



**Bank Information Center**  
**IFIs in Africa News Briefing**  
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**World Bank suspends German firm over corruption**

November 6 – As recently reported by *Reuters*, the World Bank suspended its contracts to the German engineering firm, Lahmeyer International, after the company was found guilty of fraud. The firm was convicted and fined \$1.63 million by a Lesotho court in 2003 for engaging in bribery to obtain contracts in the multi-billion dollar Lesotho Highlands Water Project, one of the largest dam projects in the world. The suspension bars the company from receiving World Bank contracts for seven years, although the duration of the debarment could be reduced to only four years, according to a World Bank press release, “if the Bank determines that Lahmeyer has met specific compliance conditions and fully cooperated with the Bank in disclosing past sanctionable misconduct.”

The Lesotho Highlands Water Project was co-financed by the World Bank, the European Investment Bank (EIB) and other international donors in the 1980s when apartheid South Africa, the main beneficiary of the massive water transfer and hydropower scheme, was unable to attract sufficient commercial financing because of international sanctions. Although allegations of corruption have persisted throughout the span of the multi-phase project, the World Bank has never followed through on its commitments to help finance the investigation and prosecution of the accused companies.

While some applaud the World Bank for taking action against the Lahmeyer International, others argue that the temporary debarment of the German firm amounts to a mere slap on the wrist and criticize the Bank for failing to curb corruption in the construction of one of its largest projects. A recent IPS article further points out that the Bank’s decision to debar Lahmeyer has come too late, and that “although the Bank's

corruption policy states that it will sever ties with any firm guilty of corruption on a Bank-financed contract, it allowed the company to continue to bid for Bank-backed contracts until this week.” Despite being convicted in 2003, Lahmeyer has since “received at least 18 Bank contracts totaling nearly 15 million dollars.” The World Bank reportedly responded that it “had to wait until legal proceedings were concluded in the African nation and that it re-opened its own debarment proceedings against Lahmeyer in August 2005.”

Critics also claim that the Bank’s policy of lending for major infrastructure projects is at odds with its stated commitment to tackle corruption, since studies have shown that massive, centrally planned and financed water, energy, transport and other public works projects are particularly prone to corruption ("The World Bank's Conflicted Corruption Fight").

Read the World Bank press release on its decision to suspend Lahmeyer at:  
<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21116129~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>

Read the Reuters article at:  
<http://today.reuters.co.uk/news/CrisesArticle.aspx?storyId=L06339094&WTmodLoc=World-R5-Alertnet-3>

Read an article from the Inter Press Service at:  
<http://ipsnews.net/africa/nota.asp?idnews=35409>

Read a Business Day article about recent sentences for European firms by Lesotho courts at: <http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A269213>

Read more about the Lesotho Highlands Water Project from International Rivers Network (IRN) at: <http://www.irn.org/programs/lesotho/>

Read the World Bank's conflicted corruption fight from International Rivers Network and Environmental Defense at:  
<http://www.irn.org/programs/finance/index.php?id=060511worldbank.html>

See a list of firms debarred from receiving World Bank contracts and read more about the Bank’s Department of Institutional Integrity at:  
<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/ORGUNITS/EXTDOII/0,,contentMDK:20542001~pagePK:64168427~piPK:64168435~theSitePK:588921,00.html>

## **World Bank, AfDB, UN promote carbon credits for Africa at Nairobi conference**

November 17 - The twelfth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) took place in Nairobi, Kenya over the past two weeks, culminating in the adoption of a new “Nairobi Framework,” which aims to encourage northern countries to curb global carbon emissions by stepping up support for Africa under the Kyoto Protocol’s Clean Development Mechanism (CDM). Africa has benefited little from the CDM, an initiative designed to allow industrialized countries to meet their greenhouse gas reduction commitments by investing in carbon reduction projects in developing countries – in other words, to enable industrialized countries to “offset” their continued pollution by helping to reduce or prevent emissions in other countries that do not have their own emissions reduction targets. To date, the nine CDM projects approved in Africa were all earmarked for South Africa, Morocco, Tunisia and Egypt. The World Bank, the African Development Bank (AfDB) and the UN have all pledged to support the Nairobi Framework by working to attract greater CDM investment in Africa and assisting in mitigating the effects of climate change, which are expected to be the most severe in Africa, despite the continent’s relatively small contribution to global carbon emissions.

