

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing July 2023

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#### Mozambique Summary 7 Jul 2023

*The United States-headquartered credit rating agency S&P places Mozambique's sovereign debt rating at CCC+ after placing the country on Selective Default for 24 hours on 21 June. International Monetary Fund completes its second review of Mozambique's Extended Credit Facility (ECF) arrangement on 7 July. Despite mixed results, Mozambique receives approval to access \$60.6m. Mocimboa da Praia district (Cabo Delgado) defence minister Cristovao Chume declares on 29 June that the district is stable and free from terrorist threats with freedom of movement being restored without restrictions. The improved security situation bodes well for Mozambique's recovering liquefied natural gas (LNG) sector. Italian energy firm ENI also announces it will invest \$7 billion to build a second floating platform in the Rovuma Basin called Coral North. Government launches the country's first hub for the certification of diamonds and other precious stones. Mozambican political parties begin registration with Comissão Nacional de Eleições (election committee) on 3 July ahead of the October municipal elections.*

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#### Mozambique receives credit rating downgrade

United States-headquartered credit rating agency **S&P** placed Mozambique's sovereign debt rating on CCC+ on 21 June, after initially placing the country on selective default for 24 hours to indicate payment defaults between February and May. S&P defines a CCC rating as an indication that a country is "currently vulnerable and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments" with the agency noting that difficulties remain ahead for the country. CCC+ is one level lower than the country had been on (B-) prior to being placed on selective default.

The rating agency attributed this downgrade to "pressures on the financial system and inflationary and public spending pressures"<sup>1</sup> The government is also pinning its hopes for public investment growth on its **International Monetary Fund (IMF)** programme. The IMF carried out the second review of Mozambique's three-year **Extended Credit Facility (ECF)** arrangement on 7 July, providing Mozambique with immediate access to SDR 45.44m (\$60.6m). With the additional funds, this brings the country's total disbursements under the ECF to \$212.09m out of a total approved \$456m.

The IMF noted a mixed programme performance by Mozambique, offering approval of two performance criteria which Mozambique failed to observe, including the missing performance criteria under the domestic primary budget which was attributed to delays in the implementation of the country's wage bill reforms, as well as shortfalls in revenue and delays in debt service repayments.

The IMF provided the waivers on the assurance that the government had taken action to remedy the breaches. On the upside, the institution expects economic growth to reach 5% in 2023, driven by liquefied natural gas (LNG) production, services-based economic activities and the agriculture sector. However, it notes that risks are skewed to the downside mainly stemming from any further delays to LNG projects, geopolitical tensions, as well as natural disasters which plague Mozambique and resultant food insecurity.<sup>2</sup>

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<sup>1</sup> Further Africa, 27 Jun 2023

<sup>2</sup> International Monetary Fund, 7 Jul 2023

## As LNG projects make further progress toward resumption

**Mocimboa da Praia district (Cabo Delgado)** defence minister **Cristovao Chume** declared on 29 June that the district is stable and free from terrorist threats with freedom of movement being restored without restrictions.<sup>3</sup> The improved security situation continues to bode well for Mozambique's LNG sector which is rebounding from operational delays that have hampered the sector's development. As the security situation in the region improves and stabilises, long-term prospects for revenues from its LNG sector are bright. It was reported on 6 July that the major LNG project in Cabo Delgado, led by the **French** energy major **TotalEnergies**, will resume production *"this month"*. In May, TotalEnergies committed to reopening after implementing a series of recommendations from a report it commissioned to assess the security and humanitarian situation in Cabo Delgado (see *ARC Briefing Mozambique Jun 2023*).

