

World Bank Finances Corporate Corruption

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World Bank President Paul Wolfowitz seeks public acclaim for his campaign to crack down on corruption. Unfortunately, his analysis ignores the cycle of corruption involving the governments of the U.S. and other wealthy countries on the World Bank Board of Governors and transnational corporations (TNCs) that make substantial financial contributions to these governments and receive in return lucrative investment opportunities, finance and legal protection from the World Bank Group. The result is a long history of the World Bank using its significant financing to support and promote the corporate activities of wealthy countries, many of which have had harmful social and environmental impacts, while providing lucrative contract opportunities related to Bank financed projects.

Corporate entities in the member countries of the World Bank Board of Governors make political campaign contributions and various other gifts available to government officials in their home countries, often for the purpose of accessing investment opportunities overseas. The revolving door among corporate leaders, government officials and lobbyists further ensures pro-business public policies and lucrative contracts to insider business interests. At the international level, the most powerful Board members over the years have directed the Bank to impose structural adjustment policies that demand of borrowing countries the privatization and/or deregulation of public utilities and other public infrastructure and support for lucrative oil, gas, mining and dam projects that create a highly skewed investment climate favoring TNCs.

At the same time, the World Bank's International Finance Corporation (IFC) loans directly to, and otherwise supports transnational corporations that have been known to make payments to government officials in order to win contracts to take over privatized enterprises, to gain support for projects or to diminish tax payments, royalties and government regulation of ongoing operations. In turn, the Multilateral Investment Guarantee Agency (MIGA) of the World Bank protects transnational corporations from national legal actions that might reduce expected profits. Furthermore, a transnational corporation facing a dispute related to its practices may appeal to The World Bank's International Centre for Settlement of Investor Disputes (ICSID) that operates outside the jurisdiction of domestic legal processes.

Corporations use their excessive profits in part to re-grease the skids of the corruption cycle by continuing to pay Northern politicians that direct World Bank policy. Sadly, the entire cycle makes a mockery of the World Bank's mission of "a world free of poverty" and operates at the expense of local populations in the South, particularly the poor and working class, and taxpayers in the North, who are led to believe that their contributions help reduce poverty.

Below are listed some recent examples of World Bank-financed corporate corruption and abuse around the world:

WORLD-BANK FINANCED CORPORATE CORRUPTION & ABUSE 1990-2005

LAHMEYER AND ACRES, INTERNATIONAL – Corruption on the multi-dam Lesotho Highlands Water Project (Southern Africa) has been rampant, with an estimated \$2 million in bribes being passed from up to a dozen international firms working on the project to top project officials. The World Bank granted \$8 million to help finance project design, set up the financial package, and

lent \$110 million for the first dam. The Lesotho government has been diligent in prosecuting both the bribed officials and the bribing companies, and two foreign companies have so far been convicted in the Lesotho high court, with a third now in the dock. But foot-dragging on the part of the World Bank to debar the convicted companies has softened the impact of this high-profile case. Lahmeyer International was indicted in March 2001, and convicted of corruption in June 2003. After close to three years, including nine months under Paul Wolfowitz' watch, the World Bank has still not taken any action against Lahmeyer. The Bank only debarred the first company convicted on the project, Canadian firm Acres, International, in 2004 – nearly two years after a guilty sentence was handed down in Lesotho. After its conviction in Lesotho, Acres received three contracts worth \$400,000 from the World Bank, according to Susan Hawley, a research consultant for the UK group The Corner House. Acres received one contract just days before the debarment was handed down. The dams project led to forcible displacement for some 20,000 rural people and affected the livelihoods of many more. Those studying the project see a link between the poor record of programs to restore livelihoods and compensate directly-affected people and the project's widespread corruption. More information: <http://www.irn.org/programs/lesotho/>

