

Exporting Corruption

Privatisation, Multinationals and Bribery

by Sue Hawley

“There is always somebody who pays, and international business is generally the main source of corruption.”

George Soros
International financier¹

“Corruption has been going up geometrically over the past 10 years.”

Raghavan Srinivasan
World Bank chief procurement adviser²

Corruption has become a major international concern. The topic of international conferences, policy forums and ministerial speeches, it is also the subject of a recent OECD Convention and the focus of an international non-governmental organisation, Transparency International. Corruption is increasingly cited as a reason for withholding foreign aid or debt relief. If a country's inability to pay interest on its loans is due to its leaders siphoning off national earnings into their own bank accounts, the reasoning goes, surely extending aid or cancelling the debt will merely sanction further graft.

Most commentators on corruption — and on the “good governance” initiatives instigated to combat it — dwell on developing countries, not industrialised ones. Most scrutinise politically-lax cultures in the South, not the North. Most call attention to the petty corruption of low-paid civil servants, not to the grand corruption of wealthy multinationals. Most focus on symptoms such as missing resources, not causes such as deregulation of state enterprises. Most talk about bribe-takers, not bribe-givers.

This focus needs to be shifted. If corruption is growing throughout the world, it is largely a result of the rapid privatisation (and associated practices of contracting-out and concessions) of public enterprises worldwide. This process has been pushed by Western creditors and governments and carried out in such a way as to allow multinational companies to operate with increased impunity. Thus multinationals, supported by Western governments and their agencies, are engaging in corruption on a vast scale in North and South alike. Donor governments and multilateral agencies such as the World Bank and International Monetary Fund frequently put forward anti-poverty and “good governance” agendas, but their other actions send a different signal about where their priorities lie.

Effective action against corruption has to involve effective sanctions by developing countries against multinationals which engage in corrupt practices; greater political transparency to remove the secrecy under which corruption flourishes; and resistance to the uncritical extension of privatisation and neo-liberal economic policies.

The Globalisation of Corruption

Corruption takes many different forms, from the routine cases of bribery or petty abuse of power that are said to “grease the wheels” to the amassing of spectacular personal wealth through embezzlement or other dishonest means.

For multinationals, bribery enables companies to gain contracts (particularly for public works and military equipment) or concessions which they would not otherwise have won, or to do so on more favourable terms. Every year, Western businesses pay huge amounts of money in bribes to win friends, influence and contracts. These bribes are conservatively estimated to run to US\$80 billion a year — roughly the amount that the UN believes is needed to eradicate global poverty.³ In 1999, the US Commerce Department reported that, in the preceding five years, bribery was believed to have been a factor in 294 commercial contracts worth US\$145 billion.⁴ In 1996, the magazine *World Business* reported that the bribes paid by German companies alone were over \$3 billion.⁵

Not just companies are involved. According to a French secret service report, the official export credit agency of France paid around \$2 billion in bribes to foreign purchasers of “defence equipment” in 1994.⁶

Such bribery may be pervasive, but it is difficult to detect. Many Western companies do not dirty their own hands,

but instead pay local agents, who get a 10 per cent or so “success fee” if a contract goes through and who have access to the necessary “slush funds” to ensure that it does. Bribery is also increasingly subtle. It often takes the form of semi-legal fees or “commissions”, and inflated or marked-up prices.⁷ In contracts guaranteed by export credit agencies,⁸ such “commissions” are included in the costs and thus in the total contract value covered by the guarantee. “It is obvious,” comments Transparency International, “that this practice constitutes an indirect encouragement to bribe which, in future, brings it close to complicity with a criminal offence”.⁹ Until recently, bribery was seen as a normal business practice. Many countries including France, Germany and the UK treated bribes as legitimate business expenses which could be claimed for tax deduction purposes.

Paying the Price

Corruption poses a serious problem for public authorities and the public because it makes services more costly, undermines development, and distorts democratic processes and rational decision-making. The amount of money lost to corruption which could, and should, be directed towards public services and to the development of democratic institutions is significant. Transparency International¹⁰ estimates that, on average, five per cent of public budgets go astray.¹¹

Ultimately, corruption hurts the poor first and foremost, whether in the UK or Africa or Asia. From the scandal in Britain of Westminster council leader Dame Shirley Porter selling public housing for votes (at a loss of £27 million to the council) to pilfered aid resources in India – former Prime Minister Rajiv Gandhi once told the Indian parliament that only 15 per cent of aid money got through to its intended beneficiaries – corruption makes the poor poorer. It is they who get squeezed out of decision-making and pushed to the political margins in situations where money buys influence. It is they who lose out when money that could have been spent on improving services or basic living standards is diverted to big expensive projects with lucrative “commission” potential. It is they who end up themselves having to pay bribes for basic services or who lose out because they can’t afford to. As British Member of Parliament Hugh Bayley noted in a speech to the House of Commons:

“The cost of bribes falls primarily on the poor. When a corrupt contractor from this or some other rich country pays a 15 per cent bribe, he adds that to the price of his contract. His power station or irrigation scheme will cost more, and the little people – those who buy the electricity or the water to irrigate their crops – will pay the price of that bribe. Bribery is a direct transfer of money from the poor to the rich”.¹²

Corruption and Privatisation in Europe

European countries embarked on privatisation and associated practices of contracting-out long before many other countries. The systems of corruption that have evolved there, accordingly, are distinctive and more mature.

Britain is a case in point. The single greatest source of corruption in the UK is large public sector contracts and concessions issued to private companies, both of which have increased under privatisation. Police estimated that there were 130 cases of serious public sector fraud in 1996:

“The overwhelming majority of corruption cases in Britain are connected to the award of contracts. Compulsory contracting-out in local government, and the new Private Finance Initiative have produced an explosion in the number of such deals”.¹³

The Confederation of Construction Specialists has said that the use of illegal payments for contracts is widespread, one report estimating costs to the UK construction industry at £539 million each year.¹⁴

Bribery appears to be such a normal practice for some UK companies that they employ people to recover bribes if the recipients do not deliver the promised “benefit”. In a 1996 BBC radio programme, Vincent Carratou, founder of a corporate investigation firm, emphasised that his job was not to investigate the bribes that work but to get back those that have failed to deliver:

“We’re called in where people have paid for certain things to happen, to be done, and they aren’t done. So we are brought in rather than the police, or rather than officials, because they say ‘Well, wait a minute, we have paid a lot of money for something to be done and it hasn’t happened. We want our money back or we want what we paid to happen to happen.’ It’s as simple as that”.¹⁵

UK multinationals routinely pay commissions to gain contracts from other governments — and at least one UK government minister has assisted them in this process. Jonathan Aitken, a former Minister for Defence Procurement, was jailed in June 1999 because he lied in court about his visits to France and Switzerland in 1993 to attend a secret meeting to negotiate contracts for an arms deal. Three UK companies (GEC, Marconi and VSEL) were hoping to obtain contracts to supply weapons systems to Saudi Arabia after they had paid “commissions” into a Swiss bank account for Saudi

agents. The bribes ranged from three to 10 per cent on orders worth hundreds of millions of pounds.¹⁶ Such practices were not limited to deals with Saudi Arabia:

“The arms giant GEC . . . confirmed that it had agreed to sign a further similar commission deal only last year [1998], this time relating to Poland. It was to pay 10 per cent of the value of possible Howitzer sales to an account controlled by Jonathan Aitken’s solicitor.”¹⁷

So much for the claim of Lord Young, a minister in the government of privatisation enthusiast Margaret Thatcher, that “when you’re talking about kickbacks [bribes] you’re talking about something that’s illegal in this country and that, of course, you wouldn’t even dream of doing”.¹⁸

France, meanwhile, pioneered the system of privatisation of public utilities through contracting-out or *gestion déléguée* — delegated management. This system has led to widespread corruption, overcharging for services and weak control over the privatised companies.¹⁹ In Grenoble, for example, a former mayor and government minister, together with a senior executive of the private water company Lyonnaise des Eaux (now Suez-Lyonnaise), received prison sentences in 1996 for receiving and giving bribes to award the city’s water contract to a Lyonnaise subsidiary. In Angoulême, a former mayor and one-time minister was jailed for two years for taking bribes from companies bidding in public tenders, including Générale des Eaux (now Vivendi).²⁰ Executives of Générale des Eaux were also convicted of bribing the mayor of St-Denis (Ile de Réunion) to obtain the town’s water concession.

Suez-Lyonnaise and Vivendi (together with Bouygues), the largest construction companies in France, have been investigated for “an agreed system for misappropriation of public funds”.²¹ The companies ran a cartel over building work for schools in the Ile-de-France region around Paris between 1989 and 1996. Contracts worth about US\$500 million were shared out by the three groups. The system involved systematic, almost bureaucratised, political corruption: a levy of two per cent on all contracts was paid to finance all the major political parties in the region.²² A director of one of the companies was later indicted for corruption, bribery, favouritism and anti-competitive practices.²³

In Austria, Belgium, Spain and Italy, too, leading politicians have accepted bribes from major companies.²⁴ In Germany, there is an “established system of illegal acquirement and excessive allowances for public contracts”.²⁵ In 1999, the entire European Commission, the highest political body in the European Union, resigned because they had lost the confidence of politicians and the public as a result of several corruption scandals. One case involved the BFr 600 million (£12 million) annual security contract for the EU’s buildings in Brussels, including the Commission’s headquarters, which was held by a private contractor, Group 4 Securitas. According to press reports, the contract “was apparently obtained by the above-mentioned firm in an irregular manner, as it had prior knowledge of the bids made by rival firms so that it could adjust its own bid”.²⁶

The action taken against such corruption is often weak. Despite the prison sentences imposed in France, the water companies in question still hold concessions covering over two-thirds of the country’s water industry (although some local authorities have taken the opportunity to insist on “savagely” renegotiations of these contracts.) In the region of Hesse in Germany, the local authority’s ban on contracts with 60 companies convicted of corruption lasted only six months. Hesse’s district auditor argued in 1995 that further action should be taken:

“Bribes do not flow of their own accord. Corruption begins in the chief executive’s office in the private sector, and there is a stronger measure to fight it than legal prosecution. Corrupt companies shouldn’t get any more public contracts . . . The six-month ban is . . . far too short. So far, the state has concentrated far too much on those who are corrupt. And too little on those who try to corrupt others.”²⁷

In the UK, three firms named in court in 1993 as paying £1.5 million in bribes to a Ministry of Defence official for ammunition contracts remained on the government’s list of approved tenderers.²⁸

The EU’s directives on public procurement provide every public authority in Europe with the power to exclude a company from bidding from any contract if it is known to have engaged in corrupt behaviour.²⁹ There is little evidence, however, that this provision is much used by public authorities.

