

**Senate Foreign Relations Committee
Roundtable on Transparency and Accountability
in the Multilateral Development Banks**

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**Remarks by
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A decade ago, the multilateral development banks (MDBs) were rightly subject to harsh criticism for ignoring the role of corruption in undermining growth and development. Since then, corruption and related issues of “institutional quality” have moved to the center of the development agenda and, led by the World Bank, the MDBs have significantly beefed up internal controls to prevent corruption in projects that they finance.¹

These changes were driven by several factors that have fundamentally changed the environment in which the MDBs operate. Perhaps most important, major shareholders began to take corruption issues more seriously in the 1990s and members of the Organization for Economic Cooperation and Development finally agreed in 1997 to a convention criminalizing corrupt behavior by OECD-based multinational corporations even when it occurs abroad. Second, external scrutiny of the MDBs and other international institutions has been increasing for two decades, including by Transparency International, a non-governmental organization founded by former World Bank employees that focuses on corruption issues. Finally, World Bank President James Wolfensohn personally embraced and promoted the anti-corruption agenda as the key to development in poor countries.

The dilemma for the MDBs is that, however careful they are in monitoring the projects they support, that alone will not eliminate corruption in many of the countries where they lend. If the MDBs are serious about combating corruption, two approaches are possible, depending on the circumstances:

- Provide financial and technical support for capacity-building where governments are weak but have the will to reform, or lend only to particular agencies within countries that have demonstrated a commitment to reform. The MDBs have moved in this direction with some of their lending.
- Avoid lending to pervasively corrupt countries that are not interested in reform and where anti-corruption safeguards are unlikely to be effective.

In the latter situation, however, there is the possibility that poor people in these countries will suffer even more. In these cases, the US Government push to have the MDBs increase its use of

¹ For further discussion of these issues and recommendations on how to address them, please see my testimony before the committee on July 21.

grants relative to loans could be helpful.² If my reading of the charter for the International Development Agency (IDA) is correct, IDA can give grants to “private entities,” as well as member governments. In cases where concerns about corruption are severe, IDA might consider giving small grants to local groups or NGOs that meet certain criteria for transparency and accountability. A key issue to be considered, however, is whether IDA can do that without imposing overly burdensome reporting and other requirements on groups that perhaps have limited administrative capacity themselves.

In other cases, where governments and civil society are weak, the problem for international aid donors is that institution-building is difficult and there is no ready recipe for how to do it. Both as part of the battle against corruption and as part of broader efforts to ensure that donor money is used as effectively as possible, systematic external, independent evaluation of donor effectiveness is desperately needed. Moreover, the need for independent evaluation has been recognized in recent years by groups as diverse as the Meltzer Commission (see p. 90 of that group’s report), the Overseas Development Council, and the Carnegie Endowment for International Peace.

Unfortunately, the incentives for individual donor agencies to promote external evaluations of their programs are weak because exposure of failures could undermine political support for aid budgets. So the effort needs to be collective, preferably with all of the donor agencies, bilateral and multilateral, contributing funding and submitting themselves to scrutiny. One proposal being examined by the Center for Global Development might have donors agree on a small common levy on their disbursements to create an independent evaluation body.³ To avoid creating a large new bureaucracy, this body would not do the evaluations itself but would outsource the job to existing university and other academic organizations that themselves meet required standards of transparency, accountability, and independence.

The details of any such proposal need to be developed further, but the concept of external and independent evaluation of MDB and other donor *effectiveness* is one that the Committee should seriously consider promoting. This proposed evaluation effort is separate from the various proposals for an independent *audit* body to guard against corruption, and it is, in my view, more important for achieving the ultimate goals of the international community in promoting development and poverty alleviation.

² On the grants versus loans debate generally, See William R. Cline and John Williamson, “Fostering Development,” in C. Fred Bergsten, editor, *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, Washington: Institute for International Economics, forthcoming 2005. Cline and Williamson recommend that IDA operations in the poorest countries, perhaps those with per capita incomes below \$300, should be all grants; that the current mix of grants and loans should be retained for countries with per capita incomes of \$300 to \$500, while countries above that level would receive only loans.

³ For a brief discussion of these issues, see Nancy Birdsall, “Seven Deadly Sins: Reflections on Donor Failings,” October 27, 2004, available at www.cgdev.org.