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Resistencia Nacional Moçambicana (Renamo) leader Afonso Dhlakama announces an indefinite extension of the ongoing truce. Mozambique's Procuradoria-Geral da República (PGR) (attorney general's office) announces another deadline extension from 28 April to 12 May for the delivery of the final Kroll independent sovereign debt audit of Mozambique state-owned entities Empresa Moçambicana de Atum SA (Ematum), Proindicus and Mozambique Asset Management (MAM). Mozambique's parliament ratifies a law that provides government guarantees for \$1.12 billion of previously hidden loans to Proindicus and MAM. The International Monetary Fund (IMF) calls for clarity on the destination of the "secret debt". The World Bank endorses a new \$1.7 billion Country Partnership Framework (CPF) with Mozambique for the fiscal years 2017-2021.

Renamo announces indefinite truce

Resistencia Nacional Moçambicana (Renamo) leader Afonso Dhlakama announced an indefinite extension of the truce he initially declared in December 2016 (see previous *ARC Briefings* for Mozambique).¹ Dhlakama's announcement will enhance trust between Renamo and the government and provide a peaceful period, free of violence and threats of violence, which will allow both parties to work towards a final peace settlement. Dhlakama said,

*"Today I announce an indefinite truce. It is not the end of the war, but it is the beginning of the end² ... This truce will be different from those we announced in the past. I am now declaring a truce without deadline ..."*³

President **Filipe Nyusi** (2015-present) and Dhlakama agreed to extend the cease fire indefinitely:

*"The decision was announced by Afonso Dhlakama, who was optimistic that before the end of the year the parties will sign a new peace agreement. Dhlakama said he has been in regular phone contact with Nyusi, but he refused to reveal details of the agreement. So far, the ceasefire has resulted in the resumption of economic activities, including in mining, road transport and tourism, and thousands of students from the conflict areas returned to their schools after years of abandonment..."*⁴

However, Dhlakama admitted there was "no political agreement yet"⁵ to mark the end of the conflict, but he stressed the importance of the truce,

*"An open-ended truce means that there is no more shooting, that people can move freely, that investors – if still scared – can return."*⁶

Dhlakama also confirmed that Renamo and the government have set up two centres to verify the truce, one in **Maputo** and the other in **Gorongosa**, each staffed with joint teams of government and Renamo military officers.⁷ Dhlakama indicated that he is optimistic that the government would soon

¹ News.iafrica.com

² News.iafrica.com

³ VOA, 4 May 2017.

⁴ Source, political analyst, Mozambique

⁵ AFP, 4 May 2017.

⁶ VOA, 4 May 2017.

⁷ www.iol.co.za

pull out its troops from central Mozambique and eventually completely withdraw from all its military positions in Gorongosa Mountains, where Dhlakama's hideout is located.⁸

"The government forces that had occupied some of the Renamo military bases have just left the bases and are calling the populations to return to their homes and to their normal duties, such as in agriculture..."⁹

Dhlakama said that by June all Renamo's soldiers will have returned to their basecamps.¹⁰ Renamo's militias have already started leaving positions around Gorongosa. However, Dhlakama did not say when he would return from hiding.¹¹

Dhlakama said progress on peace talks is slow but progressing:

"I believe, I am motivated, that things will end well."¹²

There is concern that the negotiations between the two leaders are taking place in secret, denoting a lack of transparency that will make it difficult to monitor the implementation of the agreement.¹³ However,

"Dhlakama says there is nothing serious to hide and Mozambicans will always be informed after consensus over matters debated. He says the parties are avoiding providing information on every step because there are groups inside the ruling party who seem to oppose the negotiations and always complicate consensus..."¹⁴

One political analyst indicated the secrecy is justifiable because the method is producing results.

