



MEDIA BRIEFING ON WOLFOWITZ AND CORRUPTION

8:00am-8:45am, Friday, 21 April 2006

Old Ebbitt Grill (downstairs)

International Watchdogs Work To Improve World Bank Accountability Respond to Wolfowitz's Anti-Corruption Proclamations

Leading civil society advocates for reform of the World Bank detail their responses to World Bank President Paul Wolfowitz's anti-corruption drive, which has made headlines in recent weeks.

Speakers include:

Petr Hlobil, CEE Bankwatch Network – Prague, Czech Republic

Smitu Kothari, Lokayan – New Delhi, India (invited)

Lidy Nacpil, Jubilee South – Manila, Philippines

Antonio Tricarico, CRBM – Rome, Italy

Neil Watkins, Jubilee USA Network – Washington, DC, U.S.

Key Issues

- The World Bank is a public institution – good governance requires transparent disclosures and enforceable accountability not just for borrowers, but for the institution itself.
- The impact of loan conditions imposed by the World Bank and accepted by governments without parliamentary oversight and public debate have facilitated the diversion of funds to corrupt practices.
- Credible World Bank oversight and accountability require the disbarment of companies for fraudulent practices.
- Early warning of corruption needs safe channels for whistleblowing by World Bank staff, contractors and members of affected communities.
- Objective and transparent methods are required for assessing and mitigating corruption wherever it exists.

Good Governance Begins at Home

In his April 11 speech in Indonesia, World Bank President Paul Wolfowitz defined good governance as: “It is essentially the combination of transparent and accountable institutions, strong skills and competence, and a fundamental willingness to do the right thing.”

Can the World Bank hold itself to this same standard?

If the World Bank is truly transparent, why does it fail to publish transcripts of the meetings of its Board of Directors?

At the present time, the Bank selectively discloses information it deems in the public interest. As a public institution, the Bank has an obligation to operate with a presumption that all Bank activities should be routinely disclosed with exceptions reserved for only demonstrably sensitive information. Good governance with enforceable transparency mechanisms that operate independently of conflicts of interest must not only apply to borrowers, but to the World Bank itself.

Right from the start

In his recent speech Mr. Wolfowitz pledged: “We are also changing the way we design our projects so that they address incentives and opportunities to fight corruption right from the start.” The Bank’s mission is to alleviate poverty, yet people are dying from preventable causes because fraudulent diversion of funds designated for that purpose is facilitated by the lack of transparency and participation of public representatives in assessing the loan conditions imposed by the Bank.

What is the Bank doing to redesign the conditionality imposed on loans to borrowing countries and to incorporate greater transparency and participation in project design and implementation?

Too many conditions on World Bank/IMF loans are still related to discredited economic policies – of indiscriminate trade liberalization, privatization, and implicit restrictions on health and education spending – that have exacerbated poverty, and helped create the conditions for corruption. Focusing the corruption lens on government spending without tracing the roots back to budget support instruments (such as bank lending) fails to address the incentives for corruption.

For example, World Bank and IMF programs have often required cuts in the civil service and/or wage reductions in government sectors to cut public expenditure. In Mozambique economic conditions the IMF attached to its loans meant that 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 so they could support their families.

Debt relief works, but there is more to do

Millions across the globe remained locked in poverty and suffer under a crushing and unjust burden of unfair debt. The debt deal reached by world leaders last year is simply a first step, as it applies to only 18 of the poorest countries.

What steps is the Bank taking to aid the more than 40 other impoverished nations that require total debt cancellation to reach Millennium Development Goals, and dozens more nations that require cancellation of illegitimate debts?

Further cancellation is justified by the now ten-year record of success of debt relief going to fight poverty, and not for corruption. According to the IMF, 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. Debt relief has delivered results: In Tanzania, debt cancellation allowed the nation to increase education spending and eliminate school fees for elementary school education.

Oversight by those suffering from corruption daily

President Wolfowitz recognized in his speech that: “Civil society everywhere is one of our most important partners...because they [civil society groups] are key to holding governments accountable.” They are also the frontline witnesses to corruption – from promised schools unbuilt to shoddy high-risk dam construction.

