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## **PRI Accused of Laundering Campaign Donations Through Bank Rescue Fund**

*by LADB Staff*

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The launch of the new savings-protection institute (Instituto de Proteccion al Ahorro Bancario, IPAB) was overshadowed by new allegations that the agency's predecessor, the Fondo Bancario de Proteccion al Ahorro (FOBAPROA), was used to launder contributions to the presidential and Tabasco gubernatorial campaigns in 1993 and 1994.

The IPAB, which initiated operations in late May, was created to take over the functions of FOBAPROA. FOBAPROA ran into financial difficulties after acquiring more than 552 billion pesos (US\$57.6 billion) from insolvent banks (see SourceMex, 1998-04-15). The Mexican Congress passed the legislation to create the IPAB both to dispose of the FOBAPROA debt and to create a new institution with tighter regulation of the commercial-banking system (see SourceMex, 1998-12-16).

FOBAPROA's practices came under constant attack from the major opposition parties, which accused the federal government of using the fund to assist wealthy bankers and business owners at the expense of the Mexican taxpayers. Critics from the center-left Partido de la Revolucion Democratica (PRD) and the conservative Partido Accion Nacional (PAN) also charged that FOBAPROA was used to launder campaign contributions to candidates for the governing Partido Revolucionario Institucional (PRI).

In late May, one beneficiary of the FOBAPROA program, fugitive banker Carlos Cabal Peniche, said that his former bank, Banca Cremi-Union, was used to channel funds into the presidential campaigns of Luis Donaldo Colosio and Ernesto Zedillo in 1993 and 1994 and the campaign of Tabasco Gov. Roberto Madrazo Pintado in 1994.

In an interview with The Miami Herald, Cabal said he donated US\$15 million to Colosio's campaign in 1993 and 1994 and another US\$5 million to Zedillo. Zedillo became the presidential candidate after Colosio was assassinated while campaigning in Tijuana in 1994 (see SourceMex, 1994-03-30). FOBAPROA also used to channel donation to Tabasco race Cabal also revealed a donation of US\$5 million to the gubernatorial campaign of Madrazo Pintado in Tabasco.

An investigation by the Procuraduria General de la Republic (PGR) found that Madrazo spent more than 30 times the legal limit to win that race, although the case was dismissed two years later on a technicality (see SourceMex, 1995-08-30). Some members of the opposition parties in the subcommittees formed to investigate FOBAPROA said their own investigations appear to confirm Cabal's claims.

The legislators have turned over potentially damaging information on Banco Union to Canadian auditor Michael Mackey, who was hired by the Congress to examine the FOBAPROA books. This information allegedly proves that Banco Union laundered US\$25 million in donations to the PRI and

then later declared the money as bad loans when the bank declared bankruptcy. News reports said Cabal arranged for Banco Union to make loans to fictitious businesses. Those businesses then made personal donations to individuals who then transferred the funds to the PRI.

The opposition deputies have asked Mackey to investigate whether PRI campaign funds laundered through Cremi-Union and other rescued banks eventually became part of the FOBAPROA debt. If so, said Deputies Dolores Padierna of the PRD and Santiago Creel of the PAN, the amount should be excluded from the IPAB bank-rescue fund and the PRI should be required to make restitution.

The PRD, PAN, Partido del Trabajo (PT), and independent legislators who form part of the FOBAPROA investigating committees have also asked Mackey to investigate Banca Serfin, Banamex, Confia, Bancrecer, Banorte, former Aeromexico director Gerardo de Prevoisin, and banker Angel Isidro Rodriguez.

### *PRI may have to return questionable donations*

The opposition deputies have found a sympathetic ear in Vicente Corta, the IPAB's first executive secretary. Corta said if Cabal's allegations are proven, the PRI will have to repay the US\$25 million to the IPAB. "The repayments are covered by the new IPAB law," Corta told reporters. But Corta's statement was immediately criticized by Finance Secretary Jose Angel Gurria Trevino.

Without mentioning the IPAB director, Gurria told reporters the new savings-protection institute was not created to deal with questionable loans related to the 1994 political campaigns. "The appropriate judicial organizations will deal with this issue," Gurria said. PRI leader Jose Antonio Gonzalez Fernandez acknowledged the party received a campaign contribution from Cabal, but said the donation only amounted to about 1 million pesos. The amount at the time was equivalent to US \$285,000 and is now worth about US\$104,000. At same time, Gonzalez admitted that Cabal was one of the party's largest contributors before campaign-finance laws were reformed in September 1993.

The revised law banned corporate donations and required contributing individuals to be identified. "Yes, he gave resources. Yes, he gave millions," Gonzalez said during a meeting with foreign journalists in Mexico City. "Yes, he gave them when it was permitted by law." Gonzalez pointed out that Cabal's donations did not "buy impunity," since the government is proceeding with fraud charges against the banker stemming from the collapse of Banca Cremi-Union.

Presidential spokesman Fernando Lerdo de Tejada also disputed Cabal's allegations. "Neither as campaign coordinator for Colosio, nor later, as candidate for the presidency, did President Ernesto Zedillo have knowledge of any contribution whatsoever made by Mr. Carlos Cabal Peniche to either of these campaigns," Lerdo de Tejada said in a letter to The Miami Herald. But, in a follow-up interview with The Miami Herald, Cabal said Zedillo was fully aware of the donations to Colosio and later to his own campaign. "Zedillo had knowledge of the first donation, and we met personally and discussed the second donation," Cabal told the newspaper.

### *Scandal clouds release of new IPAB guidelines*

The campaign-financing scandal overshadowed the tough regulations announced by the IPAB for commercial banks. Under the regulations, banks will have to pay five times as much in quarterly

fees to IPAB as they did to FOBAPROA. The IPAB expects to collect about 1.5 billion pesos (US \$15.6 million) from commercial banks, three-fourths of which will be used to cover bank-rescue operations begun under FOBAPROA.

IPAB director Corta defended the high fees, saying they are needed to cover the bad debts inherited from FOBAPROA, which still amount to between 15% and 17% of Mexico's annual GDP. IPAB also released new regulations to phase out unlimited protection of bank deposits, effective in 2003. Under the new guidelines, the institute will only guarantee individual accounts equivalent to about 400,000 unidades de inversion (US\$105,000) by 2005. This is aimed at prompting banks to beef up capital and big depositors to share some risk.

"Large investors and corporate clients will bring more discipline to the market in entrusting their resources to stronger institutions," an IPAB statement said. [Note: Peso- dollar conversions in this article are based on the Interbank rate in effect on June 9, reported at 9.58 pesos per US\$1.00] (Sources: Bloomberg news service, 05/31/99; Agence France- Press, 06/01/99; The News, 06/03/99, 06/04/99; The Dallas Morning News, 06/04/99; Spanish news service EFE, 06/02/99, 06/03/99, 06/06/99; Proceso, 06/06/99; Excelsior, 06/01/99, 06/04/99, 06/07/99; El Economista, 06/01-04/99, 06/08/99; The Miami Herald, 05/29/99, 06/06/99, 06/09/99; Reuters, 05/31/99, 06/03/99, 06/06/99, 06/09/99; Associated Press, 06/03/99, 06/06/99, 06/09/99; Novedades, 06/01-03/99, 06/07-09/99; El Universal, 06/02-04/99, 06/07-09/99; La Jornada, 06/01/99, 06/03/99, 06/04/99, 06/07-09/99; The New York Times, 06/09/99)

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