

MOZAMBIQUE News reports & clippings

348 11 December 2016 Editor: Joseph Hanlon (j.hanlon@open.ac.uk)

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Following the donor-designed path to the \$2.2 billion secret debt <http://bit.ly/3WQ-Hanlon>

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Comment: something will turn up: <http://bit.ly/28SN7QP>

Oxfam blog on Bill Gates & chickens:

<http://oxfamblogs.org/fp2p/will-bill-gates-chickens-end-african-poverty/>

Chickens and beer: A recipe for agricultural growth in Mozambique

by Teresa Smart and Joseph Hanlon is on <http://bit.ly/chickens-beer>

Gas for development or just for money? is on <http://bit.ly/MozGasEn>

Damning debt report from parliament

Secret debt illegal, unconstitutional

Main purpose security, not fishing

Promoted by SISE

Intentionally kept secret

Terrible contract

It is not sure which is more damning, the report of the Parliamentary Inquiry Commission (CPI) on the \$2 billion secret debt, or the evidence given to it by high level witnesses defending themselves - notably former president Armando Guebuza, former Finance Minister Manuel Chang, and António Carlos do Rosário, the senior official of the intelligence and security service (Serviço de Informação e Segurança do Estado, SISE) who is head of the three companies, Ematum, Proindicus, and MAM.

Guebuza and António do Rosário both stressed that the main purpose of the loans was military and security, and not fishing. They mainly cited issues around costal protection, relating to piracy, the gas industry, fishing, immigration and smuggling. Guebuza also cited Renamo and other unidentified security threats, particularly electronic.

Under a still secret Integrated Monitoring and Protection System for the Exclusive Economic Zone (Sistema Integrado de Monitoria e de Protecção da Zona Económica Exclusiva em Moçambique) set up in 2013, the three companies were created as "special purpose vehicles" that were owned by government (mainly SISE) but could act independently of it. Proindicus was set up first (January 2013, \$622 mn loan) to establish "integrated systems of aerial, spatial, maritime, lake, river and terrestrial security." Then Ematum was set up (August 2013, \$850 mn loan) for coastal protection and tuna fishing, and finally MAM (Mozambique Asset Management, April 2014, \$535 mn loan) for shipyards.

Chang and António do Rosário both confirmed that the idea was that Proindicus would borrow \$2 bn; then when that was not possible, two other companies were set up with fishing as the front. Only at the last minute did it become obvious that loans would require state guarantees. do

Rosário said he knew the guarantees would be illegal, but appealed to Chang's sense of patriotism. Chang confirmed he came under pressure from SISE and agreed the guarantees without telling the Council of Ministers, the Bank of Mozambique, the Attorney General's office or the IMF. He then made convoluted arguments that he had that right to decide, and that a debt guarantee was not the same as debt because it was not included in the budget because it was not expected to have to be paid by the government.

The Parliamentary Inquiry Commission rejected Chang's arguments. Article 179 of the constitution is explicit that "parliament establishes the upper limit for guarantees that may be given by the State." In 2013 the upper limit was only \$5 million. The Commission report says that the loans "constitute a violation of the constitution and of budget laws" which put limits on what a finance minister can do. It went on to say that in signing a guarantee, the government "renounced its sovereignty, submitting itself to the sovereignty of the British court system" and relinquished its sovereign immunity.

Chang admitted that "for us, the funding applications were very urgent. Unfortunately, we did not have any notion that we might be abdicating our sovereignty."

Chang also argued that it was for the lenders (Credit Suisse and VTB) to tell the IMF about the loans, not the government. In any case "the IMF representation in Maputo is an office only. It is not an institution that discusses policies with the Government. Those who discuss policies with governments are the IMF's missions" to Mozambique (which are led by a more senior official). Again, the Commission rejected Chang's comments. The government has a "duty" to inform that IMF and, even if it had not done so early, it should have told the mission to Mozambique in 2015. Failing to do so "compromised all the agreements reached" in 2015, including a \$283 mn loan.

Intentional secrecy

António do Rosário said that the entire package was intended to be secret, "Of course we could not go and tell either the banks or anyone else that fishing was not the main part; that it was not for us the initial objective, but only complementary." Indeed, it was against the instructions of the Mozambicans that the financier of the Ematum operation, Credit Suisse, decided to launch a public bond issue. "Then the soup was spilled, and after that we had to manage things." Activities were moved to the other two companies and the loans to them were kept secret.

