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The government admits to over \$1 billion in undisclosed sovereign borrowing. Western donors, the World Bank and the International Monetary Fund (IMF) suspend aid, pending a review of Mozambique's debt profile. President Filipe Jacinto Nyusi (2015- present) will make an official visit to China from 16 to 21 May to seek financial support. Investment in Mozambique's oil and gas sector could reach \$35 billion between 2017 and 2022.

Government admits to over \$1 billion in undisclosed borrowing

The government has admitted to over \$1 billion of undisclosed sovereign borrowing, according to a statement the **International Monetary Fund (IMF)** released on 23 April.¹ Finance minister **Adriano Maleiane** had dismissed suggestions of undisclosed borrowing when the reports originally surfaced.² The extra borrowing, in combination with the restructured **Eurobond** linked to state-owned tuna fishing company **Empresa Moçambicana de Atum SA (Ematum)**³ (see previous *ARC Briefing* for Mozambique), will increase Mozambique's foreign debt to a level now "very close to unsustainability" according to the IMF.⁴ Mozambique's debt may have now reached 69% of gross domestic product (GDP).⁵ Prime minister **Carlos Agostinho do Rosario** flew to **Washington (United States)**, to meet with IMF managing director **Christine Lagarde** in April, and worked with the IMF Mozambique staff to explain the borrowing.⁶ In a press release on 23 April, IMF Mozambique mission chief **Michel Lazare** said,

*"Following a meeting held earlier this week between Carlos Agostinho do Rosario, prime minister of Mozambique and Ms. Christine Lagarde, IMF managing director, a technical team led by the vice-minister of finance, Ms. Isaltina Lucas, worked intensively with the IMF Mozambique staff team. The authorities acknowledged that an amount in excess of \$1 billion of external debt guaranteed by the government had not previously been disclosed to the Fund. Staff welcomed the authorities' extensive disclosure of information which constitutes an important first step toward full restoration of trust and confidence. Looking ahead, the Fund and Mozambique will continue to work together constructively to evaluate the macroeconomic implications of this disclosure of information and identify steps to consolidate financial stability, debt sustainability and enhance governance and oversight of public enterprises."*⁷

According to an unnamed IMF official, Mozambicans officials gave the IMF an "avalanche of documents" and admitted to having as much as \$1.35 billion of undeclared sovereign borrowing.⁸ **Credit Suisse** and **Russia**-based **VTB** reportedly issued most of the debt to Mozambique state-owned companies, although the interior ministry reportedly also had a \$130-200m loan from an unidentified bilateral lender.⁹ According to a respected Mozambique political analyst, international donors are

¹ Reuters, 23 Apr 2016.

² Reuters, 23 Apr 2016.

³ Reuters, 23 Apr 2016.

⁴ Reuters, 23 Apr 2016.

⁵ Source, political analyst, Maputo

⁶ Reuters, 23 Apr 2016.

⁷ www.imf.org

⁸ Reuters, 23 Apr 2016.

⁹ Reuters, 22 Apr 2016.

unlikely to cut aid and financial support to Mozambique for fear that it could divide the ruling **Frente de Libertação de Moçambique (Frelimo)** party and destabilise Mozambique politics.

*“Apparently he [Maleiane] confessed to her [Lagarde] that at least \$1.35 billion in loans were taken out in secret without telling parliament or donors – or, most importantly, the IMF... Despite being offended, Christine Lagarde will not cut off Mozambique, because that would look bad for the IMF. Similarly the **World Bank** and [**European Union**] **EU** will argue they have large development programmes, which benefit most Mozambicans, so they should not stop those. A few European donors with conservative governments might take their aid elsewhere, but most will not. The willingness to never name the crooks is because the network of patronage has been skillfully constructed; anyone who is identified will name others. That, in turn, could split the party. Both Frelimo and the donors and lenders fear that a split party could lose the next election, and most donor and lender officials would not want a government run by the present opposition [**Resistencia Nacional Mocambicana**]. This, in turn, gives substantial negotiating power to Rosario and Maleiane.”¹⁰*

