

# MOZAMBIQUE News reports & clippings

## Selected Corruption Articles 2016-17 plus the 2001 report on the banking crisis and the 2010 decision not to prosecute

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### [Mozambique 353: 8 January 2017](#)

## Buying Mozambicans cheaply

Further evidence has emerged as to how cheap it is to bribe Mozambican officials. It cost Odebrecht, the Brazilian construction giant, only \$900,000 in bribes to win the \$216.5 mn Nacala airport construction project. The airport has proved to be a white elephant, but Mozambique still owes the debt to Brazil.

In a plea bargain with the US Department of Justice, Odebrecht admitted that between 2011 and 2014, it made "\$900,000 in corrupt payments to government officials in Mozambique. The corrupt payments included approximately \$250,000 in payments to a high level government official in Mozambique in exchange for Odebrecht obtaining favourable terms on a government construction project, which the government had not been inclined to accept before Odebrecht offered to make the corrupt payment." @Verdade (27 Dec) points out that the airport was the only Odebrecht construction project in Mozambique at the time.

The airport was originally estimated to cost \$90 mn, of which \$80 mn was to come at from the Brazilian development bank (Banco Nacional de Desenvolvimento Económico do Brasil, BNDES) and the rest from Standard Bank. But the price rose to \$216.5 mn, of which \$125 mn came from BNDES. All loans were guaranteed by the government.

Odebrecht agreed to pay the US government between \$2.6 billion and \$4.5 bn in fines. Over 15 years (2001-16) Odebrecht gave \$788 mn in bribes to win 100 projects in 12 countries, including Mozambique, plus \$349 mn in bribes to political parties and foreign officials in Brazil, leading to "ill-

#### **Secret debt documents and report:**

**Kroll audit Executive Summary** <http://bit.ly/Kroll-sum>

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

**Key points from the Parliamentary Report on the Secret Debt** <http://bit.ly/MozAR-debt-En>

**Following the donor-designed path to the \$2.2 billion secret debt** <http://bit.ly/3WQ-hanlon>

#### **Other books and reports:**

**Local media monitoring of Mozambique elections** (background of election newsletters)  
<http://bit.ly/LSE-newsletter>

**Chickens and beer: A recipe for agricultural growth in Mozambique** book by Teresa Smart and Joseph Hanlon, **free** English download <http://bit.ly/chickens-beer>

**Há mais bicicletas - mas há desenvolvimento?** book by Joseph Hanlon and Teresa Smart, **free** Portuguese download <http://bit.ly/Mais-bicicletas>

**Gas for development or just for money?** <http://bit.ly/MozGasEn>

**Minimum wages & exchange rates 1996-2017** <http://bit.ly/MinWage2017>

Previous newsletters and other Mozambique material are posted on [bit.ly/mozamb](http://bit.ly/mozamb)

gotten benefits" totalling \$4.4 bn.

Thus bribes were about 26% of the extra profits, which shows how cheap it is to buy Mozambicans. The plea agreement does not give a profit for the Mozambique project, but much of the cost inflation (\$126.5 mn) must have been profit. If half of that (say \$60 mn) was profit, Mozambicans were paid 1.5% of the extra profit - only a 17th of what officials were paid in other countries.

Another way to look at the value of bribes is as a percentage of the whole contract. An 8% bribe led to the conviction of a UK National Health Service director. Peter Lewis was jailed for three-and-a-half-years for giving a £900,000 computer contract in exchange for an £80,000 bribe. (BBC 6 Jan) The Nacala airport bribe was 0.4% of the value of the contract and the "high level official" received only \$250,000 (0.1%) to saddle Mozambique with a \$216.5 mn debt. In contrast, Peter Lewis' bribe was 8.4%. The LAM-Embraer bribe, \$800,000 on a \$65 million contract, was paid to a company named Xihevele, the Shangana word for "steal a lot", but it was not a lot - only 1.2% of the contract value. All of which confirms just how little it costs to bribe Mozambican officials. *jh*

The key documents in English, are on

<https://www.justice.gov/opa/pr/odebrecht-and-braskem-plead-guilty-and-agree-pay-least-35-billion-global-penalties-resolve>

