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The International Monetary Fund (IMF) suspends lending to Mozambique over reports of non-disclosure of government borrowing. The government agrees with creditors to restructure state-owned tuna fishing company Empresa Moçambicana de Atum SA (Ematum) bonds. Standard & Poor's lowers Mozambique's credit rating to selective default, after Ematum bond restructuring. Security forces seize weapons at headquarters of the main opposition Resistencia Nacional Moçambicana (Renamo). Unknown assailants kill Marcelino Vilanculos, the public prosecutor investigating kidnap and ransoms incidents in Maputo. Italy-based ENI is to sell its stake in its Mozambique gas project.

IMF suspends lending to Mozambique

The **International Monetary Fund (IMF)** suspended lending to **Mozambique** on 15 April after determining that the government failed to properly disclose more than \$1 billion in loans, which violated the country's IMF borrowing arrangement.¹ The IMF cancelled the mission scheduled to initiate discussions for reviews of Mozambique's arrangements under the policy support instrument and standby credit facility, pending a full disclosure and assessment of the facts. In a press briefing on 15 April, IMF Africa director **Antoinette Sayeh** said,

*"The undisclosed borrowing exceeds \$1 billion and significantly changes our assessment of Mozambique's macroeconomic outlook. We are currently ascertaining, in cooperation with the authorities, the facts regarding this borrowing. We have advised the authorities that any undisclosed debt-related transactions, irrespective of their purpose, need to be reported transparently and publicly. Such disclosure is essential to ensure full accountability of the government to its citizens and Parliament, allow an accurate assessment of the previously undisclosed debt on the macroeconomic outlook, and assess the impact of these possible transactions on the IMF-supported arrangements with Mozambique."*²

The IMF said it had stopped a \$55m loan disbursement to Mozambique after it became aware of unreported loans to Mozambique from **Credit Suisse Group AG** and **Russia-based VTB Group**.³

*"Mozambicans were celebrating the agreement reached by the government and its creditor with regards to restructuring the [Empresa Moçambicana de Atum SA] Ematum bond [see below] when they received news that the government had borrowed at least an additional \$787m for another state company called Proindicus, allegedly for buying equipment for coastal protection against pirate operations. Nobody knew about Proindicus before this scandal and there is no information on its whereabouts, workers, or operations. This is an indication that Mozambique is deeper in debt, which increase macro economic risks."*⁴

As part of the IMF's \$283m loan package agreed in December 2015, the government has to fully disclose all borrowing and meet regularly with the IMF to provide updates. On 17 April finance minister **Adriano Maleiane** told the Mozambican media that there are no hidden loans.

¹ www.wsj.com

² www.imf.org

³ www.wsj.com

⁴ Source, political analyst, Mozambique

“There was some confusion which has ended up creating problems for Mozambique groundlessly ... The international community will realize that, firstly, Mozambique is a country that has never failed to pay, and secondly ... we honour our commitments.”⁵

Radio Mozambique reported on 16 April that the government is sending a high level delegation to **Washington (United States)** to discuss the issue with the IMF.⁶ The IMF has cancelled a planned mission to Mozambique to discuss its **Policy Support Instrument (PSI)** and its **Standby Credit Facility (SCF)**, which expires in June. The SCF is an IMF mechanism that provides financial assistance to low-income countries with short-term balance of payments problems.⁷ In late October 2015, Mozambique applied for and received \$283m in special drawing rights from the SCF.⁸ The government received the first IMF installment of \$119m in December 2015.⁹ The IMF has indicated that it is waiting for the government to provide more information so it can assess the overall impact of the reported non-disclosed loans on Mozambique and come to a conclusion with regard to the next steps in the IMF’s relationship with Mozambique.¹⁰

Majority of Ematum bondholders accept government restructuring offer

A majority of state-owned tuna fishing company Ematum bondholders have accepted the government’s ‘early exchange’ bond swap offer.¹¹ On 29 March, 81.7% of bondholders accepted the offer whereby the Mozambique government will swap an outstanding \$697m of Ematum dollar bonds maturing in 2020 with a coupon of 6.305%, for a new sovereign bullet bond issuance maturing in January 2023, priced at 80% of original value and holding a coupon of 10.5%. In order to induce bondholders to accept the new terms, the government agreed to an ‘early exchange’ promotion whereby bondholders were offered a ratio of 105% for their bonds, effectively bringing the coupon to well above 11%.¹² This will decrease the government’s annual payments from around \$200m to \$60m.¹³ Mozambique had to get 75% of investors voting on the exchange – and 75% of those voting to agree – for the exchange to go ahead.¹⁴ A bullet bond is a bond that pays a fixed rate of interest and is redeemed in full on maturity.¹⁵

International ratings agency **Standard & Poor’s (S&P)** lowered Mozambique’s sovereign credit rating to selective default on 1 April after the government and bondholders agreed to the swap.¹⁶ S&P’s downgrade will make borrowing on international credit markets more expensive for the government or possibly prevent the government from raising foreign currency bonds on the international debt market. S&P said,

“... even though investors may not contest the offer, we consider the exchange offer to be tantamount to default.”¹⁷

On the other hand, **Fitch Ratings** on 18 March affirmed Mozambique’s long-term foreign and local currency issuer default rating (IDRs) at B, its short-term foreign currency IDR at B, its country ceiling at B, and removed Mozambique from its rating watch negative (RWN), but maintained a negative

⁵ Reuters, 17 Apr 2015.

