

Mozambique's Emerging Economy in Quagmire due to President's Debt Scandal and Jihadist Unrest

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Introduction

President of Mozambique Mr Fillipe Nyusi former Defence Minister being accused of squandering US\$2 billion loan to finance a fishing fleet by a French billionaire Iskandar Safa. Privinterest made donations to President after negotiating contracts for government maritime projects for he was the ruling party Frelimo candidate for President at that time of payment was made to him in 2014.

Mozambique failed to retake Islamist militants which is important for developing one of the largest natural gas reserves in Africa. Is this a resource- curse?

This article shed light on how Mozambican President Fillipe Nyusi has contributed towards the downfall of the Mozambican economy and how he underestimate and mishandled the insurgents saga.

President Nyusi's debt scandal can tarnish his image and have economic consequence

Mozambique has many times being called on of the emerging African economy in the recent years. The main contributors being World Bank, European Union, IMF and African Development Bank. It was recently discovered that between 2013 and 2014, Mozambique took out loans nearly US\$ 2 billion in order to fund various projects taken on by state owned companies.

More debt was taken on to finance the acquisition of large tuna factory and remaining funds are said to have been channelled towards a contract in which the state leading shareholder.

The EU, IMF, and World Bank have recently decided to hold back on

signing further loans to Mozambique. They first want everything to be sorted out.

A decade ago, Mozambique received a debt relief and it was under monitor by Global community. In a programme called Highly Indebted Poor Country Initiative (HIPC) through which approximately US\$3 billion debt was written off.

President Fillipe Nyusi's mishandling of secret loan scandal has diminished his respected reputation amongst lenders and investors as well as the military's failure to recapture the insurgency in Cabo Delgado.

Founder of Privinvest Iskanda Safa, his statement that he paid money to incumbent President Fillipe Nyusi as political contribution will do harm to President Nyusi who has been trying to put all blame on his predecessor former President Guebuza.

The main aim concern of President Nyusi in the year ahead is the same that will take up most of the rest of his final term of office influencing the choice of the ruling party's presidential candidate so that he is safe from future prosecution for corruption. Much of Nyusi's authority within the party has been eroded by his failure to handle the \$2 billion hidden loan saga.

What went wrong in Mozambique

A war started on 5 October 2017 when a group of insurgents occupied the district town and part of Mocimboa da Praia for two days. Since then the war expanded rapidly. The Government has lost control of three districts. The Mozambicans seek assistance from neighbouring countries, whilst insurgents received training in military studies from jihadists from abroad and have made informal links with Islamic Group.

In 2009, In Montepuez one of the largest ruby deposits was discovered and traders benefited, however, the concession was awarded to Mr Pachinuapa in partnership with a major mining

company. Thousands of small miners and farmers in the huge concession area were affected.

In 2010, In the fields of Africa, one of the largest natural gas fields was discovered off the coast of Cabo Delgado. Just like before elites profited by servicing the gas companies, while local people lost out. The compensation offered was insufficient.

What is at Stake Now

Risks are building for LNG projects internationally, however, given events on the ground none may be more risky than the \$50 billion of northern Mozambique projects.

French energy giant Total SE suspended its US\$20 billion liquefied natural gas project in Mozambique indefinitely due to an escalation of violence.

Contracts for site activities have been temporarily suspended including that of the CCS, a joint venture between McDermott International Ltd, Saipem SpA and Chiyoda Corp, Carlos Zacarias Chairman of Mozambique national Petroleum Institute and some of the agreements could be terminated depending on how long work is delayed.

The Mozambican state had been hoping to reap US\$100 billion in revenue over 25 years from LNG projects and already caused the international Monetary Fund to scale back its economic growth forecasts for the nation.

Yields on Mozambique's US\$900 million of Eurobonds due 2031 rose five basis points on Monday to 10.47% widening the country's sovereign risk premium over US Treasuries by Seven basis points.

Fitch's CCC rating on Mozambique's sovereign debt reflects over view that a default is possible. Underpinning the rating are high fiscal and external financing needs scarce funding options and high levels of general government debts.

Mozambique is short options to meet the existing repayment schedule

and with this eurobond debt having already undergone a tortuous restructuring process, investor appetite for further negotiation is likely to be muted.

Norwegian chemical company Yara International's proposal to use Cabo Delgado gas for a fertiliser plant and power generation has also been cancelled. Total is reportedly considering setting up a logistics base on the French Island of Mayotte in the Indian Ocean rather than in Mozambique.

The growing environmental, social and governance concerns of investors also mean there are significant reputational risks for companies investing in LNG in Mozambique. Circumstances in Cabo Delgado province, and across the country, are giving rise to social and responsible investors's eyebrow are plentiful.

Shell was planning to build a gas -to liquids projects in Northern Mozambique supplied by Afungi Peninsula gas, however, the company revealed that it will no longer develop green field projects anymore, meaning the proposed projects is off the table.

The detrimental circumstance raised the risk of further delays as ongoing failure by Government of Mozambique to offer adequate security to protect LNG operators. This can lead to postponements of onshore project developments albeit scoring Mozambique an F for political violence over a five year outlook.

