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## How Mozambique managed Banco Austral's crisis

*Richard Gerster\**

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In 2007/08, there was no end to bad news from the financial sector. Today, saving a bank has almost become routine for governments. 2001/02 Mozambique was confronted with the breakdown of its third largest bank. The reasons behind the global financial crisis today and the banking crisis in Mozambique differ, of course. Subsequently, the Mozambican government dealt with this crisis in a professional manner. In this process, support from abroad, also from Switzerland, played an important role. However, until now, those people responsible for the debacle have not been held accountable – just like nobody is taking on responsibility for the current global financial crisis. A timely opportunity to learn a lesson about the opportunities and limitations of budget support.



*Banco Austral's deep crisis resulted in an improved supervision of banks in Mozambique.*

### **Crisis management**

Under pressure from the International Monetary Fund (IMF) and the World Bank, the state bank BDP has been privatised and renamed Banco Austral in 1997. Now owned by a private Mozambican and Malaysian consortium, the bank started to give out credits unrestrainedly, also to high ranking politicians. Banco Austral became a looted self-service shop and faced ruin. Loans amounting to 300 million US dollars

were considered problematic. Another bank became insolvent. The banking crisis was a threat to the savings of many small savers who trusted Banco Austral with their money. At the same time prominent profiteers and politicians worried about their reputation. The government foresaw a bank run and considered Mozambique's still fragile banking system to be endangered. Faced with this dilemma, the government wanted to save the banks at risk with a financial injection – just as it was done by the Swiss federal government at the time of SWISS' rebirth and when contributing to saving UBS. The recapitalisation necessary for Banco Austral was estimated to amount to 150 million dollars.

The international donor community was shocked. For several years a group of countries, including Switzerland, has directly co-financed Mozambique's state budget with the expectation that Mozambique would use the money in their taxpayers' sense – namely for poverty reduction. The banking crisis made the potential risk abruptly visible. The disbursement of budget support was instantly suspended. Various donors threatened to cut their contributions to the budget altogether, should the government refinance the banks. The government was in serious trouble. Open, but hard negotiations with the Bank of Mozambique, the Minister of Finance and the Prime Minister ensued. With considerable support from Switzerland a productive and for both sides satisfactory agreement was reached in 2001/02. With hindsight, the packet of measures was successful and prevented larger damage and paved the way for improvements. No other instrument used in international cooperation would have allowed for similar negotiations.

### **The government's response**

The government's management of the banking crisis was done in a "quick and



*Moderation at the local radio station Xinavane – media play an important role in times of crisis.*

thorough manner”, as an observer says. It included three levels:

- For a short period of time, Banco Austral was taken over by the government and reorganised. An inventory of open credits was established and the list with names published in the media and whenever possible pay-backs and interest rates were collected. Treasury bonds were issued in order to reduce the burden of the reorganisation on the state budget. In the end only their interest caused costs for the state budget. It was a much smaller amount than feared.
- With a middle-term perspective the government planned its exit from the reorganised Banco Austral. In 2004 it was sold to the South African ABSA group. The buyers committed to continue collecting the remaining credits. The government took over part of the obligation to collect the outstanding credits and reports about it to parliament and the public in its budget execution reports. In 2007, the ABSA group was taken over by the British Barclays Bank.
- As a long-term measure Mozambique evaluated and reinforced its supervision of banking, particularly the central bank's role. The rules were adapted to

international standards and further reforms in the financial sector were undertaken in order to prevent such crises in the future. They stood the test of the global financial crisis in 2008.

After the annual budget support conference in April 2002 the donors waited for several months before they could be sure that the government really implemented the agreed measures. In June 2002 the IMF closely examined the national economy. Its assuring assessment caused all donors to resume their payments. At the same time various reforms as announced by the government were integrated into the performance assessment framework. Disbursement of budget support depends on the fulfilment of these agreed reforms. Compared to these measures, Switzerland asked for a lot less influence and control when saving the UBS in 2008. In Mozambique, one part of Switzerland's budget support is directly linked to enhancing banking supervision. This is why the case of Banco Austral and its consequences remained a point of discussion on the agenda between the government and donors for years.

Reducing costs for the state budget, transparency towards the public and preventive measures stood at the heart of the donors' requests. In view of a strengthened supervision of the banks and the financial sector overall, the crisis had preventive long term impacts. Budget support is not only about making sure that aid money is not abused. Rather its chances lie in systematic improvements so that public finances can be managed prudently overall.

### ***Disturbing impunity***

When it comes to reviewing the banking crisis from a penal perspective, the story to be told is less successful. The donors asked for an independent forensic audit to examine whether, from a penal perspective, laws were violated and demanded adequate prosecution. Sweden tied one part of its budget support to this audit. Faced with such massive pressure the government mandated the respective audit to a South African company. The report was written but locked up afterwards. The government passed it on to justice. Due to the separation of powers between the government and justice the examination of a prosecution can not become an indicator in the performance assessment framework



*At the end of each month long queues form in front of the banks as people want to pick up their salaries.*

agreed between the government and donors. The topic has not disappeared from the dialogue agenda. "The impunity of those responsible for the bankruptcy, being most probably part of the inner power circle at that time, is the most disturbing feature of that crisis", comments a donor representative.

Mozambique's central bank has assigned Banco Austral's reorganisation to the leader of banking supervision, Antonio Siba-Siba Macuacua. He paid for this mandate with his life: On 11 August 2001, one day before the list with the names of all



*The established banks do not (yet) reach to small enterprises in remote villages.*

debtors was published, he was assassinated. Others finished his task and reorganised Baco Austral. The murder's prosecution which showed little progress made headlines for years, not least of all because prominent personalities were suspected of entanglement. In April 2008, Siba-Siba's widow placed a large announcement in the newspapers asking the government and donors to not only collect the outstanding credits but also bring her husband's murderers to justice. In December 2008 Mozambique's police finally arrested a former manager of Banco Austral together with two security people. They are now accused of murdering Antonio Siba-Siba Macuacua.



*The construction sector depends on functioning banks.*

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