

# MOZAMBIQUE News reports & clippings

367 17 April 2017 Editor: Joseph Hanlon ( [j.hanlon@open.ac.uk](mailto:j.hanlon@open.ac.uk) )

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## Secret debt documents and report:

*Parliamentary Report on the Secret Debt* (complete, in Portuguese) [bit.ly/MozAR-debt](http://bit.ly/MozAR-debt)

*Key points from the Parliamentary Report on the Secret Debt* <http://bit.ly/MozAR-debt-En>

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

## Other books and reports:

*Local media monitoring of Mozambique elections* (background of election newsletters)  
<http://bit.ly/LSE-newsletter>

*Chickens and beer: A recipe for agricultural growth in Mozambique* book by Teresa Smart and Joseph Hanlon, free English download <http://bit.ly/chickens-beer>

*Há mais bicicletas - mas há desenvolvimento?* book by Joseph Hanlon and Teresa Smart, free Portuguese download <http://bit.ly/Mais-bicicletas>

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

Previous newsletters and other Mozambique material are posted on [bit.ly/mozamb](http://bit.ly/mozamb)

## Also in this issue:

Bank of Mozambique: Consumption & investment falling

## Has government said it won't repay secret debt?

Government statements on the \$2 bn secret debt in a parliamentary debate last week on the 2015 state accounts have been interpreted in diametrically opposite ways. Some, including this writer and AIM, read the statements to mean that the government has, in effect, agreed that the debt guarantees are illegal and the debts themselves illegitimate, and has no intention of repaying at least part of the debt. Others, including opposition parties MDM and Renamo, plus respected journalist Adérito Caldeira in *@Verdade*, argue that by including the debt in the budget statement, the state has retrospectively accepted the guarantees and will pay.

At issue are three loans and two bond issues, totalling \$2 bn, for three private companies owned by the state and controlled by the security services, SISE. The loans and bonds were agreed in secret in 2013-4 and include dubious government guarantees. Both the Tribunal Administrativo (TA, Auditor General) and a special parliamentary commission have found that the guarantees were granted without authorization of parliament, as required by the constitution, and thus are illegal and unconstitutional.

In the 2015 accounts submitted to parliament on Wednesday 12 April, the government says that the guarantees were issued and that they were "above the budget law", which appears to be a government confirmation that the guarantees are illegal and unconstitutional. In a statement to parliament on Thursday, Prime Minister Carlos Agostinho do Rosário said "the government reaffirms its commitment to honour repayment of debt that has been proven to have been in the public interest", adding that "we shall continue to observe a balance between the need to honour debt servicing and the imperative to continue financing priority action for economic and social development". Arguing, in effect, that some of the debts are not proven to be "in the public interest"

is to argue that they are "illegitimate" and the liability of the lending banks, VTB and Credit Suisse, because they made improper loans.

The position is confused because the two initial Eurobond issues, both for the Ematum tuna fishing company, became known in 2014 and were eventually replaced in 2016 by government bonds. In effect, government returned to parliament and retrospectively agreed to honour the guarantees and issue new bonds. The three syndicated loans to MAM and Proindicus remained secret until April 2016; the two companies have not been making repayments but the guarantees have not been called, so government has not been required to say if they will be honoured.

Opposition parties and @Verdade argue that by taking the three loans into the 2015 budget statement, government is repeating what it did with the Ematum bonds, and retrospectively taking responsibility for the loans and the guarantees. Venâncio Mondlane, of the Mozambique Democratic Movement (MDM), described the debts as "illegal, illegitimate and immoral", and claimed that, by mentioning them in the state accounts, the government "legitimizes" the guarantees and "is sanctifying a satanic debt", and "now we are all obliged to accept this debt". Renamo MP Ivan Mazanga said "the government wants all Mozambicans to pay these debts".

In his statement, de Rosario denied this, saying that including them in the budget statement was necessary "to guarantee control and monitoring of the guarantees by the Administrative Tribunal."

**Comment:** Much hinges on the interpretation of debts being repaid if they are "proven to be in the public interest". I interpret this to mean government will use the Kroll audit report to say that debts were not in the public interest, whereas MDM MP Venâncio Mondlane interprets it to mean the debts will eventually be defined as in the public interest and will be repaid.

