

## AFRICA RISK CONSULTING

## Mozambique Monthly Briefing November 2019

## Mozambique Summary 18 November 2019

*The ruling Frente de Libertação de Moçambique (Frelimo) party wins the 15 October elections in a landslide, winning 73% of the votes compared to just 21.88% for the opposition Resistência Nacional Moçambicana (Renamo). A South African high court sets aside a decision to extradite former Mozambican finance minister Manuel Chang to Mozambique. The ruling presents the possibility that Chang could be extradited to the United States for corruption allegations over the \$2 billion hidden debt scandal. The government is planning licensing rounds and roadshows to promote its gas discoveries and potential in order to help lift its economy, which is struggling but expected to grow in 2020. Mozambique's liquefied natural gas (LNG) projects are forecast to bring in billions in revenue and increase growth. Rebels in Mozambique's northern Cabo Delgado Province have killed seven soldiers from Russia-based private military contractor Wagner Group since the company started joint operations with the Forças Armadas de Defesa de Moçambique (FADM) in early October.*

## Frelimo wins election in a landslide amid fraud allegations

The ruling **Frente de Libertação de Moçambique (Frelimo)** party won the 15 October elections in a landslide, winning 73% of the votes compared to just 21.88% for the opposition **Resistência Nacional Moçambicana (Renamo)**.<sup>1</sup> The results drastically increase the risk that the peace process will be stalled, although there is still little risk of a return to full-scale civil war. In addition to the fraud allegations in the lead-up to and during the elections (see *ARC Briefing Mozambique October 2019*), Renamo's failure to win a single province is surprising, given that it won the majority of seats in these provinces in the 2014 election. The peace process mandates that the winning party of a province chooses the governor rather than the federal government, so this would have given Renamo control of several provinces. Renamo made this a key part of the peace process based on the fact that it has a majority of support in **Sofala, Zambezia, Nampula and Tete Provinces**.

Assembleia da República										
Province	Registered	Votes						Seats		
		Voted	Valid	Frelimo	MDM	Renamo	Others	Frel	MDM	Ren
Maputo city	701 184	409 247	392 627	242 105	30 646	109 362	10 514	8	1	4
Maputo prov	1 015 798	553 632	518 331	343 261	25 672	136 144	13 254	14	1	5
Gaza	1 166 011	730 360	699 523	654 244	11 973	18 180	15 126	22	0	0
Inhambane	657 142	353 641	318 228	246 212	14 114	44 016	13 886	11	0	2
Sofala	1 029 354	593 058	544 143	361 083	66 559	110 052	6 449	14	2	4
Manica	893 426	542 520	496 327	365 358	12 568	110 945	7 456	13	0	4
Tete	1 119 378	666 808	599 336	457 526	12 208	121 808	7 794	17	0	4
Zambézia	2 140 125	906 078	772 477	505 906	26 217	228 615	11 739	28	1	12
Nampula	2 361 973	1 001 505	854 130	495 642	28 612	299 150	30 726	28	1	16
Niassa	677 764	282 112	253 089	170 176	7 404	70 730	4 779	9	0	4
Cabo Delgado	1 185 024	582 521	477 236	353 205	14 817	96 673	12 541	18	0	5
Africa	212 633									
Europe	2 479									
CNE TOTAL	13 162 291	6 621 482	5 925 447	4 194 718	250 790	1 345 675	134 264			

Source: Comissão Nacional de Eleições, 27 Oct 2019

<sup>1</sup> Al Jazeera, 25 Oct 2019

Renamo has launched legal challenges to the results, but most have been turned down and it is unlikely the courts will overturn the results.<sup>2</sup> There is also little chance of a return to civil war, as the vast majority of the soldiers who fought in the original civil war are elderly and Renamo leader **Ossufo Momade** does not hold enough influence to convince younger Renamo members to take up arms. However, Renamo will delay the peace process and look for concessions from the government, such as cabinet positions, before it continues talks on the peace process.

### South African ruling could see Manuel Chang corruption trial in US

The **Johannesburg High Court** in **South Africa** on 1 November set aside a decision by South Africa's former justice minister, **Michael Masutha**, on 21 May to extradite former Mozambican finance minister **Manuel Chang** to Mozambique. The ruling presents the possibility that Chang could be extradited to the **United States (US)** to face corruption allegations over Mozambique's \$2 billion hidden debt scandal.<sup>3</sup> Johannesburg High Court judge **Denise Kruger** ruled that South Africa's current justice minister, **Ronald Lamola**, must decide whether to extradite Manuel Chang to the US or Mozambique. While extradition to the US might be the correct legal proceeding, South Africa may choose to extradite Chang to Mozambique to avoid a diplomatic fallout with its neighbour.

