

DAY 1 OF THE "HIDDEN DEBTS" SCANDAL TRIAL

Former Governor of the Bank of Mozambique authorized loans from ProIndicus and says he acted in good faith based on the instruments in his possession

● On the 50th day of the trial of the biggest financial scandal in Mozambique, it was heard yesterday the former Governor of the Bank of Mozambique, Ernesto Gove. Now retired, Gove joined the Bank of Mozambique in 1976 and held several positions, with the most notably as Deputy Governor of the Bank of Mozambique for 11 years, and later Governor of the Bank of Mozambique, also for 11 years. At the time of the facts, he was the head of the Central Bank, the institution that authorized the external loans for ProIndicus, EMATUM and MAM companies.



Ernesto Gove, former Governor of the Bank of Mozambique



Asked how he classified the external loans contracted by ProIndicus, EMATUM and MAM, Ernesto Gove replied that they were of a private nature. But he explained that given their vocation to develop functions of the State responsibility, namely the Protection of the Exclusive Economic Zone and Land Borders, the companies had a hybrid nature. "They were created under private law and are unquestionably private companies, but due to the public purpose for which they were created, the Government had to be present in their day-to-day operations."

Faced with the fact that the files of the three companies had been delivered directly to Bank of Mozambique technicians and had not been entered through the counter, Gove played down the issue, arguing that the important thing is the analysis that is done within the institution and not the way in which the requests are entered. "It is not at all abnormal for an entity to be received at an office. A General Director of SISE deserves to be treated with deference".

He then said that on an unspecified date he received a telephone call from the then General Director of SISE, Gregório Leão, asking him to receive someone from the secret services who had a confidential and urgent project related to national security. It was a request to authorize an external funding of USD 372 million for ProIndicus. He confirmed that the financing contract for the company was already signed when it was submitted to the Bank of Mozambique, a situation that contradicts the foreign exchange legislation that stipulates that requests for external fi-

ancing authorization must be submitted before its loan contracts are signed.

"As the exchange authority, the Bank of Mozambique cannot be inhibited from doing what is incumbent upon it, namely analysing the processes, just because the contracts are signed. The fact that the request for authorization of external financing was submitted with the financing contract already signed was a suppressible irregularity, taking into account the objectives of the company which was to defend sovereignty and the actors involved. Members of the Government were involved and it was difficult to doubt the goodness of a project that passed through these actors".

The former Governor of the Bank of Mozambique said he read the ProIndicus financing contract during the authorization process, while for the EMATUM and MAM contracts the reading was the later, since these processes were authorised by his substitutes, as he was on holiday.

By authorizing the external loan from ProIndicus, whose process was filed with the signed financing contract and with a State Guarantee, the declarant said he did not violate any legal provision. However, the foreign exchange legislation establishes that the Bank of Mozambique, in its capacity as an exchange authority, should not authorize loans whose disbursement is conditional on the issue of a State or Central Bank Guarantee.

However, the former Governor of the Central Bank explained that what that provision intends to avoid is forcing the entities with

powers to issue guarantees, in this case the Ministry of Finance and the Central Bank, to have to conform to an act performed by the agents intervening in the loan agreement. "That is, it was intended that, there being merit in the object to be financed and agreement of the entities issuing guarantees, they would have to issue such guarantees so that they would be presented to the exchange authority, together with the contracts and other required documentation."

At the questions from the Public Prosecutor, Gove clarified that an external financing is of a private nature when it is contracted by private companies and companies in the State corporate sector. It is considered a loan of a public nature when it is contracted by the State, either through its central level institutions and bodies, or through municipalities. Private sector loans require the authorization of the Bank of Mozambique, while those of the public sector are dealt with in the Ministry of Finance. But in relation to private debt with a State guarantee, from the moment the guarantee is triggered, it becomes public debt. "This is because, for the creditor, the borrower becomes the State

The Public Prosecutor's Office said that the internal opinions of the Central Bank regarding the request for authorization of external funding of ProIndicus, in the amount of USD 372 million were all done on 13 March, the same date on which the Governor of the Bank of Mozambique issued the authorization order. Regarding the request for authorization of the addendum to the initial contract in the amount of USD 250 million

of ProIndicus, the technical opinions of the Central Bank were also issued on a single day, 12 June 2013.

