

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing November 2018

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#### Mozambique Summary 7 November 2018

*Mozambique's main opposition party, the Resistência Nacional Moçambicana (Renamo), states that peace talks with the ruling Frente de Libertação de Moçambique (Frelimo) are suspended due to allegations of fraud in the 10 October municipal elections. The finance ministry announces that it has reached an agreement with debtholders to restructure a \$726m Eurobond linked to the \$2 billion hidden loan scandal. President Filipe Nyusi (2015-present) urges justice authorities to be tough on individuals tied to attacks in Cabo Delgado Province.*

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#### Peace talks on hold as Renamo ponders future after municipal elections

Mozambique's major opposition party, **Resistência Nacional Moçambicana (Renamo)**, stated on 24 October that it had suspended peace talks with the ruling **Frente de Libertação de Moçambique (Frelimo)** due to allegations of fraud in the 10 October municipal elections.<sup>1</sup> The suspension of peace talks could deteriorate into a resumption of civil war, although this is unlikely, as Renamo will try to improve its political standing ahead of the 2019 general elections. Renamo alleges that Frelimo-supporting election officials falsified results in five of fifty-three municipalities to ensure a Renamo win.<sup>2</sup> Electoral results showed that Renamo won eight municipalities and the **Movimento Democrático de Moçambique (MDM)** won one municipality, while Frelimo won the remaining 44 municipalities.<sup>3</sup>

Renamo appealed to district courts over the alleged fraud and then to the **Conselho Constituciona** (constitutional council) when the district courts threw out the appeal.<sup>4</sup> The Conselho Constituciona rejected the appeals on 1 November for the same reasons as the district court, ruling that Renamo had failed to follow procedure of appealing within 48 hours and lodging the complaint in the polling station concerned.<sup>5</sup> The Conselho Constituciona made a similar ruling in a Frelimo appeal against the results in **Cuamba**, which Renamo won.<sup>6</sup> However, Renamo argues that its complaints are not of general electoral misconduct, but that polling station sheets were altered or switched.<sup>7</sup> There is evidence that this took place in **Monapo (Nampula Province)**, where the **Secretaria Técnica de Administração Eleitoral (STAE)** (technical secretariat for electoral administration) announced on 11 October that Renamo had 9,136 votes compared to Frelimo's 8,840 votes with 62 of the 63 polling stations processed.<sup>8</sup> However, the final results gave Frelimo 9,579 votes compared to Renamo's 9,363, which means that Frelimo gained 1,099 votes at a polling station with a maximum of 800 registered voters.<sup>9</sup>

Despite the suspension of peace talks and alleged electoral fraud, a **Maputo**-based analyst does not think that civil war is likely to happen again:

*"Renamo would first try and fight this in the courts and, as that didn't work, will fight it politically. I think a final peace agreement will occur before the presidential election in October*

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<sup>1</sup> News24, 24 Oct 2018

<sup>2</sup> News24, 24 Oct 2018

<sup>3</sup> Africanews, 24 Oct 2018

<sup>4</sup> AllAfrica, 1 Nov 2018

<sup>5</sup> AllAfrica, 1 Nov 2018

<sup>6</sup> Club Of Mozambique, 6 Nov 2018

<sup>7</sup> AllAfrica, 1 Nov 2018

<sup>8</sup> AllAfrica, 1 Nov 2018

<sup>9</sup> AllAfrica, 1 Nov 2018

*2019 as Renamo as a political organisation has grown and is wary of starting another protracted war, particularly with Renamo controlling the areas where oil and gas exploration is taking place.”<sup>10</sup>*

Other analysts have speculated that Renamo will increase or introduce municipal taxes in areas where oil and gas companies operate to generate new sources of revenue, which will be used to improve service delivery ahead of the 2019 election.<sup>11</sup> While a political civil war between two parties is certainly better than a military civil war between two armed organisations, the economy and political environment would improve drastically if Renamo and Frelimo were able to co-exist without threats of war and violence which impede political stability and economic growth.

### **Mozambique reaches agreement to restructure debt from hidden loan scandal**

Mozambique’s finance ministry announced on 6 November that it had reached an agreement with debtholders to restructure a \$726m **Eurobond** linked to the \$2 billion hidden loan scandal.<sup>12</sup> Although the restructuring agreement will restore confidence that Mozambique will honour its debt, it will do little to help the country out of its large debt problem. The agreement was made with four creditors who hold 60% of the 2023 bond – **United Kingdom (UK)-based Farallon Capital Europe LLP; United States-based Greylock Capital Management LLC; Switzerland-based Mangart Capital Advisors SA; and UK-based Pharo Management LLC.**<sup>13</sup> The deal restructures a loan to state-owned fishing company, **Empresa Moçambicana de Atum (Ematum)**, but there was no mention of the \$535m loan to **Mozambique Asset Management (MAM)** and \$622m facility for **ProIndicus** which made up part of the \$2 billion loan from **Russia-based VTB Bank PJSC** and Switzerland-based bank, **Credit Suisse Group AG.**<sup>14</sup> Mozambique rejected a restructuring proposal in late October from Credit Suisse to restructure the ProIndicus debt.<sup>15</sup> The government reportedly wanted to deal with all debt holders at the same time, but the Eurobond debt holders argued they should have preferential treatment due to the questionable legality of the other debts and which may add to the burden of the economy (and the government’s ability to pay off the Eurobond).<sup>16</sup>