The undisclosed sovereign borrowing in the form of loans and bonds, linked to government entities, took place between 2013 and 2014, under immediate past president **Armando Emilio Guebuza** (2005-2015).¹¹ The most prominent of the previously undisclosed sovereign borrowing is linked to two government backed entities: **Proindicus** and **Mozambique Asset Management (MAM)**.¹²

“Donors demanded the government reveal details on what the money was used for. Officially, Proindicus was created to offer maritime security services to offshore oil and gas operations, while MAM’s aim is to provide repair and maintenance services for shipping in the Mozambican channel. Apparently, none of these companies have done any business so far. No feasibility study was carried out before the entities borrowed the money.”¹³

The Mozambique public widely believes that corrupt government and Frelimo officials stole the money.¹⁴

“Many believe that much of the money from those loans and bonds ended up in some people’s pockets ... people who belonged to Guebuza’s government elite. Influential Frelimo members came public demanding that those who are responsible for this should return the money they took illegally.”¹⁵

The Attorney General’s office announced it would investigate the “secret loans” and the IMF is already conducting an audit.¹⁶ However,

*“Frelimo will do its best to protect its members. People believe if a serious investigation is carried out and Guebuza or his former finance minister, **Manuel Chang**, are found guilty, many people belonging to the current government would also be guilty, including senior members of the current government.”¹⁷*

The government has said Proindicus and MAM’s first debt payments of \$24m and \$124m, respectively, are due this month.¹⁸

¹⁰ Joseph Hanlon News, 26 Apr 2016.

¹¹ Source, political analyst, Maputo

¹² Source, political analyst, Maputo

¹³ Source, political analyst, Maputo

¹⁴ Source, political analyst, Mozambique

¹⁵ Source, political analyst, Mozambique

¹⁶ Source, political analyst, Mozambique

¹⁷ Source, political analyst, Mozambique

¹⁸ Source, political analyst, Maputo

Donors suspend aid

In response to Mozambique's failure to fully disclose its sovereign debt obligations, a group of Western donors has suspended aid.

*"Mozambique is under deep debt crisis, after the group of 14 donors and financial agencies who provide direct support to the state budget, known as **G14**, suspended their assistance amid the discovery of secret loans and bonds totaling over \$1 billion... In total, budget support partners had pledged \$467m for 2016, corresponding to 12% of all public expenditure. However, the suspension does not affect all 12%, as some of the group had already begun disbursing their aid before this scandal."*¹⁹

The World Bank announced on 27 April that it would delay approval of any further development assistance loans to Mozambique, pending a debt sustainability analysis (DSA) that the IMF is currently conducting.²⁰

*"Processing of investment lending currently continues, while further approval of development policy loans is delayed pending the DSA and the analysis of macro-economic stability by the IMF and the World Bank."*²¹

The World Bank is holding back payments of \$40m this year for direct budgetary support²² and will reevaluate its level of support to Mozambique once it has reviewed the IMF's DSA.²³

The **United Kingdom (UK)** government, on 28 April, suspended aid to Mozambique due to Mozambique's alleged "*serious breach of trust*" with regard to undisclosed debts.²⁴ The UK's decision follows similar action from the IMF and the World Bank²⁵ (see above). The UK **Department for International Development (DFID)** will delay the disbursement of a \$36.4m payment as part of its development policy grant to Mozambique.²⁶ The UK government said in a statement that it is now working closely with other international partners to establish the accuracy of the claims about undisclosed borrowing and will coordinate an appropriate response.²⁷

The suspension of aid will force the government to look for alternative sources of finance. There are four possible avenues for the government to raise money: recovering "*the money siphoned off for corruption as part of the secret loans*";²⁸ privatisation of state-owned enterprises; seeking financial aid from **China** (see below); or selling the government's interest in Mozambique's **Rovuma Basin** gas projects.²⁹ The government may find a solution in the gas sector:

*"There are high expectations for confirming [US-based] **ExxonMobil**'s intention to buy a stake at Italy-based **Eni**'s **Area 4** project [see previous ARC Mozambique Briefings]. So far, nothing was mentioned in Mozambique, but government officials believe that would help to raise money through a capital gains tax ... there are also rumours that the government would sell its stakes in some of its gas projects. However, this is far from happening. Mozambique's state-owned oil and gas company **Empresa Nacional de Hidrocarbonetos E.P (ENH)** has 10% and 15% of **Eni**'s and [US-based] **Anadarko**'s gas projects, respectively. While these are relatively small stakes, selling*

¹⁹ Source, political analyst, Maputo

²⁰ Multiple sources: www.bbc.com; www.wsj.com

²¹ Reuters, 28 Apr 2016.

