

AFRICA RISK CONSULTING

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Mozambique Summary 25 September 2018

Legal challenges frustrate the electoral ambitions of prominent candidates running for mayor in the 10 October municipal elections. United States (US)-based ratings agency Fitch keeps Mozambique's long-term foreign currency credit rating at 'restricted default', as the government has continued to default on its debt. Several foreign companies, including United Kingdom (UK)-based mining company Savannah Resources and UK-based Xtract Resources, are going forward with new investments. Italy-based oil exploration company Eni launches construction of a floating liquefied natural gas (LNG) platform that will allow the Coral Sul project to begin producing LNG by 2022.

Renamo's mayoral candidates face legal obstacles in October elections

Legal debates are hanging over prominent candidates running for mayor in the 10 October municipal elections. The **Comissão Nacional de Eleições (CNE)** (national elections commission) prohibited the candidacy of both **Venancio Mondlane** and **Samora Machel Jr**, son of former President **Samora Machel** (1975-1986), for mayor of the capital, **Maputo**. Mondlane was elected in 2013 to the municipal assembly and to parliament in 2014 as a member of the **Movimento Democrático de Moçambique (MDM)** but left MDM and joined the opposition **Resistência Nacional Moçambicana (Renamo)** party in June.¹ The **Conselho Constitucional** (constitutional court) rejected Renamo's appeal on 5 September.² Machel Jr had hoped to run as the Maputo mayoral candidate for the ruling **Frente de Libertação de Moçambique (Frelimo)**. However, Machel Jr lost in the Frelimo primaries and opted to run as an independent with the **Associação Juvenil para o Desenvolvimento do Voluntariado em Moçambique (AJUDEM)** (youth association for the development of voluntary service), a civil society group that is reportedly close to Frelimo.³ However, the CNE disqualified the entire AJUDEM list because it did not have the required 67 candidates after four candidates withdrew, reportedly under pressure from Frelimo.⁴

The **Conselho de Ministros** (council of ministers) withdrew the mandate of **Quelimane** mayor, **Manuel de Araújo**, on 28 August after Araújo resigned from the MDM and joined Renamo around the same time as Mondlane.⁵ Araújo was elected in 2013 as part of the MDM but resigned in July and planned to run for mayor again as a Renamo member in October.⁶ However, the council of ministers withdrew his mandate as politicians cannot legally join a different party from the one with which they were elected,⁷ and are also banned from standing in the next election for the post they lost in the previous term.⁸

These are the first municipal elections since the signing of the peace agreement between Frelimo and Renamo in February. According to think-tank **Chatham House's Africa Program** head **Alex Vines**, the municipal elections could set the stage for 2019 national elections:

¹ Club of Mozambique, 5 Sep 2018

² Club of Mozambique, 5 Sep 2018

³ Club of Mozambique, 24 Sep 2018

⁴ Club of Mozambique, 5 Sep 2018

⁵ VOA, 28 Aug 2018

⁶ VOA, 28 Aug 2018

⁷ VOA, 28 Aug 2018

⁸ Club of Mozambique, 5 Sep 2018

“... the municipal elections are going to be extremely close and therefore the authorities are nervous about this.”⁹

For Renamo, this is its first step in transitioning from a rebel opposition group to a ruling party. It is not a coincidence that both Mondlane and Araújo defected to Renamo around the same time, although Renamo’s unawareness that both would be disqualified from running in the October elections highlights its relative inexperience with political legalities. Frelimo, on the other hand, has had decades of political experience and has been able to use bureaucracy to frustrate Renamo’s plans.

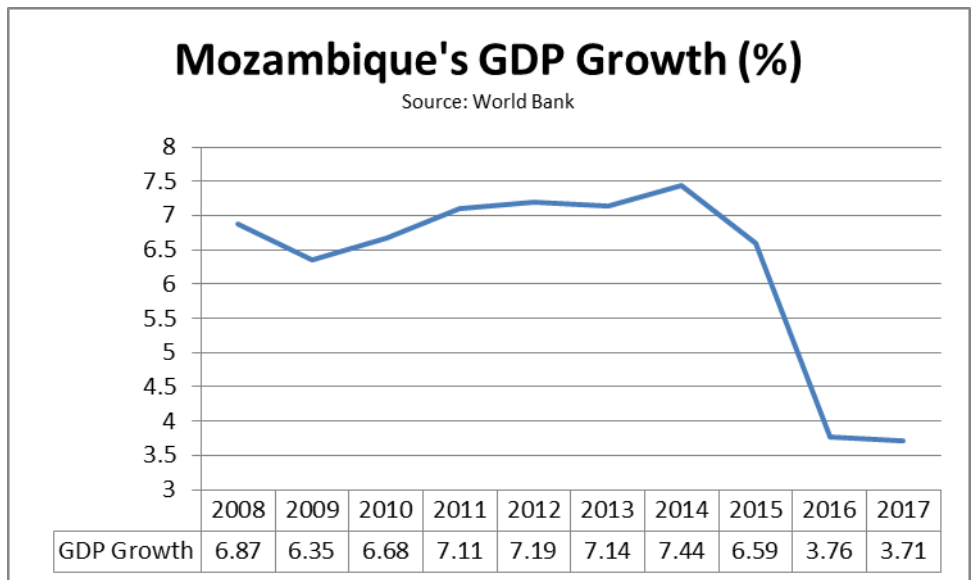
Fitch warns of economic decline in Mozambique

