Mozambique: Politics, Economy, and U.S. Relations

Updated August 20, 2019
Mozambique: Politics, Economy, and U.S. Relations

Mozambique, a significant recipient of U.S. development assistance, is a southeastern African country nearly twice the size of California, with a population of 27.9 million people. It achieved rapid growth following a postindependence civil war (1977-1992), but faces a range of political, economic, and security challenges. These include a political scandal over state-guaranteed, allegedly corrupt bank loans received by state-owned firms, which created public debt that the government did not disclose to the International Monetary Fund (IMF). This placed the country’s relations with the IMF at risk and has had major negative repercussions for the economy, donor relations, and Mozambique’s governance record. Other challenges include unmet development needs, a range of governance shortcomings, organized crime, an ongoing economic slump, and political conflict and violence involving both mainstream political actors and violent extremists. Mozambique is also recovering from two powerful cyclones that hit the country in March and April 2019 (addressed in CRS Report R45683, Cyclones Idai and Kenneth in Southeastern Africa: Humanitarian and Recovery Response in Brief).

Between 2013 and 2016, the country experienced political violence arising from a dispute between the former socialist majority party, FRELIMO, and the leading opposition political party, RENAMO. (The latter is a former armed rebel group that fought the FRELIMO government during the civil war.) Their recent dispute, prompted by years of varied RENAMO grievances linked to FRELIMO’s control of the state, led to numerous armed clashes between government and RENAMO forces. In 2019, the two parties signed a permanent cease-fire and a final political and military accord to end their dispute, but they have yet to fully implement those agreements, and the potential for failure remains. Since late 2017, Mozambique also has faced attacks by a violent Islamextremist group that is active along its far northern coast. The group—known as Al Sunnah wa Jama’ah (ASWJ), among other names—has killed hundreds, often via beheading.

The loan scandal has had far-reaching consequences: It has spurred local and U.S. criminal prosecutions, led some donor governments to suspend aid, undermined the state’s credibility, and placed the country in debt distress, reducing its access to credit financing needed to help fund development and government operations. The scandal also is widely seen as contributing to a post-2015 slump in economic growth, which had been rapid for most of the post-civil war period. While that growth expanded the economy and contributed to a decline in extreme poverty, the majority of Mozambicans have remained poor, and while some socioeconomic indicators have improved, the country faces a range of persistent socioeconomic challenges. Development gains have remained limited despite large inflows of foreign assistance and foreign direct investment (FDI). Much of this FDI has financed large industrial projects, many of which have been criticized for being poorly integrated with the broader domestic economy—in which the informal sector and small-scale economic activity prevail—and for generating relatively few jobs or broad reductions in poverty.

Mozambique’s future may be transformed by the development of large natural gas reserves, discovered in the country’s north in 2010. Gas exports are expected to begin in the early to mid-2020s and, together with rising exports of coal, to spur rapid economic growth. The U.S.-based firms Anadarko and ExxonMobil, the latter in partnership with Italy’s ENI energy firm, lead international oil company consortia developing the reserves, although a merger involving Anadarko is likely to result in the sale of its Mozambique assets to France’s Total SA. While the state may face challenges in effectively governing and managing the large anticipated influx of gas revenue, it has taken some steps to address such challenges. The government plans to establish a sovereign wealth fund to preserve gas income, which it intends to allocate, in part, to infrastructure development, poverty reduction, and economic diversification.

U.S.-Mozambican ties are cordial and historically have centered on development cooperation. U.S. assistance, funded at an annual average of $452 million between FY2016 and FY2018, has focused primarily on health programs. Given recent events, U.S. engagement and aid may increasingly focus on the development of economic ties and security cooperation, notably to counter ASWJ, which is active in the area where large-scale gas processing development is underway. For many years, Mozambique received relatively limited congressional attention, but interest in the country may be growing: the country hosted congressional delegations in 2016 and 2018. U.S. humanitarian responses to the recent cyclones have also drawn congressional engagement. Developments in the country—including the rise of violent extremism and prospects for U.S. private-sector investment and U.S. bilateral aid program outcomes in a context in which state corruption poses substantial challenges—could attract increasing congressional attention in the coming years.
Contents
Overview and U.S. Engagement ................................................................. 1
Political Background and Dynamics ........................................................ 3
   RENAMO-Government Armed Conflict ............................................... 4
       2019 Permanent Cease-fire and Peace Agreement .......................... 6
   Recent Elections and Forthcoming 2019 Electoral Contest .................. 7
Violent Islamist Extremism ...................................................................... 9
Economy, Development Challenges, and Aid .......................................... 11
   Investment Climate and Sectoral Trends ............................................. 13
   Mozambican Government Debt Controversy and U.S. Prosecutions .... 15
Corruption and Crime ............................................................................ 17
U.S. Relations and Assistance ................................................................. 18
   Security Issues .................................................................................. 20
   Trade ............................................................................................... 21
Outlook ................................................................................................... 21

Figures
Figure 1. Mozambique at a Glance............................................................... 2

Contacts
Author Information .................................................................................. 22
Overview and U.S. Engagement

Mozambique, in southeastern Africa, faces political, economic, and security headwinds, some arguably related to the continuous domination of the state by the Mozambique Liberation Front (FRELIMO) political party. FRELIMO, a former armed liberation movement that fought for self-determination and freedom from Portuguese colonial rule, has held a parliamentary majority since achieving independence in 1975. Prior to a resurgence of political tensions and violence in 2013 between FRELIMO and RENAMO, a former armed rebel movement that is now the main opposition party, Mozambique was widely viewed as having made a durable transition to peace after its postindependence civil war (1977-1992). It also made a transition, beginning in the late 1980s, from politically and economically centralized, one-party, socialist rule, to a multiparty democratic system underpinned by a largely market-based economy.

The development of large offshore natural gas reserves discovered in the country’s north in 2010 is expected to lead to gas exports in the early to mid-2020s and, together with rising exports of coal, to spur rapid economic growth and reverse a slump that began in 2016. This downturn was preceded by nearly two decades of post-civil war economic expansion underpinned, in part, by inflows of foreign direct investment (FDI) tied to large industrial projects. Mozambique has also received large inflows of foreign aid aimed at addressing its myriad development challenges. While there has been marked progress in reducing poverty rates and raising a range of once very low socioeconomic indicators, most Mozambicans (see Figure 1) have remained poor, and there are many unmet development needs. There also have been regional and demographic disparities regarding access to the fruits of growth. Large FDI-driven industrial projects prioritized by the state, for instance, have helped speed macroeconomic growth rates, but often have provided relatively few jobs or economic gains for the general population.

Corruption and elite use of political influence to accumulate private wealth also have grown over the post-civil war period (see below), with worrisome implications for the economy and stability. The post-2015 economic decline followed disclosures that the government had failed to report to the International Monetary Fund (IMF) over $2 billion in state-guaranteed debt, which violated the terms of Mozambique’s cooperation with the IMF. Two foreign banks provided these loans, in an allegedly corrupt manner, to state-owned firms registered as private entities and controlled by state intelligence officials.

This set of events, known as the “hidden debt affair,” has had far-reaching consequences. It has spurred an ongoing major political scandal, Mozambican and U.S. prosecutions, and aid suspensions by multiple donor governments (albeit not by the United States). Along with broader indicators of corruption, the debt affair also has prompted some observers to question whether the state has the political will and capacity to administer effectively—and in the public interest—a large projected windfall of earnings from the energy sector. The government recently requested IMF technical assistance in undertaking an assessment of governance and corruption challenges.

---

1 The war began in 1977, after Mozambique’s independence from Portugal in 1975. FRELIMO (the acronym for Frente de Libertação de Moçambique, Portuguese for Mozambique Liberation Front) and RENAMO (Resistência Nacional Moçambicana, or Mozambican National Resistance) were the main parties to the civil conflict.


