<u>Mozambique's banking crisis</u>

Killing the goose that laid the golden eggs

This is the English version of a series of 12 articles which appeared over three weeks in September 2001 in Metical. Several of the articles have been expanded slightly from their Portuguese originals. A list of abbreviations is at the end. The articles were all written by Joseph Hanlon, who can be contacted on j.hanlon@open.ac.uk

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Killing the goose that laid the golden eggs

More than $400 million went missing from the banking system in the 1990s. Carlos Cardoso and António Siba-Siba Macuácua were assassinated to stop us from knowing how much was stolen, who took it, and how the theft was done.

All countries use banks politically. In Mozambique, the banks were used to build socialism, to keep the country running during the war, and then in the new capitalist era to promote local entrepreneurs and keep the economy out of foreign hands.

And a lot of money was simply stolen by foreign and domestic businessmen and bankers. Many hands were in the honey pot.

There may be a difference between stealing money and promoting a new elite, but the people who killed Cardoso and Siba-Siba were clearly convinced that they would be unable to publicly justify taking money – and that enough money had been taken to justify at least two deaths.

They will probably succeed in ensuring we never know the details. But that makes it even more important to review what we do know, and put it into context. This study is based on interviews with bankers and others who know the Mozambican banking scene. They did not want to be identified, and they are not now involved with either BCM or Banco Austral. Banco de Moçambique refused to talk to us.

In a series of 12 articles, I will try to show:
+ how the creation of the banking system left it open to fraud and corruption,
+ how a new elite was able to loot the banking system before privatisation,
+ how the World Bank and IMF actually forced the government to accept corruption,

+ how the bank privatisations were political and involved important families linked to high party and state officials, and
+ how both bank privatisations were dubious and were used by Mozambicans and foreign partners for further theft.

The 11 parts will cover the following:
1) Socialist banking
2) The post-Samora era
3) Forced privatisation of the state banks
4) Privatisation of BCM
5) Privatisation of BPD
6) Collapse of both banks
7) Who would take Banco Austral?
8a) Using accounting to steal
8b) The Mt 144 bn fraud
9) Money laundering
10) Stealing from foreign accounts
11) Concluding thoughts

There will be no revelations and little that is new. But by bringing together what we already know, I hope to show that growing greed eventually killed the goose that laid the golden eggs. In the end, the political elite lost control of the banks. Far from Mozambican empowerment, the result has been foreign control of the banking system. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 1
When money was not important

At independence, banking was not a Frelimo priority. Banco de Moçambique (BdM; Bank of Mozambique) was created as the new central bank on 17 May 1975 by simply transforming the Banco Nacional Ultramarino, but it was more than two years before any further action was taken. Private banks were hostile to the new government and were facilitating capital flight, particularly by Portuguese who had left the country, both by direct transfers of capital and by allowing payments for goods which were never delivered. The government finally nationalised all but one of the remaining banks on 31 December 1977. Four banks were merged into BdM and two were merged to form Banco Popular de Desenvolvimento (BPD, People's Development Bank). Only Banco Standard Totta de Moçambique (BSTM) remained private. BdM became the only bank that could deal in foreign exchange and was the treasury, central bank, the controller of the state plan, and a commercial bank.

Frelimo took the view that in a centrally planned economy, material balances (tonnes of cement or metres of cloth) are the principal method of allocating resources and money loses its importance. The state budget financed capital expenditure, while the banking system financed deficits of enterprises (private, state and intervened).

In the first years of independence, the priority was to keep production going and not dismiss workers, despite the flight of Portuguese managers and technicians; state-controlled banks were instructed to finance the deficits of these enterprises to keep them running. As Marc Wuyts makes clear in his thesis “Money and Planning for Socialist Transition”, this “was the most direct and effective instrument in the combat against economic sabotage. Far from being a destabilising factor, this policy was crucial in stabilising employment, preventing a further collapse in production, and preserving stable prices.”

But this did mean extra money in circulation, and by 1980 it was clear that large quantities of banknotes were in the hands of speculators. One reason for the 1980 currency reform, which replaced the old escudo with the new metical, was to destroy large cash holdings which had not been deposited in banks.

With the start of the war the picture changed. The government printed money to finance the war and again banks were lending to cover enterprise deficits, in this case increasingly caused by the war. Excessive money creation fuelled the black market (then known as “candonga”) and surplus money quickly moved into the hands of speculators and of a growing private commercial capital.

Banking procedures of the first decade of independence were not corrupt or dishonest; indeed, they were highly successful in keeping the economy going despite the sabotage and flight of the Portuguese and then the worsening war. But procedures were irregular in any normal sense of capitalist banking. So long as it was according to the plan, company deficits were covered by loans which were never expected to be repaid.

The overlap between the treasury and the banking system was total. When President Samora Machel was travelling, someone from the presidency would simply phone BdM or BPD and ask for thousands of dollars, in cash, for the delegation. The system worked because of the honesty, integrity, and good will of most of the people in the banking system. But even by the end of the Samora era, extravagance was creeping in, as presidential delegations going abroad took more money from the banks for shopping on foreign trips. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 2.

Banking after Samora

In 1986, war and donor pressure forced the government to liberalise the economy. In April 1986 Abdul Magid Osman became finance minister and Eneas da Conceição Comiche became governor of Banco de Moçambique (BdM). On 19 October 1986, Samora Machel was killed. On 14 January 1987 Mozambique introduced the PRE (Programa da Reabilitação Económica). Abdul Magid Osman said in 1990 that "Mozambique needs an elite of entrepreneurs". And the old socialist elite believed they should have help to become the new capitalist elite.

PRE meant a shift to more traditional banking. In 1987 the government recognised 34% of the BdM portfolio – Mt 40.6 bn (then about $160 mn) – as bad loans of public enterprises. But the ongoing war meant that bank credit remained important to keep enterprises functioning. José Miguel Sequeira Braga, an administrator of Banco Popular de Desenvolvimento (BPD) until he retired in 1995, said "the government instructed that capital be injected into these companies to permit them to continue to function and prevent the dismissal of tens of thousands of workers." Half of BPD loans would not be repaid, but Braga noted that "banks in Europe after the Second World War were in as bad shape, or even worse."

Any country – socialist or capitalist – supports its preferred entrepreneurs. In a centrally planned state, it was correct and proper to give money as directed by the plan. During the war, it was essential to use the banks' money to keep the economy running. In a hierarchic country like Mozambique, any bank official will follow the instructions of the President. And in the new free market economy, the banking system was essential to promote Mozambican business. All of this led to loans which could not be repaid, yet it was not "corrupt."

But the transition to the market economy led to increasingly questionable practices. In 1988 the Caixa de Crédito Agrario e de Desenvolvimento Rural (CCADR; Agricultural Credit and Rural Development Fund) used donor counterpart funds to give "loans" to military men and Frelimo party officials, with no intention that the loans should be repaid. CCADR was managed by BPD.

Privatisation had begun; banks lent money to Mozambican entrepreneurs to buy and rehabilitate state companies – and to have the cars and foreign travel the new elite demanded. Finance Minister Magid Osman in 1990 warned of "the current tendency towards the creation of a class based on dubious business deals, and that requires various 'bonuses' and protection from the state." Bank officials began approving loans in exchange for a 10% commission, knowing that the loans would not be repaid.