United States (US)-based ratings agency **Fitch** kept **Mozambique**’s long-term foreign currency credit rating at “*restricted default*” on 21 September.¹⁰ The government has continued to default on its debt though has yet to file for bankruptcy and has not ceased trading.¹¹ Fitch noted that the government has failed to pay four coupons on **Eurobonds** of the state-owned tuna company, **Ematum**, and failed to pay interest and capital repayment of government-guaranteed loans from state-owned **Proindicus** and **Mozambique Asset Management (MAM)**.¹²

Another US-based ratings agency, **Moody’s**, stated on 4 September that private creditors face substantial losses from the government’s debt default.¹³ Government debt is expected to increase to 102% of gross domestic product by the end of 2018, which includes the debt in default.¹⁴ It is still unclear whether the government has any plans to pay these debts. Prime minister **Carlos Agostinho do Rosario** stated in April that the government did not intend to pay off these debts, which the government claims did not have parliamentary approval and are illegal (see *ARC Briefing Mozambique April 2018*). Due to this and the fact that there are significant divergences between the government and bondholders regarding the restructuring of the debt, Mozambique’s credit rating will not improve in the near future.

Economic growth has stalled compared to previous years. Fitch forecasts gross domestic product

growth of 3.5% in 2018 and up to 3.8% in 2020.¹⁵ The government may be waiting for natural gas projects to come online and growth is expected to increase significantly from 2022.¹⁶ However, the government will not be able to wait until then to renegotiate its debt and certainly cannot continue to default on its debt for another three years, though it appears to be playing hardball with creditors at the moment. The economy is not currently in dire distress and any restructure is likely to be in the government’s favour as creditors,



⁹ Alex Vines quotes in VOA, 27 Aug 2018

¹⁰ MacauHub, 24 Sep 2018

¹¹ MacauHub, 24 Sep 2018

¹² MacauHub, 24 Sep 2018

¹³ Reuters, 4 Sep 2018

¹⁴ Fitch Ratings, 21 Sep 2018

¹⁵ Fitch Ratings, 21 Sep 2018

¹⁶ Fitch Ratings, 21 Sep 2018

aware of the potential for Mozambique's economy, may accept a long-term restructuring of the debt which will help the government to recover from its debt issues.

New investments to expand Mozambique's energy and mining sector

Several foreign companies are going forward with new investments that will help to expand Mozambique's energy and mining sector. **United Kingdom (UK)**-based mining company, **Savannah Resources**, applied for a mining licence through its subsidiary, **Matilda Minerals**, on 21 September for an additional 119 square kilometre area which reportedly has a mineral resource estimate of 65 million tonnes.¹⁷ The area is contiguous to two areas for which UK-based mining giant **Rio Tinto** submitted lease applications and is part of a consolidation agreement between Rio Tinto and Savannah Resources.¹⁸ Combined, the three licences cover an area of 399 square kilometres.¹⁹ The government has six months to respond to the application.²⁰

UK-based **Xtract Resources** completed construction of a gold processing plant at the **Manica Province** concession on 29 August.²¹ The plant will be able to process 40,000 tonnes per month and there are 12 potential mining sites within a 15 kilometre radius of the plant.²² The plant, run by **South Africa**-based chemical manufacturing company **Omnia**, will be able to process the ore without sophisticated processing equipment, and then decide whether to work further with that ore.²³ Analysts had forecast a shortage of new mining projects in Mozambique, which would negatively affect the economy.²⁴ However, new lease agreements and beneficiation projects may help to turn around investor sentiment and encourage larger investments in the mining sector.

