

MOZAMBIQUE News reports & clippings

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Secret debt documents and report:

Parliamentary Report on the Secret Debt (complete, in Portuguese) bit.ly/MozAR-debt

Key points from the Parliamentary Report on the Secret Debt <http://bit.ly/MozAR-debt-En>

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

Other books and reports:

Local media monitoring of Mozambique elections (background of election newsletters)
<http://bit.ly/LSE-newsletter>

Chickens and beer: A recipe for agricultural growth in Mozambique book by Teresa Smart and Joseph Hanlon, **free** English download <http://bit.ly/chickens-beer>

Há mais bicicletas - mas há desenvolvimento? book by Joseph Hanlon and Teresa Smart, **free** Portuguese download <http://bit.ly/Mais-bicicletas>

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

Minimum wages & exchange rates 1996-2017 <http://bit.ly/MinWage2017>

Previous newsletters and other Mozambique material are posted on bit.ly/mozamb

Also in this issue:

**London court case and bondholder action
could support refusal to pay some debt**

Bank governor hits development policy & lack of support for small commercial farmers

"Growth rates of seven or eight per cent a year hit the headlines of the international press, but looking at what really interest us, which is our citizens, we're not doing well, and the macro-economic policies are also not healthy", Bank of Mozambique Governor Rogério Zandamela told a meeting in Cascais, Portugal, on 28 May. He feared that, with the current development model, "we're going to have a lot of money, but we're going to remain poor because most of the people don't have jobs".

Zandamela continued a Mozambican tradition that senior figures who want to make heavy criticisms do so in speeches abroad - physically distancing themselves from the domestic elite.

"Foreign direct investment is good and a blessing for the country," he said, but "it is concentrated in mines, coal and gas," while "nothing else is happening in the remaining sectors". He pointed to agriculture. "The sector is dormant, despite its enormous potential. The overwhelming majority of agriculture practiced is subsistence farming. The sector is completely underdeveloped" partly because "the law favours large investments" modelled on Brazil, but if "one tries to open a smaller [agricultural] business, it gets nowhere."

A key problem is that "to operate in a certain area, the business environment does not favour business or growth, unless the entrepreneur is linked to the political reality of the moment." (Lusa, AIM En & Pt, Club of Mozambique, *O Pais* 29 May)

Zandamela warns creditors that secret debt unpayable

"We are not able to pay" the secret debt, Zandamela told the Cascais meeting. So restructuring is "going to happen, no doubt." Payments are being made on bilateral and multilateral debt, but are not now being made on the \$2 bn secret debt owed to private creditors. Their choice is "either they accept a restructuring or wait for five or six years for the gas money to start to arrive. That's how it is. ... Without restructuring, we will have to ask our traditional donors to give us money to pay these loans, and I can tell you that this is not going to happen; they will not give us even a penny to pay these debts."

Mozambique's public debt "has gone from 40% of gross domestic product (GDP) in 2013 to around 120% now, and this is scary," the Governor of the Bank of Mozambique said. A "huge" part of this debt is the secret debt, he said.

And Zandamela on politics

In the past, there was a "promiscuity between finance, business people and politicians. ... What happened in the past was that a decision was taken, the businessmen or the bankers ran to the President asking for help, and the decision was not complied with" Zandamela told the Cascais meeting. "All the banks have a president who is a senior politician, named not for technical competence but to ensure that nothing happens without their control. They are not presidents, but lobbyists."

Things are changing, and President Filipe Nyusi does not interfere in the running of the central bank. Zandamela cited as examples of the Bank's independence its hiking of interest rates last year, and its liquidation of "Nosso Banco" (Our Bank), a tiny bank with strong ties to members of the ruling Frelimo Party. "We put interest rates where they had to be, and this had never been done before", Zandamela said. "We closed a bank, which was unprecedented, and we intervened in some that were related to political power".

He argued that his appointment "was a pragmatic choice. They understood that something had to be done." Zandamela had lived abroad for 40 years, much of it as a middle level official at the IMF, and admitted he felt something of an "outsider" living at home.

No Kroll yet

Attorney-General Beatriz Buchili said on 29 May that her office was still discussing with Kroll the draft audit of the \$2 bn secret debt submitted on 12 May. She said the discussions were related to clarifying evidence that she could use for prosecutions. But she said the report would be published.

Speaking 31 May in Maputo, IMF representative Ari Aisen also said that he expected both a summary and the full report to be released.

