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Resistencia Nacional Moçambicana (Renamo) leader Afonso Dhlakama calls off peace talks. Renamo attacks a Nacala Logistics Corridor train. The government says its sovereign debt is distressed and requires restructuring. The government hires United States (US)-based corporate investigations and risk consulting firm Kroll to conduct a sovereign debt audit. Eurobond holders call for a completed audit before debt relief negotiations with government begin. President Filipe Nyusi (2015- present) appoints Leticia Deusina da Silva Klemens as energy and minerals resources minister. The Banco de Moçambique (BdM) (central bank) orders liquidation of O Nosso Banco. International ratings agency Standard & Poor's (S&P) downgrades Mozambique's sovereign credit rating.

Dhlakama calls off peace talk meeting

Mozambican media reported on 26 October that **Resistencia Nacional Moçambicana (Renamo)** leader **Afonso Dhlakama** had called off peace talk meetings after fighting broke out between Renamo fighters and government security forces.¹ Dhlakama's decision is a setback to the new recently resumed round of peace talks after their suspension following the killing of the opposition negotiators (see *ARC Briefing Mozambique July, August, September 2016*). The new suspension is likely to further delay any eventual final peace agreement.²

The cancelled meetings were part of negotiations that started in May to end the low-level conflict between the government and Renamo. Dhlakama told Mozambican weekly independent newspaper **Canal de Moçambique** that, "We had agreed that two mediators would come... to meet me"³, but Dhlakama, who was in his hideout in the central **Gorongosa** mountains, said the **Forças Armadas de Defesa de Moçambique (FADM)** (Mozambique defense forces) increased their presence near the venue for the meeting on the morning of the talks.⁴ Dhlakama claimed,

"There was a violent shootout. I even heard the explosions from here ... so I called [Mario Raffaelli] to tell him that armed forces had come to ambush me."⁵

Dhlakama was "convinced"⁶ that the ruling **Frente de Libertação de Moçambique (Frelimo)** party "wanted to capture me during the meeting".⁷ Raffaelli, the **European Union (EU)**-appointed mediator, declined to comment, but an EU diplomat told the **AFP** news agency that two mediators had gone to Gorongosa for a meeting with Dhlakama, "[But] Dhlakama told them to turn back at the very last moment."⁸

¹ www.news24.com

² www.news24.com

³ www.news24.com

⁴ www.news24.com

⁵ www.news24.com

⁶ www.news24.com

⁷ www.news24.com

⁸ www.news24.com

Renamo attacks coal train

Renamo gunmen, on 8 November, attacked a **Nacala Logistics Corridor (NLC)** train.⁹ The attack indicates the need for companies using Mozambique's main railways to increase security as Renamo tries to disrupt transportation along major transport routes. Renamo gunmen opened fire on an NLC train that was travelling to **Nacala-a-Velha**, where a new coal export port is now operational.¹⁰ However, there were no reports of casualties or material damage. This is not the first Renamo attack on a coal train. Renamo, on 6 October, attacked a **Vale** coal train at **Mutuali in Malema District (Nampula Province)**, the third attack on a coal train.¹¹ Renamo gunmen previously attacked a Vale coal train at **Becanta in Cheringoma District (Sofala Province)** on 25 July.¹² The train was transporting coal from **Moatize (Tete Province)** to the port of **Beira**.¹³ A train conductor and security guard were slightly injured in the attack.¹⁴ On 7 June, Renamo gunmen attacked another Vale coal train, also in Cheringoma District.¹⁵ The attack was the first time Renamo has targeted a commercial train, since it stepped up hostile action this year.¹⁶

Government says sovereign debt requires restructuring

The finance ministry, on 25 October, published a report entitled 'presentation to creditors' on its website detailing the need to restructure Mozambique's sovereign debt. Finance minister **Adriano Maleiane** describes Mozambique's debt as distressed and warns the government will not have the ability to make interest payments on its sovereign debt in January 2017.¹⁷ According to the authors of the report, **United Kingdom (UK)-based Lazard Ltd** and UK-based **White & Case LLP**, respectively the financial and legal advisers to the Mozambique government,¹⁸ whom the finance ministry retained in August 2016 to help assess its foreign debt and advise on sovereign debt restructuring (see previous *ARC Briefing* for Mozambique):

*"Mozambique's external public and publicly guaranteed debt profile is not sustainable. According to the [International Monetary Fund] IMF's [debt sustainability framework for low income countries, Mozambique is in debt distress..."*¹⁹