⁶ Radio Moçambique, 16 Apr 2015.

⁷ AIM, 17 Apr 2016.

⁸ AIM, 17 Apr 2016.

⁹ AIM, 17 Apr 2016.

¹⁰ www.imf.org.

¹¹ Reuters, 28 Mar 2016.

¹² Reuters, 28 Mar 2016.

¹³ AIM, 22 Mar 2016.

¹⁴ Reuters, 28 Mar 2016.

¹⁵ www.reuters.com

¹⁶ Bloomberg, 1 Apr 2016.

¹⁷ Bloomberg, 1 Apr 2016.

outlook.¹⁸ Fitch's rating assessment followed the government's initial announcement on 17 March of the final terms of the debt exchange to Ematum bondholders.¹⁹

Under Fitch's distressed debt exchange (DDE) criteria, the final exchange offer does not constitute a DDE. Although there is potentially a material reduction in terms compared with the original Ematum bond term, primarily because of the maturity extension, Fitch does not consider the exchange necessary to avoid a traditional payment default on the guaranteed Ematum bond.²⁰ Both criteria would need to apply in order for Fitch to classify the debt restructuring a DDE.²¹ Although Mozambique's credit profile has weakened over the past year, Fitch believes Mozambique has the capacity and willingness to continue servicing the outstanding Ematum bonds, because Mozambique has maintained a low debt-servicing ratio.²² Fitch's next scheduled review of Mozambique's sovereign credit rating will take place on 29 April.²³

*"The review will consider the following factors that could lead to a downgrade: worsening public and external debt dynamics; deterioration in the level and/or expected trajectory of foreign exchange reserve coverage; and commodity price changes that jeopardise the development of the LNG sector and erode external debt sustainability."*²⁴

Security forces seize weapons at Renamo party headquarters

Mozambican security forces raided the **Maputo** head office of the main opposition **Resistencia Nacional Moçambicana (Renamo)** and the home of its leader **Afonso Dhlakama** on 27 March.²⁵ The government claims to have conducted the raids to seize illegal weapons. The raids will further reduce trust between the government and Renamo and delay steps towards a final peace agreement (see previous ARC Briefings for Mozambique).²⁶

*"At the political level, there has been little progress in Mozambique. The number of opposition members shot dead has increased, which has increased fears ... the military presence in pro-Renamo provinces has intensified and there have been confrontations every day. There is little hope that the **Frente de Libertação de Moçambique [Frelimo]** government is going to come up with tangible decisions aimed at solving the conflict, and some party veterans have publicly announced that the military option is the best choice to end the tension."*²⁷

Police commander **Julio Jane** said security force confiscated 40 AK-47 rifles, seven pistols, military uniforms and communication equipment. Police did not make any arrests. Renamo claims the raids were an "*invasion*".²⁸ Dhlakama was not in Maputo at the time.²⁹

Unknown assailants kill prosecutor investigating kidnappings in Maputo

Unknown assailants shot and killed public prosecutor **Marcelino Vilanculos** on 11 April in the **Malhampense** neighbourhood of **Matola** outside Maputo. Vilanculos' murder is likely linked to investigations into kidnap for ransom operations, which have impacted the business community in Maputo since 2011 (see previous ARC Briefings for Mozambique).³⁰ Vilanculos' murder will hamper the government's ability to address the growing problem of kidnap for ransom.

¹⁸ Reuters, 22 Mar 2016.

¹⁹ Reuters, 22 Mar 2016.

²⁰ Reuters, 22 Mar 2016.

²¹ Reuters, 22 Mar 2016.

²² Reuters, 22 Mar 2016.

²³ Reuters, 22 Mar 2016.

²⁴ Reuters, 22 Mar 2016.

²⁵ Multiple sources: www.bbc.com; AIM, 29 Mar 2016.

²⁶ Multiple sources: www.bbc.com; AIM, 29 Mar 2016.

²⁷ Source, political analyst, Mozambique.

²⁸ Multiple sources: www.bbc.com; AIM, 29 Mar 2016.

²⁹ Multiple sources: www.bbc.com; AIM, 29 Mar 2016.