<https://www.justice.gov/opa/press-release/file/919916/download>

<https://www.justice.gov/opa/press-release/file/919911/download>

and in Portuguese in @Verdade: [http://www.verdade.co.mz/tema-de-fundo/35-](http://www.verdade.co.mz/tema-de-fundo/35-themadefundo/60605-odebrecht-admite-ter-pago-900-mil-dolares-em-subornos-a-funcionarios-do-governo-de-mocambique-durante-mandato-de-guebuza-)

[themadefundo/60605-odebrecht-admite-ter-pago-900-mil-dolares-em-subornos-a-funcionarios-do-governo-de-mocambique-durante-mandato-de-guebuza-](http://www.verdade.co.mz/tema-de-fundo/35-themadefundo/60605-odebrecht-admite-ter-pago-900-mil-dolares-em-subornos-a-funcionarios-do-governo-de-mocambique-durante-mandato-de-guebuza-)

## ***Mozambique 344: 31 Oct 2016***

### ***Mozambicans are a bargain***

The Brazilian airplane company Embraer had to pay smaller bribes to Mozambique than to other countries when selling aircraft, according to the US Securities and Exchange Commission (SEC). The action involved sales to four countries. Bribes in the Dominican Republic were \$3.52 mn on a contract of \$96.4 mn (3.6%), Saudi Arabia \$1.65 mn bribe on a \$93 mn order (1.8%), and India \$5.76 mn bribe on a \$208 mn order (2.8%). For Mozambique, the bribe was \$800,000 on a \$65 mn order which is just 1.2%. Clearly Mozambicans cost less and should be raising their prices.

According to the SEC, Embraer initially only offered \$100,000-\$160,000, but this was rejected. The Mozambican intermediary demanded \$1 mn. Eventually \$800,000 was offered and accepted. The money was paid by Embraer's US subsidiary to a Portuguese bank account. The use of the US subsidiary meant that the SEC could bring the case under the US Foreign Corrupt Practices Act.

The SEC says that the \$12 mn in bribes generated a profit to Embraer of \$83 mn. On 24 October the SEC announced that Embraer had agreed to pay \$205 mn in penalties to the US government to settle the case. Mozambique's Assistant Attorney-General Taibo Mocubora said on Friday that prosecutors will investigate the case of the bribe to an official of Mozambique Airlines (LAM). Mocubora noted that the Central Office for the Fight against Corruption (GCCC) announced in September that it was prosecuting the former LAM financial director, Jeremias Tchamo, for signing 25 contracts with a building company owned by his brother, who was also a LAM employee. LAM paid this company a total of 5.3 million meticals (\$190,000 at the exchange rate of the time). (AIM En 28 Oct)

The SEC complaint is on <https://www.sec.gov/litigation/complaints/2016/comp-pr2016-224.pdf>

## Peasants complain - again - to President about MLT & tobacco contract it won through bribes

Peasants in Chifunde, Tete, on 27 May harangued President Filipe Nyusi about the failure of Mozambique Leaf Tobacco (MLT) to buy their tobacco or to pay the correct price. This meeting with the Chifunde tobacco producers association took place just a decade after President Armando Guebuza heard angry peasants denouncing MLT at a public meeting in Chifunde on 5 May 2006.

Tobacco is grown on contract. The company supplies seed, fertilizer and technical assistance on credit. Farmers must sell to the company, and the company guarantees a market. The contract company has an exclusive right to buy in the district, so there is no competition. Peasants at the Chifunde meeting told Nyusi that MLT only bought enough tobacco to cover the cost of the credit, leaving the farmers with the rest of the tobacco and no market. And they said even good quality tobacco was graded as second class and they were only paid a low price.

MLT won the exclusive right to buy in 2006, in place of another US company, Dimon. Peasants protested to Guebuza then, saying they wanted Dimon, which had provided more support to peasant farmers. Daniel Kassamala told Guebuza, "if we could vote, I guarantee that MLT would not get one vote from the people of Chifunde."

