

AFRICA RISK CONSULTING

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Mariano Nhongo, the leader of splinter cell from the opposition **Resistência Nacional Moçambicana (Renamo)**, claims his group was responsible for two attacks in Manica on 17 September and threatens more attacks if the campaigns for the October election are not suspended. Finance minister **Adriano Maleiane** says the government will continue negotiations to restructure its debt with creditors, despite a Mozambican court ruling in June that the \$850m Eurobond issued by state-owned fishing company **Ematum SA** was illegal. The World Bank's lending arm, the **International Development Association (IDA)**, grants \$57m to Mozambique and Malawi to interconnect the countries' electricity transmission systems, which will allow both countries to trade electricity via the **Southern African Power Pool (SAPP)**.

Renamo splinter group attacks may hinder October elections

Mariano Nhongo, the leader of splinter cell from the opposition **Resistência Nacional Moçambicana (Renamo)**, said on 19 September that his group was responsible for two attacks in **Manica (Manica Province)** on 17 September and threatened more attacks if the campaigns for the October election were not suspended.¹ Nhongo does not want elections to go forward with the current Renamo leadership, which he views as illegitimate. While continued attacks may threaten the election dates, there is no evidence that Nhongo controls many rebel soldiers and the government and Renamo are both determined to neutralise this threat before it becomes serious. The group, which calls itself the **Junta Militar da Renamo (JMR)** (Renamo military junta), first threatened to kill Renamo leader **Ossufo Momade** and disrupt elections in June (see *ARC Briefing Mozambique June 2019*).

During a telephone conversation with reporters, Nhongo said,

*"If the election campaign continues, shooting will not stop. If the government suspends the election campaign and postpones the elections, there will not be one more shot. JMR is not the same [as when] the late Renamo president [Afonso Dhlakama led]. . . Those who do not hear us will get shot, which can hit anyone – journalist, administrator, governor or others."*²

Nhongo claims he commands more than 500 armed Renamo fighters around the country and that he is the rightful leader of Renamo.³ In an interview with **German** state-owned international public broadcaster **Deutsche Welle** on 26 August, Nhongo made several contradictory claims, such as that Renamo soldiers elected him, though admitting that not all soldiers are under his control, stating

*"...these guerrillas who are attacking, I've lost control of them. They're scattered. Each of them does what they like."*⁴

Nhongo also said that he joined Renamo in 1981 and that he is now 49 years old, which means he would have joined Renamo as a child soldier at the age of 11, but this has not been verified.⁵

Despite Nhongo's claims, there is little evidence of public support for his group. Nhongo appears willing to negotiate with the government, likely in the hopes of a high-paying government job, but

¹ Club of Mozambique, 19 Sep 2019

² Club of Mozambique, 19 Sep 2019

³ AllAfrica, 28 Aug 2019

⁴ AllAfrica, 27 Aug 2019

⁵ AllAfrica, 27 Aug 2019

there is a very low possibility that Renamo would look to negotiate with Nhongo and the JMR. While there is little enthusiasm for the August peace treaty (see *ARC Briefing Mozambique August 2019*), there is even less enthusiasm for anything that would continue the civil war between Renamo and the ruling **Frente de Libertação de Moçambique (Frelimo)**. While Renamo and Frelimo have little to agree upon in the run-up to the election, there is potential for coordination between the **Forças Armadas de Defesa de Moçambique (FADM)** and former Renamo fighters in order to locate and arrest or kill Nhongo to end the junta's threats.

Government plans to continue debt restructuring talks

Finance minister **Adriano Maleiane** said on 11 September that the government will continue negotiations to restructure its debt with creditors, despite a Mozambican court ruling in June that the \$850m **Eurobond** issued by state-owned fishing company **Empresa Moçambicana de Atum (Ematum)**, was illegal.⁶ Although the government is under significant pressure from opposition and civil society to not pay these debts, it has more to gain from continued access to international markets, which it would lose if it defaulted on these debts. The debt is part of Mozambique's \$2 billion hidden debt scandal, in which former President **Armando Guebuza's** (2005-2015) government guaranteed loans for three state-owned entities without parliamentary approval and for which much of the funding was reallocated to the defence budget (see *ARC Briefing Mozambique November 2018*).⁷

