

Russia's VTB Bribe Claim May Set Back Kremlin Bank's Africa Ambitions

Senior bank executive accused of taking \$2 million in kickbacks.

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Kremlin-controlled VTB Bank has been a leading force in President Vladimir Putin's push into Africa.
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Bribe allegations leveled in court against a VTB Group executive may complicate the Russian state-owned bank's attempts to recoup a \$535 million loan that's part of a major debt scandal in Mozambique.

A New York court heard testimony last month that the VTB executive in charge of the deal, Makram Abboud, took \$2 million in kickbacks. The bank denies the allegations, made by a former Credit Suisse banker at a criminal trial in which VTB isn't a party, and its employee hasn't been charged with any wrongdoing.

Still, the accusation risks dragging VTB deeper into the controversy, which has already landed

the son of Mozambique's former president in jail. At issue are more than \$2 billion in loans arranged by Credit Suisse and VTB in 2013 and 2014 that were concealed from the International Monetary Fund, which cut off all non-emergency lending to the impoverished African country when it learned of them in 2016.

Though the Mozambican government hasn't given any indication it will take a harder line in restructuring talks with VTB after the latest allegations, legal experts said they could give the country grounds to challenge VTB's claims.

'Smoking Gun'

The assertions of bribery made in court may be "the smoking gun that means Mozambique could go after VTB," said Matthias Goldmann, a research fellow at the Max Planck Institute for Comparative Public Law and International Law in Heidelberg, Germany.

VTB rejected the allegations, saying an internal investigation found no evidence of wrongdoing or any improper payments to Abboud or any other employee and "was surprised to hear the claim in U.S. federal court by a convicted fraudster," according to its press office. The bank said it has been cooperating with international investigations for more than two years. Abboud didn't respond to an emailed request for comment; VTB said he referred it to the bank's press office.

U.S. prosecutors allege the loans were part of a scheme to siphon off money intended to finance dubious maritime projects, including a tuna-fishing fleet.

Andrew Pearse, a former Credit Suisse banker who pleaded guilty to wire fraud and admitted to taking \$45 million in kickbacks while helping arrange the loans, said in a New York courtroom Oct. 16 that Abboud pocketed \$2 million.

Pearse alleged the bribes came from Privinvest Group, an Abu Dhabi-based shipbuilder that was the sole contractor for the projects funded by the loans. He was the U.S. government's first witness in the trial of Jean Boustani, a salesman for the firm who's accused of defrauding U.S. investors in the deals. He said Boustani told him in 2015 that Privinvest paid Abboud a bribe that was half of the amount a Credit Suisse employee received "for doing twice as much work."

'Cost of Doing Business'

Michael Schachter, a lawyer for Boustani, did not dispute that Boustani made payments to officials in Mozambique, saying in his Oct. 16 opening statement it was the "cost of doing business" in the country. He said his client was not guilty of defrauding investors or violating U.S. laws.

Privinvest denies making any payment to Abboud or any wrongdoing in regards to the Mozambique projects, a spokesman for the firm said by email. Boustani remains an employee, the company said.

At least \$200 million of the loans went to pay bribes and kickbacks for former Credit Suisse employees, Mozambican officials and others, according to the U.S. indictment. Credit Suisse

has said its own staff deceived it and isn't named as a defendant in the U.S. case.

Abboud, who has run VTB Capital's Middle Eastern and African business since 2011, first delivered the project though his "personal connection" to Privinvest's chief executive officer, French-Lebanese billionaire Iskandar Safa, according to an internal VTB memo that was submitted by the defense on Oct. 29. Safa did not meet Abboud until after the deal had been completed, a Privinvest spokesman said.

Africa Push

Kremlin-controlled VTB is helping lead President Vladimir Putin's charge to expand in Africa. The bank made the continent one of its priority international markets after it was forced to scale back its European business in the face of sanctions imposed after Russia annexed Crimea from Ukraine in 2014.

In September, VTB CEO Andrey Kostin, a close Putin ally, threatened to declare Mozambique in default unless a deal was reached by year-end. But a month later, the bank softened its stance after Kostin met with Mozambican President Filipe Nyusi on the sidelines of a Russia-Africa summit in the Black Sea city of Sochi.

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While both banks arranged the credits, Mozambique has gone to court to fight repayment only of Credit Suisse's part of the loans, seeking to invalidate its government guarantee because former employees of the Swiss bank have confessed to taking bribes on the deal. For VTB's share, the government has been negotiating new repayment terms. Another part of the debt was converted to Eurobonds, which were restructured in October.

The country's Finance Ministry said in an August memo sent to bondholders that it was assessing whether to honor the state guarantee for VTB given the ongoing criminal cases. The ministry did not respond to a request for comment for this article.

Overcharging Alleged

An audit commissioned by Mozambique's prosecutor from investigators at Kroll alleged Privinvest overcharged by \$713 million on the projects, while another \$500 million was unaccounted for. Privinvest rejects the report's findings, its spokesman said.

The corruption allegations have led Mozambique to sue Safa and Credit Suisse in London, seeking to share responsibility for repaying the Eurobonds. Safa doesn't accept the English court's jurisdiction over him, according to the Privinvest spokesman. Credit Suisse spokesman Will Bowen declined to comment.

The investigation has also ensnared several high-profile Mozambican businessmen, including Ndambi Guebuza, son of former President Armando Guebuza, who has been jailed since February in connection with the scandal. He's fighting the charges.

The latest bribery allegations emerging in court could strengthen Mozambique's hand in its negotiations with VTB, according to Mitu Gulati, a law professor at Duke University in

Durham, North Carolina.

“They have a good case,” Gulati said. “Unfortunately, the government seems eager to pay off the debt rather than investigate or contest it.”

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