The report highlighted the recent deterioration in Mozambique's macro-economic environment, which has negatively impacted the government's ability to finance fiscal expenditures in the short and medium term.²⁰

*"Mozambique's economy has been negatively affected by the deterioration in the global commodity prices and this year's climate conditions ... The substantial depreciation of the metical and the decrease in foreign exchange reserves have exacerbated the economic crisis ... The macroeconomic framework has been affected by (i) the suspension of IMF financing under the 2015 Standby Credit Facility (SCF), (ii) the withdrawal of aid from donor countries and (iii) the significant increase in general government gross debt. These factors have added pressure to the already very limited fiscal space and forced the government to make substantial cuts in public expenditure ..."*²¹

⁹ www.allafrica.com

¹⁰ www.allafrica.com

¹¹ Lusa, 26 Jul 2016.

¹² Lusa, 26 Jul 2016.

¹³ Lusa, 26 Jul 2016.

¹⁴ Lusa, 26 Jul 2016.

¹⁵ Multiple sources: Reuters, 7 Jun 2016; AIM, 7 Jun 2016.

¹⁶ Multiple sources: Reuters, 7 Jun 2016; AIM, 7 Jun 2016.

¹⁷ www.bloomberg.com

¹⁸ www.bloomberg.com.

¹⁹ Government of Mozambique, Presentation to Creditors, 25 Oct 2016.

²⁰ Government of Mozambique, Presentation to Creditors, 25 Oct 2016.

²¹ Government of Mozambique, Presentation to Creditors, 25 Oct 2016.

The government therefore wants to reach a deal with bondholders and other creditors to restructure existing sovereign debt, to allow the government room to negotiate an agreement with the IMF.²² This is because the IMF will not disburse any further funds to countries that it classifies as ‘debt distressed’.²³ IMF spokesperson **Gerry Rice** said on 27 October that

“In line with Fund policies, we cannot disburse funds in a situation where we think the debt is not sustainable.”²⁴

The government noted in the report the importance of resuming a working relationship with the IMF:

“Mozambique’s primary objective is to resume relations with the IMF in order to stabilize the economy and restore confidence of the international community ... IMF discussions can only resume if Mozambique is no longer in ‘debt distress’ category, which entails putting the government of Mozambique’s public and publicly guaranteed debt on a sustainable path ... Two pre-conditions must be met in order for the IMF to resume discussions with Mozambique authorities on program financing support: (i) an effective initiation of the audit process and (ii) the removal of the country debt distress classification...”²⁵

Media reports indicate that the government may seek relief for as much as 40% of Mozambique reported sovereign debt stock of \$10.1 billion.²⁶ Lazard and White & Case are expected to start talks with creditors as soon as possible.²⁷ The target appears ambitious, but the Mozambique government understands cooperation with creditors is paramount.

“A collaborative process is of paramount importance to engage in a constructive dialogue with creditors with a view to restore Mozambique’s debt sustainability in the medium to long term and ensure the resumption of an IMF financed program...”²⁸

Despite the short-term sovereign debt crisis, Mozambique’s longer-term economic outlook is positive, due to the ongoing development of the offshore gas sector (see *ARC Briefing Mozambique August, September, October 2016*). The government’s report stated that,

“Significant streams of revenues will increase the fiscal space after 2021 ... The government payment capacity is therefore expected to significantly increase after 2021, subject to a timely implementation of the offshore gas projects... Significant revenues will be derived in the form of royalties and other taxes from the projects in the energy sector... Government revenue is expected to increase by an average \$2,000 million per year between 2021 and 2025... Preliminary estimations indicate revenues as high as \$6,211 million starting from 2023...”²⁹

Government hires Kroll to conduct sovereign debt audit

International media reported on 4 November that Mozambique’s **Procuradoria-Geral da República (PRG)** (attorney general’s office) hired risk management consulting firm **Kroll** to conduct an audit of three companies linked to Mozambique’s sovereign debt scandal – state-owned entities **Empresa Moçambicana de Atum SA (Ematum)**, **Proindicus** and **Mozambique Asset Management (MAM)**.³⁰ The attorney general’s office reportedly agreed to the selection of Kroll with the IMF, who had made an independent sovereign debt audit a key component of any agreement to reestablish lending to Mozambique (see *ARC Briefing Mozambique April – October 2016*) and the **Swedish** government, which is reportedly paying for the Kroll audit.³¹ According to the terms of the tender, Kroll has to

²² www.bloomberg.com

²³ www.bloomberg.com

²⁴ www.bloomberg.com

²⁵ Government of Mozambique, Presentation to Creditors, 25 Oct 2016.