This is the second restructuring deal for the Ematum debt after the government faced fierce criticism over the November 2018 deal that entitled creditors to a share of future gas revenue.⁸ The debt to be restructured was swapped from a \$697m government guaranteed bond into an \$850m Eurobond in 2016.⁹ Maleiane's comments come days after the government said on 9 September that 99.5% of creditors holding the Eurobond support the government's debt restructuring proposal.¹⁰ A majority of creditors had agreed in principle in May to restructure the debt (see *ARC Briefing Mozambique June 2019*), but it needed at least 75% of creditors to agree to the deal in order for the planned restructuring to occur.¹¹ With the restructure, the government will use a new \$900m bond which matures in 2031 at an interest rate of 5% to September 2023 and 9% from then on until maturity.¹² The settlement of the debt is expected to occur on or around 30 September.¹³

	New debt restructure deal	Old debt restructure deal
Access to future natural gas revenue	None	Up to \$500m in earnings
Coupon	5% annual interest to September 2023 and then 9% to maturity	5.875% (4% cash and 1.875% via capitalisation) to September 2023 and then 5.875% in cash only to maturity
Maturity	Five equal annual instalments from September 2029 to September 2033	Eight equal semi-annual instalments of \$112.5m from 2028 to 2031

Despite the government's statements that the restructuring will go ahead, there are still risks for creditors. First, the government needs to obtain administrative approvals to issue the new bonds and there has been no statement that these approvals were granted.¹⁴ Second, in its campaigning for the

⁶ Defence Web, 12 Sep 2019

⁷ Defence Web, 12 Sep 2019

⁸ The Africa Report, 27 Aug 2019

⁹ Defence Web, 12 Sep 2019

¹⁰ Reuters, 9 Sep 2019

¹¹ Reuters, 9 Sep 2019

¹² Reuters, 9 Sep 2019

¹³ Reuters, 9 Sep 2019

¹⁴ Reuters, 9 Sep 2019

October general elections, opposition party Renamo is stating that it would not repay the hidden debts. The Renamo candidate for **Maputo Province** governor, **Antonio Muchanga**, said on 9 September that Renamo would not pay any of the hidden debts if it wins the October elections, as they are unconstitutional.¹⁵ Civil society has also pressed President **Filipe Nyusi** (2015-present) to stop the negotiations over the debt. Non-government organisation **Forum de Monitoria do Orcamento (FMO)** reminded Nyusi on 30 August that the constitutional court has ruled the debt to be illegal and thus the loan is null and void.¹⁶

Despite this, the restructuring will go through, as the government knows there is more to risk by further defaulting on its debt than paying it back. Mozambique needs access to international markets and this would be more difficult, if not impossible, if the government refused to pay back its debts, even if many in Mozambique view them as illegal or corrupt.

World Bank grants \$57m to connect Mozambique and Malawi electricity lines

The **World Bank's** lending arm, the **International Development Association (IDA)**, granted \$57m to Mozambique and **Malawi** on 20 September to connect the two countries' electricity transmission systems, which will allow both countries to trade electricity via the **Southern African Power Pool (SAPP)**.¹⁷ The transmission line will help to improve electricity access in both countries, which is vital to improving productivity, and will also give the government the opportunity to sell excess power via the SAPP. Mozambique will receive \$42m of the total grant from the IDA, while Malawi will receive the remaining \$15m.¹⁸ Mozambique and Malawi will also receive funding from the **European Union**, **Norway** and Germany, which the German development agency, **Kreditanstalt für Wiederaufbau (KfW)**, will administer.¹⁹

The funding will help the construction of a 218-kilometre 400-kilovolt (kV) high-voltage transmission line between the **Matambo** substation in **Tete** (Mozambique) and the **Phombeya** substation in **Balaka** district (Malawi), as well as grid connections and substation works.²⁰ Mozambique will be responsible for a 135-kilometre power line while Malawi will construct a 75-kilometre line.²¹ This is Malawi's first interconnection with the SAPP.²²

Increased interconnection with the SAPP is a positive development for the energy sector in **Southern Africa** and for Mozambique's energy sector in particular. Mozambique's energy market is dominated by hydroelectricity; increased transmission lines exported from Mozambique will limit the use of coal which is dominant as a fuel source for power in other southern African markets. Mozambique's production capacity is set to increase via natural gas power projects that could provide up to 1,400 megawatts of power in the medium to long term.²³ However, Mozambique's main power issue is that there is no direct transmission line between the northern and southern regions, which requires the **Hidroelectrica de Cahora Bassa (HCB)** in the north to export power to **South Africa's** state-owned energy company, **Eskom**. so that southern cities, such as **Maputo**, can purchase the power back from Eskom at an increased cost.

