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Security forces continue attempts to disarm Resistencia Nacional Moçambicana (Renamo), resulting in violent clashes. The Instituto Nacional do Petroleo (INP) (national petroleum institute) says the government will hold another oil and gas licensing round in 2017. Anadarko Petroleum is expected to make a final investment decision on the construction of its liquefied natural gas (LNG) facilities linked to the offshore Rovuma basin gas fields in the first quarter of 2016. The government plans to complete the restructuring of the Eurobond linked to state-owned tuna fishing company Empresa Moçambicana de Atum SA (Ematum). Fitch downgrades Mozambique's credit rating. The government asks the International Monetary Fund (IMF) for \$286m in emergency assistance to lessen the economic impact of falling commodity prices and a declining currency. State-owned Electricidade de Mocambique (EdM) increases electricity tariffs.

Clashes between Renamo and security forces

Interior minister **Jaime Monteiro** confirmed on 31 October that clashes between **Resistencia Nacional Moçambicana (Renamo)** and the **Força de Intervenção Rápida (FIR)** (rapid intervention force) took place in **Sofala** and **Zambezia Provinces** between 28 October and 30 October.¹ The continued clashes will delay a final comprehensive political agreement that will end the hostility between Renamo and the **Frente de Libertação de Moçambique (Frelimo)** government. The clashes in Zambezia took place in **Morrumbala District**, where Renamo said earlier this year that it had established a new barracks. Armed clashes erupted the night of 28 October, when security forces surrounded Renamo's Morrumbala barracks.² Renamo leader **Afonso Dhlakama** said the barracks

"... serve to defend the population against a possible violent reaction of the government, when the movement tries to implement the decision to govern by force in the six provinces of central and northern Mozambique".³

However, Monteiro claimed

"... Renamo gunmen attacked and burnt down houses in Morrumbala, but police action subsequently returned that district to calm and security."⁴

Monteiro also confirmed that security forces are now dismantling Renamo bases and collecting the weapons found there. He said this would continue despite the recent clashes.⁵ Monteiro described the Renamo bases as "*nests of instability*",⁶ and said removing them is necessary to guarantee public order and peace:

"Our main mission is to guarantee public order and tranquility ... So we shall continue to fight crime, particularly crime practised with the use of firearms."⁷

¹ Multiple sources: Deutsche Welle, 30 Oct 2015; AIM, 2 Nov 2015.

² Multiple sources: Deutsche Welle, 30 Oct 2015; AIM, 2 Nov 2015.

³ Multiple sources: Deutsche Welle, 30 Oct 2015; AIM, 2 Nov 2015.

⁴ Multiple sources: Deutsche Welle, 30 Oct 2015; AIM, 2 Nov 2015.

⁵ Multiple sources: Deutsche Welle, 30 Oct 2015; AIM, 2 Nov 2015.

⁶ Multiple sources: Deutsche Welle, 30 Oct 2015; AIM, 2 Nov 2015.

⁷ Multiple sources: Deutsche Welle, 30 Oct 2015; AIM, 2 Nov 2015.

Days after the Morrumbala clashes, a police patrol in **Maputo** raided a house of Renamo members in search of weapons.⁸

“The police claimed that they had evidence the Renamo men were criminals who have been robbing residents with sharp weapons at nights. Two men were detained violently and then presented to the police station together with Renamo uniforms and a dozen sharp weapons such as an axe and machetes allegedly apprehended at their house ... but local media coverage and journalists say no weapons were found at the house.”⁹

Resolving the ongoing tensions between Renamo and the Frelimo government will require a direct meeting between President **Filipe Jacinto Nyusi** (2015- present) and Dhlakama. However,

“There are still no signs of when the long-awaited face-to-face meeting between Dhlakama and Nyusi will take place, which is seen as a key step for resolving the political crisis which has hit the country for the last three years.”¹⁰

Moreover, there are reports of divisions within the ruling Frelimo government on how to handle the increased tension with Renamo.

