

MOZAMBIQUE News reports & clippings

380 31 July 2017 Editor: Joseph Hanlon (j.hanlon@open.ac.uk)

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Also in this issue:

Special section on Corruption

Donor thumbs down on Kroll audit tightens the screws

Budget support donors, the World Bank and Japan have all said recently that the Kroll forensic audit of the \$2 bn secret debt was insufficient to allow a resumption of direct funding to the government. This suggests the squeeze on government spending will continue for at least another year, which could have an impact on municipal elections in October 2018. The government is already surviving by not paying its bills and through domestic borrowing, and the World Bank in its *Mozambique Economic Update* issued earlier this month noted that government was recently unable to sell bonds even at an interest rate of 28.3%.

The World Bank has been one of the biggest providers of budget support and in March Bank country representative Mark Lundell said he hoped budget support could be resumed this year. But on 24 July Bank Executive Director Andrew Bvumbe dashed any such hopes. On a visit to Maputo he stressed that budget support could not be resumed without a restructuring of the debt, including the \$2 bn secret debt, and agreement on an IMF programme, which in turn requires filling the information gaps left by Kroll. (*Savana* 28 July, *Lusa* 25 July)

"The auditors were however denied full cooperation from all institutions (national and international)" noted a report accepted last week by the Group of 14 (G14) budget support donors. "Despite being refused essential information, the summary suggests major misconduct from national and international parties." The G14 demanded "publication of the full report and additional information to fill the major gaps", as well as "accountability" and fiscal and governance reforms. (*Savana* 28 July) So no budget support soon.

Secret debt documents and report:

Kroll audit Executive Summary <http://bit.ly/Kroll-sum>

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

Japan has cut off all new lending to Mozambique, Yamashita Chigiru, the representative of the Japanese International Cooperation Agency (JICA), told *O Pais* (20 July) in Tokyo. He said it was necessary not only to clarify the secret debts, but to ensure that such a situation cannot be repeated; until then, "it is not appropriate to give loans to Mozambique."

Although the World Bank continues to approve new projects not involving direct funding of the government budget, Japan has stopped all new lending although it will continue with projects already under way.

In a statement 24 July Minister of Economy and Finance, Adriano Maleiane, accepted that there would be no IMF programme this year, but said there was the possibility of a program in 2018. (*O Pais* 25 July)

Is the debt illegitimate? Should Mozambique pay?

The Kroll audit underlined that whatever the responsibility of the Mozambicans who took the loans, the lending banks VTB and Credit Suisse should have done (and probably did do) "due diligence" studies which would have shown that the loans violated Mozambican law and constitution, that the companies would be unable to repay, and that the purposes of the loans were dubious. Thus it can be argued that the loans were "illegitimate" and the responsibility of the lenders, VTB and Credit Suisse, and not the Mozambican government.

Donors are divided and this has caused debate within the budget support group. The EU and UK argue that the Mozambican government is liable and should repay. But Switzerland, Sweden, Canada and others argue that Mozambique should declare the debt illegitimate and refuse to pay. Frelimo and the government are also divided, with some fearing that a refusal to pay would point the finger at former President Armando Guebuza and current president (and former defence minister) Filipe Nyusi as being responsible for taking obviously improper loans. The alternative to refusing to pay would be to negotiate to delay repayment for at least a decade.

Civil society is increasingly calling for not paying. The Budget Monitoring Forum (Forum de Monitoria do Orçamento) last week published a paper "Mozambique should not pay the hidden debt" by the editor of this newsletter, Joseph Hanlon. The paper argues that the secret loans are illegitimate loans to private companies, with no liability to the government. Loan guarantees given by the finance minister violated Mozambican law and the constitution. Under the loan contract, any action relating to failure to repay would be taken in English courts. Mozambique has been advised that English courts would not consider the violation of the Mozambican constitution, but this is not true. A March 2017 ruling in the High Court in London said that failure to follow domestic rules by a borrowing state must be considered by an English court. This means that if the lenders brought an action in English courts against the government, the lenders stand a high chance of losing. Therefore they will surely prefer to negotiate a deal with partial repayment, and to try to force the banks which organised the loans, Credit Suisse and VTB, to accept some share of responsibility. (*Savana* 28 July) The report is in English <http://bit.ly/Moz-do-not-pay> and Portuguese <http://bit.ly/nao-pagar>. In 1998-2000 Joseph Hanlon was policy officer for the Jubilee 2000 campaign to cancel unpayable debt of poor countries; he has written extensively on illegitimate debt.