The private sector faces similar problems of corruption involving its own contractors, especially in infrastructure projects. German car manufacturer Volkswagen, for instance, has uncovered systematic bribery by firms seeking lucrative construction contracts with the company. The head of purchasing at Chrysler identifies big, one-off contracts as the worst problem because they “do not offer the chance to make comparisons, especially on a regular basis”.³⁰ Faced with similar problems, General Motors was driven to impose a “draconian new code of ethics” on staff and suppliers:

“Employees were forbidden from accepting hospitality of all but the most mundane nature, and from accepting gifts. Even an invitation from a supplier to play golf was considered potentially compromising.”³¹

In the UK, meanwhile, police investigations uncovered a network of multinationals behind bribes offered to UK oil company executives in the early 1990s:

“The trail led to a series of firms including Thyssen, Mannes–mann, Sulzer and giant Japanese trading houses Itochu and Marubeni. An Itochu employee was subsequently cleared of conspiracy despite admitting the charges. It was common practice at Itochu and other Japanese firms to pay middlemen to gain a contract edge, the court heard, and the employee, Shigeki Furutate, only inherited established practice. The trial meanwhile of a Marubeni executive was cancelled after he skipped bail and fled to Japan. One of the largest contracts was a £33.5 million one for the replacement of BP’s Forties export pipeline, which Thyssen’s steelmaking subsidiary Thyssen Stahl Union won after allegedly paying £1.4 million of commissions.”³²

British Petroleum is suing both individuals and multinationals, including Thyssen and the Swiss company Sulzer, for compensatory and exemplary damages. A BP spokesperson said the company hoped both “to recover money which we believe we have lost and also to deliver a message that we are not prepared to allow illegal information brokers to intervene in our business.”³³

Box 1

The Contradictions of “Designing Out” Corruption

Time was when the World Bank and IMF regarded corruption as a “political” problem outside their purview.

No more. Corruption has now moved to the top of the Bank’s agenda and increasingly to that of the IMF. At an anti-corruption conference in 1999, World Bank President James Wolfensohn said that industrialised countries “do not want to give money for development assistance that ends up in offshore bank accounts”.

Accordingly, the Bank has begun to help design and support national anti-corruption strategies, stress anti-corruption in the design of economic reforms, and press for strengthened “governance” and public sector management. It now plans to spend US\$3 million annually on anti-corruption measures, including support for anti-corruption agencies. Already, some \$5 billion of its \$29 billion annual lending goes for “governance” — civil service reform, budget management, tax administration, legal reform, judicial reform and institution-building.

The IMF, although slower than the Bank to take up the anti-corruption fight, agreed in 1997 to take “a more proactive approach” in trying to “eliminate opportunity for rent seeking, corruption and fraudulent activity.” It has begun to demand that borrowing governments draw up anti-corruption action plans and strategies. “Good governance” is to be a feature of the IMF’s new Poverty Reduction and Growth Facility (which is to replace the much-criticised Enhanced Structural Adjustment Facility).

Such measures, however, tend to be at odds with the broader macro-economic policies which many donor countries insist on — policies that do little to stop corruption and much to exacerbate it.

Sources: Sweeney, P., *Global Finance*, Oct. 1999, pp.111-113; “The role of the IMF in Governance Issues: Guidance Note”, adopted July 25, 1997; IMF, *Poverty Reduction and Growth Facility: Operational Issues*, 13 Dec. 1999 (www.imf.org/external/np/pdr/prsp/poverty2.htm)

Exporting Corruption to the South

Multinational corporations’ corrupt practices affect the South in many ways. They undermine development and exacerbate inequality and poverty. They disadvantage smaller domestic firms. They transfer money that could be put towards poverty eradication into the hands of the rich. They distort decision-making in favour of projects that benefit the few rather than the many. They also increase debt; benefit the company, not the country; bypass local democratic processes; damage the environment; circumvent legislation; and promote weapons sales.

Increasing Debt

Bribes put up the prices of projects. When these projects are paid for with money borrowed internationally, bribery adds to a country’s external debt. Ordinary people end up paying this back through cuts in spending on health, education and public services. Often they also have to pay by shouldering the long-term burdens of projects that do not benefit them and which they never requested.

The US company, Westinghouse Electric Corp, provides an infamous example. Westinghouse won a contract in the early 1970s to build the Bataan nuclear plant in the Philippines. It was alleged that it gave President Ferdinand Marcos US\$80 million in kickbacks. The plant cost \$2.3 billion — three times the price of a comparable plant built by the same company in Korea. Filipino taxpayers have spent \$1.2 billion servicing the plant’s debts — even though the plant has never produced a single watt of electricity because it was built at the foot of a volcano near several earthquake faultlines. The Philippine government is still paying \$170,000 a day in interest on the loans taken out to finance the nuclear plant and will continue to do so up to the year 2018. Commented Philippines Treasurer Leonor Briones recently:

“It is a terrible burden which never fails to elicit feelings of rage, anger and frustration in me. We’re talking of money that should have gone to basic services like schools and hospitals”.³⁴

Benefiting The Company, Not The Country

Bribing high-level officials ensures profits and helps off-load risks. In many power projects in Asia, for example, there has been, according to the World Bank, both “a high level of corruption” and a tendency to overestimate demand for electricity.³⁵

In Pakistan, some 21 Western companies were investigated by the national anti-corruption agency in 1998 for alleged kickbacks to the previous government of Benazir Bhutto and for over-pricing.³⁶ Bhutto’s government had signed so many contracts with power companies — some of which were for installations in totally inappropriate locations³⁷ — that Pakistan was set to produce far more energy than it could possibly consume until 2010.³⁸ Yet the government was contractually bound to buy all the electricity produced.

Although all the companies filed sworn statements denying corruption, six of them subsequently confessed to offering bribes.³⁹ So serious were the allegations that the World Bank sent in a special team of investigators.⁴⁰ Yet far from receiving support from Western governments for its anti-corruption efforts, Pakistan was warned by the British, US, Japanese and Canadian governments that its clash with the power companies would put off other investors.⁴¹ The IMF, meanwhile, went so far as to make a new package of loans at the end of 1998 conditional on the government’s dropping the charges against the companies.⁴²

Bypassing Local Democratic Processes

Bribery can be a useful way of getting around local opposition to a project and of bypassing the usual democratic processes involved with awarding contracts. Take, for example, the Norwegian mining company, MINDEX, which wants to carry out nickel and cobalt strip mining on the Philippine island of Mindoro. The local population believes the mine will seriously damage the environment and ruin their communities.

MINDEX has responded by attempting to buy off local leaders. It gave gold watches to politicians in local authorities at a critical stage of the project’s Environmental Impact Assessment, which had to prove that the mine was socially acceptable to local people. MINDEX has also paid for local district leaders to go on a “study tour” to a luxurious holiday island, built a new house for a local priest, and paid local journalists to write articles favourable to the company. MINDEX claims its gifts are a “sign of friendship”. Local people, who oppose MINDEX, believe that such gifts are an attempt to manipulate the local tradition of *utang na loob* or “debt of gratitude” towards those who carry out small acts of generosity, and could be against Filipino law.⁴³

MINDEX has also gathered local signatures given to mark attendance at a meeting and used them to indicate local support for the project. At least one signature was actually a protest *against* MINDEX’s project.⁴⁴ The Mindoro Clergy felt obliged to issue a disclaimer:

“We refute the categorical statement of MINDEX that the local population of Oriental Mindoro welcomes the mining project. Our people have consistently manifested their strong opposition to mining operation in a series of protest actions . . . We are one with our people in declaring our vehement opposition against mining activity in our province.”⁴⁵

Destroying the Environment and Getting Round Regulations

Some companies use bribes as a way of getting round environmental regulations. A report into logging in Papua New Guinea in the 1980s reported that companies were “roaming the countryside with the self-assurance of robber barons: bribing politicians and leaders, creating social disharmony and ignoring the laws in order to rip out and export the last remnants of timber”.⁴⁶ In May 2000, meanwhile, the Asian Development Bank warned that the forests in Cambodia were in an “alarming state” because of corruption. Environmentalists have warned that, at the present rate of destruction, Cambodia’s forests will be gone by the year 2003.⁴⁷

Sometimes such bribes come in the form of illegal political donations. A 1999 audit by the Nicaraguan government revealed that a Canadian mining company, Greenstone Resources, which controls 70 per cent of the mined areas of Nicaragua, donated \$20,000 to President Arnoldo Aleman. The company was alleged to have made further donations to other people in Aleman’s Constitutional Liberal Party and bribes to local officials in the area where Greenstone was mining. Nicaraguan law states that donations can be given only by Nicaraguan citizens from within the country.

In return for its money, Greenstone has consistently been allowed to get away with flouting environmental laws and regulations. It carries out massive illegal logging around the mining area, and pollutes water sources and the local environment at the expense of local people's health. Says Magda Lanuza, a Nicaraguan activist:

“You can smell the cyanide when you are near the mine. Children have headaches, and there are other health problems. The technicians who visited the area with us say the water is harmless, but when we ask them to drink it, they refuse.”⁴⁸

Despite such evidence, Greenstone has received favourable environmental impact assessments from Nicaraguan officials. Ministry of Environment personnel visit the firm's sites only when the company wants them, and pays them, to do so.

Promoting Arms Sales

Half the bribery complaints received by the US Commerce Department concern international defence contracts. A 1999 report noted that allegations of bribery were made in 55 contracts between 1998-1999 worth some US\$37 billion (£23.6 billion) in total.⁴⁹

Swedish armaments manufacturer Bofors was involved in “the biggest bribery scandal in the history of independent India”. In 1986, the Indian government paid Bofors \$1.3 billion (£802 million) for 400 Howitzer field guns for the Indian army. Within months of the weapons being delivered, Swedish radio claimed that £30 million worth of kickbacks had been paid to Prime Minister Rajiv Gandhi and his associates. In June 1988, the Indian press published documents from the Swedish auditor-general identifying shell companies that had allegedly channelled Bofors' pay-offs. In October 1999, the Indian Central Bureau of Investigation brought charges of “criminal conspiracy” against Indian business people and Bofors middlemen and employees. Whatever the outcome of this court case:

“the affair has been disaster for the sub-continent. With all the juicy allegations of larceny and intrigue to savour, it is easy to forget that Bofors guns added to the ever-growing armouries of India and Pakistan, which now face each other in an unstable nuclear ‘balance of power’ . . . The consequences for Indian democracy have been as dire . . . The Bofors scandal led to Rajiv [Gandhi's] defeat in the 1989 general election and the emergence of the BJP as the dominant Indian party.”⁵⁰

Box 2

Hiding The Loot

Western Banks and Third World Assets

“Money laundering is the handmaiden of international corruption . . . Those who take bribes must find safe international financial channels through which they can bank their ill-gotten gains. Those who provide the bribes may well assist the bribe takers to establish safe financial channels and launder the cash.”

