

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing April 2019

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#### Mozambique Summary 24 April 2019

*Economy and finance minister Adriano Maleiane says the government has reached an agreement to restructure a \$535m debt from Mozambique Asset Management, one of the state-owned companies involved in the \$2 billion hidden debt scandal, with Russia's state-backed VTB Capital Bank. United States (US)-based oil giant Chevron plans to acquire US-based oil and gas company Anadarko Petroleum for \$50 billion (which includes purchasing over \$15 billion in Anadarko debt), which will give Chevron control of the Area 1 liquefied natural gas (LNG) project in Mozambique. The government struggles to recover after the devastating effects of Cyclone Idai in March, one of the worst cyclones to hit the region in decades, and faces the imminent threat of another cyclone.*

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#### Mozambique reaches deal to restructure \$535m debt in ongoing hidden debt scandal

Mozambique's economy and finance minister, **Adriano Maleiane**, said on 23 April that the government had reached an agreement to restructure a \$535m debt from **Mozambique Asset Management**, one of the state-owned companies involved in the \$2 billion hidden debt scandal, with **Russia's** state-backed **VTB Capital Bank**.<sup>1</sup> The initial 2014 loans, signed by former finance minister **Manuel Chang**, did not have parliamentary approval and exceeded the 2014 budget limit, and were thus hidden from the public until their existence was revealed in 2016. The restructuring deal shows that Mozambique intends to pay back the debt, despite many calls not to do so, in order to avoid a full default. The restructuring plan should help Mozambique to access further international funding, though many financiers are already content to work with Mozambique in light of its extensive gas assets.

Maleiane did not reveal the restructuring model but it is likely similar to the one reached with **Empresa Moçambicana de Atum (Ematum)** bondholders, in which payments would be spread out and guaranteed by natural gas revenues.<sup>2</sup> The remaining debt, a \$622m loan to state-owned **ProIndicus** from VTB Capital Bank and **Switzerland**-based **Credit Suisse**, has yet to be restructured but Maleiane said on 23 April that the attorney-general's office will withdraw the sovereign guarantee for the debt as it was given illegally.<sup>3</sup> The withdrawal of the guarantee increases the risk that the government will not pay this debt and Proindicus will enter bankruptcy proceedings.<sup>4</sup>

Although the hidden debt scandal is one the ruling government would rather ignore, it cannot, given the amount of international pressure on those involved in the scandal. The government will take action against some of these, although ruling **Frente de Libertação de Moçambique (Frelimo)** party leaders, which include President **Filipe Nyusi** (2015-present) and Maleiane, were also involved in the scandal and will no doubt want to stifle any larger investigations.

The government has already charged many former and current government officials in Mozambique (see *ARC Briefing Mozambique* March 2019) and has also sued **Abu Dhabi**-based shipbuilding company, **Prinvest**, which provided the shipping boats in the hidden debt scandal.<sup>5</sup> Prinvest, in response, countersued the government on 15 April for an unknown amount over breaching

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<sup>1</sup> MacauHub, 23 Apr 2019

<sup>2</sup> MacauHub, 23 Apr 2019

<sup>3</sup> MacauHub, 23 Apr 2019

<sup>4</sup> Club of Mozambique, 22 Apr 2019

<sup>5</sup> Reuters, 15 Apr 2019

contractual supply agreements.<sup>6</sup> Additionally, Chang, the former finance minister, has become a scapegoat and was arrested in **South Africa** in December on an international arrest warrant (see *ARC Briefing Mozambique* January 2019). The **United States (US)** has pushed for Chang to be extradited to the US, and a South African judge ruled on 8 April that he can be extradited there to face trial.<sup>7</sup> Mozambique has also requested Chang's extradition in order to try him in local courts, but it will be up to the South African government to decide where to send him. Legally, the South African justice ministry has the final say over where Chang will face trial,<sup>8</sup> but the Mozambique government is likely to have lobbied South Africa's **Department of International Relations and Cooperation (DIRCO)** to return him to Mozambique. The government will push hard for Chang to be sent back to Mozambique as a US trial may uncover further dirty secrets in Frelimo emanating from the hidden debt scandal.

### Chevron committed to Mozambique LNG project after Anadarko takeover

US-based oil giant **Chevron** plans to acquire US-based oil and gas company **Anadarko Petroleum** for \$50 billion (which includes purchasing over \$15 billion in Anadarko debt), according to reports on 12 April, which will give Chevron control of the Area 1 liquefied natural gas (LNG) project in Mozambique.<sup>9</sup> The Chevron and Anadarko boards have both approved the deal and it should be finalised later in 2019.<sup>10</sup> The deal is not likely to change the current structure of the Area 1 LNG project and a final investment decision is still expected in the second half of 2019.

