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Finance minister Adriano Maleiane announces government plans to create a sovereign wealth fund. The ruling Frente de Libertação de Moçambique (Frelimo) party will hold its 11th congress between 26 September and 1 October. A full copy of Kroll's report into state-owned enterprises (SOEs) Empresa Moçambicana de Atum SA (Ematum), Proindicus and Mozambique Asset Management (MAM) circulates publicly before its official release. Kroll indicates that Switzerland-based Credit Suisse may have violated United Kingdom (UK) law when it arranged loans for Ematum and Proindicus. The International Monetary Fund (IMF) says it will not engage in a lending programme with Mozambique without a complete Kroll audit report. Maleiane denies the government contracted new hidden sovereign debt. A United Nations Security Council (UNSC) panel of experts indicates it is investigating alleged North Korean arms exports to Mozambique in violation of international sanctions against North Korea.

Finance minister announces plans for a sovereign wealth fund

The finance minister, **Adriano Maleiane**, announced on 18 August that the government plans to create a sovereign wealth fund called the **Fundo Nacional de Desenvolvimento (FND)** (national development fund) financed through extraordinary capital gains tax revenue from natural resources exploration and development.¹

*"The Minister of Economy and Finance, Adriano Maleiane, has already announced that from now on the money received from capital gains will no longer be included in the state budget. Instead, it will be used to create a sovereign fund in order to build reserves to finance national development project ... Mozambican political watchers welcomed the news, as they have been advising the government to raise such a sovereign fund for many years, and the government of [former president] **Armando Guebuza** (2005-2015) refused the idea on the grounds that a country with many urgent investment needs could not afford the 'luxury' of creating a fund of such kind."²*

The objective of the new FND is to create a reserve fund to finance development projects in **Mozambique**.³ According to Maleiane,

"We have to create a national development fund. That is what we are thinking. The national development fund will finance good initiatives, but needs patient capital to start ... This fund will be fed in the same way that the other countries feed the sovereign fund. What we are saying, as a government, is that when we receive capital gains we should not spend it, and then have adjustment problems. We are saying, let us take advantage of the capital gains and put them in an account."⁴

Mozambican economist **João Mosca** said the FND,

¹ SABC, 22 Aug 2017.

² Source, political analyst, Mozambique

³ www.clubofmozambique.com

⁴ www.clubofmozambique.com

*"... will be a good thing if it is clearly defined and managed transparently and efficiently, so that it can serve to reduce the negative effects of the international market on the Mozambican economy."*⁵

However, the creation of a sovereign wealth fund comes with the risk of corruption. A journalist and activist working for one of the most influential human rights and good governance civil society organisations in Mozambique said,

*"... measures have to be taken so that the fund cannot be turned into a political instrument, because that can result in corruption as well as social and political exclusion and if so it will fail to meet its objectives."*⁶

The FND's initial funding will come from \$350m in capital gains tax the government will collect on **United States (US)**-based **Exxon Mobil Corp's** \$2.8 billion deal to buy a 35.7% interest in **ENI East Africa**, from **Italy**-based **ENI Spa**, which will give Exxon Mobil a 25% interest in the **Rovuma** basin offshore **Area 4** in northern Mozambique (see previous *ARC Briefings* for Mozambique).⁷ According to Maleiane, state-owned **Banco Nacional de Investimento (BNI)** (national investment bank) will probably manage the FND.⁸

Ruling Frelimo party to hold 11th congress

The ruling **Frente de Libertação de Moçambique (Frelimo)** party will hold its 11th congress between 26 September and 1 October.⁹ No major leadership candidate or rival is expected to emerge before or during the 11th congress.¹⁰ In July 2017, Frelimo's 197-member central committee held a meeting in preparation for Frelimo's 11th congress and confirmed its support for President **Filipe Nyusi** (2015-present).¹¹ Moreover, in February 2016, Frelimo's central committee elected new members to Frelimo's secretariat who are seen as Nyusi loyalists and will play an important role in stamping his authority on the internal workings of the party and smooth the way for his re-election as head of the central committee and head of the 18 member political commission.¹² Moreover,