NEWMONT MINING – In February 2006, ignoring the opposition of Ghanaian citizen groups and international NGOs, the World Bank's IFC approved a US\$75 million loan to a subsidiary of Newmont Mining, the largest gold mining corporation in the world. More than 9,000 people, many of them subsistence farmers, will be displaced by the project. “The living conditions of the communities affected by the Ahafo mine are already worsening even at the construction phase of the project,” said Daniel Owusu-Koranteng, executive director of the Wassa Association of Communities affected by Mining, in Ghana. Communities are concerned that the mine, which will use cyanide to extract gold, may pose a serious risk to human health and the environment. An independent technical review revealed that Newmont did not provide sufficient information to assess risks of serious water contamination. More information: <http://www.minesandcommunities.org/Action/press906.htm>

The World Bank's IFC is also a shareholder in Newmont Mining's notorious Peruvian operations, the second largest gold mine in the world and the largest in Latin America. In 1998, Newmont allegedly paid Vladimar Montesinos to bribe a judge to rule in its favor in an ownership dispute concerning the Yanacocha mine, the indigenous name for the mountain where Newmont's Peruvian gold mining operation is located. Montesinos, head of Peru's National Intelligence Service, is on tape urging a Supreme Court Justice to vote in favor of Newmont or face reprisals from the United States. The Yanacocha mine, which uses the cyanide heap leaching method, has generated toxic waste that has polluted the local water supply with heavy metals such as aluminum, zinc, copper, iron and manganese at levels that significantly exceed the World Health Organization (WHO) guidelines. In June 2000, almost 300 pounds of mercury accidentally spilled from a company truck and Newmont failed to inform local residents. Within 3 weeks between 200 and 300 people were hospitalized with mercury poisoning. More information: <http://www.foei.org/publications/link/mining/22.html>

AES CORPORATION – In December 2001 the World Bank's IFC provided US\$ 115 million to AES corporation, the largest independent power producer in the world, for the construction of the Bujagali dam in Uganda. However, in August 2003, AES pulled out of the project after corruption associated with one of its sub-contractors was found. The deal was investigated by the Ugandan Government and the US Justice Department. An independent review of the project, conducted by the Prayas Energy Group determined that the deal would have made the Ugandan people pay \$20-\$40 million extra per year compared to similar hydroelectric projects in other parts of the world. The Ugandan population is among the poorest in the world and World Bank internal reports noted that no more than 7% of Uganda's population could afford unsubsidized electricity. AES Corporation has

been one of the biggest recipients of funding from the World Bank's IFC, totaling US\$800 million since 1995. More information: http://www.corpwatch.org//print_article.php?id=8250

SHELL – Ignoring the objections of over 30 Nigerian organizations, in June 2001 the World Bank's IFC provided a US\$15 million loan to finance a project supporting companies that work for Shell's oil operations in Nigeria's Niger Delta. Shell has been widely condemned for human rights abuses, including its collusion with the Nigerian authorities for the mass murder of community people impoverished as a result of the devastation of their natural environment and the destruction of community sources of livelihood by Shell. Oil spills continue regularly as a result of breakdown of old, ill-maintained pipelines, oil wells, and other facilities resulting in devastating damage to forests, wetlands, farmlands and other areas. This loan created the Niger Delta Contractor Revolving Credit Facility which facilitates subcontracting to local contractors. The pattern of award of contracts to local contractors by Shell suggests a strategy of bribery of influential individuals within communities who then become agents of destabilization within their communities. More information: <http://www.bicusa.org/bicusa/issues/NDCRCF%20Factsheet%20Formatted--Sept%2023.pdf>