Frank Vogl
Transparency International

“America cannot have it both ways. We cannot condemn corruption abroad, be it officials taking bribes or looting their treasuries, and then tolerate American banks making fortunes off that corruption.”

US Senator Carl Levin

Private banking services and offshore financial centres are the major conduits and repositories for bribes and corrupt gains. An estimated US\$40 billion from poor and former communist economies finds its way into US or European banks every year, much of it illegitimately gained. Some \$30 billion of Western aid “used as part of the Cold War game of winning friends” has ended up in Swiss bank accounts alone. Leaders from some African countries have collectively had up to \$20 billion on deposit in Switzerland's banks. Haiti's “Baby Doc” Duvalier is known to have kept \$300-900 million in offshore banks, while Philippine President Marcos salted away well over \$2 billion in Western banks.

Private Banking

Today, private banking — increasingly used for confidential services to international elites — is believed to be worth as much as \$17 trillion worldwide, and is experiencing phenomenal growth. Globally, private banking is predicted to grow two to three times as fast as ordinary consumer banking in the next few years.

The private banking boom has its origins in the debt crisis and is a major reason for the continued indebtedness of many poor countries. Because of the debt crisis in the late 1980s onwards, Western banks had fewer opportunities to lend to Third World countries and thus started to pursue wealthy individuals in the Third World to encourage them to place their wealth in private

bank accounts. The result was a revolving door. International loans to developing countries were creamed off by those in power and “transferred into banks . . . ironically often to ‘private banking’ branches of the very same international banks that had issued the international loan . . . in the first place.” This has been at least as profitable for the banks as for the individuals making the deposits. The average rate of return to banks for private banking accounts is over 20 per cent.

An estimated 80 per cent of loans made by commercial banks during the 1980s never reached their destined countries, remaining instead in Northern bank accounts. In Latin America, two-thirds of total debt is thought to have been deposited in Northern banks.

Although the private banking boom is a global phenomenon (in Latin America, for example, the market is already estimated at \$450 billion), the biggest beneficiaries have been US banks. According to Raymond Baker, a financial specialist at the Brookings Institute, the US “has, according to all credible estimates, become the largest repository of ill-gotten gains in the world,” not least because of lax or inadequate oversight. A 1999 US Senate inquiry revealed that 350 of Citibank’s 40,000 clients were senior foreign government officials or their relatives, including:

- President Omar Bongo of Gabon, who transferred \$100 million through personal accounts in Citibank’s New York branches. Bongo had two private accounts in the name of shell (or dummy) corporations as well as a special account to receive payments from oil companies (which included alleged bribes or “donations” from the French government’s oil company Elf-Aquitaine). Citibank made more than \$1 million a year net from Bongo’s accounts.
- Asif Ali Zardari, the husband of former Pakistan prime minister, Benazir Bhutto, who transferred some \$40 million through Citibank accounts, of which \$10 million is believed to be from kickbacks on a gold importing contract.
- The three sons of Nigeria’s General Sani Abacha, who held some \$110 million in Citibank accounts, including some in the name of shell corporations set up by Citibank. The bank lent two sons \$39 million to deposit in another bank account in Switzerland after the new Nigerian government began investigations into corruption in 1998.
- Raul Salinas, the brother of former Mexican President Carlos Salinas, who transferred \$80 to 100 million in alleged drug money out of Mexico between 1992 and 1994 through Citibank’s accounts.

In Switzerland, too, private banks still hide the assets of Bongo’s and Abacha’s families, as well as those of Mali’s Moussa Traore and Zaire’s Mobutu Sese Seko. The private-banking department at UBS, meanwhile, handles accounts for the family of Kenyan President Daniel Arap Moi.

Offshore Banks and Companies

“There is no honest reason for being offshore. Bank secrecy and the offshore money industry have no place in a globalized economy.”

Jack Blum
Offshore expert & UN consultant

Offshore banks and companies are another part of the system through which money is siphoned out of poor countries and hidden well away from its citizens.

Offshore financial centres became prominent in the 1960s with bank deposits in tax havens increasing from \$11 billion in 1968 to \$385 billion in 1978. By 1989, there was an estimated \$1.5 trillion offshore; by 1998, \$5 trillion. In 1999, accounts in some 61 offshore centres around the world held \$8 trillion. In the Caribbean and South Pacific Islands alone, the OECD found that deposits had increased five-fold between 1985 and 1994, to \$200 billion.

Since the 1980s, offshore finance centres or tax havens have been a magnet for money from Third World countries, both clean and dirty. In the mid-1980s, a Morgan Guaranty Trust study of “capital flight” from developing countries found that, in one year alone, a total of \$198 billion disappeared off-shore from 18 developing countries. Offshore centres impose little or no taxes, offer themselves to non-residents to escape taxation in their own country, do not exchange information, lack transparency, and attract shell companies — businesses “with no substantial activities”.

Because of the secrecy with which they operate, offshore centres have become excellent places to launder the proceeds of crime and corruption. They have been implicated in almost all money-laundering schemes. In 1996, the IMF estimated that \$500 billion — between 2-5 per cent of global GDP — is laundered offshore every year. Three years later, the IMF put the figure at anywhere between \$590 and \$1,500 billion. A 1997 UN report likewise calculated that laundered global revenues from corruption, fraud, pornography and prostitution stood at between \$500 billion and \$1,000 billion. Arms dealers also often use offshore bank accounts to hide their tracks.

When dirty money disappears offshore, it becomes more difficult for governments to tackle corruption. The power of crime mafias grows, bringing yet more corruption in its train and helping to “mafianize the state”.

In some offshore havens, new companies can be set up for as little as £100. Such companies, which can be set up in as little as 24 hours, are not required to file annual returns or accounts, or to disclose ownership. In fact, in some offshore centres, it is a crime to divulge any information about the ownership of banks, depositors or shareholders of an offshore business. Not surprisingly, wealthy criminals hold much of their money in such companies rather than as individuals. Who these companies really represent becomes even more difficult to trace when they are owned by yet other offshore companies in different jurisdictions.

UK Offshore Tax Havens and Banking Secrecy

Most offshore financial centres are located in UK Overseas Territories and British Crown Dependencies. Some £400 billion, for instance — more than half Britain's GDP — is held in the country's tiny offshore islands. In 1997, bank deposits in Jersey alone stood at £100 billion — up from £8 billion in 1980. Some 90,000 anonymously-owned companies are registered on the islands.

Between 1972 and 1988, Channel Island firms helped launder \$1.2 billion that Prince Mohammed of Saudi Arabia received in bribes channeled through former UK Minister Jonathan Aitken (see pp.3-4). Island branches of Barclays Bank were used by arms dealer Rudolph Wollenhaupt to sell millions of pounds worth of arms to the former president of Congo-Brazzaville, Pascal Lissouba, which were then deployed in a civil war.

Even more money — fully one-third of the world's offshore wealth — is held in 17 Caribbean offshore centres, most of which are UK Overseas Territories. Some estimates suggest that between one-third and one-half of this money consists of the proceeds of crime. Caribbean havens are becoming increasingly important as other banking countries such as Switzerland, Luxembourg and Liechtenstein are being forced by international pressure to open up their books.

Within the UK, at the same time, non-residents have deposited an estimated £1,000 billion. In fact, the UK "mainland" is such a magnet for criminal funds and money launderers that the US State Department ranks Britain ahead of many offshore centres as vulnerable to money-laundering by criminals because of the country's banking secrecy. Although the British government disputes this, the fact that millions of dollars of IMF loans to Russia were laundered through the London branch of the Bank of New York under UK regulations suggests otherwise.

Recovering Stolen Wealth

International pressure has been mounting in recent years to return money which has been stolen from public treasuries and stashed away in Western banks and offshore tax havens. Several precedents exist for the return of such funds:

- In 1998, US\$500 million of former Philippines President Ferdinand Marcos' money was returned from Swiss banks to the Philippine government. The Presidential Commission on Good Government set up after Marcos was deposed has recovered overall some \$1 billion of the \$5 billion that the Marcoses squirreled away.
- In March 1999, the High Court in London ordered the freezing of all accounts belonging to former Nigerian ruler Seni Abacha's family. In October 1999, the Swiss government called on five banks to freeze several accounts held in the name of Abacha's son, Mohammed, and thought to contain hundreds of millions of dollars plundered from the Nigerian central bank and oil revenues. In January 2000, Swiss banks froze £390 million in accounts belonging to Abacha and his associates. Four months earlier, the Nigerian government had announced that it had already managed to recover some \$700 million of Abacha's money. In all, Abacha is believed to have stashed \$1.5 billion in embezzled funds in Western banks.
- In November 1999, the Bank of England identified and froze the London bank accounts of Angola's rebel leader, Jonas Savimbi, who was until recently aided and abetted as an anti-communist "freedom-fighter" by several Western governments, including those of the US and UK.

Closing The Loopholes

More sweeping attempts to recover stolen money will require both promulgating an international convention and closing loopholes that allow ill-gotten gains to leave countries in the first place.

Closing down offshore centres is vital to stopping the laundering of corrupt money and the draining of resources from the Third World. In poorer countries, however, the process will have to be gradual, in order to provide time to build up other local industries. Many small Caribbean and other islands and small states set up offshore centres in the first place only because they needed to diversify out of tourism and agriculture. In the meantime, public disclosure of offshore corporate ownership, as well as filing of company accounts, is an urgent necessity.

