

AFRICA RISK CONSULTING

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Mozambique Summary 17 February 2020

President Filipe Nyusi (2015-present) seeks help in tackling escalating violence in Cabo Delgado Province near the Total SA-led liquefied and natural gas (LNG) projects. Government forces and foreign private mercenaries are not succeeding in keeping the peace. The African Union (AU) recognises the growing security threat and promises to help with supplies and military training. Tensions rise between the two main political parties, the ruling Frente de Libertação de Moçambique (Frelimo) and the opposition Resistência Nacional Moçambicana (Renamo). The European Union (EU) reports election fraud in last year's general elections, which may increase political tension but is unlikely to result in major civil violence. Mozambique improves its score on Germany-based non-governmental organisation Transparency International's Corruption Perceptions Index. The economic outlook is improving with increased foreign investment but weak infrastructure is a limitation.

Escalating violence near LNG projects worries foreign investment companies ...

Violent attacks in **Cabo Delgado Province** in northern **Mozambique** near the country's major liquefied natural gas (LNG) project are escalating and the violence has now reached all districts in the province. **United States**-based oil company **Exxon Mobil** and **France**-based **Total** have reportedly asked the Mozambique government to send additional troops to safeguard their operations in the far north after a surge of attacks by **Islamist** militants.¹ Local sources told ARC that the security situation is at an all-time low and international gas companies now fear for the safety of their staff and facilities.² Although oil companies are generally well equipped to operate in high-risk areas and most of the violence is targeted at civilians, companies investing in the LNG projects are paying careful attention to the escalating security risks.

The attacks have increased in frequency since they began in October 2017. More than 100,000 people have been displaced and at least 400 people have been killed. Many analysts and **United Nations (UN)** officials have categorised the attacks as “*multi-layered*”, with different groups claiming involvement for different purposes.³ The **Islamic State (IS)** claims involvement through rebels from the eastern **Democratic Republic of the Congo (DRC)**, while local sources state it is a homegrown sect known as **al-Shabaab**, or **Ahlu Sunnah Wal Jammah (ASWJ)**. Extremist groups from **Kenya** and neighbouring **Tanzania** are reportedly also involved.⁴

“The connection between IS and ASWJ remains unclear, beyond occasionally attributed attacks, and the killers have not produced a manifesto or put forward a leader with a clear message, leaving many to doubt their jihadist leanings all-together.”⁵

Although President **Filipe Nyusi** (2015-present) has committed to speak to the insurgents to plead for peace, this is difficult without a specific leader with whom to broker a deal. Mozambican soldiers and foreign private mercenaries are failing to keep the peace, and the attacks are both increasing and becoming more sophisticated. President Nyusi stated on 16 February at a meeting with the diplomatic

¹ Reuters, 2 Feb 2020

² ARC source, British diplomat, Maputo

³ The New Humanitarian, 12 Feb 2020

⁴ The New Humanitarian, 12 Feb 2020

⁵ The New Humanitarian, 12 Feb 2020

corps in Maputo that the country needs help in tackling the escalating situation.⁶ Local academics and analysts say the government needs to look to the local insurgents who have been around since 2017, and “*get to the bottom of what they want*”.⁷

The uncertainty around the origin of the attackers, and when and where the next attack will take place, is creating concern amongst the foreign oil companies operating in the region. Mozambique’s major LNG project is estimated to be worth \$50 billion, and projected to increase the country’s growth to 5% in 2020-2021. The growing threat of violence will not stop the highly profitable hydrocarbons projects and at the moment the security risk is mainly resulting in increased costs for oil companies to provide greater security and re-route transport. Although costs are increasing, the expected revenue continues to keep the oil firms in the area. An ARC source says there is little confidence in the Mozambican government to tackle the problem on its own.⁸

Chronology of attacks in Cabo Delgado Province⁹

Feb 2020 **Addis Ababa (Ethiopia)** The **African Union** recognises the terrorist threat in northern Mozambique for the first time;

Feb 2020 **Cabo Delgado (Mozambique)** Insurgency in Cabo Delgado increases in intensity and frequency, with more than 28 attacks since the beginning of 2020;

Oct 2019 **Cabo Delgado (Mozambique)** 20 **Mozambican** soldiers and 7 **Russian** mercenaries and **Wagner Group** defence contractors are killed in attacks that are attributed to **ISIL**;

Jun 2019 **Mocimba da Praia, Cabo Delgado (Mozambique)** **ISIL** claims their “**Central Africa Branch**” carried out an attack on the **Mozambican Army** in which 16 people were killed;

