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The ruling Frente de Libertação de Moçambique (Frelimo) party will convene an extraordinary meeting of the central committee on 5 February. Indonesia-based Energi Mega Persada (EMP) plans to sell a portion of its interest in Mozambique's offshore Buzi natural gas block. Gigawatt Mozambique commissions gas-fired power plant. Moody's places Mozambique's debt rating under review for a downgrade.

Frelimo central committee to meet in February

The political commission of the ruling **Frente de Libertação de Moçambique (Frelimo)** party has announced it will convene an extraordinary meeting of the Frelimo central committee on 5 February in **Maputo**.¹ The Frelimo central committee meeting is the first since President **Filipe Nyusi's** (2015-present) election victory last year.² The objective of the meeting is not clear; however, Nyusi is likely to use the central committee meeting to consolidate his power within Frelimo and stamp his authority on the party's governing bodies, which still have a strong link with immediate past president **Armando Emilio Guebuza** (2005-2015).³

*"The agenda for this central committee session was not disclosed but many believe this is likely to decide on important matters aimed at the party's unity, which is clearly divided since Guebuza left the presidency. Most people believe the meeting will define and align Frelimo's vision on a number of matters, particularly with regards to the political crisis with the main opposition **Resistencia Nacional Moçambicana (Renamo)**, so as to strengthen the party's position regarding this issue. It is also believed that Nyusi is going to restructure the central committee, appointing people loyal to him for some key positions within the party."*⁴

However, a Frelimo member said,

*"... the central committee will have a sole agenda of replacing every secretary in the committee, which is still strongly dominated by people loyal to Guebuza and all current leaders will be replaced in the central committee in order to shape it to Nyusi's style."*⁵

After the central committee meeting in February, there is speculation that Nyusi may reshuffle the cabinet.⁶

*"... since he formed the government after his inauguration in January 2015, Nyusi has not made significant changes in the cabinet. Moreover, he still has a lot of gaps to fill at the ministerial level, with many ministries still lacking deputy ministers. It is believed that some of these positions might be given to Renamo people, as part of Nyusi's strategy to solve the long political crisis with Renamo, which strongly affects the country..."*⁷

¹ Lusa, 24 Dec 2015.

² Lusa, 24 Dec 2015.

³ Lusa, 24 Dec 2015.

⁴ Source, political analyst working with a local NGO, Maputo

⁵ Source, Frelimo member, Maputo

⁶ Source, political analyst and senior academic, Maputo

⁷ Source, political analyst and senior academic, Maputo

The central committee is the second most powerful body in Frelimo.⁸ The central committee is much larger than, and second to in terms of influence, the political commission (see below) and typically meets only twice a year. The central committee's 197 members help formulate Frelimo's overall policy direction and give the political commission a feel for grassroots party members' thinking.⁹

The political commission is Frelimo's most important decision-making body. It meets as often as once a week and effectively shares power with the president. The president needs the political commission's authorisation for important decisions and does not act without its agreement.¹⁰

"It is important to note that Frelimo governs through consensus. This makes decision-making extremely slow but the outcomes durable. Policy drives to spur [the interests of] domestic capital, even in some cases at the expense of foreign investment, and is therefore a united Frelimo position."¹¹

The current political commission members are:

- Nyusi;
- **Eliseu Joaquim Machava;**
- **Filipe Chimoio Paunde** (Frelimo secretary general);
- **Alberto Joaquim Chipande** (former defence minister);
- **Raimundo Domingos Pachinuapa;** (former army general);
- **Eduardo Joaquim Mulembwe** (former speaker of parliament);
- **Eneas da Conceicao Comiche** (former finance minister and mayor of Maputo);
- **Veronica Nataniel Macamo;**
- **Margarida Adamigy Talapa** (head of Frelimo parliamentary group);
- **Alcinda Antonio de Abreu;**
- **Jose Antonio Candugua Pacheco;**
- **Conceita Xaveir Sortane;**
- **Sergio Jose Camunga Pantie;**
- **Cadmiel Filiane Muthemba;**
- **Alberto Clemention Vaquina;**
- **Esperanca Laurinda Bias** (former minerals resources minister);
- **Carvalho Muaria.**¹²

