

**AFRICA RISK CONSULTING****Mozambique Monthly Briefing January 2017**

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**Mozambique Summary 17 January 2017**

*Resistencia Nacional Moçambicana (Renamo) agrees to a ceasefire with the government, after attacking a Jindal Steel coal train. The finance ministry will miss a scheduled \$60m interest payment on its \$726.5m Irish Stock Exchange (ISE)-listed bond issuance. The United States Securities and Exchange Commission (SEC) is reportedly investigating the bond issuance linked to Mozambique government-backed tuna fishing company Empresa Moçambicana de Atum SA (Ematum). Mozambique ratifies and submits its instrument of acceptance for the World Trade Organization (WTO) trade facilitation agreement (TFA). Valentina da Luz Guebuza, daughter of former president Armando Guebuza (2005-2015), is killed in a domestic dispute.*

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**Renamo agrees to a ceasefire**

**Resistencia Nacional Moçambicana (Renamo)** leader **Afonso Dhlakama** announced on 3 January that he has extended the seven-day New Year period ceasefire, announced on 27 December, for two months until 4 March.<sup>1</sup> Dhlakama's decision to extend the ceasefire will provide a calm period for Renamo and the ruling **Frente de Libertação de Moçambique (Frelimo)** government to build trust and improve the likelihood of an eventual peace agreement.<sup>2</sup> Dhlakama said,

*"The truce is intended to build an atmosphere conducive to advancing talks in **Maputo** in peace and tranquility for both sides."*<sup>3</sup>

Dhlakama noted that there were minor incidents,

*"... but the seven-day truce went well, so I am announcing the extension of the truce for 60 days, until 4 March..."*<sup>4</sup>

In a press conference announcing the extension of the ceasefire, Dhlakama said he had received assurances from president **Filipe Nyusi** (2015-present) that Mozambique's security forces will not attack Renamo.<sup>5</sup> Nyusi indicated that the original seven-day truce was productive and "... trust is being created".<sup>6</sup> As a sign of good faith, the **Polícia da República de Moçambique (PRM)** (national police) has deactivated mandatory security escorts for convoys along the main north-south national highway in central Mozambique.<sup>7</sup>

Dhlakama's decision to agree to the original seven-day ceasefire came after he had a telephone conversation with Nyusi.<sup>8</sup> Dhlakama said,

*"I announce the provisional cessation of military hostilities across the country as from midnight Tuesday... I took the initiative; I called the president of the republic, Filipe Nyusi, and gave him the possibility to offer this provisional truce."*<sup>9</sup>

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<sup>1</sup> www.allafrica.com

<sup>2</sup> www.allafrica.com

<sup>3</sup> www.dailymail.co.uk

<sup>4</sup> www.news24.com

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

<sup>6</sup> www.dailymail.co.uk

<sup>7</sup> Lusa, 3 Jan 2017.

<sup>8</sup> Reuters, 27 Dec 2016.

<sup>9</sup> Reuters, 27 Dec 2016.

Talks between Renamo and the Frelimo government collapsed in late 2016 (see *ARC Briefing Mozambique November 2016*). However, Dhlakama indicated his willingness to continue the dialogue process after his productive telephone conversation with Nyusi on 26 December.<sup>10</sup> Nyusi also indicated that he was encouraged by the telephone conversation with Dhlakama and described the original seven-day ceasefire as a “*sign of hope for the whole country*”.<sup>11</sup> One senior government official taking part in the peace process said,

*“[there are] regrets that two telephone calls between the two were more effective than the work done by the negotiation teams for months. However, the telephone calls must be seen as part of the negotiation process and they result from the work done previously by the teams from the two sides.”*<sup>12</sup>

The direct communication with Dhlakama came after Nyusi realised there was a communication problem between the government and the Renamo negotiating teams.<sup>13</sup>

*“[Nyusi] decided to personally take leadership of the negotiation process so as to reach a long-term agreement with Afonso Dhlakama, putting aside his party comrades who maintain that there is no need to negotiate with Renamo.”*<sup>14</sup>

The ruling Frelimo party remains divided on Nyusi’s recent approach to the Renamo issue. However, Nyusi,

*“... will do his best to restore peace as soon as possible and before Frelimo’s congress meeting scheduled for September 2017, as the organ among others will decide on the party’s candidate for the next presidential elections and will elect the new party president and other structures. By now, the party is clearly divided, with some of the members against Nyusi’s performance since he took office.”*<sup>15</sup>