Apr 2019 **Cabo Delgado (Mozambique)** **Cyclone Kenneth** makes landfall in Cabo Delgado Province, halting the attacks but resulting in flooding and leaving many dead near the city of **Pemba**;

Feb 2019 **Cabo Delgado (Mozambique)** Unknown assailants attack **United States**-based **Anadarko Petroleum** facilities;

Nov 2018 **Macomia, Cabo Delgado (Mozambique)** Suspected **Ansal al Sunna** insurgents set more than 45 houses on fire;

May 2018 **Palma, Cabo Delgado (Mozambique)** Ten people, including children, are beheaded, and locals blame **al-Shabaab**;

May 2018 **Addis Ababa (Ethiopia)** **African Union** report that **Islamic State of Iraq and the Levant (ISIL)** forces are confirmed present in the northern areas of **Mozambique**;

Jan 2018 **Mozambique** Online video appeals to Mozambicans to join the fight to establish Islamic law;

Jan 2018 **Maputo (Mozambique)** Mozambican police declare the violence as acts of terrorism;

Oct 2017 **Mocimba da Praia, Cabo Delgado (Mozambique)** **Al-Shabaab** raid police stations, killing 17 people;

... but AU involvement sparks some optimism

The **African Union (AU)** discussed the rising terrorist threat in northern Mozambique for the first time during its 33rd summit in **Addis Ababa (Ethiopia)** from 9-10 February.¹⁰ The AU referred to rising terrorism in Mozambique as a “*totally new threat*”, although the insurgency began more than

⁶ Plataforma, 16 Feb 2020

⁷ ARC source, academic, Maputo

⁸ ARC source, British diplomat, Maputo

⁹ Institute for Security Studies, 27 Oct 2019

¹⁰ Institute for Security Studies, 13 Feb 2020

two years ago. AU officials recognised the escalating violence and terrorist threat, and the risk of it spreading to neighbouring regions and countries such as **Tanzania** and **Kenya**.¹¹

The involvement of the AU in knowledge sharing, equipment and training of armed forces has evoked both optimism and indifference amongst foreign executives working in Cabo Delgado Province. Local sources claim the AU's involvement will have “zero impact” on the security threats¹² and is reportedly not easing the fears of foreign oil companies invested in the LNG project:

“Unless the international community is showing real commitment to tackling the escalating security threats in Cabo Delgado, the best solution is to let the situation ride itself out amongst local actors and interested parties.”¹³

Renamo attacks increase tension ...

Dissident groups of opposition party **Resistência Nacional Moçambicana (Renamo)** are carrying out ambushes, attacks and killings in central provinces of **Sofala** and **Manica**, increasing political tension. Over the last two months there have been transportation ambushes, hijackings and killings connected to Renamo in Sofala and Manica provinces. Although return to major civil violence is unlikely, risks to political stability will increase in the coming year if internal tensions within Renamo continue and the party continues to lose political power. Security threats emanating from opposition faction violence near the centre of the country also pose a risk to Mozambique's economy.

*“Since the death of former Renamo leader **Ossufo Momade**, there have been several sub-party factions forming. These have at several instances led unprovoked attacks on civilians, with the latest one taking place at a health clinic in Sofala. Although the situation is not yet dire, it is getting more and more tense. People are getting impatient with the peace process and rather take actions into their own hands.”¹⁴*

The violence has taken place in the wake of election fraud allegations in which Renamo officially challenged the election results that saw them losing several provinces they have historically dominated (see *ARC Briefing Mozambique November 2019*). The **European Union Election Observation Mission (EU EOM)** released its final report on the October elections on 12 February, and noted that the election was rigged by an “astonishing” amount.¹⁵ EU election observers report that vote-rigging affected the October presidential elections – won by the governing Frelimo party – at nearly all stages.¹⁶

African observers and countries have, however, given the election results their blessing, and nothing is likely to come of the latest evidence presented. Nevertheless, as **United Kingdom**-based news service **BBC's** Africa correspondent **Andrew Harding** reports,

“A seriously tainted election victory seems unlikely to ease tensions.”¹⁷

Local sources say that unless the reintegration of former Renamo soldiers is taken seriously with proper policy implementation, the dissident groups will continue waging their own warfare of unprovoked attacks.¹⁸