Even by 1986 there was significant corruption in the military, while traders who had accumulated wealth during the candonga days were becoming increasingly open and powerful. A few senior BdM officials were corrupted and began assisting Asian-origin trading families in their illegal foreign exchange dealings. Traders were seen openly going to the house of a BdM official with bundles of Rand.

Better record-keeping would have picked up some of the misconduct, but improvements were consistently blocked by people inside the banks who wanted the old systems as cover.

With the "turn toward the West", aid doubled from $359 mn in 1985 to $710 mn in 1987. There was corruption at high levels in ministries and state secretariats. By the early 1990s, at least two senior figures had foreign bank accounts with more than $3 mn. By the late 1980s there were already reports of people close to the presidency using aid money for personal accumulation. Senior bankers told us of telephone calls from people close to the President instructing that loans be given to certain companies or cash be given to individuals.

The World Bank's 1989 Small and Medium Enterprise Development Project lent $32.6 mn though BdM, BCM, and BPD. The World Bank's own evaluator, Luis Landau, wrote in 1998 that 90% of these loans would never be repaid. He went on to say that "the [World] Bank is alleged to have put substantial pressure on the management of the banks to ensure the expedient disbursement of projects funds; this undermined even further the credit quality of the sub-loans." In other words, World Bank pressure encouraged corrupt lending.

The World Bank Industrial Enterprise Restructuring Project was similar and lent about $29 mn to privatised state companies. Few loans were made until 1995, and the grace period, before loan repayments start, is 5-7 years, so it is not yet possible to know if these loans will be repaid. But with the loans now starting to come due, this may account for some of the additional bad debt provisions demanded for BCM and Banco Austral.

In an interview on 13 July 2001, World Bank Resident Representative James Coates said that the World Bank has no list of who the World Bank money was lent to. He said this was left entirely to BdM, which is responsible for repaying the World Bank and which probably does have a list.

Carlos Cardoso wrote that public opinion saw BPD and BCM as "a slush fund" (*saco azul*) for senior government officials and the Frelimo party, and he noted the common belief that the banks financed the Frelimo campaign in the 1994 elections. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 3.
Forced privatisation

Commercial and central banking sectors of Banco de Moçambique (BdM) began to be separated in 1987. Adriano Afonso Maleiane became Vice-governor of BdM in 1990. In 1991, Eneas Comiche was promoted to be Finance Minister and Maleiane replaced him as Governor of BdM. Within two months of his appointment, Maleiane issued regulations and named directors for the commercial banking sector of BdM. On 25 February 1992 this was formally split into a new bank, Banco Comercial de Moçambique (BCM, Commercial Bank of Mozambique).

Maleiane and senior BdM officials refused to talk to us. But in interviews, senior banking officials all made clear that Maleiane's priority was transforming BdM into an effective and honest central bank. BCM was given what was left. Some BCM staff were good and honest, but Maleiane knew about corruption in BdM and he moved the corrupt, incompetent and lazy staff over to BCM.

The initial key figures in BCM were Augusto Cândida (PCA, Presidente do Conselho de Administração, Chairman of the Board), Alberto Calú and Eneas Comiche's brother Teotónio Comiche.

A 1991 World bank study suggested that BCM and BPD were such a mess that they should simply be closed. This was never a serious option, but Magid Osman as Minister of Finance wanted them privatised – he felt they were simply too corrupted to continue as state banks and could not be controlled. Others opposed privatisation and wanted them cleaned up. Finance Minister Comiche and BdM Governor Maleiane took political instructions on this matter, and initially aimed at improving the efficiency of the banking sector and the regulatory capacity of BdM. Only in March 1995 did Maleiane announce that BCM and BPD would be privatised.

Privatisation of BCM was one of seven "necessary conditions" of the World Bank's 7 November 1995 *Country Assistance Strategy*, meaning that if BCM was not privatised, the World Bank would end its programme, which would cut off all aid to Mozambique. (Ending cashew industry protection was a much more controversial "necessary condition" of that same notorious CAS.) The 11 April

1996 joint IMF-World Bank Policy Framework Paper, which set conditions that the government must meet, required privatisation of both banks in 1996.

The World Bank was convinced that international banks would be interested in BCM and BPD. In both cases, there was initial interest, but prospective buyers dropped out as soon as they had a look at the books. There were too many bad loans and chaotic accounting systems.

Relations between BdM and the World Bank were poor on the privatisation issue. Tension between Fermino Santos, the BdM person coordinating the privatisation process, and Simon Bell, the World Bank's economist in Maputo, grew. Eventually, BCM staff were told they could not talk to Bell directly, and that he would have to deal with them via BdM.

But the IMF and World Bank kept up the pressure. BCM was finally privatised in mid 1996, but no foreign bank wanted BPD. In early 1997; the IMF said that aid to Mozambique would be cut off if BPD was not privatised by the end of June.

As we will show in the next two parts, both privatisations were extremely dubious. But Mozambique had no choice. The IMF and World Bank demanded privatisation even if it was corrupt; parts of the Mozambican elite joined with foreign partners to take advantage of that pressure. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 4
BCM – from metal working to banking

Banco Comercial de Moçambique (BCM) was the largest commercial bank in Mozambique and had a reasonable system of local branch banks. It had more than $100 mn in foreign deposits, much of which could be transferred to accounts in the parent bank. The hope was that this would make it attractive to a foreign partner.

BCM also had chaotic accounts and administration, which could be an advantage or disadvantage, depending on your interests. And it had a huge bad debt portfolio and a history of responding to political demands. Banco Português de Investimento (BPI) coordinated the privatisation process, and its sale memorandum said that $22 mn of its loans should be treated as bad debts, and that a further $13 million in bad debt provisions was required. The government said that the Treasury (effectively BdM) would assume this liability. This was in addition to the Mt 650 bn (then more than $100 mn) that Finance Minister Tomaz Salomão said had been put into BCM between 1992 and 1996.

Despite World Bank optimism, there was little interest in BCM. As IMF and World Bank pressure grew, a proposal came from António Carlos de Almeida Simões, who was from an old Portuguese industrial family which had had a small company in colonial Lourenço Marques (now Maputo), Empresa Metalúrgica de Moçambique (EMM, Mozambique Metalworking Company). EMM was still operating and Simões came to Maputo and proposed to unify and modernise the metal-working sector. This won the backing of the then Industry Minister António Branco and of Octávio Filiano Muthemba, then vice-minister in charge of heavy industry and who later replaced Branco as minister. At the time, Branco and Muthemba had been serious about promoting private sector industrial development and wanted to set up an industrial development bank.

Simões expanded rapidly. EMM and the state jointly set up CSM (Companhia Siderúrgica de Moçambique, Mozambique Iron & Steel Company, taking over the old Cifel) and Trefil (Companhia Moçambicana de Trefilarias, Mozambican Wire-drawing Company). Inocêncio António Matavel was administrator of CSM. António Branco was administrator for the state in Trefil.

EMM also set up a transport company Transmap (Transporte Rodoviário de Maputo) with Levy Filiano Muthemba, brother of Octavio Muthemba. Inocêncio Matavel is an important Frelimo-linked businessman who owns Proinvest (Projectos, Investimentos e Consultoria) which in turn owns the exchange bureau Proinvest Cambios.

