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Criticism of World Bank Builds

by LADB Staff

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As it turned 60 this year, the World Bank faces mounting criticism from a variety of sectors concerning its loan practices to developing nations. Environmentalists attack the bank for funding ecologically destructive petro- and megaprojects while social-advocacy organizations say the bank's policies exacerbate poverty rather than alleviate it, poverty reduction being the bank's charter goal.

In addition to the globalifobicos (anti-globalization activists) of the global-justice movement who regularly censure the US-based organization, US lawmakers are going after the bank for alleged massive corruption, and a former top International Monetary Fund (IMF) official has written that the bank should discontinue loans outright. US$100 billion lost to corruption, says report Corrupt use of World Bank funds may total more than US$100 billion, said the chairman of the US Senate Foreign Relations Committee, Indiana Republican Richard Lugar in mid-May.

Sen. Lugar charged that, "in its starkest terms, corruption has cost the lives of uncounted individuals contending with poverty and disease." He commended World Bank president James Wolfensohn for bringing greater attention to the issue, but said, "Corruption remains a serious problem." Lugar opened a hearing on corruption at multilateral development banks, the first public examination in an ongoing Senate investigation. He quoted experts who calculated that between US$26 billion and US$130 billion of the money lent by the World Bank for development projects since 1946 has been misused.

In 2003, the bank distributed US$18.5 billion in developing countries. Jeffrey Winters, an associate professor at Northwestern University, said his research suggested corruption wasted about US$100 billion of World Bank funds, and, when other multilateral development banks are included, the total rises to about US$200 billion.

Damian Milverton, a bank spokesman, later disputed the US$100 billion estimate, insisting it had no basis in fact. "We completely reject the figure offered by one of the panelists as an estimate of funding from the World Bank that might have been misused," Milverton said. Winters testified that the World Bank's anti-corruption effort was having "minimal effects" and said that the banks should all focus on supervising and auditing their lending. "The lion's share of the theft of development funds occurs in the implementation of projects and the use of loan funds by client governments," he said.

Like other UN agencies, World Bank rules prevent staff from testifying in public so Wolfensohn was not at the hearing. But senior bank officials privately briefed lawmakers on its anti-corruption efforts, according to a bank spokesman.

Carole Brookins, the US executive director on the World Bank board, defended the bank saying it was leading efforts to fight corruption, but she acknowledged that "there is more that could be done
to strengthen the system." More than 180 companies and individuals have been blacklisted from doing business with the World Bank and their names and penalties posted on the bank's public Web site.

Between July 2003 and March 2004, it said it referred 18 cases of fraud or corruption to national justice authorities based on investigations by its anti-corruption unit. One of the World Bank megaprojects that has gained notoriety as a money sieve is the Yacyreta dam constructed jointly by Paraguay and Argentina on the Parana River. An investigation into missing funds is currently underway while the project is struggling to reach its originally planned power-production capacity (see NotiSur, 2004-04-23).

Other projects under review by the bank's anti-corruption unit include the Lesotho Highlands Water Project and projects in Cambodia. In the days following the release of the US$100 billion figure, the administration of US President George W. Bush came out in support of the bank.

Treasury undersecretary John Taylor said the US, which is the largest shareholder in almost all global multilateral financial institutions, is satisfied with the degree of reform at the World Bank and IMF and said key changes have been implemented. "I'm happy to report that an enormous amount of progress on this reform agenda has been made, especially in the last year and a half," Taylor told a hearing of the Senate committee on banking, housing, and urban affairs.

Taylor said the reforms include new collective-action clauses in sovereign debt, which allow a country to renegotiate its loans with a "super-majority" of creditors. He also pointed to the IMF's adoption of limits on emergency lending to countries in financial crisis, something many critics have said contributed to Argentina's economic meltdown in 2001 (see NotiSur, 2001-12-14, 2001-08-10).

"Conditionality," the set of conditions the IMF imposes on borrowing countries, has also been narrowed substantially, according to Taylor. Regarding Professor Winters' report on corruption, Taylor said the US$100 billion figure did not sound plausible.

**Ex-IMF economist: No more loans**

On the occasion of the 60th anniversary of the "Bretton-Woods sisters," as the IMF and World Bank are nicknamed, former chief economist for the IMF Kenneth Rogoff published a special report in The Economist magazine. In it he said the two institutions were "pinatas at their own party," under attack from all sides of the political spectrum. Rogoff praised Wolfensohn's stance against corruption and said the World Bank has given more support for health, governance, women, and education in the past two decades, going beyond its support for traditional infrastructure projects.

