

Corruption and illegitimate debt

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In the year since World Bank President Paul Wolfowitz took office, he has made the issue of corruption a World Bank priority. In a recent article, excerpted below, Gail Hurley from Eurodad (European Debt and Development) responds to the questions: "How comprehensive, consistent and effective are the plans and actions behind the talk about corruption? And how far can the Bank really go with this agenda, in particular where the Bank itself has been the cause of corruption, and odious and illegitimate debts, in the past?"

“It appears as though the Bank’s focus on anti-corruption looks set to continue. In February, the World Bank, in cooperation with other multilateral development banks and the International Monetary Fund (IMF), agreed to create “a framework for preventing and combating fraud and corruption.” It is to be ready for the Bank/Fund Annual Meetings in September in Singapore. On a recent trip to Indonesia, President Wolfowitz presented a “long-term strategy” for using the Bank’s money and expertise to help developing countries rid their governments of bribe-taking and other dishonest practices. A key component will be the deployment of anti-corruption teams in many World Bank country offices. At the World Bank’s 2006 Spring Meetings, Wolfowitz correctly acknowledged that “for every bribe-taker, there is a bribe-giver, and often, that comes from a developed country” and any thorough approach to corruption must examine corruption by companies and individuals in the North, not just the South

“The story presented so far however focuses very much on the “corruption of today” and plays scant attention to the “corruption of yesterday.” Remarkably absent from the anti-corruption strategy presented by officials so far is any critical examination of the Bank’s lending practices to poor countries in the past. The World Bank has over the years been involved with and lent to some of the world’s most notorious and despised regimes such as Mobutu Sese Seso of Democratic Republic of Congo and Ferdinand Marcos of the Philippines. Bank documentation at the time of these transactions, or published shortly afterwards, confirms that many Bank officials – at both country-level and in Washington, D.C. – were perfectly aware of the nature of the regimes in place and that many loans were simply transferred into the bank accounts of the dictators and their generals. It was plain therefore that they did not reach the poor or foster economic development. Despite their odious and illegitimate nature most of these debts continue to be serviced today, at the expense of essential investments in poverty reduction and economic development

“One World Bank shareholder which is taking action on this is Norway. It is one of the first Northern countries to open dialogue on odious and illegitimate debt and to call for an international focus on this critical issue. Firstly, Norway has asked the World Bank to undertake a study of odious and illegitimate debt and has put money aside to support this research (reportedly US\$20,000). Secondly, Norway’s Development Minister Erik Solheim has committed to more closely examine the illegitimate debts claimed by Norway, notably those incurred through the Shipping Export Credit Campaign of the 1970s

“The World Bank – and other bilateral and private creditors – should take a leaf out of Norway’s book and take a critical look at the past. The Bank in particular has no excuse: Norway has put aside money to support research into this issue and it would seem to fit logically and perfectly within the anti-corruption theme that Wolfowitz is so keen to take forward. Indeed Wolfowitz must recognize that any comprehensive approach to corruption must necessarily involve a frank and open critique of past Bank lending practices leading to the cancellation of debts found to be odious and illegitimate.

“Cancellation of odious and illegitimate debts has the power to transform the lives of the world’s poor as well as foster reform of an international financial architecture skewed in favour of creditors. Developing countries such as the Democratic Republic of Congo, the Philippines, Indonesia and others continue to service debts of highly questionable origin when the benefits of debt cancellation have been clearly recognized”

For Gail’s full article and additional information see the Eurodad website:
<http://www.eurodad.org/>.