In 1991 the state monopoly on insurance was ended, and in 1992 António Simões set up an insurance company Impar (Companhia de Seguros de Moçambique, Mozambique Insurance Company). Lead shareholders were Simões, Matavel, EMM, Proinvest, Madal (which António Branco joined after ending his term as minister), and BPD (then headed by Hermangildo Gamito). Portuguese investors included Companhia de Seguros Império, which was controlled by Banco Mello and which provided technical support.

With the support of Branco and Muthemba, Simões borrowed money to import equipment to modernise CSM and develop Trefil. Between 1992 and 1994 CSM and Trefil received $17 mn in highly concessional long-term loans with aid money from Norway, France, Germany, Sweden and Switzerland. In addition, Simões companies owed at least $1 mn to BPD. But the metal industry was not revitalised. The equipment proved to be very expensive and some of it was never installed. CSM functioned for only a few months after privatisation. Simões soon had no money for raw materials or wages.

But in 1996 Simões led a consortium to take over BCM. Carlos Cardoso wrote in *Metical* (182): “CSM was never rehabilitated, leading informed sources to suggest that Simões used part of the $20 mn to buy BCM." Government and bank sources have never been willing to say if those loans were repaid.

The loan agreements were signed for the government by Ricardo David, National Treasury Director (*Director Nacional de Tesouro*), and several are specifically authorised by the vice minister of finance, then Boaventura Celestino Langa Cossa, or the minister of finance, Eneas Comiche. On the company side, agreements were signed by Simões, Branco, and Matavel.

Ricardo David went to work for Simões, first at Impar and then as an administrator at BCM. Comiche eventually became PCA (chair) of BCM. Boaventura Cossa replaced Hermengildo Gamito as PCA of BPD and oversaw the privatisation there. Muthemba became PCA of the privatised BPD. Mario Machungo, who was Prime Minister at the time, became PCA of his own bank (BIM, Banco Internacional de Moçambique, International Bank of Mozambique) and by 2000 had become PCA of BCM as well, with Comiche as his deputy. In 2000, Oldimiro Baloi, Minister of Industry 1995-99, joined the BCM board and Branco became chair of the BCM annual general meeting.

There were actually two proposals to take over the 51% of BCM that was on offer. One was a consortium put together by Simões which was 50% Impar, 35% National Merchant Banks of Zimbabwe, and the rest Banco Mello of Portugal. An NMBZ official told us quite openly that he was "fronting for a group of people in Mozambique", and that the Ministry of Finance told him what to do at BCM meetings. Senior banking figures insist that NMBZ represented the Chissano family.

The other prospective bidder was Caixa Geral dos Depositos of Portugal.

The whole process was heavily personalised and politicised. Banco Mello had no interest in Mozambique, but Simões was friends with Vasco de Mello, chairman of Banco Mello, which eventually agreed to give cover to Simões' bid, without providing much practical support. Meanwhile Caixa Geral dos Depositos suddenly dropped out; several sources told us that Simões used his political connections to convince Almeida Santos, president of the Portuguese parliament (*Assembleia da República*), to in turn convince Caixa Geral dos Depositos that it was politically unwise to compete against a privatisation bid that included the President of Mozambique.

Fermino Santos, now BdM director of the Section for Operations, Treasury, Law, and Notary (Administrador do Pelouro Operações, Tesouraria, Juridicos e Cartório Notarial), strongly opposed the Simões bid. He wanted more time to try to develop a proposal with an alternative Portuguese bidder, Banco de Fomento e Exterior. The World Bank opposed this, both because it would cause delay and because Banco Fomento was linked to BPI which was carrying out the privatisation process.

This left only one bidder – Simões. Banco de Moçambique (BdM) officials, notably Fermino Santos, strongly opposed his bid on the grounds that Simões was already considered a bad debtor. But the World Bank backed Simões, assuming that BdM and Frelimo were simply trying to prevent privatisation. A World Bank official went to BdM Governor Maleiane and "read him the riot act", telling him that BCM had to be privatised to the only bidder that was left. On 26 July, BCM was formally privatised to the consortium, which had offered $107 mn for 51% of BCM – although it is not clear how much of this was paid.

Simões and Banco Mello named José Eduardo Lopes Palma as president (PCA). Of the top five BCM officials, only two remained in their posts – Teotónio Comiche, chosen by the government, and Alberto Calú, retained by the new owners. António Simões kept a low profile within BCM, but he took over the top floor of the BCM building, including the old BCM president's office, as the office of his metalworking companies EMM, CSM and Trefil.

The new owners of BCM never did the required due diligence audit of the bank, so there was never a clear picture of what bad debts had been carried forward. One new official of BCM began looking at the books and found a wide range of frauds. "The bank needed a total clean up. But it never happened. The share-holders told us not to." In fact, proper controls were not introduced until 1998.

Simões hoped to use his new bank to make loans to his metalworking companies. But Firmino Santos blocked this. He issued orders to all banks that they should report weekly on the state of Simões accounts, and not grant him credit without permission. But Simões continued to have some supporters, and permission was granted for substantial BCM loans to Simões pay for imports; these needed approval of the state-appointed administrator, Teotónio Comiche. Other more subtle tricks were used. One BCM borrower repaid a loan with lorries instead of cash, and these were given to CSM.

BCM was soon in trouble again, with large frauds and deficits. Mozambican officials brought pressure on Vasco de Mello to take a more active role. In early 1998, Simões unexpectedly sold his shares in Impar to Banco Mello for $20 mn. It was a year before the government and BdM finally agreed the sale, in February 1999. A new president nominated by Banco Mello, Manuel Ortigão Ramos, finally took over in April 1999 and Alberto Calú left the bank.

António Simões left Mozambique with a devastated metal working industry, a devastated bank and very large debts. But some people seem to have profited from his involvement. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 5

BPD – more family friends

In 1997, Banco Popular de Desenvolvimento (BPD) had domestic deposits of $120 mn and $20 mn deposited abroad in 17 different banks. But Deloitte & Touche warned that the bad debt total was very high, and BPD needed to make provisions of $23 mn, 52% of its entire loan book. Banco Português de Investimento, which was managing the privatisation, noted in its sale memorandum that credit control was “weak”. The IMF insisted that BPD be privatised, but no foreign bank wanted it.

In 1996 a Mozambican group, Invester, was put together. It was headed by Octávio Muthemba, former Industry Minister. Muthemba has been an important proponent of “black empowerment” and of using that state and Banco Austral to promote “black businesspeople” (“*empresariado negro*”), according to *Metical* (280 of 04.07.98). Jamú Hassan said the Invester shareholdings were one-third each Muthemba, Hassan, and Alvaro Massingue.

Muthemba was also PCA (chair) of SPI - Gestão e Investimentos, the Frelimo party holding company established in 1992. Two prominent SPI shareholders are Teodoro Waty, then a BPD administrator and now mayor of Maputo, and Carlos Mogado, then head of LAM and now Industry Minister. Waty's wife has a senior post in President Joaquim Chissano's office. SPI is an investor in the Hotel Polana Casino, represented first by Morgado and now by Waty.