But the bank, which is the world's largest source of development financing, still suffers from "fundamental structural flaws," wrote Rogoff. He said the bank's financial structure was "ill-conceived," with most of its lending operations from its main "window" funded through borrowing. He said the bank's "developing-country junk-bond portfolio is patently risky. The fact that the Bank has not yet seen mass defaults is partly just a matter of luck."
Rogoff added that the bank's structural need to continuously push out loans "sometimes leads it to seduce countries that are already borrowing too much into borrowing more." The former head economist said the World Bank should close its main lending window, the International Bank for Reconstruction and Development (IBRD), and the much smaller International Finance Corporation (IFC).

"The Bank should be reduced to its defensible aid core: that is, to its International Development Assistance (IDA) window. And IDA funds should become 100% outright grants, rather than 70% as they are now," wrote Rogoff. Similarly, he recommended that the IMF get out of the loan business and into grant giving.

**New loan corporation chief appointed, promises to listen**

The IFC, still operating despite Rogoff's recommendations, appointed Atul Mehta as the new director for Latin America and the Caribbean. Mehta replaces Bernard Pasquier who held the post for three years. Mehta had been chief of investments in the Latin American and Caribbean department of the corporation, where he had responsibility for projects in Argentina, Brazil, Chile, Colombia, Mexico, and Peru some of the most complex projects in the region, according to the IFC.

He worked in programs in financial markets, manufacturing, services, information technology, energy, petroleum, gas, and petrochemicals in Eastern Europe and Asia, in addition to the southern Americas. The IFC invests one-third of its total loans worldwide in the Latin American and Caribbean region, some US$6.1 billion of a global total of US$16.8 billion.

The IFC invested almost US$2.2 billion in 54 private projects in 16 Latin American and Caribbean countries during the 2003 fiscal year (July 2002-July 2003).

The corporation says this financing constitutes the greatest share of its investment in the world and represents an increase of US$706 million over FY 2002. The IFC says it is launching public consultations as it updates its environmental and social-safeguard policies and reviews another policy on information disclosure.

"We believe this process will improve IFC's effectiveness as a development bank supporting private sector investments, and help improve the social and environmental performance of the projects we finance," said IFC executive vice president Peter Woicke. Social-justice advocates believe the review is particularly critical because several public and private institutions now take their cues on social and environmental standards from the IFC.

"The IFC has increasingly become important because it is viewed as a flagship and increasingly [seen] as setting the sort of minimum common environmental and social standards for private and public investments around the world," said Bruce Rich of the group Environmental Defense. "So therefore the IFC revising its policies is quite important."
The corporation is planning a regional consultation in Buenos Aires in September for Latin America and the Caribbean. Loans helping the poor or the oil giants? Although the World Bank spends more than US$55 billion annually to help the world’s 2.7 billion poor people, many economists say there is little evidence that the finances are making a real difference.

The Washington-based Institute for Policy Studies (IPS) released a report earlier this year that said almost all oil projects supported by the bank benefit large corporations based in countries that hold political command over the institution the Group of Seven (G7) most industrialized nations. The report alleged that the bank might be unwilling to stop funding oil projects because its traditional borrowers corporations in the North stand to lose lucrative contracts.

"Outside of the Middle East, there are no examples of successful oil-based economic development, and even those countries exhibit many of the other characteristics of oil export dependency (e.g. autocracy, human rights violations)," says the report. "The record supports the contention that oil development is in fact antithetical to the [World Bank's] mission." The report,

The Energy Tug-of-War: Winners and Losers in World Bank

US engineering giant Halliburton, whose former chief executive officer is US Vice President Dick Cheney, leads the group of companies that benefit from World Bank lending for energy projects, it adds. The institute’s research identified 13 projects, supported by over US$2.5 billion of World Bank money, in which Halliburton was involved as a contractor, developer, or investor. The report finds that the leading beneficiaries of 133 financial packages worth more than US$10.7 billion approved by the World Bank Group since 1992 were mostly companies in industrialized countries.

Six of the top 12 beneficiaries of World Bank oil investments are US corporations: Halliburton, ChevronTexaco, ExxonMobil, Bechtel, Unocal, and Enron. Other companies benefiting from the bank's support for oil included BP (from the United Kingdom), Eni (Italy), BHP (Australia), and British Gas. The IPS examination of the Bank's portfolio also found that 82% of the oil projects are export oriented.

