

## AFRICA RISK CONSULTING

### Country briefing – Mozambique

19 September 2013

## Summary

*Talks between the ruling Frente de Libertação de Moçambique (Frelimo) and the main opposition Resistência Nacional Moçambicana (Renamo) stall. Renamo resorts to violence as the party's political capital wanes. Renamo leader, Alphonso Dhlakama is out of touch with the electorate and may face internal challenges. US-based Anadarko is confident it will meet 2018 deadline for first commercial liquefied natural gas (LNG) export. Mineral production increases 34% in the first half of 2013. Mozambique's anti-corruption Gabinete Central de Combate a Corrupção (GCCC) warns of increasing public sector corruption. The Mozambique government issues its first US dollar international bond.*

### 1.1 Renamo calls for more discussion on composition of CNE ...

The main opposition party, the former rebel movement **Resistência Nacional Moçambicana (Renamo)**, has called for foreign and domestic facilitators to mediate negotiations with the ruling **Frente de Libertação de Moçambique (Frelimo)** party and the small opposition **Mozambique Democratic Movement (MDM)** on the composition of the **Commissao Nacional de Eleicoes (CNE)**. The main sticking point for Renamo is its demand for parity between itself and Frelimo with regards to CNE appointments. The CNE, under a 13 member management committee, acts as an impartial and independent body that oversees elections. Renamo wants equal representation as a check on Frelimo's power to influence elections. Parliament already voted against Renamo's demands in December 2012. Renamo claims that the legislation passed in December will not guarantee free, fair and transparent elections. There was no parity on previous CNEs, and Renamo in 2003 won in five municipalities (**Beira, Marromeu, Angoche, Nacala and Mozambique Island**). The MDM won in a by-election in **Quelimane** in 2011.<sup>1</sup>

### 1.2 Talks with Renamo stall...

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<sup>1</sup> AIM, 2 Sept 2013

Renamo leader **Alphonso Dhlakama** says he is willing to hold face-to-face discussions with President **Armando Emilio Guebuza** (2005 – present) if his security is guaranteed and the army withdraws from around Dhlakama's **Satunjira** base in the **Gorongosa Mountains**. Dhlakama made the announcement after meeting with **Anglican** bishop **Dinis Sengulane** and a delegation from the **Electoral Observatory**, a coalition of religious bodies and NGOs trying to broker peace between Renamo and Frelimo.<sup>2</sup>

Renamo is increasingly resorting to violence to get its message across. On 4 April, Renamo members attacked a police base in **Muxungue**, killing four officers. Renamo said the assault was in response to a police raid on its offices the day before. Police arrested 15 Renamo leaders during the raid, claiming they were carrying out military drills. On 6 April, alleged Renamo gunmen, in green uniforms, attacked a bus and a fuel truck outside Muxungue, killing three civilians. The recent violence is part of a wider narrative, with Renamo typically using election periods to raise grievances. These include calls for renegotiation of the 1992 **Rome General Peace Agreement** and reform of the electoral system so as to challenge Frelimo's political and economic hegemony. Renamo repeatedly complains about voter fraud and demands more representation in the CNE (see above). Renamo boycotted mayoral elections in December 2011 and April 2012, further weakening its political position. Renamo also plans to boycott municipal elections scheduled for 20 December. Other demands include redefining the composition of the armed forces and the police, and the disbandment of the rapid intervention police (FIR). Renamo also seeks to benefit financially from Mozambique's coal and gas deposits, but the government is unlikely to compromise.<sup>3</sup>

Renamo has limited capacity and Renamo linked violence is limited to the central **Sofala Province**, a traditional Renamo stronghold, and poses little risk to Mozambique's overall stability. Renamo's military strength is not what it was during the civil war years, when the **South African** government supported it. Dhlakama's forces are apparently aging and ill equipped.<sup>4</sup>

*"The attacks in Muxungue show that Renamo are still good tacticians, but they're not good strategists. It will have been prompted by military leaders that Dhlakama persuaded not to join the Forças Armadas de Defesa de Moçambique. They are now wondering whether they have benefitted from their decision to stick with Renamo, and how far they might have been promoted had they left."<sup>5</sup>*