3 Aslak Orre and Helge Rønning, Mozambique: A Political Economy Analysis, Norwegian Institute of International Affairs, 2017; and Lars Buur, The Development of Natural Resource Linkages in Mozambique: The Ruling Elite
The scandal also reduced Mozambique’s sovereign debt ratings and placed it in debt distress, reducing the state’s access to credit needed for development projects and government operations. As of late 2018, Mozambique’s public debt totaled about $15.9 billion—110.5% of gross domestic product (GDP)—and the country was $1.2 billion in arrears.4

Figure 1. Mozambique at a Glance
(2018 data unless otherwise noted. Totals may not sum due to rounding.)

Mozambique also faces security challenges. It is gradually overcoming a destabilizing political dispute spurred by long-standing RENAMO grievances over alleged electoral misconduct and continuous de facto FRELIMO control of the state. The dispute turned into a low-level armed conflict between RENAMO and state forces between 2013 and late 2016, when a temporary cease-fire was signed. It was later extended. In 2018, the two parties signed political and military agreements to end their dispute,5 and in August 2019 they signed a permanent cease-fire prior to signing a comprehensive peace accord.6 Since late 2017, the country also has faced a brutal insurgency by armed Islamist extremists in its far north, in an area where large-scale gas

---
4 Sovereign debt distress, which can signal a potential debt repayment default, occurs when a country enters into debt repayment arrears or such arrears appear imminent (e.g., a country seeks debt restructuring to avoid arrears). IMF, Republic of Mozambique: Request for Disbursement Under the Rapid Credit Facility, April 10, 2019; and IMF, “Joint World Bank-IMF Debt Sustainability Framework for Low-Income Countries,” March 19, 2019, among others.
development operations are underway. Trafficking of persons, wildlife, and illicit drugs, along
with other organized crime activity, also poses security challenges.

Mozambique enjoys cordial relations with the United States and receives sizable U.S. global
health assistance, but has received relatively limited congressional attention since the early 2000s.
However, the country hosted congressional delegations in 2016 and 2018 that focused on such
issues as U.S. health and wildlife aid and the RENAMO-FRELIMO conflict. Recent
developments and policy challenges in Mozambique have the potential to draw increased
congressional attention. These include increasing U.S. private-sector stakes in the energy sector,
the implications of state corruption for the government’s integrity and status as a U.S.
development and investment partner, U.S. government counterterrorism concerns, and recovery
from two powerful cyclones that hit the country in March and April 2019. The devastation caused
by the cyclones has prompted an ongoing U.S. assistance response—funded at a level of $74
million as of May 31—in support of humanitarian needs and longer-term recovery efforts,
alongside a broader international response. (On these issues, see CRS Report R45683, Cyclones
Idai and Kenneth in Southeastern Africa: Humanitarian and Recovery Response in Brief.)

Political Background and Dynamics

Mozambique gained independence in 1975, after a long FRELIMO-led armed struggle against
Portuguese colonial rule. In 1977, RENAMO, a guerrilla group initially formed as a proxy of the
white minority regime in Rhodesia (now Zimbabwe), initiated attacks against the socialist
FRELIMO-led state, sparking a civil war. The war caused hundreds of thousands of deaths, social
displacement, a mass refugee exodus into nearby countries, and widespread destitution. These
effects were exacerbated by natural disasters, as well as by FRELIMO’s abortive attempts to
control the economy, which prompted a turn toward economic liberalization in the late 1980s.
After internationally aided peace talks, a new constitution was ratified in 1990. Peace
accords signed in 1992 ended the war and, along with U.N.-aided peacebuilding efforts, paved the way
for RENAMO’s transformation into a political party and multiparty elections in 1994.7

Postwar politics mainly have centered on intra-FRELIMO competition and polarized rivalry
between FRELIMO, which has held an electoral majority since 1994, and RENAMO. Broad
Public postwar support for reconciliation and peacebuilding initially led to a system of informal
bargaining among political elites over policymaking, giving RENAMO influence that it might not
otherwise have had.8 Over time, however, FRELIMO increasingly wielded its electoral majority,
aided by its strong influence over the electoral system, to marginalize RENAMO.

The country’s constitution, which concentrates executive power in the office of the directly
elected president, augmented FRELIMO’s power, as did its influence over the economy and FDI
flows. This was notably the case under former President Armando Guebuza (in office 2005-
2015), a FRELIMO hardliner who accrued substantial private wealth. He centralized power in the

---

7 On the war, see Alex Vines, Elite Bargains and Political Deals Project: Mozambique Case Study, UK Stabilisation
Unit, February 2018 and sources cited therein; William Finnegan, A Complicated War: The Harrowing of Mozambique,
Univ. of California Press, 1992; and Stephen L. Weigert, Traditional Religion and Guerrilla Warfare in Modern

8 Carrie Manning, “Conflict Management and Elite Habituation in Postwar Democracy: The Case of Mozambique,”
Comparative Politics, (35:1), 2002, and other work by Manning, among others.
presidency, appointed loyalists to state posts, and reportedly fostered an influential network of relatives and associates, many of whom used political ties to advance their business interests.⁹

Resentful of FRELIMO’s continuous political and economic dominance and of not being allocated governorships in provinces where it claimed electoral majorities—and due to enduring bitterness over a narrow 1999 presidential election loss—RENAMO has routinely engaged in a politics of obstruction and protest.¹⁰ It has repeatedly boycotted elections or parliament, usually citing electoral grievances, and periodically it has threatened to withdraw from the political process or resort to violence to achieve its aims.

Afonso Dhlakama—RENAMO’s sole postwar leader until his death in 2018—spearheaded this approach, to mixed effect. While RENAMO’s approach periodically won it concessions, such as incremental electoral reforms, Dhlakama often appeared to overplay his hand, making weighty demands that the FRELIMO government often rejected, either outright or after parliamentary debate. RENAMO was also considered to be afflicted by internal divisions, poor organization, and erratic leadership under Dhlakama. He also thwarted the emergence of rivals within the party, which helped spur the formation in 2009 of the Democratic Movement of Mozambique (MDM) by RENAMO dissidents led by Daviz Simango, the mayor of Beira, a key city. The MDM became the third-largest party in parliament in 2009 and nearly doubled its gains in the 2014 election. It also won four city elections in 2013, but lost all but Beira in 2018.¹¹

Until late 2012, periodic warnings by RENAMO that it might resort to coercion or violence to achieve its aims remained only threats, notwithstanding many small-scale, mostly unarmed confrontations between its supporters and authorities.¹² Its potential to employ the force of arms, however, was always a risk, as the 1992 peace accords had permitted Dhlakama to maintain an armed personal protection unit with police-like powers. RENAMO also has long held the loyalty of ex-fighters who were not integrated into the national military at the end of the war, some with access to civil war-era arms caches and abiding postwar reintegration grievances.

**RENAMO-Government Armed Conflict**

In late 2012, Dhlakama retreated to his former wartime base and began to marshal a military force. In early 2013, RENAMO—in a manner reminiscent of its civil war tactics—launched armed attacks on police and military personnel, state facilities (e.g., health posts), and some civilian targets. Periodic clashes with state forces led to dozens of fatalities, including of civilians.

---


Conflict waned for a time after a 2014 pre-election cease-fire accord.\textsuperscript{13} RENAMO, however, dissatisfied with the 2014 election results and other responses to its demands, later abandoned the accord, and hostilities resumed.\textsuperscript{14} The renewed conflict, Human Rights Watch (HRW) reported, featured “enforced disappearances, arbitrary detentions, summary killings and destruction of private property allegedly committed by government forces, and political killings, attacks on public transport and looting of health clinics by alleged RENAMO forces.”\textsuperscript{15}

Throughout the conflict, there were numerous on-again-off-again peace talks and provisional agreements, but binding accord was stymied repeatedly by violence, brinksmanship, and intransigence by the two sides—and by RENAMO’s often shifting demands. At the start of the conflict, these centered on electoral law reforms and equitable party representation on the electoral commission (CNE). Later, among other ends, RENAMO sought

- the inclusive and nonpartisan allocation of the fruits of economic growth, including extractive sector earnings;
- completion of the integration of an agreed number of RENAMO fighters into the military, command posts for RENAMO officers, and related demands; and
- an end to FRELIMO domination of the state, including through a process of increased political decentralization under which RENAMO would be allocated governorships in areas where it has claimed high rates of electoral support.\textsuperscript{16}

