

MOZAMBIQUE News reports & clippings

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Kroll full report 2

Kroll tells a tale of misconduct, incompetence and secrecy - no one has clean hands

The full Kroll audit is now available and adds details to a story of misconduct, incompetence and secrecy that leaves no one looking good and has misused \$2 billion. Kroll does not make any formal allegations, but suggests that Credit Suisse, as well as the three companies and their CEO António Carlos do Rosário, may have committed criminal acts. And it points fingers at Economy and Finance vice minister Isaltina Lucas Sales, as well as Palomar and other parts of the contractor Privinvest. Kroll also makes clear that the three SISE companies had little chance of success, and that various mismanagement and contract changes have now completely doomed them.

The full Kroll report is still not public, but last week it was distributed to key people and is now available on <http://bit.ly/Kroll-Moz-full>, in English. This is a scan of the report and is very large - 80 Mb - so is in a Dropbox, but can be downloaded even if you do not have Dropbox yourself. The full report lists changes made after negotiations with Palomar lawyers to the Executive Summary, published in June, but it appears no changes have been made to the main report.

This is part 2 of my assessment of the full Kroll report. Last week I reported on the recommendations and possible criminal action against Credit Suisse: bit.ly/2evjWs4. Part 3 will look at two issues which attracted special Kroll chapters, the government guarantees and the role of Palomar.

The Kroll forensic audit relates to \$2 bn in secret loans in 2013-14 to three companies - ProIndicus, Ematum and MAM - controlled by the state security services SISE, and of which a high SISE official, António Carlos do Rosário, is CEO.

Secret debt documents and report:

Kroll full report (80 Mb!) <http://bit.ly/Kroll-Moz-full>

Kroll audit Executive 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>

Mozambique should not pay the hidden debt <http://bit.ly/Moz-do-not-pay>

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>

Criminal secrecy & a tonne of missing documents

Kroll admits that at the start of the audit it "understood that the majority of the information required ... would be available directly from the Mozambique companies. At an early stage of the independent audit, representatives for the Mozambique companies informed Kroll that they were unable to provide a large proportion of the information required [and that the] information was held by the Mozambique Ministry of Defence and/or by parties outside of Mozambique." The companies could not provide basic financial information, bank records and balance sheets, which they are required to have under the Mozambican commercial code.

The degree of secrecy is shown by the claim that Ematum was given 788 kg of documents relating to the intellectual property and technology transfer agreement, but none of this made available to Kroll.

"The inability of Ematum to provide complete accounting records and bank statements demonstrates that the company has not maintained adequate books and records, either through mismanagement or a deliberate attempt to frustrate Krill's independent audit."

All of the borrowed money went directly to the contractor, Privinvest, and none went to the Mozambican companies. Further, Kroll discovered that Privinvest was not "contractually obliged to provide individual invoices for the assets and services delivered" and only gave one page summaries, making it impossible to find the true prices of assets and services. They also had no final versions of loan agreements and supply contracts, which meant the companies could not keep proper accounting records - again in violation of the commercial code.

The contracts also said that Privinvest was free to subcontract all or part of the work, but that the companies were not allowed to contact subcontractors and suppliers. Thus the companies "had no understanding of who was providing the goods and services under the contract" and had no right to audit subcontractors. Combined with the lack of detailed invoices, this meant the Mozambican companies had no idea how their money was being spent.

Kroll found substantial evidence that most or all of the \$2 bn package was negotiated directly with Privinvest companies. Not only was there no open tendering, but there appeared to be no discussions with experts or alternate suppliers. Privinvest itself said that the first contract with ProIndicus led to "the conception of the Ematum project", and MAM said it "asked Abu Dhabi Mar [a Privinvest company] to design a commercially viable project". Abu Dhabi Mar was then involved in the preparation of the feasibility study. Kroll could find no indication of any outside evaluation of these plans or if any consideration of alternative proposals, which violates the tender regulations for state-owned companies.

