COVER STORY

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Bank Heist

Corrupt businesses, politicians, and cronies are stealing hundreds of billions of dollars from the globe's poorest people. The World Bank and other multilateral development lending institutions routinely ignore this corruption and capital flight, despite numerous reform efforts. Donor nations' hopes for sustainable development may be in jeopardy

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The summer of 2005 appeared to bring good tidings for international efforts to help the poor and the environment in the developing world. At the G8 Summit held in Scotland in July, the leaders of the world's big industrialized countries committed to doubling foreign assistance to Africa, to $50 billion by 2010. They forgave $40 billion in debt owed by 18 poor sub-Saharan countries to the World Bank, African Development Bank, and International Monetary Fund. George W. Bush, Tony Blair, and the other G8 leaders also reaffirmed their pledge made at the 2000 UN Millennium Summit to one of their Millennium Development Goals, a doubling of total foreign aid to all poor countries to $100 billion.

But an unwelcome specter haunts these international efforts to achieve environmentally sustainable development, one which national leaders and most international agencies have only begun to recognize: cancerous corruption and theft not only in international development lending but, on a much larger scale, embedded at the heart of the international economy. Since the spring of 2004 a series of hearings on Capitol Hill has uncovered the extent of the first problem, multilateral development bank lending. Witnesses testified to the Senate Foreign Relations Committee under the chairmanship of Richard Lugar (R-Indiana) that borrowing-nation bureaucracies and crooked contractors have stolen over $100 billion from the World Bank over the past five decades. The amount of ongoing "leakage," meaning theft, from lending from the World Bank, Asian Development Bank, and other MDBs may total 20 to 30 percent.

And the Senate has yet to examine the second problem, which is even more alarming: corrupt and illegal financial capital flight from the developing world and economies in transition. Facilitated by western international banks, the scale of this looting of the poor by the rich is staggering, an estimated $500 to $600 billion a year — 10 times the total amount of current foreign aid from all sources, and still five times the $100 billion a year aid target of the Millennium Development Goals reaffirmed at the G8 Summit.

Take Lesotho, where the poorest rural people earn less than two dollars a day, where the average life expectancy has fallen in 15 years from 55 to 36, and the HIV-positive rate is 30 percent. Last year the Foreign Relations Committee heard a sickening tale of corruption in one of the world's largest ongoing infrastructure investments, the Lesotho Highlands Water Project, in part financed by the World Bank, the African Development Bank, and European Union. In this and the other projects the committee examined over the past year and a half, one can see the endangered fate of the Millennium Development Goals, such as reducing extreme poverty by 50 percent, halting the spread of HIV/AIDs, cutting by 50 percent the number of poor without access to clean water, and reversing loss of forests.

The water project dates back to the apartheid era, when South Africa proposed the construction of five large dams in its landlocked neighbor for water supply to its richest industrial areas, including Johannesburg and the capital, Pretoria. In 1991 and 1998 the World Bank approved $155 million in loans for the first phase of the project, the Katse and Mohale dams, technically borrowed by Lesotho but guaranteed by the South African government. Total costs for the first phase are about $3.6 billion.

From the beginning the poor in Lesotho bore the impacts but received little of the benefits. In 1995 construction workers rioted on site for better wages, and police opened fire, killing five. Well-intentioned plans for rehabilitation of resettled communities and funds for rural development to mitigate the

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social-environmental impacts of the project have been poorly implemented; as a result many of the 27,000 rural poor adversely affected have been dispossessed of land or resources. Only 9 percent of Lesotho's area is arable, so the loss of thousands of hectares of farm and grazing land adds to an already ecologically stressed situation. A 1999 World Bank-commissioned study concluded that the complete project will result in Lesotho's rivers losing 90 percent of their water, reducing them to "something akin to wastewater drains," creating public health threats for an estimated 150,000 people living downstream. The main benefit for Lesotho is about $40 million a year paid to the government for the sale of water to South Africa, but the financial stakes for the multinational contractors total in the billions.

