

AFRICA RISK CONSULTING

Mozambique Monthly Briefing December 2016

Mozambique Summary 14 December 2016

The World Bank warns that Mozambique faces an “uncertain outlook”. Parliament approves the 2017 budget. Sovereign bondholders call the debt restructuring deadline unviable. President Filipe Nyusi (2015-present) appoints Augusto de Sousa Fernando as deputy minerals and energy minister. The Instituto Nacional de Petróleo (INP) (national petroleum institute) says it expects to sign new oil and gas exploration and production agreements in early 2017. The board of Italy-based ENI approves first phase development plans for Mozambique’s Coral South offshore gas project, in the Rovuma Basin. State-owned power utility Electricidade de Moçambique (EdM) starts construction of a 106 MW gas-fired power plant.

World Bank warns of ‘uncertain outlook’

The **World Bank**, on 12 December, published its **Mozambique Economic Update (MEU)** in which it warns that Mozambique faces an uncertain future because of the ongoing economic downturn resulting from the hidden sovereign debt scandal (see *ARC Briefing Mozambique April to November 2016*), low commodity prices, drought and ongoing conflict with **Resistencia Nacional Moçambicana (Renamo)**.¹ According to the World Bank, in order for Mozambique to restore confidence and a more stable economic outlook, it must handle the **Kroll**-led audit of state-owned **Empresa Moçambicana de Atum (Ematum)**, **Mozambique Asset Management (MAM)** and **Proindicus** in a transparent fashion, maintain fiscal sustainability, strengthen its debt management capabilities, and introduce effective oversight over state-owned enterprises (SOEs).² Following three consecutive quarters of slowing economic activity in 2016, the MEU forecasts gross domestic product (GDP) growth for 2016 at 3.6%.³ The MEU report states that Mozambique’s gas production expectations will lead to a recovery of economic growth to 6.6% by 2018.⁴ Fourteen companies⁵ have already submitted proposals to the **Instituto Nacional de Petróleo (INP)** (national petroleum institute) for the development of projects using natural gas output from the **Rovuma Basin**.⁶ In the interim, the government’s 2017 budget (see below) is based on economic growth of 5.5% next year, however, independent economic analysts “... put the projections at more pessimistic levels”⁷ as Mozambique “struggles to recover”⁸ from the impact of the sovereign debt crisis (see below).

“Tourism, rental, mining, financial, transport and construction sectors are among those seriously affected by the crisis ... [for example] the government is the biggest client in the construction sector in Mozambique and it awarded almost no new projects for construction companies this year. As a result, many workers lost jobs this year due to the shrinking construction operations.”⁹

However, **Shireen Mahdi**, the World Bank senior country economist for Mozambique said,

¹ www.worldbank.org

² www.worldbank.org

³ www.worldbank.org

⁴ www.worldbank.org

⁵ They include: Mitsui, Engro Fertilizer, Shell Mozambique BV, Electricidade de Mocambique, Yara International, Marubeni, GL-Africa Energy, Muinvest, Auto-Gas, Epsilon, Jiangsu, SinoChem Construction, UNION-JNC-JSPDI-VBC-SAL Consortium, Gas Nosu, and Motse SA.

⁶ Source, political analyst, Mozambique

⁷ Source, political analyst, Mozambique

⁸ Source, political analyst, Mozambique

⁹ Source, foreign construction sector investor, Mozambique

“Mozambique maintains its prospects for growth in the coming years, but the immediate challenge remains for policy makers to sharpen the focus on restoring fiscal sustainability, whilst ensuring that future wealth spurs growth in the non-megaproject economy.”¹⁰

