EXX AFRICA INSIGHT

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SPECIAL FEATURE:

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FALL-OUT OVER MOZAMBIQUE DEBT SCANDAL RISKS SPILL-OVER INTO ANGOLA

While the Mozambique undisclosed loans saga unfolds in domestic and international courts, there are growing indications that the scandal risks spilling over into Angola, where mounting evidence of similar opaque procurement deals threatens to undermine the government's high-profile anti-corruption drive and nascent economic recovery in 2019.

On 25 January, Mozambique's Parliament requested that the country's former finance minister Manuel Chang be held in preventative custody while he awaits extradition to the United States following his recent arrest in neighbouring South Africa. Parliament has sought an opinion from its constitutional affairs and human rights commissions to implement the request.

In early January, Mozambique's attorney general indicted 18 nationals for their involvement in fraud involving USD 2 billion in loans to state-owned companies. The indictment includes 'charges of abuse of power, abuse of trust, swindling and money laundering.' The country's Parliament and attorney general's sudden action demonstrate growing panic inside the Mozambique government and renewed pressure to deal with the three-year old scandal that prompted the International Monetary Fund (IMF) and foreign donors to cut off credit support in 2016, thus triggering a currency collapse and a debt crisis from which the country is still trying to recover.

Mozambique debt scandal reaches its crescendo

Former Mozambique finance minister Manuel Chang was among those indicted. Chang, who denies wrongdoing, has been detained in neighbouring South Africa since 29 December in a case brought by United States prosecutors related to the fraudulent loans. Four days after Chang's arrest, three former Credit Suisse bankers – Andrew Pearse, Surjan Singh, and Deletina Subeva – were detained in London. A fifth accused, Jean Boustani was arrested in the US. Boustani is alleged to have negotiated a round of bribe and kickback payments by his company shipbuilder Privinvest in order to ensure Mozambique government approval for projects to develop a coastal protection system for Mozambique's 2,470 km coastline.

One of the projects was contracted by Mozambican state-owned company ProIndicus, which solicited USD 622 million in loans from Credit Suisse and Russian state-owned bank VTB Capital. Another project, to build a fleet of tuna fishing vessels, was housed under state-owned company Ematum, which gained USD 850 million in financing from Credit Suisse and VTB Capital. A third project involving Privinvest, nominally to build a shipyard, provide additional naval vessels, and upgrade two existing facilities to service Proindicus and Ematum vessels, fell under a third state-owned company, Mozambique Asset Management (MAM), which secured loans worth USD 500 million. All loans were secured by Mozambique government guarantees and began to default on repayments around 2017. According to the US indictment, large bribes and fraudulent payments were made to the various accused bankers and Mozambique government officials. All accused have so far denied the allegations.

Mozambique's government is currently seeking to restructure the loans and in November struck an initial agreement with the bulk of its creditors to restructure a USD 726.5 million Eurobond. The agreement includes extending maturities and sharing future revenue from offshore gas projects. The agreement confirms EXX Africa's longstanding forecast that creditors would not seek punitive measures against Mozambique, but would rather restructure debts while leveraging gas revenues as collateral. The agreement is the first in a set of steps that will be required to restore Mozambique's relations with creditors and international financial institutions, especially the IMF (See **SPECIAL REPORT: MOZAMBIQUE BEGINS THE LONG ROAD TO RECOVERY**).

However, Mozambique's Attorney-General has said she will seek to have those charged in the US and elsewhere face justice in Mozambique. Further arrests are expected as a number of names in the US indictment have not been disclosed. EXX Africa was one of the first risk advisories in early 2016 to flag substantial undisclosed debts, which was eventually confirmed by the Mozambique government, subsequently prompting the IMF and foreign donors to cut off support, triggering a currency collapse, and a default on sovereign debt.

The role of Privinvest in Angola

While the Mozambique debt scandal reaches its highly publicised finale, there are growing indications of involvement by senior Angolan political leaders in the scandal that have so far not been fully uncovered.

