

MOZAMBIQUE News reports & clippings

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Following the donor-designed path to the \$2.2 billion secret debt <http://bit.ly/3WQ-Hanlon>

Special report on four poverty surveys: bit.ly/MozPoverty

Comment: something will turn up: <http://bit.ly/28SN7QP>

Oxfam blog on Bill Gates & chickens:

<http://oxfamblogs.org/fp2p/will-bill-gates-chickens-end-african-poverty/>

Chickens and beer: A recipe for agricultural growth in Mozambique

by Teresa Smart and Joseph Hanlon is on <http://bit.ly/chickens-beer>

Gas for development or just for money? is on <http://bit.ly/MozGasEn>

Also in this issue:

Everything depends on Kroll

Support to repudiate debt

LAM chair took bribe

New ministers:

Put politics in command*

Frelimo Political Commission member Conceita Sortane was named education minister on 26 November, replacing the highly respected Jorge Ferrão who had been in post for less than two years. She has a Masters degree in education from the Pontifício Universidade Católica (PUC) in São Paulo, Brazil, but her only recent educational role was in a previous post as Frelimo Central Committee Secretary for Training and Cadres. At the time of her appointment, Sortane was a member of parliament (Assembleia da República, AR) and chair of the parliamentary Commission on Social Action, Gender, Technology and Media. At the October Frelimo Central Committee meeting, Sortane was named to head the national party brigade in Cabo Delgado, President Nyusi's home province.

Ferrão was the second respected technocrat to be replaced as minister by a political appointment in two months. Pedro Couto was sacked in late September as Minister of Mineral Resources and Energy, and replaced by Leticia Klemens who had no experience in the area. At the time of her appointment, Klemens was chair of the general meeting of Mozambique's largest commercial bank, Millennium-BIM, as well as secretary of the general meeting of the main employers' body, the Confederation of Mozambican Business Associations (CTA). She was also ambassador in Mozambique for the US State Department's African Women's Entrepreneurship Programme. When she was appointed, we noted that the 44-year old Klemens is part of the new generation of Frelimo children, and she is in business with the children of the key leaders of the independence struggle: former presidents Samora Machel, Joaquim Chissano, and Armando Guebuza as well as influential figures Alberto Chipande and Tobias Dai.

Ferrão and Couto were seen as two of Nyusi's most important appointments - respected, honest technicians who could bring about change. Reasons are never given for dismissals in Mozambique, and there is widespread speculation as to how Ferrão fell from grace. One rumour is that Ferrão

tried to force people to do more work on education and less for Frelimo during the working day. *Canal de Moçambique* (30 Nov) claimed that Ferrão tried to crack down on widespread corruption in text book and school desk procurement. Education (like Agriculture) has become a sclerotic ministry, with rigid fiefdoms and an expectation that no one had to work too hard, and there was time for Frelimo party work and business. A mark of the lack of organization is that yesterday afternoon, more than a week after Sortane took office, the Ministry website still listed Ferrão as minister.

Naming Sortane minister will make it much easier for Frelimo to use the Ministry of Education in election campaigns in 2018 and 2019.

Also on 26 November, Augusto de Sousa Fernando was named Deputy Minister of Mineral Resources and Energy, a post that had been left vacant since President Filipe Nyusi took office in January 2015. Fernando is trained in electrical engineering, and has spent much of his professional life as a senior figure in the state electricity company, EDM. He was chair of the EDM board of directors between 2010 and 2014, and had been an EDM administrator from 2006, in a period when EDM failed to make essential investments. AIM (26 Nov) notes Fernando "was honest enough to declare, in March 2014, that the electricity tariffs practiced by EDM were 'unsustainable'. But, faced with an election that coming October, the government of the time, led by President Armando Guebuza, refused to put up electricity prices, thus condemning EDM to continue running at a heavy loss." In late 2014 Centro de Integridade Pública (CIP) published a report entitled "Electricidade de Moçambique: poor service, not transparent, and politicised." http://www.cip.org.mz/cipdoc%5C339_Relatório_Electricidade_de_Moçambique.pdf At the time of appointment, he was Director of the Technical Unit for Project implementation in the Ministry of Mineral Resources and Energy.

