MOZAMBIQUE News reports & clippings

363 6 March 2017 Editor: Joseph Hanlon (j.hanlon@open.ac.uk)

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Dhlakama extends cease fire to 4 May

Renamo head Afonso Dhlakama Friday (3 March) announced that "from 4 March, tomorrow, to 4 May this year, we will have a 60 day cease fire." (In fact, there are 61 days between 4 March and 4 May.) He was speaking by telephone from his base in Gorongosa to a press conference in Maputo.

He confirmed that he remains in regular phone contact with Nyusi, and said the peace talks “are on a good path”. Dhlakama continued: "I can confirm that we've actually done building work since December, and we've reached this consensus - I personally and the President of the Republic, my brother Filipe Nyusi. It was not an easy job, it was a hard negotiation - the work of leaders."

Dhlakama also announced that a new figure “of recognized merit” internationally will join the “contact group” announced by Nyusi on Tuesday, but did not give a name. The “contact group” consists of seven ambassadors resident in Maputo, co-chaired by the Swiss ambassador Mirko Manzani and US ambassador, Dean Pittman. [The Swiss ambassador's name in the previous newsletter was incorrect.] Dhlakama said that talks in the two working groups (military and decentralisation) will resume Monday, but it appears that talks have already restarted. (Lusa, AIM En, *O Pais*, Radio Moçambique 3 Mar)

Prime Minister: we want to honour our debt, but …

"We want to honour the agreements we have made with our creditors, but in a balanced way. Honour our agreements, yes, but also leave space so that we can have resources to fund the actions of the five year plan," said Prime Minister Carlos Agostinho do Rosário at a press conference Wednesday (1 March).

Top priority is normalising relations with creditors and the IMF and discussions are under way. "The principal challenge in negotiations with the IMF is to assure a balance between the reforms to consolidate public policies, on the one hand, but also assure that this does not affect resources for the five year plan. We have to implement reforms in the public sector and state companies, but in a way that leaves space for the most necessary areas, namely education, health and social protection." (*O Pais* 2 Mar)

Comment: It was a carefully crafted statement of the government's negotiating positions with the IMF and the private creditors. With the IMF he took a clear stand: reforms, especially of state companies, but no austerity. With the private creditors, the position was more nuanced - "honour our agreements" can mean many things, and still leave space for the government to say that the loans were to private companies, not the state. This allows the government to say, in effect, "we will accept responsibility for the loans, but only if the creditors take a major 'haircut' and the banks (Credit Suisse and VTB) accept some of the responsibility."

But there can be an alternative reading, which is that some in Frelimo want the debts repaid, perhaps deferred until there is gas production, and do not want to criticise any of those involved. It was notable that with Rosário at the press conference was Deputy Finance Minister Maria Isaltina Lucas, who as National Budget Director signed the first Proindicus loan guarantee on 15 January 2013. The parliamentary commission headed by Eneas Comiche, who is a member of Frelimo's highest body, the political commission, called the guarantees illegal and unconstitutional, and in effect accused Lucas of committing an illegal act. *jh*

The IMF can lend into unsustainable debt because the rules are unclear and require "judgement" on the part of the IMF, according to a 23 February paper. The IMF paper concludes: "When sovereign debts are unsustainable, unless grant financing is available, some degree of debt relief, coupled with a strong but credible adjustment program, is the only means to make the best of a bad situation. Pretending that unpayable debts can be repaid will only sap the effectiveness of the debtor's adjustment efforts, ultimately making all parties lose more than if they had promptly faced the facts." https://blog-imfdirect.imf.org/2017/02/23/dealing-with-sovereign-debt-the-imf-perspective/

Top lawyer calls for 'exemplary' punishment on secret debt

The chair of the Mozambican Bar Association (OAM), Flavio Menete, on 1 March called for exemplary punishment of those involved in the scandal of the scret debts, should it be proven that crimes were committed in contracting those debts. He called the $2 bn debt "shameful" and noted that the guarantees were issued without the authorisation of parliament. "Since there was no transparency in the entire process, including knowledge of how the money was used", he said, "one can only think of the possibility that it was corrupt".