Guebuza justified the secrecy on the grounds that the whole issue was "strategic-military" and that purchases were being made using "classified information" from SISE.

António do Rosário argued that that once an agreement had been reached with the Lebanese company Privinvest, he did not want any more public discussion, which would have led to an "open war" with other companies making offers.

The Commission was not impressed. It said the relations between the three companies, the contractor and the creditors (the banks) were far too close and "were not transparent". The report said the government ought to have brought in an independent inspecting body to check whether the assets ordered by Ematum, Proindicus and MAM had been delivered.

Bad contract

All of the money from the loans was apparently directly transferred to the contractor Abu Dhabi Mar, owned by the Lebanese company Privinvest. Nothing was held back, "which broke the golden rule of the world of business," and ignored totally the need to cover local costs for management, staff, training, bureaucratic procedures and initial debt repayments.

And the Commission was highly critical of "the financial projections [which] were made on the basis of unsustainable and hypothetical assumptions". In the viability studies "there was apparently no

effort to take into account the risks inherent to the country's situation, such as its vulnerability to international commodity prices".

Call for further investigation, but protecting those responsible

António do Rosário refused to give the CPI information on how the funds had been transferred and used. The Commission complains that parliament did not give it enough money to fund its own investigations - it received \$70,000, only one-third of what it asked for. Thus it recommends further investigations of exactly what the three loans were used for. And it calls for investigation into "any signs of illicit use of public funds by private individuals or companies during the contracting of the debts and issuing of guarantees".

Nevertheless, despite the Commission saying the loan guarantees are illegal and unconstitutional, it advises parliament not to renounce the debt, in order to protect those responsible from legal action. Renouncing the debt would be saying that those who offered the state guarantees acted in bad faith, and article 227 of the civil code says that anyone who signs a contract in bad faith is responsible for the damages caused to the other party.

Would do it again

Guebuza on 28 November told the Commission that the whole process was correct and he would do it again: "Under these conditions, I believe any responsible government would act as we did. And if we were in the same conditions and had to make the same decisions, considering the circumstances at that moment, we would do exactly the same thing today, in defence of the beloved homeland and the wonderful Mozambican people." Guebuza also lectured the Commission on his role in the armed struggle, "abandoning" his family and being jailed on his way to fight, eventually reaching Frelimo in Tanzania. He then stressed how "proud" he was of what he had done as president. The implication was that mere members of parliament had no right to question him.

António do Rosário also claimed success. "First is to do, and only later explain how we did it. Then at least there's no way around it. And it looks like it worked. Perhaps we will be blamed for doing what we did. But we did it deliberately, with the objective of serving the state. And we succeeded."

Secret but leaky

The Commission took evidence in secret, its report is secret, and the report was debated by parliament in secret on Friday, 9 December. But details have been widely published in the independent press and by the state news agency AIM, although not by the state-owned daily *Notícias*. This *Bulletin* is compiled from AIM English & *Savana* 9 Dec, *Zitamar* 8 & 9 Dec, *O Pais* and *MediaFax* 7 Dec, *Magazine Independente* 6 Dec, and *Canal de Moçambique* 30 Nov.

Comment

Renounce the debt?

Should Mozambique refuse to pay the \$2 bn secret debt? The parliamentary Commission report takes a middle position. It says the debt should be paid by the three companies and not the government, that the government guarantees are invalid, and that the debt could be declared null and void by parliament. But it says parliament should not do that, on three grounds. First, it would be an admission that the government acted in bad faith, which could bring legal action against the government and individuals under the civil code. Second, that the Mozambican "state would lose confidence at the international level". Third, any decision on the debt will be taken by a British court. The guarantees given as part of the loan include that British courts have "exclusive jurisdiction to resolve any disputes arising out of or in connection with this warranty" and that the Mozambican state renounces "any immunity which it or its property or income may enjoy in any jurisdiction".

I was policy officer Jubilee 2000, the campaign to cancel developing country debt, 18 years ago (and which campaigned for Mozambique's eventual HIPC debt cancellation). Based on that experience, I would make totally the opposite case. Precisely because the issue will be resolved by a British court, the Mozambican parliament should refuse to authorise the guarantees - at least on the MAM and ProIndicus debt. (Ematum has been rescheduled as Mozambique government bonds, so the position there is different.)