The legal machinations have deeper political roots. In April 2019 the **Kempton Park Magistrate's Court (Gauteng Province)** ruled that Chang could legally be extradited to either Mozambique or the US.<sup>4</sup> South Africa's President **Cyril Ramaphosa** (2018-present) shuffled his cabinet soon after winning the 2019 general elections on 8 May, replacing Masutha with Lamola. On his last day as justice minister, Lamola stated that the South African government would extradite Chang to Mozambique, a decision that was in line with the wishes of Chang and the Mozambican government (see *ARC Briefing Mozambique July 2019*). The Mozambican government is concerned that a US-based trial may implicate other members of Frelimo in the hidden debt scandal in which the government fraudulently borrowed \$2 billion from **Switzerland**-based **Credit Suisse** and **Russia**-based **VTB Bank** for three state-owned companies. The scandal involved millions in bribes, and funds being re-directed to the military.

Lamola, as well as the Mozambique-based NGO, **Forum de Monitoria do Orçamento**, sought to review Masutha's decision. According to arguments before the court, South Africa's **Extradition Act** does not allow the government to extradite a person to a country where he might not be prosecuted and South African law demanded that Chang be prosecuted in South Africa or extradited to face prosecution elsewhere.<sup>5</sup> In setting aside Masutha's decision, Judge Kruger said Chang previously had immunity from prosecution flowing from his position as a member of parliament, even though he was no longer a minister.<sup>6</sup> Mozambique's parliament has now removed the immunity from prosecution, in the hope that Chang will be extradited to Mozambique. However, that decision now rests solely with Lamola.<sup>7</sup> Mozambique's government plans to appeal the ruling, which will further delay any decision on where to extradite Chang.<sup>8</sup>

### Mozambique plans roadshows and licensing rounds to boost growth

The government is planning licensing rounds and roadshows to promote its gas discoveries and boost its potential in order to help lift its struggling economy. Mozambique's liquefied natural gas (LNG) projects are forecast to bring in billions in revenue and increase growth, although it remains to be seen whether the government will strengthen institutions to ensure that ordinary Mozambicans benefit from the windfall. State-owned oil company **Empresa Nacional de Hidrocarbonetos (ENH)** started a funding roadshow in **Johannesburg** and **London (United Kingdom)** in mid-November,

<sup>2</sup> France24, 27 Oct 2019

<sup>3</sup> IOL, 1 Nov 2019

<sup>4</sup> Daily Maverick, 1 Nov 2019.