A late 2016 cease-fire largely halted hostilities, and in early 2018, President Filipe Jacinto Nyusi and Dhlakama negotiated a framework accord on political decentralization. Uncertainty over prospects for the agreement arose after Dhlakama’s death in early May 2018, but weeks later parliament enacted a series of constitutional amendments largely in line with the accord. These provide for elected provincial, district, and municipal assemblies, and for the leading delegate of the party with a simple majority in each assembly to become the chief executive at that level (i.e., governor, district administrator, or mayor.)\textsuperscript{17} RENAMO’s disarmament has remained a bone of contention for FRELIMO. After the May 2018 decentralization reforms, FRELIMO parliamentarians delayed action on additional legislation necessary to implement the reforms, pending RENAMO’s disarmament.\textsuperscript{18} In July 2018, however, the government and RENAMO

\begin{itemize}
\item It provided for the disarmament and demobilization of RENAMO fighters, the integration of some into the military, and an amnesty for acts of violence by RENAMO. Vines, “Afonso Dhlakama and RENAMO’s Return...,” op. cit.
\item The new system, which delegates some powers to local governments but reserves many to the central government, is to come into effect for cities and provinces with the 2019 elections and for district assemblies with the 2024 elections. Until then, under a RENAMO-government compromise, the government is to consult with governors regarding district executive appointments. Joseph Hanlon/CIP, 2018 Local Elections, Mozambique Political Process Bulletin (hereinafter, MPPB), No 28, May 26, 2018 and Hanlon, Mozambique News Reports & Clippings No. 412, May 23, 2018; and AIM, “Constitutional Amendments Definitively Approved,” May 24, 2018, among others.
\item AIM, “Frelimo Makes Assembly Sitting Conditional on Demilitarisation of Renamo,” June 22, 2018.
\end{itemize}
signed a memorandum of understanding (MOU) on RENAMO military integration and demobilization.\textsuperscript{19} Parliament then passed some decentralization laws, and in early August, a plan for implementing the July military accord was signed. Tensions over RENAMO’s claims of fraud in the October 2018 local elections slowed the demobilization process, as did late 2018 disputes over RENAMO integration into the military and police.

**2019 Permanent Cease-fire and Peace Agreement**

In July 2019, a group of 50 RENAMO fighters began the process of demilitarization, demobilization, and reintegration (DDR) at a largely symbolic ceremony at Satunjira, RENAMO’s wartime headquarters in central Mozambique. The DDR process was conducted by a committee of government and RENAMO military representatives and foreign military observers, including a U.S. officer. Six demobilizing RENAMO members handed over weapons. Why more did not turn in weapons is not clear from news accounts, but this outcome could raise questions over RENAMO’s commitment to the process if it resulted from a deliberate decision by RENAMO to defer a more extensive handover of arms.\textsuperscript{20} DDR began on the same day that the parliament passed a law providing immunity from prosecution for those accused of crimes related to the post-2013 armed hostilities between the government and RENAMO.\textsuperscript{21} On August 1, 2019, President Nyusi and RENAMO leader Ossufo Momade signed an agreement making the 2016 cease-fire permanent, and on August 6 signed a final peace accord.\textsuperscript{22} The signing drew widespread international plaudits. The parliament is to consider the peace accord in late August. All parties have said they will approve it.\textsuperscript{23}

Successful implementation of the two agreements will require progress on a number of fronts, including final passage of pending legislation relating to the decentralization of state power and completion of the DDR process for all of RENAMO’s 5,000-plus fighters.\textsuperscript{24} Such demobilization could be hindered by internal RENAMO splits (see below) or if armed RENAMO members perceive that they may face threats if they proceed with disarmament. The possible salience of the latter concern was underscored by RENAMO’s mid-August claim that “dozens” of its members had “been assaulted by police and members of the ruling Frelimo party across the country” after the August 6 peace agreement was signed.\textsuperscript{25}

\textsuperscript{19} It provided for the creation of a joint military affairs commission with technical groups on RENAMO demobilization, the integration of some RENAMO forces into the military and police, and provisions for monitoring the accord’s implementation.

\textsuperscript{20} The foreign observers form an entity called the International Military Component, which includes a U.S. member, and was established under the July 2018 DDR MOU. Francisco Raiva, “Arranca hoje processo de DDR dos guerrilheiros da Renamo,” *O País*, July 29, 2019; AIM, “Demilitarisation of Renamo Begins,” July 30, 2019 and State Department response to CRS query, July 31, 2019.


\textsuperscript{22} Momade, a RENAMO military official who assumed interim leadership of RENAMO after Dhlakama’s death, was elected the group’s president in early 2019. AIM, “Ossufo Momade Elected President of Renamo,” January 18, 2019.

\textsuperscript{23} The peace accord signing was attended by five African heads of state; the European Union’s foreign affairs chief, Federica Mogherini; and Portugal’s Foreign Secretary. The signing spurred praise by many governments worldwide. Manuel Mucari, “‘Peace Here to Stay’ Mozambique President, Opposition Say on Signing Ceasefire,” Reuters, August 1, 2019; Andrew Meldrum, “Mozambique Peace Accord Signed, Paves Way For Elections,” AP, August 6, 2019; and AIM, “Assembly to Meet in Extraordinary Session,” August 13, 2019, among others.


Other issues could also potentially hinder completion of the peace process. The text of the two accords has not been publicly released, for instance, and may contain possibly controversial provisions, and some key issues may be unresolved. The accords—or possibly an informal side agreement, an “elite bargain”—reportedly may provide for the payment of “significant monetary compensation” to RENAMO leaders. Contention over the total amount to be provided is possible, and the allocation of any such funds within RENAMO could spur disagreement within the group.

Another matter is the status of RENAMO’s demand that some of its members be integrated into the State Information and Security Service (SISE). FRELIMO has long opposed such integration. Some press reports also indicate that RENAMO may not fully disarm until after the 2019 elections and that the government may permit RENAMO to retain a contingent of armed men until the inauguration of new governors in 2020, after the 2019 elections. While RENAMO has been permitted to maintain an armed unit since 1992, allowing it to continue to do so would be at odds with the spirit of the 2019 peace accords. Maintenance of an armed unit also could potentially enable RENAMO to again resort to the threat of violence if it is unsatisfied with the 2019 election process or outcome. While analysts have highlighted such issues, a press outlet that claims to have seen the text of the peace accord reports that RENAMO has dropped its SISE demand and that the accord provides for national police to protect Momade, potentially obviating the rationale for a RENAMO armed unit.

Another potential hindrance to disarmament—and possibly to RENAMO’s electoral prospects—are ongoing intra-RENAO divisions. Such splits emerged in early 2019 when Momade replaced several top RENAMO civilian and military officials after he was elected president of RENAMO. In June 2019, a group of RENAMO combatants accused Momade—RENAO’s 2019 presidential candidate—of ethnically centered nepotism over the allocation of internal party and military integration posts. They also accused him of cooperating with the state intelligence service and of ordering the execution of two RENAMO officers. They demanded he resign, threatened to kill him if he did not, and asserted that demobilization would not proceed while he was leader. The group, whose leaders call themselves the “RENAO Military Junta,” later announced a planned vote on Momade’s removal, criticized the 2019 cease-fire, and reiterated they would not disarm while Momade remains RENAMO leader. A separate smaller RENAMO subgroup is also demanding Momade’s departure.

Recent Elections and Forthcoming 2019 Electoral Contest

General elections were last held in 2014, after tense local elections in 2013, which RENAMO boycotted. Electoral preparations took place amid armed RENAMO-government clashes, but

---


31 AFP, “Mozambique Opposition Leader Must Leave or ‘We will kill him’: Group,” June 13, 2019, among others.

hostilities waned after a prevote cease-fire. Because then-President Guebuza was term-limited, FRELIMO chose as its candidate then-Minister of Defense Filipe Jacinto Nyusi, a longtime party member from the gas-rich north. Nyusi won the presidency with 57% of the vote—a sharp drop from Guebuza’s 75% in 2009. Dhlakama won 37%, and MDM leader Simango won 6%. FRELIMO garnered 144 of 250 seats in parliament, RENAMO, 89, and the MDM, 17.