"We cannot permit the Mozambican people to be charged with the responsibility of paying with misery, blood and death for debts contracted on their behalf in an illegal and unconstitutional way," the Catholic Episcopal Commission on Justice and Peace said on 4 July. The statement, signed by the Bishop of Pemba, Luis Fernando Lisboa, also demands that those who contracted the debts should be held responsible for their actions, as should those who obstructed the audit by Kroll. Asked about the statement on 19 July, President Filipe Nyusi in effect told the church to keep out of politics: "I would not like the religion of my country to be confused with politics. ... They need to know what is their area of leadership." (*O Pais* 20 July)

G14 raises questions

The report on the summary of the Kroll audit which was accepted by the G14 group of budget support donors raises a series of questions. It is unhappy with the summary, which did not include the Terms of Reference (ToR) of the audit, and notes that "the lack of the ToR impedes a proper evaluation of the report." It says the full report should be published by the end of September, but points to the "major gaps" in information.

The points in the Kroll summary it highlights include the lack of any viability or value for money assessments and high fees of "about 10% of the total loan". It notes "Kroll concludes a potential overcharging of approximately 55% of the net proceeds of Ematum and Proindicus" noting that "for MAM, Kroll was unable to evaluate potential overpricing." Thus overpricing could be as much as \$1.2 bn of the \$2 bn loan. No one has been able to identify the use for the \$500 mn eventually put on the state budget from the Ematum loan. Little of the money entered Mozambique which means the majority of transactions were made outside the country and thus outside purchasing and financial management systems. And it stresses that "there are accountability issues that stretch beyond the borders of Mozambique."

Wage bill steady as investment falls

A dramatic drop in government spending, from 39% of GDP in 2014 to 30% in 2016, was caused entirely by cuts in investment. Government wages remained at 11.3% of GDP, according to the World Bank *Mozambique Economic Update* July 2017 <http://bit.ly/2he9zxa>. But capital expenditure was almost halved, from 15.1% of GDP in 2014 to 8.5% in 2016 - the big cut was in government financed investment, down 8.3% of GDP to just 3.4%, but donor supported investment was down as well, from 6.8% of GDP to 5.1%. The World Bank is concerned by cuts in social and economic investment including roads, public works and agriculture (although there was a sharp increase in foreign funded water spending). Instead the Bank wants cuts in the wage bill.

This is linked to government's attempt to control the fiscal position after shocks caused by commodity price falls in 2015 and the secret debt revelations in 2016. There was a sharp rise in interest rates, with the government's reference lending rate now 22.75%, one of the highest in Africa, leading to commercial bank rates averaging 28.6%. The result has been an appreciation of the Metical and an increase in reserves from \$1.7 bn to \$2.3 bn. Inflation has fallen from 26% in November 2016 to 18% in June 2017, still very high.

"Mozambique's economy remains weakened" and its "fiscal position continues to be unsustainable" because it is not paying its bills and is borrowing large amounts from the central bank, the World Bank says. Central Bank credit to government increased 600% in 2016 and another 43% in the first quarter of 2017. @Verdade (13 July) reports internal debt now exceeds \$1.5 bn and that the government wants to issue \$1 bn of Treasury bonds this year (not all new debt; some will repay old bonds).

The *Mozambique Economic Update* also looks at the formal private sector, which doubled in size between 2002 and 2015, from 28,000 firms employing 255,000 people to 43,000 employing 463,000 people. Two-thirds of the job growth was in Maputo and two-thirds was in services. Three quarters of firms have fewer than 5 employees. The report also notes that "approximately 40% of Mozambique's GDP is currently produced in the informal private sector, one of the highest shares in sub-Saharan Africa."

The Bank warns that "the ongoing economic downturn is likely to have a disproportionately negative impact on these emerging micro, small and medium enterprises." They face falling demand and investment, and higher costs, particularly for credit. In terms of Doing Business indicators, Mozambique scores badly on enforcing contracts (average 950 days to enforce a simple contract), limited access to credit, and problems obtaining electricity.

The report also warns about a crisis in state-owned enterprises, which have been hit by the downturn and "are struggling to meet debt service obligations".

"Total debt stock at the end of 2016 is estimated to be 120% of GDP, placing the country in an unsustainable position."

Special section on Corruption

Catching up on many recent corruption articles.

In addition, a summary of past corruption articles - plus the 2001 reports on the banking crisis and the 2010 decision not to prosecute those involved - are on <http://bit.ly/2upF8XI>

Tobacco and short memories

Small bribes paid more than a decade ago are still having a negative impact on Tete tobacco farmers. In 2010, the owners of Mozambique Leaf Tobacco (MLT) pleaded guilty in a US court to paying bribes of \$165,000 in 2005 and 2006, including cash to "a governor" and "gifts including supplies for a bathroom renovation, personal travel on a company jet, and cash payments to officials in Mozambique," in order to win exclusive contracts to buy tobacco in Chifunde and other districts in Tete. It costs less to buy officials in Mozambique than in other countries (see this newsletter, 353, 8 Jan 2017 and <http://bit.ly/2upF8XI>), and the US Securities and Exchange Commission said MLT made extra profits due to the bribe of \$457,260 in the first year alone. None of those who received bribes were prosecuted in Mozambique.