Apart from general agreement to increase CDM investment in Africa, discussion of the CDM Adaptation Fund proved to be a bone of contention between developed and developing countries. The Fund, which is not yet operational, is intended to help developing countries cope with the effects of climate change. Rich countries want the Fund to be managed by the World Bank and UN through the Global Environment Facility (GEF), while developing countries complain that GEF procedures are too strict and cumbersome, and that the GEF is inordinately influenced by the United States, who is not even party to the Kyoto Protocol. Details regarding the operations of the Fund, which could grow to \$700 million by 2012, were left unresolved.

Participants at the conference also discussed a proposal for developing countries to qualify for carbon credits for the conservation of their rainforests, and agreed to meet next year to discuss further proposals. Under the proposal considered, the Democratic Republic of Congo could qualify for as much as \$200 million per year if it halts deforestation: the country’s current deforestation rate of 319,400 hectares per year is estimated to release 45-64 million tons of carbon emissions per year.

But when all is said and done, will these initiatives lead to a real reduction in carbon emissions? Despite claims by World Bank’s new Vice President for Sustainable Development, Kathy Sierra, that “the cost of decreasing greenhouse gas emissions can be reduced through international carbon trading,” critics have charged that the CDM is inherently unsustainable and will not contribute toward curbing climate change. Under the CDM, industrialized countries that do not meet their carbon reduction targets under the Kyoto Protocol can essentially buy the unused carbon credits of countries that do not use up their allotment of carbon emissions. In other words, instead of cleaning up their operations, polluters in the North can pay for more air space. One observer has equated carbon trading to “a rich neighbor who wants to drive a Hummer paying his poor

neighbor to ride a bike.” In the end, critics argue that the mechanism will not help reduce global emissions. Instead, they fear it may in fact enable continued climate change, to which developing countries, particularly in Africa, are most vulnerable.

Read more about the UN plan to attract greater CDM investment in Africa at:  
[http://www.iht.com/articles/ap/2006/11/15/africa/AF\\_GEN\\_Climate\\_Africa.php](http://www.iht.com/articles/ap/2006/11/15/africa/AF_GEN_Climate_Africa.php)

Read more about the proposal for forest conservation under the CDM at:  
<http://news.mongabay.com/2006/1105-congo.html>

Read more about the dispute concerning the Adaptation Fund at:  
<http://news.bbc.co.uk/2/hi/science/nature/6142160.stm> and:  
<http://www.nature.com/news/2006/061113/full/061113-2.html>

Read the World Bank’s latest press release on climate change:  
<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21125508~menuPK:34457~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

Read a breakdown of the outcomes of the Nairobi conference at:  
<http://www.alertnet.org/thenews/newsdesk/L16813843.htm>

Read more about carbon trading from Carbon Trade Watch at:  
<http://www.carbontradewatch.org>

### **World Bank implicated over DR Congo mining contracts**

November 17 – A *Financial Times* article describes the contents of a leaked internal World Bank memo concerning the Bank’s involvement in the Democratic Republic of Congo’s mining sector. According to the article, the memo warned that the Bank may be perceived as complicit in the non-transparent awarding of mining contracts signed between the DRC’s transitional government and three international mining companies last year. The three joint venture contracts, worth billions of dollars in concessions obtained from Gecamines, the former state-owned mining company, were signed against the recommendations of a DRC parliamentary commission and World Bank-financed audits of Gecamines, which called for a halt to the awarding of contracts until the company’s assets could be assessed and a restructuring plan elaborated. Analysis of the three deals, which reportedly signed away over 80% of Gecamines’ remaining productive assets to private mining companies, revealed their terms to be of little benefit to the country. Although the World Bank had been involved in mining sector reforms since it re-engaged in the DRC in 2001, the deals in question were apparently signed before the Bank-financed restructuring of Gecamines got underway, leaving little more than the shell of a company in the hands of the Bank-financed management team responsible for restructuring and revitalizing the former copper giant. Critics charge that the Bank should have done more to prevent or to subsequently call for the renegotiation of such unfavorable contracts, in order to help ensure greater transparency and benefits for the

