

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing February 2017

#### Mozambique Summary 12 February 2017

*The government and Resistencia Nacional Mocambicana (Renamo) prepare to resume peace talks. Mozambique and Turkey sign several cooperation agreements. The Instituto Nacional de Petróleo (INP) (national petroleum institute) awards three contracts for fertiliser and power projects linked to the development of Mozambique's offshore gas sector. International ratings agency Standard & Poor's (S&P) lowers Mozambique's foreign currency rating to selective default/default. The finance ministry denies rumours that it formally approached the Paris Club for debt relief.*

#### Government and Renamo to resume peace talks

The government and **Resistencia Nacional Mocambicana (Renamo)**, on 6 February, announced the nomination of two working groups, to replace foreign mediators, to discuss Renamo's demand for political decentralisation and armed forces reform ahead of an expected restart of peace talks.<sup>1</sup> International mediators have remained a Renamo demand for a long time, hence the decision to replace them with mediators and move to two small technical working groups "suggests an agreement in principle":<sup>2</sup>

*"President **Filipe Nyusi** [2015-present] and Renamo leader **Afonso Dhlakama** agreed to resume peace talks soon, but in a different format which, among other things, excludes international mediation. Nyusi and Dhlakama have been in frequent telephone contact since December and this agreement shows the progress of the calls. Under the new format, the parties nominated two small technical teams to discuss decentralisation and military issues – each with only two members from each side. The parties also agreed to indicate two international observers to join the teams. The previous model had six members from the two sides plus the international mediation formed by six members."<sup>3</sup>*

Nyusi nominated **Albano Macie** and **Eduardo Alexandre Chiziane**, two constitutional law experts from the **Universidade Eduardo Mondlane (Maputo)**, to the working groups. Macie is also an adviser to parliamentary president **Veronica Macamo**.<sup>4</sup> Renamo's nominees include **Saimone Macuiana** and **Maria Joaquina**, who were both members of Renamo's peace talk delegation last year. Macuiana also led Renamo's peace talk delegation between 2014 and 2015.<sup>5</sup> The government and Renamo may have reached broad agreement on three main discussions areas for the new round of peace talks:

- Possible acceptance of some Renamo governors and a commitment to reduce the role of the ruling **Frente de Libertação de Moçambique (Frelimo)** in the government apparatus;
- Possible role for Renamo in the **Forças Armadas de Defesa de Moçambique (FADM)** (armed forces). The government team working on military issues includes **Armando Alexandre Panguene**, Mozambique's former ambassador to the **United States (US)** and **Ismael Mussa**

<sup>1</sup> Zitamar News, 7 Feb 2017.

<sup>2</sup> Joseph Hanlon, News Reports & Clippings, 5 Feb 2017.

<sup>3</sup> Source, political analyst, Maputo

<sup>4</sup> Zitamar News, 7 Feb 2017.

<sup>5</sup> Zitamar News, 7 Feb 2017.

**Mangueira.** Renamo nominated **Andre Joaquim Magibire** and **Leovilgildo Buanancasso**, who, like Macuiana and Joaquina, took part in the 2016 peace talks.<sup>6</sup>

- Possible payments to Dhlakama or Renamo.<sup>7</sup>

Nyusi, on 6 February, indicated that he is confident of a breakthrough with regard to a final peace agreement.<sup>8</sup> He said,

*“The first phase of the peace process can be considered as concluded. I will have the pleasure to announce, in the coming days, the next phase of our arrangements [a discussion with Renamo leader Dhlakama].”<sup>9</sup>*

Nyusi said he is hopeful the government and Renamo will conclude a final peace agreement in the next couple of weeks.<sup>10</sup> However,

*“There are still no dates for resumption of negotiations and no other details were disclosed, but the parties agreed to accelerate the talks in order to submit a proposal to the **Assembly of the Republic** by March/April ... the parties also reportedly agreed that the proposal will be adopted by the Frelimo parliamentary group in the assembly. The source also said that Dhlakama intends to leave his hideout in April and return to Maputo to resume his political normal activities. Renamo intends to participate in the 2018 municipal elections.”<sup>11</sup>*

There is a degree of public confidence that the government and Renamo will finally come to a definitive agreement, because of Nyusi’s reported willingness to provide concessions and his support amongst ruling Frelimo party members of parliament (MPs).<sup>12</sup>

*“It is believed that Frelimo is trying to unite itself around its leader. Analysts believe that Nyusi is likely to gain support from former president **Armando Emilio Guebuza** [2005-2015] in return for protection from illegal sovereign debt scandal. On the other hand, it is believed that Nyusi will also gain support from former president **Joaquim Alberto Chissano** [1986-2005], whose men have been appointed to key government positions recently.”<sup>13</sup>*

Negotiating a final agreement on military issues appears easier for Nyusi to address, even without Frelimo unity.

