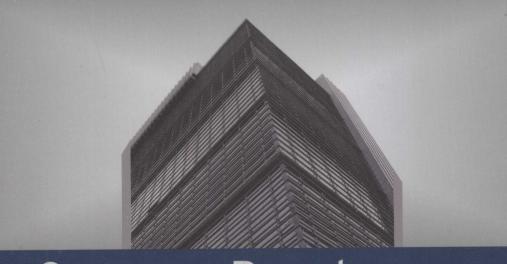
THE WORLD BANK AND THE

GODS OF LENDING



Steve Berkman

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The World Bank and the Gods of Lending

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.

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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.

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

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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.

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... 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

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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