Congolese people from the mining sector. The Bank has met further criticism for its failure to support increased oversight and effective management of the Congo's mining industry, after having played an instrumental role in enacting mining sector reforms in 2002 to attract foreign investment in the country.

Beyond its role in the mining sector, many observers are concerned about the sheer size of the Bank's general lending portfolio in the DR Congo, where over \$2 billion have been earmarked for loans and grants since the Bank reengaged in the country 5 years ago. They argue that the Bank's infusion of funds runs contrary to the findings and recommendations of the Bank's own conflict unit regarding financing for post-conflict countries. Those findings emphasize the need to focus aid on community-driven development and provision of services over private sector investment in longer-term productive contracts, and caution that conflict is likely to reemerge if root causes (such as struggle over natural resource control) are not addressed. World Bank involvement in the Congo has instead focused on rewriting the country's mineral and forestry codes to facilitate private sector participation in the exploitation of DRC's natural resources. Earlier this year, the World Bank instigated an investigation into allegations that the transitional government mismanaged millions of dollars of Bank funds earmarked for disarmament and emergency reconstruction projects, but the findings of the audit have not been released.

Read more about the World Bank's involvement in the DR Congo at:

<http://www.bicusa.org/drc>

Read the *Financial Times* article at: <http://www.ft.com/cms/s/f16910e8-75e0-11db-aea1-0000779e2340.html> (Subscription required)

### **World Bank Africa vice president resigns**

November 17 – Gobind Nankani has reportedly resigned this week from his position as head of the World Bank's Africa Department. After 30 years at the Bank, Nankani expressed his desire to move on and work in a developing country. However some claim that World Bank President Paul Wolfowitz considered Nankani "ineffective," and a *Reuters* article describes the Bank VP as the "latest casualty in President Paul Wolfowitz's management shake-up." Wolfowitz has prioritized the Bank's work in Africa since taking office in 2005. Nankani, a Ghanaian, is scheduled to leave the Bank on November 30 amid widespread conjecture about who will replace him. He is the second vice president to resign in the last few months, after the departure of Middle East Vice President Christiaan Poortman, also a 30-year veteran, over reported "differences with Wolfowitz and his advisors over issues including a plan to increase the number of international staff in Iraq."

Read the article from *Reuters* at:

<http://za.today.reuters.com/news/NewsArticle.aspx?type=topNews&storyID=2006-11->

### **World Bank report: Four ‘I’s needed for African growth**

The latest World Bank report “Facing the Challenges of African Growth: Opportunities, Constraints, and Strategic Directions” stresses the need for the four ‘I’s to achieve growth in Africa: infrastructure, investment, innovation and institutional capacity. The conclusions were based on a study of African economies since the 1960’s, which noted the continent’s overall inability to sustain growth levels, citing the low and negative growth rates of the early 1960’s and mid 1980’s. The findings of the report are not surprising and its recommendations diverge little from the World Bank’s standard doctrine regarding interventions in Africa. The report closely reflects the priorities laid out in the Bank’s Africa Action Plan, which called for a major scaling up of funds for infrastructure and emphasized the need to improve the investment climate to facilitate private sector-driven growth. History suggests that the poor are most often not the primary beneficiaries of large, regional and “investment-friendly” infrastructure projects, such as the major hydroelectric dams and trans-continental railways that are advocated by the Bank, or the legal and regulatory reforms designed to attract increased private sector participation in the provision of basic services and to require international competitive bidding for public works. Critics argue that these measures to stimulate growth are skewed in favor of large international firms and will not result in the “shared growth” or poverty reduction as promised by the Bank.