²⁶ www.bloomberg.com

²⁷ www.publicfinanceinternational.org

²⁸ Government of Mozambique, Presentation to Creditors, 25 Oct 2016.

²⁹ Government of Mozambique, Presentation to Creditors, 25 Oct 2016.

³⁰ Reuters, 5 Nov 2016.

³¹ Joseph Hanlon reports, 6 Nov 2016.

complete its audit within 90 days.³² However, the government has not released the details of the tender but the attorney's general office said,

*"... the purpose of the audit is to provide the PRG with an analysis of the financing contracts and the funds obtained from them, of the acquisitions made, as well as the identification and analysis of possible irregularities in the management and use of those funds..."*³³

It is unclear whether Kroll's audit will only focus on the above three companies, or if it is expected to trace beneficiaries of alleged stolen or misused government funds.³⁴

Eurobond holders call for completed audit before debt relief negotiations

International media reported on 14 November that holders of Mozambique's **Eurobonds** refused to enter into debt relief talks with the Mozambican government until Kroll has completed its audit of Mozambique's previously undisclosed sovereign debt (see above).³⁵ The Eurobond holders' refusal will delay any eventual debt relief package because the government is looking to get a deal with its creditors before it negotiates a financing package with IMF.³⁶ The government wants to reach a deal in principle with its Eurobond creditors in December and finalise a debt resolution plan in January 2017 before a \$60m Eurobond coupon payment is due.³⁷ **Charles Blitzer**, a **Washington D.C. (United States)** based consultant advising a group of investors who hold 60% of Mozambique's \$727m Eurobond (that matures in 2023) told **Bloomberg**.³⁸

*"I have never seen a country contemplating a restructuring attempt to put the cart before the horse in this way ... It is rather unusual – if not unprecedented – to ask for debt relief negotiations before full information is provided and the outlines of the IMF program are in place and available to creditors."*³⁹

Anne Fruhauf, an analyst at **Teneo Intelligence** said,

*"This strategy is quite a gamble for the bondholders as I don't think the government is prepared to make a bond payment in January ... A default would confirm that Mozambique, a once-promising frontier market, is moving from bad to worse."*⁴⁰

The Mozambican government has already indicated it does not have the ability to make Eurobond payments in 2017 (see above) and, as a result, said there is

*"... no basis for distinguishing between different holders ... This is simply a fact that the bondholders will need to accept so that we can move forward."*⁴¹

Members of the 2023 Eurobond holders group, which represents 60% of investors of the 2023 issuance, include: **Alliance Bernstein**, **Franklin Templeton Investment Management**, **Greylock Capital Management**, **NWI Management** and **Pharo Management**.⁴² The group has insisted that as they have already accepted one debt swap (see *ARC Briefing Mozambique August 2016*), other commercial and bilateral lenders *"... should be first to take the additional pain Mozambique plans to inflict"*.⁴³

³² Joseph Hanlon reports, 6 Nov 2016.

³³ Joseph Hanlon reports, 6 Nov 2016.

³⁴ Joseph Hanlon reports, 6 Nov 2016.

³⁵ Bloomberg, 14 Nov 2016.

³⁶ Bloomberg, 14 Nov 2016.

³⁷ Bloomberg, 14 Nov 2016.

³⁸ Bloomberg, 14 Nov 2016.

³⁹ Bloomberg, 14 Nov 2016.

⁴⁰ Bloomberg, 14 Nov 2016.

⁴¹ Bloomberg, 14 Nov 2016.

⁴² Bloomberg, 14 Nov 2016.