De Rosário is probably being intentionally ambiguous. If the debt goes to court or arbitration, under the contracts this will be done in England. But a negotiation involving creditors, banks and Mozambique seems more likely, because there has been bad conduct on both sides which they will not want aired in public. For both domestic political reasons and prudent negotiating tactics, Mozambique may not want to go into those negotiations simply refusing to pay. But de Rosario's statement seems at least intended to allow the reading that the government is publicly stating that the guarantees are illegal and unconstitutional, and that the loans themselves are "not in the public interest". *jh*

@Verdade (12 Apr) is on <http://bit.ly/2ohqyNa>. (AIM En & Pt, Canal, O Pais 12, 13 Apr)

## 'What is 'illegitimate debt'?

The concept of "illegitimate debt", sometimes also called "odious debt", evolved in the period before the round of debt cancellations at the start of the millennium. The argument was that banks and other lenders have a fiduciary responsibility to borrowers not to make obviously unwise loans - if a gambler goes to a bank and says 'I have lost all my money but I am sure I will win next time, lend me money', then if the bank is foolish enough to lend, it is liable and not the gambler. In periods of surplus capital, such as the 1970s and now, banks pushed developing countries to take loans they did not need - known as "loan pushing". If banks lend money to poor countries that is not in their interest, then the loan is "illegitimate" and it is the responsibility of the bank, not the poor country.

This is outlined in the chapter on Debt and Development (written by me, *jh*, and eminently readable) in the Oxford University Press textbook *Introduction to International Development* which is available for free download on <http://bit.ly/Debt-Dev>

The argument is that the \$2 bn secret loans were a form of "loan pushing"; furthermore the banks, Credit Suisse and VTB, which organised the loans and bonds, failed to carry out the due diligence which would have clearly shown the guarantees to be unconstitutional and illegal, and also failed to take into account Mozambique's ability to repay. The loans are clearly not in the national interest

and were given improperly, and are thus "illegitimate" and the liability of VTB and Credit Suisse, not Mozambique.

## Civil society says creditors 'irresponsible', so don't pay

There must be "cancellation or significant reduction in debt owed by the government as a result of the loans to Ematum, Proindicus and MAM. Loans from the IMF should not be used to repay the debts to irresponsible lenders, risking trapping Mozambique in a debt trap. Lenders need to share in the costs of adjustment brought about by their irresponsible actions and the changed economic circumstance of low commodity prices," declared a large coalition of civil society organisations in a statement published in *Savana* Thursday 13 April, and available on in English on <http://bit.ly/2ojpMiP> and in Portuguese on <http://bit.ly/2pF2pBn>.

The statement also calls for political leaders to be held accountable for their actions and for the Kroll audit report to be published. "Where the money has gone has to be publicly disclosed for the current crisis to be resolved and before more money can be lent to the Mozambique government." The statement was issued by the members of the Fórum de Monitoria do Orçamento (Budget Monitoring Forum), the Grupo Moçambicano da Dívida (Mozambique Debt Group), and the Coligação Transparência e Justiça Fiscal (Fiscal Justice and Transparency Network), as well as various international organizations.

The statement also calls on the government and IMF to agree to no increase in takes and no cuts to essential services that negatively impact low and middle income Mozambicans. It wants megaproject contracts renegotiated to increase the taxes paid and strengthened anti-corruption and public tendering systems. Finally the organisations say there should be "an analysis of the current situation of those in poverty and potential measures to protect those in or near poverty from negative impacts. All actions must be based on ensuring that poverty does not increase, and new actions must show a high potential for reducing poverty."

## Nyusi involved in setting up Proindicus

Leaked correspondence appears to show Filipe Nyusi was directly involved in setting up Proindicus in 2013 when he was defence minister, according to *Canal de Moçambique* (12 Apr). Proindicus was the first of the three companies to be established, in January 2013, and received the first loan, in February 2013; Proindicus is the "mother company" of the whole project.

The three companies were set up to implement the Integrated Monitoring and Protection System (Sistema Integrado do Monitoria e Protecção, SIMP) for coastal protection, only approved by the Council of Ministers in December 2013, nearly a year after the first loan was made. Not surprisingly, the letters also show the defence minister heavily involved in writing the SIMP. And in January 2014 Nyusi wrote personally to Finance Minister Manuel Chang to set up the financial structure of Proindicus. <https://www.facebook.com/CanalMoz/posts/1336510046418089>

Defence Minister Atanásio Salvador M'tumuke told the parliamentary commission that "the Ministry of Defence was not consulted" about the equipment to be purchased, and that what was ordered was inappropriate. <http://bit.ly/MozAR-debt-En> But the ministry was clearly involved in the early planning and establishing the companies.

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## Other economic news

# Consumption & investment falling; small interest rate cut

"Indicators of economic activity suggest a continuation of the weakening of economic activity, mitigated by the improvement in external demand," the Bank of Mozambique said on 10 April. "The outlook continues to be negatively affected by weak domestic demand, sustained by lower consumption and investment, as well as by less favourable financing conditions for the economy."