"Taking into account the results presented by the two sides, the new negotiation model – led by the two leaders without mediators – seems to be more productive and was successful in unlocking the military matters, which always seemed to be the Achilles hill for all the previous mediation groups."¹⁵

The most important result to date is that

*"Dhlakama announced he will participate in the 2019 presidential elections and also announced that there will be elections for provincial governors. The issue is provincial elections are not provided in the current constitution, which means their implementation will require amendments in the constitution. The question is if the new negotiation format clearly intends to avoid Frelimo [**Frente de Libertação de Moçambique**] formalities, Nyusi will again need his party support to accommodate the matters agreed with Dhlakama in order to make them constitutional."¹⁶*

Renamo and the government still need to come to agreement on issues such as decentralisation, constitutional reform and reintegration of Renamo's fighters into the **Polícia da República de Moçambique (PRM)** (national police) and **Forças Armadas de Defesa de Moçambique (FADM)** (armed forces).¹⁷ A long-term peace agreement would strengthen Nyusi's position before a conference of the ruling Frelimo party congress in September, which is expected to re-elect him as leader despite the ongoing high-profile sovereign debt scandal (see previous *ARC Briefings for Mozambique*).¹⁸

⁸ AFP, 4 May 2017.

⁹ Source, political analyst, Mozambique

¹⁰ AFP, 4 May 2017.

¹¹ AFP, 4 May 2017.

¹² Reuters, 4 May 2017.

¹³ Source, political analyst, Mozambique

¹⁴ Source, political analyst, Mozambique

¹⁵ Source, freelance journalist, lawyer and political analyst, Mozambique

¹⁶ Source, lawyer and political analyst working for a local government agency, Mozambique

¹⁷ VOA, 4 May 2017.

¹⁸ VOA, 4 May 2017.

*"[Nyusi] will do his best in order to get support from his party in the 11th Congress scheduled for 26 September to 1 October ... after the recent agreement with Dhlakama he is in better position to claim the party support. This is the reason why the 11th Congress is so important for Nyusi. If he is elected to remain the party leader and thus the party's candidate in the 2019 presidential elections, Nyusi will have to appoint his men to strategic positions within the party's structures so he can strengthen his political powers both in the central committee and in the parliament."*¹⁹

Attorney general announces third delay of Kroll's sovereign debt audit

The **Procuradoria-Geral da República (PGR)** (attorney general's office) announced another deadline extension on 27 April, from 28 April to 12 May, for the delivery of the final **Kroll** independent sovereign debt audit of Mozambique state-owned entities **Empresa Moçambicana de Atum SA (Ematum)**, **Proindicus** and **Mozambique Asset Management (MAM)**.²⁰ The extension of Kroll's delivery deadline will delay an expected final agreement with the **International Monetary Fund (IMF)** on a new lending arrangement with the government and also delay a final settlement with the international bondholders, as they are all waiting for the findings of the report to shed more light on Mozambique's sovereign debt profile.²¹ This is the third extension the PGR has given for Kroll to complete the audit.

The government first hired Kroll in 2016 to conduct an independent sovereign debt audit into Ematum, Proindicus and MAM within 90 days (see previous *ARC Briefings* for Mozambique).²² Kroll was due to complete its report at the end of February, but the PGR on 13 February agreed to an initial request from Kroll for an extension of 30 days (until 31 March).²³ On 24 March, the PGR agreed to a second request from Kroll for an extension from 31 March to 28 April to produce the final report (see previous *ARC Briefings* for Mozambique).²⁴

New law offers state guarantee to loans linked to sovereign debt scandal

Mozambique's parliament, on 26 April, ratified a law that provides government guarantees for \$1.12 billion of previously hidden loans of two state-owned companies, Proindicus and MAM.²⁵ The approval means the loans are now legal, in spite of a previous administrative court ruling that they violated Mozambique's budget law.²⁶ Proindicus and MAM have both failed to make payments on their loans (see previous *ARC Briefings* for Mozambique).²⁷

*"... only the Frelimo parliamentary group voted in favour of the law, with both opposition groups refusing it on the grounds that the loans were illegitimate and unconstitutional ... Frelimo's decision clearly intends to legalise the loans and provide protection to Frelimo members who were responsible for contracting the debts."*²⁸

The main concern is that the parliamentary approval was taken before the completion of Kroll's audit (see above),²⁹

"... which raises questions on what will be the attorney general position in case the audit considers the debts as illegal. Analysts understand the government/parliament decision in legalising the debts is likely to upset international donors ... accepting the debts as legal and in the responsibility of the government will make the debt negotiations much more difficult and

¹⁹ Source, political analyst, Mozambique

²⁰ www.allafrica.com

²¹ www.allafrica.com

²² AIM, 13 Feb 2017.

