

WASHINGTON POST
21 April 1987

Contra Banking Network Predates Fall of Somoza

J By Dan Morgan
Washington Post Staff Writer

The secret financial network used by the Nicaraguan rebels to receive and distribute tens of millions of dollars in donations after the cutoff of U.S. military aid initially was set up in 1977 to hide the money transferred abroad by wealthy Nicaraguans fearful of a Sandinista victory, Miami banking sources say.

According to the sources, the contra network used the same Cayman Islands bank—Banco de America Central (BAC)—the same system of Miami “pass-through” accounts and Panamanian shell companies, and perhaps some of the same advisers.

Soon after a stunning Sandinista attack at the Masaya military barracks 17 miles outside Managua on Oct. 17, 1977, worried members of Nicaragua’s middle and upper classes began looking for ways to transfer assets out of the country. Representatives of Managua’s Banco de America, then controlled by local sugar interests and Wells Fargo Bank, established BAC as a subsidiary in the Caymans, a haven with strict laws safeguarding the privacy of depositors, according to the banking sources.

In 1978, a pass-through arrangement was worked out with Wells Fargo Bank in Miami, enabling wealthy Nicaraguans visiting the city to cash checks drawn on BAC while safeguarding the secrecy of their Cayman assets, sources say. BAC deposits reached \$14 million in 1978 and eventually rose to nearly double that before the 1979 overthrow of dictator Anastasio Somoza, sources say.

BAC remained a bank for Nicaraguan exiles. Beginning in July 1984, contra leaders recently revealed, an account at BAC was used to conceal \$33.5 million in donations from a foreign government, widely believed to be Saudi Arabia. Saudi officials have steadfastly denied that their country was the donor.

Today, this account is an important focus of the Iran-contra investigation and has drawn the attention of independent counsel Lawrence E. Walsh and the House and Senate select committees, which expect to begin public hearings on the affair next month. Sources confirmed that BAC records at Barclays Bank in Miami have been subpoenaed by Walsh. In addition to providing the most detailed portrait to date of how the contras operated financially, the BAC accounts may also shed light on the sources of other, earlier contributions to the rebels, investigative sources said.

While investigators apparently have been unable to link accounts at BAC to the unaccounted-for millions raised by secret arms sales to Iran, bank records are helping in-

vestigators assemble a more authoritative chronology of the underwriting of the contra war.

This scrutiny has annoyed some contra leaders. “Our hope was that none of this would be made public until we wrote the history of our struggle,” contra leader Adolfo Calero said in an interview.

The BAC account was in the name of Esther de Morales, a relative of Carlos Morales, a lawyer and close friend of Calero. From July 1984 until March 1985, Calero said, foreign contributions were channeled to the BAC account through banks in Switzerland and New York. This money, he said, was distributed to five other Panamanian, Cayman and Miami bank accounts that he instructed Morales to set up.

Calero Controls Account

The money was spent on weapons, food and supplies. Calero said he alone controls the account and that Morales executed transactions on his instructions. Both men have been questioned extensively by investigators or the grand jury working with the independent counsel.

Anti-Sandinista sources in Miami said Calero’s control of the BAC account enhanced his position within the Nicaraguan resistance. His critics have charged that he allocated weapons, money and other assistance to areas in Honduras where his main military supporters were concentrated, at the expense of rebel leaders such as Eden Pastora and Alfonso Robelo in the southern front along the Costa Rican border.

Calero has turned over to Walsh and the House and Senate select committees records of all transactions involving the funds thought to have come from the Saudis. Along with other evidence, sources say, these records may help document whether funds were mishandled or misappropriated, or if arms suppliers “gouged” the contras by overcharging for weapons.

The Saudi funds filled a crucial gap for the contras. Covert funding by the Central Intelligence Agency reportedly ended in June 1984, and direct U.S. military aid ended that October and remained shut down for two years. Conclusive evidence that funds were mishandled, investigators said, would raise questions about the caliber of leaders on whom the Reagan administration has relied and on whose behalf it solicited foreign rulers for money and favors.

However, sources close to the investigation acknowledge that tracking millions of dollars that allegedly went to the contras is proving to be extremely difficult and that in some cases “the trail goes cold,” as one put it.

In addition to the \$33.5 million in suspected Saudi funds, the contras are known to have received another \$1.2 million from a U.S. tax-exempt organization, the National Endowment for the Preservation of Liberty. This money apparently was channeled to the BAC account in the Caymans through Barclays Bank in Miami, which replaced Wells Fargo as BAC’s pass-through bank several years ago, banking sources said.

Indirectly, another \$27 million went to the contras from a State Department special fund for non-lethal aid, after the suspected Saudi funding ended in April 1985. Of that amount, \$9.7 in supplies was requisitioned in the United States through an office in New Orleans headed by Adolfo Calero’s brother, Mario.

The U.S. purchases were carefully monitored by the State Department, according to a General Accounting Office study released last December. However, the final destination of millions of dollars from the \$17 million distributed through the Miami accounts of various Nicaraguan brokers and suppliers remains uncertain.

These funds went to hundreds of businesses and individuals providing goods and services to the contras in Honduras, Costa Rica and Guatemala.

