



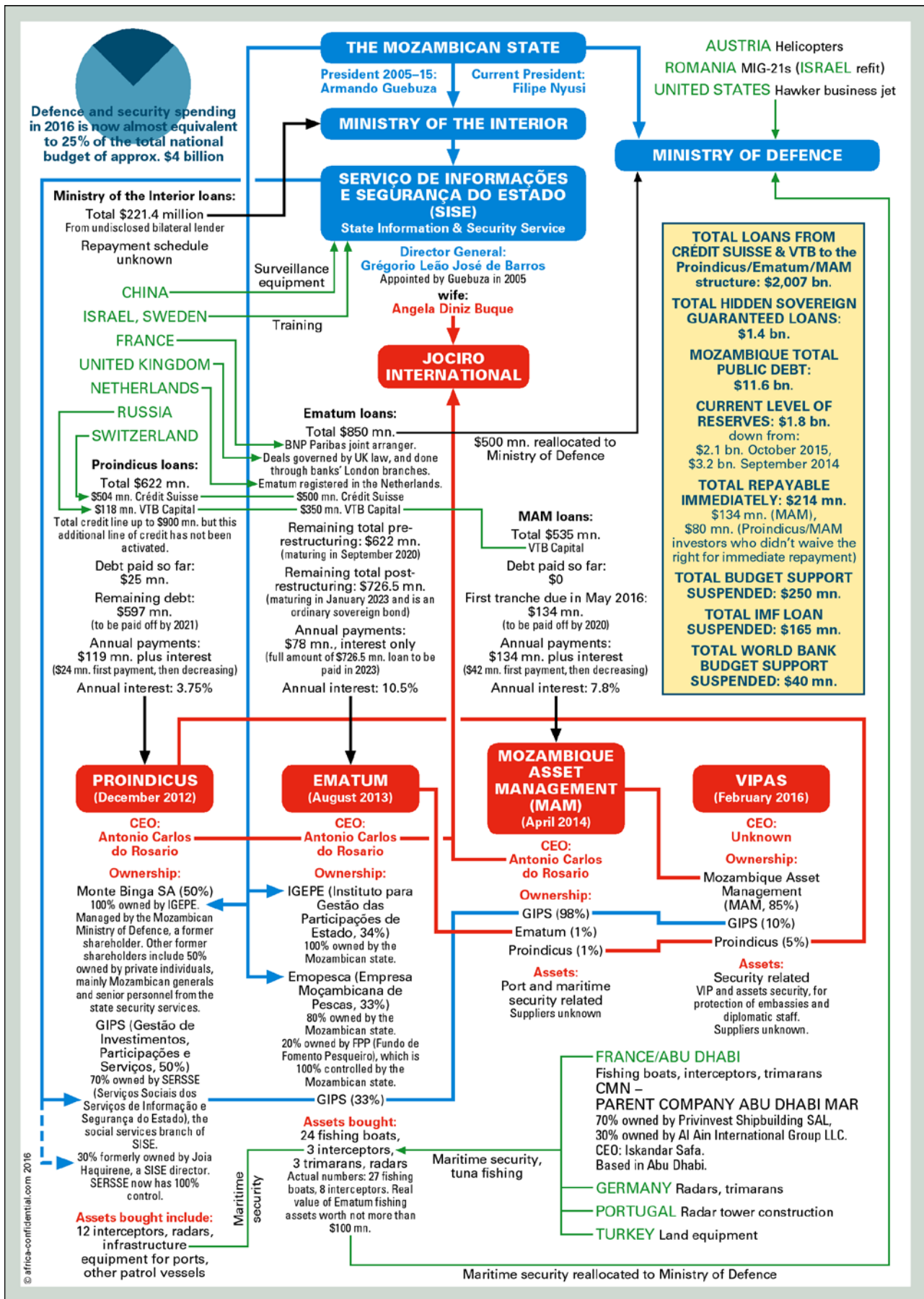
- [MOZAMBIQUE](#)

Secret security debts devastate economy

13th May 2016

As officials count the rising cost of the hidden debts, President Nyusi faces awkward questions from investors and donors

As Mozambique's mountain of dubious debts tops US\$2 billion, there are growing calls for a forensic audit and an international police probe into the officials and entities involved in this massive fraud. The deals and loans arranged under President [Armando Guebuza](#), and largely kept secret under his successor [Filipe Nyusi](#), mean that Mozambicans now face the prospect of penury under the yoke of debt repayments on an epic scale. The role of the banks involved in the deals, whose terms were far above market rates, is also attracting regulatory interest and criticism.