Guido Penzhorn, chief prosecutor for the Lesotho government, told Lugar's Foreign Relations Committee that faced with its own economic and social problems, Lesotho nevertheless thought it critical to invest millions in scarce resources to prosecute corruption in the project. What surprised him and his colleagues was how little help they got in their efforts from rich country governments and donor agencies, including the World Bank.

Starting in the mid-1990s, investigations by Lesotho discovered that the chief executive of the Project Authority had received some $2 million in payoffs from companies in G8 countries. The companies used special intermediaries and agents (with money-laundering shell companies in off-shore jurisdictions) to pay the bribes, a ubiquitous practice in big international projects. The authority head was convicted of bribery and sentenced to 15 years in jail. In 2002 the Lesotho High Court handed down bribery convictions for two of the companies, Acres International, a leading Canadian engineering firm, and Lahmeyer International, a major German firm. Both companies were directly supported by procurement contracts from the World Bank loans. The convictions were upheld on appeal and the companies were sentenced to pay fines of about $2 million each. In 2004, a French company involved in work on the World Bank-financed part of the project, Scheneider Electric SA, pleaded guilty to bribery.

According to Senate testimony, 20-30 percent of World Bank loans go to corrupt officials — $100 billion since it was founded

Although the World Bank under James D. Wolfensohn had begun to address corruption in its projects in the late 1990s, Penzhorn's testimony revealed just how little the bank was doing. In 2002 the bank debarred from doing future business with the bank — its main sanction for corruption — one of the agents involved in the bribery (who had already gone out of business), but exonerated the companies who had hired the agents. While the bank freely shared information with Penzhorn, vague promises from the bank and EU donor agencies to help defray the costs of prosecuting the corruption they had enabled came to naught. The EU sent out a team to investigate the involvement of European companies, but it gave the companies which were soon convicted by the Lesotho authorities a clean bill of health.

Penzhorn concluded with a series of recommendations: the bank and other international agencies should finally "pierce the corporate veil" and debar the contracting companies, not just the agents, who are hired of course by companies precisely to camouflage the bribery of the principals. He urged much more rigorous auditing to address practices that conceal widespread bribes and payoffs. Finally, international agencies and donors must show much greater willingness to use debarment from future business, the only really effective sanction, since million-dollar fines become costs of doing business when contracts are worth hundreds of millions.

Three days after Penzhorn's testimony, the bank announced the debarment of Acres International, more than two years after Lesotho courts had found Acres guilty. But, as of July 2005, Lahnmeyer still has a clean bill to do business with the bank in the name of helping the poor.

One would think that a wastewater treatment plant would be exactly the kind of environmental investment that donors, in fulfilling the Millennium Development Goals, should support on a

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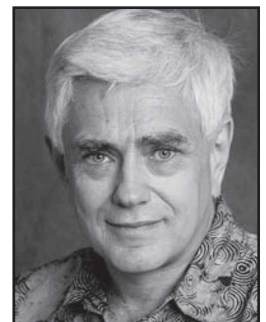

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broader scale. The case of the Asian Development Bank-financed Thailand Samut Prakarn Wastewater Treatment Plant is an example of the kind of financial, and ecological, disasters we will see more of if anti-corruption reforms are not carried out.

As described in a September 2004 Foreign Relations Committee hearing on regional development banks, the ADB approved a total of $230 million in loans for this project, starting in 1995. It was designed as two industrial wastewater treatment plants on both sides of the Chao Phraya River in Thailand. But the ADB board approved a loan for a project which was never implemented: the Thai Pollution Control Board moved the site 20 kilometers, to build a single plant in the Klong Dan district. Only one company submitted a bid for the construction, a violation of both Thai and ADB procurement rules.

Building the plant on the changed site resulted in a cost overrun of 87 percent. A new pipeline had to be built to transfer the wastes from the industries near the original site, and the new plant threatened serious environmental, social, and economic impacts on some 60,000 villagers — most of them dependent on coastal fisheries that would be polluted by the wastewater plant discharges — living adjacent to the new site.