At a rally on 30 June in Chidzolomondo, Macanga district (which adjoins Chifunde), President Filipe Nyusi was given a message by angry farmers, who complained they were being swindled by MLT, who they say charge too much for inputs. They also say "the staff take inputs and they don't pay. ... In order to liquidate the debt, they put it on the cards of the producers, thus prejudicing the income of their households".

AIM (En 2 Jul, Pt 1 Jul) reports that "Reacting to these accusations, Nyusi said he had never heard anything like them before." President Nyusi seems to have a short memory. Peasants in Chifunde, at a similar rally on 27 May 2016 harangued him about the failure of MLT to buy their tobacco or to pay the correct price. <http://bit.ly/2upF8XI> (AIM Pt 27 May 2016)

Fertilizer is applied in December and January. "The company charges high prices for its inputs", said the message. "For example, in the 2015 campaign a 50 kg sack of fertilizer cost between 1,400 and 1,900 meticaïs. But in the 2016/2017 campaign the price ranged from 3,400 to 3,600 meticaïs a sack". There was serious devaluation during 2016, so in November 2015 the exchange rate was MT 44 = \$1 and in November 2016 MT 76 = \$1. But MLT raised the cost of fertiliser by more than that, from \$32-\$43 to \$44-\$47.

3/4 tonne of ivory stolen from wildlife service: 763 kg of ivory - 85 pairs of tusks - were stolen from the locked warehouse of the Cabo Delgado provincial forest and wildlife service in April. (AIM Pt 2 May) It is part of a growing ivory trade which has shifted to Mozambique after crackdowns in Tanzania. A new report has just been issued by the Environmental Investigation Agency (EIA) pointing to Pemba and a town in China, Shuidong, as the end points of the trade. Ou Haiqiang, an ivory smuggler, told EIA: "Frankly, it's easier to do this business in Mozambique ... it's easier to operate. In Tanzania, don't even think about it." Xie Xingbang, a local fixer, added: "We're able to move anything through Pemba. Everyone there has been bought." <https://eia-international.org/wp-content/uploads/EIA-The-Shuidong-Connection-FINAL.pdf>

No payments for Nacala airport. The Mozambican government did not make \$15 mn in payments in November 2016 and May 2017 to the Brazilian state development bank (Banco Nacional de Desenvolvimento Económico do Brasil, BNDES) for the construction of Nacala airport. Odebrecht, the Brazilian construction giant, paid only \$900,000 in bribes to win the \$216.5 mn project to build an airport which has proved to be a white elephant. In a plea bargain with the US Department of Justice, Odebrecht admitted that between 2011 and 2014, it made "\$900,000 in corrupt payments to government officials in Mozambique. The corrupt payments included approximately \$250,000 in payments to a high level government official in Mozambique in exchange for Odebrecht obtaining favourable terms on a government construction project, which the government had not been inclined to accept before Odebrecht offered to make the corrupt payment." The airport was originally estimated to cost \$90 mn, of which \$80 mn was to come at from the Brazilian development bank and the rest from Standard Bank. But the price rose to \$216.5 mn, of which \$125 mn came from BNDES and \$91.5 mn from banks in Mozambique. The BNDES loan was guaranteed by the Brazilian government and BNDES has called in that guarantee. The default is BNDES' first ever on a sovereign loan. BNDES is also financing construction of the Moamba Major dam, and Mozambique did make the payment on that loan in January. (Zitamar 27 June, *Folha de Sao Paulo* 24 June)

The only recent high level prosecution for corruption was for a small amount of money, \$25,000. Abdurremane Lino de Almeida, who was Minister of Justice and Constitutional and Religious Affairs until March 2016, was jailed for two years on 14 July. (AIM En 14 July) The case was brought by the Gabinete Central de Combate à Corrupção (GCCC) and he was convicted of using government money to take himself and three other people on the pilgrimage to Mecca. He was deputy minister for the public service in the previous government and is seen as being linked to former president Armando Guebuza.

8 people were jailed for stealing \$1.2 mn from the army between 2010 and 2015. Ernesto Rufino and Abdul Ismael were each jailed for 16 years; they had worked in the wages sector of the army command and put the names of friends and relatives on the wages sheets so that every month money to which they were not entitled would be deposited in their accounts. (AIM En 7 July)

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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: kapicudir@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>

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

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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 sociólogo: <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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