<sup>5</sup> IOL, 1 Nov 2019

<sup>6</sup> IOL, 1 Nov 2019

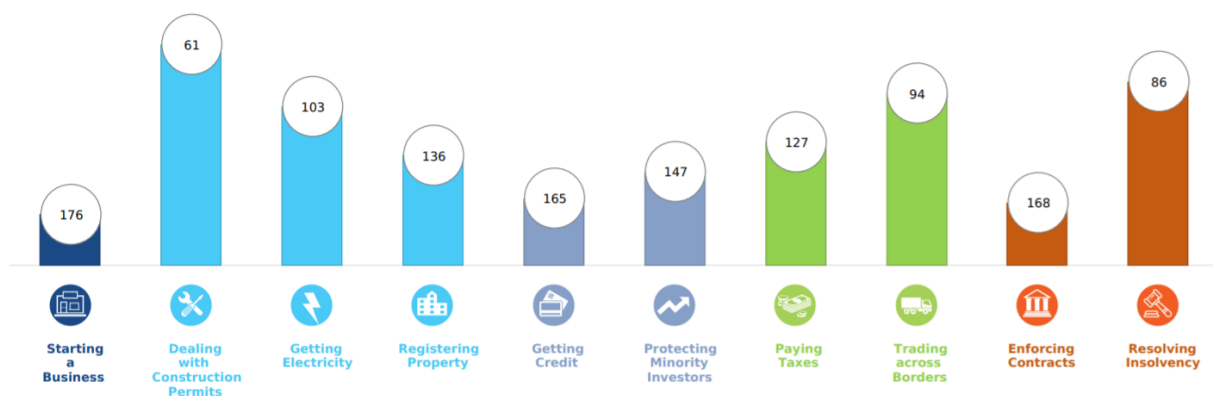
<sup>7</sup> Darien Times, 1 Nov 2019

<sup>8</sup> Business Day, 6 Nov 2019

attempting to raise \$1.5 billion to finance an LNG project with **France**-based oil giant, **Total SA**.<sup>9</sup> ENH holds a 15% stake in the project and needs the funding to finance its share, after previously asking its partners to fund its share on the proviso that ENH would go to the market to find the money.<sup>10</sup> According to state-owned upstream regulator **Instituto Nacional de Petroleo (INP)** chair **Carlos Zacario**, the roadshow will be followed by a sixth licensing round for Mozambique's oil and gas blocks.<sup>11</sup> The government is still working out the acreage to be offered, but should launch the bidding round by the end of the first quarter of 2020.<sup>12</sup> Blocks will be available in the **Rovuma** basin, as well as the **Angoche**, **Zambezi** and **Palmeira** basins.<sup>13</sup>

Mozambique is pushing its LNG projects as a path to significant economic growth. The **International Monetary Fund (IMF)** forecasts that Mozambique's growth will rebound strongly in 2020 to 5.5%, up from 2.1% in 2019.<sup>14</sup> The increase is due to post-cyclone recovery efforts and easing monetary conditions, although the IMF warns that stronger institutions are needed to ensure that the gas revenue that is scheduled to start in 2023 will help to improve the lives of ordinary Mozambicans.<sup>15</sup> To further boost this growth, the government will need to improve its business environment, particularly with regard to starting a business, getting credit and enforcing contracts. The **World Bank's 2020 Ease of Doing Business** survey ranked Mozambique 138<sup>th</sup> out of 190 economies and the country scored particularly poorly in the abovementioned indicators, which are important for investor confidence.

Rankings on Doing Business topics - Mozambique



### Russian PMC soldiers killed in Mozambique ...

Rebels in Mozambique's northern **Cabo Delgado Province** have killed seven soldiers from **Russia**-based private military contractor (PMC), **Wagner Group**, since the company started joint operations with the **Forças Armadas de Defesa de Moçambique (FADM)** in early October.<sup>16</sup> The ongoing operations have exacerbated the violence in the region and put at risk the government's reputation, given prevailing opinion of the Wagner Group. In early October, the Wagner Group sent around 200 Russian mercenaries to help the government fight alleged **Islamist** rebel groups (see *ARC Briefing Mozambique October 2019*), although the Russian government has denied that any troops are

<sup>9</sup> Moneyweb, 6 Nov 2019

<sup>10</sup> Moneyweb, 6 Nov 2019

<sup>11</sup> Upstream, 6 Nov 2019

<sup>12</sup> Upstream, 6 Nov 2019

<sup>13</sup> Upstream, 6 Nov 2019

<sup>14</sup> Fin24, 14 Nov 2019

<sup>15</sup> Fin24, 14 Nov 2019

<sup>16</sup> The Moscow Times, 29 Oct 2019

deployed in Mozambique.<sup>17</sup> Technically, this is correct: there are no Russian military troops in Mozambique; however, Russian-trained military contractors are operating in Mozambique through a private company. In total, seven Wagner Group members died in two separate attacks, although these are still unverified reports.

#### Chronology – Russian PMC operations in northern Mozambique

- 2 Nov 2019 **Mumu (Mozambique)** Insurgents kill four people in ambush on a truck;
- 31 Oct 2019 **Mbau (Mozambique)** Insurgents kill 11 people in a raid on truck;
- 27 Oct 2019 **Miangalewa (Mozambique)** Unconfirmed reports say insurgents kill 20 **Forças Armadas de Defesa de Moçambique (FADM)** members and five **Wagner Group** members;<sup>18</sup>
- 16 Oct 2019 **Miangalewa (Mozambique)** **Forças Armadas de Defesa de Moçambique (FADM)** attacks insurgents' base;
- 15 Oct 2019 **Macomia and Mbau (Mozambique)** **Wagner Group** and 20 **Forças Armadas de Defesa de Moçambique (FADM)** increase patrols in area to find insurgents;
- 10 Oct 2019 **Cabo Delgado (Mozambique)** Unconfirmed media reports say two **Wagner Group** members killed in insurgent attack;<sup>19</sup>
- 9 Oct 2019 **Mbau (Mozambique)** **Forças Armadas de Defesa de Moçambique (FADM)** and **Wagner Group** capture and kill nine insurgents;
- 8 Oct 2019 **Nacala (Mozambique)** Ship arrives from **Russia** with 17 containers of weapons and explosives;
- 7 Oct 2019 **Marere (Mozambique)** Two **Wagner Group** members killed in attack on insurgent base;
- 6-10 Oct 2019 **Mitope (Mozambique)** Unconfirmed media reports say **Wagner Group** member killed in attack on base in Mitope;<sup>20</sup>
- 5 Oct 2019 **Cabo Delgado (Mozambique)** **Forças Armadas de Defesa de Moçambique (FADM)** and **Wagner Group** begin cooperating and attacking insurgents