*“... as Nyusi, in his capacity of defense forces commander in chief, has more room to make significant decisions on his own. So, again, here, it seems that Nyusi will give Dhlakama some concessions following Renamo demands of partial leadership positions in the armed forces and intelligence services. So far, no one knows what Nyusi had promised Dhlakama to stop the war and declare cease fire.”<sup>14</sup>*

However, the appointment of the working groups along with a reported commitment to restart peace talks indicates that the government and Renamo may reach final peace agreement between March 2017 and the upcoming municipal elections in 2018.

## Turkey and Mozambique sign cooperation MoUs

Mozambique and **Turkey** signed several cooperation agreements during the second leg of **Turkish** president **Recep Tayyip Erdoğan’s** (2014-present) African tour, on 24 January.<sup>15</sup> Erdoğan’s visit to

<sup>6</sup> Zitar News, 7 Feb 2017.

<sup>7</sup> Joseph Hanlon, News Reports & Clippings, 5 Feb 2017.

<sup>8</sup> www.iol.co.za

<sup>9</sup> www.iol.co.za

<sup>10</sup> www.enca.com

<sup>11</sup> Source, senior political journalist, Maputo

<sup>12</sup> Source, political analyst, Maputo

<sup>13</sup> Source, political analyst, Maputo

<sup>14</sup> Source, independent investigator & analyst working with a local university, Maputo

<sup>15</sup> Aa.com.tr

Mozambique is a sign of Turkey's desire to strengthen its investment and business ties with Africa's emerging economies.<sup>16</sup> While speaking at a Turkey-Mozambique business forum, Erdoğan said,

*"Our investment in the continent has reached \$6 billion ... Turkish investors have provided the most local job opportunities in Africa ... As Turkey, we are aware of the economic potential of Mozambique. We closely follow the economic development of the country. We are ready to provide the best support to our friends."*<sup>17</sup>

During Erdoğan's visit Mozambican and Turkish governments signed several memorandum of understandings (MoUs) on:

- mutual visa exemption agreement and a political consultation mechanism for diplomatic services and special passport holders;
- trade and economic cooperation;
- mutual investment protection; and
- cultural and tourism promotion.<sup>18</sup>

Erdoğan also announced that the **Türk İşbirliği ve Koordinasyon Ajansı (TIKA)** (Turkish Cooperation and Coordination Agency) plans to open an office in Maputo and asked Nyusi to guard against the **Fethullahçı Terör Örgütü (FETO)** (Fethullah terrorist organisation) which the Turkish government claims was behind the failed July 2016 coup attempt in Turkey.<sup>19</sup>

Current trade between Mozambique and Turkey is approximately \$103m as of November 2016, but Turkey hopes to increase this to \$500m.<sup>20</sup>

### Government awards gas sector development project contracts

The **Instituto Nacional de Petróleo (INP)** (national petroleum institute) on 30 January awarded three contracts for fertiliser and power projects linked to the development of Mozambique's offshore gas sector.<sup>21</sup> The objective of the INP's contracts is to ensure greater domestic beneficiation of Mozambique's offshore gas reserves.<sup>22</sup>

*"The project selected will use domestic gas to be produced in **Rovuma Area 1** project, operated by [US-based] **Anadarko**. The project will provide up to 400 million standard cubic feet of gas per day [mmscf/d] for the country's industrialisation. Analysts say the challenge now relies on the government side in assuring that domestic gas is really made available for these industrialisation projects."*<sup>23</sup>

The INP awarded **Norway**-based **Yala International** a contract to develop a fertiliser plant and a 30 - 50 megawatt (MW) power plant. The INP also awarded contracts to **Netherlands**-based **Shell Mozambique BV** and **United Kingdom (UK)**-based **GL Energy Africa Ltd** for the development of a 50MW-80MW and 250MW power plant respectively.<sup>24</sup>

*"Industry leaders praise the government for the tender ... The projects selected are for priority areas for Mozambique. However, the three companies are all to generate power ... where is all this power is going to be consumed. Mozambique seems to have enough power generation projects to meet the country's industrial needs. The region's biggest energy consumer, **South Africa**, is now busy trying to develop its nuclear programme and does not seem to be a strong*

<sup>16</sup> Aa.com.tr

<sup>17</sup> Aa.com.tr

<sup>18</sup> Unless otherwise noted - Aa.com.tr

<sup>19</sup> Aa.com.tr

<sup>20</sup> Aa.com.tr

<sup>21</sup> Multiples sources: www.esi-africa.com; Reuters, 30 Jan 2017; Source, business analyst, Maputo

<sup>22</sup> Multiples sources: www.esi-africa.com; Reuters, 30 Jan 2017.

<sup>23</sup> Source, business analyst, Maputo

<sup>24</sup> Multiples sources: www.esi-africa.com; Reuters, 30 Jan 2017.