It is clear that the secret lending was undertaken by the country's state security and intelligence services, and *Africa Confidential* here reveals yet more detail of the astonishing malfeasance at the heart of the state and who was responsible. The International Monetary Fund leads an international financial community aghast at the enormity of the

deceptions of leaders of the governing *Frente de Libertação de Moçambique* (Frelimo) and is still pondering its response. It is sure to be severe and donors are already suspending budget support funds and grants.

Debt-to-GDP levels will soon hit 100% and the metical stands at 55 to the US dollar, and is still heading south. Foreign exchange reserves are at a critical \$1.8 bn., we can reveal, after \$1.4 bn. was haemorrhaged in the last year-and-a-half's effort to maintain the value of the currency and pay off bad debts.

Sources close to **Rosário Fernandes**, ex-head of the revenue authority, the *Autoridade Tributária de Moçambique*, have told us of systematic diversions of taxes straight into the pockets of the Frelimo elite, especially in the later years of President Guebuza's term of office, when he exercised enormous patronage. Massively inflated contracts were commonplace. The latest to emerge is the extravagant, nearly complete, Bank of Mozambique building in Maputo, which boasts a helicopter landing pad on the roof. Originally estimated to cost \$90 mn., the final cost is reckoned at at least \$300 mn., with kickbacks and 'commissions' accounting for the cost inflation, say Frelimo sources.

Brazen schemes

Guebuza engaged in an ultimately doomed attempt to extend his term of office, which ended in October 2014, and this partly explains the extraordinary scale of his liberality towards loyalists, sources formerly close to him told us (AC Vol 53 No 18, [The Putin option](#)). The schemes became increasingly brazen, and the creation in 2013 and 2014 of three companies – *Empresa Moçambicana de Atum* (Ematum), Proindicus and Mozambique Asset Management (MAM) – was the culmination of this programme. The companies, which received the totality of the \$2 bn. now owed by the state, were mainly in the field of maritime security, even though it was the intelligence and security services that provided the management. They bypassed parliament, illegally, and defence procurement, effectively privatising, as one commentator put it, national security while lining the pockets of the elite into the bargain. Yet the ill-equipped companies could not cope and quickly collapsed. Ematum, which originally claimed to be focused on tuna fishing, is no longer operating its few licensed vessels because it cannot pay salaries (AC Vol 56 No 24, [Nyusi's nightmare](#)).

The three companies also own VIPAS (VIP and asset management), which was created in February this year to supply protection services to embassies. It's unclear what the outlook is for the fledgling VIPAS, but it is hard to imagine Maputo's diplomats being keen.

The only public face common to all the companies is their chief executive, **António Carlos do Rosário**, a previously little-known director of *Serviço de Informação e Segurança do Estado* (SISE, Mozambique's intelligence service). Behind him stand senior Frelimo politicians, and defence and security personnel. Do Rosário is the shop window, but he answers to the current SISE Director, **Grégorio Leão José**, who was appointed by Guebuza in 2005, our sources say. Leão's wife, **Ângela Diniz Buque Leão**, is in business with Do Rosário, a trusted Guebuza loyalist.

Many have often wondered how President Nyusi, who was Defence Minister at the time, could have remained uninvolved – which was the public impression as the Ematum scandal broke. However, the CEO of the company supplying the patrol boats, **Iskandar Safa**, commented that the parent company of his shipyard, *Construções mecânicas de Normandie* (CMN), had struck other deals with Mozambique. One of them was with Proindicus, one of the previously secret massive debt-holders, which is half-owned by the Defence Ministry-run company Monte Binga.

Commentators have remarked it would have been impossible for Nyusi not to have been aware of deals of such magnitude. This could well explain his reluctance to move against his predecessor over the Ematum bonds and similar opaque debts (AC Vol 57 No 6, [Nyusi's resolve in doubt](#)).

21 December 2012 Proindicus incorporated.

8 January 2013 Proindicus announced in Maputo Government Gazette.

February 2013 Crédit Suisse maritime security study. Says contract already signed between Proindicus and Prinvest (at unspecified date).

28 March 2013 Tuna Fleet Development Plan submitted, with phased 15 year plan to gradually develop Mozambican tuna fishing industry. No mention of a new fleet being created.