Parliament approves 2017 budget

Parliament, on 8 December, passed the government’s 2017 budget.¹¹ The budget forecast a deficit of 11% of GDP,¹² which is an indication of the fiscal pressures the government will face in 2017.¹³ The 2017 budget forecast revenues of 186.333 billion meticaís (M) (\$2.57 billion) and expenditures of M272.288 billion (\$3.75 billion), which will result in an expected deficit of M85.955 billion (\$1.185 billion).¹⁴ During parliamentary debate on the 2017 budget, finance minister **Adriano Maleiane** indicated that the government will cover the budget deficit through three main sources: foreign loans M50.8 billion (\$700m); domestic loans M21.8 billion (\$300m); and foreign grants M14 billion (\$185m).¹⁵ However, Maleiane, did not specify which governments or entities will provide the foreign loans and grants.¹⁶

“Covering this deficit is a challenge, given that all 14 donors and funding agencies who used to provide direct budget support suspended all further contributions last April, in the wake of the scandal of over a billion dollars’ worth of hidden debts.”¹⁷

The **Economist Intelligence Unit (EIU)** is also sceptical with regard to the government’s ability to cover a significant portion of the expected 2017 deficit through foreign sources.

“Amidst concerns in the international markets about the quality of sovereign credit and the severe liquidity pressures in the domestic market, we think it is unlikely that the government will get loans at the level it expects.”¹⁸

Sovereign bondholders call debt restructuring deadline unviable

Reuters reported on 5 December that Mozambique has “no chance” of coming to a debt restructuring agreement with bondholders before the end of the year.¹⁹ Mozambique’s sovereign bondholders are preparing “to dig in their heels”²⁰ until there is clarity on Mozambique’s sovereign debt profile. Mozambique’s sovereign bondholders say there is “nothing to negotiate”²¹ until Kroll completes the **International Monetary Fund (IMF)**-backed audit of Mozambique’s sovereign debt (see *ARC Briefing Mozambique November 2016*).²² **Lutz Roehmeyer**, a director of **Germany**-based **Landesbank Berlin Investment**, a Mozambique sovereign bondholder said,

“Agreeing a deal before year-end, that is a pipedream. If you stick to the conventions, the IMF will do its debt sustainability analysis that will tell you just how solvent the country is, and on this basis you can come up with a restructuring ... But if you do not have those numbers, then you simply cannot do that, so that request from Mozambique is utopian.”²³

Global ratings agency **Standard & Poor’s (S&P)** analyst **Gardner Rusike** said, without a timely restructuring and IMF loan,

¹⁰ www.worldbank.org

¹¹ AIM, 9 Dec 2016

¹² Source, political analyst, Mozambique

¹³ AIM, 9 Dec 2016

¹⁴ AIM, 9 Dec 2016

¹⁵ AIM, 9 Dec 2016

¹⁶ AIM, 9 Dec 2016

¹⁷ AIM, 9 Dec 2016

¹⁸ Lusa, 12 Dec 2016.

¹⁹ Reuters, 5 Dec 2016.

²⁰ Reuters, 5 Dec 2016.

²¹ Reuters, 5 Dec 2016.

²² Reuters, 5 Dec 2016.

²³ Reuters, 5 Dec 2016.

*"... it would be a difficult 2017 for Mozambique, with external debt surpassing 100% [of GDP]."*²⁴

Nyusi appoints deputy minerals & energy minister

President **Filipe Nyusi** (2015-present), on 25 November, appointed **Augusto de Sousa Fernando** deputy minerals and energy minister.²⁵ Fernando's appointment will enhance the stability of Mozambique's energy and minerals sector, as Nyusi had kept the position vacant since he came to power in January 2015.²⁶ Prior to his appointment as deputy energy and minerals minister, Fernando, a trained engineer, spent most of his career with state-owned power utility **Electricidade de Moçambique (EdM)**. Fernando was chairman of EdM from 2010 to 2014.²⁷ While head of EdM, Fernando had a reputation for outspoken honesty, and publicly declared that the EdM's electricity tariff structure was financially unsustainable.²⁸ However, then president **Armando Emilio Guebuza** (2005-2014) refused to follow his advice and did not address his tariff concerns.²⁹ Fernando is also chairperson of the **Ordem dos Engenheiros de Moçambique** (Mozambique order of engineers).³⁰