In the new agreement, Mozambique will issue a new \$900m Eurobond maturing in 2033 with 5.875% coupon interest rate. The \$900m equals the outstanding principal of the 2023 Eurobond plus unpaid interest as of September.<sup>17</sup> The 2023 Eurobond was due to mature in 2023 and paid 10.5% interest.<sup>18</sup> Principal repayment of the new bond will begin in 2029.<sup>19</sup> In return for the restructuring, creditors will receive 5% of revenue from **Anadarko Petroleum Corp’s Area 1** and **Eni SpA’s Area 4** liquefied natural gas (LNG) projects, though there is a cap at \$500m maximum payout.<sup>20</sup> The deal still needs parliamentary approval and 75% of the creditors must accept the new terms.<sup>21</sup>

The new deal gives Mozambique time to see the windfall of its LNG projects in the **Rovuma Basin**, which boasts 180 trillion cubic feet of natural gas.<sup>22</sup> The projects are expected to be online by 2022 and, if all goes to plan, Mozambique should have little trouble paying off the Eurobond with its new revenue from the extractives sector. Creditors had tried to push for a repayment instrument linked to the total revenue collected from the gas sector, but this was rejected.<sup>23</sup> Creditors have welcomed the restructuring, which gives them a guarantee that the debt will be paid after the government’s earlier

<sup>10</sup> Source, analyst, Maputo

<sup>11</sup> HIS Jane’s Intelligence Weekly, 17 Oct 2018

<sup>12</sup> FT, 7 Nov 2018

<sup>13</sup> Reuters, 6 Nov 2018

<sup>14</sup> Reuters, 6 Nov 2018

<sup>15</sup> Fin24, 22 Oct 2018

<sup>16</sup> Bloomberg, 6 Nov 2018

<sup>17</sup> Bloomberg, 6 Nov 2018

<sup>18</sup> www.cbonds.com

<sup>19</sup> Reuters, 6 Nov 2018

<sup>20</sup> Reuters, 6 Nov 2018

<sup>21</sup> Bloomberg, 6 Nov 2018

<sup>22</sup> Reuters, 6 Nov 2018

<sup>23</sup> Reuters, 6 Nov 2018

statement stated that it might not repay the debt (see *ARC Briefing Mozambique April 2018*).<sup>24</sup> Although this deal is much better than previous government offers, which asked for a 50% haircut in the bonds, some bondholders worry that if the price of gas and oil drops, they may not reach the \$500m cap.<sup>25</sup>

Despite the restructuring, Mozambique still has major fiscal issues. The deal will only lessen its debt burden and the government will need to rein in spending or look for funding from the **International Monetary Fund** to finance its expenses ahead of expected oil and gas revenue in 2022.

### **Cabo Delgado violence more to do with criminal networks than religious ideology**

President **Filipe Nyusi** (2015-present) urged justice authorities on 5 November to be tough on individuals tied to attacks in **Cabo Delgado Province**, which is close to sites where international companies are exploring for oil and gas in the Rovuma Basin.<sup>26</sup> The attacks, initially thought to be religious and political in nature, are now thought to be associated with criminal networks and illicit trade. Nyusi's call comes as 189 people are on trial in Mozambique for the attacks, and after **Tanzanian** officials arrested 104 suspected militants who planned to establish bases in northern Mozambique near the Tanzanian border (see *ARC Briefing Tanzania October 2018*).<sup>27</sup> Tanzania's inspector general of Police, **Simon Sirro**, announced on 19 October that security forces had sought to arrest the militants in the south and east of Tanzania over the past few months, but some had escaped into Mozambique.<sup>28</sup> The arrests verify local residents' previous claims that some of the attackers were not Mozambican.<sup>29</sup>

The arrests have also provided new information on the reason for the attacks. The violence in Cabo Delgado, which has claimed 100 lives since it began in October 2017, is less to do with religious ideology and more to do with criminal networks. Initially, the violence was blamed on **Islamic** militants and the local population referred to the group as '**al Shabab**', although there was no link to the **Somalia**-based militant group.<sup>30</sup> The group also never claimed responsibility for the violence and never had any demands for the government.<sup>31</sup> Additionally, the group has to date not attacked foreign company installations in the region and those killed were all local Mozambicans.<sup>32</sup>

Political analyst **Egidio Vaz** claims the attacks on the police may have been a response to a crackdown on illegal trade:

*"[The conflict] comes at a time when the governments of Tanzania and Mozambique are cracking down on poaching, illegal mining, and illegal fishing. They're also strengthening the borders and trying to better protect flora and fauna."<sup>33</sup>*