2 August 2013 Ematum incorporated.

3 September 2013 News emerges that Mozambique has asked Crédit Suisse and BNP Paribas to arrange \$500 million bond.

5 September 2013 Ematum announced in Government Gazette. Iskandar Safa announces €200 mn. placed by Mozambique with CMN for 30 vessels: 24 fishing vessels, 3 HSI32 interceptors and 3 Ocean Eagle 43 trimarans to be built over a period of two years. Deal makes news in French press.

11 September 2013 Crédit Suisse issues loan participation notes to investors.

13 September 2013 Iskandar Safa mentions other, 'more important' contracts with Mozambique and parent company of CMN in media interview.

Late September 2013 VTB Capital sell further \$350 mn. of bonds, bringing total amount to \$850 mn.

12 December 2013 Finance Minister Manuel Chang announces that \$350 mn. of Ematum loan is moved to Defence Budget, along with the 30 vessels ordered from CMN deemed to cost €200,000.

1 March 2014 Filipe Nyusi selected as Frelimo presidential candidate.

April 2014 Mozambique Asset management (MAM) incorporated.

29-30 May 2014 IMF Africa Rising conference, Maputo.

August 2014 First fishing vessels arrive in Mozambique.

24 October 2014 Nyusi announced as winner of presidential election.

December 2014 First experimental fishing expeditions.

Early 2015 Catch sold at a loss (3.3 mn. meticais).

15 January 2015 Nyusi inaugurated as president, formally replaces Armando Guebuza. Two days later Nyusi announces new Cabinet, Chang replaced by Adriano Maleiane.

23 January 2015 News that Mozambique has ordered three more interceptors for the navy from CMN.

29 March 2015 Guebuza forced to resign as head of Frelimo, replaced by Filipe Nyusi.

9 April 2015 President Nyusi and Prime Minister Rosário cancel at the last minute their attendance at Ematum promotion event.

28 April 2015 Budget approved in Parliament, bringing down deficit.

May 2015 Final fishing boats arrive, completing fleet of 24. Amount in Defence Budget increased to \$500 mn.

1 June 2015 Ematum publishes accounts in Noticias (value of remaining order, and five fishing boats).

12 June 2015 Ematum cuts staff, Financial Director sues company for \$200,000.

18 June 2015 Finance Minister Adriano Maleiane announces re-negotiation of Ematum loan. The next day Ematum bonds plunge to a record low.

Summer 2015 Meeting in London of Mozambique creditors, total debt revealed as far more than the official figure.

August 2015 VTB Capital in Maputo, talks with Maleiane.

September 2015 First 9% repayment due, plus interest.

December 2015 Maleiane sends letter to IMF denying additional debt.

February 2016 VIPAS incorporated.

11 March 2016 Mozambique pays second tranche of Ematum bond, c. \$100 mn.

15 March 2016 Standard and Poor's downgrade Mozambique to CC rating, triggering a clause that requires banks to reveal additional debt.

March 2016 Ematum bond restructure, investors told of additional debt. Government negotiates waivers to prevent most investors demanding immediate payment. Government pays \$25 mn. of Proindicus debt.

1 April 2016 Standard and Poor's says it considers Mozambique restructure a 'select default'.

3 April 2016 WSJ story reveals \$622 mn. loans for Proindicus and overall at least \$787 mn. of additional debt.

11 April 2016 Maleiane travels to Washington for IMF talks ahead of Spring meetings.

15-16 April 2016 IMF Spring meetings, Washington. Maleiane makes statement saying no hidden debt; then IMF confirms the hidden debt is over \$1 billion and announces suspension of disbursements to Mozambique.

18-21 April 2016 President Nyusi in Berlin, meets Chancellor Merkel; also accompanied by head of SISE, Leão. Prime Minister Rosário in Washington for talks with IMF.

21-22 April 2016 Nyusi visits Brussels, meets Belgian and EU institutions. Accompanied by three ministers: Oldemiro Baloi (Minister of Foreign Affairs and Cooperation), Max Tonela (Minister of Industry and Trade), and Celso Correia (Minister of Land, Environment and Rural Development).

27 April 2016 World Bank suspends disbursements to Mozambique.

28 April 2016 Rosário gives press conference, officially admits existence of additional debt. UK suspends general budget support to Mozambique.

9 May 2016 G14 donors officially suspend general budget support. United States places \$400 mn. annual aid under review.

May 2016 \$134 mn. payment for MAM due, plus \$80 mn. to Proindicus and MAM investors.

