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EXECUTIVE SUMMARY

This analysis is the result of research to determine how the Government spent the resources made available by the cooperation partners and from the State Budget to face the COVID-19 pandemic, during the state of emergency. The analysis focuses on the health, water and sanitation sectors. For its preparation, combined methodologies and techniques were adopted, including the collection of information through documentary research and interviews with relevant entities and personalities.

The main limitation faced was the access to the identity of the shareholders of the companies benefiting from the direct adjustments. Many companies have adopted the regime of public limited companies in order to make public scrutiny of the real shareholders more difficult.

On the positive side, it is worth mentioning the openness of the Ministers of Health and Public Works, Housing and Water Resources, Dr. Armindo Tiago and Engineer João Machatine, respectively, who, through their respective offices, shared relevant information on contracting carried out in their respective sectors, including those carried out by their subordinate and supervised institutions, which allowed to offer a general and informed picture on the procurements in the sectors subject to this analysis.

In the **health sector**, the government has acquired goods and services totalling 2.3 billion meticaís, of which about 1.5 billion meticaís, corresponding to USD 22 million funded by the World Bank (USD 20 million) and PRO-SAÚDE (about USD 2 million). The modality predominantly used for the procurements based on the above amount was the direct contracting from international suppliers, and the Ministry of Health (MoH) received the support in kind in the corresponding amount. About USD 300 thousand was channelled to MOH which in turn made the direct purchases from Mozambican companies, captive suppliers of the Health sector.

Using funds from the State Budget, MOH executed over 600 million Meticaís in direct adjustments. All purchases were made to companies that are captive suppliers of MOH, including companies with links to political figures.

MOH's subordinate institutions have made purchases over 176 million Meticaís, all through direct adjustment. These are small scale acquisitions such as the provision of food services and accommodation for health technicians.

The decision to channel support in kind by the World Bank and PROSAÚDE is a result of donors' growing distrust of the good use of funds made available to the sector, after an audit of PROSAÚDE's partners concluded that there were signs of overbilling in the sector's purchases. This mechanism contributed to a rapid supply of products, providing a rapid response to the pandemic.

As for the State Budget funds, the purchasing pattern with the same companies was maintained, privileging direct adjustment although this time it is justified due to the emergency situation.

In light of the above, it is recommended, on the one hand, that donors continue to opt for direct procurement in order to prevent cases of corruption and ensure speedy delivery of aid. On the other hand, as far as the civil society is concerned, it is recommended that the work of social auditing of purchases and logistics of medicines and other hospital equipment be continued.

MOH is recommended to make increasing use of the public tender because, despite the public calamity situation, it is possible to plan the needs in the short and medium term.

In **the public works sector**, more than 32 contracts were made with construction companies and supervision of works as part of the process of construction, rehabilitation and upgrading of water supply and sanitation infrastructures in educational institutions, teacher training and boarding schools. Of these, Chinese, Portuguese and Mozambican companies stand out, some with connections to the national political class. The government has awarded the majority of the works to large companies with a seventh-class license (the largest class), excluding small and medium-sized companies at the local level. Paradoxically, these large companies are subcontracting smaller or local companies for the actual execution of the works, which suggests that the price of the award may be under-invoiced.

I. ANALYSIS OF PURCHASES IN THE HEALTH SECTOR

During the four months of the state of emergency, the Ministry of Health and its subordinate and supervised entities have used approximately 2.3 billion meticaís to purchase various products, including hospital equipment, Personal Protective Equipment (PPE) for health staff, among others.

The purchases are grouped into three categories, according to the entity that carried out the acquisition process allied to the source of the funds, as shown in chart 1 below.

Purchases financed by cooperation partners, namely the World Bank and PROSAUDE, totalled 22 million dollars, equivalent to approximately 1.5¹ billion meticaïs. The modality used for the acquisitions was direct procurement, that is, the donors themselves led the procurement. MoH received the aid in kind.

