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The prime minister, Carlos Agostinho do Rosario, states that the government has no intention in the near future of paying off the debts of state-owned companies which received illegal guarantees from former President Armando Guebuza (2005-2015). Civil society organisations, such as the Jubilee Debt Campaign and the Catholic Church, argue that the government should not have to repay the loans as the banks failed to disclose to investors that the absence of parliamentary approval renders the guarantees unconstitutional and illegal. The Banco de Moçambique (central bank) fines 15 financial institutions for violation of financial legislation. The United States Trade and Development Agency (USTDA) awards a grant to Mozambique-based EleQtra Moçambique Limitada for a feasibility study into a 120 megawatt (MW) wind farm in Namachaa (Maputo Province).

Rosario says Mozambique has no intention of paying debts in near future

The prime minister, **Carlos Agostinho do Rosario**, stated on 12 April that the **Mozambique** government has no intention in the near future of paying off the debts of state-owned companies that received illegal guarantees from former President **Armando Guebuza** (2005-2015).¹ These include the state-owned companies that were set up for projects around tuna fishing and maritime security: **Empresa Moçambicana de Atum (Ematum)** (Mozambique tuna company), **Proindicus**, and **Mozambique Asset Management (MAM)**, which borrowed more than \$2 billion in 2013 from **Switzerland-based Credit Suisse** and **Russia-based VTB**.² The banks granted the loans due to a guarantee by the Guebuza-led government, despite violating a constitutional clause that only the **Assembleia da República** (unicameral assembly of the republic) can authorise debt.³ The loans also broke the established ceiling for guarantees of the 2014 budget.⁴

Civil society organisations such as the **Jubilee Debt Campaign** and the **Catholic Church** have argued that the government should not have to repay the loans as the banks failed to disclose to investors that the absence of parliamentary approval rendered the guarantees unconstitutional and illegal.⁵ Many in Mozambique suggest that Credit Suisse and VTB should be content with the \$140m earned as contractors (see Table 1)⁶ while the rest should be forgiven.

Table 1 | Summary of the loans agreements entered into by the Mozambique Companies

Description	ProIndicus	EMATUM	MAM	Total
Lead Loan Arranger	Credit Suisse	Credit Suisse	VTB Capital	
Interest Rate	LIBOR + 3.20%	LIBOR + 3.70%	LIBOR + 7.00%	
Final Loan Amount	622,000,000	850,000,000	535,000,000	2,007,000,000
Bank Fees	(10,113,200)	(13,700,000)	(35,000,000)	(58,813,200)
Contractor Fee	(64,423,600)	(76,500,000) ⁶	-	(140,923,600)
Total Paid to Contractor	547,463,200	759,800,000	500,000,000	1,807,263,200

¹ Club of Mozambique, 12 Apr 2018.

² Club of Mozambique, 12 Apr 2018.

³ Club of Mozambique, 12 Apr 2018.

⁴ Club of Mozambique, 12 Apr 2018.

⁵ African Arguments, 19 Jul 2017.

⁶ Table source: Kroll, 23 Jun 2017.

Rosario told the assembly during a debate on the **Conta Geral do Estado (CGE)** (general state account) on 12 April that the government has not been making any payments concerning the commercial debt contracted with state guarantees such as Ematum, Proindicus, and MAM debts while legal procedures continue in the institutions of justice.⁷ The announcement is likely to shake Mozambique's **Eurobond** yield, which has fluctuated widely as the government first went to **London (United Kingdom)** in March to renegotiate its debt, only to be rejected by creditors (see *ARC Briefing Mozambique March 2018*). **United States (US)**-based ratings agency, **Fitch Ratings**, kept Mozambique's risk assessment at 'restricted default' on 3 April due to the government's inability and unwillingness to pay its debt service obligations.⁸ Rosario added that the government has looked to other countries – most likely **China** and **India** – to restructure part of the bilateral debt to free resources to finance economic and social development projects.⁹

Opposition parties have denounced the negotiations and also stated that the debt should be cancelled.¹⁰ However, finance minister **Adriano Maleiane** has rejected the possibility of cancelling the debt, arguing that to do so would be worse in the long term for the economy than finding a solution to paying the debt.¹¹ Maleiane noted that Mozambique's issue is the repayment terms on the debt – the guarantees account for just 17% of debt but 41% of the debt service.¹²

*"The world wants Mozambique to pay, and that's why we say we haven't got the money. The internal matter is the investigation into how the debts were contracted. The debt won't disappear. So we say to creditors that now we can't pay, but if the negotiations go well, Mozambique's credit rating can improve."*¹³

The **International Monetary Fund** recommended on 12 March that the government liquidate the three companies in order to fund any restructured debt.¹⁴ However, this appears unlikely as Rosario noted that the government was restructuring Ematum into a new company, **Tunamar**, and partnering with US-based security and research company, **Frontier Service Group (FSG)**.¹⁵ FSG's largest shareholder is China state-owned investment fund, **CITIC Group**, and its chairperson, **Erik Prince**, is the founder of controversial security company **Blackwater** (now known as **Academi**).¹⁶