The German question

Some Frelimo members who are opposed to Guebuza nonetheless have little sympathy for Nyusi. Veteran senior member **Sérgio Castel Branco da Silva Vieira** said, 'I, and my children and grandchildren, are not going to pay the debt of this robbery'. He added that Nyusi 'humiliated himself' during his recent visits to **Germany** and Brussels, where he tried to cling to donor support.

German Chancellor **Angela Merkel** asked Nyusi when he met her in Berlin on 19 April, 'Where is the money?' and also, 'Are you in charge?', according to a source in Nyusi's delegation – which also included elusive SISE head Leão. Germany supplied radar equipment for the maritime security programme, as did **France** and **Switzerland**.

Wealth on display

Merkel's questions go to the heart of the scandal, as the heaviness of the external debt is obscuring the question of where the cash ended up. There is widespread fear that, with its insistence on unity at all costs and its long record running a one-party state, Frelimo is constitutionally incapable of pursuing the generals, spies, and party cadres who won the equivalent of lottery jackpots. The wealth of many of them – in the form of lavish entertainments, luxury cars, and stunning homes – is on conspicuous display in Mozambique's cities. For now, Nyusi is taking the blame. Prime Minister **Carlos Agostinho do Rosário** even spoke recently of the Nyusi administration as a 'transition government', in tacit acknowledgement of the long shadow Guebuza casts.

In the absence of action by the government – although the Attorney-General's office has announced an investigation into the illegalities – the **United States** may take an interest, since it has de facto jurisdiction given the US dollar denomination of the debt. It is Mozambique's largest bilateral donor, at \$400 mn. of aid per year, which is now under what we hear will be 'very tough' review. The whiff of a multi-billion dollar arms deal involving **Russia** could easily pique American interest. Given the secretiveness to date, it would hardly be surprising if more diversions, and more secret loans, turned up.

Following talks with IMF in Washington, ending on 21 April, the Prime Minister confirmed the additional loans: \$622 mn. to Proindicus (which was topped up to \$900 mn., although the extra line of credit was not activated) and \$535 mn. to Mozambique Asset Management (MAM – see table).

Of Proindicus' \$622 mn., *Africa Confidential* has learned from senior banking sources that only \$311 mn. is shown to have gone to the company. The other half may have been diverted to other projects and possibly into private hands. The same suspicions apply to MAM, which has not explained its procurement plans. The company is meant to operate port facilities for Proindicus, including in Pemba – and to compensate General [Alberto Chipande](#) for being cut out of the original Pemba deal, we understand (AC Vol 55 No 16, [Contracts galore in the new order](#)).

Finally, Mozambique confessed to the IFIs that it was holding other state-backed loans to the Ministry of Interior. They have refused to name the bilateral lender, or detail the purpose of the loans. They total \$221.4 mn. and were obtained between 2009 and 2014.

It is clear that the maritime security project previously claimed by the authorities as being the military component of Ematum is actually Proindicus, as *Africa Confidential* can see from the Credit Suisse feasibility study document produced in February 2013. This means the Ematum money allocated to the Defence budget was probably used for other purposes. Indeed, the total value of Ematum's fishing assets cannot be worth more than \$100 mn. – probably far less – so the unexplained sum may reach over \$700 mn. (AC Vol 56 No 14). But since the three companies effectively own each other, it is harder to trace money and assets, which can be easily moved in an opaque manner.

The authorities, including António Carlos do Rosário and senior military personnel, are now trying to give the impression that large amounts of defence equipment were purchased, we hear. But security sources on the ground see little evidence of that, even though Mozambique's defence and security spending now equates to around a quarter of the national budget, *Africa Confidential* can reveal. As a percentage of gross domestic product, the amount allocated to defence is among the highest in the world, at a staggering 5%. But it has little to show for its money, and a more probable scenario is that the money enriched individuals.

More to come

Yet more debt may be in the pipeline. AC has learned that **China** is believed to have made as yet undisclosed loans to SISE, which has undergone significant expansion in recent years. SISE reports directly to the President. Last Wednesday, Mozambican independent newspaper *CanalMoz* reported that Chinese company ZTE provided the intelligence service with an extensive telephone surveillance suite in a deal which netted Guebuza's son **Mussumbuluko** an 8% commission, equivalent to \$11 mn. Security sources also report two new training centres outside Maputo, where **Israelis** are also assisting.

There is also talk of loans from **Portugal** to Mozambique, and senior Frelimo figures tell us that in general, bilateral loans to specific ministries are sometimes not properly declared to the Ministry of Finance.