Credit Suisse admits fault in loan scandal

New developments have emerged in the \$2 billion loan scandal involving **Switzerland**-based bank **Credit Suisse**. A legal filing reportedly published mid-January revealed that Credit Suisse had ignored

¹¹ Institute for Security Studies, 13 Feb 2020

¹² ARC source, diplomatic, Maputo

¹³ ARC source, academic, Maputo

¹⁴ ARC source, diplomatic, Maputo

¹⁵ EU EOM press release, 12 Feb 2020

¹⁶ European Union mission to Mozambique, Maputo, 12 Feb 2020

¹⁷ BBC news, 13 Feb 2020

¹⁸ ARC source, diplomatic, Maputo

warnings from its senior executive, **Fawzi Kyriakos-Saad**.¹⁹ This is the first time the Swiss bank has admitted fault in the loan scandal, raising the possibility that the Mozambique government can question Credit Suisse's decision making in a **London (UK)** lawsuit in an attempt to cancel some of the government guarantee on the loans.

At the same time, **Russian** state lender **VTB Capital** continues to sue **Mozambique Asset Management (MAM)** and the Mozambican state for a \$535m loan. The lawsuit runs the risk of VTB looking for debt recovery in LNG investment funds, which the government has reportedly earmarked to eliminate poverty and improve public welfare. There is fear that the bribery scandals will halt Mozambique's progress towards reaching the **United Nations (UN) Sustainable Development Goals**, and that the population will see little of the LNG project surplus when gas production is set to begin in 2023.

In a December 2019 report, **Germany**-based non-governmental organisation **Transparency International (TI)** describes grand corruption as a *"serious threat to the 2030 Agenda for Sustainable Development"*:

*"At the start of the 2010s, there was real optimism that newly discovered resource wealth could help Mozambique overcome its acute development challenges. Much of this optimism has been undone by the hidden debts scandal. The discovery of the scandal contributed to an economic downturn in 2016 and has set back efforts to reduce persistent poverty and inequality. Funds that should have been available for investment in the SDGs, such as education and support to small-scale fishing communities, have instead been squandered. The burden of servicing unsustainable levels of debt will additionally have long-term negative implications for financing Mozambique's development needs."*²⁰

Despite this, TI gave Mozambique a higher score and ranking on its 2019 **Corruption Perceptions Index (CPI)** than in 2018, albeit from a low base. The index scores 180 countries and territories by their *"perceived levels of public sector corruption"*, with zero being *"highly corrupt"* and 100 being *"very clean"*.²¹ Mozambique improved 12 positions from its 2018 ranking of 158 out of 180 countries, to 146th place in 2019.²² Its score improved from 23 out of 100 to 26.

TI CPI Rankings for Mozambique ²³					
	2019	2018	2017	2016	2015
Ranking	146/180	158/180	153/180	142/176	111/168
Score	26	23	25	27	31

Mozambique nevertheless compares unfavourably with some its regional peers, and scores below the **sub-Saharan African** average of 32 points. It ranks below neighbouring **South Africa** (44 points, 70th place) and **Tanzania** (37 points, 96th place), but above **Madagascar** and **Zimbabwe** (tied in 158th position with 24 points).

TI 2019 CPI Rankings: Regional comparison ²⁴					
	Mozambique	Madagascar	South Africa	Tanzania	Zimbabwe
Ranking	146/180	158/180	70/180	96/180	158/180
Score	26	24	44	37	24

¹⁹ Bloomberg, 29 Jan 2020

²⁰ Transparency International, "Grand Corruption and the SDGs – the Visible Costs of Mozambique's Hidden Debts Scandal", 13 Dec 2019.

²¹ Transparency International's 2019 CPI Report

²² Transparency International's 2019 CPI Report

²³ www.transparency.org

²⁴ www.transparency.org

Infrastructure challenges threaten positive economic outlook

Despite the increasing risk of violence (see above), the economic outlook for Mozambique is positive. The **International Monetary Fund (IMF)** stated at the **Economic and Social Forum for Mozambique** on 21 November that there is a strong economic rebound on the horizon,²⁵ while the **World Bank** expressed optimism about the LNG investments coming into the country in their **Mozambique Economic Update**, published on 30 January. Mozambique is attempting to attract additional expert suppliers in its LNG projects. **Instituto Nacional de Petróleo** (national petroleum institute) manager **Natalia Camba** spoke at the opening of the **Subsea Expo in Aberdeen (Scotland)** on 11 February about the \$54 billion investment in the **Rovuma Basin**, and showcased the increasing opportunities for suppliers. The Rovuma project is due for approval in the coming months and will reportedly produce 15 million tonnes of LNG per year.²⁶