The West also needs to clean up its own banking act by regulating private banking and ending banking secrecy. Stronger "Know Your Customer" laws aimed at bank clients making large deposits, as well as at their paymasters, should be put on the books. Banking secrecy — as opposed to customer confidentiality — should meanwhile be abolished. This would enable Southern countries to investigate accounts in Northern banks held by people suspected of corruption, as well as make it harder for public officials to deposit ill-gotten gains in Western banks.

Sources: Vogl, F., "The Supply Side of Global Bribery", *Finance and Development*, June 1998; Hampton, M., "Where Currents Meet: The Offshore Interface Between Corruption, Offshore Finance Centres and Economic Development", *IDS Bulletin*, Vol 27, No 2, 1996; Toussaint, E., *Your Money or Your Life: The Tyranny of Global Finance*, Pluto Books, London, 1999; Pallister, D., *The Guardian*, 15 May 1998; Report on the Second Commission Report to the European Parliament and the Council on the Implementation of the Money Laundering Directive, 26 February 1999, b(6); Wood, B. and Peleman, J., *The Arms Fixers: Controlling the Brokers and Shipping Agents*, PRIO, NISAT and BASIC, November 1999; "Financial Havens, Banking Secrecy and Money-laundering", UNDCPP (United Nations Office for Drug Control and Crime Prevention), 1998, p.2; *Financial Times Fraud Report*, October 1999, p.4.

Global Policies and Corruption

“Huge international capital flows have meant an absolute boom in the amount of money entering emerging countries. There is no question that this phenomenon has fuelled grand corruption in a major way.”

Frank Vogl
Transparency International⁵¹

“It is not tenable to argue for political freedoms while at the same time promoting policies that make the poor worse off.”

IDS Bulletin⁵²

As Western governments and the World Bank and IMF shout ever more loudly about corruption (*see* Boxes 1 and 5), their own policies are making it worse in both North and South. Particularly at fault are deregulation, privatisation, and structural adjustment policies requiring civil service reform and economic liberalisation. In 1997, the World Bank asserted that:

“any reform that increases the competitiveness of the economy will reduce incentives for corrupt behaviour. Thus policies that lower controls on foreign trade, remove entry barriers to private industry, and privatize state firms in a way that ensure competition will all support the fight.”⁵³

The Bank has so far shown no signs of taking back this view. It continues to claim that corruption can be battled through deregulation of the economy; public sector reform in areas such as customs, tax administration and civil service; strengthening of anti-corruption and audit bodies; and decentralisation.⁵⁴

Yet the empirical evidence, much of it from the World Bank itself, suggests that, far from reducing corruption, such policies, and the manner in which they have been implemented, have in some circumstances increased it.

Privatisation

Spurred by structural adjustment programmes, privatisation of state enterprises increased dramatically in the late 1980s and early 1990s – four-fold in Latin America and three-fold in Asia.⁵⁵ More than 10,000 state-owned companies were privatised between 1988 and 1998.⁵⁶ Between 1988 and 1994, governments raked in \$110 billion from the sale of 3,000 state-owned enterprises.⁵⁷ Privatisation is a component of 70 per cent of structural adjustment loans and 40 per cent of sectoral adjustment loans made by the World Bank.⁵⁸

In many instances, privatisation has been accompanied by widespread corruption. Joseph Stiglitz, ex-Chief Economist at the World Bank, admits that “it has proved difficult to prevent corruption and other problems in privatizing monopolies”:

“Advocates of privatization may have overestimated the benefits of privatization and underestimated the costs, particularly the political costs of the process itself and the impediments it has posed to further reform.”⁵⁹

The head of the World Bank’s Asia-Pacific branch, Jean-Michel Severino, confessed that infrastructure privatisations in the region became a “horror story” in which “there was a high level of corruption”.⁶⁰

The “horrors” come about partly because of the inflexible and hasty deadlines set by the IMF and World Bank. Public services are privatised without enough time being allowed to set up workable frameworks for regulation. As the recent External Evaluation of the Enhanced Structural Adjustment Facility (ESAF)⁶¹ noted with some puzzlement:

“In most . . . ESAF countries undertaking programs of public sector reform, the privatization process has always begun before an appropriate legal framework in the form of a divestiture implementation or state enterprise law is passed.”⁶²

The results are many-fold:

- Governments are often unable to arrange transparent and open bidding processes or promulgate needed regulatory laws;
- Managers and employees, fearful for their future and confident of their ability to escape punishment, commonly strip the assets of the entities undergoing privatisation;
- Many interested parties are able to engage in insider dealing and political manipulation of the process for their own profit;
- Many state enterprises do not have the time to become economically viable before being sold off, leading to frequent sales of industries at below market value despite heavy government spending on recapitalisation.⁶³

Insufficient time is not the only problem. Some governments would be unable to control the process even if they were given more liberal deadlines. As Kamal Malhotra, formerly of the NGO, Focus on the Global South, points out, under governments which are secretive, lacking strong regulatory institutions, and already corrupt, “privatisation cannot possibly be the dream cure”:

“Indeed the scope for corruption could greatly increase as a result of privatisation in this context leading to costly and bad privatisations.”⁶⁴

In Nicaragua, 341 out of 351 state enterprises were sold off between 1990 and 1994, despite the fact that no law regulating privatisation was in place. Most of the deals lacked proper bidding procedures, and companies wound up being sold at up to 75 per cent below market price.⁶⁵ Some government officials were allegedly bribed to sell the national sugar mills for sub-market prices.⁶⁶

“Downsizing” and Undervaluing Civil Services

Efficient, accountable, adequately-paid and well-motivated civil services are essential for combating corruption, and civil service reform has been a major component of structural adjustment lending since the 1980s. Yet for the World Bank and IMF, reform primarily means “downsizing”.

As the Bank itself has discovered, these cuts have produced neither greater efficiency nor increased revenue. Eight out of 15 countries in Africa actually increased their wage bills after downsizing because of pay-offs to retrenched workers. In 40 per cent of cases, laid-off civil servants had to be rehired.⁶⁷ In the Bank’s own words, the links between downsizing and economic gains are “tenuous”.

An internal World Bank staff report noted in 1999, moreover, that civil service reforms were eroding governance.⁶⁸ The ratio of civil servants to population in Sub-Saharan Africa is now one per cent compared to seven per cent in richer countries. A 1999 review of World Bank assistance for civil service reform found that just 33 per cent of cases had “satisfactory outcomes” and concluded that “Bank-supported [civil service reforms] were largely ineffective in achieving sustainable results in downsizing, capacity building and institutional reform”.⁶⁹

At the same time, structural adjustment programmes have led to a large decline in wages for civil servants who remain employed. IMF-prompted wage reductions – 44 per cent in Nicaragua since 1990, an average of 14 per cent in 20 African countries over the same period⁷⁰ – have resulted in lack of motivation, low morale, and increased risks of petty corruption.⁷¹

Development funders’ attitudes toward Southern civil services have furthered corruption in other ways as well. In Africa, the use of outside experts, funded by technical assistance loans, has hampered the growth of local expertise and hands-on experience of governance.⁷² Seeing high salaries paid to outside experts demoralises civil servants in poor countries, encouraging them “to seek complementary resources by illegal means.”⁷³ In Bangladesh, consultancies awarded to bureaucrats who supported structural adjustment were found to distort incentives and undermine the civil service.⁷⁴ In many poor countries, civil servants continue to receive wages just above the poverty threshold, increasing the likelihood of corruption and ineffectiveness.

Liberalisation

“Unless carefully managed,” the World Bank concedes, “economic liberalization . . . can open new avenues for corruption.”⁷⁵ Many of these avenues are now open for traffic. In countries like Russia which were expected to make a rapid transition to a market economy, open capital accounts turned out to be “an invitation to strip assets and ship wealth abroad.”⁷⁶ By undermining the political credibility and regulatory capacities of many states, liberalisation, according to one 1996 research report:

“has contributed to a more generalized process of political decay. This reduces the incentives for probity on the part of officials and politicians, and creates a widespread social alienation from the political process.”⁷⁷

Another, more recent, report highlighted the increased opportunities for corruption and money-laundering created by liberalisation. Regulatory mechanisms have been weakened; there is no longer any need to provide economic justification for money transfers; and it has become far easier to exchange and transfer currencies and capital.⁷⁸

Decentralisation

In theory, decentralisation – regarded by the World Bank as essential for combating corruption – is about bringing decision-making closer to local people and improving services. Over 56 developing and transition countries have now embarked on decentralisation programmes, many of them with World Bank advice and supported with World Bank loans.

The catch is, as the World Bank itself points out, decentralisation cannot work if it does not provide adequate

resources and training for local governments.⁷⁹ It must be long-term and have the full participation of local people. It must build the ability of local civil society to monitor resources. Where decentralisation has worked, it has generally⁸⁰ been where local governments have been able to raise revenue locally, especially through progressive tax reform.

In practice, however, the type of decentralisation urged by multilateral development agencies has often gone forward without local bureaucracies being adequately prepared and without the necessary transfer of financial resources.⁸¹ One result has been increased corruption. When India and Taiwan devolved some bureaucratic power, for instance, “the opportunities for bribe-collecting multiplied.”⁸² Even the World Bank’s vice-president for Asia, Jean-Michel Severino, recently admitted that:

“decentralisation will lead to less governance and more corruption spread around the country, disruption of public service and a fiscal burden.”⁸³

In Uganda, according to grassroots research in rural villages:

“Decentralisation was blamed for the perceived increase in corruption . . . It was noted that if corruption is not curbed, it will continue to erode the value of decentralisation and may ruin it altogether.”⁸⁴

Other research found that there were not enough checks and balances to keep local government in Uganda accountable.⁸⁵

Box 3

The World Bank’s Corrupt Auditors

The independent accounting firm appointed by the World Bank to investigate corruption in Bank projects has itself been caught paying bribes in one of the countries it was asked to investigate.

Société Générale de Surveillance (SGS) of Switzerland admitted in December 1997 to having paid a “substantial commission” in 1992 to obtain a government contract for inspection services in Pakistan. The payment was channeled through Jens Schlegelmilch, a Geneva-based lawyer.

Sixteen months later, in April 1999, Pakistan’s former president, Benazir Bhutto, and her husband were found guilty of accepting bribes worth US\$9 million from SGS, sentenced to five years in prison, and banned from holding seats in parliament for seven years (a judgement the defendants have appealed). The case had originated when a Swiss judge started proceedings against Bhutto and an SGS senior executive, citing kickbacks that SGS and a former SGS subsidiary, Cotecna, had allegedly paid Pakistani officials.

