

# MOZAMBIQUE News reports & clippings

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## Special report on US indictment of Chang & others

The full indictment is posted on [bit.ly/ChangIndict](http://bit.ly/ChangIndict)

## Chang received \$12 mn says US indictment; CS loan organiser Pearse got \$45 mn; 2 Mozambicans on list not arrested yet given \$36.5 mn

The indictment against Manuel Chang and others was published on 3 January. Two other senior Mozambicans have also been charged but their names are blacked out, as they have not yet been arrested. These two are alleged to have received \$36.5 mn in "bribes and kickbacks". Chang is said to have personally received \$12 mn. Three "Mozambican co-conspirators" who are not charged, presumably because they cooperated with the US Department of Justice, received \$23 mn in bribes. But the largest payment, \$45 mn, went to Andrew Pearse, the then Credit Suisse (CS) managing director who orchestrated the secret loan deal. The equipment supplier was Prinvest and Jean Boustani is said to have received a \$15 mn kickback.

The indictment, issued by a Grand Jury at a US district court in New York on 19 December 2018, shows the large amount of information already provided to the US department of Justice, including e-mails and other documents. These make clear the secret loans were corrupt for the start, going to the top.

Eight people are charged:

3 Mozambicans: Manuel Chang, Finance Minister at the time of the secret loans. and two others whose names are redacted.

2 senior people from the Abu Dhabi company Prinvest which received the \$2 bn and was to supply ships and coastal protection equipment: Jean Boustani, called in the indictment "the lead salesman and negotiator of Prinvest" and one other whose name is redacted.

3 senior people then at CS: Andrew Pearse, a managing director at CS and head of the Global Financing Group; Surjan Singh, a managing director of CS's Global Financing Group; and Detelina Subeva, a vice president of CS's Global Financing Group.

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Thus the indictment is not just against the Mozambicans who took the loans and received bribes, but also against CS senior officials for organising fraudulent loans and Prinvest for charging "inflated prices" which it then used "to pay bribes and kickbacks".

Three Mozambican "co-conspirators", whose identity is known to the Grand Jury" but who are not charged are not named and only identified as:

"involved in obtaining the Mozambican government's approval of the Proindicus project";

"a relative of a senior official of Mozambique": and

"a senior official in Mozambique's Ministry of Finance and a director of Ematum".

## **Bribe planning came first**

The indictment makes clear that the whole idea came from CS and Prinvest and that Prinvest had to "persuade Mozambican government officials" to accept the deal. The indictment says that "almost immediately Boustani and [the redacted Mozambican] negotiated the first round of bribe and kickback payments that Prinvest would have to make for the benefit of Mozambican government officials for the project to be approved."

On 11 November 2011 the redacted Mozambican wrote an email to Jean Boustani, a senior executive at Prinvest: "To secure the project is granted the go-head by the HoS [Head of State, Armando Guebuza], a payment has to be agreed before we get there, so that we know and agree, well in advance, what ought to be paid and when." Boustani replied the same day that because of "negative experiences in Africa" Prinvest now had a policy that no money could be paid before a contract was signed. On 14 November 2011 the redacted Mozambican agreed that part of the bribes would be paid on signing and part when the project started.

But the Mozambican warned in the e-mail that by the time of project implementation "there will be other players whose interest will have to be looked after, e.g. ministry of defense, ministry of interior, air force, etc". Money must be paid early because "in a democratic government like ours people come and go, and everyone involved will want to have his/her share of the deal while in office, becomes once out of the office, it will be difficult. So it is important that the contract signing success fee be agreed and paid in once-off, upon the signing of the contract."

In another e-mail exchange on 28 December 2011, it was agreed that \$50 mn in bribes would go to Mozambican government officials and \$12 mn in kickbacks for Prinvest co-conspirators. It took a further year of negotiation. The ProIndicus contract with Prinvest was signed on 18 January 2013, and the first bribes were paid five days later.

## **The charges**

The US says the eight charged people "created the maritime projects as fronts to raise money to enrich themselves and intentionally diverted portions of the loan proceeds to pay at least \$200 million in bribes and kickbacks to themselves, Mozambican government officials, and others."

The loans were organised by CS and the Russian bank VTB and sold to investors, including in the United States, and the 8 charged people "conspired to defraud investors and potential investors" by misrepresenting the use of the money and Mozambique's ability to pay, and through the paying of bribes and kickbacks.

Charges can be brought in the US because US investors were defrauded, because US investors were to pay through CS New York branch, and because many of the bribe payments were made through corresponding banks in New York. For example, in 2013 and 2014 Pearse received 14 kickback payments which were simply transferred from one UAE bank to another, but each payment was denominated in dollars and routed through the UAE banks' correspondent in New York.