EMP to farm-out a portion of its Buzi gas block

Indonesia-based Energi Mega Persada (EMP) announced on 3 January that it will sell a portion of its interest in Mozambique's offshore **Buzi** natural gas block.¹³ EMP hopes to raise \$92.25m to help fund the development of the block. EMP has indicated that the company is already in negotiations with a strategic investor.¹⁴ EMP currently holds a 75% interest in the Buzi block, which the company purchased in 2013 for \$175m. Mozambique state-owned oil and gas company **Empresa Nacional de Hidrocarbonetos (ENH)** owns the remaining 25%.¹⁵ According to EMP the Buzi block contains proven and probable reserves of 212.3 billion cubic metres.¹⁶ The Buzi transaction is important because it will allow EMP to fund its ongoing project, which is now at the exploration phase, with wells planned to be drilled this year.¹⁷

⁸ Frelimo website, 2015

⁹ Frelimo website, 2015

¹⁰ Source, Mozambique analyst, United Kingdom

¹¹ Source, Mozambique analyst, United Kingdom

¹² Frelimo website, 2015

¹³ www.clubofmozambique.com

¹⁴ www.clubofmozambique.com

¹⁵ www.clubofmozambique.com

¹⁶ www.clubofmozambique.com

¹⁷ Source, oil and gas specialist, Maputo

“Surely, the government is also following the deal with particular attention, as it may expect to get significant capital gains in case the transaction is closed successfully.”¹⁸

Gigawatt Mozambique commissions gas fired power plant

Independent power producer **Gigawatt Mozambique SA** has commissioned a \$132m 120-megawatt gas-fired power station at **Ressano Garcia**, near Mozambique’s southern border with **South Africa**.¹⁹ Using the available gas to produce energy and sell it to the regional market where it is currently scarce, Mozambique can add substantial value to natural gas, create jobs and generate substantial tax and other revenue for the government.²⁰ Gigawatt Mozambique will supply electricity to government-owned **Electricidade de Moçambique EP (EdM)** under a long-term power purchase agreement.²¹ **Standard Bank Group** arranged loans for the construction of the plant, which is designed to supply about 12% of Mozambique’s total power demand.²²

The development of the power sector is an important component of Mozambique’s economic development agenda and has attracted private sector and public sector investment from abroad. EdM announced on 5 January that **KfW**, a **German**-state owned development bank, will provide €29m (\$31.28m) in financial support for projects aimed at improving Mozambique’s electricity grid.²³ Improving electricity transmission is a key component of Mozambique’s plan to boost economic growth.²⁴ Despite having great potential for electricity generation due to its hydropower and gas resources, Mozambique has a high power deficit as a result of a lack of production and inadequate transmission capacity.²⁵ EdM noted that €20m (\$21.58m) will fund an electricity transmission line between **Malawi** and Mozambique and the remaining €9m (\$9.7m) will support EdM’s short-term financing needs.²⁶ However, operations will only be implemented the agreements between the two governments and the financing agreement enter into force.²⁷

Vertically integrated, state-owned EdM is responsible for the generation, procurement, transmission, distribution and sale of electricity in Mozambique. The current head of EdM is **Mateus Magala**. Nyusi only recently appointed Magala, a former **African Development Bank (AfDB)** representative in **Zimbabwe**.

