

AFRICA RISK CONSULTING

Mozambique Monthly Briefing August 2017

Mozambique Summary 16 August 2017

President Filipe Nyusi (2015-present) and main opposition Resistencia Nacional Moçambicana (Renamo) leader Afonso Dhlakama hold a face-to-face meeting for the first time since 2015. Nyusi chairs the central committee meeting of the ruling Frente de Libertação de Moçambique (Frelimo). The World Bank publishes its Mozambique economic update and says the resumption of budget support is dependent on Mozambique's debt sustainability profile. The government misses its second 2017 Moçambicana de Atum SA (Ematum) Eurobond coupon payment. Finance minister Adriano Maleiane publicly indicates that the government is not ruling out the possibility of agreeing a programme with the International Monetary Fund (IMF) for 2018. State-owned power utility Electricidade de Moçambique (EdM) announces a 35% to 42% increase in electricity tariffs.

Nyusi meets Dhlakama

President **Filipe Nyusi** (2015-present) and main opposition **Resistencia Nacional Moçambicana (Renamo)** leader **Afonso Dhlakama** held face-to-face talks on 6 August.¹ The meeting was the first time Nyusi and Dhlakama have held face-to-face talks since 2015, hence the meeting appears as a significant step towards a final peace agreement between the **Frente de Libertação de Moçambique (Frelimo)** government and Renamo.²

*"Nyusi and Dhlakama met in the bushes of **Gorongosa**, where Dhlakama has been hiding since October 2015. Nyusi was praised for his radical and unexpected action and that was seen as an important step towards peace agreement ... Nyusi has been able to reach important progress in the negotiations with Dhlakama, which so far has resulted in indefinite extension of the ceasefire [see previous ARC Briefings for Mozambique]; the leaving of government troops in Gorongosa; and the recent face-to-face ... while in **Maputo** the technical teams from both parties are discussing decentralisation and military issues. The issues of concern are, first, timing, as there is no idea of when Mozambicans will enjoy definitive peace, with Dhlakama and Renamo back to their normal political activities. The second issue is secrecy of the matters agreed between Nyusi and Dhlakama. This is a crucial point, as the lack of information may hinder civil society and other relevant bodies' efforts to monitor the implementation of the agreement and help the parties in the fulfilment of their obligations."*³

Nyusi and Dhlakama met at a location in the **Gorongosa Mountains (Sofala Province)**, where Dhlakama retreated in 2015 (see previous *ARC Briefings* for Mozambique). According to a presidential statement, Nyusi and Dhlakama,

*"... discussed and agreed on the next steps in the peace process, which they hope to be completed by the end of the year."*⁴

¹ www.news24.com

² www.news24.com

³ Source, political analyst, Maputo

⁴ www.news24.com

Lourenço do Rosário, the rector of **Polytechnic University, Mozambique's** oldest private university, considered the meeting between Nyusi and Dhlakama “a very significant step”.⁵ The **Confederação das Associações Económicas de Moçambique (CTA)** (confederation of economic associations of Mozambique) said that the meeting between Nyusi and Dhlakama will reduce uncertainties in the market. CTA deputy chairman **Álvaro Massingue** said,

*“According to the presidency of the republic, the peace process will be concluded by the end of this year. This announcement of concrete deadlines reduces the uncertainty about the peace process and increases market confidence. At the same time, and as a result of this dialogue led by his excellency the president of the republic, we continue to enjoy peace in the country; we continue to do our business freely; and we continue to dream freely.”*⁶

The progress towards an eventual peace agreement comes after Dhlakama announced an indefinite extension of the truce he initially declared in December 2016 (see previous *ARC Briefings* for Mozambique).⁷ However, Renamo and the government still need to come to agreement on issues such as decentralisation, constitutional reform and reintegration of Renamo's fighters into the **Polícia da República de Moçambique (PRM)** (national police) and **Forças Armadas de Defesa de Moçambique (FADM)** (armed forces).⁸

*“The meeting between the Mozambican president and the leader of Renamo comes at a time when two committees set up earlier this year to deal with issues of decentralisation and military affairs are still working to reach consensus. Those groups had reached consensus on various questions, including the agenda for their work, and the mechanism to monitor and verify the current truce.”*⁹

The meeting between Nyusi and Dhlakama is a significant trust building measure between the government and Renamo, which is an important step towards a final peace agreement.