Prior to these developments, in September 1996, World Bank President James Wolfensohn had hired SGS, the world’s largest inspection and testing company, to conduct “spot audits” in Poland, Kenya and Pakistan to try to uncover any corruption in Bank-sponsored projects. “We want to put the fear of God in them”, Raghavan Srinivasan, the Bank’s chief procurement adviser, said at the time. The Lahore High Court has since barred the Pakistani government from “allocating any business to SGS”.

In August 1999, moreover, SGS was banned from operation for five years in Ethiopia for illegal activities including tax evasion and working without proper work licences.

Another firm, Price Waterhouse Coopers, which helps the World Bank’s Internal Audit Department was found guilty in January 2000 by the US Securities and Exchange Commission of “not only a lack of sufficient global safeguards, but also a systematic failure by professionals . . . to adhere to even their own firm’s existing controls.” SEC found thousands of instances of Price Waterhouse Coopers’ staff and partners holding shares in companies they audited.

Sources: *Euromoney*, 30 Sept. 1997; *Financial Times*, 17 Dec. 1997, 20 Aug. 1998; 7 Jan. 2000; *Asia Intelligence Wire*, 22 Aug. 1999.

Box 4

World Bank Privatisation and Corruption in Uganda

Uganda is considered a model implementer of IMF reforms. In 1992, it set about privatising some 142 public enterprises. The World Bank estimated that the process would bring in \$500 million, pointing out that the government was paying \$200 million annually in the form of subsidies to state businesses.

In 1998, however, the process was halted twice by Uganda’s parliament because, according to the chair of a parliamentary select committee, Tom Omongole, it had been “derailed by corruption.” At the end of 1998, the government bank account set up to hold the proceeds from privatisation was empty.

A World Bank mission sent to Uganda reported “widespread accusations of non-transparency, insider dealings and corruption”. Corruption was uncovered in 12 contracts, with one researcher estimating that 20 per cent of privatisations had serious corruption problems.

The most common allegations were of undervaluing, lack of open and transparent bidding process, and non-payment by the buyer. In June 1998, for instance, purchasers of privatised companies still owed the government \$14 million. It has also been claimed that funds from privatisation were used for the President’s political party’s election campaign.

According to the current head of the Privatisation Unit of the Uganda government, Emmanuel Nyirinkindi, the World Bank and

IMF should take some responsibility for the problems. Nyirinkindi says that consultants Morgan Grenfell advised against the privatisation of the Uganda Commercial Bank, as did the Ugandan Parliament.

Nonetheless, the World Bank advised the Ugandan government to push ahead with the sale. Then, Nyirinkindi says, "when it went bad", the Bank "disappeared off the radar screen".

The privatised bank was bought by a Malaysian engineering company, Westmont, with financing from a bank linked to the President's brother and Senior Presidential Adviser on Defence and Security Major-General Salim Saleh. In December 1998, Saleh resigned amid accusations of conflict of interest and insider dealing. The bank had to be renationalised after running into trouble giving out millions of dollars worth of dubious loans.

The World Bank and IMF response to these problems has been to call for greater concentration of authority in the hands of the President — thus decreasing accountability — and for new privatisation guidelines. While many of the new rules are sensible, one of them holds that contracts should go to the *highest* bidder — a clause that breaks World Bank procurement guidelines that contracts should be awarded "to the lowest evaluated and responsive bidder".

Civil Service Reform

According to Professor Tulyamuhike, a local consultant who has worked on civil service reform since the early 1980s, major changes to the Ugandan civil service, while much-needed, have been pushed too fast by the World Bank and IMF. Under structural adjustment, Uganda was supposed to reduce its civil service to one-sixth of its original size, from 320,000 people to 55,000, between 1995 and 1997. In 1998, the Ugandan government was required to undertake further large-scale civil service reforms, including layoffs and merging of ministries, within six months.

Tulyamuhike relates how the IMF once "rang the Ministry of Public Service from Washington and asked how much they could reduce the wage bill." According to Chris Burges, a UK-funded technical adviser to the Ministry, the IMF never provided a satisfactory explanation for how it arrived at its benchmarks for civil service reduction.

Reform — which until 1999, mainly meant "downsizing" — has been so fast that the government has been unable to pay retrenchment packages on time. In 1998, the backlog amounted to US\$7.9 million.

The speed of reform has also created difficulties in finding resources. Many ministries are worried about the "high level of vacancies . . . which have not been filled because of resource constraints." In one village in late 1999, three teachers were teaching 800 students. The teachers had not been paid for over a year.

While Uganda has raised civil servants' salaries, it has done so unevenly, benefiting those at the top rather than at the bottom. For example, Permanent Secretaries received increases of 42,464 per cent while primary teachers went up just 930 per cent. This is in line with World Bank and IMF advice to increase wage differentials to "increase incentives".

Some disgruntled retrenched civil servants have reportedly been provoked into joining opposition and guerrilla groups. Cuts in the civil service are also often seen as having increased incentives for asset-stripping and bribing as insecure staff try to assure themselves of a better future.

Sources: *The East African*, 17 Dec. 1998, 14 June 1999; *African News*, 29 March 1999; Roman, J., "Procurement Policies Under Bank Financed Projects Incidence in Preventing Fraud and Corruption", paper given at 8th International Anti-Corruption Conference, 7-11 Sept. 1997, Peru; *Public Service Review 2002*, Ministry of Public Service, Uganda 1998; "Uganda sets new guidelines to improve privatisation", Reuters, 13 May 1999.

Box 5

A Plague On Both Your Houses World Bank and IMF Corruption

The World Bank and IMF have good reason to be concerned about corruption. The World Bank finances some 45,000 contracts each year worth roughly US\$45-50 billion. The IMF lent around \$90 billion between 1998 and 1999, \$43 billion of which was under new programmes. This money is public money in the sense that taxpayers in member countries foot part of the bill of these institutions and guarantee the rest. The British government, for example, currently spends around £38 million a year in funding the IMF, and £171 million on the World Bank. Its contribution to the Bank is set to increase to £244 million by the year 2002.

Following allegations that IMF loans to Russia have been creamed off by the Russian elite and deposited in Western banks, pressure has been stepped up on the Bank and on the IMF in particular to clean up their act. Much of this pressure comes from right-wing US interests and is directed at reducing US financial contributions to these institutions. In the process, real concerns about the excessive openness of the World Bank to corporate lobbying and the Bank's inadequate monitoring, evaluation and auditing procedures are being ignored.

Corporate Lobbying

While 55 per cent of the \$25 billion that the World Bank lends each year is disbursed locally, the other 45 per cent is dispersed directly to foreign companies through what is known as International Competitive Bidding. The majority of these contracts go to companies from OECD countries, mainly in the G7. The US and Germany each get six per cent of contracts and the UK three per cent. Britain, in fact, gets more back in contracts for its companies than it contributes to the Bank.

A host of specialised lobbying firms have grown up to help companies win these deals. Many were started by former World Bank staff and representatives themselves. International Development Business Consultants, for instance, was set up by World Bank procurement chief Donald Strombom when he left the Bank in 1997. Trinity International Partners, which specialises in

putting together power generation deals in developing countries for funding by the Bank, is run by a former US Bank Executive Director, E. Patrick Coady. In France, World Business Inc, is headed by a former adviser to the French Executive Director at the Bank. In the UK, Gillian Bannister & Associates, run by a former World Bank employee, gives advice to British energy consultants seeking Bank contracts.

These lobbyists keep an ear out for news about suitable projects on the way, arrange meetings between their clients and Bank staff, and help their clients structure bids. Sometimes they or their clients even lobby the Bank to take on new projects.

Consultancy contracts for Bank-financed projects — which absorb ten per cent of the Bank's \$25 billion lending — are particularly prone to corruption, partly because they are not subject to international advertisement and competitive bidding. Getting the Bank to hire consultants who are likely to write plans giving your corporation lots of work is a service worth paying for. As Diane Wilkens, head of Development Finance International, recently admitted:

“that's the game that everybody is playing. Let's get consultants on these projects that prefer an American solution.”

According to John Donaldson, the World Bank's external affairs counsellor, Bank staff are having to spend more and more time attending to corporate lobbyists.

Monitoring and Auditing

“As a public institution we are accountable for helping our borrowers to see that the money allocated under Bank-financed operations is being spent on what it should be spent on and that our borrowers are getting good value for what is being spent.”

James Wolfensohn
World Bank President

World Bank watchers have identified several factors making it difficult for the Bank to ensure that its funds are used properly:

- Too few staff at a time when loans have been mushrooming;
- Declining supervision budgets coupled with new schemes designed to disburse money faster;
- Pressure to disburse loans “at all costs” even if monitoring and evaluation are inadequate, leading the Bank to look only at (for example) “whether schools get built, not how the money was spent to build them”.
- More private co-financing. The Bank guarantees private sector-backed projects without supervising procurement procedures, and monitors only a small portion of US\$151 billion's worth of co-financed schemes.

The most serious impediment to stopping corruption in World Bank projects, however, is inadequate auditing procedures. According to James Wesberry, Director of the USAID-financed Americas' Accountability/Anti-Corruption Project:

“while audits are required by IFIs [international financial institutions], they are generally innocuous, untimely and therefore useless. They furnish IFIs with only cosmetic accountability.”

Audits of World Bank projects often amount only to looking at the books, without checking whether the records match reality. Prior review of procurement contracts is undertaken on only a quarter of World Bank contracts; the rest are subject to post-procurement audits with “independent firms of international repute”. Between 1997 and 1999, only 50 projects out of a total of 250 were audited. Yet 100 contracts (out of a total of around 45,000) were declared “misprocured”. Their total value was over \$45 million. In April 2000, a report from the US Government Accounting Office concluded that the World Bank does not have reasonable assurance that “project funds are spent as intended”.

Conflict of interest is also pervasive in World Bank auditing. The “independent firms of international repute” which the Bank hires to carry out audits are the same ones it employs to set up the accounts, information systems and financial management of its projects. As one World Bank task manager put it, “If you're Price Waterhouse Coopers Lybrand, are you going to go in and audit the books of your client and say that things are in atrocious shape with all kinds of fraud and embezzlement?”

