

THE
WORLD BANK
AND THE
**GODS OF
LENDING**



Steve Berkman

The World Bank and the Gods of Lending

Steve Berkman

 **Kumarian Press**
An Imprint of Stylus Publishing

The World Bank and the Gods of Lending

Published in 2008 in the United States of America by Kumarian Press, 22883 Quicksilver Drive, Sterling, VA 20166 USA

Copyright ©2008 Kumarian Press.

All rights reserved. No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or information storage and retrieval systems, without prior permission of the publisher.

For permission to photocopy or use material electronically from *The World Bank and the Gods of Lending*, please access www.copyright.com or contact Copyright Clearance Center, Inc. (CCC), 222 Rosewood Drive, Danvers, MA 01923, 978-750-8400. CCC is a not-for-profit organization that provides licenses and registration for a variety of users.

The text of this book is set in 10.5/13 Palatino.

Cover design by Laura Augustine.

Cover photo by Erica Flock.

Book design by Joan Weber Laflamme, jml ediset.

Proofread by Beth Richards.

Index by Robert Swanson.

Marc Roesch cartoon on page 249 reprinted with the permission of www.developmentart.com.

Printed in the United States of America by Thompson-Shore. Text printed with vegetable oil-based ink.

∞ The paper used in this publication meets the minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for printed Library Materials, ANSI Z39.48–1984

Library of Congress Cataloging-in-Publication Data

Berkman, Steve, 1933–

The World Bank and the gods of lending / by Steve Berkman.
p. cm.

Includes bibliographical references and index.

ISBN 978-1-56549-259-2 (pbk. : alk. paper)

1. World Bank—History. I. Title.

HG3881.5.W57B47 2008

332.1'532—dc22

2008010159

The World Bank and the Gods of Lending

Visit Kamran.net
call toll-free 800

*This book is dedicated to the millions of poor souls
who have yet to find a better life
through economic development projects
and policy reforms funded by the World Bank
and the donor community.*

Acknowledgments

This book would not have been possible without the help, advice, and encouragement of many of my friends and former colleagues at the World Bank. By helping me understand the dynamics of development lending, sharing their frustrations and years of experience, and offering moral support when needed, they have knowingly and unknowingly given me the motivation to reveal the inner workings of the Bank as I have witnessed them. Without question, I am grateful to all the project task managers, technical specialists, disbursement officers, and yes, even some in management, who shared my concerns about the direction the Bank had taken over the past several decades and what is needed to get it back on track.

From my time with the Africa Region Operations Group I am especially grateful to Paul Blanchet, Ken Sigrist, Nick Bennett, Benny di Zitti, P. C. Mohan, R. J. Gopalkrishnan, Kenneth Miller, Hovsep Melkonian, Sithamparam Sengamalay, Janet De Merode, Ebenezer Aikens-Afful, Bertrand Ah-Sue, David Howarth, Randolph Andersen, Manoucher Ashouripour, Alfred Nickesen, Eugene Boostrom, Gerard Boulch, Kevin Cleaver, Judith Edstrom, James Sackey, Michael Gillette, Snorri Hallgrimsson, Ian Heggie, John Kendall, Jean-Christoph Laederach, Colin Lyle, Uche Mbanefo, Peter Morris, John Nebiker, Alain Papineau, Max Pulgar-Vidal, Cesar Queiroz, Emmerich Schebeck, Mary Oakes Smith, David Steeds, Michael Stevens, Townsend Swayze, Bernard Veuthey, Heinz Weindler, Mulugeta Wodajo, and all the others who helped to show me the way.

Bridging my last years with the Africa Region and my later return to work with the newly formed Anti-Corruption and Fraud Investigation Unit I am deeply indebted to those in the Internal Audit Department who listened to my ranting about corruption and began the difficult process of addressing that issue: Allan

Newstadt, who circulated my paper on the impact of corruption to senior management; Graham Joscelyne, our auditor general, who listened and had the courage to do something about it; Skip White, who invited me back to work with our initial group of investigators and guided me throughout my tenure there; my first partner, Karl Krueger, whose sharp mind inspired me; Dzung Nguyen, who has always been there to hear me out and offer advice; Mike Kramer, the most dedicated investigator on the planet; John McCormick, former prosecutor, friend, confidant, and mentor, who really cares about making the world a better place; Al Sharp, Steve Zimmermann, Glenn Ware, Mike Richards, Terry Matthews, Peter Dent, Diomedes Berroa, and the rest of the gang who taught me so much about fraud investigation; and last but not least, Yannick Stephant and Dina-Maria Hack, who partnered with me on a difficult investigation in Cote d'Ivoire.