Useless unarmed boats

Proindicus was the first company to be established, and on 26 November 2013 a government decree granted it "exclusive rights to implement a monitoring and protection system for the Mozambique Exclusive Economic Zone", which appears to mean mainly the coastal zone and Mozambique Channel. This involved a loan for serious maritime patrol ships and planes.

There were to be Vigilante and Interceptor ships, which are listed on the website of CMN (part of Privinvest Shipbuilding) as "military vessels" and are expected to have weapons. And weapons were included in the original proposal. The larger Vigilante ships could have patrolled the entire Mozambique Channel, but were then dropped from the contract leaving only the much smaller Interceptor ships which make short forays from ports. And in a change from the original plan, they are not being fitted with weapons. Kroll notes that "this will undoubtedly restrict the ability of the vessels and their operators to effectively police the Exclusive Economic Zone."

Similarly the original contract called for two Reims F406 maritime patrol aircraft, but instead six Remos GX light sports aircraft were supplied. These are subject to visual flight rules and cannot be used in inclement weather.

At the same time the loan and contract price increased from \$372 mn to \$622 mn. Kroll commissioned an independent expert who said that aircraft were invoiced to ProIndicus at \$47 mn, when the real value was only \$11 mn (\$4 mn for the planes themselves and \$7 mn for training, etc). Similarly, ProIndicus was over-invoiced on the Interceptors by at least \$30 mn.

Meanwhile, ProIndicus failed to carry out its part. The boats and planes have been delivered but apparently never used. The 36 DV15 Interceptors are stored on dry land, in the open where they are being damaged by the sun and heavy rain, when they should be berthed in the water.

The contract called for 16 radar stations, which were supposed to be integrated with the patrol planes and boats. But only one has been opened, because ProIndicus was supposed to organise the initial buildings and failed to do so. The satellite contract expired and was not renewed, so there is no surveillance or communication. Staff have not been trained because ProIndicus could not provide 100 people who could swim and speak English.

The ProIndicus business plan stated that by December 2016 it would have annual revenues of \$608 mn and costs of only \$30 mn. It has never generated any operating revenue.

No huge profits for Ematum as \$500 mn disappeared

For Ematum, the feasibility study said that by the third year the company would have revenues of \$220 mn and costs of only \$32 mn per year making it hugely profitable. The feasibility study was partly written by the ship-builders, and Kroll could not find any "evidence that Ematum or its shareholders conducted due diligence on the contractor. Further, Kroll has no insight regarding the due diligence undertaken by Credit Suisse or VTB Capital in relation to the contractor, Ematum or the wider feasibility of the project". In particular, the plans and feasibility studies included no plans for onshore tuna storage and processing so the fish could not be stored at the correct temperature. No people were supplied for training. The ships should have been linked to the non-existent ProIndicus radar system. No fishing is taking place

The original loan was for \$500 mn organised by Credit Suisse, later increased by \$350 mn organised by VTB. The invoiced price was \$755 mn, but the real value according to Kroll experts was \$108 mn. The fishing boats were invoiced at \$22 mn each, 11 times that real value of \$2 mn.

The Ematum loans were the first to become public and caused an initial crisis with the IMF and donors because they money clearly was not for fishing boats. Finally it was agreed with the IMF that \$500 mn would be taken onto the state defence budget as maritime security expenditure (although it appears that only \$350 mn actually did go onto the state budget). But Kroll could never find out what happened to the money. Person A (António Carlos do Rosário, who identified himself) told Kroll it was for military equipment. But Person I (said by *Savana* to be Defense Minister Salvador Mtumuke) told Kroll he refused to sign a list of military equipment allegedly received because he knew nothing about. The Ministry of Finance told Kroll it was an issue for SISE, which refused to give any information. Kroll says "at least \$500 of expenditure of a potentially sensitive nature remains unexplained."

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This newsletter can be cited as "Mozambique News Reports & Clippings".

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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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: kapicudir@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

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

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 sociólogo: <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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