In 2010, Universal Corporation (which owns MLT) admitted to the US Securities and Exchange Commission (SEC) that it had bribed Mozambique officials, including "a governor", with \$165,000. The SEC estimated that \$86,830 of the bribes related to the Chifunde exclusive contract, which brought it \$457,260 extra profit in the first year alone. Despite the public admission of the hugely profitable bribe, no one in Mozambique was ever charged with corruption, and MLT continues to hold the exclusive rights to tobacco in Chifunde.

The only speaker in favour of MLT was Rita Sande, from neighbouring Maravia district, who said she was so successful that she had a car and was sending her children to secondary school. Sande employs workers, including 21 Malawians. She said she succeeded because she followed the company advice on how to separate first quality tobacco from second and not pack it in the same bales. *Noticias* reported that her comments "were not well received by the more than 170 producers present in the room and a murmur went around the room accusing her of being paid by the company." But Agriculture Minister José Pacheco who was with the President praised Rita Sande, saying the others should "learn from her success". President Nyusi stressed the importance of growing tobacco, because of the export taxes that it paid. (*Noticias* Economia supplement, 10 June; AIM Pt 27 May)

Another tobacco producer, Benedito Clemence, said that farmers were producing other cash crops, including soya, beans, peanuts and maize. But he said that since there was no local market, they sold those crops in neighbouring Malawi. He called on the government to support the production and marketing of other crops so that farmers were not dependent on tobacco.

**Notes:** The SEC did not name the governor that MLT admitted it had bribed. There were two Tete governors in that period. Tomas Mandlate was governor until he became Minister of Agriculture in 2005, where he remained until 2007, later becoming an MP. In 2013 he was accused by the Environmental Investigation Agency of improper links with a Chinese company illegally exporting hardwood logs and evading taxes. In June 2014, Mozambique's Central Office for the Fight Against Corruption (GCCC) said it found no evidence that Mozambican citizens held shares in the companies - which was not the EIA allegation. Mandlate was followed as governor by Ildefonso Muanantatha until he was dismissed in 2009, after he had made public death threats against a *Noticias* journalist who had raised possible corruption issues around local construction contracts.

Noticias article, "Tobaco continua a dividir produtores e fomentadora", <http://bit.ly/1V4nbSN>  
*Galinas e Cerveja*, chapter 8, p 162 Pt and p 69 En (<http://bit.ly/chickens-beer>)  
*Do Bicyclese Equal Development*, ch 6, p 54.

EIA: <https://eia-international.org/wp-content/uploads/EIA-First-Class-Connections.pdf> and  
<https://eia-international.org/wp-content/uploads/First-Class-Crisis-English-FINAL.pdf>

Muanantatha: <http://opais.sapo.mz/index.php/sociedade/45-sociedade/169-governador-de-tete-ameaca-jornalista-do-noticias.html>

## **Mozambique 347: 7 Dec 2016**

### **Brazil says LAM chair took \$800,000 Embraer bribe**

The names of those involved in taking an \$800,000 bribe from the Brazilian aircraft manufacturer, Embraer, have been released by the Brazilian Federal Public Prosecutor's Office. They are José Viegas, chair and managing director (CEO) of Linhas Aéreas de Moçambique (LAM) for 24 years (1987-2011), and Mateus Zimba, who had worked for Enron, then held various positions at Sasol between 2000 and 2016, eventually becoming Mozambique director, and on 15 August this year become Regional Executive of General Electric Oil & Gas in Mozambique.

The bribe was first reported as part of a larger settlement between Embraer and the US Justice Department in October (*Mozambique News reports & clippings* 343, 25 Oct). More details are given in the Brazilian document, signed by both prosecutors and senior Embraer officials, on <http://www.cvm.gov.br/export/sites/cvm/noticias/anexos/2016/20161024-tcacembraer.pdf>

According to the Brazilian document, Embraer sales director Patrice Candaten had been trying for three years to sell aircraft to LAM and on 22 May 2008 formalised a proposal for the sale of two aircraft for \$32 mn each. On 11 August 2008, Candaten sent an e-mail to Luis Fuchs, Vice-President of Embraer-Europe, saying that he had been approached by Mateus Zimba, who had played no part in the sales negotiations. Zimba wanted to work as "a consultant" in the deal, and Candaten proposed that Embraer "create some margin for commissions" for Zimba. Fuchs spoke to Zimba and suggested a payment of \$50-80,000. Viegas then phoned Fuchs, saying that "some people considered the Embraer offer as an insult, and it would have been less offensive to offer nothing at all". Viegas suggested \$1 mn, but eventually settled on \$800,000. Fuchs told Viegas that Embraer did not have that sort of money for "consultancy services", and so Viegas suggested increasing the price of the aircraft. On 15 September 2008, LAM and Embraer signed an agreement whereby LAM would buy two Embraer E-190 aircraft for \$32.69 million dollars each. Viegas was one of the LAM executives who signed the agreement.

