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Invitations to be sent out to mediators

The joint commission formed between the Mozambican government and the opposition party Renamo announced on 20 June that letters are being sent to potential mediators who will take part in a dialogue which ought to culminate in a face-to-face meeting between President Filipe Nyusi and Renamo leader Afonso Dhlakama.

Speaking in the name of the Commission, the head of the government delegation, former security minister Jacinto Veloso, said he thought that formal invitations would be dispatched within the next three days, and he hoped for "very speedy replies".

The government had initially opposed calling in foreign mediators, on the grounds that Mozambicans are quite capable of dealing with their own problems. But Renamo refused to engage in further dialogue without foreign mediators at the table.

Therefore, Nyusi reversed the government position and announced "if the problem is to have somebody else present while we are discussing, then let Dhlakama come with whoever he likes, and we will talk so that he ends the attacks. Let him come with these people, and we shall see what will happen. I am ready".

The mediators suggested by Renamo are the European Union, the Catholic Church, and South African President Jacob Zuma.

Veloso admitted that Renamo's demand means that a Nyusi-Dhlakama meeting will only be possible in the presence of mediators. Exactly what the mediators will do is not yet clear. Veloso said the mission and responsibilities of the mediators are still being defined.

No date has yet been fixed for the Nyusi-Dhlakama meeting, nor has Renamo suspended its armed attacks in the central provinces.

At earlier meetings, the Joint Commission reached agreement on four agenda points. The two proposed by the government are an immediate end to military hostilities and the disarming of Renamo.

Renamo, however, wants to talk about the composition of the defence and security forces, and governance of the six northern and central provinces where it claims that it won the October 2014 general elections.

Work on Moamba Maior dam progresses

Work on the new Moamba Maior dam on the Incomati River, in the southern district of Moamba, is now about seven per cent complete. President Filipe Nyusi witnessed the progress during a visit to the dam site on 18 June.

The dam, budgeted at $466 million, will contain a power station with the capacity to produce 15 megawatts. But the main purpose of the dam is to control the flow of the Incomati, thus mitigating floods and droughts.

Elias Paulo, of the Southern Regional Water Board (ARA-Sul), told President Nyusi that the dam will also boost the capacity to supply water to Maputo and Matola cities, and the adjacent districts of Boane and Marracuene by about 250 million cubic metres of water a year. It will also allow an expansion in the irrigated area by 19,000 hectares.

Paulo added that the undertaking will create between 1,500 and 2,000 direct jobs, and will counter the intrusion of salt water at the mouth of the Incomati. He believed the dam will stimulate the socio-economic development of the region, and create the conditions for increased agricultural, livestock and tourism activities.

Construction of the dam also involves building 518 houses for families who will have to be resettled. This social aspect of the project also includes the construction of two health centres, two primary schools, a drainage system, water supply and electricity infrastructures and improved access roads.

This is a condensed version of the AIM daily news service – for details contact pfauvet@live.com

Interest rates rise again

The Bank of Mozambique has again increased its key interest rates, in its attempts to control inflation.

A statement issued by the Bank's Monetary Policy Committee on 13 June announced that the Standing Lending Facility (the interest rate paid by the commercial banks to the central bank for money borrowed on the Interbank Money Market) will rise immediately by 150 base points, from 12.75 to 14.25 per cent.

This is the sixth increase in the Bank's main reference rate since October. This rate had been falling gradually since late 2012. It reached 7.5 per cent in November 2014, and remained at that level for a year, but five rate rises in October, November and December 2015 and in February and April 2016 brought the rate to 12.75 per cent. Now the sixth rise has pushed it to 14.25 per cent, an increase that will certainly be imitated by the commercial banks, making the cost of borrowing prohibitively high for small businesses.

The Standing Deposit Facility (the rate paid by the central bank to the commercial banks on money they deposit with it) also rose by 150 base points from 5.75 to 7.25 per cent.

The Compulsory Reserves Coefficient - the amount of money that the commercial banks must deposit with the Bank of Mozambique – has been divided into two. For reserves in local currency, the coefficient is set at 10.5 per cent, and for reserves in foreign currency, the figure is 15 per cent, which must be deposited in US dollars. This change was announced in April but only took effect on 7 June.

The Monetary Policy Committee says it "assessed the short and medium term projections which point to a slowdown in economic activity and the persistence of inflationary pressure in an environment of continued pressure on the exchange rate". As a result, the macroeconomic foundation of the economy were facing constraints "which require the due adjustments".

The statement blamed this situation on such factors as "the prevalence of politico-military tensions in some parts of the country" (referring to attacks by Renamo gunmen against roads and railways) and the suspension of aid from Mozambique's cooperation partners.

