

AFRICA RISK CONSULTING

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Mozambique Summary 7 March 2019

The Procuradoria-Geral da Republica (PRG) (attorney general's office) files a lawsuit against Switzerland-based bank Credit Suisse and Abu Dhabi-based shipbuilder Prinvest in the High Court of London (United Kingdom) over Credit Suisse's involvement in the \$2 billion hidden debt scandal. The ruling Frente de Libertação de Moçambique (Frelimo) party and main opposition Resistência Nacional Moçambicana (Renamo) resume peace talks, setting out the next steps in the process ahead of the October elections. Islamist militants attack several convoys belonging to United States-based oil company Anadarko Petroleum in Cabo Delgado Province, killing one contractor and injuring several others in the first attacks on oil companies in the region.

Mozambique files lawsuits against Credit Suisse in attempt to placate IMF

Mozambique's Procuradoria-Geral da Republica (PRG) (attorney general's office) filed a lawsuit against Switzerland-based Credit Suisse Group AG and Abu Dhabi-based shipbuilder Prinvest in the High Court of London (United Kingdom)(UK) on 27 February over Credit Suisse's involvement in the \$2 billion hidden debt scandal.¹ Mozambique is able to file its case in the UK as it was the London-based branch of Credit Suisse that arranged the loans. The government hopes that the lawsuit and arrests of high-level former government officials (see *ARC Briefing Mozambique January 2019*) will demonstrate a crackdown on corruption to foreign donors as well as the electorate ahead of the October general elections. The lawsuit concerns loans for over \$2 billion from Credit Suisse and Russia-based VTB Bank to state-owned companies Proindicus, Empresa Moçambicana de Atum (Ematum) (Mozambique tuna company) and Mozambique Asset Management (MAM) in 2013 and 2014. Former President Armando Guebuza (2005-2015) guaranteed the loans, bypassing all regulatory oversight from parliament and international donors. Their discovery in 2016 plunged Mozambique into massive debt. The PRG is seeking the cancellation of all guarantees, the invalidation of the ProIndicus loans, and the defendants' payment of all MAM liabilities.² This would effectively cancel the debt accrued by Proindicus and MAM.³ The PRG brought no claims against the Ematum bonds, as the funds were later nationalised into a Eurobond and the government came to a debt restructuring agreement with bondholders in November (see *ARC Briefing Mozambique November 2018*).⁴ The PRG also brought no claim against VTB Bank, despite its involvement in the debt scandal.

United States (US) authorities arrested Prinvest senior manager Jean Boustani in January on charges of conspiracy to commit money laundering, wire fraud and securities fraud (see *ARC Briefing Mozambique January 2019*).⁵ Prinvest was responsible for providing the boats and equipment which the government purchased with the funds from the hidden debt scandal. Boustani is one of many recently arrested in connection with the hidden loans, including Guebuza's son, Ndambi Guebuza, whom the PRG arrested on 16 February, along with seven other businessmen and intelligence officials.⁶ The US also criminally indicted three former Credit Suisse bankers – Surjan Singh, Andrew Pearse and Detelina Subeva – in January in connection with the hidden debt, claiming they worked

¹ Wall Street Journal, 28 Feb 2019

² Mozambique News Reports, 4 Mar 2019

³ Mozambique News Reports, 4 Mar 2019

⁴ Mozambique News Reports, 4 Mar 2019

⁵ Club of Mozambique, 1 Mar 2019

⁶ EWN, 17 Feb 2019

with former finance minister **Manuel Chang** to siphon off at least \$200m from the loans.⁷ **South African** authorities arrested Chang in December and have held him on extradition requests from both the US and Mozambique.⁸ South Africa's foreign minister, **Lindiwe Sisulu**, said that Chang would be extradited to Mozambique,⁹ though Chang currently remains in South Africa.