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<sup>2</sup> Multiple sources: AIM 9 Sept 2013; AFP, 11 Sept 2013

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

<sup>4</sup> AFP, 4 April 2013

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

Localised violence will have a limited impact on the overall business environment. Renamo has threatened to attack the **Sena** railway line through the region that carries coal from the **Moatize** region in **Tete Province**, which would knock investor confidence. Dhlakama has said that he will not ensure the protection of the railway, *“what have I gained from the international community? I owe them nothing.”*<sup>6</sup>

### 1.3 Dhlakama’s political capital is waning...

On the political side, Dhlakama has often used bluster in an attempt to address Renamo’s declining electoral support and representation in parliament, the result of Renamo’s precarious financial system and poor record of governance at municipal level. Dhlakama is out of touch with the electorate, having failed to reinvent his movement or redefine his ideology after the end of the civil war. Moreover, Dhlakama’s move to Satunjira (see above) has distanced him from politics.

Threats of violence have undermined his demands for dialogue and alienated Renamo from ordinary Mozambicans who dread the resumption of conflict. This is especially the case amongst the young who are more concerned with the country’s economic and social development.<sup>7</sup> Dhlakama is facing opposition from critics in Renamo who believe his decision to boycott the election will leave the party even more isolated. However, there is no major challenger to Dhlakama from within Renamo. Continued threats to return to conflict would not therefore encourage the emergence of factions within Renamo, but would instead mean defections to the MDM.

*“Dhlakama never became a politician, but at the same time never allowed competing politicians to rise up in Renamo. In 1999, he rejected a deal negotiated by **Raul Domingos** that would have allowed Dhlakama to appoint three governors. Not only has Dhlakama been marginalised ever since, but he also kicked Domingos out of the party.”*<sup>8</sup>

Dhlakama’s threats to return Mozambique to war appear hollow. Renamo must perceive that Frelimo is taking talks seriously, while the government must ensure its security forces act in a restrained and measured manner. As insurance against Renamo linked violence, the Frelimo government is looking to increase the fire power of the military and air force through alleged arms supply contracts with Russia and China.

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<sup>6</sup> AFP, 10 April 2013

<sup>7</sup> Source, banking executive, Maputo

<sup>8</sup> Source, analyst, Maputo

#### 1.4 Anadarko is confident it will meet LNG production schedule...

**Anadarko**, a **United States (US)** based independent oil and gas exploration and production company, says it is confident it can maintain its original schedule for constructing liquefied natural gas (LNG) facilities in the northern Mozambican province of **Cabo Delgado**, allowing the first exports of LNG to take place in 2018. Speaking at an LNG Conference in **Tokyo** in September, Anadarko CEO **Al Walker**, said the company will sign gas supply contracts with about 20 buyers over the next year.<sup>9</sup> **Roberto Abib**, Anadarko manager of corporate affairs, put the total investment required between \$25 and \$30 billion, the largest investment made in any Mozambican industry. The onshore processing units would produce between 3,000 and 5,000 barrels of LNG per day, during the projected 30-year life span of the project.

Anadarko heads the consortium that has discovered large quantities of gas in Area 1 in the **Rovuma Basin**, off the Cabo Delgado coast. An **ENI** led consortium has made similar discoveries in the adjacent Area 4. The Anadarko and ENI plans to development the offshore gas market will turn Mozambique into one of the world's main LNG producers.<sup>10</sup>

The production of LNG in Cabo Delgado could earn Mozambique annual revenues in excess of \$10 billion, according to mineral resources minister **Esperanca Bias**. Bias claims 95 trillion cubic feet (tcf) of natural gas has already been discovered in offshore Area 1 of the Rovuma Basin and a further 75 tcf in the neighbouring Area 4.<sup>11</sup> On 3 September, ENI announced a further major discovery of natural gas in Area 4. An ENI press release said that the reserves discovered at the Agulha well could contain between five and seven tcf of gas.<sup>12</sup> The Rovuma Basin discoveries place Mozambique among the ten countries in the world with the largest known reserves of natural gas. Bias says this could allow, in the future, not only additional LNG trains, but also new industries such as fertilizer or synthetic fuels.<sup>13</sup>