The Bank of Mozambique cut the base interest rate a small amount, from 23.25% to 22.75%. In the 10 April announcement, reserve requirements (15.5%) and the interest paid on those reserves (16.25%) were unchanged. The Bank also confirmed that from June it will use a different rate as a "monetary policy rate". The current rate is the taxa de juro da Facilidade Permanente de Cedência de Liquidez (FPC) which is the rate that banks pay to borrow from the central bank. The new rate which will be applied from June is an interbank interest rate, taxa do Mercado Monetário Interbancário de Moçambique (taxa MIMO), currently set at 21.75%.

The Bank of Mozambique continues to build up reserves, which exceeded \$2 bn in the first week of April, equivalent to 5.3 months of imports (excluding mega-projects).

Mozambique's currency has appreciated against the US dollar with the rate falling from MT 71 = \$1 at the beginning of the year to MT 67 = \$1 last week. But the exchange rate with the South African rand is most important because so many imports come from South Africa, and since the beginning of the year that has varied between MT 5.4 = R 1 and MT 4.9 = R 1. This, in turn is due to the volatility of the rand, which has ranged between 12.5 and 14 to the dollar since the beginning of the year, and collapsed recently due to political factors.

Annual inflation in March was 21.6%, but the Bank of Mozambique hopes it will fall to 12% by the end of the year. Domestic debt has risen dramatically with the Bank of Mozambique becoming a major borrower; domestic debt has risen from MT 50 bn at the beginning of the year to MT 88 bn last week.

Standard Bank issued a note on 12 April which predicted a stronger Metical and that by the end of the year the rate of exchange would be 50 Meticais to the dollar. It advised investors to buy local bonds and to sell futures contracts on Meticais because they are pegged at roughly the current rate of the Metical. Standard cut its annual inflation forecast from 12.2% to 10.4%.

**Comment:** It would be surprising and disappointing to see the Metical appreciate to Mt 50 = \$1, because the current rate of exchange would allow local producers, particularly farmers, to compete more effectively with imports. For example, at the current exchange rate, it would be profitable for the first time to produce maize and rice locally. The biggest problem is the very high interest rates and credit squeeze, which makes it impossible for farmers to borrow money to buy fertilizer and other inputs. *jh*

## End of small local banks

The minimum capital required for banks was been increased 25-fold, from MT 70 mn (\$1 mn) to MT 1,700 mn (\$25 mn). The Bank of Mozambique said banks would have three years to comply with the new rule. In addition, the solvency ratio (capital as a proportion of liabilities) is increased from 8% to 12%.

This follows the collapse of two small locally owned banks, Nosso Banco which has been closed, and Moza Banco which is being restructured. This will basically force the merger of small banks

and mean that all Mozambican banks will need to be relatively large and foreign controlled.

There are currently 19 banks operating in Mozambique, but only five - Millennium Bim, BCI, Barclays Bank, Standard Bank and Banco Único - can meet the new requirements. (Savana, 14 Apr, citing *Africa Monitor Intelligence*) KPMG's 2016 Mozambique Banking Sector Survey, issued in October 2016, is the best detailed survey: <http://zitamar.com/wp-content/uploads/2017/04/KPMG-Banking-Survey-2016-Final.pdf> (English & Portuguese)

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This newsletter can be cited as "Mozambique News Reports & Clippings".

If you need to cite it for academic purposes, treat it as a blog. The normal citation format would be:

"Mozambique News Reports & Clippings, number XXX", DATE, [bit.ly/mozamb](http://bit.ly/mozamb), accessed XXX.

**Previous newsletters and other Mozambique material** are posted on [bit.ly/mozamb](http://bit.ly/mozamb)

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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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## Other books and reports by Joseph Hanlon

**Special report on four poverty surveys:** [bit.ly/MozPoverty](http://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/>

**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 (Karibu at airport, Livaria UEM, Bazar Pariso, Mivany) or from

**KAPICUA**, which recently moved to Av de Maguiguana (nr Lenine), Maputo; Tel: +258 21 413 201.

Telm.: +258 823 219 950 E-mail: [kapicuadir@tdm.co.mz](mailto:kapicuadir@tdm.co.mz) / [kapicuacom@tdm.co.mz](mailto:kapicuacom@tdm.co.mz)

Outside Mozambique, we have a few copies we can send from London. Please e-mail [j.hanlon@open.ac.uk](mailto: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](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>

**Há mais bicicletas - mas há desenvolvimento?** free download of Portuguese edition (5 Mb)

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**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 be **read on the web** [tinyurl.com/justgivemoney](http://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](http://www.jornalnoticias.co.mz)

O País: [www.opais.co.mz](http://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://oficinadesociologia.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](http://www.poptel.org.uk/mozambique-news)

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