On 22 April 2009, Embraer signed a commercial representation agreement with Xihevele, a company set up by Zimba, and registered in Sao Tome and Principe after the aircraft deal had been signed. In 2009, \$800,000 was paid into a Xihevele account in Portugal. Thus Mozambique paid nearly \$1,380,000 extra for the planes, but only received \$800,000 in kickbacks.

Teodoro Waty, who took over from Viegas as chair of LAM in 2011, said he did not notice any irregularities in the management of the company, and that "I have confidence in my predecessor". (AIM En 1 & 2 Dec, *O Pais* 2 Dec)

**Comment:** Viegas' claim that the first Embraer offer was rejected by "some people" underlines the widespread belief that such bribes and kickbacks and negotiated, and shared, with Frelimo. *jh*

## Mozambique 366: 10 April 2017

### **Logging ban continued: timber 'daylight robbery' costs \$150-200 mn/year**

The ban on logging, in effect from the beginning of the year, was extended for another three months to the end of June, by the Council of Ministers on 4 April. It is a major victory for Land, Environment and Rural Development Minister Celso Correia, who has been trying to control an extremely corrupt sector.

Illegal logging and wood exports cost the country \$150-200 million per year, which Correia calls "daylight robbery". The quantity of wood declared to the Mozambican authorities is far less than that sold on the international market.

In March the ministry ran Operação Tronco - Operation Tree Trunk - and inspected 123 timber yards and found 70% operating illegally; fines of 157 mn Meticias (\$2.3 mn) were imposed and an incredible 153,000 cubic metres of wood were seized. The entire annual timber harvest should only be 500,000 cubic metres. He warned that some of the timber seized was fresh, cut since the start of the year, and that there had been violence and threats of violence and offers of bribes.

Correia met last week with loggers and timber companies to try to develop a new licensing system and more local processing to lead to sustainable exploitation of forests. Otherwise, he says, Mozambique will soon have no forests at all. Probably this means the state becoming the sole buyer and exporter of timber to guarantee a transparent market.

Speaking at a meeting Thursday, Vitória da Silva Coelho for the Associação Moçambicana de Operadores Madeireiros cited a host of reasons for illegal logging, partly blaming the Chinese and partly local unemployment. She cited false licences, particularly given to families of civil servants, whole networks of illegal exporters, and corruption by the police and customs. Correia called on forestry and timber operators not to embark on illegal activities, but to exploit natural resources in a way that brings economic benefits for the development of the country. (*O País* 5, 7 Apr, Lusa & AIM 6 Apr)

## Mozambique 369: 24 April 2017

### **Attorney General highlights greed and violence**

Attorney General (Procuradora-Geral) Beatriz Buchilli presented her annual report to parliament 19 and 20 April. The report notes "with concern cases of corruption that are highlighted by the greedy and excessive manner in which they were practiced, as well as by the amounts and status of the people involved." This ranges from Traffic Police agents "who receive money to avoid fines, up to the holders of public office who, by virtue of their position, gain from business and/or public money, to the detriment of the state and of all the community".

Buchilli appealed to parliament to pass a law making it easier to confiscate assets that are the result of crime. She also appealed for the passing of the new penal procedures code, which is currently stuck in committee. Parliament passed the new penal code in 2014, but the procedural code was not changed and dates from the colonial era, so prosecutors are having problems applying the new penal code, in part because the old procedures do not deal with modern forms of crime. (*O País* 20, 21, 22 Apr; *Savana* 21 Apr; *@Verdade* 19, 20 Apr; *Noticias* 18, 19, 20 Apr)

In well know assassinations and shootings:

- Two people have been charged with the 3 March 2015 murder of **Gilles Cistac**, but they have not been arrested and apparently cannot be found.
- No one has been identified as a suspect in the 23 May 2016 shooting and injury of commentator and academic **José Jaime Macuane**.
- Three people have been charged with 11 April 2016 killing prosecutor **Marcelino Vilanculos**; one is still being held in jail, but two are abroad and cannot be found, including one who escaped from jail on 24 October 2016. An Interpol warrant has been issued.