Samut Prakarn turned out to be one of the biggest corruption scandals in Thai history. The seemingly illogical and costly site change of the plant (with no new environmental or social impact assessment) was linked to a massive land fraud conspiracy among various Thai officials. The company that won the bid was associated with a former science minister and his relatives, and the then deputy commerce minister and the deputy industry minister happened to be co-owners of the land at the new site. A major consultant to the project was owned by a former politician who also jointly owned some of the land at the new site. The Pollution Control Authority, executives of the joint venture that built the plant, and the owners of the property at the new site conspired to inflate the purchase price of the land parcels by as much as 1,000 percent. Thai authorities subsequently brought criminal indictments against senior officials of the PCA, real estate developers, and executives of the contractor. A special committee of the Thai Senate "found corruption at every stage of the project."

These findings did not seem to make an impression on the ADB. Although the ADB sent a number of missions over the past several years to investigate problems in the project, it has never addressed its own responsibility for not resolving the massive corruption and cost overruns in its own loan. Certainly once the corruption allegations and huge cost overruns began to surface in the late 1990s, it could and should have intervened, demanded a full forensic audit of the project, and halted disbursements on loans. But typical of its bureaucratic response is the observation of a 2002 inspection committee of the ADB board, which noted in a report that "a sudden increase of $421 million in the estimated cost of a recently approved ADB project is a significant event."

In the ADB-financed Sri Lanka Southern Transport Development Project, the ADB board approved loans for a major road project that was appraised in one location, but much of the project was built in a different location, causing massive cost overruns, environmental damage, and economic hardship for affected populations. Here the ADB reportedly intervened to help the lead Japanese contracting company bid for the award after it had failed pre-bidding qualification. The company then allegedly bribed the project head, won the contract, and the trace and area of impact of the road was substantially altered. The Sri Lankan government forced the project head to quit in disgrace, but the ADB took no action to address the corruption in its own lending.

The changed route is twice the cost of what was presented to the ADB when it approved the loan. The result is that the number of households displaced and destroyed by the construction more than doubled. The affected communities were not consulted, and the ADB has recently conceded that the project violated its environmental, social, and resettlement policies.

The Sri Lankan press publicized gross procurement irregularities in the project. Three construction companies met the pre-qualification bidding procedures, for which a major consideration was the financial condition of the prospective contractors. A Japanese company did not meet the criteria, and in fact had a negative financial worth. The ADB reportedly sent a letter to the Sri Lankan treasury requesting that the company nevertheless be considered as a bidder on the project. The company hired an agent, appropriately named Access International.

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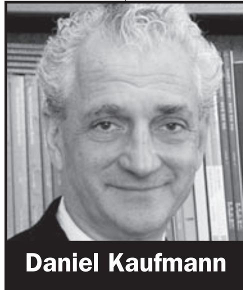
Fighting Corruption Requires Better Governance By All

Until the mid-1990s, the word corruption was taboo in official World Bank documents. Little was done about this scourge. Yet for over eight years now, significant strides have been made within a strategy that includes assisting countries in combating corruption, increasingly factoring it in to lending considerations, and building capacity to investigate and sanction fraud and corruption in development projects.

Governance matters enormously for a country's growth and competitiveness and for reducing poverty and income inequality. Corruption is equivalent to a tax on foreign investors, and it is a regressive tax to poor families, who pay a disproportionate share of their incomes in bribes to have access to public services. Aid projects tend to fail in corrupt settings. And corruption undermines democracies.


Daniel Kaufmann

A rough estimate of the extent of worldwide transactions that are tainted by corruption is $1 trillion a year. Research shows that countries can derive a very large development dividend from better governance: a country that improves governance from a low level to an average level could almost triple its income per capita in the long term, and similarly reduce infant mortality and illiteracy.

