

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing July 2016

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#### Mozambique Summary 15 July 2016

*President Filipe Jacinto Nyusi (2015- present) announces the government will accept foreign mediators in talks to resolve the ongoing conflict with main opposition and rebel group Resistência Nacional Moçambicana (Renamo). Indian prime minister Narendra Modi (2014-present) visits Mozambique to enhance trade, aid and security ties. United States (US)-based ExxonMobil Corp. and Qatar-based Qatar Petroleum plan to buy stakes in Mozambique gas assets. The International Monetary Fund (IMF) concludes its assessment visit. South Africa-based Standard Bank revises Mozambique's economic growth forecast for 2016 from 5.6% to 2%. Moody's cuts Mozambique's sovereign credit rating.*

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#### Nyusi accepts foreign mediation in Renamo talks

President **Filipe Jacinto Nyusi** (2015-present) announced on 17 June that the government will accept foreign mediators in talks to resolve the ongoing conflict with main opposition and rebel group **Resistência Nacional Moçambicana (Renamo)**.<sup>1</sup> The government's decision is a reversal of a long-standing policy of refusing to accept foreign mediation in favour of domestic mediation efforts (see previous ARC briefings for **Mozambique**). The decision is also an indication the Nyusi government is interested in offering some concessions to Renamo to further the peace process instead of pursuing a solely military focused strategy.

*"If the problem is to have somebody else present while we are discussing, then let [Renamo leader Afonso] Dhlakama come with whoever he likes, and we will talk so that he ends the attacks ... Let him come with these people, and we shall see what will happen. I am ready."*<sup>2</sup>

Dhlakama welcomed the government's change in direction and said he spoke with Nyusi.<sup>3</sup>

*"We have agreed on finding solutions as Mozambicans as guns will never solve our problems ... The government, as you know, was refusing international mediation, but we insisted on this. Finally, he understood it was necessary to have the presence of international mediators."*<sup>4</sup>

The government and Renamo are reportedly in agreement on which foreign mediators they will invite:

*"... invitations were sent to the **Catholic Church**, the **South African** government, and **European Union (EU)** (at Renamo's request), the former **Tanzanian** president **Jakaya Kikwete** [2005-2015], former **United Kingdom (UK)** prime minister **Tony Blair** [1997-2007], and former **Botswana** president **Quett Masire** [1980-1998] (at Nyusi's request)."*<sup>5</sup>

Despite the agreement, Dhlakama has refused to order Renamo gunmen to end their attacks and has not committed to any definitive date for a face-to-face meeting with Nyusi.<sup>6</sup>

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<sup>1</sup> AIM, 17 Jun 2016.

<sup>2</sup> www.allafrica.com

<sup>3</sup> www.allafrica.com

<sup>4</sup> Bloomberg, 17 Jun 2016.

<sup>5</sup> Source, political analyst, Mozambique

<sup>6</sup> www.allafrica.com

*“Although the government and Renamo delegations started negotiations to prepare a face-to-face meeting between Nyusi and Dhlakama, there are still no signs of when this will take place. There are still no dates for the high-level meeting, although some of the mediators are due to arrive in **Maputo** next week.”<sup>7</sup>*

In order for the meeting to take place Dhlakama will

*“... demand a number of conditions to travel from **Gorongosa**, where he is believed to be living, to Maputo, including a helicopter from abroad to transport him from Gorongosa to **Beira** and a private jet to carry him from Beira to Maputo. Dhlakama is also demanding the presence of **Interpol** forces to protect him.”<sup>8</sup>*

As for the negotiations,

*“Dhlakama will demand a large amount of money, will possibly be offered a sort of Afonso Dhlakama democracy foundation, with a special budget. However, under the government’s current financial difficulties, the EU will be at the negotiations table and will play an important role to approve giving money to Renamo and smooth the process.”<sup>9</sup>*

Renamo resumed an insurgency against the government in 2013, two decades after it ended a civil war against the ruling **Frente de Libertação de Moçambique (Frelimo)** party. According to the UK-based **Armed Conflict Location and Event Data Project**, the latest round of conflict has left more than 300 people dead (see previous ARC briefings for Mozambique).<sup>10</sup>

