

MOZAMBIQUE News reports & clippings

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

Special report on four poverty surveys: bit.ly/MozPoverty

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>

Government's detailed daily flood reports are now posted on <http://bit.ly/flood-17>

Can't pay, didn't pay

As expected, the government did not make its 18 January payment of \$60 million on the \$727 mn rescheduled Ematum bond. All payments on the \$2 bn secret debt have now been stopped.

Bloomberg (17, 20 Jan) said: "Don't expect Mozambican officials to back down in a stand-off with investors, even though it may be the first African nation to default on dollar bonds since 2011. As recently as last week, bondholders were convinced the nation would pay the almost \$60 million bond coupon on schedule Jan. 18. Not only did the government on Monday say that's not happening, it also signalled it won't make payments in 2017." Bloomberg sees the default as part of government's strategy to compel bondholders to negotiate a restructuring, which they've so far resisted. The IMF resident representative in Maputo, Ari Aisen, said that, in effect, the government had told creditors at a meeting in London in November that it would stop paying. (*O País Económico* 20 Jan) <https://www.bloomberg.com/news/articles/2017-01-17/mozambique-won-t-blink-first-as-battle-with-bondholders-heats-up-iy1bizqt>
<https://www.bloomberg.com/news/articles/2017-01-20/mozambique-s-bond-payment-strategy-damaging-debt-talks-prospects>

No deals are likely before mid-2017 at the earliest. Both donors and private creditors want negotiations to be concluded with the IMF first, and all three are waiting for the completion of the Kroll audit. That is due in February, but it is widely expected that Kroll will ask for a second three months. Kroll has been hired to audit the three security service controlled companies, Ematum, ProIndicus and MAM, that took the \$2 bn loans. But much of the loan money was paid, highly unusually, not to the Mozambican companies that borrowed it, but to the Lebanese company that organised the deal, Prinvest. That company is highly unlikely to provide any information to Kroll, so it will be necessary to use information from the three Mozambicans companies as to how the money was used - and it is unclear how cooperative the companies and their masters, the security services SISE, are being.

A detailed summary of key points of the parliamentary report is now available in English, on <http://bit.ly/MozAR-debt-En> and the full report in Portuguese is on <http://bit.ly/MozAR-debt>

The matter is further complicated because the IMF can only formally negotiate when it confirms Mozambique is at least on a path to sustainable debt, which in turn requires the private creditors to first renegotiate the \$2 bn secret loans. But the private creditors won't negotiate until there is an IMF deal. Mozambique is trying to break the logjam by forcing the private creditors to negotiate first.

The next payment is due on 21 March and is \$119 mn on the ProIndicus loan. Unlike the Ematum loan, this is owed by the company rather than the government, and this is an important distinction, as explained below.

Two different kinds of loans require different responses

The \$2 billion in secret debt was composed of three different loan packages to three different private companies, all owned by the state and controlled by SISE. Manuel Chang, then Finance Minister, signed agreements granting government guarantees for the loans, but the parliamentary investigation last year said such guarantees were unconstitutional and illegal, as only parliament can guarantee loans.

But the three loan packages are very different. The loan to Ematum, the tuna fishing company, was a Eurobond issue. In effect, the government accepted the guarantee, and issued \$726 mn in government bonds to replace the original private bonds. These are known as bullet bonds, because the capital is all repaid at the end, 18 January 2023. The interest rate is a very high 10.5%, paid twice a year, and it was the interest which was not paid on 18 January. These bonds can now be purchased at half their face value.

The other two loan packages - \$622 mn by Credit Suisse bank to ProIndicus and \$535 mn by VTB bank to MAM - are syndicated loans, which means the banks sell on pieces of the loans to private investors. These are still loans to private Mozambican companies - very different from the government bonds issues for Ematum. ProIndicus made its first payment, of \$25 mn in March 2016, and is due to pay \$119 mn in March 2017. MAM failed to pay \$134 mn in May 2016. But the key point is that lenders are still treating this as a private loan - they have not called on the government guarantee.

US SEC investigating banks

The US Securities and Exchange Commission (SEC) is investigating the banks involved in the sale of the Ematum bonds, the *Wall Street Journal* (27 Dec) reported. Reuters reports that the investigation began in July, and in November the SEC asked bondholders for documents provided by Credit Suisse, VTB and BNP Paribas during the sale of the bonds. Financial watchdogs from Switzerland and Britain are also looking into Credit Suisse's and VTB's involvement. <http://www.reuters.com/article/us-mozambique-debt-idUSKBN14H1NT> The SEC is involved because a number of US firms acquired the bonds.

