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The Procuradoria Geral da Republica (attorney general's office) publicly releases the executive summary of Kroll's audit into state-owned enterprises Proindicus SA, Moçambicana de Atum SA (Ematum), and Mozambique Asset Management SA (MAM). Ematum bondholders set out terms for restructuring negotiations. The African Development Bank (AfDB) approves a \$1m African Private Sector Assistance Fund (FAPA) grant to the Mozambican government to finance the Nacala Corridor Business Linkages Technical Assistance Project. The Conselho de Ministros (CoM) (council of ministers) approves a decree that grants United States-based Anadarko Petroleum Corp. and Italy-based ENI Spa a concession to build and manage an offshore liquefied natural gas (LNG) terminal in the Rovuma basin. The Instituto Nacional de Estatística (INE) (national institute of statistics) reports that Mozambique's monthly inflation rate declined 1.2% in June compared to May.

Government releases executive summary of Kroll sovereign debt audit

The Procuradoria Geral da Republica (PGR) (attorney general's office) publicly released the executive summary of Kroll's audit into state-owned enterprises **Proindicus SA, Moçambicana de Atum SA (Ematum)**, and **Mozambique Asset Management SA (MAM)** on 24 June.¹ Despite Kroll not having access to essential information, the report highlighted significant misconduct with regard to the \$2 billion in formerly secret loans to Proindicus, Ematum and MAM, which will increase domestic and international pressure on President **Filipe Nyusi** (2015-present) to punish the government officials involved and take significant measures to improve **Mozambique's** public finance management, before international donors have the confidence to re-establish a normal lending relationship with Mozambique.²

*"The report names people involved in the debt process in codes, but local media revealed the real names, which includes the former finance minister in the President **Armando Emilio Guebuza** [2005-2015] government, **Manuel Chang**, and the then treasury director **Maria Isaltina Lucas**, now deputy economy and finance minister ... but the powerful man in the whole process was the current CEO of the three companies – Ematum, MAM and Proindicus – and **Serviço de Informações e Segurança do Estado (SISE)** (national intelligence services) senior official **Antonio Carlos do Rosario**, who led all the processes that culminated with the approval of the state guarantees. Strangely enough, the audit mentions neither Guebuza nor the then defence minister **Filipe Nyusi**, although they worked in key positions at the time the loans were contracted."³*

There is reportedly an agreement within the ruling **Frente de Libertação de Moçambique (Frelimo)** party,

¹ www.clubofmozambique.com

² www.clubofmozambique.com

³ Source, political analyst, Maputo

“... in order to protect its senior leaders and avoid mentioning their names in the report and associating them with the secret loans. It is believed that Frelimo is trying to keep united at least until the next congress scheduled for September-October.”⁴

Despite extending the audit from three to six months (see previous *ARC Briefings* for Mozambique), Kroll says it was not given the information it required to provide even basic information on where the money went or how it was used.⁵ All three companies, which the SISE ultimately controls,⁶

“... provided limited financial data, including incomplete trial balances and bank statements for certain periods, and incomplete supporting documentation, such as loan facility agreements and supplier contracts.”⁷

The **International Monetary Fund (IMF)** shared Kroll’s concern about the lack of available information and plans to send a mission to Mozambique from 10-19 July to follow-up on the findings. The IMF released a statement on 24 June that said,

“The report summary provides useful information on how the loans were contracted and on assets purchased by the companies. However, information gaps remain, in particular on the use of the loan proceeds. An IMF staff mission will visit Mozambique on July 10-19 to discuss the results of the audit with the authorities and possible follow-up actions; including working with the authorities to address concerns related to the management of public resources.”⁸

Switzerland-based Credit Suisse, lead arranger for the ProIndicus and Ematum loans, and **Russia-based VTB**, lead arranger for the MAM loan, earned \$58.8m and \$140.9m in fees respectively.⁹ The information Kroll was able to obtain indicated significant problems with how the loans were issued and arranged. For example, according to Kroll, government officials dropped loan preconditions in order to avoid oversight from the **Banco de Moçambique (BdM)** (central bank), **Tribunal Administrativo de Moçambique** (administrative court) and the IMF. The Kroll report states,

“A document prepared by the ministry of finance suggests that Credit Suisse imposed a number of ‘preceding conditions’ that needed to be met before it would approve the loan financing, including the requirement to have the loan agreement approved by the Bank of Mozambique and checked by the Mozambique Administrative Court and that the ‘operation’ needed to be reported to the IMF. Documentation provided suggests that these conditions were ‘overcome’ so that no court or Bank of Mozambique approval was required and no reporting to the IMF was needed. Further documentation is needed to confirm how the lending proceeded without meeting the required conditions.”¹⁰

