

Companies Charged with Corruption Should Be Suspended From World Bank Contracts

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Dam-building companies charged with corruption in a Lesotho court should be suspended from receiving World Bank contracts while they are under investigation, says International Rivers Network. IRN is also calling on the World Bank to establish an independent investigation of its role in the scandal.

Ten companies and two consortia have been summoned to appear in the Maseru Magistrates' Court in Lesotho on November 29 on charges of bribing Mr. Masupha Sole, former director of the Lesotho Highlands Development Authority (LHDA). Mr. Sole is accused of accepting around US\$2 million in bribes from the companies.

The LHDA contracted the companies to work on the Katse dam, the first of five huge dams planned under the Lesotho Highlands Development Project (LHDP). Katse is now completed and work has started on a second dam, Mohale.

The World Bank has provided both fiscal management and loans for the Lesotho project, and is currently carrying out an internal investigation of the LHDP contracts it has financed. The Bank is following a narrow interpretation of its procurement guidelines, and it appears that if it takes any sanction against the corrupt companies it will only be against those with contracts directly

financed by the Bank. Companies which paid bribes on other project-related contracts would thus be exempt.

The Bank's guidelines state that "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."

Critics argue that the Bank's responsibilities are not restricted to individual contracts because of the Bank's role in getting the project off the ground, and as its fiscal manager. They argue that the World Bank is interpreting its procurement guidelines narrowly in hopes that they will not have to apply them to some of the biggest dam building companies in the world, companies with which they do substantial business.

"Such a narrow interpretation of its procurement guidelines may be in keeping with the letter of the guidelines, but it is certainly not within their spirit, nor the spirit of President Wolfensohn's frequent anti-corruption statements," says Patrick McCully, campaigns director for International Rivers Network and a leading expert on the dam building industry.

"While the case is underway the companies involved should be suspended from competing for contracts on Bank projects. If proven guilty, all the companies should be disqualified from Bank projects, not just those who paid bribes on bank-financed contracts," says McCully.

The World Bank is offering financial and technical assistance to the Government of Lesotho in its investigation and prosecution of the case. Critics argue that their role of supporting the prosecution is inappropriate because the World Bank is the fiscal manager and

a funder and promoter of the project with a long-lasting and close relationship with the companies charged.

"The Bank is not a knight coming to the rescue of the government of Lesotho. It is a leading actor in a major corruption scandal. The set-up gives little reason for confidence that justice will be served," says McCully.

Leaked correspondence between the World Bank and the Lesotho government from 1994 suggests that the Bank knew of corruption allegations against Sole at that time, but actively tried to prevent the official's suspension.

"It's time for an independent investigation that considers not just the role of the companies, but the performance of the World Bank in its oversight responsibilities," McCully says. "We need to know what the World Bank knows about the bribes, and when it first knew it. We know from past experience that internal World Bank investigations cannot be trusted to reveal the truth."

IRN also calls for the establishment of a Commission of Inquiry that would include representatives of local non-government organizations, to investigate more allegations of corruption among former and current senior officials of both the Lesotho Highlands Development Authority, and the Ministry of Natural Resources.

Background

The companies charged are Acres International (Canadian); ABB (Swedish/Swiss); Dumez International, Sogreah, Spie Batignolles, Cegelec, and Coyne et Bellier (French); Lahmeyer International (German); Universal Development Corporation and Electro Power Corporation (Panamanian); Associated Consultants and Project

Managers (Lesotho); and Sir Alexander Gibbs and Partners (British).

The international consortia charged are Highlands Water Venture and Lesotho Highlands Project Contractors. International companies in the consortia include Ed Zueblin (German), Impregilo (Italian) and Balfour Beatty (British).

Many of the companies are no strangers to allegations of corruption. Spie Batignolles and Sogreah were involved in Kenya's Turkwell Gorge Dam which, because of bribes reportedly paid to Kenya's president and energy minister, cost more more than twice what the European Commission said it should have.

Impregilo, Dumez and Lahmeyer were three of the principle firms involved in the Yacyreta Dam in Argentina and Paraguay, which Argentina's President Carlos Menem called a "monument to corruption." Yacyreta's projects cost was \$2.7 billion; the final cost was \$11.5bn.

Lahmeyer and Impregilo also had contracts on Guatemala's Chixoy Dam. Various sources estimate that between \$350 and \$500 million were lost to corruption on this project.

ABB and Dumez worked on Itaipu Dam (Brazil/Paraguay). The dam was originally projected to cost \$3.4 billion, but the final cost came to around \$20 billion. Numerous corruption allegations surround the project.

The Lesotho Highlands Development Project is the biggest water project under construction in Africa. The World Bank was the key player in establishing the financial feasibility of the project in 1986 when both South Africa and Lesotho were ruled by undemocratic governments. The World Bank's role included arranging the entire financing package.

<http://www.irn.org/programs/lesotho/corr.991126.html>