Mozambique: Another Norfund Fiasco as Matanuska Goes Bust

By Joseph Hanlon

AllAfrica Editors' note: *Norfund has responded to the criticisms in this analysis.*

The banana plantation in Monapo, Nampula, that was supposed to be a model for foreign farm investment and was promoted by Norfund, has finally gone bankrupt (@ Verdade, 16 March), at huge cost to Mozambique. Norfund is Norway's government owned development finance institution which is funded from the aid budget, and has had a string of failures in Mozambique.

Matanuska was one-third Norfund ($27 mn invested) and two-thirds Rift Valley, It started in 2008, and at the peak had 2500 workers and was exporting 1400 tonnes of bananas a day. However, in 2013 the plantation was found to have Panama disease, which had never been seen in Africa before and devastates the bananas. Panama disease is caused by the fungus Fusarium oxysporum which lives in soil and enters the plant through the root, blocking the flow of water and nutrients. The fungus lasts in soil for decades and cannot be managed with chemical fungicides. It is easily transmitted in dirt on shoes and car tyres, and is probably impossible to control. Over the next few years it will probably spread across Mozambique.

Antonia Vaz, the head of plant pathology at Mozambique's Ministry of Agriculture, says the disease could destroy the banana industry in Mozambique in just a decade. (APA, 20 Mar) And it could spread to the rest of Africa. It came to Mozambique on the boots of two workers from the Philippines, Vaz said. (BBC 1 Feb 2018) In its early years there was a rapid turnover of management at Matanuska and poor local control, and the lack of phytosanitary control meant dirty boots were not checked.

Having allowed the poor management and introduction of a devastating disease, Norfund withdrew from Matanuska in 2014. This is not Norfund's only failure in Mozambique. It backed the 2011 take-over by a European company of the successful and locally run King Frango in Nampula; the new owners replaced the local management with Europeans, who drove the company into the ground. It was finally passed to a locally run company who salvaged it. The Nordics do not have a brilliant agricultural investment record; a decade ago a Nordic aid-funded investment company Norsad, along with the US and Dutch, funded Vilmar Roses in Manica. Former managers called the project fraudulent and said the Norsad money was siphoned off to the Netherlands.

Norfund was also an important investor in microcredit banks when that was fashionable a decade ago, but proved to be only of use to the urban middle class buying household goods; they had no development impact and most have closed.

Norfund's main investments in Mozambique are now in real estate, where it is competing with money launderers and global commercial investment funds. An odd areas in which to invest aid funds.

Norfund is also a partner in a 40 MW solar power plant in Mocuba, Zambezia, where construction began earlier this month. The $76 mn plant is owned by Scatec Solar (52.5%), EDM (25%), and Norfund (22.5%). The World Bank has put in loans of $38 mn. The company has signed a 25-year agreement to sell the power to EDM which will be fed into the grid.

Do donors have no liability?

Norwegian "aid" has destroyed companies and introduced a disease which will devastate the banana industry, costing far more jobs than have been created by that aid. Actions to resist the spread of Panama disease will cost tens of millions of dollars, surely more than Norway invested in the banana plantation. Norway's aid to Mozambique is about $30 mn per year. Cleaning up the Matanuska mess will cost more than one year's aid. Can Norway simply walk away and wash its hands of the damage it has done?

Mozambique's notorious $2 bn secret loan was promoted by Credit Suisse, a Swiss company based in London. Credit Suisse must have known that Mozambique could never repay that loan. The cost to Mozambique will be equivalent to 60 years of Swiss aid or 30 years of British aid. Norway's sovereign wealth fund is the second largest investor in Credit Suisse and government pension funds are also invested in the bank. Members of the Mozambican elite do not have clean hands, and Mozambique is being punished by these donors because of the elite's greed, yet they do not punish the bank they own and control and which corrupted the elite. It will take years of aid to repay Credit Suisse and its investors.

Norway, the UK and Switzerland are long term supporters of Mozambique, and have for many years promoted their companies in Mozambique. Surely when harm is done by their aid and their companies, they cannot simply turn their backs. Do they feel no responsibility?

