

## **WORLD BANK AND IMF ENGAGE WITH M P'S**

By Ben Turok

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What role do Parliaments across the world play in promoting economic development? That was the challenge placed before a meeting of international Parliamentarians on March 15-17 2007, in the Parliament of South Africa.

The occasion was the annual conference of the Parliamentary Network on the World Bank. Paul Wolfowitz, President of the World Bank, Rodrigo De Rato, Managing Director of the IMF, and Donald Kaberuka, President of the African Development Bank, appeared before 300 MP's from across the globe to talk and answer questions.

This was the most intensive interaction yet between the Fund and Bank and the Parliamentary Network and marked a clear departure from previous practices when the Bank and the Fund insisted that their relationship was with the Executive arm of government and not Parliament. Article 5 of the Articles of Agreement of the IMF stipulates that it only deal with a member country through its Treasury or Central Bank. The international agreement which established the World Bank states that, "The Bank and its officers shall not interfere in the political affairs of any member."

An example of this approach, raised at this conference was for surveillance teams of the IMF, and officials of the World Bank to confine their interactions to members of the Executive behind closed doors, and to ignore Parliament. MP's at the conference complained that this practice undermined parliamentary democracy and good governance and insisted they be consulted early on programmes for their countries, even if their governments objected. The Bank should "strongly advise" the relevant government to do so, yet both institutions had seemed unduly reluctant to offend member governments.

Why then the turnaround on dialogue with parliamentarians? In April, 2006, the World Bank issued a document "The World Bank and Parliaments" which stated that "Parliamentarians are advocates for development... promote good governance... can be agents of change.. exercise their oversight role over matters handled by multilateral organizations."

Paul Wolfowitz explained at the conference that partnerships with Parliaments are needed in the pursuit of good governance, especially where there are errant regimes. But, a further reason seemed to be an underlying awareness of a subtle shift in the global balance of forces with the emergence of China, India and parts of Latin America, known as "emerging markets" as world players, and the emergence of a united voice in the African Union, all of which pointed to the need for a change in the Bank's international relations.

This shift in the balance of forces seems to have led to a new posture of broader accountability and less overt dedication to the interests of the big powers. In addition the Bank and Fund have some concern about global economic instability, the need for “crisis prevention,” and protection of low income countries. The potential security threat that a poverty stricken Africa constitutes to the North is yet another cause for concern. So a new approach seems to be required on all fronts.

Relations between parliamentarians and the Fund and the Bank have frequently been marked by antagonism and suspicion. This is reflected in the mandate of the Parliamentary Network to strengthen “accountability and transparency in international financial institutions.” Many of the questions directed at Wolfowitz and Co challenged the lack of transparency by the Bank and the Fund over policies and conditionalities imposed on developing countries.

In a question and answer session Wolfowitz was asked, “Since the Bank is a public institution which exercises oversight over the world economy, will he allow parliamentary oversight over the Bank? He replied without hesitation, “transparency yes, oversight no”. This means that the Network will have to institute a systematic method of pursuing transparency.

Can the Parliamentary Network respond adequately to the challenge of greater interaction with the World Bank? Will the Network change from occasional meetings to a more rigorous style of accountability to its members and indeed to Parliaments across the globe? Will it take on board the Banks offer of transparency and how far will this go? And will it make a difference? Civil society organizations have had a much closer relationship with the Bank for some years, but whether this has helped to increase a commitment to poverty reduction is not clear.

### **Debt Cancellation and Poverty Reduction Programmes**

There was ample opportunity at the Conference to examine Bank policy and practices on concrete issues such as debt cancellation and poverty reduction programmes, which are now central to Bank and Fund policy. All agreed that debt cancellation is essential, since a debt burden stops development, but it is not enough by itself to lift countries out of poverty, so poverty reduction is vital. The World Bank claimed that for poverty reduction to succeed “country ownership” was necessary and quoted examples of consultation with civil society in the design of programmes. However many participants remained skeptical. In fact although the Bank acts in an “advisory capacity,” it exercises final approval of these programmes and therefore has ample opportunity to introduce conditionalities and these carry more weight than local opinion.

In a special session on the Poverty Reduction Strategy Programmes (PRSP’s), the Bank urged a stronger role for Parliaments in designing these programmes and thereby increasing the sense of country ownership, though the final decisions would be made by governments. Parliaments should also examine donor coordination in development projects, and work with the World Bank mission in their country. But this would depend on Parliaments getting regular reports on PRSP progress and liaison which the relevant Bank country director could facilitate. Tanzania presented evidence of a great deal of civil society involvement of non-state actors in developing programmes based on meeting the UN Millenium Development

Goals (MDG's). Examples were also cited where the field visits of Network members to developing countries had increased awareness of the positive effects of the programmes.

Questions were raised about the weak links between PRSP's and a country's development strategy and the negative consequences if a PRSP are not thought through properly. Some PRSP's have ignored actual Budget allocations making coordination difficult. A major weakness with PRSP's is the total absence of social impact assessments on the poor. Yet this is vital.

### **Official Development Assistance (ODA)**

Conference was informed that ODA was increasingly guided by the 2005 Paris Declaration which included the principles of national ownership, alignment with government strategies, harmonization of donors, and managing the decision-making, and mutual accountability. But donor driven aid is unlikely to be effective, said an IMF official. According to the International Development Association report on Aid Architecture (Feb 2007), ODA has grown steadily over the last decade rising to \$ 105 billion in 2005 with 70 % going to debt relief between 2004 -5. ODA is increasingly going to Budget Support (from 8% in 2001 to 20% in 2004), rather than to individual projects. (In Tanzania ODA is 40% of the Budget).

