

AFRICA RISK CONSULTING

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Mozambique Summary 9 December 2019

Financial rating agency Standard & Poor's Global Ratings assigns Mozambique a 'stable outlook' and raises its sovereign credit rating. The African Development Bank's \$400m investment in support of the billion-dollar liquefied natural gas (LNG) project has accelerated the process and renewed confidence for the final investment decision, which is expected in the first half of 2020. Armed insurgents strike again in the northern province of Cabo Delgado, the area in which LNG projects are situated. Mozambique is grappling to consolidate macro-economic stability and its financial systems as a result of the two cyclones that hit in early 2019. However, businesses have reason to be optimistic in 2020 as they navigate Mozambique's complex economic, political and social landscape: the economy is expected to regain relative stability as an array of investment opportunities open up within Mozambique's extensive extractive sector.

Standard & Poor's removes Mozambique from financial default

Financial ratings agency **S&P Global Ratings (S&P)** removed **Mozambique** from a "financial default" category on 22 November, lowering its perceived risk to investors.¹ S&P raised Mozambique's sovereign credit rating from "SD" (Selective Default) to "CCC+", affirmed the local currency ratings on the country at 'B-/B', and assigned the country a "stable outlook".² S&P is the third of the major rating agencies to remove Mozambique from this category of sovereign credit quality analysis, which in practice prevented the country from accessing international financing, given the risk perceived by foreign investors. S&P linked the primary drivers of its restored confidence in Mozambique to the completion – on 30 October – of the country's distressed debt exchange, in which the government exchanged its \$726m notes due in 2023 with \$900m due in 2031. The 2023 notes had been in arrears and not serviced since 2017. The new \$900m notes are fixed-rate amortising notes maturing on 15 September 2031, with eight equal amortisations starting in 2028. The notes have a step-up coupon starting at 5% per annum and increasing to 9% in 2024.³

S&P's stable outlook balances its interpretation of risks linked with major twin deficits against the improving and appreciating economic growth prospects over the next 12 months, which will be supported by major investments in Mozambique's extractive sectors. S&P forecasts that real GDP growth will pick up in 2020 due to reconstruction efforts and investment prospects in extractive industries mainly as a result of major developments linked to the liquefied natural gas (LNG) investment projects.⁴ The LNG projects are expected to notably improve Mozambique's export industry and significantly boost its economy once completed. S&P analysts increased their optimism regarding Mozambique's credit stability and payment assurance noting that:

*"While its financial commitments appear to be ultimately unsustainable, we think that Mozambique might not face a credit or payment crisis within the next 12 months."*⁵

¹ Standard & Poor's, 26 Nov 2019

² Standard & Poor's, 26 Nov 2019

³ Further Africa, 26 Nov 2019

⁴ Standard & Poor's, 26 Nov 2019

⁵ Standard & Poor's, 26 Nov 2019

S&P analysts suggest that the agency would consider raising the ratings if there are indications of substantial improvements in fiscal and external positions against its base-case assumptions. They also alluded to the possibility of lowering the ratings if there are signs of distressed exchange or difficulties in Mozambique's financing requirements by public and private sectors.⁶

While the CCC+ rating on debt issued in foreign currency reflects S&P's forward-looking perspective and confidence in Mozambique's creditworthiness as a result of the recent debt restructuring, **Fitch Ratings** analysts noted on 8 November that,

*"Mozambique is currently still vulnerable and dependent upon favorable business, financial, and economic conditions to meet its financial commitments."*⁷

The CCC+ rating is one of the lowest on the S&P rating scale and indicates that:

*"[Mozambique] continues to be constrained by low per capita GDP, weak governance and institutions, large twin deficits and a high debt burden."*⁸

Billion-dollar LNG project final investment decision forecasted for 2020

France-based Total SA and **South Africa-based Gigajoule Group** signed a joint development agreement (JDA) in **Maputo** on 27 November, accelerating the process that will enable a final investment decision to be taken in 2020 on Mozambique's LNG project.⁹ A consortium of oil companies led by Total signed an agreement with the Mozambican government for the LNG project and the construction of an export terminal in the country.¹⁰ If the investment materialises, the project will fuel economic growth in Mozambique and **Southern Africa**. Total CEO **Patrick Pouyanne** said in October that a final investment decision on the \$3.15 billion LNG project is expected in the first half of 2020, with gas production forecasted to begin in 2023.¹¹