Then, the Public Prosecutor representative asked whether the technicians had enough time to analyse the files, to which Ernest

to Gove said that the process was urgent and was linked to sovereignty. "We were all following the political situation at the time. Therefore, first, we have to have sovereignty and then we will see if there is anything that has contravened the law. Under normal con-

ditions, perhaps the Bank of Mozambique would need more time to make the decision, but we were facing an urgent process that dealt with sovereignty. The signal had already been given: Let's treat this matter with the care it deserves".

Ernesto Gove denies having instructed a subordinate to produce a favourable opinion to EMATUM's request for authorization of the additional loan

One of the Central Bank declarants stated that the application file for an additional addendum in the amount of USD51 million for EMATUM was handed to her by the Governor of the Bank of Mozambique with the direction that she should produce a favourable opinion. Confronted with these statements, Ernesto Gove responded in the following terms: "That is not part of my management standards. I have never directed technicians to take a direction in the analysis of a file at the Central Bank".

During his 40-year career at the Bank of Mozambique, Ernesto Gove said he had no memory of having seen or dealt with a case similar to the ProIndicus, EMATUM and MAM companies, that is, a case in which a private company requests authorization for external funding with a State guarantee

At a question from the Bar Association of Mozambique (OAM), assistant in the case, related to how the board of directors of the Central Bank ensured its independence, the declarant replied that there is no legal provision establishing that the Bank of Mozambique is independent from the Government.

He also said that the Bank of Mozambique, in exercising its functions, acts in accordance with Government policies and added that there is no functional hierarchy between the Central Bank and the Ministry of Finance, as the statement by Silvina de Abreu, a director of the Bank of Mozambique, had said. Gove said that, as Governor, he was subordinate to the President of the Republic.

Asked whether he had informed the then President of the Republic, Armando Guebuza, about the loans with State guarantees to ProIndicus, EMATUM and MAM, since they involved high amounts, Gove replied in the negative. "As the processes passed through the Minister of Finance and as he is a member of the Government, it would be up to him to inform the President of the Republic, as well as on the possible fiscal and macroeconomic impacts. But I cannot say whether or not the Minister of Finance has provided this informa-



Ernesto Gove, former Governor of the Bank of Mozambique

tion to the President of the Republic."

According to the declarant, the foreign exchange authority is concerned with macroeconomic stability, so it conducts a systemic analysis to assess the risk of private foreign debt, to prevent the country from having a negative image due to non-payment of debt service by private companies.

"The company has financial statements that give credibility that the debt to be incurred will be supported by the activity it proposes; and if it is a startup, the exchange authority has to check what is driving it to take out an external loan and what it is relying on. The key here is future revenue projections. In the case where a company uses a guarantor, the latter has to position itself as part of the company because it can be called upon to honour the commitment if the company fails".

Faced with his statements to the press in 2016 that the Bank of Mozambique had no knowledge of loans granted to the companies ProIndicus, EMATUM and MAM, Ernesto Gove confirmed and defended himself

saying that under Article 73 of the Organic Law of the Bank of Mozambique, it had a legal obligation to maintain banking secrecy, except in cases where the information was requested, through official letter, by a judge or the holders of bank accounts.

Asked by OAM if, in any way, he felt he had harmed the Mozambican people and the State by his actions in the processes of authorizing loans to the three companies, the former Governor of the Central Bank replied with a categorical no: "I acted in good faith based on the instruments I had in my hands".

Gove acknowledged that some Bank of Mozambique officials were pressured by the indicted António Carlos do Rosário to speed up the response to requests for funding authorization. "Information came to me of the existence of pressure in the Foreign Department that dealt with requests for authorization of external financing. I do not remember whom it came to me from. I did not act because I felt that this pressure was not capable of jeopardizing the technicians' judgment in assessing the files".



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