On the corruption front:

- Three people have been charged and their bank accounts frozen in the case of the \$800,000 bribe paid in 2009 by the Brazilian aircraft company **Embraer** to sell two planes to **LAM**, and the amount was added to the price of the planes. Buchilli did not name them, but two have been named in other documents, José Viegas, then head of LAM, and Mateus Zimba, then Mozambique head of Sasol. *Savana* (21 Apr) names the third as Paulo Zucula, Minister of Transport 2008-13 under Guebuza, and says that he told investigators that he was acting purely for Frelimo and not for personal gain. It is widely assumed that Frelimo takes a share of bribes and other corruption.
- 27 people have been charged (of whom 7 are in preventive detention) in the theft of MT 127 mn (\$2 mn) from the **Agriculture Development Fund** (Fundo de Desenvolvimento Agrário). One of those detained is former FDA head Setina Titosse. They had invented agricultural projects which did not exist and siphoned off the money.
- On the \$900,000 bribes paid by **Odebrecht** to win the contract for the white elephant Nacala airport, Buchilli said that agreement between Odebrecht and the Brazilian government remains confidential until June, and only then will Mozambique have sufficient information to bring charges.
- The social security fund (Instituto Nacional de Segurança Social, **INSS**) invested improperly in lending MT 210 mn to CR Aviation to buy four airplanes and also in taking 15% of the shares. *@Verdade* (20 Apr) says there was a similar illegal investment in Epsilon Investimentos, which is linked to Labour Minister Vitoria Diogo.

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## And the Banco Austral and Siba-Siba saga

[Mozambique 161: 17 April 2010](#)

## No prosecutions for Banco Astral plunder

No Mozambicans will be prosecuted for plundering and bankrupting Banco Austral a decade ago, the Public Prosecutor's Office (PGR) announced on 1 April. This follows a decision last year that no one would be prosecuted for the 2001 assassination of Antonio Siba-Siba Macuacua, the Bank of Mozambique's head of banking supervision who took over as head of the bank after it collapsed.

It ends a nine year struggle between Frelimo, which refused to hold accountable anyone from the party elite, and donors and civil society which fought to keep the issue alive. Donors forced a forensic audit of Banco Austral and made the bank collapse and murder symbolic governance issues, raising them each year in negotiations with the government -- in the end, to no avail.

As a condition of IMF support, the then People's Development Bank (BPD) was privatised in 1997 to the Southern Bank Berhad (SBB) of Malaysia (30.4%) and Invester (29.6%), a Mozambican company headed by Octavio Muthemba, former Industry Minister and chair of SPI -

Gestão e Investimentos, the Frelimo party holding company. The state kept 40% of the renamed Banco Austral. Through a mix of direct theft and bad loans to themselves and others in the Frelimo elite, the bank was drained of at least \$150 million and then handed back to the state in 2001. Siba-Siba was named head, and tried to collect on some of the loans and prepare the bank for reprivatisation to ABSA of South Africa, now Barclays. In an unsuccessful attempt to stop the sale, Siba-Siba was murdered at the bank's offices on 11 August 2001.

The Public Prosecutor's Office (PGR) on 1 April said it would not prosecute Muthemba, who was chair of the Banco Austral board of directors, Jamu Hassan and Omaia Salimo, who were members of the board, and Alvaro Massinga, who sat on the bank's supervisory board, on the grounds that they did not take part in the direct day-to-day management of the bank.

