

Workshop 6.1: Friday 17th November

“What carrots, Which sticks, determining appropriate roles for IFIs in anti-corruption measures

Moderator: Lucy Hayes, European Network on Debt and Development (Eurodad)

Panellists:

- 1) Sally O’Neill, Regional Director Central America, Trócaire,
- 2) Angela Keller Herzog, Manager of Global Programmes, Transparency International,
- 3) Alejandro Bendaña, International Initiative on Corruption and Governance
- 4) Toby McIntosh, Freedom of Information

This workshop consisted of a panel debate between the first three panellists followed by a presentation by Toby McIntosh of the Transparency Charter for IFIs that is being promoted by the Global Transparency Initiative. For the debate section of the workshop, each of the three panellists was asked to give a five minute response to the following question: **“Give one specific example of where they have observed IFI impacts – positive or negative – on corruption in developing countries. Then outline what role they think the World Bank and the IMF should or should not play in combating corruption in developing countries.”**

Lucy Hayes introduced the debate, outlining how the issue of corruption and development finance has risen dramatically up the political agenda of both international institutions and of donor governments over the past year. In the case of the World Bank this has resulted in the development of a new strategy on governance and anti-corruption which has been subject to extremely heated both official and public debates.

Eurodad has been following these debates closely and has worked for a long time on issues of conditionalities attached to IFI lending, on structural adjustment and on campaigns for debt cancellation including of illegitimate debt. Over the past year they have been working with members and others beyond our network such as TI and PWYP network on building consensus around responsible financing and how it might be possible to ensure that both creditors and debtors act in a responsible manner when entering into loan or aid agreements. There are clearly obligations that both lenders and borrowers need to uphold in financial transactions and there are also international norms that should be respected. But where there are unequal power relations this is clearly a difficult concept to put into practice. She suggested that many of the debates about the role of IFIs in promoting anti-corruption strategies come back to the issue of whether institutions such as the WB should be “doing more good” or “doing less harm”

Sally O’Neill was the first speaker and she described how World Bank conditionality in Honduras in the 1990s left the country worse off. Citizens are now being asked to clean up the mess left by the Bank. The story starts in 1992 when the Bank and IMF started pushing for reform in the country. The president at the time, during his four years in office, diverted US\$340 million of state resources into his pocket and to those of his cronies. Honduras received lots of advice from the World Bank at that time, such as privatizing public electricity and cleaning up public finances. Honduras ended up in a situation of assuming an enormous debt of US\$5.5 billion in 1998. Ironically the disaster that was Hurricane Mitch enabled it to enter the HIPC initiative. The issue today is around odious and illegitimate debt and how we can hold the Bank and the Fund accountable. In what way are the Bank and the Fund accountable for the conditions that were imposed on the country? These deals were negotiated in secret and the Bank and the Fund have turned a blind eye to corruption that was going on under their eyes. Why aren’t more big fish being fried?

Angela Keller- Herzog described an example of a World Bank funded project in Indonesia to illustrate a good example of where the Bank has tried to fit to country contexts. In the wake of the financial crisis in Asia and the departure to Suharto from office, the WB immediately became a target of criticism for having supported Suharto and his corrupt government. The Bank needed to respond to that criticism and turned to seriously addressing poverty. Angela argued that it is important to understand that the Bank with its 1500 plus economists is not monolithic. In Indonesia an anthropologist working in the country, has developed a participatory community-led development model – the Kechamatan Development Project. Cumulatively, this project has now reached 49% of all villages in a country of 230 million people. In this project there is direct accountability to the beneficiaries and it is a project with the joint “political will” of the Bank and the Government of Indonesia to actually reach the poor. The KDP works with highly concessional loan funds that move through central bank channels – not the main government – to the sub-district level. It makes extensive use of project facilitators at local level and the local people decide how the money should be spent – choosing micro-infrastructures and micro-credit. There is a structured process for these initiatives, including village women’s committees who put forward their proposals, and

the citizens monitor the work – making sure they are not overcharged for materials and that the agreed-on project is implemented. There is a complaint mechanism with anonymous complaint and mandatory response and follow-up at different levels. Angela argued that this shows that even in highly corrupt environments – if you want to -- you can design projects to reach directly poor people. This project of course has leakages but it has had an overall good impact, high rates of economic return, social empowerment at village level, and has disbursed US\$1billion. Angela questioned what the World Bank should do in situations where there is high corruption and high poverty. Should it stop providing aid? No – loan and project design should be adjusted to strengthen direct accountability to recipients.