The government reportedly rushed to submit its lawsuit in the UK so that it could be made public ahead of an **International Monetary Fund (IMF)** visit on 8 March.¹⁰ Since the scandal was revealed, the IMF has asked the government to hold accountable those involved. The arrests show that the government is making these efforts.¹¹ It can now argue that it is disputing the debts, which allows the IMF to remove Mozambique from its debt sustainability analysis and consider it eligible for additional aid and credits.¹² The first step of this process would be a "staff monitored programme", which does not involve loans but could lead to a full IMF programme later on.¹³

Several Mozambique-based non-government organisations have written to Credit Suisse about writing off the debt, and former first lady **Graça Machel** co-signed the letters.¹⁴ However, a write-off does not appear likely. Credit Suisse plans to fight the charges in court, claiming that it had no involvement in the \$535m loan to MAM.¹⁵ Regarding the ProIndicus loan, Credit Suisse will argue that its three employees are to blame and will instead pay a fine for poor compliance procedures rather than cancel the growing debt. The government also seems doubtful that the debt will be cancelled: on 4 March the finance ministry announced that it is still in negotiations to restructure the remaining debt, despite the lawsuit.¹⁶ Credit Suisse stated last November that it is willing to restructure the debt similar to the Eurobond restructure.¹⁷

President **Filipe Nyusi** (2015-present) has pushed for these arrests and lawsuits now as a signal that his government is cracking down on corruption in the lead up to the October 2019 general elections. However, Nyusi will not want too thorough an investigation as he was defence minister at the time of the loans and could be implicated in a deep government investigation into the scandal. This is likely the reason for the government insisting on Chang's extradition to Mozambique rather than the US, where a deeper probe would reveal the extent of corruption in the ruling **Frente de Libertação de Moçambique (Frelimo)** party. Frelimo will look for scapegoats, such as Guebuza's son, but is unlikely to arrest former President Guebuza, as this would set a bad precedent for current Frelimo leaders.

Frelimo and Renamo resume peace talks ahead of October general elections

The ruling Frelimo party and main opposition **Resistência Nacional Moçambicana (Renamo)** resumed peace talks on 27 February, setting out the next steps in the process ahead of the October elections.¹⁸ The peace talks are a positive sign for political stability and, while some violence is likely before and after the elections, there is very little risk of either party resorting to full-scale civil war. President Nyusi met with new Renamo leader **Ossufo Momade**, their first meeting in eight months and the first since Renamo elected Momade leader in January (see *ARC Briefing Mozambique January 2019*). Nyusi's previous peace talks and agreement with former Renamo leader **Afonso Dhlakama** focused on decentralising the government and on the electoral process. These resulted in constitutional amendments in May 2018 and the integration of former fighters into the military and police (see *ARC Briefing Mozambique February 2019*).

⁷ FT, 28 Feb 2019

⁸ eNCA, 21 Feb 2019

⁹ eNCA, 21 Feb 2019

¹⁰ Mozambique News Reports, 4 Mar 2019

¹¹ Macau Hub, 6 Mar 2019

¹² Mozambique News Reports, 4 Mar 2019

¹³ Mozambique News Reports, 4 Mar 2019

¹⁴ News24, 10 Feb 2019

¹⁵ Bloomberg Quint, 2 Mar 2019

¹⁶ Fin24, 4 Mar 2019

¹⁷ Bloomberg Quint, 2 Mar 2019

¹⁸ African Daily Voice, 28 Feb 2019

The talks reportedly hailed the progress made thus far but gave no indication of what future actions may be implemented between the two parties, particularly regarding any pre-election Renamo protests. Considering Renamo's allegations that Frelimo fraudulently won the October municipal elections (see *ARC Briefing Mozambique October 2018*), major protests ahead of, during and after the October 2019 general elections are likely. However, any violence is likely to be insignificant and limited to urban pockets. Both Nyusi and Momade have reaffirmed their commitment to the peace process and neither has anything to gain from returning to civil war.