Possibly, the sheer level of abuse in the system caused the Ministry of Finance to lose track of Mozambique's debts. It may still be unsure itself whether it has disclosed everything. But three years is a long time in which to conceal \$2 bn. worth of debt, and the Prime Minister beggars the belief of many in calling it an 'error'. 'Cover-up' is widely thought a more accurate description.

There has been much speculation about what might have happened if the IMF had taken a tougher stance on Ematum after December 2013 and insisted on examining the books. Many donors supported the IMF's good intentions in trusting its interlocutors in Maputo, but dissenters such as **Denmark** – which always believed there were too many unanswered questions (AC Vol 55 No 3, [Donors up in arms](#)) – have been vindicated by the revelations about Proindicus. SISE even created MAM *after* the Ematum scandal, in April 2014 – ironically, just before IMF's ever-optimistic, international 'Africa Rising' conference in Maputo, on 29-30 May that year.

Misplaced Faith

The IMF's faith in the momentum around Mozambique as the rising star of the region was not easily shaken, and it was with some naivety that they then placed their hopes on the reputed integrity of Nyusi's new Finance Minister, **Adriano Maleiane**.

Ultimately, Maleiane, like his predecessor **Manuel Chang**, had little choice but to protect the party. Donor sources confirm that last December Maleiane even signed a letter to a suspicious IMF that denied the existence of MAM, Proindicus and the additional debt, despite already being in talks with the banks over the loans.

The Central Bank was also complicit, even forcing local banks to lend it dollars to hide inadequate levels of foreign reserves, say senior banking sources in Maputo. In March, Mozambique repaid \$25 mn. of Proindicus debt from the reserves – a fact that Central Bank Governor **Ernesto Gove** must have been aware of, despite his pleas of ignorance. Now, Mozambique must find \$134 mn. to pay the first tranche of MAM debt in May. In addition, it owes about \$80 mn. to investors in Proindicus and MAM who did not waive their right to immediate repayment when Mozambique was downgraded (AC Vol 57 No 9, [IMF cut-off follows secret debt shock](#)). Some talk hopefully of money still sitting in offshore accounts, or liquidating assets. But given its current commitments, Mozambique is on course to lose at least another \$400 mn. from the reserves in debt repayments this year.

Nervous banks

Banks are worried about the prospect of litigation over the loan arrangements, from which they reaped unusually large fees, say sources involved in the transactions. Agitated investors blame bankers for deceiving them over the original activities of Ematum, and the non-disclosure of the additional debt. The Mozambique sovereign bond, which replaced the Ematum bond, has taken a sharp dive since the scandal broke in early April and is now worth 77 US cents.

While a taciturn IMF bides its time, the markets remain jittery and concerns of a looming default are growing. Annual debt servicing has multiplied to more than \$600mn, a totally unsustainable figure, especially if, as it has been considering, we hear, the Fund cancels its programme.

Credit Suisse and VTB may also need to answer tough questions from the **United Kingdom** authorities because they used their London offices for the deals. Senior Maputo government sources say the British authorities have been alerted to the controversy surrounding the loans.

Mozambique's plight has not gone unnoticed by China, which quickly made overtures to Nyusi with \$16 mn. in assistance and offers to finance large investment in new projects.

The east is red

Nyusi is to visit China from 15 to 17 May. While China's help comes at its own price, and Nyusi has not been as enamoured of China as Guebuza, it is hard for the government to ignore such offers at a time of crisis. Some Frelimo sources fear that too great a reliance on China could mean allowing the superpower to effectively 'buy the country', but it gives them some options.

Maputo is aware some donors won't want to push Mozambique too far into the arms of China, and could use this as a bargaining chip, although the danger of overplaying its hand is strong. Since the Ematum scandal began, five members have already left what was the G19 group of donors.

The IMF remains key. Investor confidence, already low, would be further damaged by a vote of no confidence from the IMF, risking the gas sector development on which the country has pinned all its hopes. But Maputo is in need of more than a smile from IMF director [Christine Lagarde](#), we have learned. Just as its credit downgrade triggered a clause in its loan agreements that meant investors had the right to immediate repayment, so there is another clause that may now apply.

At least as far as the Proindicus loan is concerned, the validity of the state's guarantee is dependent on Mozambique meeting its obligations regarding its IMF and World Bank programmes. The current programme suspensions could invalidate the guarantee, which could already be in question for having been granted in violation of Mozambican budget law. Mozambique, and the banks, are in a very precarious position.

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