³⁰ Noticias.mmo.co.mz

Unconfirmed information indicates that Vilanculos was preparing charges against several people who were allegedly the organisers of a wave of recent kidnappings.³¹ Vilanculos' most high profile charges were against **Danish Abdul Satar** and his uncle **Momad Assife Abdul 'Nini' Satar**.³² Danish Satar was wanted in connection with the wave of kidnappings that hit Mozambican cities from late 2011.³³ **Interpol** detained Danish Satar in **Rome (Italy)** in November 2015. Mozambican authorities had previously arrested him in 2012 on charges of kidnapping, but he skipped bail and lived as a fugitive in **Dubai** and **Europe**, before his arrest in Rome.³⁴

Danish Satar is a member of the notorious **Abdul Satar** crime family.³⁵ He is the son of **Asslam Abdul Satar**, one of the masterminds of a bank fraud in 1996, in which the equivalent of \$14m was stolen from the **Commercial Bank of Mozambique (CBM)**, Mozambique's largest commercial bank at the time.³⁶ Asslam's brother, and Danish Satar's uncle, Nini Satar, another key player in the bank fraud, is one of three businessmen found guilty of ordering the assassination in November 2000 of Mozambique's foremost investigative journalist, **Carlos Cardoso**. Nini Satar was released in 2014 after serving half of his 24-year prison sentence for the Cardoso murder.³⁷ A condition for his parole was that he should report regularly to the **Maputo City Court**. However, he left Mozambique and is currently living somewhere in Europe.³⁸

Eni to sell stake in Mozambique gas discovery

Italy-based oil and gas major **Ente Nazionale Idrocarburi (ENI)** plans to sell oil and gas assets in Mozambique as part of its 2016-2019 strategic plan to enhance the company's balance sheet.³⁹ The decision is not a reflection on the future of Mozambique's gas sector but a response to internal ENI decisions as the company tries to become a leaner oil and gas player.⁴⁰ ENI CEO **Claudio Descalzi** said,

*"In 2015, we achieved 90% of the previous four-year plan disposal target. We have now increased our four-year target and will dispose of another seven billion euros of assets by 2019, mainly through the dilution of our stakes in recent and material discoveries as part of our dual exploration model strategy."*⁴¹

ENI's disposals will come mainly through the dilution of the company's stakes in recent and material discoveries and it has already flagged its readiness to sell down stakes in its Mozambique gas assets.⁴² ENI has recently made a step towards the development of the **Coral** floating liquefied natural gas (FLNG) in Mozambique, but said it would wait to divest some of its stakes in Mozambique's gas sector before proceeding with the final investment decision (FID).⁴³ Descalzi said, *"We are not far from disposal in Mozambique [there are] a lot of interested parties."*⁴⁴ US-based **Exxon Mobil** is reportedly interested in acquiring ENI's assets.⁴⁵ If Eni does complete a sale of its interest, the government could benefit from a large capital gains tax.

³¹ Noticias.mmo.co.mz

³² Noticias.mmo.co.mz

³³ Noticias.mmo.co.mz

³⁴ AIM, 5 Jan 2016.

³⁵ AllAfrica.com, 5 Jan 2016.

³⁶ Noticias.mmo.co.mz

³⁷ Noticias.mmo.co.mz

³⁸ Noticias.mmo.co.mz

³⁹ Reuters, 18 Mar 2016.

⁴⁰ Reuters, 18 Mar 2016.

⁴¹ www.eni.com

⁴² www.energyvoice.com

⁴³ www.offshoreenergytoday.com

⁴⁴ Reuters, 18 Mar 2016.

⁴⁵ Source, political analyst, Mozambique

*“... the good news on Exxon Mobil wishing to enter ENI’s **Area 4** project revives the expectation for capital gains collection, which would help the government boost the economy ... But nothing is clear so far... they may reach an agreement in the next two weeks.”⁴⁶*

Mozambique’s council of ministers approved the development plans for the Coral discovery in offshore Area 4 on 25 February. The approval relates to the first phase of development of five trillion cubic feet of gas offshore for which Eni plans to develop a \$9 billion 3.4 million metric tonnes per annum (mtpa) floating liquefied natural gas (FLNG) plant. The approval of ENI’s FLNG project bodes well for the approval of US-based **Anadarko Petroleum’s** LNG project in Mozambique.

Implications

The suspension of IMF lending and S&P’s downgrade after the Ematum bond restructuring will lead other creditors to avoid lending to Mozambique, will increase the cost of borrowing on the international debt market and may negatively impact the government’s fiscal position in the short and medium term.

The raid on Renamo’s head office in Maputo will lead to a further breakdown of trust with the government, which will make a peaceful settlement harder to reach in the short term. Vilanculos’ murder will hamper the government’s ability to curtail kidnap and ransoms, which have negatively impacted the reputation of Maputo as a safe and business friendly city.

Exxon Mobil’s reported interest in buying Eni’s gas project is not expected to negatively impact the long-term development of Mozambique’s gas sector. The sale may however alleviate fiscal pressure on government finances as it will result in significant capital gains tax. However, the deal is still incomplete.

Upcoming events

- Mozambique Mining, Oil & Gas and Energy Conference and Exhibition: 27-28 April 2016 (Maputo).
- Turkish Mission for Investment and Trade in Mozambique: 28 April 2016 (Maputo).
- International Observatory on Participatory Democracy: 4-6 May 2016 (Matola).
- Southern Africa Energy & Infrastructure Summit: 4-6 May 2016 (Maputo).
- ICTs Conference and Exhibition: 11-13 May 2016 (Maputo).

⁴⁶ Source, political analyst, Mozambique

About Africa Risk Consulting:

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