Invester tried but failed to find a South African partner for BPD. President Joaquim Chissano made a state visit to Malaysia 19-21 March 1997 with Muthemba and Hassan in the delegation. Chissano is said to have made a personal request to Malaysian Prime Minister Mahathir Mohamed to provide a partner for Invester, and the Prime Minister requested Southern Bank Berhad (SBB) to participate. The reasons are not clear. This was before the Asian financial crisis and Malaysia was looking for involvement in southern Africa and pushing the concept of “smart partnership”. Chissano is said have offered Malaysia preferential treatment in other areas, such as mining and Maputo property development, in exchange for solving the BPD problem. In any case, BPD was small by Malaysian standards.

SBB has links to former Malaysian minister Daim Zainuddin. In 1997 it had a 1% share of the Malaysian market and had just had a significant increase in share capital and was looking to expand. The Asian financial crisis hit Malaysia in July 1997, triggering a banking crisis there.

BPD privatisation went ahead on 3 September 1997, with the state keeping 40% and a holding company Investil taking the other 60%. Investil, in turn, was 51% SBB and Invester 49%. The two new investors were to pay $21 mn, but more than $2.5 mn of this was never paid. SBB was to provide know-how and new capital; the bank was renamed Banco Austral. SBB insisted on control of the bank, and initially named its own chief executive officer (CEO), Dato' Tan Teong Hean, as Banco Austral CEO. By the end of 1997, however, he was replaced by a separate CEO for Banco Austral, K Muganthan. Muthemba became chair (PCA).

President Joaquim Chissano has always refused to publish a list of his property, and the press has always assumed, on circumstantial grounds, that the Chissano family has close links with Banco Austral. At the time of the signing of the agreement, a photograph was published of President Chissano's son Nympine with the Malaysian buyers. In October 1998, the Malaysian director of SBB, Dato' Tan Teong Hean, set up a company called Tarpon Services with Nyimpini Chissano. Muthemba is head of Locomativas Económicas, a company set up in 1999 with the children of the leadership; the second name after Muthemba's is Nyimpiny Chissano. Mondlane, Machel and Kachamila children are also included in the company. Meanwhile, Levy Muthemba, brother of Octávio, set up MM Trading, which then passed, via Pedro Manjate, into the hands of Nympine Chissano and Nyeleti and Eduardo Mondlane and became known as MCM (for Manjate-Chissano-Mondlane). (The varied spellings of "Nympine" are in all cases as listed in the *Boletim da República.*) Nympine Chissano also set up a company Afrasia with Malaysian businesspeople; this company attempted to set up a lottery and in 2001 tried to construct a building on land in front of the Ministry of Defence.

As with BCM, no due diligence audit was ever done of BPD when it was privatised, so it was impossible to see what was done by the new management and what was done by the old. This was SBB's first foreign investment and at home it was staggering under the impact of the financial crisis, so it never put in the required money and technical support. There were political battles. The Malaysians claimed Muthemba was not allowed to authorize loans, but did. In an article in *Savana* (6 Apr 2001) unnamed Banco Austral staff said that loans were being given to people without any guarantees, sometimes in exchange for a 10% commission to a senior official. *MediaFax* (18 Apr 2001) alleged that Malaysian staff also gave out loans without guarantees and talks about the "generosity" of K Munganthan. Within 18 months, the bank was in crisis and rumours of liquidity problems were appearing in the press.

In 2000 BdM intervened to restrict new lending and forced an audit. This was carried out by KPMG and submitted on 15 January 2001. The audit showed that provisions for bad debts and other problems had been underestimated by $50 mn. KPMG reported that 31% of loans should be considered bad debts instead of the 11% assumed by the bank managers. Bad debts predating the privatisation in September 1997 exceeded Mt 200 bn, $13 mn at the time of the audit but $18 mn at the time of privatisation. But the bad debt provision for post-privatisation loans should be Mt 310 bn – which means in just three years Banco Austral had given $20 mn in loans which would not be repaid.

There were significant loans to political figures on the list which KPMG confirmed as non-performing, including:
+ Tourism Minister Fernando Sumbana Júnior (Mt 21 bn, $1 mn);
+ General Jõao Américo Mpfumo, former head of the air force (Mt 9 bn, $450,00);
+ Soprim, a company owned by Paul Muxanga, Minister of Transport and Communciations 1994-99, and Josephine Priera (Mt 3.5 bn, $175,000); and
+ Renamo senior figures Raul Domingos (Mt 6 bn, $300,000) and Rahil Khan (Mt 9.5 bn, $475,000).

KPMG found more than just bad loans, however. It also found “irreconcilable differences between the balance sheet and the support details” that required the writing off of an incredible Mt 69 bn ($4.3 mn). Mt 7.7 bn ($500,000) of loans to employees could not be recovered. And in the context of the reconciliation frauds to be discussed in a later article, KPMG found a hole of Mt 20.8 bn ($1.3 mn) in the accounts of transactions between headquarters and branches, and a hole of Mt 27.7 bn ($1.7 mn) in the suspense accounts (*contas transitórias*). Of this $8 mn, only $1.6 mn dates from before privatisation, according to KPMG.

KPMG also called for the write-off of Mt 66 bn ($4.1 mn) of “debt contracted by Southern Investments (Mozambique) Lda, resulting from the acquisition of financial assets from the bank in 1998. This whole amount should be provisioned because there are no indications that the bank can recover this debt.” Southern Investments Moçambique was only registered in December 1999 and is owned by Koonjambu Murganthan, CEO of Banco Austral, and Jamú Suleman Hassan, one of the Mozambican owners.

Thus, the KPMG report suggests that of bad loans, bad accounting, theft and fraud, $15 mn were pre-privatisation and $30 were incurred in just three years of private management. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 6
Collapse of both banks

Both Banco Comercial de Moçambique (BCM) and Banco Austral faced crises in 2000 and needed major restructuring.

In January 2000 Jardim Gonçalves' Banco Comercial Português (BCP) took over Grupo José de Mello in Portugal, which gave it control of BCM in Mozambique. Finally, auditors were sent in to do proper accounts of BCM.

On 4 October 2000 BCM announced that a study of its accounts had shown the need for an additional $114 in bad debt provision. Shareholders would have to put in $106 mn in extra capital. The government's share was $52 mn, in the form of government bonds.

In a statement on 22 March 2001, BCM announced a loss of $27 mn for 2000. It said that 33% of the total credit portfolio was now considered non-performing (*vencido*), and that a further provision of $48 mn for bad debts and "other items" ("*diversos*") was required – bringing the total bad debt provision up to $162 mn.

BCP already controlled Banco Internacional de Moçambique (BIM, International Bank of Mozambique). There was concern about Gonçalves dominating the Mozambican financial sector, and he was in Maputo four times for meetings with ministers and bank officials. Finally at a 24 October 2000 press conference in Maputo, Gonçalves said the government had accepted BCP control of both BIM and BCM. In exchange BCP would put up its $54 mn needed to recapitalise BCM. He then said he knew where the losses had occurred, but would not explain this to the press because the losses had occurred in 1999 and earlier, before BCP controlled the bank, and thus were not his responsibility. Gonçalves and the government had obviously reached a deal – a curtain would be drawn over the past. Nothing would be said or done about losses and fraud before 2000, and the two sides would simply plug the hole. In exchange, Gonçalves could dominate the Mozambican banking system.