Government expects to sign oil & gas exploration contracts in early 2017

INP vice president for exploration **Augusto Macuvelo** said on 1 December, during the **Mozambique Oil and Gas Summit in Maputo**, that the INP expects to sign new oil and gas exploration and production agreements in early 2017.³¹ Macuvelo's statement is a signal to oil and gas sector investors that the INP plans to follow a new strategy of holding regular licensing rounds every two years, which will enhance the pace of development of Mozambique's oil and gas sector.³² Macuvelo said the INP will finalise contracts with companies to which it awards oil and gas exploration and production blocks within two to four months.³³

*"We can say that there is progress as the meetings with the winning bidders have already begun. We expect it to last two to four months."*³⁴

INP's 2017 sixth licensing round comes just two years after the most recent round in 2015. In October 2015, INP announced the results of the fifth licensing round.³⁵ A total of 15 concession areas were included in the offshore Rovuma, offshore **Angoche, Zambezi** basins and the onshore **Pande-Temane** and **Palmeira** areas, covering approximately 74,259 square kilometres. Successful bids were as follows:

- Angoche (Area A5-A) – **Eni Mozambique**;
- Angoche (Area A5-B) – **ExxonMobil E&P Mozambique Offshore**;
- Zambezi (Area A5-C) – **ExxonMobil E&P Mozambique Offshore**;
- Zambezi (Area A5-D) – **ExxonMobil E&P Mozambique Offshore**;
- Pande-Temane (Area PT5-C) – **Sasol Petroleum Mozambique**;
- Palmeira (Area P5-A) – **Delonex Energy**.³⁶

²⁴ Reuters, 5 Dec 2016.

²⁵ AIM, 26 Nov 2016.

²⁶ AIM, 26 Nov 2016.

²⁷ AIM, 26 Nov 2016.

²⁸ AIM, 26 Nov 2016.

²⁹ AIM, 26 Nov 2016.

³⁰ AIM, 26 Nov 2016.

³¹ Reuters, 2 Dec 2016.

³² www.clubofmozambique.com

³³ Reuters, 2 Dec 2016.

³⁴ Reuters, 2 Dec 2016.

³⁵ www.inp-mz.com

³⁶ www.inp-mz.com

ENI board approves Coral South gas offshore gas project

The board of **Italy**-based **ENI** approved first phase development plans for its **Coral South** offshore 16 trillion cubic feet (tcf) gas project, in the Rovuma Basin (**Area 4**) on 18 November.³⁷ The ENI board approval is a significant step toward the development of Mozambique's nascent offshore liquefied natural gas (LNG) sector and clears the way for a Coral South final investment decision (FID) once ENI's partners – **Portugal**-based **Galp Energia**, **South Korean** state-owned **Korea Gas Corp**, and Mozambique state-owned oil and gas company **Empresa Nacional de Hidrocarbonetos (ENH)** – also approve it.³⁸

“... at this stage it is believed that the FID, which was first expected this year, might be delayed and is likely to be approved in the first quarter of 2017. Out of the \$8 billion, Mozambique's ENH has to raise around \$800m to fund its participation in the project. ... This will be a difficult task for ENH taking into account Mozambique's indebtedness following the discovery of approximately \$2 billion of secret loans and the country's lack of credibility in the international financial markets. It seems that ENH will again go through a carry option in the next development and production phases, whereby the other concessionaries will finance its participation in the project, as they did in the exploration phase...”³⁹

The Mozambican government approved the project development plan in February (see *ARC Briefing Mozambique March 2016*).⁴⁰ The Coral South project will include six subsea wells connected to a floating LNG production facility (FLNG), with a liquefaction capacity of over 3.3 million metric tonnes per annum (MTPA) of LNG, equivalent to about five billion cubic meters (bcm).⁴¹ ENI has reportedly already ordered a FLNG vessel from South Korea-based **Samsung Heavy Industries**, which is working in a consortium with **France**-based **Technip** and **Japan**-based **JGC Corp** for the project.⁴²