Prior to Renamo’s ceasefire agreement with the government, **Mozambican** media reported an attack on a coal train belonging to **India**-based **Jindal Steel** that reportedly occurred on 7 December at **Inhamitanga (Sofala Province)** along the **Sena Railway** line.<sup>16</sup> The Renamo attack, which injured the train’s conductor, shows that Renamo has the capacity to continue its low level attacks on trains along the railway lines carrying coal from **Moatize (Tete Province)** to the port of **Beira**. The attacks indicate the need for companies using Mozambique’s main railways to increase security as, should the ceasefire collapse or end as scheduled, Renamo may try to disrupt transportation along major transport routes. This is not the first Renamo attack on a coal train. Renamo gunmen, on 8 November, attacked a **Nacala Logistics Corridor (NLC)** train.<sup>17</sup> Renamo, on 6 October, attacked a **Vale** coal train at **Mutuali in Malema District (Nampula Province)**.<sup>18</sup> Renamo gunmen previously attacked a Vale coal train at **Becanta in Cheringoma District (Sofala Province)** on 25 July.<sup>19</sup> The train was transporting coal from Moatize to the port of Beira.<sup>20</sup> A train conductor and security guard were slightly injured in the attack.<sup>21</sup> On 7 June, Renamo gunmen attacked another Vale coal train, also in Cheringoma District.<sup>22</sup> That attack was the first time Renamo has targeted a commercial train, since it stepped up hostile action in 2016.<sup>23</sup>

<sup>10</sup> Reuters, 27 Dec 2016.

<sup>11</sup> Reuters, 27 Dec 2016.

<sup>12</sup> Source, government senior manager close to the negotiation process, Maputo

<sup>13</sup> Source, political analyst, Maputo

<sup>14</sup> Source, senior journalist, Maputo

<sup>15</sup> Source, political analyst, Maputo

<sup>16</sup> AIM, 14 Dec 2016.

<sup>17</sup> www.allafrica.com

<sup>18</sup> Lusa, 26 Jul 2016.

<sup>19</sup> Lusa, 26 Jul 2016.

<sup>20</sup> Lusa, 26 Jul 2016.

<sup>21</sup> Lusa, 26 Jul 2016.

<sup>22</sup> Multiple sources: Reuters, 7 Jun 2016; AIM, 7 Jun 2016.

<sup>23</sup> Multiple sources: Reuters, 7 Jun 2016; AIM, 7 Jun 2016.

Renamo's ceasefire agreement will provide a period of calm during which Renamo and the ruling Frelimo government will build trust. This will improve the likelihood of an eventual peace agreement. However, there is ample time for both sides to prepare the groundwork for an alternative outcome, with disagreements or even return to hostilities possible. The ultimate outcome depends on the personal trust and commitment between Nyusi and Dhlakama.

### Mozambique to miss bond payment

The finance ministry issued a statement on 16 January that the government will miss a scheduled \$60m interest payment on its \$726.5m **Irish Stock Exchange (ISE)**-listed bond issuance, due on 18 January.<sup>24</sup> The announcement confirms previous signals in late 2016 that the government's sovereign debt crisis and deteriorating macroeconomic situation would force it to default on existing international debt obligations (see *ARC Briefing Mozambique April to December 2016*).<sup>25</sup> The finance ministry statement, published on the ISE website said,

*"...[due to Mozambique's] deteriorating macro-economic and fiscal situation [its capacity to make debt payments] is therefore extremely limited in 2017, and does not allow the republic room to make the scheduled interest payment on the notes."<sup>26</sup>*

Mozambique's failure to honour the interest payment will be the first **African** sovereign default in five years. However according to **Ann Frufauf**, a senior vice president at **United States (US)**-based **Teneo Intelligence**,

*"Tactically, a payment delay may serve the government's interests better if the aim is to force bondholders to negotiate."<sup>27</sup>*

**BMI Research**, a unit of international ratings agency **Fitch**, also indicated the failure of the government to honour the interest payment is part of its *"tough negotiating strategy"*<sup>28</sup> to compel bondholders to accept more lenient repayment terms.<sup>29</sup> In December 2016, Mozambique's sovereign bondholders said there is *"nothing to negotiate"*<sup>30</sup> until risk management firm **Kroll** completes the **International Monetary Fund (IMF)**-backed audit of Mozambique's sovereign debt (see *ARC Briefing Mozambique November 2016*).<sup>31</sup> However, the IMF does not want to negotiate a new lending agreement to help Mozambique address its sovereign debt crisis until it comes to an agreement with its bondholders, as **Marco Ruijer** of **NN Investment Partners** said,