In London financial circles, questions are being asked about the role and possible liability of Credit Suisse - which arranged two of the loans. Credit Suisse would be expected to do what is called a "due diligence" study on Mozambique and the loan, to assure itself and those who are taking on the loan that it is likely to be repaid. Any due diligence would have shown that Manuel Chang could not guarantee the loan, that the feasibility studies for the project were widely unrealistic, that the loans involved substantial arms spending not publicly revealed, and that corruption seemed likely. Furthermore, because of the highly unusual circumstances of disbursing money directly to Privinvest in Abu Dhabi, a due diligence should have been done on that company and its role. Rumours in London are that Credit Suisse was given informal advice against making the loan. This was all made more questionable when it was revealed that a senior banker for Credit Suisse who was involved in putting together the deals left the Swiss bank shortly afterwards to join Privinvest.

If the government of Mozambique were to simply renounce the guarantee as illegal and unconstitutional, it would do two things. First, it would take \$1.2 bn out of official debt guarantee statistics, bringing the debt closer to sustainability and making negotiations with the IMF possible. Second, it could force Credit Suisse and VTB to go to court in London to enforce the guarantees, which they would be highly reluctant to do because their due diligence reports would become public, thus exposing their own poor conduct. Thus Credit Suisse and VTB might be forced to accept some of the liability.

Mozambican banks are said to hold some of the Ematum bonds and are part of the syndicates which have taken ProIndicus and MAM debt. This raises the interesting possibility that banks in Mozambique, or their international parents, might sue Credit Suisse and VTB for misleading them as to the quality of the loans.

Confusion and spin over IMF and secret debt

A Washington IMF press conference which used Mozambique as a bad example has in turn been used incorrectly to say that the IMF claims there is - and is not - additional hidden debt, when the IMF is making no statement on the subject at all.

At an IMF press briefing on 12 January, Sean Nolan, deputy director of the IMF's Strategy, Policy and Review Department, said: "there's not a broad-based drift toward debt distress [in] the low-income world, but there are a number of high-profile examples where things have gone wrong. Examples are: Mozambique is a good example, where there's a lot of undisclosed loans that suddenly materialize out of nowhere. They've been undertaken by state enterprises."

<http://www.imf.org/en/News/Articles/2017/01/13/TR011216-International-Monetary-Fund-Press-Briefing>

Correio da Manhã and *Magazine Independente* both interpreted this to mean that the IMF accused Mozambique of concealing further "undisclosed debts". The IMF in Maputo then issued an unusually strong statement: "The International Monetary Fund (IMF) categorically denies the allegations made on January 18, 2017 by the newspaper *Correio da Manhã*, and reproduced by *Magazine Independente*." It continued: "while Mr. Nolan confirmed that the previously hidden debt contributed to a worsening of the debt situation in Mozambique, he did not state, contrary to allegations, that undisclosed debts still exist". Which has been taken to mean that the IMF says there are no further undisclosed debts - which is also not true.

Africa Confidential, which has been well informed on the debt crisis, argued that there are further loans to be exposed by the Kroll audit of the three companies involved in the secret debt. But, confusingly, this may not involve new money. It may be that the companies lent on some of the money they had borrowed, or used that money to guarantee debts. Meanwhile, accounting and auditing of state companies has been so poor that there may be state guarantees of loans which have not been revealed. These could be perfectly reasonable guarantees for purchases or construction which were never properly listed.

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Mozambique paid \$6.5 mn to cancel Maputo tram

Mozambique paid \$6.5 mn to *not* build a modern high speed tram system for Maputo and Matola. @Verdade (20 Jan) revealed that the payment was buried in the report of the Administrative Tribunal on the government accounts for 2015. In 2010, without any discussion or public tender, then minister of transport and communications, Paulo Zucula, apparently agreed with the Italian company SALCEF Costruzioni Edili e Ferroviarie to do a feasibility study and then build the tram

system. The government of Armando Guebuza then cancelled the contract. SALCEF objected and the case went to arbitration, and SALCEF was awarded compensation of \$6.5 mn, which was paid by the railways, Caminhos de Ferro de Moçambique (CFM).

The tram system probably would have been prohibitively expensive, so Maputo moved forward with a sensible bus rapid transit (BRT) system. After the preliminary work was completed, that, too was cancelled - because it would have required a government guarantee for the loan, which was impossible after the secret debt crisis, and because it would have been built by Odebrecht which has been caught in a massive bribery scandal (including for winning the Nacala airport contract).

So Maputo citizens continue to commute by crowded minibuses ("chapas") or by standing in the back of open lorries (know as "my loves" - in English).

Moamba Major dam contract illegal

The contract for the Moamba Major dam is illegal, according to the Administrative Tribunal (TA), says @Verdade (19 Jan) The dam is now under construction and will provide more water for Maputo and Matola. The total cost is \$466 mn, of which \$320 is a loan from the Brazilian development bank (Banco Nacional de Desenvolvimento Económico do Brasil, BNDES) - which also is tied to the dam being building by a Brazilian company.