For MAM and ProIndicus, the loan was provided in secret by Credit Suisse and the Russian state-owned bank VTB, who then broke the loan into pieces which it sold to investors saying it was state guaranteed debt for a profitable fishing project. Due diligence would have shown all three claims to be false - the constitution did not allow the state guarantee, the two companies could never be profitable, and it was for arms. Therefore the loans were improper and should never have been made in the first place, and were sold on to investors under false premises. Thus a British court could decide that the liability is with Credit Suisse and VTB, and not Mozambique.

If Mozambique does not pay, or pays only small amounts, it is accepting liability for the debt and simply defaulting. But if it says the debt is improper and it renounces the debt and says the government has no liability, then it is for a British court to decide if Credit Suisse and VTB, or Mozambique, are liable.

As I noted in the newsletter last week, donors and lenders say privately they would support Mozambique if it renounced the loan. And it appears that the creditors - those who bought pieces of the loan - are taking the same line by refusing to negotiate with Mozambique. They may feel that they are more likely to get money from Credit Suisse and VTB than from Mozambique.

The Commission's report makes a strong case for saying the loan is illegitimate and improper, and not the liability of the government. The Commission's main reason for saying parliament should not declare the debt illegitimate is to protect the guilty parties in Mozambique. There should be more debate in Mozambique about whether it is sensible to accept \$2bn in debt in order to protect the guilty. *jh*

Comment

Unexpectedly damning report changes the balance in Frelimo

The Commission proved to be unexpectedly powerful. A former president, five current ministers including the Prime Minister and Finance Minister, two former ministers and the former Bank of Mozambique governor gave evidence. And I consider the report to be devastating - it confirmed that the loans were illegal and unconstitutional, badly written and probably corrupt, for mainly military purposes and not fishing as claimed, and had been intentionally kept secret in the hope that no one would notice.

Response to the report has been mixed. *Magazine Independente* said the "Guebuza government has won the first battle in parliament". Renamo has boycotted the whole process. The third party, the MDM, had one person on the Commission and he refused to sign the report. So this was a Frelimo dominated Commission, named by a parliament dominated by Frelimo members allied to former president Armando Guebuza. And it is true that the Commission wants the guilty to be protected from prosecution.

The Commission was chaired by Eneas Comiche, the respected former Minister of Finance and former governor of the Bank of Mozambique. From 2003 to 2008 he was a highly effective mayor of Maputo and noted for his integrity, but Frelimo (by then headed by Guebuza) did not let him stand again and replaced him with David Simango, who was more responsive to party demands. Comiche then became an MP. So Comiche is not likely to be sympathetic to Guebuza, and has the

experience to investigate the secret debt. And his report is devastating because it is factual.

Precisely because it comes from inside Frelimo, the report could change the mood inside the party.

Frelimo has always been a loose coalition, with divisions according to region, gender, age, business and personal relations, which means that factions are not rigid. For more than 40 years, the guiding rule has been unity - however bitter the fights and divisions inside, no one is expelled or leaves and the party stays together at all costs. Unity helps it win elections, but the desire to stay together means that often hard choices are not made. Peace talks with Renamo are stalled because the party is divided on how to move forward. Similarly, there is a growing awareness that the economic crisis caused by the secret debt plus the on-going war is increasingly blamed on Frelimo, and that a Trump-like backlash could lead to the election of Renamo head Afonso Dhlakama as president in 2019. For many in the Frelimo leadership, this is too terrible to contemplate, so they are not thinking about it.

There appear to be three groups in the Frelimo leadership now. One is aligned to Guebuza. During his decade as head of the party and President, he put his people into key posts such as provincial (and lower level) party secretaries, parliament, the Central Committee, and the security services SISE. And in the patronage culture, his people have benefitted from the secret loans and various contracts. The Guebuza group tends to take a hard line, refusing concessions to Renamo and on the secret debt, and discouraging discussion and debate. That position was underlined in Guebuza's evidence to the parliamentary commission in which he claimed his position as liberator of Mozambique made him unchallengeable. But the arrogance of Guebuza and António do Rosário before the Commission will play badly with some in the party.

The second group is around President Filipe Nyusi and liberation war fighter Alberto Chipande, who is the wealthiest and most powerful person in Cabo Delgado and a major backer of Nyusi. Nyusi's recent anti-corruption speeches have attracted a certain cynicism, because as Defence Minister his area gained from military purchases. Nevertheless, this may be a way to distance himself from Guebuza, by trying to crack down on corruption at middle and lower levels. Nyusi has been quietly replacing Guebuza appointees in key positions. It is said that Nyusi wants to push harder for a deal with Dhlakama, but Guebuza is resisting.