Despite some local and international criticism of the vote and a reported range of electoral process irregularities, the results were internationally accepted as generally credible and confirmed by the constitutional court—although it questioned the vote tabulation process.\(^{33}\) RENAMO rejected the results, boycotted parliament in protest, and demanded the creation of a joint FRELIMO-RENAMO caretaker government, as well as the appointment of governors, ministers, and other officials from both parties. FRELIMO rejected these demands and RENAMO later took its parliamentary seats.\(^{34}\)

Local elections in October 2018 were generally peaceful in most of the country, notwithstanding some electoral violence and procedural irregularities, and allegations of police protection of FRELIMO supporters involved in violent acts. Prior to the vote, RENAMO threatened to deploy armed men to stop what it asserted were state efforts to rig the results. After the vote, opposition parties launched multiple legal appeals, but local courts reportedly rejected nearly all on technical grounds. RENAMO and the MDM, claiming fraud and irregularities, protested the outcomes in multiple cities, and RENAMO threatened to halt the peace process, but ultimately did not do so. As discussed above, the peace process has continued, but remains incomplete.\(^{35}\)

National elections are to be held in October 2019. In early August, 23 political parties submitted lists of proposed parliamentary candidates to the electoral commission, which is now vetting their eligibility. Among these parties is PODEMO, a FRELIMO splinter party created in May 2019.\(^{36}\) Some 90% of voting-age adults reportedly registered to vote in spring 2019, but the process featured indications of possible manipulation by STAE, the election administration secretariat. It calculated an unusually high adult population in at least two historically pro-FRELIMO provinces and sent extra registration teams to those areas, while doing the opposite in Zambezia, a RENAMO stronghold. As a result, registration in several key pro-FRELIMO provinces exceeded the number of voting-age adults, likely giving FRELIMO nine additional parliamentary seats. RENAMO appealed in one key province, but its case was thrown out on a technicality.\(^{37}\) RENAMO also accused STAE’s chief of favoring FRELIMO. The government refused to accredit an EU-backed election monitoring team. The legitimacy of the electoral commission’s future 2019 decisions had also become a potential election dispute flashpoint, as 9 of its 17

---

members’ terms had nominally expired, but in late July the parliament extended the tenure of all members until April 2020.³⁸

**Violent Islamist Extremism**

Mozambique faces a growing security threat that is separate and distinct from the RENAMO-state conflict. Since October 2017, members of an Islamist extremist group have carried out many attacks in mostly Muslim coastal districts of Cabo Delgado Province, adjacent to Tanzania. The group is known locally as *Al Shabaab* (“the youth” in Arabic, and also the name of a separate Al Qaeda-linked Somali group) and as *Ansar al Sunnah* (“Defenders of the Sunnah” [Islamic prophetic tradition]) or *Al Sunnah wa Jama’ah* (ASWJ, “Adherents of the Sunnah”).³⁹

The group, whose leadership and aims remain opaque, has targeted police stations, other state facilities and personnel, and local civilians—along with contractors working for the U.S.-based energy firm Anadarko. ASWJ attackers have raided provisions and arms and used arson to cause extensive destruction to village buildings and crops. They often employ crude weapons, notably machetes, but also guns and explosives and have reportedly killed more than 300 people—often by beheading—spurring population displacements. Group members often reportedly target those they view as cooperating with the state.⁴⁰

Information on the group is limited and contested, as access to the affected area by journalists and researchers has been curtailed by insecurity largely viewed as attributable to the group and by systemic state obstruction and harassment of journalists in the area. The group may include members of a violent Islamist Tanzanian movement and may have ties to the potentially Islamic State (IS)-linked Allied Democratic Forces (ADF) group in Central Africa; several reported ADF members from Uganda with alleged links to ASWJ have been arrested in Mozambique. In May 2018, a group of putative ASWJ members posted a social media video stating that they planned to pledge allegiance to IS, which in June 2019 claimed an attack in Mozambique.⁴¹

ASWJ was reportedly formed in 2014 by two or more local Islamists, some of whom may have received military training abroad, and foreign African Islamist extremists.³² It may also have roots in a group formed by dissidents from the state-affiliated Islamic Council who formed a group called *Ansar al Sunna* in the late 1990s. The group generally does not claim its attacks and has issued few statements about its goals. Some researchers report that the group espouses jihad

---


³⁹ The two Al Shabaab groups do not have publicly stated formal ties. Various transliterations exist for the group’s latter names, which may have origins with preexisting Islamic groups with potential ties to ASWJ. Eric Morier- Genoud, “Tracing the History of Mozambique’s Mysterious and Deadly Insurgency,” *The Conversation*, February 18, 2019; and Liazzat Bonate, “Why the Mozambican Government’s Alliance with the Islamic Council of Mozambique Might Not End the Insurgency in Cabo Delgado,” *Zitamar News*, June 14, 2019, among others.

⁴⁰ Armed Conflict Location & Event Data Project (ACLED); CRS communication with Zitamar News, June 20, 2019; and news wire accounts of attacks.


(armed struggle against perceived enemies of Islam), the creation of a Sharia (Islamic law)-based state, and rejection of state institutions and services (e.g., education, taxation, and voting).\footnote{34} It is evident that some accounts suggest that the group has been influenced, in particular, by Sheikh Aboud Rogo Mohammed, a Kenyan preacher whose Swahili-language teachings circulated widely in East Africa. Rogo, who was subject to U.S. and U.N. sanctions for supporting Somalia’s Al Shabaab, was assassinated in 2012.\footnote{35}

ASWJ members reportedly initially proselytized locally to advance their beliefs and build a base of adherents, and later employed a mix of payments and coercion to recruit. Their activities attracted a mix of local opposition, including from the provincial officials of the national Islamic Council, and local support.\footnote{46} ASWJ reportedly has provided business loans and employment to locals in exchange for fealty to the group. Poor young males with limited education appear to be key targets, and ASWJ may sponsor the Islamic education abroad of some.\footnote{47}

Some analysts contend that ASWJ, like many African Islamist armed groups, largely comprises disaffected youth who may be influenced by Islamist ideology but are driven primarily by anger over local grievances (e.g., economic disparities, limited or poor state services, and high unemployment). Other notably intense sources of local anger that the group may exploit include the loss of local agricultural and fishing livelihoods, the seizure of land by local and state elites,\footnote{48} and nontransparency and corruption in compensation processes associated with the growth of the natural gas and gemstone mining industries.\footnote{49} Other sources of local tension are rivalries, including over land and political party affiliation, between the mostly Catholic Makonde and mostly Muslim Mwani people, among other local ethnic groups.\footnote{50}

Some analysts believe that ASWJ is directly involved in illicit activity that is prevalent in the region.\footnote{51} Others suggest that the group does “not control any major contraband trade” and that the


\footnote{44} Bonate, “Why the Mozambican …,” op. cit.


\footnote{49} Such issues may at times be attributable to local actors and intermediaries of foreign investors, but foreign firms may be at fault in some instances. A large foreign gemstone-mining firm accused of human rights abuses relating to the expulsion of locals from its large mining concession recently settled a case brought by hundreds of local victims. Ian Cronje, “Gemfields Settles R100m Mozambican Claim, Denies Liability,” Fin24, January 29, 2019.

\footnote{50} Morier-Genoud, “Mozambique’s Own ...,” op. cit.; and Habibe, et al., Radicalização..., op. cit.