By the late 1990s the bank was implementing an anticorruption strategy that recognized that corruption is a symptom of dysfunctional public institutions. A widely held, yet fallacious, belief is that one fights corruption by fighting corruption — through, for example, anticorruption campaigns, codes of conduct, new decrees, or more anti-corruption agencies. However, these seem to have little impact and are often politically expedient substitutes for fundamental governance reforms. The bank has been involved in hundreds of projects in about 100 countries, encompassing public expenditure management, civil service reform, judicial reform, tax policy, decentralization, e-government, public service delivery, and direct anticorruption assistance.

We also recognize that anticorruption programs should not be limited to the public sector, since private actors often exert undue influence in shaping public policy and institutions. State institutions may be captured by powerful private interests, and many multinational corporations practice bribery, which undermines governance. Traditional public sector management interventions often fail because they try technocratic fixes that may be inappropriate for local conditions and also ignore the role of the private sector.

In 1997 the bank's board approved an Anti-Corruption Strategy laying out actions in four areas: Preventing fraud and corruption among staff, projects, and programs; assisting countries in curbing corruption; mainstreaming anticorruption into its country analysis and lending decisions; and partnering in international efforts to fight corruption. In 2001, the bank created its own Department of Institutional Integrity, which assembled an international team of some 50 staff, and by 2004 it had 321 open cases underway in some 70 countries. The bank's Sanctions Committee has publicly barred more than 330 companies and individuals from doing business with the bank.

The bank now explicitly considers in its lending decisions the extent to which the quality of governance and the magnitude of corruption affect a borrowing country's economy. Its allocation formula for recipients of soft loans features the quality of governance as an important factor.

In many countries the bank's operational work in this area now starts with empirical diagnostic surveys that gather in-depth information from citizens, firms, and public officials. These provide a country-specific diagnosis of the nature of the problems and serve as the basis for action. The country, often with support of the bank and others, then conducts nationwide workshops to disseminate findings and discuss recommendations. Country experts develop strategies, often supported by bank and donor interventions.

Progress notwithstanding, the challenges the world community faces in improving governance and fighting corruption strongly argues against business as usual. A bolder approach is needed, and collective responsibility at the global level is called for. OECD countries should ratify and effectively implement the 2003 UN convention against corruption, and take steps to repatriate assets looted and stashed abroad by corrupt officials.

Initiatives to encourage transparency, freedom of information, and an independent media, participatory anticorruption programs led by the country, and gender equality — all of which have been underemphasized so far — will help fight corruption. And the countries themselves, supported by responsible leadership, must take the lead in improving governance.

Many challenges remain. Where vested interests resist reform, there is a pressing need to work locally and internationally with political leaders, civil society, business, academics, and the media to bring about domestic as well as global pressure. And there are also significant challenges ahead for the donor community and multilateral development banks (including the World Bank). This is particularly the case given the need to balance the twin objectives of increasing aid to the poorer countries with the need to ensure that the funds are not tainted by corruption and are spent effectively to fight poverty.

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As is typical with this sort of arrangement, the agent would win a hefty fee if it paved the way, as it were, for a successful contract award for its client. Sri Lankan newspapers reported that Access International had influential political connections, including in the prime minister's office. Access is alleged to have bribed the Sri Lankan road development authority official in charge of the project, for example by installing a new diesel generator in his home, giving him the use of a new SUV, and promising financial rewards.

The Sri Lankan parliamentary Committee on Public Enterprises conducted an investigation, and concluded that both national government procurement guidelines and those of the ADB had been violated. The attorney general of Sri Lanka, when asked how the Japanese company could have won the contract in violation of national and ADB tender guidelines, stated that the company "had been accommodated purely on a suggestion by the ADB on February 13, 2001, particularly since it is an ADB-funded project and the guide on pre-qualifications specifically provides [in such cases] for ADB approval."

But the project proceeds, and the same Japanese company remains the contractor. Neither ADB management nor the ADB board appears to be interested in acting on the serious procurement irregularities, corruption allegations, and cost overruns, which are linked to the environmental and social impact problems.