The third is a loose group, partly of younger people but also of some of the elder statesmen, who are worried about the corruption and lack of direction in Frelimo, and they talk more about the danger of losing the next election. Comiche's report will support this group. And former President Joaquim Chissano is playing a more active role in the party, and would at least be anti-Guebuza.

Until recently, the intractability of the divisions and problems, as well as a slowly growing climate of fear, has led to stasis, and a lack of strategizing and debate. One friend commented that the party was hibernating.

Eneas Comiche has rocked the boat. Any response will be, as always, cautious, considered, and consensual. But perhaps the mood is changing. *jh*

Pairs of people

Two Carlos do Rosários are involved in the debt scandal and both gave evidence to the CPI: **António Carlos do Rosário** is a senior official of the intelligence and security service (Serviço de Informação e Segurança do Estado, SISE) and head of the three companies, Ematum, Proindicus, and MAM.

Carlos Agostinho do Rosário is Prime Minister

Two Simangos are mayors.

Daviz Simango is MDM Mayor of Beira and head of the MDM nationally.

David Simango is Frelimo Mayor of Maputo.



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"Mozambique News Reports & Clippings, number XXX", DATE, bit.ly/mozamb, accessed XXX.

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Election study collaboration: We have detailed election data from 1999 through 2014 and are inviting scholars to use this data collaboratively. <http://bit.ly/MozElecData>

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Books by Joseph Hanlon

Bangladesh confronts climate change: Keeping our heads above water

by Manoj Roy, Joseph Hanlon and David Hulme Published by Anthem Press

<http://www.anthempress.com/bangladesh-confronts-climate-change-pb>

Chickens and beer: A recipe for agricultural growth in Mozambique by Teresa Smart and Joseph Hanlon

In pdf format, 6 Mb file, free on <http://bit.ly/chickens-beer>

E-book for Kindle and iPad, <http://www.amazon.com/dp/B00NRZXXKE>

Galinhas e cerveja: uma receita para o crescimento

by Teresa Smart & Joseph Hanlon. Copies are in Maputo bookshops or from

KAPICUA, Rua Fernão Veloso 12, Maputo; Tel.: +258 21 413 201 or +258 21 415 451

Telm.: +258 823 219 950 E-mail: kapicuir@tdm.co.mz / kapicuacom@tdm.co.mz

Outside Mozambique, we have a few copies we can send from London. Please e-mail j.hanlon@open.ac.uk.

Zimbabwe takes back its land

by Joseph Hanlon, Jeanette Manjengwa & Teresa Smart is now available from the publishers

https://www.riener.com/title/Zimbabwe_Takes_Back_Its_Land also as an e-book and

<http://www.jacana.co.za/book-categories/current-affairs-a-history/zimbabwe-takes-back-it-s-land-detail>

Do bicycles equal development in Mozambique? by Joseph Hanlon & Teresa Smart
is available from the publisher <http://www.boydellandbrewer.com/store/viewItem.asp?idProduct=13503>

Just Give Money to the Poor: The Development Revolution from the Global South

by Joseph Hanlon, Armando Barrientos, and David Hulme

Most of this book can now be **read on the web** tinyurl.com/justgivemoney

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NOTE OF EXPLANATION:

One mailing list is used to distribute two publications, both edited by Joseph Hanlon. This is my own sporadic "News reports & clippings", which is entirely my own responsibility. This list is also used to distribute the *Mozambique Political Process Bulletin*, published by CIP and AWEPA, but those organisations are not linked to "News reports & clippings"

Joseph Hanlon

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Mozambique media websites, Portuguese:

Notícias: www.jornalnoticias.co.mz

O País: www.opais.co.mz

@Verdade: <http://www.verdade.co.mz>

Diario de Moçambique (Beira): <http://www.diariodemocambique.co.mz>

Carlos Serra Diário de um sociologo: <http://oficinadesociologia.blogspot.com>

Mozambique media websites, English:

Club of Mozambique: <http://clubofmozambique.com/>

Rhula weekly newsletter: <http://www.rhula.net/news-announcements.html>

Zitamar: <http://zitamar.com/>

Macauhub English: <http://www.macauhub.com.mo/en/>

AIM Reports: www.poptel.org.uk/mozambique-news

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