Islamist militants attack Anadarko convoy in first attack on oil company

Islamist militants attacked several convoys belonging to US-based oil company **Anadarko Petroleum** in **Cabo Delgado Province** on 21 February, killing one contractor and injuring several others in the first attacks on oil companies in the region.¹⁹ The attacks may delay Anadarko's final investment decision, particularly if the Mozambique government appears unable to stop the attacks. The militants had previously confined their attacks in the growing insurgency to villages in the area, sparing the foreign companies operating in the region, where two consortiums²⁰ are investing billions in liquefied natural gas (LNG) exploration and production. Anadarko posted a tender for armoured vehicles in January (see *ARC Briefing Mozambique February 2019*) in anticipation of an eventual attack, but it will be almost impossible for Anadarko to protect itself entirely from guerrilla-like attacks on its convoys and personnel.

According to Mozambique expert **Joseph Hanlon**, the foreign companies operating in the region have not done enough to convince the local population of the benefits to them of the massive investments into LNG.²¹ This made it extremely likely that the Islamist attacks would one day target the gas companies:²²

*"I genuinely don't understand how these companies thought they could do this project without triggering a reaction."*²³

Costs are likely to rise for companies if they are forced to make special security arrangements or fly in supplies rather than risk road transport. Interior minister **Basilio Monteiro** said on 23 February in response to the attacks that defence and security forces would be deployed to protect the camps and workplaces of oil companies in Cabo Delgado and that there would be further military operations in the area around the oil companies' offices.²⁴ However, the government's lack of concerted military effort in the past may make it more difficult to stop the militants now. The latest attack on separate convoys with around 15 gunmen²⁵ illustrates that these are now coordinated and well-armed operations that are likely to recur. While military operations may result in more arrests, such as those of foreign nationals implicated in attacks in February (see *ARC Briefing Mozambique February 2019*), it will be impossible to supply military personnel to protect all employees and contractors of the multiple oil and gas companies operating in the area.

These incidents may jeopardise Anadarko's plans to reach a final investment decision (FID) in the coming months. However, despite concerns that the attacks would push the FID back to the second half of 2019,²⁶ Anadarko stated on 6 March that it still planned to have a final investment decision by the end of June.²⁷

¹⁹ FT, 22 Feb 2019

²⁰ Consortium 1 owns Area 4 and consists of Anadarko (26.5%); Japan-based **Mitsui Group** (20%); India-based **ONGC Videsh** (16%); ENH (15%); India-based **Bharat PetroResources** (10%); Thailand-based **PTTEP International** (8.5%); and India-based **Oil India** (4%). Consortium 2 owns Block A5-A and consists of Italy-based **Eni** (59.5%), South Africa-based **Sasol** (25.5%), and state-owned **Empresa Nacional de Hidrocarbonetos** (15%).

²¹ FT, 22 Feb 2019

²² FT, 22 Feb 2019

²³ FT, 22 Feb 2019

²⁴ Macau News Agency, 23 Feb 2019

²⁵ FT, 22, Feb 2019

²⁶ Bloomberg, 22 Feb 2019

²⁷ Bloomberg, 6 Mar 2019

The attacks on Anadarko will focus more attention on the region and the government's inaction in addressing the root causes of the growing militant movement. Mozambique has been conducting military raids in the region since attacks began in October 2017, but NGO **Human Rights Watch** alleges that the security forces are intimidating and detaining journalists in the area and have banned various media organisations from visiting Cabo Delgado since June 2018.²⁸ Security forces reportedly target journalists trying to obtain information about the Islamist group and accuse them of being insurgents, while a government official reportedly stated that the government wants to avoid focus on Cabo Delgado because "*the story was embarrassing.*"²⁹

Planner

2019 **(Mozambique)** Final investment decision expected on **Area 4 block** natural gas project, owned by **Italy-based Eni**, US-based **ExxonMobil** and **China-based China National Petroleum Corporation**

Oct 2019 **(Mozambique)** General elections scheduled

20-22 Nov 2019 **Maputo (Mozambique)** Mozambique Gas Summit

22-23 Apr 2020 **Maputo (Mozambique)** Mozambique Mining Energy and Oil & Gas Conference and Exposition