*"The IMF wants them to reduce debt before they get a program, so they will proceed negotiating with bondholders in coming months."<sup>32</sup>*

**Union Bancaire Privée** strategist **Koon Chow** said the more important outcome of the default is that the IMF will *"coax"*<sup>33</sup> Mozambique

*"... to be more constructive on the contents of the talks and accelerate the talks [with bondholders] as well."<sup>34</sup>*

Mozambique's ISE-listed bond issuance, which the government has already restructured once with a bondholder agreement (see *ARC Briefing Mozambique November 2016*), matures in 2023 and holds an

<sup>24</sup> Multiple sources: The Irish Times, 16 Jan 2017; Reuters, 18 Jan 2017.

<sup>25</sup> The Irish Times, 16 Jan 2017.

<sup>26</sup> The Irish Times, 16 Jan 2017.

<sup>27</sup> Bloomberg, 16 Jan 2017.

<sup>28</sup> Bloomberg, 16 Jan 2017.

<sup>29</sup> Bloomberg, 16 Jan 2017.

<sup>30</sup> Reuters, 5 Dec 2015.

<sup>31</sup> Reuters, 5 Dec 2015.

<sup>32</sup> Bloomberg, 16 Jan 2017.

<sup>33</sup> Bloomberg, 16 Jan 2017.

<sup>34</sup> Bloomberg, 16 Jan 2017.

annual coupon rate of 10.5%.<sup>35</sup> However, the issuance is currently trading on the ISE at around \$0.50 to the dollar.<sup>36</sup> The ISE is second only to **Luxembourg** as a significant international hub for listing of sovereign and corporate bond issuances.<sup>37</sup>

The **Wall Street Journal (WSJ)** reported on 28 December that the **United States Security and Exchange Commission (SEC)** is investigating the \$850m bond issuance linked to Mozambique government-backed tuna fishing company **Empresa Moçambicana de Atum SA (Ematum)**.<sup>38</sup> The SEC investigation will complicate and delay the ability of the Mozambique government to negotiate a new deal with bondholders, as it seeks to reduce its sovereign debt burden ahead of an expected new lending agreement with the IMF in 2017.<sup>39</sup> In 2013, **Switzerland-based Credit Suisse Group AG, Russia-based VTB Group** and **France-based BNP Paribas** arranged and sold the \$850m Ematum dollar-denominated bonds to international investors.<sup>40</sup> However, the government later disclosed that most of the money raised from the Ematum bond issuance was spent on military equipment, not tuna fishing vessels (see *ARC Briefing Mozambique April 2016*).<sup>41</sup> According to the WSJ,

*“Mozambique used proceeds from the bonds and loans to purchase military and maritime goods and services from firms owned by holding company **Prinvest**, such as French defense contractor **Constructions Mécaniques de Normandie**. Prinvest is owned by **Lebanese** businessman **Iskandar Safa**. At the time of the deal, Mozambique’s ruling party was in heightened conflict with opposition forces.”<sup>42</sup>*

The SEC has declined to comment on the media reports related to the Ematum investigation. However, the WSJ claims to have reviewed a letter from the SEC to bondholders asking them to forward the documents that Credit Suisse, VTB and BNP provided them during the sale of the Ematum bond and to turn over all communications with the three banks regarding the bond issuance.<sup>43</sup>

The failure of Mozambique to honour the January interest payment to bondholders will make it more imperative that the government concludes negotiations with current bondholders and the IMF as soon as possible. The missed payment, a rare sovereign default, combined with the reported SEC investigation into the Ematum bond, is likely to result in Mozambique’s exclusion from the international bond market. The government will thus become dependent on concessional lending from international financial institutions, bilateral partners and non-concessional private lenders to finance its budget deficit before revenues from gas exports come on line sometime after 2021.

### **Mozambique ratifies WTO trade facilitation agreement**

Mozambique ratified and submitted its instrument of acceptance for the **World Trade Organization (WTO)** trade facilitation agreement (TFA) on 6 January.<sup>44</sup> The TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit.<sup>45</sup> The TFA also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues, and provisions for technical assistance and capacity building.<sup>46</sup> According to a 2015 WTO study, full implementation of the TFA would reduce WTO members’ trade costs by an average of 14.3%, with developing countries having the most to gain.<sup>47</sup>

<sup>35</sup> The Irish Times, 16 Jan 2017.

<sup>36</sup> The Irish Times, 16 Jan 2017.

<sup>37</sup> The Irish Times, 16 Jan 2017.