Unfortunately, these cases are not isolated exceptions. At the first of the Lugar MDB corruption hearings, on May 14, 2004, Northwestern University professor Jeffrey Winters testified that 20 to 30 percent of the funds disbursed in World Bank loans have been stolen through corrupt machinations of borrowing country officials and local and international contractors. "Since its founding," he said, "the World Bank has participated mostly passively in the corruption of $100 billion of its loan funds intended for development," an allegation that Lugar highlighted in his opening statement. In response the bank issued an angry denial claiming that there was "no credible evidence and/or foundation" for such assertions. But there was very credible evidence. Committee staff had interviewed a number of former bank professionals, including an individual who had been a task manager (project director) for over 100 bank loans, and who had been one of the bank's chief anti-corruption investigators. Among his first-hand observations were that the bank's Nigeria country team estimated in the 1990s that fraud on bank projects in that country was as much as 40 percent. Between 1964 and 2001 the bank lent about $7.6 billion to Nigeria. And there was very credible evidence for the massive fraud of bank lending in Indonesia.

The money is stolen by host country officials. Bank officers nonetheless keep money flowing because of a "culture of loan approval"

For example the July 1997 "Dice Memorandum" (named after the World Bank staffer who wrote it), provides an alarming blueprint of a problem which is endemic in other major MDB borrowers such as Russia, Bangladesh, Mexico, and most of sub-Saharan Africa: "In aggregate we estimate that at least 20 to 30 percent 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."

But the bank did nothing to halt the theft: in the 15 months subsequent to the Dice Memorandum, it committed and disbursed over $1.3 billion more to Indonesia without any effective measures to contain the leakage detailed in the memo.

The problems documented in Indonesia are endemic within many of the bank's major borrowers. In most of sub-Saharan Africa, many estimate, the diversion of international loans by corrupt government practices occurs on an even more serious scale. In a number of countries in South and Southeast Asia, and in most of Latin America, there is no reason to believe that the systematic diversion of World Bank loans does not approach the scale documented in the Dice Memorandum. In Russia, *Business Week* reported in 1997 that "at least $100 million" from a $500 million

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Russian coal sector loan by the bank was either misspent or could not be accounted for. Noting that the bank was preparing a new $500 million loan for the Russian coal sector, *Business Week* observed that "World Bank officials seem surprisingly unperturbed by the misspending. They contend offering loans to spur change is better than micromanaging expenditures."

Why would international financial institutions, ostensibly dedicated to poverty alleviation, and staffed with well-paid and mostly well-intentioned professionals, be so negligent? The core of the problem lies in what is known as the "culture of loan approval" and "pressure to lend" that has been documented in the World Bank and other MDBs for more than a decade. In fact the term "culture of loan approval" comes from an internal 1992 World Bank survey of its entire loan portfolio that concluded the institution was riddled with perverse incentives which rewarded pushing money above all, even when major bank policies and procedures (for example concerning environmental assessment and social impact mitigation) were violated. One of the most astounding conclusions of the report was the finding that the bank's auditing and accounting system was in shambles.

Wolfensohn promised to change things, but the congressionally mandated 2000 bipartisan International Financial Institutions Advisory Commission Report, chaired by Carnegie Mellon economist Alan Meltzer (which included as a co-author Jeffrey Sachs) concluded that little had changed in nearly a decade and that the record of World Bank projects in delivering sustainable results was "astoundingly low." Congress had demanded the formation of IFIAC and a report on reforms for international financial institutions as a condition of a large funding replenishment of the IMF in 1998. But it has done nothing to act on the report's recommendations.

Indeed, the MDBs' managers merely react to the pressure of their member governments, which actively and passively reinforce the culture of loan approval. While some donor countries pay lip service to improving the effectiveness of MDB lending and fighting corruption, they send contradictory signals. Penzhorn's description of the unwillingness of major donor countries to assist Lesotho in its anti-corruption fight is indicative. In fact, the executive directors representing donor countries on the boards of directors of the MDBs often see their role as champions of national companies in ensuring they get their "fair share" of MDB procurement contracts, which in the World Bank, for example, total billions annually.

