

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing December 2015

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#### Mozambique Summary 9 December 2015

**President Filipe Jacinto Nyusi (2015- present) calls for restraint in disarming militias linked to the main opposition Resistencia Nacional Moçambicana (Renamo). The Republic of Mozambique Pipeline Investments Co (Rompc) announces a \$210m investment in a second gas transport pipeline. Disgruntled mine workers attack a tantalum mine in Muiane (Gile District, Zambezia Province). The metical declines significantly against the dollar. Inflation pressures increase heading into 2016. The Banco de Moçambique (BdM) (central bank) implements foreign currency controls.**

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#### Nyusi calls for restraint in disarming Renamo

President **Filipe Jacinto Nyusi** (2015-present) has publicly called for restraint in the disarming of militias linked to the main opposition **Resistencia Nacional Moçambicana (Renamo)**.<sup>1</sup> Nyusi's call, made during a graduation ceremony of prison guards in **Moamba (Maputo Province)** on 19 November, is an indication that the government wants to reduce the current tensions and refocus efforts on dialogue, after several violent confrontations between Renamo militias and security forces (see previous ARC Briefings).<sup>2</sup> Nyusi's announcement came days after confrontations in **Funhalouro** between security forces and Renamo's armed militia, which resulted in many casualties.<sup>3</sup> Nyusi said,

*"I am using this podium to order restraint in compulsory disarmament, allowing everyone to hand over voluntarily that which they think they should not possess ... Above all, this is to allow us to work and to enter into dialogue, in the spirit of trust and mutual willingness ... If there is no willingness on the part of all those involved in the peace process, we are aware that this peace may not happen ... I am ready to speak with anybody, including the Renamo leadership, in order effectively to re-establish peace."*<sup>4</sup>

The **National Human Rights Commission of Mozambique** echoed the call for a return to dialogue and the development of mutual trust. It called on Renamo,

*"...to be consistent with the words of your leader [and] disarm peacefully and voluntarily... [and for the government] not to choose the path of force or violence to disarm Renamo."*<sup>5</sup>

Despite the renewed focus on dialogue Nyusi is still facing strong opposition within his top advisers and supporters within the ruling party.

*"Some of the **Frente de Libertação de Moçambique (Frelimo)** political commission's members are said to be in favour of a military approach to resolve the conflict with Renamo ... they say [Renamo leader **Afonso**] **Dhlakama** is not a serious man and is not committed to the implementation of any kind of agreement."*<sup>6</sup>

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<sup>1</sup> AIM, 20 Nov 2015.

<sup>2</sup> AIM, 20 Nov 2015.

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

<sup>4</sup> AIM, 20 Nov 2015.

<sup>5</sup> www.clubofmozambique.com

<sup>6</sup> Source, political analyst, Mozambique

To date there have been no signs of an agreement between the government and Renamo. Dhlakama has not appeared in public since security forces raided his **Beira** home on 9 October.<sup>7</sup>

*“Renamo no longer trusts the national mediators, since the raid on Dhlakama’s home in October.”<sup>8</sup>*

It is believed that the recent visits of the former **United States (US)** secretary for **African** affairs, **Chester Cocker**, former **Botswana** president **Quett Masire** (1980-1998) and **German** foreign affairs minister **Frank Walter Steinmeier** may exert diplomatic influence on the anticipated negotiations between the parties.<sup>9</sup>

### Rompco to invest in new gas pipeline

The **Republic of Mozambique Pipeline Investments Co (Rompco)** announced on 30 November that it will invest \$210m in a second pipeline to increase the capacity of the current pipeline that transports gas from the **Temane** field to customers in Mozambique and **South Africa**.<sup>10</sup> The investment reflects the growing demand for gas from industrial customers and the need to put the necessary infrastructure in place to meet future demand in Mozambique and South Africa.<sup>11</sup> The new pipeline will increase Rompco’s gas transmission capacity and is expected to come online early in 2017.<sup>12</sup> It will initially transport gas to South Africa, but will then serve additional markets in Mozambique, as more gas becomes available. Rompco said the expansion of the pipeline is an indication of its commitment to investing in the development of Mozambique’s infrastructure.<sup>13</sup>

Rompco is a joint venture between South Africa-based **Sasol** (50%), **Companhia Moçambicana de Gasoduto** (25%) and the South Africa-based **Gas Development Company (iGas)** (25%), the official South African government agency focused on the development of the hydrocarbon sector.<sup>14</sup>