“There is hope in the economic sector in Mozambique, and there are new potential investors eyeing the country daily. The potential of the gas industry is keeping everyone hopeful.”²⁷

Increasing foreign investment in the LNG and mining sectors will keep the economy afloat despite the VTB lawsuit. However, transport, water and electricity infrastructure remains weak, particularly following the damage that cyclones **Idai** and **Kenneth** caused in 2019. Flooded roads in the centre of the country following recent heavy rain have necessitated alternative transport routes. Weak infrastructure is impacting the ability to get Mozambican goods to market and increasing the price of agricultural produce. The rupture of the main pipeline bringing drinking water to the capital **Maputo** on 8 February left almost 1.4 million people without water for several days after the **Campoane Bridge** collapsed and ruptured the main pipeline.

Planner

29 Feb 2020 **(Europe)** Expiration of the **European Union’s** framework agreement with a 79-country bloc of **African, Caribbean, and Pacific** states;

31 Mar 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;

1 Jul 2020 **(Africa)** **African Continental Free Trade Area** deadline for 90% tariff liberalisation;

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

Chronology

16 Feb 2020 **Maputo (Mozambique)** *Plataforma. President Nyusi* calls for “concrete support” from the international community in tackling the escalating insecurity in northern **Mozambique**;

13 Feb 2020 **Brussels (Belgium)** *BBC News. European Union* criticises **Mozambique’s** “rigged” election;

²⁵ IMF, 21 Nov 2019

²⁶ Club of Mozambique, 13 Feb 2020

²⁷ ARC source, academic, Maputo

- 13 Feb 2020 **Addis Ababa (Ethiopia)** *Institute for Security Studies*. The **African Union** acknowledges the threat of insurgent groups in northern **Mozambique**;
- 13 Feb 2020 **Maputo (Mozambique)** *Club of Mozambique*. National statistics office says GDP grew 2.03% year on year in the fourth quarter of 2019, versus 2.01% growth in the previous quarter;
- 13 Feb 2020 **Maputo (Mozambique)** *Club of Mozambique*. Mozambique shows off **Rovuma's** £42 billion (\$55 billion) investments in bid to attract **North Sea** suppliers;
- 12 Feb 2020 **Macomia (Mozambique)** *The New Humanitarian*. **Islamic** militants operating in **Cabo Delgado** province are increasing violent attacks, but local residents are unclear who the attackers are;
- 10 Feb 2020 **Antananarivo (Madagascar)** *Xinhua*. **International Monetary Fund** deputy managing director **Zhang Tao** says **Mozambique** is recovering well from the devastating impact of cyclones **Idai** and **Kenneth** that damaged the country last year;
- 10 Feb 2020 **Maputo (Mozambique)** *EWN*. **Mozambique** withdraws its appeal against a **South African** court's decision not to extradite its former finance minister **Manuel Chang**;
- 9 Feb 2020 **Cabo Delgado (Mozambique)** *UNHCR*. **United Nations** refugee agency **UNHCR** boosts its response in **Cabo Delgado** province;
- 8 Feb 2020 **Maputo (Mozambique)** *Club of Mozambique*. Mozambique's capital, **Maputo**, is without water as the **Campoane Bridge** collapses;
- 7 Feb 2020 **Maputo (Mozambique)** *Club of Mozambique*. Oil firms express concern over increased violence in northern **Mozambique**;
- 2 Feb 2020 **Maputo (Mozambique)** *Reuters*. An industry source and two security consultants say **United States**-based **Exxon Mobil** and **France**-based **Total** have asked **Mozambique** to send more troops to guard their operations in the far north after a surge of attacks by **Islamist** militants;
- 29 Jan 2020 **Maputo (Mozambique)** *Bloomberg*. A legal filing from **Credit Suisse** published in January reveals that the bank ignored warnings about \$2 billion loan to Mozambique;
- 27 Jan 2020 **Maputo (Mozambique)** *Agencia de Informacao de Mocambique*. The **Instituto Nacional de Gestao de Calamidades** (national institute for disaster management) says a severe drought affecting the south of the country is "critical" and that it is urgent to mobilise resources for emergency aid for people at risk of food insecurity;
- 23 Jan 2020 **Berlin (Germany)** *Transparency International*. **Mozambique** improves its ranking by 12 places and three points on the **2019 Corruption Perceptions Index**

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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