*“The government also needs to implement immediate and solid measures to cease the conflict with Renamo, as clashes continue in central Mozambique, with the increasing number of military convoys on the national roads and of kidnappings and killing of political members – belonging to both Frelimo and Renamo.”<sup>11</sup>*

### Indian prime minister Narendra Modi arrive for state visit

**Indian** prime minister **Narendra Modi** (2014-present) arrived in Mozambique on 7 July as part of the first leg of his four-nation **Africa** tour.<sup>12</sup> The objective of Modi’s visit was to enhance economic cooperation and business ties between India and Mozambique.<sup>13</sup> During his visit, Modi held bilateral talks with Nyusi. The two governments signed a long-term memorandum of understanding (MoU) to export pulses to India. Mozambique will produce Indian varieties of dals such as arhar and urad. The MoU seeks to double India’s pulse imports from Mozambique from 100,000 tonnes to 200,000 tonnes by 2020, to help India meet growing domestic demand.<sup>14</sup> Modi also made aid commitments and assured Mozambique that the Indian government will remain a “reliable partner” and help build the capacity of Mozambique’s security forces.<sup>15</sup> India and Mozambique agreed to cooperate to meet strategic and security challenges emerging in mainland Africa and the **Indian Ocean** region.<sup>16</sup> Modi described terrorism as the gravest security threat facing the world:

*“Mozambique and India are no exceptions. Terrorism impacts India and Mozambique equally ... The networks of terror are inter-linked with other trans-national crimes. Our agreement on prevention of drug trafficking is a testimony to our shared determination to combat this menace and these networks.”<sup>17</sup>*

<sup>7</sup> Source, political analyst, Mozambique

<sup>8</sup> Source, political analyst, Mozambique

<sup>9</sup> Source, British Mozambique analyst, Maputo

<sup>10</sup> Bloomberg, 17 Jun 2016.

<sup>11</sup> Source, political analyst, Mozambique

<sup>12</sup> The Hindu, 7 Jul 2016.

<sup>13</sup> The Hindu, 7 Jul 2016.

<sup>14</sup> The Hindu, 7 Jul 2016.

<sup>15</sup> The Hindu, 7 Jul 2016.

<sup>16</sup> The Hindu, 7 Jul 2016.

<sup>17</sup> The Hindu, 7 Jul 2016.

This is Modi's first official visit to mainland Africa. Modi is the first Indian prime minister to visit Mozambique since the visit in 1982 of then prime minister **Indira Gandhi** (1966-1977/1980-1984).<sup>18</sup> Modi also held talks with the Indian diaspora in Mozambique.<sup>19</sup>

### Exxon & Qatar Petroleum to buy Mozambique assets

International media reported on 11 July that **United States (US)**-based **ExxonMobil Corp.** and **Qatar**-based **Qatar Petroleum** will join forces to search for gas assets to purchase in Mozambique.<sup>20</sup> The reports of ExxonMobil and Qatar Petroleum's interest in Mozambique show that foreign direct investors continue to see Mozambique as an attractive gas investment market despite the ongoing sovereign debt crisis (see previous ARC briefings for Mozambique).<sup>21</sup> Media reports indicate that the companies are looking to farm into gas assets that US-based **Anadarko Petroleum** and **Italy**-based **ENI** control. However, neither ExxonMobil nor Qatar Petroleum has made any final investment decisions.<sup>22</sup>

The sale of stakes in the **Rovuma Basin** to new international players could help restore economic stability through possible capital gains taxes for the government facing a sovereign debt crisis:<sup>23</sup>

*"Qatar Petroleum has been having meetings with government officials. Recently, **Omar Mitha**, the chairman of government-owned oil and gas company **Empresa Nacional de Hidrocarbonetos (ENH)**, visited Qatar and held meetings with officials. ENI executives said recently that the company expects to sell part of its shares by December."*<sup>24</sup>

However, even if the transaction takes place, it may be a while before the government benefits from capital gains taxes. These may not come in time for the government to solve its economic problems before it implements the **International Monetary Fund (IMF)** recommended reforms in 2017 (see below):