Nyusi chairs Frelimo central committee meeting

Nyusi chaired a meeting of the ruling Frelimo party central committee that started on 27 July.¹⁰ The meeting was especially significant as it is the last time that the central committee meets before the Frelimo congress convenes in **Matola** between 26 September and 1 October.¹¹ The congress meeting is, in turn, especially important as it precedes an electoral cycle including municipal elections in 2018 and presidential and parliamentary elections in 2019.¹² Between congresses, the central committee is Frelimo's highest decision-making body. The central committee meeting discussed proposals to amend internal Frelimo statutes ahead of the congress, as well as the structure and agenda of the congress itself.¹³ The meeting was originally due to last three days but finished a day early. Frelimo did not publish details of changes to party rules.¹⁴

Speaking in his capacity as Frelimo party president, Nyusi indicated that he would not interfere with investigations or prosecutions related to the hidden sovereign debt.¹⁵ Nyusi acknowledged that the **Kroll** audit revealed “irregularities that might indicate crimes”.¹⁶ Local media have interpreted his comment that “it is time to allow justice to work within the spirit of the separation of powers”¹⁷ as

⁵ Lusa, 8 Aug 2017.

⁶ Folha de Maputo, 8 Aug 2017.

⁷ News.iafrica.com

⁸ VOA, 4 May 2017.

⁹ AIM, 6 Aug 2017.

¹⁰ O Pais, 27 Jul 2017.

¹¹ O Pais, 27 Jul 2017.

¹² Lusa, 12 May 2017.

¹³ O Pais, 27 Jul 2017.

¹⁴ Notícias, 30 Jul 2017.

¹⁵ AIM, 30 Jul 2017.

¹⁶ AIM, 30 Jul 2017.

¹⁷ AIM, 30 Jul 2017.

suggesting he will not obstruct the prosecution of members of former president **Armando Emilio Guebuza's** (2005-2015) government. Nyusi also said the government is drafting a plan of action to improve public financial management. The plan is,

"... intended to strengthen the mechanisms for managing the public debt, and boosting transparency in managing public assets."¹⁸

Nyusi provided no additional information about the plan. Frelimo central committee mobilisation and propaganda secretary **António Niquice** told a press conference that Nyusi retained the full and unconditional backing of Frelimo.¹⁹ The central committee echoed this sentiment in a statement to close the meeting,

"The Frelimo central committee has confidence in the ability of Nyusi to lead the party to future triumphs."²⁰

The statement did not, however, explicitly confirm that Nyusi will stand as the Frelimo candidate in the 2019 presidential election.

World Bank publishes Mozambique economic update ...

The **World Bank** published its third **Mozambique Economic Update** on 31 July.²¹ The World Bank report highlights structural fault lines in the Mozambique economy, noting that extractives and large infrastructure projects have disproportionality driven recent growth, and that other sectors contribute less.²² The World Bank notes that growth increased and the currency stabilised in the first quarter 2017 on the back of the recovering coal sector.²³ The World Bank expects strengthening commodity prices and improved security to drive growth to 4.6% in 2017 and towards 7.0% by 2020.²⁴ However, it acknowledged that inflation remains high at 18%, and that the reference lending rate (22.75%) and commercial bank lending rates (28.6%) are prohibitively high and deter private sector lending.²⁵ This has damaged small and medium enterprises in particular, making them less resilient.²⁶ The World Bank also noted that a decrease in government expenditure from 39% of GDP in 2014 to 30% in 2016 was on the back of cuts in investment rather than recurrent expenditure.²⁷ Capital expenditure fell from 15.1% of GDP in 2014 to 8.5% in 2016, with government-financed investment decreasing from 8.3% of GDP in 2014 to 3.4% in 2016.²⁸ Donor-supported investment also decreased during the same period, from 6.8% to 3.4%.²⁹ The World Bank concludes that *"Mozambique's economy remains weakened"* and its *"fiscal position continues to be unsustainable"* due to high-levels of government borrowing from the **Banco de Moçambique** (central bank).³⁰

... and says resumption of budget support depends on debt sustainability

World Bank executive director **Andrew Bvumbe** said on 24 July that the resumption of budget support is dependent on Mozambique's debt sustainability profile.³¹ The World Bank's announcement puts more pressure on the government to finalise negotiations with its creditors, and take further

¹⁸ AIM, 30 Jul 2017.