After four months of rising prices, inflation in May was negative, at minus 0.22 per cent. This seasonal variation was to be expected – inflation declines every year when the harvest comes in. The Monetary Policy Committee noted that increased supplies of fresh domestic foodstuffs explained the fall in prices – but working against this trend were the depreciation of the Mozambican currency, the metical, and the difficulties in moving across the country due to the military situation.

The metical continued to lose value in May. At the end of the month, the rate quoted on the Inter-Bank Exchange Market was 58.22 meticais to the dollar, a depreciation of 9.42 per cent over the month. Over the entire preceding year, the metical had lost 68.61 per cent of its value against the dollar. The average rate quoted by the commercial banks on 31 May was also 58.22 meticais to the dollar, while at the foreign exchange bureaus the rate was 61.56 meticais to the dollar.

The metical recovered slightly against the South African rand and was quoted at 3.7 meticais to the rand, an appreciation in May of 1.6 per cent.

That relief was short lived. In the first fortnight of June, the metical took a nosedive against the rand. On 14 June the rate on the Inter-Bank Exchange Market was 3.98 meticais to the rand, while the largest commercial bank, the millennium-BIM, was quoting a rate of 4.07 meticais to the rand.

The rand/metical exchange rate is crucial for food prices, particularly in southern Mozambique, because so much basic food is imported from South Africa.

Provisional figures indicate that in May the country's net foreign reserves declined by $80.3 million to $1.714 billion. This is enough to cover 3.1 months of imports of goods and non-factor services, when the operations of the foreign exchange mega-projects are excluded, and 2.4 months if the mega-projects are included.

President inaugurates new Coca-Cola factory

President Filipe Nyusi on 16 June inaugurated a new Coca-Cola factory in the Matola-Gare neighbourhood, on the outskirts of Maputo.

According to the chairperson of the board of Directors of Coca-Cola-Mozambique, Benjamim Alfredo, this brand new plant cost $120 million and is equipped with state-of-the-art technology.

In its initial phase, the factory will be able to produce 50 million crates of soft drinks a year. In a second phase, capacity will increase to 70 million crates a year, and in a third, to 150 million crates a year.

During the construction phase, the plant employed 1,200 people, of whom 1,000 were Mozambicans. In the initial operational phase, it is employing 300 Mozambican workers. This could rise to 700 by the third phase.

Speaking at the inauguration, President Nyusi said investment occurs where there is a favourable economic environment. This plant is a testament to the contribution of the private sector to the development of Mozambique. The government will continue to promote industrialization to create jobs and maximize the value chain".

President Nyusi added that he is aware that some of the sugar used by Coca-Cola as a raw material is not produced in Mozambique, but is imported. He stressed that the Mozambican sugar industry has the capacity to produce all the sugar that Coca-Cola needs.

This is a longstanding problem. Soft drinks companies insist on refined sugar, and the vast bulk of the sugar produced in Mozambique is not refined. Last July the Minister of Industry and Trade, Max Tonela, was optimistic that Coca-Cola would switch to Mozambican sugar and buy 10,000 tonnes a year. But this depends on the sugar mills producing the type of refined sugar demanded by soft drinks companies.

Police rescue kidnap victim

The Mozambican police on 19 June rescued a kidnap victim in Boane municipality, about 30 kilometres west of Maputo, shooting dead two of the kidnappers during the operation.

The woman victim, whose name was not revealed, was kidnapped in central Maputo on 2 June. The kidnappers held her prisoner for 17 days, first in Txumene, in the city of Matola, and then in the house in the Boane neighbourhood of Jonasse, where the police rescued her.

When journalists from the television station STV visited the house, one of the dead kidnappers lay at the entrance, still clutching a pistol. Inside the house was another gun, an AK-47 assault rifle, also used by the gang. Spent cartridges from the exchange of fire between the police and the kidnappers littered the floor.

The police arrested a woman found at the house who was guarding the victim. She, however, denied any responsibility and blamed the kidnapping on her boyfriend, who was one of those shot by the police.

Ruby auction raises record $44 million

The London-based company Gemfields on 20 June announced that its sixth auction of rubies mined in the northern Mozambican district of Montepuez has raised a record $44.3 million.

The auction took place in Singapore between 13 and 19 June and was composed of high end and commercial grade rubies, both in treated and untreated forms.

The proceeds of the auction will be repatriated to Gemfields' Mozambican subsidiary, Montepuez Ruby Mining Limitada (which is 75 per cent owned by Gemfields and 25 per cent by local partner Mwiriti Limitada), with the royalties due to the government being paid on the full sales price.

Over one and a half million carats were sold to 44 international companies at an average price of $29.21 per carat.