There are also new advances in Mozambique's gas sector. **Italy**-based oil exploration company **Eni** launched construction of a floating liquefied natural gas (LNG) platform on 6 September.²⁵ The platform will allow the **Coral Sul** project to begin producing LNG by 2022. **Samsung Heavy Industries** is constructing the platform in **South Korea**.²⁶ The project is partly owned by **Portugal**-based **Galp Energia**, which announced on 31 August that it will invest \$150m in Mozambique to double its service station network over four years.²⁷ Galp plans to increase its service stations to 70 by 2020 and also construct two new logistics bases for storage and distribution.²⁸ Much like in the mining sector, increased investment and expansion in the LNG sector signal to other foreign investors a positive sentiment regarding Mozambique's economy, despite its current debt issues. Increased foreign investment will help keep the economy afloat and will give the government extra leverage in debt restructuring negotiations with creditors.

¹⁷ Proactive Investors, 21 Sep 2018

¹⁸ Proactive Investors, 21 Sep 2018

¹⁹ MacauHub, 24 Sep 2018

²⁰ Proactive Investors, 21 Sep 2018

²¹ Shares, 29 Aug 2018

²² Shares, 29 Aug 2018

²³ Shares, 29 Aug 2018

²⁴ Fitch Solutions, 24 Aug 2018

²⁵ Macau Hub, 7 Sep 2018

²⁶ Macau Hub, 7 Sep 2018

²⁷ Macau Hub, 31 Sep 2018

²⁸ Macau Hub, 31 Sep 2018

Planner

10 Oct 2018 Municipal elections scheduled

Oct 2019 General elections scheduled

Chronology

24 Sep 2018 **Maputo (Mozambique)** *MacauHub*. US-based ratings agency **Fitch** keeps **Mozambique's** long-term foreign currency credit rating at restricted default, which means that the government has defaulted but not entered into bankruptcy;

21 Sep 2018 **Maputo (Mozambique)** *Shares*. **United Kingdom**-based mining company **Savannah Resources** submits additional mining lease for a 119 square kilometres mineral sands area;

21 Sep 2018 **Pacqueue (Mozambique)** *News24*. Islamist jihadists kill 12 people in an attack on a village in north-eastern **Mozambique**;

19 Sep 2018 **Maputo (Mozambique)** *Journal du Cameroun*. The government approves a \$28m national water resources management plan which aims for sustainable use of river basins with other **Southern African Development Community** members;

7 Sep 2018 **Maputo (Mozambique)** *Macau Hub*. **Italy**-based oil and gas exploration company **Eni** states that construction of the floating liquefied natural gas platform has begun;

4 Sep 2018 **Maputo (Mozambique)** *Journal du Cameroun*. The tourism ministry reports a 40% year-on-year increase in tourism receipts in 2017, earning more than \$150m;

4 Sep 2018 **Maputo (Mozambique)** *Moody's*. **United States**-based ratings agency **Moody's** expects private creditors to face substantial losses due to **Mozambique's** large debt and failure to service its debt;

1 Sep 2018 **Maputo (Mozambique)** *Journal du Cameroun*. The state-managed airport authority, **Aeroportos de Moçambique**, plans to raise \$250m to finance the construction of luxury real estate in **Maputo**;

30 Aug 2018 **Quelimane (Mozambique)** *AllAfrica*. Dismissed mayor **Manuel de Araujo** refuses to leave office and continues to work as mayor after his defection to the **Resistência Nacional Moçambicana**;

30 Aug 2018 **Maputo (Mozambique)** *Macau News Agency*. **Portugal**-based downstream oil company **Galp** plans to invest \$150m to expand logistics and sales in **Mozambique** by 2020;

29 Aug 2018 **Maputo (Mozambique)** *Shares*. UK-based mining company **Xtract Resources** completes construction of a gold processing plant at its **Manica** concession;

27 Aug 2018 **Maputo (Mozambique)** *ESI Africa*. The **United States Trade and Development Agency** awards a grant to assess the viability of a 100 megawatt solar power plant in **Mozambique**;

23 Aug 2018 **Maputo (Mozambique)** *O Pais*. Local media reports that construction of the **Xai Xai** airport is expected to begin in October 2019;

22 Aug 2018 **Maputo (Mozambique)** *Xinhua*. President **Filipe Nyusi** inaugurates a new 106 megawatt gas power plant;

21 Aug 2018 **Gaza Province (Mozambique)** *MacauHub*. **Mozambique** partners with the **African Development Bank** to invest \$44m in vegetable production in **Gaza Province**;

15 Aug 2018 **Maputo (Mozambique)** *Jewellery Business*. **Canada**-based mining company **Fura**

Gems acquires a ruby mine from **Azores Overseas** in the **Cabo Delgado Province**;

15 Aug 2018 **Maputo (Mozambique)** *Journal du Cameroun*. **Brazil**-based mining company **Vale** posts a \$7.9 billion loss in the second quarter of 2018 at its **Moatize** coal mine;