António Vaz, BCP Director of External Communications, said that BIM and BCM together have more than 50% of Mozambican deposits and loans. The 4 October BCM shareholders meeting elected Mário Machungo chair, and Eneas Comiche became his deputy, meaning Machungo was chair of both banks. By mid-2001, there was agreement that the banks would merge.

Meanwhile, at Banco Austral

In October 2000, the Banco Austral board agreed with BdM to increase the capital and begin cleaning up the bank by 31 March 2001. But by then, Southern Bank Berhad (SBB) was no longer interested. Through 1998 and 1999 the Malaysian government had been working to restructure its badly shaken financial system, including setting up a company to take over $10 bn in non-performing loans from the Malaysian banks. Finally on 18 February 2000, the government announced that the 58 banks and finance companies were to be combined into

10 "anchor banks". SBB was selected as the smallest of these, and by late 2000 had expanded through enforced takeovers from 1% to 4% of the Malaysian banking business. Digesting this complex merger was the priority, and a difficult bank in Africa was no longer of interest. By the end of 2000, SBB had written off its investment in Banco Austral, and taken a loss of $18 mn (equivalent to 5% of its capital).

But it was not until the board meeting on 3 April 2001 that Investil announced it was not prepared to put in new capital; instead, it simply handed back its shares to the government. The Malaysian staff of the bank distributed an anonymous document to the press headed “Reasons for Southern Bank Pull Out From Mozambique”. In slightly erratic English, it argued that “Mozambicans have poor repayment culture. In particular the elite. If you deny them the loans your are damned. If you give them the loans, you are also damned because they don’t repay.” And it attached a list of alleged non-performing loans given to politically well connected people. The three owners of Invester – Octávio Muthemba, Jamú Hassan, and Alvaro Massinga – each had personal and company loans in excess of $2 mn from Banco Austral, according to the list. The KPMG report and a list of bad debtors published by the new management suggest that for all three, roughly half their loans were being repaid and half were non-performing.

Most senior government figures simply wanted Banco Austral closed, because that would be the easiest way to bury the corrupt history, as had also been done with BCM. Surprisingly this was backed by the World Bank and most donors, who did not want to see more money being thrown at the bank. But the IMF and key figures in the Ministry of Planning and Finance opposed closure, on the grounds that it would actually be more expensive and because it would destroy faith in the banking system. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 7

Who would take Banco Austral?

Following the contested decision not to simply close Banco Austral, the central bank (BdM) intervened and took over its operation, appointing a new board (*Conselho de Administração*). The new president (chair) was António Siba-Siba Macuácua, BdM director of the department of banking supervision. Arlete Georgete Jonasse Patel, the government nominee on the old board, was retained on the new board. Siba-Siba was a highly respected economist. But arguably these are the people who should have been watching more closely to ensure that the crisis did not occur, and who should have intervened earlier.

Adriano Maleiane told a press conference on 3 April 2001 that Banco Austral needed a recapitalisation of Mt 2800 bn, then about $150 mn. Acting head Siba-Siba moved quickly. On 19 June Banco Austral published in the daily *Notícias* a list of more than 1000 individuals and companies with overdue loans. No such list was ever published for BCM. But the Banco Austral list did not contain the names of any important political figures, even ones who had been on the KPMG list.

BdM advertised for a foreign bank to take over 80% of Banco Austral – all but the 20% reserved for employees – which would leave nothing for the state or Mozambican investors. The bidders were ABSA (Amalgamated Banks of South Africa) and Banco Comercial e de Investimentos (BCI), a Mozambican bank headed by former finance minister Abdul Magid Osman and partly owned by Caixa Geral dos Depositos of Portugal, which had been a bidder for BCM.

The Council of Ministers was split, but eventually preferred ABSA rather than allow the entire financial sector to be controlled by Portuguese banks. ABSA has experience with Commercial Bank of Zimbabwe (CBZ), which had a similar history to Banco Austral, including the need to more than double bad debt provision. In 1998 ABSA became a 26% shareholder of CBZ and provides technical support. The Zimbabwean government retains 20% of the bank and the International Finance Corporation (part of the World Bank) took 15%. ABSA turned the bank around, and *Euromoney* magazine twice voted CBZ the best domestic bank in Zimbabwe. CBZ maintains very close links to President Robert Mugabe. CBZ chief executive (CEO) is Gideon Gono, who said in August 2001 that "our role as CBZ is founded on deep roots of patriotism". Gono is described by the *Financial Gazette* as "the government's trouble shooter". He is head of the University of Zimbabwe, was recently appointed chair of the Zimbabwe Broadcasting Corporation, and is chair of Zimbabwe Children's Rehabilitation Trust, founded by first lady Grace Mugabe.

Neither ABSA nor BCI was actually proposing to take over the entire bank, as is. They did not want the burden of chasing up past debtors and thieves. In effect, they proposed to take the deposits, property and staff, but not the bulk of the loan portfolio.

The question is what happens to the rest. Those who robbed the bank, through fraud and bad loans, clearly hoped for closure of the bank, or the same deal as was done over BCM. Draw a curtain over the past, fill the hole, and begin anew. But Siba-Siba had been pursuing some of the better known bad debtors who had not been on the *Noticias* list.

On Saturday 11 August 2001 António Siba-Siba Macuácua was murdered and thrown down the stairwell of the bank’s headquarters. Nevertheless, ABSA began its due diligence audit on schedule on Monday 13 August.

Siba-Siba and ABSA found evidence of corruption a high levels in the bank, and there were rumours of possible criminal prosecutions. It appears that Siba-Siba's attempts to clean up the bank had been too diligent, and someone was afraid he was not prepared to draw a curtain over the past. But what will be done with ABSA's new evidence?

There seems to have been corruption on both sides. The main records were kept on SBB's computer in Malaysia and as of early 2001, BdM still did not have access to them. Thus it is impossible to do a full reconciliation, and there are rumours that Malaysian interests may have siphoned off money from the bank. On the Mozambican side, one former banking official told us: "Banco Austral was run politically. There were bad loans, letters of credit without cover, transfers of money to ministers, and many favours to people. Decisions were taken by officials outside their mandates and which violated rules and procedures, and perhaps the law."

"In both Banco Austral and BCM, it is impossible for the board of directors not to know that frauds were occurring. This is public money, and there is a criminal responsibility," this senior banker said. (Joseph Hanlon)

The next two parts are a substantially
expanded version of part 8 of the
series, as published in
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Killing the goose that laid the golden eggs
Part 8a
Using accounting to steal

It is easier to rob a bank from inside than from outside, and most bank managements try to create system to prevent internal thefts. In Mozambique this was often blocked at high level. Computerisation and tighter controls and audits were delayed until well after privatisation. It was only in 1998 that Banco Mello staff in BCM began to impose tighter controls, including daily reconciliations and a requirement for daily reports of all large movements of money.

In the previous parts of this series, we noted that money disappeared not simply as bad lending, but through accounting frauds. The continued use of paper files made various kinds of frauds easier. Loans were granted and then the original files simply "lost", so no one would know, for example, what guarantees had been promised. It was possible to create fake accounts which could be used as part of complex transactions, and then simply delete all record of the accounts.