The company's six ruby auctions have netted a total of $195 million.

Commenting on the latest auction, the Gemfields Chief Executive Officer, Ian Harebottle, said "the prices achieved and the high percentage of goods sold fully support our analysis of the market conditions, the quality of Mozambique's rubies and the increasing levels of demand across various markets and categories".

Kenmare progresses on debt restructuring

The Irish company Kenmare Resources that operates a dredge mine in Moma district, on the coast of the northern Mozambican province of Nampula, announced on 20 June that its lenders have agreed to a debt restructuring plan.

Under the plan, the Omani sovereign wealth fund (SCRF) will invest $100 million and Kenmare intends to raise at least a further $175 million through issuing securities.

However, the company noted the termination by mutual consent of the conditional agreement it had with the Chinese company King Ally Holdings, under which it would have received a $100 million in return for ownership of up to 29.9 per cent of Kenmare.

The Moma mine extracts ilmenite, rutile, and zircon from titanium-bearing heavy mineral sands. However, falling prices and a nineteen per cent drop in output last year has put Kenmare in deep financial difficulty. Raising funds to pay its creditors has been slower than expected and the company defaulted on its loans at the end of January.

Commenting on progress towards solving Kenmare's debt difficulties, managing director Michael Carvill stated, "we are pleased that we have signed an agreement for the investment of a hundred million dollars by SGRF and are encouraged by the level of interest shown by a broad range of investors".

Carvill also made reference to the low global prices for its minerals, adding "the product market is already showing a long-awaited improvement in prices, reversing four years of significant downward pressure".

Kenmare expects to complete its capital restructuring by the beginning of August. Shares in the company rose by over 18 per cent on the London Stock Exchange following the announcement.

Ilmenite (iron titanium oxide) and rutile (titanium dioxide) are used to make white pigments for paints, paper, and plastic. Titanium can be extracted from these ores and used to manufacture metallic parts where light weight and high strength are needed. Zircon (zirconium silicate) is used for abrasive and insulating purposes.

IMF team arrives in Maputo

A technical mission from the International Monetary Fund (IMF) arrived in Maputo on 16 June to assess the macroeconomic impact of the huge, government guaranteed loans which the previous government, led by President Armando Guebuza, had kept secret both from the Mozambican public and from the country's international partners.

The two undisclosed loans, for the security-linked companies Proindicus and Mozambique Asset Management (MAM), amount to over $1.1 billion. The money was borrowed from the banks Credit Suisse and VTB of Russia – the same banks which organized the borrowing, on the Eurobond market, of $850 million for the Mozambique Tuna Company (EMATUM).

The EMATUM, Proindicus and MAM loans, all guaranteed by the Mozambican government, date from 2013-2014, and between them added two billion dollars to the country's foreign debt (more than 20 per cent of the total debt).

The existence of the Proindicus and MAM loans only became known in early April. Angered at the failure of the government to disclose such huge loans, the IMF cancelled a mission that was to have visited Mozambique in mid-April and suspended the second instalment of a $282 million loan from the Fund's Standby Credit Facility (SCF).

The reaction from other key partners was similar. Thus the group of 14 donors and funding agencies that provide direct support to the Mozambican state budget suspended disbursements.

The IMF mission will remain in the country until 24 June, and is expected to hold meetings with Prime Minister Carlos Agostinho do Rosario, Finance Minister Adriano Maleiane and the Governor of the Bank of Mozambique, Ernesto Gove.

China to forgive part of debt

The Chinese authorities will forgive $30 million yuan ($5 million) of Mozambique's debt to China under an agreement signed in Maputo on 13 June by Mozambique's Deputy Minister of Economy and Finance, Maria Isaltina Lucas, and the Chinese Deputy Trade Minister, Zhang Xiangchen.

Speaking immediately after the signing ceremony, Mozambique's Deputy Foreign Minister Nyeleti Mondlane said the Chinese decision will help relieve the pressure on the servicing of Mozambique's public debt.

The debt cancelled is part of a Chinese loan bearing no interest. Mondlane sad that this debt forgiveness "will contribute to implementing the objectives contained in the Government's five-year programme, particularly at this time of important challenges to the country".

For his part, Zhang expressed China's willingness to help Mozambique overcome the current economic crisis it is facing.

The two countries also signed agreements on water supply and agriculture. Zhang and Deputy Agriculture Minister Luisa Meque signed an agreement on the opening of 202 boreholes to provide waters to drought-stricken areas.

The third agreement involves the Mozambican and Chinese governments and the Bill and Melinda Gates Foundation, of the United States. It will support agricultural research in order to boost production. The amount of Chinese investment covered by these two agreements was not stated.

