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The Procuradoria-Geral da República (PGR) (attorney general's office) extends the sovereign debt audit deadline and ask commercial banks to release account details of former president Armando Emilio Guebuza (2005-2015) and 18 other individuals. The Conselho de Ministros (CoM) (council of ministers) schedules municipal elections for 10 October 2018. The government cuts bread and fuel subsidies. A Portuguese-Chinese consortium wins the contract to build a railway and port from the Moatize coal basin in Tete Province to the port of Macuse (Zambezia Province). The Banco de Mocambique (BdM) (central bank) increases the minimum share capital requirements for commercial banks.

Government extends sovereign debt audit deadline

Mozambique's Procuradoria-Geral da República (PGR) (attorney general's office), on 24 March, agreed to a request from risk analysis firm **Kroll** for an extension from 31 March to 28 April to produce the final report into the independent sovereign debt audit of Mozambique state-owned entities – **Empresa Moçambicana de Atum SA (Ematum)**, **Proindicus** and **Mozambique Asset Management (MAM)** – which were linked to the on-going sovereign debt scandal (see previous *ARC Briefings* for Mozambique).¹ 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, all of which are waiting for the findings of the report to shed more light on Mozambique's sovereign debt profile.² Both the IMF and bondholders have insisted that the final Kroll audit report is a key condition of any new agreements.³ The completion of the audit is important in order to address Mozambique's ongoing sovereign debt crisis.⁴ The government failed to make a \$119.2m payment on a Proindicus loan in March, another sovereign default, after the government's initial sovereign default in January on a scheduled \$60m interest payment on its \$726.5m **Irish Stock Exchange (ISE)**-listed bond issuance (see previous *ARC Briefings* for Mozambique).⁵

The PGR's audit extension deadline announcement came just two days after the IMF's Africa director **Abebe Salassie** said he "*hoped the audit will be finished in the next couple of weeks.*"⁶ This echoed the comments of **Irina Scholgin-Nyoni**, Sweden's ambassador to Mozambique who said on 13 March that the audit will be complete "*by the end of the month [March]*".⁷ Sweden's opinion is important because the Swedish government is providing the funds to pay for the Kroll audit (see previous *ARC Briefings* for Mozambique).⁸ The PGR repeated the same arguments it used in February to justify the original extension, namely that collecting the data required, from banks, suppliers and "*other relevant*

¹ Zitamar, 24 Mar 2017.

² www.allafrica.com

³ AIM, 13 Feb 2017.

⁴ www.allafrica.com

⁵ www.allafrica.com

⁶ Zitamar, 24 Mar 2017.

⁷ Zitamar, 24 Mar 2017.

⁸ www.allafrica.com

*institutions*⁹ in Mozambique and abroad, and then processing it all, was a complex task which involved “*mechanisms of international cooperation*”¹⁰ which are time-consuming processes.¹¹ Kroll has already presented its preliminary findings, but the PGR also said the complexity of the task,

*“... implied adopting certain legal procedures in line with the specificities of each of the various jurisdictions involved. This meant delays in making available additional relevant information.”*¹²

Mozambican media reported on 5 April that the PGR asked banks to provide details of former president **Armando Emilio Guebuza**’s (2005-2015) accounts for Kroll’s audit.¹³ The PGR also asked for account information for 18 other individuals.¹⁴ There is no public indication, to date, whether Guebuza is accused of any crime.¹⁵

*“Mozambique’s commercial banks were ordered by the PGR to provide details of all movements made from 2012 to 2016 in all accounts in Meticaís and in foreign currency for one company and 19 individuals, including the former president Armando Guebuza, his two sons and a number of people close to him, among them his advisors while in power. Although covered by the principle of judicial secrecy, the document sent by PGR to the banks was leaked to the media.”*¹⁶

PGR spokesperson **Georgina Zandamela** said,

*“This document is part of the preparatory instruction of a Secrecy of Justice process that is before the courts, so we cannot comment.”*¹⁷