⁴³ www.iol.co.za

Nyusi appoints new energy & minerals resources minister

President **Filipe Nyusi** (2015- present), on 17 October, appointed **Leticia Deusina da Silva Klemens** as energy and minerals resources minister, after sacking former energy and minerals resources minister **Pedro Couto** on 29 September (see *ARC Briefing Mozambique October 2016*).⁴⁴ Klemens is not well-known in government and does not have extensive direct energy and minerals sector experience. However, she does have private sector experience and appears to have links to former senior ruling Frelimo party officials. In 2010, Klemens reportedly had links to **Miguel Nhaca Guebuza**, through a company called **Beta Holding**.⁴⁵ Miguel Nhaca Guebuza is married to the daughter of former president **Armando Emilio Guebuza** (2005-2015), **Tendai Mavhunga**.⁴⁶ Klemens was also reportedly linked to **Samora Moises Machel Junior**, the son of late Mozambican president **Samora Machel** (1975-1986) and **Nkutema Namoto Alberto Chipande**, the son of former defence minister and current member of Frelimo's powerful political commission, **Alberto Chipande**, in a company called **+258 Ltd**.⁴⁷ She is also reportedly linked to **Martina Chissano**, the daughter of former president **Albertao Joaquim Chissano** (1986-2005).⁴⁸

Prior to her appointment as energy and mineral resources minister, Klemens was chair of the Mozambique-based bank **Millennium BIM** (since 2015).⁴⁹ She also held senior positions in the following organisations:

- President of the **Associação das Mulheres Empresárias e Empreendedoras Moçambicanas (FEMME)** (Association of Mozambican businesswomen and entrepreneurs);⁵⁰
- Secretary and director of **Confederação das Associações Económicas de Moçambique (CTA)** (Confederation of economic associations of Mozambique);⁵¹
- Member of the **Comissão Consultiva do Trabalho (CCT)** (Consultative labour council);⁵²
- President of the **Associação Moçambicana de Agências de Emprego (AMAE)** (Mozambican association of employers);⁵³
- Founder of the **Fundo de Poupança Solidária (FPS)** (Solidarity savings fund).⁵⁴

She is also a director and partner in a company called **Human Resources Consulting Ltd** (since 2000)⁵⁵ and was a partner and marketing director for a company called **Proserv** (since 1999).⁵⁶

Klemens was born in **Maputo** in 1972⁵⁷ and holds a law degree from the **Instituto Superior Politécnico Universitário de Maputo** (University Polytechnic Institute of Maputo).⁵⁸ She also holds advanced training and management certificates from **Portugal** and Mozambique.⁵⁹ She was the recipient of a 2010 **African Women Lead Business** award.⁶⁰

⁴⁴ www.verdade.co.mz

⁴⁵ www.verdade.co.mz

⁴⁶ www.verdade.co.mz

⁴⁷ www.verdade.co.mz

⁴⁸ www.verdade.co.mz

⁴⁹ opais.sapo.mz

⁵⁰ www.clubofmozambique.com

⁵¹ opais.sapo.mz

⁵² opais.sapo.mz

⁵³ opais.sapo.mz

⁵⁴ inst.millenniumbim.com.mz

⁵⁵ opais.sapo.mz

⁵⁵ opais.sapo.mz

⁵⁶ inst.millenniumbim.com.mz

⁵⁷ opais.sapo.mz

⁵⁸ www.clubofmozambique.com

⁵⁹ inst.millenniumbim.com.mz

⁶⁰ inst.millenniumbim.com.mz

Central bank orders liquidation of O Nosso Banco

The **Banco de Moçambique (BdM)** (central bank) ordered the liquidation of **O Nosso Banco** on 11 November.⁶¹ The failure of O Nosso Banco is linked to the failure of the bank's 2014 restructuring plans, which included recapitalisation and the introduction of new management.⁶² This is the second time the BdM has had to intervene to rescue commercial banks, which have suffered under the currency and credit crisis as a result of Mozambique's ongoing sovereign credit crisis. In October, the BdM organised a bailout of Mozambique's fourth largest commercial bank, **Moza Banco**.⁶³

*"According to the central bank, the financial position of O Nosso Banco had shown a continual decline in its main prudential and profitability indicators. Besides, it was poorly capitalised and had an unsustainable economic and financial structure and was also suffering from serious liquidity and management problems."*⁶⁴

The liquidation is a part of a strategy of new BdM governor **Rogério Zandamela**, a former IMF senior officer whom Nyusi appointed in August to impose better financial management on Mozambique's commercial bank.⁶⁵ A senior business analyst and academic said,

*"... Zandamela is trying to correct public the mismanagement and financial problems in the financial sector which were kept under the carpet for years ... which was the reason why commercial banks could not be trusted by multinationals such as [Italy-based] Eni and [US-based] Anadarko ... they were reluctant to follow government orders to use national banks in their financial transactions."*⁶⁶