The TA says the contract was given to Grupo Andrade Gutierrez without a tender process and without the required review of the contract by the TA. A subcontractor of Gutierrez on the dam is Infra Engineering Mozambique, owned by three senior Frelimo figures: former tourism minister Fernando Sumbana Júnior, former defence minister Tobias Dai (brother-in-law of Armando Guebuza) and Raimundo Pachinuapa. @Verdade cites Brazilian federal police documents to say that a former Guterrez official in Mozambique told the police that the contract to Guterrez was conditional on using Infra as a subcontractor.

Andrade Gutierrez is one of the companies involved in the Brazilian Lavo Jato ("car wash") bribery scandal, but in November the Brazilian ambassador Rodrigo Soares assured Mozambique that the Brazilian \$320 mn would continue to be dispersed. (AIM 10 Nov 2016)

No jail for corrupt LAM official

The Maputo City Court on 11 January decided not to jail the former financial director of Mozambique Airlines (LAM), Jeremias Tchamo, who was convicted of giving 25 contracts worth over 5.3 million meticaís (\$177,000) to his brother's construction company. His sentence of two years in jail was suspended. Tchamo was financial director from 2008 until 2014 when the issue was raised in the media, and then taken up by the Central Office for the Fight against Corruption (GCCC).

Similar corruption in Maputo water is highlighted in a front page article in *Domingo* today (22 Jan). The article looks at dubious accounting practices and contracting procedures in Aguas da Região de Maputo. <http://www.jornaldomingo.co.mz/index.php/destaque/8761-corrupcao-na-aguas-da-regiao-de-maputo-1>

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Floods in centre, but water shortage in Maputo

The regional forecast last year for the current rainy season was for above average rains in much of Mozambique (https://www.sadc.int/files/4314/7222/7297/SARCOF_20_Statement.pdf), following the two dry years caused by El Nino. After a slightly slower than usual start, this rainy season

seems to be following the predictions, and thus there are concerns about flooding.

A detailed daily flood and rainfall report, in Portuguese, is published daily by the government and because of concerns about flooding we are now posting it on <http://bit.ly/flood-17>

Over 1000 people in the town of Nova Mambone, Govuro, on the northern edge of Inhambane province, were displaced from their homes last week because of flooding on the Save river. Torrential rains in Mozambique and Zimbabwe have swollen the river dramatically, and it burst its banks Thursday night. The river rose so rapidly that the residents had no chance to save their possessions as they fled to higher ground. The government relief agency, the National Disaster Management Institute (INGC), opened two centres to accommodate those displaced, but one was too low and was swamped by the rising waters. The flood is likely to worsen; in the next 48 hours over 50 millimetres of rain is expected to fall in the basin. (AIM En 21 Jan)

In Sofala, the ferry across the Buzi river has been paralysed for a week, because of the sharp rise in the level of the river. In the neighbouring district of Nhamatanda, a bridge over the Metuchira river is under water, and so people travelling from one bank to the other must use motor boats or canoes.

But in Dondo district, work on improving the highway between Beira and Zimbabwe has prevented the Pungue river from flooding the road. The river is a metre above the flood alert level of six metres at the Mafambisse sugar plantation, which was once enough to close the road. So far this year, that has not happened. But other parts of Dondo are now cut off.

So far, there has only been serious flooding in the centre of the country in the Pungue and Save river basins.

There were torrential downpours in Maputo and the neighbouring city of Matola a week ago - 130 millimetres fell on Maputo in 24 hours, causing some damage to the newly repaired Av Julius Nyerere. But this did very little to improve the water supply crisis; Maputo and Matola are dependent for drinking water on the reservoir at the Pequenos Libombos dam on the Umbeluzi river, and the recent downpours have scarcely touched the upper Umbeluzi valley in Namaacha district, and in neighbouring Swaziland. The reservoir remains just 14% full, and is discharging water at the rate of 1.5 cubic metres a second, half of the normal 3, and there are water restrictions in Maputo and Matola.

The impact of climate change on Mozambican is the subject of an interview in *Domingo* today (22 Jan) with Acácio Tembe, a meteorologist with the national weather service (Instituto Nacional de Meteorologia, INAM). <http://www.jornaldomingo.co.mz/index.php/reportagem/8710-estamos-a-registar-eventos-extremos-do-clima>

Ceasefire largely holding

The ceasefire is largely holding and normal traffic is resuming in the three areas of Manica and Sofala which had military convoys. But there have been complaints of violations.

There had been killings of Renamo officials, but the opposition Mozambique Democratic Movement (MDM) claims that it, too, is now being targeted. It says that its political delegate in Tambara, Manica, Mateus Chiranga, was killed 15 Jan, and the body taken away.

In a long interview in *Savana* (20 Jan), Renamo head Afonso Dhlakama confirmed that government forces were not attacking Renamo positions. But he gave a long list of incidents in which he said unarmed Renamo members had been arrested or detained, and one person had been killed.

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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: kapicua@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.rienner.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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