Moody’s puts Mozambique’s debt rating under review for a downgrade

International ratings agency **Moody’s Investors Services** placed Mozambique’s B2 government issuer rating on review for a downgrade on 17 December.²⁸ Moody’s has also placed under review the B2 backed senior unsecured foreign-currency rating of state-owned tuna fishing company **Empresa Moçambicana de Atum SA (Ematum)**.²⁹ Moody’s rationale for the downgrade review is external pressures, which result in diminished foreign exchange reserves and a weakening metical.³⁰ The foreign exchange reserves of the **Banco de Moçambique (BdM)** (central bank) were estimated at \$2.5 billion in August 2015, a similar level to earlier in the year, but sharply lower than the \$3.2 billion recorded a year ago in August 2014.³¹ Meanwhile, the deterioration in the external debt of both the government and the whole economy has continued, reaching respectively an estimated 60% and 99%

¹⁸ Source, oil and gas specialist, Maputo

¹⁹ Bloomberg, 15 Dec 2015.

²⁰ www.gigawatt.co.mz

²¹ Bloomberg, 15 Dec 2015.

²² Bloomberg, 15 Dec 2015.

²³ Lusa, 5 Jan 2016.

²⁴ Lusa, 5 Jan 2016.

²⁵ Lusa, 5 Jan 2016.

²⁶ Lusa, 5 Jan 2016.

²⁷ Lusa, 5 Jan 2016.

²⁸ Moody’s, Global Credit Research, 17 Dec 2015.

²⁹ Moody’s, Global Credit Research, 17 Dec 2015.

³⁰ Moody’s, Global Credit Research, 17 Dec 2015.

³¹ Moody’s, Global Credit Research, 17 Dec 2015.

of GDP in 2015. The government's external debt is mostly in dollars.³² As a result of the depreciation of the metical against the dollar, the burden of the government's future external debt payments is increasing. Moody's claims the capacity of the government to respond to these challenges is uncertain because the "pressures are strong and the room for maneuver limited".³³ Moody's notes that any external financing or additional foreign direct investment (FDI) could help alleviate the pressures. However, in the current global environment the government's capacity to attract further FDI or secured long-term external financing is uncertain.³⁴ In a statement released on 17 December, Moody's said,

*"An upgrade is very unlikely given the review for downgrade. However, Moody's would conclude the review with a confirmation of the rating if it expects external pressures to gradually ease in the coming years, allowing foreign exchange reserves to be preserved. As such, government access to external financing or increased foreign direct investment would be supportive to the rating ... The rating could come under additional pressure if Moody's were to conclude that the deterioration in Mozambique's balance of payments will continue, affecting the level of foreign exchange reserves. In particular, should medium-term external pressures heighten in Moody's view, the authorities' response will be key to the assessment."*³⁵

Implications

Nyusi will use the central committee meeting in February to consolidate his power within Frelimo and stamp his authority on Frelimo's governing bodies, in order to enhance stability within the party and allow Nyusi's new government to more effectively implement its governing agenda.

EMP's sale of a partial interest in the Buzi block is a positive sign for Mozambique's extractive sector. It is a sign the foreign investors still view Mozambique's gas sector with a positive outlook despite the headwinds of the global commodity downturn. Moreover, the deal may allow the government to garner substantial foreign currency from capital gains tax, at a time when access to foreign currency is increasingly important to counter the effects of the significant decline in the metical.

The commission of the Gigawatt Mozambique gas-to-power plant is another positive sign for the development of Mozambique's gas sector. By using available gas to produce energy and sell it to the regional market where it is currently scarce, Mozambique can add substantial value to natural gas, create jobs and generate substantial tax and other revenue for the government when it needs extra resources to reduce the current fiscal burden.

A potential downgrade from Moody's will increase the cost of borrowing on the international debt markets and put further pressure on the government to cut spending and improve its fiscal position.

³² Moody's, Global Credit Research, 17 Dec 2015.

³³ Moody's, Global Credit Research, 17 Dec 2015.

³⁴ Moody's, Global Credit Research, 17 Dec 2015.

³⁵ Moody's, Global Credit Research, 17 Dec 2015.

About Africa Risk Consulting:

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