There was much hand wringing about the role of aid in Africa. While all agreed that aid must be increased, and that earlier promises by the developed countries to double aid must be kept, yet Bank officials reported there was anarchy among donor countries and massive duplication. There are now 56 donors and 230 international organization, funds and programmes involved in aid. 70% of ODA flows through bilateral organizations and 30 % through multilateral organizations with a high degree of aid proliferation and ODA fragmentation, leading to higher transaction and administrative costs for all concerned. Tanzania alone has 700 aid projects managed by 56 units and received 541 donor missions during 2005. Across Africa, most aid goes directly to projects, bypassing governments. Yet the IMF believes that aid must not be earmarked.

In the face of considerable donor country resistance, efforts are being made to harmonise aid and reduce pet projects and political influence in poor recipient countries. Parliamentarians in both donor and recipient countries can do much to bring in order here. Parliaments must debate priorities, hold governments to account, monitor budget expenditures, and ensure proper auditing.

There is also the problem of accountability of ODA, even where most funding goes into the national Budget. In some cases it is treated as a separate account within the Budget, managed outside the normal revenue process, with different auditing requirements. In most cases, Parliaments in both donor and recipient countries are only involved peripherally in the whole ODA exercise, even where formal reporting does take place. It was proposed at the Conference that Chairs of Parliamentary Committees should participate in consultative meetings with donors. There is certainly much room for genuine Parliament to Parliament partnerships around policies and the delivery of ODA.

The campaign by the Nepad Contact Group and Awepa to track aid flows between selected European and African countries will produce important insights into how Parliamentarians can play a vital role in making ODA more effective.

## **New Prospects for Africa**

Much was made of better prospects for Africa in the current climate of higher mineral prices on world markets, better governance within many African countries, including higher growth, lower inflation and lower fiscal deficits. Bank officials said that economic performance is the best since the 1960's. However, the IMF continued to argue for further integration into the global economy, promotion of the private sector, and stabilization policies.

In a notable departure from previous IMF dogma, De Rato graciously conceded that "one size does not fit all." He also said, "We do not live in a world that ends with macro-economic policies and financial equilibrium." In response to a question he stated that where the Fund does not publish reports it is because of an embargo by the relevant government. Nevertheless De Rato stated that transparency and accountability are the key to a far greater legitimacy than the Fund has at present. It is also vital that the whole set of development agencies, including Regional Development Banks, coordinate far more.

Trevor Manuel argued that cross border trade within Africa is vital, requiring the creation of the necessary infrastructure and regional cooperation. The inherited pattern of infrastructure has to be changed.

Perusing the theme of a greater role for Parliamentarians, Wolfowitz asked African parliaments to be much more aware of irresponsible borrowing by their governments. He also called upon donors to be much more responsive to Africa's needs. In response to a direct question about previous support for corrupt regimes, he said, "We are not giving funding to the likes of Mobutu any more."

Kaberuka of the African Development Bank called for a greater role of the private sector in Africa and openness in all relations with governments since, "when there is secrecy things go wrong."

In general debate, there was strong criticism the doubling of aid agreed at the Gleneagles meeting of the G8 had not materialized, and that the increased aid which has happened has mostly been for debt relief, and then mainly for Nigeria and Afghanistan. On the whole, aid to Africa has fallen. This has led to "promise fatigue" in Africa.

In contrast, the US, EU and Japan, now provided \$260 billion annually for agricultural subsidies. (In South Africa there are no such subsidies) These subsidies are being paid for with taxes on ordinary consumers, and advanced country parliamentarians should raise awareness on this.

An important issue was the argument by the Bank and Fund that in recent years the focus has been on meeting the Millennium Development Goal targets through spending on health and education, at the expense of infrastructure and productive capabilities. The combined share of infrastructure and production dropped from 59% to 38 % between 2001-4. This is clearly something Africa's parliaments need to consider.

## **The Challenge for Parliaments**

So are the Bank and Fund changing? Perhaps they have little choice in the new multilateral world. Some even suggest that both institutions are in some trouble due to diminishing finances and argue that the present overture is part of a survival plan. But that may be overstating the case.

But will Parliaments across the globe take up the challenge of demanding greater interaction with the World Bank? The Bank offers accountability, but how can this be turned into oversight, perhaps not in a formal constitutional sense, but at least to mean consistent examination of policies and practices? Some participants argued that a more unified approach is essential by both parliaments and civil society since some issues can only be won globally. Others thought that reforming the Bank should be part of the reform of the United Nations which would bring greater accountability and bring it into line with a new multilateral world.

The Parliamentary Network can lead by example by creating a strong Standing Committee, by building Regional Chapters which have formal status in the governing structures of the PNoWB, by the Board setting out clear positions on what it wants from the Bank, and reporting to the members regularly on all these matters.

It is also possible to overcome the exclusivity of relations between the Executive and officials of the Bank and the Fund by inviting their officials to meetings of parliamentarians for special briefings, especially to explain their country reports arising from surveillance visits, which are supposed to be in the public domain anyway. This would be an opportunity for opening up the thorny issue of conditionalities which have been responsible for so many disasters in developing countries. The Norwegian Government is leading the way by its decision in November 2006 “not to support programmes that are made conditional on liberalization and privatization.” And they define conditionality as “the application of specific, pre-determined requirements that directly or indirectly enters into a donor’s decision to approve or continue to finance a loan or grant.”

Ultimately, all these matters could be resolved if both the Fund and the Bank were transformed into democratic multilateral institutions where no single country or group of countries could exercise a veto. The democratic deficit at these institutions has to be overcome. After all, the head of the IMF conceded at the conference that the IMF is a “public institution delivering public goods.” No doubt the international parliamentary community could do a great deal more to bring that day nearer.