EXXON MOBIL - In 2000, the IBRD and IFC provided \$3.7 billion to finance the Chad-Cameroon Oil Pipeline, jumpstarting the country's entry into the oil industry. Civil society in Chad fought the project, warning that expanding the oil industry in an unstable country without democratic institutions that would enable the people of Chad to hold their government accountable, would funnel cash to a government with a history of human rights abuses. Their warnings have come true. An Exxon-Mobil-led consortium of oil companies paid the government a \$25 million "signing bonus" to seal the deal. Those funds went directly to purchase arms and office refurbishment for government ministers. President Deby has continued to use profits from the oil industry to build the military, prioritizing spending on security over education, health, or other programs that might lift the people of Chad, where average income is barely over \$1,000 per year, out of poverty. Last year, the Chadian parliament circumvented rules written to ensure civil-society participation in how oil revenues are spent to prioritize security spending to fund an expanding conflict with Sudan. Of the \$3.7 billion invested in the pipeline, only a one-time cash payment of \$6.3 million has gone to the people and villages in Chad affected by the pipeline. The World Bank suspended loans and accounts linked to Chad in January of this year, yet the profits are still flowing to Exxon-Mobil and consortium oil companies - they are still pumping 200,000 barrels a day out of Chad. More information: <http://www.transafricaforum.org/reports/globalmonitor22003.pdf>

BRITISH PETROLEUM (BP) – BP is the largest of 11 partners forming the Baku-Tbilisi-Ceyhan Pipeline Company (BTC Company) that is constructing a billion dollar pipeline project to transport oil from the Caspian Sea to the Turkish port city of Ceyhan. The World Bank's IFC approved US\$125 million for the BTC Company in November 2003 despite legal challenges to the project, corruption claims, and opposition from numerous local community groups and NGOs. There are concerns regarding potential pollution of water sources (the pipeline crosses more than 30 rivers and traverses major seismic fault lines), disputes regarding the land compensation process for the people that will be dislocated, and allegations of corruption. The Committee of Oil Industry Workers' Rights Protection in Azerbaijan says: "We are afraid of this loan because this huge amount of money flowing into a completely corrupted environment could only support the corruption practices, worsen the human rights situation and cause violations of the law." More information: http://www.bicusa.org/bicusa/issues/bakutbilisiceyhan_btc_pipeline_project_azerbaijangeorgiatrueky/index.php

ENRON- The World Bank's IFC provided a US\$71 million loan to ENRON for construction and privatization of a power plant in Puerto Quetzal, Guatemala in 1993. ENRON paid "commissions" to a shadowy company called Sun King, closely connected to Guatemalan President Serrano, in order to win the contract. Later that year President Serrano proposed an increase in electricity rates that totaled as much as 100% for some customers. This was one of the many grievances which drove Guatemalan citizens to the streets in the spring of 1993. When President Serrano responded by declaring martial law and dissolving the Congress, the military wouldn't go along. Serrano fled the country and the rate increases were eventually suspended much to the relief of the 40% of the population that lives on less than US\$2 a day in that country. More information:
<http://www.corpwatch.org/article.php?id=7828>

CORRUPTION AND DEBT: If President Wolfowitz is truly concerned about corruption in Indonesia or other impoverished countries, the World Bank must acknowledge its role in fostering corruption by lending to kleptocratic and repressive regimes such as Suharto's. The Bank's lending to Suharto enabled the Indonesian military to continue its involvement in businesses, illegal and legal, receive protection payoffs from foreign corporations, and remain largely unaccountable to its civilian leadership. The US Senate has found that \$100 billion of World Bank loans have been lost to corruption in the Bank's sixty-year history. In US Senate testimony, Northwestern University professor Jeffrey Winters found that at least one-third of World Bank loans to Suharto were stolen by his regime. Thus a comprehensive approach to corruption would include not only a framework to cancel odious debts but the development and implementation of clear standards for responsible lending, assuring transparency/accountability, human rights, and environmental sustainability to avoid the creation of new odious debts in the future. More information:

http://www.jubileeusa.org/take_action/Indonesiaodious.pdf

<http://lugar.senate.gov/pressapp/record.cfm?id=221484>

<http://www.senate.gov/~foreign/testimony/2004/WintersTestimony040513.pdf>

The cases listed above are just the tip of the iceberg. They should not be seen as a representative or comprehensive documentation of corporate corruption financed by the World Bank nor should they be viewed as a comprehensive list of projects with detrimental social and environmental impacts. Large water privatization projects benefiting major TNCs such as Suez and Vivendi/Veolia undermine the human right to water. Agribusiness operations of Cargill or Monsanto promote palm oil, soy plantations, shrimp farming or other forms of export monoculture that destroy forests, wetlands and local economies, and policy "reforms" that promote trade liberalization, privatization and de-regulation have wreaked social, economic and environmental havoc across the world. The problem of World Bank financed corporate corruption has deep systemic roots – much larger than the institution itself – and it cannot be resolved by a mere tweaking of policy. However, at bear minimum, an end to the financing of projects with negative social and environmental impacts and rapid action to disbar companies found guilty of malpractice, fraud or bribery would be essential.

BanglaPraxis

Organization for Social Development of Unemployed Youth

Committee for the Abolition of Third World Debt (CADTM)

Unafisco Sindical

ORCADE

The Social Justice Committee

Together For Human Rights

Council of Canadians

Blue Planet Project

Bangladesh

Bangladesh

Belgium

Brazil

Burkina Faso

Canada

Canada

Canada

Canada

Committee for the Abolition of Third World Debt (CADTM)	France
Stuttgarter Wasserforum	Germany
Terre des Hommes - Arbeitsgruppe Schwäbisch Gmünd	
Rettet den Regenwald e. V.	Germany
Foundation for Grassroots Initiatives in Africa	Ghana
PAIRVI	India
INDIAN SOCIAL ACTION FORUM (INSAF)	India
	India, Thailand and
Focus on the Global South	Philippines
Pikiran Rakyat Daily News	Indonesia
DPP National Awakening Party (PKB)	Indonesia
YAYASAN DUTA AWAM (YDA)	Indonesia
Asia Pacific Research Network	International
Jubilee South	International
Asia/Pacific Movement on Debt and Development	International
Friends of the Earth International (FOEI)	International
Solidarity Africa Network	Kenya
Grupo de Solidaridad-Arenal (GRUDESA)	Nicaragua
CIVIL SOCIETY COALITION AGAINST WATER PRIVATISATION	Nigeria
Water Movement	Norway
Green Party Norway	Norway
Economic Justice & Development Organization (EJAD)	Pakistan
SHIRKAT GAH (Women's Resource Centre)	Pakistan
Freedom from Debt Coalition	Philippines
African Forum on Alternatives	Senegal
Jubilee South Africa	South Africa
Anti-Privatisation Forum	South Africa
DEF	South Africa
Observatorio de la Deuda en la Globalización	Spain
Attac Sweden	Sweden
Diakonia	Sweden
Sweetwater Alliance / North	USA
50 Years is Enough	USA
Africa Action	USA
Africa Faith and Justice Network	USA
Global Exchange	USA
International Rivers Network	USA
Jubilee USA	USA
SANIPLAN	USA
Sisters of the Holy Cross	USA
Sustainable Energy and Economy Network	USA
The Development GAP	USA
Global Justice Ecology Project	USA
Witness for Peace	USA
Food & Water Watch	USA
Dominican Leadership Conference	USA
Maryknoll Office for Global Concerns	USA
National Catholic Rural Life Conference	USA
United Church of Christ Network for Environmental & Economic	
Responsibility	USA
Gender Action	USA
The Second Chance Foundation	USA
Haiti Action Committee	USA

Unitarian Universalist Association of Congregations	USA
Holy Cross International Justice Office	USA
United Church of Christ Justice and Witness Ministries	USA
Social Concerns, Maryknoll Sisters Eastern U. S. Region	USA
Nicaragua Network	USA
Medical Mission Sisters' Alliance for Justice	USA
Carmelite Sisters of Charity	USA
JPIC Committee for EAP-Religious of the Sacred Heart of Mary	USA
Presbyterian Church	USA
Institute for Justice & Democracy in Haiti	USA
Alliance for Responsible Trade	USA
Quixote Center/Quest for Peace	USA
India Resource Center	USA/India
Center for Economic Justice	USA/India