It is also reported that bank officials stole money from accounts. Inactive accounts were drained or used for illegal transactions. Money was taken from government and project accounts which were not closely monitored.

In Mozambique, a weak point and central to most frauds has been the suspense, internal and balancing accounts (*contas transitórias, contas internas e contas de regularização*) which cover the business between branches, between branches and headquarters and between Maputo and foreign banks.

A "suspense account" is an account in which items are temporarily entered until a proper place is determined. For a bank, everything has to be accounted somewhere, so when a transaction is not yet completed, the item goes into a "suspense account". An uncleared cheque, for example, is put into a suspense account until a confirmation of the transfer of money arrives, at which point the money is paid into the depositor's account.

Under normal backing practice, including the rules of BCM, no item should remain in a suspense account *(conta transitória)* for more than 45 days – which should be enough time even for post from remote branches. And annual audits should check to see that there are no old items hanging about in the suspense accounts. Normal practice is to do a "reconciliation" in which various accounts and sets of books are compared, to ensure that all agree. In Mozambique this was not done.

An article in *Savana* (7 Apr 2000) by "an ex-director of BCM" said that BCM had billions of meticais, both in meticais and in forex, which stayed in suspense accounts for years and that this was a strategy of BCM and BdM officials, and of the auditors, to pretend that money was there when it was not. Several banking officials we talked with confirmed that no reconciliations were done. We noted in earlier articles that for Banco Austral KPMG suggested the write-off of $1.3 mn in the internal accounts of transactions between headquarters and branches and $1.7 mn in the suspense accounts, so the same thing was clearly happening with BPD and Banco Austral.

Suspense accounts and internal accounts can be used for fraud by intentionally not completing the transaction. In 1993 a fraud in Maputo involved mt 4 bn, then more than $1 mn. Pedro Pinto and Julio Tandane were allowed to cash cheques without having money to cover them. BPD took over Pinto Group properties and Umberto Fusaroli Casade was appointed to run the businesses. But he was shot and wounded twice, on 22 April and 12 May 1993. Casadei blamed the Pinto Group for the attempted assassinations, and he then left Mozambique.

There was a similar fraud in the north in late 2000, involving mt 68 bn ($4 mn). Cheques drawn on a Banco Austral account in one city were deposited in BSTM and BIM accounts in another city, and forwarded to the Banco Austral branch in that city, where the manager said they had been covered. But he did not forward the cheques to the issuing bank for collection. And in violation of normal procedures, no reconciliation of these accounts was done by Banco Austral.

Another fraud is to issue letters of credit without adequate cover, and when the letters are presented, simply take the money from the suspense account – which becomes a never empty honey pot. The “ex-director of BCM” claimed that between 1993 and 1996, $40 mn was stolen in this way, “on orders from above”.

Most bank managements try to create system to prevent internal thefts. In Mozambique computerisation and tighter controls and audits were blocked at high level, and delayed until well after privatisation. Nevertheless, even in a bad system it is hard to hide millions of dollars – unless people are looking the other way. The “ex-director of BCM” argued that it was “completely impossible” to have a multi-million dollar fraud involving suspense and internal accounts without the knowledge or a director or administrator.

An important element in all of these frauds was the failure by the new owners to do a due diligence audit when BPD and BCM were privatised – and the failure of the Mozambican representatives on the boards to require such audits. This is very unusual, precisely because the new owners should want to know, and exclude, all old bad debts and questionable items in the accounts. By declining to audit, the new buyers and the Mozambican board members were explicitly saying they did not want to draw a line under the old bad practices, and wanted to continue them.

Killing the goose that laid the golden eggs
Part 8b
The "mt 144 bn" fraud

The best known Mozambican bank fraud is the "mt 144 bn" fraud. BCM was formally privatised on 26 July 1996, and the fraud took place during the prior six months. A series of bank accounts was opened at the Sommerschield branch, without proper identification, by Abdul Satar Carimo and family, friends and companies. Up to 77 cheques, with a value to mt 144 bn (then $13 mn), were deposited in these accounts between 26 March and 9 August 1996. The cheques were issued on a series of different bank accounts outside Maputo, apparently without the knowledge of the account holders. In July, 35 cheques for mt 72.5 bn ($6.6 mn) were deposited. In various ways, the branch manager, Vicente Ramaya is alleged to have allowed the money to be withdrawn from the Satar accounts, with a counter-entry going into the suspense account, and then destroyed the cheque instead of sending it back to the issuing branch (which would have bounced the cheque). So the entry simply remained in the suspense account.

The fraud seems to have been discovered relatively quickly. The Satar’s were alerted and fled the country. Son Momade Assife Abdul Satar (known as Nini) returned and has been arrested, along with Ramaya, in connection with the killing of Carlos Cardoso.

The official view so far has been that Ramaya was sophisticated and experienced enough to have hidden a $13 mn fraud, not simply by destroying cheques, but also by falsifying various levels of accounts and reports. This view is stoutly maintained by current BCM officials, but is widely rejected elsewhere in the banking community. They argue it was not possible for $6.6 mn in cheques to suddenly appear in a set of accounts in a small branch, and not to be noticed at head office. Someone at higher level must have known and participated. And it was clear that the perpetrators were protected, because the investigation was blocked.

Ramaya clearly had more money than a simple branch bank manager and felt safe to continue his business activities. In 2000 he brazenly went to court in Pemba to try to recover $450,000 he had lent to Zulficar Suleman. As part of this process, Maria Cándida Cossa gave a declaration that she received a cheque for mt 1.3 bn ($85,000) from Momade Abdul Assif Satar, which she then gave to Zulficar Suleman. (*Demos*, 30 May 2001) Maria Cándida Cossa has close links to the Chissano family, and is one of those cited by the departing Malaysian managers of Banco Austral as having a bad debt to the bank.

The failure to prosecute the “mt 144 bn” case was constantly pressed by Carlos Cardoso, but really only began to move when it was raised in parliament on 14 March 2000 by Eneas Comiche. Until the December 1999 election, he had been Minister in the Presidency for Economic and Social Affairs, then he was elected an MP and shortly thereafter named chairman of the BCM board. He used his parliamentary position to denounce the attorney-general’s office and name Ramaya and the Satar family as culprits.

But who else was involved in the “mt 144 bn” fraud? The “ex-director of BCM” wrote in *Savana* that a director or administrator, in particular the director responsible for accounting, had to “permit the consummation of the fraud”. At that time, the director responsible for accounting and organisation & methods was Teotónio Comiche, younger brother of Eneas.