The deal makes Chevron one of the largest oil companies in the world, becoming an 'ultramajor' alongside US-based **ExxonMobil**, **Netherlands-based Royal Dutch Shell**, and **United Kingdom-based BP**.<sup>11</sup> Analysts say the reason for Chevron's acquisition was to combine its assets in **Texas** and **New Mexico** (US) with Anadarko's extensive assets in the US, rather than its assets in **Africa**, which include those in Mozambique and **Algeria**.<sup>12</sup> However, Chevron chief executive officer **Michael Wirth** has said that Chevron is committed to going ahead with the Mozambique LNG project.<sup>13</sup> Prior to the acquisition, Anadarko had said it planned to give a final investment decision in the first half of 2019, despite the increase in attacks on its contract workers in **Cabo Delgado** (see *ARC Briefing Mozambique* March 2019). The FID may now be pushed back to the second half of 2019 as Chevron re-evaluates its assets, but there is general optimism that the LNG project will continue as before. One issue that may delay the investment decision is an exploration area that straddles the Area 4 exploration area, which is operated by ExxonMobil. While Anadarko negotiated a gas-sharing deal with **Italy-based Eni**, ExxonMobil has since taken over as operator and may have issues with Chevron, now a major competitor, sharing its gas reserves.<sup>14</sup>

For Mozambique, the acquisition is a positive development. Given Chevron's experience in the sector and high capitalisation rate, there should be no future financing issues for the project.

### Mozambique struggles to recover from Cyclone Idai

Mozambique is struggling to recover from the devastating effects of **Cyclone Idai** in March and faces the threat of another cyclone that could make landfall on 25 April. One of the worst cyclones to hit the region in decades, Cyclone Idai destroyed much of **Beira**, a major port which was to be used to export LNG in the future. Cyclone Idai first hit Beira, in central Mozambique, as well as **Madagascar, Malawi** and **Zimbabwe**, on 14 March, resulting in 170 km per hour winds and heavy rains that caused flooding around the country.<sup>15</sup> Before the cyclone, Beira was a significant port for goods heading to

<sup>6</sup> Reuters, 15 Apr 2019

<sup>7</sup> Jurist.org, 9 Apr 2019

<sup>8</sup> Biznews, 9 Apr 2019

<sup>9</sup> NPR, 12 Apr 2019

<sup>10</sup> NPR, 12 Apr 2019

<sup>11</sup> FT, 12 Apr 2019

<sup>12</sup> FT, 12 Apr 2019

<sup>13</sup> FT, 12 Apr 2019

<sup>14</sup> Club of Mozambique, 13 Apr 2019

<sup>15</sup> www.worldvision.org

Zimbabwe, **Zambia** and Malawi, and its destruction is likely to affect the transport of goods to and from these countries, as well as Mozambique's own imports and exports.<sup>16</sup>

The damage was severe. The **United Nations** estimates the total cost for all affected countries at more than \$1 billion for infrastructure<sup>17</sup> and over 1,000 people dead.<sup>18</sup> Mozambique was the hardest hit, with the official death toll at 603 just in Mozambique, though many people are still missing.<sup>19</sup> The **World Bank** estimates that the cyclone cost Mozambique as much as \$773m in direct economic losses, largely due to the 7,770 square kilometres of destroyed farmland just weeks before the annual harvest.<sup>20</sup> The cyclone also resulted in the displacement of close to 70,000 and a cholera outbreak due to the lack of clean water and ablution facilities, which were washed away in the flooding.<sup>21</sup> There are also many areas that are not easily accessible to aid workers, causing food shortages that have resulted in conflict among locals.<sup>22</sup>

The **International Monetary Fund** extended a \$118.2m credit facility to assist with rebuilding infrastructure, which will be used alongside the government's \$337m response plan to rebuild the country.<sup>23</sup> Of the \$337m, approximately \$228m came from international donors after appeals were made to help with external financing gaps.<sup>24</sup>

As Mozambique struggles to contain the devastating effects of Cyclone Idai, there is a warning that **Cyclone Kenneth** may strengthen and hit Mozambique around 25 April.<sup>25</sup> Although Cyclone Kenneth is predicted to be weaker than Cyclone Idai, its high winds and heavy rainfall would exacerbate Mozambique's already weakened state.<sup>26</sup> Beira would be hardest hit again, which would result in further casualties and economic damage. At time of publishing, there is no indication of the extent of damage to Beira Port due to its current inaccessibility, but it is likely that major repairs will be needed prior to any LNG exports.

### Planner

2019 (**Mozambique**) Final investment decision expected on **Area 4 block** natural gas project, owned by **Italy**-based **Eni**, **United States**-based **ExxonMobil** and **China**-based **China National Petroleum Corporation**;

Oct 2019 (**Mozambique**) General elections scheduled

20-22 Nov 2019 **Maputo (Mozambique)** Mozambique Gas Summit

22-23 Apr 2020 **Maputo (Mozambique)** Mozambique Mining Energy and Oil & Gas Conference and Exposition

### Chronology

23 Apr 2019 **Maputo (Mozambique)** *Verdade*. Economy and finance minister **Adriano Maleiane** says the Mozambique government has reached a deal to restructure a \$535m loan from **Russia**-based **VTB Capital Bank** to **Mozambique Asset Management**, part of the \$2 billion hidden debt scandal;