¹⁵ AllAfrica, 9 Sep 2019

¹⁶ AllAfrica, 30 Aug 2019

¹⁷ Nyasa Times, 20 Sep 2019

¹⁸ Nyasa Times, 20 Sep 2019

¹⁹ Nyasa Times, 20 Sep 2019

²⁰ Multiple sources: IPP Media, 23 Sep 2019; Nyasa Times, 20 Sep 2019

²¹ Journal du Cameroun, 20 Sep 2019

²² Malawi24, 20 Sep 2019

²³ www.get-invest.eu

Planner

- 4 Oct 2019 **(Mozambique)** Peace and Reconciliation Day, public holiday
- 15 Oct 2019 **(Mozambique)** General elections scheduled
- 16-17 Oct 2019 **Johannesburg (South Africa)** The **North Gauteng High Court** hears case to extradite former **Mozambican** finance minister **Manuel Chang** to the **United States** or **Mozambique**;
- 2031 **(Mozambique)** Maturity date under new Eurobond debt restructure deal

Chronology

- 21 Sep 2019 **Maputo (Mozambique)** *Political Analysis South Africa*. The **World Bank's** lending arm, the **International Development Association**, grants \$57m to **Mozambique** to interconnect the **Mozambique** and **Malawi** electricity grids;
- 18 Sep 2019 **Maputo (Mozambique)** *EWN*. A breakaway rebel group from opposition party **Renamo** threatens to increase violence if campaigning for the 15 October elections is not suspended;
- 18 Sep 2019 **Maputo (Mozambique)** *AllAfrica*. **Teofilo Nhangumele**, a key figure in the hidden debt scandal, has reportedly cooperated with the **United States**-based **Federal Bureau of Investigation** since January;
- 17 Sep 2019 **Maputo (Mozambique)** *FT*. State-owned oil company **Empresa Nacional de Hidrocarbonetos** says it will form a joint venture with **Switzerland**-based commodity trading company **Vitol** to increase the value of its energy commodities;
- 13 Sep 2019 **Maputo (Mozambique)** *Political Analysis SA*. State-owned energy company **Electricidade de Mocambique** says it will sell 50 megawatts of power to **Zimbabwe** from October to minimise **Zimbabwe's** energy deficit;
- 13 Sep 2019 **Maputo (Mozambique)** *MacauHub*. The **Instituto Nacional de Estatística** says GDP grew 2.3% year-on-year in the second quarter of 2019 due to a rise in the tertiary sector;
- 12 Sep 2019 **Nampula (Mozambique)** *Al Jazeera*. At least 10 people die during a stampede at a campaign rally for President **Filipe Nyusi** in **Nampula**;
- 12 Sep 2019 **Maputo (Mozambique)** *Reuters*. Finance minister **Adriano Maleiane** says the government will continue to negotiate debt restructuring deals despite a **Mozambique** court ruling stating that the initial debt issuance was illegal;
- 11 Sep 2019 **Maputo (Mozambique)** *AllAfrica*. Head of opposition party **Renamo's** rebel wing, **Mariano Nhongo**, denies the rebel group attacked vehicles in **Sofala Province** and says that **Renamo** leader **Ossufo Momade** orchestrated the attacks;
- 9 Sep 2019 **Maputo (Mozambique)** *AllAfrica*. **Antonio Muchanga**, the **Maputo Province** governor candidate for opposition party **Renamo**, says that the party will not repay any hidden debts if it wins the October general elections;
- 9 Sep 2019 **Maputo (Mozambique)** *WSAU*. Creditors holding 99.5% of **Mozambique's** **Eurobond** support a new debt restructuring proposal that will see a new \$900m bond issuance maturing in 2031;
- 5 Sep 2019 **Maputo (Mozambique)** *Engineering News*. **South Africa**-based **Kibo Energy** signs a power purchase term sheet and a coal supply term sheet with **Brazil**-based **Vale** to supply coal for its **Benga** power plant project;
- 4 Sep 2019 **Maputo (Mozambique)** *Lowvelder*. **Catholic Church** head **Pope Francis** arrives in

Mozambique as part of an official visit that includes **Madagascar** and **Mauritius**;

28 Aug 2019 **Maputo (Mozambique)** *Bloomberg*. The government says it will conclude restructuring its debt issues by the end of September;

28 Aug 2019 **Maputo (Mozambique)** *Bloomberg*. The government secures \$543m in grants and loans from various donors, including the **World Bank**, to build a high voltage transmission line between the 420-megawatt gas-fired power plant in **Vilanculos** to **Maputo**.

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