"Those who committed crimes around the debt, their accomplices and those who covered the crimes up, should be held responsible in an exemplary fashion". They should be "prevented from continuing to benefit from the values, goods and rights acquired from this criminal activity, and should be obliged to repay the state for the losses caused. It is time we ended the perception that our justice system is strong against the weak, but weak against the strong".

Menete also attacked the recent award of a government contract to a company part-owned by Transport Minister Carlos Mesquita. This is not the first time that companies linked to the Minister have been accused of receiving undue benefits. "What are the interests that guide governance?", asked Menete. "What criteria were used to grant benefits to these companies?" He thought the Law on Public Probity, which was intended to prevent such conflicts of interest, "is being grossly violated. These situations must be halted". (AIM 2 Mar)

A debt debate hosted by *Zitamar* and the Africa Research Institute, with Roberto Tibana, principal consultant at Analitica-RJT; Anne Frühauf, senior vice president with Teneo Intelligence; Tariq Hamoodi, partner at Bybrook Capital; and the editor of this newsletter, is now available on http://www.africaresearchinstitute.org/newsite/publications/mozambiques-debt-crisis-trawling-answers/.

Could gas money plug the hole?

The government has always hoped that gas and other minerals would provide enough short term money to resolve the crisis caused by the $2 bn secret debt and subsequent cut in donor budget support and to the IMF loan. Prime Minister Carlos Agostinho do Rosário at his 1 March press conference reiterated these hopes, while implicitly admitting delays. Major investments are expected this year.

The northern gas fields are controlled by consortia headed by ENI of Italy (farthest offshore) and Anadarko of the USA (nearest the Cabo Delgado coast). Both plan to convert most of the gas to liquefied natural gas (LNG) - the gas is cooled to -162ºC and takes up only 1/600th the space of natural gas, so can he shipped by boat. LNG plants cost billions of dollars. LNG prices hit historic lows at the start of 2016 and work on the Mozambique projects was sharply slowed. Prices are rising again, so work and various negotiations are resuming.

Most important for Mozambique's finances, ENI chief executive Claudio Descalzi told the *Financial Times* (1 March) that the company is "within weeks" of agreeing to sell part of its 50% ownership of Area 4, offshore of Cabo Delgado. This could generate more than a hundred million dollars in capital gains taxes. Descalzi did not say, but the buyer is probably ExxonMobil. Rex Tillerson, former Exxon chief executive and now US Secretary of State (foreign minister), made several trips to Mozambique last year to meet with President Filipe Nyusi.

Rosário said he expects a final investment decision in the first half of this year on ENI's floating LNG plant. This had been expected last year, and one Area 4 shareholder, China National Petroleum Company, still needs to approve the deal. The project includes the construction of 6 subsea wells connected to a floating LNG plant, able to produce more than 3.3 millin tonnes per year of LNG. Production could start as early as 2019 and the entire LNG production would be sold to BP over 20 years.

He also said he expects agreement with Anadarko and ENI on the onshore LNG plant, on the Afungi peninsula. This requires moving 471 families, and government has been demanding that the gas companies provide more facilities for the relocated community.

Rosário said he expects contracts to be signed for gas and oil prospecting by the winners of last year's auction, announced 27 October. Six exploration and production contracts were awarded, to ENI (offshore Angoche), ExxonMobil with the Russian company Rosneft (offshore Angoche and offshore at the mouth of the Zambezi) river, Sasol (onshore Pande/Temane, Inhambane province adjoining Sasol's existing concessions) and Delonex (onshore Palmeira, Maputo province). The companies are committed to spend $691 mn in the first four years. The concession map is on http://www.inp.gov.mz/pt/Concursos/51-Concurso-2014

Meanwhile Sasol last year found small amounts of light oil in its Inhambane gas fields, however reports of further new oil discoveries have been denied. But Sasol has also been penalised for having too many foreign workers in Mozambique; 34 workers, most from South Africa, were suspended after an inspection in late February.

Sasol also wants to build a 400 MW gas fired power plant at the well head in Temane, Inhambane and Mozambique wants to build an electricity line to Maputo as the first link in the central-south power line. But finance will be hard to find.