*“Human rights activists and civil society criticised the police for [their] apparently biased attitude and urged the attorney-general to take legal proceedings against the police. On the other side, there have been increasing criticisms over Nyusi’s apparent apathy over the political tension. There is a growing gap between Nyusi’s speeches on peace and his acts in order to achieve such peace. Nyusi is also facing contradictions within his party over how to solve the issue. There is a strong group inside the party, which defends compulsory disarmament of Renamo as the only remaining way to end the conflict. Senior Frelimo member **Alberto Chipande**, member of the Frelimo political commission and the main supporter of Nyusi’s appointment as Frelimo’s presidential candidate, backs this position.”¹¹*

INP to launch new oil and gas bid round in 2017

The **Instituto Nacional do Petroleo (INP)** (national petroleum institute) evaluation director, **Jose Branquihó**, said on 30 October that the government will hold a new oil and gas licensing round in 2017. The next round will take place two years after the most recent round (see below), indicating INP plans to follow a new strategy of holding regular licensing rounds every two years to enhance the pace of development of Mozambique’s oil and gas sector.¹²

On 28 October, the INP announced the results of the fifth licensing round held this year.¹³ A total of 15 concession areas were included in the offshore **Rovuma, Angoche, and Zambezi** basins and the onshore **Pande-Temane** and **Palmeira** areas, covering approximately 74,259 square kilometres. The INP received bids from potential operators for six of the fifteen areas on offer.¹⁴ They include:

- Angoche (**Area A5-A**) – **Eni Mozambique**;
- Angoche (**Area A5-B**) – **ExxonMobil E&P Mozambique Offshore**;
- Zambezi (**Area A5-C**) – **ExxonMobil E&P Mozambique Offshore**;
- Zambezi (**Area A5-D**) – **ExxonMobil E&P Mozambique Offshore**;
- Pande-Temane (**Area PT5-C**) – **Sasol Petroleum Mozambique**;
- Palmeira (**Area P5-A**) – **Delonex Energy**.¹⁵

⁸ Source, political analyst, Maputo

⁹ Source, political analyst, Maputo

¹⁰ Source, political analyst, Maputo

¹¹ Source, political analyst, Maputo

¹² www.clubofmozambique.com

¹³ www.inp-mz.com

¹⁴ www.inp-mz.com

¹⁵ www.inp-mz.com

At one point during the process, non-governmental organisations (NGOs) feared that the INP would favour bids which included Mozambican companies or companies connected to politicians, regardless of their technical or financial background. However, the only Mozambican company among the selected bidders was state-owned oil and gas company **Empresa Nacional de Hidrocarbonetos (ENH)**.¹⁶

*"I think there is no Mozambican company with enough financial strength, courage and competence to invest its money in the risky upstream exploration ... And this is the reason why the government considers ENH as the main representative in the sector and [it] leads the local content efforts ... Two of the most important issues that accounted for the evaluation were the technical and financial proposals. According to the INP, during the first period of exploration, over the next four years, more than \$691m will be spent on drilling 10 wells, eight of them in deepwater, gathering seismic data and on other geotechnical studies."*¹⁷

Anadarko to make final investment decision on Rovuma Basin in 2016

ENH chairman **Omar Mitha** expects **Anadarko Petroleum**, a **United States**-based independent oil and gas exploration and production company, to make a final investment decision (FID) on the construction of its liquefied natural gas (LNG) facilities linked to the offshore Rovuma basin gas fields in the first quarter of 2016.¹⁸ The FID is important as it will remove uncertainty about Anadarko's commitment to the development of Mozambique's gas sector in the current low international commodity price environment. Anadarko country manager **John Peffer** said pulling out of the LNG project is *"not an option"*,¹⁹ but was less clear than Mitha on the expected FID date. Without committing to a timeline, Peffer said, *"we are working full out to achieve a final investment decision as soon as possible"*.²⁰

Anadarko aims to export its first LNG cargo from Mozambique in 2020, two years after the company's original target of 2018.²¹ However, analysts claim that 2020 is unrealistic.

*"Even if it went without a hitch, five years is probably not enough to finish this level of infrastructure."*²²

Ematum to restructure Eurobond

Finance minister **Adriano Maleiane** has publicly stated that he is optimistic that creditors of the \$850m Eurobond of state-owned tuna fishing company **Empresa Moçambicana de Atum SA (Ematum)** will lower the interest rate and extend the repayment period.²³ As a public entity, the Mozambique government is the guarantor of Ematum's debt. Any restructuring of Ematum's debt will negatively impact Mozambique's sovereign credit outlook and potentially increase borrowing costs on the international capital markets (see below). Ematum made its first \$100m payment on the bond in October. Maleiane said the government continues to guarantee Ematum's debt, but indicated that transferring the debt to a full sovereign issue rather than a debt linked to a public enterprise may provide the solution.²⁴ The government has hired **Banco Nacional de Investiment (BNI)** (national investment bank) to lead the government's debt renegotiations. Maleiane expects a final agreement with bond holders at the end of November.²⁵

¹⁶ Source, political analyst, Maputo

¹⁷ Source, business analyst, Maputo

¹⁸ AIM, 23 Oct 2015.