Despite the calls to not repay the debt, the government will have no choice but to do so if it wishes to receive any future loans. However, Rosario's announcement that the government will wait to pay the debt, and the continuing calls to cancel the debt, may scare creditors enough to accept the government's restructuring proposal. The questions now are when the debt will be repaid and under what terms. Creditors balked at the proposed 'haircut' the government requested on the retroactive debt payments; it appears that the Mozambican government is now hoping to wait out the creditors to see if they will accept any new proposals. Domestically, Rosario's announcement will help buy the government time to sort out the economy. President **Filipe Nyusi** (2015-present) appears to remain unscathed by the hidden debts given he was the defence minister at the time the loans were made. Nyusi may have used his recent overtures to the opposition **Resistência Nacional Moçambicana (RENAMO)** (see *ARC Briefing Mozambique February 2018*) as a pretext to silence them in the national assembly.

⁷ Club of Mozambique, 12 Apr 2018.

⁸ MacauHub, 3 Apr 2018.

⁹ Club of Mozambique, 12 Apr 2018.

¹⁰ Club of Mozambique, 12 Apr 2018.

¹¹ Club of Mozambique, 12 Apr 2018.

¹² Club of Mozambique, 12 Apr 2018.

¹³ Maleiane quoted in Club of Mozambique, 12 Apr 2018.

¹⁴ Club of Mozambique, 12 Mar 2018.

¹⁵ Club of Mozambique, 12 Apr 2018.

¹⁶ Club of Mozambique, 12 Apr 2018.

Mozambican banks fined over AML breaches

The **Banco de Moçambique** (central bank) fined 15 financial institutions on 9 April for various violations of financial legislation.¹⁷ The government hopes that the fines will help to crack down on money laundering and financing of terrorism in Mozambique.¹⁸ The central bank fined the institutions a total of 158m meticals (MT) (\$2.4m).¹⁹ The fines cover offences which the banks committed in 2015 and 2016. The banks and fines are:

Bank	Amount	Reason for fine
Banco Único	MT32m (\$524,800)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
	MT400,000 (\$6560)	Law no. 15/1999 of regulations for credit institutions and financial companies
	MT400,000 (\$6560)	Law no. 15/1999 of regulations for credit institutions and financial companies
Moza Banco	MT24m (\$393,600)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
Banco Comercial e de Investimentos	MT24m (\$393,600)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
	MT200,00 (\$3280)	Law no. 15/1999 of regulations for credit institutions and financial companies
Banco Internacional de Mocambique	MT24m (\$393,600)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
Barclays Bank	MT24m (\$393,600)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
Banco Mais	MT12m (\$196,800)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
	MT300,000 (\$4920)	Law no. 15/1999 of regulations for credit institutions and financial companies
United Bank of Africa	MT12m (\$196,800)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
Capital Bank	MT3.2m (\$52,480)	Law no. 14/2013 to prevent and fight against money laundering and terrorism; and
		Law no. 15/1999 of regulations for credit institutions and financial companies
Banco Oportunidade de Mocambique	MT800,000 (\$13,120)	Law no. 14/2013 to prevent and fight against money laundering and terrorism
Ecobank	MT700,000 (\$11,480)	Law no. 15/1999 of regulations for credit institutions and financial companies

¹⁷ AllAfrica, 9 Apr 2018

¹⁸ Central Banking, 12 Apr 2018.

¹⁹ AllAfrica, 9 Apr 2018

Bank	Amount	Reason for fine
Banco Letshego	MT150,000 (\$2,460)	Law no. 15/1999 of regulations for credit institutions and financial companies
Vodacom M-Pesa	MT100,000 (\$1,640)	Law no. 15/1999 of regulations for credit institutions and financial companies
Carteira Move!l	MT100,000 (\$1,640)	Law no. 15/1999 of regulations for credit institutions and financial companies
Cooperativa de Poupança e Crédito dos Produtores do Limpop	MT100,000 (\$1,640)	Law no. 15/1999 of regulations for credit institutions and financial companies
BancABC	MT40,000 (\$656)	Law no. 15/1999 of regulations for credit institutions and financial companies

Of the large commercial banks operating in Mozambique, only **South Africa**-based **Standard Bank** was not fined.²⁰ Central bank governor **Rogério Zandamela** had promised that banks breaking the law would be named and shamed, and this is the first time the central bank has done so.²¹ The central bank did not give any specific details of the infringements,²² but it is likely that the banks failed in their reporting duties under the law.²³

The international community should welcome the crackdown on banks and the improvement in anti-money laundering procedures, particularly in the US which has focused on the financing of terrorism from African banks.²⁴

Mozambique expands wind generation capacity as it plans to export power to Malawi

