

MOZAMBIQUE News reports & clippings

373 24 June 2017 Editor: Joseph Hanlon (j.hanlon@open.ac.uk)

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Secret debt documents and report:

Kroll report summary <http://bit.ly/Kroll-sum>

Parliamentary Report on the Secret Debt (complete, in Portuguese) 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>

Minimum wages & exchange rates 1996-2017 <http://bit.ly/MinWage2017>

Comment

Kroll makes clear all are guilty

The Kroll debt audit summary issued Saturday 24 June makes clear how brazen were all those involved in the \$2 bn secret debt, and how confident they were they would not be called to account.

The main bank organising the loans, Credit Suisse, "imposed a number of 'preceding conditions' that needed to be met before it would approve the loan financing, including the requirement to have the loan agreement approved by the Bank of Mozambique and checked by the Mozambique Administrative Court and that the 'operation' needed to be reported to the IMF", Kroll reported. Yet all of the conditions were quietly dropped, when it became obvious they could not be met; the Bank of Mozambique, the Tribunal Administrativo, and the IMF would never have approved. Kroll could get no explanation, suggesting that scruples were secretly scrapped to continue with profitable but highly dubious loans.

The state security services, SISE, controls the three companies that took the loans, and did not even bother to set up functioning companies to carry out the plans for the companies. Kroll says "The Mozambique Companies are governed by individuals who do not appear to possess the necessary qualifications, skills or experience to effectively deliver the Mozambique Project." There were "considerable management failings in meeting contractual obligations and in establishing the local infrastructure required." The companies did not set up facilities to receive the equipment nor provide people to be trained. Kroll makes plain that SISE had neither the capacity nor the interest in even pretending to run these companies.

When it was caught out on the \$850 mn Ematum loan in 2013, the Ministry of Finance simply agreed to put \$500 of the money on the defence budget - but refused to tell Kroll what it was used for.

Kroll points to the central role of the contractor, the Privinvest group: "The Contractor has had a

role in: structuring the projects; introducing Credit Suisse as a lender; agreeing the Contractor Fees (to discount the interest rate payable by the Mozambique Companies on the loans); providing funds to the Mozambique Companies to cover operational expenditure and share capital; funding loan repayments; arranging the MAM loan agreement alongside VTB Capital; contracting with the Mozambique Companies and the Ministry of Finance to restructure the loan agreements (and receiving fees for doing so); and (for ProIndicus) taking responsibility for generating revenues and contracting to receive a proportion of any future revenues."

Kroll says Prinvest received all of the loan funds (after various fees were deducted) but did not provide many key documents required by Mozambican law, including detailed invoices. It also points to various possible conflicts of interest, including staff of Prinvest companies and the Mozambican companies serving as advisors to the Ministry of Finance.

The loans were based on business plans that indicate that the three companies were expected to generate combined operating revenues of \$2.3bn by December 2016 - manifestly a complete fantasy.

Much of the equipment supposedly delivered has not been identified, but Kroll accuses Prinvest of overcharging Mozambique \$700 mn for items that were delivered and identified, such as charging ten times the real price for the fishing boats.

Kroll estimates that equipment worth \$505 mn has been imported (although much of it is not useful) and that fees of about \$200 mn have been paid. That leaves \$1.3 bn (nearly two-thirds of the loan) unaccounted for. Kroll notes that "a small group of SISE and government officials" controlled the whole project. Thus it would not be unreasonable to suspect that the \$1.3 bn was a mix of money that went to people linked to that "small group", and for the import of arms and security equipment that remains secret. Information was refused to Kroll because it was "classified" or on grounds of "national security". It looks like the import of \$505 in largely useless equipment was seen as necessary simply to justify the secret \$1.3 bn.

And who is to pay the \$2 bn bill? Will donors and taxpayers pay? Or should they tell the government not to pay? The whole package is so grotesque that it should have been obvious to the Credit Suisse and VTB, and to the lenders, that this project was not viable and was not as described. Credit Suisse imposed wise conditions and then backed down, allowing a profitable fiasco to continue and pushing loans which where the money was obviously going to be stolen and squandered. Of course key people in the Frelimo leadership are guilty - but laws in many countries prevent lending to gamblers and selling liquor to drunken alcoholics. Credit Suisse and VTB had a fiduciary duty not to lend for such an obviously grossly misguided and corrupt project.

Should donors withhold aid and Mozambican citizens refuse to pay taxes because the money will be used to repay the debt? Instead, donors could insist that Mozambique should refuse to pay the \$2 bn debt, because it is illegitimate. They could also insist that "national security" cannot be used as a veil to hide what was done with the money - the secret debt has already caused economic disruption which is more of a threat to national security than revealing what was imported and who received money.

Civil society, too, could take a stand for not repaying and for more transparency - as the budget observatory has already done.

But donors have the key power here, and have been notably silent, leading to the belief that they think that the debt should be paid, no matter how corrupt and illegitimate. But if even a few donors took a stand in support of not paying, it would strengthen the hand of those inside government and Frelimo who do not want to pay.