## **Banks accused of securities fraud on Ematum exchange**

"To hide from the public and the IMF the near bankruptcy of the project companies", the indictment says, Boustani, Pearse and Subeva proposed that the original Ematum bonds be exchanged for new bonds issued directly by the government. Government accepted the proposal in 2015 and hired CS and VTB to conduct the exchange, and chose as advisor Palomar, which was owned by Prinvest and Pearse and then employing Pearse and Subeva, who had left CS.

In particular, when the original Ematum bonds were exchanged for government bonds in 2016, the exchange documents prepared by CS, VTB, Pearse and Subeva failed to disclose the existence of

the still secret Proindicus and MAM loans, and thus contained "false and misleading information". At a meeting in New York on 15 March 2016 to deal with exchanging the Ematum bonds one of the redacted Mozambicans "provided false and misleading information to investors regarding Mozambique's economic prospects, debt level, and its ability and intention to meet its Ematum debt obligations".

The exchange of bonds took place on 6 April 2016, and the indictment says, this was based on "false and misleading information", and the accused are charged with securities fraud.

## **Chang, IMF and guarantees**

Chang is specifically cited on two key issues. On 22 December 2012 he wrote to "Prinvest co-conspirator 2" a letter forwarded to CS "employee 1" in which he explained that "the financing of this project [Proindicus] is still constrained by the IMF imposed limitations on the Government for Mozambique to accept commercial credit for commercial projects. Therefore, we have devised an alternative solution whereby an SPV [Special Purpose Vehicle] ... will be formed."

On 26 December 2012 Boustani sent an e-mail saying it was "imperative" the Chang sign the Proindicus loan guarantee. He did so on 28 February 2013. and in late 2013 he was paid at least \$5 mn from a bank account in the UAE, through the United States, to a bank account in Spain.

## **Avoiding CS controls**

The three CS former senior employees are charged with conspiring to circumvent CS "internal controls to enrich themselves and win the Proindicus business for [CS], including through the payment of bribes to Mozambican officials ... with the intent, at least in part, to benefit [CS]."

CS wanted competitive bids for the Ematum contract, but Boustani said this could not be done because it has been arranged due to "high level connections" between Prinvest and the government. Concerns were raised by the CS compliance department that one of the Prinvest people they were dealing with was already on file at CS as "an undesirable client" and a "master of kickbacks". The indictment notes that his involvement continued and the CS compliance department "failed to pursue its inquiry further."

The indictment says CS "imposed conditions that Mozambique would have to meet to receive a loan. Some of those conditions, however, carried a risk of exposing the existence of the Proindicus projects to the Mozambican public and members of Mozambique's government beyond the circle of government officials who are part of the fraudulent scheme." So the three accused simply removed the conditions from the loan. Two conditions removed were to require approval of the Attorney General (Boustani said "they will never accept to inform the attorney general") and to inform the IMF about the loan. CS apparently never checked.

Pearse and Subeva, then still employed by CS, used their personal e-mail to set up the Ematum project which Singh submitted without their names. Fake competitive bids were created for the project. Singh then led the due diligence process in Mozambique, while Pearse and Sueva provided answers to government officials for due diligence meetings. Pearse then made \$4.5 mn in payments to Singh.

## **Will Credit Suisse wiggle out?**

"The indictment alleges that the former employees worked to defeat the bank's internal controls, acted out of a motive of personal profit, and sought to hide these activities from the bank," Credit Suisse said in a statement, adding that the bank would continue to cooperate with authorities.

But the indictment also makes clear how easy it was for Andrew Pearse, head of CS's Global Financing Group, and the others to bypass the bank's internal controls, and how little check there

was on their activity.

CS is not charged in this indictment, but it will still be argued that the combination of pressure to lend and very light controls encouraged misconduct. The indictment also makes clear that CS and Prinvest pushed the loan and had to offer significant bribes before the Mozambicans would accept. So pressure will remain on CS to accept some liability for the \$2 bn secret debt.

## **Britain declines to prosecute \$ laundering & leaves it to the US**

Many of the actions being prosecuted in the US case took place in London at the Credit Suisse (CS) branch there, and the three ex CS employees were arrested in London on 3 January.

The *Financial Times* (FT, 11 Nov 2018) reported that the British Financial Conduct Authority (FCA) told CS in August 2018 that it had dropped its criminal probe into the secret loans. The FT commented that "the U-turn is a boon to the bank as the FCA was previously looking to use its criminal money-laundering powers in what would have been one of the first cases of its kind."

The FT notes that the FCA has yet to file charges in any criminal money laundering case.

**Comment:** The UK has taken harsh action against Mozambique because of the \$2 bn secret debt, cutting off all aid directly given to government. By dropping the case against CS, it makes clear it will punish poor countries taking bribes, but not London banks giving bribes.

The people of Mozambique suffer twice - first from a corrupt government, and then by the UK cutting off aid to health and education. But in London, the corruptors go free - until the United States demands the arrests of the bribe givers.

It leaves the UK looking just like Mozambique, refusing to prosecute the guilty, and punishing the poor but not the rich.