Debt offer is 50% haircut; more talks next month

Debt experts estimate that Mozambique's offer to commercial creditors last week (20 March) is effectively a 50% cut in the debt (and not just in the arrears). The bonds are traded and the value dropped from 85 US cents to the dollar down to 78 US cents; which means bondholders still think that can get more than 50%. (Bloomberg & Financial Times 20 March; https://www.bloomberg.com/news/articles/2018-03-20/mozambique-proposes-eurobond-haircuts-as-it-lays-out-tough-times; https://www.ft.com/content/ea881512-2c81-11e8-9b4b-bc4b9f08f381)

And Economy and Finance Minister Adriano Maleiane said that a next round of negotiations would take place along side the IMF-World Bank spring meetings in Washington 16-22 April. (O Pais Economico 23 Mar)

Under the proposal, half of arrears ($318 mn, half of $636) would be written off and half capitalized and added to the existing nearly $2bn debt. New instruments (bonds or loans) would be issued and exchanged on a 1 for 1 basis. For at least a decade there would be low interest payments, then the debt would be repaid 10 to 16 years from now. Expert say that means the new bonds or loans would have only half the value of the old ones, because of more than a decade of low interest payments.

Spokespeople from the group of bondholders telephoned media immediately after the London meeting and said they were rejecting the proposal, which was "a total non-starter", and this was reported in the local press as well as by Bloomberg. But they clearly did not get support for the hard line from some of the bondholders, and only issued a formal statement the next day (21 March) which was more conciliatory, seeing the London proposals as a first step in good faith negotiations. The bondholders statement is on http://bit.ly/2G48Cn2

An important change is that bondholder spokespeople Charles Blitzer and Thomas Laryea had been saying that Bank of Mozambique governor Rogerio Zandamela had painted a picture of Mozambique's economy being in such good shape and with large reserved so that the debt could be repaid now. Bondholders clearly felt that was total nonsense and that position has been dropped, and instead they only want a negotiated solution.

On one issue a hard line is maintained. Mozambique insists on a combined settlement with Ematum bondholders and MAM and ProIndicus syndicated loan holders. Bondholders reject this.

Trust, calculations, and trade-offs

The large audience at the London debt meeting was surprised by the detail of the presentation, and also by the starting point of a 50% haircut - many had predicted a larger 65% haircut as the starting point.

Bondholders "consider that the public presentation has important gaps and thus does not provide a basis of support for the restructuring guidelines included in the presentation." This is a polite way of saying that few in the audience believed Maleiane's claim that he could squeeze government spending to end new borrowing by 2023. Mozambique's Public Integrity Centre (CIP) in a 25 March paper (in English) said Maleiane's package of measures is "not credible" and that it was not possible to cut spending and increase revenue as he predicted. CIP also criticised Maleiane for claiming as recent cuts things that had been done some time ago, such as ending fuel and flour subsidies.
In private the response of Mozambicans was that the lenders had initially accepted much more unrealistic calculations to show that the debts could be repaid, and thus made loans which obviously could not be repaid. One way of accepting some responsibility is to accept these less unrealistic calculations.

One reason for the slower and more cautious response by creditors is that the offer contains an implicit deal. Any new bonds and loans would be approved by parliament and be legal; it was pointed out that if no deal was agreed, then legal proceeding claiming the old loans and bonds are illegal and illegitimate would continue. So creditors can get half their money, or choose to face court fights they might not win.

Some creditors at the meeting last week talked of "gas warrants" - that the new bonds and loans be backed up by guarantees of some part of Mozambique's gas. So far that has not been offered.

Comment: Encouraging poor reporting: Mozambique's London lawyers White & Case who ran the 20 March meeting barred the press from attending the meeting or listening to the meeting (some of us who were barred from the webcast could, in fact, still listen) and barred the Mozambican press for the post-meeting press conference. The underlines CIP's complaint that government is talking to creditors without informing the people or parliament. And barring the Mozambican press can only lead to distorted reporting, as media depends on second hand sources. What was gained by the government and White & Case by barring the Mozambican press?

More projects are being halted because of a lack of government funding due ot the financial crisis caused by the secret debt. Work has stopped on the Maputo ring road, where work is funded by a Chinese export credit, but there is no government money to resettle 500 families that will be displaced o make way for the road. (O Pais 14 Mar)

Is this some of the $?

80 military vehicles allegedly exported from China were delivered to the port of Maputo on 2 March, according to Indian Ocean Newsletter (16 March). The deal is understood to have been facilitated by the founder of Blackwater, Erik Prince, through his Hong Kong-registered firm Frontier Services Group (FSG), and the accord was finalised with President Filipe Nyusi and Defence Minister Atanasio Salvador Mtumuke. The vehicles are stored in warehouses in Matola and military hangers at the airport, and are due to deployed in Chimoio, Manica.

Prince is going into a joint venture with Ematum, he told a Maputo press conference on 13 December, and said that he may later get involved in protecting Mozambique's oil and gas assets. (See this newsletter 396, 13 Dec 2017) Meanwhile Prince is also being linked to Russian interference in the US presidential election campaign, which is alleged to have worked in favour of Donald Trump.