London court case suggests Mozambique could refuse to pay

A recent court case in London on Ukraine debt raised issues very similar to those of the secret Mozambican debt, and suggest that Mozambique could make the case that at least part of the debt

is illegitimate and should not be repaid. The ruling was made in the High Court on 29 March by Sir William Blair, brother of former prime minister Tony Blair. It is extremely complex and the full text of the ruling is on <https://www.judiciary.gov.uk/judgments/law-debenture-v-ukraine/>

The case involves Ukraine's refusal to pay a \$3 bn Eurobond organised by the Russian bank VTB, in which Russia bought all the bonds. The bonds, as with Mozambique, are covered by English law. In an identical situation to Mozambique, Ukraine argued that the Finance Minister agreed the loan without it being approved by parliament as required by the constitution. Mr Justice Blair noted that there are no precedents and this seems to be the first case of its kind.

Mr Justice Blair ruled against Ukraine, saying that a state has the capacity to borrow, "the Minister of Finance plainly had usual authority to enter into the transaction on behalf of Ukraine", and that the lenders had no reason to suspect that the loan was improper.

On the surface, this would seem to go against a possible Mozambican case. But Mr Justice Blair also says that "it is important to emphasise that this result does not imply that a failure to follow domestic rules as to borrowing by a state such as those identified in the case of Ukraine is legally irrelevant as a matter of English law. Such failure may of course be relevant."

Furthermore, the decision was based on the conditions of the Ukraine loan which were explicitly opposite to those of Mozambique. The loan was to the government and was approved by the cabinet, there has been many similar loans, the government of Ukraine received the money and it was included in foreign currency accounts of the Treasury as posted on its website, interest payments were made, and it was never stated that the loan was improper.

The opposite of these conditions apply to Mozambique. The loans were to private companies and not the state, were not approved by the Council of Ministers, none of the money entered Mozambique, it was never included in any state accounts, and all statements by public authorities (parliament, Tribunal Administrativo) said the loan was illegal and unconstitutional. The secrecy of the loan meant that lender had no public statements to believe in the legality and should have done their own investigation.

Thus, even though Ukraine lost its case, Mozambique could use this case and Mr Justice Blair's statement that failure to follow domestic rules is relevant, to make the case that at least the MAM and ProIndicus syndicated loans are illegitimate and should not be paid.

As with the Ukraine case, it is up to the lender to bring a legal action in London, and it appears that there is a significant chance that the lenders would lose. This could give a major boost to Mozambique in any renegotiation of the loans. *jh*

Bondholders will boost government by arguing MAM & Proindicus loans illegitimate

In an effort to distance themselves from MAM and Proindicus loan holders, the holders of Ematum bonds are now privately arguing that all of the original bonds and loans were illegal, improper and involved misconduct by Credit Suisse and VTB banks.

The argument is complicated, but could provide strong backing for any government attempt to not repay the MAM and Proindicus loans on the grounds that they were illegitimate.

Three private companies owned by the Mozambican state borrowed \$2 bn in 2013-4. Five credits were organised by Credit Suisse and VTB - two public bond issues for Ematum and three secret syndicated loans for MAM and ProIndicus. These are classed as "private" creditors because the lenders were privately owned banks and investment funds. (Nearly all loans to Mozambique are "bilateral", from governments such as China and Brazil, and "multilateral", from the World Bank and other development banks.)

The parliamentary commission and bondholders argue that all five credits had illegal state guarantees and the lending involved misconduct by the banks which arranged them. In March 2016, when only the two Ematum bond issues were known publicly, the Mozambican government replaced the two Ematum bonds with a new single issue of government bonds - that is, converted borrowing by a private company (Ematum) into a loan to the state.

Publicly the bondholders say that Mozambique's economy has improved so much in the past six months that it can make payments on the bonds, so no negotiation is needed. But it is clear that Mozambique will need to renegotiate its debt. There have been informal contacts between bond and loan holders, and it might be expected that there would be a joint negotiation with all private creditors - the government bondholders and the holders of the three syndicated loans.

Bondholders refuse to do this and want separate treatment. They argue that all the original loans and bonds were improper and illegal, but the illegal Ematum bonds were replaced by new, legal government bonds. The MAM and Proindicus syndicated loans are still the original ones to private companies, not the government, and were improperly made. Bondholders argue that in court or in any negotiation, all illegal or dubious loans should be put aside and the legal loans settled first; only then are the improper loans considered. So bondholders must be repaid first.

The key point is that to make the argument to exclude the syndicated loans from any negotiation, the bondholders must show that those loans are illegal and illegitimate - which would boost any government argument that they should not be repaid.

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If you need to cite it for academic purposes, treat it as a blog. The normal citation format would be:

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

Previous newsletters and other Mozambique material are posted on bit.ly/mozamb

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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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Other books and reports by Joseph 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/>

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 (Karibu at airport, Livaria UEM, Bazar Pariso, Mivany) or from

KAPICUA, which recently moved to Av de Maguiguana (nr Lenine), Maputo; Tel: +258 21 413 201.

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>

Há mais bicicletas - mas há desenvolvimento? free download of Portuguese edition (5 Mb)

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 be **read on the web** tinyurl.com/justgivemoney

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

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 sociólogo: <http://oficinasociologia.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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