#### 1.5 Mineral production up 34%...

Minerals resources minister Esperanca Bias said Mozambique's mineral resource production increased 34% from January to June 2013 compared to the same period in 2012. Bias expects mineral

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<sup>9</sup> [www.liveminet.com](http://www.liveminet.com)

<sup>10</sup> Multiple sources: [www.allafrica.com](http://www.allafrica.com); [sweetcrudereports.com](http://sweetcrudereports.com)

<sup>11</sup> AIM, 4 Sept 2013

<sup>12</sup> AIM, 3 Sept 2013

<sup>13</sup> AIM, 4 Sept 2013

production to account for 2.9% of GDP in 2013. In 2014, Bias also expects the mineral sector will grow 7.9% above the 2013 results. This forecast is based on projected increase in production of coal, titanium ores, heavy sands and natural gas.<sup>14</sup>

## 1.6 Corruption increasing...

**Ana Maria Gemo**, the director of Mozambique's **Gabinete Central de Combate a Corrupção (GCCC)**, warns government employees that incidents of corruption are increasing. Gemo says cases of corruption against public officials have increased 18%. GCCC processed 599 cases between January and June of 2013 compared to 509 cases in the same period of 2012.<sup>15</sup> GCCC figures are not a concise database of acts of public sector corruption but are a good indication that corruption remains an important issue in Mozambique's fast growing economy.

## 1.7 Government issues first US dollar bond...

**Ematum**, a state owned fisheries development company, launched Mozambique's first dollar bond on 5 September. **BNP Paribas** and **Credit Suisse** are managing the sale of the bond.<sup>16</sup> The \$500m bond has an interest rate of 8.5% and a seven year maturity (2020).<sup>17</sup> Mozambique has a B+ from **Standard & Poor's** and **Fitch**, but the bonds themselves do not have a rating.<sup>18</sup> 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 go towards the purchase of fishing infrastructure and 27 new vessels.<sup>19</sup>

The bond issue will constitute part of **JP Morgan's Emerging Markets Bond Index (EMBI)** giving the issue a higher level of liquidity and visibility compared to local-currency bond offerings which lack a secondary trading market.<sup>20</sup> The EMBI tracks returns for actively traded external debt instruments in emerging markets, and is an influential US-dollar emerging markets debt benchmark. EMBI only tracks US dollar debt issuances above \$500m.<sup>21</sup>

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<sup>14</sup> [www.allafrica.com](http://www.allafrica.com)

<sup>15</sup> AIM, 6 Sept 2013

<sup>16</sup> Multiple sources: [www.reuters.com](http://www.reuters.com); [www.undercurrentnews.com](http://www.undercurrentnews.com)

<sup>17</sup> Multiple sources: [www.reuters.com](http://www.reuters.com); [www.sharenet.co.za](http://www.sharenet.co.za)

<sup>18</sup> [www.reuters.com](http://www.reuters.com)

<sup>19</sup> [www.thezambesian.com](http://www.thezambesian.com)

<sup>20</sup> [www.thezambesian.com](http://www.thezambesian.com)

<sup>21</sup> [www.jpmorgan.com](http://www.jpmorgan.com)

## 2 Implications

Frelimo will continue to control Mozambique's political landscape despite Renamo's public political grievances. Frelimo is unlikely to make any significant political concessions and will show restraint in the use of security forces to counter potential Renamo linked violence. However, failure to accommodate Renamo will dent Mozambique's democratic credentials.

Renamo has limited capacity and Renamo linked violence is limited to the central Sofala Province and will not lead to a return of widespread violence. However, localised Renamo linked violence increases the disruptions risk associated with rail shipments on the Sena railway corridor which runs from Tete Province, through Sofala Province to the Port of Beira.

Renamo's violence has harmed Mozambique's reputation as a stable investment destination, but foreign investors remain bullish. Mozambique's LNG sector is isolated from potential Renamo linked violence and is on track for commercial exports to start in 2018. Moreover, the successful issuance of Mozambique's first US dollar government bond indicates that foreign investors remain confident in Mozambique's macro-economic and political trajectory.