



MOZAMBIQUE FLASH-NOTE

Caveat emptor

*In a statement of the obvious last week-end, the finance minister acknowledged the considerable uncertainty about the Government's ability to make the USD 118 million payment of interest and principal on the ProIndicus loan that falls due on March 21st, he then indicated that a special effort would be made to **“develop a concrete restructuring proposal by the end of March”**.*

*Whether or not such a proposal materializes within the time-frame targeted¹ is of secondary importance. The crucial point is that it will be informed – indeed, circumscribed by - **the realities on the ground and these do not bode well for creditors**.*

- 1) Over the last few months the authorities have come under growing criticism for the extensive damage inflicted on public infrastructure² by the torrential storms that are a hallmark of Mozambique's rainy season. Even the **Prime Minister has had to acknowledge that the real problem is the poor quality of the relevant projects³** – constructed under successive Frelimo governments.
- 2) For much of the last year, areas of the capital city Maputo and its suburbs Matola and Boane have endured an acute shortage of water, with the **taps running only on alternate days for extended periods**. One of the factors contributing to this crisis⁴ is the delay in implementing the Moamba Major dam project, designed to provide the three conurbations with a back-up water supply. Reportedly, the delay is a **result of the government failing to disburse a \$200 million co-payment** towards the project which is executed by Andrade Gutierrez, with funding from BNDES.
- 3) Since the beginning of the year, **Mozambique has been experiencing intermittent fuel shortages** that the Government has tried to explain away as due to “logistical problems”. However, AMPETROL, the local fuel marketers' trade group, has now spilled the beans⁵. More specifically, the group warns that unless the existing subsidy regime is promptly rationalized, **members will soon find it impossible to continuing import fuel**.
- 4) Earlier this week Mozambique's **Bar Association** issued a statement urging the Justice ministry to ensure that the findings of the ongoing Kroll audit be used **“to ensure that all those responsible for the secret loans be held fully accountable and compelled to make restitution to the State”**. While the prospect of any such recoveries seems fanciful, the exhortation provides a sense of how **little political support** there is **for servicing the external commercial liabilities** that were incurred under such murky circumstances.

¹ The time-frame indicated also coincides with the latest deadline for Kroll to conclude its forensic audit – although several weeks may then elapse before the report is reviewed and approved by the National Assembly and the Council of Ministers. Only then will the report will be published.

² Whereas buildings erected by the Portuguese colonialists in the early 20th century have weathered these storms without incident, each new cyclone has been sweeping away stretches of highway - as well as bridges and the the roofs of medical centres and school buildings – typically constructed in the last 25 years.

³ *‘O grande problema é a qualidade das obras, os projetos de construção tem de ter em conta que, no nosso país, sempre haverá ciclones.’* – prime minister Antonio Agostinho do Rosário, as quoted in *“PM - Má qualidade das obras agravou destruição provocada por ciclone em Moçambique”*; Agência Lusa, Feb. 20, 2017.

⁴ The roots of this crisis lie in the El Niño drought that reduced the water level at the Pequenos Libombos dam – the area's primary source of water - to less than 15% of capacity.

⁵ In a letter addressed to the Prime Minister yesterday, the group reported that its members have accumulated losses of USD 70 million since last June as a result of the Government's repeated delays in disbursing the subsidies intended to offset the widening differential

5) In the run-up to Frelimo's XI Congress at which the party will nominate its candidate for the 2019 presidential elections, the incumbent Filipe Nyusi will be particularly attentive to such concerns. This is all the more so because yesterday, the **party's Secretary-General issued a shockingly terse rejoinder**⁵ to the sycophantic declaration, by a member the Political bureau, that Nyusi would be the party's candidate and the inevitable winner of the contest in 2019.

6) It is evident from the foregoing that **the Mozambican authorities simply do not enjoy the political – or indeed, financial - latitude required** to come up with a debt-restructuring proposal that bond-holders will find remotely palatable.

Under the circumstances, and with the paper trading at a lofty 68 cents on the dollar, **caveat emptor**.

between import costs and regulated prices for gasoline and diesel. These are 50.02 MT and 45.83 MT per litre, respectively – a discount of almost 50% relative to average prices in the sub-region.

⁶Eliseu Machava's retort was that his colleague's remarks were "of no current relevance" since the issue is to be debated at the Party's Congress this October.

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