ProIndicus, Ematum and MAM borrowed the money based on business plans and feasibility studies that indicated the three companies were expected to generate combined operating revenue of \$2.3 billion by December 2016.¹¹ At the time Kroll compiled its audit, all three companies had negligible revenue and did not have the capacity to service debt obligations with the financial support of their shareholders, the government or major contractors.¹²

⁴ Source, senior journalist, Maputo

⁵ www.clubofmozambique.com

⁶ www.clubofmozambique.com

⁷ Kroll, Independent audit related to loans contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A., 23 Jun 2017.

⁸ IMF Press Release No.17/243, 24 Jun 2017.

⁹ Kroll, Independent audit related to loans contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A., 23 Jun 2017.

¹⁰ Kroll, Independent audit related to loans contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A., 23 Jun 2017.

¹¹ Kroll, Independent audit related to loans contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A., 23 Jun 2017.

¹² Kroll, Independent audit related to loans contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A., 23 Jun 2017.

“The operational and financial standing of the Mozambique companies, [Proindicus, Ematum and MAM] specifically that the companies appear to be inadequately managed, are not fully operational, have generated no meaningful revenues, have no contracts in place to provide future revenues ... ”¹³

Moreover, Kroll’s findings indicate that Proindicus, Ematum and MAM paid \$713m more for fishing boats, naval vessels, radar and other maritime security equipment than an expert evaluation said they were worth.¹⁴ Kroll was not able to identify how Ematum spent \$500m of an \$850m bond issuance (see previous ARC Briefings for Mozambique). According to Kroll,

“The independent audit has established that there are inconsistencies between explanations provided by Person A, the [defence ministry] and the contractor regarding the actual use of \$500m of the loan proceeds. Initially, Kroll was informed by the [finance ministry] that \$500m of the Ematum loan was integrated into the national budget in 2014 ... The [finance ministry] has not been able to confirm to Kroll any details of the maritime security equipment that was effectively included in the \$500m allocation, nor if the transfer of responsibility has actually been completed ... Until the inconsistencies are resolved, and satisfactory documentation is provided, at least \$500m of expenditure of a potentially sensitive nature remains unaudited and unexplained.”¹⁵

Following the publication of the executive summary, the Mozambican public,

“... expressed their expectation that the attorney general should take immediate actions against the people highlighted in the audit who were involved in contracting the secret loans ... the facts revealed in the report are enough to start legal proceedings against these people, including the institutions such as SISE, the economy and finance ministry and commercial banks that refused to supply information to Kroll. So far, the attorney general’s office has not made any detention as it says is still analysing the report.”¹⁶

Mozambique’s international donor partners will not resume their financial support to the government unless authorities take “concrete actions”¹⁷ against those implicated in the Kroll audit.¹⁸

Ematum bondholders lay down terms before restructuring negotiations

The **Global Group of Mozambique Bondholders (GGMB)**, the group that represents the majority of investors in the \$850m Eurobond that state-owned Ematum issued in 2013, called on the government to revoke government guarantees to state-owned Proindicus and MAM to ensure the government has the ability to meet Ematum’s bond obligations.¹⁹ **Thomas Laryea**, a lawyer advising the GGMB, said,

“There is no need for the terms of the Eurobond to be changed as long as the Proindicus and MAM guarantees are canceled ... Mozambique has ample payment capacity to meet its legitimate external debt claims ... ”²⁰

The GGMB had refused to start formal restructuring negotiations with the Mozambican government and its adviser, **Lazard Ltd**, until the Kroll audit into Ematum, Proindicus and MAM was published and the government forwarded an outline of a new bailout programme with the IMF.²¹ According to the GGMB,

¹³ Kroll, Independent audit related to loans contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A., 23 Jun 2017.

¹⁴ Financial Times, 25 Jun 2017.

¹⁵ Kroll, Independent audit related to loans contracted by ProIndicus S.A., EMATUM S.A. and Mozambique Asset Management S.A., 23 Jun 2017.

¹⁶ Source, political analyst and university lecturer, Maputo

¹⁷ Source, political analyst and university lecturer, Maputo

¹⁸ Source, political analyst and university lecturer, Maputo

¹⁹ Bloomberg, 29 Jun 2017.

²⁰ Bloomberg, 29 Jun 2017.

²¹ Bloomberg, 29 Jun 2017.