Diamantino dos Santos was Maputo city prosecutor and he prevented the case from being investigated in 1996 and 1997; he was first transferred to Sofala and later was himself charged with fraud and fled the country. In an attempt to defend himself, he gave a series of interviews in which he said Eneas Comiche and the BCM lawyer, Albano Silva, were trying to cover up higher level involvement. In particular, he said Eneas Comiche was trying to protect his brother Teotónio, who was “strongly implicated” and who gave orders not to do a reconciliation which would have shown the fraud. (*Savana* 24 Mar 2000)

Asslam Abdul Satar, generally considered to be the organiser of the mt 144 bn fraud, wrote a letter from Dubai to the prosecution on 20 July 1999 admitting the crime, but saying they did not act alone. The long letter was later published in *Demos* (23 May 2001). He says that in 1994 he had a problem with his accounts, and that he contacted Alberto Calú, the commercial director and number two at BCM, who cleared up the problem and gave him a loan of mt 750 mn in exchange for a payment of mt 50 mn. He goes on to claim that in 1995 he did an operation involving $800,000 in foreign currency, taking money out of dollar accounts that had not had any deposits or withdrawals for a long time. Finally he carried out the mt 144 bn fraud with the involvement of Calú and Augusto Cándida, then BCM chair (*Presidente do Conselho de Administração*).

The mt 144 bn fraud is always presented as a fraud carried out in local currency. And reports suggest significant expenditures inside Mozambique by the perpetrators. But it is clear that much of the $13 mn was taken out of the country. *Demos* (30 May 2001) claims that at least $7 mn in cash was taken out of Mozambique and some of it was deposited in a British bank. This would not be hard to organise, as the Satar family runs an exchange house, Unicambios. So it does suggest that that fraud also has a foreign currency aspect, discussed below.

There have been at least two shootings related to the mt 144 bn fraud. On 29 November 1999, shots were fired into the car of Alabano Silva, just missing him. Silva is a prominent lawyer who was representing BCM in the mt 144 bn fraud case and who was publicly criticising the attorney general's office for blocking prosecution of the case. He is the husband of Lúisa Diogo (then Deputy Finance Minister, now Finance Minister),

Albino Macamo was appointed assistant attorney general (*Procurador-Geral da República Adjunto*) on 28 December 2000. He had been investigating corruption in the attorney general's office and had been part of a commission on inquiry to investigate Diamantino dos Santos. On 14 Feburary 2001 he was shot and seriously wounded outside his mother's house in Maputo.

One other murder may be related. Passarinho Fumo, manager of a BCM branch in Maputo, was killed in strange circumstances. His alleged murderer, pastor Enoque Novela, was allowed to escape from prison twice, while his wife Amália was detained for two months in mid 2001. Amália Fumo said that as her husband had been under heavy pressure from certain individuals at the bank and had applied for retirement when he was killed, it seemed likely his murder was linked to some BCM fraud. (*Savana* 13.5.01, 13.07.01)

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and expanded here

Killing the goose that laid the golden eggs
Part 9

Foreign dealings and money laundering

What would be the interest of a foreign bank in taking over an existing Mozambican bank, or even of setting up a local bank? Mozambique is a tiny market compared to Portugal, South Africa or Malaysia, so there are few obvious short term profits to be made from normal banking operations.

There are three legal ways to profit from owning a bank in Mozambique. First is by the parent bank selling “technical assistance” to the Mozambican subsidiary. Second is by holding the foreign deposits of the Mozambican subsidiary, and paying less than the market interest rates. This makes a bank like BCM somewhat more interesting than it might otherwise be.

Foreign deposits 31 Dec 2000 (Mt 17,000 = $1)

Bank	Mt bn	$ mn
BCM	1346	79
BIM	1050	62
BSTM	1477	87

Third is that the profit of all Mozambican banks comes from foreign exchange transactions, generated by the very high aid levels to Mozambique. For three profitable banks which published full reports, their entire profit came from foreign exchange dealings, and other operations lost money:

Profit from foreign exchange operations, 2000 (Year av Mt 15,000 = $1)

Bank	foreign exchange profit mt bn	bank total profit mt bn
BSTM	102	94
BIM	78	44
UCB	16	13

Closely linked to foreign exchange operations is transfers of illegal money, known as "money laundering", and this is an important aspect of Mozambican bank corruption, according to all of the former bank officials we talked with.

“Laundering” is converting “dirty” or illegal money – bribes and kickbacks, money skimmed from aid contracts, income not declared for tax purposes, profits from drug dealing, and money stolen from the banks – into “clean” or legal money, eventually depositing it in a bank account, preferably abroad, where the money can actually be used. The millions of dollars from the mt 144 bn fraud allegedly deposited in London had been "laundered", because it could be drawn from an account in a major British bank.

Money laundering is a major international issue, and banks are supposed to know that the source of large deposits and large transfers is legitimate before they are accepted. But a former bank official told us: "If you want to make a deposit, no one in Maputo will ask you where the money comes from."

Some of the money is initially in cash and so passes through the exchange bureaus, which are an important focus of bank corruption. Indeed, Mozambique imports $10 mn per week in banknotes, and some of it is exported in cash, literally carried out in suitcases. Diamantino dos Santos, the corrupt Maputo city prosecutor, alleged that Alberto Calú was selling “substantial quantities of forex to individuals in violation of exchange control laws.” Calú was responsible for foreign exchange in BCM before privatisation and in the Simões era.

Money laundering and illegal transfers of money abroad have been an issue since the mid-1980s. One common form of money laundering, according to a senior bank official, is for a company to present an import document for, say, $2 mn. Money is legitimately authorised to be transferred abroad to pay the charges. But for a commission, the bank declines to stamp the original of the import document, so the importer can then go to another bank and make the same payment again, and then to a third bank. One bank actually questioned such a transaction by a well known trading company seen as being close to Frelimo, and the office of President Chissano intervened to resolve the problem, the banker said.

Writing in *Savana* (7 Apr 2000), an un-named ex-director of BCM claimed that in the early 1990s, BCM was involved in illegal transfers of funds abroad and in money laundering. Bankers also point to Banco Austral. Its main computer was the SBB computer in Malaysia; having the main computer outside the control of the Mozambican authorities would facilitate money laundering.

But it was violence in 1997 linked to Mozambique’s first new private bank, Banco Internacional de Moçambique (BIM), that brought home the importance of the issue. BIM, which opened in 1995, is owned 50% by Banco Comercial Português (BCP), 25% by the World Bank's International Finance Corporation, 22.5% by the Mozambican state (Estado Moçambicano 8.75%, INSS – Instituto Nacional de Segurança Social 7.5%, EMOSE – Empresa Moçambicana de Seguros 6.25%), and 2.5% by Graça Machel’s Fundação para o Desenvolvimento da Comunidade (FDC). BIM’s President (PCA) is former Prime Minister Mário Fernandes da Graça Machungo and its Managing Director was from BCP, José Alberto de Lima

Félix. Banking sources say that although Machungo is in overall control, most key day-to-day decisions are taken by Portuguese staff named by BCP.

"Private banking" is a branch of banking in which wealthy customers receive personal treatment and are helped to use offshore tax havens and other devices. Experts consider private banking one of the financial services most vulnerable to money laundering. Jorge Correia Rijo was director of private banking for BCP in Portugal, but he was dismissed in March 1997 and charged with fraud in August 1997. He is said to have diverted hundreds of millions of dollars, particularly from Angolans but also Mozambicans. He issued what looked like BCP receipts, but in fact kept the money for himself. The head of one Mozambican trading company is said to have lost $5 mn. Surprisingly, Rijo fled to Mozambique, where he seemed to be protected. In October 1997 he was involved in a suspicious accident when his car overturned near Xinavane. The ambulance that was moving him to a Maputo hospital was itself then involved in an accident.