¹⁹ Reuters, 21 Oct 2015.

²⁰ Reuters, 21 Oct 2015.

²¹ Reuters, 21 Oct 2015.

²² Reuters, 21 Oct 2015.

²³ www.clubofmozambique.com

²⁴ www.clubofmozambique.com

²⁵ AIM, 23 Oct 2015.

A public finance scandal emerged in Mozambique related to the issuance of Ematum's Eurobond between 2013 and 2015. The continuing scandal threatens the credibility of Mozambique's public finance management. Several western donors reduced budget support and aid commitments to Mozambique in 2014 due to issues related to the bond and questions over Ematum's transparency.²⁶ Ematum was incorporated in 2013 with the main purpose of investing in fisheries activities and fish resources with a particular focus on tuna fishing. The proceeds of the bond issue reportedly went towards the purchase of fishing infrastructure assets and 27 new vessels.²⁷

Ematum launched Mozambique's first dollar bond on 5 September 2014. **BNP Paribas** and **Credit Suisse** managed the sale of the bond.²⁸ The \$500m bond has an interest rate of 8.5% and a seven-year maturity (2020).²⁹ At the time Mozambique had a B+ rating from international ratings agencies **Standard & Poor's** and **Fitch Ratings**, but the bonds themselves have no rating.³⁰ At the time of the Ematum bond issuance, **Italian** ambassador **Roberto Vellano**, the then head of Mozambique's western donor group, said,

*"Between late 2013 and early 2014, our partnership passed through moments of difficulty, relating mainly to questions around the operation of the Ematum company with respect to fiscal transparency and the control of public investment. This caused some partners to delay releasing their funds."*³¹

Protests against Ematum escalated in June, with the public demanding that immediate past president **Armando Emilio Guebuza** (2005-2015) explain publicly how the business was established.³² The main concern is the level of debt the government-owned company raised.

*"It is said that this business doubled Mozambique's public debt, and Ematum represented 53% of Mozambique's public debt to international financial markets ... The opposition says this is the greatest financial scandal since independence and demands that Guebuza be arrested for investigation, together with his former minister of finance, **Manuel Chang**."*³³

In an interview with local independent newspaper **Savana**, former prime minister **Luisa Diogo** said "something went wrong" in a study into the structuring of Ematum's debt.³⁴

*"The current finance minister, Adriano Maleiane, said the government was going to renegotiate the terms of payment and the interest rate. Maleiane said the seven-year repayment period for the bond was too short and its interest rate was too high."*³⁵

The opposition **Movimento Democrático de Moçambique (MDM)** said that the authorities should detain Guebuza and Chang in order to get a proper explanation of the "real purpose" of the Ematum financing agreement.³⁶

*"Reports from inside Frelimo indicate that the party is divided over Guebuza's involvement in Ematum's business. There are those who believe Guebuza took personal benefits from the business and demand that he should be taken to court."*³⁷

²⁶ Source, political analyst, Maputo

²⁷ www.thezambebian.com

²⁸ Multiple sources: www.reuters.com; www.undercurrentnews.com

²⁹ Multiple sources: www.reuters.com; www.sharenet.co.za

³⁰ www.reuters.com

³¹ Mozambique News Reports & Clippings No. 262, 13 Jun 2014.