How is the institution going to support civil society groups in monitoring World Bank and government economic policies and expenditures?

Partnerships with private companies and the Bank, or with other governmental entities that by-pass public oversight through elected bodies and civic discourse remain a primary source of bribe-paying. As the World Bank returns to the troubled past of massive infrastructure projects, the promotion of the construction industry – one of the most corrupt sectors – must be open to public scrutiny and parliamentary oversight.

Accountability also requires vigilance. Even when one international financial institution bars a company, the failure to cross-disbar means other banks will continue fueling corrupt practices. Transparent examination of company records must also be routinized so companies do not simply change their name, or re-emerge in a consortium, registered in off-shore tax havens.

Freedom of speech inside and outside the World Bank

Mr. Wolfowitz continued, “An independent judiciary, a free press, and a vibrant civil society are [sic] important components of good governance.” President Wolfowitz presides over an institution where repression reigns for those who dare report corruption. The internal investigative unit he intends to expand has a track record of unleashing its power to victimize those who have the courage to report fraud and abuse.

How can the Institutional Integrity Unit (INT) function with independence, free from conflicts of interest?

The answer to this and other straightforward accountability reforms is in Mr. Wolfowitz' own hands. The Bank commissioned an assessment of its internal policies and procedures for protecting whistleblowing and preventing retaliation. The noted legal scholar, Robert Vaughn, delivered his comprehensive recommendations to the Bank one year ago. Why have they not been implemented? Why have they not even been shared with Bank staff and other allies in the fight against corruption?

The United Nations has already implemented many of the best practices identified in the Vaughn Report to protect those who witness wrongdoing from retaliation. The process of reform was also undertaken in a transparent manner by the United Nations. Staff was invited to review drafts and external experts encouraged to comment.

Efficient, accountable, adequately-paid and well-motivated civil servants are essential for combating corruption, but civil service reform has been a major component of structural adjustment lending since the 1980s in the direction of downsizing. The consequent decline of wages for those who remain unemployed- while exorbitantly high salaries are paid to outside experts further demoralizes the civil service.

Accountability for Anti-Corruption Procedures

Mr. Wolfowitz's anti-corruption campaign risks stumbling right out of the gate if it remains discretionary. The criteria for choosing which country's loans to suspend must be based on objective and valid evaluation methods, which are transparently and consistently applied.

Why has the Bank pulled loans to Kenya and not Pakistan, for instance?

Similarly with companies, how many so far debarred are small companies or middlemen as opposed to the largest transnational corporations?

Mr. Wolfowitz could inspire confidence in his anti-corruption campaign were he to intervene and re-assess projects such as the Baku-Ceyhan pipeline. NGOs are documenting significant cost over-runs in Turkey, just as their research predicted. Notwithstanding the strategic geopolitical significance of this project involving Azerbaijan, Georgia and Turkey, and directly benefiting the high energy-consuming West, led by the United States, will the same measures of corruption be applied equally from country to country? Only a transparent set of indicators, objectively evaluated and consistently applied will produce genuine anti-corruption.

Measuring Success for the Bank's Anti-Corruption Efforts

It is time for Mr. Wolfowitz to ensure developing countries that he is fighting for their interests, not against them. Measures of success include:

- **First**, the amount of money lost to corruption could be directed towards public services and the development of democratic institutions: According to the respected research of Transparency International, an average 5 percent of public budgets goes astray.

- **Second**, it is the already disadvantaged poor who end up having to pay bribes for basic services, or who lose out because they cannot afford to pay higher user fees due to internalized corruption costs.
- **Third**, it is the poor who get squeezed out of decision-making and pushed to the political margins in situations where money buys influence and projects that do not benefit the poor -- and which they never requested -- are approved.
- **Fourth**, bribes raise projects costs; when these are paid with money borrowed internationally bribery adds to a country's external debt. Thus ordinary people end up paying this back through cuts to spending on health, education and other public services.
- **Finally**, recent history tells us, as in the case of Russia that rapid liberalization processes imposed to developing countries can lead to further corruption and the transfer of significant assets and wealth abroad by a few economic elites.

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