\footnote{51} Habibe, et al., Radicalização..., op. cit.
“illicit economy as a whole provides varied opportunities” exploited by the group, which in the future could potentially become more deeply involved in illicit trafficking and other networks.\textsuperscript{52} Illicit activity in the affected region includes petty corruption (e.g., police and public services bribery), trafficking of heroin, persons, ivory and other poached wildlife items, gold, and gemstones, as well as illicit timber trade and an untaxed cross-border trade in consumer goods. State officials are key reported beneficiaries of such trade.\textsuperscript{53}

State security forces’ heavy-handed, arguably often ineffective responses to ASWJ violence also appear to have alienated local populations. Security forces reportedly often arrive at attack sites well after the insurgents have departed and arrest locals whom they identify as linked to the group, often on dubious grounds. Detainees have been beaten or treated inhumanely and illegally detained by military forces, or held by police without charges and beyond the legally permitted period. Some have reported torture, and there are unconfirmed reports of extrajudicial killings by security forces. Mass arrests, starting after ASWJ’s October 2017 initiation of conflict, have been followed by mass trials of alleged perpetrators of ASWJ-linked crimes.\textsuperscript{54}

**Economy, Development Challenges, and Aid**

Mozambique sustained rapid post-civil war growth: GDP grew by an annual average of 8.4% from 1993, at the end of the war, through 2015. In 2016, however, growth fell to 3.8% from 6.6% in 2015, and in 2018 has slumped further, to 3.3%. The IMF has attributed this decline to weak global commodity prices, poor weather conditions, and “the issue of undisclosed loans in the spring of 2016 and the ensuing freeze in donor support.”\textsuperscript{55} The RENAMO-government conflict also may have contributed to the slowdown, and the effects of the two cyclones in 2019 may further reduce growth in the short to medium term.

While Mozambique’s long period of post-civil war growth reduced extreme poverty, poverty rates generally remain high. In 1996, shortly after the war, 83% of the population lived on less than $1.90 a day (the international comparative poverty line, as measured in constant 2011 dollars); by 2014 (when last measured) 62.4% did so. Mozambicans have remained among the world’s poorest people, with an estimated average GDP per capita of $476 in 2018 (current dollars)—the seventh-lowest globally, and down from a peak of $620 in 2014.\textsuperscript{56} In addition, income is unequally distributed.\textsuperscript{57} Similarly, while multiple social indicators have improved since the war (e.g., rates of child and maternal mortality and access to health care and education), they have advanced from a very low starting point, and many remain poor by regional and global standards. Mozambique ranked 180\textsuperscript{th} among 189 countries assessed on the 2018 U.N. Human


\textsuperscript{53} Haysom, *Where Crime...*


\textsuperscript{56} The $1.90 a day figure is measured in constant 2011 dollars international dollars, a hypothetical comparative unit of measurement used to compare purchasing power across countries. GDP data IMF, WEO. Poverty data from World Bank, *World Development Indicators* database (hereinafter, WDI).

\textsuperscript{57} In 2014 (most recent data), 45.5% of income accrued to the top 10% of earners. World Bank, *WDI*; and Carlos Nuno Castel-Branco, “Growth, Capital Accumulation and Economic Porosity in Mozambique: Social Losses, Private Gains,” *Review of African Political Economy* (41:S1), 2014, inter alia.
Mozambique: Politics, Economy, and U.S. Relations

Development Index (HDI, a comparative statistical composite measure), and is making limited progress toward achieving most of the U.N. Sustainable Development Goals.\(^{58}\)

Development gains may have remained limited due to a growth pattern in which FDI inflows have centered on large export-oriented industrial projects (e.g., bauxite smelting, power plants, mining, large-scale agriculture, and, recently, natural gas development). While such projects have helped spur high aggregate GDP growth rates, they often have functioned as commercial enclaves with weak linkages to the broader economy. Many such projects have generated relatively few permanent jobs or other benefits for the general population, and some have enjoyed state policy favoritism and tax breaks that tend to benefit project investors, rather than society at large. Financial gains from such activities have strongly favored politically connected elites involved in such projects as investor intermediaries, technical experts, regulators, and local business partners.\(^{59}\) Some megaprojects, such as large mines, have resulted in loss of farmland and population displacements, sometimes to marginal areas where subsistence farming is difficult.\(^{60}\)

Some large projects, however, may be starting to benefit the broader society, as with extractive sector investment in multiuse infrastructure (e.g., roads and railways).

The disjuncture between the local economy and megaproject activity is significant. Most Mozambicans, an estimated 86% or more of the work force, make their living in the informal sector, often as subsistence and cash crop farmers, fishermen, and small-scale manufacturers and traders. Productivity within this large segment of the economy, however, is constrained by little access to credit, business training, or technical expertise.\(^{61}\) Youth unemployment is a particular challenge. Nearly 68% of Mozambicans are age 25 or younger, and many young people from rural areas, home to 65% of the population in 2017, often gravitate toward cities, where job growth has not kept up with increasing education and training rates—even though these are low.\(^{62}\)

Mozambique’s socioeconomic development gains have remained moderate, despite sizable inflows of net official development assistance (ODA). Such aid averaged $1.96 billion annually from 2008 through 2017, making the country the 15\(^{th}\)-largest recipient globally in the period, during which the United States provided an average of $367 million annually (19% of net ODA) and was the largest bilateral donor.\(^{63}\)


\(^{61}\) Estimates of the sector’s contribution to GDP are scarce, but one put it at 40% in 2012. International Labor Organization (ILO), ILO Thesaurus and “The ILO in Mozambique,” 2016; and Danish Trade Council for International Development and Cooperation (DTU), Labour Market Profile 2017 Mozambique.

\(^{62}\) While access to primary education is universal, the completion rate, at 46%, is among the lowest globally. While 35% of students go on to enroll in secondary education, 18% attain at least a lower secondary education. U.S. Census, International Data Base and CRS calculations; World Bank, WDI; and DTU, Labour Market..., op. cit.

**Investment Climate and Sectoral Trends**

Despite some improvements in the ease of doing business, the economy remains constrained by high transaction costs and taxes, cumbersome regulations and laws, poor transport and other infrastructure, and corruption (see below). Mozambique scored 16th out of 48 sub-Saharan African countries assessed in the World Bank *Doing Business 2019* survey score, but it scored 135th out of 190 countries globally. Its indicators for starting a business, access to credit, certain investor protections, and tax payment complexity were notably poor.64

Recent FDI activity has centered on the growing coal sector and natural gas development (see below). FDI peaked at $6.2 billion in 2013 but has since declined steadily, to $2.3 billion in 2017 (latest data), though levels remain far higher than prior to the discovery of gas. Mozambique is a top regional FDI destination; it received the sixth-largest FDI inflows in Africa in 2017. Its total FDI stock is also large; at $37.5 billion in 2017, it was the fourth-largest in Africa. Annual U.S. FDI into Mozambique from 2013 to 2017 averaged $824 million a year (18% of such FDI).65

**Agriculture.** Agriculture is the backbone of the domestic economy and plays an indirect role in ensuring stability, as a source both of incomes and affordable food for urban consumers.66 Mozambique has extensive agricultural land and water resources and favorable agro-climatic conditions in many areas, though soil quality is often nutrient-poor, and droughts and floods are frequent.67 In 2017, the sector employed an estimated 72% of the labor force and contributed about 21% of GDP. The sector is dominated by smallholders (about 90% of producers) but has attracted more than 400 large commercial investment projects over the past two decades. Such projects have centered on food production, sugar, tobacco, cotton, cashew nuts, biofuels, and timber, and attracted at least $6.5 billion in investment between 2002 and 2012. The sector, and notably agro-processing, remains a key source of FDI opportunities.68

Notwithstanding agriculture’s prominence in the economy and in state economic plans, for years the sector has reportedly received relatively limited state funding.69 Key challenges include low productivity rates and diverse constraints (e.g., relating to transport, input and credit access, and underinvestment in various areas),70 and contested land rights.71 The impacts of large FDI agro-

---

64 Its World Economic Forum’s (WEF) 2018 Global Competitiveness Index score was similar; it scored 133rd out of 140 countries assessed. World Bank, *Doing Business 2019*, and WEF, *Global Competitiveness Report 2018*, 2018. See also State Department, 2018 Investment Climate Statements: Mozambique, July 19, 2018 and resources linked therein.


66 Mozambique has an urbanization rate of 4.4% (14th highest globally in 2017) and was rocked by urban food riots in 2010 and 2008. World Bank, *WDI*; and USAID, “Mozambique Country Profile,” Land-Links.org. June 2018.

67 Agricultural land comprises 64% of the national territory. Such land includes arable land (7% of the total land area), permanent crops (0.4%), and pastures and meadows (the balance). World Bank, *WDI*; and CIA *Factbook*.


