanews, 28 Nov 2020

<sup>3</sup> SADC News, 27 Nov 2020

<sup>4</sup> Al Jazeera, 23 Nov 2020

<sup>5</sup> Al Jazeera, 23 Nov 2020

<sup>6</sup> Africanews, 28 Nov 2020

<sup>7</sup> BBC News, 10 Nov 2020

of **Namacande**, the district capital of Muidimbe, and **Ntushi**, killing 18 Mozambican troops.<sup>8</sup> The government security forces have retreated to **Mueda** town, the district capital of Mueda district west of Muidimbe.<sup>9</sup>

The UN **International Organisation for Migration (IOM)** reports that extreme violence displaced more than 33,000 people in Cabo Delgado province in the week of 10-17 November.<sup>10</sup> The IOM claims that the number of displaced people in the area has increased by 400% to about 355,000 from about 88,000 earlier in the year.<sup>11</sup> IOM Mozambique chief of mission **Laura Tomm-Bonde** said on 27 November that the organisation is “*extremely concerned*” about the current situation and that further assistance is needed “*to meet humanitarian needs*”.<sup>12</sup>

*“The situation continues to be out of control and although outside intervention might not be the best solution it seems to be the only solution we have at the moment. Too many innocent lives have already been lost.”<sup>13</sup>*

With regional assistance on the horizon, there are hopes that the Mozambican government will be able to take control of the deteriorating security situation in which the population of Cabo Delgado has suffered violent threats and uncertainty for more than three years.

### Prominent Renamo dissident figure demobilises...

A senior figure in a dissident group of main opposition party **Resistência Nacional Moçambicana (Renamo)**, **Joao Machava**, handed over his weapons and demobilised on 4 December in **Inhambane** province.<sup>14</sup> Machava is known as second in command of the Renamo “*military junta*” led by **Mariano Nhongo**, known to resist the demobilisation process of the former Renamo militia.<sup>15</sup> The dissident group rejects Renamo leader **Ossufo Momade** as the rightful leader of the party and disputes the peace process signed by President **Filipe Nyusi** (2015-present) and Momade on 6 August 2019. The FDS has identified the group as perpetrating violent attacks against military and civilian targets in **Sofala** and **Manica** provinces since June this year (see *ARC Briefing Mozambique September and October 2020*).

President Nyusi on 24 October declared a unilateral seven-day truce with the aim of facilitating negotiations with the dissident Renamo group, ordering the FDS to suspend their activities against the military junta.<sup>16</sup> Nhongo stated that although President Nyusi had not contacted him at that time, he would send his men to take part in the negotiations.<sup>17</sup> President Nyusi announced on 28 October that he had commenced dialogue with the dissident Renamo group, with the aim of ending the political violence in the central regions of the country.<sup>18</sup>

Machava’s demobilisation and the commencement of negotiations with the **Frelimo**-led government are positive signs of increasing political stability in Mozambique. It is still unclear what impact Machava’s decision will have on other members of Renamo’s “*military junta*”, but the option to demobilise without negative consequences may be attractive. With the increasing violence in the north, a combined political front against the insurgent groups would allow the government’s security forces to focus their resources on Cabo Delgado province.

<sup>8</sup> ACLED, 1 Dec 2020

<sup>9</sup> ACLED, 1 Dec 2020

<sup>10</sup> IOM, 17 Nov 2020

<sup>11</sup> IOM, 17 Nov 2020

<sup>12</sup> IOM, 27 Nov 2020

<sup>13</sup> ARC source, diplomat Maputo

<sup>14</sup> Domingo, 6 Dec 2020

<sup>15</sup> Domingo, 6 Dec 2020

<sup>16</sup> Deutsche Welle, 26 Oct 2020

<sup>17</sup> Deutsche Welle, 26 Oct 2020

<sup>18</sup> VOA, 28 Oct 2020

## Private sector optimism increases amid decreasing Covid numbers ...

Business confidence in Mozambique is increasing. In its latest **Purchasing Managers' Index (PMI)** for Mozambique, **South Africa-based Standard Bank** reported in November that the degree of confidence in future economic activity of Mozambican business operators reached its highest level in eight months.<sup>19</sup> The Mozambique PMI rose to 49.4 in November from 48.1 in October. Employment increased at the fastest pace in nine months, since **Covid-19** became a reality in Mozambique when it recorded its first case on 22 March.<sup>20</sup>