*"Frelimo's internal bodies such as the veterans of the liberation struggle, the women and youth organisations and the Political Commission have announced their endorsements to Nyusi's candidacy for the party's leadership ... this congress is likely to strengthen Nyusi's political powers as internal groups will try to reunite in a safer harbour towards the next electoral season."*¹³

Frelimo's political commission is the party's most important decision-making body which meets as regularly as once a week and effectively shares power with the president.¹⁴ The president needs the political commission's authorisation for important decisions and would not act without its agreement. It is important to note that Frelimo governs through consensus.¹⁵ This makes the decision-making process extremely slow but the outcomes durable.¹⁶ The larger central committee is the second in terms of influence after the political commission and typically meets only twice a year.¹⁷ The central

⁵ www.voaportugues.com

⁶ Source, journalist and activist working for one of the most influential Mozambican human rights and good governance civil society organization, Mozambique

⁷ SABC, 22 Aug 2017.

⁸ SABC, 22 Aug 2017.

⁹ Source, political analyst, Mozambique

¹⁰ Source, Mozambique analyst, United Kingdom

¹¹ www.allafrica.com

¹² Source, Mozambique analyst, United Kingdom

¹³ Source, journalist, Mozambique

¹⁴ Source, Mozambique analyst, United Kingdom

¹⁵ Source, Mozambique analyst, United Kingdom

¹⁶ Source, Mozambique analyst, United Kingdom

¹⁷ Source, Mozambique analyst, United Kingdom

committee members help formulate Frelimo's overall policy direction and give the political commission a feel for grass roots Frelimo members' thinking.¹⁸

With Nyusi's position secure, the first issue that is likely to dominate discussions during the 11th Frelimo congress is on-going peace talks with the main opposition rebel group, **Resistência Nacional Moçambicana (Renamo)**.¹⁹ Nyusi will try and achieve consensus on his approach to peace talks with Renamo in the hope of getting broad backing for a final peace agreement before the 2018 municipal elections and/or the presidential and parliamentary elections in 2019.²⁰ The second issue that will dominate Frelimo's 11th congress is fallout from the ongoing sovereign debt crisis (see below).²¹ It is widely believed that senior Frelimo officials allegedly benefitted from the \$2 billion of formerly hidden sovereign debt.²² Therefore, senior Frelimo officials may debate if they should take a hard line approach against Frelimo members implicated in the scandal to show the international community the party has taken steps to improve accountability, or identify 'scapegoats' to protect senior Frelimo leaders, or refuse to sanction any senior Frelimo officials.²³ However, Frelimo's approach remains unclear at the moment.²⁴

Full copy of Kroll audit report circulates before official release

Risk advisory firm **Kroll**'s full sovereign debt audit into state-owned enterprises (SOEs) **Moçambicana de Atum SA (Ematum)**, **Proindicus** and **Mozambique Asset Management (MAM)** has circulated publicly, despite the **Procuradoria-Geral da República (PGR)** (attorney general's office) not officially releasing the full audit report, according to Mozambican media reports on 4 September.²⁵ Kroll's full audit confirms the findings of the executive summary the PGR released on 24 June (see *ARC Briefing Mozambique July 2017*) and details misconduct, incompetence and secrecy with regard to \$2 billion in secret loans linked to Ematum, Proindicus and MAM.²⁶ Kroll does not make any formal allegations, but suggests that **Switzerland-based Credit Suisse**, the lead arranger for the Proindicus and Ematum loans, as well as **Antonio Carlos do Rosario**, the CEO of all three SOEs linked to the **Serviço de Informações e Segurança do Estado (SISE)** (national intelligence services), may have committed criminal acts.²⁷ Kroll also

*"... points fingers at economy and finance vice minister **Maria Isaltina de Sales Lucas**, as well as **Palomar** [subsidiary of **Privinvest**] and other parts of the contractor **Privinvest** [main contractor to all three companies]. 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..."²⁸*