71 The state owns all land and allocates it under leases and customary and other land use rights. Smallholder land rights are vulnerable to capture by state-linked elites, causing conflict between smallholders, the state, and/or agriculture,
projects have been mixed. Some have been given preferential access to prime land by the state and/or displaced smallholders, but a number have created jobs, often via smallholder contract farming involving the provision of technical assistance and inputs. Many also contribute to the national food supply; farming projects targeting local markets have enjoyed particular success.

**Mining.** Mozambique is reported to have up to 25.6 billion tons of coal reserves, although the amount that may be recovered on economically favorable terms may be far smaller. Production and exports began in 2010 and have risen rapidly, notwithstanding a price-induced slump in coal export volumes in 2016. Mozambique is now Africa’s second-largest coal producer (after South Africa). Coal exports contributed 45% of all export value in 2017 and are expected to rise.\(^{72}\) Mining of other resources is also growing. Exports of graphite (used in lithium ion batteries), titanium, and related ores (niobium and tantalum) are increasing: these exports contributed 4% of export value in 2017. Mozambique has long exported precious stones (3% of exports in 2017) and has other varied, largely untapped mineral and ore reserves.\(^{73}\)

**Power Sector.** About 27% of Mozambicans had access to electricity in 2017.\(^{74}\) The power sector is a key focus of FDI and state investment, both for export and local use. Hydropower accounts for about 81% of installed capacity, but there are several coal, natural gas, and solar electricity generation projects underway, primarily for industrial and commercial use, and sizable further generation potential. Key challenges include grid weaknesses, regional domestic access disparities, poverty (i.e., an inability to pay), and regulatory and policy challenges (e.g., a need for price, market, and sector financing reforms). In 2017, the World Bank provided $150 million to upgrade the grid and improve the public utility.\(^{75}\) Mozambique also receives support under the U.S. Agency for International Development (USAID) Power Africa program.

**Natural Gas.** Mozambique is estimated to have at least 100 trillion cubic feet (TCF) of proved reserves of natural gas (hereinafter, “gas”), placing it among the top 15 countries in terms of reserves. Some sources report far higher estimates, and further exploration and assessment is underway.\(^{76}\) Energy firms are building gas extraction and processing infrastructure to export output from the main reserves, which were discovered beginning in 2010 in a complex of offshore gas fields in the Rovuma Basin, a geologic zone in Mozambique’s far north. Such activity is expected to grow; the IMF has projected that total Rovuma Basin investments may exceed $100 billion.

U.S.-based Anadarko Petroleum leads one international consortium developing the Rovuma reserves, with production slated to begin in 2024.\(^{77}\) U.S.-based ExxonMobil leads development of

---

\(^{72}\) Metallurgical coal (used in steel-making) makes up about 66% of production; the balance is less valuable thermal coal used in power generation. International Energy Agency (IEA), *Coal Information 2018* and *Coal 2018: Analysis and Forecasts to 2023*; and Mozambique Mining Cadastre Portal; Observatory of Economic Complexity (OEC), “Mozambique Exports 2017,” among others.


\(^{74}\) World Bank, WDI.


\(^{77}\) Total SA of France, however, may soon become the lead operator in the Anadarko-led zone, as it is slated to acquire all of Anadarko’s African oil and gas holdings under an ongoing merger between Anadarko and Occidental Petroleum.
a second area in partnership with Italy’s ENI and several smaller energy firms. An ENI-operated offshore floating liquefied gas processing and export platform is expected to produce Mozambique’s first Rovuma exports in 2022. Additional offshore blocks are also being explored.\textsuperscript{78} Gas exports are expected to greatly expand public revenues—after the state’s share of capital development costs are paid off—and fuel rapid GDP growth. The IMF projects a gas-linked spike in GDP growth from 4% in 2022 to 11.1% in 2024.\textsuperscript{79} Gas is also forecast to be used domestically in a variety of industries.\textsuperscript{80} Since 2004, gas has been exported via a pipeline to South Africa from two smaller onshore gas fields in central Mozambique. The pipeline also feeds a power plant in Mozambique.

### Natural Gas Development in Northern Mozambique: Challenges and Controversy

Anadarko is developing a large onshore gas liquefaction plant in cooperation with ExxonMobil at a site called the Afungi LNG Park, along with additional nearby logistics facilities, in the area where the ASWJ extremist group is active. This multifaceted effort is technically challenging, as it is being built from the ground up in a remote region.\textsuperscript{81} This large industrial complex is politically controversial, as its construction requires the displacement of communities and has spurred speculation in land in adjacent areas. There have been reports of minimal reimbursement or uncompensated land seizures, associated losses of local traditional livelihoods, and an alleged lack of promised LNG-related jobs for locals. Determining responsibility for such problems, which have allegedly been aggravated by local state and business corruption, is difficult. In addition, researchers and journalists report that the state prevents access to the affected area, and that civil society groups seeking to probe or address such issues face state obstruction, harassment, and intimidation.\textsuperscript{82} Anadarko asserts that it is working to prevent and address such problems and reports that as of early 2019, 5,000 workers were working on preplant construction work, including the resettlement village.\textsuperscript{83}

### Mozambican Government Debt Controversy and U.S. Prosecutions

Beginning in 2013, the government guaranteed a series of allegedly corrupt, off-budget bank loans to state-owned enterprises (SOEs) totaling more than $2 billion. It did not report this debt to the IMF until 2016, well after the loans were revealed in the press. This failure to report violated its obligations to the IMF and created an ongoing scandal that led some donors to suspend some aid.\textsuperscript{84} The funds at issue, loans or securities syndicated by foreign private banks, went to three SOEs owned by the State Information and Security Service (SISE), the Defense Ministry, and

---

\textsuperscript{78} Reuters, “Algeria to Take Months to Make Final Total Deal Decision,” May 29, 2019, among others.

\textsuperscript{79} Anadarko, 2018 Annual Report; and IMF, WEO, op. cit.

\textsuperscript{80} Examples include gas to liquids refining; production of methanol, fertilizer, steel, and power; and agro-processing. Deloitte, Mozambique’s Economic Outlook: Governance Challenges Holding Back Economic Potential, 2016.

\textsuperscript{81} ENI, Mozambique: Energy, Society, Sustainability, October 2016; and Aileen Jamieson/turner & Townsend, “Momentum Grows in Mozambique Mega Gas Projects, but Multiple Challenges Lie Ahead,” Perspectives, June 2018.


\textsuperscript{83} The firm says the village will comprise “homes, religious buildings, schools, [a] medical clinic, recreational facilities, community buildings and supporting utilities.” On Anadarko’s resettlement, compensation, and livelihood restoration and social development projects, see Anadarko, Mozambique LNG Project in Detail, August 10, 2018 (quote source), and Fourth-Quarter 2018 Operations Report, February 5, 2019; and AIM, “Armed Attacks Not Affecting Anadarko,” February 1, 2019.

\textsuperscript{84} U.S. aid was reviewed, but not suspended. Thea Fourie, “Fitch Downgrades Mozambique’s Credit Risk Rating to CCC, While Program Aid Partners Suspend Funding,” IHS Global Insight Daily Analysis, May 6, 2016, among others.
other state agencies. The SOEs’ affairs could be kept confidential because technically they were private and because SISE classified their activities as secret on national security grounds.

SISE ostensibly formed the SOEs—ProIndicus, Mozambique Asset Management (MAM), and Empresa Moçambicana de Atum (Ematum)—to, respectively, perform coastal surveillance; build and maintain shipyards; and engage in tuna fishing. Ematum reportedly was also to be used as a channel for off-budget maritime security spending. The SOEs’ business plans were based on dubious assumptions and the firms pursued few of their ostensible intended purposes. None turned a profit and all entered credit default, saddling the state with repayment.85

In late 2018, the U.S. Department of Justice (DOJ) indicted three Mozambican officials, an executive of Privinvest, a foreign shipbuilding firm, and foreign investment bankers whom DOJ accused of a joint conspiracy “to defraud investors and potential investors” in relation to the SOEs’ loans. DOJ said the indictees “created the maritime projects” in order to divert parts of the financing to “pay at least $200 million in bribes and kickbacks to themselves,” state officials, and others. The loans at issue were provided by Russian state-owned VTB Bank and multinational investment bank Credit Suisse—and/or syndicated as securities sold by the latter. Indictees include then-Finance Minister Manuel Chang, a SISE official, and a representative of the office of then-President Guebuza. They collaborated with two Privinvest officials and three Credit Suisse employees, all indictees in the case. No employees of VTB Bank were charged.86

DOJ also charged that “to hide from the public and the IMF” the fraud-related “near bankruptcy” of the SOEs, the indicted bankers proposed an exchange of Mozambican-issued Eurobonds for Credit Suisse securities sold to fund the EMATUM loan. The state and EMATUM’s investors accepted the exchange in April 2016. The three SOEs then defaulted on their loans.