²² www.wsj.com

²³ Reuters, 28 Apr 2016.

²⁴ www.bbc.com

²⁵ www.bbc.com

²⁶ www.wsj.com

²⁷ www.bbc.com

²⁸ Source, political analyst and specialist on Mozambique, United Kingdom

²⁹ Source, political analyst and specialist on Mozambique, United Kingdom

them would be seen as a big failure in the sense of national pride and independence... Whatever happens, revenue from gas will be deferred for several years.”³⁰

Nyusi to visit China

President **Filipe Jacinto Nyusi** (2015- present) will make an official visit to China from 16 to 21 May.³¹ The objective of the visit is to seek increased financial support after Western donors, the World Bank and the IMF suspended aid over the failure of the government to fully disclose the extent of Mozambique’s sovereign borrowing (see above).³² Nyusi’s trip is seen as part of government efforts to overcome its “*sovereign debt crisis*”.³³ However, analysts believe China is not likely to give Nyusi the help he is looking for:

“China never provided direct support to state budget. Increasing its financial aid to Mozambique in recent years was mainly for infrastructure development under credit agencies’ policies, benefiting Chinese companies.”³⁴

Chinese ambassador to Mozambique **Sun Jian** said that China wants to increase aid to Mozambique to help it overcome “*this bad time*” as Mozambique “*has been an example and one of the fastest growing economies in the region*”.³⁵

Although Nyusi met his Chinese counterpart **Xi Jinping** (2013- present) at the **Forum for China African Cooperation (FOCAC)** in December 2015 in **Johannesburg (South Africa)**, this will be his first official visit to China.³⁶ While in China, Nyusi will also visit **Shandong** and **Jiangsu Provinces**.³⁷

Oil and gas investment to reach \$35 billion between 2017 and 2022

On the sidelines of the fifth mining, energy, oil and natural gas exhibition in Mozambique on 8 May, South Africa-based **Standard Bank** senior official **Paul Taylor** said foreign investment in Mozambique’s oil and gas sector will reach \$35 billion between 2017 and 2022.³⁸ The projected investment, mainly in **Area 1** and **Area 4** in the Rovuma Basin, has the potential to put Mozambique on the list of the world’s top ten natural gas producers.³⁹ Anadarko Petroleum and **Italy**-base ENI have invested \$300m in oil and natural gas exploration in Mozambique to date.⁴⁰

Implications

Mozambique’s failure to disclose over \$1 billion in sovereign debt will damage its relation with the donor community. The suspended aid commitment will put pressure on the government’s fiscal position and may increase Mozambique’s debt to GDP ratio above the IMF’s benchmark conservative debt to GDP ratio of 40%. The objective of Nyusi’s visit to China is to seek increased financial support after Western donors suspended aid. China has indicated it is open to increasing support, but it is unclear if it is willing to provide the level of financing needed to address Mozambique’s sovereign emerging debt crisis. The expected large-scale investment in the Rovuma Basin gas development projects will make Mozambique one of the top ten gas producers in the world.

³⁰Source, political analyst and specialist on Mozambique, United Kingdom

³¹ Source, political analyst, Maputo.

³² MacaHub, 9 May 2016.

³³ Source, political analyst, Maputo

³⁴ Source, political analyst, Maputo

³⁵ MacaHub, 9 May 2016.

³⁶ MacaHub, 9 May 2016.

³⁷ MacaHub, 9 May 2016.

³⁸ APA, 9 May 2016.

³⁹ APA, 9 May 2016.

⁴⁰ APA, 9 May 2016.

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