Millions Unaccounted For

According to GAO documentation, a small amount of the \$17 million apparently was illegally used to purchase weapons, some went to members of the Honduran military, and millions of dollars are unaccounted for. The signatures on 29 checks totaling \$805,245.63 were illegible. A single concessionaire charged with purchasing food, Supermercado, received checks for a total of more than \$700,000 during a 10-day period in January 1986. In several cases, investigators who tried to verify vouchers against which U.S. government payments were made in Central America were told that the goods had never been sold, sources said.

Beyond aid that contra officials acknowledge receiving, tens of millions of dollars intended for their support apparently never reached them. This includes \$10 million that State Department officials solicited from the sultan of Brunei in August 1986. On State Department instructions, Calero said, he set up a bank account in the Bahamas to receive the funds, but they never arrived.

"I wish I knew where that money was so I could send somebody to get it," he said.

Some sources suggest that the funds may have been diverted to Switzerland to pay middlemen owed money in connection with U.S.-Iran arms sales.

Also unaccounted for are funds that the Tower review board said the contras received from two foreign governments in early 1985. The Tower panel indicated that these funds were raised by retired major general John K. Singlaub in two unnamed countries believed to be South Korea and Taiwan. But Calero said Saturday, "We did not get money or merchandise from South Korea." The contra leader said Singlaub had indeed solicited funds but was turned down.

Bank Records Inaccessible

Difficulty getting access to Swiss and other foreign bank records has made it hard for investigators to solve these mysteries.

By contrast, the access to Calero's account at BAC marks a significant turnabout. Since 1977, BAC had maintained almost complete secrecy behind the shield of privacy provided by the Cayman Islands' laws.

Paradoxically, sugar interests still doing business in Nicaragua reportedly retain a substantial interest in BAC, which handled the funds of anti-Sandinista businessmen and bankers, and, more recently, of the contras. Several banking sources said a large interest in BAC is held by the Pellas family, some of whom still have major holdings in the Nicaraguan sugar business. Alfredo Pellas Jr. is listed on Florida corporate records as a director of the BAC International Credit Corp. of Miami, a BAC affiliate.

Ronald S. Liebman, BAC's Washington attorney, declined to comment or answer questions for this article on grounds that he wanted to avoid publicity for his client.

BAC refused to turn over records to a House Foreign Affairs subcommittee during the investigation last year into the State Department's \$27 million nonlethal aid program, congressional sources said. At that time the existence of an extensive private support network for the contras was still a secret.

Compromise With Barclays

Committee Chairman Dante B. Fascell, a Democrat who represents part of the Miami area, eventually negotiated a compromise in which BAC's pass-through bank in Miami, Barclays, agreed to turn over to committee investigators several thousand signature cards of persons with accounts at BAC, but not to release records of transactions involving the BAC pass-through account.

Calero, who once managed a soft-drink plant and now heads the Nicaraguan Democratic Force (FDN); provided the first information about the BAC account at a news conference in Washington March 5. Subsequently, his aides allowed reporters to examine selected bank statements and checks.

According to contra sources, the records show that about \$18.2 million was paid to four companies for weapons, and the rest—more than \$15 million after interest and profits from currency transactions are added—went for "humanitarian purposes," such as food and clothing.

An example of the difficulty faced by investigators following the "money trail" can be seen in a few of the transactions exhibited to reporters.

On Sept. 4, 1984, for example, records show a \$100,000 transfer

from the Esther de Morales account to an "E. Holmann." A contra spokeswoman in Miami said that the name was that of an "Edgar Holmann," a money changer in Honduras who converted dollars into local currency. But the entry does not explain how the currency was subsequently distributed, what exchange rate was used, or what Holmann's commission was.

On Oct. 14, 1984, \$150,000 from one of the sub-accounts was converted into travelers checks, the records show. Contra officials explained last month that these checks were used to pay expenses in Washington, Honduras and Costa Rica, but details of these expenses were not given.

In his weapons purchases, Calero said, he dealt with only four suppliers: Singlaub, retired major general Richard V. Secord, Miami arms dealer Ronald J. Martin and retired lieutenant colonel James L. McCoy.

Weapons Deals Unclear

On Nov. 6, 1984, there was a payment of \$432,500 to an account at the Royal Bank of Canada in Montreal. A contra spokeswoman said the money was for an "arms purchase." But it is unclear what weapons were purchased.

Also unclear is how the weapons were priced. According to Calero, "Some were market prices; I got offers from all over. Through Singlaub we got some wonderful prices. And we got ammunition from Secord through China that was cheap: \$75 a thousand rounds when the market price was \$200."

The similarity of many Latin names also creates problems in tracing money.

In response to a question, Calero said that a "Frederico Arguello was a broker for money we received." He said that Arguello converted large amounts of dollars into local currencies as a service to the contra cause. He identified Arguello as a cattle and cotton rancher in several Central American countries.

A Frederick J. Arguello is listed as the recipient of \$41,000 in funds channeled from the tax-exempt National Foundation for the Preservation of Liberty on documents relating to the activities of the organization in support of the contras.

The accounts were in the New York and Miami branches of Israel's Bank Leumi. However, a Frederico

J. Arguello who lives in Honduras said through his son in Washington last week that he has never had an account at Bank Leumi and that he never received any such funds. Arguello, the son said, is a common name in Central America.