The probity of some of the auditing firms used by the Bank also leaves much to be desired (see Box, 3)

Cleaning Up Its Act

In 1996, the World Bank finally introduced a new provision into its procurement guidelines to address fraud and corruption, introducing penalties for firms found to have acted fraudulently. The Bank has also drawn up an “ineligible firms” list, is responsible for debarring companies found guilty of corruption or fraud and, in a few instances, has undertaken investigations. Late in 1998, two Bank staff were fired for misuse of trust funds, and in 1999, the Bank obtained a judgement against one of its own officials accused of taking kickbacks from a contractor on a water project in Algeria.

Questions remain, however, about responsibility for past loans which have been lost because of a lack of Bank oversight. One illustration concerns the former dictator of Zaire, Mobutu Sese Seko, who was known by the World Bank and the IMF to be appropriating between 30-50 per cent of the nation's budget for capital investment every year. The IMF commissioned a secret report from German banker Erwin Blumenthal (seconded to Zaire's central bank in 1978) as early as 1982 which stated: “There is no, I repeat no, chance on the horizon for Zaire's numerous creditors to get their money back.” The World Bank, however, did not stop lending to the Mobutu regime until 1993. The IMF, meanwhile, lent three times as much to Zaire between 1982 and 1989 — after the report — as before it. The debt of Zaire (now the Democratic Republic of Congo) is now some US\$12,330 million — or US\$262 per person.

In another example, the World Bank lent Indonesia a total of US\$30 billion in the course of General Suharto's three decades of rule. In 1998, World Bank resident staff in Indonesia estimated that:

“at least 20-30 per cent of GOI [Government of Indonesia] development budget funds are diverted through informal payments to GOI staff and politicians, and there is no basis to claim a smaller ‘leakage’ for Bank projects as our controls have little practical effect on the methods generally used”.

That means — by the Bank’s own account — that up to US\$9 billion of World Bank loans to Indonesia were wasted through corruption — and that World Bank staff knew it. Former USAID consultant Jeffrey Winters argues that any new Indonesian government would have “a clear legal foundation” for suing for relief of the debt accrued. Such is the power of the World Bank, however, that any incoming government, were it to do so, would risk putting off future foreign investors and incurring the wrath of the international community.

Given such facts of life, it is the duty of the IMF and the World Bank to do their own inventory of loans lost to corruption. An independent panel of experts should determine, on a case by case basis, where responsibility lies. If it is found that World Bank and IMF staff knowingly lent money to regimes who immediately siphoned it off through corruption, thereby contravening the two institutions’ fiduciary mandates, negotiations about sharing liability should commence immediately.

The IMF and Corruption

IMF loans go into the borrowing country’s general budget, as do World Bank structural adjustment loans, making them hard to monitor for corruption or misuse. The IMF does not monitor these funds strictly (and would argue that it cannot do so). It is more concerned to ensure that the conditions attached to its loans are met.

In the past, however, the IMF has tended to ignore signals of corruption and misuse of its funds in countries where governments have shown willingness to take on board IMF macro-economic policies or in those countries which are strategically important to some of the IMF’s more powerful members. In Russia, for instance, then President Boris Yeltsin used some \$5 billion of multilateral funds, including those from the IMF, for his re-election campaign in summer 1996. The IMF stayed silent and continued lending to the country until late 1999 when allegations surfaced that its loans were being laundered back into US bank accounts. In Mexico, meanwhile, the IMF also continued lending to the government of President Carlos Salinas despite strong evidence of corruption. Countries less strategically important to the US, however, get a rougher ride.

As a result of strong political pressure following the scandals of misused IMF funds in Russia and “creative accounting” techniques involving IMF funds in the Ukraine, the IMF has recently started to toughen up its oversight of its funds. In Russia, for example, it has been keeping its new loans to the country in its own bank accounts. But given the strategic importance of both countries to the US, and given that both are led by “reform-minded” leaders, any further measures, such as stopping funds, are unlikely.

Sources: Addresses of World Bank President James Wolfensohn to World Bank Annual Meetings, October 1996 and September 1997; www.worldbank.org/html/extdr/pb/pbcorruption.htm; Annual Report to Parliament on UK Operations at the International Monetary Fund, October 1998-September 1999; Srinivasan, R., “Procurement Opportunities in World Bank Operations”, paper presented at 1997 World Bank and IMF Annual Meetings, Hong Kong; Loewenberg, S., *Legal Times*, 22 February 1999; Winters, J., “Criminal Debt”, paper prepared for the conference “Reinventing the World Bank: Opportunities and Challenges for the 21st century”, 14-16 May 1999; Wesberry, J., “International financial institutions face the corruption eruption”, *Northwestern Journal of International Law and Business*, 1998; “Summary of RSI Staff Views regarding the problem of ‘leakage’ from World Bank Project Budgets”, document leaked from World Bank offices in Jakarta, 1998; Burns, J. and Huband, M., *Financial Times*, 12 May 1997, 16 March 2000; <http://www.gao.gov/new.items/ns0073.pdf>; *Bretton Woods Project Update*, issue 17, June 2000.

Cleaning Up Their Act

“There is no question that reforms in many countries would be strengthened if there were more visible evidence that leading international organizations and Western governments were evenhanded in their anti-corruption campaigns, attacking the bribe givers with just as much force and fury as they now use to attack the bribe takers.”

Frank Vogl
Transparency International⁸⁶

International bribery is nothing new. A major late-1970s bribery scandal involving the US arms giant Lockheed led to talks in the UN and the Organisation for Cooperation and Development (OECD) on measures to curb bribery.⁸⁷ One outcome was the 1978 US Foreign Corrupt Practices Act (FCPA), which made bribing a foreign public official a criminal offence.

Not all US companies were happy with the results. Some began to complain that bribery by companies based in countries with no comparable legislation was undermining the ability of US companies to win contracts. The US Commerce Department claimed in 1997 that US companies had lost nearly \$15 billion that year because they were unable to offer bribes.⁸⁸ During the 1990s, accordingly, the US pushed for an international agreement on bribery.

OECD Convention on Combating Bribery

After seven years of work by a special bribery working group at the OECD, an international Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was drawn up and signed in December 1997 by 29 OECD members plus Argentina, Brazil, Bulgaria, Chile and Slovakia,⁸⁹ and finally ratified in February 1999. The

Convention requires that each signatory enact national legislation making it a criminal offence to bribe a foreign public official. The term “foreign official” is meant to include anyone holding a “legislative, administrative or judicial post in a foreign country” as well as anyone in public sector companies and international organisations.⁹⁰ Bribery is prohibited not just in procuring orders but also in regulatory proceedings (including those involving environmental permits), tax and customs matters, and judicial proceedings.⁹¹ The Convention also requires governments to:

- Ensure proper punishment for bribery of a foreign official (including prison sentences and hefty fines);
- Tighten accounting and auditing requirements by prohibiting “the establishment of off-the-books accounts, the making of off-the-books or inadequately-identified transactions, the recording of non-existent expenditures, the entry of liabilities with incorrect identification of their object, as well as the use of false documents by companies . . . for the purpose of bribing foreign public officials or of hiding such bribery”;⁹²
- Provide for international legal cooperation, including extradition of guilty parties;
- Take steps to end tax deductibility for illicit payments (a measure which France and Germany agreed to as soon as the Convention was signed, and that was already on the books in Denmark, Norway, Poland and The Netherlands).⁹³

As of November 1999, 18 of 34 signatories had passed national legislation to incorporate the Convention. According to the OECD’s anti-bribery unit, however, there have been no prosecutions so far. Still, the very existence of the Convention, together with the publicity it has received, has helped to focus attention on the problem.⁹⁴

What the Convention will achieve might be anticipated by considering the effectiveness of anti-bribery legislation in the US. There, despite provisions for stiff penalties, only one case a year on average has been prosecuted.⁹⁵ What has mainly changed as a result of the law is the way US companies bribe. Today, US corporations eager to gain contracts tend to funnel money through subsidiaries, bribe foreign officials with company shares instead of cash, and use expense accounts to provide trips or other freebies. Many US companies set up branch offices in Canada to take advantage of the relatively lax bribery laws there.⁹⁶ An impressive 97 per cent of companies surveyed in Europe and the US have concluded that US companies use middlemen to get around the legislation.⁹⁷ As *The Economist* magazine puts it, “some say the law merely encourages American firms to bribe more cleverly”.⁹⁸

The international OECD Convention leaves open similar loopholes. For instance, it does not:

- Prohibit the funding of foreign political parties;
- Make parent companies responsible for the corruption their subsidiaries or agents engage in;
- Include as bribery non-cash gifts such as shares, trips and other forms of excessive hospitality;
- Specify sanctions or means of enforcing the accord;
- Spell out how cases should be brought to the attention of the relevant national authority – by the government of the country whose official has been bribed or by the government of the country whose company has offered the bribe.

It remains to be seen to what extent governments which have signed the Convention are prepared to prosecute wrongdoers. Many are likely to fear antagonising their business communities and will delay action. Indeed, the Convention’s origin as a measure to “equalise” competition among OECD-based multinationals suggests that OECD governments do not routinely enforce laws against their own multinationals. Mobilising the new, stronger provisions will be, in large part, a job for the countries in which the offence takes place. Public pressure is likely to be crucial in ensuring that both the government and business take the Convention seriously.⁹⁹

Box 6

Dragging Its Feet

The UK and the OECD Convention on Combatting Bribery

Although the UK government has ratified the OECD Convention on corruption, it has so far failed to pass a law forbidding or criminalising bribery of foreign officials or a law making bribes non-tax-deductible. It has also failed to take measures to ensure that its companies do not engage in bribery, and to establish clear and regularly-monitored anti-corruption rules for British businesses working in the Third World.

Instead, the UK Home Office (the government department responsible for drawing up new legislation) maintains that existing national legislation against bribery dating back some 100 years is adequate to implement the Convention. (The 1889 Public Bodies Corrupt Practice Act makes bribery a criminal offence; the 1906 Prevention of Corruption Act deals with bribes given to or solicited by agents; the 1916 Prevention of Corruption Act extended the definition of “public body” to all local and public authorities.) This is despite the fact that this antiquated legislation:

- Has never resulted in a single prosecution in the UK for bribery of a foreign public official;

- “Is not intended” in the words of a UK civil servant, to result in prosecutions of individual UK businesspeople offering bribes overseas;
- Applies only in cases in which “an element of the corrupt transaction”, or preparations for it, took place in Britain.

In Breach of the Convention?

A March 2000 OECD review found that UK legislation on corruption did not comply with the Convention, in particular, that it does not cover bribery committed by UK companies or their subsidiaries overseas. Thus the OECD could well censure the UK for failure to enact further legislation to ratify the Convention.