¹⁹ Notícias, 27 Jul 2017.

²⁰ Notícias, 30 Jul 2017.

²¹ World Bank Press Release, 31 Jul 2017.

²² World Bank Press Release, 31 Jul 2017.

²³ World Bank Press Release, 31 Jul 2017.

²⁴ World Bank Press Release, 31 Jul 2017.

²⁵ World Bank Press Release, 31 Jul 2017.

²⁶ World Bank Press Release, 31 Jul 2017.

²⁷ World Bank Press Release, 31 Jul 2017.

²⁸ World Bank Press Release, 31 Jul 2017.

²⁹ World Bank Press Release, 31 Jul 2017.

³⁰ World Bank Press Release, 31 Jul 2017.

³¹ www.clubofmozambique.com

steps to control public spending and improve public finance management.³² Bvumbe told the media that,

“The issue of debt sustainability is critical [for resumption of state budget support]. Debt sustainability is part of the assessment for resuming budget support.”³³

Bvumbe said the assessment of conditions for the resumption of support to Mozambique would take into account the success of government efforts to restructure public debt, including the formerly hidden sovereign debt (see previous *ARC Briefings* for Mozambique).³⁴

“We will have to look at the indicators and what can be done in terms of the opportunity to restructure and make debt sustainable in order to help the country.”³⁵

However, World Bank representative to Mozambique **Mark Lundell** said the World Bank’s decision to keep direct support to the state budget frozen would not affect aid to priority social areas such as the education, health, agriculture and infrastructure sectors.³⁶ Bvumbe also announced that the World Bank will spend \$1.2 billion over three years to finance projects in the agriculture, health, education and infrastructure sectors.³⁷

The World Bank suspended support to the Mozambique government in late 2015 when news of the formerly secret \$2 billion of government back sovereign debt emerged.³⁸

Government misses second 2017 Ematum Eurobond coupon payment ...

The government confirmed that it had missed a second 2017 coupon payment on the \$726.5m **Moçambicana de Atum SA (Ematum)** Eurobond, due on 18 July.³⁹ The Ematum Eurobond holders, who are supposed to receive 10.5% interest per year in six monthly installments, argued that the government should treat them differently from the holders of the previously hidden and privately syndicated loans to government backed **Proindicus** and **Mozambique Asset Management (MAM)** (see previous *ARC Briefings* for Mozambique), because the issuance of the Ematum Eurobond required parliamentary approval, therefore making it legitimate sovereign debt.⁴⁰ The **Global Group of Bondholders (GGMB)**, which represents investors in the Ematum Eurobond issuance said, due to Mozambique’s improved economic conditions, the government should honour its Ematum Eurobond commitments, particularly if it repudiated the guarantees for Proindicus and MAM, which the GGMB claims are illegal.⁴¹ The GGMB stated,

“... the Ematum loan’s notes no longer exist. They were extinguished in April 2016 and the Mozambique 2023 Eurobonds were created [to replace them as part of a negotiated settle] with a different debtor [the republic of Mozambique] and substantially different creditors ... as holders of the Mozambique 2023 Eurobonds – which were approved by the Mozambique national assembly and whose legality is unquestionable – the GGMB looks forward to a timely solution of Mozambique’s debt situation.”⁴²

In November 2016, the GGMB said that it would no longer conduct restructuring negotiations with the government until Kroll’s audit into Ematum, Proindicus, and MAM was complete and the government entered into a new programme with the IMF.⁴³ Kroll has completed its audit report (see previous *ARC*

³² www.clubofmozamboque.com

³³ www.clubofmozamboque.com

³⁴ www.clubofmozamboque.com

³⁵ www.clubofmozamboque.com

³⁶ www.clubofmozamboque.com

³⁷ www.clubofmozamboque.com

³⁸ www.clubofmozamboque.com

³⁹ Ewn.co.za

⁴⁰ Zitamar, 18 Jul 2017.