Beyond President Nyusi and Civil War

The prospects which began it all for Mozambique's nascent hydrocarbon industry, Offshore Area 1 covers around 2.6 million acres in the deepwater Rovuma Basin. Collectively known as the Prosperidade Complex, the block is estimated to hold recoverable resources in the region of 17 to 30 trillion cubic feet of natural gas.

When it comes to liquid fuels in Mozambique, all eyes are on Mozambique LNG and Rovuma LNG projects, but there's a similar project on the horizon, smaller in scale and producing Gas to Liquids rather than LNG, the Afungi GTL project is another downstream project which will add to Mozambique's ability to export energy on

the world stage.

Mozambique is due to launch its first Greenfield project at Area 1 in 2024, and its offshore zone may become a major source of natural gas by 2025 - 2026.

At present the Afungi GTL project is feasibility stage whilst Shell works towards a final investment decision at some point in 2021. Should a successful FID be reached construction of the facility is anticipated to take four years with startup as soon as possible thereafter.

At present Mozambique is heavily reliant on oil and gas imports. The reason? A dearth of domestic refining capacity. The Mozambique New Refinery project aims to alleviate this issue by constructing Mozambique's first refinery. Fed by crude supplies from the Rovuma Basin, Mozambique Basin and a small amount of imported feedstock from the international markets the refinery projects should help to meet growing domestic demand for a wide slate of refined products.

At present the bulk of gas currently produced from the Tumane field is exported to South Africa via an 865 km pipeline, with the remainder being used to fulfil domestic demand requirements. The proposed expansion for the field will involve the drilling five extra wells along with the construction of a fifth train at the Central Processing Facility, with a capacity of 150 mmCF/D of gas. At present it appears that contractors engaged on the project include Genesis Oil and Gas Consultants, ThyssenKrupp industry solutions, Wood and SMP Drilling. The Inhassoro discovery represents the first commercial oil find within Mozambique and is expected to produce up to 2,000b/d upon start up.

Mozambique's burgeoning hydrocarbon economy is creating a wealth of employment and contract opportunities for local workers alike. Mozambique is taking proactive efforts to ensure that local people and business benefit. A robust set of local content policies have already been implemented known as the "National Content Strategy" the policies focus on three pillars;

The development and implementation of effective training programmes for Mozambican employees in each phase and level of operations of projects.

Operators are encouraged to employ Mozambican citizens with appropriate qualifications at all levels of their organisation.

With such policies in place it is hoped that Mozambique's local workers and businesses will be able to derive a short and long term benefit from the country's hydrocarbon windfall.

Total has, indeed, signed a security pact with the Mozambique government that will see state troops protect the project site. That the Mozambique government is more focused on defending LNG projects while a humanitarian crisis in northern Mozambique is getting worse may not go unnoticed for long by investors with ESG concerns.

The Coral FLNG project will see the construction of a floating liquefied natural gas vessel to service the Coral Gas field within the Area 4 block. Although details remain scant at this stage, design of the FLNG will consist of a turret moored double-hull ship which will have gas receiving, processing, liquefaction and offloading facilities on board, along with LNG and condensate storage.. The vessel will have a capacity of around 3.4 mtpa. Construction of the vessel officially began in September 2018 and once operational the FLNG will have an operational lifespan of 25 years. Vessel construction is currently being undertaken at Samsung Heavy Industries Geoje Shipyard in South Korea.

Is Mozambique the world's next superpower? It's too early to say, but if the projects we've looked at come to fruition and local workers and expatriates alike can achieve the full potential of Mozambique's amazing hydrocarbon resource base the answer is likely to become yes.

Conclusion and Policy Recommendations

The increasing military disturbances in the center and north of the country, will cause an increase in military expenditures, disrupt

regional and constrain national budget. This will delay and disrupt any further attempt towards economic growth which will cause economic handicap and derail the economic progress of Mozambique.

The current President Nyusi in his inception as President of Mozambique, he was preaching peace and reconciliation with their long-time rival main opposition party RENAMO party. He infused peace and hope to citizens and a conducive atmosphere and viable environment for the investors and stakeholders in global community at large.

In my opinion, President Nyusi lost trust due to failing to fulfill his promises. With months left for him to vacate his office, he should seek to reconcile the citizens as most of the Islamic groups are unemployed youth and those whose needs are not met thus, they are erupting to express their concerns and demonstrate their freedom of expression to convey a message to the authorities.

The continuous unrest will continue to manifest in different forms and different uniform names seeking to achieve the chief aim which is satisfy and fulfill the unmet needs of citizens. To eradicate this sporadic effect, they should form a Government of National Unity, this is the path to a prosperity growth Mozambican economy.

The economic growth for Mozambique economy is positive as the GDP is expected to increase by 4.3 in 2022, provided they handle gas investments holistically.

In the medium-term the country should explore fiscal and tax policies to stimulate the domestic sector to reduce the economy's vulnerability to commodities shocks.

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