Many friends and fellow travelers outside the Bank also provided support and encouragement in the preparation of this book. Foremost is Jim Wesberry, whom I first met at the Bank. A former Georgia state senator, fraud examiner, special investigator, and lifelong opponent of corruption, Jim is widely known for his anti-corruption expertise in Latin America. Through his network of contacts and with his extensive background in fighting corruption, he has provided me with immeasurable assistance over the years, and I owe him much for helping to bring this book to fruition.

Following his revelations of corruption in Indonesia during the mid-1990s, I had the good fortune to meet Jeffrey Winters, professor of political economy at Northwestern University. With shared perspectives on the use and abuse of aid to the Third World, Jeffrey has had considerable influence over the direction this book has taken. Bruce Rich, senior counsel for Environmental Defense in Washington, D.C., also provided much needed help in focusing on content and potential audiences.

Jack Blum, a former United States Senate staff attorney involved in numerous high-profile investigations, including the Bank of Credit and Commerce International and General Noriega's drug trafficking, is well known as an expert on money laundering and tax evasion. He has been a good sounding board for my thoughts and ideas throughout the preparation of this book, and his explanations of the movement of illegal funds through international

financial systems have provided me with additional insights into the world of corruption.

George Ayittey, professor of economics at American University and president of the Free Africa Foundation has also provided me with sound insights into African cultures and the despotic regimes who govern the continent. Gerald Caiden, professor of public administration at the University of Southern California, has provided tremendous support in helping me to get my manuscript published. His encouragement and advice have been instrumental in getting over the last hurdles of this endeavor, and I am in his debt.

One would think that writing a book would be the most difficult part of the exercise, but for me, the hard part was finding the right publisher. I have been fortunate to have connected with Kumarian Press and Jim Lance, its editor and associate publisher. Jim has shepherded me through the publishing process as painlessly as possible, and I am most grateful for all his help.

Finally, these acknowledgments would not be complete without a few words for my lovely wife, Ellen. Putting up with me all these years has not been easy, and her patience and understanding during the preparation of this book are acknowledged and appreciated. Where would I be without you?

... AND AN APOLOGY

The quality of the documents reprinted in this book is very poor. They have been included nevertheless to provide a few visual examples of the kinds of fraud committed on World Bank-funded projects.

Acronyms

ACFIU	Anti-Corruption and Fraud Investigation Unit
ADT	average daily traffic
AFR	Africa Region (Operations Group)
AFT	Africa Region Technical Department
AFTED	AFT, Education Division
AFTHR	AFT, Human Resources Division
AFTPN	AFT, Population, Health, and Nutrition Division
ARPP	Annual Review of the Project Portfolio
ASP	agriculture services project
CAS	country assistance strategy
CD	country department
CFIU	Corruption and Fraud Investigation Unit
CY	calendar year
DANIDA	Danish International Development Agency
DFR	Department of Feeder Roads (Ghana)
DOSA	Department of State for Agriculture (The Gambia)
EAP	East Africa Projects (regional group)
ECN	Electricity Corporation of Nigeria
EDI	Economic Development Institute
ERR	Economic Rate of Return
FY	fiscal year

IADIU	Internal Audit Department Investigation Unit
IBRD	International Bank for Reconstruction and Development
ICB	international competitive bidding
IDA	International Development Association
ILO	International Labour Organization
INT	Department of Institutional Integrity
INTIU	Department of Institutional Integrity Investigation Unit
LC	letter of credit
LCB	local competitive bidding
LIB	limited international bidding
MTR	midterm review
NBTE	National Board for Technical Education (Nigeria)
NCB	national competitive bidding
NDA	Niger Dams Authority (Nigeria)
NEPA	National Electric Power Authority (Nigeria)
NIB	Nigeria International Bank
NUC	National Universities Commission (Nigeria)
ODA	Overseas Development Administration (United Kingdom)
OED	Operations Evaluation Department
OPEC	Organization of Petroleum Exporting Countries
OPS	Operations Policy and Strategy Group
PAFA	public administration financial audit
PAR	project audit report
PCR	project completion report
PIU	project implementation unit

PMU	project monitoring unit
PPF	project preparation facility
PREM	Poverty Reduction and Economic Management Network
PRT	project-related training
SA	special account
SAC	structural adjustment credit
SAL	structural adjustment loan
SAR	staff appraisal report
SOE	statement of expenditures
STD	sexually transmitted disease
TD	technical department
TI	Transparency International
USAID	United States Agency for International Development
VPD	vehicles per day

Contents

Illustrations	ix
Acknowledgments	xi
Acronyms	xv
Introduction: Broken Promises and the Gods of Lending	1
1 Managing for Mediocrity	9
2 The Economist Managers	19
3 Confucius and the Bank	35
4 Feeding the Beast	43
5 Groping in the Dark	57
6 And Darkness Was upon the Face of the Implementers	75
7 A Very Special Account	89
8 Playing with the Books	103
9 "C" Is for Corruption	121
10 As the Train Left the Station	139
11 A New Regime	149
12 The Potemkin Village	157
13 Death by a Thousand Cuts	173

