Leveraging corruption: how World Bank funds ended up destabilizing young democracies in Latin America

BY ROBERTO BISSIO, SOCIAL WATCH

In October 2011, a World Bank press release proudly announced that "IFC, a member of the World Bank Group, is providing an innovative US$ 50 million partial credit guarantee to a longstanding IFC client, Construtora Norberto Odebrecht S.A., to support the development of infrastructure in Brazil and other Latin American countries".[1] Those US$ 50 million almost magically multiplied by a factor of 40 in the title of the communiqué: "IFC Guarantee to Brazil's Construtora Norberto Odebrecht will Support up to US$2 Billion in Infrastructure." The financial trick was explained as follows: "IFC has designed an innovative partial-credit-guarantee facility under which the US$ 50 million guarantee will allow Construtora Norberto Odebrecht S.A. to obtain up to US$ 250 million in surety bonds, directly supporting up to US$ 2 billion in construction contracts in such sectors as power, water, roads, ports, airports, and irrigation."

Both parties were very aware that this was a new model intended to be tested and copied. Marcos Lima, who headed Odebrecht's captive risk management, insurance, and surety bonds unit, said, "We expect to replicate this novel financial structure with IFC and other institutions in the future so as to further leverage capacity."

On the World Bank side, Atul Mehta, director of manufacturing, agribusiness and services at IFC, said, "Infrastructure development is one of the most important challenges for sustained growth. It creates major employment and training opportunities for the base of the pyramid and for small and medium enterprises. IFC is pleased to pilot this new financial product which addresses a key constraint and hopes to offer it in other markets."

The alliance between the World Bank and Odebrecht was so successful that a few months after this announcement, in July 2012 the IFC tested with the same construction firm a new model of public-private partnerships (PPPs), now aimed at education.

Instead of the traditional procurement process, whereby the school system pays a construction firm to build the facilities, the contractor would now get "a 20-year concession to finance, build, equip and operate non-pedagogical services of 32 new preschools and five primary schools".[2] Under the terms of the concession, the private sector partner is not only responsible for the construction, but also for the "cleaning, surveillance, laundry, maintenance, and utilities management" during two decades, which would "enable the directors of the schools to focus on teaching rather than managing multiple vendors."

The bidding process was facilitated by IFC. There were two bidders – Brazilian multinational Andrade Gutierrez S.A. and Odebrecht – and Odebrecht got the contract.

Soon the World Bank was expanding the model through all of Latin America. The first PPP in Colombia was signed in 2014 to recover the Magdalena River

1 See for this and the following quotes http://ifcext.ifc.org/IFCExt/pressroom/IFCPressRoom.nsf/0/0F649A1A15FC4B0885257936005218E0.

2 World Bank Group (2012): Public-Private Partnerships Briefs: Brazil: Belo Horizonte Schools (http://documents.worldbank.org/curated/en/180971468188941367/pdf/96871-P3Briefs-BrazilBeloHorizonteSchools-Box391454B-PULBIC-Colltitle-PPP-BRIEF.pdf).

for navigation. It did not get off to a smooth start. Civil society opposed the project because local communities were not consulted and it lacked sufficient studies on environmental and social impact. Sociedad de Objeto Único Navelena S.A.S. which is the private partner in the Colombian PPP, is 87 percent owned by Odebrecht.

The World Bank database of PPPs currently registers projects with Odebrecht participation in Brazil, Peru, Colombia and Mexico, for a total of over US$ 30 billion.[3] Additionally, Odebrecht and four other Brazilian construction companies (Camargo Correa, Andrade Gutiérrez, Queiroz Galvao and OAS Construction) received billions of dollars from the Brazilian development bank BNDES to expand their operations in Latin America to Africa.

While the model expanded fast, in 2014, a small department of the Brazilian federal police was starting the codenamed 'lava jato' (carwash) operation to investigate these five companies. They were accused of forming a 'cartel' to decide among themselves the price and the winner of all the public bids of the Brazilian state-owned oil corporation Petrobras. As the investigation grew the whole political system of Brazil was shaken. To bargain a reduction of his 20-year prison term, CEO Marcelo Odebrecht accused every political party, the current and three or four previous presidents of Brazil and several of their Latin American and African colleagues of receiving bribes from the company started by his grandfather.