Bank’s oil, gas projects pollute excessively, say conservationists

The bank's continual bankrolling of oil and gas projects is one issue that draws the ire of environmentally minded critics. Even so, the bank has backed away from recommendations by its own staff to abandon oil and gas development projects in the near term. The World Bank has proposed doubling its loans for renewable-energy projects over the next five years from its current rate of US$200 million per year.

Under the proposal, the bank would increase lending by around 20% every year until the loan rate approximately doubles in 2009. The World Bank's current commitment to extractive-energy projects is about US$400 million annually. The renewable-energy projects goal does not come close to reaching the proposals laid out in the Extractive Industries Review (EIR) that bank president Wolfensohn commissioned in 2000.
That review stated that the World Bank should "phase out investments in oil production by 2008 and devote its scarce resources to investments in renewable energy resource development, emissions-reducing projects, clean energy technology, energy efficiency and conservation, and other efforts that delink energy use from greenhouse gas emissions." But Woicke, World Bank managing director as well as IFC executive vice president, said, "There are certain things in that report we have problems with that will be debated later."

Woicke spoke at the end of proceedings at the International Conference for Renewable Energies in Bonn, Germany, in June. He said that "the World Bank shall not exit coal now and oil by 2008....As much as I would personally love to see more finance for renewables, but oil, coal, and gas are a major energy source for a lot of people." Woicke said that renewables cannot be supported on principle alone. "Eventually, and we are not saying just now, renewables do have to meet market criteria, otherwise they will not be sustainable," he said.

"Developing countries cannot forever depend on donors' aid." Woicke added, however, that developed countries should increase their aid commitments to raise total aid from the present US $55 billion per year to meet immediate needs of developing countries. Very few have met their obligation of giving 0.7% of their GDP in overseas aid, he said. The statements set off another round of confrontation with green nongovernmental organizations (NGOs).

Friends of the Earth International, Greenpeace, the International Rivers Network, and WWF International were among a group of NGOs that said the World Bank proposal was "marginal at best and does nothing to address the bank's ongoing bias toward fossil fuels." "They're not even close to the EIR recommendation," Steve Kretzmann of IPS said. "They're pledging 20% of a cent when they were asked to give 20% of a dollar."

The NGO group said 82% of all oil-extractive projects funded by the World Bank do not meet the energy needs of the poor, going instead for export to the North. It said the World Bank had financed some of the world's most damaging projects such as the Chad-Cameroon oil pipeline and the Baku-Tbilisi-Ceyhan oil pipeline from Georgia into Turkey through Azerbaijan.

At the first Social Forum of the Americas in Quito, Ecuador, activists went so far as to hold a "trial" for the World Bank and the IMF for the environmental and social damage their policies had done (see NotiSur, 2004-08-13).

**Brazil leads group to "democratize" multilateral organizations**

In a May trip to China, Brazilian President Luiz Inacio Lula da Silva announced that his government would seek to build an economic, political, and social group of nations with the goal of "democratizing" multilateral organizations like the IMF and World Bank. The group would include Brazil, China, Russia, India, and South Africa. Brazil is already part of a Group of 3 nations (G-3) with India and South Africa. Lula says, "We dream that in the near future there will be a G-5 that will include Russia and China. All this has to be worked at with much care, because one word...can create obstacles."
The Brazilian president hopes to build such international coalitions to have greater weight in
discussions with the World Trade Organization (WTO) and the US and European Union (EU). "We
dream of constructing a bloc that will be an economic, political, and social bloc, because inside our
foreign policy we deal with trade and economic questions, but also with democratizing multilateral
institutions."

In a speech to businesspeople, Lula stressed the idea of uniting developing countries. "Therein
lies the importance of our strategic alliance, not just to intensify our reciprocal relations, but also
to modify the unjust rules that preside today over international trade...What we want to build is
a political force that is able to convince rich countries, make them understand that they can make
their protectionist policies flexible to give the so-called developing world access, above all for those
countries with agricultural potential."

As a major player in the Southern Cone Common Market (MERCOSUR), Brazil has been part
of the effort to get the EU to drop its domestic agricultural subsidies to build a trade agreement
between the two entities. Increased regional integration has also been a major theme in the recent
interactions of South American countries, with MERCOSUR and the Comunidad Andina de
Naciones (CAN) forming a common market of 350 million people earlier this year (see NotiSur,
2004-04-23). N

ext to Argentina, Brazil is the top South American debtor to the IMF, and it has been watching its
southern neighbor's antagonistic negotiations with the fund carefully.

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