The World Bank punishes firms with debarment, but multinationals are almost immune, and the term is only a few years

There is a wholly different corruption issue in which the MDBs and the IMF have a key role. It dwarfs the problem of theft and leakage from their lending as well as from all forms of bilateral and multilateral aid. It is what Brookings Institution scholar Raymond Baker has called "dirty money," or illicit and corrupt capital flight from developing countries and economies in transition. The sagas of illegal capital flight and theft by notorious developing country rulers are anecdotally well know: Mobutu's foreign investments were estimated at $4-5 billion, nearly equivalent to his benighted Zaire's foreign debt. Ferdinand Marcos's theft of billions from the Philippines has been estimated in the $5-10 range, and the full extent of the Suharto family of Indonesia's embezzlement over thirty years is just beginning to emerge — a staggering $15-35 billion. Not only did international aid and development lending continue to flow to these and other kleptocracies for decades, but the World Bank and IMF in particularly have played an ignoble role in studiously not reporting, underreporting, and ignoring these huge outflows of funds from their borrowers. Baker and others estimate that the amount of dirty money flowing from developing countries and economies in transition is at least $500 billion a year.

How do you steal a half trillion dollars a year? One technique is over- and underpricing of exports and imports, with western banks and companies abetting crooked officials and businessmen in developing countries in skimming huge amounts of

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money out of poor countries into offshore accounts, shell companies, and in turn into banks and investments in major financial centers. Thus, much of what appears as trade in the national economic calculations and accounts by the Bretton Woods Institutions — the World Bank, IMF, and World Trade Organization — is for poorer countries actually capital flight and theft. Baker estimates that in Latin America 45 to 50 percent of foreign trade transactions are falsely priced, in sub-Saharan Africa 60 percent.

Thus, in the universe of international meetings and organizations dealing with sustainable development, from the Millennium Development Goals to G8 commitments on doubling aid and forgiving debt, there is a huge mass of mostly invisible, financial dark matter. This estimated $500 billion a year is nearly ten times the $50-65 billion total for all sources of annual aid. As Baker puts it, "there's no way to make the formula of $1 of official money in and $10 dirty money out work." Moreover, the sectors most prone to corruption and illicit transfers of resources from poor countries to investments and bank accounts in rich countries are sectors with particularly intense impacts on ecosystems and local communities — extractive industries and large infrastructure.

Because of "dirty money," the accounting that development policy loans has been based on has been, in a global sense, rigged

What is to be done? We have noted that the MDBs have anti-corruption units, and here the World Bank with its Department of Institutional Integrity sets the standard. But it's a low standard indeed. True, with some 50 staff members and a budget of around $10 million a year, the World Bank unit is larger and better financed than all of the other MDBs combined. It has investigated some 2,000 cases since 1999, and sanctioned (usually debarred from doing business from the bank for several years) over 300 firms and individuals. But among the firms debarred, almost all of them have been smaller developing country firms and agents. The role of multinational contractors from the bank's major donors, who have often used developing country firms and agents as intermediaries in systematic corruption, is virtually absent from the bank's anti-corruption efforts. For example the bank debarred 55 firms and 71 individuals in FY 2004, usually for periods of one or two years, but only one company and one individual were from a rich donor nation. The Lesotho case shows how eight years after World Bank President James D. Wolfensohn proclaimed that there was "no tolerance" for corruption, the bank's anti-corruption unit would not even debar major international companies convicted, and re-convicted on appeal, of major corruption in one of its projects.

Building on the hearings over the past year and a half in the Foreign Relations Committee, Chairman Lugar has introduced the Multilateral Development Bank Reform Act, conditioning some $3.7 billion in U.S funding for the MDBs on the Treasury Department's seeking a number of far-reaching reforms. It would be the most important set of reforms for the MDBs promoted by any country in the past decade and a half. The bill incorporates a number of anti-corruption proposals that have emerged as the cutting edge of international good practice over the past decade. Witnesses from environmental and poverty groups at the Lugar hearings have emphasized that the same measures that would address the institutional problems relating to corruption in the MDBs would also go a long way toward improving overall project quality with respect to environmental and social impacts.