**Italian** energy firm **ENI** also announced it will invest \$7 billion to build a second floating platform in the **Rovuma Basin** called **Coral North**. The platform will be a duplicate of, and lie ten kilometres away from, the already existing **Coral South** platform, which began pumping, liquifying and exporting natural gas in October 2022.<sup>4</sup> Since then, the platform has generated \$34m in revenues for the government. In a proposal viewed by local news outlet **Zitamar** the **Mozambique Rovuma Venture** consortium, led by ENI, labelled the platform *"the most efficient way to maximise the recovery and profitability of the gas reserves of the Coral field"*.<sup>5</sup> Under the consortium's plans, Coral North would begin operating in the second half of 2027 and produce double the amount of LNG currently produced by the Coral South platform which can produce 3.37 million tonnes of LNG.<sup>6</sup>

## Government targets mining sector for increased GDP contribution

Minerals resources minister **Carlos Zacarias** on 3 July inaugurated Mozambique's first hub for the certification of diamonds and other precious stones, located within the **Kimberley Process Precious Metals and Gemstone Management Unit**. This is the first of several hubs which the government aims to open in the **Maputo, Manica, and Nampula** provinces to regulate the entry of these minerals into the global market, curb the commercialisation of illegally mined precious metals and stones, and prevent the country from being used as a corridor for the transit of metals and gems illegally mined in other countries.<sup>7</sup>

In recent years, the government has implemented policy and regulatory measures aimed at formalising the country's precious minerals sector, improving local value-addition, and reducing the loss of diamond revenues. For example, in September 2021 the government approved a regulation which requires Mozambican companies to conduct the commercialisation process for diamonds, precious metals, and gemstones.<sup>8</sup> In November 2021, the international body which controls the sale of diamonds - the **Kimberley Process** - also authorised Mozambique to export diamonds to the international market.<sup>9</sup> Zacarias stated:

*"We are laying the cornerstone for the start of more structuring undertakings, mainly in the field of adding value to our mineral resources within the country, which will boost industrial and economic development."*<sup>10</sup>

<sup>3</sup> Club of Mozambique, 29 Jun 2023

<sup>4</sup> Upstream, 31 Oct 2022

<sup>5</sup> All Africa, 4 Jul 2023

<sup>6</sup> 360 Mozambique, 20 Jul 2022

<sup>7</sup> O Económico, 4 Jul 2023

<sup>8</sup> Further Africa, 22 Sep 2023

<sup>9</sup> 360Mozambique, 15 Nov 2021

<sup>10</sup> O Económico, 4 Jul 2023

The government has set itself a target to increase the mineral sector's contribution to GDP to 16% by 2030, up from 7% in 2019.<sup>11</sup> The mining sector is mainly driven by the extraction of coal, graphite, and gold, however, Mozambique's ruby mining sector is presenting a bright spot for the mining of precious stones in the country.<sup>12</sup> **United States**-headquartered **Sotheby's** auctioned a 55.22-carat ruby, the **Estrela de Fura**, mined in Mozambique, for \$34.8m at its auction house in **New York** (US). The auction house described this sale as "a world auction record for a ruby and any coloured gemstone."<sup>13</sup>

Mozambique's ruby mining region falls in Cabo Delgado, but the improved security situation in the region has supported the return to operation and stability for mining firms including **United Kingdom**-headquartered **Gemfields** which operates the **Montepuez** ruby mining site in the province.<sup>14</sup> In an additional boost for the investment and development of Mozambique's mining sector, the **London Stock Exchange**-listed mining firm **Altona Rare Earths** announced on 5 July that it had reopened its **Monte Muambe** rare earths project in **Tete** province. Drilling will commence for high-grade ore, a critical mineral, which will support the government's aim to increase the mining sector's share of GDP.