22 Apr 2019 **Maputo (Mozambique)** *The South African*. The **South African Weather Service**

<sup>16</sup> Club of Mozambique, 18 Feb 2019

<sup>17</sup> Insurance Journal, 26 Mar 2019

<sup>18</sup> Farmer's Weekly, 4 Apr 2019

<sup>19</sup> New York Times, 20 Apr 2019

<sup>20</sup> New York Times, 20 Apr 2019

<sup>21</sup> UN Dispatch, 22 Apr 2019

<sup>22</sup> News24, 25 Mar 2019

<sup>23</sup> The South African, 22 Apr 2019

<sup>24</sup> The South African, 22 Apr 2019

<sup>25</sup> Earther, 23 Apr 2019

<sup>26</sup> Earther, 23 Apr 2019

forecasts that **Cyclone Kenneth** will hit northern **Mozambique** on 25 April;

22 Apr 2019 **Maputo (Mozambique)** *AllAfrica*. The attorney-general decides not to charge **Kamlesh Kumar, Harchil Baraat Kumar** and **Kamlesh Kumar Ruguenate** (deceased), and former chair of the three companies, **Carolina Reis**, over the \$2 billion hidden debt scandal;

20 Apr 2019 **Maputo (Mozambique)** *NAN*. The **Instituto Nacional de Minas de Moçambique** revokes 145 mining titles in the first quarter of 2019 for failure to submit reports or not paying taxes;

16 Apr 2019 **Maputo (Mozambique)** *Xinhua*. Opposition party **Renamo** submits its list of officers to be integrated into the national police force as per the 2018 peace agreement;

15 Apr 2019 **Maputo (Mozambique)** *Political Analyst South Africa*. The **Secretaria Técnica de Administração Eleitoral (STAE)** begins voter registration;

15 Apr 2019 **Maputo (Mozambique)** *Reuters*. **Abu Dhabi**-based shipbuilder **Prinvest** begins arbitration against **Mozambique** companies involved in \$2 billion hidden debt scandal for breaching contractual supply agreements;

15 Apr 2019 **Maputo (Mozambique)** *Engineering News*. **United States**-based oil company **Chevron Corporation** plans to proceed with the Area 1 LNG project after acquiring **Anadarko Petroleum Corp**;

12 Apr 2019 **Maputo (Mozambique)** *Citizen*. The **International Monetary Fund (IMF)** will decide on a \$130m accelerated aid package for **Mozambique** this week after **Cyclone Idai** devastated part of the country;

11 Apr 2019 **Maputo (Mozambique)** *Club of Mozambique*. The **World Bank** says economic losses due to **Cyclone Idai** have reached \$773m;

8 Apr 2019 **Maputo (Mozambique)** *Reuters*. A **South African** court rules that former finance minister **Manuel Chang** can be extradited to the **United States** on corruption charges;

3 Apr 2019 **Maputo (Mozambique)** *ESI Africa*. The **World Bank** approves an \$82m grant to increase electricity in **Niassa, Nampula, Zambezia, Cabo Delgado** and **Sofala Provinces**;

2 Apr 2019 **Beira (Mozambique)** *News24*. Cholera cases rise above 1,400 as vaccines arrive to limit further spreading;

22 Mar 2019 **Johannesburg (South Africa)** *Reuters*. President **Cyril Ramaphosa** says that state-owned energy company **Eskom** will receive 900 megawatts of extra power from **Mozambique** after damaged power lines were restored;

22 Mar 2019 **Maputo (Mozambique)** *africanews*. Land and environment minister **Celso Correia** says that **Cyclone Idai** killed 242 people in **Mozambique**;

18 Mar 2019 **Beira (Mozambique)** *Al Jazeera*. President **Filipe Nyusi** says that **Beira** city is 90% destroyed and the death toll could reach 100,000 due to **Cyclone Idai**;

12 Mar 2019 **Johannesburg (South Africa)** *Sowetan*. The **United States (US)** secretary of state for **Africa, Tibor Nagy**, says he expects **South Africa** to extradite former **Mozambican** finance minister **Manuel Chang** on corruption charges;

11 Mar 2019 **Maputo (Mozambique)** *Reuters*. **Qatar Petroleum** acquires a 25.5% stake in the A5A block from **Italy**-based **Eni**;

11 Mar 2019 **Maputo (Mozambique)** *AFP*. Flooding from **Cyclone Idai** kills 10 people in **Tete** and **Zambezia Provinces**;

7 Mar 2019 **Maputo (Mozambique)** *News24*. Former finance minister **Manuel Chang** reportedly prefers extradition to **Mozambique** over the **United States (US)**, but a **South**

**African** court will rule on the extradition requests separately, after **the US Justice Department** indicted Manuel and eight others;

7 Mar 2019 **Maputo (Mozambique)** *FT*. The **United States** reveals that in January it indicted two government officials – **Antonio do Rosario** and **Teofilo Nhangumele** – and **Abu Dhabi**-based **Prinvest** CFO **Najib Allam** in the \$2 billion hidden debt scandal;

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