After the debts were revealed, the government resisted disclosing further information about the loans, but was forced to do so as a condition for continuing cooperation with IMF, which has publicly linked the loans to corruption. The IMF and the World Bank demanded an audit, which the independent firm Kroll Associates conducted on behalf of Mozambique’s national prosecutor. The government restricted Kroll’s access to documents, but the firm was able to identify $713 million in apparent deal price inflation and $500 million in unaccounted-for financing.87 Mozambique’s parliament also investigated the loans, and national judicial authorities are pursuing criminal prosecutions, although local civil society groups have criticized these efforts as slow and selective.88 Local arrests in the case, including a son of ex-President Guebuza, SISE officials, and other high-profile figures, began only after the U.S. indictment was issued.

In late 2018, Chang was arrested in South Africa on a U.S. extradition warrant, but South African officials instead accepted an extradition request from Mozambique. In late May 2019, the government and its creditors provisionally agreed to restructure the Ematum Eurobond bonds and $535 million in VTB MAM debts. The case has generated multiple lawsuits, including a

86 The DOJ indictment alleged violations of the U.S. Foreign Corrupt Practices Act and/or U.S. financial and securities laws, and bank due diligence and reporting controls. The loans included $535 million for MAM (VTB), $622 million for ProIndicus (Credit Suisse, partly funded by securities and VTB), and $850 million for Ematum (Credit Suisse securities-backed loans to Privinvest, an Ematum partner). The indictment uses pseudonyms for the two banks, but press and IMF reporting make clear that Credit Suisse and VTB Capital, a VTB Bank subsidiary, are the banks at issue.
government effort to negate portions of the debt. One indicted banker has pled guilty, and two are fighting UK extradition to the United States. More legal and financial fallout is possible, particularly if the government of President Nyusi—the defense minister when the loans were signed—does not effectively ensure that those responsible are held to account, or if indictees in the case reveal new information or other cases of corruption.

Meanwhile, local and international civil society groups are advocating nonpayment of the debt and asserting that the debt is “odious,” or morally and legally illegitimate, and thus subject to repudiation. On June 4, the Mozambique Constitutional Council ruled that the Ematum debt was illegal, but the implications are unclear.89

**Corruption and Crime**

The debt scandal is the highest-profile instance of corruption, but it is not unique. Corruption, both small- and large-scale, is “endemic ... particularly in the police, judiciary and civil service,” but corruption prosecutions, especially of officials, are rare.90 The country ranked 158 out of 180 countries on Transparency International’s *Corruption Perceptions Index 2018*, and its World Bank Worldwide Governance Indicators (WGI) rankings also have declined.91 While the IMF reports that Mozambique has a “relatively comprehensive anti-corruption legislative framework,” the institutional capacity to implement the framework has remained weak, as has judicial accountability. Heavy state involvement in multiple economic sectors, and nontransparency in state processes, contracting, and outcomes, the IMF reports, also create opportunities for corruption and conflicts of interest, notably in the extractive sector.92

A nexus also reportedly exists between public corruption, organized crime, and large black markets in goods. Drug trafficking has been reported to fund political party activity, and corruption may be tied to some political killings.93 The analytical nonprofit Global Financial Integrity (GFI) reports that illicit financial outflows (i.e., business bribery, tax evasion, money laundering, and trade and transfer mispricing/mis invoicing) may have contributed as much as 48% of the country’s trade with advanced economies in 2015.94 According to the State Department, “[f]inancial fraud, especially tax evasion, and drug trafficking,” alongside “misappropriation of state funds, kidnappings, human trafficking ... and wildlife trafficking,” generate a large share of money laundering. Trafficking is facilitated by a “largely unpatrolled coastline, porous land borders, and a limited rural law enforcement presence,” making the country a major corridor for flows of illicit goods.95

Drug trafficking is a notable challenge. Mozambique has long been and remains a transit point for illicit trafficking of heroin (mostly from South Asia, notably Pakistan, via sea), cocaine (from

---

89 Bondholders assert that the ruling does not apply to the Eurobonds swapped for Ematum loan securities, while other observers claim that the opposite. CIP, *How to Avoid the Repetition of “Odious” Debts?* [conference paper set], April 7, 2019; and Reuters, “Mozambique’s Top Court Says State-Guaranteed Eurobond Illegal,” June 4, 2019, inter alia.


91 WGI aggregates third party data sets to measure a variety of governance trends.


95 Quotes from State Department, INCSR, op. cit., Vol. II. See also Haysom, *Where Crime ...,* op. cit.
South America, via air), and precursor chemicals. Most narcotics are reportedly bound for South Africa and other countries in the region, but some transit onward to Europe and North America. The heroin trade is especially well developed. The volume trafficked through the country may total 40 tonnes or more a year and contribute $100 million or more to the local economy.96

Given the weakness of fiscal and anticorruption institutions, some observers have questioned whether the state has the political will and ability to effectively govern the large expected influx of gas revenue. The government has taken some steps to address such challenges. For instance, in 2009, Mozambique joined the Extractive Industries Transparency Initiative (EITI), a voluntary international effort to make extractive industry revenue contracts and revenue payment and receipt data publicly accessible, and to increase related fiscal accountability. The government plans to require beneficial ownership and business interest transparency, to establish a sovereign wealth fund to preserve and manage gas income, and to allocate a fixed share of gas revenue to fund infrastructure development, poverty reduction, and economic diversification.97

U.S. Relations and Assistance

Bilateral relations are cordial, although the United States has expressed concern over the hidden debts affair—a concern underlined by the late 2018 U.S. DOJ indictment of several high-ranking Mozambican officials in the matter. Stated U.S. policy goals in Mozambique include democratic, transparent, and inclusive governance; enhanced health and education; sustainable economic growth, trade, poverty reduction, and investment; and food security and access to nutrition. U.S. aid programs also have sought to strengthen Mozambique’s ability to respond to transnational crime, including trafficking in persons, narcotics, and wildlife.98 Efforts to counter the growing extremist threat in an area that hosts large U.S. natural gas industrial operations are another growing priority. The United States also is the leading bilateral donor in international efforts to address humanitarian and rebuilding needs caused by widespread destruction in central and northern areas hit by massive cyclones in early 2019.99 The State Department projects that cyclone recovery may require billions of dollars in the years ahead.100

The United States also supports efforts to reach a durable settlement between RENAMO and the government. It is a member of the ad hoc international contact group on Mozambique, which helps mediate between the two parties and includes the European Union, China, Botswana, the UK, Norway, and Switzerland (the group’s chair). The United States also planned to deploy military observers to join a team that was to monitor implementation of the 2014 cease-fire, but never did, as the accord fell apart due to RENAMO’s refusal to disarm.

Cooperative bilateral ties were reflected in a five-year, $506.9 million Millennium Challenge Corporation compact signed in 2007 and completed in 2013. The compact supported increased access to clean water and sanitation, transportation upgrades, land tenure improvements, and

98 State Department, FY2020 Congressional Budget Justification for Foreign Operations (CBJ) and prior CBJs, inter alia.
100 State Department response to CRS inquiry, June 14, 2019.
increased farmer income and production, primarily in northern Mozambique. In addition, a 196-volunteer member Peace Corps program supports education and health care projects.

