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Hidden loans leave once-promising Mozambique with heavy costs

Andrew England in Maputo

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Until recently, Mozambique appeared to be riding a natural gas-fuelled wave, with predictions of vast riches filling the coffers of the impoverished southern African nation.

Today, the country is facing what analysts describe as its worst crisis since a civil war raged more than 20 years ago, triggered by revelations that state entities borrowed $1.4bn — equivalent to 10 per cent of gross domestic product — in previously undisclosed loans.

The saga is being described by observers as one of Africa's worst cases of hidden borrowing in recent years. The UK and other donors, which provide about a quarter of the budget, are furious and the International Monetary Fund has suspended financial assistance.

What once looked like a success story now appears to be another cautionary tale of emerging market nations loading up on debt in good times only to pay the price when circumstances change. This particular one may have been exacerbated by a low interest rate environment of recent years that has prompted investors to chase yield in places with questionable governance.

“It’s a very dangerous situation,” says Fernanda Massarongo, an analyst at Maputo’s Institute of Social and Economic Studies, noting that even before undisclosed loans surfaced there were concerns about the state’s debt burden. “We are all scared about it.”

The source of so much optimism was the discovery of vast gas reserves off the Indian Ocean coast, which prompted energy companies to flock to Mozambique and ignited a construction boom in Maputo, the capital.

Now, the timing of the crash could hardly be worse. Multibillion-dollar projects to develop a liquefied natural gas export industry have yet to get off the ground. Meanwhile, a conflict between security forces and Renamo, a former rebel group turned opposition, has forced thousands of people to flee their homes and is disrupting highways linking the south, where Maputo sits, with the country’s north and centre. Drought has meant nearly 400,000 Mozambicans need food assistance.

Economic growth has slowed as the country waits on the gas projects and the metical has plummeted against major currencies, driving up inflation and increasing the cost of the state’s huge debt burden in local terms. The price of bread and other goods is rising in a country that suffered deadly food riots in 2010.

The risk of a default is mounting and there is uncertainty on the ability of the cash-strapped government — whose foreign reserves have dipped below $2bn — to pay its bills.

The situation has been exacerbated by the opaque manner in which the government, led by Frelimo, a former Marxist liberation movement, secured the loans. The most recent loans to be revealed include $622m to a state-linked company, Proindicus. Another $535m loan was for Mozambique Asset Management.

The revelations come on the heels of another controversy involving state-backed loans of $850m that were ostensibly issued to set up a tuna fishing company, Ematum, even though $500m of the debt was spent on naval vessels and other security equipment.

All three companies are linked, with a shared goal of providing maritime security and logistics to the gas projects. The loans were arranged by Credit Suisse, the Swiss bank, and Russia’s VTB Bank.

Each loan breached Mozambique’s own budgetary ceilings, as well its arrangements with donors.

Separately, the government borrowed another $221m for the interior ministry from another unnamed country.

The government belatedly acknowledged the existence of the debt this month as Carlos Agostinho do Rosário, the prime minister, led a delegation in emergency talks with the IMF in Washington, during which a huge amount of documentation was handed over to fund officials.

The IMF said it was “an important first step toward full restoration of trust and confidence”.

The prime minister has also acknowledged that the government should have been more transparent in reporting the debt, but its credibility has been severely damaged.

Speedboats belonging to Proindicus on the quayside at Maputo in April

“Any donor would find it very hard to disburse any budget support now,” said a foreign diplomat, adding that none of the scenarios facing Mozambique was good.

All eyes are now on Frelimo, which has governed the country since independence in 1975.

“The difficulty [for Frelimo] is understanding just how critical this juncture is — it is not just another crisis,” said José Macuane, associate professor at University Eduardo Mondlane, adding that the party was bent on protecting itself at all costs.

The loans were taken out in 2013 and 2014 under the previous administration of President Armando Guebuza, whose two-year term as president ended in early 2015. It was hoped his successor, Filipe Nyusi, would clean up the system. But analysts say Mr Nyusi has yet to consolidate power in the party, while pointing out that as the former defence minister he should have been aware of the loans.

“He will be under intense pressure and there will be internal confusion now on what the strategy should be,” said Joseph Hanlon, a senior lecturer at the UK’s Open University and an expert on Mozambique. “All these deals that get made are about keeping Frelimo together, and the trade-offs are made inside [the party] so packages like this begin to look incredibly like sharing the spoils.”

Ana-Rita Sithole, a member of Frelimo’s central committee, insisted that the party was united around Mr Nyusi, but acknowledged concerns about the debt.

“It’s a very serious situation,” she said, adding: “They [donors] will not cut us off. We have natural resources to overcome this.”

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Indeed, hopes are still pinned on the gas projects, led by Italy's Eni and Anadarko of the US. But in an environment of low oil prices and a global oversupply of gas, the debt scandal risks heaping further uncertainties on them.

challenged market, it's shot itself in the foot

- Banker

"Everybody is going to scrutinise these things very carefully, whether you're a buyer, a lender or an equity investor," said a banker with knowledge of the projects. "This country has no track record to speak of and, in an incredibly challenged market, it's shot itself in the foot."

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