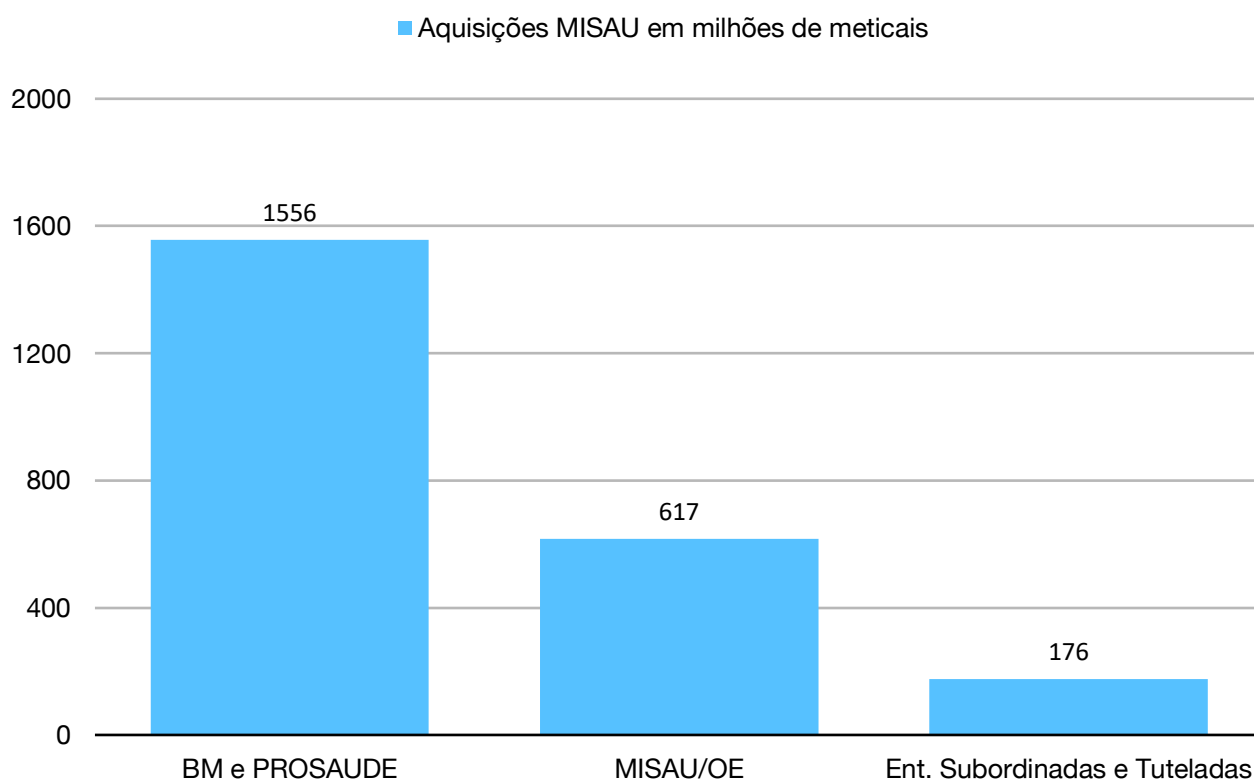
About 300 thousand dollars from the World Bank were used directly by MoH for acquisitions, and the *Shopping* modality, which means direct purchase from suppliers, was used by MoH.

The second category is of central MoH procurements, with funds from the State Budget, totalling approximately 617,6² million meticaïs. The procurement method used was the direct adjustment.

¹ 1.556.157.330,00 Meticaïs

² 617.598.617,00 Meticaïs

Chart 1. Procurements carried out in the Health sector according to contracting entity



Fonte: Authors with MoH data

The last category is the procurement carried out by the MoH's subordinate and supervised entities, which totalled about 176,1³ million meticais. In this category, direct adjustment was also used. However, most of these are small purchases made at the local level by the provincial health directorates and/or the National Institute of Health. The expenses of accommodation and meals for the health staff are highlighted.

The largest beneficiaries of the direct adjustments made by MoH, at central level, are the same companies that, for almost a decade, have been captive suppliers of the Health Sector, as shown in the [2020 CIP Report](#) about who benefits from the public procurement mistakes/errors by the Ministry of Health⁴.

³ 176.050.862,00 meticais

⁴<https://cipmoz.org/wp-content/uploads/2020/05/Procurement-Pu%CC%81blico-do-Ministe%CC%81rio-da-Sau%CC%81de.pdf>

II. ANALYSIS OF DIRECT ADJUSTMENTS IN THE PUBLIC WORK SECTOR

For this sector more than 3.6 billion Meticaís were spent. The amount is subdivided into 19,379,750.85 Meticaís spent on direct adjustments for the procurement of goods and services, with emphasis on the purchase of disinfecting material. The National Road Administration (ANE) spent 17.002.040,00 MT on disinfection of public spaces, bus terminals, bus stops; vehicles, buses in Matola and Maputo Municipalities (including the metropolitan area of Maputo) and buildings of ANE and the Road Fund.