*“It is evident that there is no basis – in either Mozambican or **English** law – for the Mozambique government to honor the purported guarantees of the ProIndicus and MAM loans ... Disavowal of those purported guarantees and the liquidation of ProIndicus, MAM, and Ematum is the appropriate restructuring that needs to take place to clean up the system, to insulate the government balance sheet from further liabilities, and to restore access to external financing at the lowest cost to Mozambique.”²²*

The GGMB, which Laryea, a lawyer at **Cooke Robotham**, and former IMF official **Charles Blitzer** are advising, was set up last year by investors holding the bulk of the bonds, including **Franklin Templeton** and **United States (US)**-based hedge funds **Greylock Capital Management LLC** and **NWI Management LP**.²³

The GGMB’s initial hardline negotiating position will complicate and delay a final sovereign debt restructuring programme which Mozambique requires to restore macro economic confidence.

AfDB approves Nacala Corridor business development grant

The **African Development Bank (AfDB)** approved a \$1m **African Private Sector Assistance Fund (FAPA)** grant to the Mozambican government to finance the **Nacala Corridor Business Linkages Technical Assistance Project** on 20 June.²⁴ The project is in line with AfDB efforts to promote inclusive private sector development and small and medium sized enterprise (SME) linkages with large infrastructure investments. The AfDB aims to promote corridor economic development through the integration of economic activities within infrastructure development projects along the Nacala Corridor (see previous *ARC Briefings* for Mozambique).²⁵ In particular, the FAPA financial support aims to improve the efficiency and competitiveness of SMEs in the construction sector in the Nacala Corridor to enable them to take advantage of business opportunities provided by the Nacala rail and port projects.²⁶ In the next three years, the AfDB hopes to strengthen the business management skills, industry knowledge and know-how of selected SMEs in the construction industry through training, coaching, mentorship and other support activities to help them attain the competency required to satisfy requirements and standards of larger partner companies; provide institutional capacity building, knowledge, expertise and tools to SME support institutions to enable them to continue supporting SMEs in the construction sector at the end of the technical assistance.²⁷

FAPA is a multi-donor thematic trust fund that provides grant funding for technical assistance and capacity building to support implementation of the AfDB’s private sector development strategy.²⁸ The governments of **Japan** and **Austria** are active contributors to FAPA, which to date has provided over \$51m to 65 projects, 24 of which are regional projects with 41 others located in 24 individual countries across **Africa**.²⁹

Government approves LNG terminal concession

The **Conselho de Ministros (CoM)** (council of ministers) approved a decree that grants US-based **Anadarko Petroleum Corp** and Italy-based **ENI Spa** a concession to build and manage an offshore liquefied natural gas (LNG) terminal in the **Rovuma** basin on 20 June.³⁰ According to the CoM, the concession agreement will facilitate the safe transportation of LNG in accordance with oil and gas industry best practice and is an important step in the development of Mozambique’s offshore LNG

²² Bloomberg, 29 Jun 2017.

²³ Bloomberg, 29 Jun 2017.

²⁴ www.afdb.org

²⁵ www.afdb.org

²⁶ www.afdb.org

²⁷ www.afdb.org

²⁸ www.afdb.org

²⁹ www.afdb.org

³⁰ AIM, 21 Jun 2017.

sector.³¹ The government will sign the final concession agreement with an entity called **Mozambique LNG Maritime Terminal Company SA**. As the concessionaire, the company will design, construct, finance, operate, manage and maintain the infrastructure.³² Anadarko, which operates **Area 1**, and ENI, which operates **Area 4** of the Rovuma basin (see previous *ARC Briefings* for Mozambique), will share the terminal, and make services available to other operators in the future.³³

Inflation declines

The **Instituto Nacional de Estatística (INE)** (national institute of statistics) reported on 10 July that Mozambique's monthly inflation rate declined 1.2% in June compared to the previous month.³⁴ The results indicate that Mozambique's inflation rate is continuing its downward trend. As of July, accumulated inflation since January 2017 is 3.82% and accumulated annual inflation is 18.10%.³⁵ Mozambique's 2017 final inflation rate is expected to come in below the 2016 high of 26.35%.³⁶ INE figures indicate that price of light vehicles tomatoes, charcoal, peanuts, cooking oil and gasoline declined.³⁷

³¹ AIM, 21 Jun 2017.

³² AIM, 21 Jun 2017.

³³ AIM, 21 Jun 2017.

³⁴ Noticias, 11 Jul 2017.

³⁵ Noticias, 11 Jul 2017.

³⁶ Noticias, 11 Jul 2017.

³⁷ Noticias, 11 Jul 2017.

About Africa Risk Consulting:

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