In the full audit report Kroll claims it did not receive all the information it had requested despite an understanding that the three SOEs would make the information Kroll required available.²⁹

"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."³⁰

¹⁸ Source, Mozambique analyst, United Kingdom

¹⁹ Source, Mozambique analyst, United Kingdom

²⁰ Source, Mozambique analyst, United Kingdom

²¹ Source, Mozambique analyst, United Kingdom

²² Source, Mozambique analyst, United Kingdom

²³ Source, Mozambique analyst, United Kingdom

²⁴ Source, Mozambique analyst, United Kingdom

²⁵ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

²⁶ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

²⁷ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

²⁸ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

²⁹ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³⁰ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

The target companies reportedly could not provide basic financial information, bank records or balance sheets, which Mozambican law requires them to maintain.³¹

“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 Kroll’s independent audit.”³²

The “degree of secrecy”³³ is highlighted in an unverified claim that Ematum was given 788 kg of documents relating to the intellectual property and technology transfer agreement, but none were made available to Kroll.³⁴ Moreover, none of the money raised went to Ematum, it reportedly went straight to Privinvest, the main contractor for the three SOEs. Kroll noted that no final versions of loan agreements and supply contracts were completed, which meant the companies could not keep proper accounting records.³⁵ Privinvest was also free to subcontract all or part of the work, but the SOEs were not allowed to contact or audit subcontractors and suppliers. Thus the companies “... had no understanding of who was providing the goods and services under the contract.”³⁶ Moreover, Kroll

“... found substantial evidence that most or all of the \$2 billion 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.”³⁷

Credit Suisse may have violated UK law in Ematum & Proindicus loan

Kroll has indicated in its report of the sovereign debt audit into Ematum, MAM and Proindicus (see above) that Credit Suisse may have violated **United Kingdom (UK)** law when it arranged loans for Ematum and Proindicus, according to media reports on 26 August.³⁸ Kroll has suggested that Credit Suisse may have failed to undertake an adequate due diligence inquiry into both entities in violation of UK law³⁹, and has further called on the PGR to,

“... request, under the mutual legal assistance arrangements in the criminal matters, that the UK authorities request the details of enhanced due diligence documentation from Credit Suisse.”⁴⁰

Kroll has publicly said that,

“Credit Suisse, as a UK financial institution, has an obligation under the UK money laundering regulations to undertake enhanced due diligence where there is the prospect of politically exposed persons (PEPs) being a party to the financial transaction – in this instance the Mozambican companies are recognised as state-owned companies and consequently those responsible officers... should be regarded as PEPs. Further, Credit Suisse has an obligation under the UK money laundering regulations to establish the ultimate beneficial owner(s) of the Mozambique companies.”⁴¹

Kroll has also called on the PGR and SISE to provide all documents linked to any enhanced due diligence.⁴² So far Credit Suisse and SISE have failed to provide further information with regard to any enhanced due diligence process.⁴³

³¹ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³² Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³³ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³⁴ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³⁵ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³⁶ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³⁷ Joseph Hanlon, News Reports & Clippings, 4 Sept 2017.

³⁸ www.clubofmozambique.com

³⁹ www.clubofmozambique.com

⁴⁰ www.clubofmozambique.com

⁴¹ www.clubofmozambique.com

⁴² www.clubofmozambique.com

⁴³ www.clubofmozambique.com

IMF says no programme without complete Kroll audit report

Ari Aisen, the **International Monetary Fund (IMF)** representative to Mozambique, stated in a media interview on 25 August that the basic condition for any IMF Mozambique programme is the “*filling in of the gaps*” in Kroll’s audit report into state-owned enterprises (SOEs) Ematum, Proindicus and MAM.⁴⁴ Without a clear and complete audit, the IMF cannot properly assess Mozambique’s sovereign debt profile and assess if the government has taken steps to improve financial management and accountability.⁴⁵ In the executive summary of the audit that the PGR publicly released in late June (see *ARC Briefing Mozambique July 2017*), Kroll said Ematum, Proindicus and MAM only provided