Chronology

4 Mar 2019 **Maputo (Mozambique)** *Fin24*. The finance ministry says that debt restructuring talks over the \$2 billion hidden loans will continue, even as the government tries to cancel parts of the debt;

1 Mar 2019 **Maputo (Mozambique)** *Bloomberg*. **Mozambique's** lawsuit against **Switzerland-based bank Credit Suisse** seeks repayment of funds and cancellation by Credit Suisse of its \$622m loans to **ProIndicus** in the \$2 billion hidden debt scandal;

28 Feb 2019 **Maputo (Mozambique)** *Reuters*. **Mozambique** files a case in a **London (United Kingdom)** high court against **Switzerland-based bank Credit Suisse** over the \$2 billion hidden debt scandal;

28 Feb 2019 **Cabo Delgado (Mozambique)** *Upstream*. The government will deploy special forces military personnel to **Cabo Delgado** province following attacks on oil and gas workers;

27 Feb 2019 **Maputo (Mozambique)** *Macau Hub*. **United States-based oil company Anadarko Petroleum** plans to invest \$176m in northern **Mozambique** in the first half of 2019 prior to a final investment decision on its LNG project;

27 Feb 2019 **Maputo (Mozambique)** *AFP*. President **Filipe Nyusi** and **Renamo** leader **Ossufo Momade** resume peace talks;

26 Feb 2019 **Maputo (Mozambique)** *Business Day*. A **South African** court hears arguments on whether **Mozambique's** former finance minister, **Manuel Chang**, can be extradited and to where, though South African foreign minister **Lindiwe Sisulu** said previously he would be extradited to Mozambique;

26 Feb 2019 **Maputo (Mozambique)** *Business Standard*. **India-based Oil and Natural Gas Corporation (ONGC)** says it and partners have signed agreements to sell 8.1 million tonnes of LNG from **Mozambique** asset, practically guaranteeing a final investment decision;

²⁸ HRW, 21 Feb 2019

²⁹ HRW, 21 Feb 2019

22 Feb 2019 **Cabo Delgado (Mozambique)** *EWN*. Suspected jihadist rebels attack a convoy operated by US-based oil company **Anadarko Petroleum**, killing one and wounding six in first attacks on a gas operation company;

21 Feb 2019 **Cabo Delgado (Mozambique)** *HRW*. **Human Rights Watch** accuses the government of gagging media from covering events in **Cabo Delgado Province**;

21 Feb 2019 **Maputo (Mozambique)** *Sowetan Live*. **South African** authorities will extradite former finance minister **Manuel Chang** back to **Mozambique**;

20 Feb 2019 **Maputo (Mozambique)** *Daily Maverick*. **South African** authorities say they will not extradite former finance minister **Manuel Chang** to the **United States** for corruption charges;

19 Feb 2019 **Maputo (Mozambique)** *SP Global*. **United States**-based **Anadarko Petroleum** signs a sales and purchase agreement with **Indonesia**-based **Pertamina** for 1 million tonnes of LNG per year from its **Mozambique** asset;

17 Feb 2019 **Maputo (Mozambique)** *Reuters*. Authorities arrest former President **Armando Guebeuza**'s son, **Ndambi Guebuza**, in connection with the \$2 billion hidden debt scandal;

15 Feb 2019 **Maputo (Mozambique)** *Reuters*. **United States**-based **Anadarko** agrees a sales and purchase agreement with **India**-based **Bharat Petroleum Corporation** for one million tonnes of LNG from its **Mozambique** project for 15 years;

14 Feb 2019 **Maputo (Mozambique)** *Daily Mail*. Authorities arrest five people, including intelligence officials, with links to the \$2 billion hidden debt scandal;

12 Feb 2019 **Maputo (Mozambique)** *Journal du Cameroun*. The **European Union** approves a \$13.6 billion investment package for private sector development;

12 Feb 2019 **Maputo (Mozambique)** *Xinhua*. Opposition group **Renamo** welcomes the permanent appointment of three of its officials to positions in the **Forças Armadas de Defesa de Moçambique**.

About Africa Risk Consulting:

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