

MEDIA STATEMENT

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Mozambican CSOs accuse UK and other donors of not being committed to good governance in Mozambique by failing to hold accountable the parties responsible for the \$2.3 billion secret debt

(Maputo, 15 November 2018) A coalition of Mozambican civil society organisations see the decision of the UK Financial Conduct Authority (FCA) will not be pursuing criminal sanctions against Credit Suisse for its role in Mozambique's unconstitutional and illegal US\$ 2.3 bn debt as further evidence that the international community will not hold accountable its own banks which are responsible for the debt.

We now question the sincerity of the UK and other donors, and doubt their real commitment to good governance in Mozambique. The international community holds the Mozambican people and leadership solely responsible for this debt, and exonerates those behind it.

The decision taken by the UK watchdog is in line with various international organisations and donor agencies that have stopped demanding transparency on the secret debts affair. Our understanding is that there is a clear intention of white washing the debt scandal, as a mean of securing benefits for the creditors and condemning the people of Mozambique to perpetuated misery. Mozambican civil society cannot accept such injustice.

Clearly the Mozambican leadership was party to the debt, but it was instigated and only made possible by lenders in the donors' countries who are not challenged by international agencies and donors who only blame Mozambicans. Civil society will now directly approach regulators, the UN and G20 to seek support.

This statement is issued by five prominent civil society organisations including a coalition concerned with public financial management (PFM), socio-economic and rural development, transparency and accountability: CIP, FMO, MASC, WLSA and OMR (*Centro de Integridade Pública, Fórum de Monitoria do Orçamento, Mecanismo de Apoio à Sociedade Civil, Mulher e Lei na África Austral, Observatório do Meio Rural*).

The London Financial Times (FT, 11/11/2018) reported that "the UK watchdog has informed the bank that it has downgraded the case to a regulatory investigation". It is understood that maximum sanctions for such investigations are administrative penalties including fines. Administrative sanctions are inadequate given the complexity and seriousness of allegations against Credit Suisse and its former staff members. We believe that Credit Suisse (together with VTB, BNP Paribas and the Mozambican Government) is complicit in creating a sovereign debt crisis in Mozambique. The failure to take action against the former banker Credit Suisse, Andrew Pearse, who was responsible for the sovereign debt deals who then joined the contractors benefitting from the illegal loans suggests that illegal, immoral and negligent conduct was not just by rogue bank staff, but rather part of systemic Credit Suisse culture.

We also expected that the FCA would conduct a transparent process and grant affected parties, including Mozambican Civil Society and Parliament, an opportunity to make submissions on the Credit Suisse matter. Any process that does not include Mozambican civil society's participation is not satisfactory to millions of Mozambicans, whose futures are affected by Credit Suisse's conduct. The secrecy around the investigation, as well as with the illegal debt, suggests that the objectives of FCA investigation are limited and will not address systemic failures with Credit Suisse's conduct in Mozambique and possibly in other countries.

Risks of Eurobond lending

Credit Suisse's conduct (in concert with Mozambican Authorities) underscores risks posed by increased Eurobond lending by Global Systemic Important Banks (GSIBs) in Emerging and Developing Countries.

The power imbalance between GSIBs and poor, developing countries means that citizens from countries like Mozambique depend on international regulators to identify and address accountability and transparency failures from GSIBs.

FCA's decision to downgrade the complaint against Credit Suisse's conduct - ten years after the Global Financial Crisis caused by poor risk management practices by Banks – also suggests that the FCA is yet to learn lessons from the Financial Crisis.

Our assessment is that Credit Suisse's inadequate risk and compliance processes which contributed to the Mozambican Debt Crisis are systemic and bank wide. Our expectation is that regulators would be more stringent and seek firm sanctions to ensure that weaknesses in internal controls at Credit Suisse are addressed.

Additionally, another debt crisis (again driven by private creditors) is imminent and is already becoming a reality in developing countries. Therefore the lack of sanctions on Credit Suisse's conduct will contribute to the maintenance of predatory behaviour by such lender, to promote instability in the financial system and to discourage responsible borrowing and lending.

Mozambican Civil society is disappointed that Regulators are treating Mozambique's ILLEGAL debt case, differently from the Malaysia's 1MDB Fund – where criminal sanctions are pursued against leading Goldman Sachs Bankers. Additionally, we have noted reports that proceed from 1MDB would be traced and are likely to be returned to Malaysia.

Action to be taken

The signatories of this statement will be approaching the UN and G20 through Argentina (in their Capacity as current G20 Presidency and Japan as incoming Presidency) to register our concerns that the conduct of Regulators might not be supportive of post Financing For Development Agenda (FFD) as outlined in the Addis Action Plan.

We will also approach regulators and governments in UK, Switzerland and United States as we believe that Credit Suisse and other Banks might be in contravention of the Financial Action Task Force's (FATF) standards against money laundering. Failure to take appropriate corrective action can only expose international financial system, and, by extension, the global economy and countries, to the further vulnerability.

We shall continue calling for domestic action in Maputo – we have approached parliament and the constitutional court to challenge the legality of Mozambique's debt. We will continue to mobilise civil society against Illegal loans. Our hope was that global regulators would stand in solidarity with Mozambican people, and use their statutory powers to hold parties accountable.

We urge other civil society organisations (CSOs) in other developing countries to remain vigilant as their countries access more loans from private creditors. The conduct of private sector might pose the greatest risk to the prosperity of our nations and peoples. It is disappointing to learn that developing countries can no longer count on a regulator to protect our countries from predatory lending practices.

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