A journalist and political analyst said,

*"... the problem with the Mozambican financial sector is that they are all operating under political rules rather than financial and market rules ... O Nosso Banco financial results in 2014 and 2015 had shown potential financial difficulties, as the bank was already experiencing significant losses ... Another problem is the traditional practice of using private business to offer financial benefits to Frelimo figures. It seems O Nosso Banco was in such situation. Its board of directors included **Mariano Matsinha**, a senior Frelimo member and former liberation combatant who has no financial background, but collected huge sums of money in salaries without doing anything in change..."*⁶⁷

BdM has guaranteed all consumer deposits held in O Nosso Banco⁶⁸ through its deposit guarantee fund.⁶⁹

O Nosso Banco was established in 1999 under the name **Banco Mercantil e de Investimentos** and changed its name to O Nosso Banco in 2015.⁷⁰ O Nosso Banco has a head office, three branches and eight ATMs, all in Maputo.⁷¹ O Nosso Banco's shareholders were government owned **Instituto Nacional de Segurança Social (INSS)** (national social security institute) (72.2%); government owned power utility **Electricidade de Moçambique (EdM)** (16.13%); Frelimo-linked **SPI – Gestão e Investimentos** (4.19%) and **Rwandan** businessman **Alfred Kalisa** (2.14%).⁷²

⁶¹ Reuters, 13 Nov 2016.

⁶² Reuters, 13 Nov 2016.

⁶³ Reuters, 13 Nov 2016.

⁶⁴ Source, political analyst, Maputo

⁶⁵ Source, political analyst, Maputo

⁶⁶ Source, business analyst and academic, Maputo

⁶⁷ Source, journalist and political analyst, Maputo

⁶⁸ Reuters, 13 Nov 2016.

⁶⁹ AIM, 11 Nov 2016.

⁷⁰ AIM, 11 Nov 2016.

⁷¹ www.macauhub.com.mo

⁷² Multiple sources: AIM, 11 Nov 2016; www.macauhub.com.mo

S&P downgrades Mozambique's sovereign credit rating

International ratings agency **Standard & Poor's (S&P)** downgraded Mozambique's sovereign credit rating on 4 November.⁷³ S&P's downgrade will make government borrowing more expensive and negatively impact the government's already distressed fiscal position. S&P lowered Mozambique's sovereign credit rating to CC (default with some hope of redemption) from CCC (ultra speculative) with a negative outlook.⁷⁴ The negative outlook is mainly due to Mozambique's expected restructuring of its US dollar denominated bonds that mature in 2023, which for S&P's opinion is tantamount to a default.⁷⁵ In April 2016, Mozambique issued \$726m of new bonds maturing in 2023. As part of this transaction, a first tranche of repayment of nearly \$60m is expected on 18 January 2017. However, the government indicated that its fiscal challenges may result in a failure to meet debt obligations in 2017, unless it restructures its sovereign debt.⁷⁶

Implications

Renamo's decision to call off peace negotiation meetings in October will increase mistrust between Renamo and the government, and delay an eventual peace agreement. The government believes a resolution of the conflict with Renamo is an important component of Mozambique's economic recovery. However, a resolution between the Frelimo government and Renamo is not expected this year and is not likely to come to a conclusion in early 2017, as the government and national assembly are focused on resolving the sovereign debt crisis (see above). Renamo's attack on the NLC coal train is an indication that it will continue to launch attacks on key infrastructure targets. Hence companies operating assets on key railways will look to increase security measure until a peace agreement is reached.

Mozambique's distressed debt position will put pressure on the government and creditors to come to a mutually beneficial debt deal, but any deal remains contingent on the completion of Kroll's sovereign debt audit.

Klemens is not well known in government and does not have extensive direct energy and minerals sector experience. However, her appointment is not expected to negatively impact the development of Mozambique's nascent offshore gas and LNG sectors.

BdM's liquidation of O Nosso Banco and S&P's downgrade of Mozambique's sovereign credit rating is a sign that the ongoing sovereign debt crisis is not only impacting government finances but starting to impact businesses on the ground, particularly in the banking sector. O Nosso Banco's failure and S&P's decision will increase pressure on the government to reach a deal with Eurobond creditors and the IMF, in order to enhance short to medium term economic growth and stability.

⁷³ www.reuters.com

⁷⁴ Multiple sources: www.reuters.com; www.agenceecofin.com

⁷⁵ www.reuters.com

⁷⁶ Multiple sources: www.reuters.com; www.agenceecofin.com

About Africa Risk Consulting:

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