These emerging affiliations and business deals risk undermining the Angolan government's popular and high-profile anti-corruption drive, while also embarrassing senior Angolan politicians and pose new reputational risks for investors in Angola.

EXX Africa has conducted a source investigation to explore the role of the Angolan political elite in the Mozambique debt scandal and the potential existence of further undisclosed debt issuance. In particular, there are a number of red-flags around Privinvest's deals in Angola that have come up over the course of our investigation, some of which signal reputational risks for Angolan President João Lourenço.

Various well-connected Mozambican sources that we consulted report that President Lourenço was involved in the Privinvest and ProIndicus deals. These engagements relate back to Lourenço's previous role as defence minister, as well as during his tenure as Angolan president since September 2017.

The most significant find was that Simportex - the Angolan Ministry of Defence-linked company, which entered into a Joint Venture with Privinvest - signed two significant contracts, worth a total of EUR 122 million, in 2015 with Finmeccanica group companies (now Leonardo S.p.A) - for procurement which Privinvest could have supplied itself. On 23 December 2015, Simportex signed contracts for the purchase and sale of equipment, spare parts, and to provide installation and training services to equip a national centre and three regional maritime coordination centres, as well as to install several radar stations, repeaters and communication media on the Angolan coast.

The deal was made between the Angola Ministry of National Defence and the Selex Company Ess. PA in the equivalent amount in Kwanzas to EUR 115 million. The deal also included the purchase and sale of two ultra-fast commander patrol vessels, spare parts, tools and training services, between the Ministry of National Defence and the Company Whitehead Sistemi Subacquei SPA in the equivalent amount in Kwanzas to EUR 7.3 million.

Angola entered into another deal with Privinvest, around the same time as the Ministry of Defence - Simportex joint venture, for Privinvest's French subsidiary CMN (which built the EMATUM boats) to supply a hydroelectric project.

The Privinvest deals took place around 2014-2015, before dos Santos had any indication that Lourenço would take over the Presidency. At the time dos Santos was still pushing for a political succession by his deputy Manuel Vicente. Once the succession became clearer in mid-2017 (and less favourable to dos Santos's aims), we have reports of much more significant attempted wealth transfers from dos Santos to Lourenço, including farming (to add to his holdings at Fazenda Matogrosso), mining, and construction concessions.

Angola affiliation to ProIndicus

There are also indications of a relationship between João Lourenço and ProIndicus. A source close to ProIndicus reports that Lourenço visited the Mozambique project while serving as Angolan defence minister (a position he held from 2014-17), as part of an effort by Privinvest - led by Boustani - to sell him a similar package. As explained above, Angola did - through Ministry of Defence purchasing company Simportex - enter into a EUR 495 million contract to buy ships and shipbuilding capability from Privinvest, in a contract with apparently striking similarities to ProIndicus and MAM (in terms of wording and content).