Evidently the longer-term objective is to create accountable local and national government structures, not only to circumvent corrupt government and get resources to the poor. KDP now looking at its fourth phase and is now looking to modify its design to work more closely with district governments while keeping local participatory, accountability and complaints structures. In the longer run, perhaps a joint WB-Asian Development Bank and Japanese project will come onto the national central budget and then be block transferred to lower levels of government.

Alejandro Bendaña described the situation in the health and education sector in Nicaragua to illustrate the negative impact of IMF conditions imposed on the country. The health and education systems are in tatters with the percentage of children in school having gone from 85% in 2002 to 80% in 2006 and it will be 71% in 2015. Nicaragua spends 30% less than other Latin American countries with similar poverty levels per capita on social policies because the IMF told Nicaragua to freeze their salaries at 2000 levels. As Nicaragua is highly dependent on foreign assistance it cannot afford not to listen to the IMF as the whole donor contribution system shuts down if we don't comply with IMF regulations. The IMF told our legislators about 25 conditions and laws that needed to be approved before new money could be disbursed. There is a framework of liberalization and its assumptions and rules that need to be followed that is absolutely unacceptable. The IMF is doing more harm than good.

Discussion¹:

Illegitimate debt and responsible financing

Several people raised the issue of the need to address illegitimate debt when we talk about corruption and the role that IFIs have played. *Sally O'Neill* argued that before we talk about new loans in Honduras we need to look at the implications of past policies. She argued that the IFIs are partly responsible for the internal debt that has been accumulated in the country, much of it as a result of serious corruption in the banking sector. Citizens were left to bail out the banks, the cost of which would have paid for 5 yrs of the PRSP project in Honduras.

Both *Angela Keller-Herzog* and *Sally O'Neill* argued that responsible lending should include consultation with the parliament on new loan agreements; parliamentarians often have even less access to information than civil society groups. A commentator from TI Pakistan questioned whether the expansion of development finance to Pakistan was a positive thing and said that the IFIs should be questioned on this from a responsible lending perspective. She suggested that the asset recovery and return provisions of the new UN Convention Against Corruption can close the loop between past IFI loans going to corrupt dictators and to Swiss banks. This is an agenda that can come around and provide the incentive conditions for more responsible lending in the future.

Alejandro Bendaña maintained that the Bank was the one that made Suharto the richest man in the world. The existence of illegitimate debts implies that reparations need to be considered. Those that create the illegitimate debts need to repay. But that there is impunity for those that are responsible and as long as there is impunity there will be no justice.

Charles Sampford from Griffith University argued that half the problem of illegitimate debt lies in the way we treat sovereign debt. The bank lends money to countries but it is the people who have to repay. The Bank has a responsibility to avoid odious debt, or not to demand the money back.

Conditionality

At the heart of much of the debate was the issue of conditionality – and to what extent IFIs should use their leverage to bring about change. Several people thought that we should deconstruct conditionality

¹ Whilst the discussion took the form of an initial debate amongst the panellists followed by questions and answers with the floor, for the purpose of this report the discussion from both sections have been grouped together under relevant headings

and separate out structural conditions from more technical transparent public financial management. *Angela Keller-Herzog* said that “There is an IMF agenda that requests budget transparency, the Bank and donors have a fiduciary obligation on what is happening to the money they grant and lend, and there is interest and increasing alertness from the citizens in many countries in what happens to this money. We get more responsible finance... it is a closing of the circle. Citizens in aid receiving countries and tax payers in donor country have the same agenda. Disclosure and transparency also do not mean that we need piles of documents and mismatched stats, but accessible reporting by donors and governments about what is going on with aid moneys”. She did not think however that access to information laws should be conditions of Bank lending -- this is something that should come from citizens and Transparency International comparative country studies have found that these laws are only useful when locally driven, whereafter the citizen access to information is also more utilized.

Alejandro Bendaña strongly disagreed with any conditions whatsoever however and argued that conditionality coming from the outside “is plain colonialism”. Even conditions about transparent budgets were seen as negative: “if it comes from the outside, (it) undermines a democratic process”. He maintained that the whole conditions are also becoming increasingly political and more tied to security issues.

Sally O'Neill thought that the World Bank in the case of Honduras has raised some useful issues with the government that not even the more progressive bilateral donors have brought up and so said that she would not go as far as to say that no conditionality was necessary and alluding to the need for some kind of international norms of behaviour, *Kirsty Drew* from the Trade Union anti-corruption network asked whether it might be useful to distinguish between conditionalities and things that “countries have to do anyway”. *Steven Sampson* from Lund University argued that part of the discussion about conditions and the World Bank is confusion about its role and whether it is simply a Bank or whether it is on “a mission”. He said that as a bank it has economic goals and it is obvious that they need to impose conditions.