* ("Put politics in command" is usually attributed to Mao Tse Tung in a 1963 speech.)

Everything depends on Kroll being allowed to do its audit

Kroll has started its forensic audit of the \$2 bn secret debt and the three maritime companies controlled by the security services (SISE, Serviço de Informações e Segurança do Estado). Donors and lenders have made clear that any improvement in relations with government is conditional on the audit being assisted and not blocked. SISE and senior Frelimo figures tried to restrict the audit, particularly by excluding military and security aspects, but they were unsuccessful. But the fear is that they will try to limit the release of information and not cooperate with the audit.

This could be a problem because of long chains of linked loans and expenditures. Kroll's skill is following such chains.

Africa Confidential argues that half of the \$2 bn in secret loans is not accounted for, and that \$900 mn has been further lent or used as loan guarantees for the purchase of arms and security equipment. Kroll will be expected to follow those chains. And Kroll will want to know precisely what was purchased, to look for inflated prices, kickbacks and other forms of diversion of money. (*Africa Confidential*, 18 Nov, available on http://www.rhula.net/pdf/Mozambique_Weekly_11_NOVEMBER_TO_18_NOVEMBER_2016.pdf)

This may take more than the initial three months. Starting the Kroll audit was enough to allow the arrival of the IMF team now in Maputo (see below) but there will be no further movement without confirmation of full cooperation and no agreements until publication of the full audit.

But there also seems to be broad (albeit not total) agreement by lenders and donors that they cannot keep adding new demands. The IMF will demand a harsh austerity package, and thus donors feel they cannot also demand prosecutions or return of stolen money. The assumption is

that the Kroll audit will show substantial misconduct and illegal actions, and that it will be up to Frelimo to decide what response is required - particularly taking into account grassroots anger at the debt and subsequent economic crisis, in the context of municipal elections in 2018 and national elections in 2019. Will Frelimo risk losing an election to protect senior figures?

The audit is being carried out under the Attorney General's (Public Prosecutors') office, which directly links it to possible criminal action. On 21 November the IMF "Executive Board welcomed remedial measures already taken, including the launch by the Public Prosecutor of a criminal investigation into the debts incurred by certain state-owned entities, and an independent audit of these entities by an international auditing company."

But it is also recognised that prosecution will take time, although initial steps can be taken soon after the release of the audit. It is widely assumed that Manual Chang will be made scapegoat, because as Finance Minister he said the loans were guaranteed; in fact, he had no right to say they were guaranteed because only parliament can give guarantees. But a deal which involved pleading guilty and receiving a suspended sentence would then be likely. Thus the outcome could be similar to that after the collapse of Banco Austral in 2001, with a forensic audit but no prosecution of senior Frelimo figures for stealing money or killing Siba-Siba Macuacua. (See <http://bit.ly/3WQ-Hanlon>)

The debts were taken out under British law from the London offices of Credit Suisse and VTB, and investigations are already under way by British financial authorities into possible misconduct by the two banks. The next step could be for the Mozambican attorney general to open contacts with British financial authorities, both to pursue a joint criminal investigation and to attempt to retrieve money improperly put into foreign bank accounts. This would have some donor support, and might look good to voters - and could be abandoned after 2019 elections.

IMF in town

An IMF mission led by Michel Lazare, IMF Mission Chief for Mozambique, is in Maputo for an unusually long time (1-12 December) to "initiate discussions ... on a new program", and the IMF pointedly notes that "discussions will continue in the first part of 2017". In practice, the earliest that any agreement could be reached is mid-2017.

The IMF Board on 21 November "found that the Republic of Mozambique had breached [its] obligation, as the authorities had reported inaccurate data with respect to the stocks of central government and central government guaranteed debt." The new information means that all of the IMF reviews since 2010 must be recalculated. In practice, a major purpose of the mission is to sort out the books - in particular the complex internal debts of the government and state companies to each other - and reassess the state of the economy. The mission will try to confirm that Kroll has full access and will talk to Mozambique's debt advisors on progress on rescheduling. And it will look for further policy adjustments and austerity.