Regarding construction works, rehabilitation and requalification of educational institutions, teacher training and boarding schools, the Government also entrusted the mission to the Ministry of Public Works, Housing and Water Resources, this time bypassing the Ministry of Education (Directorate of school works). The overall value for interventions in this sector was about 3.5 billion Meticaís, whose provenance was not explained by the Government. Given the scarcity of information on the origin of funds for the sector, it is possible that they were mobilized from donors that finance investment and water supply programs, such as the World Bank and others.

On the other hand, direct adjustments have been made through subordinate and supervised institutions: (i) Water Infrastructure and Sanitation Administration (WIEA), with responsibility in 185 schools in the Provinces of Maputo-Province, Tete and Zambezia; (ii) National Directorate of Water and Sanitation (DNAAS), with 230 schools in the Provinces of Manica, Sofala, Tete and Zambézia and, finally, (iii) Investment Fund and Water Supply Patrimony (FIPAG), with 242 schools in the Provinces of Niassa, Cabo Delgado, Nampula and Maputo (metropolitan area). These direct adjustments were subdivided into lots of six, nine and ten.

Around 30 construction and inspection companies were contracted for the execution of the works. This, include Chinese, Portuguese and Mozambican companies with links to the national political class. The government has awarded most of the works to large companies with a seventh class license (the largest class), excluding small and medium companies at local level. From this list of companies, highlight goes to China Henan International Cooperation Group Ltd, a company captive in works of FIPAG. In fact, it was through FIPAG that this Chinese company won the direct adjustment. Other companies that stand out in recent times are MHL Construções e Logística Lda, Grupo Mondego, Lda, Palmont, Lda and Gama Construções. Paradoxically, the referred large contracted companies are subcontracting local companies for the effective execution of the works, which shows that the prices at which the referred companies won the tenders, are inflated or over-invoiced.

Another fact that adds to the suspicions of lack of transparency has to do with the model followed for direct adjustments. The Government says that to ensure transparency and competitiveness **“Three proposals from contractors/taxes were requested for each of the lots. From the evaluation made to the proposals presented by the invited companies in the 25 lots, the adjudications were made to the bidders with the lowest prices”**.

However, unless better understood, the three-price model is very problematic and does not eliminate the risks of corruption or cartelization. By determining that only companies with the Seventh Class License could bid for direct adjustments, the government reduced the number of companies eligible for the bid. From this small group, the Government asked, for each lot, only three quotations. **This is where the risk of companies acting in a cartel model, concerting prices to the detriment of the State and of the very transparency in the tender comes in. Despite the legal option of the Ministry, the risks of corruption, cartelization and lack of transparency are evident.**

For the next phase of school rehabilitation, it is recommended that the government opt for the public tender designed to allow local companies to have an effective chance of winning. Until the beginning of the next school year, there is enough time for the Government to organize a transparent procurement process, the main modality of which is the public tender.

III. ADJUSTMENTS FOR THE SAME OLD ONES!

Analysing the list of companies benefited by direct adjustments at the Ministry of Health and the Ministry of Public Works, there is a tendency to award the tenders to the same economic groups. For example, the former Clinical Director of Maputo Central Hospital, Domingos Diogo, by the way, one of the most quoted cardiologists in the country, is a partner of the company Mais Saúde Lda that invoiced 81.900.000,00 (eighty one million nine hundred thousand Meticaís) in direct adjustment at MoH. Domingos Diogo is the brother of the former Prime Minister, Luísa Diogo, and the current Secretary of State in Maputo Province, Vitória Diogo.

Another flagrant case is that of Construtora Mondego, linked to Manuel Pereira. It won 254,774,718.38 (two hundred and fifty four million, seven hundred and seventy four thousand, seven hundred and eighteen meticaís and thirty eight cents). At the time of its incorporation in 1999, the partners of the company included, among others, José Maria Cepela Gamito, brother of the former President of the Constitutional Council, Hermenegildo Gamito, and Alfredo Gamito, former Governor and Deputy-Speaker of the Parliament. The company has undergone many

transformations, having gained dimension with its growing association to the members of the Frelimo party with special focus on those who lead the CTA's destinies. Curiously, Manuel Pereira is the current chairman of the Mozambique Federation of Contractors, having replaced the contractor and CTA chairman, Agostinho Vuma, Member of Parliament from Frelimo Party and influential figure within this political party.