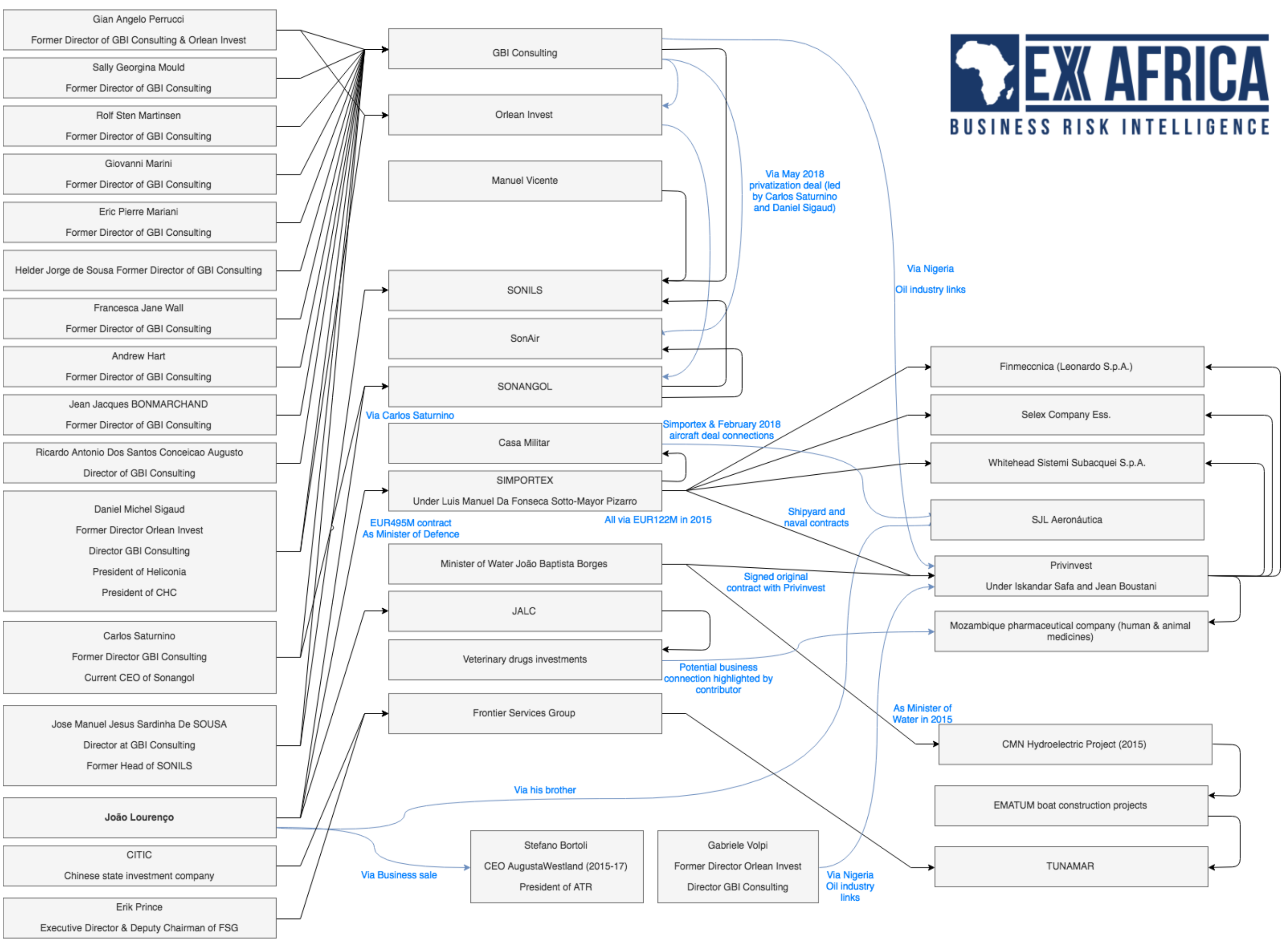
Various sources also report that Boustani was involved in negotiating Privinvest's deals in Angola and that Lourenço's company Consultores e Prestação de Serviços (JALC) played a role in these negotiations. Additionally, former vice president Manuel Vicente, who now acts as an economic and financial advisor to Lourenço with extraordinary powers and influence over government policy, has had a prominent role in negotiating the Privinvest contracts in Angola. Vicente introduced businessman Gabriele Volpi to Mozambique through Volpi's relationship with Sonangol affiliate Sonangol Integrated Logistic Services (SONILS). Then further sources report that Volpi, along with Boustani, made the initial introduction between Lourenço and Privinvest. Vicente's company Sadissa also did deals with Simportex.

The gradual disclosure of these relationships is already causing tremors among Angola's political elite and local investigative journalists are picking up similar stories. The interest in Lourenço's business interests has spiked by the recent disclosure that in 2018 his government authorised the sale of multiple Angolan airforce light aircraft to his brother General Sequeira João Lourenço's company, SJL Aeronáutica. The family of General Sequeira is a shareholder of SJL.