The 21 November Board statement said that the failure to report external borrowing of \$1.37 bn (10.6% of 2015 GDP) constituted "misreporting" and "a breach of obligation". The Board "noted that the previously undisclosed debt has played a key role in making Mozambique a heavily indebted country, and has placed the government's finances and international reserves under considerable strain."

Mozambique's debt is in dollars, but debt ratios are calculated in local currency, Meticaís. Thus the 100% devaluation, triggered by the revelation of the secret debt, has caused the value of the total debt to double, making Mozambique debt distressed.

The Board's 21 November statement was carefully nuanced. The "Executive Board welcomed remedial measures already taken, including the launch by the Public Prosecutor of a criminal investigation into the debts incurred by certain state-owned entities, and an independent audit of

these entities by an international auditing company. Executive Directors did not to require any further action but called on the authorities to implement the announced measures in a comprehensive and timely manner." In other words, continued negotiations on an IMF programme depend on continuing criminal investigations and cooperation with the audit.

Mozambique needs money. An IMF agreement would release at least the promises of money from the IMF, World Bank, and European Union, which would sharply reduce the fiscal problems and shortage of dollars.

<https://www.imf.org/en/News/Articles/2016/11/28/PR16528-Mozambique-IMF-to-Initiate-Discussions-on-a-New-Program>
<http://www.imf.org/en/News/Articles/2016/11/21/PR16521-IMF-Executive-Board-Considers-Mozambiques-Misreporting-Under-the-Policy-Support-Instrument>

International support to repudiate debt, but Frelimo resists

There is surprising support from lenders and donors for Mozambique to repudiate part of the secret debt. One important donor said "I would not like to see my money being used to repay these creditors." But resistance to repudiation comes from senior Frelimo figures who would be required to admit that the loans were at least partly incompetent or corrupt

The \$2 bn in secret loans were organised by Credit Suisse and the Russian state-owned bank VTB. Investors were sold bonds or pieces of the actual loans. Thus is it argued that Credit Suisse and VTB have a fiduciary duty to those buying the bonds and loan pieces to determine that what is being sold is as offered, and has a reasonable chance of being repaid. Similarly, in organising a loan to one of the poorest countries in the world, the banks had a responsibility to determine if the loans were for viable projects. Thus banks are expected to undertake what is called a "due diligence" assessment.

Due diligence would have shown that the loans were not government guaranteed, because that requires parliamentary approval - independent of claims from the Finance Minister. It would have shown that the prices of what was being purchased were inflated, and that the incomes being projected for the companies were not justified by the amount of tuna available, potential maritime traffic, and possible gas security contracts. Further, due diligence would have shown that the loans were larger than the purchases proposed, meaning money would go for purposes not listed - including military purchases and corruption, which is not permitted by many lenders and investors. Finally, part of due diligence is informal contact with the IMF, which apparently did not happen, and would have shown total Mozambican debt to be larger than that stated publicly.

The case against Credit Suisse and VTB is that either due diligence was not done, or it was ignored and not communicated either to Mozambican authorities or to buyers of the loans and bonds. Just as the vendor is responsible for the sale of an obviously false or unsafe product, so Credit Suisse and VTB are responsible for the sale of bonds and loans which would not have passed due diligence. Credit Suisse and VTB are also guilty of "loan pushing" - encouraging Mozambique to take on debts which they do not need and which are inappropriate. Together, this makes the loans "illegitimate". The term "odious debt" is also sometimes used. The issue was debated extensively a decade ago, and has returned to international attention with Mozambique: <http://jubileedebt.org.uk/blog/mozambiques-secret-loans-scandal-started-london> Papers on the concept include http://www.eurodad.org/uploadedfiles/whats_new/reports/debt_repudiation_christian_aid.pdf http://www.jubileeusa.org/fileadmin/user_upload/Resources/Policy_Archive/408briefnoteodiousilldebt.pdf http://unctad.org/en/Docs/osgdp20074_en.pdf

Rather than defaulting on the debt - that is, simply not repaying - Mozambique would have to repudiate the debt, saying it is illegitimate and should not be repaid. Perhaps surprisingly, there is strong support in private by donors and lenders for such an action by Mozambique. There is no precedent for such an action, but donors and lenders see the conduct of Credit Suisse and VTB as

so egregious that they would encourage the action. And they expect the Kroll audit to show that the loans were grossly improper and that Credit Suisse and VTB failed to comply with their own rules.