The newly established BIM had quickly attracted substantial foreign currency deposits, in part because it was the first bank to allow withdrawals from non-metical accounts without advance notice. But the Rijo case raised questions about possible money laundering at BCP and BIM. The BCP-appointed Managing Director of BIM, José Alberto de Lima Félix, began looking more closely at this issue, and at the beginning of December found things which worried him. He was shot and killed in front of a friend's house on Av. Armando Tivane at 20.20 on 2 December 1997 – before he was able to tell anyone else what he had found. Three people were convicted of the killing, which was blamed on a botched car hijacking. Friends of Lima Félix and senior banking officials reject this and say he was killed because he had discovered something about money laundering. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 10
Foreign accounts

An important form of fraud was to siphon money out of foreign accounts, without it being noted in the records in Maputo.

All banks have links with what are called “correspondent banks” in other countries and these banks carry out transactions on the instructions of the initiating bank – making payments and collecting cheques and other due items. Banks in small countries keep foreign reserves in accounts abroad, usually in correspondent or parent banks. In the 1980s and up to the mid-1990s, before electronic banking became common, transactions were done by telex and followed up by paper confirmations. Anyone who has ever dealt with foreign transfers will know there is a high error rate, so there are always a large number of items in suspense accounts, and reconciliation is a genuine nightmare, even with good will.

The basic fraud here is to order a payment from a foreign account – against a telex, letter of credit, cheque etc – but to ensure that the payment does not appear on the books in Maputo. A gap grows between the amount people in Maputo believe is in an account in, say, New York and the amount which actually is in the account. But if no proper audit or reconciliation is done, no one ever knows about the difference. Thus it is important that no audit was done when BCM and BPD were initially purchased.

The "ex director of BCM" claimed in *Savana* that in May 1995, he detected a gap of $12 million between the accounts abroad and records in Maputo, which the KPMG audit had not noticed because there was a counter-entry in the suspense accounts. Other bank officials I have spoken to suggest that the gap was larger, and there are strong suspicions that in the era of António Simões more money disappeared in this way. In 1997 BCM allowed its foreign reserves to run down, paying bills in dollars from foreign accounts, but not buying dollars to replace the payments made. Eventually BCM and did not have enough dollars abroad to actually cover dollar deposits in Mozambique.

It was possible to take money from foreign accounts partly because of the secrecy surrounding the banking system and the involvement of key senior figures in the corruption. The potential for problems continues with BdM, the central bank, which probably has accounts abroad. BdM is audited by KPMG which should do reconciliations. But these audits are only given to BdM and the government, and are not public. So far, both KPMG and BdM have refused to talk with us. And we note that there are repeated claims that KPMG missed gaps in the foreign accounts of BCM.

We have argued in this series for the integrity of BdM in this process, but the murder of Siba-Siba shows the danger of depending on a handful of honest people. We must recognise in Mozambique that heavy pressure can be brought to bear on the most honest officials. Carlos Cardoso always argued for transparency as the solution. He suggested that the KPMG reports should be published or submitted to some outside body, perhaps an independent public auditor. (Joseph Hanlon)

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Killing the goose that laid the golden eggs
Part 11
Concluding thoughts

It is admitted that more than $400 mn disappeared from the banking system in the 1990s: $100 mn cash injections to BCM during 1992-96, $162 mn BCM bad debt provisions, 2000 & 2001, and $150 mn needed for Banco Austral recapitalisation. The losses are probably much larger.

Corruption in the banking system has been pervasive and high level. One banker that we interviewed told us that a notoriously corrupt banker had told him "If I sink, a lot of people sink with me. I keep all my notes in a safe and I can prove that the highest level people took money. This protects me."

But information can also be dangerous. The assassinations of José Alberto de Lima Félix in 1997, Carlos Cardoso in 2000, and António Siba-Siba Macuácua in 2001 all seem to have occurred because they knew too much about fraud and corruption in the Mozambican banking system.

As we noted earlier in this series, all banking systems support preferred entrepreneurs. It is not surprising that banks were used to support a new national bourgeoisie, and the line between this and "corruption" may not be well defined. What is clear, however, is that whoever ordered the killings of Cardoso and Siba-Siba knew that their own actions, if exposed, would be seen within Mozambique as corrupt. This is not a case of foreigners defining what constitutes "corruption", but rather of Mozambicans themselves knowing that their activities would be considered so unacceptable by their colleagues and compatriots that they had to kill to prevent the knowledge becoming public.

This is not simply loans that will not be repaid, but outright theft, money laundering, and illegal foreign exchange dealings. Many people had their hands in the honey pot. Others decided not to look too closely, and are guilty of not carrying out their jobs in the banks.

With the privatisation of the state banks in 1996 and 1997, misappropriation of funds seems to have reached an unsustainable level. Faced with the insistence of the international financial institutions that the two state banks be privatised at a time when there were no takers, a part of the Mozambican elite opted for a tacit deal – the only possible privatisations are going to be corrupt, so let us ensure that we obtain our share. For both banks, in the two years after privatisation money poured out to both foreign and domestic partners.

The banks were both privatised to groups that involved important families linked to high party and state officials. But by 2001 they had lost control of both banks. Was their greed excessive; did they kill the goose that laid the golden eggs? Or did they realise that the window of opportunity was short and they had to grab as much as they could as quickly as they could?

Now, however, their only concern is to cover their tracks, and to hide what they have done. And some people are prepared to kill to ensure that the secrets are kept. (Joseph Hanlon)

Abbreviations

ABSA, Amalgamated Banks of South Africa
BCI, Banco Comercial e de Investimentos, Commercial and Investment Bank
BCM, Banco Comercial de Moçambique, Commercial Bank of Mozambique
BCP, Banco Comercial Português. Portuguese Commercial Bank
BdM , Banco de Moçambique, Bank of Mozambique
bn, billion, 1 000 000 000
BIM, Banco Internacional de Moçambique, International Bank of Mozambique
BPD, Banco Popular de Desenvolvimento, People's Development Bank
BPI, Banco Português de Investimento, Portuguese Investment Bank
BSTM, Banco Standard Totta de Moçambique
CAS, World Bank Country Assistance Strategy
CCADR, Caixa de Crédito Agrario e de Desenvolvimento Rural, Agricultural Credit and Rural Development Fund
CEO, chief executive officer
CSM, Companhia Siderúrgica de Moçambique, Mozambique Iron & Steel Company
EMOSE, Empresa Moçambicana de Seguros, Mozambique Insurance Company
EMM, Empresa Metalúrgica de Moçambique, Mozambique Metalworking Company
FDC, Fundação para o Desenvolvimento da Comunidade, Community Development Fund
IMF, International Monetary Fund
Impar, Companhia de Seguros de Moçambique, Mozambique Insurance Company
INSS, Instituto Nacional de Segurança Social, National Social Security Institute
mn, million, 1 000 000
PCA, Presidente do Conselho de Administração, Chairman of the Board
PRE, Programa da Reabilitação Económica, Economic Rehabilitation Programme
SBB, Southern Bank Berhad
Trefil, Companhia Moçambicana de Trefilarias, Mozambican Wire-drawing Company
UCB, União Comercial de Bancos, Commercial Banks Union

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