*gas or power consumer for the near future. However, one of the projects selected – GL Energy Africa – seems to be better positioned to export its power to some other regional markets.”<sup>25</sup>*

The INP originally issued the tenders for gas development projects in August 2016.<sup>26</sup> Along with the three successful bidders, the INP received proposals from 11 other companies, including: **Mitsui, Engro Fertilizer, Electricidade de Moçambique (EDM), Marubeni, Muinvest, Auto-Gas, Epsilon, Jiangsu Sinochem Construction, Union-JNC-JSPDI-VBC-SAL Consortium, Gas Nosu, and Motse.**<sup>27</sup>

The INP award of gas sector development contracts indicates that the government is committed to ensuring that Mozambique’s offshore gas sector provides a foundation to develop an industrial base.

### **Standard & Poor’s lowers credit rating to selective default/default**

International ratings agency **Standard & Poor’s (S&P)** on 18 January lowered Mozambique’s foreign currency rating to selective default/default (SD/D), after the government failed to honor a scheduled \$60m interest payment on its \$726.5m **Irish Stock Exchange (ISE)**-listed bond issuance (see *ARC Briefing Mozambique January 2017*).<sup>28</sup> S&P’s downgrade will increase the Mozambique government’s borrowing costs and increase pressure on the government to finalise a lending agreement with the **International Monetary Fund (IMF)** as soon as possible.<sup>29</sup> The finance ministry has said the government is working with the IMF to establish the conditions for the resumption of a financial aid programme for Mozambique, which includes an “*ambitious programme*”<sup>30</sup> of reforms that will play an important role in improving the government’s finances and help bring stability to Mozambique’s macroeconomic situation.<sup>31</sup> However, S&P does not see much potential for an improved rating during the next year.<sup>32</sup>

*“Given weak macroeconomic fundamentals and institutions, we do not anticipate upside pressure emerging within the next 12 months.”<sup>33</sup>*

Therefore the SD/D rating is expected to remain unchanged in 2017. S&P defines an SD/D rating as:

*“An obligor rated ‘SD’ (Selective Default) or ‘D’ has failed to pay one or more of its financial obligations (rated or unrated) when it came due. A ‘D’ rating is assigned when Standard & Poor’s believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An ‘SD’ rating is assigned when Standard & Poor’s believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner.”<sup>34</sup>*

Despite S&P’s downgrade of Mozambique’s foreign currency credit rating to SD/D, S&P affirmed Mozambique’s long-term local currency credit rating at B-/B and raised its outlook from negative to stable, reflecting the government’s continue commitment to honoring local currency debt obligations.<sup>35</sup>

<sup>25</sup> Source, foreign oil expert working in Mozambique, Maputo

<sup>26</sup> Multiples sources: [www.esi-africa.com](http://www.esi-africa.com); Reuters, 30 Jan 2017.

<sup>27</sup> Multiples sources: [www.esi-africa.com](http://www.esi-africa.com); Reuters, 30 Jan 2017.

<sup>28</sup> [macadailytimes.com.mo](http://macadailytimes.com.mo)

<sup>29</sup> Reuters, 18 Jan 2017.

<sup>30</sup> [macadailytimes.com.mo](http://macadailytimes.com.mo)

<sup>31</sup> [macadailytimes.com.mo](http://macadailytimes.com.mo)

<sup>32</sup> Source, Mozambique analyst, United Kingdom

<sup>33</sup> Reuters, 18 Jan 2017.

<sup>34</sup> [Info.creditriskmonitor.com](http://Info.creditriskmonitor.com)

<sup>35</sup> Reuters, 18 Jan 2017.

## Finance ministry denies rumours it formally approached Paris Club for debt relief

The finance ministry stated on 3 February that the government has not yet approached the **Paris Club** of creditors for debt relief.<sup>36</sup> The finance ministry released the statement, without giving any further details, to refute recent rumours in the media that the government has approached the Paris Club for debt relief.<sup>37</sup> Mozambican media initially reported that the government had approached the Paris Club on 31 January. The government will have to negotiate with international creditors to address its current sovereign debt crisis and,<sup>38</sup>

*“... it appears that it [the government] has only opened initial discussions, before making a formal approach...”<sup>39</sup>*

However, Mozambique is unlikely to come to any final agreement with international creditors and bondholders until they get a clear understanding of Mozambique’s sovereign debt profile.<sup>40</sup> Creditors are waiting for international risk assessment firm **Kroll** to complete its independent international audit of sovereign debts linked to state-backed firms **Empresa Moçambicana de Atum SA (Ematum)**, **Proindicus** and **Mozambique Assets Management (MAM)**. Kroll is expected to finalise its audit in February.<sup>41</sup>

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<sup>36</sup> Reuters, 3 Feb 2017.

<sup>37</sup> Reuters, 3 Feb 2017.

<sup>38</sup> Joseph Hanlon, News Reports & Clippings, 5 Feb 2017.

<sup>39</sup> Joseph Hanlon, News Reports & Clippings, 5 Feb 2017.

<sup>40</sup> Zitamar News, 2 Feb 2017.

<sup>41</sup> Zitamar News, 2 Feb 2017.

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### About Africa Risk Consulting:

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Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

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