Similarly, Lourenço promoted former Simportex head Luís Manuel da Fonseca de Sotto Mayor Pizarro, who oversaw a number of opaque deals by the entity, including the acquisition of AW1 series helicopters in October 2015. Such emerging disclosures are becoming embarrassing to the president and are starting to undermine his government's high-profile anti-corruption drive.

ANGOLA – PRIVINVEST INFLUENCE NETWORK

As part of EXX Africa's investigation into the business deals between the Angolan government and Privinvest, it emerged that a broader network of individuals and entities are likely to have been involved in the relationship. Some of these relationships are outlined in the influence map below.



INSIGHT

Angola's new government's anti-corruption and economic liberalisation platform is aimed at diluting the political and economic dominance of its former ruling elite. Since assuming office, President Lourenço has removed a large number of influential politicians, who face allegations of corruption. President Lourenço has begun to chip away at the political and economic dominance of the dos Santos family under the banner of a very popular anti-corruption campaign. However, there is as yet no indication that the anti-corruption drive will extend beyond supporters of the former president.

The mounting evidence of Privinvest business dealings in Angola and opaque Angolan government procurement deals threaten the government's anti-corruption platform and risk embarrassing President Lourenço. Much of the international good will towards Angola's new government has been founded on Lourenço's transparency drive and the prosecution of former public officials implicated in recent graft probes. The unfolding saga also risks undermining relations with relations with the IMF. In December 2018, the Fund approved a three-year USD 3.7 billion loan under the institution's Extended Fund Facility. The approval of the facility is seen as a positive development in galvanising an underperforming Angolan economy. The IMF's loan approval was meant to add further legitimacy to the economic reformist trajectory that has been ongoing since Lourenço took office in September 2017. However, the immediate outlook for Angola's economic trajectory remains relatively weak.

In 2018, Angola's economy performed below expectations due to falling oil sector revenues and public spending cuts. Amid suppressed oil prices, the excessive negative government intervention, together with administrative bottlenecks and an altogether adverse business environment, saw a significant decline in output and investment. For a country that derives approximately 95 percent of its export revenue from oil, the reduced productivity and diminished revenue has left Angola in a precarious position. Not only do the productivity losses undermine efforts to trim the fiscal deficit down from its high of 7 percent to 3.4 percent – and debt from approximately 60 percent to around 55 percent – but they also weigh on the country's ability to finance regular expenditures.

By the end of 2018, Angola's external and fiscal buffers had fallen to their lowest level in seven years. The country's gross international reserves declined to USD16.2 billion by late October from USD27 billion four years earlier. Despite a current account surplus, the country's central bank, the National Bank of Angola (BNA), continued to deploy its reserves to facilitate an orderly depreciation of the local kwanza currency over the course of 2018 and to increase foreign-currency liquidity in the cash-strapped economy. Over 2018, the kwanza depreciated 46 percent to the US dollar after the BNA moved from a de facto peg to a weekly foreign exchange auction system.

Meanwhile, pressure has mounted on the banking sector over the course of last year. In early January, the BNA withdrew licenses of two small lenders, Banco Mais and Banco Postal, which it said should be declared bankrupt. The two banks had missed a 31 December deadline for complying with new capital requirements. Such developments have cast doubt over the sovereign's creditworthiness and the health of the local banking sector. Financial stability is in jeopardy as the accumulated credit risks materialise and shareholders face difficulties injecting capital. This will contribute to a vicious cycle of local currency depreciation, asset-quality deterioration, and capital buffers debasement.

Despite its significant resource endowment – including the potential to produce upwards of 2 million barrels per day of oil at full capacity – the extent of Angola's economic malaise was such that it had very few options but to resort to the IMF at the end of last year. As the Privinvest saga spills over into Angola, the country's newly established reputation for transparency and good governance, as well as human rights record will be tarnished. Moreover, Angola's relations with the IMF and the prospect of an economic recovery in 2019 face new challenges as investors are exposed to emerging reputational risks as the Mozambique debt scandal spills over.

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