Guebuza’s lawyer **Isalcio Ivan Mahanjane** said he had not seen the PGR’s request and could not comment.¹⁸ However, he said,

*“As far as I know the investigation is covered by the rule of the Secrecy of Justice ... I do not know whether he is accused or not.”*¹⁹

The Mozambique government hired Kroll in 2016 to conduct an independent sovereign debt audit into Ematum, Proindicus and MAM within 90 days.²⁰ 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).²¹ The IMF said it hopes to make the audit public once it is completed.²² Abebe stated publicly during a visit to the **United Kingdom (UK)** on 22 March, “...in general, there is no better tonic against issues like this than transparency.”²³

Municipal elections scheduled for October 2018

The **Conselho de Ministros (CoM)** (council of ministers), on 5 April, scheduled Mozambique’s fifth municipal elections for 10 October 2018.²⁴ The ruling **Frente de Libertação de Moçambique (Frelimo)** party is expected to win, however the political environment in the run-up to the vote will increase political tensions between the main opposition parties, the **Resistência Nacional Moçambicana (Renamo)** and the smaller **Movimento Democrático de Moçambique (MDM)**

⁹ www.allafrica.com

¹⁰ www.allafrica.com

¹¹ www.allafrica.com

¹² www.allafrica.com

¹³ Bloomberg, 5 Apr 2017.

¹⁴ Bloomberg, 5 Apr 2017.

¹⁵ Bloomberg, 5 Apr 2017.

¹⁶ Source, political analyst, Mozambique

¹⁷ Bloomberg, 5 Apr 2017.

¹⁸ Bloomberg, 5 Apr 2017.

¹⁹ Bloomberg, 5 Apr 2017.

²⁰ AIM, 13 Feb 2017.

²¹ AIM, 13 Feb 2017.

²² Zitamar, 24 Mar 2017.

²³ Reuters, 23 Mar 2017.

²⁴ Lusa, 5 Apr 2017.

party.²⁵ Mozambique last held municipal elections in 2013, in which Frelimo won 50 of the 53 municipalities with MDM winning just three. Renamo boycotted the vote in protest against Mozambique's electoral laws which they claimed, at the time, favoured Frelimo.²⁶ The number of municipalities is expected to increase ahead of the elections as part of the decentralisation negotiations between the Frelimo government and Renamo.²⁷

*"There are currently 53 municipalities with elected mayors and assemblies that have substantial control over local finance. But it is expected that negotiations between Renamo and the government on decentralisation will significantly increase that number, demanding some hasty organisation by the **Comissao Nacional de Eleicoes (CNE)** [national election commission] and ministry of state administration if they are to be included in the next elections."²⁸*

The CoM chose the October date based on a recommendation from the CNE.²⁹

"The current electoral law requires registration this year (2017) which is highly unlikely because of the national census in August, and the CNE has suggested that they be postponed to early next year, but nothing has been said yet."³⁰

Government cuts bread and fuel subsidies

President **Filipe Nyusi's** (2015-present) government cut bread and fuel subsidies in April, as they were considered economically unsustainable.³¹ The subsidy cuts may increase social unrest and anti-government protests in **Maputo**. As a result of the cuts, fuel prices increased for the second time in six months from 47.52 meticaís (M) to M50.02 (\$.71) in October 2016 and to M56.06 (\$.84) in March 2017, while diesel increased from M36.81 (\$.55) to M45.83 (\$.69) and then to M51.89 (\$.77).³² The government plans to conduct monthly reviews of fuel prices to make sure they reflect domestic and international factors.³³

"The price of bread, which is totally liberalised now, increased sharply, and ordinary Mozambicans are already feeling the effects ... but the government still controls prices in the transport sector. Urban transport operators decided to go on strike, but were threatened by huge police presence in the streets. Local transport operators say business is no longer profitable because the fares applied to the passengers are too low."³⁴