The Mozambique government's motives for hiring the Wagner Group are still unclear, particularly considering the Wagner Group's reputation in other **African** countries. **United States (US)**-based social media platform **Facebook** removed African accounts in late October linked to the Wagner Group and its leader, **Yevgeny Prigozhin**, that targeted **Madagascar**, the **Central African Republic (CAR)**, Mozambique, the **Democratic Republic of the Congo (DRC)**, **Cote d'Ivoire**, **Cameroon**, **Sudan** and **Libya**.<sup>21</sup> The US sanctioned Prigozhin in December 2018 for election interference,<sup>22</sup> and the Wagner Group has faced accusations of helping to influence several elections (see *ARC Briefing Madagascar March 2019*) in Africa and helping to prop up undemocratic regimes in Sudan and the CAR.<sup>23</sup>

#### ... as Russia seeks to expand its influence in Africa

For Russia, the push into Africa is part of a three-prong plan to increase its influence abroad while simultaneously negating **Western** influence in the regions. Russia is seeking alternative markets for its state-owned entities in energy, finance and defence sectors, and attempting to return to 'great power' status alongside the US and **China**. Russia's President **Vladimir Putin** (2000-2008, 2012-present) is using Africa as a way to increase Russia's influence, which has waned since the era of the **Cold War**. Putin hosted dozens of African leaders at the **Russia-Africa Forum and Economic Summit** in **Sochi** from 23-24 October, echoing many of China's views on not imposing restrictions on

<sup>17</sup> The Moscow Times, 29 Oct 2019

<sup>18</sup> Unconfirmed: some reports say four FADM members killed

<sup>19</sup> Unconfirmed: some reports say four FADM members killed; medi reports may be referring to 7 October attack

<sup>20</sup> Unconfirmed: some reports say four FADM members killed; medi reports may be referring to 7 October attack

<sup>21</sup> The Guardian, 30 Oct 2019

<sup>22</sup> US Treasury, 19 Dec 2018

<sup>23</sup> The Guardian, 30 Oct 2019

deals or aid due to human rights or other infractions, and is using its Cold War ties as a way back into Africa.<sup>24</sup> In addition to increasing its influence on the continent, Russia wants to minimise Western influence in the region. This appears to be a direct response to the statement of former US national security advisor **John Bolton** in 2018 that the US would increase its programmes in Africa largely to counter Russia and China.<sup>25</sup> Like China, Russia needs Africa's natural resources, particularly manganese, bauxite and chromium, for its industries and in return is offering its experience in the energy and defence fields.

Russia is also looking for markets for the products of its largely state-owned industries. Russia's economy has recently seen a decline in growth, contracting 2.5% in 2015 and only reaching 1.5% growth in 2017,<sup>26</sup> and its domestic market is unable to support its multitude of companies. By increasing its reach into Africa, Russian companies will have a new market in which they can expand their energy sectors and improve their military capabilities. Russian state-owned oil company **Rosneft** signed a memorandum of understanding (MoU) in August with Mozambique's state-owned hydrocarbons company, ENH, to expand cooperation. The agreement gave Rosneft the right to enter gas blocks in the future.<sup>27</sup> As for arms exports, Africa accounted for just 17% of Russia's exports from 2014 to 2018, with most of those going to **Algeria**.<sup>28</sup> However, Russia has now signed 19 military co-operation agreements with African countries, including Mozambique, and is looking to increase its arms exports to these countries.