The UK Law Commission noted in 1998 that current national legislation on corruption was “obscure, complex, inconsistent and insufficiently comprehensive”. It recommended that four new offences of corruption be created (drafting a new Bill to encompass these) and that corruption be included as an offence under the 1993 Criminal Justice Act which “extends jurisdiction of the English courts over offence of fraud and dishonesty committed abroad”.

Two years on, and despite the OECD Convention, the UK government has done little to take up the Law Commission’s recommendations. To coincide with a June 2000 OECD Ministerial meeting, it will publish a discussion paper on its proposals for reform.

Why is the British government dragging its feet? It seems not to be prepared to confront companies which claim that British businesses will lose out on overseas contracts if they are not allowed to bribe, to the detriment of British jobs. With awareness of corruption increasing worldwide, however, Britain risks losing *more* jobs if its companies become publicly renown as bribers, particularly as other countries such as the US take the OECD Convention more seriously. The UK government also appears unwilling to shoulder the costs of investigating British companies involved in corruption abroad. Either way, it seems that the UK government has to be pushed into taking bribery and corruption seriously.

Further Measures

In addition to bringing its laws up to date, the UK could bring in other measures to crack down on bribery. For one thing, it could curb funding of foreign political parties.

The Political Parties, Elections and Referendums Bill, which regulates the funding of political parties, is currently making its way through Parliament. The Bill, by restricting donations to British political parties from overseas, recognises that foreign donations to political parties can undermine the democratic process.

But the Bill requires companies to disclose breakdowns of political donations only if they are made outside the EU. It should be amended to include donations made by British companies to political parties *inside* the EU as well.

Transparency International’s Frank Vogl remarked after the OECD Convention was signed that “it will be no good if the Department of Trade and Industry . . . sets up an [anti-corruption] office but only employs one person to monitor the multinationals”.

Yet the British government has not even gone this far. According to a Department of Trade and Industry official, it is not the role of the British government to monitor how its companies behave overseas. Effectively, this means that no one is responsible for ensuring that British companies are held accountable under the OECD Convention. Moreover, there are no clear procedures to enable cases against UK companies suspected of corruption abroad to be brought before British law courts.

The UK government could also take other measures, such as blacklisting from government contracts companies found guilty by international bodies such as the World Bank and UN (of which the UK is a member) of corruption. It could introduce clearer anti-corruption clauses in government contracts. Critically, it could revise Inland Revenue procedures to ensure greater scrutiny of commissions made overseas which might include bribes.

Sources: *Observer Business*, 9 August 1998, p.3, *The Guardian*, 13 December 1997, p.26, 5 August 1999, p.1; “The Prevention of Corruption: Consolidation and Amendment of the Prevention of Corruption Acts 1889-1916: a Government Statement”, June 1997, Home Office; Atkinson, M., “UK Tardy in Bribery Battle”, *The Guardian*, 30 March 2000; UK Law Commission, “Legislating the Criminal Code: Corruption”, Report Law Com No 248, 3 March 1998.

Blacklisting Companies

In 1998, the World Bank set up a sanctions committee to investigate cases of corruption by companies involved in bidding for or carrying out a World Bank-backed contract. The Sanctions Committee meets regularly to review investigations and to debar firms found guilty. It also publishes a comprehensive list of debarred firms, “The World Bank Listing of Ineligible Firms.” As of May 2000, there were 54 companies on this list, 36 of them British – by far the biggest country representation on the list.¹⁰⁰

The UK government could and should take action against companies sanctioned by the World Bank. It could also take steps to help ensure that no Western or OECD company sanctioned by an international financial institution such as the World Bank, or prosecuted in any country in the world, obtains contracts with other international or national institutions.¹⁰¹ This should particularly apply to contracts with UK government departments such as the Department

for International Development (DfID) and the Export Credit Guarantee Department (ECGD). The UK government could also ensure that there are binding anti-corruption clauses or corporate compliance programmes in all contracts at a national and international level.¹⁰²

At a broader level, concerted international action on corruption could include creating an international database of 'blacklisted' companies which governments around the world could use when deciding to whom they should award a contract. Such a database could be held at the United Nations, by UNCTAD (UN Conference on Trade and Development), for instance. A model already exists, held by the Information Coordination Group (ICG), an organisation set up by five oil companies to combat illegal information brokering. The ICG has a database of 2,500 entries gathered from participating companies and other international sources on individuals and companies known or alleged to have been involved in procurement irregularities around the world.¹⁰³ Law enforcement agencies already have access to this database and companies use it to make "integrity checks" before pursuing contracts.

NGOs are also calling for an international public index or ranking of corrupt companies.¹⁰⁴ At the moment, the international anti-corruption NGO, Transparency International, publishes an annual bribery perceptions index. The index ranks countries, however, rather than companies. Since it is not countries that do the bribing, this index remains fundamentally flawed.

Government Action

All governments need to clean up their act – but they need to do so in an environment in which donors are not imposing inappropriate, over-hasty policy changes; in which resources and time permit genuine participation in social and economic decision-making; and in which international agencies are not adding to the incentives for corruption.

Any successful anti-corruption programme has to be built up at a national level, be appropriate to local and national contexts, and have full support from government employees at all levels. In addition, as a 1998 Commonwealth report on corruption argues:

“Action programmes need to be designed to meet the expectations of citizens, who need to be informed about the national strategy to combat corruption. Effective action to fight corruption is most likely through programs which are nationally owned, designed to meet national circumstances and built on the foundation of popular empowerment.”¹⁰⁵

Imposing anti-corruption strategies by putting conditions on loans will not work – and may even lead to governments implementing cosmetic changes which, at best, do little and, at worse, undermine the anti-corruption effort. In Uganda, for instance, the Ministry of Ethics and Integrity is seen by some observers as merely a show-piece created to appease creditors who demanded action on corruption. Its remit is uncertain and clashes with those of other departments engaged in developing an anti-corruption strategy, such as the office of the Inspector General of Governance and the office of the Auditor General. The new Ministry may even draw resources away from these desperately under-resourced bodies and, by diffusing responsibility across government, actually reduce the effectiveness of their work.

In some instances, governments may not be politically committed to reform. But as the Commonwealth report on corruption notes, “where governments are less than enthusiastic in tackling corruption, popular support and the agencies of civil society can still be mobilised in support of an anti-corruption agenda.”¹⁰⁶

Several NGOs in North and South are doing just this by, for example, monitoring debt relief funds to see if they are being spent on poverty reduction measures; mobilising ordinary people and raising awareness; and developing the monitoring capacity of local civil society to keep local governments accountable in a context of decentralisation.

In Nicaragua, a new anti-corruption movement, Citizen Action Against Poverty and Corruption, has organised popular marches against corruption; is campaigning to get the President and other ministers and politicians to declare their personal income; and is in the process of producing a popular manual on corruption, which will be disseminated at “corruption hearings”.

In Uganda, local civil society organisations including the Uganda Debt Network and the International Anti-Corruption Theatre Movement organise an anti-corruption week every year during which public meetings, plays and a march are held in a general attempt to raise awareness about corruption and existing laws holding politicians and ministers accountable.¹⁰⁷

One of the most successful grassroots anti-corruption movements is the Indian *Mazdoor Kisan Shakti Sangathan* (MKSS) or Workers and Farmers' Power Organisation in Rajasthan. Since 1988, the MKSS has been organising with local people to demand access to local government accounts and records. It holds public hearings to examine local development works and to check whether the accounts match up to actual spending. So successful have these hearings been that *Sarpanches* or local leaders exposed in the hearings as fiddling the books have returned the stolen money.¹⁰⁸

Box 7

Testing Commitment to Combat Corruption

Western Dam Companies in Lesotho

A case of alleged bribery and corruption by a group of Western businesses is now before the courts in the southern African country of Lesotho. Ten companies and two consortia are accused of paying bribes of nearly US\$2 million (R25 million) into the Swiss bank account of Masupha Sole, the chief executive officer of the Lesotho Highlands Development Authority, over a period of ten years. Sole was the top official overseeing the construction of the controversial Katse dam in Lesotho. He was found guilty in October 1999 by a Lesotho court of receiving these bribes.

The British construction company Sir Alexander Gibb and Partners is one of the companies accused. Other major British companies – Kier International, Stirling International, Balfour Beatty and Amec – have stakes in the two consortia accused.

Other Western companies implicated include Impregilio of Italy, Dumez International of France, Acres International of Canada, Lahmeyer International of Germany, and Swedish-Swiss ABB. Many of the companies involved are no strangers to allegations of corruption.

The Yacyreta dam on the border of Argentina and Paraguay, which involved Impregilio, Dumez and Lahmeyer, was dubbed “a monument to corruption” by Argentina’s President Carlos Menem. Yacyreta was projected to cost US\$2.7 billion to build – the final bill was US\$11.5 billion.

Lahmeyer and Impregilio also had contracts on Guatemala’s Chixoy hydroelectric dam, for which between \$350 to \$500 million is estimated to have been lost to corruption.

ABB and Dumez worked on the Itaipu dam, a joint project between Brazil and Paraguay, which was originally projected to cost US\$3.4 billion, but ended up costing US\$20 billion – more than five times as much. Numerous allegations of corruption surround the project.

The Katse dam project in Lesotho has always been surrounded by dispute. Critics have questioned whether the project would be able to bring substantial benefits to the people of Lesotho. Hundreds of people were moved from their homes as a result of the project, whose main aim is to export to South Africa Lesotho’s “white gold” — water. Communities have been broken up in the process, and the project has led to increased social problems as well as lower water quality and the destruction of natural habitats.

Britain has a long history of involvement in Katse. The project was the brainchild of Sir Evelyn Baring, British High Commissioner to Lesotho in the 1950s, although the deal between South Africa and Lesotho which enabled the project to get under way was not signed until 1986. Finance for the project was channelled through a London bank account to get around sanctions against the apartheid government of South Africa. The involvement of British company Balfour Beatty was underwritten with British taxpayers’ money (through the Export Credit Guarantee Department). British bilateral aid also supported the dam, as did World Bank funding.

If the British companies involved are found guilty of bribery, the UK government should ensure that they are brought to justice in Lesotho and in Britain, and pressure other OECD governments whose companies are involved to do the same.