The PMI is based on questionnaire responses of purchasing directors from approximately 400 private sector companies in Mozambique. The latest index shows that 37% of the respondents are positive about the future of business in the country and hoping for more investment. The results also showed that only 2% of respondents predict a fall in output by November 2021.<sup>21</sup> Supplier performance has also improved.<sup>22</sup>

Standard Bank's November report shows that the Mozambique PMI has grown steadily from its lowest score of 37.1 in April.<sup>23</sup> Over the last two years, the PMI was highest in July 2019 at 52.8 and stayed neutral above 50 until March 2020.<sup>24</sup> Standard Bank Mozambique chief economist **Fáúcio Mussá** said:

*"Taking into expectations that the number of daily Covid-19 infections might already have peaked, at least in the supposed 'first wave', we have reduced this year's GDP growth forecast to -0.9% y/y, from -1.3% y/y, maintaining the view of a steady recovery in 2021 towards positive growth of 2.0% y/y, with the economy likely exiting recession during Q2:2021."*<sup>25</sup>

Increased business optimism is likely a result of lower Covid-19 numbers, together with the easing of restrictions to curb the spread of Covid, opening up of international travel (see *ARC Briefing Mozambique November 2020*), and the improving prospect of imminent revenue from the LNG projects (see below). In a live online news broadcast on 5 December, the **ministério de saúde** (health ministry) reported 95 new cases of Covid-19 in the previous 24 hours.<sup>26</sup> In the same period, 183 people recovered fully. Mozambique has recorded 16,133 cases in its population of roughly 31.5 million, with 14,343 recoveries and 133 deaths.<sup>27</sup> The majority of cases continue to be reported from the **City of Maputo** and **Maputo** province, responsible for 85.3% of the new cases, with 7.4% from **Gaza**, 4.2% from Inhambane and 3.1% from **Zambézia**.<sup>28</sup> There are still 1,657 active cases at time of writing, a significant decrease from 2,117 active cases on 5 November and 3,126 on 5 October.<sup>29</sup>

Health minister **Armindo Tiago** announced on 3 December that the government is expecting six million doses of the Covid-19 vaccine.<sup>30</sup> This would cover 20% of the population and possibly prevent a "second wave" of the virus.<sup>31</sup>

## Exxon and Total in negotiations over LNG projects

**United States (US)**-based multinational oil and gas corporation **ExxonMobil** is reportedly in talks with **France-based Total SA** about renegotiating their contract for the LNG projects in northern Mozambique. **United Kingdom (UK)**-based international news organisation **Reuters** reported on 25

<sup>19</sup> Standard Bank Mozambique, 3 Dec 2020

<sup>20</sup> Standard Bank Mozambique, 3 Dec 2020

<sup>21</sup> Carta de Moçambique, 4 Dec 2020

<sup>22</sup> Carta de Moçambique, 4 Dec 2020

<sup>23</sup> Trading Economics, 7 Dec 2020

<sup>24</sup> Trading Economics, 7 Dec 2020

<sup>25</sup> Standard Bank Mozambique, 3 Dec 2020

<sup>26</sup> Ministério de Saúde, 5 Dec 2020

<sup>27</sup> Ministério de Saúde, 5 Dec 2020

<sup>28</sup> Ministério de Saúde, 5 Dec 2020

<sup>29</sup> Worldometer Covid-19, 7 Dec 2020

<sup>30</sup> CGTN Africa, 4 Dec 2020

<sup>31</sup> Business Tech, 8 Dec 2020

November that three sources close to the project claim the Mozambican government is also involved in the talks, as any new agreement requires the government's final approval.<sup>32</sup> The original contract was signed by **Italy**-based multinational oil and gas company **Eni** and US-based **Anadarko**, but Eni sold a stake in the **Rovuma** venture to Exxon in 2017 while Anadarko sold **Mozambique LNG** to Total last year.

Exxon and Total are now renegotiating the resource-sharing agreement, looking to cut costs and increase extraction from the “*straddling*” reserves, which contain gas that is thicker and cheaper to extract and convert to LNG.<sup>33</sup> The new contract could lead to increased LNG production, and in the case of Exxon's Rovuma LNG, result in 7.9% higher production and lower unit costs if it only extracts gas from the straddling reserves.