The government believes price increases will not impact inflation, which according to the government will only reach 12.2% in 2017.³⁵ However, a local economist said,

"... the rise of fuel prices will certainly impact the prices of other goods and services, including in the transport sector. Yet the decision to cut the subsidies is also a positive decision as they proved to be inefficient and only really supported private consumption to the detriment of other sectors such as agriculture and Mozambique's rural communities."³⁶

Portuguese-Chinese consortium to build railway & port

Local media reported on 16 March that **Thai-Mozambique Logistics SA (TML)** awarded a \$2.3 billion contract to build a railroad and deepwater port to a 50/50 joint venture consortium that

²⁵ Lusa, 5 Apr 2017.

²⁶ Lusa, 5 Apr 2017.

²⁷ Lusa, 5 Apr 2017.

²⁸ Mozambique News Reports & Clippings, 10 Apr 2017.

²⁹ Lusa, 5 Apr 2017.

³⁰ Mozambique News Reports & Clippings, 10 Apr 2017.

³¹ Source, political analyst, Maputo

³² Source, political analyst, Maputo

³³ Source, political analyst, Maputo

³⁴ Source, economist and university lecturer, Maputo

³⁵ Source, political analyst, Maputo

³⁶ Source, economist and university lecturer, Maputo

includes **Portugal-based Mota-Engil** and **China-based China Civil Engineering Construction Corp Ltd (CCECC)**.³⁷ The new railroad and deepwater port will help address the infrastructure bottlenecks in central Mozambique, thereby facilitating the commercialisation of Mozambique's coal assets in **Tete Province**.³⁸ The 500 kilometre railway will link the **Moatize** coal basin in Tete Province with the port of **Macuse (Zambezia Province)**.³⁹ TML said the railway and port are expected to become operational in 2021. In the initial phase, TML expects Macuse to process 30 million tonnes of coal, increasing to 100 million tonnes by the end of the fourth phase.⁴⁰ The Mota-Engil/CCEC consortium won the TML tender against competing proposals from **Brazil-based** construction and engineering firm **Andrade Gutierrez**; a **China-based** consortium that included **China Railway Construction Corp (CRCC)** and **China Harbour Engineering Co**; **Turkey-based Yapi** and **South Korea-based GS Group**.⁴¹

TML shareholders are **Italian Thai Development** (60%), Mozambique state-owned port and railways company **Caminhos de Ferro de Moçambique (CFM)** (20%) and the **Zambeze Integrated Development Corridor (Codiza)** (20%).⁴²

Central bank increases capital requirement for commercial banks

Banco de Moçambique (BdM) (central bank) governor **Rogério Zandamela**, on 10 April, announced that the minimum share capital of commercial banks operating in Mozambique will increase from M70m (\$980,000) to M1.7 billion (\$23.8m) over the next three years.⁴³ Zandamela said the BdM is taking the measure to strengthen Mozambique's banking sector and

"... and the solidity of financial institutions, in line with good international and regional practices".⁴⁴

The BdM decision comes after months of speculation that some commercial banks operating in Mozambique have insolvency ratios below the BdM's 8% minimum requirement.⁴⁵ The BdM also decided to take the measure in order boost confidence in the commercial banking sector, which was weakened in 2016 after the BdM had to intervene to protect customers' deposits in **O Nosso Banco** and **Moza Banco** (see previous *ARC Briefings* for Mozambique).⁴⁶

³⁷ www.macauhub.com.mo

³⁸ www.macauhub.com.mo

³⁹ www.macauhub.com.mo

⁴⁰ www.macauhub.com.mo

⁴¹ www.macauhub.com.mo

⁴² www.macauhub.com.mo

⁴³ Lusa, 11 Apr 2017.

⁴⁴ Lusa, 11 Apr 2017.

⁴⁵ Lusa, 11 Apr 2017.

⁴⁶ Lusa, 11 Apr 2017.

About Africa Risk Consulting:

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