A conviction would also be a litmus test of the World Bank’s commitment to countering corruption. The Bank’s guidelines are clear as to the penalties:

“The Bank will declare a firm ineligible either indefinitely or for a stated period of time, to be awarded a Bank-financed contract if it at any time determines that the firm has engaged in corrupt or fraudulent practices in competing for, or in executing, a Bank-financed contract.”

Sources: *Business Day*, 5 Aug. 1999, 2 Sept. 99, 8 Dec. 1999; *The Observer*, 5 Dec. 1999; The CornerHouse, *Dams Incorporated: The Record of Twelve European Dam Building Companies*, Swedish Society for Nature Conservation, February 2000. See also <http://www.itn.co.uk/c4news/home/20000614/Story01.htm>

Deterrents

Economic sanctions are some of the most effective deterrents to corruption. In Singapore, a middleman was convicted in 1996 of paying bribes totalling US\$9.8 million on behalf of Siemens, Pirelli, BICC, Tomen and Marubeni. Not only did the government ban all five companies from bidding for any government contracts for five years. It also banned “firms associated with the five companies, any new company that the firms may jointly set up, and firms that share the same directors as the five”.¹⁰⁹

Opening development projects to more public scrutiny can be another effective deterrent. In the state of Kerala in south India, a new local government structure, based on massive public participation, has been acclaimed, even by the World Bank:

“Kerala’s decentralisation programme is probably the largest of its kind in the world. Three million people (10 per cent of the State’s population) take part in meetings. This is a far-reaching, innovative and courageous new approach to rural development and local governance . . . It reflects a profound commitment to a total change in which governments govern to empower disadvantaged groups to voice their demands, and to make institutions responsible and accountable to them.”¹¹⁰

The system includes massive devolution of funds to local meetings, which are required to draw up plans for deploying them, and a concerted effort to maximise public attendance at such meetings. Eight key democratic principles are central, including: “maximum direct participation of the people; accountability (continuous social auditing of performance) and transparency through the right to information.”

The potential for corruption, a problem before the new system, is minimised by a commitment to transparency and openness of all documents and decisions. As *The Hindu* newspaper notes:

“Total transparency is the only way to check the danger of decentralisation degenerating into decentralisation of corruption. All documents on beneficiary selection, reports and minutes of meetings and all documents on works undertaken by the local bodies through contractors and beneficiary committees including bills and vouchers are public documents. Copies are available on payment of a fee.”¹¹¹

In Thailand, meanwhile, a new constitution has strengthened the democratic rights of local communities, illustrated by electricity generation. Before 1997, governments, multinational companies and the World Bank had pushed electricity privatisation by building independent power plants with little regard to the interests of local people. The violent breakup of any opposition would often have been the end of the issue. As a result of the 1997 constitution, however, large development projects are now subject to public hearings, and local councils, which are now elected rather than appointed, must give their consent to such projects.

Box 8

World Bank and IMF: Putting Their Houses in Order

World Bank

To stem corruption in World Bank projects, NGOs in the South and North are calling for the World Bank to:

- Make it a priority to reduce corruption in its own projects. If it fails to do so, the ironic outcome could be that loans for improving governance and for anti-corruption initiatives might get lost to corruption;
- Commit itself to improving supervision of projects and to making its audits compulsory and more rigorous;
- Ensure that there are proper guidelines for its staff to deal with corporate lobbyists, and to conduct a serious review of the “revolving door” system by which former World Bank staff become advisers to private sector clients;
- Make public its internal investigations into corruption cases involving its own projects. National authorities could then prosecute the parties involved.

Structural Adjustment Policies

NGOs are calling on the World Bank and IMF to:

- Undertake a full independent review of the link between structural adjustment programmes and corruption, as well as the impact of structural adjustment on governance.

Privatisation

NGOs are urging the World Bank and IMF to:

- Ensure that the privatisation programmes they impose include provisions for appropriate and robust regulatory frameworks to be put in place before privatisation is begun;
- Examine public sector reforms which do not involve privatisation, particularly in sectors such as water and health, in which services to vulnerable groups cannot be provided at a profit;
- Review whether loans made towards privatisation would be more effectively spent on administrative reform of the entities to be privatised;
- Draw up a plan of action to encourage accountability and transparency in privatisation programmes.

Civil Service Reform

Many NGOs recommend that the World Bank and IMF:

- Take their own expert advice on civil service reform seriously;
- Shift their emphasis away from downsizing towards more long-term solutions;
- Help governments make a concerted effort to ensure that civil service salaries are raised;
- Help governments increase accountability of the civil service through more training, freedom of information legislation, whistle-blower laws, and punishment for wrongdoers.

Resistance

Fighting corruption is increasingly engaging the energies of civil society groups around the world. To be effective, they must:

- **Mobilise ordinary people.** Civil society groups will need to be prepared to take on governments in innovative and sometimes confrontational ways. They will also need to be committed to being transparent and accountable themselves.¹¹²
- **Push for freedom of information** and enable ordinary people to use that information. Only if they have the relevant knowledge can citizens hold their governments accountable and ensure that resources that belong to them are used in the right way.
- **Help increase citizen participation in decision-making.**¹¹³ In Uganda, a popular phrase is *abantu babisi*, meaning “people do not know what is going on”. It is used to show mistrust of government decisions taken far away. Greater participation by groups that represent the poor is a must in decision-making at every level – local, regional and national. Greater citizen participation is also required in monitoring and auditing public expenditure. Civil society groups need to play a “critical auditing function . . . if they are to hold the state accountable to their poorer citizens.”¹¹⁴ In many countries, opposing privatisation – for example, water privatisation plans in Panama and Brazil – has proved to be one way to remove potential sources of corruption. Where work is put out to tender, it is critical to ensure that there is always an “in-house bid” from the public sector to set against any private contractors’ bids, something that the UK Office of Fair Trading recommends as a key method for avoiding being cheated by a cartel.¹¹⁵ Ensuring that such bids are made also makes it difficult for a contractor to buy a contract at an artificially inflated price.

Cracking down on bribery will not necessarily make international business more accountable. Nor will it end corruption overnight. But it will help send a clear message that the international community is intent on restricting the “supply side” of bribery. Companies must not be allowed to continue to behave in unethical ways that undermine local democracy and development.

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The record on corruption and human rights of some of its business backers is patchy. Enron was criticised in a 1999 Human Rights Watch report for allowing security guards at Dabhol Power in India, in which Enron had a 50 per cent stake, to beat up and harass local opponents to its energy project. The project has been dogged by corruption allegations. Canadian mining company PlacerDome has been criticised for causing extensive environmental damage at the Marcopper Mine in the Philippines, where corruption allegations also surfaced. In 1995, Lockheed Martin pleaded guilty to paying a \$1 million bribe to an Egyptian member of parliament and was fined £21.8 million by the US government.
TI focuses largely on the “passive” corruption of government officials who accept bribes, rather than the “active” corruption of the corporations who pay them. This focus is perhaps due to two factors: first, multinationals have a propensity to take legal action against any statement which could harm their business interests, but politicians rarely do so; second, TI is bound to find it hard to criticise its supporters in public. TI produces a widely-publicised league table of countries that are perceived by business executives as corrupt. The table has been criticised for being “unjustly biased against developing countries”. TI does not deal with the fact that the growth of privatisation creates far greater incentives for corruption. See TI Newsletter, December 1998.
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Developing countries are also being asked to introduce new schemes that even developed-country civil services, with their greater levels of resources and experience, cannot yet implement. For instance, an investigation by the UK Parliament’s Public Accounts Committee in 1998 into corruption in the state’s tax-collecting department, the Inland Revenue, found that: 40 per cent of staff responsible for collecting taxes were unfamiliar with the code of conduct for tax inspectors; there was no facility for a confidential reporting system for external complaints; there was no financial vetting system of staff; and annual declarations by staff that they have complied with the code of conduct were not required. Yet developing countries are being forced to push through rapid reforms which have taken developed countries years to put in place and which can only really work properly if they are seen as long-term projects rather than quick-fix solutions. See Select Committee on Public Accounts Ninth Report: Inland Revenue Special Compliance Office: Prevention of Corruption, <http://www.publications.parliament.uk/pa/cm199899/cmselect/cmpubacc/77/7703.htm>.
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88. *The Economist*, op. cit. 82. In 1996, the estimate was US\$11 billion.
89. There was plenty of resistance, however. Germany and Austria, for instance, wanted the Convention to mirror only domestic laws which prohibited bribes made to legislators to buy their votes, and wanted their companies excluded from more stringent conditions of the convention. See Daley, W., "The OECD should take a stand against the plague of international corruption", *Financial Times*, 18 November 1997.
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91. Brademas, J. and Heimann, F., "Tackling International Corruption: No longer taboo", *Foreign Affairs*, Sept/Oct 1998, p.19.
92. OECD Bribery Convention, article 8, 1.
93. Governments are required to report to the OECD on how they are implementing the Convention. A working group involving experts from signatory countries is carrying out a peer review of each country's legislation to see if it meets the Convention's requirements. In June 2000, that review will have been completed and a report made to the Ministerial meeting. It will be followed by a report on the effectiveness of the legislation and its application.
94. More still needs to be done, however, given that 38 per cent of business executives interviewed in a Gallup poll had never heard of the Convention. See Dunne, N., "Bribery 'helps win contracts in developing world'", *Financial Times*, 21 January 2000, p.10.
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100. These companies include Chase Berkeley Cavendish Ltd, Case Technology Ltd, Agricultural Development Services Ltd, Consultants for International Development PLC, Cybertek International Ltd, Drill Technologies and Co, Economic Consulting Group, Engineering Projects International, International Development Projects Services, and West End Associates. See "World Bank Listing of Ineligible Firms, Fraud and Corruption", <http://www.worldbank.org/html/opr/procure/debarr.html>
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CornerHouse Briefing 19, "Exporting Corruption: Privatisation, Multinationals and Bribery" was written by Sue Hawley and edited by Sarah Sexton, Larry Lohmann and Nicholas Hildyard of The CornerHouse. The section "Corruption and Privatisation in Europe" is taken from David Hall, "Privatisation, multinationals, and corruption", *Development in Practice*, Vol. 9, No. 5, November 1999, pp.539-556. See also the website of Public Services International Research Unit (<http://www.psir.org>) which contains regular updates on all aspects of privatisation in public services, including corruption.

A report by Sue Hawley on corruption in the World Bank and IMF and corruption caused by their policies will be

published in autumn 2000 by the New Economics Foundation, London.

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