Tax Authority assessing Vale-Mitsui deal

The Mozambican Tax Authority (AT) is considering whether the sale by the Brazilian company Vale of shares in its Mozambican operations to the Japanese company Mitsui is liable to capital gains tax.

Mitsui agreed, in 2014, to pay $763 million for a 15 per cent stake in Vale's open cast coal mine at Moatize and a 35 per cent stake in the new mineral port at Nacala-a-Velha, on the northern coast, and the Nacala-Moatize railway. But this deal has only just received final approval from the Mozambican government.

Vale's expectation is that this sale of shares should not attract capital gains tax as it merely seeks to complete the investments required to make mining at Moatize viable.

The AT does not necessarily share this view. Speaking to reporters on 10 June, the AT's general director of taxes, Augusto Tacarindua, said the Vale-Mitsui arrangement is still being assessed.

Vale is currently running its Mozambican operations at a heavy loss. According to the company's accounts published in February, the Moatize mine is costing Vale $500 million a year. Nonetheless, Vale shows no sign of pulling out of Mozambique and has expressed a continued interest in Mitsui investing in its Mozambique projects.

Clearly Vale believes that international demand for coal will rise, and the coal price will eventually recover, thus making it possible to recoup the money it has spent on the Moatize mine and on the port and rail infrastructures.

Health Ministry plans to reduce chronic malnutrition

The Ministry of Health hopes to reduce the prevalence of chronic malnutrition among Mozambican children to 20 per cent by 2020.

Data from the 2011 Demographic and Health Survey indicated that 43 per cent of children under five years of age are suffering from chronic malnutrition. This is believed to be strongly correlated with the nutritional status of their mothers.

On 13 June the Health Ministry launched the Communication Strategy for Social and Behavioural Change to Prevent Malnutrition. This is in line with the existing Multi-Sector Action Plan to Reduce Chronic Malnutrition in Mozambique (PAMRDC) and takes as its target groups women of reproductive age, including pregnant and lactating women, and children up to two years old.

The priorities identified include the promotion of breastfeeding, a healthy diet for pregnant women, the use of iodized salt, and vitamin A supplements.

Health Minister Nazira Abdula, who chaired the launch ceremony, said that investment in nutrition provides social and economic benefits to the nation, such as lifting the intellectual and productive capacity of citizens.

The preventive measures envisaged "will reduce the resources the health sector spends on the later treatment of malnutrition so that they can be used for other purposes". Improved nutrition would also boost school attendance and the academic performance of schoolchildren.

Fighting against malnutrition, Abdula added, will increase resistance to disease, and thus reduce the number of working days lost because workers are ill.

Levels of chronic malnutrition vary across the country and are at their worst in the three northern provinces of Nampula, Cabo Delgado and Niassa and the central provinces of Zambezia and Tete, and so special attention will be paid to these provinces.

The Health Ministry will form technical groups that will go into the districts to deliver messages on nutrition to health promoters, and to community, religious and political leaders.

New investment planned for Nacala railway

The rail corridor from the northern port of Nacala-a-Velha to the Moatize coal basin in Tete province will receive $3 billion of new investment to boost its capacity to transport the coal produced in Moatize, according to government spokesperson, Deputy Health Minister Mouzinho Saide.

Speaking on 14 June at the end of the weekly session of the Council of Ministers (Cabinet) he said that $1.9 billion will be invested in Mozambique and the rest in Malawi.

Saide added that the Council of Ministers approved a direct agreement between the government and the two main rail and port leaseholders in the north, the Northern Development Corridor (CDN), and the Nacala Integrated Logistics Corridor (CLN). He said the agreement is needed to allow CDN and CLN to obtain the loans needed for the planned improvement in rail facilities.

"The agreement does not create any financial obligation on the government", he added, "since the risks of the logistics operation will be the responsibility of the leasing consortium and its components, notably Vale and Mitsui".

CLN runs the coal terminal at the new port of Nacala-a-Velha, built on the opposite side of Nacala Bay to the previously existing port of Nacala, and the 900-kilometre long railway from Moatize to Nacala-a-Velha, which runs across southern Malawi. CLN is a consortium between the Brazilian mining company Vale, the Japanese company Mitsui and Mozambique's publicly-owned port and rail company, CFM.

The new investments, Saide said, will significantly increase the capacity of the line which, in 2015, was capable of carrying 22 million tonnes of cargo a year.

The government has also authorized the sale of all the shares held by CFM in CDN, CLN and in Central East African Railways (CEAR), which runs the Malawian rail network.

Mozambique News Agency, c/o 26 Withdean Crescent, Brighton BN1 6WH, UK. Tel: +44 (0) 7941890630 - mozambique-news@geo2.poptel.org.uk

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