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A case of systematic bank fraud that has been in operation for at least 14 years has threatened to bankrupt the Dominican Republic. The scandal was once called the "Enron of the DR," but, as facts have emerged, the case of Banco Internacional (Baninter) dwarfs the US scandal to which it was compared in its potential damage to the economy as a whole.

Last March 24, newspapers announced that another bank, Banco del Progreso, would take over Baninter. Both institutions signed an agreement by which the former would take over the assets of Baninter and of Intercontinental de Seguros and Baninter & Trust Company. The acquisition had the approval and support of the Junta Monetaria and of the Banco Central. President Hipolito Mejia announced the next day that the merger, which had been in the works for several months, was an event of great import for the consolidation of the national financial system.

Others, including the president of the Asociacion de Bancos Comerciales, Jose Manuel Lopez Valdez, and even the rector of the Pontifica Universidad Catolica Madre y Maestra, Monsignor Agropino Nunez Collado, added their voices of approval. But rumors that something was amiss began to emerge, and by March 30, President Mejia found it necessary to state publicly that the criticisms were nothing but "gossip and lies," whose purpose was to manipulate the relative values of the merging entities. There followed a series of events that included changes in the membership of the Junta Monetaria.

Then, on April 8, Banco del Progreso announced that it was backing out of the merger. During the ensuing month, it gradually became clear that the bank had been engaged in fraud at a level never before seen in the Dominican Republic, one that left the bank with a shortfall of more than US$2 billion and that threatened to topple the nation's economy. By May 14, monetary authorities began to reveal a story of outright theft of cash, manipulation of loans, overdrafts, bogus letters of credit, soft loans, purchases of airplanes and yachts, and inflated expense payments to executives of the bank.

Jose Lois Malkun, governor of the Banco Central (BC), faced the nation on television, after first conferring privately with Mejia, to reveal that Baninter had, since 1989, been operating two banks, one for the benefit of the bank examiners and another clandestine bank. "The clandestine bank permitted the principal executives of the entity to commit fraud against depositors, savers, and minority shareholders, successfully deceiving the overseers of the Banco Central, the Superintendencia de Bancos, and international risk-assessment agencies," Malkun admitted.

BC investigations revealed that, during the period from January to March of 2003, bank officials, on instructions from principal stockholders, had erased from the books fraudulent operations amounting to about US$630 million. The laundering operation wiped out the debt of Baninter's principal stockholder and that of companies and persons connected to him. This occurred just

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before the signing of the contract with Banco del Progreso. With that information, the government arrested the three top executives of Banco Intercontinental president Ramon Baez Figueroa and vice presidents Viviana Lubrano de Castillo and Marcos Baez Cocco. The move brought the government under fire for having placed some of Baez Figueroa's other businesses under its control.

One of those businesses is a media empire whose flagship is Listin Diario, the country's oldest and largest newspaper. The newspaper is famously friendly to former President Leonel Fernandez (1996-2000), who will challenge Mejia for the presidency next year. Baez Figueroa said that the seizure was a plot to improve Mejia's chances. Following the government's takeover of the paper, Listin Diario published an editorial denouncing the government's action against Baez Figueroa as a threat to freedom of the press.

Malkun maintained, however, that in light of the looting of the bank, which he called "unprecedented" and the largest bank fraud in the nation's history, it was the responsible thing for the government to do. He said that the government would honor deposits and was asking US authorities to help find hidden funds and assets. He told the country, "We ask all Dominicans and all those foreigners who have in some way invested on our country to have faith in the Dominican Republic." To fund the bank's obligations, he said the government planned to sell off the bank's subsidiaries. Besides Listin Diario, Interncontinental Finance Group, whose main business is Baninter, also owns more than 70 radio stations, four television stations, and three other newspapers in the country. The bank is the nation's second largest; it reported assets of US$1.1 billion last September.

President Mejia responded to the allegation of a politically motivated takeover of the media, insisting that the action ought not be taken as a move against press freedom. "The financial and monetary administration of the Dominican Republic has acted with responsibility and courage to confront this problem," he said. Mejia spoke from Washington, DC, where he was delivering the message to the Inter-American Development Bank (IDB) and others in the international financial community that his government was guaranteeing Baninter's commitments.

The president called the affair "strictly a judicial case," adding, "Our administration is and will be absolutely respectful of the liberty of the press." Mejia said that the takeovers were in strict accordance with the law and that the measures taken were to guarantee the performance of the bank's obligations. He reminded reporters that the bank's failure amounted to 15% of his country's GDP and that they came at a time when the Dominican Republic had been showing exemplary economic stability and a "notable macroeconomic performance." He said that the fiscal impact "induced by the financial scandal of Baninter could reflect negatively on the economic performance of the Dominican Republic, but we succeeded in putting in place rapidly a coherent macroeconomic program that permits us to maintain stability."

The program Mejia referred to called for economic aid from the international community and continuation of policies eliminating barriers to foreign investment, dismantling monopolies and oligopolies including state enterprises, and implementing central bank autonomy. Mejia was successful in brokering an agreement with the IDB and other international agencies that will likely see the country through the crisis. In doing so, he was able to avoid dealing with the dreaded

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International Monetary Fund (IMF), which would have imposed more stringent requirements (see NotiCen, 2002-11-07). The business community made it known that it would have preferred a deal with the IMF, since it would have hamstrung the government to their benefit.

But Banco Central director Apolinar Veloz defended the IDB deal on the grounds that it afforded more money and still called for fiscal discipline from the administration. Malkun agreed. "The first thing we have to do is give a clear signal that the government is ready to adopt all the necessary measures, fiscal as well as monetary," he said. "Then we negotiate an aid package." But while government and business people speak of "measures" and "discipline," ordinary citizens think about what these policies will cost them. Several popular organizations have spoken up to ask the government not to saddle them with the consequences of the scandal. They have also called upon the citizenry to remain alert to any government attempts to place undue burdens on the poor.

Maria Teresa Cabrera, director of the Movimiento Independencia Unidad y Cambio (MIUCA), warned that the situation could cause price increases on basic commodities. "In the interest of helping reactivate the protest movement for this and other demands, we declare ourselves ready and willing to unite forces with other groups of the vindication movement," she said. Cabrera has brought together popular assemblies in several zones throughout the Distrito Nacional, the province of Santo Domingo, Bani, San Juan de la Maguana, La Vega, and Nagua. They have collectively suggested to the government that it find ways to confine the penalties for these crimes to the culpable.

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