On the other hand, we have the consortium that integrates the construction company Gama Construções with links to the citizen Chiluva Mixuene Gruveta, daughter of the historic fighter of Frelimo, Bonifácio Gruveta Massamba who won 234,260,497.9 MT (two hundred and thirty four million, two hundred and sixty thousand, four hundred and ninety seven meticaís and nine cents). These are situations that should be discouraged, unless it is through a public tender mechanism and obeying strict criteria of transparency. This is a small window of the web of complicity between economic groups and political decision-makers.

IV. WHY DOES CIP DEFEND PUBLIC TENDER?

Public procurement processes represent one of the main indicators of good public finance management, since they convey the way in which goods and services of the State are acquired. A model of public procurement by means of public tenders and implemented in a transparent manner allows the State to save and therefore have more resources to promote economic growth and above all allows companies to become more competitive because the process itself stimulates the minimally reasonable distribution of resources among the different suppliers.

The current context of the COVID-19 pandemic requires states to look for ways to ensure some fiscal space to meet the various needs of the population. The fiscal space created, especially for countries with structural deficits such as Mozambique, is usually through support from national and international partners (donations and credits), debt forgiveness or reallocation of public spending that would be directed to other expenditures in the State Budget.

In these terms, if the expenditure is directed to the acquisition of goods and services in a model of public procurement via direct adjustment, whose awards are made to suppliers with political links and little guarantee that the goods and services will have the desired quality, **this is how to reduce to zero the effort made to create fiscal space. In other words, it represents a very high cost of corruption** because it discredits the State and gradually closes the capacity to attract (net) resources to meet the State's needs. Hence some donors, currently, opt to channel resources in kind.

CONCLUSION

One of the objectives of this analysis was to know the owners of the companies benefiting from the direct adjustments and their connections with politically relevant people at the Government and/or ruling party level, made around the direct adjustments in the health, water and sanitation sectors. The research concluded that this is the same group of companies that has controlled public *procurement* for many years, anchored in direct connections with politicians or people related to them.

On the other hand, it is not understood how the Ministry of Public Works, Housing and Water Resources, demanded the seventh class license in the terms of reference of the tenders for the award of works under COVID. It is that the work to be executed does not require much engineering, consisting of the rehabilitation of toilets, assembly of taps or opening of water supply holes in schools and training centres. According to some contractors interviewed as part of this work, the requirement for a seventh class permit was a deliberate strategy to exclude many small and medium sized Mozambican companies, benefiting large companies, usually linked to political elites.

A better management of available resources to face Covid-19 is fundamental to ensure positive results in preventing and fighting the pandemic, so the misuse of resources in procurements that do not guarantee efficiency in contracted contracts may mean the failure of the government's efforts to contain the spread of the disease.

RECOMMENDATIONS:

Cooperation Partners:

Given the weaknesses detected in the *procurement* at the Ministry of Health, it is recommended that cooperation partners continue to support efforts to combat the pandemic through direct procurement from suppliers, thus preventing the multiplication of networks of clientelism and corruption in procurement in the Health Sector. The partners should also audit the correct application of donated drugs and equipment since there is a history of drug theft in the Health Sector.

Government

It is recommended that it does not turn COVID-19 into an opportunity to feed client networks and other schemes of corruption and embezzlement of public funds through the use of the modality of direct adjustment in public procurement, awarding the contracts to the same beneficiaries as always. Given that the calamity situation will prevail for a long time to come, the Government is recommended to improve the planning of purchases so that it can increasingly resort to public tender and reduce direct adjustments to strictly emergency situations.

Administrative Court

It is recommended that audits be carried out on public institutions that, in the context of the state of emergency, have resorted to direct adjustments for the acquisition of goods and services in order to identify possible cases of misuse of funds and, consequently, to ensure administrative accountability and referral of cases with a criminal dimension through the Attorney General's Office.

Civil Society:

In view of this situation of obvious manipulation of *procurement* in the Health sector, it is imperative that civil society carry out a social audit of the MoH's procurement, as well as an independent audit of the MoH's procurement process.

In the public works, water and sanitation sectors, it is recommended the performance of social audit to the effectiveness and quality of works carried out in schools.

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