14	Alhaji the Car Dealer	183
15	Bigger than Wal-Mart	189
16	Lamin Tells All	197
17	In the Eye of the Beholder	207
18	And the Dance Begins	213
19	The Fifty-Year Dilemma	221
20	The Cost of Corruption	229
21	So Easy to Steal	239
22	The Essence of Knowledge	249
23	Reporting the Truth	253
24	Money Can't Buy Happiness	265
25	Taming the Gods of Lending	271
	About the Author	277
	Index	279

Illustrations

Figure 7-1.	Embezzlement of \$180,000	99
Figure 8-1.	Fraudulent Procurement from the Project Account	108
Figure 8-2.	Embezzlement from the Interest Account	111
Figure 9-1.	Furniture Embedded in Road Contract	125
Figure 9-2.	Bill of Quantities Showing Embedded Vehicles	128
Figure 14-1.	First Payment to the Bank in the Bahamas	184
Figure 14-2.	Undated Invoice Omitting Manufacturer's Identification Numbers	186
Figure 15-1.	B&T Invoiced over \$430,000 to the Project	190
Figure 15-2.	This Shop Invoiced \$166,000 to the Project	192
Figure 15-3.	Monthly Payments to Traders	195
Figure 16-1.	Purchase Order for Textbooks	199
Figure 16-2.	Payment Voucher for Textbooks	200
Figure 16-3.	Inflated Textbook Prices	202
Figure 16-4.	Price Quotation from British Supplier	203
Figure 16-5.	Student Book Loan List	204
Figure 16-6.	Kalley Invoiced over \$137,000 to the Project	205
Figure 22-1.	Cartoon by Marc Roesch	249

Introduction

.....

Broken Promises and the Gods of Lending

Of the six billion people on our planet, it is the general consensus that roughly two billion live on less than a dollar a day and have no access to clean water, adequate sanitation, health services, or any of the other basic necessities for a decent and productive life. Of course, no one knows the exact number, but whatever it is, the human devastation caused by such widespread poverty is beyond comprehension as malnutrition, illiteracy, high infant mortality, health epidemics, and economic deprivation all take their toll on the lives of those who were unfortunately born in the “wrong” part of the world. But the unfortunates should not despair, for help is on the way as those of us from the “right” part of the world reach out to lead them to a better life. That is our mission, and that is our promise.

Gaining independence from the colonial powers in the 1960s, the newly formed nations of the Third World faced enormous challenges as they sought to become integrated into the world economy. Ruled by dysfunctional governments, plagued by corruption, denied basic public services, and lacking adequate infrastructure, the people of these countries have long suffered in poverty with little hope of improving their lives. Against this background, and with the best of intentions, international efforts to redress this condition have been made by the affluent nations of the West. Yet despite enormous inputs costing hundreds of billions of dollars,

these efforts have achieved little in alleviating poverty and the deplorable conditions under which much of the world's population lives. While millions of innocent souls struggle to survive, the corrupt elites who govern them live in obscene luxury.

But what is it that prevents the poor from receiving the benefits of economic development? What is it that keeps them mired in poverty? Although these third-world nations began independence lacking a critical mass of human and financial resources, they have had more than four decades of assistance from the West. Hundreds of thousands of international experts have provided assistance in vain attempts to improve their standards of living. Hundreds of thousands of local government officials have been trained in public-sector administration at internationally renowned universities. Billions of dollars have been provided to improve national infrastructures, foster private enterprise, build schools and hospitals, develop agriculture, protect the environment, and all the other things that form the basis of a well-governed society.

Yet for the most part, it has all been for naught. White-elephant projects can be found everywhere, buildings are empty and crumbling, roads are not maintained, hospitals are built without medical supplies, schools are built without books, and no government service will be provided unless a bribe is paid. Against this reality, there appears to be little interest in the West to admit to, much less correct, the development failures of the past. Promises of progress and the alleviation of poverty have been repeatedly broken, while the business of lending money to corrupt and dysfunctional governments continues unabated.

And so, we are left with some burning questions. Why, after four decades, haven't the industrial nations been able to keep their promise to the poor? Why, with their enormous intellectual, technical, and financial capacity, haven't they been able to bring about the economic development that they have so loudly proclaimed? High on the list of unfulfilled promises are the complicated and symbiotic relationships between the donor institutions of the West and the recipient governments of the Third World. What began as a noble attempt to bring economic development to the poor soon became a mating dance in which the dancers' agendas took precedence over the needs of the poor. Leading the dance are the World Bank and the regional multilateral banks (MLBs) such as