“... limited financial data, including incomplete trial balances and bank statements for certain periods, and incomplete supporting documentation, such as loan facility agreements and supplier contracts. As a result, it became apparent that a significant amount of the information originally envisaged to be held by the Mozambique companies in Mozambique was not available.”⁴⁶

Aisen stated that,

“The government has expressed its desire to have a programme with the IMF, and for our part we also want to support Mozambique ... The question of the audit has been posed as an important element in this regard ... the information will not be given to the IMF, but to the PGR, and there are confidential inquiries to which we have no access.”⁴⁷

The scandal of the hidden debts has “*weakened the government*”⁴⁸, and the IMF is now making further demands, including restricting public sector wages, and cutting public expenditures and subsidies.⁴⁹

Finance minister denies the government contracted new ‘hidden debt’

Maleiane, on 18 August, denied that the government has accumulated more ‘hidden’ sovereign debt. Maleiane’s statement was in reaction to information contained in a **Centro de Integridade Público (CIP)** (centre for public integrity) report that claimed the government illegally contracted over \$100m in new sovereign debt without the knowledge of parliament in 2015 and 2016.⁵⁰ CIP, in its report entitled ‘Government continue to borrow without transparency’, stated that the Mozambican government illegally borrowed \$121m from **China’s Export Import Bank** to finance the **Beira** fishing port (\$71m) and the **Administração Nacional de Estradas (ANE)** (national roads administration) (\$50.5m). However, Maleiane said,

“We have no hidden debts. All there was to clarify about the debt register and the numbers is clear. I do not know what the sources of this new information are, but what we can guarantee, as a government, is that we do not have that [any more ‘hidden debts’].”⁵¹

According to **Eufregina dos Reis Manoela**, a sovereign debt specialist and executive director of **Grupo Mozambicano da Dívida (GMD)** (Mozambique group on debt),

“... in our observation and analysis, these situations arise because the legal norms of borrowing have not been observed. All public debt must go through parliament. At no time can the government contract a public debt without following the legal procedures that, in this case, are the responsibility of parliament. That this is happening already systematically is a sign that our legislature is not functioning properly ... We do not know yet who contracted these debts. This is something we are still pursuing as civil society in Mozambique: insisting that the people who

⁴⁴ AIM, 29 Aug 2017.

⁴⁵ AIM, 29 Aug 2017.

⁴⁶ AIM, 29 Aug 2017.

⁴⁷ AIM, 29 Aug 2017.

⁴⁸ AIM, 29 Aug 2017.

⁴⁹ AIM, 29 Aug 2017.

⁵⁰ O País, 21 Aug 2017.

⁵¹ O País, 21 Aug 2017.

contracted these debts are identified, so that they can also be held accountable. If this does not happen, Mozambique will continue to contract 'hidden debts'. We will fall into disrepute, not only internationally, but above all nationally. Citizens will no longer be able to rely on executive power, much less on legislative power. This is very bad."⁵²

UN investigating alleged North Korean arms exports to Mozambique

The **United Nations Security Council (UNSC)** released a report on 9 September indicating a special UN panel of experts is investigating alleged **North Korean** arms exports to Mozambique in violation of international sanctions against North Korea. The allegations, if verified, will damage Mozambique's international reputation, as the government continues to recover from the ongoing hidden sovereign debt scandal (see above). The UNSC report (S/2017/742) stated,

*"The panel continued its investigation into the reported supply of man-portable air defence systems, surface-to-air missiles and radar to Mozambique involving **Haegeumgang Trading Corporation** (a.k.a. **Haegumgang**) and the Mozambique government-controlled company **Monte Binga**. Mozambique has yet to provide a substantive reply to the panel's enquiries. Haegeumgang has been reported by two member states as active in Mozambique and the neighbouring **United Republic of Tanzania**. One member state specified that Haegeumgang had provided the same surface-to-air missile systems to both Mozambique and the United Republic of Tanzania."*⁵³

The report also noted that the UNSC has asked Mozambique and other countries about any links to North Korea-based companies **Mansudae Overseas Project Group** and **Korea Mining Development Trading Corporation (KOMID)**.⁵⁴