ENI discovered the Coral field in May 2012 and it is estimated to contain about 450 bcm (16 Tcf) of gas.⁴³ The coral field is in Mozambique's Area 4, which was the world's fifth largest natural gas discovery in the last 30 years, and contains an estimated natural gas reserve of 85 Tcf.⁴⁴ In October, ENI and its partners signed an agreement with **United Kingdom**-based **BP** for the sale of the entire output from Coral South LNG, over the next 25 years.⁴⁵

ENI is the operator of Area 4 with a 50% indirect interest through **Eni East Africa Spa (EEA)**, which holds a 70% stake in Area 4.⁴⁶ Galp Energia, Korea Gas and ENH each own a 10% stake.⁴⁷ **China**-based **China National Petroleum Corp (CNPC)** owns a 20% indirect interest in Area 4 through EEA.⁴⁸

EDM starts construction on gas fired power plant

State-owned power utility EdM started construction of a \$180m, 106 MW gas-fired power plant on 18 November.⁴⁹ The new power plant, which is expected to come online in August 2018, will help to diversify Mozambique's power sources and increase EdM's production capacity from 206 MW to around 312 MW from mid-2018.⁵⁰ The new power plant is the first thermoelectric combined cycle power plant in Mozambique, and will ensure a more efficient use of Mozambique's natural gas

³⁷ www.reuters.com

³⁸ www.oedigital.com

³⁹ Source, political analyst, Mozambique

⁴⁰ www.oedigital.com

⁴¹ www.oedigital.com

⁴² www.oedigital.com

⁴³ www.oedigital.com

⁴⁴ www.oedigital.com

⁴⁵ www.oedigital.com

⁴⁶ www.oedigital.com

⁴⁷ www.oedigital.com

⁴⁸ www.oedigital.com

⁴⁹ www.reuters.com

⁵⁰ www.macauhub.com.mo

resources.⁵¹ At the groundbreaking ceremony natural resources and energy minister **Matues Magala** said the new power plant will,

“... add more value and contribute to the reduction of emissions, environmental conservation and the country’s sustainable economic development.”⁵²

The **Japan International Cooperation Agency (JICA)** provided the Mozambique government with a \$167m loan payable over 40 years with an annual interest of 0.01%, to fund the project.⁵³ EdM contributed \$13m to the project, which is the first significant investment in power infrastructure EdM has made.⁵⁴

Implications

To address the World Bank’s warning of an uncertain economic outlook, the Mozambican government has to restore international financial confidence. Mozambique has to meet the conditions the World Bank set out. Without implementing such measures, the government will face challenges raising funds to finance its 2017 budget that forecasts a significant deficit of 11% of GDP, which is an indication of the fiscal pressure the government will face in 2017. Moreover, the holders of Mozambique sovereign bonds are unlikely to agree any form of debt restructuring until the Kroll audit is complete, which will make it difficult for the government to reduce its sovereign debt burden before a new lending agreement with the IMF is finalised.

Nyusi’s appointment of Fernando as deputy energy minister will enhance stability of the minerals and energy ministry, and will not lead to any major policy shifts. The INP’s announcement that it plans to sign new oil and gas exploration and production agreements in 2017, confirms that the government is committed to its plan of increasing the pace of Mozambique’s oil and gas sector development. ENI’s approval of the first phase of the Coral South offshore gas project signals that international investors are committed to Mozambique’s long-term gas development potential despite the current economic crisis and the low international commodity price environment.

EdM’s construction of Mozambique’s first thermoelectric combined cycle power plant will ensure a more efficient use of Mozambique’s natural gas resources, an important objective for the government with regards to the development of Mozambique’s offshore gas reserves, and help address domestic power shortages.

⁵¹ www.macauhub.com.mo

⁵² www.macauhub.com.mo

⁵³ www.reuters.com

⁵⁴ www.macauhub.com.mo

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)