<sup>38</sup> Wall Street Journal, 28 Dec 2016.

<sup>39</sup> Wall Street Journal, 28 Dec 2016.

<sup>40</sup> Wall Street Journal, 28 Dec 2016.

<sup>41</sup> Wall Street Journal, 28 Dec 2016.

<sup>42</sup> Wall Street Journal, 28 Dec 2016.

<sup>43</sup> Wall Street Journal, 28 Dec 2016.

<sup>44</sup> www.engineeringnews.co.za

<sup>45</sup> Multiple sources: www.wto.org; www.einnews.com

<sup>46</sup> Multiple sources: www.wto.org; www.einnews.com

<sup>47</sup> Multiple sources: www.wto.org; www.einnews.com

The WTO claims the TFA has the ability to reduce the time to import goods by over a day and a half while also reducing export time by almost two days, a reduction of 47% and 91% respectively over the current international average.<sup>48</sup>

The WTO concluded the TFA agreement at its **Bali (Indonesia)** ministerial conference in 2013.<sup>49</sup> The TFA will enter into force once two-thirds of the WTO membership has formally accepted the agreement.<sup>50</sup> The WTO has 164 members<sup>51</sup> and Mozambique was the 105<sup>th</sup> member to formally ratify the TFA.<sup>52</sup> The TFA also has the potential to increase global merchandise exports by up to \$1-trillion.<sup>53</sup>

The WTO TFA agreement will not have a short-term impact on Mozambique's struggling economy because will not come into force until two-thirds of WTO member countries ratify it. It is unclear when the WTO will reach this benchmark.

### Daughter of former president Guebuza killed

**Valentina da Luz Guebuza**, the daughter of former president **Armando Emilio Guebuza** (2005-2015) was shot and killed on 14 December.<sup>54</sup> Valentina Guebuza's killing was not politically motivated, but was the result of a domestic dispute.<sup>55</sup> **Zofimo Muiuane**, Valentina Guebuza's husband, allegedly shot and killed her at their home in Maputo.<sup>56</sup> Police have detained Muiuane, who reportedly confessed to the killing, but police are still investigating his motive.<sup>57</sup> Valentina Guebuza was a powerful businesswoman in Mozambique. She was head of a Guebuza family-owned holdings company **Focus 21 Gestao e Desenvolvimento Lda**, which has interests in many entities across the banking, construction, consulting, financial services, communications, logistics and transport sectors. She was highly active in business and represented the interests of the Guebuza family in several companies. Her business activities increased after 2007, the year she gained a direct interest in **Beira Grain Terminal SA**. In 2008, she gained interests in several more companies: **Crosswind Holdings SA** (as a director); **Ingerop Mocambique Lda**; and **Orbitelecom Lda**. She continued to advance the Guebuza family holdings in 2010 through additional personal interests in **Christian Bonja Mocambique Lda** and **Imogruppo – Investimentos e Participacoes Lda**. Valentina Guebuza was Armando Guebuza's youngest daughter. She was the twin of Armando Guebuza's son **Mussumbuluko Guebuza**.<sup>58</sup> They were born in 1979.<sup>59</sup>

Valentina Guebuza's death will not impact Mozambique's political or business environment because it appears to be linked to a domestic dispute, not a political or business dispute.

<sup>48</sup> Multiple sources: [www.wto.org](http://www.wto.org); [www.einnews.com](http://www.einnews.com)

<sup>49</sup> [www.engineeringnews.co.za](http://www.engineeringnews.co.za)

<sup>50</sup> [www.wto.org](http://www.wto.org)

<sup>51</sup> [www.wto.org](http://www.wto.org)

<sup>52</sup> [www.engineeringnews.co.za](http://www.engineeringnews.co.za)

<sup>53</sup> [www.einnews.com](http://www.einnews.com)

<sup>54</sup> Multiple sources: [www.bbc.com](http://www.bbc.com); [www.allafrica.com](http://www.allafrica.com)

<sup>55</sup> Multiple sources: [www.bbc.com](http://www.bbc.com); [www.allafrica.com](http://www.allafrica.com)

<sup>56</sup> Multiple sources: [www.bbc.com](http://www.bbc.com); [www.allafrica.com](http://www.allafrica.com)

<sup>57</sup> Multiple sources: [www.bbc.com](http://www.bbc.com); [www.allafrica.com](http://www.allafrica.com)

<sup>58</sup> Source, Mozambique analyst, United Kingdom

<sup>59</sup> Source, Mozambique analyst, United Kingdom

### About Africa Risk Consulting:

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