At its peak in 2016, Odebrecht employed 128,000 people worldwide and had an income of around US$ 100 billion a year. The fine it owes to the governments of Brazil, Switzerland and the USA is US$ 2.6 billion, double what Siemens paid in 2006 when it was accused of bribing governments worldwide.

Is corruption in PPPs an accident? Is Odebrecht just a 'bad apple'? Spanish economist José Luis Guasch, formerly at the World Bank, found that 78 percent of all transport PPPs in Latin America have been renegotiated,[4] with an average of four addenda per contract and a cost increase of US$ 30 million per addendum. Thus, the cost of a road linking Brazil and Peru rose from US$ 800 million to US$2.3 billion through 22 addenda. Such contract changes, says Guasch, can be "fertile ground for corruption". There was abundant research available at the World Bank in the first decade of this century to warn about the potential negative effects of PPPs. "Everyone knew that Odebrecht was doing this," says Christopher Sabatini, a lecturer at Columbia University's School of International and Public Affairs in New York.[5] "Collusion was clear from the beginning."

3 See http://ppi.worldbank.org/snapshots/sponsor/odebrecht-sa-1503.

4 Quoted in "The Odebrecht scandal brings hope of reform", in: The Economist, 2 February 2017 (www.economist.com/news/americas/21716105-revelations-wholesale-bribery-may-mark-turning-point-latin-americas-battle-against).

5 Quoted in the Christian Science Monitor, 10 April 2017 (www.csmonitor.com/World/Americas/2017/0410/As-Brazil-s-Car-Wash-case-surfaces-more-corruption-will-scandal-fatigue-slow-progress).

It is only logical that corruption might be embedded in the model. When you have a firm that leverages public money to raise private money (from US$ 50 million to US$ 2 billion, remember?) and it only has one possible client (the government), the temptation to influence that client through non-orthodox means might be too big.

Yet, the World Bank not only went on with the model, expanding it from Brazil to all of Latin America (and in the process severely undermining incipient democracies) but even after the 'lava jato' scandal, it decided in the spring of 2017 to accelerate the global push for PPPs, with the aim of jumping "from billions to trillions" in infrastructure funding, following exactly the same 'innovative' model first tried with Odebrecht in 2011.

Meanwhile in Brazil, 89 politicians and business people have already been convicted, sentenced to total of more than 1,300 years of prison time. Similar investigations are only starting in other affected countries. But the World Bank needs not fear. According to the country agreements that the Bank requires before operating anywhere, its officials are immune from prosecution by the host government.

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may also contribute to generating unsustainable debt levels by escaping public accountability and provide easy avenues for the financialization of these investments.

However, four key dimensions of this discourse help to problematize and contextualize this push for public-private partnerships. The first one is related to the emerging confusion on what is public and what is private. The often-unqualified call to mobilize private finance and engage the private sector is not backed by any clear understanding of what is private, what should remain public and is best delivered by the public sector and what is public but can be delivered by the private sector. Clearly, these distinctions are highly context-sensitive and different answers can be provided in different national situations, but no discussion seems to be currently framed in the firm recognition that there are public goods and services which are the distinct competence of the public sector.

The second dimension is related to the fact that boundaries between the public and the private are not fixed and private ownership is increasing shifting from physical to financial capital. Public partnerships with the private sector should therefore be located in the continued processes of commodification and financialization that are often aggressively promoted by the current pattern of economic globalization. Commodification is the process of extending the range of goods and services which are produced and commercialized by the private sector and traded within markets. It continuously erodes the concepts of public goods and human rights, as exposed by the commodification of food, water and health. It is therefore not by chance that the 2030 Agenda does not frame food, water and health as fundamental human rights, but rather addresses these as needs to be met, further opening the way for private provision. Beyond social services, the next frontier of commodification is knowledge, as widely exposed by the corporatization of seeds and genetic resources. Financialization, on the other hand, is a process that separates the ownership of physical capital from the ownership of financial capital, and progressively shifts the centre of gravity of the economy away from production and consumption in favour of financial