Uncovering the secretive deals in Africa’s telecoms market

By George Turner and Nick Mathiason

The spread of mobile phones across [Africa] has been one of the continent’s success stories over the past two decades, transforming lives through better communication and simpler banking. It has also resulted in huge profits for powerful international companies – and for some of Africa’s wealthiest and best-connected individuals.

But an investigation into the African interests of UK mobile phone giant [Vodafone] by the Finance Uncovered network has raised serious questions about transparency and the processes by which Western firms entered Africa’s telecoms markets.

Often Western operators that wanted market access in a particular country would have to choose between accepting a government stake in the venture, or sell significant shareholdings to “local investors”. But how partners were selected appears contentious, and questions have been raised over how some deals were structured.

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The Finance Uncovered investigation has discovered that, in certain cases, politically connected elites secured shares in Vodafone subsidiaries by borrowing money from Vodafone itself. Such arrangements may strike outsiders as odd, but they are legal, and for the lucky few able to do such deals, the rewards have been huge. The International Finance Corporation, which is part of the World Bank, estimates that mobile phone revenue in sub-Saharan Africa grew from $100 million in 1995 to $40 billion in 2015. Last September, Vodafone raised $1.1 billion by selling a mere 5% stake in its main African subsidiary, Vodacom Group. And the month before, Vodacom Tanzania raised $213 million by selling a 25% stake. The flotation, the biggest on the Dar es Salaam stock market, was prompted by the introduction of a Tanzanian government regulation requiring 25% of Vodacom Tanzania's stock to be in public hands.

For one of Tanzania's wealthiest businessmen, Rostam Aziz, this proved that there was a strong appetite among investors wanting to buy into a company he retained a significant stake in. The scion of a successful Tanzanian trading family, with interests in mining, agriculture, ports and media, Aziz became an MP in 1994 and went on to become the national treasurer for the ruling party Chama cha Mapinduzi after he helped to fund and managed Jakaya Kikwete's successful presidential campaign in 2005.

Two years later, in 2007, Aziz's "extraordinary influence" was noted in a US embassy cable that later appeared in Wikileaks. The cable quoted a fellow politician saying of Aziz: "I don't know what magic that guy has, but he is the power behind the throne."

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In 2011, Aziz resigned as an MP amid corruption allegations that he has strenuously denied. At the time, he suggested that the unsubstantiated claims were the work of political rivals. "I have decided to relinquish all leadership positions in the party … my decision is based on a clear conscience to end these gutter politics and spend my time concentrating on my business," Aziz said in his resignation speech. By this time he was a very wealthy man.

In 1999, while an MP, a company belonging to Aziz acquired a 10% stake in Vodacom Tanzania. Over the next eight years, Aziz increased his shareholding to 35% via two companies, Mirambo and Caspian.

Under rules that were common to shareholders in Vodacom Tanzania, local investors, such as Aziz's companies, were obliged to lend the telecoms operator money to help it build its network. But Vodacom also lent Aziz's company millions of dollars to help him with those shareholder obligations. None of the share purchases by Aziz were funded by these loans.

By 2012, Vodafone says, Aziz's company owed Vodacom and Vodacom Tanzania a total of $52.5 million. This figure is disputed by Aziz. Two years later, Aziz's company sold half of his shares for $240 million. His shareholding catapulted him on to the *Forbes* list of global billionaires. The principle shareholder, Vodacom Group, now wants to buy out Aziz's company's remaining share, which if it transpired would net him another hefty amount.

Vodafone says that the 1999 deal with Aziz took place before it gained majority control of Vodacom Group and that it was "not party to the transaction". By 2006 it owned half of the group and then went on to control it.

Vodacom Tanzania is not the only Vodafone interest in Africa that has resulted in significant profits for influential and well-connected minority shareholders. In 1999, the government of Daniel arap Moi allowed Vodafone Kenya to buy a 40% share in the state-controlled telecoms operator Safaricom for $42 million. It later transpired that Vodafone had been given “advice and assistance” on securing the investment by an anonymous Guernsey-registered company called Mobitelea.

