



Fact Sheet Debt Cancellation and Corruption

Ensuring that resources released by debt cancellation reach the impoverished people who need it most is of utmost importance. We should embrace a comprehensive approach when addressing corruption.

Debt relief works. There is now a ten year record of success of debt relief going to fight poverty and not for corruption. As IMF Managing Director Rodrigo de Rato wrote in January 2006, “Before the HIPC Initiative, eligible countries spent, on average slightly more on debt service than on health and education combined. Now, debt in the 28 countries for which relief has been approved has declined by an average of two-thirds, while their expenditures on health, education, and other social services have risen to almost four times the amount of debt-service payments.”¹ Debt relief has delivered results:

- **Tanzania** received limited debt cancellation. This has allowed Tanzania to increase education spending and eliminate school fees for elementary school education. Almost overnight, an estimated 1.6 million kids returned to school. By 2003, 3.1 million children were back in school. The net enrollment ratio has risen from 58.8 percent in 2000 to 88.5 percent in 2003. Tanzania expects to attain universal basic education by 2006.
- **Burkina Faso** has focused debt relief savings on fighting AIDS and improving access to education and safe water. After debt relief was implemented, for example, investment water systems increased by 26 percent, giving over one million additional people access to a source of clean, safe water near their home.

Support accountability and transparency, not harmful strings. Debt campaigners support transparency and accountability, but not the hundreds of harmful conditions now attached to debt relief. International financial institutions and developing country governments alike should be required to disclose exactly what debt relief funds are used for, so as to allow civil society to hold institutions and their governments accountable to their promises. Conditions or delays on debt relief in cases of serious corruption or governance/human rights concerns should require the support of civil society in the country.

- **IMF/World Bank conditions on debt relief are much more about economics and privatization than transparency and accountability.** In an analysis published last fall, the London-based World Development Movement found that of the 450 conditions the World Bank and the International Monetary Fund imposed on agreements with 50 countries, only 11 were not based on the orthodox Washington Consensus formula.² These policies – of indiscriminate trade liberalization, privatization, implicit restrictions on health and education spending, and user fees – have exacerbated rather than reduced poverty.
- **World Bank, IMF, and donor policies helped create the conditions for corruption.** World Bank and IMF programs have often required cuts in the civil service and/or wage reductions in government sectors in order to cut public expenditure. In Mozambique, for example, economic conditions the IMF attached to its loans meant the government had to pay many staff below the poverty line. This led to a substantial increase in corruption as civil servants supplemented their income by taking bribes or leaving work early to take on other revenue earning jobs.

¹ Rodrigo de Rato, “Getting Serious About Global Poverty,” Project Syndicate Op-Ed, January 2006. Accessible at <http://www.project-syndicate.org/commentary/rato5/English>

² Cited in Marcela Sanchez, “Breaking Ranks at the World Bank,” Washington Post, February 18, 2006.

We need a comprehensive, global approach to fighting corruption. Above all, such an approach would be based on responsible lending guidelines, so that future loans and aid don't prop up dictators and undemocratic regimes. Until new lending and aid to undemocratic regimes is stopped, there is little likelihood of rooting out corruption. Debt campaigners support efforts to develop responsible financing standards to assure transparency and accountability, the avoidance of new odious debt, and no public support for projects in the extractive industries (oil, gas and mining).

- **It takes two to tango.** In every corrupt act, there are two parties – the person or agency giving the bribe or loan, and the person or agency receiving it. Creditors and rich country governments should be held co-responsible for bad lending decisions and odious debts. The World Bank has been investigated recently by the US Senate Foreign Relations Committee which found in its hearings that \$100 billion may have been lost to corruption in World Bank lending projects, with the impoverished citizens of impacted countries having to repay the resulting debts.³
- **Corruption is highest in oil and gas-producing countries.** The so-called “resource curse” means that in general, oil, gas and minerals tend to lead to corruption by enabling governments to live off their export earnings without having to bargain with their civil societies. The World Bank continues to prioritize support for oil extraction and other extractive industries in its lending policies and practices, even though it is well known oil breeds corruption. If we want to challenge corruption, a comprehensive approach is needed, including ending oil aid, assuring transparent management of revenues generated by natural resource extraction, and requiring multinational companies to be more transparent in their business dealings.

People are dying. Rather than denying debt relief, let us embrace alternatives that are more effective in challenging corruption. We should work in partnership with civil society in impoverished countries to challenge corruption, but poor people cannot wait until corruption is fully eradicated to see needed relief. Thousands die weekly from preventable disease, hunger and malnutrition, and HIV/AIDS. As Brian Cooksey of Transparency International points out, “The poor majority in African countries, who are potential beneficiaries of debt relief, should not be penalized for the past failures of aid.”⁴ Some ways to address the problem:

- **Support civil society.** Civil society is the best equipped to assure accountability in debt relief proceeds. Civil society on the ground is best placed to pressure their own governments, and should be supported in that work. As Columbia's Jeffrey Sachs writes, “...Accountability comes from the broad society...By strengthening civil society and instituting clear rules to ensure accountability, political despotism and corruption will be brought under control.”⁵
- **Look to successful models already in place.** In Uganda, extra resources from debt relief are channeled through the Poverty Action Fund, which is overseen by representatives from government, national NGOs, churches, unions and international organizations.
- **Peer-Reviewed Trust Funds.** One idea that some in the Jubilee network are discussing is the creation of peer-reviewed trust funds. This fund would separate the financing and delivery mechanisms of debt relief. Donors would provide the financing for much broader debt cancellation but regional bodies like the African Union or parliament would make democratic decisions about governments whose governance problems might necessitate a delay in cancellation. If governance problems delayed cancellation, the money would be set aside in the fund functioning as a “carrot” to push the government to be more accountable to civil society.

³ Press Release, “\$100 billion may have been lost to World Bank Corruption,” Senator Richard Lugar, May 13, 2004 and Richard Lugar, “Loan Corruption Control,” Washington Times, July 1, 2005.

⁴ Brian Cooksey, “Should Debt Relief Be Linked to Governance Indicators?,” Keynote address at the Transparency International Cameroon Seminar on Measuring and Improving Governance, Yaounde, 17 - 18 October, 2005.

⁵ Jeffrey D. Sachs, “Who Beats Corruption?,” Project Syndicate Op-Ed, January 2006.