The government and Frelimo seem unwilling to take such a position, however. Many in Frelimo believe, and government-aligned commentators have written, that the loans were good and reasonable. Even if not used entirely as initially claimed, the money was well spent to defend against Renamo, and to win the 2014 elections and support Frelimo. And the loans could have been repaid if gas prices had not fallen. This group argues that donors are hostile to Frelimo and supporting the opposition, and criticism of the loans and demands for an audit are just an attack on Frelimo.

The package of debt is complicated. There are three loans:

+ Ematum (tuna fishing), \$850 mn in bonds organized by Credit Suisse and VTB in 2013, to be repaid over seven years, with a two year grace period, and at an interest rate of LIBOR (London Inter-Bank Offered Rate) plus 6.5%. (12 month US\$ LIBOR is currently 1.6%) In April this year the Ematum bonds (down to \$697 mn after the first repayments) were exchanged for government bonds for \$585.5 million dollars that mature in 2023 (this is a "bullet bond", with interest paid twice a year but capital is not repaid until 2023) but the interest rate went up to 10.5%.

+ Proindicus (maritime security), \$622 mn in loans from Credit Suisse, broken up and sold on to investors. Interest only 3.75%. The payment schedule is \$119.424 mn plus interest on 21 March every year up until 2021. The first, and so far only payment, was \$24.88 mn of capital on 21 March 2016.

+ MAM (Mozambique Asset Management, ship repair), \$535 mn in loans from VTB, broken up and sold on. Interest LIBOR plus 7%. Final maturity date is 23 May 2019. MAM should pay the principal in instalments of \$133.75 mn on 23 May every year between 2016 and 2019, but MAM failed to pay this year.

It is argued that by renegotiating the loan and issuing government bonds, Mozambique has accepted liability for the Ematum loan. But it might still be possible to repudiate the Proindicus and MAM loans. It would be for a UK court to decide if the declaration of a Ministry of Finance should be taken at face value, even if due diligence would show he could not give a loan guarantee.

In its statement to creditors in October, the Ministry made clear that it was the secret loans which have destroyed Mozambique's ability to pay. Debt service for 2017 is projected at \$804 mn, of which \$591 mn is Ematum, Proindicus and MAM. The Ministry of Economy and Finance made clear that no debt service payments were possible and called on creditors "to engage urgently with its financial and legal advisors, based on the principles of transparency, good faith and inter-creditor equity". These advisers are the French company Lazard Freres and the international law firm White and Case.

Brazil says LAM chair took \$800,000 Embraer bribe

The names of those involved in taking an \$800,000 bribe from the Brazilian aircraft manufacturer, Embraer, have been released by the Brazilian Federal Public Prosecutor's Office. They are José Viegas, chair and managing director (CEO) of Linhas Aéreas de Moçambique (LAM) for 24 years (1987-2011), and Mateus Zimba, who had worked for Enron, then held various positions at Sasol between 2000 and 2016, eventually becoming Mozambique director, and on 15 August this year become Regional Executive of General Electric Oil & Gas in Mozambique.

The bribe was first reported as part of a larger settlement between Embraer and the US Justice Department in October (*Mozambique News reports & clippings* 343, 25 Oct). More details are

given in the Brazilian document, signed by both prosecutors and senior Embraer officials, on <http://www.cvm.gov.br/export/sites/cvm/noticias/anexos/2016/20161024-tcacembraer.pdf>

According to the Brazilian document, Embraer sales director Patrice Candaten had been trying for three years to sell aircraft to LAM and on 22 May 2008 formalised a proposal for the sale of two aircraft for \$32 mn each. On 11 August 2008, Candaten sent an e-mail to Luis Fuchs, Vice-President of Embraer-Europe, saying that he had been approached by Mateus Zimba, who had played no part in the sales negotiations. Zimba wanted to work as "a consultant" in the deal, and Candaten proposed that Embraer "create some margin for commissions" for Zimba. Fuchs spoke to Zimba and suggested a payment of \$50-80,000. Viegas then phoned Fuchs, saying that "some people considered the Embraer offer as an insult, and it would have been less offensive to offer nothing at all". Viegas suggested \$1 mn, but eventually settled on \$800,000. Fuchs told Viegas that Embraer did not have that sort of money for "consultancy services", and so Viegas suggested increasing the price of the aircraft. On 15 September 2008, LAM and Embraer signed an agreement whereby LAM would buy two Embraer E-190 aircraft for \$32.69 million dollars each. Viegas was one of the LAM executives who signed the agreement.