Zitamar reports that work has stopped on the Pemba logistics base, being built by China Harbour Engineering Corporation for the controversial joint venture of Nigerian-Italian owned Orlean Invest and two state companies, the hydrocarbon company ENH and the port and railway company CFM. The idea was to force ENI and Anadarko to use this logistics base, but they never agreed, and plan to run their own logistics base in Palma. The joint venture office in Pemba is now closed, says Zitamar, and workers are being dismissed.

Rosario also noted that rising coal prices mean that coal exports are expected to increase. And China Brasil Xinnenghuan International Investment (CBStell) on 24 February signed an agreement with the Ministry of Industry and Commerce to build a coking plant in Nacala. This would be an important first step in Mozambique processing its minerals. Coking (or metallurgical) coal is converted to high carbon coke for iron making by heating the coal at high temperature (over 1100ºC) in a kiln in an oxygen deficient atmosphere to drive off the water, coal-gas, coal-tar and other impurities. The plant would cost $1.4 bn and be financed by the Chinese government. The coke would be exported to Brazil.

Government revenues on these projects come from various sources. The biggest is the capital gains tax. But another is that the gas and oil companies want to pay contractors, they must bring the money into Mozambique and convert half of it to Meticais, even if they are paying the contractors in foreign currency; this provides important extra dollars for the Bank of Mozambique, but one reason for the delay is gas companies are trying to renegotiate this. Local spending provides economic and tax boosts. And taxes are paid on mineral exports. (*Noticias, O Pais* 2 Mar and 26 Feb; Zitamar 2, 3 Mar 2017, 22, 27 Feb 2017, and 4 Nov 2016; AIM En 28 Feb, SPTEC 22 Nov 2016, http://www.inmp.gov.mz)

Other news

Flood warnings have been issued for the Limpopo River in the south and the Save, Buzi and Pungoé rivers in the centre of the country, after heavy rains last week. The Limpopo is 2 metres above flood level and the Save 1 metre above - enough to flood farms next to the river but not threatening any towns. This is also affected by very heavy rains in southern and eastern Zimbabwe, which have killed 246 people and filled 85% of dams after a two-year drought. Meanwhile there have been good rains in the south of Mozambique; this, combined with closing the dam gates, has raised the level of the Pequenos Libombos dam, serving Maputo, to 22% full - still too low but an improvement.
We are posting the government's **daily flood reports** on *bit.ly/flood-17* For Zimbabwe: http://reliefweb.int/sites/reliefweb.int/files/resources/zimbabwe_flood_snapshot_3march2017.pdf

Restaurants have been closed on health grounds, including the well known Crystal and Nautilus on Avenida 24 de Julho in Maputo. The health inspectorate (Inspecção das Actividades Económicas, INAE) has been looking at kitchens and staff toilets, and finding blocked drains and cats to control the rats. Café Continental on Av 25 de Setembro has reopened after being closed early in February. INAE is on an offensive across the country to impose cleanliness; in the last week of February it inspected 622 establishments and closed 20 of them. (AIM En 16, 28 Feb, *O Pais* 1 Mar)

The petrol subsidy is now $10 mn per month and rising, and a petrol crisis is possible, warns the Fuel Companies Association (Amepetrol - Associação Moçambicana de Empresas Petrolíferas) in a letter to the prime minister. The pump price of petrol in Mozambique is Meticais 50 per litre compared to 74 in South Africa and 98 in Zimbabwe. To keep the price low, the government pays the difference between import and sale price, which costs $10 mn per month and is increasing as oil prices go up again. But the government now owes the oil companies $70 mn, a debt they cannot afford to carry. (*O Pais Economico* 3 Mar)

Entre a denúncia e o silêncio. Análise da aplicação da Lei contra a Violência Doméstica (2009-2015) points to continuing problems in implementing the 2009 law on domestic and gender violence. The book (in Portuguese) is published by WLSA, Women and Law in Southern Africa; it is free and available on http://www.wlsa.org.mz/entre-a-denuncia-e-o-silencio/

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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 and reports by Joseph 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/

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
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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
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