Drawing from the Lesotho experience, Lugar's bill calls upon Treasury to set aside a special trust fund at the World Bank for poor borrowing countries to finance the costs of prosecution of corruption related to development bank loans or projects. Treasury is to promote in the MDBs the establishment of anti-corruption measures already embodied in existing domestic legislation: strengthened whistle-blower protection measures that would be equivalent to the whistle-blower provisions in the Sarbanes-Oxley securities reform of 2002, anti-corruption measures and penalties analogous to those in the U.S. Foreign Corrupt Practices Act, and the same mandatory financial disclosure by MDB employees as is required for U.S. government

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employees. Since debarment is the only really effective penalty, Treasury is to seek consistent procedures for public debarment for companies found engaged in corrupt practices for MDB loans (now only the World Bank publicly discloses the names of debarred companies) and ensure that a company that is debarred by one MDB is automatically declared ineligible to conduct business with the others.

Much greater transparency of business transactions has also been identified as one of the most important remedies against corruption. Thus the Lugar bill calls for increased public disclosure of votes and board statements of U.S. executive directors to the MDBs and for greater disclosure of internal MDB documents in advance of board approval. The bill promotes requirements for public transparency and disclosure of borrowing country budgets as a condition of receiving non-project policy-and budget- (adjustment) support loans. Extractive industries are particularly vulnerable to large scale corruption, so the Lugar bill calls for revenue and contract transparency in MDB-supported extractive industry projects and for independent audits of these projects.

But there are bigger challenges outside the scope of the Lugar bill. One is addressing the larger issue of the annual dirty money flow of a half trillion dollars or more from poorer countries, since the banks and companies of rich industrialized countries have profited handsomely from it for decades. The World Bank and the IMF have largely ignored dirty money outflows, since their masters, the G8 finance ministries, have shown relatively little enthusiasm for getting a handle on the problem, even post 9/11, when it became clear that the same techniques that have allowed the corrupt rich in poor countries to stash their wealth out of country are also useful conduits for terrorists and international criminal syndicates. Nonetheless the World Bank and the IMF could begin by undertaking a more realistic appraisal of work they do constantly — calculating national accounts and flows of trade and capital. Currently, "national accounts are all wrong," Baker says. "Mispricing, falsified transfer pricing, smuggling, and most forms of money laundering shift money out of developing and transitional economies, contributing hugely to poverty within these economies." Calculating and publicizing the real financial flows between rich and poor countries would in itself be a strong spur for the rich to assume their responsibility in the further impoverishment of the poorest.

Calculating the real financial flows between rich and poor countries would be a strong spur for the rich to assume their responsibility

Moreover, such calculations would have very concrete implications for much of the lending of the Bretton Woods twins. Most IMF loans, and over 30 percent of World Bank loans and credits, are so-called stabilization (in the case of the IMF), or non-project, adjustment, "development policy" loans (in the case of the bank) intended to promote improved macro-economic performance and improvements in national account balances for the entire economy or specific sectors.

In making these loans, the banks have conveniently ignored measures to stanch the huge outflows of dirty money, which means the loans have entailed actions to squeeze poor countries further than they would otherwise. These include controversial austerity requirements (resulting in documented cases in cuts for government education and health services and reductions in environmental protection) and incentives to increase commodity and agricultural exports (entailing greater stress on already unsustainably managed ecosystems).

The macro-accounting these programs have been based on has been, in a gigantic, global sense, rigged. To change this system, the full engagement and cooperation of western finance ministries, banks, and corporations is a prerequisite, since they are the enablers and accomplices.

In September, the UN General Assembly hosts a World Summit to review progress on the Millennium Development Goals. Without sweeping anti-corruption reforms, this effort risks collapse into the chasm of an immense disconnect from reality, a reality which has been succinctly summarized by dirty money expert Baker: "The borrowers stole the money and the lenders helped them steal it, and neither side can say so. In my judgment this is the ugliest chapter in international commerce since slavery." •