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In 2001, Vodafone granted Mobitelea share options in Vodafone Kenya at 1999 prices, enabling it to buy a stake in Safaricom. Finance Uncovered estimates that these options eventually yielded Mobitelea a profit of about $51 million in 2009, a reflection of Safaricom’s spectacular success.

The involvement of Mobitelea did not surface until 2007, when the Kenyan government floated some of its Safaricom holding, and was required to list all current shareholders. But exactly who was behind the company has never been publicly disclosed. There is speculation that members of Moi’s inner circle may have benefited from the deal.

In 2007, after Kenyan MPs raised concerns of corruption involving Mobitelea, the UK Serious Fraud Office (SFO) approached Vodafone for further information. The company says that it worked closely with the SFO to provide documents and information relating to who was behind Mobitelea, and that the SFO decided to take no action. However, despite divulging the information to the SFO, Vodafone says it was legally obliged not to publicly disclose the identity of the beneficial owner of Mobitelea for reasons of commercial confidentiality.

Vodafone says all due diligence was done and that external lawyers drew up contracts that included anti-bribery and anti-corruption clauses. It added: “We were able to provide this information to the UK Serious Fraud Office. We note that the SFO concluded that no further action was required.”

In 2008, the SFO stated that it did not believe it had the resources to ever get to the bottom of the case.

This explanation has angered many Kenyans. John Githongo, Kenya’s renowned anti-corruption champion and chairman of the Africa Centre for Open Governance, said he was concerned that the true beneficiaries behind Mobitelea have never been identified publicly.

> Financial experts point out that foreign companies are often required by law to include an element of local shareholder investment if they want to expand into a particular country’s market. However, in certain cases, the deals require levels of finance that are typically beyond the means of many local investors, meaning that foreign corporations have little choice but to offer loan facilities to acquire the equity involved.

“Reportage of these transactions continues with a bitter taste left in the mouth,” Githongo said. “How would the British media and NGOs respond to the same practices if they took place within the UK?”

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A source close to the UK's enforcement agency indicated that Vodafone was never approached by officers during the SFO investigation in 2007 and 2008. It is understood that the SFO investigation only lasted a few weeks before it was shut down.

Rather more is known about some of the shareholders in Vodafone's operations in Mozambique. In 2007 Vodacom [Mozambique] lent Emotel, a telecom company owned by the economic arm of Frelimo, the country's ruling party, nearly $1 million to enable the government to meet its obligations to become a 3% shareholder in the telecom operator.

Vodafone said Vodacom was told by the government that if it wanted to operate in the country it would have to partner with Emotel. Vodafone said the transaction preceded its acquisition of a majority control of Vodacom Group and that it was not a party to the deal. Another shareholder was Intelec, a company that administers the business interests of Armando Guebuza, president of Mozambique until 2015, and one of the country's richest individuals. A third was the Whatana Investment Group, an investment company chaired by Graça Machel, the widow of Nelson Mandela and the wife of Samora Machel, the president of Mozambique, until his death in 1986.

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Vodafone insists that all loans were offered at arm's-length commercial terms, with interest payments at normal commercial rates. The company said it "implemented specific governance and compliance measures" when it came to dealing with what it termed "politically exposed people".

A spokesman for Vodafone said: "The matters you raise are historical in nature (in the case of Kenya dating back to 1996) with initial transactions that largely predate our current management teams, in most cases by many years. Personnel who were involved in these transactions – and who may have been in a position to provide information and context of potential relevance to your statements and questions – are no longer employed by Vodafone or Vodacom."

The former chair of the public accounts committee, Labour MP Dame Margaret Hodge, questioned whether Vodafone could have done more to ensure that ordinary Africans benefited from the transactions.

"Vodafone should not just hold its nose while the wealthiest in Africa get even wealthier," Hodge said. "They could have used their power to ensure that, where there were local ownership rules, the ordinary people of the country benefited, rather than the wealthy elite."

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