⁴¹ Zitamar, 18 Jul 2017.

⁴² Zitamar, 18 Jul 2017.

⁴³ Zitamar, 18 Jul 2017.

Briefings for Mozambique) and the IMF just completed a post audit follow-up mission to Mozambique on 19 July.⁴⁴ The IMF has not yet released a statement with regard to its findings, however one political analyst told **Zitamar News** that,

“... the inadequate audit results will force the IMF to impose follow-up requirements ... [which could include] an assurance from the government that the attorney general’s investigations into the controversial debt is well underway [and] impose conditions around broader management of state and public enterprise debt, which still represents something of a black hole.”⁴⁵

Such IMF requirements could be enough to entice the GGMB to enter into preliminary discussion with the government over the Ematum Eurobond.⁴⁶

... and indicates possibility of IMF programme for 2018

Finance minister **Adriano Maleiane** publicly indicated on 24 July that the government is not ruling out the possibility of the government agreeing with the **International Monetary Fund (IMF)** a programme for 2018.⁴⁷ An agreement with the IMF is a critical component of Mozambique’s ability to emerge from the ongoing sovereign debt crisis (see above).⁴⁸ Maleiane said,

“I do not know who said that there will be no programme. We are working together and things are happening. The IMF is our partner.”⁴⁹

Maleiane clarified the role of the recent IMF mission (see previous *ARC Briefings for Mozambique*), and says that nothing is decided yet.⁵⁰

*“They came [to Mozambique] to find out what the government is doing as far as following the recommendations of the parliamentary inquiry report and the summary of the Kroll report goes. The programme is a process and we continue to work with them at the technical team level in **Washington**. They came here for clarification, which is part of the work, because they have to put a proposal to the IMF board of directors ... Mozambique, as a member of the IMF, has already clarified the issue of debt, so from the IMF perspective the issue of misreporting ended in November 2016. What we are now discussing is how we work to bring this whole debt issue into sustainability, taking into account our capabilities.”⁵¹*

Government increases electricity tariffs

State-owned power utility **Electricidade de Moçambique (EdM)** announced a 35% to 42% increase in electricity tariffs on 15 August, its first tariff increase since November 2016.⁵² EDM justified the increase on the grounds that it is still selling electricity for less than the cost of production.⁵³ The increased tariffs will help stem losses at EdM, which has faced financial difficulties since former president Guebuza froze electricity prices from 2010 to 2015, following cost of living riots in Maputo in September 2010.⁵⁴ EdM’s new tariffs are as follows:

- The price per kilowatt-hour (kWh) increases from 5.8 meticals (M) (\$.095) to M8.24 (\$.135) for consumers on the low voltage general tariff for industries, trade, offices, shops and similar establishments, who use up to 300kWh a month. For the same consumers who use between 301 and 500 kWh, the tariff increases from M8.29 (\$.136) to M11.77 (\$.193) per kWh.

⁴⁴ Zitamar, 18 Jul 2017.

⁴⁵ Zitamar, 18 Jul 2017.

⁴⁶ Zitamar, 18 Jul 2017.

⁴⁷ O Pais, 25 Jul 2017.

⁴⁸ O Pais, 25 Jul 2017.

⁴⁹ O Pais, 25 Jul 2017.

⁵⁰ O Pais, 25 Jul 2017.

⁵¹ O Pais, 25 Jul 2017.

⁵² www.allafrica.com

⁵³ AIM, 15 Aug 2017.

⁵⁴ Multiple sources: www.allafrica.com; Lusa, 16 Aug 2017.