Read a Business Report article on the Bank’s report at:

<http://www.busrep.co.za/index.php?fArticleId=3528922>

Read the World Bank press release at:

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:21121869~menuPK:258649~pagePK:2865106~piPK:2865128~theSitePK:258644,00.html>

Download the full report at: <http://www.worldbank.org/afr>

### **Africa must take advantage of present conditions to grow, says IMF**

November 10 – A *Reuters* article recently reported on comments made by the IMF’s new deputy managing director, John Lipsky, who advocates that Africa take advantage of the present state of the global economy and recent debt relief to accelerate growth by embracing economic reforms. At a recent conference in Mali, he said “the combination of a favourable external environment, the opportunities brought by debt relief and the success of reforms are opening the way to a new period of even stronger growth for people in the countries of Africa.” The *Reuters* article also featured the comments of Malian civil society groups who challenged the premise of the IMF’s argument that

economic reforms such as privatization lead to growth and reduce poverty. The groups cited the tariff hikes that followed the divestiture of Mali's state-owned energy company, which put electricity beyond the reach of most consumers. "How can you develop without electricity? These are strategic sectors which should not be privatised," the article quoted one observer as saying.

The article raises several fundamental issues. First is the question of the conditions placed on debt relief and aid, which often require developing countries to undertake economic reforms in order to qualify. While the stated intent of the required economic reforms may be to spur and maintain growth to reduce poverty, the "development-through-trade-liberalization" model supported by the IMF has not yielded real dividends. Many would argue that IMF conditions have instead exacerbated poverty in Africa by prompting cuts in government expenditure in crucial social sectors such as health and education, and exposing local producers and service providers to competition from international companies.

It is important to examine also whether the external environment is indeed conducive to growth in Africa, as John Lipsky claims. In Mali, where Lipsky made his remarks, over 30 percent of the population is dependent on cotton farming for at least some portion of their livelihoods. Malian farmers' inability to sell their cotton crops at a competitive price on the international market because of American and European subsidies has greatly hampered growth and poverty reduction. The promised reduction of subsidies on agricultural products under the Doha Round of the WTO failed to materialize this year. The talks collapsed over disputes regarding new terms on agriculture which were decidedly unfavorable for developing countries, requiring them to further open up their markets in exchange for only minimal concessions from northern countries.

Read the *Reuters* article at:

[http://za.today.reuters.com/news/newsArticle.aspx?type=businessNews&storyID=2006-11-10T105146Z\\_01\\_BAN039057\\_RTRIDST\\_0\\_OZABS-AFRICA-IMF-20061110.XML](http://za.today.reuters.com/news/newsArticle.aspx?type=businessNews&storyID=2006-11-10T105146Z_01_BAN039057_RTRIDST_0_OZABS-AFRICA-IMF-20061110.XML)

Read more about debt relief at: <http://www.brettonwoodsproject.org/art.shtml?x=538473>

Read "Hazardous to Health: The World Bank and IMF in Africa," a position paper from Africa Action, at: <http://www.africaaction.org/action/sap0204.htm>

Read a press release from Friends of the Earth International following the collapse of the trade talks at: <http://www.foei.org/media/2006/0724.html>

Read an analysis from Walden Bello about the collapse of the Doha Round at: <http://www.tni.org/archives/bello/dohacollapse.htm>

### **Additional articles of interest**

“China bank a threat to World Bank – Kenya official,” *Business in Africa*, November 9, 2006: [http://www.businessinafrica.net/news/east\\_africa/397889.htm](http://www.businessinafrica.net/news/east_africa/397889.htm)

“G33 slams ‘flawed’ World Bank paper on Special Products,” *Public Agenda* (Ghana), November 6, 2006: <http://allafrica.com/stories/200611061571.html>

“Congo Brazzaville slipping back into corruption,” *Afrol News*, November 16, 2006: <http://www.afrol.com/articles/22698>

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