The board of directors of the **African Development Bank Group (AfDB)** approved on 26 November a long-term senior loan of \$400m in support of the construction of the integrated LNG plant, including a liquefaction facility in Mozambique. AfDB president **Akinwumi Adesina** said:

*"As the Bank Group continues to work closely with the Government of Mozambique, we can ensure that the local population will reap the benefits from its nascent natural gas value-chain, thus creating growth opportunities and widespread industrialization and at the same time accelerating regional integration across Southern Africa."*¹²

The AfDB's recent investments have been influential in renewing investor confidence by assuring that the extractive industry will fuel rapid economic growth for Mozambique. If the LNG projects materialise as projected, the investments could yield significant benefits for its economic outlook, which has been constrained and limited by extremely low GDP per capita (less than \$500) in 2019 from a comparative global perspective.¹³ The AfDB investment will help to accelerate the process that will enable a final investment decision by the middle of 2020 and ensure that the construction process and commercial operations commence by the end of 2020.

With more multinational companies searching for raw materials to feed their industries and support their production and profits, economic experts predict that Mozambique will attract large-scale foreign investment in the coming five years. However, although Mozambique may offer significant opportunities, investors must navigate a challenging stakeholder landscape to access them. The country is still an emerging market, and excitement over its potential is relatively new. Its institutions

⁶ Standard & Poor's, 26 Nov 2019

⁷ Fitch Ratings, 8 Nov 2019

⁸ Standard & Poor's, 26 Nov 2019

⁹ Gigajoule, 27 Nov 2019

¹⁰ Mineweb, 28 Nov 2019

¹¹ Bloomberg, 27 Nov 2019

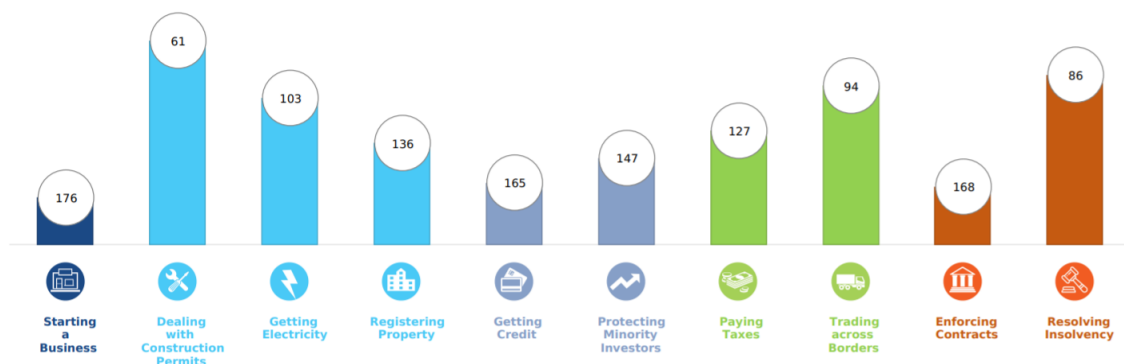
¹² African Development Bank Press Release, 26 Nov 2019

¹³ Further Africa, 26 Nov 2019

may not yet be strong enough to ensure the consistent application of standardised procedures, while much of the largely rural population is unfamiliar with foreign investment and unsure of what to expect.

Mozambique ranked 138th out of 190 economies surveyed in the **World Bank's 2020 Doing Business** report with particularly low scores in several important dimensions and indicators of the regulatory environment, particularly in relation to acquiring credit, enforcing contracts, and starting a business.¹⁴ Moving into 2020, the government will need to ensure that the necessary adjustments and improvements are made, especially with regard to these indicators, in order to sustain investor confidence.