It looks like a Bank – but is it?

There is however clearly plenty of confusion about what kind of institution the World Bank has become which contributes to the debate about what it should do. *Alejandro Bendaña* argued that its mandate had already become much too broad and that it should limit itself to what it had originally been set up to do. He said that it “is way too powerful. If we include governance in its mandate, it will be even more powerful”. A couple of people referred to the enormous power that the Bank has as a result of its knowledge producing capacity. *Hassen Lorgat* from Transparency South Africa said that the Bank needs to take greater accountability for being a “knowledge bank”.

Angela Keller-Herzog said that there are some useful things about the Bank’s new governance and anti-corruption strategy but that it should not fall into the trap of trying to create political will from the outside. She said that it was “not practicable” for donors wanting to build governance institutions from the outside – governance reform needs to be underpinned by local momentum for change. *Sally O'Neill* however had a positive example of where an international organisation, in this case UNDP had dramatically improved access to medicine by taking over control of medical procurement on the request of the government. She said “we don’t want to have someone from outside doing it forever, but it was a positive impact anyway”.

Ana Belwar from the World Bank who has been involved in developing the governance strategy agreed that it should be citizens that hold governments to account but argued that it was not only the Bank that had created the problem of skewed accountability but all donors. She said that they wanted to build accountability where it should have been and that when they go to talk to a country they want to be transparent about how much money they are giving.

Questioning the economic model

Alejandro Bendaña proposed that we should consider a world without the World Bank where health issues go to the health agency, environment issues to the correct UN agency. He questioned the economic model promoted by the Bank and said that privatisation of state companies has amounted to legal corruption in developing countries. This was echoed by *Mr. Orestes* also from Nicaragua who asked “How can one accept policies that are imposed to develop countries to the cost of health of its citizens? There is no coincidence that the poorest countries are in the lowest ranks of corruption lists. Financial institutions finance everything at reverse. We need a critical view to those who finance us working on anti corruption”. Similarly another Nicaraguan representative said that whilst inflation has been largely controlled and reserves are at a good level, inequality as soared in the past 15 years and all the health indicators have deteriorated.

Still on Nicaragua, *Lucy Hayes* questioned *Alejandro Bendaña's* description of wage caps imposed by the IMF in the country, and asked was it civil service reform that was really the obstacle given that MPs in the country earn more than twice what they do in for example Costa Rica? *Alejandro* agreed that there is a dual payment structure that has been in place for 15 yrs. But this is a system that has been sanctioned by the donors who argued that you need to pay high salaries in order to attract good professional from the private sector. Donors are paying national civil servants as if they were international consultants. The IMF has also said that the focus should be on paying off the internal debt, which is held by the bankers. The debt relief for the poor became relief for the bankers.

Too much focus on corruption?

Lucy Hayes asked the panellists whether there was a danger of us missing the point about empowerment and development with all this focus on anti-corruption. Overall the audience and the panellists argued that corruption was indeed a serious problem that needed to be addressed. *Angela* suggested that it is useful to work on different dimensions where we can demand more transparency about how money is used which can also translate into more accountability to citizens in developing countries. However she also said that at many times transparency is not sufficient – this is the problem of impunity – where everybody knows who the perpetrators of corruption are. *Alejandro Bendaña* questioned the attitude of donors in many countries. They too often presume the whole country is corrupt, not just the government and people resent this. Looking at the World Bank's approach *Sally O'Neill* saw the corruption agenda as one of many pillars in its governance strategy. She argued that we need to look more closely at the private sectors, particularly in Latin America where it is one and the same as the political sector.

Role of UNCAC

One of the participants questioned whether there should be greater synergy between UNCAC and the World Bank approach. *Angela Keller-Herzog* clarified that tasking the Bank with implementation of UNCAC is problematic given that it is a UN convention and belongs to the states that signed it. The governments of those countries should be held account by the citizens of those countries. It would be very problematic to give the Bank authority to act as a country in a forum of countries and in terms of the prevention measurements foreseen in UNCAC, it is problematic to expand the Bank mandate to build governance institutions in the countries. "This is the role of the governments and its citizens. It needs to be kept clear who is who and who does what". She argued that nonetheless there are linkages to be drawn in many countries where the Bank brings in significant levels of business contracted out to private companies. If there are bribes and corruption involved to get the contracts, then UNCAC – which is law and criminalizes this behaviour -- should be called upon. *Marta Dye* from Transparency USA suggested that one role for the Bank would be to provide technical assistance to countries that have signed UNCAC but have problems implementing it.