Putin is hoping that as Russia's influence and economy grows because of Africa, Russia will once again be seen as a great power alongside the US and China. However, while Russia's influence is certainly growing, it is a long way from being as significant, both economically and politically, as that of China, the US or the **European Union (EU)** in Africa. Russia's trade with **sub-Saharan Africa** reached \$4.8 billion in 2018, up from \$1.8 billion in 2010.<sup>29</sup> However, China is now Africa's biggest trade partner, followed by the EU and US.<sup>30</sup> Russia has been able to increase its influence with regard to artillery and is now the top arms supplier to Africa ahead of China and the US.<sup>31</sup> Putin seems set to capitalise on this, using its mercenaries and weapons as a Trojan horse into the continent.

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<sup>24</sup> BBC, 23 Oct 2019

<sup>25</sup> BBC, 23 Oct 2019

<sup>26</sup> [www.imf.org](http://www.imf.org)

<sup>27</sup> [www.rosneft.com](http://www.rosneft.com)

<sup>28</sup> BBC, 23 Oct 2019

<sup>29</sup> Brookings, 22 Oct 2019

<sup>30</sup> CNBC, 9 Oct 2019

<sup>31</sup> Brookings, 22 Oct 2019

## Planner

12 Dec 2019 **Maputo (Mozambique) Banco de Moçambique** (central bank) Monetary Policy Committee meeting;

2023 **(Mozambique)** Local elections;

2023 **(Mozambique)** Gas revenue scheduled to start;

2031 **(Mozambique)** Maturity date under new Eurobond debt restructure deal

## Chronology

13 Nov 2019 **Maputo (Mozambique) IMF. International Monetary Fund** forecasts **Mozambique's** economic growth rate will hit 5.5% in 2020;

7 Nov 2019 **Maputo (Mozambique) Ecofin.** Authorities launch an international roadshow to raise \$1.5 billion to finance government's 15% share in the **Mozambique LNG project**;

6 Nov 2019 **Maputo (Mozambique) Upstream.** Mozambique's upstream regulator **Instituto Nacional de Petroleo (INP)** says the long-awaited sixth licensing round will be ready early 2020;

5 Nov 2019 **Maputo (Mozambique) Business Live.** **Mike Sangster**, an executive at **France-based energy major Total**, says the company aims to expand its **Mozambique LNG** project with two additional trains;

5 Nov 2019 **Maputo (Mozambique) The Morning Call.** Former finance minister **Manuel Chang** faces extradition to the **United States** to stand trial after a **South African** court rules against him being sent to his home country;

1 Nov 2019 **Maputo (Mozambique) EWN.** A **South African** court revokes a previous decision to extradite **Mozambique's** former finance minister, **Manuel Chang**, to Mozambique, and South Africa's justice minister, **Ronald Lamola**, will now decide where to extradite Chang;

31 Oct 2019 **Maputo (Mozambique) AllAfrica.** The finance ministry says it will pay the restructured debt from **Ematum**, despite a constitutional council decision that the debt was unconstitutional and did not need to be repaid;

30 Oct 2019 **Maputo (Mozambique) Reuters.** **Russian** state-backed bank **VTB** says it hopes the government will pay back the \$500m loan from the \$2 billion hidden debt scandal;

29 Oct 2019 **Cabo Delgado (Mozambique) Carta da Mocambique.** Local media reports that five **Russian** mercenaries were killed along with 20 **Forças Armadas de Defesa de Moçambique** members;

29 Oct 2019 **Maputo (Mozambique) Reuters.** Opposition party **Renamo** files an appeal to the **Constitutional Court** over the election results, in which the ruling **Frelimo** won almost 74% of the votes;

27 Oct 2019 **Maputo (Mozambique) FT.** President **Filipe Nyusi** wins the presidential elections in a landslide victory, prompting fears that violence may flare up;

23 Oct 2019 **Maputo (Mozambique) News24.** The **Comissão Nacional de Eleições** says it will announce election results on 30 October;

23 Oct 2019 **Maputo (Mozambique) Reuters.** President **Filipe Nyusi** and **Russian** state-controlled bank **VTB** discuss plans to restructure Mozambique's \$535m debt, which VTB loaned as part as part of a \$2 billion hidden debt scandal;

21 Oct 2019 **Zambezia Province (Mozambique) AllAfrica.** The ruling **Frelimo** party wins

69.58% of the votes in **Zambezia Province**, although opposition parties claim it was a fraudulent win.

### About Africa Risk Consulting:

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