### Election preparations get underway

Registration with the **Comissão Nacional de Eleições** (election committee) opened on 3 July, allowing political parties to register ahead of the municipal elections on 11 October. The registration will be open until 14 July, but as of 3 July, only three minor parties had applied.<sup>15</sup> The ruling **Frelimo** party is yet to register while **Alfredo Magumisse**, the spokesperson for the main opposition party **Renamo** did confirm that the party will soon announce its mayoral candidates for the municipal elections. These will be decided through a conference which will begin on 7 July.<sup>16</sup>

This sets the stage for what is likely to be a highly contentious election period between Renamo and the Frelimo party, as indicated by the events of the voter registration exercise which took place from 20 April to 3 June and was marred by allegations of gross irregularities (*see ARC Briefing Mozambique Jun 2023*). This led the Renamo party to demand the annulment of the voter registration exercise on 7 June to no avail.<sup>17</sup> Magumisse also doubled down on the party's allegations of wrongdoing, stating:

*"There are municipalities where our adversary [Frelimo] mobilised people from one municipality to register in another. The party has to find a way of dealing with these situations".<sup>18</sup>*

Although risks to the holding of the peace agreement which ended a deadly conflict between Renamo and Frelimo fighters in August 2019 are minimal, flare-ups of violence cannot be ruled out. These are also likely to persist beyond the municipal elections in the run-up to the presidential elections set for 2024.<sup>19</sup>

### Planner

<p>13 Jul 2023 – 14 Jul 2023 <b>Maputo (Mozambique)</b> International Conference on Investment in Health Infrastructures</p> <p>11 Oct 2023 <b>(Mozambique)</b> Municipal elections;</p> <p>2024 <b>(Mozambique)</b> Provincial and presidential elections;</p> <p>2025 <b>(Mozambique)</b> Area 1 LNG production expected to commence</p>
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<sup>11</sup> Extractive Industries Transparency Initiative, Accessed on 7 Jul 2023

<sup>12</sup> Extractive Industries Transparency Initiative, Accessed on 7 Jul 2023