According to a **Global Initiative Against Transnational Organised Crime** report, the crime in Cabo Delgado is linked to a large and dynamic illicit economy in the area.<sup>34</sup> The report's author, **Simone Haysom**, argues that while the militants do not control any major contraband trade, the illicit economy has fostered corruption and broken down law and order, which has allowed the militants to establish themselves locally and regionally.<sup>35</sup> While Vaz thinks the insurgency may fizzle out, Haysom argues that if conditions remain the same in northern Mozambique, the illicit economy and insurgency will grow and violence will increase.<sup>36</sup> For Renamo, which now controls Cabo Delgado, this will be its first test of real governance to maintain control of the illicit economy, stabilise the area

<sup>24</sup> Club of Mozambique, 12 Apr 2018.

<sup>25</sup> Reuters, 6 Nov 2018

<sup>26</sup> Xinhua, 6 Nov 2018

<sup>27</sup> VOA, 20 Oct 2018

<sup>28</sup> VOA, 20 Oct 2018.

<sup>29</sup> VOA, 20 Oct 2018

<sup>30</sup> Mail & Guardian, 22 Oct 2018

<sup>31</sup> Mail & Guardian, 22 Oct 2018

<sup>32</sup> Mail & Guardian, 22 Oct 2018

<sup>33</sup> Mail & Guardian, 22 Oct 2018

<sup>34</sup> Global Initiative Against Transnational Organised Crime, Oct 2018

<sup>35</sup> Global Initiative Against Transnational Organised Crime, Oct 2018

<sup>36</sup> Global Initiative Against Transnational Organised Crime, Oct 2018

from violent attacks (from extreme groups or otherwise) and ensure service delivery to help prevent future flare ups from groups such as this.

### Planner

Nov 2019 General elections scheduled

22-23 April 2020: 6<sup>th</sup> Mozambique mining, oil, gas, and energy conference and exhibition

### Chronology

6 Nov 2018 **Maputo (Mozambique)** *IOL*. **Mozambique** reaches an agreement to restructure \$276.5m **Eurobond** debt by extending maturities and sharing future LNG revenue;

1 Nov 2018 **Maputo (Mozambique)** *AllAfrica*. The constitutional court rejects two more **Renamo** appeals against the 10 October municipal election results;

30 Oct 2018 **Maputo (Mozambique)** *OCCRP*. The **Global Initiative Against Transnational Organized Crime** reports that the recent surge of extremist violence in northern **Mozambique** is funded by the illicit economy;

29 Oct 2018 **Maputo (Mozambique)** *AllAfrica*. **India's** state-owned oil company, **Bharat Petroleum Corporation Ltd**, plans to invest \$800m in LNG projects in Mozambique;

29 Oct 2018 **Maputo (Mozambique)** *AllAfrica*. Major opposition party **Renamo** plans to boycott the municipal assembly inaugurations and is attempting to persuade minor opposition party **MDM** to join in the boycott;

25 Oct 2018 **Maputo (Mozambique)** *OCCRP*. Authorities accuse former labour minister **Maria Helena Taipo** of corruption involving the removal of \$1.7m from the **Instituto Nacional de Segurança Social**;

24 Oct 2018 **Maputo (Mozambique)** *News24*. Opposition party **Renamo** states that peace talks with the ruling **Frelimo** party are on hold due to fraud allegations in October's municipal elections;

23 Oct 2018 **Maputo (Mozambique)** *Construction Review*. Government approves the \$34 billion integrated electricity infrastructure plan, which aims to diversify **Mozambique's** energy sources;

22 Oct 2018 **Maputo (Mozambique)** *News24*. **Mozambique** rejects a **Credit Suisse**-backed restructuring plan for one of the state-owned companies involved in the hidden debt scandal;

21 Oct 2018 **Dar es Salaam (Tanzania)** *eNCA*. Police arrest 104 suspected militants who planned to establish bases in **Cabo Delgado (Mozambique)**;

18 Oct 2018 **Maputo (Mozambique)** *Business Day*. Government spokesperson **Lazard Freres** states that the government rejected a restructuring plan for its debt;

17 Oct 2018 **Maputo (Mozambique)** *RigZone*. **Italy**-based oil explorer **Eni S.p.A.** acquires exploration rights to offshore block **A5-A** in the **Northern Zambezi** basin;

16 Oct 2018 **Maputo (Mozambique)** *MacauHub*. **Japan**-based **Tohoku Electric** agrees to purchase 280,000 tonnes of liquefied natural gas from US-based **Anadarko's** operations in **Mozambique**;

16 Oct 2018 **Lilongwe (Malawi)** *MacauHub*. Mozambique will supply **Malawi** with power from 2019;

14 Oct 2018 **Maputo (Mozambique)** *EWN*. Opposition party **Renamo** accuses the government of falsifying local election results and warns it may abandon peace talks.

