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The IMF: Bad cop

By Richard W. Rahn
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Helping to cover-up a crime and/or willfully ignoring it is in itself a criminal offense, yet it appears that the International Monetary Fund (IMF) has done just that. Two decisions just handed down by the High Court of Justice in London about one of Africa's most corrupt and entrenched regimes -- The Republic of Congo -- raise important and disturbing questions about the competence and integrity of the IMF, the world's guardian of fiscal rectitude and all-knowing tutor of wayward governments. The story was partially reported in an article in the Wall Street Journal last week. Having obtained additional information, it is now obvious that the IMF appears to be far more culpable than previously reported.

The Republic of Congo is a banana-shaped slice of equatorial rain forest with only 3 million people (not to be confused with the far larger Democratic Republic of Congo next door). For most of the last quarter century, Congo has been ruled by one individual, Denis Sassou-Nguesso. After his Marxist dictatorship was deposed at the end of the Cold War, he returned in 1997 by seizing power from the country's elected government in a bloody civil war. Although Congo has for decades been one of the continent's largest oil exporters, more than 70 percent of its citizens live on less than $2 per day.

Upon his return, Mr. Sassou-Nguesso established a new state oil company, known as SNPC. It has long been suspected that SNPC is the principal vehicle through which the Sassou-Nguesso regime siphons income from the national treasury. In recent years, private creditors and public-interest groups, such as Global Witness, have shared their concerns with the IMF, often making detailed allegations. Instead of insisting upon corrective action, the IMF has approved a succession of steps necessary for the forgiveness of most of Congo's international debts. (The major debt holding countries have agreed to write off the debts of those countries that the IMF certifies as no longer being corrupt.)

The London judgments reveal that sales of a major portion of Congo's oil have been channeled from SNPC through a succession of entities -- first a subsidiary run by President Sassou-Nguesso's son; then through two companies personally owned by Denis Gokana, the chief executive of SNPC and special adviser to President Sassou-Nguesso. The English court concluded that these companies are shams and made a particularly strong admonition about the behavior of senior Congolese officials, citing their dishonest testimony, fabrication of documents and efforts to mislead the court.

The IMF did insist that SNPC should be audited by KPMG, but then ignored findings that the SNPC's accounts were neither certifiable nor auditable. The KPMG's latest report plainly shows that a third of Congo's oil was sold to "Sphynx," the company owned by Mr. Gokana. A similar proportion was sold to Vitol S.A., an independent oil trader that emerged out of the infamous Marc Rich organization and which has most recently been identified as a major payer of kickbacks to Saddam Hussein by the Volcker committee investigating the U.N. Oil-for-Food program.

Evidence of these dubious marketing arrangements was in plain sight. Moreover in March 2005, a RICO suit filed in New York by one of Congo's creditors contained additional detailed allegations about corruption involving SNPC. Yet, all of these blatant signs of official malfeasance were ignored by the IMF, as it outrageously declared Congo "a model for other oil-producing countries" and endorsed steps towards a massive forgiveness of Congo's debts at substantial cost to the taxpayers of industrialized countries. In the past two years, Congo's gross oil revenues have quadrupled, yet reported state revenues have not risen even half that amount. A few courageous opposition leaders raised questions, but again the IMF ignored them. (Because Congo is a socialist economy, the private sector is very small, thus it should have been obvious to the IMF that something was wrong.)

Many observers have noted the "moral hazard" in the IMF's practice of endorsing massive write-offs by private and taxpayer-funded creditors, while insisting that obligations to itself and the World Bank remain sacrosanct. Moreover, it is unseemly, to say the least, that the IMF executive board approved a key December 2004 agreement with Congo just weeks after the regime engaged as its adviser a Washington-based firm comprised entirely of former senior IMF officials, up to and including a former deputy managing director.

As the U.N. Oil-for-Food debacle and now IMF/Congo scandal make abundantly clear, it is well beyond time for the world's multinational institutions -- including not only the U.N. and IMF, but others, such as the OECD -- to be held to the same standards of accountability regarding their performance and conflicts of interest as those to which advanced societies subject private enterprise. Many of us have been writing about the abuses in these organizations for years, but the U.S. and other governments have been AWOL in protecting their taxpayers' interests and the rule of law (with the exception of the Bush administration's appointment of the brilliant and gutsy John Bolton as ambassador to the U.N.). Effective action would include stepping on the financial windpipes of these institutions. Wake up, Congress.

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