The **US Trade and Development Agency (USTDA)** has awarded a grant to Mozambique-based **EleQtra Mocambique Limitada** for a feasibility study into a 120 megawatt (MW) wind farm in **Namachaa (Maputo Province)**, according to reports on 29 March.²⁵ EleQtra chose US-based **WorleyParsons Group** to carry out the feasibility study.²⁶ The project is likely to be built in two 60MW phases.²⁷ This would be the first wind project with an independent power producer in Mozambique.²⁸ Mozambique also began operations at its combined cycle power station in Maputo on 27 March, which should generate 106MW of electricity from June, according to state-owned power company **Electricidade de Moçambique (EDM)** director of generation, **Narendra Gulab**.²⁹ Currently, only 34% of the population has access to electricity,³⁰ though this has improved from just 5% in 2001.³¹ Mozambique has the potential to be a major power producer and supplier, with a reported 187 gigawatts of power generation potential due to its untapped coal, hydro, gas, wind and solar resources.³²

²⁰ AllAfrica, 9 Apr 2018

²¹ AllAfrica, 9 Apr 2018

²² Central Banking, 12 Apr 2018.

²³ AllAfrica, 9 Apr 2018

²⁴ Economist, 14 Jun 2014.

²⁵ ReNews, 29 Mar 2018.

²⁶ ReNews, 29 Mar 2018.

²⁷ ReNews, 29 Mar 2018.

²⁸ ReNews, 29 Mar 2018.

²⁹ ESI Africa, 27 Mar 2018.

³⁰ Export.gov, 17 Jun 2017

³¹ www.energypedia.info

³² US AID, 28 Mar 2018.

Foreign minister **Jose Pacheco** stated on 3 April that any excess electricity can be sold to **Malawi**.³³ Mozambique plans to sell 10MW from **Mandimba (Niassa Province)** in northern Mozambique to Malawi, although this would require Malawi to invest \$300,000.³⁴ The **African Development Bank (AfDB)** may help finance the power interconnection, announcing on 6 April that it was in the final stages of approving various regional power interconnection projects, including one from Mozambique to Malawi.³⁵ The interconnection would also allow Malawi to connect to the regional power grid and receive electricity from the **Southern African Development Community's Southern African Power Pool** through Mozambique's connection with **Zimbabwe (Songo-Bindura)** and South Africa (**Songo-Apollo**).³⁶ Other countries would also be able to access power from Malawi if there was excess electricity.³⁷ Currently, the majority of Malawi's electricity supply comes from the **Shire** river hydro-power station which produces less than 300MW of electricity.³⁸

Mozambique's ability to improve its access to electricity will help to improve the overall economy, though in the long term this will depend on sustained financing of power plants, transmission cables and infrastructure. However, continuing uncertainty over Mozambique's willingness to pay its debts will hamper any future financing. For Malawi, the electricity connection with Mozambique, and from there to Zimbabwe and South Africa, will allow much needed supply due to its lack of generating potential.

Planner

25-26 Apr 2018 **Maputo (Mozambique)** 6th annual **Mozambique Mining, Oil & Gas, and Energy Conference and Exhibition (MMEC 2018)**

15 October 2019: presidential, legislative, and provincial elections

Chronology

13 Apr 2018 **(Mozambique)** *Mining Review*. **Australia-based Syrah Resources** opens the **Balama** graphite mine in **Mozambique**;

13 Apr 2018 **(Mozambique)** *Zimbabwe Herald*. **Mozambique** plans to hold its presidential, legislative, and provincial elections on 15 October 2019;

12 Apr 2018 **(Mozambique)** *Club of Mozambique*. Prime minister **Carlos Agostinho do Rosario** states the government will not pay off debts in the near future of companies which received illegal guarantees from former President **Armando Guebuza**;

10 Apr 2018 **(Mozambique)** *BBC*. The **Banco de Moçambique** (central bank) fines all commercial banks operating in **Mozambique**, except **Standard Bank**, for violating financial legislation;

3 Apr 2018 **(Kenya)** *africanews*. President **Uhuru Kenyatta** announces that **Mozambicans** will no longer require a visa to visit **Kenya**;

22 Mar 2018 **(Mozambique)** *Reuters*. The **Global Group of Mozambique Bondholders**, which represents creditors of Mozambique's debt, states it hopes to start constructive debt restructuring talks again after rejecting the government's previous proposal;

20 Mar 2018 **(Mozambique)** *Bloomberg*. Investors reject Mozambique's debt restructuring

³³ AllAfrica, 3 Apr 2018.

³⁴ AllAfrica, 3 Apr 2018.

³⁵ Southern Times Africa, 6 Apr 2018.

³⁶ Southern Times Africa, 6 Apr 2018.

³⁷ Southern Times Africa, 6 Apr 2018.

³⁸ AllAfrica, 3 Apr 2018.

plans, causing Mozambique's bonds to decrease 6.1%;

19 Mar 2018 **(Mozambique)** *Reuters*. Mozambique meets with commercial creditors in **London (United Kingdom)** to present proposals on how to restructure its huge debts;

About Africa Risk Consulting:

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