*"The panel continued its investigations into the activities of the Mansudae Overseas Project Group and its relationship to the United Nations-designated entity KOMID, which the panel has recommended for designation. With regard to Mansudae activities in a number of **African** member states including **Angola, Benin, Botswana, Mali, Mozambique, Namibia and Zimbabwe**, the panel has written to these countries requesting information on the entity's activities including the provision of statues."*⁵⁵

On 13 September, the Mozambican government stated that it defends universal disarmament and said it will work with the UNSC experts who are investigating alleged arms exports from North Korea to Mozambique.⁵⁶ **Conselho de Ministro (CdM)** (council of ministers) spokesperson **Ana Comoana** reiterated that the Mozambican government defends the principle of universal disarmament, is a signatory to several international treaties against the proliferation of weapons, including nuclear weapons, and endorses UNSC resolutions.⁵⁷ Comoana also noted that the Mozambican government will work with the UNSC to better understand the issue and provide *"appropriate clarification, in due time"*.⁵⁸

Planner

26 Sept – 1 Oct **Matola (Mozambique)** *Frelimo*. Frelimo's 11th congress;
12-15 Oct **Maputo (Mozambique)** *MITF*. 5th Maputo International Tourism Fair;
18-20 Oct **Maputo (Mozambique)** *MGS*. Mozambique Gas Summit;

⁵² Deutsche Welle, 22 Aug 2017.

⁵³ United Nations Security Council, S/2017/742

⁵⁴ United Nations Security Council, S/2017/742

⁵⁵ United Nations Security Council, S/2017/742

⁵⁶ LUSA, 13 Sept 2017.

⁵⁷ LUSA, 13 Sept 2017.

⁵⁸ LUSA, 13 Sept 2017.

9 Nov 2017 **Maputo (Mozambique)** *FT*. Financial Times Mozambique summit;
 22-24 Nov **Maputo (Mozambique)** *MOZEFO*. Mozambique Economic and Social Forum;

Chronology

15 Aug 2017 Maputo (Mozambique) *AIM*. The **Instituto Nacional de Estatística** (national statistics institute) announces that over 27 million people have been registered after the 2017 census;

16 Aug 2017 Maputo (Mozambique) *Agência Lusa*. **Centro de Integridade Pública** (public integrity unit) says that the government continues to take out loans without transparency, after allegedly taking out two loans totalling €104m (\$122m) between 2015 and 2016 without notifying parliament;

18 Aug 2017 Maputo (Mozambique) *SABC*. The finance minister, **Adriano Maleiane**, announces government plans to create a sovereign wealth fund called the **Fundo Nacional de Desenvolvimento (FND)** (national development fund);

18 Aug 2017 Maputo (Mozambique) *O País*. Maleiane denies government contracted new hidden sovereign debt;

25 Aug 2017 Maputo (Mozambique) *AIM*. International Monetary Fund (IMF) says there will be no lending programme before the complete Kroll audit report is finalised;

26 Aug 2017 Maputo (Mozambique) *www.clubofmozambique.com*. Kroll indicates that **Switzerland-based Credit Suisse** may have violated United Kingdom law when it arranged loans for state-owned enterprises (SOEs) **Empresa Moçambicana de Atum SA (Ematum)** and **Proindicus**;

4 Sept 2017 Maputo (Mozambique) *www.clubofmozambique.com*. Full copy of Kroll's audit report into SOEs Ematum, Proindicus and **Mozambique Asset Management (MAM)** circulates publicly before official release;

9 Sept 2017 New York (United States) *www.clubofmozambique.com*. The **United Nations Security Council (UNSC)** panel of experts report indicates it is investigating alleged **North Korean** arms exports to **Mozambique** in violation of international sanctions against North Korea;

11 Sept 2017 (Mozambique) *Zitamar*. The **World Bank** classifies Mozambique as in a 'fragile situation' in its Country Policy and Institutional Assessment score;

About Africa Risk Consulting:

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