### Workers attack tantalum mine

Mozambique daily newspaper **O Pais** reported on 17 November that disgruntled mine workers attacked a tantalum mine in **Muiane (Gile District, Zambezia Province)**.<sup>15</sup> The attack is a sign of growing discontent between mine owners and workers as the sector tries to cope with declining international commodity prices.<sup>16</sup> The confrontation started on 9 November when police killed an illegal miner who had entered the mine, which **Canadian Pacific Wildcat Resources Corp** owns (through local subsidiary **Tantalum Mineração e Prospeccao Lda**), to steal materials.<sup>17</sup> When the news of the killing spread, angry mine workers and locals attacked the mine and looted and destroyed equipment.<sup>18</sup> One illegal miner, speaking to *O Pais* on condition of anonymity, said,

*“We do not want to see the managers of this company operating in the mine anymore. Otherwise we will take the law into our own hands. The director of the company does not respect us, and we cannot allow someone to come and enslave us in our own country.”<sup>19</sup>*

The local residents also complained that Tantalum Mineração has not kept its promises to repair access roads and provide a school and hospital for the local community.<sup>20</sup>

<sup>7</sup> Source, political analyst, Mozambique

<sup>8</sup> Source, political analyst, Mozambique

<sup>9</sup> Source, political analyst, Mozambique

<sup>10</sup> Multiple sources: News24, 1 Dec 2015; Business Day, 1 Dec 2015.

<sup>11</sup> Multiple sources: News24, 1 Dec 2015; Business Day, 1 Dec 2015.

<sup>12</sup> Multiple sources: News24, 1 Dec 2015; Business Day, 1 Dec 2015.

<sup>13</sup> Multiple sources: News24, 1 Dec 2015; Business Day, 1 Dec 2015.

<sup>14</sup> Multiple sources: News24, 1 Dec 2015; Business Day, 1 Dec 2015.

<sup>15</sup> O Pais, 17 Nov 2015.

<sup>16</sup> O Pais, 17 Nov 2015.

<sup>17</sup> O Pais, 17 Nov 2015.

<sup>18</sup> O Pais, 17 Nov 2015.

<sup>19</sup> O Pais, 17 Nov 2015.

<sup>20</sup> O Pais, 17 Nov 2015.

Canadian Pacific Wildcat's Muiane mine covers 250 square kilometres. The company built a primary and secondary tantalum processing plant in 2011 and 2012 respectively.<sup>21</sup> The mine employed 70 people before the attack.<sup>22</sup>

Tantalum is a rare metal that is highly resistant to corrosion. It is chemically inert, which makes it valuable for components of laboratory equipment and for medical uses such as implants and bone repair.<sup>23</sup> Its major use, however, is in capacitors for electronic equipment such as computers and mobile phones.<sup>24</sup>

### Metical decline sees inflationary pressure increase ...

Mozambique's currency, the metical, weakened 21% between 23 and 27 November,<sup>25</sup> as investors worry over the government's moves to restructure an \$850m international bond (see previous ARC Briefings).<sup>26</sup> On 27 November alone, the metical declined 0.6% to 56.61 against the dollar, which capped off a 21% decline for the week. Since the start of the year the metical has declined 43% against the dollar.<sup>27</sup>

*"Mozambique's economy is still suffering from the exchange rate devaluation, with the national currency depreciating 75% in the last 12 months – from November 2014 to November 2015. Although the government says this is due to the [United States] US dollar appreciation and the decrease of the main commodities prices at the international markets, local economists also put the blame on Mozambique's high public debt and weak foreign exchange reserves."*<sup>28</sup>

However, finance minister **Adriano Maleiane** claims Mozambique's debt level is sustainable. Speaking at a **Mozambican Debt Group (MDG)** organised conference on 23 November, Maleiane said the government has kept the key ratio of net present value of debt to gross domestic product (GDP) below the ceiling of 40%.<sup>29</sup> In 2014, the debt to GDP ratio was 37%.<sup>30</sup> Maleiane said,

*"... thanks to the work we have been doing there was practically no increase in indebtedness, but GDP this year is larger than it was last year."*<sup>31</sup>

Maleiane said Mozambique's current debt volume, approximately \$7 billion, is largely in the form of loans used to fund infrastructure programmes that will enhance economic growth and development.<sup>32</sup> MDG economist **Humberto Zaquero** stressed that debt itself is not inherently bad, but claimed Mozambique's increased debt has funded questionable investments, and highlighted the \$850m Eurobond of state-owned tuna fishing company **Empresa Moçambicana de Atum SA (Ematum)**.<sup>33</sup>

*"The most glaring case is Ematum. If the company does not start generating revenue, all Mozambicans' taxes will go to paying its debts."*<sup>34</sup>

**Ernesto Gove**, governor of the central bank, **Banco de Moçambique (BdM)**, said on 1 December that the metical's decline is also due to lower commodity prices linked to Mozambique's main exports – coal, cotton, aluminum and natural gas.

<sup>21</sup> O Pais, 17 Nov 2015.