Rankings on Doing Business topics - Mozambique



Source: World Bank 2020 Doing Business Rankings

Armed violence hits Cabo Delgado again

Armed insurgents have once again struck the area in the northern province of **Cabo Delgado** where LNG projects are located, contradicting previous defence ministry claims that counter-terrorism operations have been successful. Increased project security risks could make financing negotiations underway more difficult for the companies involved. Insurgents have launched 25 attacks during the course of November and December alone, with the latest targeting a “safe zone” for foreigners involved in LNG exploration.¹⁵ The wave of armed attacks by insurgents has already triggered exceptional security measures for expatriate personnel, reinforcement of security staff by companies operating on the ground and consular alerts by the diplomatic corps accredited in Maputo.

Multiple attacks have taken place in a number of villages, with indications that about 68,000 people have abandoned their villages (**Macomia, Mocimboa da Praia, Palma, Muidumbe and Nangade**). In the Nangade region, more than 200 homes were destroyed. Some have targeted villages (**Demaio, Nguri and Miangalewa**) in Muidumbe district, a few kilometres from military barracks, with casualties among the Mozambican military reported.¹⁶ Residents in areas surrounding Cabo Delgado say the attacks are among the worst they have experienced since the insurgency began over two years ago. Data from the Cabo Delgado provincial government point to the possibility that the attacks have already claimed the lives of over 300 people.¹⁷ **Sergio Chichava**, a researcher at the **Instituto de Estudos Soacias e Económicos** (institute of social and economic studies), said many elements are attracting a core of radicalised fighters as well disgruntled locals, opportunistic criminals, and even some army defectors:

¹⁴ World Bank's Doing Business 2020

¹⁵ China-Lusophone Brief, 27 Nov 2019

¹⁶ China-Lusophone Brief, 27 Nov 2019

¹⁷ The New Humanitarian, 4 Dec 2019

“We don’t know who is behind the attacks for sure, but they are starting to put the country in crisis.”¹⁸

The government has been reluctant to acknowledge the humanitarian crisis resulting from the attacks, while aid groups have focused their efforts mainly on the aftermath of the two cyclones, **Kenneth** and **Idai**.

Terrorism Research & Analysis Consortium (TRAC) Africa Desk director **Jasmine Opperman** posted a map on 21 November showing the seven districts that have suffered 229 attacks by the insurgent group. According to TRAC, the insurgents led six attacks in 2017 and 60 in 2018 – 18 in the first half of the year and 42 in the second half. In 2019, the northern area of Cabo Delgado recorded 69 attacks between January to June, and 94 attacks from July to 22 November.¹⁹ Opperman warned:

“The humanitarian crisis is escalating and [Islamic State] IS claims are discarded as opportunistic. Terror groups thrive in a theatre of opportunity. Ignoring these claims will be at peril of Mozambique.”²⁰

2019 in perspective: Economic recovery expected

Mozambique’s economic performance in 2019 has been significantly and negatively affected by Cyclones Kenneth and Idai.²¹ As a result, 2019 saw the Mozambican metical depreciate substantially against the **United States** dollar and the South African rand during the first half of the year. While inflation was relatively low, stably averaging at 3%, experts expect it to rise to 5.1% in 2020.²² Subsequently, agriculture and electricity output proved to be weak for the remainder of 2019 as a result of damaged crops and infrastructure. The revelations of the hidden debt scandal have also highlighted weak institutional governance and poor transparency.²³

In a more positive outlook, while GDP growth averaged only 2.5% in 2019²⁴, higher growth prospects are expected in 2020 as a result of major developments in the gas industry with the acceleration of LNG sector investments (see above). The optimistic trajectory in Mozambique’s economic landscape continued as S&P raised its long- and short-term foreign currency sovereign credit ratings on Mozambique, renewing much needed investor confidence.²⁵

In addition to a relatively fragile economic environment, the political landscape in Mozambique remained volatile throughout the entire year. Despite the peace deal that was signed between the two main political parties, the ruling **Frente de Libertação de Moçambique (Frelimo)** and opposition **Resistência Nacional Moçambicana (Renamo)**, the risk of reignited domestic violence is likely to persist going into 2020.²⁶ In August, the two parties reached a peace deal that includes further administrative decentralisation and incorporating former Renamo fighters into the official army. However, the outcome of the election could hinder the peace deal’s progress, following Renamo’s contestation of the validity of Frelimo’s unanimous victory in the October general elections in which it won 73% of the votes.²⁷