The Kroll report executive summary does not name the guilty Mozambicans, but it points a finger at the guilty banks and contractor. The first step is to use the Kroll report to say the \$2 bn debt is illegitimate and should not be repaid. *Joseph Hanlon*

Kroll secret debt audit says

+ \$700 mn overcharging

+ SISE, banks, finance ministry

refused to supply information

The Executive Summary of the Kroll audit report of the \$2.2 bn secret debt was released Saturday 24 June by the Attorney General's office (Procuradoria Geral da República). Despite being refused essential information, it documents major misconduct. The summary is on <http://bit.ly/Kroll-sum>

Kroll suggests that the contractor - the Privinvest Group including Privinvest Shipbuilding and Abu Dhabi Mar - overcharged Mozambique by at least \$700 mn. The differences between prices of "assets and services outlined in the invoices provided to ProIndicus and Ematum by the Contractor, compared to the prices estimated by the independent expert, total approximately \$713 mn." The difference between invoiced prices and those in the original MAM business plan was \$683 mn. For example, fishing boats were invoiced at \$22 mn each, were in the MAM business plan at \$10.5 mn each, and Kroll's independent experts say they should cost only \$2 mn each. Kroll is pointing to an overcharge of nearly one-third of the \$2.2 bn secret debt.

Despite extending the audit from 3 to 6 months, Kroll says it was not given the information in needed, so it is unable to provide even quite basic information on where the money went or how it was used. Even the IMF in a statement issued today points to the lack of information "on the use of the loan proceeds"

The three companies, ProIndicus, MAM and Ematum (all controlled by SISE, the state security services) "provided limited financial data, including incomplete trial balances and bank statements for certain periods, and incomplete supporting documentation". The company head, a SISE official referred to only as "person A," repeatedly refused to supply information on the grounds that it was "classified" or "national security" and not available. Kroll was unable to obtain reliable accounting records to enable a proper assessment of the financial position of each company or to obtain complete loan agreements or supply contracts. Privinvest as well as SISE, local banks and the Ministry of Finance refused to provide information requested.

Documents which were provided were incomplete, including one page invoices without details for large deliveries. "Invoices provided to Kroll by the Mozambique Companies did not include sufficient detail to provide comfort that the documents accurately reflect the true price of the assets and services. Further, certain assets are not recorded in the accounting records, for example, the Ocean Eagle vessels under the Ematum supply contract."

Fees to the organising banks, VTB and Credit Suisse, totalled \$200 mn. Kroll could not explain a complete inconsistency about the \$500 mn of the Ematum bond which was taken on to the government budget as being security rather than fishing equipment. Person A told Kroll it has been used for military equipment, while Privinvest insisted no weapons had been delivered. Kroll says that \$500 mn "remains unaudited and unexplained". This \$500 mn may be in addition to the \$700 mn overcharge.

Ematum's 2014 audited financial statement was incorrect. Many payments and changes to contracts remain unexplained. For example, it appears that Abu Dhabi Mar made a \$53 mn payment to Credit Suisse and VTB.

Kroll also notes that "a document prepared by the Ministry of Finance suggests that Credit Suisse imposed a number of 'preceding conditions' that needed to be met before it would approve the loan financing, including the requirement to have the loan agreement approved by the Bank of Mozambique and checked by the Mozambique Administrative Court and that the 'operation'

needed to be reported to the IMF. Documentation provided suggests that these conditions were 'overcome' so that no court or Bank of Mozambique approval was required and no reporting to the IMF was needed." Kroll cannot figure out how this happened.

"The Independent Audit points towards a small group of SISE and government officials, led by Person A, exercising control over the planning of the Mozambique Project."

Meanwhile the three Mozambican companies receiving the loans have been total disasters. "Kroll's analysis of the business plans and feasibility studies for the Mozambique Companies [Ematum, MAM, ProIndicus] indicates that they were expected to generate combined operating revenues of USD 2.3 billion by December 2016. At the time of reporting [June 2017], negligible revenue has been generated."

"Kroll's work has not identified a coherent business plan. ... The Independent Audit identified what appear to be considerable management failings in meeting contractual obligations and in establishing the local infrastructure required. ... The Mozambique Companies are governed by individuals who do not appear to possess the necessary qualifications, skills or experience to effectively deliver the Mozambique Project." The head of the programme admitted to Kroll that they do "not have prior experience of implementing an infrastructure project of this nature. Further, it appears that the key individuals responsible for the day to day operation of the Mozambique Companies do not possess the skills necessary to perform their function."

It is confirmed that after deducting fees, all money went directly to the contractor, which made some payments to the three Mozambican companies. Kroll also notes that "The Contractor, as well as Palomar, a Privinvest Group company, has had an expanding role in the Mozambique Project. The Contractor has had a role in: structuring the projects; introducing Credit Suisse as a lender; agreeing the Contractor Fees (to discount the interest rate payable by the Mozambique Companies on the loans); providing funds to the Mozambique Companies to cover operational expenditure and share capital; funding loan repayments; arranging the MAM loan agreement alongside VTB Capital; contracting with the Mozambique Companies and the Ministry of Finance to restructure the loan agreements (and receiving fees for doing so); and (for ProIndicus) taking responsibility for generating revenues and contracting to receive a proportion of any future revenues."

"Additionally, potential conflict of interest issues were identified regarding the process for granting the government guarantees for the Mozambique Companies. Specifically, [the person] responsible for signing the ProIndicus and MAM government guarantee opinion documents, was appointed to the Ematum Administration Board on 2 August 2013, approximately one month prior to the Ematum government guarantee being issued. [This person] was paid \$5,000 for his/her role as a Non-Executive Director during the period of August 2013 to July 2014 by Ematum."

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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, accessed XXX.

Previous newsletters and other Mozambique material are posted on 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

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 / kapicuacom@tdm.co.mz
Outside Mozambique, we have a few copies we can send from London. Please e-mail 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 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)

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

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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
O País: 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

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