<sup>22</sup> O Pais, 17 Nov 2015.

<sup>23</sup> O Pais, 17 Nov 2015.

<sup>24</sup> O Pais, 17 Nov 2015.

<sup>25</sup> Source, political analyst, Mozambique

<sup>26</sup> www.clubofmozambique.com

<sup>27</sup> www.clubofmozambique.com

<sup>28</sup> Source, political analyst, Mozambique

<sup>29</sup> AIM, 23 Nov 2015.

<sup>30</sup> AIM, 23 Nov 2015.

<sup>31</sup> AIM, 23 Nov 2015.

<sup>32</sup> LUSA, 24 Nov 2014.

<sup>33</sup> LUSA, 24 Nov 2014.

<sup>34</sup> LUSA, 24 Nov 2014.

*"The depreciation of our currency is due to the fall in commodity prices in the global market. Our main exports are not yielding that much revenue."<sup>35</sup>*

The declining metical has led to inflation pressures. Although at time of writing, the **Instituto Nacional de Estatística (INE)** (national statistics institute) had not yet updated the monthly inflation rates for November, local sources report an increase in the price of most goods in **Maputo** and other major cities.<sup>36</sup>

*"There are fears that the prices of other basic products and services, such as food and public transport, are likely to increase in early 2016, which may cause social disturbances in the urban areas."<sup>37</sup>*

Maleiane said on 30 November that inflation will remain within the 5% target range for 2015 despite the current exchange rate instability.<sup>38</sup>

*"While we work for the future in this Christmas and end-of-year period, things cannot get worse because of the shock which, being international in nature, has much more burdensome consequences for us, because, unfortunately, we continue to have an economy that imports more than it exports and consumes more than it produces."<sup>39</sup>*

The BdM monetary policy committee (MPC) on 16 November decided to increase its benchmark lending rate from 7.75% to 8.25%.<sup>40</sup> The MPC attributed its decision to the prevailing risks and the projections for inflation due to the declining metical.<sup>41</sup>

*"In the face of growing risks of foreign and domestic situation, in a context where the short and medium term inflation projections indicate the need for redoubled caution, the committee considered it important to strengthen the adequacy of the current monetary policy cycle."<sup>42</sup>*

### ... as BdM sets credit card limits

The Banco de Moçambique has set limits on the use of credit cards abroad as a measure to help stem foreign-exchange outflows and protect the economy. The measure aims to stop the abuse and overuse of international cards in commercial transactions, responsible for capital flight and other financial crimes.<sup>43</sup> The central bank announced that holders of debit and credit cards issued by banks operating in Mozambique can spend a maximum of 700,000 meticaís (\$14,600) per year on payments abroad.<sup>44</sup> The measure comes into force on 1 January 2016.<sup>45</sup>

Central bank governor Ernesto Gove noted that Mozambican's credit card transactions conducted abroad increased to \$800m in 2014, from \$300m in 2012.<sup>46</sup>

*"The fall in prices of exported goods results in an aggravation of the deficit ... This is why it is an exceptional moment, in that we need to take certain measures."<sup>47</sup>*

<sup>35</sup> www.clubofmozambique.com

<sup>36</sup> Source, political analyst, Mozambique

<sup>37</sup> Source, political analyst, Mozambique

<sup>38</sup> LUSA, 1 Dec 2015.

<sup>39</sup> LUSA, 1 Dec 2015.

<sup>40</sup> www.voaportugues.com

<sup>41</sup> www.voaportugues.com

<sup>42</sup> www.voaportugues.com

<sup>43</sup> Bank of Mozambique website, 9 Dec 2015

<sup>44</sup> MacaHub, 9 Dec 2015

<sup>45</sup> MacaHub, 9 Dec 2015

<sup>46</sup> Bloomberg, 30 Nov 2015

<sup>47</sup> Bloomberg, 30 Nov 2015

## Implications

Nyusi's call for restraint in disarming Renamo is a positive signal that the government wants to reduce the current tension and violent confrontations with Renamo. However, internal Frelimo disagreement on how to address the Renamo issue may delay an eventual political settlement.

Rompco's decision to invest in a second gas transport pipeline is a sign that despite the current global commodity downturn, companies remain committed to Mozambique's long-term potential. The attack on the Canadian Pacific tantalum mine at Muiane is a sign of growing discontent between mine owners and workers as the sector tries to cope with declining international commodity prices.

The significant decline of the metical against the dollar has raised inflation concerns heading into 2016, which may result in social pressures and possible protests against price increase in the coming year. The BdM's capital controls will significantly impact access to foreign currency, which will result in slower payment for goods and services. Moreover, the new controls may delay foreign investment decisions as investor figure out how to mitigate the risk associated with limited access to hard currencies and a rapidly depreciating metical.

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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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