*"Companies pay capital gains after long negotiations with the government ... The money from capital gains can only be used to stabilise the current economic situation, not as a long-term solution. It cannot be included in the budget planning nor used as financial guarantee for accessing loans."*<sup>25</sup>

### IMF concludes assessment visit

An IMF team under the leadership of **Michael Lazare** completed an assessment visit to Mozambique on 24 June.<sup>26</sup> The IMF team arrived in Mozambique on 16 June, with the objective of assessing recent economic developments and to help design corrective measures needed to prevent further economic deterioration.<sup>27</sup> The mission also aimed to evaluate the impact of the debt that was disclosed to staff in April 2016 (see previous ARC briefings for Mozambique), as well as discussing measures to strengthen transparency, improve governance, and ensure accountability while avoiding recurrence of similar debt issues.<sup>28</sup>

At the end of the IMF visit, Lazare said Mozambique is facing difficult economic challenges:

*"Economic growth in 2016 is expected to decline to 4.5% (from 6.6% in 2015), nearly three percentage points below historical levels, with substantial downside risks ... In addition, the*

<sup>18</sup> Times of India, 7 Jul 2016.

<sup>19</sup> Times of India, 7 Jul 2016.

<sup>20</sup> Zack's Investment Research, 11 Jul 2016.

<sup>21</sup> Zack's Investment Research, 11 Jul 2016.

<sup>22</sup> Zack's Investment Research, 11 Jul 2016.

<sup>23</sup> Source, business and political consultant, Mozambique

<sup>24</sup> Source, business and political consultant, Mozambique

<sup>25</sup> Source, business and political consultant, Mozambique

<sup>26</sup> www.einnews.com

<sup>27</sup> www.einnews.com

<sup>28</sup> www.einnews.com

*discovery in April of \$1.4 billion (10.4% of Mozambique's GDP) of previously undisclosed loans has pushed the total stock of debt at end-2015 to 86% of GDP. According to our technical assessment, public debt is now likely to have reached a high risk of distress."*<sup>29</sup>

Lazare said the IMF and the Mozambique government agreed that the challenging economic context calls for "an urgent and decisive package" of policy measures to avoid a further deterioration in economic performance.<sup>30</sup>

*"In particular, substantial fiscal and monetary tightening, as well as exchange rate flexibility, are needed to restore macroeconomic sustainability, reduce pressures on inflation and the balance of payments, and help alleviate pressures on the foreign exchange market while restoring balance between supply and demand on the foreign exchange market..."*<sup>31</sup>

The IMF also called for an international and independent audit of Mozambique's recently disclosed sovereign debt.<sup>32</sup>

*"An international, independent audit of **Ematum [Empresa Moçambicana de Atum SA]**, **Proindicus** and **MAM [Mozambique Assets Management]** would be necessary, the latter two companies having received funding from previously undisclosed loans."*<sup>33</sup>

Finance minister **Adriano Maleiane** said on 25 June that the government would support the audit.<sup>34</sup>

*"The Mozambican government believes in the capacity of national institutions, and it is now up to these institutions to request such [international audit], which we will support."*<sup>35</sup>

According to the EU representative to Mozambique, **Sven von Burgsdorff**, the IMF is currently Mozambique's only viable path for sovereign debt financing.<sup>36</sup> Following the recent disclosure of hidden sovereign debt (see previous ARC briefings for Mozambique), international debt markets are demanding high interest rates for Mozambique's sovereign debt:<sup>37</sup>

*"Interest rates for Mozambique in international markets are above 18%, the same level as **Venezuela**, which undermines any access. It is not possible. Which is why the trust of international partners is very important and the IMF is the path to success."*<sup>38</sup>

Some analysts see the agreement with the IMF merely as short-term action to minimize the current crisis, saying macroeconomic stability needs implementation of deep, longer-term reforms, including at budgetary policy and fiscal management levels.<sup>39</sup>

*"... the main reforms to be implemented are solving the political crisis and adopting a new constitution, new fiscal code, and new electoral legislation, and early parliamentary and presidential elections should be held before 2019."*<sup>40</sup>

## Standard Bank revises Mozambique's economic growth forecast downwards

South Africa-based **Standard Bank**, in its June economic bulletin, revised Mozambique's economic growth forecasts for 2016 downwards from 5.6% to 2%, and estimates that public debt will have

<sup>29</sup> www.einnews.com

<sup>30</sup> www.einnews.com

<sup>31</sup> www.einnews.com

<sup>32</sup> www.wsj.com

<sup>33</sup> Lusa, 27 Jun 2016.