But in Britain's case, the reluctance to prosecute CS and money laundering may be understandable. If the UK leaves the European Union, it will increasingly be dependent on illegal money to keep the economy afloat. And it will need the support of the big global banks. *jh*

## **Civil society says arrests "should embarrass" UK**

"The arrest of three Credit Suisse bankers should embarrass the FCA, as it shows that the FCA decision failed to fulfil the organization's basic statutory standards, and suggests that UK regulators did not apply the necessary due care in handling the Mozambican debt case," said the Budget Monitoring Forum (FMO, Forum de Monitoria do Orçamento), a Mozambican civil society coalition. FMO adds that if FCA "internal constraints ... affect their ability to take appropriate action against Credit Suisse," FMO is willing to assist.

"The nature of charges also reinforces our view that the Mozambican illegal debt crisis is a consequence of criminal activity spanning various jurisdictions including the UK, Norway, Netherlands, Switzerland and the UAE."

"FMO rejects Credit Suisse's attempts to distance itself from its former employees. As we have previously stated, the failure of Credit Suisse to lay criminal charges against its former banker Andrew Pearse, responsible for the sovereign debt deals who joined the contractors benefitting from the illegal Ematum loans, suggests that illegal, immoral and negligent conduct was not by a rogue banker, but rather part of systemic Credit Suisse culture. "

The full FMO statement is on [bit.ly/FMO-Moz-CS](https://bit.ly/FMO-Moz-CS)

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## Background reading

### Special reports

#### Mozambique heroin transit trade

English - LSE - <http://bit.ly/Moz-heroin>

Portuguese - Pt - CIP - <http://bit.ly/Moz-heroina>

#### Gas for development?

Gas\_for\_development\_or\_just\_for\_money?\_2015 [bit.ly/MozGasEng](http://bit.ly/MozGasEng)

Gás\_para\_desenvolvimento\_ou\_apenas\_dinheiro?\_2015 [bit.ly/MozGasPt](http://bit.ly/MozGasPt)

Social protection report - 2017 Mozambique - <http://bit.ly/MozSocPro>

Special report on four poverty surveys: [bit.ly/MozPoverty](http://bit.ly/MozPoverty)

2018 Constitution - <http://bit.ly/2KF588T>

Minimum wage and exchange rates 1996-2018 -- <http://bit.ly/MinWage18>

#### \$2bn secret debt - in English

Kroll - Full report on \$2bn debt - <http://bit.ly/Kroll-Moz-full>

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

Key points of Mozambique parliament report - Nov 2016 - <http://bit.ly/MozAR-debt-En>

Following the donor-designed path to Mozambique's \$2.2 bn debt - <http://bit.ly/3WQ-hanlon>

#### In Portuguese:

Parliamentary Report on the Secret Debt (complete) [bit.ly/MozAR-debt](http://bit.ly/MozAR-debt)

**Election study collaboration:** We have detailed election data from 1999 through 2014 and are inviting scholars to use this data collaboratively. <http://bit.ly/MozEIData>

Election newsletters are on <http://bit.ly/2H066Kg>

**Eight books by Joseph Hanlon can be downloaded, free:** <http://bit.ly/Hanlon-books>

Bangladesh confronts climate change (2016)

Chickens and beer: A recipe for agricultural growth in Mozambique (2014)

Há Mais Bicicletas – mas há desenvolvimento? (2008)

Moçambique e as grandes cheias de 2000 (2001)

Paz Sem Benefício: Como o FMI Bloqueia a Reconstrução (1997)

Peace Without Profit: How the IMF Blocks Rebuilding (1996)

Mozambique: Who Calls the Shots (1991)

Mozambique: The Revolution Under Fire (1984)

#### Two more will be available shortly to download:

Apartheid's 2nd Front (1986)

Mozambique and the Great Flood of 2000

#### These are still available for sale:

Galinhas e cerveja: uma receita para o crescimento (2014) (free in English)

Zimbabwe takes back its land (2013)

Just Give Money to the Poor: The Development Revolution from the Global South (2010)

Do bicycles equal development in Mozambique? (2008) (free in Portuguese)

Beggar Your Neighbours: Apartheid Power in Southern Africa (1986)

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#### Mozambique media websites, Portuguese:

Notícias: [www.jornalnoticias.co.mz](http://www.jornalnoticias.co.mz)

O País: [www.opais.co.mz](http://www.opais.co.mz)

@Verdade: <http://www.verdade.co.mz>

Carlos Serra Diário de um sociólogo: <http://oficinadesociologia.blogspot.com>

**Mozambique media websites, English:**

Club of Mozambique: <http://clubofmozambique.com/>

Zitamar: <http://zitamar.com/>

Macauhub English: <http://www.macauhub.com.mo/en/>

AIM Reports: [www.poptel.org.uk/mozambique-news](http://www.poptel.org.uk/mozambique-news)

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