On 22 April 2009, Embraer signed a commercial representation agreement with Xihevele, a company set up by Zimba, and registered in Sao Tome and Principe after the aircraft deal had been signed. In 2009, \$800,000 was paid into a Xihevele account in Portugal. Thus Mozambique paid nearly \$1,380,000 extra for the planes, but only received \$800,000 in kickbacks.

Teodoro Waty, who took over from Viegas as chair of LAM in 2011, said he did not notice any irregularities in the management of the company, and that "I have confidence in my predecessor". (AIM En 1 & 2 Dec, *O Pais 2 Dec*)

Comment: Viegas' claim that the first Embraer offer was rejected by "some people" underlines the widespread belief that such bribes and kickbacks and negotiated, and shared, with Frelimo. *jh*

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Election study collaboration: We have detailed election data from 1999 through 2014 and are inviting scholars to use this data collaboratively. <http://bit.ly/MozElecData>

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Books by Joseph Hanlon

Bangladesh confronts climate change: Keeping our heads above water

by Manoj Roy, Joseph Hanlon and David Hulme Published by Anthem Press
<http://www.anthempress.com/bangladesh-confronts-climate-change-pb>

Chickens and beer: A recipe for agricultural growth in Mozambique by Teresa Smart and Joseph Hanlon In pdf format, 6 Mb file, free on <http://bit.ly/chickens-beer>
E-book for Kindle and iPad, <http://www.amazon.com/dp/B00NRZXXKE>

Galinhas e cerveja: uma receita para o crescimento

by Teresa Smart & Joseph Hanlon. Copies are in Maputo bookshops or from
KAPICUA, Rua Fernão Veloso 12, Maputo; Tel.: +258 21 413 201 or +258 21 415 451
Telm.: +258 823 219 950 E-mail: kapicuir@tdm.co.mz / kapicuacom@tdm.co.mz
Outside Mozambique, we have a few copies we can send from London. Please e-mail j.hanlon@open.ac.uk.

Zimbabwe takes back its land

by Joseph Hanlon, Jeanette Manjengwa & Teresa Smart is now available from the publishers https://www.rienner.com/title/Zimbabwe_Takes_Back_Its_Land also as an e-book and <http://www.jacana.co.za/book-categories/current-affairs-a-history/zimbabwe-takes-back-it-s-land-detail>

Do bicycles equal development in Mozambique? by Joseph Hanlon & Teresa Smart is available from the publisher <http://www.boydellandbrewer.com/store/viewItem.asp?idProduct=13503>

Just Give Money to the Poor: The Development Revolution from the Global South

by Joseph Hanlon, Armando Barrientos, and David Hulme
Most of this book can now be **read on the web** tinyurl.com/justgivemoney

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NOTE OF EXPLANATION:

One mailing list is used to distribute two publications, both edited by Joseph Hanlon. This is my own sporadic "News reports & clippings", which is entirely my own responsibility. This list is also used to distribute the *Mozambique Political Process Bulletin*, published by CIP and AWEPA, but those organisations are not linked to "News reports & clippings" Joseph Hanlon

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Mozambique media websites, Portuguese:

- Notícias: www.jornalnoticias.co.mz
- O País: www.opais.co.mz
- @Verdade: <http://www.verdade.co.mz>
- Diario de Moçambique (Beira): <http://www.diariodemocambique.co.mz>
- Carlos Serra Diário de um sociologo: <http://oficinasociologia.blogspot.com>

Mozambique media websites, English:

- Club of Mozambique: <http://clubofmozambique.com/>
- Rhula weekly newsletter: <http://www.rhula.net/news-announcements.html>
- Zitamar: <http://zitamar.com/>
- Macauhub English: <http://www.macauhub.com.mo/en/>
- AIM Reports: www.poptel.org.uk/mozambique-news

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