²³ AIM, 13 Feb 2017.

²⁴ www.allafrica.com

²⁵ Bloomberg, 27 Apr 2017.

²⁶ Bloomberg, 27 Apr 2017.

²⁷ Bloomberg, 27 Apr 2017.

²⁸ Source, researcher working for a local non-governmental organization, Mozambique

²⁹ Source, political analyst, Mozambique

worsen the country's situation, as debt repayment has already stopped, and payments are unlikely in the near future."³⁰

Prior to the parliamentary vote on 26 April, prime minister **Carlos Agostinho do Rosario** and the Mozambique government made conflicting announcements. On 13 April, Rosario told parliament that the government will only honour debts in which the proceeds benefitted the public interest.³¹ Rosario's statement indicated that the government's debt guarantees for Proindicus and MAM are illegal and the debts themselves illegitimate, and that therefore the government intends to repay only a portion of the debts.³² The government submitted its 2015 accounts to parliament on 12 April, and said that the guarantees for Proindicus and MAM were "*above the budget law*"³³, which appears as government confirmation that it views the guarantees as illegal and unconstitutional. In a statement to parliament on 13 April,³⁴ Rosario said,

*"... the government reaffirms its commitment to honour repayment of debt that has been proven to have been in the public interest ... we shall continue to observe a balance between the need to honour debt servicing and the imperative to continue financing priority action for economic and social development."*³⁵

One respected Mozambique political analyst publicly stated that,

*"Much hinges on the interpretation of debts being repaid if they are 'proven to be in the public interest' ... I interpret this to mean government will use the Kroll audit report to say that debts were not in the public interest."*³⁶

The government's current position, based on Rosario's comments, appears confusing and contradictory because two **Eurobonds** linked to Ematum, another SOE caught up in the sovereign debt scandal (see previous *ARC Briefings* for Mozambique), were replaced with government-backed bonds after a restructuring agreement with bondholders in 2016 (see previous *ARC Briefings* for Mozambique).³⁷ However, the government's current position with regard to Proindicus and MAM debt guarantees is "*probably intentionally ambiguous*".³⁸

*"[For] both domestic political reasons and prudent negotiating tactics, Mozambique may not want to go into those negotiations simply refusing to pay. But de Rosario's statement seems at least intended to allow the reading that the government is publicly stating that the guarantees are illegal and unconstitutional and that the loans themselves are 'not in the public interest'."*³⁹

Rosario said the government planned to seek a negotiated settlement with commercial creditors and bondholders in March.⁴⁰ If they failed to reach a negotiated settlement, the case may go arbitration, which is contractually obliged to take place in the **United Kingdom (UK)**.⁴¹ However, the government, creditors and the lead arrangers of the debt linked to the sovereign debt scandal – **Switzerland-based Credit Suisse** and **Russia-based VTB** – would prefer a negotiated settlement because "*there has been bad conduct on both sides which they will not want aired in public*".⁴²

³⁰ Source, Western researcher who is quite familiar with Mozambique's political and economic situation, Mozambique

³¹ Reuters, 13 Apr 2017.

³² Mozambique News Reports & Clippings, 17 Apr 2017.

³³ Mozambique News Reports & Clippings, 17 Apr 2017.

³⁴ Mozambique News Reports & Clippings, 17 Apr 2017.

³⁵ Mozambique News Reports & Clippings, 17 Apr 2017.