Above 500 kWh per month, the tariff increase is from M9.07 (\$0.148) to M12.88 (\$0.211) per kWh.⁵⁵

- The preferential household tariff is considerably lower. For the first 300 kWh, the tariff increases from M4.04 (\$0.066) to M5.46 (\$0.089) per kWh; between 301 and 500 kWh a month the tariff will increase from M5.72 (\$0.093) to M7.73 (\$0.127) per kWh; in excess of 500 kWh the tariff will increase from M6 (\$0.098) to M8.11(\$0.133) per kWh.⁵⁶
- Farmers will continue to obtain a lower tariff, which is frozen at M3.4 (\$0.055) per kWh for the first 300 kWh, and increases to M5.3 (\$0.087) per kWh for consumption in excess of 500 kWh.⁵⁷
- The social tariff for low-income domestic consumers who use less than 125 kWh a month remains unchanged at M1.07 (\$0.02) per kWh.⁵⁸

The IMF welcomed EdM's decision to increase electricity tariffs. In a public statement, the IMF said,

*"The International Monetary Fund welcomes the Mozambican authorities' decision to adjust as of August 15, 2017, the electricity tariffs. The tariff adjustment should help contain the operational losses of the national electricity company and protect the state budget, while preserving a social tariff for low income and most vulnerable consumers."*⁵⁹

Planner

27 Aug – 3 Sept 2017 **Maputo (Mozambique) MITF**. Mozambique International Trade Fair;
 30 Aug 2017 **Maputo (Mozambique) QCAF**. Quality and competitiveness Agro-Food Forum;
 12-15 Sept 2017 **Maputo (Mozambique) MGC**. 4th Mozambique Geology Congress;
 26 Sept – 1 Oct **Maputo (Mozambique) Frelimo**. Frelimo's 11th congress;
 18-20 Oct **Maputo (Mozambique) MGS**. Mozambique Gas Summit;
 9 Nov 2017 **Maputo (Mozambique) FT**. Financial Times Mozambique summit;
 22-24 Nov **Maputo (Mozambique) MOZEF0**. Mozambique Economic and Social Forum;

Chronology

12 Jul 2017 **Maputo (Mozambique) BdM**. The **Banco de Mocambique (BdM)** (central bank) monetary policy committee MPC maintains prime reference rate at 27.75%;

14 Jul 2017 **Maputo (Mozambique) ANA**. The **African News Agency** reports that **Japan** has frozen \$100m in aid and loans to **Mozambique** due to the ongoing sovereign debt issues linked to state-owned enterprises **Moçambicana de Atum SA (Ematum)**, **Proindicus** and **Mozambique Asset Management (MAM)**;

18 Jul 2017 **Maputo (Mozambique) ewn.co.za**. Government misses second 2017 Ematum **Eurobond** coupon payment;

24 Jul 2017 **Maputo (Mozambique) www.clubofmozambique.com**. **World Bank** says the resumption of budget support is dependent on **Mozambique's** debt sustainability profile;

24 Jul 2017 **Maputo (Mozambique) O Pais**. Finance minister **Adriano Maleiane** publicly indicates

⁵⁵ AIM, 15 Aug 2017.

⁵⁶ AIM, 15 Aug 2017.

⁵⁷ AIM, 15 Aug 2017.

⁵⁸ AIM, 15 Aug 2017.

⁵⁹ www.clubofmozambique.com

that the government is not ruling out the possibility of the IMF and the government agreeing on a programme for 2018;

27 Jul 2017 **Maputo (Mozambique)** *O País*. Nyusi chairs ruling **Frente de Libertação de Moçambique (Frelimo)** central committee meeting;

31 Jul 2017 **Washington DC (United States)** *World Bank*. World Bank publishes Mozambique economic update;

4 Aug 2017 **Beira (Mozambique)** *www.drybulkmagazine.com*. India-based **Essar Ports**, on 4 August, signs a 30-year public private partnership agreement (PPP) with the Mozambican government to develop a new coal terminal at the **Beira Port**;

6 Aug 2017 **Gorongosa (Mozambique)** *News24*. President **Filipe Nyusi** (2015-present) and main opposition **Resistencia Nacional Moçambicana (Renamo)** leader **Afonso Dhlakama** hold face-to-face meetings for first time since 2015;

15 Aug 2017 **Maputo (Mozambique)** *www.allafrica.com*. State-owned power utility **Electricidade de Moçambique (EdM)** announces a 35% to 42% increase in electricity tariffs.

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)