Although the four received loans for themselves and their companies, knowing this was in violation of both the law (Lei 28/91) and the bank's Credit Policy Manual, both of which banned loans to managers and directors, the PGR does not feel this warrants prosecution. Muthemba, Hassan, and Massinga each had personal and company loans in excess of \$2 mn from Banco Austral, and these were not being repaid. The acts of the four men are "to be condemned on moral and ethical grounds", the PGR states, but any response must come from the Bank of Mozambique, not the PGR. And it is for Barclays or the Mozambique government to try to collect on the outstanding loans.

The PGR does suggest that three Malaysian managers of Banco Austral should be prosecuted, but there is little chance of getting them back to Maputo for trial.

In a series of article written in 2001, I quote a senior Mozambican banker saying "it was impossible for the Banco Austral board of directors not to know that frauds were occurring." The original series of articles, which gives detailed background to the bank scandals, is titled "Killing the goose that laid the golden eggs " and is on

[www.open.ac.uk/technology/mozambique/pics/d53732.doc](http://www.open.ac.uk/technology/mozambique/pics/d53732.doc)

An attached file has AIM and Savana articles on the PGR decision.

***English version of an article published in metical no 1073 de 17.09.2001, slightly amended***

***Mozambique's banking crisis***

**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](mailto: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 Macuácuá 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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English version of an article published in  
metical 1074 de 18.09.2001  
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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 "candongá") 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)

## **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 Agrário 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 through 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, Investier, 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 Investier 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.

Investier 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 Investier, 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 Investier 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 Mughanathan. 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 Locomotivas 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 João Américo Mpfumo, former head of the air force (Mt 9 bn, \$450,000);
- + Soprim, a company owned by Paul Muxanga, Minister of Transport and Communications 1994-99, and Josephine Piera (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 Murganathan, 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 Investil – 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 Macuácuá, 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 Macuácuá 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 at 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)

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The next two parts are a substantially expanded version of part 8 of the series, as published in metical no. 1081 de 28.09.2001  
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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 banking 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 meticaís, both in meticaís 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 of 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 Sommerschild 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 Cândida 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 Cândida 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 Cândida, 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 Albano 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 February 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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English version of an article published in  
metical no.1082 de 01.10.2001 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-metrical 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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English version of an article published in  
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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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English version of an article published in  
metical no. 1084 de 03.10.2001  
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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 Macuácuá 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 Agrário 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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**Election study collaboration:** We have detailed election data from 1999 through 2014 and are inviting scholars to use this data collaboratively. <http://bit.ly/MozElecData>

## Other books and reports by Joseph Hanlon

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

**Comment: something will turn up:** <http://bit.ly/28SN7QP>

**Oxfam blog on Bill Gates & chickens:**

<http://oxfamblogs.org/fp2p/will-bill-gates-chickens-end-african-poverty/>

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Copies are in Maputo bookshops (Karibu at airport, Livaria UEM, Bazar Pariso, Mivany) or from

**KAPICUA**, which recently moved to Av de Maguiguana (nr Lenine), Maputo; Tel: +258 21 413 201.

Telm.: +258 823 219 950 E-mail: [kapicudir@tdm.co.mz](mailto:kapicudir@tdm.co.mz) / [kapicuacom@tdm.co.mz](mailto:kapicuacom@tdm.co.mz)

Outside Mozambique, we have a few copies we can send from London. Please e-mail [j.hanlon@open.ac.uk](mailto:j.hanlon@open.ac.uk).

### **Zimbabwe takes back its land**

by Joseph Hanlon, Jeanette Manjengwa & Teresa Smart is now available from the publishers

[https://www.rienner.com/title/Zimbabwe\\_Takes\\_Back\\_Its\\_Land](https://www.rienner.com/title/Zimbabwe_Takes_Back_Its_Land) also as an e-book and

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One mailing list is used to distribute two publications, both edited by Joseph Hanlon. This is my own sporadic "News reports & clippings", which is entirely my own responsibility. This list is also used to distribute the *Mozambique Political Process Bulletin*, published by CIP and AWEPA, but those organisations are not linked to "News reports & clippings" Joseph Hanlon

#### **Mozambique media websites, Portuguese:**

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

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

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

Diario de Moçambique (Beira): <http://www.diariodemocambique.co.mz>

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

#### **Mozambique media websites, English:**

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

Rhula weekly newsletter: <http://www.rhula.net/news-announcements.html>

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

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

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

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