³⁶ Mozambique News Reports & Clippings, 17 Apr 2017.

³⁷ Mozambique News Reports & Clippings, 17 Apr 2017.

³⁸ Reuters, 13 Apr 2017.

³⁹ Mozambique News Reports & Clippings, 17 Apr 2017.

⁴⁰ Mozambique News Reports & Clippings, 17 Apr 2017.

⁴¹ Mozambique News Reports & Clippings, 17 Apr 2017.

⁴² Mozambique News Reports & Clippings, 17 Apr 2017.

IMF calls for clarity on destination of ‘secret debt’

Speaking at a press conference in **Washington DC (United States)**, IMF Africa director **Abebe Selassie** indicated that the IMF wants to know precisely what happened to the money the Mozambican government “*secretly borrowed*” (see previous *ARC Briefings* for Mozambique), which led to the suspension of IMF assistance.⁴³ Full clarity is an important component of reestablishing an IMF support programme for Mozambique.⁴⁴ Selassie said the IMF will only get involved in a support programme with Mozambique if three conditions are met, namely: the completion of an audit of the ‘secret debts’; a government relief plan; and an agreement with the government on “*policies to support*” an IMF assistance programme.⁴⁵ A **Voice of America (VOA)** correspondent asked Selassie if the IMF expected the Kroll audit to indicate and publish the names of those responsible for the “secret debts” but Selassie said the IMF will not make an early judgment on the audit results,

“We will have to see what is in the audit, but the terms of reference for this audit are very clear ... We have to know exactly what happened to the loan funds obtained by the three companies.”⁴⁶

Sources at the IMF said they are confident that the Kroll audit will eventually be completed and released, although its publication has been repeatedly delayed (see above).⁴⁷

World Bank endorses new Mozambique country strategy

The **World Bank**, on 27 April, endorsed a new **Country Partnership Framework (CPF)** with Mozambique for the fiscal years 2017-2021.⁴⁸ The CPF objectives are organised into three focus areas: promoting diversified growth; investing in human capital; and enhancing sustainability.⁴⁹ **Mark Lundell**, the World Bank country director for Mozambique, **Madagascar, Mauritius, Seychelles** and **Comoros**, said,

“This approval comes at a crucial juncture for Mozambique. The country needs to prepare for its upcoming resource-rich status and develop a more diversified and productive economy, which will depend on how effectively natural wealth is reinvested into human, physical, and institutional capital ... Among other things, this strategy will support institutions and build systems in Mozambique to achieve just that...”⁵⁰

The World Bank will also work in close coordination with the IMF and advise the government on fiscal consolidation and debt management.⁵¹ The World Bank will also help the government address underlying causes of conflict in Mozambique and issues related to land, forest and natural resources management.⁵²

The CPF’s financing envelope is \$1.7 billion, which the World Bank will make available through the **International Development Association (IDA)**.⁵³ The World Bank has indicated approximately \$120m is available for 2017 and approximately \$410m from 2018 onwards.⁵⁴ The World Bank also indicated that the resumption of budget support operations, halted following the hidden sovereign debt scandal, will depend on Mozambique’s progress in restoring debt sustainability and an adequate fiscal and macroeconomic framework.⁵⁵

⁴³ VOA, 24 Apr 2017.

⁴⁴ VOA, 24 Apr 2017.

⁴⁵ VOA, 24 Apr 2017.

⁴⁶ VOA, 24 Apr 2017.

⁴⁷ VOA, 24 Apr 2017.

⁴⁸ World Bank Press Release, 27 Apr 2017.

⁴⁹ World Bank Press Release, 27 Apr 2017.

⁵⁰ World Bank Press Release, 27 Apr 2017.

⁵¹ World Bank Press Release, 27 Apr 2017.

⁵² World Bank Press Release, 27 Apr 2017.

⁵³ World Bank Press Release, 27 Apr 2017.

⁵⁴ World Bank Press Release, 27 Apr 2017.

⁵⁵ World Bank Press Release, 27 Apr 2017.

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