According to the FY2020 State Department budget request for Mozambique, U.S. bilateral aid seeks to address key drivers of instability in northern Mozambique, including ineffective local governance and government service delivery, and a pervasive lack of jobs, especially for youth. Assistance will help local institutions to transparently and effectively address citizens’ basic needs; support the government in providing high quality basic education services; and catalyze private sector investment to help the large youth population develop workforce skills essential to participate in emerging economic opportunities.

U.S. nonemergency bilateral development aid totaled nearly $472 million in FY2018 appropriations. Of this, $428 million was for health programs, nearly $40 million for development activities, $0.7 million for International Military Education and Training (IMET), and $3.6 million for food aid. The Trump Administration requested $251.7 million in development aid for Mozambique for FY2019, of which it proposed to allocate 97% to health programs. While Congress has enacted FY2019 foreign aid appropriations, country allocations—which the Administration and appropriators negotiate annually—have not yet been finalized. The FY2020 request is for $403.5 million, of which health aid would compose 98.5% ($397.5 million); $5.6 million would be provided for other development activities and $0.5 million for IMET.

Health care programs have been the main focus of U.S. aid programs for years. The bulk of funding has supported HIV/AIDS programming to address Mozambique’s high adult HIV prevalence rate of 12.5% (2017). Most of this aid has been funded under the Global Health Program (GHP)-State Department account and administered under the U.S. President’s Emergency Plan for AIDS Relief (PEPFAR). Additional GHP-USAID funds support programs to combat malaria—the cause of roughly 29% of all deaths and 42% of deaths of children under the age of five—under the President’s Malaria Initiative. Such funds also support programs to combat tuberculosis and enhance maternal and child health, family planning and reproductive health, and nutrition. Until FY2017, agricultural development, mostly under the U.S. Feed the Future (FTF) initiative, was another priority area for U.S. aid. FTF activities have focused on enhancing agricultural productivity, improving nutrition, and connecting farmers to markets, notably in north-central Mozambique in areas with poor nutrition that contain or are near key trade corridors. Basic education was a key priority in FY2018, with funding at $13.7 million, but requested funding for education decreased to $3.5 million in FY2019 and $3 million in FY2020. Aid has also supported good governance programs, with a focus on building the capacity of civil society groups to engage in policy analysis and advocacy.

Mozambique periodically receives some U.S. Fish and Wildlife Service funding, and USAID supports a range of wildlife law enforcement capacity building, conservation, and CBNRM programs. In recent years, USAID has also supported coastal urban city governments’ adaptation to rising sea levels and regional conservation and management, as in the Limpopo River Basin. Wildlife-centered programs aim to address widespread wildlife poaching, wildlife trafficking—both of wildlife from Mozambique and that trafficked through Mozambique to and from other countries—and the recovery of wildlife populations that in some areas were systematically depleted by hunting during the civil war. In addition to being a key ivory source country, Mozambique is a key regional wildlife trafficking transit country, notably of elephant ivory and rhino horn destined for Asia. Other key species, including lions and other big cats, are also systematically poached in Mozambique.
Security Issues

According to the State Department, Mozambique’s government lacks adequate capacity to deal with the “complexity of violent extremism.” The department is helping the government to develop a comprehensive counterextremism approach, including a “holistic security, community engagement, and communications approach ... to address governance and development issues” while also helping to build the capabilities of Mozambican security forces. Together with other donor governments, the State Department is working to help foster those outcomes and increase U.S. counterextremism program assistance. U.S. government interagency teams and experts have consulted in Mozambique with state, civil society, academic, and private-sector actors to better understand the drivers of violent extremism and unmet socioeconomic needs and grievances that may underlie the phenomenon. They have also compiled an “extensive list of recommended interventions” aimed at countering the growth of extremism and addressing unmet needs.

The State Department nevertheless reports that “there are still significant gaps in our understanding of the violent extremism affecting northern Mozambique ... [including] the extent of the groups, their motivations, objectives and funding sources.” It plans to adjust the U.S. strategy as knowledge increases. According to State Department Southern African Affairs Director Stefanie Amadeo, some recommended activities are underway, including

- A grant program to promote constructive dialogue between local residents and youth, religious leaders, and security forces in Cabo Delgado province through the Islamic Council; a baseline assessment and strategic communications program to assist key stakeholders with more effective youth messaging and outreach; the provision of U.S. logistics and communications advisors to support the Mozambican government’s efforts; and programs to build the capacity of civilian law enforcement to engage with affected communities and investigate suspected acts of terrorism.

USAID is also funding a $2 million program centered on mitigating drivers of instability and violent extremism in Cabo Delgado through efforts to increase youth economic and civic empowerment, foster constructive community-local government engagement, and build local governments’ capacity to address community and youth priorities.

In addition, in mid-2018, Mozambique became a Partnership for Regional East Africa Counterterrorism (PREACT) country. PREACT activities have yet to be determined, but may include participation in regional PREACT events and funding for law enforcement, justice, military, and civil society programs. PREACT is a multiyear, multisector initiative that supports a range of counterextremism programs and efforts to contain and/or disrupt terrorist networks. Programs range from vocational and educational efforts to counter extremist messaging and economic inducements to law enforcement, military, and specialized counterterrorism unit training and capacity-building to intelligence, surveillance, and reconnaissance equipment and technical assistance.

---

101 All direct quotes in this paragraph from remarks as delivered by Stefanie Amadeo, State Department Southern African Affairs Director, at Understanding Extremism in Northern Mozambique, CSIS, June 6, 2019. Her remarks are available via video at CSIS’s website. CRS was also provided with a written copy of the remarks.
102 Ibid.
103 Ibid.
104 State Department response to CRS inquiry, June 14, 2019; and State Department web resources on PREACT.
International narcotics smuggling through Mozambique is a long-standing U.S. concern. In 2017, the Drug Enforcement Administration (DEA) opened an office in Maputo, and it is currently “developing mechanisms to facilitate future information sharing on money laundering.” These include a “working relationship” with Mozambique’s attorney general and National Criminal Investigations Service (SERNIC), the lead antidrug law enforcement agency, which in 2018 “agreed to establish a joint DEA/SERNIC drug investigative unit to combat transnational organized crime.” The State Department reports that while a range of weaknesses remain, the government has shown progress in enforcing anti-money-laundering (AML) laws and regulations—including by investigating ties between heroin trafficking and official corruption—and that efforts are underway to establish bilateral AML records-exchange procedures.

In addition, Mozambique engages in military-to-military cooperation with the U.S. Defense Department’s Africa Command (AFRICOM), and in early 2019 participated in Cutlass Express 2019, a multination naval exercise. A portion of the exercise focused on combatting illegal trafficking and maritime piracy, and the interception of illegal fishing vessels in Pemba and offshore waters near Mozambique’s gas fields.

**Trade**

Mozambique is eligible for trade benefits under the African Growth and Opportunity Act (AGOA, Title I, P.L. 106-200, as amended), including textile benefits, but its AGOA exports are limited. They accounted for less than 1% of an average annual $123 million in total exports to the United States from 2014 through 2018. U.S. exports to the country averaged $231 million a year during the same period. To help the government increase firms’ use of AGOA, USAID supported development of a Mozambique AGOA utilization strategy, released in May 2018. Mozambique hosted the U.S. Corporate Council on Africa’s US-Africa Business Summit in June 2019, which was attended by a U.S. high-level delegation. The U.S. Commercial Service has recently expanded its presence in Mozambique, in part due to rising U.S. investment in the energy sector.

**Outlook**

Mozambique may enjoy substantial economic growth after expected gas exports begin in the mid-2020s, and as coal exports rise, but the government may face significant challenges in effectively using those resources for the benefit of its people. A range of governance challenges—including corruption, state institutional weaknesses, and an untested new system of political decentralization—may continue to hinder socioeconomic development. The still-incomplete peace process between RENAMO and the government also poses a risk to stability, as does the...
geographically limited but extremely brutal extremist violence in the north. The United States is providing assistance to help the country address these challenges, in addition to continuing to provide significant amounts of assistance for the health sector. If recent-year aid allocation trends are maintained, such cooperation is likely to persist in the coming years.

**Author Information**

Nicolas Cook  
Specialist in African Affairs

**Disclaimer**

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS’s institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.