... but security threats mean uncertainty in 2020

Among the various red flags the Mozambican government needs to address going into 2020 are the continued and rapid rise of violent insurgencies in the northern region, primarily the province of Cabo Delgado. The frequency of these attacks leaves businesses, investors, and foreign employees in

¹⁸ The New Humanitarian, 4 Dec 2019

¹⁹ Carta de Moçambique, 26 Nov 2019

²⁰ Carta de Moçambique, 26 Nov 2019

²¹ United Nation Office for the Coordination of Humanitarian Affairs, 26 Apr 2019

²² @Verdade, 18 Oct 2019

²³ Reuters, 31 Jul 2019

²⁴ Standard & Poor’s, 26 Nov 2019

²⁵ Standard & Poor’s, 26 Nov 2019

²⁶ Institute for Security Studies, 26 Nov 2019

²⁷ Al Jazeera, 25 Oct 2019

Mozambique exposed to serious security threats. Businesses will be forced to invest in additional private security as a means to protect their employees and assets, all of which will come at an additional cost.

Planner

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

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

2 April 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

4 Dec 2019 **Maputo (Mozambique) Lusa. Polícia da República de Moçambique** integrates a group of 10 **Renamo** guerillas into its ranks as part of the demobilisation, disarmament and reintegration of Renamo's armed wing;

2 Dec 2019 **Brooklyn (United States) Reuters.** A jury at a **United States District Court for the Eastern District of New York** acquits **Abu Dhabi**-based shipbuilder **Privinvest** salesman **Jean Boustani** of fraud and money laundering charges related to a \$2 billion corruption scandal that contributed to Mozambique's debt default in 2016;

27 Nov 2019 **Maputo (Mozambique) Bloomberg.** **Brazil**-based mining company **Vale SA** will place its coal operations in Mozambique on maintenance for three months;

25 Nov 2019 **Maputo (Mozambique) Lusa.** Ruling **Frente de Libertação de Moçambique (Frelimo)** party spokesperson **Caifadine Manasse** affirms that President **Filipe Nyusi** did not receive any bribes for the money from hidden debts;

22 Nov 2019 **Maputo (Mozambique) O Pais.** **International Monetary Fund (IMF) Africa Department** director **Abebe Selassie** urges Mozambican authorities to manage natural resource gains transparently in order to combat poverty and promote prosperity;

20 Nov 2019 **Maputo (Mozambique) Lusa.** The **Economist Intelligence Unit (EIU)** forecasts 1% economic growth in 2019, and 5% growth by the end of 2020;

20 Nov 2019 **Maputo (Mozambique) Radio Mozambique.** Prime minister **Carlos Agostinho do Rosário** says that the **United Arab Emirates (UAE)** will provide \$25m to finance youth self-employment projects in Mozambique from December;

20 Nov 2019 **Maputo (Mozambique) @Verdade.** Trade and industry minister **Ragendra de Sousa** says Mozambique did not fall in the **World Bank's 2020 Doing Business** report because it "did nothing" but rather as a result of "other countries doing more than Mozambique at a more rapid rate";

19 Nov 2019 **Maputo (Mozambique) Amnesty International.** **Amnesty International** expresses concern following secret transfer of 18 individuals who were arrested while monitoring the 15 October elections, from a prison in **Guija** to **Xai-Xai (Gaza Province)**;

19 Nov 2019 **Maputo (Mozambique) Deutsche Welle.** **Mariano Nhongo**, leader of opposition **Renamo's** self-proclaimed 'Military Junta', says he is available to negotiate with the

Mozambican government but threatens to resort to increased violence if his offer is not accepted;

20 Nov 2019 **Maputo (Mozambique)** *Global Business Forum*. Prime minister **Carlos Agostinho do Rosário** calls on **United Arab Emirates** companies to explore business opportunities, highlighting new investment prospects that are emerging across Mozambique;

15 Nov 2019 **Maputo (Mozambique)** *Reuters*. **Tribunal Constitucional de Moçambique** (Supreme Court of Mozambique) dismisses opposition party **Renamo's** application to have results of the October general election dismissed.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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