<sup>34</sup> Lusa, 27 Jun 2016.

<sup>35</sup> Lusa, 27 Jun 2016.

<sup>36</sup> Lusa, 30 Jun 2016.

<sup>37</sup> Lusa, 30 Jun 2016.

<sup>38</sup> Lusa, 30 Jun 2016.

<sup>39</sup> Source, senior economist, Mozambique

<sup>40</sup> Source, university lecturer and international consultant, Mozambique

reached 100% of gross domestic product (GDP) by the end of the year.<sup>41</sup> Overall Standard Bank painted a negative outlook for Mozambique due to a combination of factors including a drop in foreign currency supply, slowdown in foreign direct investment (FDI), reduced export earnings and high inflation, expected to reach between 17% and 19% for 2016.<sup>42</sup> Standard Bank indicated there is an increased risk of downward revision of its Mozambique economic growth forecasts, in the short term.<sup>43</sup>

*“Mozambique’s main economic projections were revised downwards in order to reflect the current economic crisis. Government’s new projections for economic growth were reduced from 7% to 4.5%, while inflation forecast increased from 5.6% to 16.7%, and tax collection will fall from 25.9% of the GDP to 24.1%. The government will also implement austerity measures, cutting the expenditure in 24 billion meticaís (\$366m). This is, however, slightly optimistic compared to Standard Bank’s projections.”<sup>44</sup>*

More pessimistic forecasts put economic growth at negative figures, as no sectors are producing at 2015 levels.<sup>45</sup> This would see Mozambique’s worst economic growth in 15 years.<sup>46</sup> However, Standard Bank offered a more positive longer-term outlook:

*“With a relatively diversified economy, strong agricultural and energy potential, with a diversified base and large reserves of natural resources, including natural gas, the country has a good long-term economic outlook.”<sup>47</sup>*

### Moody’s cuts Mozambique’s sovereign credit rating

International ratings agency **Moody’s** cut Mozambique’s sovereign credit rating on 8 July from Caa1 to Caa3 with a negative outlook.<sup>48</sup> The rating cut will increase the cost of borrowing and enhance existing fiscal pressures on the government (see above). The **Wall Street Journal** describes the Caa3 rating as “one of the lowest rungs on the junk-debt rating ladder”.<sup>49</sup> Moody’s expects the government to continue to try to restructure state-owned company debt linked to MAM (see *ARC Briefing Mozambique* May and June 2016), which may lead to further sovereign defaults.<sup>50</sup>

### Implications

The government’s decision to reverse a long-standing policy of refusing to accept foreign mediation with regard to the Renamo conflict will help facilitate a face-to-face meeting between Nyusi and Dhlakama, which is critical to creating a viable peaceful settlement to the ongoing conflict.

Trade, investment, security and aid relations between Mozambique and India will increase as a result of Modi’s visit. ExxonMobil and Qatar Petroleum joining forces is an indication of the long-term attractiveness of Mozambique’s gas sector despite the ongoing sovereign debt crisis.

A comprehensive agreement with the IMF is important to the Mozambique’s government’s ability to overcome the sovereign debt crisis, avoid future high borrowing costs after recent sovereign credit rating cuts, and limit the overall negative impact economic growth rates.

<sup>41</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>42</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>43</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>44</sup> Source, political analyst, Mozambique

<sup>45</sup> Source, economist, Mozambique

<sup>46</sup> Source, economist, Mozambique

<sup>47</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>48</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>49</sup> Wall Street Journal, 8 Jul 2016.

<sup>50</sup> Wall Street Journal, 8 Jul 2016.

### Upcoming events

- Private Sector Annual Conference (Maputo) 28 July.
- 53<sup>rd</sup> Maputo Trade Fair (Ricatla, Marracuene), 29 August – 4 September.
- 1<sup>st</sup> Precious Stones International Fair (Nampula), 8-10 September

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