<sup>13</sup> The New York Times, 2 Jul 2023

<sup>14</sup> Mining Weekly, 23 Feb 2023

<sup>15</sup> AIM, 3 Jul 2023

<sup>16</sup> Club of Mozambique, 3 Jul 2023

<sup>17</sup> All Africa, 7 Jun 2023

<sup>18</sup> Club of Mozambique, 3 Jul 2023

<sup>19</sup> Al Jazeera, 1 Aug 2019

## Chronology

- 5 Jul 2023 **Maputo (Mozambique)** *Club of Mozambique*. **Autoridade Tributária de Moçambique** (tax authority) announces that in the first half of 2023 it has seized illegal merchandise which could be valued up to MZN 70.2m (\$1.1m), with alcohol and tobacco products accounting for 63% of the seizures;
- 4 Jul 2023 **Maputo (Mozambique)** *AIM*. Justice minister **Helena Kida** divulges that the government recovered around MZN1 billion (\$15.8m) from the recovery of assets acquired through illicit means. These include the seizure of buildings, vehicles, and cash;
- 4 Jul 2023 **Maputo (Mozambique)** *Club of Mozambique*. National airline **LAM** launches its inaugural flight from Maputo to **Lusaka (Zambia)**, also noting that it is exploring additional international routes to ensure the airline's financial viability;
- 4 Jul 2023 **Maputo (Mozambique)** *Lusa*. Deputy health minister, **Ilesh Jani**, divulges that the government aims to raise around \$210m from its international partners for the construction of around 30 district hospitals across the country;
- 4 Jul 2023 **Zambezia (Mozambique)** *Notícias*. **East Agro**, a subsidiary of the **Russian** mining firm **Tazetta Resources**, announces that it will build a \$4.8m coconut processing factory in **Zambezia** province. The factory will produce cooking oil, coconut water, coconut fibre and copra (dried coconut flesh) and employ approximately 500 permanent staff and 4,000 seasonal workers;
- 3 Jul 2023 **London (United Kingdom)** *Reuters*. London high court judge **Robin Knowles** rules that the **Mozambican** government can proceed with its lawsuit against **Credit Suisse** and other creditors in a \$2 billion court case stemming from the 2015 Hidden Debt scandal. The trial is set to begin in October;
- 3 Jul 2023 **Nelspruit (South Africa)** *News24*. **Mozambican** consulate in Nelspruit (South Africa) recommends that Mozambicans only travel to South Africa through the **Lebombo** border in cases of "extreme emergency" owing to attacks by criminals exploiting a traffic backlog;
- 3 Jul 2023 **Maputo (Mozambique)** *Club of Mozambique*. Public works minister **Carlos Mesquita** announces that the government has set aside over MZM 5 billion (\$78.9m) for the rehabilitation of road and building infrastructure destroyed by **Cyclone Freddy**;
- 3 Jul 2023 **Maputo (Mozambique)** *Global Cement News*. **China's Huaxin Cement** agrees to buy **Brazil's InterCemenet's African** operations spanning **South Africa** and Mozambique for \$265m. In Mozambique, this includes two cement plants and three grinding plants;
- 1 Jul. 2023 **Blantyre (Malawi)** *Malawi24*. **Malawian** and Mozambican officials host the Malawi - Mozambique joint permanent commission on defence and security where they agree to improve their defences against terrorism and cross-border crimes including illicit trade, cybercrimes, smuggling, and human trafficking;
- 29 Jun 2023 **Maputo (Mozambique)** *Lusa*. Press freedom NGO, the **Media Institute of Southern Africa**, releases a report alleging that Mozambique's three mobile networks **South African**-headquartered **Vodacom**, **Vietnam's Movitel**, and the local player **Tmcel** are breaching laws related to corporate governance, freedom of expression and information privacy;
- 27 Jun 2023 **Johannesburg (South Africa)** *Bloomberg*. **United States**-based media outlet **Bloomberg** reports that former Mozambican finance minister **Manuel Chang** will be extradited to the **United States** to face charges related to his role in the Hidden Debt scandal;

27 Jun 2023 **Maputo (Mozambique)** *Plexus Cotton*. **Plexus Cotton** announces that it concluded the sale of its Mozambican subsidiary **Plexus Mozambique Limitada** to **Portugal's Felpinter Textile Industries**;

19 Jun 2023 **Ibo (Mozambique)** *Club of Mozambique*. **Issa Tarmamade**, administrator of **Ibo** district (**Cabo Delgado**) reports that 33 hectares of coffee have been ploughed and sown in the district, achieving 67% of the target and 4% growth in performance compared to the previous agriculture period;

17 June 2023 **Maputo (Mozambique)** *Instituto Nacional de Estatistica*. **Instituto Nacional de Estatistica** (national statistics institute) records an annual inflation rate of 8.2% for May, down from 9.6% in April;

15 Jun 2023 **Sofala (Mozambique)** *African Union*. The last **Renamo** military base in Mozambique closes in **Gorongosa (Sofala)** concluding the disarmament, demobilisation and reintegration process which has taken place since the agreement of a peace deal between the Renamo party and the ruling **Frelimo** party in August 2019;

13 June 2023 **Maputo (Mozambique)** *African Development Bank Group*. The **African Development Bank Group** adopts its **2023-2028 Country Strategy Paper for Mozambique**, aimed at bolstering Mozambique's fiscal position, increasing employment, and stimulating economic growth. Initiatives planned under the strategy aim to increase foreign direct investment to 30% of GDP up from the current 22.7%;

13 June 2023 **Maputo (Mozambique)** *Club of Mozambique*. **Carla Louveira** the deputy minister of finance announces that the government of Mozambique is expecting an average inflation rate of 6.5%, 5.5%, and 5% in 2024, 2025, and 2026 respectively.;

12 Jun 2023 **Nacala (Mozambique)** *Club of Mozambique*. Energy minister **Carlos Zacarias** announces that the government will export 100 megawatts of electricity to **South Africa** produced through the **Nacala Floating Power Plant**.

### About Africa Risk Consulting:

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