Exxon has twice delayed its final investment decision (FID) for the \$30 billion Rovuma basin project with Covid-19 impacting global oil and gas prices (see *ARC Briefing Mozambique November 2020*). According to Reuters' sources close to the project, the FID is now expected in early 2022, which would mean the project would only produce its first LNG by 2027.<sup>34</sup> Meanwhile, Exxon continues to record losses and reduce its workforce due to the stark impact of Covid-19 on the oil and gas industry. When questioned about the Rovuma project, also known as **Area 4**, an Exxon representative said:

*“We continue to work closely with the Area 4 partners, as Rovuma LNG is a complex project that will take several years to develop.”<sup>35</sup>*

Total leads the LNG **Area 1** consortium, worth more than \$23 billion and expected to generate \$50 billion in revenue for Mozambique's government over the next 25 years. The project is projected to produce the first LNG in 2024 and has been described as “*the biggest foreign investment in Africa yet*” (see *ARC Briefing Mozambique August 2020*). The renegotiated contract would mean Total working more closely with Exxon to cut costs and increase LNG production.<sup>36</sup>

The delay of the Rovuma project is not necessarily bad news for Mozambique, as the new sovereign wealth fund will have time to find its feet (see *ARC Briefing Mozambique November 2020*). The sovereign wealth fund will manage LNG revenues, with half going to the fund and half to the government's budget during the first two decades (see *ARC Briefing Mozambique November 2020*). LNG revenue is expected to result in higher spending on public healthcare and infrastructure to benefit the Mozambican population. The prospects of higher and more imminent LNG production in both Area 1 and Area 4 would have a significant impact on Mozambique's economic forecast, as state-owned gas company **Empresa Nacional de Hidrocarbonetos (ENH)** (national energy company) owns 15% of Area 1 and 10% of Area 4. With gas projects only 60km from where violent insurgent attacks are taking place, the government needs to make the deteriorating security situation in Cabo Delgado province a priority.<sup>37</sup>

<sup>32</sup> Reuters, 25 Nov 2020

<sup>33</sup> Reuters, 25 Nov 2020

<sup>34</sup> Reuters, 25 Nov 2020

<sup>35</sup> Reuters, 25 Nov 2020

<sup>36</sup> Reuters, 25 Nov 2020

<sup>37</sup> Reuters, 25 Nov 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 Dec 2020 **Inhambane (Mozambique) Domingo**. Senior figure in the **Renamo** dissident group, **Joao Machava**, has abandoned the junta and agreed to demobilisation;

3 Dec 2020 **Maputo (Mozambique) Standard Bank Mozambique**. **Standard Bank Mozambique Purchasing Managers Index (PMI)** measuring business operator confidence rose to 49.4 in November, the highest score in eight months;

29 Nov 2020 **Maputo (Mozambique) Africanews**. Regional intergovernmental organisation **Southern African Development Community** agrees to respond to the **Islamist** insurgency in northern **Mozambique**;

25 Nov 2020 **Maputo (Mozambique) Reuters**. Three sources say **United States**-based energy majors **ExxonMobil** and **Total** are in negotiations over their massive liquefied natural gas (LNG) projects in **Mozambique**, with each seeking to extract more gas from a shared field that straddles the two developments and cut costs.

25 Nov 2020 **(Africa) Bloomberg**. **Africa Centres for Disease Control and Prevention** and the **African Union** discuss **covid-19** vaccine trial partnerships with both **China** and **Russia**, as part of an effort to ensure **Africa** is not last in the queue for vaccines when they become available;

23 Nov 2020 **Mtwara (Tanzania) Al Jazeera**. The police forces of **Mozambique** and **Tanzania** sign a memorandum of understanding to join efforts in the battle against **Islamic State** insurgents;

18 Nov 2020 **Washington D.C (United States) Ecofin Agency**. **United States Agency for International Development (USAID)** acting deputy administrator **John Barsa** announces the launch in 2021 of new trade and investment programme "**Prosper Africa**", which will allocate \$500m over five years towards private sector development.

18 Nov 2020 **Maputo (Mozambique) IOM**. The **International Organisation for Migration (IOM)** reports 33,000 people have been displaced from **Cabo Delgado Province** in one week as a result of attacks from suspected **Islamist** insurgents;

11 Nov 2020 **Cabo Delgado (Mozambique) Aljazeera**. **United Nation** secretary general **António Guterres** urges **Mozambique** government to investigate reports that an armed group linked to global terrorist organisation **ISIL** beheaded about 50 people in **Muatide, Cabo Delgado**;

10 Nov 2020 **(Africa) EMPEA**. **United States**-based private capital association **EMPEA's Africa Council** notes that **Africa's** governments and businesses have handled **covid-19** effectively and that new opportunities for portfolios have emerged in health care, improved supply chains, special situations and consolidation plays across the continent.

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