Sally O'Neill thought that one of the good things about UNCAC is that it exposes the myth that only northern donors are doing something about corruption. She also advocated for there to be more extraterritorial means of enforcement of sanctions against bribe-giving multinational companies in an increasingly globalised world.

Concluding comments

One of the strong points that came out in the discussion was that citizens should be at the heart of any discussion about transparency, governance and accountability. Corruption is clearly important and something that needs to be addressed but we should not think that transparency is the magic cure. There are fundamental structural and political obstacles that need to be overcome. Curing corruption with outside interventions also its limits, particularly if donors are trying to reform state institutions, given that they are very political processes. A strong case was made for holding creditors to account and ensuring responsibility for past lending. To what extent "conditions" on loans should be used in the future was more controversial. Most people did not agree with structural economic conditions being attached in international loans, but at the same time many felt that issues of transparency and sound public financial management were useful for the IFIs to support. There are of course though questions of process as well as content; it is still very difficult to see how more mutual contractual agreements can be made in the current context where there is no effective sanction or pressure on the creditors to live up to their side of a bargain.

Part 2: Presentation of Global Transparency Initiative Transparency Charter for IFIs

Toby McIntosh presented the Global Transparency Initiative Transparency Charter on IFIs. He argued that whilst the World Bank is calling for more transparency, transparency of the Bank itself badly needs to improve. An international campaign to increase transparency at the IFIs is increasing. The Global Transparency Initiative is looking for endorsements from civil society groups of its transparency Charter to support their demand for improvement in this area.

The GTI began in 2003 and it brings together 8 groups from two slightly different communities namely freedom of information groups and development groups following IFI issues. Toby argued that public disclosure changes the rules and allows civil society to participate. Many of the IFIs have modified their policies in the past few years, but there is still some way to go.

The Charter on the IFIs has nine principles:

1. **Access to information** is fundamental human right and it applies to IFIs.
2. The second principle is automatic disclosure of and broad dissemination of a broad range of information about their structures, finances, policies and procedures, decision-making processes, and country and project work.
3. Information should be available in a **timely** fashion so those affected can access it. Timely is a particular issue because key documents are not usually disclosed before project approval for people to comment on and are required for **effective participation**.
4. The fourth principle is the **right to request information**. Procedure for process request should be free of cost and principle. Who has had experience in requesting docs knows is it a convoluted process.
5. Only when the Bank can prove there is serious cost to disclosure can disclosure be denied. This is the principle of **limited exceptions**.
6. There should be an easy way to **appeal** and this should go to an independent body.
7. There should be **whistle blower protection**. They should be protected not only for disclosures made internally or externally
8. IFIs should develop resources to implement this access to information policies and ensure **implementation** of their access to information policies.
9. **Regular review** of the information policies. The new corruption strategy provides an opening for this. The IADB is also going through a review of its disclosure process.

Discussion:

One participant asked whether there was not possible conflict between when documents belong to governments and governments themselves object to information being released? Can IFIs be expected to ignore this? *Ana Belwar* from the World Bank said that some people are pushing for more openness inside the Bank. She suggested circulating the Charter amongst staff would be providing them with a useful tool to illustrate extent of staff support. Another participant asked whether these principles would have more leeway were they promoted as a broader aid agenda and not just focusing on IFIs? *Pierre Landel-Mills* from Transparency International, argued that there needed to be a strong political strategy to pressure World Bank Executive Directors to support this initiative -- targeting countries that were most likely to yield.

Toby argued that there is a lot of inconsistency and 'freelancing' regarding disclosure. In the IMF, it is not mandatory for the person that deals with the government to hold a press conference, but some do. He agreed that many staff are more committed than directors and encouraged TI to get involved and support chapters to garner support from their own WB directors. *Pierre Landel-Mills* noted however that the very countries that tended to resist disclosure were the ones where TI chapters were also weakest such as India, China and Brazil.

Toby said that the Banks have often fudged the issue of government vetoes of disclosure. For example the article 4 reports say it is mandatory for some countries to release some docs, but not middle income countries. Parliamentarians have difficulty finding out about negotiations with institutions. There are some odd restrictions on this from the IMF that affect democracy principles.

The GTI Charter can be viewed in several languages here:

[http://www.ifitransparency.org/activities.shtml?x=44474&als\[select\]=44474](http://www.ifitransparency.org/activities.shtml?x=44474&als[select]=44474)