³² Source, political analyst, Maputo

³³ Source, political analyst, Maputo

³⁴ Savana.co.mz

³⁵ Source, political analyst, Maputo

³⁶ Source, political analyst, Maputo

³⁷ Source, political analyst, Maputo

Fitch downgrades Mozambique's credit rating

Fitch Ratings downgraded Mozambique's credit rating on 30 October.³⁸ Fitch downgraded Mozambique's long-term foreign and local currency issuer default ratings (IDR) to B from B+ with a stable outlook. Fitch has affirmed Mozambique's short-term IDR at B. The downgrade will increase the cost of borrowing on international capital markets, which may impact the cost of key government infrastructure projects. Fitch said the key reasons for the downgrade are Mozambique's deteriorating fiscal profile, reflected in higher budget deficits, and a sharp increase in public debt.³⁹

*"Government debt has continued to rise rapidly as a result of high financing needs and the 40% depreciation of the metical in the first nine months of 2015 (around 80% of total public debt is denominated in foreign currency). Fitch expects government debt/GDP to reach a 10-year high of 61.6% in end-2015 (compared to 37.6% in 2011), before falling modestly in 2016-17 on the back of strong nominal growth. However, increased borrowing by state-owned entities, on which there is limited transparency, and the potential use of state guarantees represent important risks to our forecasts."*⁴⁰

Government seeks IMF loan

The government has asked the **International Monetary Fund (IMF)** for \$286m in emergency assistance to lessen the economic impact of falling commodity prices and the declining currency (see below). The metical has declined 29% against the dollar this year.

*"Mozambique has requested financial assistance from the IMF for the first time in a decade. The IMF was once an important creditor for Mozambique, but all of the country's debts were cancelled in 2005, under the **Multilateral Debt Relief Initiative** ... this is just the beginning of the financial impacts resulting from the \$850m loan contracted by the government on the Eurobond market in 2003 for Ematum [see above], a bankrupt firm considered by the public as a fiasco."*⁴¹

The IMF loan is subject to board approval, with the board scheduled to meet in the mid-December.⁴² The IMF will distribute the funds through an 18-month programme that includes commitments towards the implementation of policy reforms such as curbing the budget deficit, raising interest rates and improving the way the foreign exchange market works. The IMF said,

*"While medium-term prospects remain positive, short-term challenges have become more complex ... As [with] other countries in the region, Mozambique is currently experiencing an external shock associated with the drop in commodity prices, lower growth in trading partners, and delays in investment associated with large natural resource projects."*⁴³

EdM raises electricity tariffs

Electricidade de Moçambique (EdM) commercial director **Sergio Parruque** said on 6 November that the state-owned power producer had increased electricity tariffs as of 1 November.⁴⁴ The electricity tariff increase will negatively impact consumers, increase the cost of running businesses and add to inflationary pressures. Parruque said that domestic consumers, who account for 92% of EDM's clients, will pay an extra \$01.3 per kilowatt/hour (kWh) and the general tariff for trade, offices, public institutions and companies will increase \$0.04 cents per kWh.⁴⁵ The tariff for low voltage agricultural electricity users, and the tariff for low-income households who consume less than 100

³⁸ af.reuters.com

³⁹ af.reuters.com

⁴⁰ af.reuters.com

⁴¹ Source, political analyst, Maputo

⁴² www.bloomberg.com

⁴³ www.imf.org

⁴⁴ En.starafrica.com

⁴⁵ En.starafrica.com

kilowatt/hours a month, remain unchanged. The last price increase of 13.4% was in 2010 and coincided with increases in the prices of several other goods and services, notably bread, which led to serious rioting in Maputo in September 2010.⁴⁶

Vertically integrated EdM is responsible for the generation, procurement, transmission, distribution and sale of electricity in Mozambique. President Nyusi appointed **Mateus Magala** as current head of EdM in August.⁴⁷ Magala was a former **African Development Bank (AfDB)** representative in **Zimbabwe**.

Implications

The continued clashes will delay a final comprehensive political agreement to end the hostility between Renamo and the Frelimo government. The government is not united on a strategy to deal with the increasingly violent conflict.

Regular oil and gas licensing rounds will enhance the pace of oil and gas sector development, and allow the government to gain maximum advantage from the sector as oil and gas prices slowly recover. Anadarko's commitment to its Rovuma basin FID is a sign of confidence in Mozambique's nascent offshore gas sector and will build confidence in the wider extractive sector in northern Mozambique.

The restructuring of Ematum's debt will negatively impact Mozambique's sovereign credit outlook and increase borrowing costs on the international capital markets, which may lead the government to seek further international assistance beyond the IMF and further credit downgrades.

The electricity tariff increase will negatively impact consumers, making the cost of running business more expensive and adding to existing inflationary pressures.

⁴⁶ En.starafrika.com

⁴⁷ www.clubofmozambique.com, 26 Aug 2015.

About Africa Risk Consulting:

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